

The Pandemic is Pushing Insurers to the Cloud

Aug 18, 2020 Cloud, Covid-19, Insurance , Article , Insurance in the cloud



By Shinnosuke Fuchigami

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Insurance is lagging behind most other industries when it comes to cloud adoption. As a consulting firm with a long history in insurance, we have seen this first-hand.

Over the past decade, cloud has been at the center of focus across most industries. Research firms expect public cloud services to grow in 2020, despite a predicted decrease in worldwide IT spending.

At the beginning of the decade, insurers were disinclined to utilize the cloud, for fear of network and data security issues. The cloud industry has since matured significantly, and cloud services are now complemented by a variety of cloud-native services and technologies to bring enhancements to resilience and security. Cloud adoption rates and statistics show that governance and compliance efforts are becoming less and less intimidating, even for the most scrutinized and governed industries. We can see this in Europe, in a survey from 2018 to 2019, insurance CIOs' consideration of significant cloud model expansion has increased across the board for IaaS (50%), PaaS (57%), and SaaS (57%) (Source: Celent).

As cloud providers and services have become mainstream, insurers can now look past these fears and begin to leverage the power and flexibility of adopting cloud services.

With the onset of COVID-19, priorities in IT spending decisions have changed drastically. Hiring and investment freezes have become commonplace, and insurers are more selective and cautious with any new activities. Despite the widespread freezes in spending, more and more insurers are now looking to move their IT infrastructure to the cloud.

Short Term Reactions

To realign business strategies, approximately half of P&C insurers have taken short-term actions in focusing on high priority systems investment and accelerating digital/virtual capabilities (Source: Celent). The lockdown and social distancing measures have underlined the importance of online capabilities and remote interactions when carrying out internal and external business processes.

Long Term Focus

In a survey conducted by Celent, P&C insurers were asked about their post-pandemic IT initiatives. The responses note three significant long-term strategic initiatives from these insurers (Source: Celent).

- Increase the percentage of working from home (76% of respondents)
- Accelerate the digital transformation program (53% of respondents)
- Develop a cost containment strategy (47% respondents)

with a cloud-based virtual desktop infrastructure, businesses can leverage the advantages of the flexibility, scalability, and security of cloud technology.

The remotely accessible, centralized nature of cloud VDI reduces business costs drastically. In an extensive research paper comparing on-prem versus public cloud VDI, business value gains were predicted in cost savings, staff productivity, and user enablement, totaling 2,015 USD per year per user (Source: IDC). Support staff can remotely cater to incidents from any location, without the need to travel. Software and Operating System updates and patches can be applied centrally, without the need to accommodate each individual device. The accessibility of these resources can also be automated to account for the end-user's credentials and roles, whether they be developers, agents, or even reinsurers.

The performance capacity of a cloud infrastructure is efficient and practically limitless. As technology grows and "work-from-home" (WFH) initiatives increase, workloads will fluctuate and become heavier. Cloud costs will scale to these resource requirements while the infrastructure adapts to these performance requirements and right-sizes the allocation of resources, including software licenses. All these efforts can now rely on automation and sophisticated scripting, and do not require a heavy presence from the support team.

Cyberattacks and theft of devices have become less of an issue. Physical data is not located on the device, and any gateways to the central cloud can be protected by following best practices in cloud infrastructure design, supplemented by a vast selection of cloud-native security services. Modern disaster recovery tactics can effectively react to any kind of technical issue, without the fear of lost data. Compliance and governance are no longer valid excuses.

The Cloud is a Tool for Cost Control

When properly configured and managed, a cloud infrastructure has the tools to measure and control rising IT costs. Many companies will move operations to the cloud for this sole reason. To truly understand the cost benefits and ROI of a cloud migration, it would seem logical to have a solid grasp of the existing architecture and IT costs. An in-depth and wide-angle view of the whole organization is a seemingly logical start to such an endeavor.

Services are often intertwined with various integrations and shared resources, and it may be very difficult to have a detailed assessment of infrastructure costs. This is very common, and even the most mature and developed organizations will struggle with detailing and tracking all IT costs. CIOs and IT departments often do not have the means or tools to adequately oversee them. Without the ability to dissect the costs, there is little ability to optimize and manage them effectively. These issues will become more apparent, as COVID-19 has increased remote work and IT resource demands internally.

Enabling the existence of this issue will hinder the progress towards digital transformation. At the same time, it can be difficult or even impossible to accurately detail the cost benefits of moving to cloud. Before the cloud transformation, decision-makers must settle with higher-level cost details and frame the transition to the cloud as the enablement of cost-visualization and tracking, using cloud tools like Total Cost of Ownership (TCO) calculators and other administrative functionalities.

The Cloud is a Petri Dish for Digital Transformation

The culture of digitalization can grow like a culture of microbes.

Take a look at any news on the cloud, and you'll easily find that the cloud marketplace is abundant with the latest technologies in machine learning, AI, and analytics. Even young InsurTech companies provide cloud-ready or cloud-native services, which can easily integrate to an existing cloud solution. Many insurers have already begun cloud transformations in peripheral functions, like CRM, ERP, human resources, and client-facing portals. The cloud has effectively acted as a portal to new technology.

We have noticed that insurers are taking on cloud initiatives, bit by bit. Some insurers are building their own private cloud or setting up hybrid environments to combine public and private clouds. These are safe and effective steps to begin the migration to the cloud. Property and casualty insurers are more likely to utilize a hybrid environment and leave central functionalities in-house, likely as an act of avoidance from compliance and security-related risks and issues.

Although this is a great accomplishment, it is now necessary to assess the benefits of a full cloud transformation for even the most crucial workloads and data. A successful realization of security, compliance, and governance is within grasp for all corporations, and can even be improved on the cloud. No matter where you stand in the path to cloud transformation, an in-depth analysis and assessment can always be beneficial to understand the tangible and intangible benefits of cloud migration.

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But it's not too late to start now.

At Sollers, we can help you assess and manage your move to the cloud. We can help your institution gather new insights and uncover various paths for your endeavors. We have had widespread engagements with major European insurers, supporting cloud migrations and containerized deployment platforms for core systems and client-facing interfaces. Our thorough assessment of cloud business cases and architecture will guide you through a valuable transformation into the next generation of technology.

Author: Shinnosuke Fuchigami, Senior Analyst at Sollers Consulting



Shinnosuke is an experienced professional who has consulted for major vendors, and has project experience with insurance clients as a QA lead and release manager. In Sollers Consulting K.K., Shinnosuke is responsible for the internal development of cloud topics.

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