CREATING A COST EFFECTIVE CLOSED BOOK ADMINISTRATION

EXECUTIVE SUMMARY

Life insurance companies administrate a wide range of products which were previously sold, but are currently no longer distributed. Payments on these products are still due, assets still need to be managed. Claims and policy changes continue to be handled often using out-dated and inflexible legacy systems. An intensifying pace of regulatory changes combined with a shrinking market pose a problem. Costs per policy increase and the commercial value of so called closed book portfolios is under pressure.

Traditional coping strategies, such as system migration, outsourcing or withdrawal from the market, fail to offer an adequate solution. BPM technology now offers a tried and tested solution. Creating a cross legacy BPM layer containing the process layout, the business rules and the interfaces to the legacy landscape

- vastly reduces IT and operational costs,
- provides agility to deal with regulatory changes
- improves customer service.

These benefits can be attained in an agile approach, without the need to take on significant risks related to the traditional coping strategies. This paper outlines the strategy that enables life insurance companies to bring their closed book administration back in shape and restore revenue levels.

WHAT EXACTLY IS A "CLOSED BOOK"?

An insurance product can be put in run off for strategic reasons, lack of profitability or for instance portfolio rationalization.

When life assurance companies decide to put a product in run off, it stops new business sales and it accepts premiums only for existing policies. The book of business is then deemed to be "Closed".

The long term liabilities continue and assets have to be administered until maturity of the last policy, typically a pensions or other long term savings product.
As the number of policies decline, the administration costs per policy increase. A challenge faced throughout the life insurance market.

CHANGING CONDITIONS IN THE LIFE INSURANCE MARKET

The current reality for the life insurance market is that volumes are decreasing and at the same time regulatory changes and additional compliance lead to diminishing margins. In addition, revenues on investments plummeted during the financial crisis revealing the untenable cost level at which the policies are managed. The changing conditions in these areas are briefly illustrated here.

Compliance and regulatory changes

Accelerated by poor performance of financial markets and several incidents in which customers were confronted with losses due to high costs in relation to investment revenues, compliance and regulatory changes have been introduced at a high pace. Solvency II, issued by the European Union and the Retail Distribution Review by the RFA, are examples of such legislation.

Increasing competition and diminishing volumes

Market volumes of life insurances have displayed a steady drop over the last ten years. In addition, the introduction of specific bank saving products which directly compete in the classical area of life insurance products, deteriorate the market position of life insurance companies. Costs per policy have steadily increased and will continue to do so.

Obsolete legacy landscape

Responding to these changes is complex and poses a challenge in its own right. The fact that the products are managed with numerous legacy systems not designed to allow for such flexibility and rigor, often obtained through acquisitions and otherwise evolved over decades, makes the challenge even more daunting. Additionally the necessary resources are becoming scarce. Critical tacit knowledge of systems and processes within a small pool of senior employees creates a continuity risk. The complexity of transforming these systems or migrating the data are such that projects often fail, or run gravely out of budget.

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"Services integration is a key capability of Virtusa and paramount in the creation of an effective closed book administration with Pega BPM. Our long standing and global Pega practice has delivered numerous engagements successfully."
Stephan van de Graaf, Director Virtusa

In a closed book environment there is typically a myriad of legacy systems, usually redundantly covering several core functions. Specialised IT staff supports each of these systems. Modifications, either in response to regulatory changes or to a shift in business or customer needs, require a diligent and complex coordinated change of each of these legacy systems. At the same time, Operations personnel work with numerous systems to execute the policy changes and claims. Profound knowledge is required to operate each system. Moreover, mutations are time consuming and error prone. Major drawbacks are high staffing costs, in particular due to training time. This setup has high costs, while offering little flexibility.

All this attributes to a constant pressure on operational costs and the deployment of a strategy to meet customer demands with an efficient closed book operation.

TRADITIONAL COPING STRATEGIES ARE LIMITED AND RISK PRONE

The prior success of the products in closed book portfolios in market circumstances fostering high investment revenues and little focus on cost efficiency, has led to a situation in which management of these portfolios is highly costly. Thus cost effectively managing a closed book administration in a diminishing market poses a challenge. This challenge can traditionally be dealt with using a limited number of strategies:

- Consolidation through migration to new a system
- IT outsourcing
- Business process outsourcing
- Withdrawal from the market.

Outsourcing is a cumbersome and risk-prone strategy given the complexities of managing the closed book portfolio. Handing over this complexity to an external party makes it necessary to either reduce the complexity first or accept incurring a cost surplus to compensate the risk transfer. The solution approach and architecture suggested in this paper therefore disregards outsourcing and focuses on reducing the complexity of the legacy landscape and the respective operational processes.

Solution – creating a cross legacy BPM layer

The core of the proposed solution is to create a process layer across the existing legacy systems with Pega BPM. From an Operations perspective, this simplifies the processing of closed book claims and mutations with the use of one consistent interface. From an IT perspective, it aids the reduction of IT staffing and maintenance costs and at the same time it makes the risk-prone and costly migration to a new system architecture unnecessary.

The cross legacy BPM layer encapsulates the process layout, the business rules and the interface with an enterprise service bus. One major benefit when creating this layer is that a transfer of complexity takes place from both the existing IT systems and the Operations staff, thus capturing tacit knowledge and securing a consistent way of working. This results in reduced complexity in both domains. The BPM layer that is introduced interfaces to the legacy systems, using so called get and update services. It is both efficient to operate and to maintain. Regulatory changes can efficiently be implemented across all portfolios by readily accessible resources. Moreover, having a single process layer across the existing portfolios reduces hand-offs and enables continuous process improvement, boosting the percentage of straight through processing and further reducing personnel costs.

With this solution in place the policy volume reduction as a result of market decrease can be countered by the introduction of additional closed book portfolios to the organisation with relatively little business impact. Thus creating a cost effective in house closed book organisation, even in a diminishing market.

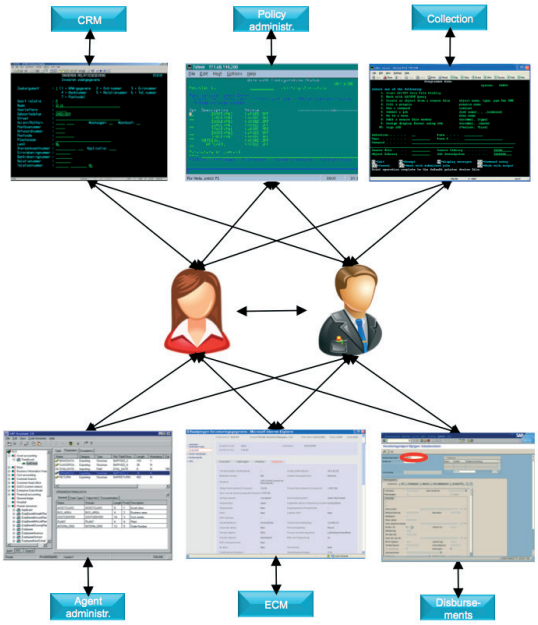
A BPM BASED BOOK STRATEGY SUCCESSFULLY IMPLEMENTED WITHIN TWO YEARS

A large Dutch life insurance company executed the strategy to encapsulate 3 closed book labels within a BPM layer, aiming to drastically reduce IT and Operations cost while improving the NPS-rating.

Following a successful proof of concept, a BPM solution was created containing all operational processes of the back office. With a strong focus on reuse of services, agile development, and without migrating a single policy, project goals were met within a period of 18 months.

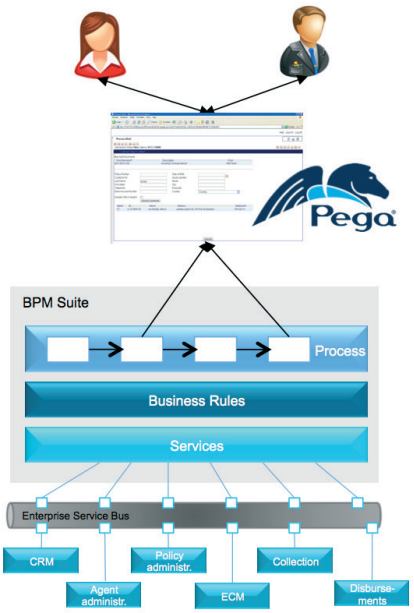
After initial program challenges were met, results in terms of cost reduction and improvement of customer service levels exceeded expectations. Setting the industry standard by creating a commercially viable closed book administration.

FROM



An inefficient closed book administration with a prominent role for obsolete legacy systems.

TO



A flexible Pega BPM suite with a single user interface enabling cost effective management of (multiple) closed book administrations.

Summary of Benefits of the cross legacy BPM layer

Our experience is that applying the BPM layer to the closed administration delivers the following benefits:

- Process cycle time is reduced (40%)
- Reducing manual work increases overall quality
- Personnel costs of Operations decrease (35 %)
- Personnel training time is vastly reduced (75%)
- Staffing cost of IT is reduced (25%)
- Continuous process improvement is enabled by easily adaptable processes
- Comprehensive logging and efficient auditing is supported
- Fully digitised claims and mutations handling are accommodated
- This solution is expandable to front end processes and to different portfolios
- Execution of regulatory changes is vastly simplified
- Migration projects are mitigated and use of legacy systems is reduced to its core strengths.

"Implementing the closed book strategy and aligning business, IT and suppliers requires thorough understanding of life insurance processes and business process management. YNNO has a great track record in guiding life insurance companies through this journey."
Robert-Jan Snijders, Director YNNO

WHY CHOOSE PEGA BPM?

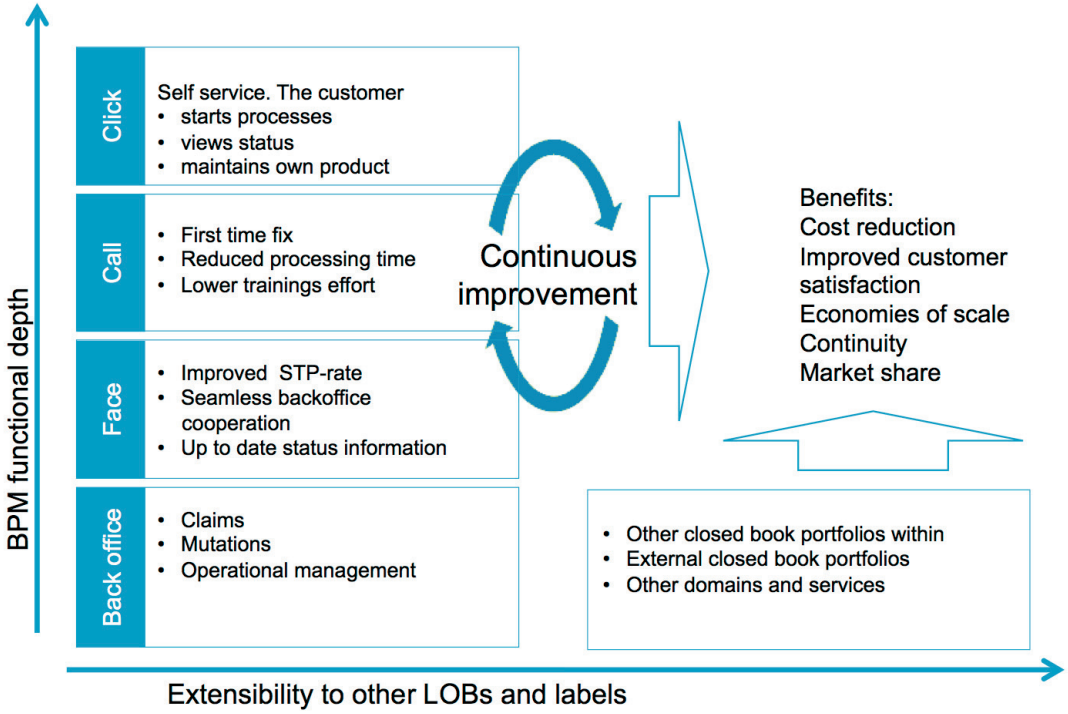
Pegasystems offers one of the most advanced business process management suites in the marketplace. Based on their rules engine at the core of the system, it is well suited to business environments with high volume customer interaction. It is designed to perform at enterprise scale and to be highly flexible at the same time. It allows for creating an application through configuration only, without the need for any coding. It can therefore be easily adopted by IT and even business staff. Delivering a functional application can be realised within vastly shorter timeframes compared to competing suites. Moreover, the out of the box functionality directly delivers the real time management information which can be leveraged to continuously improve the business processes captured in the BPM layer. In other words, Pega BPM is fast to deliver and even faster to improve business performance.

"SmartRules specialises in developing business functionality for life insurance companies based on Pega BPM technology and has successfully delivered the agile business solutions driving an effective closed book organisation."
Bert Westeneng, Director Smart Rules

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FURTHER LEVERAGING PEGA BPM ADVANTAGES

We suggest to create this Pega BPM layer in a coordinated project approach engaging business and IT staff appropriately. The described impact to both entities will be high and needs to be well managed Yet, having realised the aforementioned advantages, this only forms a starting point for harvesting further possibilities. The solution can be further developed across channels to encompass Click, Call and Face. In addition, it is possible to include other closed books portfolios into the scope. The illustration below shows the options for increasing functional depth and width.



CALL TO ACTION

SmartRules, Virtusa and YNNO offer a unique combination of experience designing and delivering the described strategy, certified and practised resources with Pega expertise and the capability to execute the strategy throughout Europe. We are keen to assist you in jumpstarting this strategy within your organisation and delivering an effective closed book administration. Feel free to contact us for further information through the details below.

ABOUT SMARTRULES, VIRTUSA AND YNNO

SmartRules enabling change

SmartRules is a consulting firm focussed exclusively on implementing and integrating business solutions using Pega's business process management software.
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YNNO

YNNO is a niche consulting firm specialised in designing and implementing new ways of working, with a focus on innovation and business process management and ample experience with implementing the Pega BPM solution to achieve a cost effective closed book solution.
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virtusa
Accelerating Business Outcomes

Virtusa is a global system integrator coming from both the core Pega development as well as a Platinum Pega Partner. Aiding clients to reduce their IT operations costs and meeting changing business needs.
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