Can the Insurance Industry Embrace Customer-Centricity, While Delivering on Efficiency and Infrastructure Resilience?

WHITE PAPER
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IN THIS WHITE PAPER

There is no obvious hiding place. Today's insurance industry faces a massive challenge to accepted business norms as new competition, more rigorous regulatory obligations, tighter capital restrictions, and more demanding customers threaten the survival of those businesses that are unable to transform.

At the heart of the answers to all these challenges will be the extent to which insurers — across the spectrum of property & casualty as well as life & pensions — are able to act much more intelligently to manage data that is crucial to their business. Part of this will entail reacting to regulators and other market drivers, but more critical will be how proactive an insurer can be to leverage IT in clients' interests.

This paper examines the implications of these changing market and competitive dynamics for the industry, with many senior industry executives agreeing that there is still much to be done. Among the key findings:

- Industry business models are challenged on all fronts and insurers need to differentiate and introduce new products to market, such as commercial etrading services.
- Customer expectations spur higher service standards, while requiring improved rates and returns.
- An enhanced distribution focus is required to meet competitive threats, in particular around managing intermediaries and enhancing agency sales capabilities through sales force automation tools or centralized sales management systems.
- Rising costs and capital needs demand greater efficiency, requiring insurers to quickly reconfigure processes across systems as needed.
- Demand for sophisticated data management and analytics priorities is on the rise for risk, fraud, and customer satisfaction management imperatives.
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SITUATION OVERVIEW

Overall, the insurance industry has fared relatively well over the past three years in the face of global economic uncertainties and a range of natural catastrophes. However, the emphasis on cost cutting and the burden of regulation may have a deep impact on the growth of the business going forward. In particular, increasing competition is rapidly isolating traditional insurers from the customer. So while reducing capital requirements and improving IT reliability and costs, insurers are also focused on increasing revenues, productivity, and efficiency.

To this end, insurers are targeting the following key areas to improve business growth and delivery of services to customers:

- Mobility: Insurers are setting strategies to capitalize on the abundance of continued double-digit growth of mobile devices across all regions. Customer functionality will focus on connecting with the insurer for sales/pricing, paying bills, initiating and managing claims, and even traditional uses such as calling for roadside assistance.

- Predictive modeling: Given the plethora of customer data held by insurance companies, the time has come to consider moving away from a pooled model to a usage-based model, such as pay-as-you-drive applications. Customer data, mobile and analytics, or telematics, will be at the core of this industry shift.

- IT simplification: Datacenter consolidation and core system modernization take center stage as organizations look to simplify operating systems. Modernizing core systems is taking on an increased urgency as insurers find current systems are lacking the flexibility to meet changing business and compliance needs.

- Multichannel experience: Historically, insurers had invested in single-channel approaches to reach and service customers, including agent, direct, and online self-service. Today, the strategy is to synthesize the channels to provide a multichannel experience for consumers, with an emphasis on agency-related technologies to improve how insurers conduct business with agents. The end goal of the multichannel experience is to increase sales reach, improve customer service that translates to higher renewal rates, and improve operational efficiencies.
IT Investment Must Have Multiple Uses

Given the burden of regional and local regulation, from Solvency II to Financial Services Compensation Scheme (FSCS), it is no surprise that insurers agree on the need to leverage technology investments for the benefit of more sophisticated data management and product distribution; this will be a key differentiator in defining future winners and losers. Too often, however, the industry has responded to compliance requirements in a piecemeal fashion, rather than developing a concerted strategy, and the benefits for revenue generation and better understanding of the customer are rarely leveraged. Much of this will be anathema to an industry historically often more comfortable with maintaining the status quo than rocking the boat. But it seems clear to many in the industry now that, if the boat is not moving, customers are going to find a carrier that is prepared to go full steam ahead.

Customers are without doubt key for any insurer, whether for the acquisition of new business or retention of existing business. eCommerce has provided an extraordinary choice for buyers of insurance, while Internet aggregator sites have further disintermediated insurers from those clients. Loyalty has become an elusive commodity.

Industry executives at recent events have referenced this looming "perfect storm" with comments like: "For too long we have left our technology as just a budget item, instead of looking at how this enables our business and makes us more competitive." Many believe that the time has come to make strategic changes to technology.
investment priorities, starting with a comprehensive review of IT capabilities.

At the heart of these new investments is the desire to bring products and services to market more quickly, to raise interaction with customers to levels they now expect and receive from other industries, and to introduce more robust analytics that ensure executives are better informed when making decisions.

Efforts to meet these objectives have begun to highlight the current dilemma. The Internet has empowered individuals at the expense of previous enterprise authority. It is now dawning on many in financial services that banking and insurance have been slower than many other industries to both acknowledge this and respond to it.

More importantly, financial institutions are not being given the space or time to meet these objectives, as reinvigorated regulators realize that customers expect a sea-change in standards if trust and confidence is to be restored in financial services.

**Time for New Priorities**

When we asked insurance executives — from both IT and line of business responsibilities — about current priorities that are driving IT investment, the range of answers was perhaps surprising. However, the top five were fairly evenly matched and included improving productivity and customer engagement. Insurers are looking to deliver more sophisticated customer-centricity from enhanced distribution and multichannel capabilities as well as modernize their infrastructures to deliver greater operating efficiency.
There have also been increasing signs of a new awareness bubbling to the surface, identifying areas of potential IT investment as businesses try to free up resources to enhance capabilities. These capabilities include more sophisticated business intelligence and analytical tools, as well as more robust and integrated data management capabilities across the enterprise.

More importantly, some insurers are investing time and financial resources to reengage better with customers. There is recognition that the use of personalization with customers and prospects can steadily have a positive impact on those all-important conversion and renewal ratios. The benefits of generating dialogue with customers, either through online chat or supporting voice connections, have already been evident in premium growth for some providers.

**Customer Choice and Service Levels**

Consumers are demonstrating clearly that they want and expect to be able to engage with service providers in the time, manner, and place of their choice. It is a fact that consumers in developed economies (and already in many developing markets) now assume they can interact electronically with any financial institution for the acquisition of any product service, from any device, when they want.
In a significant additional development, the U.K. insurance authorities are enshrining this capability as part of the Retail Distribution Review (RDR). When implemented in 2013, this provision will ensure that protection is provided for the consumer to guarantee that appropriate advice is provided when a product is purchased from a carrier, and also that the advice is clearly priced and agreed between the adviser and the consumer.

Carriers must therefore be in a position to understand how well products are performing within a specific channel, as well as how their producers are performing with respect to each product. This requires detailed data that is produced in the sales value chain, and which must be available to decision makers within the carrier. For multinational carriers this challenge is made more complex, as a product may be sold across borders as a different version of the same core product.

To accommodate this need for detailed data, distribution channel requirements are changing rapidly. Those carriers that develop robust and agile yet cost-effective solutions will have a distinct competitive edge over those who sit back and wait.

This is particularly relevant in the commercial end of the customer base as the industry competes to differentiate on delivery. After many years of developing systems for trading personal lines over the internet, insurers are now competing to launch etrading operations for commercial businesses. As the market intensifies, institutions are racing to launch new products that can be marketed online.

**Mobility and Channel Proliferation**

There are several ways in which mobile technology can assist insurers, ranging from the most basic (such as the provision of timely information and promotions to policyholders through mobile applications) to what is commonly being offered now: the convenience of self-service capabilities. This includes the ability to submit requests/claims/complaints, receive acknowledgement and status updates via mobile devices, track policies and premiums, perform fund switches, pay premiums, and resolve queries in real time using Web-enabled mobile handsets.

More advanced features incorporate the option of multimedia communications (for instance, from policyholders at vehicle accident sites who can submit on-the-spot digital photos and obtain same-day repair cost estimates), registering a claim, requesting assistance, or machine-to-machine technology such as telemetry that enables insurers to introduce pay-as-you-use policies.

Although in an ideal world, insurers would invest in several of these alternative distribution channels, they also need to balance the requirements of their targeted demographic segments and not necessarily feel compelled to invest in all channels, in order to appeal to all potential customers.
Nonetheless, insurers that have already developed or are intending to develop new distribution capabilities must ensure that they are multichannel (and not multiple standalone channels) that are effectively and seamlessly integrated. This will ensure that the channels are interoperable, policyholder information is portable across channels, and that customers can enjoy a consistent, excellent experience regardless of the mode(s) of interaction selected.

In an era concerned with cost reduction and operational effectiveness, the key challenge presented by the rise of further channel development is leveraging past investments, supporting new product launches, and managing infrastructures with limited resources. The combination of more risk-averse investment strategies, poor investment returns, rising fraud, and new competition does not make for comfortable boardrooms.

**New Ways to Drive Traditional Objectives**

The same principles remain, in that the business has to drive up premiums, fees, and investment income, while driving down claims, distribution costs, taxes, licenses, and other operating expenses. And it is no coincidence that advances in technology have played a major role in accelerating the delivery of both these objectives.

But for many in the industry there is a long way to go, in large part due to a reliance on legacy infrastructure and systems that are increasingly expensive to maintain by a diminishing IT workforce that is increasingly unable to work with these outdated technologies.

On top of this, the industry now has to cope with a massive increase in regulatory burdens that not only absorbs executive time, but erodes margins and strains IT resources. Recently we have seen a resurgence in outsourcing and system replacement deals, in an attempt to reduce administration costs and facilitate greater business online. In particular, insurers focus on automation of workflows and processes in order to reduce the cost of administering business.

This need to do more with less, as well as to balance cost effectiveness and business innovation, may limit the ability for institutions to focus on service delivery investment. Hence, carriers are focused on augmenting the products and services available to captive and tied agents and brokers to enhance their productivity. This includes equipping distributors with easy-to-use tools and technologies, self-service marketing applications, collaborative applications, and wireless solutions such as mobile devices and iPads, as well as providing access to product specialists and product information and incentivizing with clear performance metrics.

**New Compensation Models Drive Change**

The life and pensions industry is facing potential transformation, in line with the emergence of new regulation such as the U.K.’s Retail Distribution Review (RDR), and the general drive toward enhanced customer awareness with respect to insurance products. The industry is
exploring many new ways to create products that are better tailored to customer needs and to be more transparent so that costs are clearly evident.

There is a sense that while there aren't many new sales channels developing, there is a shift in how consumers are doing research, interacting with insurers and changing their purchasing behavior. These characteristics are different between general and life/health. The new compensation models discussed here are fundamentally driven by regulation but will continue to evolve as consumers change purchasing behaviors.

While RDR remains a U.K. initiative for now, many regulatory jurisdictions are watching with interest. It would be no surprise to many in the industry to see this form of greater scrutiny and transparency develop in other countries soon.

But RDR has other fundamental changes, as it seeks to put an end to the commission structure whereby most independent financial advisors (IFAs) were remunerated by product providers, which then recoup these costs through levies built into policies. Although this will still continue for some businesses, true IFAs will now be required to charge clients fees, which many see as driving customers away from paid-for advice towards the more commoditized products that bancassurance models (or others) are contemplating.

An important aspect to acknowledge for any provider of these products moving forward will be the way the market is diverging into two major streams of savings products. One stream will consist of effectively self-help, vanilla-style plans that carry minimal costs — and advice. The other will embrace a range of more sophisticated savings and investment choices, with a range of payment options, on a fee-based model. This second stream requires a deep understanding of customer requirements, to ensure that fees are matched to the perceived value of the service, moving the industry towards customer centricity.

*Raising Productivity and Customer Centricity*

Online collaborative tools and greater focus on harnessing "big data" is high on the agenda for insurers. Big data is particularly a focus around fraud mitigation and risk measurements linked to Solvency II. However, insurers are also looking at ways to reignite customer-centricity projects.

Insurers can equip their agents with tools to alert them about cross-selling or up-selling opportunities. They can offer their agents self-service marketing applications to create marketing collateral or prospecting letters and sales scripts for sales campaigns. Once a potential customer is identified, the distribution partner requires applications to perform basic suitability tests, along with financial need analysis to recommend customized product portfolios and calculate accurate quotations on the fly. Subsequent to signing a client, insurers must aim to reduce the proposal turnaround time, perhaps
through online submission of applications and exception-based underwriting.

Also crucial is reducing policy lapses or premium defaults via producer-defined system alerts. Another support tool that should be part of any insurer’s agent-relations arsenal is the provision of easy access to product specialists and real-time qualitative client data, equipping the agents to up-sell effectively at all stages of the client interaction.

Equally important is to link client data to agency management systems and distribution management systems (DMSs) to facilitate the flow of information between the agency and the insurer, including policy applications, claims, compensation, and required policy forms. A growing number of insurers are using DMSs to identify territories that represent significant revenue potential, to effectively manage the profitable growth of agencies and their producers and to track producer compliance to licensing and training requirements set by regulators.

Finally, incentivizing customers to provide more comprehensive information about themselves and rewarding those more forthcoming with data with lower premium charges has become an increasing topic of discussion. This approach allows carriers to create more granular segregation of their customer base and offer risk-based pricing. However, this type of approach requires deeper mechanization of unstructured evaluations, which itself demands more powerful IT platforms.

Optimizing Business Performance as Competitive Pressures Increase

As the threat looms of another round of global upheaval and belt-tightening, it is no surprise to see that improving efficiencies and streamlining operations continue to dominate insurers' agendas. With insurers coming to the realization that their IT portfolios and client delivery models have become overly complex and cost-ineffective over years of operations, even as products are increasingly commoditized and profit margins narrow, they realize the merits of investing in business transformation projects to automate and streamline processes and capabilities, thus ensuring efficiencies and faster product speed to market. Key projects focus mainly around:

- Managing intermediaries and enhancing agency sales capabilities through sales force automation tools or centralized sales management systems.

- Augmenting productivity with functionalities such as instant quotations or exception-based underwriting to streamline processes and speed up new business.

- Quickly reconfiguring processes across systems as needed, enabling insurers to respond with maximum agility to regulatory amendments or changing business environments.
Enhancing customer satisfaction via improved process efficiencies and minimization of transactional errors. In this case, process efficiencies are typically most notable to policyholders during the claims disbursal phase — a pivotal point in augmenting the end-user experience. This is perhaps why champions of optimizing the claims management process have driven IT investment projects.

**Change Demands Preparation**

With uncertainty increasing in Europe and global fraud on the rise, greater flexibility and efficiency of IT infrastructure and data management will help insurers to respond more rapidly to today's business challenges. Insurers that fail to respond had better be prepared to be pushed to the margins. While structural changes to the U.K. industry are designed to support insurance buyers and investors, there is still a considerable challenge for insurance providers to engage directly with their target groups.

Most of the executives we questioned acknowledged as much, saying that RDR and Solvency II were likely to be the two most important drivers of change in business practices across the industry. However, only a minority recognized that making more radical and strategic improvements to the underlying business model in particular, the methods and means of engagement with customers will have the double benefit of making them compliant and competitive in this new environment.

It would certainly seem that those insurers that do not recognize these implications risk being marginalized, potentially acquired, or put out of business. At the heart of this new paradigm are the ways and means by which insurance providers engage with their customers. As we have noted already, this will require significantly more sophisticated IT infrastructure that can deliver the multichannel, integrated points of contact and delivery that a more educated public will expect.

But it goes further than that. The restoration of trust and development of brand loyalty could be a much bigger challenge than prioritizing the IT investment necessary to deliver products and services in a competitive and efficient manner. Many critics contend that this sort of change will leave the vast majority of customers significantly disadvantaged. Those critics argue that the creation of a specific concept of advice, in which the responsibility of the decision moves from the buyer to the seller, could leave advice unvalued for all but the wisest of consumers — or the wealthiest. It is something with which many more insurers and regulators will have to grapple.

Many forward thinking intermediaries are already separating their businesses into two streams that are able to handle the lightly-regulated, advice-free products on the one hand, and the more heavily regulated and fee carrying investment services on the other.

This evolution is already evident, as a result of market forces rather than regulators, in Germany and Switzerland, where customers have
been demanding index-linked or guaranteed return products as a direct result of losses incurred during the financial crisis. There has been a marked swing away from insurer-tied channels of distribution to those products recommended by fee-charging intermediaries, proving that in some markets at least there is still a value and premium attached to advice. However, in order to stimulate this in many other markets, it is clear that insurers will have to do a lot more around communication and brand-building to reestablish the trust that has been compromised.

**Wider Implications**

The implications of these changes are not confined to single regulatory jurisdictions and should be acknowledged in wider geographies. Although sharing a common purpose, the multitude of regulations addresses a variety of different local circumstances. There is certainly frustration in the industry at the seeming lack of coordination between regulators and the duplication and appearance of cross-purposes that often emerge.

One of the best goals for a regulator would be to develop an industry that is soundly managed so that it can treat its customers fairly, and an industry that is sufficiently capitalized so that it can treat its customers fairly.

So how can the industry best approach this "perfect storm" of market, customer, regulator, and business challenges and lay the foundations for future prosperity?
FUTURE OUTLOOK

If we agree that the industry is at a turning point regarding the delivery of products and services, what can a carrier's management and the rest of the business do to ensure it is best-placed to take advantage?

One issue that came through strongly from our survey of industry executives was that, although insurer CIOs do generally understand enough of the business priorities, areas like agility and urgency of delivery (and the wherewithal to deliver those capabilities) are not being given sufficiently high priority by industry executives.

Virtually all the executives we spoke with agreed that the industry faces many "unknown unknowns" and that the landscape will change over the next decade in virtually every jurisdiction as a result of consolidation from acquisitions and mergers, as well as expansion from new entrants. Obviously, one business cannot prepare itself for all the eventualities it can't foresee, or even prepare for all those that it could realistically predict.

However, there are a couple of areas where a fair degree of analysis and intelligence can be applied to decide what sort of markets, products, and customers will be best suited to the company's balance sheet, risk appetite, and delivery capabilities. Therefore, understanding the chosen markets and the existing competitive dynamics is critical. An evaluation and acknowledgement of current consumer preferences and likely changes in how those are going to be serviced is also a high priority. In fact, retaining more customers and reducing churn rates for most product providers would be an important step in the right direction.

More Sophisticated Intelligence

Given the plethora of customer data held by insurance companies, the time has come to consider moving away from a pooled model to a usage-based model. Customer data and analytics will be at the core of this industry shift. A challenge for the market as a whole is the proliferation of data. Data continues to be a core commodity driving the insurance market, but it has gone from scarce resource to superabundant in the past decade, with market observers coining the term "Big Data" to describe this data deluge phenomenon.

The explosion of data for insurers ranges from fixed information (such as the insured's personal data, x-rays, and driving history) to variable content documents (such as annual health checkups and dental records) — and in forms such as geospatial information, locational data, demographics, call center logs, and even social media activity.

Another component usually associated with the Big Data phenomenon, high-performance computing, means that much richer, context-filled information can be processed very quickly and more efficiently and just as expeditiously made actionable to the insurance channel at every
point of customer contact. IDC Financial Insights defines Big Data technologies as a new generation of technologies and architectures designed to extract value economically from very large volumes of a wide variety of data by enabling high-velocity capture, discovery, and/or analysis. Overall this more sophisticated use of data analytics will focus on a few key initiatives, with carriers seeking to:

- Engage an experienced datacenter team to ensure that they are collecting the relevant data in their source systems and integrating the data appropriately to provide business users with valuable information to evaluate and mine data as needed.

- Synchronize, consolidate, and manage customer information across the enterprise, allowing the organization to create a singular view of the customer.

- More effectively access data embedded in disparate IT systems to ensure compliance with regulatory requirements, corporate governance, and disclosure frameworks.

- Allow a systematic approach of organizing and retaining control access to corporate data.

- Reduce the incidence of fraud.

Data shortcomings affect the whole industry and many insurers grapple with the lack of completeness and accuracy of data, especially because tied agents are reluctant to furnish full information to preserve their customer relationship with policyholders. Consequently, it is not surprising that carriers are investing an inordinate amount of time and resources to clean up their customer information files (CIFs).

Once these CIFs are cleansed and centralized, the next stage is to apply analytic technologies to transform that mass of granular data into constructive information. Analytics have the potential to unlock countless benefits, allowing the insurers to:

- Create more granular segregation of their customer base (through demographic, geospatial, behavioral, purchasing, and other analysis) to dive deeply into their needs and thereafter develop and offer appropriate products and services at the right time. This goes beyond the structured analysis given by actuaries to encompass unstructured information exchanged during customer communications.

- Access specific market segments through the most appropriate channels, with the aim of raising customer satisfaction and retention levels (e.g., promoting products using high-technology interactive touch points, using Digital 2.0 media such as social media tools for the "Generation-Y" and "Millennial" demographic).

- Offer more refined data to agents and call center executives to help them better engage and provide differentiated customer service to policyholders (e.g., offering greater attention and additional
privileges to top-tier customers who are high-margin opportunities).

- Analyze products and market segments in relation to market needs, enabling the producer channel to market those products into the selected segments efficiently across the most appropriate channels.

- Accelerate processing and settlement of low-risk claims quickly, while weeding out fraudulent claims with automated pattern recognition.

The starting point for managing the changes and effects upon channels, plus the effect upon business written, is the quality of data and intelligence used for decision-making. This applies across the enterprise, whether it is at "C-level" for strategic decision-making, or further down the chain to enable real-time engagement with agents and customers.

Information and connectivity bring both decision-making and communication channels to life. And while the majority of executives we spoke to felt that considerable improvements had been made in all those areas, there was near-unanimous agreement that much more could be done.

Some in the industry have used the phrase "one-company programs" to characterize this drive towards a cohesive enterprise that brings together agility, efficiency, customer focus, and competition. But whatever the phrase, greater internal coordination, management cohesion, across-the-board communication and collaboration should be a critical first step. "Intelligent Use of Intelligence" is a phrase IDC has coined to describe this business imperative.

The next logical step is the deployment of even more sophisticated analytics. In some way insurers have been pioneers in this regard; many actuaries were early adopters of predictive analytic tools to allow more precise modeling of demographics, climates and other events that enabled more accurate pricing of risk. And while carriers have begun to roll out usage to other parts of this enterprise, it is only the first step. It will critical to put in place clear plans that ensure complete integration with other business processes and holistic visibility at all levels, thus helping executives to make the best-informed decisions that they can make.

Infrastructure Resilience

Mergers and takeovers have not only produced a messy legacy of systems, processes, and IT infrastructure, but also historic products (particularly in the life market) that could be years old and still have decades to run.

It is the elephant in the room that too few executives have wanted to confront. "If it isn't broken, it doesn't need fixing," has been a common response. But today's market conditions mean that approach is no
longer defensible if the business wants to remain competitive going into the next generation.

The process of change can be both difficult and expensive. It therefore requires considerable planning that identifies the business benefit objectives and priorities driving this type of initiative. However, once the end goals are identified and agreed, it is possible to conduct the transformation in a progressive, step-by-step way that delivers meaningful and measurable milestones that also meet the requirement for short-term successes.

Some executives we spoke to felt that either costs or timescales were prohibitive; it was interesting to hear discussions embracing the use of other, external technology capabilities as part of this longer-term transformation. While many parts of the industry have been early adopters of outsourcing and offshoring as part of previous efficiency initiatives, there are some now that are prepared to explore the potential benefits of shared services, software-as-a-service (SaaS), and other cloud offerings.

Insurers employing this strategy are hoping to significantly lower costs and improve operations through methods such as reducing the number of datacenters or investigating or applying virtualization. Insurers are also cutting costs in order to better serve their markets in the aftermath of the financial crisis. These insurers are rationalizing the number of policy administrative systems they have accrued over the decades, as well as the number of billing and claims management systems.

Some insurers are turning to business process improvement to streamline various business processes, particularly those required to service existing policyholders; others are investing in business analytical solutions such as performance management and risk management systems to better measure outcomes and get a more coherent perspective of both their external and internal risks. Delivering on these strategies often requires implementing modern IT delivery models such as service-oriented architectures (SOA) and exploring various aspects of cloud computing offerings.

Ignoring the underlying infrastructures can lead to key competitive challenges and may result in several shortcomings, such as:

- Multiple sets of disparate platforms built around product silos, resulting in an inability to handle increased customer, regulatory, or tactical demands.
- Limitations to scale in smaller organizations struggling to accommodate premium growth.
- Lack of support for advanced consumer analytics or enterprisewide data integration.
- Difficulty in modifying products or distribution methods to suit regulation or strategy change.
● Increased risk of a system's failure.
● Weaker fraud detection, due to inability to get access to data in a timely fashion.
● Higher indirect costs from missed opportunities due to delayed product innovation and slow time to market.
● Difficulty integrating with third-party applications.

Insurers are aware of the need to modernize their core applications to:

● Improve process flexibility and better support regional expansion and development.
● Create world-class shared services across different offices in different cities.
● Enable regional customization, faster product rollout, or shorter time to market for new market entry.
● Develop a more customer-centric enterprise.

Clearly cloud has its drawbacks amid the data privacy sensitivities and wider regulatory concerns that now face financial services institutions. There are signs of some organizations testing the waters for research and development and other testing work. At this early stage, the efforts are confined more to private than public cloud offerings, but we are convinced that at some level, these will all play a part in the industry of the future. Our recommendation is to run applications in the cloud, house data in the cloud if there are no data privacy or regulatory issues around it, and keep sensitive, regulated data on site within the carriers' own infrastructure.

By taking this route, insurers can bring down the cost of delivery and maintenance of back- and middle-office functions. They can then release a greater proportion of investment into the front office — focusing on the technology capabilities that will be the competitive differentiators of the future.

**Long-Term Implications of Regulation**

Compliance requirements are escalating as a consequence of the financial crisis. Authorities are adjusting their rules and liquidity standards and ramping up interest in investment activities. As more new rules continue to be introduced, we feel that these mandates will inevitably cause disruption to insurers' business focus.

Regulation generates additional costs as insurers must beef up their accounting teams, rework product structures, retrain agents, reprint marketing collateral, formulate new advertising strategies, and enhance their corporate governance and disclosure frameworks to ensure timely, accurate, and transparent disclosure to the regulators.
However, the upside of regulations such as Solvency II will be an environment of improved access to data, coordination of data, improved analytics, and timeliness of analytic indicators, which can only have a beneficial impact on business value creation.
CONCLUSIONS

So, is the industry ready for this challenge? There is agreement that change has started and will not only continue but accelerate. At the heart of the challenge will be getting the right balance between IT investment priorities. We believe this will foreshadow an even more seismic shift in IT budgets in the not too-distant future. The key will be to have the maximum amount of the IT budget available to invest at the front end of the enterprise; this will drive competitive advantage in retaining and winning customers. Thus, more of the middle and back-end of the enterprise business functions must be automated or outsourced.

The debate will begin to focus not on whether to replace or renovate core system capabilities, but rather on the question, "What is core to my business?" The attractions of shared service models, SaaS, virtualization, and cloud capabilities are already getting huge traction across the industry. If we judge by the level of debate currently being generated, it will only be a matter of time before individual insurers decide they do not need to duplicate all this investment in data storage, processing, transacting, and integration.

The insurer's skill will be measured by its ability to engage with its customers, and that will depend almost solely on the combination of the appropriateness of its products, the sophistication of its advisers (internal or intermediaries) and the robustness, variety, integration, and efficiency of its distribution channels. These could be the areas which finally make the difference with a customer. It's where many insurers fall down now — ironically at the only touch point in the business relationship that the customer really cares about. It could prove a fatal mistake if the insurer is not in good shape going into this new environment — and that's not a risk many self-respecting actuaries would be prepared to bet on.

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