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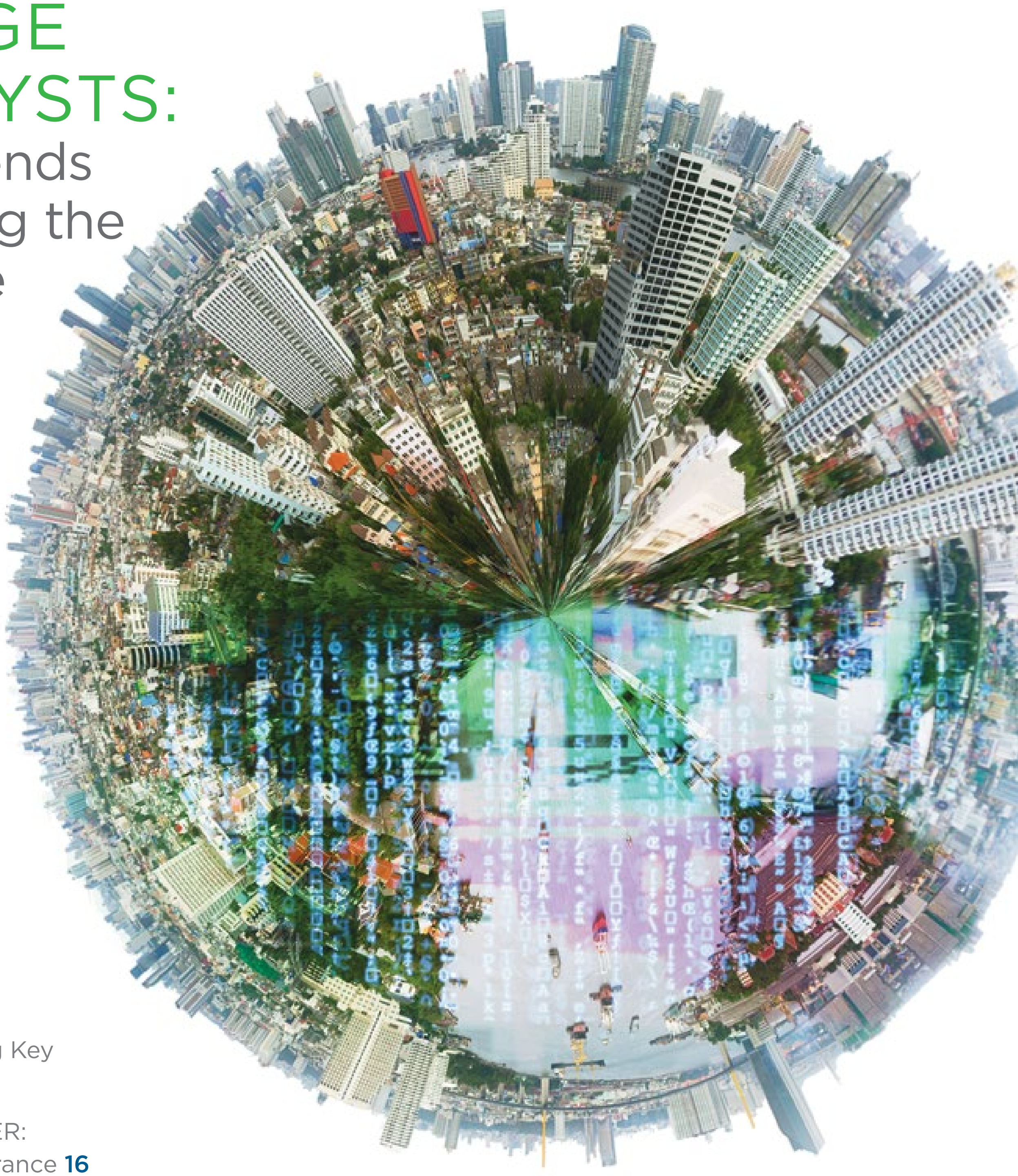
CHANGE CATALYSTS: Three Trends Reshaping the Insurance World



INSIDE

Growing Pains

by PAT SPEER

The amount of movement in the insurance technology sector was remarkable in 2015, according to insurance investment analyst firm Conning, which cites 34 various insurance technology deals during the year. In its "Global Insurance Distribution & Services Sector Mergers & Acquisitions: Building for the Future" report, Conning says insurers' interest in technology innovation and modernization will drive further M&A activity in 2016.

This type of activity has a visible effect on the insurance sector, and insurers and vendors alike are not immune to the fallout. Although new, the industry is funding new Fintech startups at an astonishing rate, the fallout related to larger deals with existing vendors is a dwindling pool of companies from which to buy technology (See sidebar, The Insurance Deal Chessboard). In fact, with so much activity going on, this rise in vendor consolidation is being characterized as contributing to industry "instability." Why? Because the buyer (the insurer) in what will likely be a multi-million dollar transaction must respond to a host of issues related to vendor M&A that may not be under the insurer's control.

For example, insurers face uncertainties such as a change in the core team of vendor personnel assigned to an insurer's team/project, a potential change in product support, a potential drop in service levels, or even an actual service level disruption, all of which have the potential to damage relationships downstream. Insurers want to be assured that their existing vendor relationships will stand the test of increased instability tied to vendor M&A activities.

"Vendors don't always go into this with a clear vision of where they are going to take it," says Karlyn Carnahan, research director at Celent. "Or if they do, they are not always good at articulating it to the marketplace. For some carriers it may mean deeper discounts, but longer lead times; for others it may mean delayed or disrupted service. Carriers tell me, 'I'm not sure what I'll do till the vendor's M&A dust settles.' It's up to the vendor to make the acquisition clear."

Vendors on the other hand, have their own issues to worry about. "Consider that more than 60 policy admin vendors are chasing approximately 40 deals per year," adds Carnahan. "If a vendor wants to maintain relevancy, they have to create a product set based on their acquisitions that's complementary and adds additional value to what they are already doing."

Some vendors facing a shrinking market are finding that by acquiring complementary solutions, they can either expand into newer markets or more market segments, or establish a partnership that provides for recurring revenue. Others are counting on expanding existing territories with the acquisition of additional customers. Whatever the reason(s), the pressure is on the acquiring vendor to protect its customers' best interests and its growing product set.

For example, CSC's 2015 purchase of Xchanging/Xuber, which purchased Total Objects and Agencyport Europe in 2014, along with its newest partnerships with 360 GlobalNet and Scope Technologies, requires CSC to establish a clear roadmap for integration of any overlapping assets (platforms and products). As a global transaction, CSC also has a multi-tiered task list related to developing further into international markets.

Xchanging and Xuber will be separate divisions within CSC, confirms Ed Charlton, CSC vice president and general manager, "but we will also do product mapping in order to harvest new products from our various entities."

Maintaining relevancy also means helping the insurer see beyond the complexities of the deal, which in some cases can be difficult. "We feel we can now bring more of a choice to our collective customers," says Charlton, "and we know it can be a bit confusing, but we are focused on keeping all lines of communication open with all stakeholders."

For Joe Perez, CIO and head of global infrastructure at Ironshore Services Inc., this is welcome news. An Agencyport customer since 2008, the insurer already has offerings either in use or in flight, from Agencyport, Total Objects, and Xuber. "Xuber has kept Ironshore up to date throughout the [acquisition] process," he says. "I don't see the most recent merger affecting our go-forward strategy in any way," he says.

For a carrier in flight with products that will soon be wrapped into another company's purview, Carnahan suggests looking at both (or all) companies' health, momentum, and defined growth path. "Vendors are best serving you if they are healthy and growing," she says. That said, Carnahan also warns against vendors growing too fast. "You want to make sure the vendor servicing you will continue to service you, or prove they have plans in place for service levels to continue."

Customers of the joint venture now in process to spin off Duck Creek from Accenture, will benefit from a partner approach, says Matt Foster, COO of Duck Creek. Foster, who spent 22 years at Accenture, which, along with Apax Partners, formed the joint venture, admits that the Accenture culture differs greatly from that of Duck Creek and that of Agencyport, an acquisition that is still underway. "You have to know the view of how those cultures can come together," he says. "We know we have to make these teams intimate—a true cultural fit. If you can achieve that you can do anything."

Duck Creek's go-to-market strategy will wrap Agencyport offerings into a single entity—more change for both companies' existing respective customers, but Foster maintains it will be healthy in the long term. "We want to be able to offer core solutions and core services to existing customers and really to insurers of all sizes, and in order to do that we are establishing a more formal infrastructure."

Carnahan says that managing the customer's (insurer's) expectations is paramount during M&A transition. "As a carrier, you want to understand – what are the plans for these two competing or complementary products, and where do my requirements fit in?"

Perez, like most insurers, is using the "dust settling" period to evaluate his company's expectations. "I'm not sure if this is on the roadmap for the merged companies, but with the added depth of resources as a result of the merger I would expect deeper SLAs at a lower cost point heading toward a SAAS model from an IT perspective," he says. ■