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Between a Rock and a Hard Place:
Why Insurers Tend to Stay with their Legacy Document Management Solution

By Ken Burns, Senior Market Intelligence Analyst, Hyland, creator of OnBase

Insurance is a document-driven enterprise. Few industries rival it in the amount of paper handled, and how much that paper impacts personnel productivity, process efficiency, regulatory compliance and customer service.

It shouldn't surprise anyone, therefore, that insurance carriers were among the early adopters of enterprise content management (ECM) technologies. According to Gartner Inc., a leading information technology research and advisory firm, more than 50 percent of Tier 1 and 2 insurers in the P&C and Life sectors have invested in ECM software to manage and archive their documents.

What does seem surprising – given the importance of documents to core processes such as policy administration, claims administration and underwriting – is how many carriers are reluctant to upgrade or replace legacy ECM systems they purchased nearly (or more than) a decade ago. ECM software platforms have advanced significantly in terms of functionality, ease of use and total cost to own.

Certainly many carriers would have upgraded to newer versions of their existing systems if doing so were a reasonably straightforward process. Unfortunately, for too many carriers, it isn't.

Many ECM providers make such drastic changes to the underlying architecture of their software they effectively create an entirely new product. Many customers logically assume that getting access to the latest version of their ECM system would be one of the benefits they get from paying substantial sums of money for annual maintenance plans.

Not so fast, their vendor says. They point out that the latest release of their software represents such a dramatic leap forward from the previous version, the process of upgrading requires an extended engagement with their vendor's professional services team.

Some vendors make such drastic architectural changes from one release to the next; they consider the latest version to be a completely new product! Here's the rub. You don't get to upgrade to a completely new product. You have to buy it! Once you do that, you can begin the process of migrating – not upgrading – from your old system to the new one.

How could these ECM vendors do this to their loyal customers and expect to get away with it? It's quite simple, actually: because, they can.

They know that the process of migrating off a legacy system can be complex, expensive and risky. They know you hate having to go back to the well for budget in order to rebuy what you thought you already owned. They know you'll continue paying maintenance for outdated, inflexible technology that may no longer suite the needs of your organization. In short, they know they've got you.

So, like many of your fellow insurers, you deal with it. You periodically contact other ECM vendors to see what else is out there. You ask them to demo their products for you. You become excited about the possibility to own a modern ECM platform. Then, you experience the sticker shock of seeing how much it can cost to migrate off your legacy system to a new vendor's offering. You can't imagine how you would ever justify the expense. You choose to continue to deal with what you have – and, unfortunately, what you don't have.

Are You Asking the Right Questions?

American novelist, Thomas Pynchon Jr., once wrote, "If they can get you asking the wrong questions, they don't have to worry about answers."

The first question most insurers ask is "How much positive ROI (return on investment) will we get by replacing our legacy ECM system with a new one?" As a concept, ROI is left to individual interpretation. In this case, what many insurers are actually asking is "How much money will we save by doing this?"

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Most organizations focus exclusively on the initial capital outlay required to buy the new system and replace the old one. These are discrete costs and there's little ambiguity as to where they apply. They include:

Software Acquisition Costs

- Internal personnel costs and consulting fees for needs analysis and the development and maintenance of a request for proposal
- Seat and server licenses for the new system
- Underlying database and hardware infrastructure
- Administrator and end-user training

Implementation and Conversion Services

- Installing and configuring the new system
- Services costs required to migrate data from the legacy system to the new platform

Ongoing Costs

- Annual maintenance

Granted, there are instances where hard dollar savings are easy to identify and begin almost immediately. For example, one insurer justified the cost of a sophisticated new ECM system because their legacy solution required five well-compensated full-time employees to manage it while their new platform only required two.

But what happens when the easily measurable cost savings isn't that significant? Unfortunately, that's the point when many insurers give up their quest for a replacement system.

The questions insurers really should be asking is "How much does it cost to own our current system?" According to Gartner Inc., a leading independent research and advisory firm, the go-live costs for enterprise software with a shelf life of 15 years represents only eight percent of the total lifetime cost of the system.

It's the free puppy syndrome. Insurers may not incur any new direct expenses by hanging on to their legacy ECM systems but, they may be overlooking many indirect costs of ownership including change management, risk mitigation and opportunity costs.

We'll explore these indirect costs in detail later in this series. In the meantime, consider the many indirect expenses that contribute to total cost of ownership of your legacy ECM system. You may discover that resigning yourself to just "deal with it" may be a far more costly decision than you ever realized.

Learn more at **OnBase.com/Insurance »**

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References
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