



Making a Business Case for Modernizing Core Systems for the US Retirement Industry: Value Beyond Cost Savings from a Cloud-enabled Recordkeeping System

Insurance IT Services

Market Report – May 2020: Complimentary Abstract / Table of Contents

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Background and scope for our analysis of the US Defined Contribution (DC) 401(k) recordkeeping market

- Defined Contribution (DC) assets have grown from US\$4.8 trillion in 2010 to reach US\$8.9 trillion through the end of 2019, accounting for around 27.5% of the US\$32.3 trillion of US retirement assets. The DC market continues to grow at a faster rate than rest of the retirement industry. A flux of regulatory requirements, evolving customer needs, industry consolidation, stable growth in assets and revenue, and sustained need to reduce costs have been the key highlights of the DC industry over the last few years
- Plan administration, investment management, and advisory are three core business functions of the DC retirement market. Low interest rates and the current pandemic are causing high degree of uncertainty and pressure on the investment management and downstream custodian businesses. The advisory function is constantly scrutinized for its fiduciary duties and the ability to provide digital and automated advisory services. The plan administration function struggles with legacy technology systems, increasing costs, and the lack of agility to respond to customer demand themes and compliance requirements
- This report deep dives into the recordkeeping function, the core component of the plan administration business function. We analyze key business and technology issues and provide a business-case for modernization of recordkeeping systems
- The Covid-19 crisis will push for an accelerated recordkeeping modernization journey to not only aggressively take out costs, but also to build a modern, data-driven, and resilient system that can respond to and withstand future crisis situations
- In addition to identifying the business benefits of a cloud-first modernization model, we also cover alternative approaches for core systems modernization in our analysis

Scope of this report



Industry
Insurance



Market segment
Defined Contribution (DC) 401(k) recordkeeping



Geography
United States



Sources
Everest Group’s ongoing tracking of the retirement industry, public disclosures, and interactions with enterprises, service providers, and technology vendors

Recordkeeping software vendors covered in this report:



Executive summary



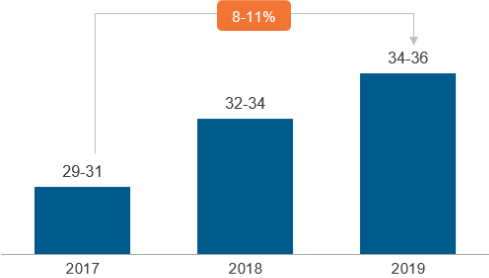
- Recordkeeping contributes US\$6-US\$8 billion revenue to the US DC market, which is growing at a healthy rate of 8-11%
- The Covid-19 crisis is exacerbating the strain on an already stressed profitability of the US DC recordkeeping industry
- Recordkeepers struggle with profitability due to fee compression, slow digital adoption, and high compliance cost caused by legacy systems
- Cloud-based modernization of recordkeeping systems can generate an annualized cost yield of US\$850-US\$930 million and enable better experience
- Lack of an end-to-end cloud-ready retirement administration core system across vendors and retirement firms is an industry whitespace

This study offers two distinct chapters providing a deep dive into key aspects of the US retirement recordkeeping market; below are four charts to illustrate the depth of the report

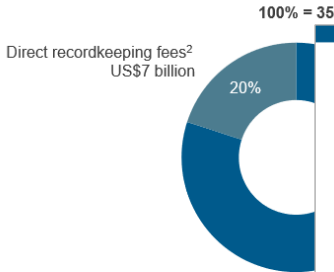
Recordkeeping contributes US\$6-US\$8 billion revenue to the US Defined Contribution (DC) market, which is growing at a healthy rate of 8-11%

US DC market size (revenue)
US\$ billion

XX% CAGR



Split of US DC market size
2019; US\$ billion



- DC revenue grew at a significantly sharper rate in the last three years (8-11%) as compared with the L&A insurance industry (0-1%). Approximately 401(k)s
- Recordkeeping is an important cog in the wheel in the DC segment for effective plan administration and participant servicing, generating around 10% of the DC market revenue. The recordkeeping business faces significant profitability pressure and revenue from other areas such as investment management or advisory fees. The cost of recordkeeping services in the industry
- The retirement industry is in dire need to drive innovation in the recordkeeping business to create alternative revenue channels and drive significant growth

¹ Includes management fees from investment products (excludes group annuities), which are manufactured by recordkeepers and distributed through a plan; also includes revenue manufactured by recordkeepers

² Includes revenue accrued only from plan administration fees that recordkeepers charge; revenue generated by recordkeepers from investment management or advisory fees

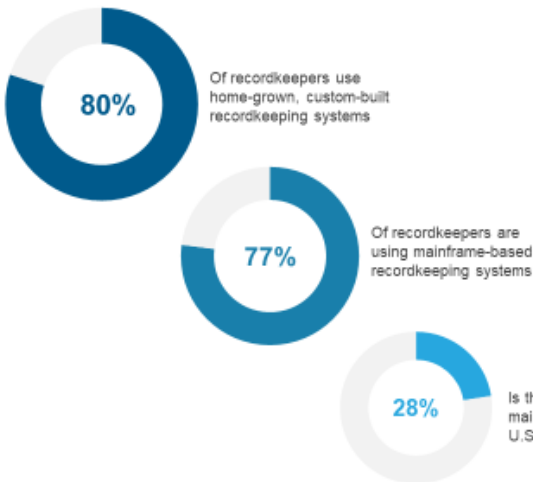
Source: Everest Group (2020) and Investment Company Institute (ICI)



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A high incidence of home-grown, legacy, and mainframe-based recordkeeping systems are the root cause of profitability and customer experience issues

In 2019, the top 10 US DC recordkeepers held 73% of the total assets and served 66% of the industry's participants. Everest Group analyzed the recordkeeping systems landscape of the top 10 US recordkeepers to identify the key challenges:



Challenges of legacy recordkeeping technology

- The high cost of running and maintaining legacy systems has squeezed recordkeeping margins
- Recordkeepers are struggling to keep in compliance with new regulations and legislations as regulatory rules are hard-coded in legacy systems
- Acute talent crunch in the US to service mainframe-based recordkeeping systems is hitting recordkeepers hard and slows down their ability to keep up with customer demands or the need to take out costs
- Recordkeepers face challenges in providing a compelling online experience to participants owing to the legacy fiab



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Research calendar – Insurance IT Services

Published
 Planned
 Current release

Flagship Insurance IT Services reports

Release date

Life & Annuities (L&A) Insurance Application and Digital Services PEAK Matrix® 2020 – Conflated Growth and Efficiency Agendas	December 2019
Property & Casualty (P&C) Insurance Application and Digital Services PEAK Matrix® 2020 – Coverage, Channels, and Commercial Model Innovation	December 2019
Guidewire Services PEAK Matrix® Assessment 2020 – Setting the Stage for Core on Cloud	May 2020
Guidewire Services – Service Provider Compendium 2020.....	Q2 2020
L&A Insurance – State of the Market 2020	Q2 2020
P&C Insurance – State of the Market 2020	Q2 2020
IT Enablement Services PEAK Matrix® Assessment for Insurance Business Model Innovation 2020	Q3 2020
IT Enablement Services for Insurance Business Model Innovation – Service Provider Compendium 2020	Q3 2020

Thematic Insurance IT Services reports

Guidebook for Blockchain Adoption in Insurance: A Compilation of Insights from 30+ Projects	May 2019
Assessing Digital Experience Platforms in Insurance and Vendor Profiles 2020 – Building SUPER Insurance Experiences to Drive Differentiation and Growth	April 2020
IFRS 17 – Enablers for Seamless Regulatory Transition	April 2020
Making a Business Case for Modernizing Core Systems for the US Retirement Industry: Value Beyond Cost Savings From a Cloud-enabled Recordkeeping System	May 2020
State of Cloud Adoption in Insurance	Q2 2020
Claims Management of the Future – Focus on P&C Insurance	Q2 2020
Policy Servicing of the Future – Focus on L&A Insurance	Q2 2020

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Additional Insurance IT Services research references

The following documents are recommended for additional insight into the topic covered in this report. The recommended documents either provide additional details or complementary content that may be of interest

- 1. Guidebook for Insurers to Solve the IFRS 17 Reporting Puzzle** ([EGR-2019-41-R-3697](#)); 2019. In this research, we provide a comprehensive system-readiness checklist for insurers and analyze 12 leading IFRS 17 technology platform vendors, focusing on their capabilities across accounting, actuarial, and data management. The new reporting standard, IFRS 17, was finalized in May 2017 and is now expected to be introduced on January 1, 2023. Our assessment is based on Everest Group's proprietary transaction intelligence database, public disclosures, and discussions with enterprises, technology vendors, and service providers
- 2. Life & Annuities (L&A) Insurance Application and Digital Services PEAK Matrix® 2020 – Conflated Growth and Efficiency Agendas** ([EGR-2019-41-R-3438](#)); 2019. In this report, Everest Group studied the vision, capabilities, and market impact of 20 leading service providers with respect to their IT application and digital services portfolios in the global L&A insurance sector. The service providers were positioned on Everest Group's proprietary PEAK Matrix® to identify Leaders, Major Contenders, Aspirants, and Star Performers
- 3. Clients Can't Get No Satisfaction: What is Holding Back ROI in Digital Transformation** ([EGR-2020-0-R-3604](#)); 2020. This report delves into the factors underlying enterprises' expectations from service providers in terms of return on investment, and their technology investment priorities. It advises service providers to align their offerings and capabilities with the future investment areas identified by enterprises.

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