Duck Creek Technologies

LPR

Are Technology Upgrades Holding Insurers Back?

Survey of Leading Insurance Businesses

Analysis of an independent survey of leading European insurance businesses undertaken on behalf of Duck Creek Technologies to explore their experiences of technology upgrades and resultant impact on day to day business.

Compiled by Lysander PR

January 2020

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Introduction

Are Technology Upgrades Holding Insurers Back?

It's fair to say we hit a nerve with this one. Judging by the response level to this independent survey - upgrading technology appears to be something of a hot topic. I can only hope that no-one broke their keyboards when entering their views!

Insurance has been around for a long time and hence there's a lot of technology across single operations, some of it old and some of it new. And the ubiquity of this mishmash of legacy systems means that many in our industry are facing the same challenges and decisions when it comes to taking steps to upgrade.

Almost everyone who has worked in a large, well-established organisation knows that systems upgrades and maintenance can cause huge drag on the efficiency of a business, and regularly impact the working life of staff, in some instances causing major disruption across the business.

Here at Duck Creek Technologies, we're only too aware that some of the biggest IT challenges for traditional software come from the cost of upgrades, bug fixes and its inevitable sunsets. It's our job to do things differently.

We see this job as twofold, firstly we help to simplify the layer upon layer of loosely tied together legacy systems across different functions that currently dominate insurance while providing open integrations to the larger insurtech ecosystem. Secondly, to us, time-consuming and costly upgrades that put a carrier's business priorities on pause are a thing of the past; our Platform, built with low-code tools and delivered via SaaS, enables us to provide faster upgrades and ensure future readiness.

And for me this survey highlights the dilemma facing almost all established re/insurers - weighing the cost of upgrading technology systems against the cost of doing nothing. The time to upgrade technologies is when your day-to-day operations are taking too long and costing too much, and when technology is dictating your organisation's strategies rather than supporting them.

This survey was aimed at insurance executives both from board level to front line operations, and of course the unsung heroes of the IT department. Respondents were predominantly from the European re/insurance sector, but also included multinationals with respondents from further afield, particularly the USA.

Thank you to everyone who took part and gave their views for this survey, I think it provides some great insights into the current technology challenges facing the re/insurance sector, and we hope it offers food for thought when weighing up the overall strategy and subsequent costs of your next technology investment.

Enjoy the read, and please don't hesitate to get in touch with any queries.

Bart Patrick,
Managing Director
Europe Duck Creek Technologies

Are Technology Upgrades Holding Insurers Back?

Survey of Leading European Insurance Businesses

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Methodology

Survey Methodology

Lysander PR was commissioned to conduct an independent survey on behalf of Duck Creek Technologies to canvass the European (re)insurance industry's views and experiences of technology upgrades.

The survey was issued to an extended list of London market and European (re) insurance market practitioners.

Respondents were divided into two different question streams depending on their roles in the industry - those who identified themselves with job titles of CTO, IT Dept, CIO were asked a set of more technical questions specific to their upgrade experience, while those who identified themselves as CEO, Managing Director, Chairman, CFO, Board Member, claims or underwriting department, or as 'other', were asked more general questions related to technology upgrades in their operation.

The purpose of this division was to be able to analyse how the experiences and perceptions of IT departments and traditional 'back office' executives compared to those on the management level or those managing business processes such as underwriting or claims, the traditional 'front end' of the business.

Closed questions and rating scales were used to collect quantitative data, while qualitative data was collected in the form of additional comments to some of the questions.

The survey was collated and reviewed during Q3 and Q4 2019 and consisted of 30 questions, to which a total of 101 re/insurance professionals responded. Respondents were given the option to skip questions if they wanted, which naturally affected overall response levels to individual questions.

All respondents completed the survey under guarantee of anonymity, and we would like to once again thank everyone who gave their time to take part.

Executive Summary

Are tech upgrades holding insurers back?

In total, 101 respondents from across the European and global re/insurance sector took part in this survey, with around half identifying themselves as 'business side' executives or business developers, and half identifying themselves as working in the traditional 'back office' technology and information functions.

The current situation

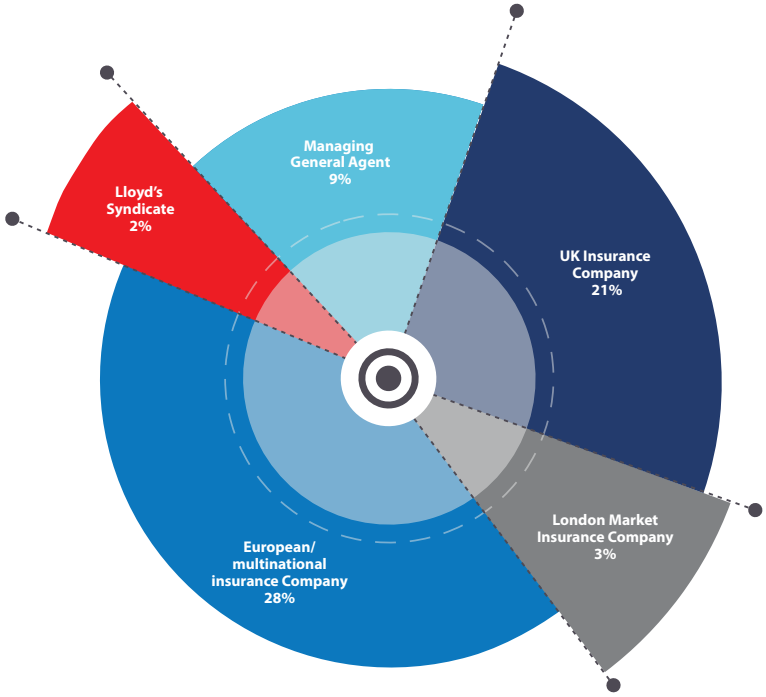
Respondents reported that they currently operate with many layers of legacy technology across their business, working with multiple different IT vendors and often falling behind with upgrades.

The cost

It was clear that the costs of regular upgrades are high and they often impact day-to-day business, while even after going through the time, investment and effort of performing the upgrade, respondents did not always see stellar results.

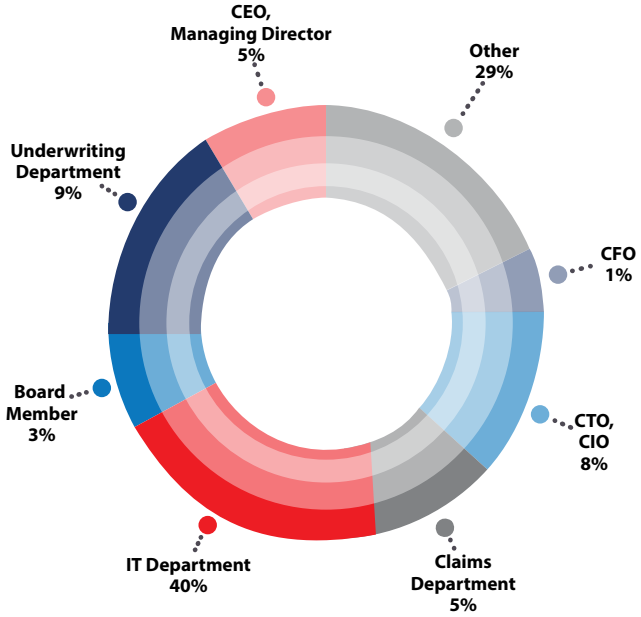
The future

Respondent industry sectors



38 respondents also added comments including "Developer", "Start-Up", "Management Consulting", and "European Reinsurance Company" to name a few.

Respondent job titles



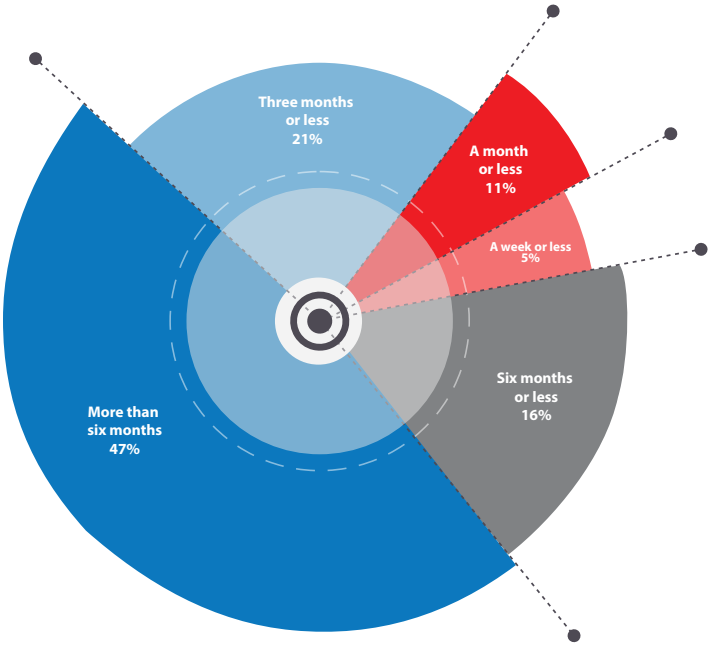
Responses to 'other' included: Product Development Manager, Business Operations, Finance Department, Consultant, and Head of Change.

42%

of IT Department, CTO, and CIO respondents reporting using up to five different vendors

Do any of the following IT issues impact your working life on a regular basis?

IT Department, CTO, and CIO respondents said:



A staggering 72% of back office responded are NOT very confident in their current IT systems' ability to support their growth strategy.

Only 28% of back office respondents and 21% of business side respondents reported being "very confident" in their current IT systems' ability to support their growth strategy.

Current state of play

We wanted to get an idea of the sort of systems respondents currently used, how they felt about those systems, and whether they had noticed technology upgrades having an impact on their day to day working lives.

How many systems in one company?

The majority of 'business side' respondents - those who identified themselves as CEO, Managing Director, Chairman, CFO, Board Member, claims or underwriting department, or as 'others' reported accessing up to 5 different systems day to day to do their job. Almost 12% of respondents to this question said they accessed more than 10 systems to do their job.

At the same time, the IT Department, CTO, and CIO respondents were asked how many different vendors they used enterprise-wide, and the answers were similar with 42% reporting using up to five different vendors, but a higher proportion - 26% - reporting using more than 10 different vendors across the company.

Have any of your IT systems ever fallen behind with upgrades?

75%

average of all respondents said YES

"Out of date IT systems creates inefficiencies and costs that ultimately insureds have to pay for"

91%

average of all respondents agreed

"We operate hybrid on premise legacy and modern systems with cloud services."

- An insurance CIO on their current IT infrastructure

"Releases can be delayed."

- Response from a UK insurance company underwriting executive to the question as to whether their IT system had ever fallen behind with upgrades

These same back office respondents were also asked how they would best describe their IT infrastructure, and 60% characterised it as "multiple legacy systems." The above paints a picture of enterprises running layers of outdated technology for most of our respondents - a scenario that makes more frequent system downtime, lack of interoperability and other inefficiencies almost unavoidable.

Falling behind

So we asked both of the two groups of respondents whether, to the best of their knowledge, their IT systems had ever fallen behind with upgrades (i.e. whether the system they are implementing is not the most up-to-date version available) and the resounding majority said yes, with little difference between the front / back office perspective here (71% and 79% respectively).

This was particularly interesting given that an average of 62% of all respondents said they had service level agreements in place with their IT vendors for upgrading and maintaining systems. So why are so many still falling behind?

The survey also asked the respondents who had identified themselves as CIO, CTO and IT department what was the driving force behind their most recent technology upgrade. There was a broad spread of responses, with meeting business objectives ranked highest as a reason at 37%, followed by adding new features (32%) and then the fact that the version was sunsetting (26%).

Integration drive

One IT department respondent from a US insurer said that their most recent upgrade was driven by the need to make it "easier to integrate with other solutions." This comment really hits the nail on the head. The current drive for flexible integration and interoperability is a response to the modern, ecosystem approach to technology. This approach sees the use of predominantly open platforms that harness APIs to allow new innovation to be plugged into existing technology.

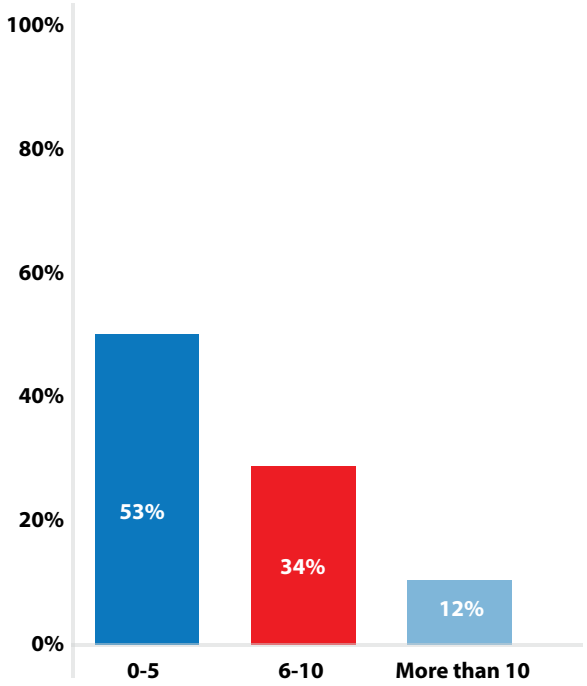
In this way, many different companies are able to bring innovation to the market - facilitating access to new tools, services and data sources that are both tailored to the specific business users, but which are at the same time powered by a much broader collaborative effort.

It is highly desirable for large-scale re/insurers to have openness built into their underlying technology in order to accommodate this kind of ecosystem approach.

Instead, however, this survey shows that many companies currently operate with many layers of legacy technology across their business that hinder the ability to integrate with 3rd party providers and maintain these integrations during an upgrade.

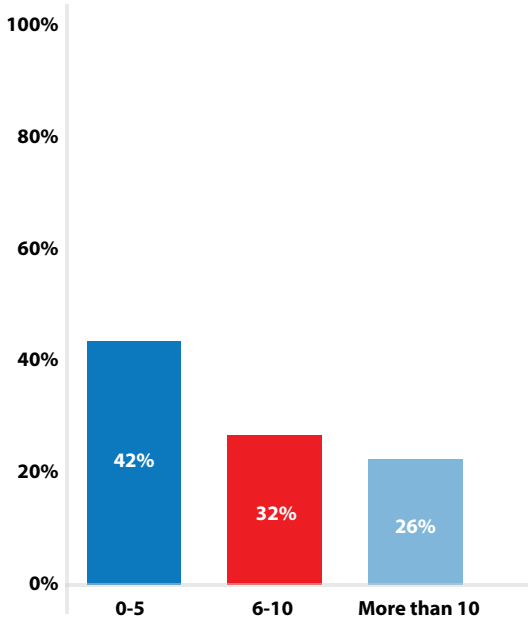
How many systems do you access day to day to do your job?

Business side respondents:

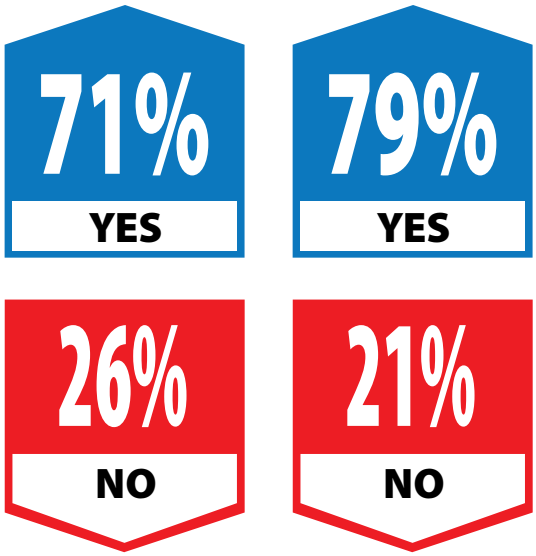


How many different vendors to you use enterprise-wide

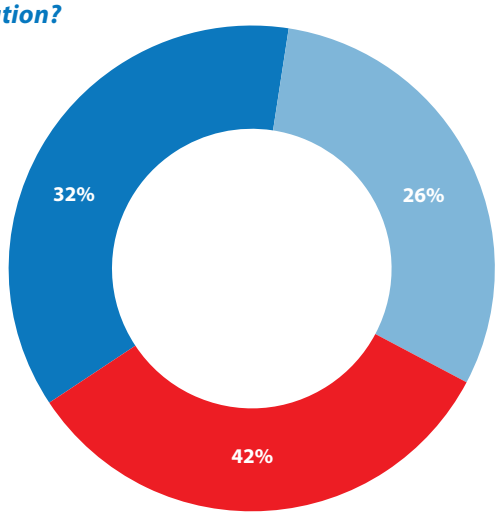
Back office respondents:



Has your IT system ever fallen behind with upgrades?



How much customisation has deviated from the original application?



0-15% We are predominately using the Out Of The Box (OOTB) solutions, with some bespoke adjustments for branding and integrations.

16-50% We required branding &integrations as well as some customisation around workflows, stored procedures and changes to the base code in order to get the right fit for business.

>50% Our business has made dramatic changes to the OOTB solutions in order to fully support our business requirements.

Customising IT systems

"Our legacy is 99% custom at this point (20 plus year old system)"

- An insurance CIO on customisation of core systems at their company

The survey asked the respondents who had identified themselves as CIO,CTO and IT department about the level of customisation on their current platforms that had deviated from the original application.

We were particularly interested in this question because on many legacy on premise systems it can be more challenging and complex to accomplish a smooth upgrade if a high level of customisation to the baseline code has taken place.

A large proportion of this group of respondents (42%) indicated they required branding and integrations as well as some customisation around workflows, stored procedures and changes to the base code in order to get the right fit for the business, leading to an estimated customisation level of between 16% and 50%.

Often we find that legacy systems, some of which have been in place for 20 years at some re/insurance businesses, customisation has crept up over time as it is perceived as the easy option, the quick fix. This has more often than not been accompanied by delays to upgrades, more cost, effort and resources required to maintain and upgrade the system, and a higher risk of bugs and glitches.

What is the cost?

The survey asked respondents a series of questions about the efficiency and resource implications of upgrading their systems.

All respondents were asked how much they estimated it costs their company to perform an enterprise-wide upgrade of one version of a system to the latest version. They were asked to factor in staff salaries, and costs associated with any down-time to their estimate.

In total 46% of respondents who identified themselves as IT department, CTO or CIO roles reported estimated the overall cost of upgrading their systems - factoring in staff salaries, testing time and any system downtime - coming in at over EUR100,000, with 21% of this group reporting that it cost over EUR1 million.

The business-side respondents reported similar, with 17% estimating it cost them over EUR 1 million to perform an enterprise-wide upgrade, and 46% estimating this process cost over EUR100,000.

On average, over a quarter of all respondents to this survey estimated the overall cost of upgrading their systems exceeded EUR500,000. This is clearly not small change.

How much time does it take?

As well as the cost estimation in monetary terms, the survey also asked back office executives how long on average it took to upgrade from one version of an IT system to another, and 47% reported this process taking more than six months.

The range in estimated costs and timeframes of course is impacted by the size of the organisation, but whatever the scope of a business it can be challenging to monitor IT costs, and maintain oversight of when considering what requires upgrading to a more efficient model.

We also asked how often back office executives managed upgrades to their company's IT systems, to help put the cost and time issues into further context.

Just over a third of this group of respondents said they performed upgrades every six months or less, or six months to a year, but the majority (53%) said they performed upgrades either annually, every two to three years or every three years or more.

The picture that emerges is one in which enterprises are regularly paying out very large sums of money, and spending large amounts of time upgrading their systems.

What are the impacts?

We were also interested in what effect system upgrades had on the working lives of executives, if indeed they noticed any disruption at all. The business side respondents were asked to pick an option that summed up their experiences:

Which of the following best describes your current IT experience at work surrounding systems upgrades and maintenance?

- System upgrades and maintenance are seamless and happen without impacting my day to day work 24%
- System upgrades and maintenance occasionally impact my day to day work 67%
- System upgrades and maintenance regularly impact my day to day work 7%

It's clear that this is an occasional issue for this group of respondents. Reassuringly, one respondent - an executive in the business development department at a European reinsurance company - commented that a "Detailed test phases to prevent issues is always performed." This is exactly the kind of proactive approach to upgrades that should minimise disruption across an enterprise when an upgrade is due to go live.

Nevertheless, the long-term impact on employee productivity of regular system downtime, slow processing and business disruption for system upgrades to a newer system cannot be underestimated. To dig deeper, we asked the back office respondents a more detailed question about whether specific IT issues impacted their working life on a regular basis.

Do any of the following IT issues impact your working life on a regular basis?

Answer Choices	Responses
Security Threats	*20%*
Downtime for system upgrades	*8%*
Downtime for system maintenance	*8%*
Slow system processing time	*22%*
Inability to access my work remotely	*3%*
Inability to quickly make changes	*15%*
Inability to quickly launch new products	*22%*

Here we see that the most popular answers were the inability to quickly launch new products, impacts the working life of 22% of respondents on a daily basis, and slow system processing times, again with 22% of respondents ticking this box.

The fact that these IT Department, CTO, and CIO respondents rank the pressure to quickly launch new products as a pressing issue is a testament to the role that technology plays in the competitive insurance industry.

From this it is clear that the costs of regular upgrades are high and they often impact day-to-day business. We also asked business-side respondents how successful they felt upgrades were, and it was clear that the majority (60%) had experienced some disruption themselves, or that there was disruption in another area of the business.

How successful have upgrades been to your company IT system in the past?

Answer Choices	Responses
Very successful, I experienced no disruption and the upgrade went smoothly across the business	*34%*
Limited success, I experienced some disruption or there was disruption in another area of the business	*60%*
Unsuccessful, the upgrade caused major disruption across the business	*5%*

"We perform major upgrades every 2-3 years for key systems"

- CIO/CTO respondent from a P&C insurer

"Customisation in our core system make this [upgrading] really expensive"

- CIO/CTO respondent from a local, mutual P&C and life insurer

"Upgrades take place mainly at mainframe level - applications usually do not impact users."

- A European reinsurance company business development department executive on the upgrades processes

This means that even after going through the time, investment and effort of performing the upgrade, this group of respondents did not always see stellar results. The result is that many respondents are almost always using outdated technology because the upgrades experience has been so painful they only go through them every two to three years when it becomes unavoidable not to.

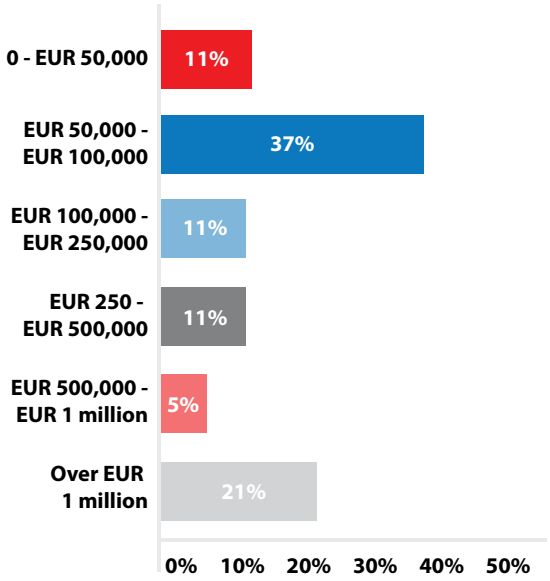
Is extra training provided when your IT systems are upgraded?

63%

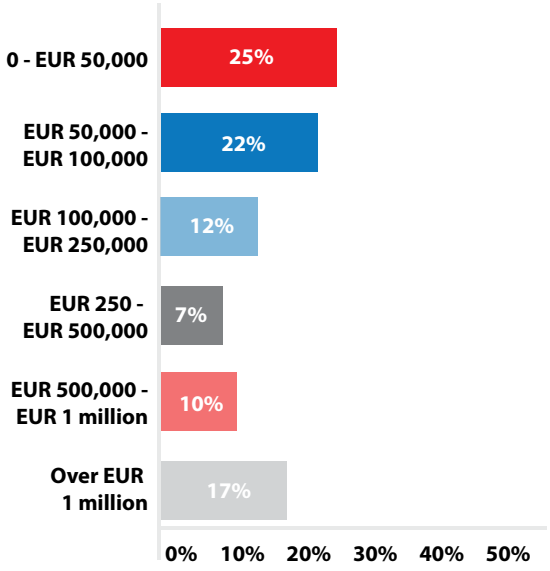
average of all respondents said YES

How much do you estimate it costs your company to perform an enterprise-wide upgrade of one version of a system to the latest version?

IT, CTO & CIO Respondents:

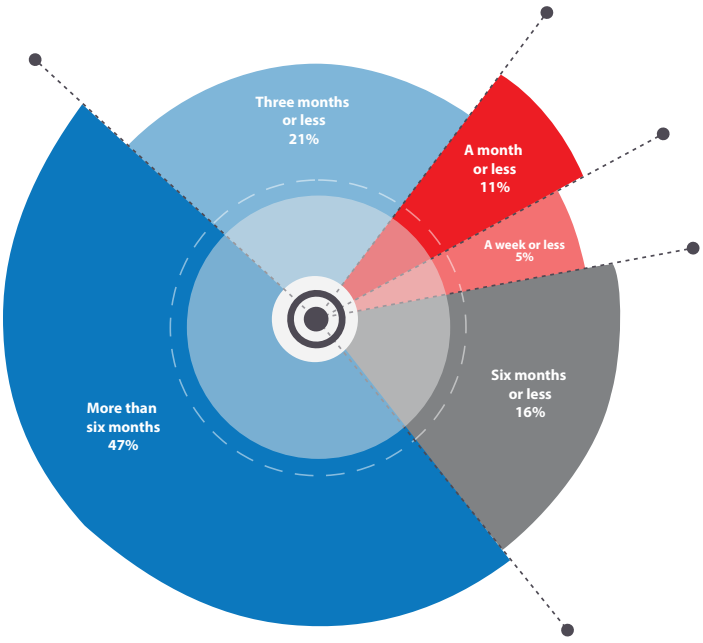


Business side respondents:



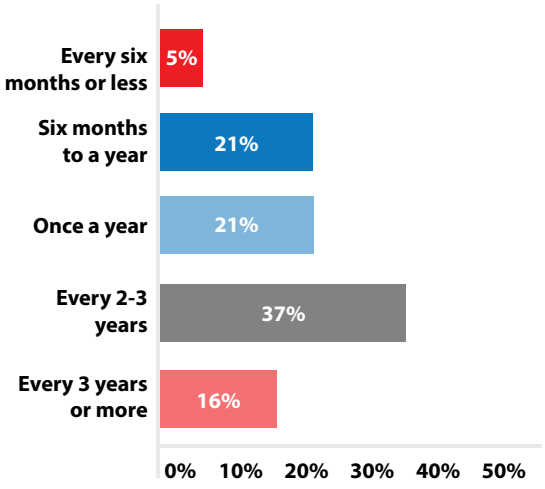
How long on average does it take to upgrade from one version of an IT system to another?

Back office respondents said:



How often do you manage upgrades to your company's IT systems?

Back office respondents said:



THE FUTURE

In addition to understanding the current state of play with re/insurer IT systems and the estimated costs associated with upgrades, we wanted to know how respondents from both the front and back office felt about how their technology might influence their ability to adapt and grow in the future.

We asked both sets of respondents whether they felt confident in their current IT systems' ability to support their growth strategy, and on average the 'back office' respondents were slightly less confident, but for both sets of respondents, the fact that only 28% of back office respondents and 21% of business side respondents reported being "very confident" in their current IT systems' ability to support their growth strategy is telling.

Technology powering business

Technology and business are getting closer and closer to becoming increasingly symbiotic. The most forward-looking insurers in the industry have gone from operations-based businesses, IT supported, to full-blown insurtech platforms, inseparable from the technology that powers them.

So, what we see in our responses is a picture of an industry in flux, with many insurers still not embracing the fact that it's time to regard IT as a peer in the business; a partner to an insurer's business vision, rather than a block.

The more that technology and the business act in harmony, the greater the ability of the organisation to dynamically evolve. In fact, the most forward looking insurers have gone from building out and investing in mainframes and on-premises technology, to taking advantage of the best insurtech and technology providers out there so that they can focus on their core operations of underwriting discipline and managing claims and innovation initiatives.

The survey also asked both sets of respondents to rate on a scale of 1-10 how 'future proof' they felt their current IT infrastructure was - i.e. it can quickly and efficiently adapt to changes such as new regulations, or product launches. Here a score of 10 indicated the system was felt to be "future ready", while a score of 1 was "highly unprepared".

"We need a replacement for our core systems."

- An insurance CTO on whether they are confident in their current IT systems' ability to support their growth strategy

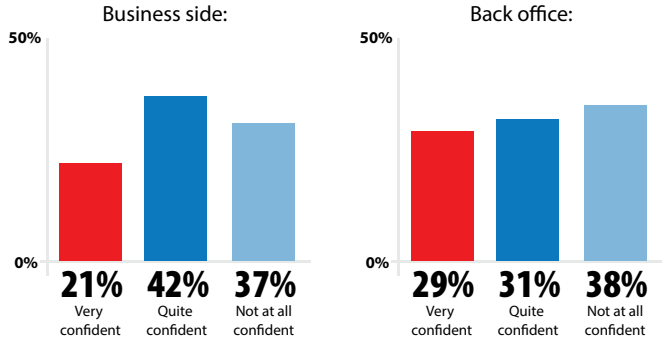
"Systems able to offer more than what is actually used/needed."

- A business intelligence executive at a European reinsurance company on their system's ability to support the company's growth strategy

Again, the back office was less confident than the business side, with an average rating of 4.7 compared to 5.7 for those respondents who had identified themselves as CEO, Managing Director, Chairman, CFO, Board Member, claims or underwriting department, or as 'other'.

And the impact of all this time, cost and resource-intensive work is not just internal - in fact on average 91% of all respondents agreed that using out of date IT systems creates inefficiencies and costs that ultimately insureds have to pay for, showing a clear recognition of the knock-on impacts to customers.

Do you feel confident in your current IT system's ability to support your growth strategy?



On a scale of 1-10, where 1 is highly unprepared and 10 is future ready, how 'future proof' do you feel your current IT infrastructure is?

Business side:

4.7

average rating

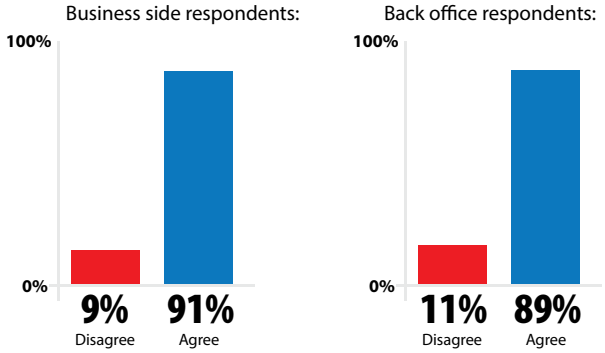
Back office:

5.7

average rating

"Out of date IT systems creates inefficiencies and costs that ultimately insureds have to pay for"

91% average of all respondents agreed

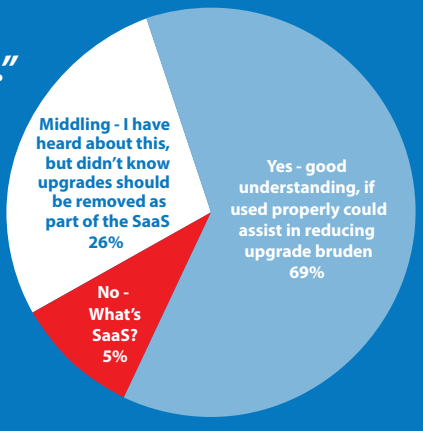


Perspectives on Saas

"SaaS provides continuous improvement and unlimited horizons."

Back office respondents were asked if they had any perspective on software as a service (SaaS) and its ability to facilitate faster upgrades. A resounding 68% said that they had a good understanding that, if used properly, low-code SaaS solutions could assist in reducing the upgrade burden.

SaaS provides continuous improvement and unlimited horizons, where the vendor handles upgrades, maintenance and systems support, so that you are freed up to focus on innovation.



CONCLUSION

Insurers don't want to be held to ransom over upgrades

Insurers currently spend hundreds of thousands if not millions each year managing upgrades to their IT platforms and maintaining their systems. And ultimately, the costs of operating a business are passed on to the clients.

And the fact that nearly all of the respondents to this survey agreed that the inefficiencies and costs that are created by using out of date IT systems are ultimately footed by insureds demonstrates a clear recognition of the knock-on effect on customers.

For most businesses, new technology is something of a double-edged sword. On the one hand, investing in the most up-to-date systems is necessary to stay competitive in a quickly evolving world, but on the other hand it requires time, resources and money to maintain. And even after all this investment, there is a risk that your system becomes out of date when something better could come along.

Technology as a strategic decision

So while a wise investment in upgrading IT can ultimately lower technology and operating costs and improve efficiencies, a wholesale upgrade to the next generation of IT capabilities across an enterprise is a momentous strategic decision.

To remain competitive in a changing world, European re/insurers, and indeed the global industry, must be agile in bringing new products to market and establish clear paths for cross-selling across lines and rewarding customer loyalty, and this means being able to administer new launches efficiently and at scale.

They require multi-channel capabilities that flow seamlessly, including direct and broker business, as well as automatic compliance with local regulations, in an ever-shifting regulatory landscape.

Costly legacy layers

But an expensive patchwork of legacy systems is simply not solving these issues for too many re/insurers. With policy administration, underwriting, billing, claims, customer service systems, analytics and compliance too often hosted on separate, unconnected systems, effort is duplicated, and time and opportunities are wasted.

The fact is that legacy technology and new technology rarely work together well - there are almost always interoperability and compatibility issues, making full integration between legacy layers and newer systems almost impossible. The layer upon layer of loosely tied together systems that currently dominate in insurance must be simplified.

A more holistic approach is required. A 'good' system is one that can always hook into new things. A system should take advantage of the latest developments in many technologies that can help throughout the business.

It is highly desirable for large-scale global insurers to have commonality in their underlying technology. This is particularly relevant as the industry evolves towards an ecosystem approach to technology, that will see nimble, connected and smart technology that interoperates become a more mainstream reality.

The burden of upgrading legacy systems is ultimately holding the industry back from embracing innovation. And the eradication of the upgrade burden would constitute one of the biggest steps forward in insurance operations. Automatic upgrades that are not the responsibility of the insurer themselves to manage and implement can help keep them ahead of the curve.

The pace of change is the biggest challenge facing global insurers, and rising to this challenge is something they need to consider now. It's time this industry consigned the pain of upgrades to history.

ABOUT DUCK CREEK

We are Duck Creek.

We give insurers a genuine path to the future with advanced technology grounded in decades of industry expertise, responsive to the unique challenges of each carrier, and shaped by the day-to-day of human behavior.

We believe that technology should empower ingenuity, rather than replace it. Our solutions are inspired by scenarios, not screens, to accommodate variability and make room for creativity. We strive for outcomes that are immediately felt and need little explanation - where highly-configured environments flow seamlessly into how you think and work, and deep technical complexity is experienced as a moment of radical simplicity.

We are sustained by a persistent curiosity that isn't afraid to challenge the norms of this industry - that believes the vision for tomorrow need not be tied to the legacy of today - and it is our job to get you there a little sooner.

We are in the business of technology, but we also know that technology is a means to a bigger, more hopeful purpose - to incubate the ideas that will make carriers faster, smarter, and stronger; to enable people to realize their full potential; and to insure the possible, today and tomorrow.

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