WHITEPAPER

Making the Right Bets on **Core Modernization in Insurance**

Maximizing Value from Investments in Core Platforms

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Introduction

The insurance industry is struggling with multiple challenges due to tough macro economic conditions, pricing pressures, and the emergence of new competitors. Until recently, insurers tried to tackle these challenges by using a stop-gap approach of digital-first distribution combined with a legacy technology estate. However, they quickly realized the inefficiencies arising from the disjointed functions and the need to adopt a more holistic approach centered on a robust and dynamic core.

In fact, as insurers evolve from being risk insurers to becoming risk guardians, core modernization assumes more importance than ever before. Changing customer expectations demand convenience across interaction touchpoints, contextualized product offerings, and streamlined omnichannel experiences. A modern cloud platform that allows insurers to move faster and deliver seamless customer and user experiences while providing the flexibility to quickly meet future demands is essential to succeed in the market. Therefore, a complete front-to-back modernization with coherent processes is no longer a choice but a necessity to stay relevant, tackle headwinds, and drive differentiation.

In this study, we explore the need for core modernization and examine:

- A three-pronged agenda for insurers to maximize value from their core systems
- Enterprise considerations for selecting the right core platform
- Enterprise considerations for selecting the right integration partner

A three-pronged agenda for insurers to maximize value from their core systems

The goal of becoming a risk guardian requires insurers to drive front-to-back modernization to help them address both growth and efficiency mandates. They need to build a modern core foundation and leverage a core technology partner ecosystem. To extract speed-to-market benefits and maximize value from their core systems, insurers should follow a three-pronged agenda:

» **Shift from making peripheral changes to driving core modernization as a foundational lever for digital transformation:** By making targeted investments in core transformation, insurers will be able to build internal systems that work together seamlessly and eliminate any silos that pose challenges in communication. These systems will help drive efficiencies in internal functions and enable insurers to build customized risk solutions, thereby improving customer experience

» **Leverage complementary capabilities and the extended solution partner ecosystem:** Despite undertaking large-scale transformation initiatives, many insurers report value leakages from their investments in core technology. While core systems streamline internal systems and provide agility, insurers can realize value-generation opportunities from working with InsurTechs, core technology provider-affiliated solution partners, and SI services specialists that offer complementary offerings on top of core technologies. For example, InsurTechs such as Akur8 augment the speed and accuracy of pricing using AI-/ML-based models. FRISS offers data-backed fraud-detection capabilities to reduce fraud across customer touchpoints, ranging from quotes to claims investigation. Several InsurTechs, such as ZestyAI, LexisNexis, and Betterview, are offering geospatial visualization for improved property risk and claims management

» **Maximize value from out-of-the-box features/functionalities coverage:** Many core product/technology providers are now offering off-the-shelf blueprints for different insurance business lines, thereby minimizing the need for resource-intensive customization efforts. These blueprints offer a lucrative opportunity to insurers with limited talent and resource capabilities, even out the technology playing field, and allow insurers to challenge larger peers through comparable customer experiences.

A modern core technology estate will allow insurers to build personalized products and experiences for small customer cohorts. At a time when insurers are vying for new market opportunities, a faster go-to-market will be key in garnering mind and wallet share, while also enabling insurers to conduct rapid market testing of new products. Insurers need to evaluate such long-term benefits to support the business case for core modernization.

However, realizing the benefits from core transformation is a task easier said than done. Once they have decided to undertake core transformation, insurers need to make two important decisions: select the right core platform and choose the best-fit integration partner. In the following sections, we analyze each of these choices in detail to understand the key considerations for insurers as they make these important decisions.

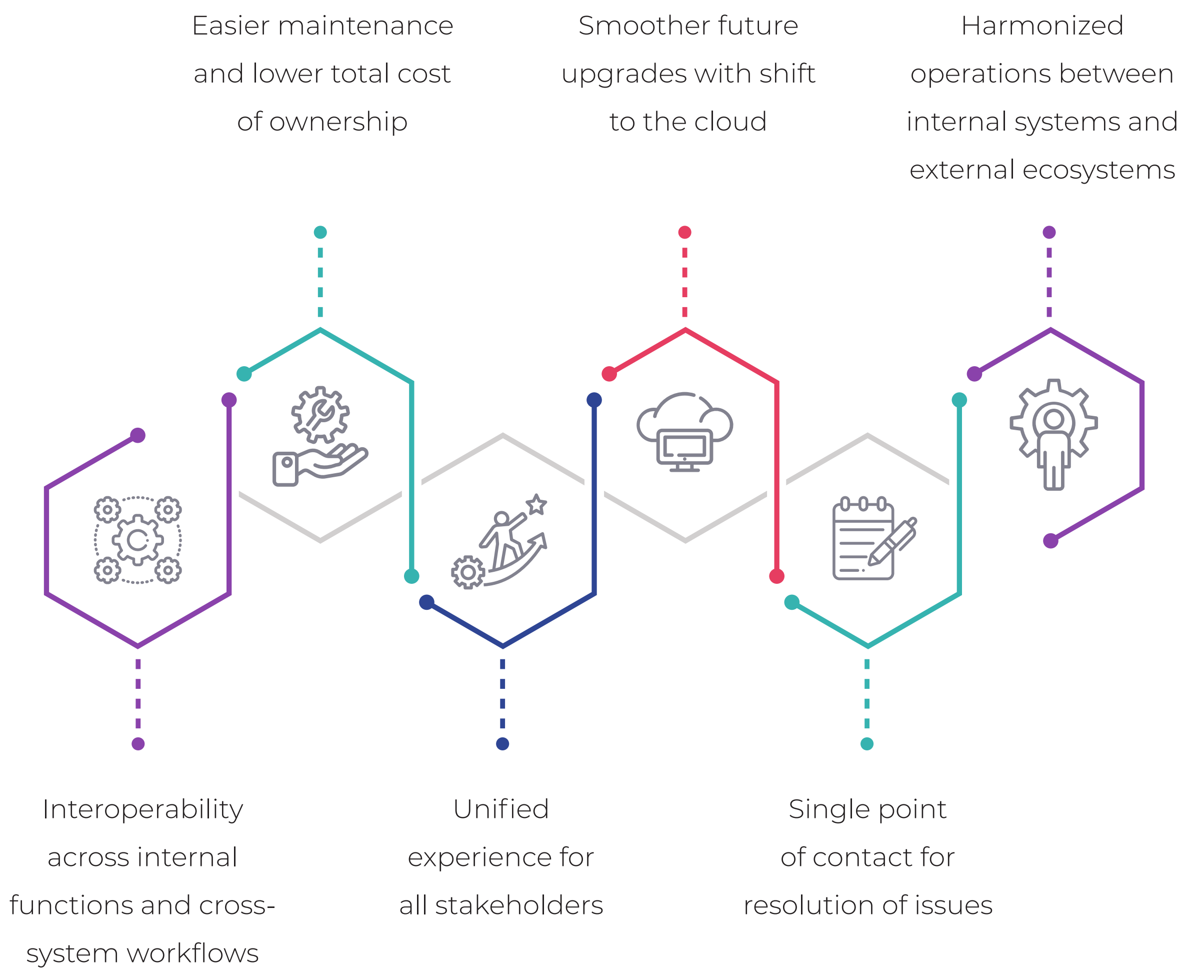
Enterprise considerations for selecting the right core platform

Many insurers have successfully embraced third-party core platforms. Insurers that are yet to make the leap are closely following developments in the space to identify the right bets, while early adopters of disparate core systems are now looking to consolidate their internal systems on the same technology core. Everest Group's interactions with insurers and their service provider partners that adopted the same technology core across the value chain have brought to the fore key benefits, as Exhibit 1 highlights.

Exhibit 1

Key benefits of adopting a single technology core across the value chain

Source: Everest Group (2022)



While insurers are making investments in building the right infrastructure, it is vital for them to select the best-fit core to realize value from their investment bets. Today, they can choose from a plethora of options – including established products with strong proof points of market success and emerging alternatives that serve a specific market segment. We believe that insurers should seek to answer the following questions to select the right core platform for their requirements:

01 Is the out-of-the-box coverage adequate to serve present and most future requirements?

02 How easily does the core system integrate with ancillary systems?

03 How strong is the supporting technology/solution ecosystem to drive value additions?

04 What are the available options among System Integration (SI) service providers?

In this research, we consider the example of Guidewire, which has consistently been the preferred choice of insurers with a vast partnership network of SI service providers and robust core and ancillary capabilities. Both insurers and providers appreciate Guidewire's consistent support with upgrades. We believe that Guidewire will continue to be a key contender as the platform of choice for insurers.

The building blocks of Guidewire's core and ecosystem offerings

Guidewire recognized the need for insurers to build customized products and experiences for customers and adopted a modular approach to creating a vast ecosystem of insurance technology solutions. It combined a robust core system with extensive out-of-the-box functionalities, shifting the focus from heavy customization to efficient configuration. Plug-and-play options enhanced a digital-first customer experience. The most notable aspect was the platform's marked shift to a cloud-based model, highlighted by the growing acceptance of the subscription-based consumption model. Guidewire's proactiveness in pushing updates has created a seamless upgrade process that has resonated well with insurers of all sizes.

Exhibit 2 provides an overview of Guidewire's core products

Exhibit 2

Guidewire's flagship offerings

Source: Everest Group (2022)

PolicyCenter

Guidewire's **core policy administration system** presents a scalable solution for product innovation and serves changing customer needs in an agile manner. Capabilities that resonate the most with insurers are:

- Digital-first, omnichannel experiences across stakeholders
- Strategic automation to enable faster underwriting
- Insights for product ideation using predictive analytics
- Microservices, APIs, and integrations to build new products

BillingCenter

Its **insurance billing system** offers a convenient customer experience via pre-built models and scalable architecture. BillingCenter offers the following capabilities:

» Automation of day-to-day processes

» Invoicing flexibility and multiple payment options

» Digital user interface for convenient access to information

ClaimCenter

ClaimCenter is an exhaustive **claims platform** that provides a seamless claims experience by automating workflows and streamlining claims settlements. Insurers prefer ClaimCenter as it:

» Provides real-time access to information for claims teams

» Automates the creation of exposures and reserves

» Leverages AI and embedded analytics for improved claims analysis

» Streamlines communications with policyholders

InsuranceNow

It is a **niche product for US-based small P&C insurers** with limited resources that are looking for cloud-enabled, well-integrated, and an economical core technology option. The key benefits include:

» Reduced IT complexity (as it installs as a single system)

» Accelerated product launches

» Regular system updates

In addition, Guidewire has launched multiple ancillary offerings to address specific industry needs. These offerings include:

- Digital Portals to complement core products and offer digital experiences for different stakeholder groups
- Data Platform, which helps unlock data-driven insights for informed business decisions
- Cyence to assist in the assessment and quantification of cybersecurity risk for individual companies and portfolios
- HazardHub, which offers API-driven property and casualty risk data for effective underwriting

Insurers are constantly on the lookout for opportunities to drive differentiation and are increasingly showing more willingness to collaborate with InsurTechs. Pointed plug-and-play solutions enhance insurers' offerings in a modular manner and help them derive additional value from investments in the core. In this regard, Guidewire has partnered with a wide range of technology/solution providers to offer pre-configured and easy-to-integrate options. Notable examples include:

FRISS for fraud management across the value chain

OneInc for a superior payments experience through a digital platform and built-in compliance capabilities

CoreLogic for property information and analytics for portfolio risk management

HiMarley for an AI-based texting platform to streamline communication with stakeholders

Verisk for unique data assets and data analytics capabilities

Guidewire also offers its insurer clients diverse SI partners that offer support across their core modernization journeys – from initial road-mapping and implementation to post-implementation support such as maintenance and upgrades & enhancements.

Further, to help insurers choose the right strategic partner that best meets their unique needs, Guidewire recognizes providers through partnership tiers and product-/geography-specific specializations. In turn, providers actively develop Guidewire-specific proprietary IP to differentiate themselves and ease insurers' core modernization journeys.

In the next section, we list the key things that insurers should consider – and do – as they select an SI services partner for their requirements.

Enterprise considerations for selecting the right integration partner

Based on more than a hundred interactions with Guidewire customers, service providers and Guidewire Consulting Select Partners such as Aspire Systems, we have realized the many challenges and unmet expectations that insurers experience with their service providers. While selecting the right-fit services partner, we recommend that insurers ensure their services partner bring these to the table:

- **Agile methodologies for delivering timely implementations,** scale of certified resources on the latest product versions, and the ability to offer product enhancement services
- **Minimize customizations and maximize out-of-the-box functionalities** to mitigate complexities and make future upgrades easy
- Availability of proprietary tools/accelerators/frameworks to **address time-to-market and cost priorities**
- Technology modernization expertise to get the best out of **RPA, AI/ML, Cloud and Analytics**
- Ability to **analyze and interpret data** to identify opportunities for optimization and improvement in Guidewire implementations.
- **Thorough testing and quality assurance processes** to help identify and resolve issues early in the implementation cycle
- **Willingness to sign up for accountability** against specific business outcomes and have their skin in the game
- **Alignment with Guidewire's vision and investment bets,** such as readiness to support Guidewire Cloud and Data products

Insurers would do well to realize that decisions related to selecting the right core platform and the right service partner depend on each other. A careful and thorough evaluation on both fronts will enable insurers to maximize the value from their core modernization initiatives. *More attributes to look for in a Guidewire implementation partner*

Conclusion

The insurance industry faces headwinds such as obsolete legacy systems, talent shortages, and resistance to change. To deal with these challenges, insurers are shifting from building customized solutions to buying off-the-shelf products and adopting third-party core platforms to reduce latency, improve efficiency, drive product innovation, and build a modern core to power superior front-office experiences. Insurers must take a long-term view on core transformation to guide their broader IT strategies, future-proof their technology estates, and build scaled data-driven decisioning capabilities.

To sum up our discussion, we believe that insurers should follow the action points listed below to ensure that they make the right bets on their core modernization journeys:

- Evaluate the availability and ease of best-fit cloud deployment options for moving core systems to the cloud based on the firm's long-term cloud strategy
- Adopt cloud sooner rather than later to future-proof the business
- Build a comprehensive change management strategy and engage stakeholders throughout the transformation process to speed up user adoption
- Engage with providers in a partnership model and make them accountable for specific business outcomes

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Aspire Systems is a global technology services firm serving as a trusted technology partner for insurers worldwide. With 20+ years of experience in software product engineering, we understand the depth and breadth of Insurance Business. We work with some of the world's leading Insurance Providers, helping them leverage technology to become Future Ready. Our domain experts and certified professionals provide end-to-end solutions from discovery to support and maintenance. Our expertise and insurance software solutions in Digital Customer Experience, Operational Excellence, and Guidewire Transformation makes us the most preferred Insurtech transformation partner. Our core philosophy of "Attention. Always." communicates our belief in lavishing care and attention on our customer and employees.

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