



THE COMPUTERWORLD HONORS PROGRAM

CASE STUDY

ORGANIZATION:

se2

PROJECT NAME:

se2 Annuities Processing Solution

Summary

Leveraging its low-cost, highly-integrated, state-of-the-art technology platform, se2 provides insurance companies with a third party administration platform for variable product processing that can address processing needs from beginning to end. This new technology offering is being introduced to the market to address mounting challenges to the insurance industry, including increasing regulatory pressures, lower operating margins and increased customer demand for high-quality information in real time.

Introductory Overview

Recognizing potential trends in the maturing insurance industry, se2 sought to accomplish two primary goals:

- Leverage its best-in-class technology platform to expand the business opportunities of its parent company Security Benefit
- Provide a new solution to meet the annuity processing needs of insurance carriers hit hard by heightened regulatory scrutiny, competition, and shrinking margins.

Both of these objectives were met through the provision of a low-cost, fully integrated annuity processing solution with a focus on meeting regulatory and compliance requirements and addressing customer needs. The introduction of se2 provided an entirely new processing solution to the insurance industry that relieves carriers of the processing burden, lowers costs and meets all regulatory compliance needs.

What se2 was offering was something that had not been seen in the insurance industry before. The technology available through se2 was not merely a consolidation of systems capabilities, this was completely new technology that was fully scalable and provided a complete enterprise solution. It allowed for the automation of the most complex processes in the industry with total regulatory orientation. In addition, the implementation of this innovation could result in cost savings of 40 percent or more.

This technology allows insurance carriers to provide a service level to their customers that was

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simply not possible before, resulting in greater customer satisfaction and loyalty. In addition, se2's parent company, Security Benefit, profits from entering a new area of business opportunity, and associates working with the technology benefit from reduced stress levels and higher productivity.

The formation of se2 has its roots in the realignment of Security Benefit's technology platform, which began in 2000. Choosing to invest deeply in its technology platform while others in the financial services industry were scaling back, Security Benefit partnered with Keane Consulting to make the significant leap from a legacy mainframe system environment to a fully-integrated, distributed enterprise system. The company quickly realized the advantages of this transition, including:

- 65% reduction in development timeline for new products
- Tripled the rate of variable annuity product releases
- Reduced development costs by 40%
- Reduced direct service cost per policy by more than 30%
- Increased overall transaction volumes by 50%
- Financial transaction volumes increased more than 60%
- Increased contracts supported by associates by 118% while reducing cost per contract by 50%

As it became clear that the capabilities of this new platform put Security Benefit years ahead of others in the industry, the scope of the project began to change. The innovation captured by Security Benefit had the potential not only to propel the 113-year-old insurance company into an entirely new line of business, but also to provide a much-needed solution to others in the industry. From this realization came se2.

Since it was introduced in 2004, se2 has competed head-to-head against well-known, established players in the business processing market and has walked away with signed agreements from multiple clients. In a short period of time, se2 has garnered long-term commitments for providing business processing for more than 300,000 contracts.

Benefits

The implementation of se2 benefited all of the audiences for which it was designed. The clients of se2 are able to reduce their operating expenses while providing a unique level of service to their customers. They also benefit from the regulatory compliance aspects of se's product. For instance, se2's capabilities include automated handling of trade processing behind funds within variable annuities, assuring no late trading or market timing occurs. Rules around these functions are encoded and embedded in se2 processes. These processes also support mutual fund partners by helping to monitor trading activity and maintain compliance with each fund's trading guidelines.

For its parent company Security Benefit, se2 has provided an opening to a completely new line of business. This new direction creates greater potential for growth than may have been realized through strictly traditional manufacturing and wholesaling of products.

se2 and the technology that powers it have also provided benefits to the associates of Security



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Benefit. Prior to the technological advances that made se2 possible, customer service representatives could spend days tracking down records to respond to customer inquiries and support services associates would spend all day opening, sorting and filing mail. With the paperless, integrated workflow system of se2, associates are able to access documents quickly at their computers and respond to inquiries immediately. Opening and scanning mail takes just a few hours, and the documents received each day are available on the network normally the same morning they arrive at the building. This reduces stress for associates and allows them to work more productively throughout the day.

The benefits also accrue to Security Benefit customers, who are able to receive responses to their inquiries in a more timely manner. Customers also benefit from the cost efficiencies created by the se2 technology platform, which keeps the costs associated with product introductions lower.

se2 has also provided benefits to the greater community. The anticipated addition of 85 new jobs by the end of the year as a result of implementing se2 is contributing to strengthening the economy in se2's hometown of Topeka, Kansas. se2 has created a sense of excitement and possibility not only within its corporate walls, but within the broader community, as well.

•What new advantage or opportunity does your organization's project provide to people?

se2 provides the opportunity for insurance carriers to meet the increasing regulatory compliance requirements of the industry while improving processing efficiency and reducing operating costs. In addition, it provides customer service personnel the ability to instantly access records that allow them to respond immediately to customer inquiries.

•Has the project fundamentally changed how tasks are performed?

With a rules-based processing environment, the paperless workflow enables associates to spend more time servicing the customer. Less time is spent on training associates on the technology platform. Information is centralized and organized to more effectively handle customer inquiries and processing needs. For example, associates in our call center no longer have to spend days searching for documents before responding to customer inquiries. They now have instant access to information that allows them to respond to inquiries immediately. The introduction of a rules-based platform has exponentially increased the number of product offerings and reduced the need for staged production delivery cycles. Whereas in the past a good portion of the time spent preparing for product introductions could be attributed to programming work, the system now allows all product introduction work to be handled by business analysts and product specialists, significantly reducing the time required to bring a product to market.

The Importance of Technology

We migrated from a legacy mainframe environment, which used 70% to 80% of the IT budget for maintenance activity, to a new "state-of-the-art" distributed systems platform, which now allows us to use 60% of our budget on new and innovative projects. By using this new technology, we deliver solutions in hours or days instead of weeks or months. Our technology platform provides a major benefit to se² clients by dramatically reducing the implementation timeline and overall complexity, compared to other third party administration vendors.

•Why was the technology used particularly important?



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Without the fully-integrated, distributed systems enterprise technology platform that powers se2, the real-time access to records and files that allows highly responsive customer service would not be possible. In addition, the integrated nature of the platform allows for the automated regulatory compliance features of the annuity processing solutions and the efficiency of the technology creates the operational cost savings that make se2 unique.

Originality

Our new offering to the marketplace truly takes advantage of an integrated work flow processing environment and aligns with the skills of the processing associates. At the same time, it incorporates the regulatory and compliance requirements in the industry, such as late trade and market timing guidelines, and ensures a higher level of quality is delivered to the end customer. All of this is provided at a cost savings to the client.

- Is it original? How? Is it the first, the only, the best or the most effective application of this kind?

The se2 project had its origins in the movement away from the traditional legacy environment to a highly integrated, distributed environment that brought together key integration points in service processing. This move was unprecedented in the insurance industry. With assistance from the Keane organization, Security Benefit worked to eliminate its legacy environment and develop se2 to provide a unique offering to the insurance industry – a highly automated, paperless, rules-based processing environment.

Success

The project has certainly achieved its primary goals of leveraging the technology capabilities of parent company Security Benefit to open up new business opportunities and providing a new solution to meet the annuity processing needs of insurance carriers. In terms of metrics for service and cost savings, the project has thus far exceeded all expectations.

- Is it fully operational?

se2 is fully operational in its support of parent company Security Benefit. The conversion of the first block of business from an outside company is underway and should be complete in April 2006.

- How many people benefit from it?

Approximately 200 customer service and operations associates benefit from the efficiencies created by the se2 technology platform. se2 services approximately one million accounts through TPA agreements for processing services. Our clients have offered encouraging feedback. One registered investment advisor shared that se2 provided the best technical solution in the marketplace while a Broker/Dealer declared that se2 was clearly a one-stop shop offering high quality at a reasonable cost, with a service level competency that was unsurpassed by our competition. One of our largest clients, a financial services provider, expressed the opinion that the breadth of se2's capabilities was singularly suited to meeting its unique insurance processing needs.

- How quickly has the targeted audience of users embraced this innovation?

Users have been very quick to embrace this solution. Whenever we have the opportunity to



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explain the capabilities of the system and the resulting efficiencies and cost savings, people are immediately on board. In fact, in more than one instance our clients have become potential investors in se2 based on their confidence in se2's ability to meet a unique need in the industry.

Difficulty

There were two primary challenges faced when implementing se2:

1.) Would our IT systems scale as easily as we anticipated, allowing us to remain an industry leader in reducing costs?

Working closely with one of our partners, Navisys Corporation, we stress tested our primary administration system multiple times. Our last stress test validated the ability of the system to easily handle 10 million contracts. Similar tests were conducted with other components of our integrated IT framework with like results. The tests did highlight a performance issue related to a process supporting electronic data delivery to outside partners. The early testing allowed for this issue to be resolved prior to production rollout, and provided peace of mind regarding the ability of the system to scale effectively.

The other factors at play in providing an innovative, low-cost solution to the marketplace were IT staffing levels, license and maintenance costs and overall IT infrastructure costs. If our new initiative resulted in a significant increase in any of these areas, we would be faced with a much higher cost model that would seriously reduce the benefits of our service offering. This risk was addressed through the implementation of a large IT initiative to upgrade our entire technology framework to support multiple companies and multiple clients. The project included a detailed and thorough security upgrade to ensure segregation and privacy for client data. This advance work allowed us to maintain the same number of systems and applications regardless of the number of clients added to the platform. As a result, the ongoing costs of the IT platform remained low, fixed and consistent – ensuring our position as an industry leader on costs.

2.) Given our relationship to parent company Security Benefit, would we be able to sell processing services to companies that in some ways considered Security Benefit a peer competitor in the industry?

Going into this venture, we knew that se2 would be entering the business process outsourcing market as an unproven TPA, competing against giants in the field. Not only that, we would be attempting to sell our services to entities that may have traditionally been competitors. We believed strongly that se2 brought unique advantages – including its insurance heritage that provided a deep understanding of the challenges facing the industry, a solid reputation for excellent customer service and an award-winning technology platform. Even so, there was the risk that we would lose our additional up-front investment of approximately \$3 million if other insurance carriers were uncomfortable supporting a competitor through a contractual agreement for business processing services.

To mitigate that risk, we relied on defined separation and our partners. Our partners lend market credence, client set-up and integration expertise that supports our unique knowledge of the industry. These two factors give se2 service capabilities instant credibility. Forming alliances with well-regarded partners created a stronger combination that is able to manage risk prudently while pushing the much needed process and technology to new, more responsive levels.