



# Establishing successful closed book operations



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**The insurance market is not immune to the changes in recent years in financial services. A combination of economic recession in Europe and increased regulation has led to a very challenging market. People are buying fewer savings products and the burden of increased regulation, such as Solvency II, has made these products more costly to service.**

**The combination of these two factors has led a number of companies to discontinue unprofitable products. For example, Zurich choosing to move out of the individual pensions market in Germany and Prudential shifting priorities and focus away from Europe to Asia Pacific are clear indicators.**



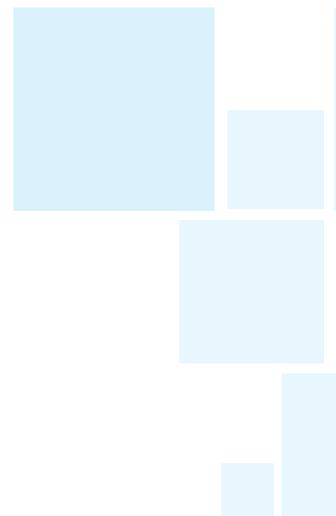
# What is Closed Book?

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When a company chooses to leave certain markets or discontinue particular product lines, it puts them into what is known as “run off”. It stops new business sales and accepts premiums only for existing policies. The book of business is then deemed to be “Closed”. Closing the book to new business does not negate the company’s responsibility for looking after existing policy holders. Life companies are required to set up and hold capital reserves for the duration of the policies in order to meet the long-term liabilities associated with them. In addition, they have to administer the assets until maturity of the last policy. There is little immediate prospect of a significant turnaround in the savings and mortgage related life products against a backdrop of market consolidation, increased corporate governance and capital requirements arising from Solvency II as well as higher servicing costs. These factors make it likely that Closed Book insurance will become a growing area of the market.

## What are the challenges to establishing successful Closed Book operations?

There are a number of considerations that companies who seek to consolidate Closed Book insurance products must consider. Capital requirements in terms of leverage and debt are becoming more onerous which may explain why it is now attracting less private equity investment. Profitability of funds is low and savings made in areas such as marketing and sales may be offset by IT costs related to managing, migrating or updating legacy systems in order to meet new regulatory requirements. Operational efficiencies may be achieved through economies of scale such as the acquisition of more closed book policies to offset constantly decreasing portfolios as policies close or by lowering costs to maintain profitability until the last policy is closed. Maintaining customer service becomes increasingly difficult as the residual experience and skills base to service clients using legacy systems and processes decline. Lack of contact with customers in areas such as new business processing, servicing and claims also erodes brand loyalty. With no independent advisor or agent, there is no avenue for advice or service to cross-sell or up-sell.



# Closed Book - What Are the Options?

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## Of the options available, all have advantages and disadvantages:

**Disposal** – This option is attractive if there is not a compelling reason to keep the book and it would not make commercial sense to migrate the book to another system in order to consolidate administration costs. In this instance sale to a Closed Book consolidator would be the best option.

**Outsourcing** – This is a sensible proposition in cases where the business value is low and the risk and cost of transfer are also low. Retaining control of the book in this instance is not important; consequently there is a temptation for companies to simply transfer responsibility for migration to the outsourcer. This is not always a wise course of action for the outsourcing party as the true value of the assets is hard to accurately ascertain and true complexity involved on servicing the book is hard to gauge. Therefore the risk of failing to get full value from the assets and in negotiating sufficiently stringent and cost effective service level agreements are quite high. This option provides certainty of cost into the future but risks leaving money on the table if some “house cleaning” is not done first. Looking at migrating as an option will almost certainly pay dividends in a number of cases because the cost of migrating to Pega is a fraction of what migration would have cost in the past.

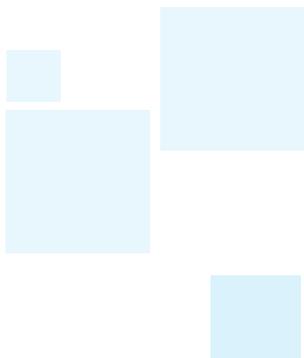
**Third Party Administration** – Utilising a third party administrator (TPA) is where the TPA takes the book onto its own IT system but provides the necessary feeds to the life company's internal systems in order to produce the required reporting for management and compliance purposes. Customer service is maintained either through service level agreements or retained by the life company to ensure customer satisfaction remains high and future commercial opportunities can be exploited. This is a good option when the business value is high and the risk and cost of transfer are low.

**Keep the Book of Business** – This is the route to adopt if the business value to the company is high and the risk and cost of transfer to another party are also high. In this case, there are advantages in retaining control of the administration of the book on the existing IT platform. Some companies have elected to offshore these operations but the problem here is that they still incur annual increases in operational costs against a decreasing value on the book of business. Invariably the residual system skills and customer service contact decline over time. Without agents to advise clients, cross-sell and up-sell opportunities are lost, impacting customer loyalty.

**Migrate** – This is where the value to the business is still high but the risk and cost of transfer are slightly lower. It is similar to the keep option but the advantage of moving to a more manageable and cost effective system is much more compelling. The problem is that for many companies, successful migration has failed to materialise and the risks and costs involved have outweighed the business benefits. Additional regulatory burdens have only exacerbated these challenges.

This is where Pega really pays dividends in the Closed Book space. Up until now there have not been systems capable of receiving and administering the Closed Book adequately and cost effectively. With Pega this situation has changed.

Whether you are an insurance company looking to run existing Closed Book funds optimally or seeking to avoid leaving money on the table by outsourcing or with a consolidator, Pega fundamentally changes the cost benefit analysis. Specialist outsourcing service providers can also reap huge benefits by adopting Pega because of the sizable productivity, customer service and system integration benefits achievable. Productivity improvements alone amount to more than 30% in most cases.



Traditional Solution Steps	Legacy	System Migration	Optimise	Exploit
Keep	Legacy	N/A	N/A	N/A
Migrate	Legacy	Migrate Internally	Optimise Internally	Exploit Internally
TPA	Legacy	Migrate Externally	Optimise Externally	Exploit Externally
Outsource	Legacy	Migrate Externally	Optimise Externally	Exploit Externally
Dispose	N/A	N/A	N/A	N/A

Commercially viable options before Pega

- Life Company
- Third Party

Commercially viable options post Pega – Note how the options become more attractive through earlier benefit delivery and reduction in risk

Pega Solution Steps	Legacy	Optimise	Exploit	Data Migration
Keep	Legacy	Optimise Internally	Exploit Internally	N/A
Migrate	Legacy	Optimise Internally	Exploit Internally	Migrate Internally
TPA	Legacy	Optimise Internally	Exploit Internally	Migrate Externally
Outsource	Legacy	Optimise Internally	Exploit Internally	Exploit Externally
Dispose	N/A	N/A	N/A	N/A

- Life Company
- Pega
- Third Party

## Fast, seamless and efficient migration is pivotal to Closed Book profitability

Pegasystems’ approach has significantly reduced the difficulties inherent in adapting and migrating legacy systems. It does this by reordering the process of addressing legacy IT. It removes the need to undertake system migration to a new system before the benefits of Closed Book can be introduced. It enables companies to enjoy business optimisation and efficiency improvements before migration and it significantly lessens the risks associated with internal or external migration. This is achieved through Pega’s ability to allow the business processes and user interface or, in some cases, multiple instances of them, to be sequentially replaced by a single Pega layer. Step by step, as the business dictates in manageable 90 day chunks, the legacy business logic and supporting processes move onto the Pega layer. This eliminates any prospect of “big bang” failure as a new system goes live.

“As is” processes can be automated, improved or eliminated as required. New or improved processes and approvals can be adopted and tested “on the fly” so that the maximum operational and business performance benefits can be achieved throughout the migration process. Once migration is complete, continuous improvement can be achieved without the need to alter the underlying legacy systems or architecture.

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## New levels of functionality and productivity are achievable

No matter how old the legacy systems are, Pega enables new levels of functionality to be achieved. A single Pega User Interface with predominantly the same process, allows multiple workforces to be transformed into one “virtual” workforce across multiple books and even geographies, driving cost reduction. An easy and intuitive Pega user interface means training time is greatly reduced.

A single set of screens accessing multiple databases ensures that agents focus on customers not “window hopping”. Analytics and “Next Best Action” ensure high levels of customer service linked to optimal business outcomes so every agent becomes an expert.

Pega’s architecture pulls process maps and rules definitions into what we call a “Situational Layer Cake” which has a number of layers, all inheriting rules (rather than re-writing them every time) from a more general layer below. When the system receives a request, it automatically finds and assembles the specialised processes, or cake layers, relevant to a given customer, jurisdiction, regulator, channel and product situation.

Only Pega does this dynamically and in real time, providing massive reusability and increased operational efficiency across the entire organisation. The significance of the layer cake approach is that it enables financial services companies to make regulatory or product changes and introduce new products and services in a matter of days or even hours.

## The way forward

For companies seeking to manage their Closed Book business, Pegasystems provides a unique solution that mitigates the risks associated with migration. In addition the solution lowers operational costs, maximises customer service levels and ensures new regulatory and process requirements can be rapidly adopted. Cost effective continuous improvement becomes achievable and sustainable. Pegasystems is a genuine “game changer” for the Closed Book market.



## About Pegasystems

Pegasystems revolutionizes how leading organizations optimize customer experience and automate operations. Our patented Build for Change® technology empowers business people to create and evolve their critical business systems. Pegasystems is the recognized leader in business process management and is also ranked as a leader in customer relationship management software by leading industry analysts.

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