



## Guidewire: A Snapshot

**QuickNote Report**  
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(Disclosure: I do not own any shares of Guidewire Software, Inc. Equally important, I am an insurance technology analyst and am not a financial advisor. No comments or opinions in this report should be used as advice to buy or sell shares in Guidewire Software, Inc.)

### Essence

**G**uidewire entered the marketplace as a pure-play P&C insurance systems of record technology vendor in 2001. Within the past few years, the company has extended its strategy to include data, analytic, and mobile capabilities.

We believe this growing portfolio of data-driven, analytic, and mobile solutions is a logical extension of Guidewire's initial strategic intent. Guidewire is striving to put the company in position to better support insurers' seemingly eternal, and still unfulfilled, quest to become customer-centric.

However, Guidewire will continue to face a significant hurdle to generate year-over-year profitable growth: insurance industry inertia to change the various systems currently in use, whether systems of record or other systems (that in many instances are built and maintained by the insurers themselves).

### Flickering lights

You often hear the expression that insurers are spending most of their money "to keep the lights on." But, in truth, the plethora of systems of record that most insurers use is just keeping the lights flickering. You get the feeling that at any moment the lights will stop flickering, possibly produce a last-gasp of momentary brilliant illumination, and with a loud and unsettling crackling pop, go off. Scraped too often. Suffocated by being

buried in too many layers. Listless from too many of their innards extracted to feed market-facing UIs too many times.

### **Constantly in conflict: operation and information initiatives**

The demands of operation and information initiatives are constantly in conflict. Both are equally important to running an insurance company. However, a cynical observer could be forgiven for thinking that doesn't seem to be the situation given insurers' (seemingly perpetual) investments in business acquisition systems and systems of record.

Where and which resources should insurers allocate to operation and information initiatives? What is the "just right for the strategic intent" mixture that enables an insurer to support its existing book of business while simultaneously supporting initiatives to generate revenue from new customers in existing markets and new customers in new markets?

More to the point for this report, how can insurers escape the gravity from the dark hole created by the multiplicity of aged, disconnected, and market-misaligned core administration systems still in use?

Market Insight Group believes that Guidewire is one choice that P&C insurers should consider as their "rocket fuel" to leave the black hole behind them. Of course, if Guidewire doesn't provide sufficient solutions to enable insurers to compete in the rapidly emerging mobile, social media-amplified, customer-driven digital marketplace, insurers will find themselves heading towards a new black hole of inadequacy.

### **A potential cornucopia of customers**

There are thousands of P&C insurers conducting business around the world. Many of the P&C insurers sell more than one major line of business. Each insurer needs business acquisition systems and systems of record for each of the P&C insurance lines of business it sells.

But beware before jumping into a market-sizing trap. After you get some estimates of each of the aforementioned elements, and factor in estimates of age and replacement rates for each type of system, you might think you can now create a relatively clean market size estimate for either business acquisition systems or systems of record. Not so fast. There is another element for the market sizing equation: the reality that many

insurers build the business acquisition and systems of record functionality in-house. You need an inertia factor for your market sizing models.

However, regardless of the inertia factor you decide to use, we agree that the resulting ranges of market sizing estimates (you are continually creating and adjusting a series of estimates, aren't you?) represent a significant business opportunity. Perhaps a technology vendor providing business systems and/or insurance systems of record also needs a Return on Patience (ROP) factor?

## **A strong competitor**

### **Mea culpa**

Before discussing Guidewire's continual journey to grow as a strong competitor providing P&C insurance industry technology solutions and services, I must state a clear "mea culpa." I wrote a research report after Guidewire's January 25, 2012 IPO stating the company would be acquired within 18 months. I was obviously wrong.

However, I continue to believe that any technology vendor with an objective of continual year-over-year profitability that primarily provides systems of record capabilities to insurers, whether P&C or L&A, must have a "Plan B" in their pocket. The vendor's Plan B should encompass at least three choices: significantly expand their strategic intent preferably ahead of market expectations, decide to be satisfied with a flattening stream of revenue, or identify other technology firms that might want to acquire them.

### **Key dates**

Guidewire began operations in 2001. The company gave themselves sufficient time to create, sell, and deploy the crucial components of business acquisition systems and systems of record solutions before going public on January 25, 2012. (See Table 1.)

Note: Market Insight Group defines "business acquisition systems" to include quoting / rating and underwriting capabilities. We define "systems of record" to include policy administration, billing, and claims capabilities.

<b>Table 1: Guidewire key dates</b>	
<b>Key Date</b>	<b>Event</b>
2001	Began principal business operations
2003	Sold initial versions of ClaimCenter
2004	Sold initial versions of PolicyCenter
2006	Sold initial versions of BillingCenter
January 25, 2012	Conducted IPO of common stock
April 19, 2012	Follow-on offerings of common stock
October 22, 2013	Follow-on offerings of common stock
Source: Guidewire Software, Inc. 2014 Form 10-K Annual FY Report	

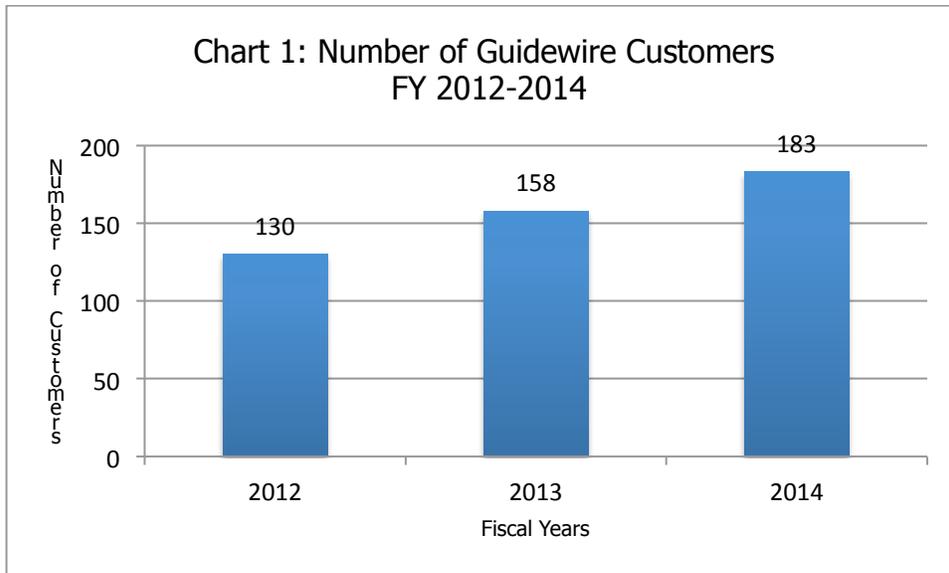
### **30 new customers annually (approximately) since the IPO**

Since Guidewire went public in 2012, the company has on-boarded approximately 30 new customers each year to reach 183 customers as of FY2014. (See Chart 1.) We don't think that is fast enough growth. Understandably, three years represents only a small number of data points but Guidewire goes-to-market globally. If Guidewire focused entirely on the US or North America, the 2012-2014 CAGR of 18.65% would have more of a "wow" factor. We believe the "insurance industry inertia factor" combined with insufficient company-owned resources and partnerships are inhibiting Guidewire from generating higher annual growth.

But Guidewire is hardly the only technology vendor facing these or similar insurance challenges. On December 14, 2014 Majesco, which is a global insurance systems of record player, issued a press release stating it has agreed to a merger with Cover-All Technologies, a P&C insurance systems of record technology vendor. Cover-All provides P&C insurance policy, business intelligence, and claims solutions. Majesco provides systems of record and distribution solutions to P&C, L&A, and health insurers globally.

But to the point of vendors struggling to gain scale in the insurance industry, the Majesco press release stated the combined company, including the insurance consulting business

of Agile Technologies, LLC that Majesco announced it would acquire on December 12, 2014, would have over 150 customers worldwide and over \$100 million in estimated annual revenue. As of FY2014, Guidewire had over 180 customers (as we mentioned above) and \$350 million in annual revenue from only providing solutions and services to the global P&C insurance industry.



Source: Guidewire Software, Inc. Form 10-K 2012, 2013, and 2014 Annual FY Reports

### Major products and services

Since Guidewire began operations, it has introduced the following system of record and business acquisition systems products (products are not shown in order of market appearance). The descriptions are from Guidewire’s 2014 Form 10-K (shown, at times, with our edited versions to remove “marketing adjectives”):

- Guidewire InsuranceSuite: The InsuranceSuite includes PolicyCenter, ClaimCenter, and BillingCenter. Guidewire offers the following applications as add-ons to InsuranceSuite:
  - Guidewire Rating Management: This application enables P&C insurance carriers to manage the pricing of their insurance products.
  - Guidewire Reinsurance Management: This application enables P&C insurance carriers to use rules-based logic to support their reinsurance strategy through their underwriting and claims processes.

- Guidewire Client Data Management: This application enables P&C insurance carriers to access and use customer information stored within the individual components (i.e. PolicyCenter, ClaimCenter, BillingCenter).
- Guidewire Standards-Based Templates: This application enables P&C insurance carriers with the initial implementation and ongoing maintenance of ISO-based insurance products.
- Guidewire PolicyCenter: This is an underwriting and policy administration application that serves as a system-of-record supporting the policy lifecycle, including product definition, underwriting, quoting, binding, issuances, endorsements, audits, cancellations, and renewals.
- Guidewire ClaimCenter: This application encompasses claim intake, assessment, settlement, and processing of claim-related financial transactions.
- Guidewire BillingCenter: This is a billing and receivables application. It automates the billing lifecycle and supports a variety of billing and payment plans, manages agent commissions, and integrates with external payment systems.

#### **Moving into data and analytic solutions**

We believe that Guidewire's extension of its initial strategic intent to now provide data and analytic solutions to P&C insurers is a logical and important step in the vendor's evolution. Guidewire strengthened its commitment in this space by acquiring Millbrook, a provider of data management and business intelligence in May 2013.

Thinking of the data analytic solutions as one coherent portfolio, Guidewire is providing insurers with the capabilities to leverage data trapped within business acquisition systems and systems of record. Hopefully, insurers are using these, and other analytic solutions, to better understand their customers' (i.e. policyholders') needs.

The marketplace is rapidly becoming a mobile, social media-amplified customer-driven digital environment. We believe the Live and Mobile and Portal capabilities described below represent the best opportunities for Guidewire's future growth.

#### **Data and analytic solutions**

The data and analytic solutions are (abbreviated and edited as above from Guidewire's 2014 Form 10-K and the 2013 Guidewire Software Analyst Day presentation deck):

- **Guidewire DataHub:** This is an operational data store that unifies, standardizes, and stores data from an insurer's systems and from external sources.
- **Guidewire InfoCenter:** This is a business intelligence warehouse used to provide P&C insurance carriers that provides information in formats for business intelligence analysis and reporting.
- **Guidewire Live:** This is a capability connecting peer insurers, core systems data, and external data through applications accessible in a cloud-based network. Live encompasses geo-visualization, analytics, and cross-company benchmarking (company names are stripped out of the benchmarking data).

### **Mobile and portal solutions**

In addition to the solutions above, Guidewire also offers mobile and portal solutions. These products provide P&C insurers with the ability to create real-time, self-service portals for people outside the corporate intranet. The portals extend business rules and product models already defined in their Guidewire core systems to P&C insurance carriers' policyholders and vendors.

More specifically, according to a November 4, 2014 Guidewire press release, insurers can use Mobile and Portals to:

- create a consistent customer experience across the P&C insurer's brand
- offer customers straight-through quote and buy functionality on the mobile device of the customers' choice
- offer customers self-service and optimize call center volume (Market Insight Group believes that this won't necessarily happen. If anything, call volume, albeit through the app, will probably increase.)
- streamline the claim experience by enabling claims self-service, improving vendor coordination (i.e. remediation vendors), and reducing claim cycle time. (Market Insight Group will have to see the statistical results to determine if there is actually a reduction of claim cycle time because of this app.)

### **2013-2014 FY customer distribution across systems of record solutions**

Guidewire is experiencing slow but steady growth in the number of customers using each one of its major systems of record solutions. (See Table 2.) We appreciate the fact that

customers “can have it their way” by choosing specific business acquisition or system of record solutions. Not every insurer will want the InsuranceSuite solution.

We’re looking forward to seeing the customer distribution information that Guidewire releases in the FY2015 Software Analyst Day or other materials. Specifically, we’re interested in the number of InsuranceSuite clients as well as the number of clients purchasing ClaimCenter alone or in combination with other core administration components.

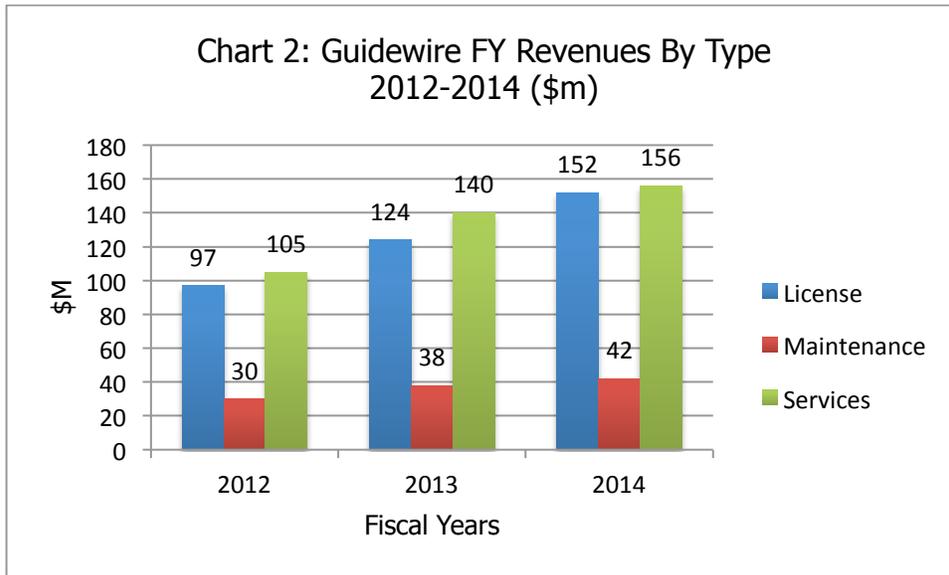
<b>Table 2: 2013-2014 FY customer distribution of systems of record solutions</b>		
<b>System of Record</b>	<b>2013</b>	<b>2014</b>
InsuranceSuite	34	48
PolicyCenter	2	2
ClaimCenter	77	80
BillingCenter	7	8
PolicyCenter and ClaimCenter	6	8
PolicyCenter and BillingCenter	8	8
ClaimCenter and BillingCenter	14	15

Source: 2013 and 2014 Guidewire Software Analyst Day

## **A high-level financial picture**

### **Annual FY revenues by type**

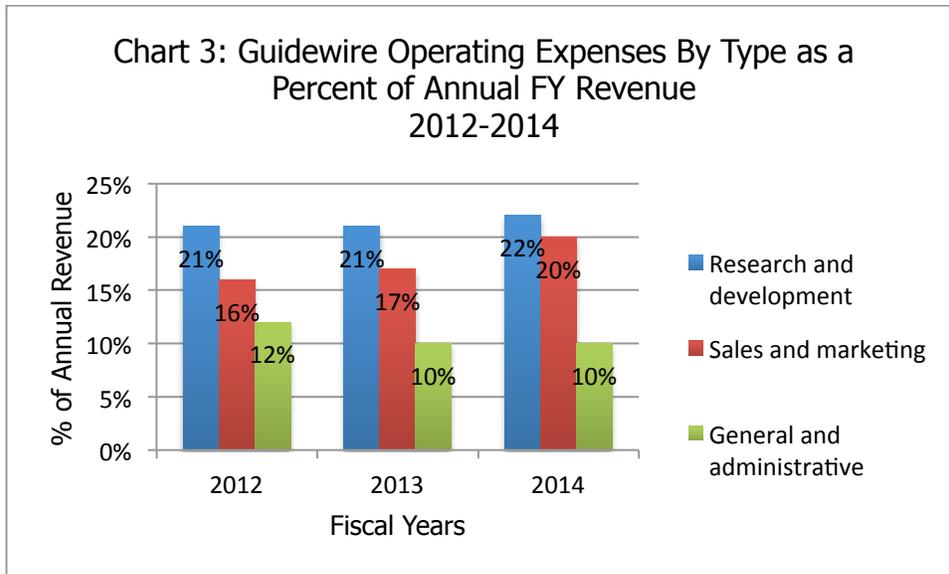
Guidewire has grown from \$232 million in annual revenues from FY 2012 to \$350 million in annual revenues in FY 2014. More specifically, Guidewire is experiencing growth in all three major types of revenue streams (i.e. license, maintenance, and services). (See Chart 2.) However, we believe that Guidewire needs to more quickly leverage its 2013 acquisition of Millbrook to generate higher streams of revenue from BI solutions in the years ahead. The solutions could be analytics embedded in business systems or systems of record or deployed as Live applications.



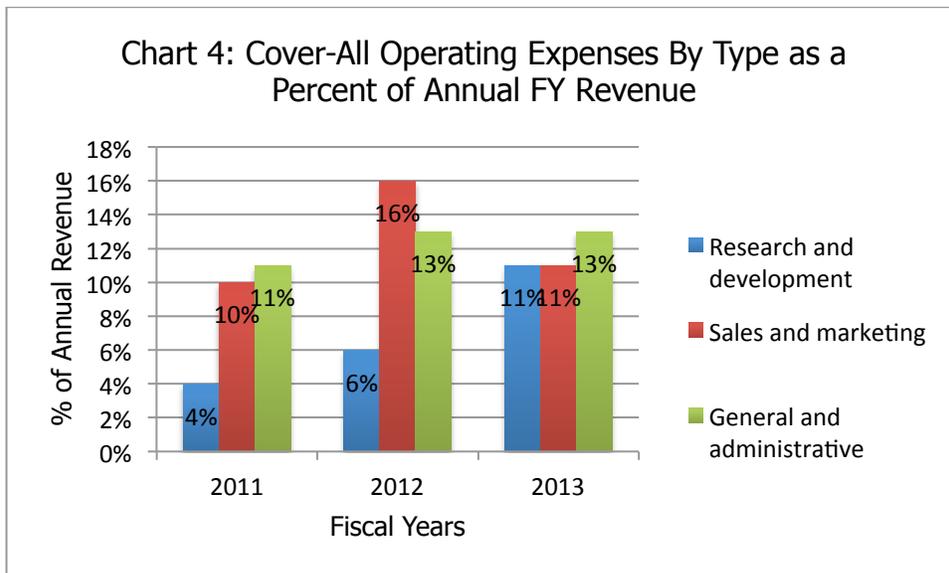
Source: Guidewire Software, Inc. 10-K 2014 Annual FY Report

**Annual FY operating expenses (shown as per cent of annual FY revenues)**

Sales and Marketing expenses are inching up to equal Research and Development expenses. (See Chart 3.) We would prefer higher levels of R&D spending generally, and more specifically, because Guidewire is moving into business intelligence / analytics with the Millbrook acquisition and Live products. For comparison purposes with another system of record vendor only, we show Cover-All’s annual FY three major operating expenses. (See Chart 4.)



Source: Guidewire Software, Inc. 10-K 2014 Annual FY Report



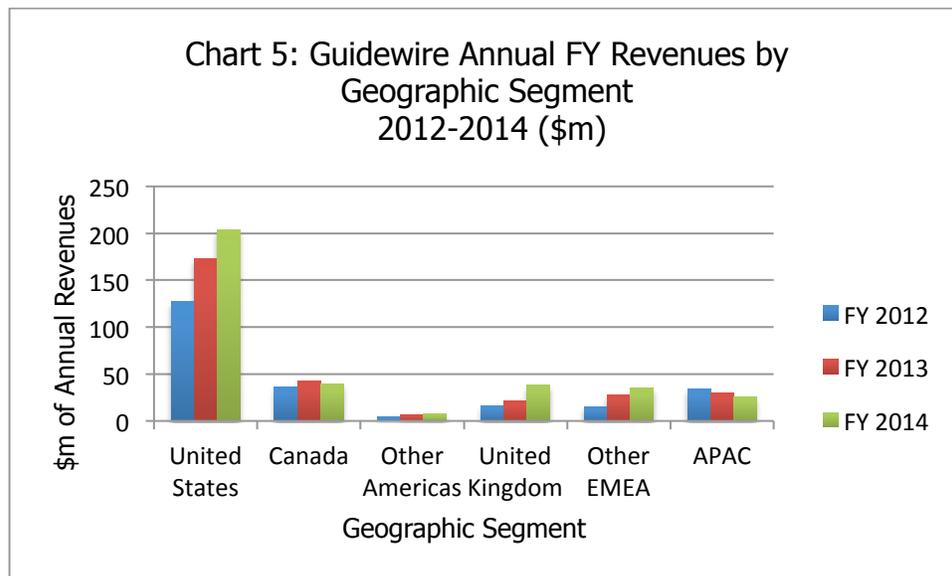
Source: Cover-All Technologies Inc. 10-K 2013 Annual FY Report

### Annual FY revenues by geographic segment

As we stated previously, Guidewire offers its solutions and services to P&C insurers globally. (See Chart 5.) Obviously, Guidewire is growing in the US and if raw numbers of

customers “told the tale” the company has an opportunity to capture many more customers around the world.

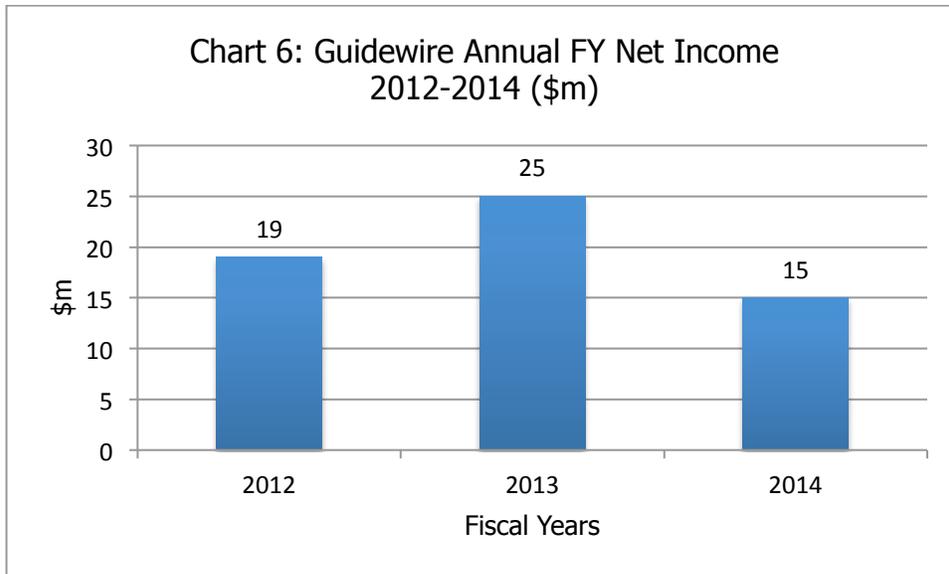
Latin America is obviously missing as a source of current Guidewire customers. We do not know if Guidewire is preparing to go-to-market in Latin America or has potential customers who are currently in various stages of pre-purchase activities of Guidewire solutions.



Source: Guidewire Software, Inc. 10-K 2014 Annual FY Report

### **Annual FY net income: a mixed picture**

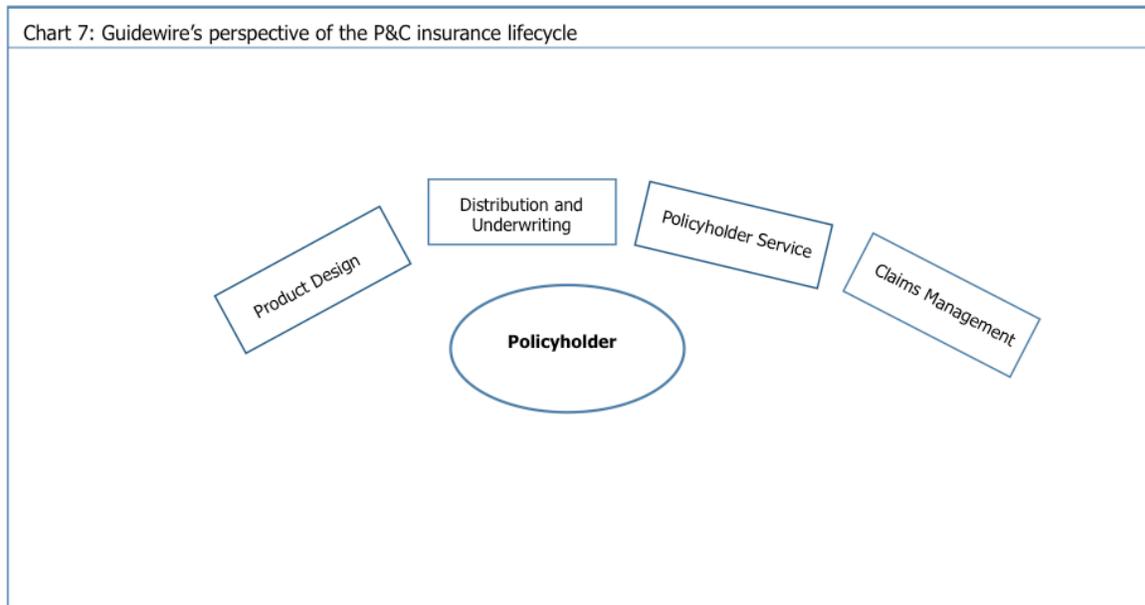
Guidewire has experienced somewhat of an annual FY net income roller coaster from 2012 through 2014. (See Chart 6.) We are looking forward to reviewing the 2015 10-Q reports and the 2015 10-K report to see if Guidewire is smoothing out and/or increasing the company’s net income.



Source: Guidewire Software, Inc. 10-K 2014 Annual FY Report

### **Guidewire' has a myopic definition of the P&C lifecycle**

We believe that Guidewire's definition of the P&C lifecycle is myopic. (See Chart 7.) This perspective is fine as far it goes to justify Guidewire's current solutions, including the vendor's extension into data management, hosted analytics, and information services. However, we would prefer a P&C lifecycle vision that more clearly separates systems of record from systems of engagement activities.



Source: Guidewire Software Analyst Day Thursday, September 18, 2014

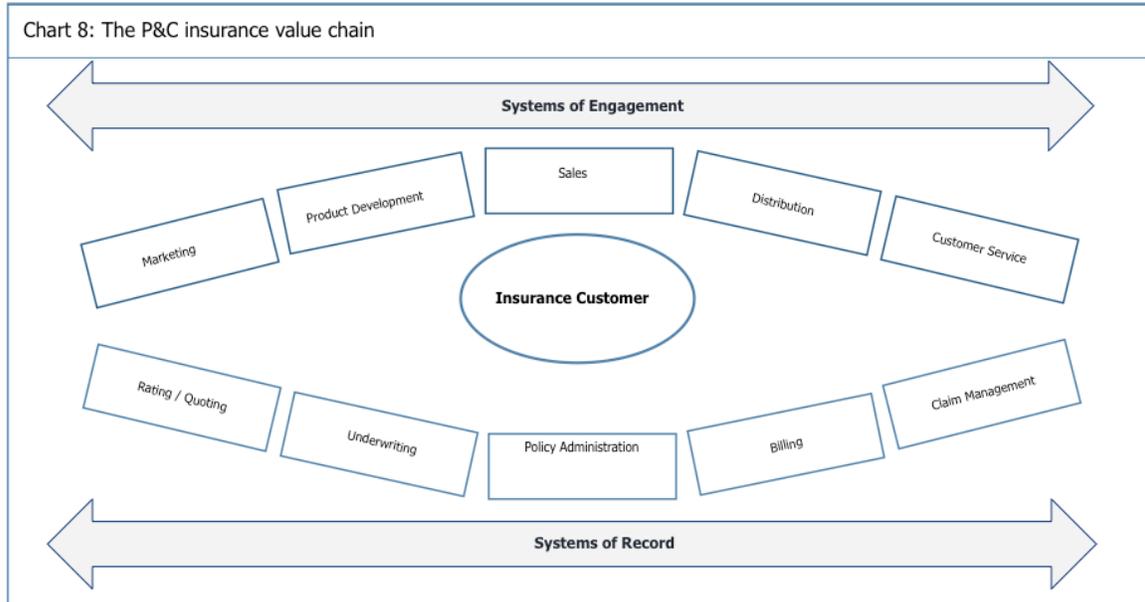
### **Create a future roadmap with more clarity**

Our biggest concern is that Guidewire could miss or ignore other opportunities for new solutions, acquire technology (or information-based) vendors, or establish new alliances and partnerships. We suggest that Guidewire consider using a perspective shown in Chart 8 that separates systems of record and systems of engagement activities.

We believe that using this perspective will enable Guidewire to more effectively identify:

- existing or new areas to create solutions
- technology (or information-based) vendors to acquire
- new alliances and partnerships.

Note that we put “customer service” in both systems of record (i.e. policy administration) and systems of engagement activities.



Source: Market Insight Group, Ltd.

## Market Insight Group's take on Guidewire

We mentioned earlier in the report that Guidewire's biggest hurdle is overcoming insurance industry inertia. Put in strategic terms: Guidewire's best competitive strategy is to continually demonstrate current and future relevance to P&C insurers.

In order to be relevant in the current mobile, social media-amplified, customer-driven digital marketplace, we believe that Guidewire must:

- Innovate – reshape its strategic approach (i.e. more solutions like Live).
- Expand - its partnerships within and across its core solutions to include technology vendors providing solutions to support analytics, mobility, and agents/brokers
- Align - products and services to support the expectations of its customers' customers (i.e. policyholders, agents/brokers)
- Evolve - become a platform player.

Note: We don't consider a "platform" to exist merely because Guidewire states it is a "platform player." We consider a platform to be an environment where other technology vendors can provide solutions that work with Guidewire's systems of record, data

management, analytical, and mobile solutions to create a richer set of solutions for Guidewire's customers.

We believe it would be logical for Guidewire to build a platform (as we define it) primarily for technology vendors that offer algorithms, modeling, and data visualization solutions. Moreover, we believe that Guidewire should consider a partnership with IBM Watson and/or with the newly formed IBM-Apple partnership created to deploy mobile-first enterprise functional apps.

### **Questions which insurers should ask Guidewire**

Insurers should ask Guidewire for references of insurers that:

- had implemented any of Guidewire's business systems or systems of record solutions but decided to move to another technology vendor or build similar core capabilities in-house
- implemented any combination of Guidewire's systems of record solutions
- are using any of the "extended" solutions (i.e., data management, hosted analytics, mobile and portal solutions).

Additionally, insurers should ask Guidewire about the:

- future roadmap as possible, understanding that there could be more sand than concrete under any vendor's future roadmap
- existing and planned partnerships with technology vendors primarily offering information solutions (i.e. decision-making, algorithms and modeling, data providers)
- full list of partnerships (i.e. names, responsibilities, experience implementing Guidewire solutions) as of the point in time considering purchasing any of Guidewire's solutions in Guidewire's SolutionConnect program.

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### **Methodology**

Information for this report came from:

- Public domain material from Guidewire's web site:

- 2014 Form 10-K
- 2013 Form 10-K
- 2012 Form 10-K
- 2014 Form 10-Q
- 2014 and 2013 Guidewire Software Analyst Day presentation decks
- Public domain material from Cover-All's web site, specifically the company's 2013 Annual 10-K report.

## Definitions and descriptions

- BI: business intelligence
- Business acquisition systems: quoting / rating, and underwriting systems
- CAGR: compound annual growth rate
- Core administration systems: policy administration, billing, or claims systems
- FY: fiscal year
- L&A insurance: life and annuity insurance
- P&C insurance: property and casualty insurance
- Systems of record: core administration systems
- System of engagement: customer-facing solutions, including product development, customer service, or agency management systems

## Further Reading

- An Insurance Customer-Facing Value Chain: A Modest Suggestion, October 2014, QN14-003
- 2015-2017 Insurance Trends: Insurers Must Run Faster Than the Red Queen, November 2014, IN14-004

## Let's Talk

Want to discuss the issues in this QuickNote? Please contact Barry Rabkin of Market Insight Group, Ltd. at 508 435-3136 (in the Boston, Massachusetts area) or e-mail [barry.rabkin@marketinsightgroup.com](mailto:barry.rabkin@marketinsightgroup.com). Click over to [www.marketinsightgroup.com](http://www.marketinsightgroup.com) to learn more about our company, our research, and how to subscribe to our research agenda, purchase single copy reports, or engage us in custom work.