



## Insuresoft Case Study: Buckeye Insurance Group

### Summary

Replacing a legacy policy administration system with a single solution vendor, capable of cost-effective end-to-end application maintenance outsourcing, can support achievement of growth and expense business objectives.

Successful utilization requires a vendor with solid base functionality & robust architecture and a client company with strong corporate commitment to using the system as designed and migrating to new versions as the system evolves.

### Introduction

How many smaller P&C companies rate in the top 10 of agent satisfaction and grow significant direct written premium while maintaining a competitive expense ratio? Not many.

However, Buckeye Insurance Group of Piqua, Ohio has been able to do it. Management believes their success is related to their decision and approach to the use of Insuresoft’s Diamond policy, billing and claims systems for personal lines insurance processing. R. Christopher Haines, Vice President & CIO, consistently hears from agencies and field staff that what sets Buckeye apart is its people and technology.

Buckeye’s motivation to replace their legacy system was typical: growth (ability to develop new products, quickly adapt pricing to market conditions, enter new states, improve service) and expense management (improve internal productivity, better govern technology investments).

It was also clear the management team was looking for a system that would support execution of their business strategy on a platform that was technologically sustainable and cost-effective. They appear to have found it within Diamond.

### Effectiveness “By the Numbers”

The 2007 Ohio and Indiana PIA agent satisfaction survey included responses from agents representing 32 companies. Buckeye placed first in billing and fifth highest in both personal lines “ease of doing business” and “turnaround time.” Agents clearly validate Diamond processing capabilities.

Ohio, where Buckeye is domiciled, is a competitive state. A growth and expense comparison was made between a representative number of Ohio companies, all of which were reflected in the PIA survey, using annual statement data.

The following data compares Buckeye very favorably to larger companies for the period of 2002 through 2006 (the latest figures available):

| Company | LAE02 | LAE06 | Comm02 | Comm06 | Other02 | Other06 | TTL02 | TTL06 | DWP02        | DWP06        | DWP Growth |
|---------|-------|-------|--------|--------|---------|---------|-------|-------|--------------|--------------|------------|
| Buckeye | 6.1   | 5.7   | 12.0   | 16.0   | 18.3    | 15.6    | 30.4  | 31.6  | \$ 37,740    | \$ 55,510    | 47%        |
| A       | 9.4   | 10.4  | 16.7   | 18.1   | 12.4    | 13.2    | 29.2  | 30.1  | \$ 399,877   | \$ 578,544   | 45%        |
| B       | 12.8  | 11.9  | 15.9   | 16.3   | 15.1    | 16.1    | 31.0  | 32.4  | \$ 485,935   | \$ 619,864   | 28%        |
| C       | 10.7  | 9.5   | 18.8   | 19.2   | 12.8    | 15.3    | 31.6  | 34.4  | \$ 1,265,694 | \$ 1,610,445 | 27%        |
| D       | 10.1  | 11.5  | 16.8   | 18.8   | 11.6    | 14.2    | 28.5  | 33.0  | \$ 899,929   | \$ 1,113,444 | 24%        |
| E       | 8.7   | 8.5   | 17.1   | 19.1   | 10.9    | 15.4    | 27.9  | 34.5  | \$ 116,940   | \$ 128,000   | 9%         |
| F       | 10.3  | 9.0   | 16.5   | 17.4   | 13.6    | 15.9    | 30.1  | 33.3  | \$ 1,223,694 | \$ 1,312,124 | 7%         |
| G       | 7.6   | 8.5   | 17.5   | 18.7   | 12.0    | 14.6    | 29.4  | 33.3  | \$ 148,211   | \$ 149,561   | 1%         |
| H       | 10.5  | 9.3   | 11.9   | 17.8   | 20.0    | 18.0    | 31.9  | 35.9  | \$ 63,854    | \$ 59,773    | -6%        |

Source: AM Best

Of note:

- *Other Expenses* has been reduced 15% (2.4 points) and is the lowest at 15.6; Buckeye is one of only two companies that have not seen a ratio increase since 2002.
- *LAE* has been reduced 11% (.4 points) and is the lowest at 5.7.
- *DWP Growth* is the highest at 47%;
- *Commission* has increased 33% (4 points) while the overall expense ratio has only increased 4% (.2 points)

## Background

Flashback to the mid-1990s. Buckeye was running a homegrown AS400/RPG/DB2 system developed by both internal and consultant resources. Maintenance demands outpaced resources and new state and product plans were constrained by anticipated implementation timelines and costs. Buckeye knew they needed to do something.

Management engaged a consultant to conduct an RFP process and make vendor recommendations. Buckeye was pleased with the information generated, but "internal readiness concerns" existed and no action was immediately taken to replace the existing system. Two years later (4Q1998) the top 5 recommended vendors were revisited.

Insuresoft's Diamond system, among the top five in the external analysis, was chosen and a contract was signed 2Q1999. The then available Diamond 3.x system, based upon early server application architecture, was being changed in version 4.x. Buckeye decided to wait for the newer version to take advantage of the VB/SQL/XML design.

Progress was steady under the 4.x release with the first LOB implemented in three states 4Q2000 and the remaining 4 lines implemented within the next two years. Buckeye has continued to take incremental releases and most recently completed the 4.39 upgrade during 2007. During this period they also implemented the claims and billing functionality and entered 4 new states - *increasing policies in force (PIF) 60% and direct written premium 47% - while increasing corporate staff by only 1 fulltime equivalent (FTE). This means PIF/FTE (a traditional productivity measure) has also increased nearly 60%.*

It should come as no surprise that Buckeye is working with Insuresoft to take release 5.x. This new release is based upon the .Net 3.0 framework and will include native agent browser-based web functionality.

## Benefits

Buckeye was clear as to the essential business benefits they wanted to gain from replacing their legacy system.

They wanted a single vendor solution (policy, claims, and billing) that would provide:

- applications and resources that supported timely state and product revisions (premium growth);
- real-time transaction processing (service improvement);
- a strategically sustainable technology platform (technology management & risk mitigation)
- ability to render a full array of transactions to the web (field self-service and professional perception by agents); and
- a manageable cost structure (base system value).

Haines believes the original vendor evaluations and their own due diligence of the Diamond system decision have been validated by the benefits the system has delivered, including a:

- proven base functionality and usability – a reasonable "out of box solution" that has required limited customization outside the normal configurable aspects of the system;
- reasonable cost; and
- a track record of enhancement and system evolution.

Buckeye's record of state expansion (including two states in 2006 alone) and growth over the last 5 years clearly validates expectations regarding applications supporting new state entry and timely product revisions that respond to market conditions.

Haines and Buckeye made the decision to outsource application maintenance to Insuresoft, although Buckeye maintains responsibility for rating and print quality assurance. Among the multiple benefits he cites are:

- states have been entered more quickly with a known cost (important to the decision to enter a state or allocate costs)
- rates and forms have been more quickly adjusted to meet competitive market needs (including a mandatory wind/hail deductible);
- request estimates provide "de facto user governance" relative to the economic benefit of making changes (resulting in always looking to first use existing functionality or questioning support for non-value creating markets); and
- elimination of "multiple pinch points" (interfaces/functions between policy, billing, claims, print and web-front end) and the difficulty of establishing problem identification/resolution accountability between vendors of separate systems.

Service levels have also improved, as evidenced by the PIA agent satisfaction scores, and are competitive with larger/well-known companies.

"Real time makes service time equal to zero," says Haines. The Buckeye web front-end provides agents the ability to rate, inspect, submit and endorse 100% of their primary lines of business. When asked to quantify the capability, he is quick to point out transaction costs are only part of the payback. "How do you put a price on the reduction of internal stress regarding service and processing quality issues?" Reducing stress allows an organization to look for more positive allocation of resources toward production, underwriting and claims effectiveness. He also believes the professionalism of the staff throughout the organization increases as the system functionality improves and has seen many employees move into more value-added positions.

His current web portal is proprietary and was built with other vendor consulting resources, utilizing web services "hooks" provided by Insuresoft. However, he has made the commitment to use the native POS capabilities that will be part of the Insuresoft Diamond 5.x version, since most of the functionality is there without the current 3<sup>rd</sup> party costs or the "pinch point" issues.

Buckeye's decision to move to the Diamond agent web presentation is consistent with Haines' belief that a company needs to migrate with their vendor to take advantage of ongoing base system enhancements. A number of significant enhancements have been delivered by Insuresoft subsequent to the initial 4.0 implementation, which Buckeye has taken. Among them are:

- Diamond Database Deployer which makes it easy to add additional data elements to better segment risks;
- a single operational database and file system which enables reuse of controls to reduce system maintenance;
- an integrated 3<sup>rd</sup> party inspection interface (MVR/CLUE/NCF)
- a print solution that produces data-merged Word and PDF templates used in workflows and available as online/web documents (such as decs, bills, reports) without traditional 3<sup>rd</sup> party costs (e.g. Cedar Technologies); and
- integration with mortgagee loss payee and billing list notification services (e.g. InsVista) to reduce printing and mailing expenses.

Implementing the base system and ongoing enhanced functionality has reduced Buckeye's corporate Salary/PIF 20% compared to the prior system, clearly contributing to reduction in overall expenses and mitigating the growing cost of employee benefits.

Michael Kellner, Insuresoft's Vice President of Sales & Marketing, believes client companies utilize the base functionality 85-95% of the time. The Insuresoft strategy is to architect the system so that all clients can migrate to the most recent version to obtain additional functionality. Buckeye, with a record of regular version migration to their current release 4.39, is well positioned for the next migration to 5.x. Almost 80% of Insuresoft clients are on the 4.x release or are moving to 5.x.

Kellner also believes clients gain system stability as they move to more current releases. Haines agrees and has already planned to move Buckeye to the 5.x version either 4Q2008 or 1Q2009.

Buckeye is surprising in its level of improved results and processing capabilities for a company its size. Equally impressive is what Haines has done relative to non-application IT infrastructure management. A recent external IT audit by Ernst & Young neither found any IT issues nor made a single recommendation regarding security, processing controls, asset management or any other aspect of effectiveness or compliance. Haines attributes this to his ability to rely on Insuresoft's staff to manage application changes, thereby allowing him to concentrate on network management, hardware configuration/capacity and even disaster recovery. Discussing the corporate infrastructure quickly shows this IT organization is unique. (Example: this company even actively monitors intrusion detection.)

Haines is comfortable talking technology. However, he sees a real advantage in having Insuresoft understand the evolving .Net frameworks and how to incorporate new components. "I don't have to figure out the difference between 2.0, 3.0 or 3.5 frameworks and how to take advantage of them." And Diamond 5.x is being rewritten to .Net.

Insuresoft's pricing model is also attractive. Pricing is based upon a fixed cost per LOB per state – and not tied to direct written premium. This enables a company to grow business without incurring higher monthly license fees as they grow direct written premium – and growth is often a goal for the system replacement. This was a good thing for Buckeye, given their 47% growth in direct written premium since 2002.

Haines referenced a printout of his Insuresoft expenses and confirmed the fixed fee advantages and his ability to better manage costs year-to-year. IT cost management was not a driving motivation to his decision to replace his legacy system, but it has nonetheless been a benefit of the Diamond system. He concedes most smaller companies will suffer "sticker shock" when looking at a SQL-server license; however, he is quick to add that it makes sense in the long-run when looking at data management and backup performance. The SQL investment may be a primary reason the 20% of Insuresoft clients on version 3.x are remaining where they are. One wonders if they are receiving the same level of benefits Buckeye is and would be better served to follow Haines' perspective of investing for value rather than trying to minimize costs.

### **Keys to Success**

Cost, performance and value. It's easy to identify and quantify results. It's more difficult to identify why some companies and systems come together to produce better results while others don't even get into production – or if they do, they exceed cost and timeline estimates or deliver less than expected benefits.

It is clear when talking with Buckeye that there are several keys to their success with Insuresoft:

- CEO leadership and executive management team buy-in;
- proven base Diamond system functionality; and
- true client-vendor partnership.

Buckeye's management leadership, from the CEO down, understood the business pressures regarding growth and expenses – and equally important, that all employees needed to understand and be prepared to embrace change. (Remember the two years Buckeye waited to prepare for corporate readiness?)

From the outset it was clearly articulated that the Diamond system was the key to executing the business strategy and was to be used as designed and only changed where cost-justified. (Remember the built-in governance of the requestor justifying the outsourced application development cost?)

As a single solution, Diamond allowed "everyone to have a piece of it," from IT to Underwriting to Claims to Accounting to Marketing. Insuresoft was able to engage the entire organization to utilize the system for maximum benefit. (Recognition that the "whole is greater than the sum of the parts.")

Every quantified result points to Buckeye benefiting from the functionality that exists in the system – and ongoing Diamond evolution continues to add to that value. Buckeye is quick to give Insuresoft credit for having qualified staff that accomplished deliverables within the timeline and cost estimates. (Remember single vendor accountability?) However, Buckeye clearly also positioned itself for success.

The partnership relationship that exists between Buckeye and Insuresoft is built on mutual respect and commitment to making things work. Give and take, true priorities (time-related), focus on the fundamentals (Pareto Principle) - all those intangibles that everyone agrees are needed but rarely exist - appear to be part of the fabric of their relationship. Getting the same results will require the same commitments.

Clearly, company dynamics (management leadership), relationship, base functionality and vendor support resources are equally important to the system replacement success.

It was telling that Haines recounted that with so many technical, functional and system considerations, one of the most important decision variables ultimately was people. Not that people alone are the answer, but that knowing who will work with you is important. It's no wonder that Buckeye works well with Insuresoft.

### Final Thoughts

Buckeye's success in achieving its business plan is related to the quality of the strategy, the appropriateness of the solution and quality of execution. Diamond was an excellent solution for them.

Their business results have clearly improved subsequent to moving from their homegrown legacy system to the Diamond system, both in industry ratios and internal metrics:

| Metric              | Result                    | Indication   |
|---------------------|---------------------------|--|
| PIF/FTE             | +322/FTE +60% Improvement | Policy Processing Productivity – process efficiency & technology effectiveness |
| *Salary/PIF         | \$17 Decrease             | Primary "Other Expense" Component – staff costs control                        |
| *IT Cost/PIF        | \$7 Increase              | Primary "Other Expense" Component – IT costs control                           |
| Other Expense Ratio | 15% Improvement           | Overall Controllable Operating Expense Management Effectiveness                |
| LAE Ratio           | 11% Improvement           | Claims Expense Management Effectiveness  |
| DWP Growth %        | 47% Increase              | Key Growth Indicator   |
| PIF                 | 60% Increase              | Key Growth Indicator   |
| Number States       | From 3 to 7               | Market Expansion – impacts DWP & PIF growth and increases expense              |

\* Historical dollars adjusted to 2007 dollars for comparison

The above figures clearly show that Buckeye was able to use the Diamond system to grow business while managing expenses – the key goals for any P&C company system replacement. This success is particularly significant given that technology is often not economically scalable to a smaller company. What Buckeye has done with its smaller IT budget, when compared to larger companies and their much larger budgets, is impressive. Clearly, their IT dollar investment has provided positive returns in expense reduction (\$7 technology investment per policy has saved \$17 per policy in staff cost) and growth (both in direct written premium and policy count).

Utilizing version 5.x integrated web point of sale functionality in the future should contribute even more positively to their expense ratios. The migration to the .Net version will also continue to position Buckeye with sustainable technology that mitigates future system risk (i.e. availability of future programming support or failing to take advantage of emerging technologies).

In review, Diamond's key strengths include:

- breadth of base system functions/features (validated in Celent's 2007 vendor review report in addition to Buckeye);
- real-time processing;
- database and print architectures;
- integration between policy, billing, claims and print; and
- pricing (including the ability to more clearly allocate costs to lines of business).

Version 5.x should improve Diamond's position in the marketplace and expand its customer base, further strengthening the offering. (Note: this case study does not include the technical descriptions of the .Net framework elements of version 5.x- contact Insuresoft for such information.)

Diamond's primary weakness is the lack of commercial processing capability – and the inability of a carrier that writes such coverage to maintain a single solution approach. However, Insuresoft is currently in development of commercial lines processing with an existing company. They anticipate delivery 1Q2009 within the version 5.x era. Clearly this did not exist as a concern for Buckeye, since they do not currently sell commercial business.

However, any company looking for a personal lines solution should have Diamond on the short list (particularly 5.x) - and evaluate it in the context of how well it will fit their organization. They also need to question how committed they are to using the system as it was designed. Buckeye clearly did this and has the metrics to prove it was the right decision for them.

**About The Author:** Daniel J. Pitcher, CPCU, AAM, ARP, ARM, AIM, AIAF has over 18 years of P&C executive management experience. He now leads Insurance Insights Consulting, a national process & technology management specialist firm that works exclusively with P&C insurance companies to improve operations results. He can be reached by email at [dpitcher@insurance-insights-consulting.com](mailto:dpitcher@insurance-insights-consulting.com).