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## Hot Insurance Tech Companies To Watch In 2009

Profiles Of Technology Companies That Are Reinventing Insurance IT

This is the first document in the "Hot Companies To Watch In Financial Services" series.

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### EXECUTIVE SUMMARY

Ready or not, the insurance industry is gearing up for some big changes. In 2008, insurers are being tested by a Wall Street collapse that tanked investment portfolios, driving business structural changes; a surge in US catastrophic loss claims; and growing momentum in creating new business models to target new or underserved buyer segments. These changes are not only transforming the insurance industry, they're changing solution portfolios and the complexion of the insurance technology vendor landscape. This report provides brief descriptions of companies meeting diverse or emerging insurance industry needs ranging from 403(b) compliance and segment analytics to accelerating new insurance product introductions and modernizing the business of insurance.

### EMERGING TRENDS ARE DRIVING INSURANCE IT TO GET AN EXTREME MAKEOVER

The insurance industry in 2008 looks radically different than the one that sold insurance to our parents, and it will look radically different to our kids. Insurance IT has to accommodate new customer segments and markets; a global economic crash that's creating new competitors and business models; and undefined, but daunting, regulatory changes that will alter the industry as we know it. As the insurance industry transforms itself, Forrester has seen new solutions and vendors emerge to address the changing needs of insurance technologists and business leaders.

Forrester has gathered a list of several emerging or smaller companies to watch in 2009 and into the future. These companies are noteworthy because of their inventive approaches and solutions that address new models for insurance IT operations; they offer a solution for an overlooked industry segment, or they offer technology innovations that drive insurer profitability. This is not a comprehensive list nor is it a Forrester vendor recommendation or rating.

### COMPANIES TO WATCH IN 2009

Forrester has identified seven companies as ones to watch in the insurance technology market in 2009.

#### Discoverture

Discoverture's ([www.discoverture.com](http://www.discoverture.com)) XactConnect solution helps tier two property and casualty (P&C) insurers make smart, fast quoting decisions. XactConnect plumbs a supply chain of data — some internal, but a lot more external — to present underwriters with a unified view of information needed for quoting, policy creation, and administration. This supply chain can range from external information like vehicle identification numbers (VINs), credit scores, and motor vehicle records

data to ChoicePoint's Comprehensive Loss Underwriting Exchange (CLUE) reports to the P&C's own internal databases and systems such as billing and claims. By encapsulating external service providers' data exchange needs, XactConnect not only facilitates data communication, it also helps keep the insurer's applications independent of any change by the external service provider. XactConnect supports a variety of standard data connects and reports, which can be customized. The product is available in the US and Europe either as a software-as-a-service (SaaS) solution or as an on-premise license.

- **Why it's important.** P&C carriers are getting smart about their underwriting technology. The legacy applications that they depend on to run their business also saddle them with a lot of problems. It's not surprising for two underwriters sitting side by side, but working on different business lines, to have two entirely separate business platforms. That means separate claims management systems and no shared customer management. P&C carriers implementing next-generation best-of-breed vertical applications are facing technological challenges in integrating different service providers with incompatible data formats and exchange methods. More importantly, solutions like XactConnect that offer faster implementation compared with reengineering legacy platforms ensure that carriers reduce the time-to-business value.

### Earnix

Earnix ([www.earnix.com](http://www.earnix.com)) improves the profitability of P&C insurers by taking them from simply pricing for risk to pricing based on the policy holder's lifetime value. The Earnix Optimizer for Insurance platform predicts the impact of different product offerings and pricing scenarios on profits for each customer. The company targets both personal and small and medium-size business commercial line carriers in both the US and Europe. Along with the analytics and pricing optimization features, the Earnix Optimizer for Insurance platform provides execution capabilities to improve collaboration across channels — online, call center, and agent/broker — as well as a variety of prebuilt, user-configurable, role-based reporting dashboards. Insurers can optimize customer value and are recognizing a return on investment (ROI) in as little as three months. Earnix partners with a number of leading service providers to the insurance industry, including Deloitte and Towers Perrin. The Earnix solution is delivered today as on-premise installed software, with a hosted version planned for the future. The company has plans to provide similar capabilities to the life and health insurance market.

- **Why it's important.** Insurance companies make money two ways: a relatively small bit on premiums and, more importantly, what they earn by investing those premiums.<sup>1</sup> With this second income stream tanking, insurers are now paying a lot more attention to the rates they charge. Along with a general rate increase, insurers improve their performance by expanding their existing book of business and pricing that business with an eye toward the long-term value of a customer. Finally, P&C companies need to pitch the right insurance product to the buyer, meaning that insurers need to price by segment. Capabilities like predictive analytics mean that personal lines insurers can better understand their customer needs so they can offer the most appropriate products and prices such as “family-friendly” deals or “Gen Y”-oriented policies.<sup>2</sup>

## Exigen Insurance Solutions

Earlier this year, Exigen Insurance Solutions ([www.exigeninsurance.com](http://www.exigeninsurance.com)) completed the rollout of its suite of Lifecycle Management systems for policy administration, claims, billing, and customer management. These core solutions are integrated on the Insurance Process Backbone, an agile service-oriented architecture (SOA) platform. For release in early 2009, the company is offering the Insurance Technology Utility (ITU), a soup-to-nuts SaaS suite of applications and services designed to help P&C insurers reduce operating costs. One of the key features of ITU is the “Product Factory,” which is an insurance product management tool that allows business users to easily create and maintain insurance offerings with little or no involvement by IT, speeding time-to-market and revenue. Two early implementations of the Product Factory reduced the amount of time associated with a typical insurance product launch by 70%.

- **Why it’s important.** Sudden shifts in the economy, workforce demographics, and customer requirements are changing the character of the insurance industry. Insurers have to get new products out into the market fast and can’t wait 18 months for cumbersome development projects burdened by legacy platforms. The number of systems that aren’t integrated are rampant in the industry, with employees wasting time toggling between applications and screens. Exigen’s agile SOA platform and forthcoming ITU also increases the efficiency of the insurer’s people, processes, and technology resources. Insurance employees and agents get a unified, role-based workspace that leverages all that data residing in multiple insurance silos.

## FirstBest Systems

FirstBest Systems ([www.firstbest.com](http://www.firstbest.com)) pointedly asks its commercial lines prospects, “Are you ready to be a transformational carrier?” FirstBest’s Underwriting Management System (UMS) allows commercial lines carriers to write more, and better, business. Today’s manual process of assessing and costing risk can drag out the time to quote and bind a policy to five days or more, and it affects the carrier’s book of business when frustrated policy buyers turn to more responsive competitors. UMS allows agent submissions to be pre-qualified, screened, or even quoted via the online agent workspace, and underwriters can receive complete, vetted, and fully prepared submissions that are ready to underwrite, so both efficiencies and quality are optimized at every step in the underwriting process. The company targets the commercial lines for US P&C carriers with direct written premiums ranging from \$200 million to \$2 billion. UMS is delivered as a hosted model, and users can typically deploy the system in six months.

- **Why it’s important.** The commercial lines market insures businesses through products such as workers’ compensation, business owner’s policy (BOP), and commercial auto, among others. It’s a big market, worth \$250 billion in direct written premiums in 2007.<sup>3</sup> It’s also complex, because accounts range from simple mono-line policies to complicated multi-line one-off policies, written through tangled agency channels under a variety of rating and regulatory regimens. FirstBest’s UMS capitalizes on key carriers’ needs: winning business; creating a better

experience for the independent agents and brokers; optimizing the productivity and know-how of the dwindling pool of underwriters; and flexibility to respond to customer, agent, and carrier requirements at the speed-of-market.

## Jacada

Jacada ([www.jacada.com](http://www.jacada.com)) helps P&C carriers accomplish two goals: The first is to improve customer retention by creating better customer experiences; the second is a perennial favorite — reduce operating costs. When customers connect with the carrier's call center to file a claim, check the status of a claim or policy, or even just to make a payment, Jacada WorkSpace provides call center representatives (CSRs) with an intelligent, unified view of the customer. If the customer made a selection through interactive voice response (IVR), WorkSpace uses that information as a trigger to display the appropriate call processes and customer data on the CSR's screen. By simplifying and automating these processes, a particular CSR can handle more call types and accomplish the über-metric — increasing that all important first-call resolution.

- **Why it's important.** Consumers regularly complain about poor insurance customer service, lots of hold time, and getting passed up and down a chain of CSRs in trying to get a question answered. In fact, customer experience was the leading insurance inquiry at Forrester for the first half of 2008. For insurers, it's all about customer retention and, at the same time, being smart about how to improve the efficiency and effectiveness of the call center. Jacada WorkSpace can help turn a call center experience from something where you hope for the best into a way for a carrier to differentiate based on experience.

## Se2

In 2004, Security Benefit set out to reinvent its back office operations, and, with that reinvention, se2 was born. With roots in life insurance product administration, se2 has since expanded its portfolio of life and annuity (L&A) technology solutions and streamlined business process. The company provides a lot of flexibility. Clients can deploy a variety of solution modules and manage these modules themselves with se2's application service provider (ASP) option, or they can turn the whole process over to se2's business process outsourcing (BPO) services. Its technology solutions and BPO capabilities include new product set up; product administration; variable product pricing/trading; billing; image/workflow; lockbox; compliance; reporting; fulfillment; and even agent license, appointment, and sales commissions across all the L&A channels. Reducing costs is a given — and se2 meets expectations here — but its rapid deployment model means that clients are getting a 12-month ROI. It has also identified a particularly gnarly regulatory challenge — 403(b) compliance — and has responded by developing se2 403(b)connect.

- **Why it's important.** Come January 1, 2009, sponsors of certain retirement benefits programs like school districts and nonprofits have to change how they document and manage pre-tax retirement savings accounts, known as 403(b) plans, to meet the requirements of the law.<sup>4</sup> These

looming IRS regulations are complicated for everyone because individual policies now need to be linked to a plan — a big problem for the marketplace because it makes the management and reporting bits especially complex. With 403(b)connect, se2 has cracked this nut for providers, carriers, plan sponsors and third-party administrators (TPAs). This hosted solution includes the definition of plan rules; the ability to aggregate participants/contracts across multiple legacy administration platforms; the Web services that allow access to plan rules, and all reporting now required by the regulation change. The company's rapid rollout model also means that providers, carriers, plan sponsors, and TPAs that took a pass on this business due to the regulatory change can now re-enter the 403(b) market.

## Valen

Valen ([www.valen.com](http://www.valen.com)) provides two different predictive analytics solutions to P&C insurers. The first, UnderRight, helps underwriters to better match the premium with the risk the carrier will be assuming, preventing unprofitable business, reducing underwriting cycle time, increasing agent satisfaction, and improving customer retention. The second, AuditRight, helps insurance auditors quickly identify premium mismatches, eliminating premium “leakage,” and reducing premium fraud and reporting errors. It also optimizes the use of audit resources by identifying the most cost-effective audit method to use. Valen's big distinction is its data enrichment. Valen brings an external data warehouse into the equation, which provides P&C carriers with insights from publicly available data sources that are completely missed when just relying on internal data.

- **Why it's important.** The P&C industry is all about risk mitigation, including the decisions a carrier might make about extending certain coverage in certain markets or even to certain customers. Insurers are recognizing that there are better determinants of what makes a good insurance bet than past behaviors, for instance credit scores or years of education, which are unlikely to reside in the insurer's internal data systems.<sup>5</sup> At the same time, the carrier needs to be able to price coverage competitively and to identify new target markets where the carrier would have a strategic advantage. Valen's ability to augment internal data with external insights means that carriers can target the right market with the right offer at the right price.

## RECOMMENDATIONS

### THRIVE BY RECOGNIZING WHEN TECHNOLOGY ADDRESSES INDUSTRY MARKET CHANGES

The companies noted in this report underscore fundamental changes in the role that technology will play in the business of insurance in the coming years. To stay on top of insurance market trends, Forrester recommends that tech vendors looking to enter or expand in the insurance market should:

- **Pitch innovative technology that will drive insurance innovations.** Insurer embrace of SOA and the fact that more insurance CIOs are coming from outside the industry are driving surprising interest in innovation. Don't overlook the industry when it comes to pitching solution innovations like cloud computing or SaaS. Like SOA, they can help insurers overcome inefficiencies from reliance on legacy systems, redundant applications, siloed business lines, and manual processes.
- **Watch for regulatory changes that will test insurers.** The insurance industry is highly regulated, driving the need for internal regulatory and compliance solutions. Insurers also provide highly regulated customers with services that help them address their own regulatory challenges, like this report's 403(b) compliance example. Technology vendors need to understand the insurers' customer drivers in order to frame solutions that address insurer response to regulation or collaborations that help them drive better customer experience and profitable revenue.
- **Take a job focus.** The insurer has a job to do for its customers — helping them manage risk — and that job requires them to do lots of different jobs — assess risk, manage claims, and develop and sell new products. Show insurers how they can do their jobs better by integrating business processes and technology in new ways, using different channels. Deliver business performance intelligence with job- or role-focused dashboards that allow job holders to get the information they need to be successful in their roles in the way they want it presented.
- **Keep a wary eye turned to the competitive landscape.** Given insurers' fiscally conservative nature, their pockets are, if not deep, at least lined with cash for technology investments. As a result, the insurance industry has gotten very sexy. Insurance tech vendors will be dealing with new, lower-cost competitors that can effectively and rapidly meet the business needs of the insurance market place. That means that tech vendors need to think about their own innovations, examining their own structures and how well and how quickly they can adapt to the changing needs of the insurance market

## ENDNOTES

- <sup>1</sup> The industry is one of the leading investors in global capital markets, investing collected premiums in stocks and bonds to help make up for the unpredictability of losses. See the August 10, 2007, "[Industry Essential: The US Insurance Market](#)" report.
- <sup>2</sup> Managing customer churn continues to flummox direct marketers. They struggle to define, target, or properly value customers. But, increasingly, marketers are turning to predictive analytics to power retention programs. See the October 20, 2008, "[Optimizing Customer Retention Programs](#)" report.
- <sup>3</sup> Commercial lines represented more than half of the net premiums written in the US property and casualty market in 2007. Source: Insurance Information Institute (<http://www.iii.org/media/facts/statsbyissue/commercial/>).

- <sup>4</sup> The IRS issued final regulations in 2007 that address the legal requirements that apply to 403(b) retirement plans. The regulations were enacted because of IRS concern over the massive noncompliance it was observing in field audits of 403(b) plans. The IRS has endeavored to address these concerns in the final regulations by making 403(b) plans more like 401(k) plans. One immediate effect will be an increase in the administrative responsibilities of employers that offer 403(b) plans. Source: Internal Revenue Service (<http://www.irs.gov/retirement/article/0,,id=172430,00.html>).
- <sup>5</sup> Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer. Source: “Credit-Based Insurance Scores: Impacts On Consumers Of Automobile Insurance,” Federal Trade Commission report, July 2007 ([http://www.ftc.gov/os/2007/07/P044804FACTA\\_Report\\_Credit-Based\\_Insurance\\_Scores.pdf](http://www.ftc.gov/os/2007/07/P044804FACTA_Report_Credit-Based_Insurance_Scores.pdf)).