



White Paper

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# Disruption in the Employee Benefits Market: An Opportunity for Enterprise Transformation?

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## Situation

The intersection of changing regulation, employer cost pressures, and the rise of consumerism is creating disruption in the employee benefits market, a market that has traditionally been both operationally complex and relatively resistant to change compared to other segments of the insurance market. With benefits insurers squarely focused on delivering innovative new products and leveraging new distribution channels, this disruption is putting immense pressure on back office processes and systems, resulting in a very real concern that insurers will be unable to service what they sell with good standards of customer service.

The Patient Protection and Affordable Care Act opened the door for potential business model disruption for insurers in both major medical and other benefits lines especially in the areas of product design and distribution models. As this wave of change impacts the United States benefits industry, there is an intense focus on selling and on-boarding business models, processes and technology, primarily in externalizing rating and quoting, and in enrollment. This is driven to a large extent by

- Uncertainty in how exchange models will evolve
- The changing role of the traditional agent and carriers
- And, insurance carrier concerns around brand integrity and the impact of product commoditization through electronic plan comparison by customers.

Insurers are at risk of losing their customer connection and becoming relegated to the role of commodity manufacturer.

Benefits insurers have traditionally relied heavily on agents, brokers and TPAs to provide good customer experience to businesses and consumers, which has played into the push down carriers are concerned about in the new value chain. A key element of the benefits insurer challenge is embracing an integrated omni-channel strategy that can interact with a diverse demographic of consumers, businesses and partners across a variety of electronic and human channels while providing current, accurate and consistent information in both directions. Benefits insurers' ability to easily and quickly connect with commercial partners will become a key factor in building and maintaining distribution and service partnerships. The ability to provide direct education and service to businesses and consumers will become a key tool in maintaining a direct connection with the end customer. As exchanges and value chain partners seek to relegate the insurer to the role of product manufacturer, an effective omni-channel strategy can mitigate that risk by making it easy for the end consumer to meet their goals through their direct connection with the benefits insurer, in any form the consumer chooses.

This focus on the front office has raised the bar for our industry as new business processes and supporting technologies provide a faster, simpler and cleaner experience for the broker and customer, enabling more targeted business models for specific segments of the marketplace. This targeting leads to more tailored, cost effective offerings for a larger breadth of markets and hopefully more access to better healthcare products.

Raising the bar for the front office has created a significant challenge for insurers as they prepare their back office to align with higher velocity, very connected and more transparent front office processes and technologies. Other insurance industry segments have experienced this challenge as their business models evolved, which led to significant technology dislocation and pain. Variable life insurance in the 1990s and early 2000s forced the life protection market to match velocity with a much faster paced investment business, leading to complex work-arounds and eventually a round of very large system replacement projects. There is a similar transformation occurring in personal lines P&C today as carriers are competing on electronic self-service, telematics and micro segmentation vs. agent service and consumer brand.

Benefits insurers are struggling with the need to

- Continue to invest in front office initiatives as winning distribution strategies becomes clearer
- Launch new products that are consumer friendly and easy to understand and consume
- And, renovate their existing back office infrastructure to support the higher bar the front office has set.

“Insurers need to rethink their long-term back office technology strategy, focusing on product flexibility and partner agility over immediate cost savings.”

Back office renovation is especially difficult, as “Big Bang” back office technology projects have a questionable track record in the insurance industry, but the dramatic changes necessary to support the new benefits market go beyond what patching and wrapping existing systems can do.

## Position

FINEOS believes insurers have an opportunity to leverage these market changes and stresses to take a pragmatic approach to process and technology change in the back office, enabling better customer service levels, more flexible product options and ultimately better brand presence with consumers. These drivers, paired with presenting a practical approach that has both immediate and longer-term returns, will help to overcome business executives’ natural reluctance to launch a transformation initiative at this risky tipping point in the benefits marketplace.

This practical approach to prioritizing for both the present and future must:

- Support an omni-channel approach to the customer, broker and business partner that will provide the right information over any communication channel in the correct context for their role and particular goals
- Have a staged, timeline approach to build a more compelling business case, spread risk and afford options as business climate continues to change
- Assume a mixed and evolving application landscape using multiple vendor solutions, third party systems from value chain partners and existing assets where appropriate, while still seeking more simplicity with each change
- Eliminate at-risk systems in a timely, thoughtful manner using vendor applications and suites as appropriate
- Leverage existing lower risk/higher value technology in the short term to support the longer term renovation strategy

In order to execute this approach, insurers need to rethink their long-term back office technology strategy, focusing on product flexibility and partner agility over immediate cost savings. This shift is difficult for insurers that have focused their IT strategy on reducing operational expense margins for existing business models, a strategy that better serves during times of steady markets and incremental business growth, not disruption. Once new applications and processes are in place, there will be opportunity to optimize process and reduce cost.

This shift changes key parameters in the business case that IT leadership must develop to justify and manage these transformational projects. Business leaders must have a reasonably clear vision as to what markets, product areas and distribution partners are most immediately critical to their strategy.

This will enable IT to lay out the staged time-line of projects needed to support that strategy. It is often difficult for business leaders to be precise and detailed in their own business planning, especially around target market and partners. Fortunately, enrollment, billing, claims and sales/quoting systems are usually the first steps on insurers’ agendas in the benefits space. They can be implemented to serve a variety of products and markets, if care is taken to understand the different external roles that are served and how they vary by the market segment and partner sales/service model. After the customer/partner facing applications have been addressed, the next step is to prioritize policy administration/systems of record renovation. The key criteria should be built around a few key questions:

- Functional capability - Can we support new products, features, regulations and externalization requirements with the existing systems?
- Operational risk - Will the existing system support expected business volumes, continue to operate in the technical environment, be supported by the internal workforce or vendor that created it, and meet required service level agreements with third parties?
- Cost of operations - Does the existing system require high cost hardware or third party software to maintain it, require expensive manpower to manage and maintain, have excessive external hosting costs, etc.?
- Real business impact - Are the products currently on the existing system mainstream and active, are there significant volumes on these systems to have a positive or negative business impact by change, do they support the business’s new direction?

## Wrapping



- Extends the life of existing technology
- Enables additional processes and external connections
- Tactical projects ignoring technical debt/flexibility issues

## Big Bang



- Totally replace the existing application architecture
- Provide many new capabilities and modern technology
- Intense large profile projects high risk/high reward

## Bookending



- Replace critical customer-facing and product systems first
- Provide needed capabilities while leveraging existing apps
- Strategic targeted projects with good risk/reward mix

For example, an existing in-house written Dental administration system written in COBOL, running on an aging IBM iSeries computer supporting a medium size block of business primarily written as an accommodation to secure medical supplement and STD business may be a low priority target.

Conversely, a more modern Java based vendor system running in a LINUX environment on modern hardware supporting a small critical illness block of business that was launched as a pilot for a new business initiative could be prioritized as a much higher risk, if this line is leading the new direction of the company and if that vendor had scalability issues and an offshore developer base in high risk countries with poor disaster recovery plans.

Once the insurer has the staged timeline of renovation based on real risk and reward criteria, FINEOS believes the best approach to implementing a long term, staged strategy is through bookending the application architecture. This approach starts with the most critical customer facing applications (i.e. Claims, Billing, Enrollment, Self-Service) and replacing them at the application level. Even when implementing an application suite, such as the FINEOS AdminSuite, starting with the customer facing systems that act as data aggregation points will enable a much cleaner approach to the overall project. Insurers must expect to support an ecosystem of applications for some time, including existing legacy applications, third party distribution applications, and interfaces to other carriers' policy systems as part of product portfolio partnerships. Support for these heterogeneous architectures require the bookend applications to interface with and aggregate data from this extended ecosystem. This model also supports 360 degree service aggregation and staging for omni-channel service deployment.

Some insurers have attempted "Big Bang" projects where they attempt to completely replace large pieces of their application architecture, either with a series of best of breed applications or an end to end suite. This approach can be appealing as it, in theory, creates a new, modern solution platform providing new capability and dealing with legacy technology issues in one go. The downside is that few of these large scale projects go as planned. The size, time frame and complexity of "Big Bang" replacement lead to too much risk for mission critical systems. Bookending can help spread the risk into more manageable chunks.

## How to Bookend

Modern user experience design teaches us that while transactions are important in the insurance industry, people and outcomes are the best design point for both personal consumer facing mobile apps and enterprise systems. Focusing on user "Roles and Goals" provides a good context for process flows that cross traditional application boundaries and provide the foundation to support a front end omni-channel strategy. This leads to better user experience, but is difficult to support using existing insurance application architectures that are designed around "best of breed" functional systems with limited domains integrated together in reaction to the inflexibility of earlier, monolithic systems.

A bookending strategy is very different from a classic "best of breed" approach. In the latter, each functional application supports an aspect of the overall business process, is implemented in a silo and relies upon standardized interfaces, such as web services, to create an overarching "plug and play" component architecture based upon an enterprise service bus, to orchestrate systems. Unfortunately, these "plug and play" components tend to create patchwork User Interface designs and disjointed process flows leading to considerable integration work and a dissonant user experience.

Bookending takes a different approach since the design points center on larger process flows aggregated by user role (i.e. employee, employer, carrier service rep, billing analyst). These roles define a specific set of goals or use cases that generally cross traditional application domains like policy, billing, claims and customer management, incorporating capabilities from each domain. Monolithic systems dealt with this by engineering everything into one tightly coupled static system where capabilities became available across the solution, but raised steel walls around the application making it difficult to integrate existing systems or extending capabilities through new, related modules.

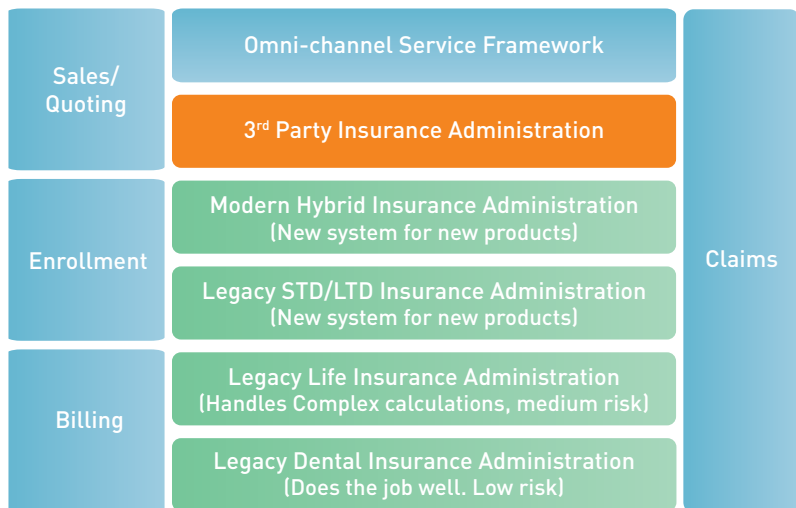
Bookending assumes that

- The needs of the enterprise will continue to grow and change
- Transformation projects take time
- And, there will always be external systems that must become part of the process ecosystem.

In the benefits space, this means that while there will be consolidation points in the application architecture (Claims, Billing, Customer Management/Service Portals, Enrollment Interface) which provide the “bookends”, there will continue to be multiple policy systems, rating engines and external quoting/enrollment systems for some time. There is, however, a need to retire and consolidate these systems over time to support new products, increase process efficiency and provide better customer service.

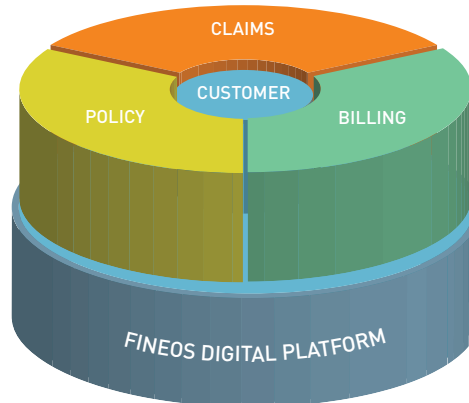
Customers and partners can be insulated from this process by implementing modern, well designed bookend systems first which can maintain a quality, consistent omni-channel user experience for these roles. This does not mean internally facing systems, like legacy policy administration systems, necessarily need to be wrapped in new screen interfaces, especially if they are slated for retirement. The people that use these systems on a daily basis are usually familiar with these systems and it is unlikely there will be sufficient time to achieve reasonable return on investment in upgrading the UX. New systems that are implemented to meet needs highlighted in the selection criteria listed above should meet the same UX standards as the bookending systems, preferably as part of the same suite. Legacy systems with longer lifespans and systems tied to longer term third party relationships will benefit from some front ending as part of a larger effort to orchestrate role-based processes, requiring a platform that can extend the same UX from the modern systems to the legacy systems. To achieve real value, it is important to make this extension as part of a real “Roles and Goals” based UX effort as opposed to the more common front end “face lifts” that apply modern controls and design to the same old functional process.

### A Smart Approach to Bookending



## The FINEOS AdminSuite

Group and Individual on the FINEOS Digital Platform



### Why FINEOS?

FINEOS has provided Claims and Customer Service solutions to the global benefits market for over 20 years, as our sole focus. We have worked in insurers and public sector applications architectures on 3 continents connecting our leading Claims and Service solutions to a wide variety of homegrown and vendor built systems. We have learned from many customers large to small, private to public who provide a variety of products and services to their customers.

Our Customer Service platform, the FINEOS Digital Platform (FDP) provides the capability to deploy an omni-channel, "Roles and Goals"-based Customer Service solution to serve brokers, businesses and consumers across a variety of channels. It provides the enterprise with the single view of all parties and relationships and delivers a real-time consistent view of all service activity to enable optimum customer experience.

Unlike general-purpose Business Process Management tools, the FINEOS Digital Platform has been designed and built for the benefits insurance market, making deployment faster and easier.

Utilizing the FINEOS Digital Platform, FINEOS built the feature rich, technically advanced and widely used FINEOS Claims solution. We are now extending our platform to provide a complete back office solution, FINEOS AdminSuite, that will include FINEOS Billing (Summer 2015) and FINEOS Policy (2016). FINEOS AdminSuite is the only modern administration suite designed specifically for the benefits market of today and tomorrow.

Our real world experience working with our customers' existing systems and interfacing into their existing processes, give us a huge advantage in helping our customers in implementing a bookending strategy leveraging FINEOS AdminSuite and the FINEOS Digital Platform.

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