FORRESTER®

# The Critical Value Of Cloud-Native Development For Insurance Firms

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# Insurance Firms Need Cloud-Native Development

The business of insurance has long depended on on-premises legacy systems to help insurers win, serve, and retain customers. And as previous research has shown, this becomes problematic when considering how essential modernization has truly become, for engineering both future growth and competitive advantage.[1]

Many firms have started the journey to becoming cloud native. However, these firms tell us that the legacy state of their systems, their failure to align strategy organizationwide, and their inability to acquire/retain key developer talent, has held them back from meeting their fullest potential. We see insurers are starting to leverage cloud where it makes sense to do so, yet they remain risk-averse — making timeline flexibility even more important to their future roadmap. A thorough understanding of cloud-native development, common roadblocks to success, and benefits firms can set their future sights on, will all be crucial to achieving cloud-native success.

## Key Findings

Interest in cloud-native development is growing: Insurance firms are beginning to focus more heavily on their cloud-native strategies in an effort to reduce costs and improve customer experience.

However, development teams are unsupported, both by outdated legacy systems and strategic misalignment.
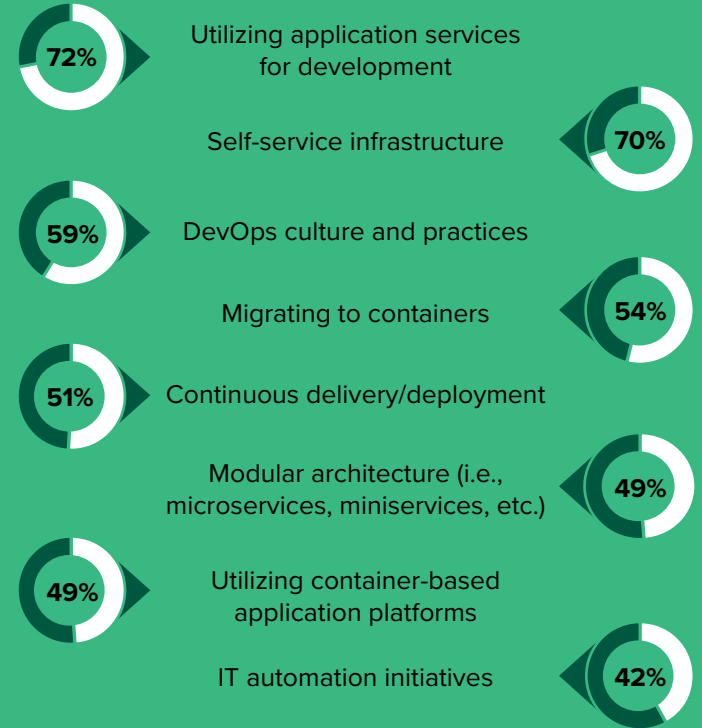
Overcoming these hurdles will be critical, as 95% of insurance firms report benefits from successful cloud-native development initiatives.

# Interest In Cloud-Native Development Grows

Cloud-native development has allowed organizations to develop, build, and update applications more quickly and with higher quality than ever before. However, rising customer expectations, new engagement channels, and growing interest in the business of insurance from non-traditional organizations, such as retailers and telecommunications companies, is pressuring insurers to rethink their approach to developing and deploying business applications.

Over the next year, insurance organizations will — without hesitation — prioritize development, self-service, and DevOps to get their cloud-native initiatives off the ground. But what's driving the insurance industry's shift to cloud-native development? Respondents cited the need to reduce costs (40%); improve speed-to-market (38%); integrate with partner systems (35%); improve customer experience (31%), and improve collaboration (25%).

**"How much of a priority are each of the following cloud-native development initiatives likely to be at your organization over the next 12 months?"**
(High/critical priority)

**72%** Utilizing application services for development

Self-service infrastructure **70%**

**59%** DevOps culture and practices

Migrating to containers **54%**

**51%** Continuous delivery/deployment

Modular architecture (i.e., microservices, miniservices, etc.) **49%**

**49%** Utilizing container-based application platforms

IT automation initiatives **42%**

## Current Approaches Cause More Harm Than Good

In order to support cloud-native development, firms are primarily using a lift-and-shift of key functions or applications and software-as-a-service (SaaS) cloud migration. While these strategies do have their benefits, 65% of respondents say they are able to regularly deliver what the business needs when it comes to applications, and 61% say their teams are properly collaborating. Additionally, more than one-third of respondents say their environment is too complex to fully deploy a cloud-native reference architecture.

That leaves nearly two-thirds of insurers operating in environments that don't support the degree of complexity that would properly take advantage of cloud-native development. While these current approaches may be working just fine for the time being, insurers will not be able to keep up with future growth or stay competitively relevant unless their environments are able to support future needs.
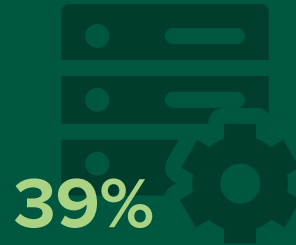
**"What methods for cloud migration has your organization utilized to support cloud-native development?"**
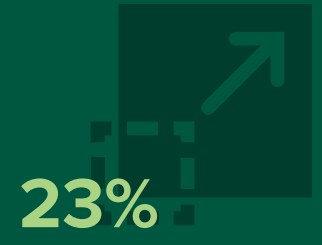
# 55%
**Lift-and-shift/rehosting**
(moving an entire application to the cloud, as is)
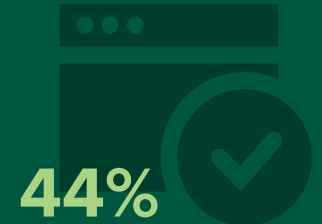
# 44%
**Software-as-a-service**
(using a new app designed specifically for a cloud platform)

# 39%
**Refactoring**
(making some modifications to an application to move some of its dependency to cloud)

# 23%
**Replatforming**
(moving applications to the cloud without major changes, but taking advantage of cloud benefits)

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# Development Teams Are Not Well-Supported

Misalignment, the inability to retain developer talent, and a lack of IT governance – in addition to legacy systems – all cause firms to struggle.

Developers also report that business leaders don't understand cloud-native development leaving them without necessary leadership support. 50% do not believe their firms are properly equipped to handle cloud-native development strategies, and 46% said that cloud-native development teams are not incorporated into the insurers' broader development initiatives. Cloud-native development must become part of the broader business strategy to mitigate issues with legacy systems and strategic challenges, such as tool selection, integration, and structural alignment. Without proper support, what are essentially foundational development pillars, escalate and snowball through the business.

**"What, if anything, has prevented you from migrating to a cloud-based dev system to your fullest expectation?"**

| | |
|---|---|
| The state of our legacy systems | 49% |
| Failure to align our cloud-native development strategy across the organization | 38% |
| Inability to retain/acquire developer talent | 36% |
| Lack of IT automation governance (i.e., orchestration and management) | 36% |

| | |
|---|---|
| Budget constraints | 32% |
| Leadership commitment/ distraction | 31% |
| Objections from our legal and compliance teams | 28% |
| A less than robust DevOps practice | 28% |

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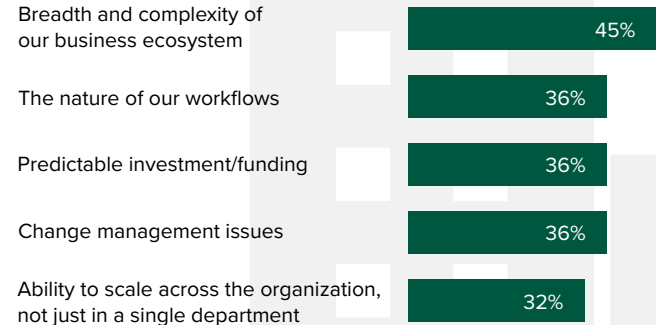# Business And Technology Struggles Cause Firms To Miss The Mark

When it comes to the functions that are necessary for implementing cloud-native development to support core systems, insurers struggle most often with business intelligence and reporting applications (53%), marketing technology and enterprise content management (50%), and indicating sales force automation (42%). These core functions drive revenue, and the lack of mastery in even one of these functions could severely impact business performance.

The inability to implement cloud-native development where it's needed most is inhibited by a variety of business and technology factors, including: 1) the dependence on an ecosystem of partners that sell and service on behalf of the insurer; 2) the relative immaturity and experience with cloud-based application strategies; and 3) the legal and compliance concerns around customer data.

## Top 5 technology challenges with cloud-native development

| Challenge | % |
|---|---|
| Selecting the right development tools for our business | 55% |
| Integration with core systems | 50% |
| Integration of our systems with our partners | 43% |
| Alignment of our technical, business, and operational resources | 39% |
| Developer skills | 33% |

## Top 5 business challenges with cloud-native development

| Challenge | % |
|---|---|
| Breadth and complexity of our business ecosystem | 45% |
| The nature of our workflows | 36% |
| Predictable investment/funding | 36% |
| Change management issues | 36% |
| Ability to scale across the organization, not just in a single department | 32% |

## Insurers Want Flexibility And Support From Their Solutions Partners

What will help give insurers the competitive advantage they need to clear these hurdles? As firms implement their cloud-native development efforts, they want integration capabilities that offer flexibility and support: the ability to work in the cloud, a range of deployment options, and out-of-the-box capabilities that will help them quickly reach their goals. These functionalities don't just help them to perform better internally; they also translate into better external customer-facing and business benefits.

This should come as no surprise, given the relative maturity of the insurance industry, when it comes to all things cloud and cloud-native development, development backlogs, and the inability to attract and nurture developer talent that is needed to successfully shift to this new development model.

**"What integration capabilities would be most useful as you undergo your cloud-native development efforts?"**
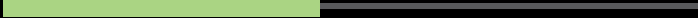
(Top 3 ranked)

**48%** Ability to work in the cloud

**48%** Range of deployment options

**45%** Improved out-of-the-box deployment capabilities

**39%** Library of configurations

**35%** Continuous upgrades to cloud solutions

**31%** Low-code capabilities for changes/updates

**28%** Active ecosystem of value-add services

**25%** Simple cloud-based deployments

Base: 159 developers in insurance in NA, EMEA, or APAC
Source: A commissioned study conducted by Forrester Consulting on behalf of Red Hat, June 2020

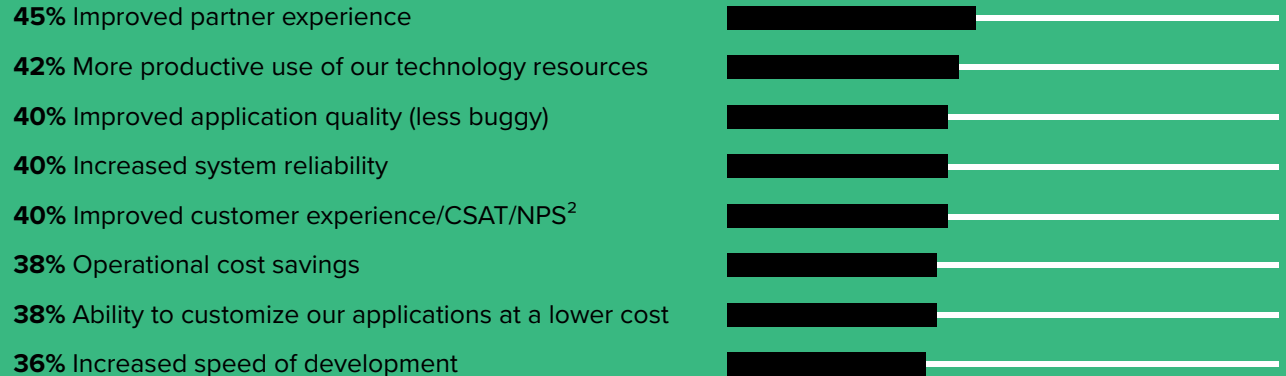## Cloud-Native Development Is The Clear Path Forward

As a result of their cloud-native development initiatives, firms most frequently cited improved partner experience, increased productivity of tech resources, improved application quality and system reliability, and improved customer satisfaction. Cloud-native development offers a clear competitive advantage, and subsequently, if firms want to remain relevant, they must adopt cloud-native development.

In today's unique operating environment, pure survival is injecting pressure to reduce IT costs, increase innovation, and align IT performance with business outcomes. This mandates the shift to cloud-native development. Firms that fail to make this pivot will find themselves falling so far behind that they won't be able to catch up.

**95% of organizations have realized benefits from cloud-native development initiatives.**

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**"What benefits have you realized as a result of your organization's cloud-native development initiatives?"**

**45%** Improved partner experience

**42%** More productive use of our technology resources

**40%** Improved application quality (less buggy)

**40%** Increased system reliability

**40%** Improved customer experience/CSAT/NPS[2]

**38%** Operational cost savings

**38%** Ability to customize our applications at a lower cost

**36%** Increased speed of development

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Insurers require speed and flexibility to meet changing customer expectations. To fully appreciate the business impact of as-a-service cloud models, insurance leaders must shore up key foundational elements. Ensure success by:

- Recruiting business leader evangelists as cloud-native development promoters.

- Integrating cloud-native development strategies into the broader business technology development strategy for it to flourish.

- Creating a passionate culture for cloud-native development to thrive: communicate how it improves developer productivity, lessens the programming backlog, and proves to the business that the DevOps team is meeting their needs.

- Ensuring tech ecosystem partners mirror a cloud-native development strategy for seamless consistency.

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**Contributing Research:**

Forrester's Application Development & Delivery research group

# Methodology

This Opportunity Snapshot was commissioned by Red Hat. To create this profile, Forrester Consulting supplemented this research with custom survey questions asked of 159 developers at insurance companies in North America, Europe, and Asia Pacific. The custom survey was completed in June 2020.

**ENDNOTES**

[1] Source: "Core System Modernization: Time For A New Roadmap," a commissioned study conducted by Forrester Consulting on behalf of Red Hat, March 2020.

**ABOUT FORRESTER CONSULTING**

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

# Demographics

**REGION**

| 35% North America |
| 33% APAC |
| 33% EMEA |

**COMPANY SIZE**

| 8% 2 – 499 employees |
| 24% 500 – 999 employees |
| 33% 1,000 – 4,999 employees |
| 35% 5,000+ employees |

**PRIMARY REVENUE LINES (TOP 4)**

| 31% Personal lines insurance |
| 28% Life insurance |

**RESPONSIBILITY**

| 40% Infrastructure/operations |
| 25% Enterprise architecture |