



The Market
03 December 2012

MAKING GREAT CLAIMS

Software company Fineos had 250,000,000 reasons to be cheerful with a recent milestone in export sales. The decision to boost its R&D spending during the downturn means the company can be confident of more growth into the future, CEO Michael Kelly tells Gordon Smith.

Fineos seems to have taken to heart the lesson about never letting a good recession go to waste. The Dublin-headquartered company chose to increase its investment in R&D on its claims management software in the teeth of the economic downturn, which saw some of its customers almost go to the wall while Fineos itself retrenched, reducing staff numbers.

Since then, the market has started to turn around. “Slowly we’re seeing purse strings opening and spend happening,” says CEO and founder Michael Kelly. Many of Fineos’ existing customers are set to upgrade their systems over the next 18 months, and the new features are intended to address customers’ needs for a standard system with web capabilities ‘baked in’, he says.

Fineos sells primarily to two main sectors: insurance providers and government agencies that handle injury and illness compensation schemes. While flying mostly below the publicity radar at home, it has built up a business that recently reached a milestone of

€250,000,000 in software and services exports achieved over the past decade.

In the last 12 months alone, Fineos Claims handled €2 billion of insurance claims payments, and the company estimates that 40 million claims are now in its system worldwide.

The success isn’t all historical; in its most recent quarter the company signed four major deals with two US clients and two in Australia – boosting its total customer base by 10 per cent. “There’s huge scope in terms of growth if we can keep the research and development going,” says Kelly.

That quarter stands out by virtue of the four deals coming to completion, because long lead times have become the norm in the sector. However, the promising sales pipeline makes Kelly “quite optimistic” for future growth. “I think it’s justification in terms of the risk we’ve taken in the last two to three years investing in our products while the market was quiet. Now the market is coming back and companies want to move quicker,” he says.

The company focused its R&D spending on adding to its flagship software Fineos Claims, including the ability to provide self-service web portals for insurance claimants and mobile and tablet app versions of the software.

Another key area has been the development of analytics functions that allow insurers to query the information in their databases for greater insight into trends, business opportunities or patterns that could indicate fraud. Fineos is also building new products designed to work out-of-the-box, to cater for different lines of insurance business and the needs of smaller insurance providers.

At home, Fineos claims a 30 per cent share of the general insurance market but domestic revenues account for no more than 10-15 per cent of overall turnover in any given year. "Our business is overwhelmingly international. It depends on the year, but it would be between 85 and 90 per cent export, and North America would be our biggest market," says Kelly.

Next on the list for expansion is China. "It's a new frontier for us. It's gone from being the sixth largest global insurance market to the third largest in a few years and will be number two in a few years. We have to keep an eye on what's happening," says Kelly.

Fineos is working with Enterprise Ireland to make connections in the market and the company anticipates a long business development cycle. Kelly points out that this isn't so different to the company's experiences elsewhere. "We have no customers [in China] yet, but it took us two years and probably two million dollars' worth of investment to break into the US market and we think it will be the same in China."

The company's approach has typically been to look at a close fit between different markets – which is why most of its customers to date are in English-speaking countries. However, Kelly believes the Chinese opportunity is simply too big to ignore. "We're looking at the easiest markets to enter as a highest priority in terms of the closest in the way of doing business to the countries we're already in. You also have the aspect of the size of the market and the size of the prize, and you have to consider that as well."

Fineos remains mainly a direct-sales organisation but its recent growth has seen it begin working with selected partners, including IBM and the US consultancy CGI that specialises in the property and casualty sectors. It also works with partners where customers

specifically request that way of handling a deal.

"We're not tied to one single model. We are open to acquisitions and further growth. We've just come out of a global crisis. To be fair, we would have had plans which would have been more ambitious than where we are today, but you have to take your hits," says Kelly.

The return to growth is driving hiring in Fineos' international offices: the company created 50 new positions over the past 18 months, bringing total headcount to almost 350 people. This year, the company took a dozen university graduates and placed them on a three-month orientation and training course on its products. The graduates were hired as employees in July, and Kelly says the company intends to do this every year.

Another lesson can be found in how the company has looked beyond its initial core customer set into related areas. Originally, it focused on the life, health and disability insurance markets. Over time it gained a leadership position in those markets. Five of the top eleven group life and disability insurers in the US now use Fineos systems to process claims.

Almost a decade ago, the company looked to add other lines of business. A promising opportunity emerged in the area of government compensation schemes in countries such as Australia, New Zealand and Canada where the authorities take a more managed approach, making regular payments over a long period of time rather than simply awarding one lump sum upfront.

In 2005, Fineos won a large deal in New Zealand and now its software processes every bodily injury and illness compensation claim in that country, and 30 per cent of those in Australia.

The private sector and government areas may differ but the aim is the same, Kelly explains. "Claims is really what insurance is all about – it's the only customer experience anyone really cares about. That marries very well around the government side and getting the best outcome for citizens in terms of care."

Recalling the darker days of 2009 and 2010, Kelly observes that most companies cut back on spending on innovation when the financial crisis struck. "There was a lot of fear in the markets. Now I think we're in a different space. I wouldn't say we'll ever go back to the older model, but companies are prepared to spend for gain."