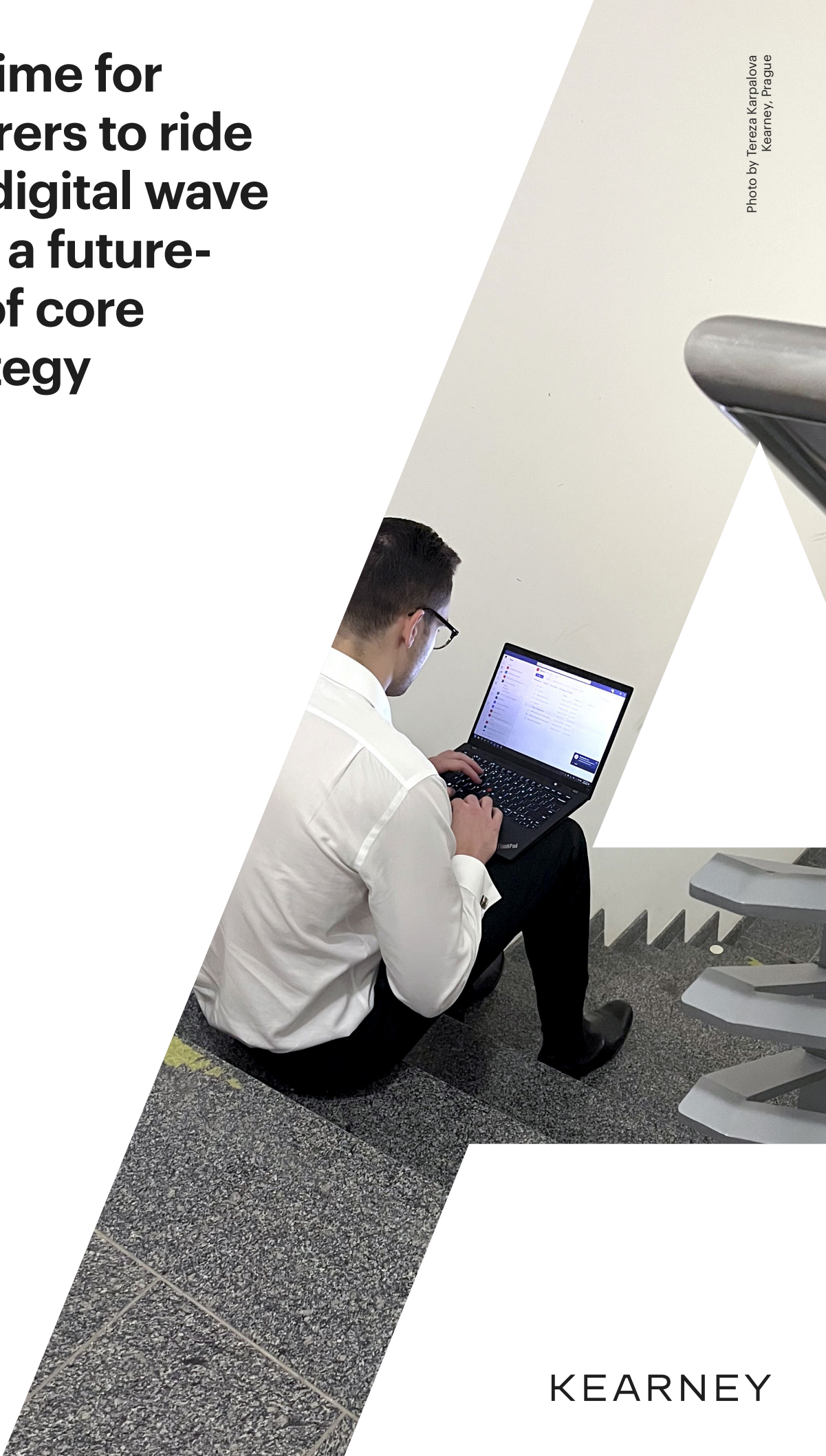


**It's time for
insurers to ride
the digital wave
with a future-
proof core
strategy**

Photo by Tereza Karpalova
Kearney, Prague



KEARNEY

How companies deliver IT services can create a powerful advantage in today's fast-paced digital world. For most insurance companies, doing it right requires a core transformation.

The digital imperative is forcing insurers to reimagine their policy administration strategies. As they modernize the core business and revamp legacy architectures, they'll need to view the investment as a transformation that brings business and technology teams together. It's time for the industry to reimagine its processes with digital in mind—putting the spotlight on outcomes rather than functions. The goal should be to enable the strategic objectives of the business, including revenue growth, a higher net promoter score, enhanced efficiency, agility, and innovation.

Forward-thinking insurers are using digital to mitigate the risks of failure and cost overruns—looking beyond simply replacing their core platforms to consider a variety of functional, technical, cost, and operating model factors. In this article, we discuss how insurers can help formulate a core modernization strategy and what it means for business.

Forward-thinking insurers are using digital to mitigate the risks of failure and cost overruns.

Four trends are fueling the push to go digital

The rapid advancement of technology has ushered in an era of unprecedented connectivity. And in a world where people are almost always connected, there's a wealth of readily available data. For the insurance industry, four trends are accelerating the use of digital technology:

Data as an enterprise asset. The proliferation of technology, including mobile phones, laptops, and the Internet of Things, has made continuous connectivity possible. Technology can now make or break a business, empowering companies to gather substantial volumes of user data to gain a clearer understanding of consumer behaviors.

Enabling technologies. Advancements in processing power, storage capacities, and robotics have laid a solid foundation for artificial intelligence (AI) and automation. Many businesses are well-positioned to use generative AI algorithms and automation tools to optimize their operations, become more efficient, and reduce the amount of human intervention.

Evolving consumer behaviors. Many businesses are now primed to interact with consumers via digital channels, transcending geographic boundaries and time zones. And consumers are finding their voice, expecting more personalization for the services offered to them. This digital engagement is particularly pronounced among younger people, who are more accustomed to and reliant on digital interactions.

Reimagined business models. Integrating technology has led to the development of ecosystems and super-apps that combine a variety of services under a single platform, enhancing the user experience and amplifying the opportunities for businesses to collect data. With direct-to-consumer (D2C) players holding the customer relationship and engagement underwriting, traditional providers' core insurance services, such as claims, are being embedded in seamless and personalized customer journeys.

Amid these trends, the landscape is now home to a variety of new challenges, including creating digital ecosystems, personalized experiences, digital marketing strategies, end-to-end digital journeys, next-generation sales approaches, digital shared services, and analytic activators.

Three changes in particular are fueling a digital disruption in the insurance industry:

The need to serve digital-first customers. Insurers need to pivot to focus on outcomes first, followed by processes, and capabilities—with technology providing a lens into the art of what's possible, including streamlined buying processes, more competitive pricing structures, comprehensive offerings within interconnected ecosystems, and seamless digital integration.

Digitalizing operations to make them more efficient. There is a clear imperative to enhance operational efficiency through a digital transformation that encompasses sales, underwriting, customer servicing, claims management, and renewal processes.

Insurtech-enabled business models. Consumer technology platforms, web aggregators, and companies that sell insurance products through banks are venturing into the realm of D2C models, enabling a digital-as-a-business approach called insurtech.

Incumbents and insurtech will be in the game together

The future will bring competition between incumbent insurers and insurtech companies that build services with customers at the center. From reactive to proactive and now to predictive, customer engagement based on deep data insights and AI is the foundation for the incumbent insurer's digital transformation journey.

Below are a few examples:

- **Technology data and analytics at the core.** For AIA Group, top-down digital, data, and technology are at the core of the CEO's strategy.
- **Digital strategy aligned with a nation-building agenda.** Bupa Arabia's digital transformation is aligned with Saudi Arabia's 2030 vision of improving the quality of health services.
- **Innovative embedded offers.** NTUC Income Insurance set up a micro insurance business unit called Snack with a new tech stack running in parallel to the company's core infrastructure.
- **Strategic investments in insurtech.** Tokio Marine made strategic investments in the insurtech company Boltech to co-develop offers and push Tokio Marine's propositions.
- **Pivoting technology into a profit center.** Tune Protect is launching an insurtech proposition called White Label to pivot its tech proposition into a profit center.

New tech-enabled competitors are also entering the insurance value chain:

- **Insurtech is dominating platform plays.** Insurance broker PolicyBazaar UAE has forged a partnership with AXA Green Crescent to sell life insurance through the aggregator's portal.
- **The super-app is a core distribution channel.** Tech company Grab is focusing on digital distribution, modular products, and partnering in guaranteed-issue life and health insurance.
- **Digi-banking is a major impetus to digital insurance distribution.** Digi-banks and digital payment players such as Indonesia's Ovo are adding insurance for fees.
- **Big-tech plays get mixed results but are still a threat.** Big-tech companies such as Amazon India are testing out insurance with an eye to expand.
- **Insurtech players are getting into the insurance business.** Outsourced insurtech is entering the insurance arena by securing underwriting licenses.

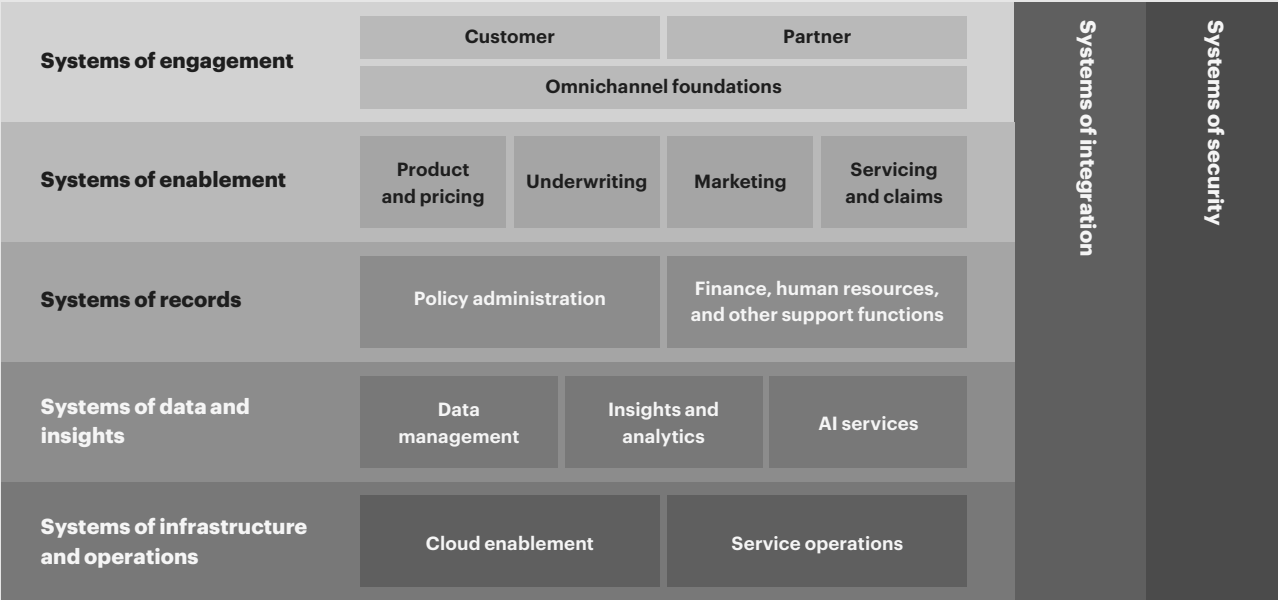
Putting a spotlight on the layers of the core architecture

To modernize their core business, insurers will need to build capabilities across all layers of the architecture, but their legacy architectures are not well-suited for the job. A technology transformation is the only way to gain a competitive advantage in a digital world. Insurers will need to visualize a digital twin of their architecture, conceptualizing how they can do more with fewer moving parts. This can then help fund the reset of a digital capability.

Below are a few of the crucial capabilities and the potential impact of core modernization across enterprise architecture layers (see figure 1). These systems are unique but also inter related at the same time, hence it is important when making architectural decisions to understand the implications to other systems rather than make decisions in isolation.

Figure 1
Start slow to go fast, and focus on progression rather than perfection

The insurance industry will need to modernize all aspects of its core architecture (simplified view)



Source: Kearney analysis

Systems of engagement

- Create multichannel front-end seamless integration of customers and partners across all channels with augmented agents using AI and machine learning to improve productivity.
- Core modernization affects the integration of the front end with the back-end core. Have an abstraction of the digital experience layer to decouple the front from the back.

Example: Acko customer journeys were reimaged, embedded, and hyper-personalized and address evolving risks.

Systems of enablement

- A pricing sophistication capability can enable advanced risk modeling using AI models.
- Deconstruct the product in modules, allowing for real-time mass pricing personalization and coverage payout features.
- Core modernization involves externalizing many of the functionalities that historically have been in the core to the enablement layer.

Example: FWD provides real-time full-suite services from policy administration, payment services, investment-linked insurance policy services, and e-claims.

Systems of records

- Obsolescence issues are resolved for all cores. Set up a high-performing, stable, and resilient core used only as a system of records.
- A new integrated front-to-back policy core system can handle new lines of business.
- Core modernization is reimagining the role of core policy administration platform in the application landscape.

Example: NTUC Income's ZhongAn platform supports microinsurance offers.

Systems of data and insights

- Decouple data from legacy core systems in a modern data and digital platform, augmented by real-time external data ingestion.
- Core modernization needs to reimagine critical data elements and master building capabilities such as customer 360 using a unified data model.

Example: ICICI Lombard uses social media data to predict life triggers and generate high-quality leads for property and casualty insurance.

Systems of infrastructure and operations

- A cloud-first approach has the potential to become a strategic enabler of all business innovation.
- Core modernization provides options to evaluate cloud-native offers, accelerating business innovation while variabilizing costs.

Example: A digital-first Indian insurer is fully in the cloud, which allows the company to run sophisticated AI models and integrate 1,435 APIs with partners.

Systems of security

- Adopt a security-by-design and risk-driven approach to cybersecurity and best-in-class architecture, such as zero-trust.
- Core modernization enables the adoption of fit-for-purpose cyber-resiliency measures integrated with the overall cybersecurity strategy.

Example: BNP Paribas Cardif, a leading bancassurance player, has cyber-resilience as a key value proposition to its bank partners.

As insurers invest in technology capabilities, insurance platforms range from end-to-end (E2E) full stack to niche core service digitalization (see figure 2). Traditional players focus on functional coverage; insurtechs lead on innovation and agility:

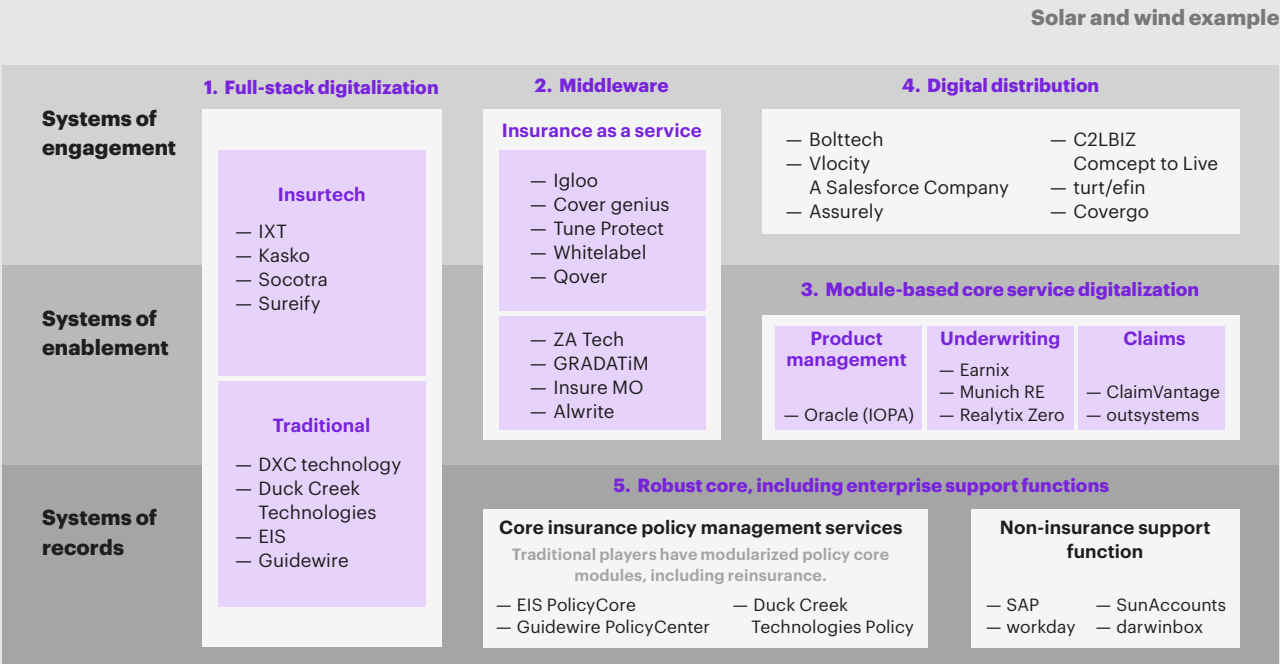
- **Full-stack digitalization.** Supporting the full insurance business; mostly traditional players disrupted by innovative players
- **Middleware.** Focused on connected insurance proposition enabling rapid innovation
- **Module-based core service digitalization.** Functionally rich modules; mostly traditional players
- **Digital distribution.** Digital distribution; new-age software-as-a-service (SaaS) players enabling new business models
- **Robust core, including enterprise support functions.** Major traditional Policy Admin System (PAS) players with a modularized policy core

Systems of integration

- Pivot to an insurance-as-a-service platform model with a flexible integration layer at the heart of the proposition.
- A core modernization can streamline integration, removing many of the point-to-point integrations to build a flexible integration layer.

Example: The insurer Tune Protect has a flexible integration layer, which has helped forge more than 70 partnerships.

Figure 2
There are a wide range of digital platforms for the insurance industry



Source: Kearney analysis

Four ways to modernize the core

Over the years, insurers have made major investments in building their core policy administration infrastructure. About 80 percent of the insurer CIOs we surveyed said that a core policy administration platform strategy needs to be defined and is vital to supporting the rapid delivery of new business capabilities, such as personalized services and digitalized operations.

The ideal way to modernize the core policy administration platform will differ depending on the type of insurer and the company's current baseline. Incumbent insurers have four strategic options that entail redefining the core with varying degrees of impact on business benefits, the total cost of ownership, the implementation risk, and innovation (see figure 3 on page 8):

Hollow out the core, and extract functionalities.

Aegon Life externalized product configuration and built a digital onboarding journey (including enrollment, freelook, beneficiary management, and payment for its group term products) by using eBao Tech's middleware InsureMo platform. Without a middle layer, the risk is exposing the older core systems to a much higher transaction frequency coming from the digital platforms, resulting in imbalance and then a backlog of transactions. The outcome delivered was a 3X improvement in the speed of delivery of customer-facing applications.

Replace the core by buying a new solution.

HDFC Ergo has embarked on a multiyear journey to replace its core with the full-suite offer of Duck Creek to enable hyper-personalized solutions, unlocking the full potential of the insurer's wide range of insurance offerings.

Set up a new business unit in a new technology

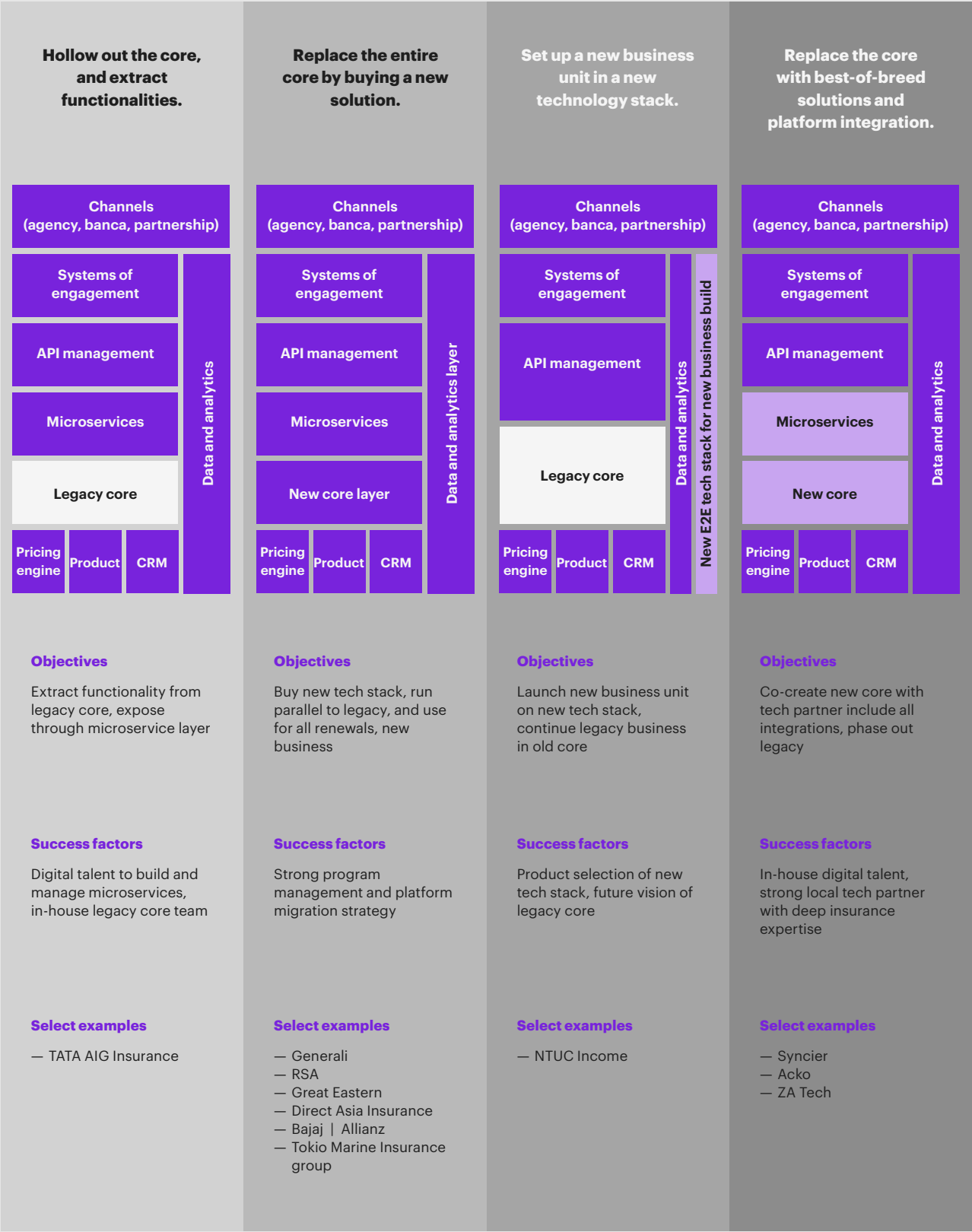
stack. Singapore-based multi-line insurer NTUC Income set up its microinsurance embedded offers using a new tech stack from ZhongAn technologies.

Replace the core with best-of-breed solutions and platform integration.

A US-based general insurer replaced its core policy administration platform with functionalities on policy management, billing, and claims and integrated the core with best-of-breed solutions, such as for rating and pricing, rules, payments, and reinsurance. All components were integrated using an event-based integration framework.

Insurers that opt to maintain the core would need to modernize it while building an API abstraction layer to improve performance. For example, a French insurer API enabled its core platform, upgraded the underlying technology, and addressed specific anti-patterns impacting core performance. As a result, core system transaction performance improved by about 30 percent, and the firm was positioned for a future core replacement by abstracting the back-end core platform functionalities through a standard set of API services.

Figure 3
Insurers have four strategic options for modernizing their core business



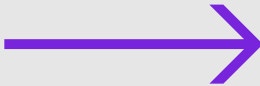
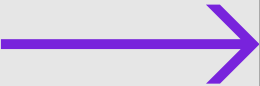
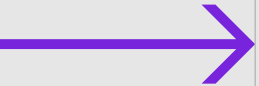
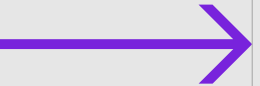




Note: E2E is end to end; CRM is customer relationship management.
 Source: Kearney analysis

Getting a bird's eye view

Companies embarking on a core modernization journey will need to make key decisions about their technology stacks, business capabilities, and operating models for both implementation and maintenance (see figure 4 on page 10). Although every insurer has a different starting point, the strategy must connect with the intended business outcome. It must also define the first three months of backlog, including business and operating model decisions such as product simplification and zero-touch processes. Having a comprehensive view of the target-state enterprise architecture and how the modernization program can enable it will be essential. Core modernization is one of the most important design decisions that insurers make because it will have long-term implications on the business agility. IT and business should be driving together to create business-valued outcomes instead of only new technology.

Core modernization is one of the most important design decisions that insurers make.

Figure 4
Insurance companies will need to make key decisions about the technology stack and the operating model

	Which modernization options?	What scope for modernization?	How many solution providers to on board?	How to implement?
				
Strategic options	<ul style="list-style-type: none"> — Replace the entire core by buying a new solution. — Hollow out the core, and extract functionalities. — Set up a new business unit in a new technology stack. — Replace the core with best-of-breed solutions and platform integration. 	<ul style="list-style-type: none"> — All modules — All modules except policy admin (potentially billing) — Some select modules 	<ul style="list-style-type: none"> — Single solution provider for all modules in scope — Best-of-suite providers for different modules 	<ul style="list-style-type: none"> — Big bang — Natural phase out: two systems, parallel runs — Outsource phase-out
Key considerations	 <ul style="list-style-type: none"> — Priority insurer line of business — Insurer business capabilities needs — Functionalities and capabilities provided by the vendors 	 <ul style="list-style-type: none"> — Gaps in capabilities per module (fit-for-purpose assessment) — Data migration complexity (for policy admin system) 	 <ul style="list-style-type: none"> — Vendor breadth in offer (full suite of modules or not) — Ease of integration between platforms 	 <ul style="list-style-type: none"> — Migration approach (product, function, system led) — Assess ease of migration (data, processes, change management, etc.) — Duration: long or short tail — Portfolio profile
	<ul style="list-style-type: none"> — Business case (upside vs. investment and effort) 			

Source: Kearney analysis

As companies explore a hollow-the-core strategy, there are a variety of opportunities to outsource in areas such as claims, products, underwriting, and ratings (see figure 5). Success factors include understanding how the existing capabilities are supported by the core and, of these capabilities, which ones are innovative and differentiate the insurer in the market. The enablement layer, which includes of a set of insurance business services, is a high-opportunity area to externalize. Externalizing capabilities can impact the overall integration ecosystem; a clear strategy on the end-state enterprise architecture—enabled by a migration strategy that balances delivering business benefits with the risk of implementation—is crucial.

Over the years, core policy administration systems have evolved from monolithic systems that support various lines of business to hollow-the-core strategies that externalize capabilities that are outside the core. The goal for all cores is to be a library of granular microservices. Core policy administration systems that accomplish this can achieve a total consumerization of insurance technology and pivot to an insurance-as-a-service business model.

Figure 5
Functional modules for externalization within hollow-the-core strategy










Source: Kearney analysis

Mapping the digital journey

The road map for a successful core modernization journey begins with the business imperative and then aligns with the technical and operating model imperatives. As insurers evaluate their strategic options, they will need to have a comprehensive view that includes functional, technical, cost, and operating model considerations, starting with the strategic fit and the functional coverage (see figure 6 on page 13). It will be crucial to evaluate technical adequacy if functional adequacy is not considered to be a major deterrent with the existing platform and if new capabilities can be built with limited investments. Cost is a crucial factor as insurers continue to explore the opportunities to optimize costs; replacing the core comes with a major budgetary requirement on top of insurers' other strategic enablement agenda. Evaluate the options for SaaS-based core policy administration to variabilize the costs. The operating model will be crucial as the scarcity of tech talent continues to be a restraint for insurers. Sourcing talent by forming strategic partnerships with vendors will also be vital. Considering the long-term impact of core policy administration, more platform modernization system integrators are adopting an outcome-based arrangement to have skin in the game in the insurer's digital transformation journey.

The operating model will be crucial as the scarcity of tech talent continues to be a restraint for insurers.

Figure 6
Insurers will need to have a comprehensive view to transform their core business for the digital era

 Strategic fit	 Functional coverage	 System stability and performance	 Regional and global scalability	 Technical debt	 Cost	 Operating model
<ul style="list-style-type: none">— Alignment with strategic imperatives— Ability to support market specific requirements (localization)	<ul style="list-style-type: none">— Capability analysis and comparison— Understanding key differentiators	<ul style="list-style-type: none">— System performance— Stability of system in production	<ul style="list-style-type: none">— Supports business elasticity— System upgradability— Alignment to Global standard and solutioning	<ul style="list-style-type: none">— Functional changes complexity— Integration changes complexity— System version recency, re-platforming	<ul style="list-style-type: none">— Affordability based on profitability and NWP linkage— One-time investment (grow)— Maintenance and development (run)— Licensing (run)	<ul style="list-style-type: none">— Market support for tech solution provider and services— Availability of local skilled labor at competitive price point— Availability of regional and global operating model to support solution
Functional adequacy		Technical adequacy			Cost and operating model	

Source: Kearney analysis

Five success factors for the core modernization journey

Use customer and partner journeys to align the needs of the business and the tech capabilities.

Large-scale technology-focused core modernization programs fail about 75 percent of the time because of a lack of business alignment. Technology teams-driven programs are not linked to enterprise business outcomes, and in most cases, the business lacks clarity into how core modernization programs could enable their priorities. Leading insurers are mapping their customer and partner journeys to reimagine their service propositions and identify the capabilities they need for the technology infrastructure. For example, BNP Paribas Cardif laid the foundation of its digital transformation by first mapping the crucial customer journeys and using that as a basis to reimagine the company's technology infrastructure.

Focus on the pivot to digital without risking the core insurance systems. Set up a two-speed digital transformation, abstracting the front-end transformation from the back-end core modernization using integration as an abstraction layer. For example, a US-based general insurer set up the integration layer with all the services needed for a front-end transformation and used that as the foundation to do fast capability releases to the company's customer-facing applications.

Embrace agile new ways of working, bringing business and technology together. Organizations with an agile mindset supported by an operating model based on DevOps and a site reliability engineering (SRE) culture are pulling away from the rest. Agile, DevOps, and SRE maturity typically go hand in hand to maximize value. For example, ING Group's agile transformation is based on four pillars: agile ways of working, organizational structure and clarity around new roles and governance, an approach to DevOps, and a model for how teams are incentivized and how knowledge and expertise are disseminated within the organization.

Set up the right operating model with a two-speed transformation and a product-centric approach.

Build a two-speed IT model using a solution platform structure. Solution squads should be focused on delivering business value, such as faster time to market or direct business value. Focus on building and managing capabilities—for example, with a DevSecOps chapter, a solution quality assurance chapter, and capability rollout standardization—to ensure that all teams have a uniform approach to adopting new capabilities. Have platforms to build reusable capabilities, such as a standardized and scalable build for cost synergies and stable, well-designed platforms.

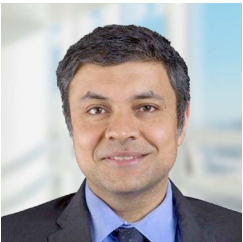
Create rigorous program management with clear responsibilities. Optimize the outcome by taking a portfolio stage-gated approach with clear accountabilities to create strong program management. Set an appropriate investment envelope in tech in line with the overall ambition and investment appetite. Adopt a portfolio approach in investment allocation, balancing financial and strategic objectives. Adopt a stage-gated governance model that balances empowerment and accountability. Set up standard program management disciplines to accelerate execution, de-risk delivery, and ensure business results.

Putting it all together

To meet the challenges of today's fast-paced digital world, insurers will need to assess their existing core policy administration platform and decide how it needs to change and how they should approach the transformation. Considering that a core transformation can affect the entire enterprise, it will be vital to perform a diagnostic and prioritize initiatives for all phases of digital service delivery—from strategy, design, and build to testing and operations—to deliver long-term value. Forward-thinking insurers that use proven strategies beyond simply replacing the core will be well-positioned to meet their business needs at a lower cost and vastly improve their odds of success.

**Prioritize initiatives
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