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Hot Insurance Tech Companies To Watch In 2009: Q2 Update

This is the fourth document in the “Hot Companies To Watch In Financial Services” series.

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EXECUTIVE SUMMARY

The past year has tested the mettle of the insurance industry. Insurers like The Hartford Financial Services Group and Lincoln National Group converted to bank holding companies to take advantage of Troubled Asset Relief Program (TARP) funds. The downturn laid waste to an industry that had been seen as a safe employment haven, and, because of its financial conservatism, the industry shifted its cost-cutting focus into high gear. These insurance industry changes have prompted the emergence of new approaches, new vendors, and new markets that are changing the insurance technology vendor landscape. This report provides brief descriptions of companies meeting diverse or emerging insurance industry needs and offers insights into new strategic opportunities for vendor partnerships and acquisitions in areas like agent performance management, business intelligence and analytics, and core insurance applications for global insurers.

EMERGING TRENDS ARE DRIVING INSURANCE IT TO GET AN EXTREME MAKEOVER

Many in the life and annuity (L&A) industry will remember 2008 as the worst in recent memory thanks to investment losses, falling revenue, and increased capital costs. Along with underwriting losses, those same factors also affected property and casualty insurers, with that segment noting a 92% decline in profit for the first nine months of 2008.¹ Insurance employment also took big hits, with the industry workforce declining in nine out of the past 10 months.² The industry trends are driving new perspectives in the role that insurance IT is playing in reducing costs, managing and reporting business performance, and attracting and retaining customers. As the insurance industry changes to address the “new normal,” Forrester has seen vendors innovate to address the changing needs of insurance technologists and business leaders.

Forrester updated its list of insurance technology vendors to watch through the remainder of 2009 and into the future. These companies are noteworthy to strategists in the industry because of their inventive approaches and solutions that address new models for insurance IT operations, they offer a solution for an overlooked industry segment, or they offer technology innovations that drive insurer profitability. This is not a comprehensive list nor is it a Forrester vendor recommendation or rating.

COMPANIES TO WATCH IN 2009

Forrester has added the following eight companies as ones to watch in the insurance technology market through the second half of 2009.



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Adaptik

Adaptik takes a highly specialized approach to property and casualty (P&C) insurer core applications with its sole focus on policy administration. The company's policy administration platform, PolicyWriter, consists of two applications. The first, Product Designer, is a back-office configuration tool kit for personal, commercial, and specialty lines that carriers use to establish policy and product rules and structure as well as the look and feel of user interfaces and integration with other systems. The second, Account Manager, is the front-office component that connects underwriters to agents and customers and automates the quote-to-bind process, including support for subsequent and out-of-sequence transactions. Adaptik provides choice in how clients can deploy PolicyWriter, allowing for either legacy replacement or incremental implementation. Once implemented, carriers can configure and deploy new functionality in a series of small, manageable steps with built-in traceability that allows the users and IT to quickly react to changing priorities and user needs.

- **Why it's important.** What was the top inquiry that insurers posed to Forrester in 2008? Anything to do with core applications.³ Policy administration is the core application that carriers need to bring in the business that comes from writing new policies, creating new products, and entering new markets. But many of these systems have been extensively customized, making them too expensive to support while slowing down the carrier's ability to write new business. With the agent channel doing better than any other channel at converting insurance shoppers to buyers, carriers are paying much closer attention to those policy administration systems needed to quickly and accurately return a quote to the agent.⁴ Solutions like Adaptik's PolicyWriter offer carriers the ability to launch new products quickly because business users can build new offerings themselves without having to queue up such requests to IT.

BlueSun

BlueSun applies a new spin to a couple of big challenges that life insurers are tackling: cross- and upselling to existing policyholders and turning all the customer data that a carrier collects into actionable business intelligence. The company has claimed a new category, distribution performance management (DPM), to encompass its capabilities in connecting L&A carriers with the independent insurance agents. The scope of DPM begins with mining existing customer data to identify new lead opportunities within the existing policyholder base. DPM then routes those leads automatically to the best channels — direct, affiliate, or agent — based on defined product, region, agent profile, or policyholder segment. DPM improves participation rates by providing the agent with a “meeting in a box” — all the pre-filled sales/quote/bind materials that an agent needs to put in front of a customer. DPM also tracks and reports on the success of various marketing and sales campaigns. Headquartered in Burlington, Ontario, the company has built a base within the Canadian life insurance market and, with a recent customer win, has just entered the US market.

- **Why it's important.** Carriers possess mountains of data about their policyholders but have traditionally made poor use of it to drive new policy sales to their loyal (or maybe inert) customers. Compounding the industry's inability to leverage this data is its reliance on the indirect producer network to connect with policyholders — all those independent and captive agents that carriers depend on. But that agent/broker channel is now one choice in a multichannel insurance world that doesn't always do a good job presenting a single view of the customer. BlueSun's DPM solution helps carriers identify which channel produces the best business result for a particular customer segment while at the same time automating the quote-to-bind process.

Compact Solutions

Insurance is very much a numbers game, and insurers continually build new business intelligence silos to extract information from existing systems. Compact Solutions has developed a pair of offerings designed to simplify the migration of multiple business intelligence applications onto a single platform and integrate core insurance data into one coherent repository. The Compact Data Integration and Migration Console (C.DIMC) automates the migration and consolidation of carrier extract, transform, and load (ETL) applications that have traditionally been accomplished through manual processes. The Compact Compressed Flat File (C.CFF) solution integrates claims and premium transactions data to enable complex analytics faster and at a lower cost than traditional methods.

- **Why it's important.** Last year, more than one-third of North American insurers that we surveyed told us that they planned to spend more on information management as a line item than they spent in 2007. In that same report, Forrester pointed out that the big question for insurers was how they were going to make the intelligence from that increased spending useful and valuable to the business.⁵ Better visibility into data about the business leads to better underwriting decisions, customer segmentation, and sales and marketing campaigns, as well as better allocation of resources based on business needs and performance. Despite their good intentions, insurance IT organizations are repeating old habits and building business intelligence systems that mirror the information silos by line and even by product. This pattern replication results in inflexible business intelligence applications that can't accommodate even simple changes and complexity that makes the application too hard to use. The C.CFF and C.DIMC solutions help insurers more effectively address their IT skills, time, and cost challenges that cause even the best intentioned business intelligence projects to fall short when it comes to the business value recognized.

EagleEye Analytics

EagleEye Analytics has engineered a P&C-specific predictive analytics platform, Insight, to help deliver the business intelligence that can drive better underwriting performance. Insight works with both personal and commercial lines and exposes underwriting and pricing anomalies. The service

helps insurance companies identify the nonlinear elements of the insurance production sequence and the unexpected interactions between variables. Often, these nonlinear variables, such as credit scores and even education levels, prove to be better predictors of insurance risk, profitability, and retention. EagleEye Analytics also offers a variety of other solutions that complement Insight, including complex modeling and rate-making, as well as performance monitoring so that Insight users can track trends over time and see the impact of changes made because of updated data models. Insight is delivered as a software-as-a-service (SaaS) solution, with most deployments operational within 60 days.

- **Why it's important.** While insurers do their best to know enough about a customer to fairly gauge and price their risk, the customer knows more. In a world of incomplete information about a personal or commercial lines policy, underwriters end up using averages when pricing a policy. Of course that means risky policyholders will be very happy because the policy is priced too low for the risk that the carrier is assuming and the safer bets will shop around if they think premiums are too high. Both scenarios mean losses for the carrier — more claim payouts in the case of the former and lost business in the case of the latter. The carrier can lose money for a long time and know little about what or which policyholder segment is causing the losses unless it can fix its information asymmetry problem. EagleEye Analytics takes a hot horizontal technology, predictive analytics, and applies an insurance lens to help carriers look at their book of business and figure out which segments offer the optimal profit and which segments they need to re-price at renewal.

IDIT

Instead of focusing on an insurance application niche like policy administration or claims management only, IDIT I.D.I Technologies (IDIT) built a component-based, end-to-end enterprise insurance application platform designed for global insurers. IDIT has targeted the needs of Western and Eastern European and Asia Pacific insurance carriers offering both personal and commercial lines, as well as universal life to policyholders. The IDIT software suite offers multi-language and currency support, making it appealing to carriers looking to expand into new markets. Also notable in the company's offering is the Product Factory, which allows global carriers to quickly create new products; it also versions existing products to meet the needs of new markets. Because these changes get made as part of product set up and not software code changes, the impact on the carrier's IT organization is negligible. IDIT is looking to parlay its business expansion experiences in Europe across Asia Pacific and into the North American market.

- **Why it's important.** According to a recent study by Accenture, 80% of the top 104 global insurers stated that international expansion is a critical or important component of their growth strategies.⁶ Expanding into new markets has significant implications for carriers as they need to understand the regulatory and even cultural implications associated with buying insurance products, many of which have IT implications. IDIT has identified the need for globally relevant

core insurance platforms among insurers worldwide. Its Product Factory provides a mechanism for both headquarter and regional resources to easily version products specific to new local markets.

iPartners

Unlike tech vendors that are specifically identifying the predictive analytics domain, iPartners has recognized that midmarket P&C insurers need to start with a much broader perspective, beginning with overarching business intelligence strategy. iPartners targets insurers in an insurance segment that, in order to compete with the likes of tier 1 insurers, recognize that they have to take advantage of all the information they collect in the daily course of business. Originally started in 1993 as a data warehousing and horizontal business intelligence technology provider, iPartners opted in 2002 to focus solely on the P&C market. The company's more expansive and industry-specialized business intelligence approach addresses the carrier need for visibility of sales and marketing strategy, financial performance, underwriting, and claims management. iPartners' four business intelligence tools — Insurance Scorecard, iControl, iAlerts, and iDashboard — are deployed as SaaS. In addition, the company offers a variety of services, including data loading and validation and a reporting and analytics library to accelerate the availability of business insights to users.

- **Why it's important.** In 2007, Forrester called the insurance industry the “perfect storm” when it came to the impact of five business drivers — litigation risk, regulatory pressures, reliance on content, lagging technology adoption stance, and dependence on a distribution network — all dependent on effectively leveraging enterprise content.⁷ But with so much focus on keeping the business running, carriers often don't have the time, people, or budget to better exploit the data that they already possess. The emergence of the hot predictive analytics market space has also proven to be something of a distraction, because carriers need to walk (have a business intelligence strategy) before they can run (deploy predictive analytics). iPartners' offers midtier carriers an option that they can deploy quickly, putting this segment on a more level playing field when it comes to leveraging enterprise data.

Profit Software

Profit Software pinpointed an opportunity in a very specific insurance market: P&C and life and pensions (L&P) insurers in Northern Europe. The solution supports the customer- and agent-facing policy administration and underwriting elements down to the back-office processes like care, claims, accounting, paying commissions, and even managing the insurer's investment portfolio. The company offers four different ways that carriers can deploy either the entire Profit Software suite or individual modules: an on-premise license agreement, an application service provider, SaaS, or a business process outsourcing (BPO) arrangement. Profit Software is looking to expand outside of its home base into other parts of Eastern and Western Europe.

- **Why it's important.** A big benefit of vertical marketing is that, by carving out specific niches, vendors become the go-to provider to an industry segment. This market-building process pays off when it comes time to expand, because the vendor already has credibility, references, and a reputation that it can bring into an adjacent market. Profit Software has built an insurance platform that has been deployed in more than 40 clients in a relatively small insurance market. Profit Software recognized that by offering modular insurance software components that can be flexibly deployed in one of four different options, it could help its carrier customers tick off more business technology to-do items while reducing budget objections from IT and the business, universal themes, regardless of where that insurer is operating.

SEG Software

SEG Software has identified a big, underserved market, when it comes to core application choice: the US L&A insurance industry. The company, based in Hartford, Connecticut, started off in 1997 as a professional services provider targeting the insurance market, and, thanks to a specific customer requirement that prompted it to build some software, it shifted to a primary software development focus in 2002. SEG Software offers four solution elements: SEG Admin, a life policy administration application; SEG Payouts for benefits distribution to annuitants; SEG Commissions to track payments made to the carrier's distribution channel; and SEG Modules that allows licensors to select and pay only for the functionality that they need, while still having a migration path to full functionality. The rules-based architecture reduces resource demands on the IT organization because business users can get the changes needed for new products, rates, and markets. SEG Software is making it easy for tire-kickers to check the company out by offering "Proof of Production" demos with a link on its home page.⁸

- **Why it's important.** US life insurers generated about \$512 billion in L&A premium revenues in 2007.⁹ Business like that usually spawns choice when it comes to the core applications that support this kind of revenue.¹⁰ The life insurance market suffers from a dearth of competition even in the large vendor segment and with even less competition on the specialist end of the market, unlike the many options that P&C insurers have for core applications. Why? Because the business of life insurance is more complex. First, policies have to live a long time (30 or 40 years, for example, on carrier systems), making the management of policyholder data more thorny and systems more prickly to replace. Claims are also different. While there might be just one claim in a term life, the payouts process is vastly different when annuity payouts are involved. These factors (and others) have made all but a few tech vendors disinclined to provide life solutions, locking up the life business in the hands of just a few providers. The ability for both CIOs and insurance business heads to easily test drive the solution helps emerging SEG Software compete with the greater resources of vendors with much bigger marketing and sales budgets.

RECOMMENDATIONS

THRIVE BY RECOGNIZING WHEN TECHNOLOGY ADDRESSES INDUSTRY MARKET CHANGES

The companies noted in this report underscore fundamental changes in the role that technology will play in the business of insurance in the coming years. To stay on top of insurance market trends, Forrester recommends that, as tech vendors looking to enter or expand in the insurance market, you should:

- **Pitch innovative technology that will drive insurance innovations.** Insurer embrace of service-oriented architecture (SOA) and the fact that more insurance CIOs are coming from outside the industry are driving surprising interest in business and technology innovation. Don't overlook the industry when it comes to pitching solution innovations like cloud computing or SaaS. Like SOA, they can help insurers overcome inefficiencies from reliance on legacy systems, redundant applications, siloed business lines, and manual processes.
- **Tout your ability to improve business IQ.** Relative to their banking and retail peers, insurers bring up the rear when it comes to exploiting data to connect with customers in a multichannel world. This need is attracting more vendors to fill these needs, creating a bigger and less differentiated business intelligence landscape. Vendors will need to focus on more finely grained segmentation in order to stand out. Vendors like EagleEye Analytics and BlueSun are staking claims on very specific, information-intensive functions like underwriting and agency performance management. Segment your offerings by business function such as sales and marketing or claims management to directly tie what you do to improve business performance in this business-process-focused industry.
- **Take a job focus.** The market structure for some parts of the insurance market, such as P&C personal lines, offers carriers a lot of vendor and technology choices, which means that standing out is hard, even for P&C specialist firms like Adaptik. Creating marketing messages and content that resonate with users by role — underwriter, agent, CIO, and a line-of-business lead like commercial or personal lines — proves to users just how a company like Adaptik could help them get their jobs done and often exposes more budget along the way. Prove it to them by delivering business performance intelligence with job- or role-focused dashboards that allow job holders to get the information that they need to be successful in their roles.
- **Keep a wary eye turned to the competitive landscape.** Most of the insurance industry has weathered the economic downturn somewhat better than their counterparts in banking, and that means that there is more budget to spend on tech. As a result, the insurance industry has gotten very sexy. Insurance tech vendors will be dealing with new, more agile, and lower-cost competitors that can effectively and rapidly meet the business needs of the insurance market place. SEG Software identified a hole that it could fill — the underserved L&A core applications market. At the same time, technology vendors like Profit Software

and IDIT are looking to break out of their home regions with solutions that will be appealing to insurers in other markets. Tech vendors need to think about their own innovations, examining their own structures and how well and how quickly they can adapt to the changing needs of the insurance market.

ENDNOTES

- ¹ Source: "P/C Industry Achieves A Small Profit Through Nine-Months 2008 Despite Significant Deterioration In Underwriting And Investment Results," ISO press release, December 16, 2008 (<http://www.iso.com/Press-Releases/2008/P/C-INDUSTRY-ACHIEVES-A-SMALL-PROFIT-THROUGH-NINE-MONTHS-2008-DESPITE-SIGNIFICANT-DETERIORATION-I.html>).
- ² Source: "Insurance Payrolls Plunge for Ninth Time in 10 Months," A.M. Best Company press release, June 5, 2009 (<http://www3.ambest.com/frames/frameserver.asp?site=news&tab=1&AltSrc=14&refnum=127629>).
- ³ Modernizing core applications topped the list of inquiries coming direct from insurance carriers in 2008. See the March 10, 2009, "[Inquiry Insights: Financial Services, Q4 2008](#)" report.
- ⁴ The economic crisis has placed a renewed spotlight on the value of insurance agents. In turbulent times, many customers want to connect with another human being. Despite the increase in online insurance research, in-person visits generate higher conversion. Even GEICO, the US direct insurance giant, is communicating the value of local agents in mass advertising to deliver a true multichannel distribution model with Web, call center, and agents. See the January 9, 2009, "[Trends 2009: Insurance eBusiness And Channel Strategy](#)" report.
- ⁵ In last year's North American insurance IT budget and spending report, 36% of North American insurers stated that they planned to increase spending much more or slightly more than their 2007 spending levels. See the September 12, 2008 report, "[North American Insurance IT Spending In 2008](#)" report.
- ⁶ Source: "How Internationalization Drives High Performance for Insurers in Uncertain Times," Accenture, April 2009 (http://www.accenture.com/Global/Services/By_Industry/Financial_Services/Insurance/R_and_I/InsuranceSurvey.htm).
- ⁷ Many enterprise content management technology vendors have recognized the opportunity that the insurance industry represents, meaning technology vendors have to seek new ways to differentiate their offerings in a crowded and poorly differentiated market, like enterprise content management. See the November 5, 2007, "[The Content Management Market Goes Mini-Vertical](#)" report.
- ⁸ Source: "SEG Software Proof Of Production," SEG Software (<http://www.segsoftware.com/Docs/SEG-POP.pdf>).
- ⁹ Source: *Insurance Fact Book 2009*, Insurance Information Institute, 2009 (<http://www.iii.org/factbook/>).
- ¹⁰ The property and casualty core application market offers significantly more choices when it comes to the number of vendors offering solutions for P&C when compared with the life and annuity segment.