



Sun-setting Systems for Closed Blocks

A portfolio management approach to deciding the fate of application systems administering closed blocks of business

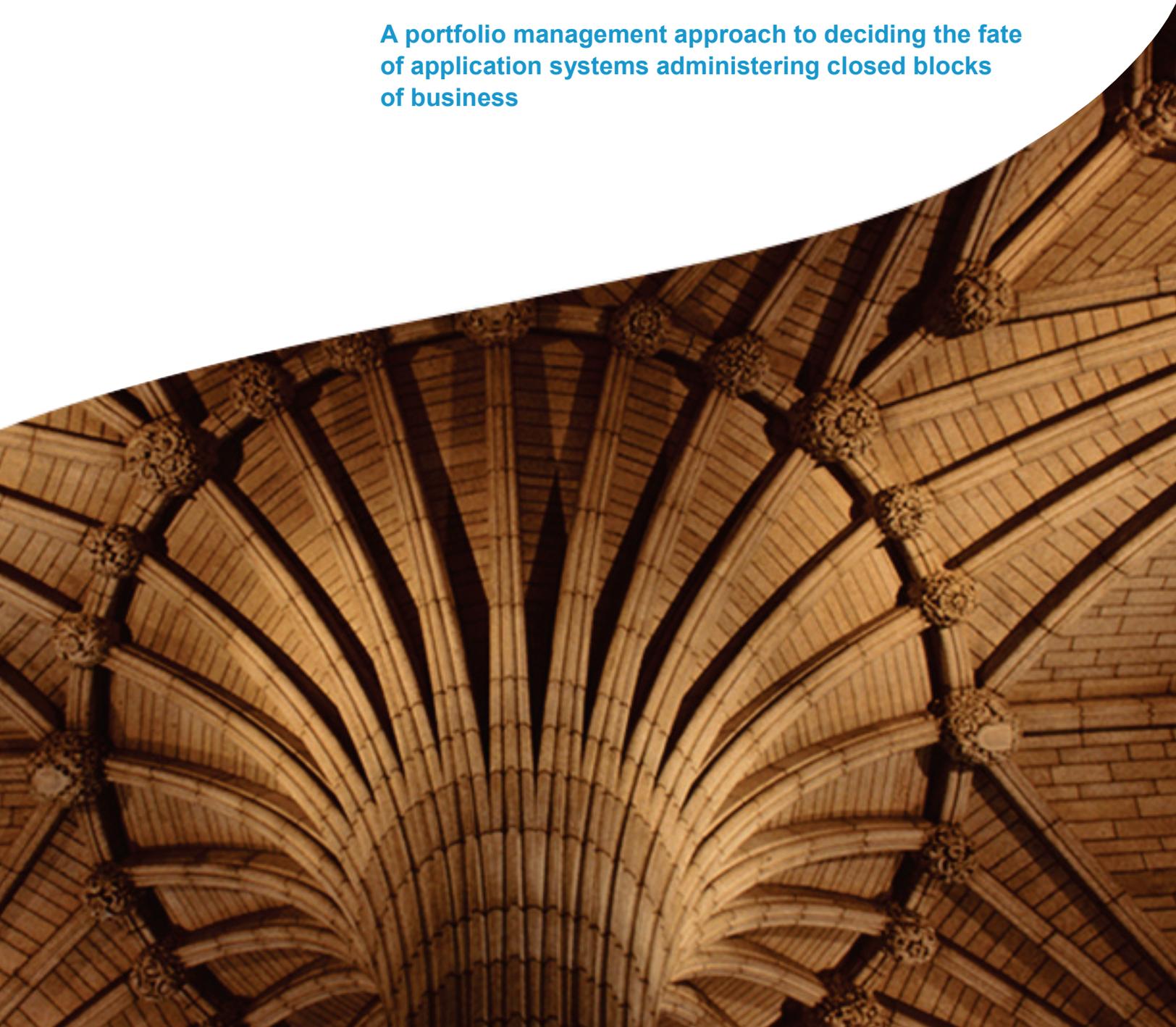


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1. Introduction & Overview

Closed means there is no way to get in or out. We call them Closed Blocks, and yet we keep pouring money in and problems keep popping out.

–Frustrated Consulting Client

1.1. What are Closed Blocks?

All insurance companies are faced with the need to introduce new products that are designed to conform to changes in regulations such as new reserve standards, new reporting requirements or new restrictions on benefit and financial design. Accomplishing this objective is hampered to some degree, in all insurance companies that are saddled with significant portfolios of products they no longer sell but are still represented by Policies remaining in force. This is especially true for insurance companies which have grown significantly through acquisition—the successful companies—and those that regularly discontinue unprofitable offerings—the innovative and dynamic companies. These portfolios are referred to as **Closed Blocks**.

Often, Policies within closed blocks are administered on systems that are separate and distinct from those used to administer mainstream Policies. Therefore, these closed blocks are a continuing drain on operations budgets. Since these systems are not strategic for the insurance enterprise, they receive minimal investment and are rarely kept current. Therefore it's not surprising that closed blocks systems are a recurring source of problems to insurance IT organizations.

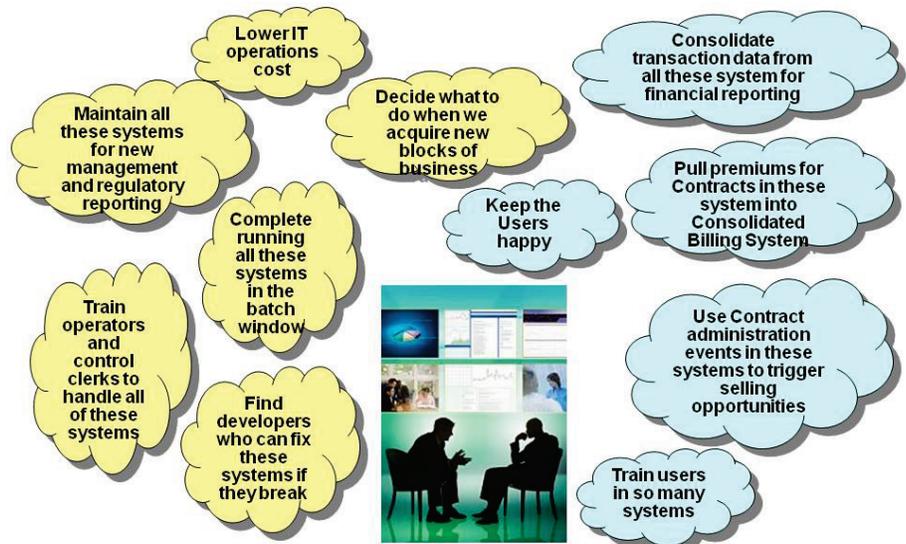
1.2. The Problems Posed by Closed Blocks

Every insurance IT unit is expected to continuously improve performance along multiple dimensions. The need to support closed Blocks complicates this goal in a number of ways. For IT, these closed block systems make it harder to:

- Lower IT operational cost
- Maintain all systems for new management and regulatory reporting
- Train operators and control clerks to use these systems
- Complete running the systems in the batch window
- Find developers who can provide break-fix support
- Decide what to do when they acquire new blocks of business

Exhibit 1: Problems Imposed By Closed Blocks

Tell Me, How Do I?



For business users, closed block systems make it harder to:

- Consolidate transaction data for financial reporting:** Every transaction with a financial impact must be recorded on the corporate financial reporting systems such as general ledger. When these transactions can occur on multiple systems used to administer closed blocks, this basic requirement becomes complicated to meet.
- Pull premiums for Contracts into the Consolidated Billing System:** Operational systems are intended to consolidate business functions that should be uniformly performed across all products, Billing, the most common but not the only example; is made difficult by the multiplicity of applications acting as the system-of-record for different portfolios in the closed blocks.
- Use contract administration events to trigger selling opportunities:** While the systems administering closed blocks can no longer accept new Policies, the Policies administered on them can experience contract events such as the arrival of Guaranteed Insurability Rider Option Dates that provide opportunities to sell new insurance. Also, the insured under the Policies in the closed blocks can experience life events such as marriage, the birth of a child or attainment of retirement age that also provide opportunities to sell new insurance or

other financial products. Ideally, the administration approach for closed blocks should support such opportunities.

- **Train users in multiple systems:** The proliferation of administration systems used to handle closed block complicates the training and deployment of user staff to service the Policies. The most common approach to dealing with the problem of acquiring and maintaining user proficiency in multiple systems is to segment the Service Center by system so that each Customer Service Representative only deals with Policies administered on the sub-set of systems that he or she is trained on. This imposes constraints on load balancing and limits the flexibility of the staff.
- **Keep the user community happy:** The net effect of these problems is to raise the level of discontent in the user community about the support that they receive from IT for the operation of the systems maintaining the closed blocks. Unfortunately, even if funding were to be found to address the problems of the closed block systems, the rectification effort would detract from efforts to support and enhance the mainline systems.

Within the IT unit itself the systems used to administer closed blocks make it hard to:

- **Maintain the systems for regulatory and internal reporting changes:** While the portfolio within the closed blocks is static, the regulatory and management environment in which they exist is not. The reporting requirements on the business change and the proliferation of systems used to administer closed block exacerbate the problem of compliance by increasing the number of systems on which changes need to be made. Further the problem is intensified by the fact that the state of documentation and the level of knowledge in the IT staff about these systems are often deficient.
- **Find the technical and business skills to correct problems in the systems:** While the systems administering the closed blocks no longer have to deal with the problems in the New Business Submission, Underwriting, or Issue processes; there is no guarantee that they have dealt with all the combinations of conditions that arise in the later stages of the Policy Life Cycle. It is not unusual to encounter problems when the system has to deal for the first time with say, the maturation of a Universal Life Policy when the Accumulated Value is less than the Guaranteed Maturity Value; or the exercise of an ETI NFO election, or any number of situations that system has never encountered before. When these problems occur, they have to be dealt with—even if the staff that originally built the system is no longer with the company; or

if the technology on which the system was built is obsolete and the skills for it are now non-existent.

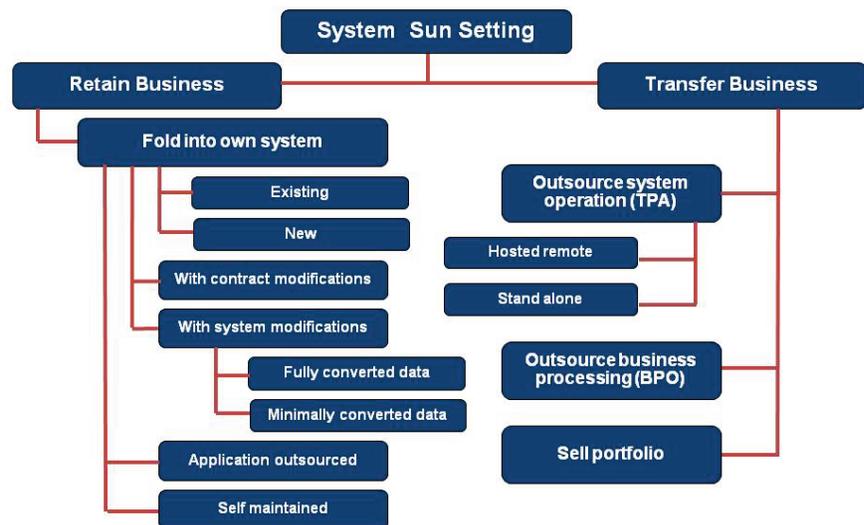
- **Run all the systems in the batch window:** Every installation has a finite amount of time in which to run all of its production jobs. The systems to administer closed blocks occupy space in this window, proportional to the number of streams for the separate systems.
- **Train Operators and Control Clerks to operate multiple systems:** In addition to the inordinately large, out of proportion to its business value, occupancy of hardware resources needed for their operation, the systems used to administer closed blocks similarly make a disproportionate demand on the human resources for their operation. Here, the imbalance is even larger since the systems used to administer closed blocks tend to be built on older technology and design principles, relying more on manual intervention and inspection, instead of more modern automated administration, control and reconciliation.
- **Decide what to do for future closed blocks:** Apart from addressing the problems posed by current closed blocks, the insurance enterprise needs an institutionalized approach for dealing with future closed blocks. As the company grows by acquisition or dynamically changes its market offerings, new closed blocks are acquired or created. The enterprise needs a reproducible, tested approach for making decisions about the system used to administer them.
- **Lower IT operating cost:** The bottom line is to lower the IT operating costs and improve service to the users by contracting the systems footprint. This is best achieved by sun-setting some or all of the systems used to administer the closed blocks. This strategy is self-evident. The real trick is to accomplish this in a manner that best preserves the business value of the closed blocks administered on these systems.

2. The Options for Sun-Setting

2.1. The Taxonomy of Sun-Setting Options

The range of options available for sun-setting a system used to administer closed blocks may be summarized in the taxonomy illustrated below.

Exhibit 2: Taxonomy of System Sun Setting Options



2.1.1. The Divestiture Options

On the right side of this taxonomy are the options that result in the transfer of the closed block, fully or partially, to some other entity. These are collectively referred to as the Divestiture Options.

- **Sell the portfolio:** This option involves selling the closed block and all that it represents in terms of assets and liabilities to another business entity. Clearly this approach relieves the enterprise of the need to operate any system to support the closed block. Conversely, all the business value of the portfolio, other than the purchase price, is also lost to the enterprise.
- **Business Process Outsourcing (BPO):** This option involves contracting with a third party who will undertake the performance of all the business functions needed by the closed block, usually for a fixed annual price per Policy. The outsourcer may administer the closed block under any system environment he may choose and the outsourcer also usually takes on the task of converting the source system and data to his own administration system. The cost of conversion may be absorbed into the annual administration fee; or may

be contracted for separately. The net result is that there is no longer a need to support the system that previously administered the outsourced closed block (provided there are no other blocks still remaining on it, more on this later). The business value of the outsourced closed block remains with the enterprise, but other than the Service Level Agreements specified in the outsourcing agreement, the enterprise surrenders every other control over the operation of the outsourced portfolio.

- **Third Party Administration (TPA):** In this option, the enterprise will use a system provided by a third party to administer the closed block, but will continue to perform all the other business functions. Under this approach, the enterprise will no longer have to support the system administering the third party administered block (subject to same provision stipulated under the BPO option that no other portfolios are administered on that system). The enterprise retains the business value of the third party administered portfolio and surrenders control over the performance of the business functions to a much lesser degree than in the BPO option. This is because the enterprise still performs the business functions but simply uses a third party system to perform or support the automated functions. Two variations are available for this option.
 - **Hosted remote:** In this variant the system to administer the closed block is on the TPA provider's installation, but user access devices (typically terminals or PC's connected to the host site) are provided on the enterprise premises to perform/initiate the system supported functions.
 - **Standalone:** In this option, the TPA provider sets-up a complete environment on the enterprise's premises to run the TPA application. The technical environment may be the TPA supplier's property or the enterprise's property.

2.1.2. The Retention Options

On the left side of the taxonomy are the options that involve keeping the closed block administration within the enterprise. The objective of sun-setting some systems is achieved by putting the closed blocks on a fewer number of systems requiring the transfer of some blocks from the systems they are currently administered on to some other system, but still operated by the enterprise. This leg of the taxonomy is referred to as the Retention Options.

- **Roll into own system:** This is really the only option on this branch of the taxonomy since all the others are variations of this option. This involves deciding which subset of the systems used to administer the

closed blocks should be kept, introducing a new system if needed (presumably for a more flexible architecture, a more modern implementation technology and greater long term potential) and migrating the other closed block into the new or existing platform(s). The enterprise retains the business value of the closed blocks and has keeps full control over the operation of the target systems.

- **Existing system(s):** Of the systems used to administer closed block, some may have the ability to handle more closed block portfolios than the one it currently hosts by virtue of being a more current technology, having sufficient architectural flexibility, or some combination thereof. If so the reduction in the number of systems that have to be operated advances the objectives for sun-setting some systems.
- **New systems:** Sometimes, none of the systems used for administration of the closed blocks have the potential to handle more than the current load. Then the only possible way to reduce the number of system being operated is to introduce a new system(s) which has the capability to support all or some of the closed blocks.
- **Conversion options:** Whether the target system is one of the existing systems used for the administration of closed blocks, or a new system, some options are available to simplify conversion.
 - **Conversion with system modifications:** This is the default plan— all the functions available in the source systems are supported in the target systems. This often requires some level of modification and/or enhancement to the target system(s)
 - **Fully converted data:** This is the default option for data conversion. All the data supported by the target system is converted. This includes providing all the required historical data and normalizing the data structures if the target system requires it.
 - **Conversion with data modifications:** It is not always a given that all the data supported in the target system needs to be provided in the conversion. It is possible that the target system may provide storage for extensive historical data that is not available in the source system. In that case, consideration should be given to converting to the source system with limited historical data with the understanding that should a transaction be performed on the converted Policy that require the historical data, some level of manual processing, accessing non-converted data will be required. The need for and the support for such

processes should be recognized and provided as part of the conversion plan.

- **Conversion with contract modifications:** If some portfolios are based on Products with very difficult features, this may require large and expensive modifications to the target system, it may be possible to simplify the conversion problem by exchanging the Policies for a simpler, more easily administered Product. As long as the exchange does not disadvantage the Policyholder, such exchanges are permitted by law.
- **System support options:** Even when the target system is owned by the insurance enterprise, some of the objectives of sun-setting may be pursued further through decisions to provide application support for the remaining systems.
 - **Self maintaining:** This is often the default plan and frequently the only one examined. The insurance enterprise continues with the application support of the remaining existing systems and undertakes the application support of the new system(s).
 - **Application outsourcing:** Many enterprises miss the option of outsourcing application support for all or some of the target system(s). If the target system is new, this option relieves the insurance enterprise from the need to provide expertise in the new application and the implementing technology. Even in the case of existing systems, when application support requires expertise that is in short supply and/or expensive because it involves familiarity with technologies that are no longer currently offered, application outsourcing may be an option to consider.

2.2. Factors to be Considered

Any valid assessment of the options available for system sun-setting must take into account both technical and business considerations. All too often, the sun-setting program is pursued as an IT initiative—perhaps triggered by trends in advanced system development life cycles (SDLC), such as RUP and Agile methodologies, to include the retirement of the systems that have been replaced by the new development. This effort, intended primarily to achieve a contraction of the application system footprint in order to gain operational saving and to re-focus maintenance and development resources on the mainstream applications, will yield some of the benefits of sun-setting; but it may fail to optimize the payback of what is often a very large and expensive undertaking.

To truly optimize benefits of sun-setting, consideration must be given in equal measure to the concerns of the business community. The guidance

provided by the SDLC publications that address sun-setting focus on HOW to perform sun-setting but give very little guidance on:

- WHICH systems to sun-set, simply assuming that it is the system that the new development replaced
- WHAT the costs and benefits are, assuming that these were settled before the decision to develop the new system was made
- WHEN to do it, assuming that it will be done as soon as the new system passes acceptance testing
- Selection of APPROACHES, assuming migration to the newly developed system.

In most enterprises that have to make sun-setting decisions for systems used to administer closed blocks, these decision need to be addressed since a one- into-one migration (old system into newly developed replacement), with all the functional and data requirements considered during development, does not adequately describe the situation. Instead the situation may be more accurately described as:

- A many-into-many migration
 - Some of which (the Retention Options) involve function and data conversion, while
 - Others (the Divestiture Options) do not
- The target system candidates
 - Require different levels of modification and enhancement to achieve functional equivalence with the source systems,
 - Present varying challenges in the transfer of data, and
 - Provide different levels of
 - Retention of business value of the migrated blocks, and
 - Control and flexibility in the post-migration operation.

What is needed is a decision-making framework that takes into account of all the factors that need to be analyzed; and which is reproducible when a future sun-setting decision needs to be made for a new closed block—an inevitability for successful and dynamic insurance enterprises.

3. The Portfolio Management Approach for Sun-Setting Decisions

3.1. What is Portfolio Management Analysis?

The systems used to manage the closed blocks may be viewed as a collection of assets, useful for the management of the business. Like financial assets, they have different characteristics, levels of performance, risks and costs, expected duration of usability, etc. In order to make the right decisions about which parts of the portfolio to keep, invest in, or divest from; what is needed is a method to identify, understand, evaluate and compare the assets in the portfolio.

Application Portfolio Management is a structured approach and method for analyzing and assessing the IT applications used to manage the closed blocks in order to identify actionable traits and characteristics. It also has the added benefit of being useful both for an initial effort and for ongoing application as new closed blocks are acquired or generated.

3.2. What it is Not

Some key differentiators of the Portfolio Management Approach are summarized in the following illustration.

Exhibit 3: What Portfolio Management is Not



- *It's not new*
- *It's not one-size-fits-all*
- *It's not just about migration*
- *It's not just about technology, it's about business*

3.2.1. It's not new

Portfolio management is not a new idea, but the perspectives on how to apply it to make the sun-setting decisions for systems administering closed blocks may seem novel. As a matter of fact, portfolio management is a well-established best practice in IT, but its use has often been limited and targeted to development decisions. In contrast, the approach described herein specifically focuses on tailoring the right characteristics and attributes for the sun-setting decisions.

3.2.2. It's not one-size-fits-all

Every insurance enterprise, its strategic initiatives, applications systems and appetite for change are different. There is no one standard analysis tool, set of metrics and set of questions that can address them all. Each usage of a portfolio scoring and analysis model requires that the model, metrics and scoring be explicitly tailored to the organization and the purpose for the analysis. The internals of the model need to be targeted and matched to the specific goals and objectives set out by the organization to be achieved.

3.2.3. It's not just about migration

Though some form of migration (with differing target systems) is a possible outcome of portfolio management analysis, it is by no means the foregone conclusion. Typically, a sun-setting decision framework focuses only on attributes that determine the cost and risk of migration. Though this approach is reasonable in situations where the other options have already been ruled out, such an approach is of limited use for several reasons:

- The approach described in this paper is far richer and provides far more benefits than simply identifying cost/risk of migration
- Migration is only one approach, among many, to address the sun-setting of systems used for closed blocks.
- Most migration consultants only approach portfolio analysis as a way to create a roadmap for migration, not as a way to partner with a client to improve or transform its business

3.2.4. It's not just about technology, it's about business

Technology decisions made in isolation rarely deliver as much value (and sometimes cause harm) as those that are made in the full context of business drivers. Some key areas that Capgemini's portfolio management analysis model assesses include:

- Alignment of applications with the business and strategy
- Application contribution to business agility and competitive advantage
- Application performance with respect to customer experience and satisfaction

3.3. Benefits of the Portfolio Management Approach

3.3.1. A way to learn about the closed block IT asset portfolio

The most important aspect of assessing application systems and making decisions on how to sun-set them is to get a full and clear understanding of what you have. Very often, organizations lose track of all the different applications they support and use, as they relate to the bigger picture, especially when these applications are used to manage relatively static business, like closed blocks. The first result from portfolio management analysis is the discovery of what the organization knows and does not know about its applications, including what data is available and from which sources.

3.3.2. A way to compare, contrast, judge and support decisions

The ultimate goal of the portfolio management approach is to provide a sound, consistent and practical basis for making decisions about applications. To this end, it is useful to compare and contrast applications along multiple dimensions to support making decisions about them, whether those decisions involve divestiture of the business it manages, or migration of its records into another system. Portfolio management analysis facilitates these judgments by measuring performance on key dimensions using value-based criteria scored in a common, normalized model.

3.3.3. A way to get quick, actionable information

The information used and decision-making supported by portfolio management analysis are aligned to business imperatives so that decisions and actions can be taken with a clear view to the benefits or outcomes that will result. This is achieved by setting the very highest-level dimensions of the analysis model to meaningful measures, including:

- **Retention of Business Value**—a series of metrics and measures related to keeping the business value of each application, including:
 - Agility
 - Level of integration
 - Alignment with business goals
 - Business user satisfaction

- **Net Risk and Cost of Migration**—a measure of the Risk/Cost of migration measured against the Risk/Cost of continued operation of the current system administering the closed block.

3.3.4. A way to institutionalize an ongoing application optimization mechanism

Getting a good decision model for the current set of sun-setting decisions is only part of the benefit. The portfolio management analysis approach also provides a methodology that is suitable to address future decisions about the systems that administer closed block obtained by acquisition or created by Product evolution.

3.3.5. A way to achieve a balanced approach

When designed properly, the portfolio management analysis model provides an ideal way to balance many priorities and criteria. To deliver maximum value, the approach provides:

- Quantitative factors
- Qualitative factors
- Strategic perspectives and insights
- Tactical perspectives and insights

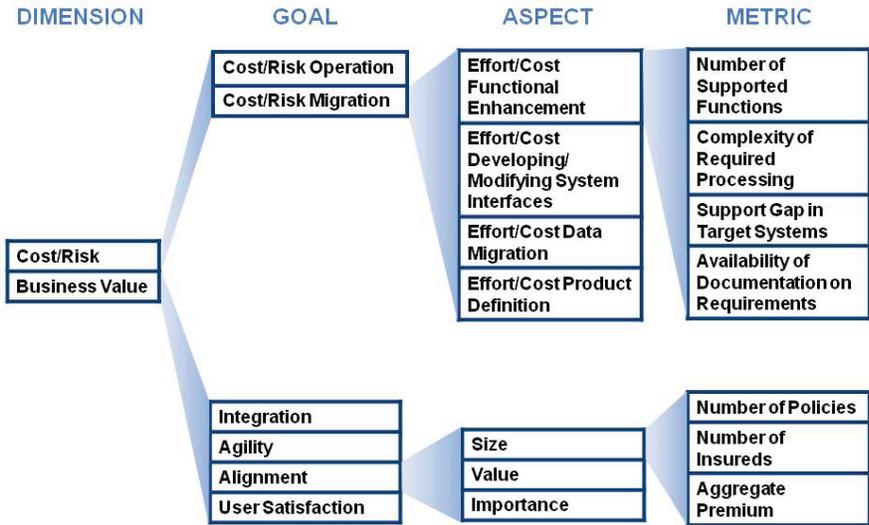
4. Applying the Portfolio Management Approach

The portfolio management analysis model is built on a hierarchical arrangement of information used to make assessments and comparisons. The model has four levels:

- **Dimension**—this is the highest level and serves to set the key areas for the entire model. The model has only two dimensions at this level:
 - The Net Cost/Risk of Migration for the system, and
 - The Business Value of the closed blocks administered in the system
- **Goal**—this is the second level and the first at which the tailoring begins for the organization, though it is likely that the indicators currently provided in the model will suit the needs of most organizations.
- **Aspect**—this level provides specific focus area for achieving the Goal
- **Metric**—the measures by which the success (or failure) in the specific Aspect is determined

This hierarchy is illustrated below.

Exhibit 4: Hierarchy of Information—A Four Level Decision Model



4.1. Data Collection

Data to populate the analysis worksheets for the approach is taken from a variety of sources to capture an all-around view of the application systems

being studied. Reuse of existing information is maximized, but other sources must be tapped. Comprehensive data collection covers the following:

- **Existing inventory/asset management systems**—if any of these systems are already in place, they can provide significant baseline information to be used as part of the analysis and scoring model.
- **Other existing systems**—depending on the analysis model, useful information may be obtained from existing systems. Customer relationship management (CRM) systems can supply the number or size of related clients, prospects or opportunities; financial reporting systems may be used to derive revenues and/or costs by application system, and service desk systems can provide measures of support costs or user satisfaction.
- **Interviews**—tailored focus interviews are a key way of collecting soft information about the application systems and the enterprise perceptions and objectives of the portfolios managed on them. Also captured by this method are measures of technical merit and potential, including details such as architectural layering, linkages and coupling, as well as business details such as enhancement plans and criticality to business. This is often institutional knowledge for which there is no repository or system-of-record.
- **Surveys**—before commencing interviewing, surveys can be deployed to provide a scalable mode of mass data collection. It is critical to first tune and tests the questions to ensure that the surveys are answerable, specific, have no ambiguities and are easy-to complete.

The objective is to enable a continuously-updated profile of the application system portfolio.

4.2. Scoring

The scoring approach is tailored to the individual organization's needs so that the resulting scores have actual relevance to the organization's strategic goals and objectives.

- **Situation-specific scores**—scoring approaches must, first and foremost, correspond to the situation and environment under study. The analysis scoring model is geared to the specific problem of balancing the objective of achieving efficiencies by sun-setting some, or all, of the systems used to operate the closed blocks against the desire to retain the business value of the portfolio administered on those systems, and to satisfy the business objectives in handling that business.

Scores need to be selected or developed to measure relevant attributes for the goals of the analysis. It is fairly easy to define the measures on the Net Risk/Cost of Migration dimensions. The metrics can be reduced to financial units. The problem is more challenging (and subject to greater differences among different organizations) along the Business Value dimension. Further, some of the measures are necessarily qualitative and pose more problems in aggregation.

- **Generic scores**—there is a place for generic scores as well to bring best practices and industry experience into the analysis. These can include such concepts as user satisfaction, customizability, level of complexity, maturity, etc.
- **Normalization**—it is important to normalize scores to a common scale, using an appropriate method to both recognize extreme scores and yet not have them overly skew the results. This puts all scores on an initially common scale so that there are no built-in biases or dominance.
- **Weighting**—weights are assigned and used to emphasize the relative importance of different scores and higher-level metrics, focus areas and strategic indicators. This allows tradeoffs and tuning of more versus less important attributes to meet the specific needs and goals of the organization.

A sample of the analysis worksheet reflecting these steps is illustrated below.

Exhibit 5: Designing the Evaluation

- Complete the Dimension/Goal/Aspect/Metric structure
- Include the Qualitative Considerations
- Assign Weights to every factor
- Find/assign the Values for the Metrics
- Devise the Scoring for the Values of the Metrics

Dimension Description	Score	Indicator Description	Indicator Weight		Score Raw	Weight	Description	Focus Weight		Score Raw	Weight	Description	Metric Weight		Value	Score Raw	Weight
			Abs	Rel				Abs	Rel				Abs	Rel			
Business Value	5.45	Integration	4	15%	4.91	0.76	Up/Cross Sell	2	17%	7.3077	1.22	Unique Clients	2	8%	11,253	4	0.31
												Age Distribution	2	8%	Prof 3	7	0.54
												Average Value	4	15%	53,400	8	1.23
												COLL GID	6	23%	2.35	8	1.85
												Age of Block	4	15%	15.3	6	0.92
												Importance	8	31%	High	8	2.45
							Consolidated Client	2	17%	5.2195	0.87	Clients in Block	5	12%	11,253	4	0.40
												Clients in other Blocks	2	5%	57%	8	0.30
												Contract Billing	5	12%	Prnt/Usd	10	1.22
												Active Distributor	5	12%	10,394	8	0.98
												Portfolio retention	8	20%	No	0	0.00
												Distributor demand	8	20%	Low	3	0.50
							Entire Life Risk	8	67%	4.24	2.83	Importance of Retention Limit	8	20%	High	8	1.90
		Agility	4	15%	2.30	0.36	Reinsurability										
		Alignment	10	38%	0.22	0.03	Applicability										

used because of the varying characteristics of the scoring (i.e. quantitative vs. qualitative, financial vs. assessment, etc.).

- **Assessment Aggregation.** Used for the Business Value Dimension because the measures are non-financial. The scores for the Business Value dimension are likely to be assessments, reflecting the collective perceptions of a number of stakeholders about the extent to which the identified Metrics apply to the blocks of business.
 - **Relative Weighting:** The importance attached to each Metric, Aspect and Goal is reflected in the weights assigned to each of these. The determination of these weights is one of the most important tasks in customizing the model for a specific insurance enterprise.
 - **Normalization:** This is the technique by which non-uniform numbers of sub-factors (e.g. Metrics within Aspects, Aspects within Goals, Goals within Dimensions) are removed as a variable in the aggregation so that the summary ratings reflect only assessment, and not the number of factors.
- **Financial Aggregation:** When all the measurement and ratings are expressed as a monetary value, the aggregation is reduced to finding an algebraic sum of the scores. This technique is used for the Net Cost/Risk of Transfer dimension.
 - **Definition:** Net Cost/Risk of Transfer is defined as the Net expense that would be incurred in transferring the block of business administered on a specific system, into another system. Net expense is calculated as Cost minus Savings and consists of:
 - The **Cost of Migration** contains costs for:
 - Functional enhancements
 - Interface development
 - System/product parameterization
 - Data migration
 - Documentation for turnover, etc.
 Since these are estimates, these costs need to be modified to reflect the non-certainty of hitting the estimates. This involves the need for a **Risk Adjustment**.
 - The **Savings from Cessation of Operation** are the expenses associated with the operation of the system used to administer the closed blocks, which will no longer be incurred if those systems are sun-set. Savings may include hardware costs, software licensing costs, manpower costs for operation, costs of maintenance and support, etc.

- The Result should ideally be a negative number, indicating that there is a pay-off for transferring the block
- **Non Time Valued:** Not all these cash flows occur at the same time, typically the costs for transfer are incurred up-front, but the savings from the sun-setting of the systems occur over subsequent years. For the sake of simplicity, the time value of money (the effect of interest) is sometimes ignored, and the following aggregation methods are used.
 - Algebraic Sum
 - Breakeven Analysis
- **Time Valued:** If the time value of money must be recognized, the aggregation method used is
 - Discounted Cash Flow

Exhibit 7: Aggregating the Dimensions

- **Score Aggregation** (Used for the Business Value Dimension because the measures are non-financial)
 - Relative Weighting
 - Normalization
- **Financial Aggregation** (Used for the Cost/Risk of Transfer Dimension because the measures are financial)
 - Definition: Net Cost/Risk of Transfer:
 - Cost of Migration
 - Functional Enhancements
 - Interface Development
 - System/Product Parameterization
 - Data Migration
 - Documentation for Turnover, etc.
 - Risk Adjustment
 - Minus, Savings from Cessation of Operation
 - Non Time Valued
 - Algebraic Sum
 - Breakeven Analysis
 - Time Valued
 - Discounted Cash Flow

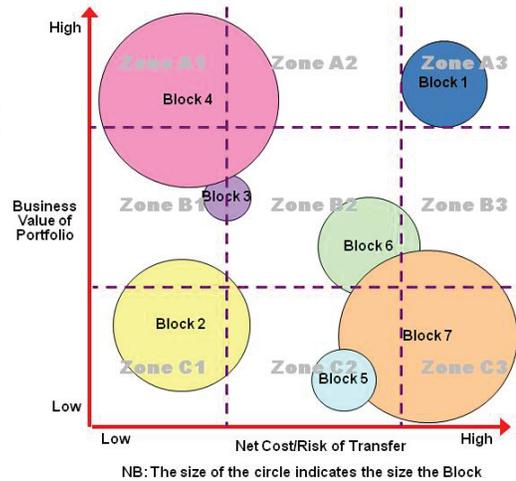
	Estimate	Year 1	Year 2
	Resource/Model/Linked/Optional/Planning	Asset Factor/Value	Asset Factor/Value
Cost of Migration			
Functional Enhancements			
Contribution			
Integration			
Testing			
Interface Development			
Contribution			
Integration			
Testing			
System/Product Parameterization			
Planning			
Execution			
Testing			
Data Migration			
Planning			
Execution			
Testing			
Documentation for Turnover			
Planning			
Execution			
Delivery			
Savings from Cessation of Operation			
Makeover			
Hardware			
Software			
Infrastructure			
Management			
Net Cost/Risk of Transfer			

4.5. Extracting Meaning

The objective of all the steps of data collection, scoring, evaluation and aggregation is to arrive at decisions regarding the disposition of each of the systems that administer the closed blocks, in other words to recommend the branch of the taxonomy that makes the most sense for each block and system. By graphing the aggregated evaluation on each of the dimensions and representing each system with a circle whose size is proportional to the number of Policies administered on each system, a diagram similar to the following is created. It is from this diagram that we draw conclusions about the disposition of each of the systems and the closed blocks they administer.

Exhibit 8: Extracting Meaning

Zone	Recommendation
C1	Outsource
A1	Third Party Administration
A3	Retain
C3	Sell
Other	Decision needs to be made considering detail characteristics of the Block



- **Deciding to Outsource (BPO):** In the Zone C1, exemplified by Block 2, the Net Cost/Risk of Transfer is low and so is the Business Value. This means that there is a pay-off to transferring the business out of its current system for administration; and the business imperatives for retaining control over the administration of the block in not very compelling. These factors are arguments to utilize the BPO option.
- **Deciding to Use Third Party Administration (TPA):** In the Zone A1, exemplified by Block 4 the Net Cost/Risk of Transfer is low but the Business Value is high. This means that there is a pay-off to transferring the business out of its current system for administration; but that transfer must not impair the enterprise’s ability to control the current administration and future exploitation of the block. TPA may be way to accomplish these objectives. The enterprise still gets to sunset the admin system, but it retains integration with the TPA system and a high level of control to ensure user satisfaction with the administration of the block.
- **Deciding to Retain:** In the Zone C1, exemplified by Block 1, the Net Cost/Risk of Transfer is high and so is the Business Value. This means that there is a little or no pay-off to transferring the business out of its current system for administration; and the business imperatives for retaining control over the administration of the block in rather compelling. This situation argues strongly for retaining the block on the system on which it is currently administered.
- **Deciding to Sell:** In the Zone C3, exemplified by Block 7, the Net Cost/Risk of Transfer is high and but the Business Value is low. This means that there is no compelling reason to hang on to the block, and it would not pay to transfer the block to another system to consolidate

its administration. In this case, it would be best to sell the block outright and let the new owner figure out how to cost efficiently administer the business.

- **There is no Clear Recommendation:** In the other Zones (A2, B1, B2, B3 and C2) exemplified by Blocks 3, 5 and 6, the trade-off between Cost/Risk of Transfer and Retention of Business Value is not as clear. The decision for the disposition of the blocks and the sun-setting decision for the systems that administer them will require more detailed analysis.

4.6. Realizing the Benefits of Sun-Setting

The decision to Transfer, Retain or Sell are made for each block of business. However, sun-setting a system is only possible when ALL the blocks of business it administers have been transferred. The illustration below summarizes the impact of that consideration on the disposition decisions.

Exhibit 9: Decision to Sun-Set a Source System

- A Source System is a Sun Setting candidate if ALL the Blocks it administers are candidates for transfer.
- If the decision about the majority of Blocks that are administered in a Source System is to Transfer; but there are one or more Blocks are indicated for Retain; the decision to Migrate those blocks (even if it not justifiable in isolation) may be necessary in order to achieve the benefits of actually ceasing operation of the Source System.



4.7. Choosing a Partner to Apply the Model

The principal differentiator for using a portfolio management approach to make migration and sun-setting decisions is the balanced consideration of IT and business concerns. For this reason, when selecting a partner for this approach, insurers must find a firm that is proficient in the techniques and well-versed in the decision framework— but also domain knowledgeable. Capgemini's Insurance team combines deep insurance domain experience with consulting, technology and outsourcing services to help insurance companies make the right decisions to drive business success. Visit us at www.capgemini.com/insurance.

About the Author

Romeo Linan is an Enterprise Architect for Capgemini's Financial Services Global Business Unit focusing on insurance. He brings to Capgemini's clients over 25 years experience in insurance and technology and serves as an integral part of our insurance leadership team. At Capgemini, Romeo provides consulting and business development support for application and technical issues. Romeo holds a Bachelor's degree in Physics and numerous industry accreditations, including Master Fellow of the Life Management Institute (M/FLMI), Chartered Life Underwriter (CLU) and Associate, Actuarial Society of the Philippines (AASP).



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