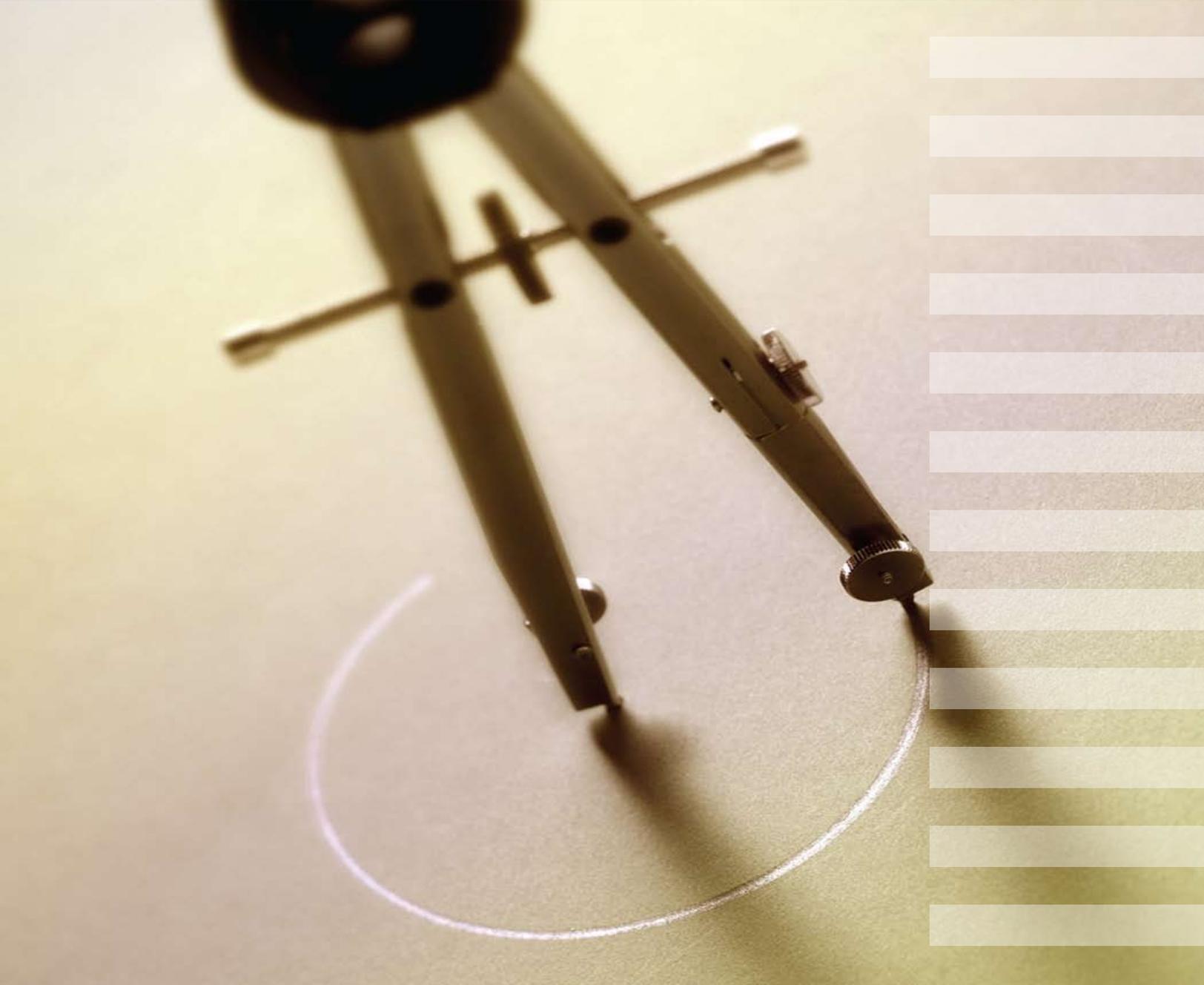


**Navigating the financial crisis:
Leading Insurers proactively position
for long-term success**

Insurance Industry



A weak economy is threatening business around the globe. The new reality is less revenue and more scrutiny. For insurers, cost inflation, price competition, declining premium growth, alternating customer apathy, uncertainty and fear have created worsening expense and performance ratios. Even in the current stock market depreciation, the insurance sector has done worse than both the Dow and S&P, which reflects a lack of confidence in the market, and in the execution of business at many insurers.

In addition to the market crisis, the past years have seen more natural catastrophes than usual – 2008 racked up more losses than 2006 and 2007 combined.

There is no doubt the current environment is the most challenging in decades. No one knows when things will get better, or if they may get worse. It's insurer's business to secure the future for their clients – but are they making the right moves to secure the future of their organizations?

In our work with leading insurance companies around the globe, we have seen proactive approaches that address market threats and associated pain through simplified business models with tighter alignment to IT. These approaches improve cost takeout, as well as risk measures, and provide renewed focus on service, and selling to changing customer demands. Approaches such as these can give insurers the breathing room they need to keep the current market chaos under control, and set a course for future growth.

Simplify the business model

With the financial crisis came increased expense scrutiny. In the past few years, insurers invested significantly to maintain duplicate policy administration systems while offering a wide range of products – this resulted in needless complexity, accompanied by higher cost and long lead times for new product introductions. The growth of data and the need to access and share seamlessly has also created a complex and inefficient set of processes and systems. Costs resulting from disjointed and redundant business processes and components are significant.

In addition, the threat of new entrants who are not constrained by legacy systems and can leverage a “start up” mentality to tap into specific customer groups with tailored products and services is becoming more and more real. Leading insurers are placing more emphasis on standardizing both business models and IT to take the transformation agenda to a higher level, and achieve greater flexibility.

Current leading financial institutions are focused on streamlining data management processes as part of this simplification, achieving significant cost savings. Future strength and long-term value lie in insurers’ ability to assimilate all of the data and information they receive and leverage it across the organization to make faster and better decisions, create competitive products and improve customer service. For many companies, this may require a completely different approach to the business model that simplifies and maximizes operations, processes and aligns them with IT architecture to drive efficiencies and cost savings.

For instance, a leading North American life and annuities insurance company suffered the results of multiple acquisitions over a period of ten years. Redundant and disjointed resources, systems and processes were draining the company coffers. The answer was to outsource all of the company’s core application systems for policy administration, agent compensation and reporting and financial systems. The agreement included provisions for implementing a “computer utility” costing model and global resource optimization for application management. The resulting benefits included improved quality and productivity of application development, increased functionality to support the business, systems availability of over 99.995 percent, and a 20 percent cost reduction through significantly fewer IT staff.

Transform the core and supporting IT processes

Insurers have introduced new products at an increasing rate. However, the technology integration required to drive out redundancies, inefficiencies and cost in multiple back offices and systems has not kept pace with the product proliferation. In fact, IT development spend has decreased ten percent between 2004 and 2007. But it is precisely focused IT investments that can reduce redundancy, maximize operations and generate significant time and cost savings – while at the same time improving customer service and contributing to increased revenues. As a direct result of a series of incremental cuts to IT budgets that show only temporary benefit, operating costs are still rising – Insurers have seen an average of five percent growth in operating expenses since 2003.¹

We are working with a German insurance provider that is implementing a solution to streamline their claims processing capabilities, and increase their market position with improved customer loyalty. By applying “lights out” automation or straight through processing – which captures customer and other data as it comes in, and routes the data to update all related systems without human intervention – they will reduce their operational costs by as much as 35 percent.

In addition, many Insurance IT organisations are facing a diverse and distributed IT workforce, a complex ‘spaghetti bowl’ of applications and infrastructure from a legacy of mergers and acquisitions activity, as well as associated multiple work methods. Add to these problems the aging subject matter expertise of legacy systems, and it is easy to see why the future reliability of an organization’s system environment is at risk. The first place many insurers look to take out cost is people, as they are the largest cost factor. But a reflex to cut deeply for the short-term gain without structural process change can cripple capacity for future growth – creating the long-term pain. Firms must look for innovative ways to cut labour costs without sacrificing performance and customer experience. Similarly, aging processes built around these systems offer significant opportunities to streamline for efficiency and improved cost basis. Aligning business process to IT improvements can create exponential, versus incremental, savings.

Maintaining applications and infrastructure require significant internal expertise and cost. In this economic climate, many businesses, across the industry spectrum, are beginning to question their ability – or need – to do everything internally. The increasing cost of their core IT systems and application development is pulling investment and attention from their primary objective to innovate their core business. Industry leaders are adopting new IT delivery models to improve financial benefits by right sourcing skills, services and business components from external providers to free up internal resources. Cost savings are usually the initial consideration, but right sourcing proves to be an effective way to generate exponential efficiencies and tap into global talent to streamline, transform and improve current business processes.²

Additional benefits to be gained through the outsourcing of IT include:

- “Quick-win” decommissioning of legacy applications
- More reliable “always on” operational systems
- Bundling of products and services to provide new solutions
- Single, integrated view of customers regardless of data location
- Integrated customer selling and buying experience to maximize cross-selling
- Improved processes for data to be analyzed and turned into information
- New claims operating models

Shift to increased transparency and risk control

Eighty-three percent of insurers expect to increase spending on risk management activities by more than 10 percent annually, over the next five years.³ The Solvency II guidelines are already weighing on European insurers, and there is no doubt that the financial crisis will result in increased regulation across the globe. These regulations will likely augment the specific requirements for surplus and capital, as well as metrics and reporting requirements.

Leaders will meet these challenges by implementing end-to-end enterprise risk management and more holistic and robust risk management practices aligned to:

- Enhance existing risk management frameworks and practices beyond satisfying compliance requirements, particularly around risk governance, risk appetite and tolerance, as well as internal and external transparency
- Provide an integrated, enterprise-wide view of risk across divisions, products, geographies and risk classes and investments
- Identify and address gaps in performance management and planning due to insufficient integration of finance and risk information and divergences in methodology

For example, we are teaming with a large European insurer to design a consistent risk and finance report, and create a data warehouse which would act as a “single source of truth” in performance management (e.g., Solvency II). The objectives include the ability to address a new solvency regime (risk-based), optimize the estimation of capital requirement on insurance undertakings, and create detailed disclosure and reporting. The client strives to realize shorter reporting time, and reduce the cycle from 90 days to 30 days for comprehensive financial and solvency reporting. In addition, a new change management process (business and IT) will establish traceability and secure audit trails for validated reporting.

Lastly, climate changes and customer demand require new and more transparent products and services. Along with opportunity, these variables will introduce new risk. New risk models are emerging based on analytics to get more predictive modelling as opposed to traditional actuarial models. Leaders will adopt best practices to identify client behaviour and profitability to enable competitive pricing of simple products as well as optimal channels, allowing improved targeting to maximize initial sales and subsequent renewals as well as cross-selling opportunities.

Leverage information and access technology to improve customer experience and capture market share

Due to direct services and new industry entrants with slick business models and lower price points, insurance customers have more choice than ever before. They want transparency and are becoming more demanding in how they interact with their insurers, the products they want and the premiums they are willing to pay.⁴

Yet while the “direct” opportunity is clear, significant support is still needed for companies that use agents and brokers. The reality is that most customers may seek interaction and information across several channels, based on their household demographic. Field agents and brokers must have systems and capabilities that provide them with the data, information, and processing needed to be as efficient and cost effective as possible. Otherwise, customers will move to companies with more seamless, responsive and convenient services.

An integrated applications strategy helps provide the basis for an enterprise to deliver the new products and services customers demand, across all customer-facing channels. An integrated application portfolio provides a more consistent and complete view of data and is adaptable (flexible and scaleable) to changing business needs. The improved data quality reduces redundancy and inconsistencies, enabling more timely access to information – and allows insurers to better use the information to analyze client buying behaviour and needs related to insurance.

One of the leading Life Insurance players in India today was a late market entrant, and needed an alternative channel apart from the traditional branch system. They also needed to maintain low administration and operational costs until they got into the black. Finally, they wanted to create a unified interface for customers, agents and employees to provide seamless information, and enable straight through transaction processing.

To attract top talent, insurers must appeal to the younger generation. More and more, this will require integrating the use of online, mobile and other collaborative technologies into business as usual.

We implemented a solution that combined a streamlined user interface, straight through processing, monitoring, data integration and development tools with the following benefits: reduced agent and policy administration costs, faster time to market, reduced agent attrition, better data-based decision-making, higher productivity and increased operational efficiencies. In addition, the solution introduced new sources of revenue by enabling selling and lead generation through new alternate channels.

Finally, it is important to note insurers should build channels to leverage technologies beyond what is currently available, leaving the door open for future technological innovations. For instance, a leading insurer in Japan is designing products to be delivered over mobile devices, rather than just online. They are also considering the impact of customers' increasing need to interact constantly in real time, and exploring ways to use video in sales and services. These efforts will enable them to reach more customers, across geographies and outside their current footprint.

Conclusion

In insurance, as well as many other industries, the only thing certain now is change. This is a time of great challenge, but current market pressures can also offer once-in-a-lifetime mandates for change, and access to new growth opportunities. There is potential for insurers to capture more market share as consumers have less faith in the banking industry and are looking for more protection for their investments.

Yet leading insurers know that even a better economy won't end all of their woes. Changing demographics, buying behaviours, increasing consumer adoption of technology, customer perception of the industry and the looming "age wave" associated with baby boomers will continue to shape the industry past the current crises.

The weight and priority of the above outlined approaches will be different for each company. Yet some combination of the approaches will be necessary, to a varying degree, for insurers to emerge from the current environment in a position of strength. Smart business leaders will take advantage of the current circumstances of uncertainty to drive a case for change throughout the organisation, to improve effectiveness and drive efficiencies in operations and IT. For more information on pursuing a more proactive approach to securing your company's future, please contact Lee-Han Tjioe at tjioelee@cn.ibm.com.

About the Author

Lee-Han Tjioe is the worldwide Leader of IBM Global Business Services' insurance group, currently responsible for the strategy, solutions and service development for Insurance industry, as well as client relationships and delivery – from a headquarters in Shanghai, China. He and his team have developed a number of successful insurance specific solutions and services.

He has worked for more than 17 years in consulting for financial institutions, including as an Asia Pacific Insurance leader for PricewaterhouseCoopers in Hong Kong. His consulting work includes strategic and business process transformation projects for clients like ING, Aetna, AXA, Fortis, Aegon, and Achmea. He is a specialist on insurance companies challenged with the design and successful launch of online and multi-channel distribution of insurance products. Mr. Tjioe graduated with an MBA at the Fuqua School of Business, Duke University in the United States.



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¹ Macauley, Matthew and Karen Pauli. "2009 Top 10 Business Drivers, Strategic Responses and IT Initiatives in Insurance." Tower Group. November 2008.

² IBM Institute for Business Value. "The Outsourcing decision for a globally integrated enterprise: from commodity outsourcing to value creation." IBM. <http://www-935.ibm.com/services/us/cio/pdf/outsourcing-decision-white-paper.pdf> (accessed March 29, 2009)

³ Macauley, Matthew and Karen Pauli. "2009 Top 10 Business Drivers, Strategic Responses and IT Initiatives in Insurance." Tower Group. November 2008.

⁴ IBM Institute for Business Value. "Growing trust, transparency and technology: Insurance customers' perspectives in a global context." IBM. http://www-935.ibm.com/services/us/index.wss/ibvstudy/gbs/a1030834?cntxt=a1000058&sa_campaign=message/laf2/all/laf2 (accessed March 29, 2009)

⁴ Ibid.