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Global Trends in Non-Life Insurance 2013: Front Office

Key front office trends and their implications for the non-life insurance industry

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1. Highlights

Global non-life insurance premiums grew moderately by 2.6% in 2012[1]. This growth was supported by selective price increases in some advanced markets, particularly in Asia. Non-life insurance underwriting results improved moderately from selective rate increases and continued reserve releases.

Customers are now demanding anytime-anywhere services and have high expectations from their service providers. Today, insurers are facing tough competition in the industry and changing customer behavior is one of the main driving forces for adapting to newer and better processes. Insurers are embracing technology to upgrade their systems to develop better processes to meet customer expectations.

The non-life insurance industry is experiencing transformation driven by accelerating internal and external pressures. Insurers are trying to enhance technology across all functions of front office, policy administration, and claims—the three core segments of the insurance value chain.

This paper examines key trends in the front office function of non-life insurance companies. Following are the latest trends identified in the front office[2]:

- Increasing adoption of cloud technology in reducing per-employee IT spend by 30%–50%
- Increased investment in metadata architecture to properly manage the complex application portfolios

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1 *World Insurance Report 2013*, Capgemini and Efma, published annually; Swiss Re, "Global Insurance Review 2013 and Outlook 2014/15", November 2013

2 Trends shown are not necessarily comprehensive, but have been highlighted due to their relevance and potential impact on the industry

2. Introduction

2.1. Global Non-Life Insurance Performance

Non-life insurance industry premiums grew globally by 2.6% in 2012. The emerging market's non-life insurance premium sector showed a solid growth of 8.6% in 2012, while advanced markets picked up by 1.5%, which was slightly higher than in 2011 (0.9%).[3]

Exhibit 1: Global P&C Insurance Premium Volumes ($ bn) and Inflation Adjusted Growth (%), 2008–12
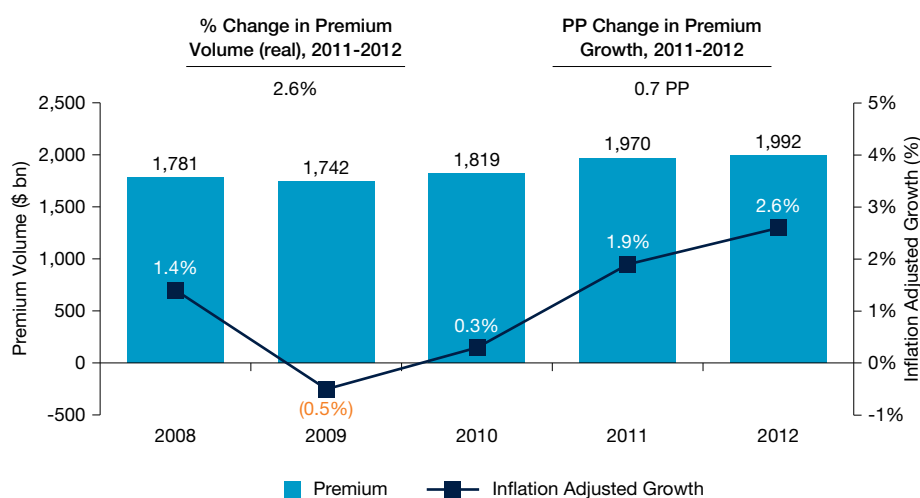
Source: Capgemini Analysis, 2013; *World Insurance in 2012: Progressing on the Long and Winding Road to Recovery*, 24 June 2013. Swiss Re, http://www.swissre.com/sigma/

Advanced Asia[4] registered a growth of 5.8% in their premiums, which was mainly supported by strong increases in South Korea (14%), and Hong Kong (8.2%). Though emerging Asia and Latin America posted a strong growth post-crisis, the weak performance by Central and Eastern Europe and the EMEA region affected the global non-life insurance premium growth rate[5].

In North America, premium growth accelerated to 1.7% in 2012, as opposed to 0.4% in 2011, bolstered by higher rates as well as improving economic activity. The Western European non-life insurance industry continued to face problems, with premiums declining again in 2012, driven by contractions in the U.K., the Netherlands, Italy and Spain.

The overall outlook is positive for the non-life insurance industry globally. A gradual rate hardening that began in 2011 is expected to continue and broaden in scope. However, rate increases will only be moderate since capacity remains abundant and economic conditions are difficult. Growth should be strong in most emerging markets given their more robust economic outlook and increasing penetration.

3 *World Insurance 2012*, Swiss Re, 3/2013

4 In this section, in line with International Monetary Fund (IMF) conventions, advanced economies include the U.S., Canada, Western Europe (excluding Turkey), Israel, Oceania, Japan and the other advanced Asian economies (Hong Kong, Singapore, South Korea and Taiwan). All other countries are classified as emerging and generally correspond to the IMF's emerging and developing economies – Advanced Asia: Japan, South Korea, Singapore, Taiwan, Hong Kong; Emerging Asia: China, Thailand, Malaysia, Philippines, India, Indonesia

5 *World Insurance Report 2013*, Capgemini and Efma, published annually; Global Insurance Review 2013 and Outlook 2014/15, Swiss Re, November 2013

Reserve releases are expected to slowly taper off, but underwriting results will continue to improve on rising rates and subdued claims increases. Overall profitability will remain under pressure since investment returns will continue to be depressed.
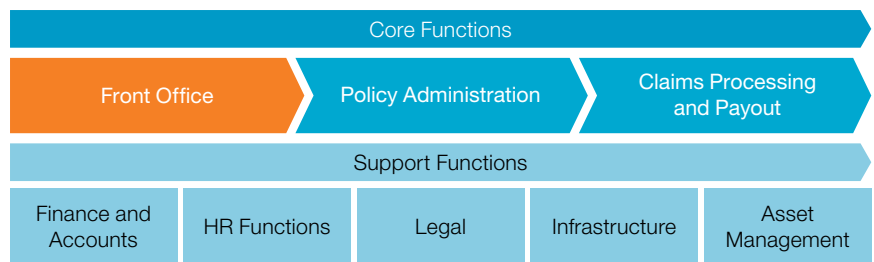
2.2. Insurance Value Chain

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, including finance and accounting, HR, legal, infrastructure, and asset management.

Exhibit 2: Insurance Value Chain

Core Functions		
Front Office	Policy Administration	Claims Processing and Payout

Support Functions				
Finance and Accounts	HR Functions	Legal	Infrastructure	Asset Management

Source: Capgemini Analysis, 2013

This paper focuses on the front office function of the insurance value chain for non-life insurers by identifying key front office trends and their potential implications.

Global Trends in Non-Life Insurance 2012: Policy Administration and Underwriting

Global Trends in Non-Life Insurance 2012: Claims

Global Trends in Non-Life Insurance 2012: Front Office

3. Trend 1: Increased Usage of Cloud Computing

3.1. Background and Key Drivers

Insurers have been spending a considerable amount of money per employee per month on IT. It is anticipated that this amount of IT spending cost can be reduced by 30% to 50% by using cloud computing on a large scale.

Most companies are using cloud computing services for non-core office and support functions, primarily via Software as a Service (SaaS). Usage of cloud computing in non-life insurers has been high and comparable to other industries. Banks, insurers, governments, and retailers use the cloud for email and other business support functions (such as sales and service support, collaboration, file sharing, and Web conferencing). However, financial services industries, including banking and insurance, have been reluctant to expand their cloud initiatives into strategic or competitive functions.

Exhibit 3: Adoption of Cloud Computing Services by Industry
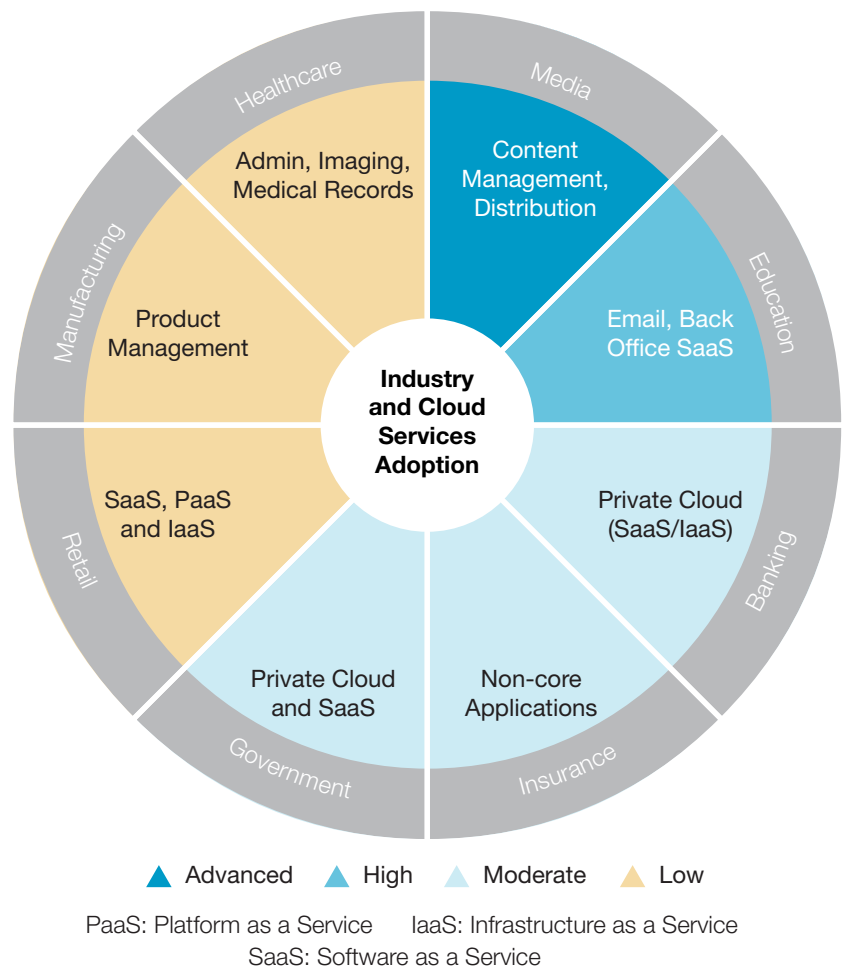
Source: Capgemini Analysis, 2013; "The Cloud: Changing the Business Ecosystem", KPMG, 2011

Cost savings, better collaboration, and faster time-to-market (TTM) are the key drivers for adopting cloud computing by insurers. Cloud computing enables the IT organizations of property & casualty insurers to commoditize IT infrastructures and related services, such as development systems, storage or email applications, removing the complexity of on-premises deployment and management.

Many P&C insurers' IT organizations face the challenge of providing system resources that meet peak-time data requirements.

3.2. Analysis

Cloud computing is among the top technology priorities for insurance CIOs. It is considered to be a significant tool to reduce IT costs in internal or external functions. Insurers are also adopting cloud computing to allow them to adapt to an increasingly changing business environment with more agility. Currently insurers are testing cloud computing selectively in isolated functional areas.

One beneficial characteristic of cloud computing is the ability to avoid over provisioning of IT resources and to increase the storage or processing capacity by orders of magnitude at a more affordable cost. An increasingly competitive global insurance market, in which insurers are pressured to reduce TTM for new products and services, is driving a higher focus on achieving IT agility and shorter deployment times. Cloud computing is also likely to help insurers to provide its agents, brokers, and underwriters with a common platform, helping them to gain faster access to real-time data, therefore increasing productivity. Cloud computing enhances the ability for insurers to standardize and roll out systems consistently across multiple geographies.

In recent years, the cloud opportunities for business support as well as enterprise applications for non-life insurers have increased.

3.3. Implications

Insurers should form a cloud competency center with resources from different organizational areas, including the business operations, legal and IT departments. This collaborative team can create a high level of transparency by deciding business-driven key performance indicators, such as IT costs per policy or per claim, to assess the business value and the comparative cost basis of cloud computing offerings.

Insurance companies will utilize cloud computing for increasing opportunities for email and other business support applications, office suites, sales, and service management, such as salesforce.com and other applications. These applications are typically highly standardized and require no industry expertise. Cloud computing can generally provide significant economies of scale.

Exhibit 4: Major Trends for Cloud Adoption for P&C Insurers

Area of Expansion	Trend
Business Support Applications	• Through 2015 and beyond, there will likely be increasing opportunities for email and other business support applications, office suites, sales, and service management, such as salesforce.com and other applications. • These applications are not seen as competitive assets, are typically highly standardized, and require no industry expertise. Cloud computing can generally provide significant economies of scale.
Infrastructure Services	• Infrastructure services, such as storage, server infrastructure and Web hosting, are expected to enjoy growing demand during the next three years because of their low degree of vertical specialization and low-value contribution to organizations.
Enterprise Applications	• Enterprise applications, such as financial management, HR and procurement, may lead cloud adoption in the insurance industry—especially when organizations are changing their operations model and are, for example, implementing shared services.
Vertical Applications	• Vertical applications that are highly standardized, such as billing and collections, are anticipated to become increasingly interesting for small and midsize insurers that are being forced to modernize their IT legacy environments.
Housing Global Applications	• National or multinational insurers that are keen on housing global applications or expanding their geographic presence, and want to become more nimble in establishing greenfield operations, are likely to be among the early adopters of cloud computing.
Private Clouds	• Private clouds are expected to be the preferred cloud deployment scenario and need to be able to provide strong integration capabilities with insurers' IT legacy systems.
Community Clouds	• Community clouds that are operated by industry associations may emerge during the next three years and facilitate cloud adoption among insurers. • For example, the Trusted German Insurance Cloud, which was launched as an initiative by the German Insurance Association in 2011 to provide common services, such as customer black lists in the industry.

Source: Capgemini Analysis, 2013

4. Trend 2: Increased Investment in Metadata Architecture

4.1. Background and Key Drivers

Many non-life insurance CIOs are struggling with challenges around managing a highly decentralized and heterogeneous IT architecture. Most insurance CIOs lack a common framework for managing the different application domains. Without a common metadata framework, CIOs will face challenges to modernize legacy systems, to meet regulatory requirements, and to become more agile in supporting business requirements. As a result, insurers are investing in metadata architecture to meet the requirements of modernizing legacy systems.

Multiple disparate legacy claims systems for executing the insurance processes are leading to erosion of profits.

Legacy systems make it challenging to:

- Lower operational and maintenance costs by standardizing processes and consolidating back offices
- Remain agile by adding new business features and functionality to remain competitive
- Reduce technical complexity and standardize interfacing requirements with other applications
- Reduce the cost of IT operations
- Find developers who can provide break-fix support

In order to make the right decisions about the legacy systems, insurers need a method to identify, understand, evaluate, and compare the assets in the portfolio from both a business and technical perspective.

An increasing pressure to reduce costs across the insurance value chain will drive the modernization of legacy systems in the industry.
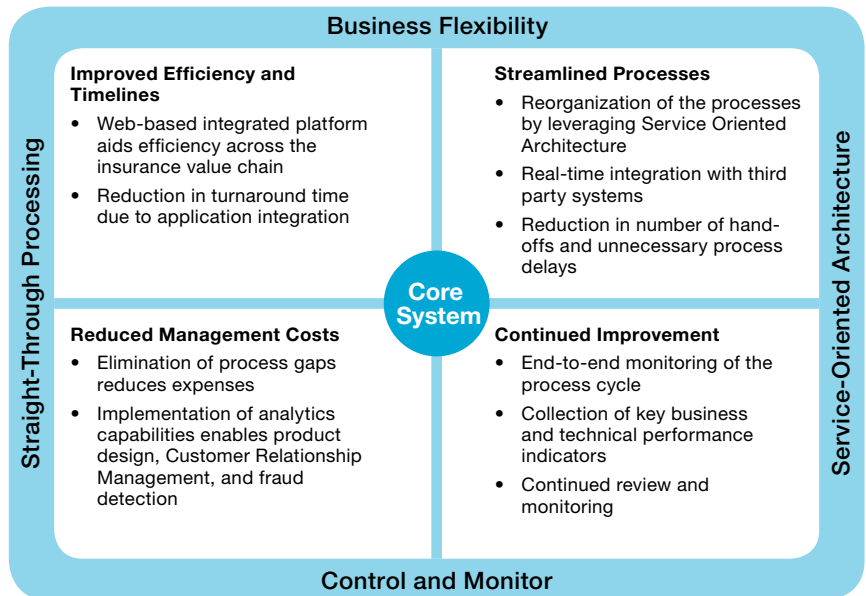
4.2. Analysis

The metadata repository works as a guardian of the data and provides the data management services layer for the application architecture. The metadata repository is responsible for taking custody of the data and business rule definitions and enforcing the rules. When rule definition and enforcement is the responsibility of one entity—the metadata repository—it ensures ease of integrity of the data and reduces maintenance, which is the basic requirement for transforming legacy systems.

Implementing metadata architecture has become a requirement for insurers to modernize legacy systems with the latest technology (including a Service-Oriented Architecture (SOA)-enabled platform, SaaS, etc.). Gartner estimates that, by year-end 2014, only half of global insurers' legacy modernization programs will generate the originally expected measurable organizational value[6].

6 Gartner Inc.: "Predicts 2014: Digitalization Will Force Insurers to Become More Agile", Juergen Weiss, Kimberly Harris-Ferrante, Steven Leigh, Jeff Haner, 11 November 2013

Exhibit 5: Modern Processing Platform

Business Flexibility

Straight-Through Processing

Service-Oriented Architecture

Improved Efficiency and Timelines
- Web-based integrated platform aids efficiency across the insurance value chain
- Reduction in turnaround time due to application integration

Streamlined Processes
- Reorganization of the processes by leveraging Service Oriented Architecture
- Real-time integration with third party systems
- Reduction in number of hand-offs and unnecessary process delays

Core System

Reduced Management Costs
- Elimination of process gaps reduces expenses
- Implementation of analytics capabilities enables product design, Customer Relationship Management, and fraud detection

Continued Improvement
- End-to-end monitoring of the process cycle
- Collection of key business and technical performance indicators
- Continued review and monitoring

Control and Monitor

Source: Capgemini Analysis, 2013

It helps to reduce TTM by improving the ability to respond to changing market conditions, accelerating rate changes, and delivering new products through flexible solutions. It also reduces total cost of ownership by increasing operational efficiency by simplifying business rules and workflows.

Leading insurers are implementing systems that incorporate the latest architecture, such as web-based and SOA to enable a more reliable technology platform.

4.3. Implications

Absence of consistent metadata framework can put non-life insurance CIOs at risk for the long-term viability of their insurance IT architectures, and they might also face significant operational risks and cost issues. Data quality of IT architectures can be improved by using technologies for metadata architectures and frameworks that will also become a prerequisite for the adoption of emerging technologies, such as in-memory computing and the Hadoop-distributed computing framework.

In this process, insurers should analyze the diversity and complexity of the current metadata infrastructure to determine whether a centralized or a more decentralized metadata framework strategy would best fit their requirements.

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The *What You Need to Know* series from Capgemini Financial Services is written by our Strategic Analysis Group and provides trends, research, and analysis on key topics for financial services firms.

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