

WHITE PAPER



By Tom Murray
Head of Product Strategy
Exaxe

2018

SUBSCRIBE; The best answer to
the eternal buy vs build question

About Exaxe

Established in 1997, Exaxe is an award-winning SaaS provider of software solutions that helps life and pensions companies launch new products faster, administer products more efficiently and respond with greater flexibility to the marketplace.

With headquarters in Ireland and offices in the United Kingdom and the Netherlands, we provide leading edge front, middle, and back-office SaaS solutions specifically for life, pensions, and wealth sectors.

Exaxe's component based SaaS solutions manage full policy administration (full policy life cycle from initial fact find right through to payment of a claim), product development, quotations and illustrations, channel distribution, and commission management. Exaxe SaaS solutions allow its clients to avoid large upfront licence fees, to pay per usage and work anywhere, anytime.

Exaxe solutions are in use in a wide range of client organisations throughout Europe. Exaxe helps companies, such as; AXA Life Invest, Police Mutual, Retirement Advantage, Capita, Scottish Mutual, and the Eureka Group. It is our goal that our clients have the right platform to easily overcome top industry challenges, to gain efficiencies and to meet their growth goals.

About the Author



Tom is Head of Product Strategy at Exaxe with primary responsibility of overseeing product direction. Tom has extensive experience of managing web based insurance software from conceptual design through to commercial release and beyond. Tom has been leading the development of the Exaxe Internet insurance architecture since August 1999.

Subscribe; The best answer to the eternal buy vs build question

Contents

Introduction	3
Relentless technology and consumer expectation	3
Market dynamics	4
IT departments overwhelmed	4
The self-build option	5
The buy option	6
Subscription - the 3rd way	7
Configure, don't customise	7
SaaS for the future	8
Conclusion	9
References	10

Introduction

Once a business request is made for new IT capability, a CTO is presented with a fundamental dilemma; should the solution be bought in or built in-house? Either way, there are major challenges for the CTO, whichever direction he or she chooses.

Buying in brings the benefits of a shorter time-frame and proven capability. It removes the risk of ending up with nothing, although the percentage fit with the business's requirements may take a hit. Buying in can also leave the company hostage to the vendor and its product roadmap, and will certainly incur a major up-front investment before the benefits can start to flow.

Alternatively, building the solution in-house ensures a good match with the business's needs, and benefits from the internal store of knowledge built up over the years in understanding those requirements. However, on the negative side, it may be taking the IT department into technology areas which are not its comfort zone, it may ossify the current business approach rather than forcing it to be justified, and it will almost certainly take a longer time to start to pay-back, as the solution must be built from scratch as opposed to benefitting from technology that has already been created. It also might mean that the company loses out on benefits that come from an external view of the market rather than from an internal view, which may have become blinkered over the years.

This dilemma faces all operators in the financial services space as they seek to future-proof their technology platforms. There are two primary drivers behind this need to advance; constantly improving technology and the increasing sophistication of customer demand.

In 2015, Netflix accounted for about half of the overall 3% decline in TV viewing time among U.S. audiences, according to a new study by Michael Nathanson of MoffettNathanson.¹

Relentless technology and consumer expectation

Technology is advancing inexorably. Slews of new services are changing the way consumers do everything: TV shows are now mainly watched at times that suit the individual rather than the broadcaster by use of subscription channels such as Netflix, news is received in real-time via social media rather than traditional news shows at fixed points in the day, and banking is carried out by smartphone apps on a 'Martini' basis – anytime, anyplace, anywhere.

Peering into the near future, just around the bend are driverless cars and drone-based deliveries, which will radically change transportation, both personal and of the goods we buy. Then there is the emergence of on-line medical portals and how we look after our health, education via online portal and robo-advisors on everything from financial planning to diet guidance.

The overall effect is that in the space of a few short decades, advances in technology have exponentially increased the rate of change in our day-to-day lives, which are morphing unrecognisably from how we lived before. If anything, this pace of change will only accelerate in the future.

61 percent of banking customers expect to have access to more online interactions across their lifecycle.

Accenture – Banking customer 2020²

Introduction

The result is that customer expectations of service levels are much higher than before. The ubiquity of mobile platform services in most retail industries leads to an expectation that they are available in the hitherto more staid financial services sector, including retail life and pensions. Consumers are looking for the same ease of access and control over their financial affairs that they get in the other areas of their life. This pressure will inevitably transform the way the life and pensions market of the future will operate.

Market dynamics

The UK market is undoubtedly the most advanced life and pension's market in the world. As a result, the challenges to life and pension companies are wide-ranging, leading to departments demanding many services from their IT department. Fulfilling those demands has put a heavy strain on IT departments, as the other departments seek to offer on-line services based on years of data held on legacy systems.

Operators in the UK face a considerable number of challenges over the next few years:

1. The increasing use of technology in day-to-day life means that customers demand more real-time services.
2. The ever-increasing levels of regulation of the sector means putting safeguards in place to ensure employees stay within the regulations and being able to prove that to the regulators when required to do so.
3. The limitations in state support for citizens as social costs exceed the state's capacity to pay resulting in greater demand for financial products.
4. The high levels of product innovation needed to supply the changing needs of the consumer.
5. The ever-present need to reduce the administrative cost per policy.

To compete in such a dynamic marketplace, life and pension companies need infrastructure that can support rapid product development, modern customer services, and compliance with fast-changing regulatory environments if they are. In particular, life and pension sales and servicing are highly regulated activities, and are likely to require regular updates to support new products and new regulations. Remaining compliant is a key issue for provider, now and in the future.

IT departments overwhelmed

From the 1960s onwards, the life and pension sector followed most large organisations in creating internal IT departments and seeing them grow into behemoths. As a result, the IT department now has such a dominant role in the delivery of products and services that the rest of the organisation is reduced to moving at the rate of the IT department. And the bigger the department grows, the slower it moves.

The sheer variety of technologies in use today means that Internal IT departments are constrained by the fact that it is not possible for them to have that range of expertise within their own organisation. In the 20th century, introducing a new technology meant up-skilling your staff and keeping control within the organisation. This has been the driving force in the exponential growth of the IT departments; having all the skills in-house means no external dependencies but also that the company is limited to the skill sets that either it had or could acquire. Frustration by the costs and restrictions associated with this initiated a major debate in the industry; what became known as the build versus buy conundrum.

The growth of mobile has significant implications for banks. As mobile phones get equipped with more and better functionality, it will transform the traditional interaction model with the consumer. Well appointed branches and slick websites will no longer be enough, as customers expect services on the move. Location-based offers, timely and relevant content, and interactive applications will form the basis of the mobile customer's engagement with their banks.

PWC The new digital tipping point³

The self-build option

One of the primary reasons that inclines firms toward a self-build approach is that those within the organisation know the business best, and therefore the resulting solution should cater for the exact needs of the organisation and how it currently approaches its business. This argument ignores key factors:

1. Technology change – few organisations have within them the full range of skills. Therefore, the resulting project is hampered by being restricted to the skill-set of those who are within the organisation and may not even include people who can perceive the benefits of the newer technologies that are emerging, thereby depriving the organisation of benefits that may suit them.
2. Self-built systems tend to reflect the way business is currently done within the organisation, and therefore are less likely to advance the company's offerings into new areas. They are also likely to reinforce existing inefficiencies in the organisation.
3. Building software is a risky and expensive process. As such, the company that builds its own solution is taking on a large financial risk in a market area in which is not part of its core expertise. This financial risk is taken up front.

Self-build does at least promise that the company controls its own destiny rather than becoming hostage to the fortunes of the vendor and its product roadmap. However, given the proliferation of new technologies, it can mean that the company is stuck in a rut rather than branching out to exploit these new technologies in exciting ways.

The trend in the UK over the last decade has been to move away from self-build solutions, as the risks involved are seen to substantially outweigh the potential benefits.

Before embarking on a complex custom development project, scour the market for suitable off-the-shelf solutions that can accelerate time-to-value. Build if you must to create world-class customer experiences and sell differentiated products, but only after thorough due diligence on packaged options.

Forrester: The Business Applications Landscape 2016 to 2020: SaaS disruption and Vendor Proliferation - February 1, 2016⁴

The buy option

Buying in the software eliminates some of the risks of a self-build approach. It gives the company access to a full range of the newest technologies, already developed as market proven solutions that they can see and therefore visualise in use. This removes the risk of complete project failure and leaves the provider able to focus on how to exploit the capabilities of the solution.

Buying in solutions also challenges the company to transform its current business process to a best of breed process that the solution supports rather than going to the expense of changing the system to reflect their existing approach; essentially it encourages product-enabled re-engineering. Whilst not always the answer, for most business users it is the end-goal that matters, not the process of getting there, and therefore re-engineering the business processes is a cost-effective way to maximise the return on the solution spend.

When buying in solutions, the life and pension provider can ensure capability to sell and service its products on all platforms without the need for expertise in cross-platform development.

However, buying in a solution can cause problems if companies don't resist the urge to customise it to the company's current processes, many of which only exist because this is how the staff adapted processes to fit in with gaps in the old system. This tendency requires careful control by the company as it needs to think outside its comfort zone to tackle new market and technical challenges. External vendor solutions can help that if approached with an open mind and by employees who seek to expand the capabilities of the company rather than replicate what is already there. Otherwise all the benefits of the vendor's market experience and technical expertise can be wasted. Customisation can quickly squander one of the principle benefits of buying-in; the ability to receive upgrades to meet new regulatory requirements or technological innovations as part of the solution road map. This lack of flexibility can bring the solution back to the problems of the in-house built solution and the required customisation to make the solution totally fit the in-house business model can result in a much higher expense than originally envisioned. Finally, becoming dependent upon the vendor rather than having control over the timing of future releases ameliorates some of the benefits of the new technology.

Even assuming no customisation, buying still involves a large budget and up-front cost. Licensing and implementing the software in-house can often be a time-consuming process and involve many man hours. Even the selection process is expensive, with many people within the organisation having to be involved to establish the outline requirements and review the short-listed offerings. The resulting costs can mean that it can take some time before the financial benefits of the new solution start to flow through to the company's bottom line.

Subscription - the 3rd way

Since the start of the century, the pace of new technological development and the increasing pervasiveness of the Internet in how we live our lives has meant that the 'buy' side of the argument has largely won out. The time required to understand the value of a new technology, recruit or re-train sufficient numbers of staff, and then build new applications, has meant that many in-house built solutions were both functionally and technically obsolete by the time they were completed.

As a result, CIOs and CTOs felt there was a lower risk involved in buying in solutions that could start to deliver results in a much shorter time frame. However, this still didn't solve the problem of the long buying process required to find a vendor who could not only supply the needs of the company today but would also provide the future-proofing needed to ensure that the company would not be adrift of the market in a few years' time. This was a key concern, as both the marketplace and consumer behaviour show no sign of settling down to steady-state equilibrium.

Software purchasing decisions are becoming ever more complex. In 2011, the mantra was that "build-versus-buy decisions must evolve so that IT organizations can respond to the increased expectation of senior management for IT asset identification and management." A key finding was that "Cloud computing, open-source software and the growing demand for business accountability by the C-suite will force traditional buy-versus-build decision to be radically overhauled."

The demands of such a dynamic market have meant that the binary decision has become more complicated as it has morphed into a three-way choice of build Vs buy Vs subscribe. Subscription is the new paradigm that allows customer facing services to be trialled and tested in a small way prior to being rolled out to the general public at large. This approach prevents the problem of having huge white-elephant projects, which should be retained, and indeed maintained, for many years to justify the massive costs expended in putting them in.

The technological landscape has become ever more complex, and this has led to the increasing adoption of cloud-based services and a subscription model of payment by insurers who are seeking to expand their range of expert solutions without bringing all the required non-core capabilities in-house. Internal IT departments now have the option of subscribing to a new solution, along with buying or building it. This subscription could be to a pure multi-tenanted SaaS service, or an exclusive hosted service. The fundamental change is the same; paying per use rather than buying.

Subscribing increases the opportunity to create and maintain complex service offerings to the public by leveraging the functionality needed from a range of suppliers to create comprehensive customer solutions. It also encourages far more innovation as it reduces the cost of trying new approaches. IT projects do fail but by dramatically reducing the costs of projects and allowing slow ramp-ups in terms of the systems and hardware use, subscription reduces the cost of 'failure' for both the company and the individual. At a low enough price, a failed project can be seen as a positive learning opportunity rather than as a disastrous decision.

Configure don't customise

Providers in the UK are moving in ever increasing numbers to a subscription (AKA Software- as-a-Service or SaaS) model for their expert systems, including illustration and quotation systems, as well as the provision of day-to-day administrative services. This avoids the massive up-front cost of a self-build and the less-risky but still relatively expensive approach of a buy strategy.

The subscription model removes all up-front costs and allows the providers to start small with a number of products and gradually move their entire range across in a more relaxed and suitable time frame. Subscription models move all the responsibility for regulatory compliance onto the vendor along with the issues of ensuring compliance with emerging technologies and platform upgrades.

The key to the subscription approach is to move the clients

from a "customisation" to a "configuration" mind-set. Customisation is generally seen as a quick solution to specific problems but over a short period of time, the ability to troubleshoot and manage these customised additions can become problematic. The result is an overall tightly coupled "spaghetti architecture", which leads to a loss of business agility and makes succeeding demands for changes from the business or the regulator increasingly problematic and expensive to deliver.

A configuration approach demands that the vendor supply suitable flexibility within its offering to allow the provider to configure its services to suit its customer offering and internal business needs. The advantage of subscription is that the lack of an up-front cost gives the life and pension provider more control than the other options as switching to a new vendor is a much cheaper process, and therefore it removes vendor-dependency.

SaaS for the future

It is clear that companies should only build software when there is a distinct competitive advantage for them in doing so, and if it is a core competency of the organisation. As software development is never a core competency of a life and pensions company the only question should be whether the system they intend to build would be so unique that it would actively increase their sales significantly more than any solution currently available in the market.

Over the last three years, subscription models have become far more in vogue. Subscribing for solutions means that the major up-front cost is avoided, and ensures that the benefits start flowing far more rapidly. It means that the cost of trialling new solutions is reduced, and therefore allows the company to innovate and adapt based on customer response – a key feature of 21st century financial services.






Moving towards a subscription model gives future proofing for the provider, prevents the headache of becoming over-dependent upon a single supplier, is cheaper up-front, and puts the onus of keeping up with regulatory and technical advances elsewhere.

Subscription also allows the IT department to take a more broad-based approach, whereby multiple smaller services and solutions can be integrated to form rich, complex services for their customers. The fact that individual services from suppliers can be substituted easily without major financial consequences puts IT departments back in charge, as the conductor of the orchestra rather than as the supplier of the individual sounds. This puts them in charge of the overall symphony without having to master the intricacies of each individual instrument.

Conclusion

There are perceived benefits to all approaches to upgrading software. The following table sets out some of the key issues that arise when making the decision.

COMPARISON CHART			
	BUILD	BUY	SUBSCRIBE
Provides rapid product development	★☆☆	★★★	★★★★
Promotes business process change	★☆☆	★★★	★★★★
Permits low cost of entry	★☆☆	★☆☆	★★★★
Provides low project risk	★☆☆	★★★	★★★★
Enables market responsive products & services	★☆☆	★★★	★★★★
Gives automated compliance	★☆☆	★★★	★★★★

It is evident that while buying in is a major step forward from the traditional build approach, the real benefits come with the subscription model, which provides low-cost, low-risk access to new technologies and features and facilitates new ways of doing business across the organisation.

Subscription allows experimentation with new approaches or even multiple approaches in parallel. It leverage’s the market experience of vendors and lets the company put the customer at the heart of all strategies. It facilitates the “try before buy” approach that encourages staff to broaden their horizons about their work and how they service the customers. It also enables scaling up and down to be achieved quickly as circumstances require, giving the company the ability to respond to market forces and regulatory changes without stress.

More and more financial services companies are moving to the subscription model to achieve far greater responsiveness and flexibility in the services they provide to their customers. Subscription gives companies this benefit at a far lower cost and risk rate. It has changed the entire dynamic of the software solution purchasing market and it is hard to see any downsides for firms who go this route. The buy versus build question is now truly dead. The only practical option for firms is to subscribe.

References

1. Todd Spangler. 2015. Netflix Caused 50% of U.S. TV Viewing Drop in 2015 (Study). [ONLINE] Available at: <http://variety.com/2016/digital/news/netflix-tv-ratings-decline-2015-1201721672/>
2. Accenture. 2015. Banking customer 2020. [ONLINE] Available at: https://www.accenture.com/t20150710T130243__w__/us-en/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_17/Accenture-Banking-Consumer-Pulse.pdf
3. PWC. 2011. The new digital tipping point. [ONLINE] Available at: <https://www.pwc.com/gx/en/banking-capital-markets/publications/assets/pdf/pwc-new-digital-tipping-point.pdf>
4. Paul D. Hamerman, Andrew Bartels with Christopher Andrews, Amanda LeClair, Joseph Miller, Matthew Izzi. Forrester. 2016. The Business Applications Landscape 2016 to 2020: SaaS Disruption and Vendor Proliferation
5. Brian Prentice. Gartner. 2011. Consider IP rights when making build versus buy decisions.
6. Ibid.



PHONE +353 1 2999 100
EMAIL info@exaxe.com
WEBSITE www.exaxe.com

DUBLIN Unit 5A Sandyford Business Centre, Sandyford , Dublin 18, D18 X383
LONDON London Barbican, 88 Wood Street, London, EC2V 7RS, UK
AMSTERDAM World Trade Centre, Strawinskylaan 861, 1077 XX Amsterdam