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Policy Administration Systems for Commercial Lines P/C Insurers US 2009

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This authorized reprint contains material excerpted from a recent Celent report profiling and evaluating over 38 different policy administration systems. The full report is 226 pages long. This report was not sponsored by Guidewire in any way.

This reprint was prepared specifically for Guidewire, but the analysis presented has not been changed from that presented in the full report.

For more information on the full report, please contact Celent at www.celent.com, info@celent.com, or 617-262-3120.

Executive Summary

This report is the third in Celent's biennial looks at policy administration systems available to insurers in North America. Since the first report in 2005 and the second in 2007, activity level has remained high among both insurers and policy administration system vendors.

In the two years from January 2007 to December 2008, over 220 insurers had licensed a new policy administration system. And at the end of 2008, over 100 insurers were in the process of implementation.

The full report profiles 38 policy administration systems in use for commercial lines, with 30 full profiles and 8 limited profiles. There is a companion Celent report, *Policy Administration Systems for Personal Lines P/C Insurers US 2009*, covering personal lines systems.

About two-thirds of the profiled vendors have issued a major new release: that upgraded their technology platform, broadened their range of functionality, or both since 2007. Essentially all vendors have made a major investment in enabling their solution to work in an insurer's SOA environment. Many solutions have also made important advances in usability and personalization—with benefits for new and experienced underwriters and service representatives. System administration capabilities for configuring products, rules, work flow, document management, and UIs have also improved—although overall these changes have occurred at a more modest pace than improvements for end users.

An insurer considering a new policy administration system today can choose among a number of attractive and capable systems. This report allows such an insurer to see what solutions might meet both its business needs and its technology standards.

Report Methodology

Criteria for Inclusion

Celent's objective has been to include in this report as many as possible of the leading property/casualty policy administration systems being used and/or actively sold to North American insurers. In a few cases, vendors have not been included in this report at their request.

This report contains two types of profiles: full and limited. The topics covered in both types of profiles are broadly similar; however, full profiles are written with more detail and include comments from reference insurers. Additionally vendors with a full profile policy administration systems are included in the Celent ABCD vendor view—limited profile vendors are not.

Evaluation Process

Celent sent a detailed RFI to a broad set of policy administration system vendors. After receiving completed RFIs, each vendor provided a briefing and demo for Celent concentrating on usability and functionality for everyday users, and rules, tools, and connectivity issues for IT or administrative users.

Celent also asked approximately three references provided by each vendor to complete a survey and/or an interview in order to obtain their view of the system's business and technology value.

Both the RFIs and the reference surveys provided quantitative and qualitative data. Vendors had an opportunity to review their profiles for factual accuracy but did not influence the overall evaluation or the placement in the ABCD vendor view grid. Celent of course has retained final authority over the content of the published profiles. Some of the vendors profiled in this report are Celent clients, and some are not. No preference was given to Celent clients for either inclusion in the report or for the subsequent evaluation.

Not all data gathered from the detailed RFI, vendor briefing and demo, and reference surveys/interviews has been included in each profile. Rather, Celent has attempted to capture key points and values about each vendor at an appropriate level. Unpublished information remains in the Celent knowledge base and is available to Celent's subscription or consulting clients.

Celent's ABCD Vendor View

Celent has developed a framework for evaluating vendors called the Celent ABCD Vendor View. This is a standard representation of a vendor marketplace designed to show at a glance the relative positions of each vendor in four categories: Advanced technology, Breadth of functionality, Customer base, and Depth of client services.

The Celent ABCD Vendor View shows relative positions of each solution evaluated—each vendor solution is judged relative to the others in the group.

While this is a standard tool that Celent uses across vendor reports in many different areas, each report will define each category slightly differently. For this report, some of the factors used to evaluate each vendor are listed in Table 1.

Table 1: Policy Administration System ABCD Factors

Advanced Technology (and flexible technology)	<ul style="list-style-type: none">■ Usability for both business and system administration users■ Code base, including modernity of language and consistency of architecture■ Range of databases and application servers supported■ Extensibility and flexibility of data model■ Ability to modify system using visual tools rather than through code
Breadth of Functionality	<ul style="list-style-type: none">■ Advanced functionality provided in the base offering■ Power and ease of use of rules, workflow, product configuration, document management capabilities■ Number of deployments for various personal and commercial lines of business (in the personal lines and the commercial lines reports, respectively)
Customer Base	<ul style="list-style-type: none">■ Number of live US/Canadian insurers using the system for personal lines or for commercial lines (in the personal lines and the commercial lines reports, respectively)
Depth of Customer Service	<ul style="list-style-type: none">■ Size and experience of professional services and support team■ Insurers' implementation experiences

Source: Celent

The criteria used to determine the A, B, C, and D rankings in this report are broadly similar, but not identical, to the criteria used in the previous Celent policy administration system vendor reports published in 2007. For example, this report places more emphasis on usability and the experiences reported by references. Additionally this report's rankings take a narrower view of which features and functions are within the scope of a policy administration system. For example rating, billing, and claims functionality are not considered when determining the breadth of functionality rankings—although the profiles do provide information about whether a given vendor offers these and other solutions.

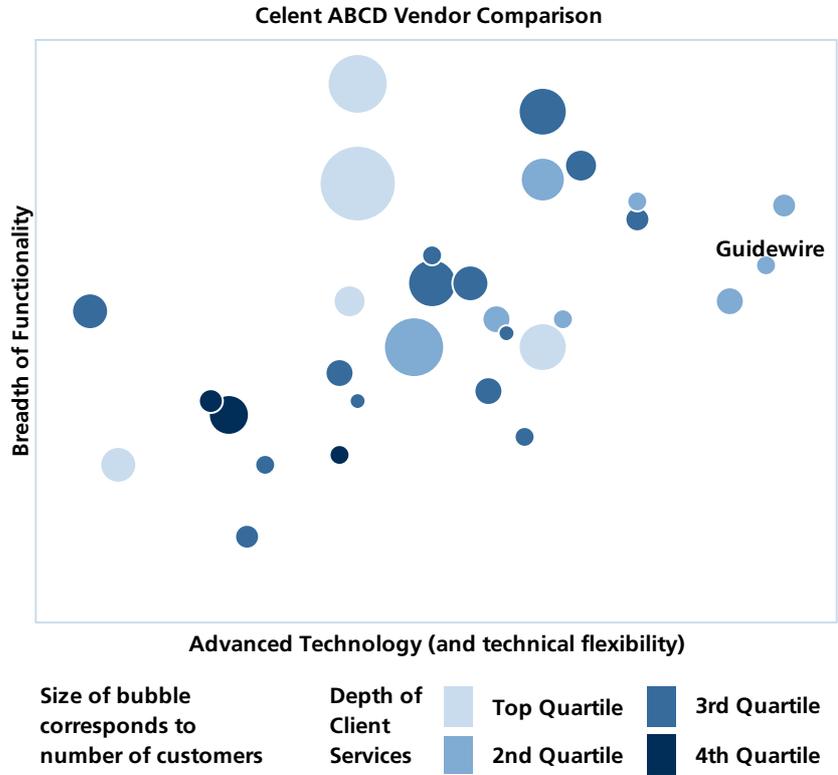
Reading the ABCD Vendor View

The ABCD Vendor View positions each solution in a single X/Y scale, with the horizontal axis displaying the relative level of advanced technology and technical flexibility and the vertical axis displaying the relative breadth of functionality. The size of the system's customer base is represented by the relative size of the bubble (on a normalized scale). And the depth of client services is represented by color density (grouped by quartiles).

All the vendors were graded on the same scale. It is important to note that positioning and evaluation are relative to this set of solutions—there is no intent to provide a comparison with regard to other Celent rankings.

The ABCD Vendor view provides an easy-to-understand picture of a complex marketplace. Unlike a simple “four-quadrant” map, solutions in the upper right are not necessarily the best—in the complex world of policy administration systems, there is no one “best” for all cases. Insurers should consider which factors in breadth, technology, experience, and client service are most important to them, and use this report to generate their own shortlists.

Figure 1: ABCD Commercial Lines Policy Administration Solutions 2009



Source: Celent

About the Profiles

Each of the profiles presents information about the vendor and solution; professional services and support capabilities; customer base; functionality and lines of business deployed; usability, reporting, and analytics, technology, implementations and cost; and some summary comments.

Concerning fees, Celent asked vendors to provide first year license and first year other implementation costs (work by the insurer, vendor, or third parties) for two hypothetical insurance companies:

- Insurance Company A, with 1 licensed company, writing in 5 states, with 8 lines of business, with a DPW OF US\$250 million
- Insurance Holding Company B, with 4 licensed companies, writing business in 32 states, for 24 personal, commercial, and specialty lines of business, with a total combined DPW US\$2.5 billion

When discussing insurance customers of the various solutions, the profiles use the terms very small, small, medium, large, and very large insurers. Very small insurers (Tier 5) have under US\$100 million in annual premium; small (Tier 4) have US\$100 million to \$500 million; medium (Tier 3) have US\$500 million to \$1 billion; large (Tier 2) have US\$1 billion to \$5 billion; and very large (Tier 1) have over US\$5 billion.

The profiles also discuss how many of the seven advanced policy administration features a given solution provides. These seven features are:

- Out of sequence endorsements
- Automated underwriting (new business)
- Pre-configured ordering and receiving third party data
- Automated renewals
- Premium and billing accounting
- Statistical reporting
- Update service for ISO/AAIS/NCCI rates, rules, and forms

Guidewire Software: PolicyCenter

Company and Product Background

Guidewire Software is a privately held company founded in 2001, based in San Mateo, California, USA, with nearly 400 employees. It offers three integrated products: Guidewire PolicyCenter, Guidewire ClaimCenter, and Guidewire BillingCenter. This profile addresses PolicyCenter.

PolicyCenter was first released in 2006. The most recent upgrade in its platform was release 3.0 (the current release) in November 2008. This release increased the use of AJAX for improved UI performance and ease of use, and improved the ability of insurers to extend the database without impacting performance or the upgrade path.

Guidewire considers PolicyCenter's major differentiators to be: Guidewire's sole focus on the property/casualty insurer market, its customer track record, its rigorous development quality standards, and PolicyCenter's modern web-based J2EE architecture.

Professional Services and Support

Guidewire has a pool of about 165 people, with an average of 10 to 15 years of experience, who can provide professional services and support for Guidewire implementations. In 2008 over 40 FTE were involved in PolicyCenter projects.

One reference, in an interesting tribute, described Guidewire as "honest" and "intelligent but humble."

Customer Base

Two large US insurers are using PolicyCenter today: one Tier 1 and one Tier 2. A third insurer, in Australia, is another current user. Three additional insurers (two Tier 2 and one Tier 3) are in implementation.

CNA, Suncorp, and Sentry are among the best known insurers using PolicyCenter.

Functionality and Lines of Business

PolicyCenter supports three of the seven advanced policy administration functions as part of its base offering. Billing and premium accounting is available from a separate Guidewire offering, BillingCenter. There are no pre-configured links to external data sources (although Guidewire will create such links during implementation as needed). PolicyCenter will feed data for statistical reporting to third party systems. Guidewire does not provide a rates/rules/forms update service.

Table 2: Guidewire PolicyCenter Advanced Policy Administration Functions

Function	Availability
Out of sequence endorsements	Available as part of PAS base offering
Automated underwriting (new business)	Available as part of PAS base offering which also supports automated underwriting for changes and renewals.
Pre-configured ordering and receiving third party data	Not available. Will support ordering and receiving on a case by case basis as part of implementation configuration.
Automated renewals	Available as part of PAS base offering
Billing and Premium Accounting	Available from separately offered component: BillingCenter
Statistical reporting	Not available. Does capture all stat data, and can integrate with third party statistical reporting systems
Update service for ISO/AAIS/NCCI rates, rules, and forms	Not available

Source: Vendor RFI

PolicyCenter's system administration environment, Guidewire Studio, is very modern and well designed, with a number of features that facilitate admin and technical staff's ability to configure the system. Guidewire Studio's UI features include navigational trees, multiple layers of tabs, forms, and several graphical design environments (e.g. for workflow and user screens).

The PolicyCenter product model provides the framework for product configuration. Carrier staff define a collection of patterns in Guidewire Studio that serve as templates for flexibly constructing the various types of policies the carrier markets. One or more reusable policy line patterns are combined into marketable products (e.g. a workers' compensation policy, or a businessowner's package policy). Policy line patterns contain policy forms and (rate) modifier patterns. There are also coverage patterns that describe and limit risks and objects of insurance.

PolicyCenter (and the other Guidewire products) has its home-built rules engine. PolicyCenter comes with around 200 rules out of the box that constitute a substantial starter kit for a given implementation. Rules are created using the Guidewire Studio configuration tools, in GScript, which is an extension of JavaScript.

Processes in PolicyCenter typically describe an automated workflow. As processes are drawn in a graphic design environment, code is automatically generated in the background.

Forms and Correspondence are also specified in Studio by using a form pattern (similar to a template). The form pattern includes identifiers, usage start and end dates, and valid jurisdictions. A PolicyCenter inference engine specifies the logic for the circumstances in which a form is generated and used. PolicyCenter sends the generated forms list and variable data to an external document production solution.

PolicyCenter provides six of the eight end-to-end components (see Table 3).

Table 3: Guidewire PolicyCenter Availability of Additional End-to-End Components

Component: Name	Available bundled with our PAS (NO additional cost)	Available bundled with our PAS (AT additional cost)	Can be licensed/ installed as stand-alone component (without PAS)	Available through ISV partner (Name of ISV)	Not available
Product Configuration: (Guidewire Studio Product Model)	●				
Rating				● CGI Rata-base	
Underwriting: (PolicyCenter)	●				
Billing: (BillingCenter)		●	●		
Commission Management: (BillingCenter)		●	●		
Reinsurance Management					●
Business Intelligence/Analytics					●
Claims Management: (ClaimCenter)		●	●		

Source: Vendor RFI

The references (all using earlier 2.x releases) are using the underwriter's and service rep's desktops, as well as workflow and rules. They gave uniformly very good to excellent rankings for that functionality. Product definition also scored very high. None of the references use PolicyCenter for rating. References also reported that only little or moderate amounts of training were needed to make new users productive.

The two US insurers using PolicyCenter today are writing several commercial lines: auto, property, liability, workers' compensation, professional liability, and packages. Two other carriers are currently implementing personal lines auto and homeowners.

Usability, Reporting, and Analytics

One of PolicyCenter's strengths is its well-designed desktops for both internal and external users. One home page view has four tabs across the top: desktop, account, policy, and search. A left side accordion menu has (depending on a user's role and authority) options for activities, accounts, submissions, renewals, policy changes. As a user steps through an activity, a descending green ball indicates what point in the process the user has reached; expert users can navigate freely.

A secondary set of tabs opens for specific tasks, e.g. for a submission: quick quote, edit submission, full app, new version, compare versions, etc. A click will pop-up a context-sensitive set of jump-to options.

The current version of PolicyCenter does not have any pre-configured reports or report writer. Guidewire says that these will be available in the next major release.

None of the references are using PolicyCenter for reporting or analytics.

Technology

PolicyCenter does not have preferred operating systems per se. It is certified against databases and application servers. It will run on whatever operating system a PolicyCenter-certified database or app server will support. Oracle and SQL server are the database options. WebLogic and WebSphere are the preferred app servers. PolicyCenter is written 100% in Java.

Extensions to PolicyCenter's Guidewire-built data model are made via XML at the configuration layer. Guidewire states that due to the extensive application configurability and Guidewire Studio capabilities

customers never modify the source code in implementations. In the rare instances when source code changes are needed, Guidewire will add functionality to the core product which is available to all licensees.

PolicyCenter provides several options for accessing functionality in other systems. As part of the Guidewire integration framework's configuration capabilities, Guidewire Studio can import Web Services Definition Language (WSDL) for specifying method and data mappings used to invoke a third party service from PolicyCenter. As an alternative for calling legacy systems that do not support Web services, Java code or scripting can be used within a plug-in to PolicyCenter.

PolicyCenter includes many out of the box Web services that will meet most needs for third party integrations. Also, tagging any method in the Guidewire Studio configuration environment publishes it as a Web service, along with its definition (WSDL), making it available for execution by any other system via the SOAP protocol.

The integrations between Guidewire PolicyCenter, BillingCenter and ClaimCenter are fully implemented using published Web services.

References spoke favorably about their ability to integrate PolicyCenter with rating engines and other applications and data bases. Few or none of the references are currently integrating PolicyCenter with billing, claims, or reinsurance systems, although Guidewire reports other implementations currently underway doing so.

Implementation and Costs

It takes 12 to 18 months to implement one line in one state. Second and subsequent lines take four to six months, and second and subsequent states can be implemented in one to three months. Insurers commonly implement groups of states together.

Implementations typically have a small Guidewire staff footprint. A typical team might have two to ten Guidewire staff and 10 to 50 insurer staff. Guidewire works with SI partners in about one-quarter of its implementations. Its partners include: IBM, CapGemini, Ernst & Young, BearingPoint, and CastleBay Consulting.

References overall were pleased with their implementation experience. They praised Guidewire's responsiveness—while giving it mostly average to good marks for being on time and on budget.

Guidewire prefers a term license, based on premium volume.

Typical first year license costs for a small insurer are in the US\$500,000 to \$1 million range. Other implementation costs usually fall between \$1 million to \$3 million. A range for first year license for a large insurer is from \$1 million to \$3 million and other implementation costs from \$3 million to \$5 million. The cost of maintenance and support fees in year two and following are around 20%.

Summary

PolicyCenter offers impressive usability features to both business users and systems administrators. Guidewire clearly wants PolicyCenter to repeat the great market acceptance of ClaimCenter, which over time it may well do.

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