

## Global Trends in Life Insurance 2012: Claims Processing and Payout

**Key trends and their implications for the life insurance industry**



**People matter, results count.**

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# 1. Highlights

Premium volumes in the global life and pensions (L&P) industry contracted by 2.7% (real terms) in 2011, slipping back into the red again after growing positively in 2010. Performance was however not the same across all regions. North America and Asia witnessed positive real growth, while Europe witnessed a negative real growth. Overall profitability of the industry also remained under pressure as low interest rates continued in 2011, which affected insurers' investment results. Lower than average interest rates and volatile financial markets also had a negative impact on profitability.

It is expected that the global L&P industry growth will remain sluggish in advanced economies, while emerging markets will witness some premium growth. Recovery is expected to be slow in the U.S., while economic challenges in Europe will continue to impact growth. Because of strong domestic demand, Asia and Latin America are expected to continue positive growth.

The life insurance industry is witnessing a shift in trends across three core functions of the insurance value chain: front office, policy administration and underwriting, and claims processing and payout. Here, we will examine key emerging trends in the claims processing and payout function. Currently, the key themes driving change in claims processing and payout are:

**The increasing use of the claims dashboard as leverage to improve the overall efficiency of claims management.** Globally, life insurers are increasingly investing in claims dashboard as it enables real-time analysis of critical performance measures addressing different business needs for management. Life insurers are looking to incorporate key performance indicators (KPIs) for claims processing into their dashboards for better benchmarking and business improvements.

**The growing interest for case management solutions among tier 1 life insurers.** Insurers are looking at case management solutions to improve customer service, raise employee productivity and enable more accurate event handling. Case management solutions offer insurers an optimal way to streamline and support processes around fraud investigation and claims handling, especially in cases which are complex, nonlinear, and require collaborative management.

# 2. Introduction

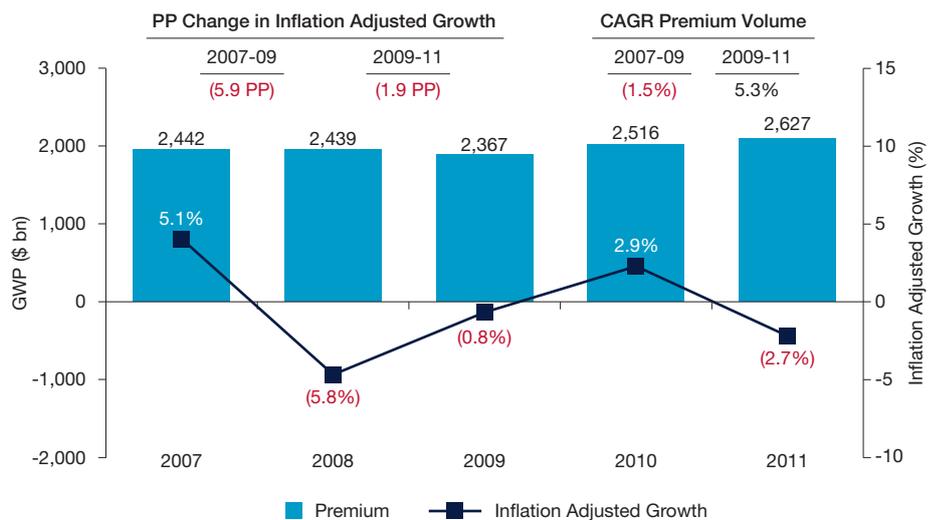
## 2.1. Global Life Insurance Performance

The growth in the world economy slowed down in 2011 after the post-crisis recovery seen during 2010. In 2011, global real GDP growth weakened to 2.7% compared to 4.1% in 2010<sup>1</sup>. This slowdown had a negative impact on the global insurance industry and direct premiums dropped by 0.8% in real terms<sup>2</sup> – mainly due to a decline in the life insurance industry. The near term future looks uncertain for the global insurance industry mainly due to the ongoing economic challenges in Europe. However, emerging markets are expected to continue their growth, though at a slower rate, while North America is likely to witness moderate growth.

Premium volumes in the global life and pensions (L&P) industry contracted by 2.7% (real terms) in 2011<sup>3</sup>, slipping back into the red again after growing positively in 2010. Performance was uneven across all regions. North America and Asia witnessed positive real growth, while Europe witnessed a negative real growth.

Europe witnessed a steep decline in premiums in 2011, due to the ongoing sovereign debt crisis. Premiums fell drastically by 9.6% in 2011, and declines were observed across the board in Western Europe. In North America, life premiums (in real terms) grew for the first time since 2007, rising 2.3% in the improving economic conditions. Asia, which recorded the highest growth in 2010 (6.9% in real terms), experienced a moderate increase in 2011, recording only 0.5% growth. After growing strongly in 2010, premium volumes in emerging markets<sup>4</sup> declined by 5.1% (real terms) in 2011, due to steep premium drops in China and India in the wake of regulatory changes that restricted the use of certain distribution channels.

Exhibit 1: Global L&P Insurance Premium Volumes (\$ billion) and Inflation-Adjusted Growth (%), 2007-11



Source: Capgemini Analysis, 2013; Swiss Re Sigma Reports, 2008-12

1 World Bank, The Global Outlook in Summary, 2010-2014, <http://web.worldbank.org/external/default/main?theSitePK=659149&pagePK=2470434&contentMDK=20370107&menuPK=659160&piPK=2470429>

2 Swiss Re, "World Insurance in 2011" May 2012

3 Swiss Re, "World Insurance in 2011" May 2012

4 Latin America, Central and Eastern Europe, South and East Asia, the Middle East (excluding Israel), Central Asia, Turkey, and Africa

Overall profitability of the industry also remained under pressure as low interest rates continued in 2011, which affected insurers' investment results. Lower than average interest rates and volatile financial markets also had a negative impact on profitability. Interest rates continued to decrease in North America and several western European economies, while financial markets (after performing solidly in the first half of 2011) remained highly volatile during the second half. This was largely due to the European sovereign debt crisis and a continued decline in global economic growth.

Going forward, global L&P industry growth is expected to remain sluggish in advanced<sup>5</sup> economies, while premium growth is expected to resume in emerging markets. Recovery is expected to be slow in the U.S., while economic challenges in Europe will continue. Asia and Latin America, however, are expected to continue their growth due to a strong domestic demand.

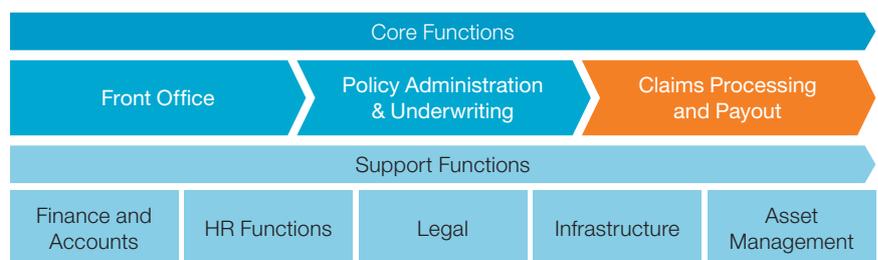
## 2.2. Insurance Value Chain

Insurance operations can be broadly divided into three core elements, representing a value chain:

- Front Office
- Policy Administration and Underwriting
- Claims Processing and Payout

Along with these three core elements, a range of support functions are also required to ensure smooth operations of insurance firms, such as finance and accounting, HR, legal, infrastructure, and asset management.

### Exhibit 2: Insurance Value Chain



Source: Capgemini Analysis, 2013

This paper focuses on the claims processing and payout function of the insurance value chain from a life and pensions perspective.

<sup>5</sup> North America, Western Europe (excluding Turkey), Japan, Hong Kong, Singapore, South Korea, Taiwan, Oceania, and Israel

# 3. Emerging Trends

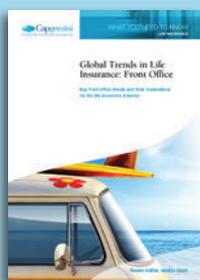
Operating conditions continue to remain tough for insurers around the globe, especially in wake of the recent sovereign debt crisis, increasing competition, stringent regulations, and tech-savvy customers. To survive and protect profitability in such a situation, life insurers are looking at transforming the claims processing and payout area to improve customer retention and acquisition, process efficiency and effectiveness, and risk management.

Claims processing and payout functions at most life insurers are being plagued by myriad inefficiencies, adversely affecting the customer experiences. To effectively compete, and to deliver on a value-added brand promise, life insurers will clearly need to focus on enhancing efficiency and effectiveness in claims processing. Globally, life insurers' are increasingly investing in a claims dashboard, which enables real time analysis of critical performance measures addressing different business needs for management. Life insurers are looking to incorporate key performance indicators for claims processing into their dashboards for better benchmarking and business improvements.

Insurers are also looking at case management solutions for improving customer service, employee productivity, and event handling. Case management solutions offer insurers an optimal way to streamline and support processes around fraud investigation and claims handling, especially in cases which are complex, nonlinear, and require collaborative management.

These changes have led to the emergence of two key trends in claims processing and payout for life insurance companies globally<sup>6</sup>:

- Increasing leverage of the claims dashboard.
- Growing interest for case management solutions



Global Trends in Life Insurance 2011: Front Office



Global Trends in Life Insurance 2011: Claims



Global Trends in Life Insurance 2011: Policy Administration

<sup>6</sup> Trends shown are not necessarily comprehensive, but have been highlighted due to their relevance and potential impact on the industry

## 4. Trend 1: Increasing Leverage of the Claims Dashboard

### 4.1. Background and Key Drivers

Claims processing and payout in life insurance involves multiple hand-offs, duplicated work, and extensive documentation of business compliance, making the entire process time consuming and labor intensive. Consequently, claims processing generates a huge amount of unstructured data. Management is unable to derive meaningful insights and create objective measures of performance from this data. This inefficient claims processing and payout process can lead to increased claims leakage and fraud. It can also result in decreased customer satisfaction and retention as claims services are a major element of customer satisfaction. Dissatisfied customers tend to switch their insurers immediately and generate undesirable and unwanted bad publicity in the market space.

The top performing insurance companies across the globe take an integrated companywide approach to performance. They align the actual values of key performance indicators (such as loss adjustment expense ratio) to company strategy, track progress towards strategic goals, and benchmark performance against the competition. Insurance managers are constantly looking for best practices to improve claims processing and customer satisfaction.

Exhibit 3: Challenges in Claims Management



Source: Capgemini Analysis, 2013

## 4.2. Analysis

While having a comprehensive claims handling system improves the claims process to a great extent, it is not sufficient alone in an intensely competitive market in which customer behavior is changing constantly. Improving operational efficiency, increasing customer satisfaction, and reducing losses are continuous ongoing tasks. To achieve these tasks, insurers need to convert the huge amount of unstructured claims data into business intelligence.

The claims dashboard is a solution that helps life insurers address their information and analytics needs in order to make informed decisions. It measures multidimensional perspectives of key performance indicators, allowing insurers to effectively plan and track performance. The claims dashboard not only provides an instant summary of overall claims performance but also the real time analysis of critical measures against the targets set by the organization. This real time analysis helps management find inefficiencies, and compare those with previous years to identify the scope of improvement.

## 4.3. Implications

Life insurers' investment in the claims dashboard will result in better benchmarking and business improvements.

The claims dashboard offers a powerful analysis/tracking tool to monitor and improve the claims ratio. It mines relevant information from large amounts of unstructured data, providing decision-making managers with an analysis of the individual key performance indicators against set targets. This analysis then helps to improve operational efficiency, increase customer satisfaction, and reduce losses, thereby improving the overall profitability of the firm.

Professional services firms will need to come up with a framework which incorporates appropriate parameters/indices and relevant benchmarks within a claims dashboard.

# 5. Trend 2: Growing Interest for Case Management Solutions

## 5.1. Background and Key Drivers

Globally, life insurers are witnessing a growing number of non-regular cases/events that are hurting overall productivity while increasing expenses. These cases are complex, nonlinear, and require collaborative management. Life insurance firms need to improve productivity on such cases through improved content management and decision-making technology, and case management solutions which address that need.

Case management solutions are composite applications that support the workflow, management, collaboration, content storage, decision making, and processing of electronic files or cases. A case can be anything from an incoming application, a submitted claim, a complaint, a claim that is moving to litigation, or any other event that needs to be handled through a combination of human tasks and electronic workflow. Core elements of the solution include content management, business rule management and execution, workflow, process metrics, and measurement.

Case management solutions allow insurers to address emerging business demands. They also provide the foundation to manage an event throughout the process, enable collaboration capabilities for all parties involved, audit all decisions and steps, and manage business rules to allow for decision and process automation.

## 5.2. Analysis

Case management solutions are ideal to streamline and support processes around fraud investigation and claims handling. They will help life insurers address issues around legacy and redundant core systems to enable improved customer service, increased employee productivity and more accurate event handling. They will also help the insurers with better compliance through enhanced audit ability and streamlined internal controls. Additionally, insurers may also build new solutions such as integration with third-party systems to provide real-time information on top of the case management platform in areas where insurance-specific applications are not available.

While interest is growing quickly, the market for case management solutions is still evolving. It is currently challenging for buyers to know what they are buying, to fully understand the breadth of case management, and to apply case management within the context of insurance processes.

## 5.3. Implications

In order to take advantage of case management solutions, life insurers need to identify processes that are complex, nonlinear, and collaborative and that require a skilled worker to make final outcome decisions. They also need to identify a flexible and scalable case management solution which provides seamless integration with other systems including third-party systems.

Exhibit 4: Drivers for Implementing Case Management Solutions in Life Insurance Firms



Source: Capgemini Analysis, 2013



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### About the Author

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