

# Cloud-Based Insurance Suite

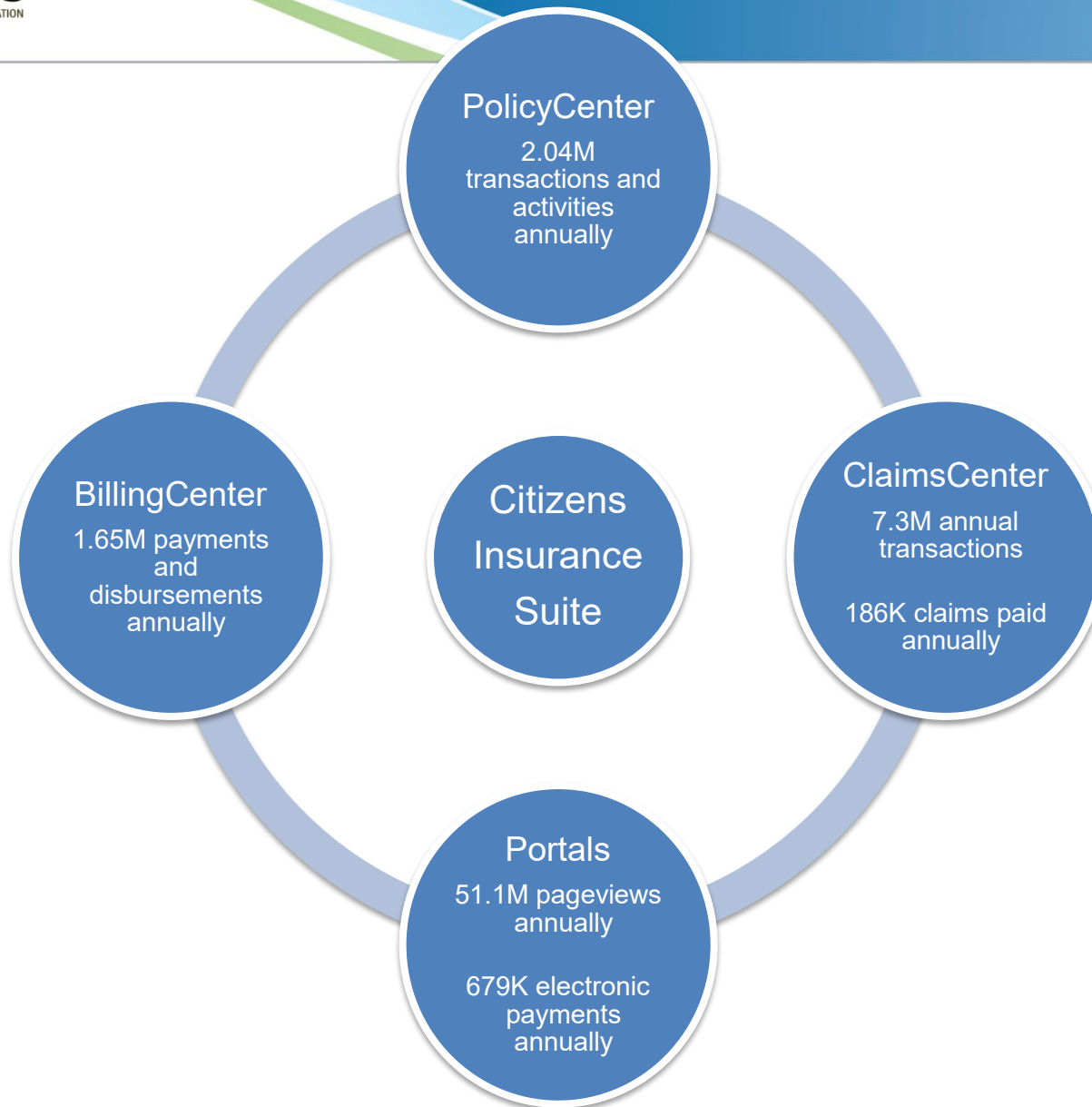
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- In 2009, Citizens issued Invitation to Negotiate (“ITN”) No. 09-0131 for Core Insurance Software to replace multiple legacy systems. In 2011, Citizens’ Board of Governors approved a contract award to Guidewire Software to provide on-premise software, implementation, and ongoing support / consulting services for a Core Insurance Suite which consolidated policy, billing, and claims operations.
- In July 2011, a fifteen-year agreement was executed with Guidewire for an amount not to exceed \$47M. The Core Insurance Suite, Guidewire Version 7, was fully implemented in 2014 and internally rebranded as Citizens Insurance Suite. Citizens currently operates Version 9. Under the current Guidewire agreement, Citizens has a perpetual license for the software. A separate agreement for technical support from Guidewire is paid annually and is scheduled to end July 2026.
- From July 2011 to June 2023, Citizens obtained authority to spend an additional \$68M for various Guidewire and third-party services to maintain, enhance and expand the system to scale with Citizens’ business needs. The total spend to date is \$115M.
- In 2021, Guidewire notified Citizens of Guidewire's transition to a cloud-based solution with a limitation on future enhancements and support of on-premise software beyond Version 10. Guidewire proposed to transition Citizens to the cloud-based delivery solution, which, based on DWP projections, could have cost Citizens more than **\$235M** over a 10-year period.
- Based on the 2021 proposal and the associated price being unacceptable to Citizens, Citizens issued ITN No. 22-0018 for a Cloud-Based Insurance Suite in 2022 to obtain competitive vendor solutions and pricing to replace the current Citizens Insurance Suite. As a result of the ITN, Citizens negotiated with responding vendors Duck Creek (product) / Cognizant (implementor) and Guidewire. The five-person ITN Negotiation Team unanimously recommended Guidewire as the primary vendor.
- As a result of the ITN Negotiation Team’s extensive negotiations with both vendors, Citizens obtained pricing that is an estimated **\$150M** lower than Guidewire’s initial 2021 proposal for services over a 10-year period.



- Most, if not all, software service providers are moving to “the cloud” or “software as a service” (SaaS) which, as a benefit to such providers, increases customer retention.
- While SaaS solutions are generally priced higher than traditional on-premise software, significant Citizens’ benefits include:
  - Scalability: capability to quickly scale up or down in response to changing market conditions or CAT events. (Subject to a minimum revenue commitment)
  - Resilience: offers an infrastructure with high redundancy, uptime, and advanced disaster recovery mechanisms.
  - Innovation: frequent, regular enhancements reducing Citizens' upgrade burden while offering a faster adoption of new capabilities.
  - Security: providers invest heavily in security measures and employ dedicated teams to protect systems, infrastructure, and customers’ data from emerging threats.
- Specific to the Guidewire cloud-based solution, Citizens will have the additional benefit of “migrating” (versus a “ground-up” implementation) from the Guidewire on-premise product which reduces risk as a result of, for example, existing capabilities and logic, integrations, and staff experience.

# Examples of Enhanced Capabilities

- **Enhanced Customer Experience:** Improved features provide for a comprehensive customer view across underwriting, policy administration, billing, and claims processes. For example, an improved customer experience from first notice of loss through claim resolution including development of a conversational and multi-channel user interface which guides customers through a seamless claim resolution experience.
- **Faster Time to Market:** Reduces time required to develop, test, and launch new capabilities. Estimated implementation is eighteen to twenty-four months. Enhanced configurability / scalability allows Citizens to quickly adapt to changes in market demand and statutory requirements.
- **Advanced Digital Portals:** Enables capabilities that improve workflows and ability to self-serve for agents and policyholders and increases operational efficiencies (e.g., reduction of print-mail).
- **Intelligent Workflows:** For example, “Claims AutoPilot” not only benefits customers for faster resolution but also adjusts through predefined rules and intelligent routing, thereby reducing manual effort, eliminating bottlenecks, and accelerating claims processing.
- **Value-add, Predictive, and Visualized Risk Data:** “HazardHub” provides comprehensive risk data (which may replace existing procured data) and allow for faster and more accurate underwriting. Additionally, predictive models and data visualizations improve underwriting, workload management, process efficiency, and enable a “system of insight” where employees can make smarter decisions on claims, submissions, sales, and service management.
- **Improved / Advanced Reporting and Dashboards:** Curated datasets provide for visualizations that monitor active submissions, conversions, underwriting issues, open claims activities and cycle times, manage adjuster workloads and open claims inventory, optimize performance across teams, trends, workloads, and processing efficiency.
- **Artificial Intelligence:** AI-powered capabilities equipped with automated analysis, anomaly detection, geo-spatial views, monitoring, alerting, and search capabilities in natural language to get instant answers to data questions.
- **Advanced DevOps Capabilities:** Supports advanced DevOps practices like continuous integration/continuous deployment, enabling quicker deployment of new features and bug fixes, and therefore, improved product quality.

Given the complexity in predicting Citizens' future policy count and Direct Written Premium (DWP), the ITN Negotiation Team considered scenarios estimating growth and depopulation to identify a flexible, best-valued SaaS solution. As statistically valid projections were not available to provide reliable DWP forecasts beyond a period of two-years, models (which are not represented to be actuarially or statistically accurate) were developed to identify two potential outcomes.

<b>Estimate Expenses (years 1-10)</b>	<b>Constant DWP Model *</b>	<b>Historical DWP Model *</b>
Subscription Services Fee	\$156,880,338	\$95,283,649
Implementation Services Fee	\$4,296,000	\$4,296,000
Post-Implementation Professional Services	\$2,400,000	\$2,400,000
<b>Subtotal</b>	<b>\$163,576,338</b>	<b>\$101,979,649</b>
Implementation & Post-Implementation Contingency (20%)	\$1,339,200	\$1,339,200
<b>Total</b>	<b>\$164,915,538</b>	<b>\$103,318,849</b>

\* In the Constant DWP model, statistically projected premium values were used for the first 2 years with the DWP then held constant for the remaining 8 years of the contract term (ten-years total). In the Historical DWP model, a \$6.75 billion DWP cap was used. The Subscription Services Fee is based on projections of Direct Written Premium (“DWP”) using the growth and reduction model beginning in 2007.

Approve the recommended award for a Cloud-Based Insurance Suite to Guidewire for an initial term of ten-years for a contract amount not to exceed \$103,318,849 which includes the (i) a SaaS subscription; (ii) implementation services; and, (iii) post-implementation professional services as needed for operational / technical assistance.

The ten one-year optional renewal terms are not requested in the Action Item because of the uncertainty of projecting DWP ten years into the future. For awareness, Guidewire's pricing in the renewal years is higher than Duck Creek's offer and would likely make Guidewire's offer more expensive to Citizens over a full 20-year period. However, Citizens will have no obligation to renew the Guidewire contract and will have the opportunity to renegotiate renewal pricing before the initial term ends and anytime during the renewal terms. Authority for any contract renewals will require Board review and approval prior to exercising the optional renewals.

Citizens estimates an additional \$4.6M will be required for third-party implementation expenses (for example, staff augmentation). Funding for these expenses will be requested separately as needed.

# Executive Summary

Information Systems Advisory Committee, June 27, 2023

Board of Governors Meeting, July 12, 2023

## Cloud-Based Insurance Suite

### Topic

This Action Item requests Board approval to enter into a contract with Guidewire Software, Inc. (“Guidewire”) for a Cloud-Based Insurance Suite (“CBIS”). The contract will include: (i) a Software-as-a-Service (“SaaS”) subscription; (ii) implementation services; and, (iii) post-implementation professional services as needed for operational / technical assistance. Guidewire was selected through the Cloud-Based Insurance Suite Invitation to Negotiate (“ITN”) No. 22-0018. The initial term of the contract is ten years. Citizens staff is requesting authority for an amount not to exceed \$103,318,849 for the initial term of ten-years. Authority for the ten optional one-year renewals will require separate Board review and approval and will be presented prior to exercising any renewals.

### History

Citizens currently uses on-premise Guidewire software to provide the essential technologies and services that support Citizens’ underwriting, claims, and billing functions. Citizens’ contract for the current Guidewire software was approved in 2011 for a term of fifteen-years and an amount not to exceed \$47M. From July 2011 to June 2023, Citizens obtained authority to spend an additional \$68M for various Guidewire and third-party services to maintain, enhance and expand the system to scale with Citizens’ business needs. The total spend to date is \$115M.

Citizens’ current technical support agreement with Guidewire is scheduled to end in July 2026. As part of Citizens’ “cloud first” IT strategy, Guidewire was approached in 2020 to discuss moving from the Version 9 on-premise system to Guidewire’s cloud-based solution. At that time, Guidewire’s proposed price to transition Citizens to Guidewire’s cloud-based solution was not acceptable to Citizens and a strategic decision was made by Citizens to release the ITN to evaluate competitive vendor solutions and pricing in the current market.

Citizens released the ITN on September 13, 2022. Eleven vendor responses were received and evaluated. On January 5, 2023, seven vendors were advanced to negotiations. On June 1, 2023, Citizens received best and final offers from the two vendors that the Negotiation Team focused on: (i) Cognizant Technology Solutions U.S. Corporation (“Cognizant”) implementing the Duck Creek Technologies (“Duck Creek”) product; and, (ii) Guidewire implementing the Guidewire product.

The focus of the Negotiation Team was to identify the vendor(s) that provide the best value to Citizens based on product features and functionality, implementation services, ongoing operational / technical support services, contract terms and conditions, and total cost of ownership. Both Duck Creek and Guidewire are market leaders with capable solutions and significant industry experience specifically in the Florida insurance market. On June 13, 2023, the Negotiation Team recommended Guidewire’s proposed solution for various reasons, including: (i) ability to meet Citizens’ business needs without requiring customization and functionality beyond the base solution; (ii) a predictable implementation path with less potential disruption to Citizens’ operations; (iii) a smooth transition for existing integration points; and, (iv) Guidewire’s knowledge of Citizens’ unique business needs regarding depopulation efforts. The Negotiation Team also recommended a contingent award to Duck Creek (product) and Cognizant (implementation and ongoing support) in the event Citizens cannot finalize a contract with Guidewire or if the contract is terminated for cause by Citizens.

The CBIS Pricing Model (Table 1) sets forth the projected spend for the ten-year initial term with Guidewire. The Subscription Services Fee is based on projections of Direct Written Premium (“DWP”) using the growth and reduction model beginning in 2007.



# Executive Summary

Information Systems Advisory Committee, June 27, 2023

Board of Governors Meeting, July 12, 2023

Item	Ten-Year Initial Term
Subscription Services Fee	\$95,283,649
Implementation Services Fee	\$4,296,000
Post-Implementation Professional Services	\$2,400,000
<i>Subtotal</i>	<i>\$101,979,649</i>
Implementation Services and Post-Implementation Services Contingency (20%)	\$1,339,200
<b>Total</b>	<b>\$103,318,849</b>

Table 1 – CBIS Pricing Model.

Authority for the ten one-year optional renewal terms are not included in this Action Item request because of the uncertainty of projecting DWP ten-years into the future. For awareness, Guidewire's pricing in the renewal years is higher than Duck Creek's offer and would likely make Guidewire's offer more expensive to Citizens over a full 20-year period. However, Citizens will have no obligation to renew the Guidewire contract and will have the opportunity to renegotiate renewal pricing before the initial term ends and anytime during the renewal terms.

Citizens estimates an additional \$4.6M will be required for third-party implementation expenses such as staff augmentation costs. Funding for these expenses will be requested separately, as needed.

## Recommendation

The recommendation is stated in the attached Action Item.

## Cloud-Based Insurance Suite

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other** \_\_\_\_\_

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval**

**Other** \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

<b>Purpose/Scope</b>	<p>This Action Item requests Board approval to enter into a contract with Guidewire Software, Inc. for a Cloud-Based Insurance Suite. The contract will include: (i) a Software-as-a-Service (“SaaS”) subscription; (ii) implementation services; and, (iii) post-implementation professional services as needed for operational / technical assistance. Guidewire Software, Inc. was selected through the Cloud-Based Insurance Suite Invitation to Negotiate No. 22-0018. The initial term of the contract is ten years.</p> <p>Citizens staff is requesting authority for an amount not to exceed \$103,318,849 for the initial term of ten-years. Authority for any contract renewals will require separate Board review and approval.</p>
<b>Contract ID</b>	<p>Contract number: 23-22-0018-00</p> <p>Recommended vendor: Guidewire Software, Inc.</p>
<b>Budgeted Item</b>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>
<b>Procurement Method</b>	<p>On September 13, 2022, Citizens issued Invitation to Negotiation No. 22-0018 for Cloud-Based Insurance Suite. Eleven responses were received and evaluated. On June 1, 2023, Citizens received best and final offers from the two vendors that the Negotiation Team focused on: (i) Cognizant Technology Solutions U.S. Corporation implementing the Duck Creek Technologies product; and, (ii) Guidewire Software, Inc. implementing the Guidewire product. On August 13, 2023, the five-member Negotiation Team unanimously recommended an award to Guidewire Software, Inc.</p>
<b>Contract Amount</b>	<p>The contract amount for the ten-year initial term shall not exceed \$103,318,849. Citizens staff shall request authority from the Board prior to exercising any renewals.</p>

## Cloud-Based Insurance Suite

<b>Contract Term</b>	The contract will have a ten-year initial term. Authority for the ten one-year optional renewal terms will be requested of the Board prior to exercising any renewals bringing the total potential term to 20 years.
<b>Committee Recommendation</b>	Staff proposes that the ISAC Committee review, and if approved recommend the Board of Governors: <ul style="list-style-type: none"><li>a) Authorize the Cloud-Based Insurance Suite contract with Guidewire Software, Inc. for an initial term of ten-years and an initial term amount not to exceed \$103,318,849 as set forth in this Action Item; and,</li><li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li></ul>
<b>Board Recommendation from Committee</b>	If approved at its June 27, 2023 meeting, the ISAC Committee recommends that the Board of Governors: <ul style="list-style-type: none"><li>a) Authorize the Cloud-Based Insurance Suite contract with Guidewire Software, Inc. for an initial term of ten-years and an initial term amount not to exceed \$103,318,849 as set forth in this Action Item; and,</li><li>a) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li></ul>
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