THE 10 MYTHS OF SURETY TECHNOLOGY

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Myth #1: We Can Continue To Utilize Existing Systems

The Surety market is quickly evolving, consolidating and globalizing. Consequentially, the basic tenants of Surety Underwriting, the three C's of Surety (Character, Capacity and Capital) are under siege. In recent years, Surety profitability has been more so achieved through mergers & acquisitions, international expansion, increased efficiency, automation or combinations thereof. Regardless of the method, each requires the application of modern technologies to be successful. Antiquated record keeping systems and siloed data repositories mashed together with Excel spreadsheets and Access databases will not be enough to survive let alone thrive.

Customer expectations (both agents and direct principals) are on the rise. Just as in many other industries, they will demand guaranteed response times and a better overall experience. In an effort to steal market share, those Sureties who have invested in advanced Surety platforms and functionality (i.e. Intelligent Routing, Workflow, Scoring, Automated Decision Making, etc.) will offer Service Level Agreements (SLA) and guarantees to customers. Their ability to drive revenue, achieve greater economies of scale, and minimize claims will almost certainly contribute to new members of the proverbial Surety graveyard.

Myth #2: Our Processes and Methods Are So Unique That We Need A Customized, Homegrown System

While insurance companies may underwrite Surety bonds, Surety is NOT insurance. It's assurance, resembling more so a bank letter of credit. The common assumption that insurance professionals can easily apply their knowledge and experience to Surety is a fallacy. And the notion that you can simply tailor an insurance system to accommodate Surety is like putting a square peg into a round hole. Many have tried but failed to deliver the overall functionality necessary to achieve high levels of user satisfaction and adoption. This is also evident by the fact that commercial Property & Casualty software vendors offer little to no functionality for managing Surety Account & Bond Lifecycles.

Surety is Surety. Yet still so many Sureties claim to be unique. Surety Executives, Underwriters, CSRs, and Producers frequently switch allegiances, carry over their past experiences, and implement their prior processes at their new employers. After conducting business process analysis with numerous clients, it is plainly evident that a common set of best practices exist and have already been incorporated within vendor software. While it may be controversial to say, in my experience the insistence on developing homegrown systems or excessively customizing vendor systems is a result of the reluctance to challenge inefficiencies, the protection of employee fiefdoms, and maintenance of the status quo.

Surety has resisted change & innovation for decades. Frustrated by the attitudes I witnessed when implementing E-Surety™, I had stepped away from the industry between 2005-2012 joining Aplicor®, a Cloud CRM, ERP and E-Commerce software publisher. There I witnessed small and large companies from a wide variety of industries challenging norms and rapidly adopting cloud systems. Upon joining Bond-Pro, I was shocked to learn that the agenda of industry's technology working group has barely changed and that many Sureties were still adamantly insistent on maintaining homegrown platform business systems. This defies commonly accepted beliefs that platform software will ultimately become utility. ComputerWorld's 2016 Tech Forecast found that 48% of all IT decision makers are planning to increase spending on the cloud and expect it to be the most disruptive technology over the next three to five years.[1]

Myth #3: Developing Our Own System Will Drive Premiums And Provide A Competitive Advantage

All companies need an accounting system. Yet no one ever says they are going to develop their own accounting system even if they dissatisfied with its functionality or the overall user experience. The time, cost, and risk it would take to completely develop and maintain this type of platform software significantly outweigh the perceived benefits. The scope and complexities of Surety platform software match and it could be argued exceed that of an enterprise Accounting/ERP system. By that reasoning alone, in house development of Surety platform software is not practical.

Furthermore, many companies purchase CRM systems. Yet similar organizations using comparable technologies experience a wide spectrum of successes, challenges and failures. This is because competitive advantages from using platform software are gained from successful configuration, implementation, integration, change management, and user adoption. Not from developing and maintaining the system itself.

The bottom line is if you are going to develop commercial software, then you should enter the software business. Otherwise, conventional wisdom and Business School 101 dictates that you should concentrate on your core competencies and utilize commercial off-the-shelf software (COTS) whenever possible. Minimize customizations and make your best effort to adopt, embrace and adhere to the best practices and standards embedded in the COTS platform which have undergone decades of software development lifecycles and continual improvement within numerous insurance companies.

Myth #4: Creating A Web Portal Will Impress Agencies And Attract Additional Premium

Agency Web Portals are neither a new or novel concept. They have been around since the .com era of the late 90's. While it may have been a disruptive technology at that time, it has become more so an expectation at this point particularly for those Sureties who value high transaction, low volume commercial, fidelity and small contract program business.

Today, agents must utilize and comprehend a wide variety of web interfaces as required by the carriers who have appointed them. While carriers tend to tout their web portals and attest to Agent satisfaction, at Bond-Pro we have heard quite the opposite from our Agency clients. The reality is that Agents feel burdened by a large amount of data entry as they must rekey and maintain information in multiple carrier systems and within in their own Surety Agency Management Systems.

As a result, the next major innovation to bridge carriers and brokers/agencies, will be in the area of B2B. With ACORD having recently published a data standard for Commercial, Bid & Contract Bond Applications, it has taken steps beyond simply transmitting bond execution reports. Bond-Pro Enterprise Next Gen® is modern, services oriented architecture capable of adopting ACORD standards, processing high volume B2B transactions, and has enough of a footprint amongst both insurance carriers and agencies and overcome both the business and technical hurdles necessary to finally achieve this long-term industry goal. This will ultimately enable agencies to request bonds receive instantaneous decisions from within their own systems and eliminate cumbersome dual entry.

While Agency Portals have gained traction, Direct/Principal portals have not. This is attributed to 1) the important role that agents play in generating Surety premium and 2) the insurance carriers reluctance to compete against the same agents who are driving premium. But given that such a high percentage of people currently shop home, auto and life insurance through the internet, it simply a matter of time before the high volume/low premium Surety Bonds (Commercial, Fidelity, Bid and Small Contract Bonds) adopt the successful direct via internet sales models that have been implemented by their Property & Casualty brethren.

Myth #5: Having An In-House System Protects Our Proprietary Knowledge and Processes

The success of a software development organization is guided by its ability to attract and retain talent over an extended period of time. Experienced Surety business & technical resources are hot commodity. They are often poached, as evident by the frequency in which Surety professionals switch employers. Those who have been successful get promoted. Within multi-line insurance companies, a coveted promotion often means switching to business lines that garner far larger amounts of revenue like property & casualty. Surety Departments find themselves on the short end of the stick when competing for internal resources against these business lines who are collectively generating billions of dollars. Ultimately, it's difficult to maintain the necessary talent and team size necessary to build and maintain a Surety system through multiple software development cycles.

Today, most Surety intellectual property is written into software source code. This renders intellectual property vulnerable to internal theft or redistribution by vendors to your competitors. Alternatively, Bond-Pro Enterprise Next Gen® is engineered to store your business process and decision models as metadata thus protecting your proprietary underwriting methods and isolating them when delivered in a multi-tenant, cloud environment. Its Surety Analytics and Workflow Engine enables subject matter experts to configure business rules, algorithms, ratios, alerts and notifications without IT assistance or having to so submit costly & time-consuming software development change requests.

Myth #6: Our Data Is More Secure And Highly Available In Our Homegrown System

There are two major information security factors to consider when developing and deploying business applications each being equally important. But many companies tend to over emphasize network infrastructure and overlook the software development aspects of information security. Ironically all the network infrastructure in the world cannot protect against for example a SQL injection attack resulting from improper coding. Hardened source code requires a strong security-by-design strategy, focus on best practices, and extensive penetration testing. COTS vendors are most often held to higher standards than internal IT departments having to certify and contractually guarantee software security compliance.

The notion that that a single company can achieve the economies of scale necessary to rival the infrastructure, scalability, performance, business continuity, disaster recovery capabilities, and standard compliance of public or private cloud vendors such as Microsoft or Amazon, is even further evidence of a lack of focus on core competencies and a deep seeded reluctance to explore more cost effective, proven technology options. Additionally, it's important to recognize that COTS vendors are often contractually required to achieve levels of service and uptime or suffer financial and/or legal repercussions. While the only remedy for material damage caused by an internal IT department is someone losing their job.

Myth #7: Our Expansion Into International Markets Can Wait

This may have been true in the past. However, in an industry that last year collectively generated approximately $5.5 billion dollars domestically, US based Sureties are increasing efforts to expand abroad into countries like the United Kingdom, Australia, Brazil, China, Japan, and Korea exploring new growth opportunities and insulating themselves from the glut of well capitalized foreign insurance companies who are rapidly entering the marketplace. Many of whom have aggressively executed blockbuster mergers and acquisitions. In the past two years alone, Ace has acquired Chubb, Tokio Marine added HCC and Philadelphia, Liberty Mutual absorbed Ironshore, and Fairfax Holdings collected Hudson, Crum & Forster and Allied Worldwide - just to name a few.

In order to technically accommodate international surety, a system must be architected from the ground up to support multiple languages, multiple currencies, numeric formats and time zones and take into consideration right-to-left text, double-byte characters (Japanese, Chinese) and the appropriate database collation. Additionally, Surety Bond laws, governance, and colloquialisms vary across the world. Therefore, it's implausible to assume that domestic knowledge, experience, processes and systems can simply be reapplied abroad.

Myth #8: Developing Our Own Software Is Less Risky

Given their sheer size and that they are in the business of mitigating risk, insurance companies will often justify in-house software development based on vendor longevity and size concerns. But Surety is a finite marketplace with revenues that pale in comparison their property and casualty counterparts. Therefore, barring a major consolidation or buyout, it's unrealistic to expect that Surety software vendors will achieve the same scale of Property & Casualty software vendors. Quite simply, the Surety industry does not warrant it as there are individual insurance companies whose Property and Casualty direct written premiums dwarf that of the entire Surety industry. Additionally, this should be of little concern as the handful of COTS vendors who serve the Surety industry have remained in existence for over two decades and have a significant client footprint including small & large insurance carriers, brokers and agencies.

Software development success is a delicate balancing act between budget, time constraints, quality assurance, testing, resourcing, and leadership. Enterprise development poses further challenges in terms project management, business analysis, and meeting security, performance, and compliance standards. The Standish Group's famous Chaos Report published in 1995, reported that 90% of all internal IT application development project fail. While their 2013 statistics indicated a gradual improvement over the years, still only 39% of projects were successful, while 18% failed (cancelled prior to completion or delivered and never used) and 43% were challenged (late, over budget, and/or delivered with less than the required functionality) [2].

Myth #9: We Can Build A System Cheaper Than Paying Software Licensing Costs

Having held leadership roles and been intimately involved with architecting and developing Surety platform software at two COTS Surety platform software vendors for a period of nearly 20 years, I can quantitatively attest to the fact that a conservative estimate for creating a first version, domestic Surety system is a minimum of 2 years to analyze and devise both business technical specifications. Then you must factor in another 3 or more years of software development consisting of a team of at least 50 or more total resources including but not limited to leadership, business analysts, subject matter experts, project managers, technical architects, full stack developers, DBAs, QA, testing and networking resources. Expanding the scope to include international surety will exponentially increase time, resources, and cost. Even before factoring in risk and overruns, the internal costs of undertaking such an effort far exceeds both the costs of licensing, ongoing maintenance and support of COTS software.

In addition, you must also take into consideration development, QA, training and support resources for ongoing maintenance over multiple software development lifecycles. Meir Lehman, a highly influential individual in the field of software evolution, stated "in larger programs it has been shown that over 90% of the cost and effort is involved in the maintenance phase, not in development as most people think. Big complex programs, rather than being built from the ground up (an intimidating and usually impractical strategy) tend to be assembled by "integrating" a variety of building-block technologies or (commercial off the shelf software – COTS)[3]. This is exactly why the COTS approach is favored by the Big 4 and most large systems consultants and integrators.

Lehman also stated that the average lifespan of a program to be approximately 6-8 years. So essentially the total time required to build a Surety system is longer than its useful life. "Longevity increases somewhat for larger programs, so that for extremely large complex programs (i.e., over a million Lines of Code – LOC) the average climbs as high as 12-14 years. This increased longevity for large programs is related directly to the huge cost and inconvenience to an organization of replacing them. Nonetheless, 12-14 years is not very long when one considers the risk and the investment of time and money required to develop and maintain a $1M+ LOC program. Over the lifetime, such programs can easily cost $10's or $100's of millions." [3]

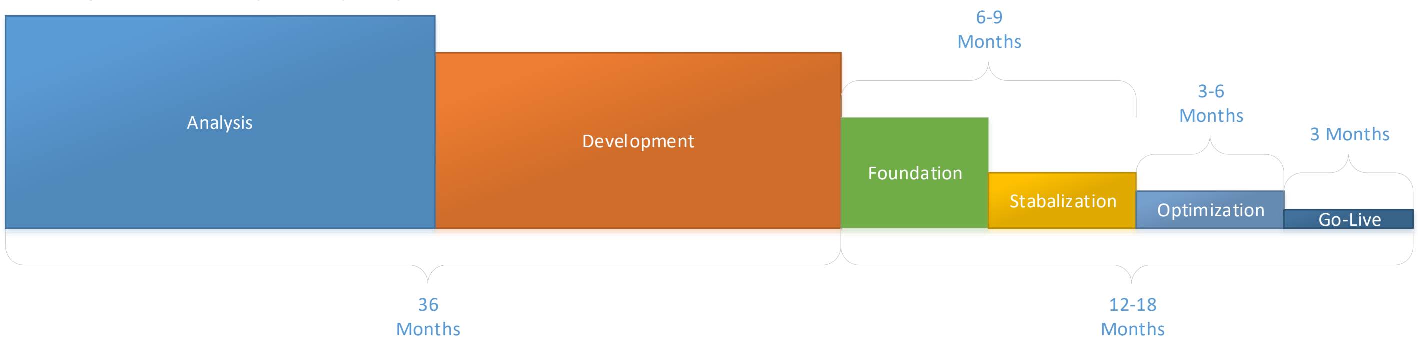
Myth #10: It Will Get Done Faster If We Do It Ourselves

As the Surety marketplace continues to quickly evolve, time to market of introducing a disruptive technology will become increasingly crucial. The strain of not capitalizing on lost premium opportunities will be exponentially multiplied as you are simultaneously draining time, money and resources into systems development and infrastructure.

As depicted in the following graphic, the implementation of COTS software can eliminate years of time and the overall the risks of software development. Additionally, engaging the vendor's professional services resources reduces implementation time and costs because they you can leverage the proven methodologies and experience gained from having worked with multiple insurance clients.

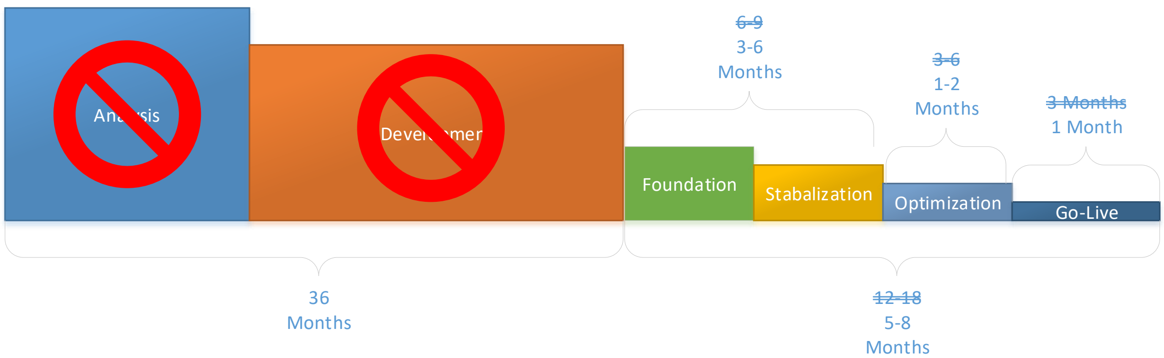
BUILD

Homegrown / Internally Developed System



BUY

Commercial-Off-The-Shelf (COTS) System



Jeffrey has over 20 years of experience in the Surety serving as Chief Technology Officer of E-Surety™ and Vice-President of Technology at Bond-Pro® prior to assuming his current business development leadership role.

References

[1]*Forecast 2016: Essential Data Points For The Tech Year Ahead*	*ComputerWorld*	*2016*
[2]*The Chaos Report*	*The Standish Group*	*1995, 2013*
[3]*Program Evolution: Process of Software Change*	*Meir Lehman, IBM*	*1985*

