WHAT YOU NEED TO KNOW
LIFE INSURANCE

Global Trends in Life Insurance: Front Office

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

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Contents

1 Highlights

The global life insurance industry witnessed growth in 2010 mainly in the Asian region. The growth trend is likely to continue in 2011, although profit margins are expected to remain under pressure. Regional differences exist, with emerging markets growing at a faster rate than mature markets.

The life insurance industry is witnessing shifting trends in front office, policy administration, and claims—the three core functions of the insurance value chain. This paper identifies the key emerging front office trends in life insurance industry.

In the life insurance industry there has been a gradual change in consumer preferences regarding products, sales channels, and customer service. While the influence of traditional sources such as agents and brokers declined, non-traditional information sources (such as internet, ease of buying, and recommendation from acquaintances) have emerged as a significant influence on insurance consumers. Life insurance firms need to enhance the customer experience from both a sales and service perspective.

Bancassurance has emerged as a significant distribution channel. It offers better cost efficiency than traditional channels such as agents and brokers, and provides an opportunity to expand the customer base. It also offers benefits to both banks and their customers. In response, life insurers need to develop new products, analyze their customer base, and decide on the operating model of the bancassurance channel in order to leverage its full potential.

Life insurers are also increasingly looking to utilize modern technology solutions to improve their operating efficiency while reducing operating costs. A range of new technologies such as Software as a Service (SaaS) and service oriented architecture (SOA) platforms have emerged to enable insurance companies to offer innovative new features.

Illustration software has been a key element in the insurance business workflow, delivering functionality that enables agents to create price quotes and illustrate the benefits of insurance products to their customers. A range of general and specific functional requirements for a better illustration solution are expected to gain significance over the next few years. Life insurance firms need to analyze their customers, evolving distribution channels, and a diverse range of products while implementing illustration solutions.

Overall, life insurers need to remain aware of emerging changes in consumer behavior, distribution mix, business operations, and technology advancements to remain competitive in the market. They need to anticipate these changes and act accordingly.

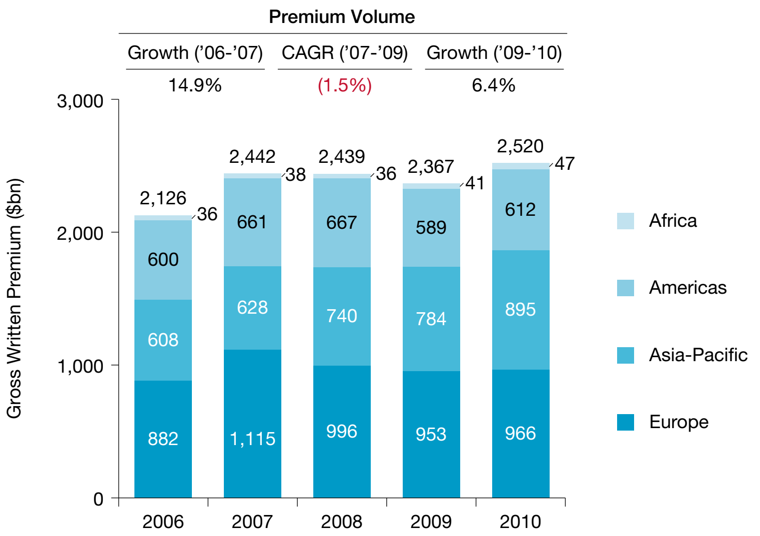
2 Introduction

2.1. Global Life Insurance Performance

The global insurance industry witnessed a positive growth of 2.7% (in real terms) of premium volumes during 2010[1], after experiencing a decline during both 2008 and 2009. The return to growth in 2010 was largely a result of increased demand for insurance due to initial economic recovery across the globe. Looking to 2011 and 2012, the insurance industry is expected to witness a further growth in volume, though the uncertain outlook for further economic recovery will be a key determinant.

Global life insurance premiums grew by 6.4% in nominal terms (3.2% in real terms) to reach $2.5 trillion in 2010. This increase was mainly driven by the growth of life insurance in Asia, which grew by 13.7% (in nominal terms)[2] and contributed over one third of total global premium volumes in 2010.

Exhibit 1: Global Life Insurance Premiums (in USD bn), 2006–2010



Source: Sigma Reports 2007-11, Swiss Re

The Latin America and Caribbean region witnessed the highest nominal growth rate of 29.1% in 2010[2], although the contribution to total global volume remained minimal. The U.S. and U.K., two of the largest insurance markets, continued to experience a decline in life insurance premium volumes in 2010, although at a reduced pace compared to 2009.

However, while global life insurance premium volume has surpassed its 2007 peak, Europe and the Americas remain far below the 2007 levels. 2010 growth rates also do not match up to pre-crisis levels, and during 2007-2009 global life insurance premiums actually fell 1.5% annually due to the negative impact of the financial crisis.

[1] Sigma Reports 2007-11, Swiss Re
[2] World Insurance in 2010: Sigma Report, Swiss Re, 2011

Nonetheless, premium volume growth is likely to continue in 2011, based on further economic expansion in emerging economies and the increasing demand for life insurance products due to an aging population globally. However, life insurance firms' profitability is expected to remain below the pre-crisis level, primarily due to a lower investment return environment and increasing regulations that are encouraging clients to shift to less risky portfolios. Firms therefore need to find ways to differentiate across both their top and bottom lines.

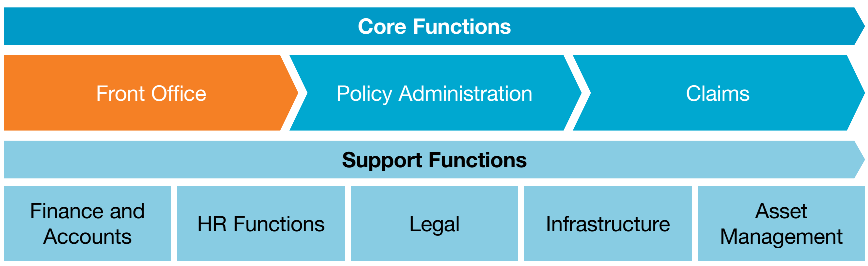
2.2. Insurance Value Chain

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

- Front Office
- Policy Administration
- 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, 2011

This paper focuses on the front office function of the insurance value chain.

3 Emerging Trends in Life Insurance – Front Office

Life insurers are witnessing significant changes in customer behavior, the sales process, business operations, and distribution strategy.

The distribution strategy is becoming more complex and the channels used are undergoing an evolution due to the growth of alternative low-cost channels. In addition, consumer demands are shifting, forcing insurance firms to realign to changing consumer preferences. The emergence of new technologies is providing a platform to improve customer sales and service experience.

These changes have led to the emergence of the following key trends in the front office for life insurance firms globally[3]:

- Increased adoption of bancassurance as a distribution channel.
- Gradual change in consumer preferences resulting in the need for an enhanced sales and service experience.
- Expected increase in the usage of modern technology platforms such as Software as a Service and service oriented architecture.
- Need for greater processing capability within illustration solutions.

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

4 Trend 1: Increased Adoption of Bancassurance As a Distribution Channel

Bancassurance is now a dominant distribution model in a number of European countries and fast catching up in some Asia-Pacific countries as well.

4.1. Background and Key Drivers

Bancassurance refers to the selling of insurance products through a bank's distribution channel to the bank's customers. The term 'bancassurance' first appeared in France and the concept spread across the globe as the insurance industry looked for new channels of distribution to grow their customer base.

The key drivers leading to the growth of bancassurance have been:

- Banks, with their geographical spread and large customer base, provide an opportunity for life insurers to increase their market penetration and enlarge the customer base.
- There is an increasing integration of banks and insurers. Bank customers are largely correlated to savings, while insurance customers generally expect a greater breadth of retirement pension services.
- The insurance products offered through banks can result in the provision of a one-stop financial solution that covers banking services, protection cover, and retirement planning.
- Insurance sales also provide banks with additional fee-based income and can assist with increasing customer loyalty.
- Bancassurance provides an alternative and cost-effective mode of distribution for life insurance firms, compared to costly agency services.
- Deregulation of banks and bancassurance policy allowed banks to form multiple partnerships with insurance companies, driving increased adoption of bancassurance in countries such as China[4] and India[5].

4.2. Analysis

Bancassurance emerged as a predominant distribution channel in a number of European countries over the last decade, mainly Portugal, Spain, Italy, France, and Belgium.

Looking at the two markets with the highest levels of bancassurance penetration, Italy has been characterized by the rapid growth of bancassurance from 8% in 1992 to 50% in 2002, representing 74.4% of new life insurance business in 2009. Portugal recorded the highest penetration rate of bancassurance, which contributed 86.7% of life insurance business during 2009.

However, bancassurance has not met with the same success throughout Europe. Although partnerships were formed between banks and insurers, the life insurance market in the U.K. remains largely in the hands of brokers. In Germany, the growth of bancassurance has been restricted due to regulatory constraints linked to insurance products.

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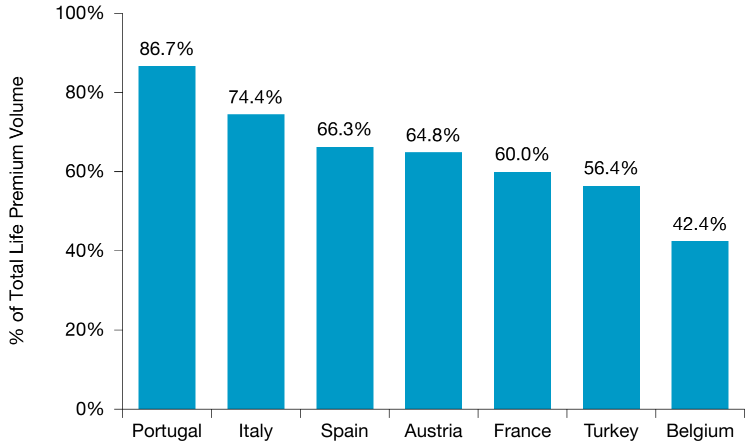
[4] As per a Celent article, the share of Bancassurance has increased from less than 25% in 2005 to more than 35% in 2009, http://www.celent.com/reports/bancassurance-asia-pacific-region-replacing-agency-distribution-model

[5] As per a Towers Watson survey, 93% of the life insurance firms in India were using the bancassurance channel during 2010, India Bancassurance Benchmarking Survey, Towers Watson, 2010

Exhibit 3: Bancassurance Market Share for Life Insurance in Europe (2009)[6]



Source: CEA, 2010

Bancassurance as a channel is relatively new in Asia-Pacific, with Singapore adopting it as late as 1992 and other markets following suit gradually. However, it has gained prominence in the region due to regulatory aid as well as banks' ability to utilize their distribution networks to sell insurance products to customers. Currently, the penetration of bancassurance ranges from less than 10% in India to as high as 50-70% of the total insurance distribution in Taiwan and Malaysia[7].

While the bancassurance channel has grown in many markets in Europe and Asia-Pacific, the North American region has not witnessed any major contribution from bancassurance (in 2009, bancassurance represented only 2% of the market in the U.S. and only 1% in Canada).[8] This low penetration rate was related to the regulations that prohibited the selling of insurance products by banks in the U.S. and Canada. Although this prohibition was removed in the U.S. in 1999 and in Canada in 2006[9], customers continued to remain attached to traditional intermediaries such as agents and brokers. Furthermore, in U.S., annuities are the main product sold through the bancassurance channel.

4.3. Implications

The bancassurance channel is gaining prominence in most Asia-Pacific and European life insurance markets. Life insurance companies can focus on developing new products that can be easily sold through the bancassurance channel.

Life insurers need to decide on the degree of integration required with the banking entity. The banks can be used only as distribution partner selling third party insurance products or the insurance players can opt for a joint venture with large banks for co-branded products. Life insurance firms will also need to analyze their customers and product ranges in order to fully and most effectively leverage the banks' distribution networks.

The large and varied customer base of the banks may be targeted to design and deliver custom insurance products and services. Insurance firms may look to offer different products through different banks, based on their customer base and geographical distribution of branch networks.

The banks may also be used as an effective medium to provide customer service to the policy holders. This would allow insurance firms to leverage the efficiencies offered by the banks as a customer contact channel.

[6] Spain data is from 2008
[7] As per Celent Research, http://www.celent.com/reports/bancassurance-asia-pacific-region-replacing-agency-distribution-model
[8] Insurance Distribution Channels in Europe, CEA, 2010
[9] Bancassurance: Emerging Trends, Opportunities and Challenges, Swiss Re, 2007

5 Trend 2: Need for Enhanced Sales and Service Experience Due to Changing Consumer Preferences

5.1. Background and Key Drivers

The attitudes and behaviors of life insurance consumers are continuously changing, particularly towards products, sales channels, and customer service.

The key drivers of a shift in consumer preference for life insurance products are:

- Cost remains the most important factor among U.S. consumers in selecting a life insurance policy.
- The ease of obtaining a policy and past experience with the insurer are other major drivers for company and policy preference.
- Recommendation from acquaintances, including family and friends, also has a large bearing on policy preference.
- Agent/broker recommendation and insurer brand name are other influencers for policy selection.
- Age of the insurance customer also play a role in the selection process, as a large number of Gen X (aged 30-43 years) and Gen Y (aged 18-29 years) consumers uses internet for research while buying life insurance.[10]

5.2. Analysis

Agents and brokers have gradually lost their monopoly on influencing clients' decisions on policies. [11]Informal and alternative information sources such as family, friends and social networks, have become an integral part of the selection process when choosing a life insurance policy and/or insurer.

Consumers are increasingly using the internet to interact, communicate, and transact with insurance providers. However, they primarily use the internet for information and service purposes, rather than purchasing.. According to a survey among U.S. life insurance consumers, the percentage of consumers using internet for viewing policy details increased from 2% in 2007 to 9% in 2009[12]. Also, the percentage of consumers using internet for viewing and paying insurance bills witnessed a growth to 8% in 2009 from almost nil during 2007.

Internet use by life insurance customers remained relatively low as compared to non-life insurance. For example, in U.S. auto insurance, approximately 28% of consumers used the internet for viewing policy information and 31% for viewing and paying insurance bills[13]. However, the use of the internet by life insurance customers is expected to grow over the coming years.

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[10] According to a Forrester survey, more than 40% of Gen Y and Gen X consumers used web based research during their life insurance buy process, compared with less than 30% of older boomers (ages 54 to 64) and seniors (ages 65 and older), The US Life Insurance Buyer's Journey, Forrester Research, 2010

[11] US Insurance Consumers 2010: Social, Complex, Online and Evolving, Gartner Research, 2010

[12] Ibid

[13] Ibid

“The life insurance leaders should understand that consumer behavior changes are gradual, and set realistic expectations for return on investment (ROI) and adoption for new sales and customer service activities offered via the Internet and even as mobile applications are launched.”

US Insurance Consumers 2010: Social, Complex, Online and Evolving, Gartner Research, 2010

Insurance consumers are also increasingly looking for improved convenience in buying and policy servicing. They want the option to be able to buy through their preferred channel at their preferred time. Thus, life insurers should look to provide a 24-hour service using a multichannel approach that includes agents, brokers, the call center, and the internet.

The rise of several insurance aggregators is also leading the change in consumer behavior. There is an increased interest among consumers to obtain pricing transparency by seeking a quote comparison while buying a policy.

5.3. Implications

Life insurance firms need to remain aware of changing consumer needs and anticipate the future shift of consumer preferences.

As a result of changing consumer preferences, relying on only a strong brand or a broad agent/broker network may not be sufficient for business growth. Life insurers thus need to enhance the customer experience in order to increase customer loyalty and encourage sharing of positive feedback. They need to improve the service quality across all channels and touch points.

As online insurance transactions increase year after year, firms may look for scalable systems to automate insurance activities and provide an easy to use interface for the interaction. These online services may enhance the customer experience as well as expand the customer base.

Insurance firms may increasingly look to implement tools that provide instant access to the insurance firm’s service resources. Applications designed to support various hand-held devices and providing the location sensitive services could become integral part of customer service portfolio for life insurers.

6 Trend 3: Increased Usage of Modern Technology Platforms (Such As SaaS and SOA)

6.1. Background and Key Drivers

Globally, life insurers have continued to use legacy systems and have largely refrained from replacing them over the last few years. This is mainly due to the risk averse nature of the insurance industry as well as financial constraints arising from the financial crisis. These legacy systems are both high in maintenance costs and offer limited flexibility.

However, there are many drivers leading to the gradually increased adoption of newer technologies within the life insurance space:

- Cost saving is the primary driver for the increased adoption of these new technologies, as they usually offer a transaction based pricing or usage based pricing model:
  - They help in reducing up-front investments and the associated risk in replacing legacy systems, as the cost depends on the usage of the application.
  - Also, the Software as a Service providers host multiple clients, so the IT infrastructure and operational cost is spread over multiple users.
- Insurers are increasingly looking to issue most of the policies instantly to get the assets on their books sooner:
  - This is driving the need for straight through processing (STP) which requires a robust platform which enables seamless communication.
- Since the non-core IT function is provided by a third party, it reduces the dependency on internal IT staff and allows insurers to concentrate on their primary business.
- The implementation also provides a significantly accelerated speed of deployment, as compared to development and deployment of in-house legacy systems.
- Insurance players desire the flexibility to choose to replace just a few processes (such as billing, licensing support, or sales) instead of making a decision to replace entire legacy systems.

6.2. Analysis

The insurance industry continues to remain a conservative industry in terms of new technology. Insurance firms generally have lagged behind their financial counterparts such as banks in terms of adopting new technology platforms.

Nonetheless, competitive pressure is driving insurance firms to seek solutions that minimize costs and at the same time provide high quality service. This is expected to lead to an increased adoption of modern technology platforms like Software as a Service (SaaS), Policy Administration as a Service (PaaS) and service-oriented architecture (SOA).

Some life insurers have already started using SaaS for select operational processes, while enterprise-wide adoption is still in a nascent stage. Data-security remained the biggest concern for life insurance firms looking to use these newer technologies. In addition, there are perceived concerns about loss of control and regulatory compliance risks. These challenges continue to impede the growth of modern technologies.

However, the benefits of modern technology solutions to improve operating efficiency and minimize costs are likely to drive a further increase in the number of life insurance firms deploying these technologies going forward. Such adoption is expected to be a long-term trend, as life insurers are likely to gradually replace legacy systems rather than adopt a "big bang" implementation approach.

6.3. Implications

Insurers need to first understand the importance and utility of these modern technologies, and then determine how the implementation can be leveraged to maximize output across their specific expectations.

Life insurers may increasingly look to leverage the models such as SaaS or PaaS to achieve better cost efficiency. However, owing to the nature of sensitive information handled by the life insurance industry, maintaining the confidentiality and the integrity of the information is one of the most important criteria and also a regulatory mandate. Hence data security technologies coupled with innovative cost saving models would allow life insurers to deploy innovative features for their customers (such as self-service portals), while reducing operational expense in challenging financial times.

7 Trend 4: Need for Greater Processing Capability within Illustration Solutions

7.1. Background and Key Drivers

Illustration software has been a key element in the insurance business workflow, delivering functionality that enables agents to create price quotes and illustrate the benefits of insurance products to their customers.

It is estimated that more than 70% of insurers have multiple desktop illustration software solutions, which are based on older technology and remain difficult to use for the agents.

The key drivers determining the significance of creating solutions with enhanced customizable and complex illustration capabilities are:

- Insurance products and selling methods have become more complex over the last decade, leading to a need for a solution that can support this increased complexity
- A better customization is required to describe the value delivered by an insurance product.
- As the life insurance product range is becoming more diverse, there is an increased need for providing a better understanding to customers with regards to specific insurance products and their unique benefits.
- There is a need to deliver illustration software over the web, as internet use continues to increase among life insurance customers.
- Product and benefit illustration tools that aid in 'anytime-anywhere' capabilities for the sales force (such as the hand-held-devices based applications/tools) are also becoming an imperative for the insurers

7.2. Analysis

Failure when implementing the illustration software can be a costly affair for any insurance firm, both in terms of the technology investment and a reduced conversion rate of potential new customers.

Several general and specific functional requirements are expected to gain significance over the next few years in order to implement a capable and robust illustration solution.

General Requirement Areas

- Consumers are increasingly demanding innovative graphic illustration, along with good output performance.
- The support for both multiple languages and currencies is becoming increasingly important for life insurers.
- Insurers are looking for better management reporting to analyze sales trends and to drive operational and customer insights.
- The solutions should be easily upgradable based on new business requirements, and they should integrate smoothly with other systems such as policy administration and claims processing.
- Life insurers are also looking to use such new features as electronic signatures, and provide internet connectivity to agents.

Specific Functional Requirement Areas

- Insurers need to assess illustration solutions according to their product offerings to determine support for the product features, investment alternatives, and riders.
- The solutions should also support compliance requirements, multi-life illustrations, and asset-allocations models.
- Life insurers are also looking to provide the capability of comparing insurance products, and leveraging advanced sales concepts such as buy/sell agreements, buy term, deferred compensation, and other selling ideas.

Exhibit 4: Areas of Significance while Developing/Selecting an Illustration Solution

General Requirements	Specific Functional Requirements
Production Performance	Product Support
Innovative Output	Compliance
Management Reporting	Multi-life
Multilanguage/currency	In-force illustrations
Upgrade Process	Product comparisons
Interoperability	Advanced sales concepts
Electronic Signature	Marketing Templates

Source: Adapted from "What Life Insurers Need to Know About Deploying Illustration Software Solutions", Gartner Research, 2010

The main use of illustration software is to help a potential customer to understand the product, and also to facilitate a win for the agent. So, the solution should be capable of managing multiple products, processing their diverse features, and providing a benefit illustration to the customer.

7.3. Implications

While selecting an illustration solution, life insurers should anticipate the future needs of their changing customer base, increase product variety, and grow diversity in distribution channels. These applications should facilitate the prospective policy holders in making informed decisions.

A packaged illustration system may provide better cost efficiency compared to in-house development, as the requirements are expected to grow in number and complexity over time.

Also, the customized solutions would demand increased investment from firms, as compared to systems with basic functionalities.

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The author would like to thank **Chirag Thakral**, **David Wilson**, **Michael Boltz**, **Ravi Nadimpalli**, and **William Sullivan** for their contributions to this publication.

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