

NEAT EVALUATION FOR SE²:

Life, Annuities & Pensions BPS

Market Segment: Overall

This document presents se² with the NelsonHall NEAT vendor evaluation for Life, Annuities & Pensions (LA&P) BPS for the Overall market segment. It contains the NEAT graph of vendor performance, a summary vendor analysis of se² in LA&P BPS, and the latest market analysis summary for LA&P BPS. An explanation of the NEAT methodology is included at the end of the document.

The vendors evaluated are: Capita, CSC, EXL, Genpact, HCL Technologies, IFDS, Infosys, Kane, NIIT Technologies, se², TCS, and WNS.

Introduction

NelsonHall has assessed and evaluated se²'s proposition against demand for LA&P BPS, and has identified se² as a Leader in the *Overall* market segment, as shown in the NEAT graph on page 2.

NEAT Evaluation: Life, Annuities & Pensions (Overall)



The *Overall* market segment reflects se²'s overall ability to meet future client requirements as well as delivering immediate benefits to LA&P BPS clients.

Buy-side organizations can access the LA&P BPS NEAT tool (Overall) [here](#).

Vendor Analysis Summary for se²

Overview

se² is a business process and technology company that provides services to the life insurance and annuity industry. Born out of insurance company Security Benefit Life, se² was incorporated in 2005, (although its core product offering pre-dated that) and is today headquartered out of Topeka, Kansas.

The development of se²'s core product offering was the result of an insurance company's technology transformation between 2000 and 2003. During this time, all lines of code were replaced with a view to enhancing speed to market and reducing cost. At that time, there was no TPA outsourcing model in mind. However, the changes to the platform brought about a 40% -50% reduction in cost for Security Benefit Life and initiated discussion around the possibility of taking an outsourcing model to the life and annuities market.

Once the proposal was approved, se² won its first client, Goldman Sachs Reinsurance; Goldman Sachs had recently acquired a large block of life and annuity policies. From 2005-2008 se² policy count increased from approximately 300k policies to approximately 1.3m policies. Today, se² has 21 clients servicing ~2m policies.

se²'s offerings have evolved as the company has progressed from startup status in 2005, to a more established service provider in 2015.

It delivers its offerings in support of two main activities:

- Cost and risk management (in-force), in support of:
 - Closed block strategy
 - Variable/lower unit cost
 - Modernization
 - Multi-tenant scale
 - Merger and acquisitions enablement
 - Conversion services
- Growth enablement (new product), in support of:
 - Speed to market
 - Modernization
 - Multi-tenant scale
 - Flexibility
 - Variable cost
 - Enhanced/flexible technologies.

Approximately 90% of clients are being supported across both areas, with a small number using se² to support only one of the two types of activity.

se²'s LA&P BPS services are supported by ~1.2k FTEs including its partnership with NTT Data in India. The majority of work done out of India by NTT Data is in support of back-office

processing. Onshore there are ~700 FTEs, of which approximately half are operational resources delivering services such as call center and transaction processing. The balance of headcount looks after the running and servicing of the platform in support of life and annuities clients.

Financials

NelsonHall estimates se² revenues for LA&P BPS to be ~\$100m, 100% of which is U.S. based.

Strengths

- Major presence in annuities BPS in North America
- Well-balanced global delivery: onshore in U.S. and offshore in India
- Partnership with NTT Data to access capacity and additional expertise
- Ongoing transformation of technology in support of LA&P BPS
- Commitment and investment to LA&P BPS in terms of new centers and partnerships.

Challenges

- Limited market presence beyond annuities
- Lesser known as a BPS provider; could be perceived as a technology provider
- Lack of presence outside of North America.

Strategic Direction

se² will continue to focus on providing individual life and annuity administration services, both as outsourced engagements and platform implementations.

Towards the end of 2015, it opened a new technology hub in New Jersey to expand its East Coast presence, and will be utilizing this in existing and future engagements.

Though se² is not adding new offerings to its portfolio, it is developing its underwriting services in order to fully support new business for life products, and it will be enhancing its self-service tool, Orion, to enhance customer experience.

A longer term goal for the next three to five years is for se² to develop a greater presence on the life insurance new business side, as it has done on the annuities side.

Outlook

se² has successfully made a name for itself in the North American annuities space, if not yet in life insurance, and is focused on harnessing the niche that it has carved out for itself, ahead of some of its competitors. It has invested in its LA&P BPS software and continues to invest in technology support by way of a new U.S. delivery hub, and through an increased partnership with NTT Data. It has a well-defined strategy to improve its services offering for annuities underwriting, but could struggle to gain presence in the life insurance outsourcing space, as it attempts to compete with well-established competitors in the U.S. market.

LA&P BPS: Market Summary

Overview

As of 2016, the LA&P BPS market is relatively mature in the U.K., with further opportunities for growth in the U.S.

Even though vendors are increasingly offering new business delivery capabilities, the bulk of workload still remains in closed block administration, where most of the Tier 1 vendors' revenues come from. Overall, services which have shown increased demand include:

- Call center and voice offerings (CSAT improvement in policy servicing and agency management)
- Compliance adjustments to policy handling due to regulation changes
- Using analytics to predict policy termination, thus trying to increase policyholder retention.

The following policy types have seen increased demand for administration by vendors, in both closed block and open block:

- Fixed annuities
- Equity indexed annuities
- Variable life
- Variable annuities.

In closed block policy administration, activity is primarily driven by cost reduction as well as from increasing customer satisfaction and retention in order to dissuade policyholders from terminating their products early. Also, the lagging and aging legacy platforms tend to be obsolete, with policy migration to newer platforms being a prevalent characteristic of the market. Closed block business accounts for 67% of the global LA&P BPS market, or ~\$1.7bn.

In open book policy administration, activity is being driven by vendors who provide new business setup in a cost efficient manner within a limited timeframe. Insurance carriers which do not have the capability, time allowance, or required knowledge to roll out new products are the main users of these services. Open block business accounted for 33% of the global LA&P BPS market in 2015, amounting to ~\$854m.

In terms of delivery capabilities in 2015, ~71% of life annuities and pensions BPS services to commercial payers are delivered from offshore locations.

Processes predominantly performed offshore include:

- Agency servicing: new agent set up, terminations and reinstatements
- Surrenders and terminations: maturities, life claims, surrender valuation, contested claims, and settlement options
- Fund support: reconciliations and regulatory filing.

India, Mexico and the Philippines are the main locations for back-office functions for the majority of Tier 1 vendors. Niche locations include South Africa, China, Vietnam, and some European countries, mostly due to language support requirements. Vendors such as SE2 and NIIT Tech operate with a completely offshore model as does Kane LPI. Services that require regulatory supervision tend to be delivered onshore, both in the U.S. and U.K., as well as customer engagement services.

Buy-Side Dynamics

In terms of **closed block** outsourcing trends that are driving the LA&P BPS market, NelsonHall identifies the following:

- Process optimization in policy administration through new tools integration:
 - Increasing demand for streamlined processes drives a need for workflow tools, RPA and automation, and use of dashboard and optimized metrics in order to reduce admin costs
- Customer retention and satisfaction:
 - Increased demand to maintain customer satisfaction levels in order to retain policy premium cash flows and minimize policy terminations. Measures include predictive behavioral analytics in terms of policy cancelation, as well as actions that are targeting CSAT increase
- Need to migrate closed block business to new platform (either proprietary or third party):
 - A revamp of administration systems is another mechanism for reducing costs that stem from non-optimized, legacy platforms
- Need for specialized actuarial offerings according to circumstances:
 - Actuarial valuations, new product support, and regulatory reporting and support are some of the processes that are in demand. As a result, there is an increased tendency to outsource specific back-office actuarial functions
- Need to comply with new regulatory guidance regarding solvency and fair presentation of policies:
 - Increased regulatory pressure on insurers has pushed them to outsource specific processes such as testing and reporting, by creating the appropriate operational framework that complies with ongoing and upcoming regulations.

In terms of **open block** outsourcing trends that are driving the LA&P BPS market, NelsonHall identifies the following:

- The need for greater 'speed to market' for new products/businesses:
 - Insurers want a fast track service that can be cost-effective and efficient in launching the product through a TPA, rather than undertaking the process in-house. Reduction of cycle time in new business applications is in demand
- Lack of expertise in a particular new market that the insurance company plans to enter (new geography or country):
 - Rolling out a new product requires expertise in specific markets, a capability that some insurers may not possess

- Lack of engagement methods and capabilities for underserved market segments such as the middle-income market in the U.S. and the millennials market segment worldwide:
 - Engagement capabilities that address underserved market segments are driving insurers to outsource this part of their business, in order to be more efficient in product presentation and market reach.

Market Size & Growth

NelsonHall estimates that the LA&P BPS market is worth ~\$9.4bn in 2015, and is set to grow at a CAAGR of ~7.6% through 2019, reaching ~\$12.66bn in 2019.

Overall, NelsonHall estimates the following growth for the government and commercial life annuities and pensions markets in 2015-2019:

- The government payer market will grow from ~5.3bn to ~7bn with a CAAGR of ~7%.
- The commercial payer market will grow from ~4.1bn to ~5.6bn with a CAAGR of ~8.3%.

Success Factors

Critical success factors in life annuities and pensions BPS include:

- Ability to achieve an average of 29% reduction in cost of function, typically via new platform implementation or use of surround tools such as RPA
- Ability to offer multi-shore delivery
- Ability to provide specialized actuarial and predictive analytics services targeting customer retention
- Ability to offer guidance towards regulatory product adjustment from Solvency II implementations
- Ability to help insurers target the middle-income market in the U.S., as well as invest in digital channel communications, through new offerings targeting the millennials market
- Ability to improve customer service levels, to improve CSAT scores and customer retention rates.

Outlook

- LA&P BPS market will continue to be dominated by closed block management services, but with faster growth in open block management services driven by demand to compete with new market entrants
- Implementation of principal based reserving (PBR) in the U.S. will create opportunities to support new product launches and assist in adoption of new valuation method for reserves
- Continental Europe and Asia Pacific will become increasingly important markets
- Use of RPA and automation tools will become widespread and key to policy management cost reduction
- Digital communications channels will be the prevalent way of customer engagement

- Analytics will be embedded in LA&P BPS services in support of both process improvement and enhanced customer insights in support of both sales and customer retention
- The proportion of LA&P BPS services delivered onshore will increase as RPA and automation reduces offshore headcount
- Offshoring of actuarial services will become commonplace.

NEAT Evaluation for LA&P BPS

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders:** vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers:** vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators:** vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players:** other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

‘Ability to deliver immediate benefit’: Assessment criteria

Assessment Category	Assessment Criteria
Offerings	<ul style="list-style-type: none"> Range of products Policy servicing/administration Claims management Underwriting support New business/agency management Analytics Actuarial Support/Fund administration Range of processes Range of annuities products Fixed annuities Variable annuities Immediate annuities Deferred annuities Flexible annuities Annuity policy administration capability Annuity new business capability
Delivery	<ul style="list-style-type: none"> Process roadmap/benchmarking Application of analytics for process improvement Application of analytics for improved customer insight Platform consolidation Use of BPaaS Ongoing Lean Six Sigma process improvement One-off Lean Six Sigma within end-to-end scope Change management ability RPA implementation Onshore delivery capability Labor arbitrage capability BPaaS capability in annuities Proprietary annuity platform
Customer Presence	<ul style="list-style-type: none"> Overall U.S. U.K. Continental Europe
Benefits Achieved	<ul style="list-style-type: none"> Cost reduction Customer acquisition & retention Speed to market New product market entry Support for closed book consolidation/integration <i>(continued...)</i>

	Support for new country insurance products
	Value for money U.K. presence
	Continental European presence
	APAC presence
	LATAM presence
	Multi-country presence

Exhibit 2

‘Ability to meet client future requirements’: Assessment criteria

Assessment Category	Assessment Criteria
Suitability as a Strategic Partner	Innovation & creativity Ability to add extra dimension beyond contractual agreement Proactivity with ideas for change Suitability to meet future client needs
Investment Factors	Investment in LA&P BPS within wider organization Investment in underwriting Investment in analytics Investment in claims support Investment in policy servicing Investment in annuities

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.

Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:
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