

Chapter 10

INSURANCE PRODUCTS AND
SERVICES — EQUIMATICS

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Chapter 10

INSURANCE PRODUCTS AND SERVICES — EQUIMATICS

10.0 INTRODUCTION

As described in Chapter 4, in 1972 Informatics entered into a joint venture agreement with The Equitable Life Assurance Society of the United States for the formation of a computer services company to specialize in and provide software and data processing services to the insurance industry. This company was dubbed Equimatics Inc., and became one of the most successful business achievements of Informatics Inc. Just as the acquisition of Advanced Information Systems and its creation and marketing of MARK IV enabled Informatics to become the major independent software product supplier for large-scale systems during the 1970's, Equimatics enabled Informatics to become the leading supplier of insurance-oriented software products and to become a major data services supplier.

The establishment of Equimatics as a joint venture, its early efforts at performing custom software services for Home Life Insurance Co., its acquisition of United Systems International, and its subsequent merger with Informatics are described in Sections 4.4.4 and 4.5. The activities of Equimatics brought to the Informatics family a new set of successful and very advanced software products designed exclusively to meet the needs of life insurance companies. These products were obtained by the aggressive acquisition of a fledgling company known as United Systems International (USI) which, just as Advanced Information Systems had built the foundation for MARK IV, was gradually developing a comprehensive on-line life insurance policy issue and maintenance system under the direction of its foresighted president Paul Wrotenbery. Headed by Werner Frank as its president, Equimatics became the cornerstone of Informatics corporate development and financial growth in the 1970's. It paved the way for the acquisition of Informatics by The Equitable and the pursuit of an ambitious five year plan. Under that plan, by the total reinvestment for three years of all profits into new products and services, Informatics grew to \$112 million in annual revenues by 1979.

It was through Equimatics that Informatics was able to reenter the data services market within three years after experiencing humiliating financial losses from this market in 1970, after it acquired several batch computer service bureaus (for details see Sections 4.2.5, 4.2.6, 12.2 and 12.3). Sponsorship of The Equitable enabled Equimatics to establish a data center and a timesharing network for insurance-oriented services. Two years later in 1974 when Informatics merged with Equimatics (as described in Section 4.5), the company was able to use this insurance computing services network to bootstrap its way into the broader data services market by providing services to other industries as well.

Equimatics origins began in 1966, when a company in Dallas, Texas, Consolidated Life Systems (CLS) began developing a number of batch modular programs compatible with 62 CFO. The latter was a batch system for the IBM 1400 computers, created in 1962, which had been adopted for use by approximately 50 percent of the top 400 life insurance companies to handle maintenance of records

for "individual life" policies. CFO II was an improved version of this system which ran on the IBM 360 and was released during 1969 by IBM. CLS developed a new business reporting system (1967), an agent's production accounting system (1968), a commission accounting system (1968), a general ledger accounting system (1968), and a credit life system (1969).

In 1969 Consolidatd Life Systems was merged with United Computer Services which, as described in Section 2.1.11, was formed by Spec Bradley in 1968 to offer systems and processing services to the life insurance industry. The new combined entity was renamed United Systems International (USI). New management was brought into USI in 1970 when Paul Wrotenbery and James Porter were recruited from a competitor in Austin, Texas, known at that time as Tracor Computing Company. When CFO II was released, USI created, during 1972, improved versions of their programs and developed additional insurance valuation and policy exhibit systems. The 62 CFO products sold in the range of for \$3,000 for the general ledger system to \$18,000 for the credit life system. The CFO II versions had a narrower price spread ranging from \$5,000 for the general ledger system to \$12,000 for the policy valuation system.(1)

When Equimatics acquired USI in March 1972, it was renamed the United Systems Division (USD) in Dallas, Texas under Paul Wrotenbery, vice president and general manager, and continued to provide insurance software products and associated professional services to life insurance companies nationwide, reporting to Werner Frank. It also provided Texas-based data services to small insurance companies in the Dallas-Fort Worth area.

The other part of Equimatics, the Fairfield Data Services Division in New Jersey under John "Jay" Callanan provided remote data services, mostly to The Equitable. After the merger with Informatics, the Fairfield organization, under Callanan, became the Data Services Division of Informatics Computing Technology Company, reporting to Richard Kaylor. Eventually it became the Data Services Operation of the Data Services Group, as described in Section 12.4.

After the merger with Informatics, the USD organization became The Equimatics Company, with Wrotenbery as president, reporting directly to Walter Bauer. Next it became part of the Industry Applications Group, also under Wrotenbery as group vice president. Later when the Software Products Group was formed, first under Wrotenbery and later under Bruce Coleman, it became the Equimatics Division under Marion "Spec" Bradley. Finally, in September 1981 it became the major part of the Commercial Information Systems Operation (still under Bradley as operations vice president) of Information Systems and Services reporting to Richard Lemons.

The data products and services which the United Systems Division of Equimatics contributed to the insurance industry are described below. Section 10.1 covers software products and their associated programming services. Section 10.2 covers insurance processing services. Both are summarized in Section 10.3.

10.1 INSURANCE SOFTWARE PRODUCTS AND PROFESSIONAL SERVICES

After the acquisition of USI, Equimatics efforts at performing custom programming services unrelated to LIFE-COMM were discontinued. The one big

contract with Home Life, mentioned in Section 4.4.4, was never completed; instead Home Life was persuaded to be a sponsor for LIFE-COMM, which is described below. Equimatics immediately entered the insurance software products business with several on-going products and one major product in development. These products at the time of the acquisition consisted of Mortgage Loan (valued on the balance sheet at \$300,000), Stock & Bond (valued at \$100,000), ISSUE-COMM (valued at \$400,000), and a number of CFO/ALIS policy maintenance and accounting support programs (valued at \$150,000). These products earned \$1,017,000 in revenues during 1972, the first year of operation as USD. It was Wrotenbery's plan to integrate these into a single comprehensive system, LIFE-COMM--Equimatics most successful software product.

By 1974 Equimatics recorded \$3,039,000 in annual revenues from insurance-oriented products, giving an average annual growth rate of 48.7 percent. By 1978 USD's insurance software products and related consulting services were projected to be \$8 million, while the market for these products would grow from \$32 million in 1974 to \$49 million in 1978. In other words, USD's penetration of the market was forecasted to increase from 9.7 percent of the available market in 1972 to 16.3 percent by the end of five years, for an average annual growth rate of 27 percent, and indeed it did.(2)

All of USD's inherited products had been recently developed by USI as an outgrowth of its custom software and consulting efforts with insurance companies over the previous five years. All had been partially funded by sponsor life insurance companies. Equimatics thus obtained a young and growing product line, which had yet to attain its peak sales levels and which could thus increasingly add to the infant company's business. USD initiated development of a workman's compensation claims processing product, a property liability insurance support package, a corporate shareholder accounting system, and general upgrades to Mortgage Loan and Stock & Bond systems. Except for the latter, most of this product development had to be shelved in 1973 due to higher priorities for resources devoted to the implementation of LIFE-COMM. Until LIFE-COMM was released, the majority of USD's product revenues came from sales of the ISSUE-COMM, Mortgage Loan and Stock & Bond products, and professional services associated with them. With the availability of LIFE-COMM, Equimatics planned to offer proprietary data services based upon it to companies which could not afford to buy the product or establish their own data processing operations. The most significant of Equimatics software products are briefly described below.(3)

10.1.1 The LIFE-COMM System

LIFE-COMM evolved from United Systems efforts in developing a number of support programs for IBM's 62 CFO and CFO II policy file maintenance ("daily cycle") software systems. IBM later attempted to offer to the life insurance industry a newer and improved product known as ALIS but it never achieved much penetration of the market. It was purchased by only approximately 10 percent of the available users by 1973. USI made the CFO and ALIS system users market its own by creating enhancements and upgrades to these IBM systems.

USD had two major products, ISSUE-COMM for new policy issue on-line and Stock & Bond for investment management. In 1972 it also released Mortgage Loan with the result that these major products, coupled with the various enhancements

made for CFO II, gave USI an understanding of the requirements required to create a comprehensive and improved policy billing maintenance cycle system of its own which could replace CFO and all its ancillary programs. The opportunity was recognized by Wrottenbery who welcomed merger with Equimatics to financially support development of such a product. All that seemed to be needed technically by the company was the development of a cycle program and the interfaces required to integrate the various programs. However, it was soon recognized that to do the job right, all would have to be reprogrammed which was estimated to require almost two years of work and an investment of \$2,400,000 for development of the product.(4)

The market for LIFE-COMM itself nonetheless was seen as quite high. With the product planned to sell from \$350,000 to \$500,000 per unit depending upon version, its annual revenues were forecasted to grow from \$365,000 (from customer sponsorships for the specification phase) and net loss of \$561,000 in 1973 to \$2,774,000 in revenue and a net annual profit of \$1,382,000 by 1978. The investment stakes were high but the potential profits were worth the risks for the young company, so Equimatics, with lots of cash from The Equitable behind it, decided to support United Systems in developing LIFE-COMM. Even by obtaining customer sponsorship to finance its development, Equimatics still planned to invest \$530,000 itself to insure the products completion. As candidly discussed in the following statement from Wrottenbery's business plan for the product, the effects of LIFE-COMM represented the most important milestone in the history of Equimatics:

LIFE-COMM is a complex, major system which will tax the capabilities and resources of the United Systems Division of Equimatics and which, thus, involves a significant risk. This risk it is believed is understood and the requirements for successful completion of LIFE-COMM are also well understood. Equimatics, through USD, has the experience, the background, the user base, and the existing product line to support the LIFE-COMM development. It is the judgment of Equimatics top management that LIFE-COMM can be successfully completed. It is further the judgment of Equimatics top management that without LIFE-COMM significant limitations exist as to the basic ability of Equimatics to be a leader in the life and health computer services field and certainly to grow at the rate demanded by the Equimatics corporate plan. LIFE-COMM is a very significant milestone in the Equimatics corporate history. There will be others and they will be greater in absolute value because Equimatics will be larger, but none will ever be greater relative to the status of the corporation at the time the decision is made to proceed. Quality companies only grow from quality objectives and quality ideas. LIFE-COMM is a quality objective based on quality ideas.(5)

Convinced of its importance, Werner Frank committed Equimatics to the product announcing the beginning of LIFE-COMM development to company employees with the statement:

We are convinced that this comprehensive system, coupled with the human engineering support required for installation and

operation, will far surpass any system presently available to life insurance companies. We are, therefore, confident of meeting the industry's future needs and thereby living up to our expectation of bringing innovative and realistic ideas to fruition.(6)

With support from Werner Frank, Wrotenbery continued to seek additional customer sponsorship to help finance LIFE-COMM development. He ultimately obtained a total of nine sponsors, including The Equitable Variable Life Insurance Company (EVLICO), Home Life Insurance, and United Fidelity. Each sponsor except Home Life, (which required additional features and invested a total of \$500,000), invested \$13,000 for the design phase of LIFE-COMM and \$175,000 for the implementation phase of the product. In all, Equimatics got commitments for approximately \$2,000,000 in customer sponsorships and was able to complete the design of the product by August 1, 1973. Technical design of LIFE-COMM was directed by Charles "Chuck" Anglin while Spec Bradley directed its sales and marketing.

A fundamental technical decision was made after many interesting debates, and in retrospect may or may not have been the right one. It represented a conflict between technical requirements and marketing judgment. The sponsors, data processing management in medium to large sized insurance companies, had been in the habit of having all their programs written in assembly language coding (ALC), to minimize the use of computer resources. A more modern language, COBOL, was available to make development and future maintenance much more efficient. But fears that the programs would run more slowly and the strong commitment to ALC by Anglin resulted in the selection of assembly language. Ironically, it was not too many years later that prospective customers began to seek a COBOL version as machine resources became less costly. A positive feature of the decision, however, was that the ALC expertise of Equimatics became a source of highly profitable professional services when customers installed the system.

With the customer sponsorships, LIFE-COMM had the distinction of instantly becoming a leader in its field when it was released to the marketplace by virtue of the fact it immediately had more users and total sales than the two competing systems which had been available for three to four years. Equimatics ultimate investment in the product of approximately \$3,000,000 was far more than originally anticipated, but this was offset by LIFE-COMM's many sales at a price of \$350,000 to \$500,000, making it the most expensive and successful large-scale computer software product then available. The product was extremely attractive to all life insurance companies from about the tenth largest (the giants had developed their own systems) down to the four hundredth largest, because it provided a comprehensive on-line data processing system which handled all of the major functions of a life insurance business including policy issuing and maintenance, billing, sales monitoring, financial accounting, commission accounting, agent performance, etc. It was an all-inclusive system which lived up to Equimatics and Informatics expectations and which rapidly became the dominant life insurance system software product in the marketplace. There were 70 users of LIFE-COMM by the end of 1982. In 1981 a major enhancement, Flex-A-Life, was first delivered. It handles all the new life insurance products which challenge the old standard "whole life" policy in the marketplace.(7)

As a by-product of the sale of LIFE-COMM, there developed a profitable business in professional services. Installation of LIFE-COMM was a major project for a customer, initially taking a year or two. The cost of the software product, large though it was, was only a modest fraction of the total cost to the installing company. The customer could not make the installation without the aid of Equimatics personnel to help him plan, configure the system to his needs, provide such custom programming as was mandatory, help convert his files and build a new data base, train his people, etc. Because programmers skilled in LIFE-COMM were so scarce, Equimatics was able to charge premium rates for such assistance. Such revenues ranged from 20 to 50 percent or more of the price for the software product.

10.1.2 The ISSUE-COMM Product

ISSUE-COMM was an "automated data entry and production system for creation, processing, and control of pending [life insurance] applications through policy issue." It interfaced with CFO II. It was developed by USI for a cost of \$700,000, and was released to the market in May 1970. Its initial sales price was \$50,000. Equimatics obtained 37 customers for it by 1974 and 54 by 1977, when it was discontinued. The function performed by ISSUE-COMM is a primary module in the LIFE-COMM system.(8)

10.1.3 Mortgage Loan System

Mortgage Loan is an "inventory and subsidiary ledger system for recording and controlling mortgage loan accounting transactions" made by an insurance company. United Systems developed this product, which was released during the fourth quarter of 1972, for a cost of \$390,000. Its original sales price ranged from \$50,000 to \$150,000.(9)

10.1.4 Stock & Bond System

Stock & Bond is a "management and accounting system that provides multi-company [securities investments] maintenance and reporting functions with multiple portfolios" for investment transactions made by insurance businesses. The product was released to the market by United Systems in September 1970 after a development cost of \$335,000. Its initial sales price was \$15,000.(10)

10.1.5 Other Insurance Products

In 1981 Equimatics began to diversify into products other than its traditional ones listed above. These include GROUP-COMM, The Examiner, and The Top Producer. By the end of 1982 it was too early to assess their success. They have just begun a funded project to migrate LIFE-COMM into a new system, to be called The Financial Manager.

10.2 INSURANCE DATA SERVICES

With the software products of United Systems, use of the products of Informatics and support from The Equitable, Equimatics had enough resources to make a modest entry into the remote data services business. As noted in Section 4.4.4, Equimatics established its headquarters in Fairfield, New Jersey, moving into an unoccupied computer center complete with false floors and the proper

power and air conditioning systems required for large-scale computers. With this ideal site in hand, the company initiated action to enter the data services business. During 1972 Equimatics placed an order for an IBM 370/145 computer for delivery in March 1973. In the meantime, the young company aided its parent organization, The Equitable, in establishing a low-speed computer communications network for The Equitable to supply remote data processing services using its own computers to The Equitable's home offices and cashier offices in 100 locations throughout the United States. This network provided on-line access to CAPS, The Equitable's individual life administration system which maintained on-line policy holder files available for inquiry and update by agents.

Based on that experience, Equimatics believed that if it could successfully supply remote data services using its computer to The Equitable's New York area offices through a small local network of its own, it would be able to extend its data services network throughout the United States by providing time-sharing and remote job entry batch processing to the various Equitable locations and to other insurance companies who required the same service or the capability of one of Equimatics or Informatics software products.

By providing a joint user time-sharing network to a number of customers needing the same type of services, Equimatics hoped to be able to gain business while offering its customers a much lower cost data processing capability than if each were to pay the high communications costs between their various locations. Creation of such a network played an important part in the company's strategy because it was believed to be the means for Equimatics safely to enter and expand into the data services business on a large scale. This concept was seen as a viable opportunity for Equimatics as is best illustrated by the following statement by Werner Frank to his employees in August 1972:

In essence, this is the concept of the information utility. In order to achieve such an objective one needs broadly-based communications and data processing services and hence, a sophisticated communications network. To achieve such a network, in a cost effective environment, it becomes desirable to employ the joint user concept. In order for us to reach this step more quickly, and more economically, it behooves us to take advantage of our present opportunity with The Equitable's own needs and develop such a network under a joint sponsorship. Thus advantages accrue not only to Equimatics but to the joint users themselves, including significant cost savings, a higher performance system, greater reliability and the pooling of technical resources from the point of view of network management and continual network upgrading. Clearly the joint user network can become more efficient and reliable by technology sophistications which an individual company may not be able to justify for themselves.

We, therefore, have an unusual opportunity to move smartly forward in providing an important resource for our future growth, with very unusual and fortuitous financial advantages.

The network, of course, only satisfies half our requirements. Hence, a data processing capability must also become available

as part of such a network, but this is another part of our story. . . .(11)

However, the grandiose scheme for a "shared" user network never was realized. It was also hoped that this data processing capability would be based on "production services" which would be, as explained by Frank:

. . . transaction oriented, proprietary data services, which is one of the long range goals for Equimatics. It is our intent that such services proliferate and become ever more geographically independent with the growth of communication services.(12)

The company soon obtained a contract from The Equitable to provide batch processing services for the Medicare claims which The Equitable was handling for the U.S. Social Security Administration. A communications link was installed between Fairfield and United Systems Dallas operations--the first link in what would become a computer information network based in 12 major cities throughout the continental United States. During its first year of operation, Equimatics Fairfield data center recorded \$1,004,000 in revenue and revenues for the following year were estimated to increase by almost 30 percent to \$1,297,000.(13)

The successful beginning of its data services to the New York area quickly permitted Equimatics to undertake activities to extend its network and capability by November 1973. As it increased its data services business in the first year of operation, the company found the IBM 370/145 computer insufficient in capacity to handle the volume of work obtained from The Equitable and others. It placed an order for a larger capacity IBM 370/158 computer and began consideration of leasing a second computer for backup and dedicated batch processing. Most importantly, Equimatics began devising plans to expand its data service offerings beyond insurance-oriented applications to more generalized services and applications required by other industries.

The insurance data services market itself was perceived as growing at an annual rate of 24 percent from \$130 million in revenue in 1974 to \$309 million in revenue in 1978. Equimatics estimated that its annual revenues would increase at a rate of 40 percent from \$1.3 million to \$5 million during the same period. The company hoped to increase its penetration of the market from 1 to 1.6 percent with an additional investment of \$300,000. While the increase in market penetration was small, Equimatics would be more than tripling its revenues from this insurance market, since the estimated size and growth of all data services was extremely large. It was to this market that both Equimatics and its parent Informatics were especially attracted. The batch service market was projected by Informatics to grow slowly at 6 percent annually from \$749,146,000 in annual sales in 1972 to \$1,067,000,000 by 1978. Although this was still a very large market, the network information services market was projected to grow at an average of 28 percent per year from \$577,377,000 in sales during 1972 to \$2,420,000,000 by 1978. To capitalize on these billion dollar data services markets, Equimatics planned on developing non-insurance data services business.(14)

After the successful implementation of its data center in 1973, Equimatics developed Plan/74 to expand into the data services market on a large scale. This plan was based on extending the Equimatics network through operation of the Equitable's MIDAS network which provided insurance agents on-line access to the Equitable from eight major cities: Los Angeles, Dallas, Chicago, Cincinnati, Atlanta, New York, San Francisco, and Stamford. Through this nationwide network which was in existence, Equimatics could begin offering prospective users batch processing, remote job entry, timesharing, special systems use (MARK IV and other proprietary software for which it planned to acquire licenses), industry specific applications and communications utility services. Equimatics hoped through this expansion of data services to increase its annual revenues from \$2.3 million in 1974 (insurance and non-insurance services combined) to \$30 million by 1979. Before-tax profits for the same period were projected to increase from a loss of \$600,000 during the first year of expanded operations to a profit of \$6.9 million in 1979. Of the 1979 revenue figure, sales of on-line applications were to account for \$13 million while data base services would earn \$5 million, time-sharing applications \$4.6 million, remote job entry services \$2.7 million and batch services \$400,000.

Equimatics itself never accomplished Plan/74 because, before it could be implemented, Equimatics and Informatics merged as a wholly-owned subsidiary of The Equitable (as described in Section 4.5), and the planned Equimatics data services empire became the Informatics Data Services Division, discussed in Section 12.4.2. A scaled-down Equimatics (consisting of insurance-oriented software products and Texas-based Data Services) became the Equimatics Division of Informatics. The nationwide computer network and data services business conceived and given birth by Equimatics was achieved under Informatics. But this would not have happened had it not been for the successful first year of data services operation accomplished by Equimatics in Fairfield. Plan/74 summarized the meaning of this achievement:

A number of unknowns faced us a year ago. We did not know at that time if we could establish a creditable business entity which could indeed could provide production oriented services. It was not known at that time whether we could provide services competitive with existing organizations that have been in business for six to eight years. Also, we did not know if we could plan, and actually carry out against such a plan, a specific development activity leading to the operation of a modern and sophisticated data processing facility. We certainly did not know if we could adequately budget and maintain these budgets. Finally, we did not know if we could price our services on a competitive basis and maintain our costs, such that a profit would be achievable.

The Data Services activity of Equimatics has come through with flying colors with respect to all of the above points. We have, therefore, established a milestone in the long-range plan for this activity. We are now prepared to step off from this milestone and take the next series of steps which will ultimately achieve the long-range goals of the company.(15)

Suffice it to say, the foresight and rapid success of its joint venture company enabled Informatics to again enter the data services market and accomplish one of the most important milestones in its own corporate development. This growth is discussed, outside of the insurance industry, in Section 12.4.

Through the years after the merger insurance data services were provided in various ways. Fairfield-based data services were provided nationwide by the organization under John "Jay" Callanan, headquartered in Fairfield, New Jersey. Its processing was done on computers in the Fairfield Data Center. This organization, along with full responsibility for supporting the customers, became the Data Services Division of Informatics Computing Technology Company immediately after the merger. Texas-based data services were provided by the organization headed by Paul Wrotenbery and later Spec Bradley, headquartered in Dallas, Texas. Its processing was done on computers in Dallas, Fort Worth, Fairfield, and eventually Washington, DC. After the merger the Equimatics Division retained responsibility for insurance industry marketing and customer support, though it sometimes subcontracted the processing to the Data Services Division, and later to the Washington Information Processing Center. Sections 10.2.1 through 10.2.6 below discuss all those services under headings which describe the type of processing supplied.

10.2.1 Texas-Based Batch Data Processing

United Computer Services, one of the predecessors of United Systems International, was doing batch data processing for a number of small insurance companies in the Dallas/Fort Worth area. When Equimatics acquired United Systems International it was still doing this type of work on an IBM 360/40 and two IBM 360/30's. Its major contracts were with Transport Life (the parent of USI, for whom it had a complete facilities management contract), Pioneer American, and United Fidelity for whom it did a major part of their processing. There were two computer installations, one in Dallas and one in Ft. Worth. By the time of the merger Equimatics had built the revenues up to about \$1.1 million annually. After the merger it grew to about \$1.5 million in 1975 and maintained that level for a few years, quite profitably. An IBM 370/145 computer was installed in 1977. However, the work gradually began phasing out. First to go was the Ft. Worth data center. Before 1980 all the remaining business had virtually disappeared and there was no customer base on which to build more modern services. This was foreshadowed by Paul Wrotenbery's quarterly report giving the status as of July 1, 1974:

Batch facilities management or traditional facilities management for the insurance industry is not considered to be a desirable long-term business. . . . The Equimatics long-term objectives are oriented to a utility-oriented processing service. The best description of the current approach within Equimatics would be that Equimatics is currently looking upon the traditional facility management market as purely an opportunistic one and would pursue such an opportunity if identified. Additional effort could be put into identifying such opportunities; however, the planning for and cost effectiveness of such an effort is difficult to define. Currently, Equimatics is operating under the assumption that

the appropriate approach is to assume that all additional effort and investments will be placed in a form to directly contribute to the development of a longer term but more viable utility servicing concept. This clearly decreases the opportunities for short-term revenue growth in processing services; however, any dilution of management time or expense of marketing effort along the more opportunistic batch facilities management line is not, at this time, judged to be the proper route to go. . . . The Fort Worth data center and the two facilities management contracts being serviced out of that center are an extremely profitable venture.(16)

LIFE-COMM development used most of the capacity on the IBM 370 computer, so nothing was done to move towards the "more viable utility servicing concept." In his July 1974 monthly operations report to Bauer, Wagner (disapprovingly) summed it up:

This [business] thrust seems to be suffering from an identity crisis. Although the present facility management approach seems to be growing in profitability, no marketing effort is being put into it because it is in conflict with the idealized concept of offering proprietary services.(17)

Wagner believed that a growing profitable data services business was required to internally fund the investment needed to evolve into proprietary services.

Wrotenbery acknowledged the problem in August 1975 when he wrote:

Planning activities with respect to processing services have continued to receive less than adequate attention. Primarily as a result of the current problems within Equimatics existing business and possibly somewhat as a result of procrastination on the part of the president of Equimatics. Processing services marketing remains a nebulous, undefined situation with which to deal. A think paper in the process of being developed continues to show that caution should be exercised in proceeding into this marketplace too rapidly, and certainly if major investments are to be undertaken. Some recruiting activities have continued which are focused on the need for management and marketing dedication to the insurance processing area.(18)

But the insurance processing services business remained dormant until 1981 when the concept of "bridge processing" was implemented by Spec Bradley, as described in Section 10.2.3 below.

10.2.2 The EVLICO Project

In 1973 Equimatics, anticipating the merger with Informatics, started negotiations for a contract from The Equitable Variable Life Insurance Company (EVLICO), a recently formed subsidiary of The Equitable, established solely for the purpose of underwriting variable life insurance policies--a new form of life

insurance. Equimatics proposed to provide on-line new policy issuing services, utilizing ISSUE-COMM on a timesharing basis at Fairfield, to EVLICO's home office and Equitable agents throughout the nation. In addition, Equimatics would provide remote batch processing, using a modified version of IBM's CFO II system. Its projected 1974 revenue contribution from this service to Equimatics was estimated at \$110,000.(19)

Due to regulatory delays, nothing happened until after Fairfield Data Services had become a division of Informatics Computing Technology Company by mid-1974. Wrotenbery wrote:

The EVLICO contract which is anticipated to begin as a production facility management contract in January 1975 will increase the Insurance Information Processing business base by some \$500,000 a year. Equimatics has had very unsatisfactory negotiations with the Fairfield Data Center in arriving at a proposal to EVLICO based on the utilization of the Fairfield Data Center for computer resources. . . . The basic problem in the utilization of the Fairfield Data Center for the EVLICO processing is that the basic remote job entry, on-line type requirements of EVLICO is not compatible with the time-sharing hardware configuration operation at Fairfield. . . . It is unfortunate that the EVLICO processing agreement which is based on remote location of the computer hardware is not an effective proving ground for the development of an insurance processing service which could be effectively marketed by Equimatics. However, in light of the inability of the Fairfield Data Center to process this work at a reasonable cost, Equimatics is in a position where it is not price competitive with other processing alternatives for a smaller insurance company and, therefore, a viable product has not resulted.(20)

Nevertheless, EVLICO accepted the proposal. Dallas was the prime contractor, buying computer resources from Fairfield. The service was satisfactory and was supplied until almost 1980 (at an excellent profit to both Equimatics and Data Services Division) when the high prices caused EVLICO to install its own computer.

10.2.3 Bridge Processing

With the phasing out of the old facility management batch processing, and the end of the EVLICO contract in sight, Spec Bradley, who had succeeded Paul Wrotenbery as general manager of Equimatics, conceived the idea of "bridge" processing, primarily as a means of making LIFE-COMM sales. As described earlier it was an enormous task in manpower it was to install and to convert to LIFE-COMM. Not mentioned then, but equally important, was the computer resources required during the transition--sometimes double that necessary after installation. Such difficulties were becoming major obstacles to closing a LIFE-COMM sale. And the difficulties were exacerbated for a prospect who did not yet have a suitable IBM computer installed, but who was willing to make the switch. It made the prospect sick to even think about it.

In 1978 Bradley came up with an innovative solution--persuade the customer to buy not only LIFE-COMM and installation support services, but also remote processing on Equimatics computers, until the fully checked-out production processing could be easily emplaced at the customers site. This was the "built-in bridge" from the customers current operations to the much improved LIFE-COMM operation that he really wanted.

This "bridge" processing concept had a modest success. Several contracts were signed, including Employers of Wassau and New England Life. A NAS 5000 computer was installed in Dallas, but the Dallas data center had trouble handling the work and could not afford the prices charged by Data Services Division. However, the Washington Information Processing Center (see Section 12.5.2) had adequate capacity at low prices and was a data center dedicated to the support of customers of other Informatics units. After Equimatics became part of Information Systems and Services in January 1982, all insurance data processing formerly done in Texas (except for support for the development of insurance software products) was transferred with great success to Washington. But Equimatics remained the prime contractor and recorded \$2.4 million in revenues in 1982.

10.2.4 Equitable Timesharing

The first computer acquired by Equimatics was an IBM 370/145 in the Fairfield Data Center. It used a virtual machine operating system called VM. This latter point is significant because it gave Equimatics:

"the first commercially operated system which is capable of operating simultaneously in one or more of the following capabilities under the VM control program: timesharing using the conversational monitor system (CMS), OS employing release 21.6, OS with the VS option and other well-known operating systems."(21)

In other words, the virtual machine operating system was capable of emulating a number of different IBM operating environments and could be used in both on-line and batch modes at the same time, making it appear to the various terminal users that they had their own dedicated computer and their own operating system available to perform all their commands. The activities of other users on the system or of the data center itself are completely transparent to each user, unless he compares the computer time used with other modes of operation. This flexible system, though prodigal in its use of machine resources, was chosen in order that Equitable users (then buying outside services from many competitors of Equimatics) could easily switch suppliers to The Equitable's subsidiary. Within one month after the computer's installation, Equimatics was providing full scale on-line timesharing services to many Equitable offices in New York and to two other companies.

But this migration of Equitable users to Fairfield did not happen easily. Though it was strongly supported by David Harris, an Equitable executive vice president (who was chairman of the board of Equimatics and later of Informatics), each individual user had to be sold and supported. After the merger Informatics Data Services Division became the prime contractor for this work, and established a dedicated sales and support office on Equitable

premises, staffed by about six people. It succeeded in producing about \$4.6 million annual revenues by 1980, although Equitable users still bought about \$.5 million worth annually from others. In about 1980 The Equitable in-house computing group installed their own machines to perform such work, and by 1982 revenues had shrunk to \$2.6 million.

10.2.5 Medicare Claims Processing Services

During 1972 Equimatics was awarded a contract from The Equitable to study the data processing requirements of the Medicaid operations in the City of New York and the states of Connecticut, Oregon, and Washington. A similar study was performed in the State of Texas for the U.S. Department of Health, Education and Welfare. It was also given a contract by The Equitable to convert the Medicare claims data processing systems for the states of Wyoming and Tennessee to the Social Security Administration's model medicare claims system. These early projects gave Equimatics expertise in Medicare claims processing. In 1973 The Equitable, which served as insurance claims administrator for Medicare disbursement for several different states, awarded Equimatics a data services contract to perform batch processing services for Medicare claims. The output included printing millions of checks annually. After the merger Informatics Data Services Division became prime contractor. Later the service was upgraded to provide on-line entry of claims data directly by The Equitable clerks in the field offices in four states. Annual revenues for Medicare claims processing accounted for \$720,000 by 1974 and \$1.5 million by 1982.(22)

10.2.6 Health Insurance Association of America

Although Equimatics originally planned to be a major supplier of data and information services to the health care industry, it never succeeded in doing so. Its only success was a small contract awarded by the Health Insurance Association of America in September 1973 to provide an on-line statistical reporting system on a time-sharing basis to supply to insurance carriers data which assisted them in establishing prevailing and reasonable charges for surgically related medical services. This service was conceived and marketed to HIAA over a one-year period by Stanley Bron. Data Services Division became prime contractor after the merger but the revenues never amounted to much.(23)

10.2.7 Summary of Insurance Data Services

By 1982 insurance data services had not grown to the revenue levels planned by Equimatics in Plan/74. In fact, it probably never had a chance. Those responsible, Paul Wrotenbery and Spec Bradley, had the great dream of LIFE-COMM, and it took all their energy to make it the outstanding success that it became. Like John Postley with MARK IV, one great dream was enough to fill the professional life of one man. And neither Wrotenbery nor Bradley (at least up until 1982) had the burning desire (nor the resources?) to find the right man with the great dream of success in insurance data services to delegate to him enough authority to make his dream come true. Perhaps this may happen under the auspices of Richard Lemons of Information Systems and Services, whose own great dream was described in Chapter 7.

10.3 SUMMARY OF THE CONTRIBUTION OF EQUIMATICS TO INFORMATICS

By the end of its first year of operation, Equimatics, Inc. had acquired significant software products and gained a foothold into the data services business. During its first year, it obtained over 100 customers and grew to a \$3 million annual revenue rate. Its second year of operation in 1972 experienced a 75 percent increase in business volume. This performance pleased both of its parents. Equitable made its data services business possible by giving it contracts for Medicare and timesharing. Although the company expected a number of important professional software services contracts from The Equitable, it actually obtained very little of what it expected from its parent, according to Werner Frank, who was never modest in such expectations. Most of its revenues resulted from its software products supplied to other insurance clients. David Harris summed up the Equitable's satisfaction with its investment in Equimatics with the following statement at the end of the subsidiary's first year of operations:

Equitable is only one of Equimatics clients and we have never intended that it would become a predominant customer. We expect Equimatics to grow and become an important factor in the data services industry, and this can only be accomplished by widespread recognition and a broad customer base. We do expect that Equimatics will be a substantial supplier of services to Equitable--that was the original purpose in forming the company--but we do not expect that our share of Equimatics total business will overshadow its other efforts.

We feel that the first year has been highly successful. We are ahead of our original expectations. The business is still in its infancy and has many of the growing pains of any new venture. But so far, so good--indeed, very much so.(24)

For Informatics, Equimatics represented a means to increase its software products business and make a new attempt on entering the data services business. The merger of the two companies allowed the "new" Informatics to pursue these markets on an specific industry and application basis and grow to a \$112 million revenue company by the end of the 1970's. Insurance software products and consulting and insurance related data services became two of the twelve major business areas for markets of Informatics during the 1970's, recording during 1978 \$7 million and \$1.6 million in annual revenues, respectively, with combined profits of \$1 million. Annual revenues were projected to grow by 1983 to \$11.9 million and \$6.3 million, with combined profits of \$3.4 million.(25) Actual results for 1982 were revenues of \$15.2 million for insurance software products with pretax profits of \$1.0 M, and for insurance data services (excluding Medicare processing and Equitable timesharing) revenues of 2.9 million with pretax profits of \$91,700. Equimatics indeed was an important factor in the evolution of Informatics.

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