New Era in Insurance: Cloud Computing

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Cloud, mobility, and advanced analytics are transforming the way insurance companies offer value to their customers. As competitive pressures within the industry increase, insurance companies will turn to technology for assistance in this changed environment.

To prosper in this new environment insurance companies can look to the cloud, in conjunction with other technologies, to help drive reinvention of their business model to offer new services and create direct, multi-channel relationships with customers.

**Cloud Computing Services in the P & C Insurance Industry**

The insurance industry faces daunting technology challenges, including limited resources, aggressive timeframes and often-unrealistic demands from business stakeholders. Leaders must reduce costs, increase service quality and position for growth in rapidly changing markets. The changing regulatory environment and unwieldy legacy applications make these efforts even more difficult.

Like most industries, P&C insurance is currently using cloud computing services for non-core office and support functions, primarily via SaaS. P&C insurers are mainly using cloud computing services for email and other business support functions such as: sales and service support, collaboration, file sharing, and web conferencing.

Most industries are currently using public clouds for non-core office and support functions; however, private clouds are the preferred model to host core business specific applications because they are more secure.

Perceived cost savings, better collaboration, and faster time-to-market are the key benefits of cloud computing for insurers. Data privacy and regulatory compliance are the main inhibitors of cloud computing for the P&C insurance industry.

**Key Drivers for Cloud Adoption**

**Increasing Cost Strains**

P&C insurance companies were severely impacted by the ongoing financial crisis and realized they could not afford to depend too heavily on investment income to sustain profits. Insurers need to achieve profitability in a period of reduced premiums and investment income, while also improving their speed to market to resist intensifying competitive pressures. These challenges can be addressed through an infrastructure cloud solution, which increases reuse and sharing due to virtualization, and reduces the cost of IT ownership.

**Need for Better Business Agility**

Cloud technology enables insurance organizations to maintain a lean but highly agile and efficient IT organization that can provide IT services on-demand, further enabling business units to consider a variety of innovative business solutions that can be quickly brought into operations as needed.
Call for Fast Deployment

The most important factor driving the need for cloud computing in the P&C insurance industry is to shorten the time to implement new IT applications. An increasingly competitive global insurance market—in which insurers are pressured to reduce the time to market for new products and services—is driving a higher focus on achieving IT agility and shorter deployment times.

Expanding Global Footprint

Many P&C insurers are seeking to expand their global footprint to reduce the risk of over-dependence on any particular market or markets. These insurers need the high level of flexibility and standardization fostered by various cloud computing services, facilitating smoother and cheaper integration of “greenfield” operations, acquisitions, and joint-ventures. There are ample reasons for insurers to adopt cloud computing solutions. Operational flexibility, costs savings, and pay-as-you-use are the key themes expected to drive cloud computing adoption in the coming year.

Cloud Adoption Inhibitors

While cloud services are simpler to use and less costly than many in-house alternatives they add complexity to the businesses of established companies entering the cloud computing market, whether as service providers or users. The delivery of cloud services is leading to new, multi-layered revenue streams with increasingly complex and uncertain security, privacy, tax and related compliance and control consequences for cloud computing users and providers alike. Among the inhibitors are:

Loss of Control

Instead of controlling the IT environment directly, through the implementation of technical specifications that they define, cloud users manage their IT infrastructure through their relationship with their Cloud Service Providers (CSPs) and through service level agreements (SLAs). This requires skills that IT organizations typically do not possess today, so they will need to reinvent themselves to make this shift a smooth journey.

The other vendor management challenges stem from the loss of control and lack of transparency into infrastructure details that often come with moving to cloud services from in-house or traditional outsourcing models.

Information Security Governance

Today, opinion is divided about whether protecting your corporate data in the cloud, both to be certain it is there when you need it and to safeguard it from unauthorized access by others, is more difficult than doing so on your own.

Culture and comfort aside, simply communicating data over the public internet, as opposed to keeping it entirely within a private corporate network, may increase data vulnerability. In addition, the business models of CSPs involve sharing infrastructure among many clients and managing IT workloads among many different physical machines or even geographically dispersed data centers. That workload management issue means that a given cloud user may not be able to determine precisely where its data is located or how that data is protected. The shared infrastructure issue effectively links the security fates of all users in a given cloud in a sort of unintended Commune. These issues were cited in a recent European Commission report as the key reasons why cloud computing will require entirely new security governance models and processes.

Privacy Concerns

On the privacy side, there is the concern, of course, that personally identifiable information stored in the cloud can be breached more easily than if stored in-house — but that’s mainly a security concern. Beyond data protection, the core privacy problem for enterprise businesses adopting cloud computing stems from the diversity of privacy regulations from country to country, juxtaposed against the CSP business model.

Cloud computing can complicate how you safeguard the personally identifiable information of your customers, business partners and employees, both to meet your organization’s own legal and ethical requirements and to comply with the privacy regulations of all the jurisdictions in which you do business — or through which your cloud passes.
Keep cloud Efforts on Track
Make sure cloud computing receives the focused thinking, planning and follow-up it requires. Identify and address both immediate and longer-term business needs and opportunities that lend themselves to cloud computing.

Set the standards for Success. Provide the necessary oversight to the IT Organization
Make sure goals and deliverables are well understood, and projects are well aligned with business needs. Clarify how the value from cloud computing is to be determined.

Provide the necessary Support
Besides financial resources and technical talent, support other activities that will underpin the success of cloud initiatives. Examples may include a community of practice or a cloud program office to develop cloud skills and share experiences.

Buy Cautiously, Appraise Frequently
It is too early to predict who the major cloud providers will be in a few years, and what capabilities they will deliver, or how well. So, when selecting cloud providers, carefully consider whether they have the potential to be a desirable partner in the future. Even after they are chosen, evaluate your partners on their financial stability and on their ability to improve functionality and service levels, and integrate data across services.
The cloud computing services market is forecasted to continue growing at a rapid pace over the near-to-medium term. This growth will be driven by key business priorities including operational flexibility, cost savings, and pay-as-you-use models.

P&C insurers are expected to enter the cloud computing arena cautiously, with no single cloud services delivery model being a silver bullet for best meeting all their business needs. Cloud computing solutions will help insurers develop strong collaborative capabilities and better information sharing, as well as improve their bottom line by enhancing procedural efficiency, and reducing the total cost of ownership of IT infrastructure.

**Conclusion**

The key for P&C insurers to succeed and gain a competitive edge is to develop a holistic cloud strategy that can be implemented across the core and non-core functions of the insurance value chain. P&C insurers should develop their cloud strategy based on risk consideration, level of standardization, and target total cost of acquisition at each core and noncore functions level. In the absence of a holistic cloud computing strategy, insurers will be challenged to achieve their business priorities of cost saving and enhanced business agility without compromising customer data and security.
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