

To Tell the Truth

The supply of technology information keeps dodging demand – why is that?

By Andreja Bozovic and Marek Jakubik

Before we begin, we must warn you this installment of “CIO Chronicles” will depart from the issues we’ve traditionally addressed in this space for the past three years. Our original idea was for all of us to take a break for a change from the “here and now” and amuse ourselves by glancing beyond the immediate horizon. But the moment one gives anything close attention, it becomes a world in itself.

The “real world” in which we live consists of aging policy and claims processing systems, fragmented customer information files, outdated architectures, hard-coded business rules, and the countless processes and details of running and sustaining an insurance business. It does, indeed, appear mysterious at times. It can be awesome. But only a few might call it magnificent. Why is that?

The insurance industry should be a pearl farm of information and knowledge—a place where technology thrives. But most people involved in or responsible for insurance-processing infrastructures are more likely to think of the environment as a milieu of little light and many shadows. Why is that? And what change for the better does the technology-influenced future hold in store for the insurance industry?

With that question repeating in our minds—and anticipating the resonance of those same questions through the sessions slated for the spring/summer conference season—we ploughed through the related reports, articles, and white papers that had reason to survive on our desks over the past six months. Our goal was to attend as many sessions as we could that promised to provide at least a hint of an outlook into the future. And our hope was to talk to as many people as we possibly could trap into such discussions. But as quickly as we wove our web, we became tangled in it. As we launched ourselves eagerly into trade show after conference after panel, we had two simultaneous revelations:

1. Those who unreservedly contemplate and sometimes predict the technological future of the insurance industry don’t work in it. Why is that?

There are a number of reasons:

- Those who work in insurance don’t have the time or the perspective to ruminate on the future. They’re generally busy being chewed up by the present.
 - Those who don’t work in insurance have the time to ponder—attach probability and package prognostication as a product.
 - Those who work in insurance are consumed by things such as time and cost, profit and loss, expenses and adjustments, investment and return, retentions and ratios.
 - Those who don’t work in insurance have the time to compile stuff—demographics and socioeconomics, spending trends and buying habits, forecasts, figures, and foreboding.
 - Those who work in insurance have to worry about keeping their jobs by selling policies and service.
 - Those who don’t work in insurance have to worry about keeping their jobs by selling information to those who have to worry about keeping their jobs by selling policies and service.
2. Much of what is being said has been said before—many times. If you’re trying to reinforce a point, repetition is a good thing. But the point is there doesn’t seem to be a point. We’ve been hearing for years:
- Insurers are so conservative and inert they refuse to take notice of the changing world around them.
 - Technology has completely overtaken our ability to comprehend how it will change the way insurance will be offered, bought, and sold.
 - IT spending is up (or down).
 - The bulk of the money will be spent on policy systems (or claims systems).
 - The number of vendors in the market will expand (or be consolidated).
 - Insurers will be undertaking incremental replacements with “best-of-breed” (or “best-in-class”) applications (or completely replacing entire systems with “end-to-end solutions”).
 - The sky is falling.

And all of the predictions are delivered with the same senses of dread and foreboding. Why is that?

At the peak of the dot.com boom (if the prevailing wisdom were to be believed), every bricks-and-mortar business was about to be forced into oblivion if it dared not transition to e-everything. I recall a magazine ad in which a concert piano, breaking free from the hoist, is plunging toward the head of an insurer who wasn't "smart enough" to be on the move toward a blissfully productive future on the Web. In fairness, none of us knew what we didn't know at that time. But the dot.com boom at least earned its foreboding and then lived up to it.

Today's rhetoric may be somewhat less ominous, but the message essentially is the same. Do something—anything—or you're doomed. But the insurance industry doesn't have to save itself from anything. It's doing quite nicely, thank you. It's just trying to understand its technology options and make a living. And all it gets is stale Chicken Little rhetoric. Why is that?

No Good Cause Goes Unpunished

The dark truth is that a match between the insurance industry and its technology services and information providers—vendors, advisors, analysts, and the trade media—has not yet been made. Unlike other industries—especially other financial services verticals in which the relationships between businesses and service and information providers has achieved mutual understanding, trust, and collaboration, resulting in a higher quality of value exchange—the insurance industry and its service and information providers seem to be operating in separate, mysterious worlds. Those worlds occasionally come close enough for a spark to bridge the void.

For their part, information providers seem to be talking at insurers from distant ivory towers. Offering little primary research, insight, and virtually no business-specific analysis or guidance, they seem to have assumed the role of handsomely paid observers. Collect some anecdotal evidence, repackage some secondary or tertiary research, observe a trend, and you have the empirical equivalent of an astronomer with cataracts gazing through his telescope on a cloudy night. There may be some discernible appearances and the occasionally glimpsed phenomenon, but the picture is dim, fuzzy, and unreliable.

For its part, the insurance industry seems so starved for information—or so desperate not to misstep—that it continues to believe its competitive salvation lies in "IT innovation." In hope of that salvation, it prays to the crepuscular astronomers who are paid to put annuity before acuity. Consequently, convinced of its responsibility for IT, worried about its livelihood, and not at all aware it doesn't need to know what it doesn't know, the insurance industry remains dutifully queued before the observatory, rather than engaging in a meaningful communication of its business and process needs with IT vendors. The result is IT vendors spend millions of dollars developing and improving products to meet needs that haven't been clearly defined and they don't (and can't) fully understand. Jumping into the vicious circle, IT vendors then feed that product and process information to the information providers, which package the opinions and sell them back to the insurance industry. Bad information informs good causes. And on and on it goes. Why is that?

The answer is self-evident: While IT spending in the insurance industry at its worst may stagnate, it surely isn't going down. But that doesn't mean the vendor community is getting fat. It means the insurance industry still spends the bulk of its IT budget on internal development. So, because IT is not the insurance industry's core competency (really?), the industry's IT investment yields no meaningful return. Rather, good money is following bad to an extent that threatens self-defeat. And rather than helping IT vendors improve product, price, process, and performance, the insurance industry resorts to outsourcing development in an attempt to lower expenses. Most surprising of all, there is no hue and cry for a better way.

This approach is especially detrimental to mid-tier carriers. Some Tier 1 carriers may be able to trade on IT as a competitive advantage—or prolong the spending fight long enough to win a war of attrition. But mid-tier, regional insurers have to be service businesses before they can be product or IT businesses. They have to be the familiar, neighborly faces on which we can call when the commodity giants pull out of a market—or get too big to know us, let alone talk to us. They simply can't afford the financial misstep that will preclude them from supporting the service infrastructure on which their relationship-based businesses depend.

What's to be done?

Every Good Cause Deserves a Disruption

In science, anomalies cause disruptions and change the course of inquiry. In our science, the needs of the insurance industry remain the same—relevant, objective intelligence that will help the industry to do business in more effective and less expensive ways that don't distract its energies or resources away from its core competencies and primary purposes. The messages from the information providers remain the same—insurers are conservative, IT spending is up and down, policy and claims systems vie for popularity, the vendor community shrinks and expands, insurers favor "best-of-breed" or "end-to-end," and the sky is falling. The responses of vendors remain the same—try to find a home between the ill-defined needs of insurers and the informational leftovers of the information providers. It's time for an anomaly. We'll either create it by choice, or we'll follow it out of necessity. But it's inevitable.

Let There Be Light

The industry's ROI can be enabled only by impartial, insightful information that can be acted upon—not by repackaged, obsolete inference. The industry's ability to sustain itself can be ensured only if it demands that information in the form of primary research, undertaken in response to specific requests, and priced in a way that doesn't make it less costly to develop than to discover.

In the light of day, the most obvious truths may be the hardest to find. Why is that?

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