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WHAT YOU NEED TO KNOW
NON-LIFE INSURANCE

Global Trends in Non-Life Insurance: Policy Administration

Key trends in policy administration and the implications for the non-life insurance industry

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Contents

1 Highlights

As the economy has improved across most of the world, the global non-life insurance industry has participated in the recovery with written premium growing 4.4% in 2010. This was especially true in Asia where written premiums grew by 16.8% the same year. The growth trend is likely to continue in 2011, although the underwriting margins continue to be under pressure due to the impact of catastrophic and other major claims across the world, such as the devastating earthquakes in Japan and New Zealand. In addition, the uncertainty over economic issues lingers on, and could also affect the future growth of the industry.

The non-life insurance industry is witnessing shifting trends across the front office, policy administration, and claims—the three core functions of the insurance value chain. This paper looks at key emerging trends in the policy administration function of non-life insurance firms.

The key themes driving changes in the policy administration function of an insurance company include modernizing and consolidating legacy policy administration systems, reducing operational costs, and increasing speed-to-market the products. An increased focus on profitability and customer retention is driving the need for more responsive policy administration systems which can adapt to the evolving needs of both customers and distribution channels.

Non-life insurers have continued to invest in new systems throughout 2010 and early 2011 to improve business processes and enhance their speed to market. Many non-life insurers in the U.S. and Europe are trying to replace or modernize their policy administration systems to gain greater efficiency, agility, and flexibility in design, delivery, and management of products and services. However, in the emerging Asian markets most insurers are primarily focused on stabilizing and growing their insurance operations.

In the personal lines segment to reduce costs and achieve faster turnaround for quote to policy, non-life insurers are increasingly developing online self-service capabilities for policy administration. However, these portals have not witnessed expected level of adoption rates because of the customers preference for personalized insurance services. A generational shift among customers is underway, with younger tech-savvy customers more open to internet and mobile solutions.

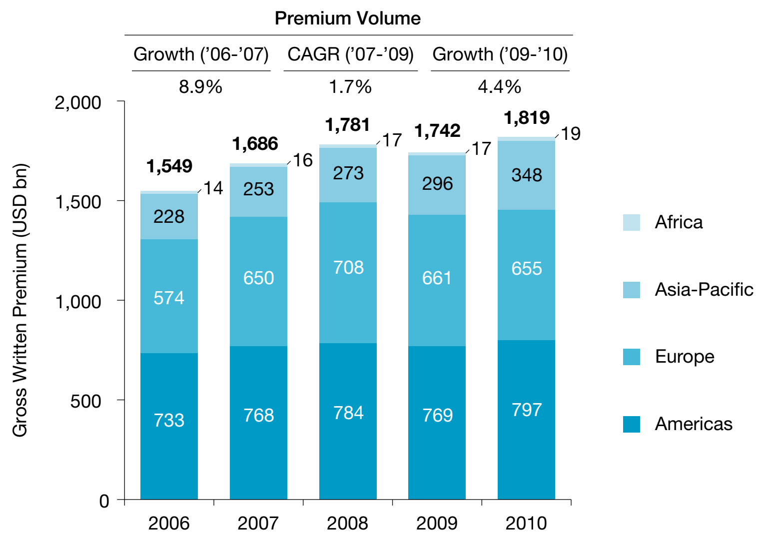
2 Introduction

2.1. Global Non-Life Insurance Performance

The global insurance industry witnessed a positive growth of 2.7% of premium volumes during 2010[1] in real terms, after experiencing a decline during both 2008 and 2009—the worst years of the financial crisis. The return to growth in 2010 was largely a result of the 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 volumes, though the uncertain outlook for further economic recovery will be a key determinant.

After posting a decline in 2009, global non-life insurance premiums grew by 4.4% in nominal terms (2.1% in real terms) to reach $1.8 trillion in 2010. This increase was mainly driven by the robust economic rebound in Asian countries which helped to boost premium growth in emerging Asian markets and the newly industrialized countries[2] in Asia.

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



Source: Sigma Reports 2007-11, Swiss Re

Fuelled by the economic recovery, non-life premiums for the Asian region grew by 17.4% in 2010. The increase was primarily boosted by a 33.0% and 27.7% rise in non-life premiums in the emerging markets of China and India respectively in 2010. The newly industrialized Asian countries, particularly South Korea (24.3%) and Singapore (18.5%), also witnessed a robust growth in premiums.

However, almost flat premiums growth of 2.4% in the mature insurance markets continued to drag down the growth in the global premiums. The continued softening of premium rates as well as intense price competition and a slowdown in non-life insurance demand in the U.S. and Western Europe hampered non-life premiums growth in these markets.

[1] Sigma Reports 2007-11, Swiss Re
[2] Newly industrialized countries in Asia include Hong Kong, Singapore, South Korea, Taiwan

Nonetheless, non-life premiums growth in emerging markets is expected to remain strong. Although the premiums growth in mature markets is forecasted to improve, the improvement is likely to be restricted by continued rate declines in commercial lines of business and ongoing economic concerns.

While the actual cost of the devastating earthquakes in Japan and New Zealand in the first quarter of 2011 remained unclear for insurers, the size of the property damage and expected rise in insured loss indicates that the underwriting result for non-life insurers may deteriorate in 2011.

2.2. Insurance Value Chain

Insurance firms' operations can be broadly divided into three core elements that represent the insurance 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, human resources, legal, infrastructure, and asset management.

This paper focuses on the policy administration function of the insurance value chain for non-life insurers. It identifies the key trends in the policy administration function for non-life insurers and their potential implications.

3 Emerging Trends in Non-Life Insurance: Policy Administration

Non-life insurers are increasingly viewing modernization of policy administration systems as a key priority, driven by the need to increase speed to market and achieve greater flexibility in improving business processes.

Moreover, self-service portals that facilitate policy services can help insurers to reduce both service costs as well as drive revenues through increased customer acquisition and higher retention.

The following key trends are evident in the policy administration domain of non-life insurance firms globally[3].

- Increasing investments in the replacement of legacy policy administration systems to cater to a dynamic insurance market, as well as to leverage analytics and advanced analytics, like predictive modeling, for risk evaluation and product pricing.
- Externalize the business rules and processes through business process management or business rules engine-based technologies to encourage usage of online self-service portals to drive revenues and reduce policy administration service costs.

[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 Investments in the Replacement or Modernization of Policy Administration Systems

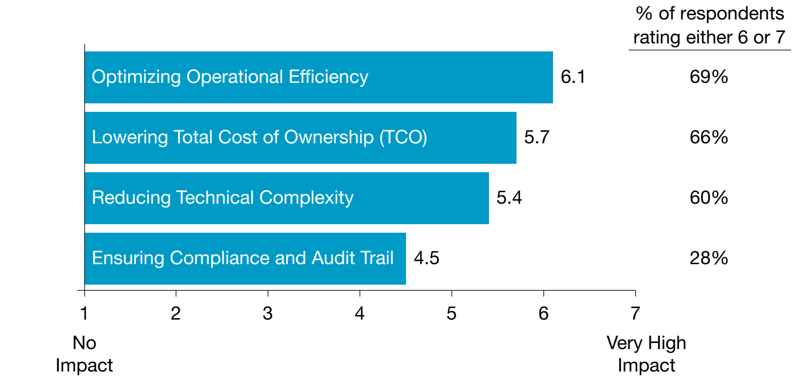
4.1. Background and Key Drivers

In search of efficiency, agility, and flexibility in delivery of products and services, insurers are quickly realizing that their legacy policy administration systems have become a liability. Complex legacy systems have become a barrier to high performance as insurers increasingly find it difficult to get products to market quickly and deal with the challenges posed by a rapidly changing marketplace.

To achieve the goals of operational efficiency, flexibility in delivery and customer service, and to enable greater end-to-end policy management, non-life insurers are looking to replace or modernize their policy administration systems. The need for policy administration system replacement or modernization is driven by a few key requirements:

- More efficient delivery of products and services with a faster speed to market to match the fast changing customer preferences, competitive pressures and frequent regulatory changes.
- Increased flexibility in delivery and customer service to meet the changing needs of clients.
- Cost reductions to supporting and enhancing legacy systems.

Exhibit 2: Drivers for Legacy Systems Modernization, 2011



Source: Capgemini Executive Interview 2011

4.2. Analysis

Firms in North America have been aggressively replacing their legacy policy administration systems while their European peers continued to invest in new systems in 2010 and early 2011.

In a recent survey[4], half of the vendors offering non-life policy administration systems in Europe considered 2010 a better year than 2009 for replacing their legacy systems, and more than one-third of the software providers reported bigger deals than in the previous year. Moreover, 26% of the surveyed insurance IT

[4] Gartner conducted a survey with 51 European vendors of non-life policy administration systems in Q1 2011

Non-life insurers are expected to invest in flexible systems that enable faster product development and solution changes.

product vendors were able to add more than three new customers to their portfolio in 2010, which implies that the market for new policy administration systems has been able to grow recently. The trend, however, has not been as prevalent in the emerging Asian markets where stabilizing and growing their operations are the key priorities for most insurers.

In Europe, there has been a spike in interest among non-life insurers in identifying new policy administration systems for their European operations for both personal and commercial line processing. However, many European insurers have no plans to replace their legacy systems in the short term. Instead, they are focusing on legacy modernization initiatives to improve existing system performance including web enablement, building out service oriented architecture, moving to lower-cost platforms, or consolidating systems.

North American insurers prefer intuitive and user-friendly policy administration systems, not only for internal users (for example, underwriters), but also for their customers and distribution channels. Several North American non-life insurers are replacing their legacy policy administration systems with modern, off-the-shelf applications, and this trend is expected to continue into the near future.

4.3. Implications

While insurers adopt several approaches for systems replacement or modernization, the three most important ones are:

- Initiate policy administration transformation after a thorough analysis of current and future needs of the organization keeping the stakeholder interest in view.
- Consolidate multiple policy administration systems with a view to achieving standardized business processing and ease of maintaining products and services.
- Build robust analytics, document/content management, business process management/business rules engine (BPM/BRE) tools to facilitate efficient risk pricing, product management and servicing.

Finally, when selecting a new policy administration system, larger insurers need to look at global solutions rather than solutions that were built for their local geography.

4.4. Leading Practices and Innovation

One of the top personal lines property and casualty insurance firms in the U.S. introduced a new policy administration system to eliminate manual processes. The insurer was trying to remove the inefficiencies of the existing policy administration process and inconsistencies in the underwriting process by eliminating the manual processes which were resulting in long transaction cycles and poor accuracy in underwriting and ratings.

The insurer implemented a new policy administration system and automated the involved support services. A new common architecture platform was developed which integrated all existing individual web-applications connected to the policy administration system and extended their functionalities to provide a common user experience.

The new policy administration system enabled the insurer to eliminate manual processes and leverage straight-through processing for 85% of new business and policy service requests. The new system also helped in improving the speed to market of new products.

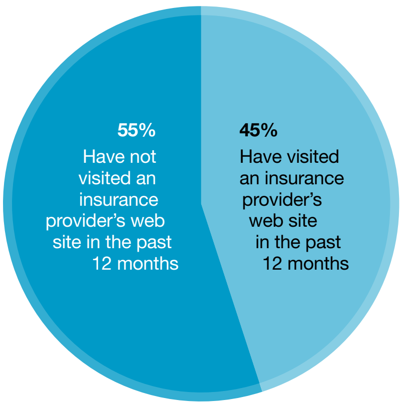
5 Trend 2: Increasing Use of Self-Service Portals by Customers

5.1. Background and Key Drivers

Across most service-based industries, online self-service allows companies to offer more convenient service to customers and distributors while lowering their own servicing cost. However, there is often one big hurdle to overcome—getting customers to use the online self-service.

Insurance online self-service continues to gain momentum, especially in personal lines, but customer usage remains low. For example, in 2009, 55%[5] of the surveyed policyholders[6] had not visited their insurance provider's web site in the past year.

Exhibit 3: Online Self-Service Usage by U.S. Customers for Their Personal Lines Insurance Needs (%), 2010



Source: Survey conducted by Forrester Research in Q3 2010

However, most insurance eBusiness managers have now started to implement formal programs to increase online self-service use among customers. The following are the three primary drivers for this trend:

- *Online self-service is more cost-effective.* The internet channel costs less to serve customers than traditional call centers for many simple tasks, such as billing and simple policy changes.
- *Online self-service influences customers' purchase decisions.* Younger buyers are more likely to buy policies from an insurer offering online self-service functionality through the internet, smart phones or tablets
- *Some package policies for small and medium enterprises can now be purchased or quoted online*, providing a more cost effective way for insurers to support these businesses.

[5] North American Technographics Investments And Insurance Online Survey, Q3 2010, Forrester Research
[6] The survey is based on a randomly chosen sample of 4,814 U.S. individuals ages 18 to 88

Insurance companies need to be sure that their online operations can perform at peak levels without degradation in service, in order to keep pace with needs of their customers while keeping costs down.

5.2. Analysis

Insurers face many barriers to increase online self-service use. Insurance is a low-frequency, low-engagement consumer category and many customers prefer face-to-face services, especially for complex customer service transactions like making a financial change in their existing policies.

After completing a sale, most insurance customers require customer service very infrequently, often just for address changes, policy changes, or renewals. Additionally, customers who buy a product or service online are expected to be more inclined to use online services like policy and bill viewing. Furthermore, a generational shift in customers is expected to drive increased usage of internet-based online self-services in the future. The younger generation tech-savvy customers are more open to using the internet and mobiles for requesting quotes, paying premiums, receiving renewal reminders, and requesting services.

Improved customer service and experience require seamless channel transitions for sales and service transactions. Most non-life insurance companies' eBusiness and channel strategy managers continue to invest in enterprise channel integration initiatives. These initiatives include customer data integration to create a single view of the customer, integrated analytics and measurement, and improved call center and agent technology which can allow customers to move from person-to-person assisted service to internet or mobile-based sales and service transactions.

Customers need encouragement to change behavior and use online self-service. Self-service must be part of a multi-channel strategy that brings together the entire organization. Insurers need to implement practical eBusiness strategies that include the development and promotion of self-service portals among customers.

5.3. Implications

Insurers are expected to devise practical e-business strategies that include the development and promotion of self-service portals to their customers. Insurance companies' eBusiness managers can adopt the following tactics to increase online self-service usage:

- Leverage customer intelligence to segment customers based on their exhibited online behavior, and develop propensity models to predict which customers are more or less likely to use self-service.
- Collaborate with marketing and other channels to create integrated and complementary campaigns communicating the customer benefits of online self-service.
- Work with call center and agent leadership to create call scripts, in-person forms, incentives, and educational materials that promote the benefits of online self-service across channels.
- Advertise the benefits of online self-service on the firm's home page to make it easy for customers to see the value.

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About the Author

Vikash Singh is a Lead Consultant in Capgemini's Strategic Analysis Group within the Global Financial Services Market Intelligence team. He has over eight years of experience in strategy, business, and technology consulting for financial services clients with a focus on the insurance market.

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