



What Successful Insurance Firms Know about Managed Cloud Services

A Frost & Sullivan Executive Brief
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The conservative insurance industry is starting to embrace the digital era. After years of lagging behind other industries—including fellow regulated industries, such as financial services and healthcare—insurance firms are adopting cloud, analytics, and next-generation technologies as a means to win customers and grow revenue. The fledgling “InsurTech” sector is expected to reach \$1.9 billion worldwide by 2020, according to Frost & Sullivan research. Start-ups and established software firms are looking to disrupt the insurance industry with products that leverage next-generation technologies. For example:

- Internet of Things (IoT) solutions that provide real-time data feeds, enabling vehicle insurers to understand customer behaviors and needs, as well as to assess risks
- Advanced analytics and artificial intelligence solutions that support custom pricing and offers, using advanced analytics
- Predictive analytics, to support advanced fraud detection

For insurance providers and distributors, thriving in an increasingly complex and evolving market requires investing in innovative products, improving customer service, and enabling business intelligence—while streamlining operational complexity and costs.

Challenges Facing the Insurance Industry

Insurance firms of all sizes are relying on technology solutions to help them address business challenges that are escalating in scope and urgency. These include:

Regulatory compliance and reporting



Few industries are as data-driven as insurance—and much of the personal and financial data in the care of providers and distributors is subject to regulations. Firms need to ensure they are compliant in their handling of sensitive data in all use cases (e.g., primary and backup databases, as well as applications that use the data).

Decreasing retention rates



A new generation of consumers is less brand-loyal than in the past. By way of digital marketplaces and aggregation websites that allow them to easily compare vendors, consumers often shop around for insurance coverage. This places a burden on insurance providers to meet customer needs at the lowest possible prices.

Risk assessment and mitigation



Insurance firms rely on big data analytics to determine premiums for individual policies, as well as to uncover potential fraudulent activity. Their ability to accurately predict and manage risks affects profitability and shareholder value.

Service innovation



To differentiate themselves from a range of traditional and new competitors, insurance firms are seeking ways to improve the customer service experience. As a result, firms are introducing a raft of technology-based innovations. For example, auto insurers have streamlined the claims process through mobile apps, and may offer discounts for those who install a tracking device on their cars.

Cost management



To survive in the competitive insurance markets, providers and distributors must drive costs out of the business and maximize revenue per customer. IT leaders are under pressure to optimize investments—to replace capital expenditures with more flexible operating expenses, to minimize staffing, and to garner a positive return on investment.

Are Managed Cloud Services the Answer?

Across industries, businesses are basing their digital strategies on the cloud. The do-it-yourself hosted cloud offers scalability, infrastructure efficiency, and budget-friendly utility pricing for “cloud-native” applications. But implementing an effective cloud strategy can be challenging for resource-constrained IT leaders, especially in the evolving insurance industry.

For many, the answer is managed cloud services, subscription-based services in which a third-party expert hosts and manages cloud infrastructure and/or applications on behalf of clients. Unlike IT outsourcing, managed cloud services creates a partnership between the organization and the service provider: the provider contributes cloud technology, infrastructure, and expertise; and the enterprise retains oversight capabilities to ensure that business goals are met. According to Frost & Sullivan research, 61% of all US businesses have adopted managed cloud services, driven by a need to ensure optimal function of business applications within a secure environment.

However, the insurance industry lags the market in managed cloud adoption, with just 49% of US insurance firms currently using managed cloud services. Insurance firms that are slow to adopt may find it difficult to keep up with their more advanced competitors.

IT Leaders from Insurance Firms Find Value in Managed Cloud Services

Among insurance firms that use managed cloud services, more than 60% consider such services an essential part of their IT strategy. Their reasoning is clear: managed cloud services—especially for critical SAP and Oracle workloads—address their top business challenges and help them remain competitive. IT leaders from insurance firms cite the following benefits realized from their managed cloud services engagement:

- **Improves security and compliance reporting for SAP or Oracle workloads**—The top benefits of managed services—cited by 71% of IT leaders in insurance firms—relate to gains in security and compliance. Subscribers rate the secure environment and compliance tools offered by their managed services providers as superior to what they can achieve by managing their own SAP or Oracle installations.
- **Attract and retain customers**—In the crowded insurance market, firms must focus on the customer experience as a way to differentiate themselves. Among insurance IT leaders surveyed, 61% said managed cloud services have improved their ability to provide better service to customers.
- **Manage costs, ease budget**—Among IT leaders of insurance firms, 61% cite the ability to better manage costs for SAP and Oracle workloads, thanks to predictable, subscription-based pricing. Forty-three percent considered the shift from capex to opex to be a top benefit.
- **Support IT innovation**—The need to continually introduce new and differentiated products was cited by half of insurance IT leaders, who said managed services enable them to refocus staff from IT maintenance activities to higher value work.

- **Support agility and speed to market**—The right managed services partner is able to optimize and modernize even complex traditional SAP or Oracle workloads in their clouds, as well as help refactor applications at the pace each customer chooses. By leveraging cloud automation and their own expertise, managed services providers that are strong partners of SAP and Oracle can shorten time to upgrade applications (cited as an important benefit by 54% of insurance IT leaders); and increase speed to market for new products and capabilities (cited by 46% of insurance industry respondents).
- **Enhance Line of Business productivity**—Enterprise resource planning platforms such as SAP and Oracle serve as the operations engine of a business, supporting a range of mission-critical business workloads. IT leaders in insurance firms indicate that managed cloud services for these platforms provide value in terms of business productivity. Advantages include efficiently delivering services and applications (including next-generation technologies) to Line of Business end-users, cited as a benefit by 61% of IT leaders. The same percentage said that managed cloud services enhanced the performance of their SAP and Oracle apps; and 50% said they were able to increase application and data availability through improved business continuity and disaster recovery for SAP and Oracle workloads.

Isn't it Time for Your Insurance Firm to Adopt Managed Cloud Services?

To compete in the rapidly evolving insurance industry, firms need to need to do more than adopt new technology solutions; they need to be continually prepared to quickly respond to and anticipate market opportunities. That requires focusing internal resources on core business needs, while relying on a partner to keep critical applications running smoothly. This is the role of managed cloud services.

Here is how one C-level executive from a major insurance services firm described the short- and long-term benefits: “Managed cloud services lower our costs and provide a simpler digital infrastructure that is more adaptable to future challenges.”

Perhaps it's time to follow the lead of some of the most successful firms in your industry and engage with an expert managed cloud services provider. Your customers, employees, partners, and shareholders will thank you.

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