FORRESTER

No Time To Wait: Start Your System Modernization Journey Now

How APAC Insurers Can Work Better, Faster, And Smarter While Improving Customer Experience

Get started →

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Customer Needs Won't Wait; Make System Modernization Part Of Your Digital Transformation Agenda

The COVID-19 pandemic called for an acceleration of digital transformation initiatives never seen before as organizations scrambled to shift to a remote working environment amid country lockdowns of varying scales. Digital channels became the default mode for customer interactions, and the APAC insurance industry was no exception as more customers engaged with their insurers virtually and performed transactions online.

The increase in digital adoption through the pandemic accentuated APAC insurers' struggle with legacy systems, highlighting the importance of system modernization. Our study of 114 system modernization decision-makers and influencers in the APAC insurance industry sheds light on the typical modernization journey, as insurers recognize its positive impact on customer satisfaction and long-term business success.

FORRESTER OPPORTUNITY SNAPSHOT: A CUSTOM STUDY COMMISSIONED BY RED HAT | JANUARY 2021

Key Findings

Insurers in APAC recognize the importance of system modernization to business success and are focusing their efforts on critical core systems.

Technical challenges and proving business value are key barriers that insurers must overcome to achieve the full potential of their modernization efforts.

Successful system modernization efforts help APAC insurers work better, faster, and smarter and achieve the required differentiation to lead in the competitive and dynamic industry.

System Modernization Is Critical To Business Success

Most APAC insurers have been successful in building digital distribution channels and service touchpoints to acquire and serve customers. As a result, these websites and mobile apps serve no competitive advantage. In fact, business success hinges on an insurer's ability to transform its operations and the underpinning core systems to compress cycle times and improve efficiency of core insurance processes.

Among the numerous in-house legacy systems, most insurers are prioritizing their modernization efforts on systems that 1) have a meaningful impact on customer experience (CX), such as reducing claims processing time or underwriting cycle time, and 2) can achieve better cost savings, such as a more efficient policy administration system or improved fraud prevention capability.

"Which core systems are your highest priority for modernization?"

91%
Claims management

82%
Policy administration

81%
Fraud prevention/ investigations

76%
Underwriting

71%
Business intelligence

78%
of respondents believe the performance of their core systems differentiates their firms in the broad insurance marketplace.

61%
believe their core system modernization initiatives are the most critical component of their digital business strategies.

# Cloud Migration And System Retooling Are Common Steps Taken

Most APAC insurers primarily approach system modernization with cloud migration and/or retooling, with slight nuances between personal and commercial lines of business. Commercial insurance firms, where the business operating model is more complicated and involves greater risk, have taken cautious steps by gradually migrating their systems to the cloud. Conversely, personal insurance firms, which are further ahead in system modernization, are more focused on system enhancement and upgrading.

Regardless of the approach, APAC insurance decision-makers recognize they can't go in alone: 55% believe they have to rely on vendors such as system integrators, consultancies, or software developers in their modernization efforts because these partners can offer expertise, skills, and competencies that their internal resources do not possess.
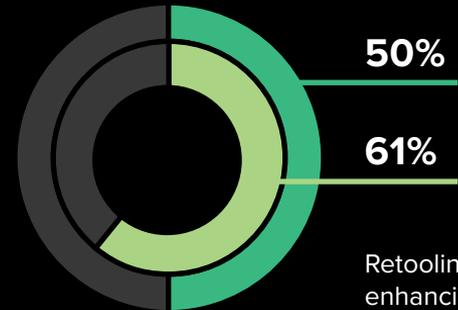
"What steps are you taking/did you take to modernize your core systems?"
(Showing top 2 approaches)

● Commercial insurance firms
● Personal insurance firms

80%

57%
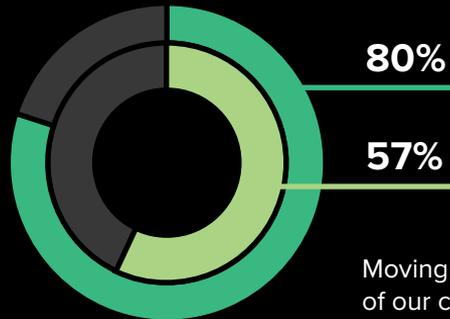
Moving at least one of our core systems to the cloud
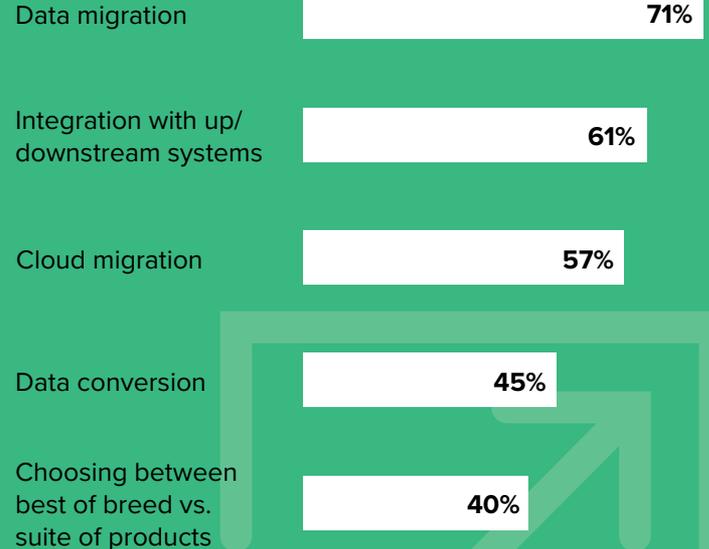
50%

61%

Retooling/ enhancing our core systems

Legacy Constraints Create Migration And Integration Challenges

Given the complex construct of legacy system infrastructure, insurers face significant challenges in system modernization. In consolidating multiple legacy systems and moving on-premises systems to the cloud, firms must convert data before porting it into the new systems. As such, data migration (71%), integration with up/downstream systems (61%), and cloud migration (57%) top the list of technical challenges that APAC insurers face.

These challenges also highlight the issue of talent drain stemming from employee turnover. In fact, 57% of insurance decision-makers cite lack of skills as a barrier to modernizing their core systems to their fullest expectations. Why? When employees hired or trained with specialized skill sets around the legacy systems leave the firms, they leave behind a gap in capabilities. Lack of proper documentation around these complex legacy systems exacerbates the issue.

"What technology challenges have you experienced/might you experience with your system modernization efforts?"

Data migration	**71%**
Integration with up/downstream systems	**61%**
Cloud migration	**57%**
Data conversion	**45%**
Choosing between best of breed vs. suite of products	**40%**

Proving Business Value Remains A Challenge

When it comes to showing business value expected by executive leadership in view of the investments made, insurers struggle with achieving the planned ROI (52%), proving a defined business case (45%), and demonstrating financial impact (40%). As such, despite the strategic value that APAC insurers believe system modernization can deliver, 69% of decision-makers say their firms spend less than 10% of their IT budgets on system modernization initiatives.

To break out of this vicious cycle and drive greater success, APAC insurers must embed their system modernization strategies into their companies' overall strategies, involve the right business stakeholders and ecosystem from the start, and prioritize projects that best show a clear, quick path to revenue growth, productivity improvements, and cost savings.

"What business challenges have you experienced/might you experience with your core system modernization?" (Showing top 4 business challenges)

45% Proving a defined business case

40% Demonstrating financial impact

52% Achieving the planned ROI

**43%** Identifying ecosystem needs

Agility And Flexibility Are Key Drivers Of Modernization Success

To clear the hurdles from both technical and business perspectives, APAC insurers need solutions that provide agility and flexibility in their system modernization processes. Key solution requirements include the ability to better leverage the cloud, a wider range of deployment options, and low-code capabilities that allow for ease of making changes or updates.

Insurers also see the benefits of loosely coupled integrations, which offer greater options in the future: 75% agree that they are better for the business. This is because loose coupling reduces the interdependency between systems. The risk of vendor lock-in vanishes, which then reduces costs, improves operational flexibility, and reduces the need for specialized skills. All these point to a hybrid cloud approach for system modernization, which offers insurers the ability to move, adapt, and adjust as they see fit, based upon business needs.

"What capabilities would be most useful as you undergo your core system modernization efforts?"

52% Ability to work in the cloud
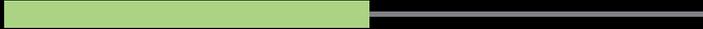
47% Range of deployment options

41% Low-code capabilities for changes/updates

35% Library of configurations

34% Active ecosystem of value-add services

33% Improved out-of-the-box deployment capabilities

30% Continuous upgrade to cloud solutions

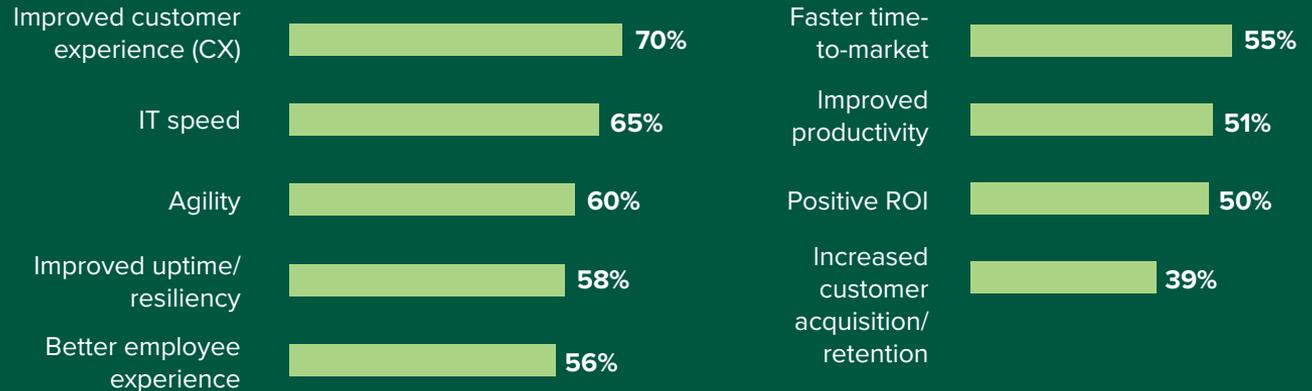**24%** Simple cloud-based deployments

Successful Modernization Allows Insurers To Work Better, Faster, And Smarter While Improving CX

Customer needs are constantly evolving, influenced by changes in the market environment, as COVID-19 has shown. Insurers must act now to address increasingly evolving needs or risk losing their customers.

Leading in the competitive APAC insurance market requires greater customer-centricity and meaningful differentiation; modernizing core systems not only allows insurers to work better, faster, and smarter, but also improves CX. These benefits increase as modernization efforts spread throughout processes and better integrate with one another. Successful modernization efforts that drive continuous value not only help insurers achieve the expected ROI, but also demonstrate positive financial impact, like improved customer retention due to better service delivery, which helps justify the business case for greater investments.

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"What benefits have you realized/do you expect to realize from modernizing your core systems?"

Improved customer experience (CX) — **70%**
IT speed — **65%**
Agility — **60%**
Improved uptime/ resiliency — **58%**
Better employee experience — **56%**

Faster time-to-market — **55%**
Improved productivity — **51%**
Positive ROI — **50%**
Increased customer acquisition/ retention — **39%**

Conclusion

Insurance will always be about protecting customers. Economic headwinds don't halt customer needs, but they do mean that insurers must look at the infrastructure that supports that mission in new ways.

Delays widen the market leader-laggard gap. Delaying modernization projects until a return to normalcy is tempting, but insurers that build for continuous improvement are better prepared for customer needs with more adaptive approaches to core system modernization.

Big near-term business impacts get funded. When times get tough, finance teams get tougher. Business cases that demonstrate a fast, substantial ROI will be funded; efforts with blurry returns, long durations, and lots of contractors will not.

Modernize for now and the future. While financial impact drives which modernization efforts win now, insurers must prepare for the future with solutions offering flexibility on multiple dimensions, including integrations, deployment models, and marketplaces for value-added capabilities.

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Methodology

This Opportunity Snapshot was commissioned by Red Hat. To create this profile, Forrester Consulting supplemented this research with custom survey questions asked of 114 core system modernization decision-makers and influencers in the APAC insurance market. The custom survey began and was completed in October 2020.

ABOUT FORRESTER CONSULTING

Demographics

GEOGRAPHY

| SEA: 23% |
| India: 20% |
| China: 19% |
| Japan: 19% |
| Australia: 18% |

RESPONDENT LEVEL

| C-level exec: 11% |
| Vice president: 13% |
| Director: 22% |
| Manager: 47% |
| Project manager: 7% |

PRIMARY REVENUE LINE

| Personal insurance: 65% |
| Commercial insurance: 35% |

RESPONDENT ROLE

| IT: 63% |
| Customer experience: 20% |
| Product: 17% |

Percentages may not total 100 because of rounding.

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