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Proof-of-Concept Done Right: Mitigating the Risk of Policy Administration System Migrations

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EXECUTIVE OVERVIEW

More and more insurers are recognizing the need to migrate from their legacy policy administration systems to more modern, flexible systems, and interest is forecast to grow in the coming year. According to industry analyst firm Novarica, “the most common top project for 2010 is policy administration, even for large life insurers, who have traditionally put off investments in this area.”¹

There are a number of business needs driving the interest in new policy administration systems, but foremost among them has been the lackluster economy. The past two years have been challenging ones for life and annuity carriers, who have experienced significant erosion of their investment returns. In light of this, insurers are taking a close look at systems that allow them to rapidly enter new markets, exit unprofitable ones, introduce uniquely differentiated products, and support diverse sale channels—all while improving operational efficiency and controlling costs.

To meet their goals for growth and profitability, insurers are looking for adaptive policy administration systems with rules-based product configuration tools that enable agile business practices. The current demand is for flexible, modern systems that deliver speed, reliability and consistency, particularly throughout the product development process.

Yet, despite the advantages to be gained in migrating to an adaptive policy administration system, there is also considerable risk. The legacy systems currently in use are proven and reliable, and have performed well for two or three decades. Migrating to a new policy administration system can make or break careers, and so executives are naturally wary of supporting such a move—no matter how great the potential rewards.

Proofs of concept are often undertaken to mitigate the risks of such projects, and offer the opportunity to test a vendor’s claims prior to implementation. This brief will discuss one such case, a textbook example of how to do everything right when it comes to migrating to a new policy administration system.

¹Source: Novarica, “US Insurers IT Budgets and Projects for 2010,” December 2009.

Current market conditions are driving more carriers to look at replacing their policy administration systems. A well-thought-out proof of concept (POC) can mitigate the risks associated with such a project, as demonstrated by the following case study.

POC DONE RIGHT: A CASE STUDY

Solid Life Insurance (Solid Life) is a pseudonym for a leading North American life insurance carrier that prefers to remain unnamed. This paper will discuss how Solid Life undertook its search for a new policy administration system, and oversaw a proof of concept (POC) to prove out the claims and capabilities of its chosen vendors. Minor details of the case study have been changed or omitted to respect the privacy and intellectual property of the carrier.

The Business Drivers

When considering a new policy administration system, the most obvious question to ask is, “Why do we need it?” The overriding business drivers must be considered throughout every step of the evaluation process—including the POC—to ensure that the project remains on track. Yet, this most fundamental of questions often falls off the agenda once insurers get down into the details of examining specific products and vendors.

Solid Life kept its business drivers firmly within its sights throughout the process. The company sought a new policy administration system to deal with some persistent limitations within its business, including:

Limited product innovation capabilities

Solid Life’s legacy policy administration system did not allow it to introduce the innovative products that the company wanted to develop. When introducing new products, Solid often had to develop cumbersome, manual workarounds to deal with the limitations of its existing technology—forcing the system to do something it was never intended to do. In addition, the legacy system did not have the ability to mix and match riders across lines of business (for example, Solid Life could not attach a health rider to a life policy).

Slow reaction time to market shifts

Solid Life lacked the ability to quickly update its legacy system in response to market changes. Any updates required IT intervention, and often the vendor had to be called in to modify the system.

High implementation cost

Solid lacked self-sufficiency in maintaining and changing its legacy system. This resulted in high recurring costs, with consulting fees paid to the vendor or a third party any time changes were required. In addition, Solid Life was unable to reuse functionality from one product to another; the same work had to be performed multiple times for each product, further increasing implementation costs.

Deferred functionality results in manual work

Solid Life often had to rely upon modifications or workarounds because its legacy system did not have the necessary functionality. Whenever a gap in functionality was identified, the carrier would carefully weigh the pros and cons and consider whether to modify the system or develop a manual workaround. Often, the new functionality was deemed too costly, too lengthy or both, and the enhancement to the system would never be implemented.

Limited reuse across product lines

Solid Life had very limited ability to reuse existing functionality across product lines. If the carrier wanted to make a change, it was forced to go through a separate testing process with each product and line of business, rather than leveraging reusable rules. Product riders and features were not shareable or reusable.

The Selection Process

To overcome these constraints, Solid Life undertook the search for a new rules-driven policy administration system. The carrier began by doing some basic market research, and evaluating which vendors offered policy administration systems for life and annuity carriers. In the process of doing this research, Solid Life determined that several of the initial 15 vendor systems were unsuited to its needs, and eliminated them.

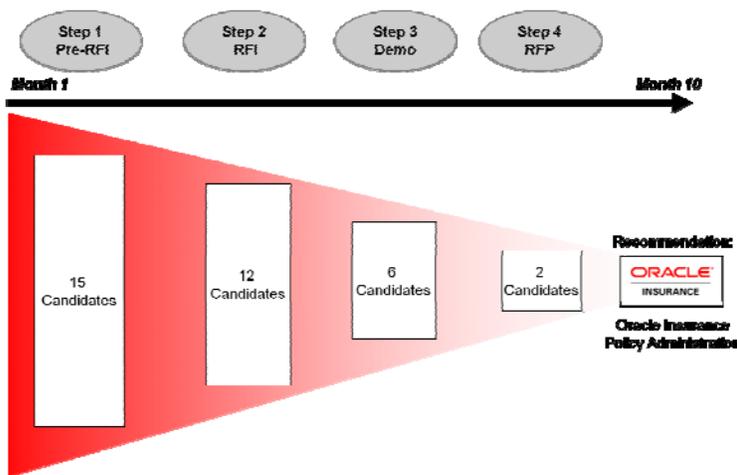


Figure 1: Selection process used by Solid Life Insurance during its search for a new policy administration system.

The remaining 12 vendors were asked to respond to a request for information (RFI), after which Solid Life chose only six vendors to demonstrate their solutions. Following the demos, Solid Life eliminated all but two vendors, and invited them to participate in a request for proposals (RFP). The elimination process included well-defined stages and goals, reducing the time and complexity of the evaluation process and ensuring that the selection process wasn't an open-to-all opportunity for vendors to showcase their wares. For carriers that have less experience

Evaluating the Benefits

In the end, Solid Life's selection team recommended Oracle Insurance Policy Administration as the system best able to meet the business needs outlined at the start of the evaluation process. The Solid Life team weighed the system's benefits according three categories:

Functionality. Oracle Insurance Policy Administration met Solid Life's criteria for a configurable, rules-based system. Changes to products, policies, screens, riders, and other changes could be made using business rules rather than modifying and recompiling source code.

Technology. The system offered an easy-to-use Rules Palette, a visual tool that enables various types of analysts to configure business rules, thus reducing the burden on Solid Life's IT department to make changes. In addition, the open, web-based architecture of Oracle Insurance Policy Administration meant it would be compatible with Solid Life's existing architecture and technology requirements.

Process and People. The innovative, adaptive design of Oracle Insurance Policy Administration would allow Solid Life to drive process improvement throughout the enterprise. Because the system is rules-based and requires little to no changes to base code, Solid Life would be able to reuse rules and functionality across product lines, redefine and streamline quality assurance (QA) testing, and eventually achieve self-sufficiency.

Weighing the Risks

In reviewing these benefits, Solid Life concluded that moving ahead with Oracle Insurance Policy Administration offered high potential for reduced costs and improved speed to market. Against these benefits, Solid Life identified the following risks:

Technology. This would be the first time that Solid Life's policy administration system would not be required to run on the mainframe. The team needed to evaluate how this would impact their existing IT environment and integration strategy.

Process. Because of the adaptive nature of Oracle Insurance Policy Administration, and the almost limitless flexibility of the system, the carrier would need a strong governance model. There are no "out of the box" product limitations or servicing limitations, which meant that the carrier's staff would need clearly defined product requirements. This, in itself, would entail a cultural shift, including changes in project roles and responsibilities.

The "Unknown." As in any project, it is difficult to plan for unknown obstacles and risks. However, since Oracle and the system implementer, Capgemini, both have proven experience in major system

migrations, Solid Life relied on their expertise and experience to help guide the carrier through the unknowns.

TAKING THE NEXT STEP: PROVING THE CAPABILITIES

In many evaluations, the formal selection process often ends after the final choice of vendor has been made. From selection, a carrier would typically move directly into an implementation project. But policy administration systems are central to a carrier's operations, and replacing them carries more risk than perhaps any other IT project. In light of this, it may be prudent for carriers to go beyond the traditional selection process and undertake a "proof of capability."

Most insurers are familiar with the idea of a proof of concept, or POC. This step is often omitted for reasons of time or budget. Yet for policy administration system migrations, a POC can be a vital, final step in their evaluation process. Solid Life took the idea one step further, proving out the capabilities it required from its vendor (Oracle) and its system integrator (Capgemini). Not only did Solid Life require a POC to prove the technology, it wanted proof that it had the right team in place to do the job.

During its evaluation process, Solid Life not only examined the technology available, but the "soft" skills that set the vendors and system integrators apart. They looked at cultures, roles and responsibilities, and weighed which team could best help with implementing the proposed solution. The combined skills of Oracle and Capgemini were put to the test during the POC; it was a collaborative effort between IT and the business. The carrier's objectives were to validate that the technology could meet business needs, and that the team it had assembled could configure the software to meet those needs.

Other carriers can adopt this idea of a "proof of capability" in their own policy administration migration projects. This proven process reduces the risk of the migration project, and ultimately helps create overall buy-in across the organization. Since policy administration system migrations often go to the C-level and even the board of directors for approval, this proof of capability can be crucial to achieving support from all parties. It is the final validation of all the research and decision-making the carrier has done to date.

Proving Capabilities

The first goal of the POC was to prove that the system and the team did, indeed, have the capabilities that Solid Life needed in order to accomplish its end business goals. In order to demonstrate this, Capgemini, as the systems integrator, was asked to:

- Configure a new life insurance product with a specific set of features and riders
- Configure the system to perform transactions specific to Solid Life, including loans, withdrawals and anniversary processing
- Demonstrate the system's ability to support product versioning, rate loading, and shared features across product lines

- Perform changes “on the fly” during a live demonstration of the POC

Solid Life gave Capgemini a comprehensive set of specific transactions to be executed within 90 days. In addition to these complex calculations, sample screens and basic transactions were configured in order to demonstrate the requested functionality.

The POC results were that all requirements were configured as expected; all transactions were executed correctly; and all policy values matched, including complex calculations stretching out 30+ years into the future. The system exceeded the carrier’s expectations for speed, flexibility and configurability.

Testing the Technology

The second goal of the POC was to determine whether Oracle Insurance Policy Administration would be compatible with Solid Life’s existing architectural and technology requirements. The objectives of the technical portion of the POC included:

- Application installation
 - Can the application be installed in Solid Life’s specific environment?
- Real-time interfaces/services
 - Can the application integrate with other strategic applications?
- Batch processing
 - Can the application run the administrative batch process in the Solid Life environment?

Oracle was invited to do a live installation at Solid Life’s site, which involved deploying Oracle Insurance Policy Administration onto Solid Life’s web, application and database servers. The installation itself took less than a day, with the work completed by the actual Solid Life team. This allowed for great interaction between the teams and provided live hands-on experience with the software.

After installing Oracle Insurance Policy Administration in Solid Life’s existing environment, Oracle was able to demonstrate inquiries, transactions, notifications, communication protocols, and exception processing—all involving other strategic applications within the Solid Life stack—and included cycle processing.

Integration testing included interaction with other strategic applications, support for ACORD XML, and real-time processing and messaging.

The results of the technology POC all proved successful. Solid Life deployed the application and created the necessary databases. The application proved compatible with security and entitlements systems.

Application integration was successful and met all critical success factors. The testing proved that Oracle Insurance Policy Administration could integrate with Solid Life’s integration reference architecture and support ACORD XML and real time processing.

The batch processing and basic performance was also successful and completed in one day. It met the sub-second response time criteria and showed no system bottlenecks.

People & Processes

In addition to proving the capabilities of the system, the POC also provided an opportunity to prove that the carrier's people and processes were up to the cultural challenges entailed by a large system migration. Solid Life's goals in this area were to gain an understanding of the organizational impact of the project and learn best practices for policy administration system migration.

Oracle undertook a series of "knowledge sharing" educational sessions with the Solid Life team. This included rules configuration training, which involved teaching the team how to configure business rules in Oracle Insurance Policy Administration. The reusability of business rules, the easy-to-use Rules Palette, and the sharing of best practices from past implementations, all helped demonstrate to Solid Life that its own staff can become more self-sufficient in developing new products, and less reliant on IT and the vendor.

Moving Into Production

Another thing Solid Life did right: the carrier ensured that the work performed during the POC was used as the first step in its implementation. Rather than assigning "sample" work to Oracle and Capgemini, the carrier ensured that the configuration done during the POC would be reusable during actual implementation. In this way, Solid Life has already completed the first phase of its project, and has been able to move immediately into the next phase of detailed requirements gathering and configuration. It has given the carrier a jump-start on its system migration—and helped to mitigate risk.

CONCLUSION

Migrating to a new policy administration system comes with inherent risk. Yet the case study outlined here demonstrates that there are ways to mitigate these risks, and greatly improve your chances of a successful project. With the insurance industry facing rapid shifts in market conditions, aging technology, and the looming retirement of workers who support legacy systems, the risks of maintaining the status quo will soon outweigh the risks of migration. Those carriers who do not adapt will soon be left behind by their more agile competitors. As insurance companies seek to mitigate the risk associated with large system migrations, a reusable, carefully thought-out POC with well defined steps and goals can be one of their most powerful tools for success.

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