

Software as a Service

A model for Life Assurers?

What SaaS can offer the
Life and Pensions industry
(and what it can't).

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Software as a Service—A Model for Life Assurers?

Executive Summary

Everywhere you look, experts are extolling the virtues of SaaS – Software as a Service. The silver bullet to end all silver bullets, it is being talked up as every CIO's dream; low cost, low hassle provision of software to enable a company to concentrate on its core business. And by outsourcing IT, the endless complaints by marketing and sales that IT projects get in the way of rapid market response and product innovation can be quietened down.

However, like all previous 'magic solutions', the reality is not what the fervent exponents would have you believe. The oversell of SaaS is based on a few high-flying successes and is leading to disappointment, as the results of the first over-enthusiastic projects show the inability of the model to support mission critical systems in a strategic manner. And it is in this area of core systems, particularly for the life and pensions industry, that the problem with SaaS lies.

The hype over SaaS is based on the deserved success of a few companies who sell what is essentially utility software. But the majority of life and pension firms rely on their software to provide distinctive product and service advantage within their own market. Therefore a one size fits all approach is never going to work.

This is not to say that there isn't a place for SaaS within a Life and Pensions organisation. However its primary benefit comes from removing utility support systems from the internal IT department, allowing them to retain full concentration on the core mission-critical systems within the organisation.

Software as a Service is of major benefit when used in the right areas of the company. These are the non-core support areas which do not provide a company with their unique selling point. Use of SaaS allows companies to concentrate on their core offering, giving more bang per buck on IT spend.

To maximise the ROI on any SaaS expenditure, we need to look at what the SaaS revolution promised and where in an organisation this promise can deliver results straight to the bottom line.

In this way, the optimal deployment of SaaS can be combined with in-house control of strategic systems to support a dynamic and flexible company capable of re-acting quickly to changes in market conditions.

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SaaS is not a silver bullet but it can offer key benefits in non core areas of Life & Pension organisations

SaaS Promise

SaaS at its simplest promised to deliver the following benefits:

- ◇ Economies of scale
- ◇ Usage based cost
- ◇ Removal of upgrade headaches
- ◇ Outsourced maintenance
- ◇ Anywhere access

These are very tempting benefits to all Life and Pension CIOs struggling to maintain and expand services in an expensive labour market. And these benefits are available from SaaS. But they are available at a cost and that cost is the need for standardisation across the functional range.

Of course for many business tasks this is not a problem as in many tasks companies

This means that in order to maximise benefits, users are restricted to the range of possibilities that are provided by the software and its standard configurable options.

should not have a unique approach. For word processing, spreadsheets, and email, to take just a few examples, standardisation is not only desirable but necessary. What use is a document that no-one else has the software to open? And a mail system that is not compliant with other mail systems just won't deliver, in any sense.

These are areas that are ripe for investigating the possibilities of SaaS to provide cost benefits. Each of these systems use standardised approaches and though every organisation tends to use them and parameterise them in slightly different ways, the SaaS model is perfectly positioned to support them.

All of the benefits claimed for SaaS can be realised in this scenario, so an investigation is worth undertaking to see what cost level and service level can be achieved.

Core systems

But what happens when we get to the core systems that a company uses to develop and support its products? It is here that commercial advantage can be achieved in the marketplace and therefore systems need to have the ability to change, sometimes dramatically, to get new products into the market swiftly.

And this is where the SaaS approach falls down big time. Any new product feature in a SaaS environment is made available to all clients. It is the equivalent of throwing away first mover advantage, allowing others to quickly catch up with you. They will even be more profitable as they will have avoided having to do all the

SaaS promises to reduce IT expenditure by spreading costs over many companies; removing IT control expenditure and only charging for actual usage

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research and prototyping to prove the viability of the feature in the first place.

It is the same with process parameterisation. If you can support a new better process, word gets out and your competitors can quickly change their configuration settings to match yours. You've even taken the risk for them and proved the change to be acceptable or even popular among the staff / IFA / Customer base (depending on the process).

So why the hype?

Everyone was dazzled by the success of the two big winners in the SaaS market, Salesforce.com and WebEx. Despite all the false dawns of the past, the cry quickly went up – SaaS is the future of software provision.

Analysts quickly hopped onto the bandwagon. Few stopped to examine the true reasons for the huge and well deserved success of these two companies. But when you look closely, you can see that the model is only good for certain types of software, while for others it is actually an inhibitor.

Salesforce.com and WebEx both provide systems which enable other companies to perform utility functions. Every company has sales pipelines to manage and wishes to make presentations over the internet. For the average company, this is just a means to an end and doesn't provide commercial advantage. Their advantage in their own market lies in the uniqueness of their own product, not the uniqueness of their sales force management or the individuality of their Internet presentation capability (as opposed to the individuality of their actual presentations).

So having functional capability identical to your competitors in these areas is not an issue. The key in the life and pensions industry is the quality of the product you are offering and also the quality of the service you provide, as by their nature protection products and pension products are long-term products. It is through product and service that a company can achieve differentiation from their competitors. This is how they add value that can win business and increase their market share.

Loss of control

But you cannot make this happen with SaaS. Life and Pension providers who want to use the SaaS method of delivery to provide their core policy development system, new business quotation systems, and administration systems as a service will have to use a generic system that will also be used by some of their competitors.

They will lose the ability to control what is provided to the customer as the SaaS providers schedules based on multiple customer needs form the basis of the delivery schedule.

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SaaS companies strategy is to reduce costs by providing identical capability to all subscribers – leaving no capability for differentiation

Also, all changes that are required to support new functionality will be automatically made available to their competitors at the same time. Why? Because single code bases form the core of the business model for the SaaS provider. SaaS providers' ability to provide software cheaply is based on having multiple users of the same software so that costs can be spread across multiple clients.

Pro-SaaS analysts attempt to skirt around this issue by talking about individual customisation, but once a SaaS provider starts to go down this route, their whole business model falls apart. Suddenly they will be supporting unique code bases for each client. This is a huge overhead which would drive up prices and would eventually negate all the advantages that SaaS is supposed to deliver.

So we can be sure that SaaS providers will be pushing users to take a multi-tenanted service with huge cost differentials for those who want a personalised service. These costs will undermine any benefits that the initial low-price promised.

There is also a myth that configuration capability will be sufficient to solve all the need for differentiation between competing life and pension providers. Of course configuration can allow differences, but the same configuration capability will be made available to all users of the system, under the SaaS delivery method.

The result is that everyone is working off the same base with the same capabilities and the same restrictions. This may work very well in highly commoditised markets but in the innovative world of personal finance, this is a recipe for stagnation.

Data Protection

The other key aim of the SaaS model is multi-tenancy. Holding the kind of sensitive personal details that life and pension companies hold in the same database as other companies clients is a high risk strategy and would put a companies compliance status in the hands of an external company. This is a risky strategy at a time when regulators are on high alert for regulation infringements of any sort.

SaaS versus Outsourcing

Given the need for individual customisation, anyone seeking to move IT support out of the organisation would be better off looking at the outsourcing model. When an L&P company outsources its software provision. The outsourcer is dedicated to you. This might not reduce the headline cost as much as the SaaS approach, but the outsourcing agreement will allow any required changes to be made without reference to other clients.

To date, no major third-party client data has been multi-tenanted— the consequences of a data leak are too great

Concluding Summary

So is SaaS of any interest to the Life and Pensions industry? Yes it is, but in a more limited way than the hyperbole would initially have you believe.

The lack of control over the software capability works against innovation in the marketplace and the data security issues are liable to leave Life and Pension companies exposed to major law suits. This means that core product development and sales systems are not suitable for provision as a service. Nor are administration systems, until the data security issues are resolved.

However, CIOs could streamline their support of the organisation by identifying utility systems which confer no distinctive benefit to the company. These could include office tools, mail systems, Internet collaboration systems etc. SaaS providers can deliver great benefits in these areas, as long as the price is competitive and the service-level agreements are robust and sufficient for the company's needs.

But SaaS gives no gains when it comes to core systems. There the CIO needs to look for systems that are under his control; systems that give the company the flexibility to introduce new products rapidly, to extend and amend business processes quickly and efficiently, and to support ongoing servicing of these new products without huge IT projects to amend the systems.

As tempting as the siren calls are to follow the crowd and go mainstream for SaaS, CIOs know that the complexity and innovativeness of the Life and Pensions Industry means that this will only work for non-core systems.

For core systems, the only real options available are twofold:

1. To keep IT in-house and upgrade to efficient, dynamic systems
2. To outsource to a provider on an exclusive basis so that changes needed are delivered exclusively to your own company. This will allow the exploitation of ideas and innovation without providing support for competitors to follow suit.



About Tom Murray

Tom is Chief Operation Officer of Exaxe with primary responsibility of overseeing product development. Tom has extensive experience of managing web-based insurance software from conceptual design through to commercial release and beyond. Tom has been leading the development of the Exaxe Internet insurance architecture since August 1999.



About Exaxe

Established in 1997, Exaxe helps Life and Pensions companies launch new products faster, administer post retirement products more efficiently and respond with greater flexibility to the marketplace.

With offices in **Ireland and the Netherlands**, we provide leading edge; front, middle and back office solutions specifically for life and pensions.

Exaxe's component based solutions **more effectively manage**; product development, quotations and illustrations, channel distribution and commissions management, administration, etc. They are **proven** and are in use in a wide range of client organisations.

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