

The Opportunity Cost of Holding on to Those Old Legacy Systems

Opportunity Cost - The “cost” of selecting one alternative is the benefit foregone from the next best alternative

While the insurance industry was a leader in adopting technology in the early days of software, it has fallen behind in maintaining that lead. The percentage of companies still using software that is more than 15 years old is higher in insurance than in any other.

It was the lack of software vendors supporting the needs of medical professional liability operations that led to the increase in internally developed home-grown systems. General purpose “all-lines” applications may have been evaluated but were found deficient. In many cases, vendors attempted to “shoe-horn” their feature sets to support professional liability operations with very poor results. Often the software vendors did not have the industry expertise to ask the right questions in order to re-tool their application to meet the unique demands of medical professional liability.

As a result, this led to the development of internal systems to support operations. Today, technology has been developed to specifically support professional liability operations resulting in increased benefits for the users.

Many insurers have continued with their old systems for some questionable reasons - the “big three” are:

- **“The existing system still works just fine”**. This may speak to its reliability and its ability to deliver core functionality well – the same limited functions it was designed for 20 years ago. It doesn’t mean that it “works fine” when judged against the expectations for modern software. Older generations of software were generally developed by a few individuals based on the requirements of the day - they were not designed to support changing business needs in a timely manner. And often, they were developed piecemeal, so that policies, claims, and accounting did not integrate easily.
- **“Changing is too expensive / too complicated”**. Insurers with legacy systems spend more than half of their applications budget to enhance, support, and operate those legacy systems – just to keep them running. This can be a big offset to the cost of a replacement product. As for complicated – well, yes, replacing an enterprise system is complicated, but not rocket science. If an experienced vendor is selected, he will have a proven track record of implementations, as well as utilities and methodologies that have been honed with experience. One of the “big issues” used to be data conversions but these have become easier with the use of modern tools such as middleware ETL technology . The old adage “no pain, no gain” comes to mind – it is our experience that the gains to be made in moving forward through two or three generations of technology are well worth the effort over the life of the new software.
- **“No packages are available for our company – we are special”**. People who use this excuse are usually saying that years of doing something in a certain way means that they have to approach their business in that way only. If the right software is chosen, it will have been developed for the carrier market, and better yet, for the same segment of that market. It will have architecture that will enable the system’s behavior to be modified without changes to the source code. A requirements fit of less than 90% should be avoided and extensive modification of source code to provide either functionality or processing should be avoided at all costs. Insurance, particularly specialized lines, is not conducted in a “one size fits all” manner. If the vendor selected is successful in this market, he will have recognized this and built the software to be highly adaptable in areas such as rating, form generation, business rules, data capture, reporting, interfaces, etc.

Despite these “reasons”, most companies ultimately recognize the advantages of buying enterprise software applications off-the-shelf rather than developing them in-house. By purchasing packaged applications or by using applications that vendors create, host, and make available over the Web, companies can acquire effective business solutions in the least possible time with the benefits of standardization, and they can keep up with the innovations created by focused specialists.

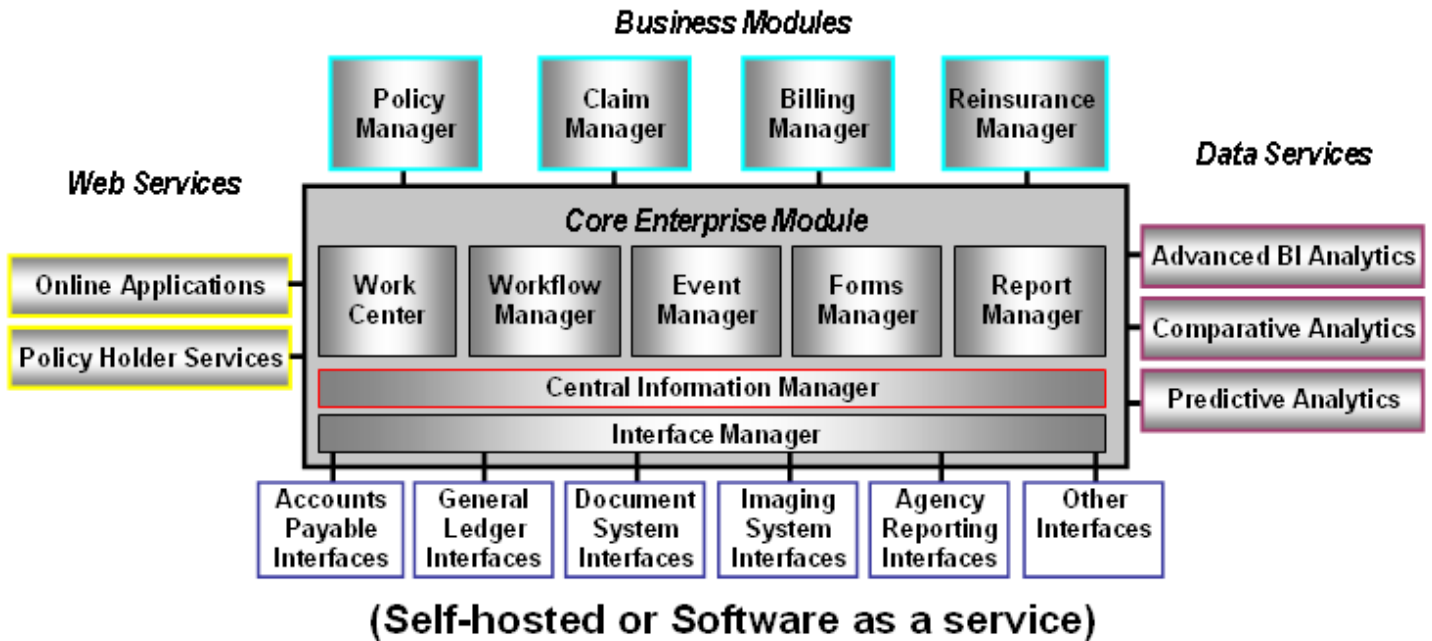
But the reasons for moving from an in-house legacy platform to a vendor supplied product rarely recognize all of the advantages. Most often the move is precipitated by support and maintenance problems with the current application. Technical staff has moved on, leaving the company struggling to maintain undocumented and hard-coded systems. As a result, business plans cannot be accommodated efficiently because the software does not support them, or the information available is not reliable or comprehensive enough for the organization.

As a result of these and similar issues, a company will be motivated to consider moving to a vendor solution. But often, there is much more to be gained from selecting the right off-the-shelf product. Consider the following benefits:

- **Ongoing maintenance and support.** Almost all vendors offer maintenance and support for the software they sell. This includes providing periodic upgrades that keep the technology and the application up-to-date – no vendor could survive without doing this to attract new business, so it becomes economical for them to provide the same software to their existing clients. Compare this to a legacy system that may have been modified over the years but is still fundamentally the same system that was developed 20 years ago. Upgrades allow the carrier to take advantage of the best practices for his business, keep current with changes in compliance and statutory requirements, and much more.
- **Workflow management.** Business rules and workflow engines allow for unprecedented control of business processes. This class of software can make a huge difference to all aspects of the business from quality assurance to timeliness, service, enforcement of underwriting practices, and much more. And because the software is designed to adapt to each company's needs – everyone is different in this area – changes to business rules and workflows are also easy to implement as changing conditions dictate. This is completely different from the legacy system which was designed with the business rules built into the source code. Examples include: notification of review, automatic inclusion of supporting forms and documentation, scheduling and publishing of reports, and automatic diary inclusion.
- **Integration with other software.** Modern software architecture is far more amenable to integration with other systems. This allows for a “best of breed” approach – matching software from different sources to deliver the complete solution - to be more viable than ever. The development standards utilized by each software vendor can be seen not only in the code itself but also in documentation, training, and other materials. Attaching enterprise software to non-overlapping products like imaging, financial systems, corporate data warehouses, etc., can be accomplished efficiently and reliably to derive maximum value from the insurer's software investment.
- **Business intelligence and analytics.** In older software, reporting was limited due to architectural constraints. End users had to rely on IT for reporting with limited or no ad-hoc reporting. Today, insurers have been forced to become experts in managing information. Companies with older technology find themselves at a disadvantage as business decisions are often limited by IT constraints. Insurers that have the ability to maintain consistent processes with advanced, flexible technology have a distinct advantage over insurers that are mired in technology constraints. Any contemporary software will be open to a number of query tools that will allow information to be extracted from the database as needed in order to support better decision-making. Analytics take that level of information a lot further. Using data from diverse sources and statistical modeling, the company can predict outcomes that will lead to better underwriting decisions.
- **Improved service.** There are many elements to improved service – faster quote turnaround, compressing the renewal cycle, more efficient claim processing, etc. This efficiency is a win-win proposition – a gain for the company and the client. Insurance is an intangible product – improving service is the best way to differentiate the carrier from its competitors.
- **Web presence.** The reality is that customers do not want to deal with insurance. They recognize insurance as an important commodity they need to have, but they do not want to spend much time managing it. A specific, and increasingly important, aspect of customer service today is the ability to allow agents and insureds to readily obtain information on their business with the carrier, and perform certain transactions, on a 24/7 basis. Examples include requests and delivery of COIs, financial reports, application submission/checking, etc. A well-designed website improves brand awareness and loyalty, reduces service costs, and improves service efficiency. Web portals also allow specific information to be surfaced outside the insurance department. Examples include Agents, Risk Management, and Patient Safety offices. While web portals can be attached to legacy systems, the best software packages include this component among their deliverables making deployment far easier.
- **Co-maintenance.** Modern software which is configurable can offer the best of both worlds – vendor support and maintenance by the insured. In the early days, an insurer had two choices -- either stay with the vendor and depend on him for everything in order to be able to get support and new releases, or bring the support operation in-house and hire his own staff to take care of it. Today's software allows vendor support and in-house maintenance to coexist because of the configurability – the ability to modify the behavior of the system, business rules, screen contents, forms, reports, and more without modifying the software code – of the system. Changes are made in a meta-data layer that preserves the integrity of the source code and allows the carrier to get vendor support and upgrades without being dependent on the vendor for day-to-day maintenance issues.

- **Soft benefits.** These include improved business retention, faster response to the market making new opportunities easier to harvest, the ability to process an increased level of business with the same number of staff, better fraud detection, improved underwriting through better information on risks, and more. Soft benefits are hard to quantify, but can be the best reasons for moving away from legacy systems.

Modern architecture should include:



The next time you consider the cost of replacing your legacy system, take some time to consider the high opportunity cost of not doing so.

About Delphi Technology

For 20 years, Delphi Technology has been a leading provider of technology solutions to the insurance and risk management industries. By leveraging its extensive industry knowledge and experience, Delphi Technology delivers a comprehensive range of innovative technology solutions for property and casualty insurers, third party administrators (TPAs), self-insureds, and risk retention groups (RRGs).

Delphi Technology's OASIS suite provides proven software applications to run core insurance operations including underwriting, billing, policy administration, claims management, financial management, risk assessment, and reinsurance. OASIS enables companies to optimize their business processes and respond to changing business needs resulting in reduced costs, increased operational efficiency, and improved business intelligence.

Delphi Technology's professional services staff of 150+ technical and insurance experts utilize a proven implementation methodology ensuring the transfer of necessary market and business expertise throughout the deployment process resulting in successful implementations that come in on schedule and on budget.

Headquartered in Boston, MA, Delphi Technology has sales, support and development offices throughout North America.

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