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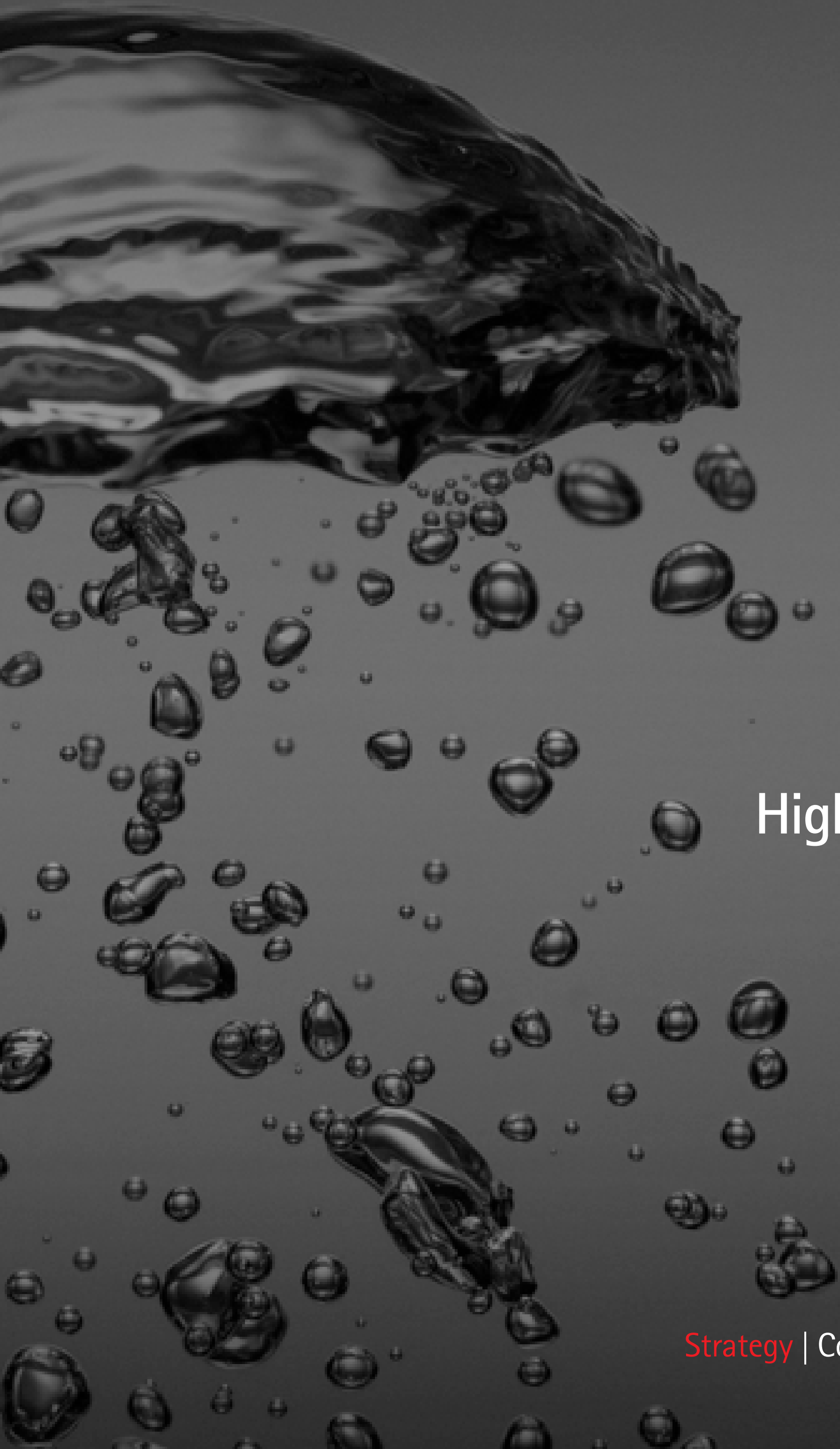
Eighty percent reduction in insurance carrier costs? Cloud as rainmaker.

Alex Ratkovsky and Matthew Taylor



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Slow but steady worked for insurers for years. In an industry tailored to offer clients security, solidity took precedence over lightning-speed innovation.

Slow, incremental progress has been the norm in an industry that eschewed sudden change due its justifiable focus on limiting the risk of that change.

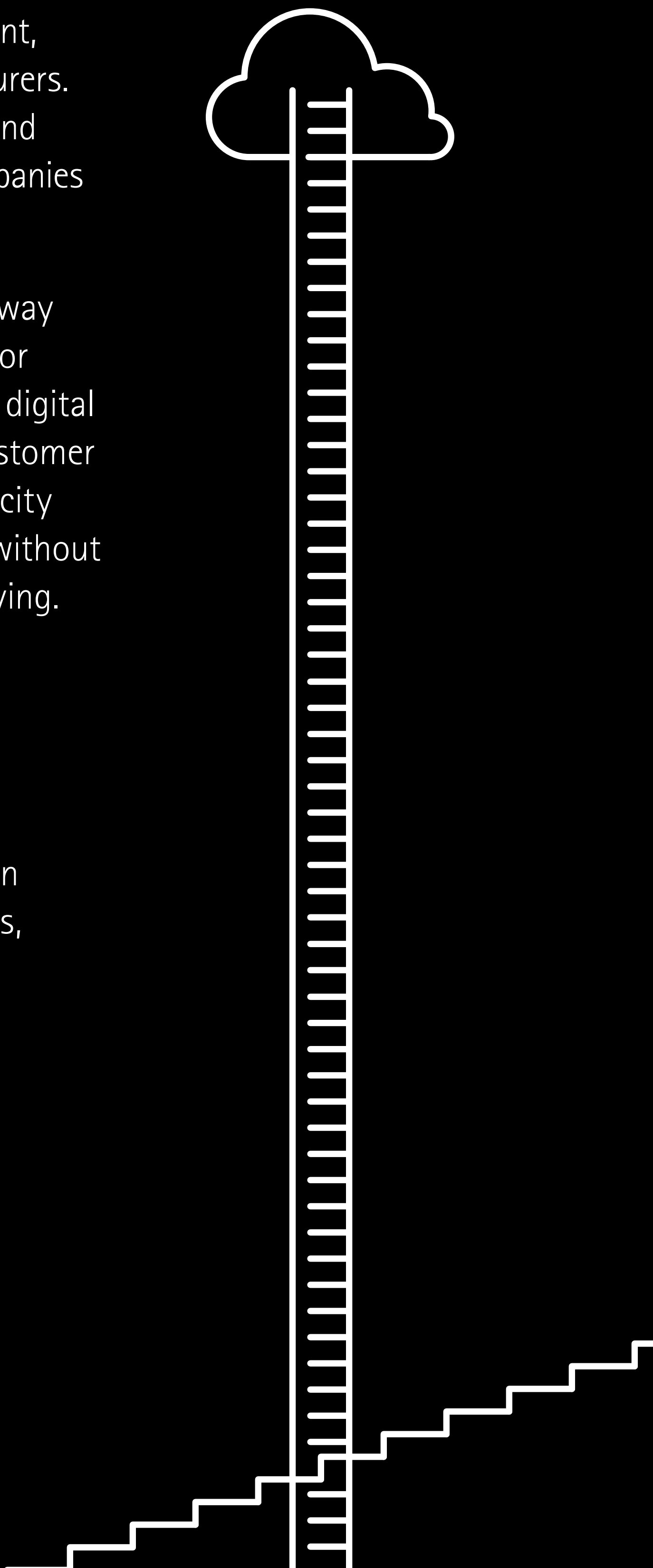
Until recently.

Customer expectations and rapid advancement in technologies have brought a tsunami of change to most industries.

Accustomed to 24/7 access and virtually nonexistent lag times with retailers, banks and online entertainment, customers bring these same expectations to their insurers. Add to the mix self-driving cars, wearables, fintechs and advances in analytics capabilities, and insurance companies have the opportunity to reinvent themselves.

As Accenture helps its insurance clients change the way they do business, one common element must exist for successful change: cloud. Cloud underpins all of the digital changes insurers must make to meet their future customer needs and business objectives. Without cloud's capacity and firepower, digital simply does not happen. Nor, without extraordinary measures, does an 80 percent cost saving.

Insurers hesitate to embrace cloud for three main reasons – all fallacies. First, they believe lifting and shifting applications to the cloud does not work. Second, they think sunk costs are unrecoverable. Lastly, they believe digital transformation can happen without cloud. While these fallacies hold some truths, on the whole, we are about to debunk them.



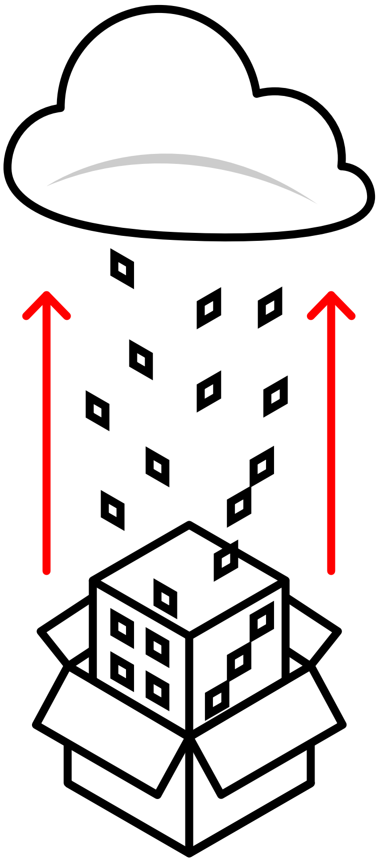
Fallacy #1: Lift-and-shift does not work.

Au contraire. We have helped companies realize 80 percent savings using the lift-and-shift approach to cloud application migration.

More firms are turning to public cloud options as they see the benefits. Another example, Capital One, migrated its flagship mobile banking application to Amazon Web Services (AWS) as part of a plan to reduce its data center footprint from eight to three centers by 2018.[1]

Accenture recently worked with a large multi-national insurance company to help it achieve an 80 percent reduction in the cost of a specific environment of an application suite. The use case was a devtest (development testing environment) migration of a commercial suite of off-the-shelf actuarial systems to cloud infrastructure. This firm leveraged an orchestration layer that automated complex provisioning and operations workflows, and implemented an auto-scalable public cloud solution capable of adjusting to usage peaks and valleys.

Moving to a more agile, cloud-based environment allows flexibility and speed-to-market traditional infrastructure cannot match. More than two-thirds of insurance executives believe that replacing their legacy technology with something new would be too costly, yet over 10 percent of carriers use no legacy technology at all.[2] We expect to see that 10 percent figure grow, as insurers are forced to compete with nimble cloud-based entrants (fintechs). While the savings achieved by replacing legacy with cloud-native applications are typically hard to match, we see equivalents in some lift-and-shift scenarios, such as migrating development and test environments to cloud workloads.



More than half of insurance executives cite current technology processes as impeding business objectives.[3] Incremental change to traditional technologies will not solve that problem. A new cloud model, that is utility-based and offers self-service and transparency, is necessary.

Fallacy #2:
Sunk costs are not recoverable.

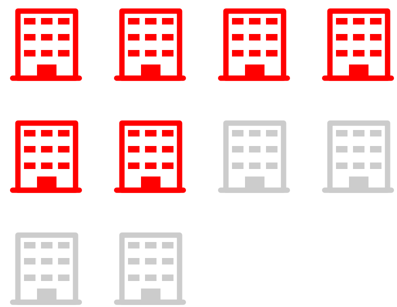
Not so. Approximately 35 percent of insurers say unfavorable total cost of ownership (TCO) is holding back their cloud adoption.[4] Suncorp Insurance did not buy into this fallacy.

The company shrank its data center space by over 75 percent and reduced its utility costs while moving to the cloud. Growing significantly through mergers and acquisitions resulted in it running an unnecessarily complex IT environment. The environment had to support as many as 14 brands in five countries. More than 2,000 applications, with significant redundancies, complicated an already complex and siloed IT architecture.[5]

Suncorp decided to move to the cloud, rather than become trapped in a perpetual refresh cycle. It focused first on moving storage to the cloud, followed by other workloads and applications.

Not all firms make a wholesale decision to head to the cloud, despite its prevalence and proven business case. Given that six out of 10 insurance companies replace their current legacy infrastructure every three to six years,[6] most have an opportunity to optimize and align this refresh cycle to cloud migration. By doing so, they can avoid unnecessary capital expenditures, minimize write-offs, and sunset their depreciation schedules – all helping to maximize their savings.

Insurers also can capitalize on unused data center space by subletting via local, national, and global hosting and cloud companies. This would generate additional revenue and TCO savings on surplus space through higher utilization ratios and energy consumption.



6 out of 10 insurance companies replace their current legacy infrastructure every three to six years.

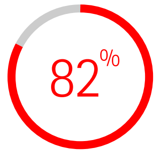
Fallacy #3: Digital transformation can be achieved without cloud.

Cloud makes digital happen.

Blockchain, biotech and connected devices have significant ramifications for the insurance industry, and positive ramifications for companies that use them proactively to improve client service, speed to market, and margins.

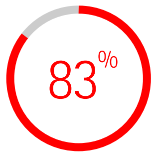
There are also many new applications – especially industry-specific ones – that are exponentially increasing the range of opportunities for revenue and savings. But these technologies – along with advanced analytics – do not happen without cloud's flexibility, reliability, security, massive capacity, and scalability. See Figure 1 for key enablers that allow insurers to unlock these value opportunities along the cloud adoption journey.

Cloud provides the firepower for analytics that is already turning traditional one-size-fits-all insurance models on their head.

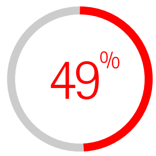


New cloud-based industry entrants are capitalizing so successfully on this technology that 82 percent of insurance executives say these competitors are disrupting the industry.[7]

To compete, traditional insurers will need to put their money where their mouths are.

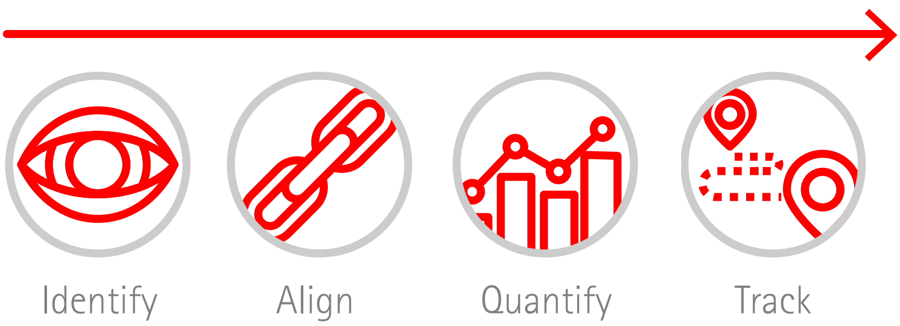


While 83 percent agree that cloud will foster innovation in their business that was not previously possible.



Only 49 percent are investing in a comprehensive digital technology program as part of their overall business strategy[8].

Figure 1: Value Realization Journey



Value Realization

Client Service
Speed to Market
Margins

Find your 80 percent

In order to benefit from the potential of cloud, and in particular, to achieve the very significant cost savings that are possible, there are three key steps that insurers should consider:

First, prioritize and optimize migration to the cloud. Leadership teams need to balance a wealth of key decision factors such as refresh cycles; application cloud readiness, demand fluctuation and frequency of change; business criticality; and digital insurance business data needs.

Almost every company creates a business case for cloud. What many insurers fail to do is validate that they have achieved it. Track value realization. Obsess over leading metrics such as the ratio of cloud to legacy applications, claim response times and the number of resource hours saved. Identify impactful trends, and correct your course as needed. Not only will it help your team prove their results; it will also help you plot further moves into the cloud with more precision.

Beyond cost savings, quantify the return on agility reaped. Measuring the additional revenue achieved through faster rollout of new cloud-enabled capabilities – digital usage-based policy features, for example – is key to understanding the total value driven by cloud.

Start with these steps and cloud will soon become a reality—you may just have to bring your umbrella to work as the rain begins.

Notes

[1] https://aws.amazon.com/solutions/case-studies/capital-one/

[2] Accenture 2016 Technology Strategy survey

[3] IBID

[4] IBID

[5] http://community.netapp.com/t5/Tech-OnTap-Articles/Case-Study-The-Suncorp-Private-Cloud/ta-p/84885

[6] Accenture 2016 Technology Strategy survey

[7] IBID

[8] Accenture 2016 Technology Vision survey

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