The ASP Attraction:

How Outsourcing Can Simplify Technology and Boost Profitability for Insurance Brokers

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Table of Contents:

Introduction

Many insurance brokers have come across the term ***ASP or Application Service Provider*** and may be unclear about what exactly it means. This paper is dedicated to defining the ASP concept, showing what it can do for brokers and highlighting key characteristics brokers should look for when considering an ASP vendor.

To make an informed choice, brokerage principals and managers need to understand exactly how much they currently spend on information technology (IT), what ASPs are and what they can offer, and which ASP service offerings can best meet their needs.

IT is now recognized as mission critical for survival of any insurance brokerage. However, managing that technology remains a challenge for most operations. Some common issues are high capital costs associated with acquiring technology, high maintenance costs and a competitive IT labor market with high salaries and more jobs than qualified candidates. Small and mid-sized insurance brokerages are turning to ASPs as a means to avoid large capital outlays for hardware, software and IT staff.

The most critical advantages of an ASP for insurance brokerages, however, are business related. These include a proven ability to:

1. Simplify Technology Spending and Oversight;
2. Boost Productivity by Allowing Brokerage Staff to Focus on Client Needs; and
3. Improve Data Security, Access and Disaster Recovery Processes.

This white paper will explore the ASP value proposition through 4 sections:

Section I

Definition of an ASP
What ASPs Mean to Brokers

Section II

Why ASP?
What Does an ASP Do?

Section III

Key Advantages of ASPs for Brokers
Factors to Consider

Section IV

Selecting the Right ASP Vendor
Important Questions

Definition of ASP

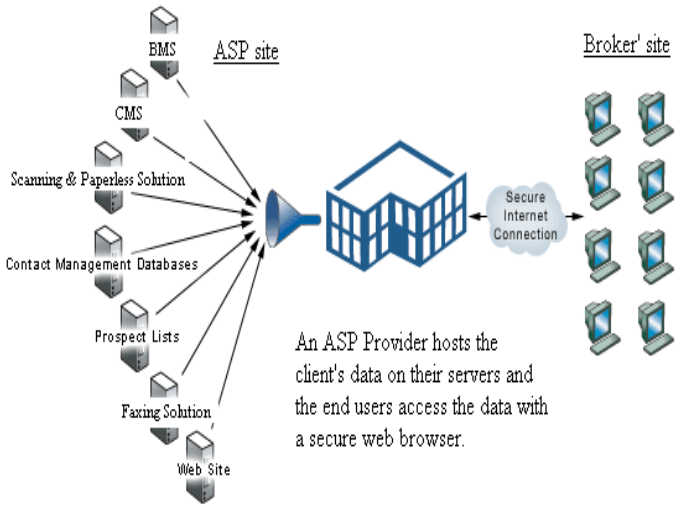
An ASP is a technology provider that handles and maintains most of the hardware, software and services necessary to operate a brokerage. It takes care of all upgrades, data security, back-up/redundancy, connectivity, virus/email spam protection in a sophisticated data centre environment. All that brokers need are their desktop computers, an Internet connection and local devices, such as printers, scanners, etc.

The ASP Consortium, an international advocacy group formed to promote the application service provider industry, offers the following: “An ASP deploys hosts and manages access to a packaged application to multiple parties from a centrally managed facility. The applications are delivered over networks on a subscription basis.”

In effect, ASPs rent applications to organizations that use the software. They are businesses that either own or have purchased the rights to license the specific application software that they host in their own data centre. Clients access the application from their remote location and the ASP operates and maintains the software/data on their behalf.

The market for ASPs developed in response to the needs of small and mid-sized enterprises that have limited resources to devote to IT investments and staffing, but need the capabilities to grow their businesses. By adopting the ASP model, both sides win. Vendors gain revenues by expanding their market to include organizations that previously could not afford their applications, and clients gain access to top-of-the-line applications at affordable prices.

Advancements in network technologies that permit high-speed connections from virtually anywhere have been one of the key enablers of this new form of application deployment. Centralized computing has been another major contributor. The combination of these two factors has allowed software vendors to move from a technique where the majority of an application’s processing is done on an individual’s personal computer to a technique where processing is done on a high-powered central computer. Add the acceptance of the Internet as an alternative network, scalable applications, and organization’s dislike of installing and maintaining applications, and ASPs almost sell themselves. Considering the ASP’s modern infrastructure and the fact that voice telecommunication can travel alongside data, it is now possible to outsource a broker’s telephone system, as well. Even “thin client computers,” which are less expensive than regular PCs, can operate in an ASP environment.



What ASPs Mean for Brokers

While ASPs have been around for years, their role has gained more prominence in recent times – for several reasons. First, in tougher economic times, everyone is looking closely at ways to cut costs. Efficiency, both in time and money, is the order of the day. An ASP gives insurance brokers stable IT costing and a per-month price for technology services. That not only frees up time to focus on marketing and new business, but also cuts the costs associated with maintaining a full-time IT person or department.

A second trend is the increased complexity of IT requirements. Whether it is installing hardware, upgrading servers or software, dealing with virus protection or figuring out if the back-up worked last night, many brokers are finding the responsibilities of managing IT onerous. Invariably, there are glitches that creep into a brokerage's technology system, particularly if it is managed on a "part-time" basis. An ASP offers 24/7 access to the latest in leading-edge, continuously updated software and hardware.

Another factor is the increased flexibility of ASPs for brokers of all sizes. Today, with modern data centers and sophisticated IT infrastructures, ASPs are scalable to virtually any size of operation in Canada, from 2 to 2,000 users. While small to medium-sized brokers have tended to make more use of ASPs in the past, Keal Technology, a leading broker management system vendor and ASP technology specialist, is noticing increased interest in this kind of solution for larger brokers. Many of these companies operate in a paperless, online environment, and understand the mission critical nature of their IT functions. The inability to access client data, even if only for a short period of time, can result in sharp drops in productivity. The simple fact is that one-hour of downtime with 60 employees equals 60 hours of downtime for a brokerage.

The ASP concept has become popular for several reasons. First, many brokers are tired of dealing with all of the technical issues related to owning and maintaining broker management systems (BMS). Second, many brokers do not want to deal with the hassles of managing software and software-support issues, including installing software upgrades and patches from vendors. And finally, with an ASP model, brokers can get a better handle on its fixed expenses. There are no longer any big hardware surprises, such as having to buy a new server after only two years on a system.

Many Canadian brokerages have embraced the ASP model. One example is Underwriter's Insurance, based in British Columbia:

"We love the concept of Keal's ASP. It's simple, all you need is a computer and an Internet connection and you're up and running! Since our three office locations use Keal's online ASP service, it has been a breeze to access information from all offices. There is no need for us to worry about managing servers and software or having to connect remotely into the main office. This brings us valuable time and cost savings. The ASP lets us focus on what we do best, which is to service our clients. Keal takes care of the rest."

Carl Sulkowski
Owner Underwriter's Insurance.

Why ASP?

An Application Service Provider (ASP) installs, configures and maintains enterprise-class software on its owner servers and allows its customers to access the software remotely, normally over a secure Internet connection. In addition to the software application and server hardware, ASPs provide data storage space, data backup services, network technical and continuous server-based upgrades.

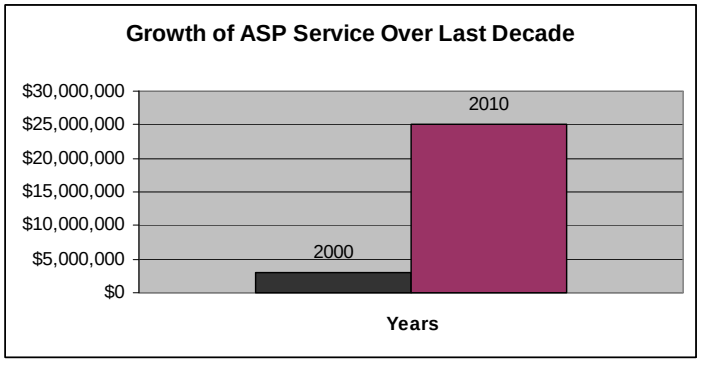
ASPs are not recent inventions. In fact, the basic premise of application hosting is not new at all. Similar services came into existence in the 1960s with the advent of time-sharing systems for mainframe computer systems and, later, outsourcing of IT services (also known as facilities management). Yet, ASPs offer a different set of advantages and value propositions for insurance brokers than traditional outsourcing arrangements.

In most outsourcing relationships, full responsibility for an IT function is usually transferred to the outsourcer and often includes the transfer of staff.

Essentially, part or all of a company's IT shop is shipped out and/or sold to an outsourcing company. In an ASP relationship, only the application is transferred. If the ASP provides a new application, clients can gain access to the new application for a slight incremental fee just as if they purchased and installed the software package. Another distinct feature of using an ASP is that clients gain access to both a data centre and software/hardware as part of the ASP service package, thereby avoiding the need to invest in these elements themselves.

Since ASPs include access to an application, the use of a data centre, maintenance and various other components, clients are able to forgo some of the investment involved with purchasing hardware, supporting IT staff and paying for a software license. As a result, total cost of ownership for a brokerage can be significantly reduced. However, clients are still responsible for purchasing and maintaining the computers needed to access the application locally, as well as the networks required for connections.

These unique features and distinct benefits are the main reasons why research firms like Gartner Group Inc. have projected significant growth for ASPs in the IT sector. In fact, Gartner correctly predicted that ASPs would grow from an industry of $3 billion at the start of this decade into a $25 billion global market by the middle of this decade.



What Does an ASP Do?

In their purest sense, ASPs act as the customer relationship manager and the single point of contact for all client interactions. They own or contract all the services necessary to deliver an application into an organization. In order to deliver a product, ASPs must provide several components, which are discussed below.

1. ***Coordinator of Services***: Since few ASPs "own" the entire mix of services necessary to create an ASP offering, partnerships play a vital role in any offering, such as Keal's partnership with TELUS. In many ways, an ASP can be viewed as a virtual organization. Regardless of whether they own or subcontract the components that make up an offering, it is ultimately their responsibility to respond to any client issues.

2. ***Application Access***: Vendor neutral (or pure-play) ASPs purchase the rights or establish contractual agreements with vendors to license access to their applications and then resell or rent that access. Some ASPs assemble entire suites of applications from multiple vendors and offer the customer a choice of applications.

3. ***Platforms and Data Centre***: In order to offer any application, ASPs must provide data centre operations that include both the hardware and software the application is to run on. Hosted applications are installed at the ASP's data center and data are processed on site. Additionally, the data centre usually physically hosts and stores client data.

4. ***Network Delivery***: Customers access the software from their desktop computers via the Internet, virtual private network, or private secure lines. The use of the Internet is not mandatory in defining an ASP offering, although the ubiquitous nature of the Internet makes it an appealing option.

5. ***User Interface***: Applications are usually viewed through a Web browser located on the client's desktop. Since the application is transferred and all processing is done by the ASP computers, enterprises are able to use less powerful computer hardware (called "thin clients") without diminished performance.

6. ***Preconfigured, Standardized Offering***: ASPs generally offer standard packaged applications with minimal customization. To help solve this problem, vertical ASPs that offer industry specific applications have sprung up and begun to tailor offerings to meet the needs of specific market segments. Keal is an excellent example.
7. ***Centrally Managed Operations***: ASP contracts typically include the management of the application. All maintenance – including application renewal, enhancements, error fixes, and new releases – is handled by the ASP from a central location. Since ASPs run standard software without customization, maintenance is easy and economical.

8. ***One-to-Many Relationship***: Since a standard application is essentially shared among ASP clients and delivered into client organizations via a network, the typical ASP model is a one-to-many relationship. The costs of maintaining an application are shared among all clients in this relationship model; thus, they enjoy economies of scale.

9. ***Pay-as-You-Go Pricing***: ASPs use a variety of "pay-as-you-go" pricing models. Clients are charged a monthly fee for services. Thus, they avoid large initial licensing fees, hardware procurement costs and other resource expenditures. Most ASP pricing is based on a subscription model.

Key Advantages of an ASP

For brokers considering making the move to an ASP there are both advantages and issues to keep in mind before selecting a particular vendor. The first benefit of outsourcing is the potential for much greater productivity. Think about it – if you don't have to dedicate staff to installing and administering various systems, what could your brokerage do with the additional time and resources? At Keal, it was found that brokers who use an ASP are more likely to be profitable because they focus on marketing, sales and service. In other words, they focus on the real business of providing insurance solutions to clients.

Another critical advantage is the ability to access a highly sophisticated data security environment that has many more layers of protection than a typical brokerage can afford. For example, Keal's data centre is powered by TELUS, which offers enterprise-grade servers, fault tolerant systems, back-up power systems, redundant connections to high-speed Internet and the latest security data encryption devices. Brokers can feel confident that their data and systems are fully secure and protected in the event of a disaster or power outage. Can you say the same thing for your current disaster recovery processes?

ASP brokers get access to not just leading automation systems, but technology management experts. Their job is to know IT inside out, not just to occasionally trouble shoot problems. Since ASP firms hire and employ these qualified and accredited experts, it takes a load off the shoulders of brokerage principals, who have traditionally had to seek out internal IT staff. According to IT expert Kevin Wheeler, it is estimated that the technology sector will undergo a "talent shortage" between 2007 and 2012. Getting – and keeping – qualified IT staff will be more difficult for all companies.

The ASP service also offers the financial opportunity for brokers to "fix" IT costs that would otherwise be variable. A predictable cost structure can result in better budgeting and planning. With an ASP, your forecasted costs are your actual costs. With an in-house IT department, the expenses are more variable and extend to labor, equipment, licensing fees, unexpected upgrades and depreciation. Another cost-related bonus of ASP is that it transfers a brokerage's IT expenses from balance sheet to income statement, thus creating

a deductible expense that is predictable, directly proportional to the number of broker employees and expensed in the same period it is incurred.

Perhaps the prime benefit of an ASP is that a brokerage can get a bigger IT bang for its buck. Software is upgraded for you and hardware is maintained on a continuous basis. Brokers automatically have access to the latest versions and upgrades. Using the Internet as the communication tool and Citrix as the presentation tool, an ASP can deliver a wide range of applications anywhere there is Internet connectivity to virtually any device that will run the Citrix client software.

Factors to Consider

There are a few factors brokers should keep in mind before making the leap to an ASP.

One of the first issues is to compare "apples and apples" when looking at the true nature of their current IT costs versus an ASP model. In some cases, brokers vastly underestimate the costs, in terms of money, time and staffing resources that they must dedicate to managing their technology requirements.

A brokerage principal has to look at many factors to gain the true costs of IT infrastructure, including:

- ◊ Hardware
- ◊ Software
- ◊ Servers
- ◊ Network(s)
- ◊ Licensing and Upgrades
- ◊ Staffing (full time and part time)
- ◊ External Consultants
- ◊ Data Recovery/Backup
- ◊ Disaster Recovery and Business Continuity Plans/Measures.

Another important aspect of the ASP model is the contract. In one simple phrase –"the contract is king." Any contract with an ASP should be carefully reviewed according to specific criteria. Brokers should ask for performance guarantees, which clearly state written "up time" standards, such as 99.7 per cent (which is Keal's guarantee). Any contract should also expressly note that all data belongs to the broker and that data can be accessed anytime by the brokerage.

Brokers should also ask questions about the data centre infrastructure of an ASP.

- ◊ Are there contingency plans for alternate sources of power in the event of a disaster?
- ◊ How long can a provider stay up and running without hydro/traditional power source?

- ◊ Are systems monitored 24/7?
- ◊ What is the level of redundancy protection?

Another question brokers should ask is where the data centre is located. One potential concern if a centre is located in the U.S. could be government legislation, such as the Patriot Act. Communication and data transmission between Canada and the U.S. are subject to the Office of Homeland Security. A data centre that is located in Canada and run by a Canadian company, as with the partnership between Keal and TELUS, addresses any concerns about international regulatory requirements.

Selecting the Right Vendor

There are dozens of excellent ASP vendors in the marketplace. How should a broker decide which one is right for his or her company? As briefly discussed in the last section, it is crucial for brokers to conduct a value assessment for both an ASP offering and a traditional licensing agreement, and then compare the two. The trade-offs around issues such as infrastructure cost, administrative complexity, data centre operations and staffing needs must be recognized.

This exercise of building a business case forces the enterprise to make the license-versus-rent decision. Only by correctly measuring these real costs and then comparing them to the pricing model of an ASP will brokers get an accurate comparison of in-house versus outsourced solutions.

Selecting an ASP deserves the same attention and due diligence as any traditional vendor selection or business contract. One of the first decisions to be made is whether to use a specialist or generalist. Some ASPs, such as Keal, specialize in the use of particular software for a particular industry. All the necessary terminology and "rules" have been predefined. The ability to contract with this type of ASP can give brokerages a big advantage. Their implementation cycle will be greatly reduced and the return on investment can be significantly improved.

Ask yourself – does the ASP in question have direct knowledge of the p&c insurance industry? Does it have familiarity with broker management systems, commercial management systems or EDI? If a broker experiences a technology-related problem, should he or she call the ASP or the BMS vendor?

At an ASP firm like Keal, that problem is taken care of because they are one and the same for dozens of brokers. They understand the main operating systems that brokers regularly use because they develop and support their own BMS and CMS solutions. Yet they can also provide the accessibility and security of an ASP.

When evaluating an ASP, it is important to not only evaluate the application and service

level offerings, but the vendor's overall viability and track record. How long has it been offering its services as an ASP? How many clients does it have within the industry or brokerage profession? An ASP vendor with a commitment to insurance is a lower risk alternative, in the sense that it will not likely abandon insurance market for other opportunities.

Selecting an established insurance ASP vendor that offers ASP services and has extensive experience hosting applications can also mitigate risk. If its ASP offering fails or you decide that traditional hosting or licensing the product is a better approach, the vendor should be in a position to accommodate those needs.

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The same point applies to security and standards. The brokerage is ultimately responsible for meeting security and standard requirements, so it should be careful to select a vendor that is committed to meeting stated expectations. Also in negotiating contracts, service level agreements should be used to commit vendors and ASPs to both quality and performance levels. Data ownership and access also require attention. Since data resides at the ASP site, access to and the ownership of the data must be specified.

Important Questions

The following questions can help brokers make an informed ASP vendor selection:

1. What experience does the ASP have in the p&c insurance market – i.e. age, size, customer base and references, help desk and technical support experience, average ASP staff tenure, etc.?

2. What level of service does the ASP offer?

3. Who are the ASP partner(s) and level of experience?

4. What is its pricing model – Are upgrades included in the cost?

5. What type of response time can be expected – Does the ASP guarantee network performance or only system and application performance?

6. How are software upgrades performed – Who verifies the configuration?

7. How will ASP software interact with currently installed applications, such as BMS, company EDI, Web portals, etc.?

8. Does the ASP understand the privacy and security needs of the insurance industry?

9. Is the application stored on a dedicated or shared server?

10. What type of connections are available – Internet, secure line, VPN?

11. What types of hardware and software are required at the client site?

12. Will the application scale – How many users can the ASP handle given brokerage growth?

13. How does the ASP handle security – firewalls, encryption, email spam filters, tunneling or physical locks, personnel selection, training, and audits?

14. Who is hosting the data and how will it be backed-up – ASP or subcontractor?

15. How often is its disaster recovery plan practiced?

Final Thoughts

In today's competitive marketplace, insurance brokers face a broad array of challenges and threats – from writing new business to providing exceptional service to retaining market share with the increased presence of direct insurance groups. One of these challenges is clearly how brokers invest in and maintain their technology.

To understand whether an ASP model will work for their brokerages, principals must first clearly measure and define IT spending in terms of time, money and resources. It is not enough to simply make a thumbnail estimate of how much a brokerage spends on its technology infrastructure and services. To aid a company with this estimate, Keal offers complimentary cost consulting. Once a comprehensive measurement is obtained, brokers can compare in-house IT spending with outsourced alternatives, such as an ASP.

The ASP model presents the broker with several key advantages. First, it simplifies a company's technology spending on hardware, software, servers and maintenance – and fixes certain costs, such as per-year expenses and IT staffing issues. Second, it can boost productivity by freeing invaluable brokerage staff time to focus on marketing, new business and customer service. And lastly, ASPs give brokers access to leading-edge applications, software, data recovery and business continuity services, providing guaranteed performance for up-time and contingency plans in the wake of a disaster.

Brokers must conduct a thorough evaluation of their technology needs to pinpoint the right solution for them – and the right vendor. There are several critical factors to consider and important questions to address before embarking on an ASP decision. However, once many brokers begin to compare the unpredictable and often unexpected costs of their in-house IT solutions and the headaches that come with upgrades, installations and backup, an ASP can be a welcome relief. In fact, most brokers who try this model would never go back to an in-house IT model.

First and foremost, an ASP should give you the time to get on with your business of being a broker, the ability to predict fixed IT costs and access to the latest in technological applications and networks. Is that what you are getting now?

About Keal

For over 30 years, Keal has been a leading software application developer and ASP provider. Their focus is exclusively on the insurance and financial brokerage marketplace. Keal is the first 'Microsoft Gold Certified Partner' in Canada and as such works closely with Microsoft to deliver up-to-date, robust applications. Keal's products are the most technologically advanced both in development tools and deployment architecture. Amongst their products, sigXP™ acts as the CRM and personal/auto/habitational policy management system, integrating with comXP™, a CMS (commercial management system), and dokXP™, a document management and scanning solution. Keal is the exclusive distributor for Nexisys, providing a single entry multiple company interface (SEMCI); lifeXP™, life insurance management; and premiumXP™, premium financing management. All products are developed uniquely for the Canadian marketplace in both official languages. In addition, they offer consulting on workflows using Keal's 'Best Practices'. They are 100% Canadian owned and operated, servicing their clients from offices throughout Canada and are headquartered in Concord, Ontario. For more information visit www.keal.com

This White Paper was prepared by Keal Technology to inform brokers of the ASP model. It is intended for educational purposes only and does not constitute specific technical or legal advice. Brokers should consult a specialized ASP provider for more information related to their specific circumstances. If you would like more information or to discuss an ASP solution for your brokerage, please contact Renée Durepos at Keal, renee.durepos@keal.com or 1-800-268-5325, ext. 3884