



Cloud-based SaaS core system software is enabling life insurers to shift their CapEx to OpEx. **FINEOS Asia's Mr Pravin Budhdev** looks at some of the shifts that are enabling the long-term sustainability of this model.



During the last Singapore FinTech Festival, one of the topics that was abuzz was the entry of regional life insurers into the newest market in Asia that opened to foreign insurers – Myanmar.

Apart from other interesting facts that form a part of such a discussion, something that caught my eye was a technology-enabled factor. Many of these life insurers were moving IT systems to the cloud and, more recently, taking this into higher risk areas of venturing into core systems.

One of the benefits is they were able to free up their capital to be invested into areas that were capital-intensive, rather than tying it up in IT systems. The way they were able to do it is by transforming an erstwhile CapEx model to an OpEx model, taking advantage of cloud.

Part of this released capital helped in moving into a new market like Myanmar. Further, they were also able to take advantage of implementing the core system for this market on cloud, again avoiding the CapEx for IT systems.

This is not a one-off story. A recent survey of insurers by research and advisory firm Novarica showed two interesting trends among life insurers, who are galloping now to catch up in adopting new technology. The majority of the transformation budget of life insurers was being poured into digitising systems and moving CapEx to OpEx as more systems move into cloud.

Today, we have sort of a 'perfect storm in the cloud'. A few years back, cloud technologies were at a disadvantage from affordability, robustness and security perspectives. Moreover, when one considered the spectrum of insurance core systems availability in the cloud, one drew a blank.

The perfect convergence that is toppling the tables in favour of cloud today is the reversal of those parameters already mentioned. Giving this a shot-in-the-arm, some pioneering insurance core system developers have made their software available in the cloud.

This transformation is at a highly adoptable level today, for the first-time enabling life insurers to move their core system spend from CapEx to OpEx, in fact into a truly SaaS (software as a service) model.

So, what are some of those shifts that are enabling and ensuring a long-term sustainability of this model?

■ Security guarded 24x7

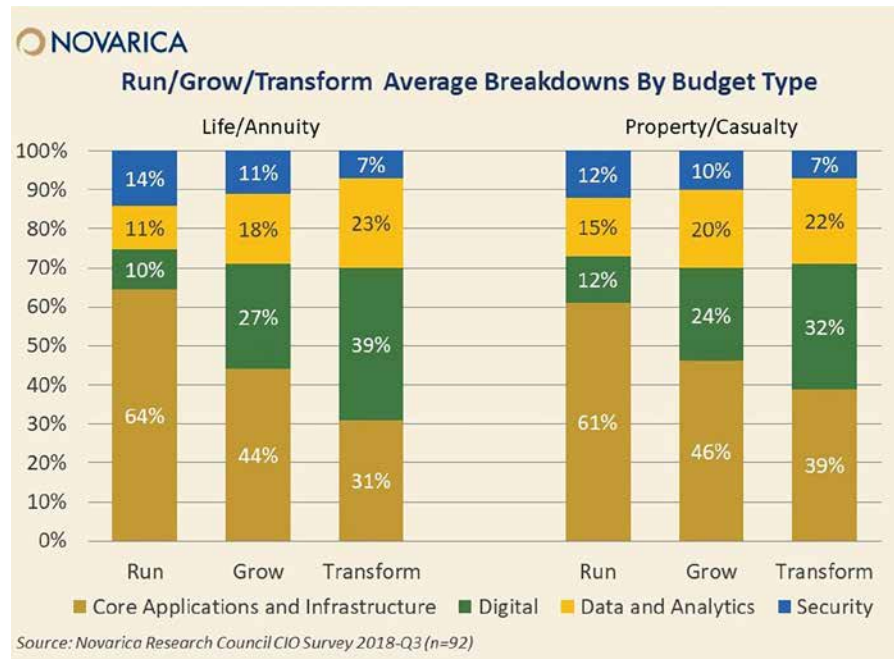
Over the last few years, organisations like Amazon and Microsoft, to name a few, have poured in a large part of their R&D spend into making the cloud secure. These efforts have taken cloud security to such a level that today, when you choose a well-reputed cloud provider, you can be assured that your data is more secure and better monitored in the cloud than on-premise. Cloud security today can comply with pretty much every government or professional audit standard and provide ease of security auditability.

■ What is the bill this month?

Today, transaction-heavy processes in insurance like claims can take advantage of a SaaS-based utility model. The flexibility to increase, decrease or reconfigure not only software usage but also go all the way back into the hardware inventory as business needs fluctuate, has been unheard of in hitherto legacy-based systems of the life industry. For greenfield insurers, especially in smaller markets, this makes for an even more compelling business case.

■ An inevitable weapon for the agile digital insurer

Current technological advancements seem to have made it easier to start new businesses. Regulators in various jurisdictions now feel comfortable to license digital-only life insurers. Whereas on one hand this is a fillip to the industry, on the other, it applies tremendous pressure to established insurers who have tilled hard with existing technologies to run their business. However, this challenge persists only if an organisation is unwilling to adopt the flexibility offered by SaaS swiftly. At our existing customer base, we have found that when an established life insurer decides to take on this technological advantage, their reputation gets augmented not only with their traditional customer base but also in new demographic segments.



However, success is never free. Ensuring a successful move from a CapEx to OpEx model requires a 'handle with care' approach. In our experience, the following factors add to success:

■ A perfect grip on TCO

On average, in the on-premise model, application software costs including the license and annual maintenance fees usually go to the extent of 15-20% of the total solution cost. This is in stark contrast to the SaaS model where application software costs (license or subscription fees) account for 60% or more of the total solution cost, since the license here includes IT infrastructure usage and management costs. So, it is not an apples-to-apples comparison. While comparing TCOs in the two worlds, care should be taken not just to compare the application software but the hardware ownership (including asset depreciation, etc.) and infrastructure management costs as well. It is recommended here to get help from mature cloud services and SaaS providers here from their experience of having covered various scenarios.

■ One size does not fit all

The value-for-money, flexibility and commercial aspects of moving from a CapEx to OpEx model makes a persuasive case. However,

organisations need to be cautious of an often-invisible challenge. Generally, a consideration of what CapEx to turn into OpEx, depends on your organisation's financial condition. In addition, we need to consider availability of suitable software and cloud computing providers, the organisation's level of comfort in not having the ownership of some core processing software, etc. While analysing these factors, it is important to remember that what is broadcast as 'best practices' is to be considered as guidelines rather than prescriptions.

■ Succeed early or fail fast

Taking on SaaS, depending on the organisation's current culture, could be a very different paradigm. Moreover, when we talk about doing this with core systems, there are several stakeholders and various levels that need to get involved in this change. Greater energy has to be focused in the beginning on change management than on proving the audacity of technology. It is important to choose the initial phase with the simplest possible business function or simpler products (e.g. life instead of medical) to practice the new paradigm and go from there. In our experience, an agile implementation methodology plays out as a critical success factor here. ■