2011 IT Town Hall:
Positive
for the

Insurance IT leaders reflect on the changes of the past year and look forward to what lies ahead in 2012.

By Robert Regis Hyle

Although 2011 has been a rough year in many ways for insurers, those we spoke with for the 2011 IT Town Hall—for the most part—believe it was a good year and they are looking forward to what could be another good year for the industry in 2012.

The annual Town Hall involves four leading insurance technology leaders answering a series of questions on some of the more hyped issues being faced—cloud, mobile technology, social media—and the issues that keep them awake at night—data, analytics, and modernization of core insurance solutions.

The participants in this year's Q&A include **Wayne Umland**, executive vice president and CIO of Glatfelter Insurance Group; **Doug Allen**, vice president and

director of information technology of State Auto Insurance; **Greg Ricker**, vice president information systems of Strickland Insurance Group; and **Tom Peach**, CIO of Zurich Financial Services—North America.
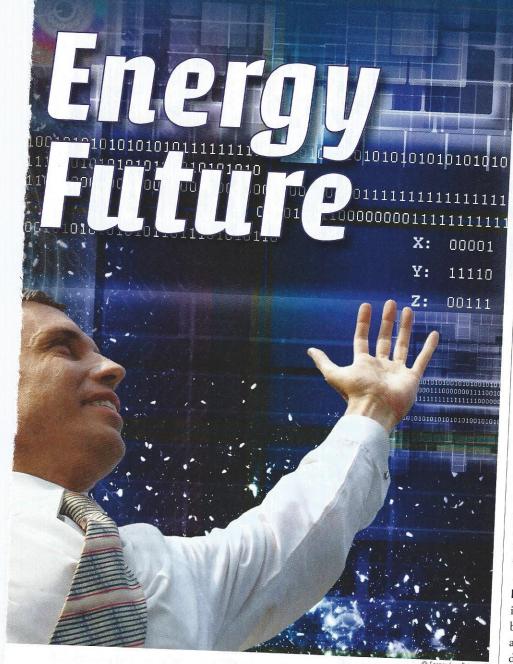
▼ ▼ ▼

What were there some of the positive points from the past year that made it a better year than expected for your company?

UMLAND: 2011 was a good year for Glatfelter. While we certainly had the pressure on rates and experienced a record number of catastrophe losses as did so many others in our industry, we continued to invest in our infrastructure and focused on making it easier for our agents and brokers to do business with us. We continued our march

toward full legacy replacement and have successfully accomplished that. While we stuck to the basics in terms of good, solid underwriting, prompt/responsive claims, and consistency in our market, we made progress and continued to strengthen our brand.

PEACH: Our project execution in 2011 was outstanding. We were able to implement a full agenda of programs across all of our portfolios with almost a 90 percent on-time and within budget ratio. This was on top of the fact that we have been in the middle of a large-scale datacenter migration.

ALLEN: We've made great progress on the implementation of a new claims platform. The project has stayed on budget and on time. It is still scheduled for delivery in mid-2012. We've also arrived on a deci-

Energy Future

X: 00001
Y: 11110
Z: 00111

© Sergey/ageFotostock

UMLAND: Our IT budget is continuing to grow in 2012. While we expect commercial rates to slowly begin to flatten or increase slightly, we need to manage our expense growth internally. We do continue to reinvest in technology and have continued to do that throughout this latest long market cycle. Our goals continue to focus on ease of doing business, information analytics, and eliminating unnecessary workflow costs while streamlining our business processes.

> "I think you are going to see more growth for the specialty and E&S markets."
>
> —GREG RICKER, STRICKLAND INSURANCE

The stampede to mobility and the ubiquity of smartphones and tablets will certainly bring with it opportunities to do more on the commercial side for those independent agents and brokers who do business with us. It will also drive more openness internally as we see more and more people and industries move to "BYOT" to the workplace.

PEACH: 2012 will continue to be challenging from an expense standpoint. We are being asked to consolidate infrastructure and labor costs and expedite application decommissioning efforts. This will be done in conjunction with advancing our organization in the areas of customer collaboration, workflow management, advanced management reporting, and next generation underwriting tool concepts.

RICKER: From the IT side, we have a pretty positive forecast for 2012. Again, we're going to continue the initiatives with efficiency for the agent, providing more functionality to them on the Web portal, and opening more for web services for integration. We feel pretty good about 2012 from an IT perspective. Looking at it from the industry side, I think you are going to see more growth for the specialty and E&S markets. In the standard markets, where the combined numbers are pretty tough and investment income isn't what it used to be, I think you are going to see them continuing to tighten their underwriting

sion for a new policy platform for one of our business entities. We're on track with our data center consolidation effort and hope to wrap it up in early 2012 and we've improved our production stability significantly over the past year.

RICKER: First off, through nine months of this year, direct written premium is up just under 20 percent. For us it's been a good year. One of the biggest impacts was we've focused on reducing the costs our agents incur in doing business with us. We're a specialty carrier in the E&S lines. We've really focused on eliminating steps, bringing more automation to the table, and reducing the amount of effort an agent spends to rate, quote, and issue. By streamlining the process we've become an attractive market for them to place busi-

ness. As the old saying goes: It's not how much you write; it's how much you make. By focusing on those expense dollars and on efficiency there's no question that's had an impact on our growth this year.

▼ ▼ ▼

What is the outlook for 2012 for your IT operation and for the industry at large?

ALLEN: IT will be challenged again with the balancing act of run-based activities and transform/strategic initiatives. The strain on company financials (earnings, surplus, premium) as a result of record claims activities and the current economic climate also is going to continue to put demands on IT organizations. It could hamper and throttle-back investments that really need to be made.

2011 IT Town Hall Panel

Doug Allen
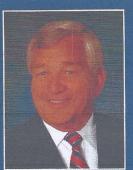State Auto Insurance

Tom Peach
Zurich Financial Services
North America

Greg Ricker
Strickland
Insurance Group

Wayne Umland
Glatfelter
Insurance Group

guidelines, adjusting their pricing, and see business that kind of flowed to them in 2005 and '06, start migrating its way back to the specialty and surplus-lines markets. Additionally I think you are going to see increased pricing in 2012. From an industry perspective, I think there is going to be a lot of change next year. Catastrophes are continuing to put pressure on already strained combined numbers

▼ ▼ ▼

What issue concerns you the most about the future direction of insurance technology?

PEACH: .My major issue is that the current industry technology and application infrastructure lacks the ability to support new distribution and customer collaboration methods. For that matter, I believe that we as an industry are behind the pack in defining or utilizing new cutting-edge technologies that will be geared toward the next generation customer.

UMLAND: I guess I'll probably be the contrarian on this one. The drive to simplicity, easy infrastructure, streamlining everything, and having solutions that are all things to all people is the road to everything becoming "vanilla." There are differences in what we all do. Specialty lines will never really become

generic, in my opinion, and there is clearly a differentiation between companies and how our customers are taken care of and supported. While the future direction of technology will keep driving companies to simplification and generalization, I believe those of us in strategic positions need to balance that with what brought our companies to where we are today. We can't always let technology and simplification of everything drive us to the point where our corporate values, our key principles, and our care for our customers are sacrificed. If we do that, then we become just another company where choice no longer matters. We take pride in our differentiation and don't ever want to lose that.

ALLEN: Change management. With so many big initiatives underway, orchestrating, coordinating, and implementing them in a quality fashion will separate the winners from the losers.

RICKER: Two items concern me the most. Number one is system complexities. With so many systems being integrated and so much functionality coming together and so many pieces to the pie, system complexity is growing. With that complexity you need good talent and you need to make good decisions on the products you are using and how you implement them. Because as so many

systems are starting to piece themselves together—we interface with three insurance systems, with MGA/broker systems and they are extending data down to retailers—there are just a lot of moving parts. The second concern is the increased cost in software licensing. As the boxes are getting bigger, some of the licensing costs are continuing to take a bigger chunk of budgets. The more money you spend on maintenance the less there is to spend on R&D. The budget pressures continue to be a challenge.

▼ ▼ ▼

What have you done in the past year to improve the knowledge of your business users through data projects and predictive analytics? What lies ahead in 2012 for this initiative?

ALLEN: We have an active project to put in the second edition of commercial lines predictive modeling. Our personal lines business already uses a predictive modeling approach in the pricing/underwriting processes.

RICKER: We invested pretty heavily in our data warehouse several years ago and last year we brought a Cognos BI tool to the organization that has helped us significantly in monitoring our business. We have sophisticated price-monitoring reports where we are able to drill down to the level we need to see how our product is being priced and sold. We can tell where folks are using credits, debits, what classes, and what policy types. There has been much more focus in the last year to a year and a half on agent profitability. When you can drill down and look specifically at what classes, what states, and what agents are putting pressures on your loss numbers, that is huge. In 2012 I think you are going to see a continued push for turning more of

> "We as an industry are behind the pack in defining or utilizing new cutting-edge technologies."
>
> —TOM PEACH, ZURICH NORTH AMERICA

that data in your rating systems and your policy admin systems into information and you will see companies making specific decisions to get out of or change strategies with certain lines of business based on those analytics. If you can write high-valued property and make money on it on the coast on one part of the country, but not on the other you you'll see companies tweak underwriting guidelines to reflect that.

UMLAND: In 2011 we finally began our formal governance and project management process and extended it to our user community. Our project teams consist of technical staff and business users. They are involved throughout the projects, which allows them to become more familiar with the technical issues, infrastructure and integrations aspects of all of our systems. They quickly came to understand the complexities of systems and how integrated they are. On the analytics side, generally all of our predictive analytics to this point have been in the actuarial area. We have built an expanded data warehouse with various views and cubes and we will begin moving to analytics for our marketing and sales departments.

PEACH: Predictive analytics have been a major priority for Zurich North America for the last several years and 2012 will be no different. We have dedicated sizeable funding for these efforts within our organization. The same with our data analytics and business objects areas; these are core to our organization's strategy and are supported from all our business partners.

▼ ▼ ▼

How important is improving core technology and getting away from legacy systems for your enterprise?

UMLAND: As I mentioned above, we have been on a strategic effort to replace any system that was legacy. The reality is, however, that the new systems with which we have replaced our legacy systems will very quickly become the legacy systems of tomorrow. Technology is changing so rapidly and it is becoming easier for users to understand, that our "new" systems will need to be replaced, enhanced or redesigned much sooner than their predecessors. Our users, both internal and external, will demand further integration, more simplicity and new tools that they experience in their lives outside the workplace.

PEACH: This is one of our current strategic initiatives. We are constantly looking to drive a better balance between our legacy and strategic program investments.

ALLEN: Very important. We are replacing our legacy claims applications with a modern platform. We also will be implementing a new policy and billing administration system for one of our entities.

RICKER: We've gotten rid of all our legacy. Everything we are running is pretty current technology. Our policy processing system is not that old and neither are our Web systems. We feel pretty good about our core. Our focus will be to continue to expose more of the core functions of the systems via web services. Folks that want to dive deep into claims, pull loss runs, and get into some low levels of data detail will be able to do that. The core we feel will support all that, so we're just opening more of that up.

▼ ▼ ▼

What steps, if any, have you taken to use cloud computing this year? Is this going to increase in focus for you in 2012? What concerns do you have with the cloud?

ALLEN: We have placed very little emphasis on cloud computing and there will be very little focus in 2012. Cloud is immature. There are security and stability risks. Plus with us being in such a transitional phase with our apps, it would add even more risk at this time. We need to define a strategy and have some POC's first.

UMLAND: Glatfelter has not moved any systems to the cloud. While we are not opposed to the technology, we are taking our time in adopting this. We believe that the cloud is a great application and certainly takes cost and infrastructure management out of the internal equation, but we also feel that it is important that all appropriate safeguards and availability are in place. We will probably not move those mission critical systems or those applications which differentiate us. We want to be in a position to monitor and control them very closely and to be able to restore them quickly should something happen. We're not yet convinced that the cloud can meet that need for us…yet.

RICKER: There are a couple of functions we perform with third parties via cloud computing. In 2012 we will increase our efforts there. We are going to use it in an online backup mode that will help us with

---

> ## "We have been on a strategic effort to replace any system that was legacy."
>
> —WAYNE UMLAND, GLATFELTER INSURANCE

---

disaster recovery plans and our co-location sites. We'll continue to expose more things in web services to become a provider to other folks. The pieces we are keeping an eye on the most involve the security of it—making sure things are encrypted and we aren't taking on any unneeded risk—and vendor reliability will be huge in that space. As we've seen this year, some of the top cloud computing vendors have all taken major outages. Reliability is going to be watched very carefully. We'll slowly increase in how and where we use it and as long as our experience is favorable you'll see us continue to move other functionality and take advantage of that.

▼ ▼ ▼

What do you see happening to the insurance industry in terms of regulatory changes for 2012?

ALLEN: 2012 is not shaping up to have many regulatory changes. Perhaps, with it being a presidential election year, it will be quiet on that front.

RICKER: We feel for 2012 not much is going to take place. With an election year we feel it will be a time to stay the course. We're not expecting to see any states take drastic action either. Beyond 2012 and looking into 2013 and 2014, a lot depends on what happens next year with the elec-

tion. We're keeping a close eye on year-end results because we're expecting when yellow books are finalized in the early part of the second quarter you are going to see some tough year-end results. That's going to lead to some interesting discussions with A.M. Best for everyone. I think the states are going to let the companies focus on the immediate issue of profitability and not jump in and try to regulate that. It's no secret from a catastrophe perspective 2011 has been a tough year, but we're not anticipating the states to jump in and say something is broke and try to fix it. I think you will see companies take positive steps to gain control of their loss and expense numbers. The states will see that and won't

---

> ## "With the speed at which mobile devices are changing and the introduction of new devices, which platform(s) do you pick?"
>
> —Doug Allen, State Auto Insurance

---

take an immediate action for change. Post-election, I think you will see things change and a lot of that will depend on—especially at the federal level—who's sitting in the White House.

PEACH: We have seen a steady increase in regulatory activity and believe this will continue into 2012. This includes rate and regulatory bodies as well as audit function-based activities.

▼ ▼ ▼

Mobile technology is making life easier for business users and customers. What concerns—if any—do you have about mobile technology for this year and the next five years?

PEACH: We absolutely agree that mobile technology is here to stay within our industry. Our concerns are focused on data security and ensuring that these devices have the same protection as internal-based computing devices. We also need to be concerned with support channels to effectively and efficiently support our mobile device users.

ALLEN: My concerns are:
• How will the priority for mobile technology stack up with all the core/enterprise wide initiatives?

• Do we have the underlying architecture and infrastructure to support the mobile platform?
• With the speed at which mobile devices are changing and the introduction of new devices, which platform(s) do you pick?
• Where are we going to find the talent to develop these platforms?
• There are security concerns in an immature mobile platform space.
• How will this increase the IT run costs?

RICKER: We're trying to understand from a mobile environment what is the real need vs. the hype of having a mobile app. We've seen some folks in the surplus-lines industry rush to build a mobile app only for their

customers to say that's not really what they need. Are brokers really going to do policy issuance from an iPad? We don't believe that's realistic. The best practices we think are for rating and quoting apps for the brokers to use with their retailers. We are working on that and we have the web services to support that. We are trying to get on board with a common XML standard for rating in the specialty lines so we can facilitate the comparative rater type applications and move them to mobile devices. There's an awful lot of hype out there, but when you sit down and look at it from a business perspective you can see there are specific areas that make sense and we are going to focus on those areas.

UMLAND: For a company our size, the first and immediate concerns go to how do we find the talent to develop mobile applications, how do we stay up-to-date with mobile technology as it continues to evolve, how do we handle the security aspects, and how do we make those applications generic enough so that we are constantly reworking solutions so they work on new devices? Beyond that, however, is the challenge of reality. Glatfelter is a specialty program manager. We need to not try and build a mobile app for everything. We need to take a step back and find out what the agent

wants and how he wants to use it before we go out and try to develop something. A proprietary underwriting application for a complex specialty line is probably not going to ever be a mobile app. While all the hype is there, we need to be realistic about what it is we want to provide based on external need.

▼ ▼ ▼

Social media has garnered as much attention as any initiative in the last five years. Does your company have a social media initiative underway? What are some of the areas you are focusing on?

UMLAND: Glatfelter has jumped in with Facebook, LinkedIn, and we've experimented with having a presence in those spaces. We don't have a corporate social media initiative actively underway. Social computing/social media is something I have been trying to push for two years. 2011 was a year where we experimented on several fronts to see what kind of play there might be in different areas of social computing. I believe there are many opportunities for us to take advantage of and we are just now tying social media into our overall marketing plans. The community aspects of social media for specialty markets present us with many opportunities.

ALLEN: We are very early in the social media space with no definitive strategy established. We are working internally with some associates as focus groups.

RICKER: We've developed a social media strategy and we use that to share information with our agents and brokers. Because we are a specialty carrier and we deal with brokers, we can't go directly to retail agents or insureds, but we do share information with our agents. We listen intently to things said about our company—both from a positive and negative perspective. Those are great tools to share information with our agents and brokers. I think you'll see in 2012 we will increase the frequency in which we are disseminating information and we will look to get our brokers involved with us as well. As with mobile, you have to separate hype from reality and say where is the real need. To be able to tweet information about immediate changes in products is huge. Being able to hear what your customers and policyholders have to say about their experience with your company also is huge. **TD**