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Core System Modernization: Time For A New Roadmap

How Modernizing Allows Insurers To Work Better, Faster, And Smarter While Improving Customer Experience

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Customer Needs Won't Wait; Core System Modernization Won't Either

More than ever before, insurance businesses depend on modernized core systems as a result of shifting customer needs in a changing market. Insurers can still power up their core systems to meet big customer service demands and productivity pressures with a shift to cloud. While modernizing core application systems isn't easy, insurance executives must understand that the time is now, as the COVID-19 pandemic necessitates the appropriate modernization to keep up with changing demands.

Business and technology benefits abound for companies that can mitigate the migration and integration challenges commonly associated with modernization. Our recent study of 160 core application modernization decision makers in the insurance industry sheds light on these challenges, benefits, and the path to success.[1]

Key Findings

Insurers understand that core app modernization is critical to the current and future success of their business and are putting their money where their mouth is.

Cloud and data migration and integration challenges are technical hurdles to modernization that insurers must clear to reach their full potential.

Insurers remain under pressure to service their customers quickly and with high quality. Firms recognize they need new thinking — and different partners — to keep modernization efforts on track.

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Core App Modernization Is Crucial To Business Success

In times of stress, insurers must effectively meet customer needs as efficiently, productively, and cost-effectively as possible. At the same time, insurers must stand out in a sea of insurers that offer similar products.

This current environment highlights more than ever the value of core systems modernization: 79% of respondents we surveyed believe the performance of their core systems differentiates their firms in the broad insurance marketplace, and another 62% believe their core system modernization initiatives are the most critical component of their digital business strategies.

Fortunately, organizations are funding these initiatives: A quarter of decision makers report that their firms devote more than 10% of their IT budget for their highest priority core system modernization projects, which is most commonly claims management, fraud prevention, or policy administration.

"Which core systems are your highest priority for modernization?"

93%
Claims management

88%
Fraud prevention/ investigations

83%
Policy administration

78%
Underwriting

72%
Business intelligence

79%
of respondents believe the performance of their core systems differentiates their firms in the broad insurance marketplace.

62%
of respondents believe their core system modernization initiatives are the most critical component of their digital business strategies.

Base: 160 core application modernization decision makers in insurance
Source: A commissioned study conducted by Forrester Consulting on behalf of Red Hat, March 2020

Firms Recognize They Can't Go It Alone

Less than half (42%) of respondents believe they can support most of their modernization execution efforts with their own internal resources. Most recognize the need for vendors/partners to succeed in these business-critical modernization efforts because these partners can offer expertise, skills, and competencies the insurer doesn't possess.

Insurers employ a variety of partners in these efforts. While the insurers partner with large consultancies and core systems platform developers less frequently, they are more satisfied with their work. Conversely, nearly half of the insurers surveyed report partnering with boutique consultancies, but fewer than half of these (46%) are satisfied with these vendor/partners. While insurers more frequently select a boutique consultancy, software developers and the systems integrators deliver higher levels of satisfaction.
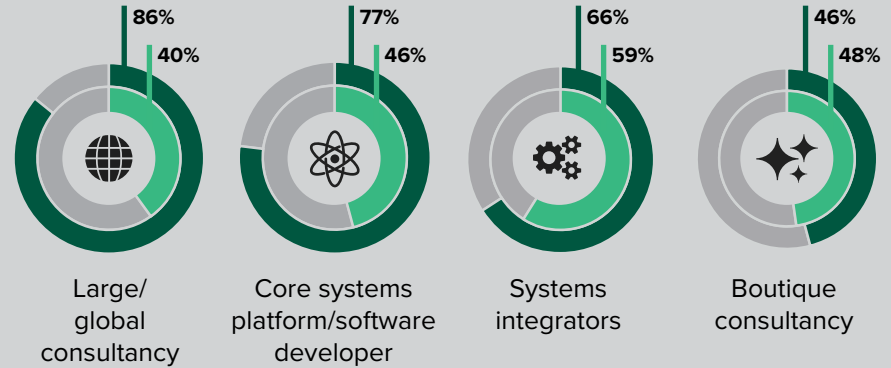
"How satisfied are you with your current vendor partners/providers?"
(Showing the sum of "Satisfied" and "Very satisfied")

"Which of the following vendor/ partners are you working with when modernizing your core systems?"

| 86% | 77% | 66% | 46% |
| 40% | 46% | 59% | 48% |

Large/ global consultancy

Core systems platform/software developer

Systems integrators

Boutique consultancy

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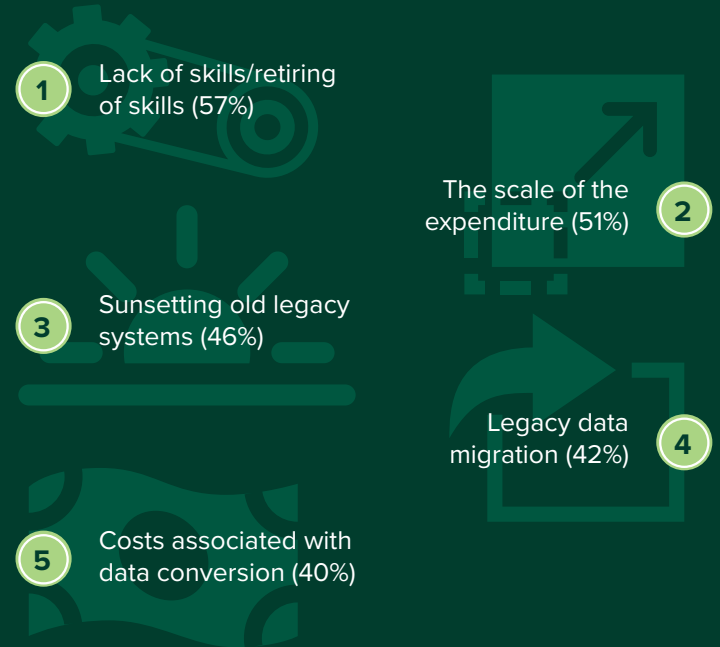**Challenges**

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Migration, Integration, And Skills Top The List Of Modernization Challenges

In general, respondents cite data migration (69%), integrations with up/downstream systems (62%), cloud migration (57%), and data conversion (46%) as their top technology challenges. These hurdles highlight the insurance industry's cultural barrier to shifting toward the cloud — and the industry threat if insurers don't overcome their cloud feet-dragging. Indeed, more than half of respondents think their lack of a cloud strategy will undermine the impact of their core systems modernization efforts. Insurance companies risk falling behind unless modernization continues apace.

Why have insurers waited this long? Lack of skills and the scale of the task are the main barriers to modernizing to their fullest extent. But the skill gap will only get worse as team members retire or younger employees leave the company and plans get put on hold during periods of recession.

"What has prevented you from modernizing your core systems to your fullest expectation?"

1. Lack of skills/retiring of skills (57%)

2. The scale of the expenditure (51%)

3. Sunsetting old legacy systems (46%)

4. Legacy data migration (42%)

5. Costs associated with data conversion (40%)

Firms Struggle To Show Value Of Investments

Insurers are spending a lot of money on core modernization efforts that fail to add value beyond keeping the lights on: retooling/enhancing core systems (56%), moving core systems to the cloud (49%), and/or replacing vendors (40%). Just 31% of insurers are working to improve user experience as part of their efforts. But modernizing core systems doesn't require a forklift replacement: Insurers can accelerate the value of past investments by enhancing existing capabilities with emerging tech and subscription-based delivery models.

As IT leaders shorten the list of modernization projects and business leaders expect returns, investments that show a clear and quick path to revenue growth, productivity, and cost savings will be safe. Less clear modernization efforts will demand new approaches to optimize investments already made.

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"What business challenges do you experience with your core systems modernization?"

Challenge	%
Achieving the planned ROI	47%
Proving a defined business case	46%
Identifying needs of ecosystem partners that will need to access our core systems	40%
Demonstrating financial impact	38%
The risk of vendor lock-in	36%
Acquiring needed programmer skills	31%
Recovering the costs of our legacy systems	29%
Lack of executive buy-in	23%

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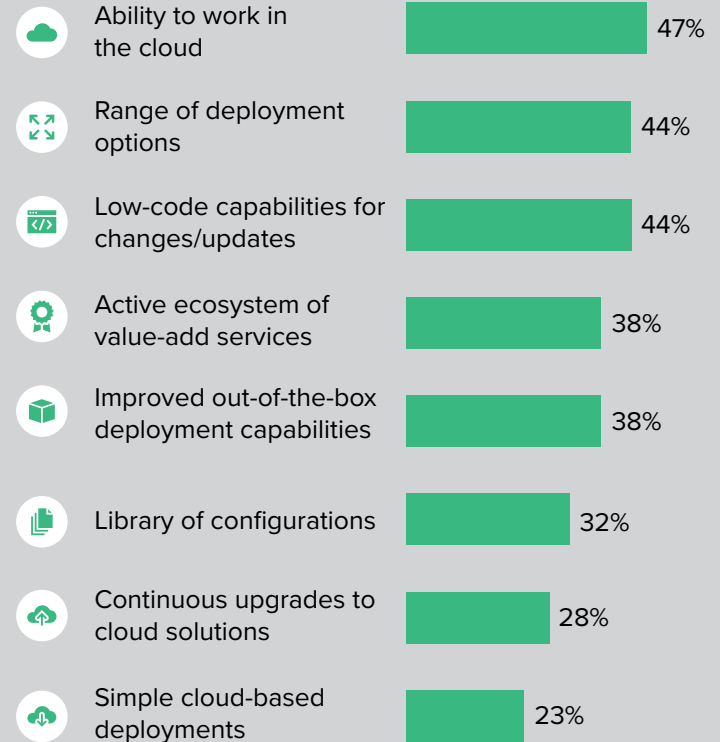Current State

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Flexible Thinking Is The Key Driver Of Core Modernization Success

Carriers demand flexible options: Insurers say they need the ability to better work in the cloud, a range of deployment options, and low-code capabilities that business developers can leverage to make changes and updates quickly. Insurers also see the benefits of loosely coupled integrations, which offer great options in the future: 78% agree that they're better for the business.

Insurers also recognize that it no longer makes sense to develop capabilities internally when there's already a vibrant marketplace offering innovative add-ons to enhance core systems. But these kinds of open insurance initiatives will fail if more firms don't start considering ecosystem partners. While 52% say their modernization strategies take an expansive view of the insurance ecosystem and can provide the right levels of connectivity to all stakeholders, 40% find identifying needs of ecosystem partners challenging.

"What integration capabilities would be most useful as you undergo your core system modernization efforts?"

Capability	Percentage
Ability to work in the cloud	47%
Range of deployment options	44%
Low-code capabilities for changes/updates	44%
Active ecosystem of value-add services	38%
Improved out-of-the-box deployment capabilities	38%
Library of configurations	32%
Continuous upgrades to cloud solutions	28%
Simple cloud-based deployments	23%

Base: 160 core application modernization decision makers in insurance
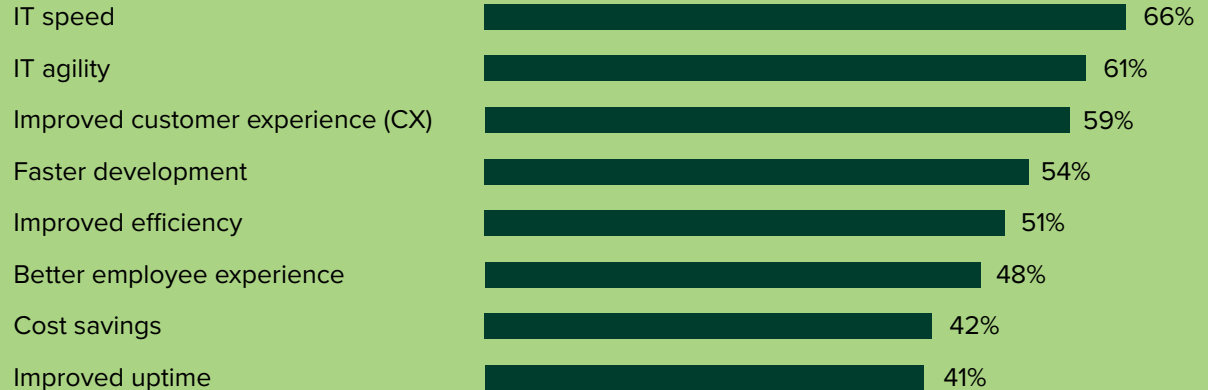Source: A commissioned study conducted by Forrester Consulting on behalf of Red Hat, March 2020

Smart Modernization Allows Insurers To Work Better, Faster, And Economically

With modernized core applications, insurers can work better, faster, and at the right cost point while also improving customer experience (CX). These benefits increase as modernization efforts spread throughout processes and become better integrated with one another.

Smart modernization approaches can accommodate what insurers need in our new COVID-19 environment and ensure they can meet customer needs when demand returns. As insurers address this new normal, they must reassure customers that promises will be kept and families, paychecks, and assets are protected. Core system modernization efforts will be a key underpinning of the promises that insurers make. Smart approaches that drive continuous value and enhancements will stand this test while positioning insurers for the future.

"What benefits have you realized from modernizing your core apps?"

Benefit	%
IT speed	66%
IT agility	61%
Improved customer experience (CX)	59%
Faster development	54%
Improved efficiency	51%
Better employee experience	48%
Cost savings	42%
Improved uptime	41%

Conclusion

Insurance will always be about protecting customers and helping them recover from loss. Economic headwinds don't halt customer needs, but they do mean that insurers must look at the infrastructure that supports that mission in new ways.

Delays widen the market leader-laggard gap. It's tempting to delay modernization projects until a return to normalcy, but insurance business tech teams that build for continuous improvement are better prepared to meet customer needs with more adaptive approaches to core system modernization.

Big near-term business impacts get funded. When times get tough, insurance finance teams get tougher. Business cases that demonstrate a fast — and substantial — ROI will be funded. Efforts with blurry returns, long durations, and lots of contractors will not.

Modernize for now and the future. While financial impact drives which modernization efforts win now, insurers must prepare for the future with solutions offering flexibility on multiple dimensions, including integrations, deployment models, and marketplaces for value-added capabilities.

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Methodology

This Opportunity Snapshot was commissioned by Red Hat. To create this profile, Forrester Consulting supplemented this research with custom survey questions asked of 160 core application modernization decision makers in the insurance industry. The custom survey began and was completed in March 2020.

ENDNOTES

[1] Our survey was completed before the World Health Organization declared the global COVID-19 pandemic; however, we have taken the world's current crisis into account when analyzing the data.

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

GEOGRAPHY

North America: 34%

EMEA: 34%

APAC: 32%

COMPANY SIZE

2-499 employees: 23%

500-999 employees: 29%

1,000-4,999 employees: 27%

5,000+ employees: 21%

RESPONSIBILITY LEVEL

Final decision maker: 39%

Part of a team making decisions: 39%

Decision influencer: 22%

PRIMARY REVENUE LINE (TOP 3)

Life insurance: 20%

Small business commercial: 18%

Personal lines insurance: 17%

Note: Percentages may not total 100 because of rounding.

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