

Replace, Consolidate, Convert?

Charles J. Sevola Jr.

Prudential Financial

ACORD/LOMA Systems Forum

Charles.Sevola@Prudential.Com

An Introduction...

- ✓ Vice President, Information Systems
 - Responsible for Systems Platform delivery For Life Product Development
- ✓ Head Development for Vantage, LifePro, Actuarial and Unit Value Systems
- ✓ Relationship Manager for Systems Services Provided to Our Operations Partners
- ✓ Committee Chair for LOMA Eastern Systems Development Committee

Pru Background

3 Life Policy Administration Platforms

- AOS: Proprietary Legacy Platform
 - Closed block
 - Very large in-force
 - Least new business, but greatest post issue support
 - Most mature platform (High)
 - Low unit costs

Pru Background (Continued)

- ✓ Vantage One: (CSC)
 - Open block Variable/UL target platform
 - Moderate policy volume
 - Technologically current
 - Moderate/High platform maturity

Pru Background (Continued)

LifePro : (PDMA)

- Open block term target platform
- Moderate policy volume
- Version currency reflects relative change activity of Term product line
- Moderate/High platform maturity

Key Drivers

Change in Senior Leadership

- A fresh opportunity to re-evaluate our basic platform strategy
 - Do we have too many?
 - Can we find more cost effective alternatives?
 - Is there new capability available that can have a fundamentally impact?

Expense pressures

- 12% ROE
- Easier-to-achieve opportunities exhausted

Acquisition Readiness

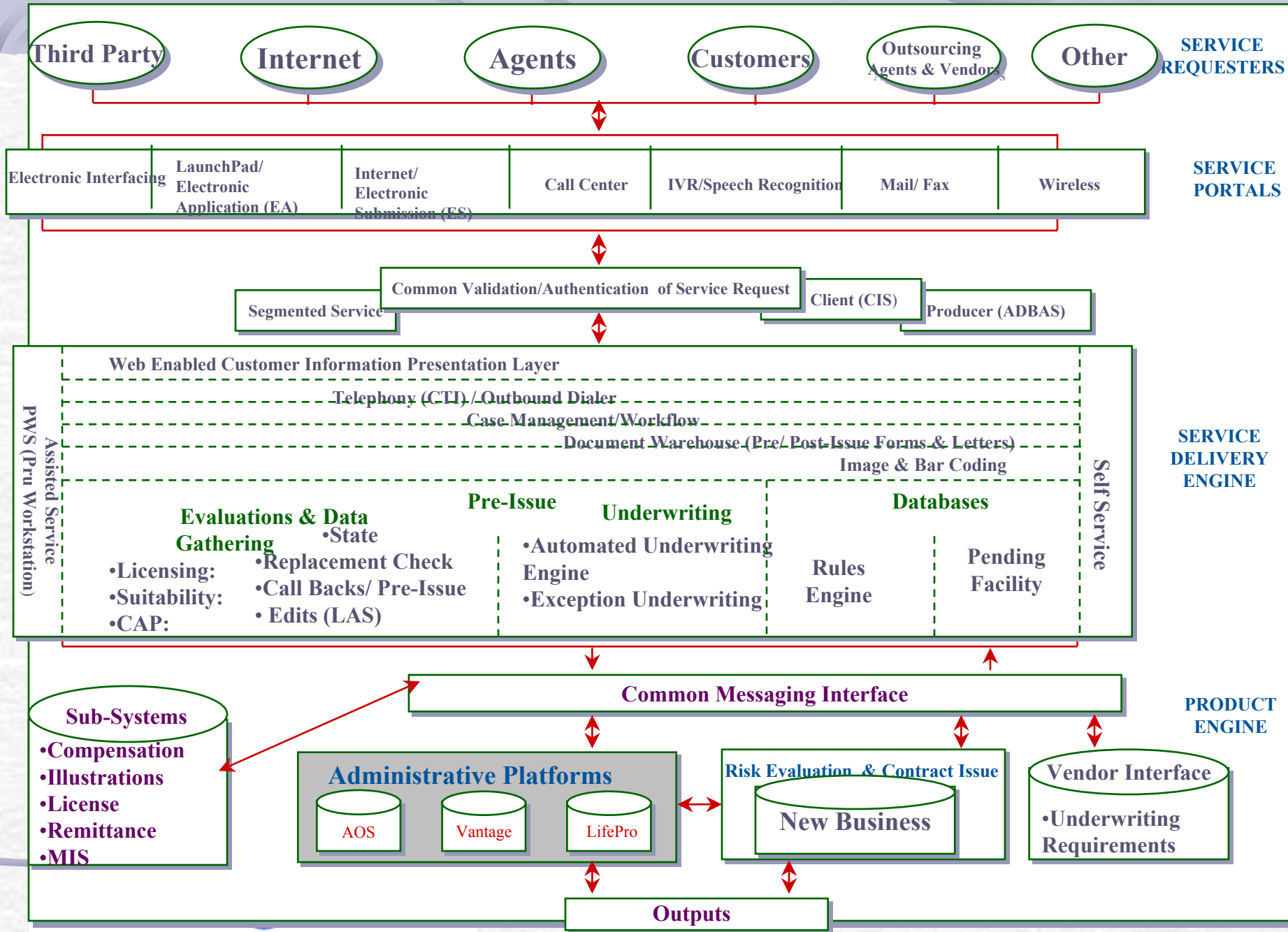
Team Makeup

- Not a Technology Exercise – Business Value!
- Cross Functional Team
 - Product Development
 - Customer Service
 - Finance
 - Technology
 - Strategy

Our Objective

- Develop Strategy Recommendation for Administration Platform environment.
Replace, Consolidate, Convert???
- Approach
 - Determine** Current Product/Customer distribution across Administration Platforms
 - Assess** Costs, Risks and Capabilities of current Admin Platforms
 - Estimate** future product/customer growth in relationship to Admin Platforms
 - Identify** and evaluate viable platform options to simplify operating environment, reduce costs, improve profitability and facilitate integration

Service Delivery Model



Understand the Current State

For Each Platform

- Product Mix
- Open vs. Closed Block
- Policy Counts
- Growth Rates
- Production Window Challenges
- Associated Staffing Model

Current State (Continued)

Platform Costs

- Data processing costs
- Directs costs
- Amortization expense from platform introduction
- Operations
 - Manual Intervention
 - Revolving Error Maintenance
 - Manual Workarounds
- Total cost per policy
- Modification Cost Structure
 - Relative ease of enhancement
 - Ability to leverage labor arbitrage

Other Alternatives?

- New Admin Platforms
 - Breakthrough Functionality
 - Ease of Integration
 - Time to market challenges
 - Acquisition costs
 - Ownership costs
 - Enhancement Ease
 - Other

Transition Costs

- ☞ License & Maintenance fees
- ☞ Hardware
- ☞ Professional Services
 - Retrofits of business Modifications
 - Data conversion costs
 - Other consulting
- ☞ Operations Expenses
 - Training
 - Procedures
 - Manual Handling

Options Identified

- Financial analyses were created for the following platform scenarios
 - Maintain status quo (baseline)
 - Introduce new platform (Gain more capability over existing platform)
 - Consolidate to One Platform
 - Enhance Open Block Platforms
 - Enhance all Platforms (Open & Closed Block)
- The analysis compared the status quo baseline versus each platform scenario
 - One time investments
 - Annual reduction in operating expenses
 - Payback period from elimination of costs
 - NPV and IRR
 - Cost / policy

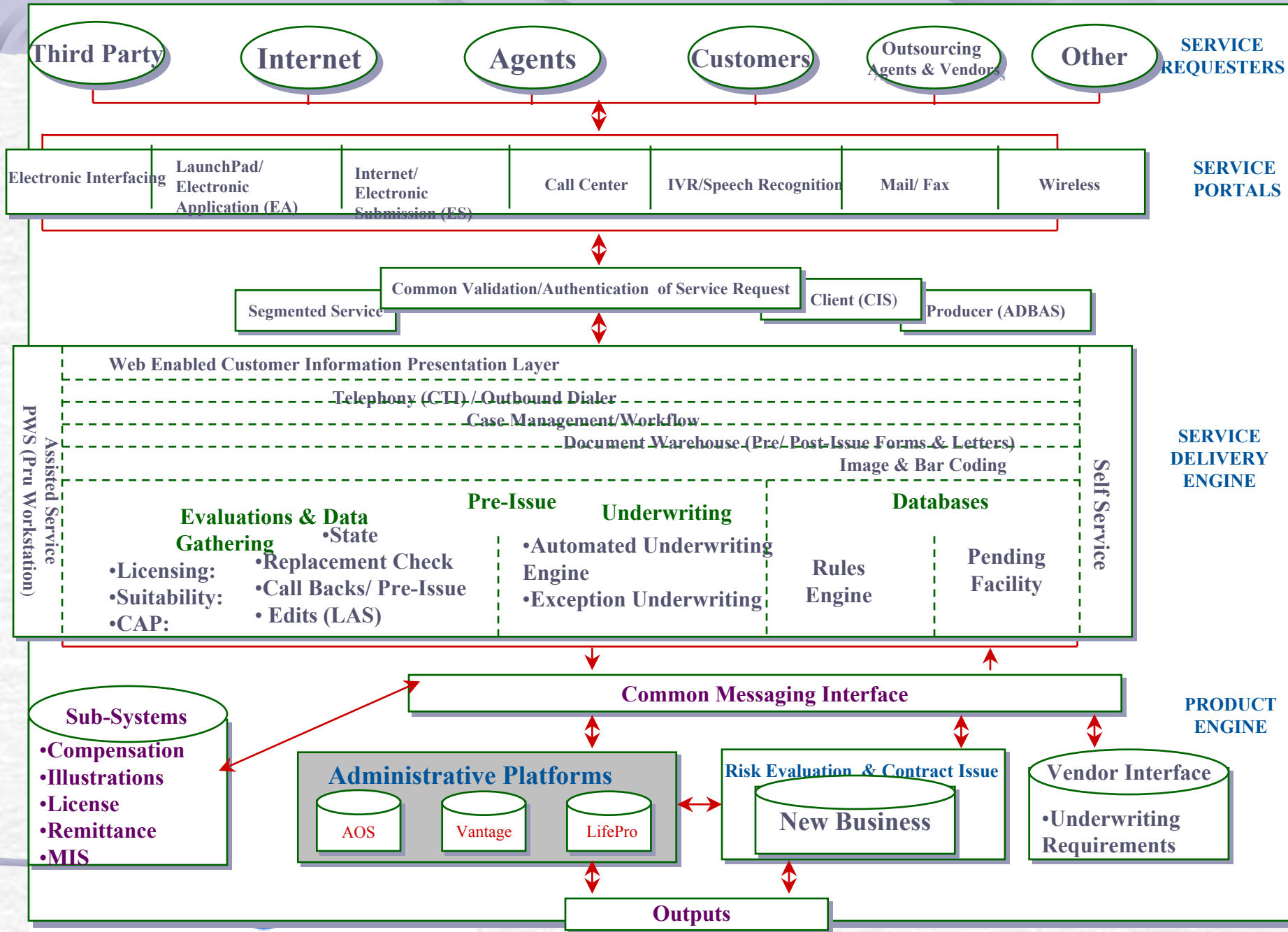
Other areas considered

- ✔ Cost Structure
- ✔ Ability to enable faster times to market
- ✔ Capacity to handle volume scale
- ✔ Ability to enable robust self and service delivery
- ✔ Ability to enable relationship management and Service delivery models
- ✔ Simplified technology management and maintenance
- ✔ End state risk
- ✔ Transition to the alternative (Time, Cost, Risk)

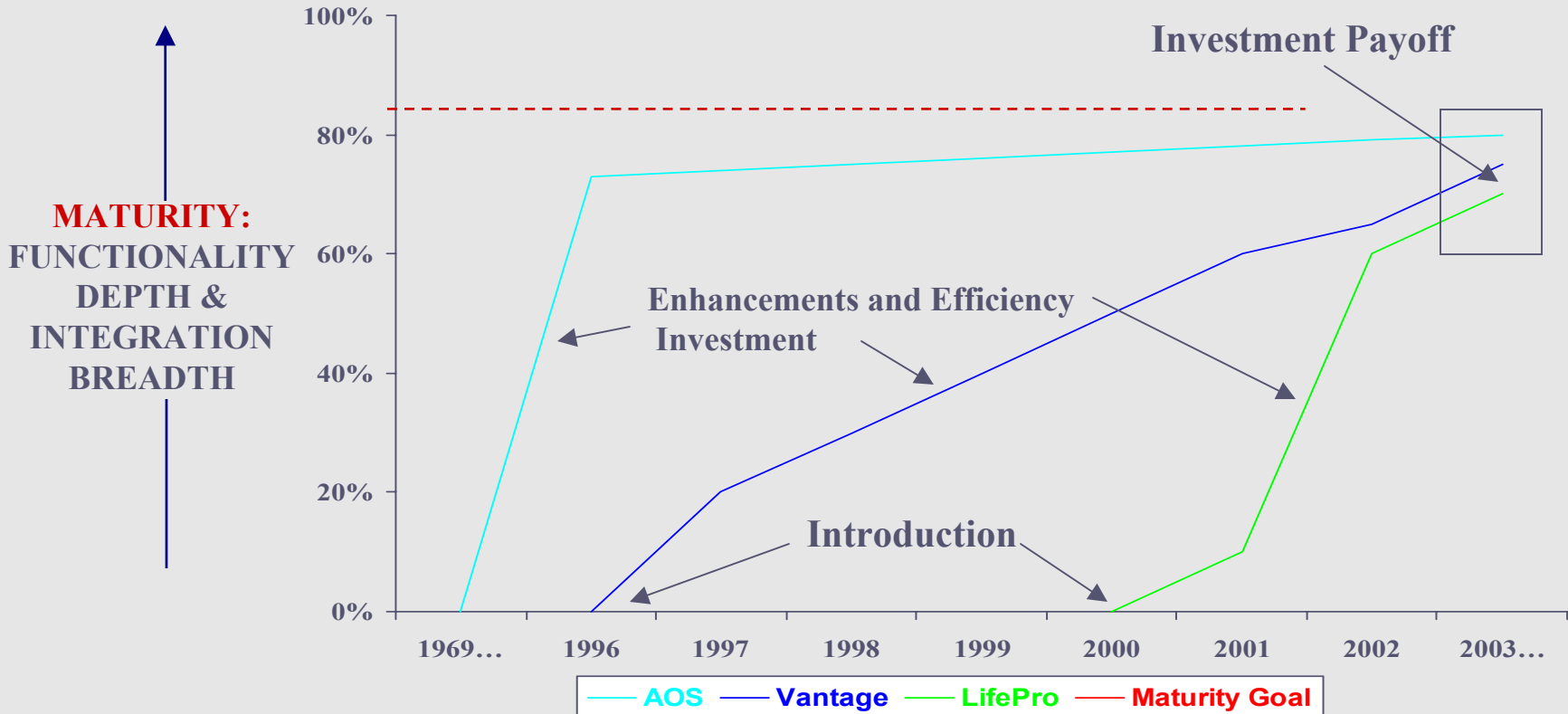
Platform Maturity

- Platform “Maturity” is an euphemism for:
 - The depth of product and service functionality
 - The breadth of integration with our Service Delivery environment e.g. PWS, Case Management, Messaging Layer, etc.
- When we introduce a new platform, “maturity” begins at the baseline of 0% and increases based on the appropriate functionality/integration build activities
- The general “maturity” goal is 80% with additional builds justified only by the value proposition relative to our Producers, Customers & the Business
- ...Versus an absolute of 100%, which may not be economically feasible

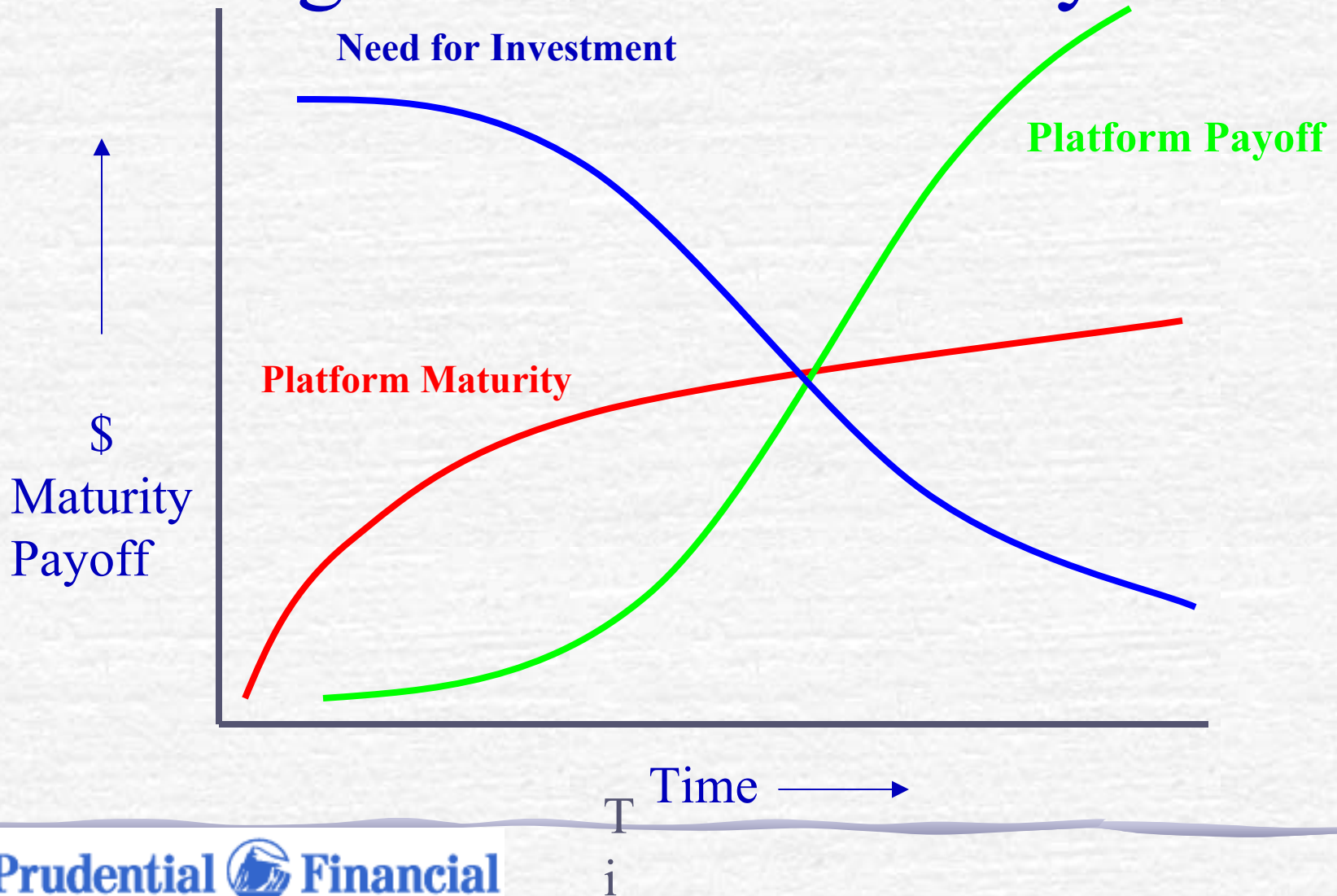
Service Delivery Model



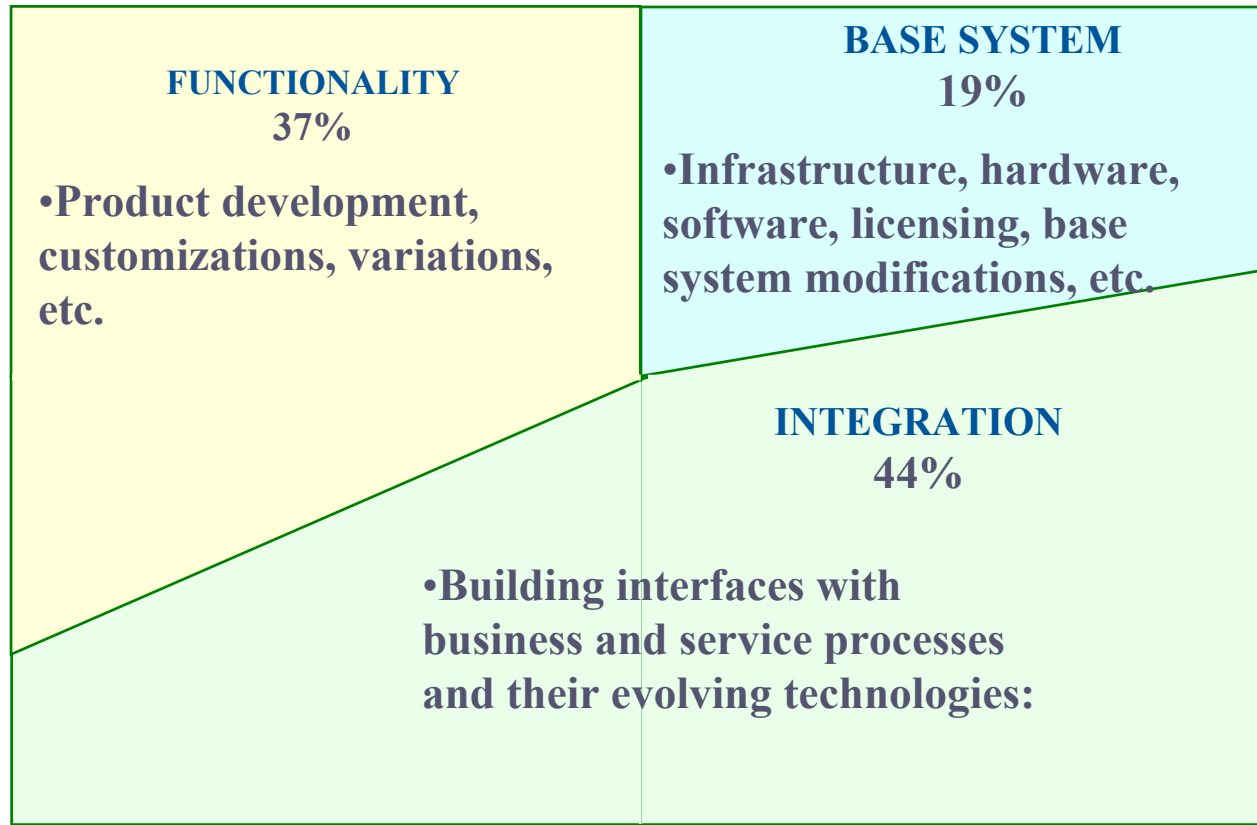
PLATFORM “MATURITY”



Sticking Around for the Payoff



Example of Platform Investment Breakdown



Note that this allocation of actual investment shatters the belief that the Base System represents the majority of cost



Platform Conclusions

- **Integration with our business environment and functionality requirements clearly drive administrative platform costs**
- **Today, there exists no “silver bullet” platform available to the market**
- **A focus on platform consolidation does not necessarily enhance our ability to integrate administrative platforms as introduced from potential mergers and acquisitions**
- **Few insurance companies are investing in administrative platform migration/consolidation. Many are focused on legacy extension and evolution along three key areas: Presentation, Logic and Data (Supported by Gartner Consulting Research; 2003)**

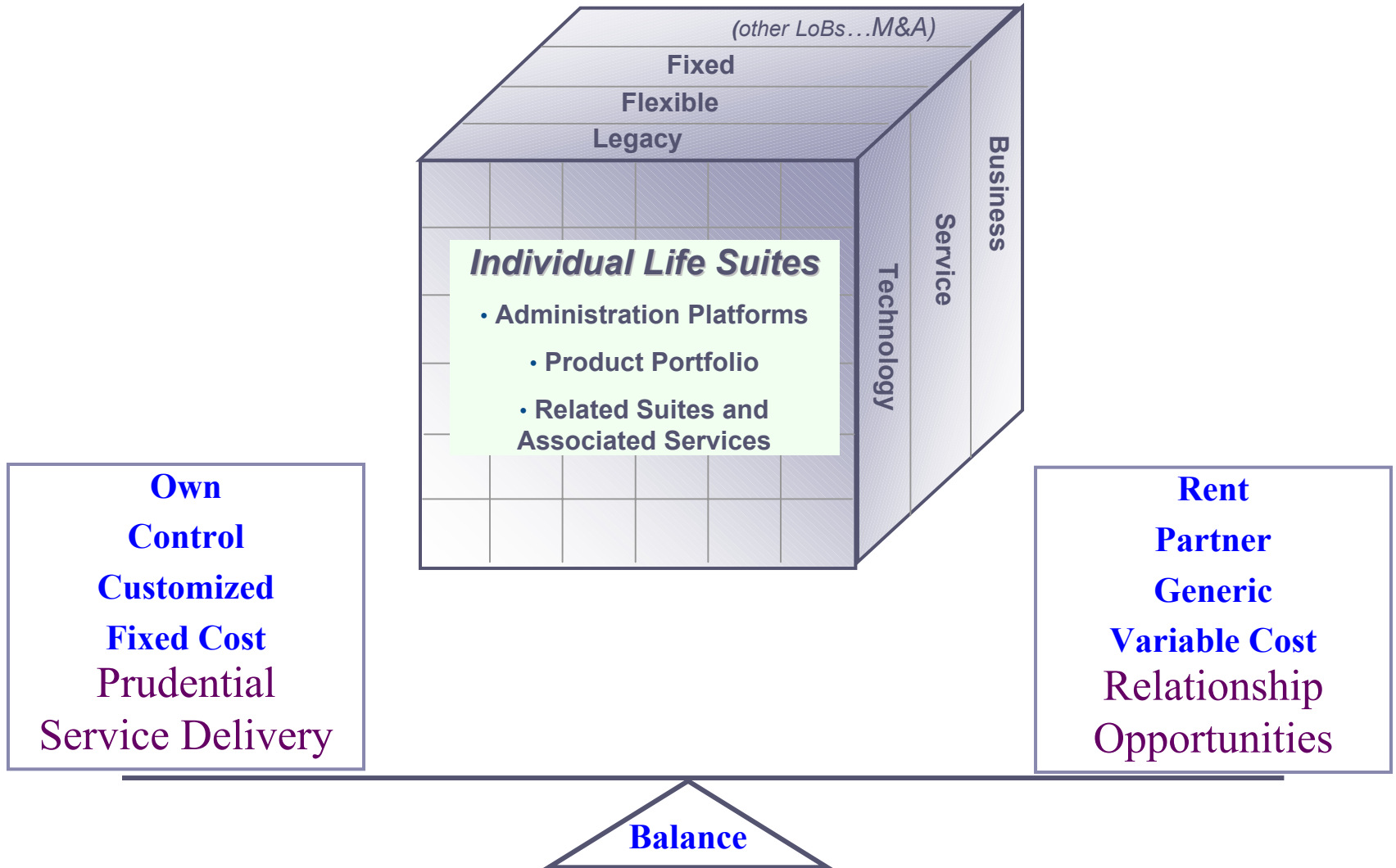
Platform Conclusions (Continued)

- **All newly introduced platforms begin at a “maturity level” of 0%**
- **Benefits accumulate at their greatest rate when the platform reaches high maturity**
- **A significant investment is required for a new Admin Platform/Platform Consolidation which makes a viable business case difficult to achieve**
- **Reaching platform maturity requires sustained investment and sustained patience to realize the potential originally envisioned**

Option Adopted

- ☞ Stick Around for the Payoff
- ☞ Enhance and update existing platforms
 - Scale to fail analysis
 - Product Variation's Initiative
 - CSC's Strategic Technology Program
 - LifePro V1.12
 - Common Solution for Death Claims
- ☞ Identify and exploit support opportunities
 - Complete automation where appropriate
 - Fine tune automation to further enhance efficiency

*Slice the “Cube of Opportunity”
to find a “Suite Spot” for Life*



Thank You!

Any questions?