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INSURANCE

Global Trends in Life Insurance 2012: Front Office

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

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1. Highlights

While premium volumes in the global life and pensions (L&P) industry showed positive growth in 2010, they slipped back into the red, contracting by 2.7% in real terms in 2011. Performance varied among regions. While North America and Asia experienced positive real growth, Europe's was negative. A low interest rate environment, coupled with volatile financial markets, kept an unyielding pressure on investment results of insurance firms across the globe.

As a whole, the L&P industry is expected to experience sluggish premium growth in advanced economies, versus emerging markets, where premium growth will likely resume.[1] Slow recovery is likely in the United States as well as Europe, as the continent's protracted sovereign debt crisis continues. On the plus side, strong domestic demand for insurance products in Asia and Latin America forecasts growth in these regions.

The life insurance industry is witnessing shifting trends across front office, policy administration, and claims processing and payout – the three core functions of the insurance value chain. This paper examines the following key trends emerging in the front office function of life insurance companies worldwide. Currently, the key themes driving front office changes include:

- The growing importance of digital transformation
- Increasing sales automation for agents/brokers
- Increasing adoption of cloud-based solutions for agent/broker applications

To help address these trends, digital transformation is gaining significance among life insurers that are looking to differentiate themselves. Because it is more efficient and scalable, it enables an enhanced customer experience by way of speed, transparency, and operational excellence.

Globally, sales automation initiatives are gaining momentum among life insurers to help lower operational costs and achieve greater efficiencies. Automating the sales process will enable insurers to achieve straight-through processing (STP) and help drive costs out of the business, since the life of the transaction will be electronic rather than paper-based.

Finally, cloud-based solutions are expected to gain prominence in the life insurance industry in the wake of its *pay-as-you-go* model and lower cost structure and agent/broker applications will show the greatest adoption potential initially.

1 Advanced economies: North America, Western Europe (excluding Turkey), Japan, Hong Kong, Singapore, South Korea, Taiwan, Oceania, and Israel. Emerging markets: Latin America, Central and Eastern Europe, South and East Asia, the Middle East (excluding Israel), Central Asia, Turkey, and Africa

2. Introduction

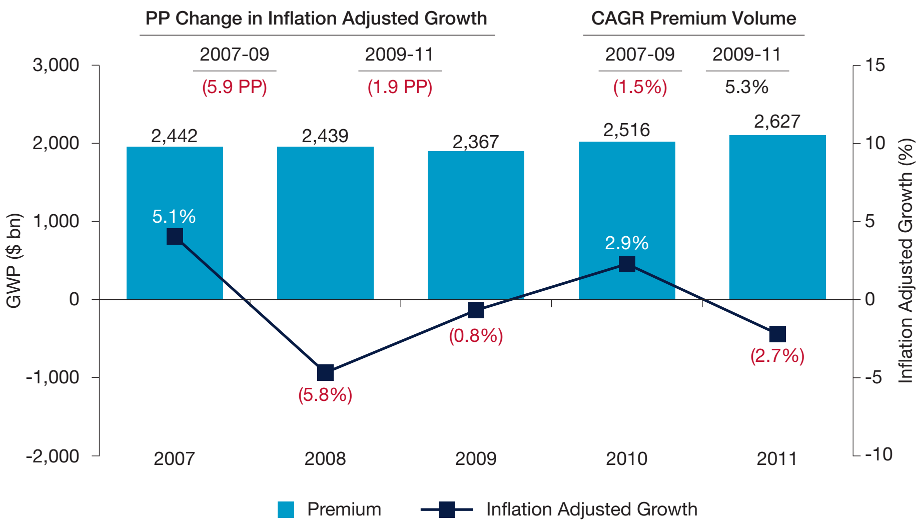
2.1. Global Life Insurance Performance[2]

The growth in the world economy slowed down again 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[3]. This slowdown had a negative impact on the global insurance industry and direct premiums dropped by 0.8% in real terms—mainly due to a decline in the life insurance industry. The near term future still looks uncertain for the global insurance industry 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 expected to witness moderate growth.

While the North American insurance industry did well in 2011, Europe witnessed a steep decline in premiums due to the sovereign debt crisis. In North America, life premiums in real terms grew for the first time since 2007, rising 2.3% on improving economic conditions. On the other hand, premiums in Europe fell drastically by 9.6% in 2011 and declines were observed across the board in Western Europe. Asia, which recorded the highest growth in 2010—6.9% in real terms—slowed in 2011, recording only 0.5% growth, as China and India put a drag on growth. After growing strongly in 2010, premium volumes in emerging markets[4] 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.

Growth has also been affected by the steady lapsation rates over the last 10 years which have created serious persistency[5] problems for the global life insurance industry. Insurers are facing difficulty in coping with low persistency, leading to high

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



Source: Capgemini Analysis, 2012; Swiss Re Sigma Reports, 2008-12

2 World Insurance in 2011," Swiss Re, May 2012, http://www.swissre.com/media/news_releases/nr_20120627_sigma_world_insurance_2011.html

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

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

5 Persistency in life insurance is defined as the percentage of policies in force at a particular time

pressure on revenue generation. The financial management of insurers is negatively impacted due to lapses by policy holders, and this trend has led to costlier policies for customers and, in turn, affects overall revenue growth.

Overall profitability of the industry also remained under pressure as the lower-than-average interest rates continued in 2011 and weighed on insurers' investment results. These low rates combined with volatile financial markets negatively impacted the profitability of L&P insurers in 2011. Interest rates continued to decrease in North America and several western European economies hurting investment income, while financial markets, after performing solidly in the first half of 2011, became more volatile during the second half due to the European sovereign debt crisis and deceleration in global economic growth.

Going forward, the global L&P industry growth is expected to remain sluggish in advanced[6] economies, while the premium growth is expected to resume in emerging markets. Recovery is expected to be slow in the U.S. while economic challenges in Europe are expected to continue on account of the protracted sovereign debt crisis. Asia and Latin America, however, are expected to continue their growth due to strong domestic demand.

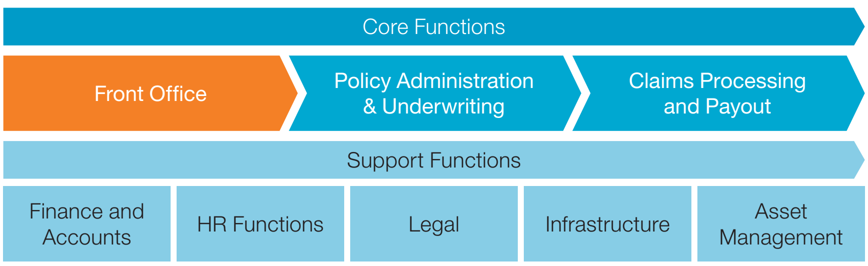
2.2. Insurance Value Chain

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, 2012

This paper focuses on the front office function of the insurance value chain from a life & pensions perspective, and identifies key trends and the potential impact these trends have on the life and pensions industry worldwide.

6 North America, Western Europe (excluding Turkey), Japan, Hong Kong, Singapore, South Korea, Taiwan, Oceania, and Israel

3. Emerging Trends

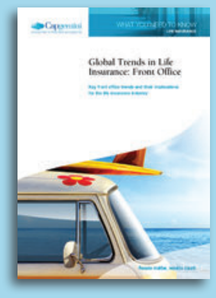
Unlike any other time in its history, the life insurance industry seems to be experiencing change on all fronts, including:

- Slower growth rates (particularly in advanced markets)
- Downward pressure on premiums and margins
- Low customer acquisition and retention rates
- Increasing demands from customers for anytime/anywhere/any device services
- Declining market share of traditional distribution networks, such as agents/brokers (leading to the rise of direct and alternative networks)
- Emergence of new channels and media (mobile/social media)

In spite of this bewildering environment, there's a global objective among insurers to re-think how they can deliver a superior customer experience and eventually increase customer acquisition and retention rates. To meet this objective, insurers will need to develop sophisticated multi-distribution strategies that leverage digital transformation to meet emerging customer requirements around research, sales, and service (particularly Gen X and Gen Y customers). They will also need to automate the sales process for traditional networks, such as agents/brokers to improve their productivity, and optimize the overall distribution effort, by reducing costs through cloud-based technologies.

These changes have led to a global emergence of the following key trends in the front office function for life insurance companies:[7]

1. Growing importance of digital transformation
2. Increasing sales process and sales force automation for agents/brokers
3. Increasing adoption of cloud-based solutions for agent/broker applications



Global Trends in Life Insurance 2011: Front Office

Global Trends in Life Insurance 2011: Claims

Global Trends in Life Insurance 2011: Policy Administration

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

4. Trend 1: Growing Importance of Digital Transformation

4.1. Background and Key Drivers

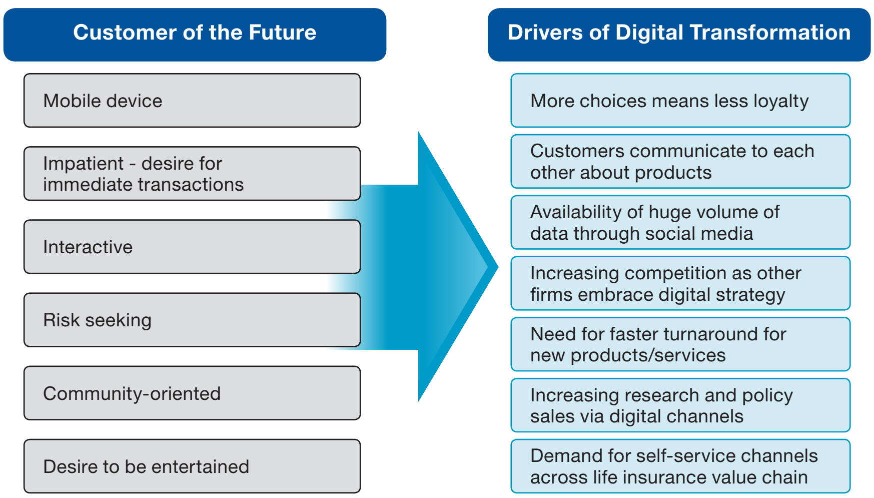
Globally, an increasing number of life insurance customers use the Internet (via PC and mobile) for research, sales, and service. It inherently empowers customers with information, transparent pricing, and the ability to compare multiple products and quotes. Social media continues to undergo staggering customer adoption rates worldwide because users can accomplish so much, so fast, with so many other users. Insurance customers can discuss and share information about claims, report customer service experiences, and disclose previous purchases with a vast network of people. It also helps identify preferred providers.

With the emergence of these new electronic channels and other media, there has been a gradual shift in customer behavior. The decision-making power has shifted from the traditional agent/broker/bancassurance networks to the customer. This change is driven largely by increased Internet adoption, rising levels of social networking, and behavioral changes around greater use of mobile and handheld technologies. These technological advancements, coupled with information availability, enable customers to choose products and services befitting their specific needs – at an optimal price.

In addition to using digital channels and other media for research, purchase, and service, customers are frequently interacting with each other regarding the performance of their insurers. They are willing to switch sides on any evidence of cost savings and superior service, which leads to volatile retention rates for insurers. This key driver, combined with increasing operational costs (availability of huge data, need for greater agility, and demand for self-service portals), is forcing insurers to re-think their distribution strategy. Many are already investing in digital transformation to address these concerns.

Customer centricity in the life insurance industry has increased over the years, and digital transformation of life insurance systems is critical for insurers to gain a competitive advantage and enhance market share.

Exhibit 3: Consumer Behavior Change and Drivers/ Levers for Digital Transformation in Life Insurance



Source: Capgemini Analysis, 2012; *Insurance Digital Transformation*, Point of View, Capgemini Consulting, 2012

4.2. Analysis

Organizations across the globe are increasingly adopting digital tools to accelerate the pace of their growth, as well as increase their customer base. Digital transformation becomes particularly critical as a result of:

- Changing customers' needs and preferences
- Availability of more choices
- Need for insurers to be a part of customers' conversations/communication
- Need to exploit huge volumes of data to gain a competitive advantage
- Intensifying competition
- Technological advancements, which are rapidly opening up new options.

Insurance customers and employees prefer dealing with digital technologies and tools, rather than the slower and less efficient non-digital methods.

Insurers are facing common pressures from competitors, customers, and employees to initiate or expedite their digital transformation. Customers are increasingly using mobile and smartphone applications as preferred channels for insurance-related transactions. Adoption of social media tools, such as Facebook, Twitter, and blogs to promote new products, and gather customer feedback and perceptions is also gaining momentum. Finally, the use of predictive analytics tools to analyze complex data and surface that data to launch new products is critical for an insurer's success today.

Insurers are transforming at varying degrees with differing results. The most successful transformations have been among organizations in which leaders create a compelling vision, and subsequently help their employees embrace that vision.

4.3. Implications

Going forward, digital transformation is likely to gain significance among life insurers looking to differentiate themselves. While digital transformation is expected to provide a competitive advantage, enhanced market share, and other associated benefits to life insurers across the value chain, insurers need to identify and mitigate challenges they might face while implementing changes.

- For digital transformation requirements to be defined and implemented, insurers must define the future state of their digital presence in a step-by-step modular approach, based on their strategy and core competencies
- Electronic customer dialogue will define the efficiency and effectiveness of the insurance process in the future
- For insurers, digital transformation enables enhanced customer experience because it offers speed and transparency. Digital transformation also offers operational excellence as it is generally more efficient and scalable

5. Trend 2: Enhanced Sales Process and Sales Force Automation for Agents/Brokers

5.1. Background and Key Drivers

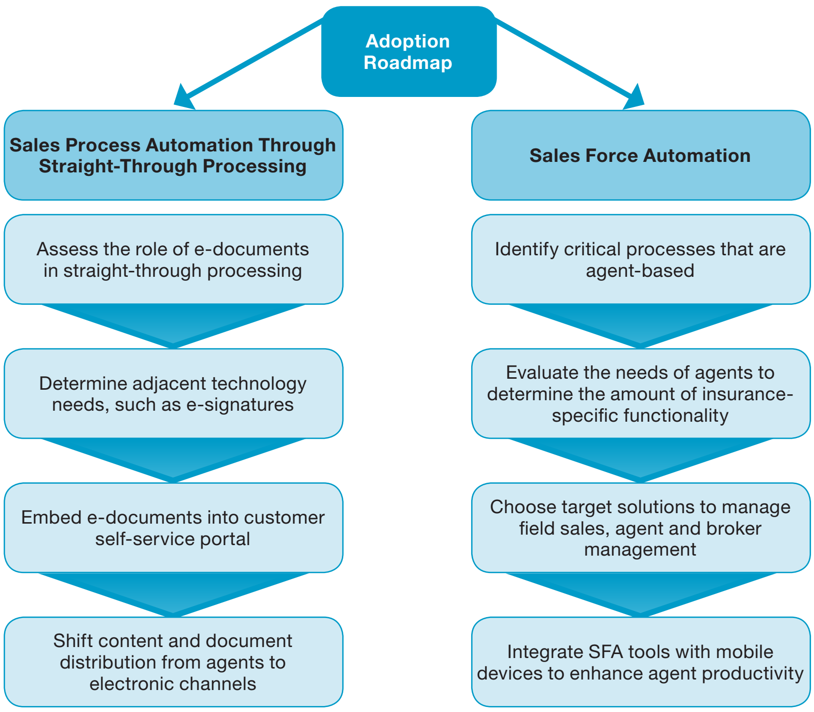
As customer demands change, insurers are seeking ways to be more customer-centric by offering improved experiences throughout all customer interactions and processes that are agent/broker-based. Sales process automation that enables STP continues to be a major initiative among leading life insurers to improve the overall sales experience for existing and prospective customers. STP (including legal e-signatures) allows insurers to complete the sale quickly and efficiently, as well as help reduce costs. A critical component of this initiative includes the e-signature, as it can allow entire transactions to be electronic rather than paper based.

Sales force automation (SFA) is also a critical part of an insurer's initiative to improve the overall sales process. SFA offers additional benefits, such as improved relationships with sales networks, increased sales efficiency, and improved customer experience. As part of this initiative, companies are seeking targeted solutions to support vertical processes unique to managing field sales and agent/broker management. Utilizing SFA can help life insurers meet these goals.

SFA enables positive overall sales experience at each and every stage of the entire process. It originates with the first contact and is followed by illustrations, documentation and requirements fulfillment, payment processing, etc., until the policy documents are issued. When compared with competitors, policy processing time will be significantly slower for firms that have not automated their sales process. And this could result in long cycle times and dissatisfied customers.

Insurers also need to improve relationships with their traditional networks (particularly agents/brokers), enhance sales efficiency, and improve the overall customer experience. SFA can enable insurers to achieve all these goals.

Exhibit 4: Roadmap to Sales Process Automation and Sales Force Automation



Source: Capgemini Analysis, 2012

5.2. Analysis

Reducing costs and improving operational efficiencies are the key drivers forcing global insurers to implement sales processes and SFA.

Sales process automation will lead to fast and efficient policy issuing processes, which will mean faster revenue recognition, faster payment of commissions to distributors, and less time for prospects to research other options. Removing hard-copy signatures (in compliance with regulatory agencies), mail-driven and paper production processes, and eliminating the process lags due to disconnected processes and systems, will enable companies to issue policies much faster, as well as reduce the cost associated with issuing policies.

SFA enables life insurers to improve the relationship with their sales networks, and enhance both sales efficiency and sales force capabilities. By empowering networks with more customer information (including customer analytics and a broader perspective of the customer/sales agent relationship) as well as sales tools, insurers can drive more profitability in the sales process.

5.3. Implications

Globally, both sales process automation and SFA initiatives are gaining momentum among life insurers to help lower operational costs, achieve greater efficiencies, and gain a competitive advantage.

Sales process automation that enables STP, continues to be a major initiative among leading life insurers and will remain prominent over the next few years. Companies are also seeking targeted solutions to support vertical processes unique to managing field sales, agent management, and broker management. Implementation of SFA is critical to achieve these goals.

That being said, it is important that insurers understand how to streamline processes using technology, such as illustrations, electronic applications, and underwriting and electronic signatures. Insurers will also need to evaluate the needs of their agents/brokers to determine the amount of insurance-specific functionality required before proceeding with SFA.

6. Trend 3: Increasing Adoption of Cloud-Based Solutions for Agents and Brokers

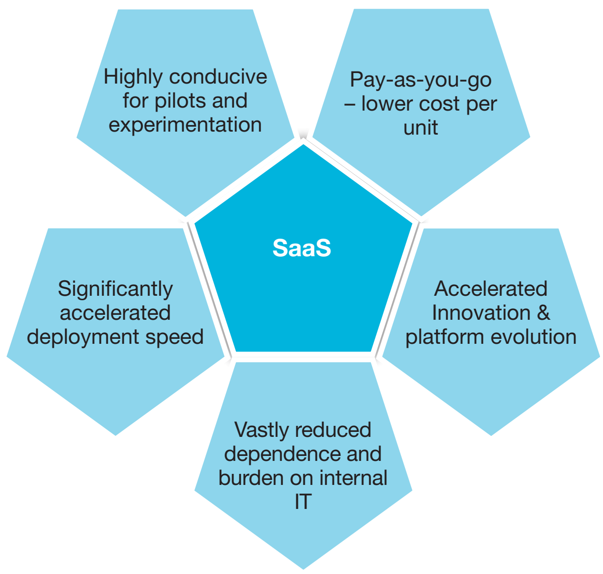
6.1. Background and Key Drivers

By focusing on agent/broker portals and applications, insurers have slowly begun to adopt Software as a Service (SaaS) for functions such as distribution. Insurers that need to invest in technology to support growth objectives are exploring cloud-based/SaaS solutions as these technologies significantly reduce the insurers' burden on internal IT and per-user costs. It is this context that makes the agents/brokers good candidates for shifting them to the cloud. However, various non-technological concerns, such as data privacy, security, and regulatory compliance issues are impediments to a higher level of adoption of the cloud in various markets.

Many insurers have been playing a waiting game in terms of replacing their ***high-in-maintenance and low-in-flexibility*** legacy systems with emerging solutions, such as SaaS and Service-Oriented Architecture (SOA). Yet this situation is gradually changing. The greatest potential for vertical-specific insurance software applications over the next 12 months is for agent/broker applications and underwriting tools. Competitive pressures are expected to drive insurance firms to seek solutions that minimize costs, while providing high level of quality service, thus increasing the adoption of a SaaS environment.

Life insurers will gradually begin to phase in more SaaS solutions in place of legacy-based systems, once they feel comfortable with the privacy and security capabilities of this environment. However, large scale adoption of pervasive technologies, such as SaaS, is expected to be a longer-term phenomenon for the life insurance industry simply because of the sensitive nature of maintaining a customer's confidential information. Much of the information provided by policy holders is confidential (detailing health, finances, and family data), which explains why keeping this information private is so important. Insurers are already using techniques, such as data masking and data de-personalization before sharing such information. Adopting any new technology that deals with confidentiality may take time.

Exhibit 5: Drivers for a SaaS Based Model vs. On-Premise Model for Life Insurance Firms



Source: Capgemini Analysis, 2012

6.2. Analysis

Cloud-based solutions are expected to gain prominence in the life insurance industry in the wake of its *pay-as-you-go* model and lower cost structure. Cloud-based solutions help reduce both up-front investments in hardware, as well as associated operational costs in software and maintenance. IT infrastructure costs are reduced due to a multi-tenant structure, while software costs are converted into a variable operating expense, based on insurer use.

Because non-core IT functions are provided over the web by a third-party, cloud-based solutions provide higher efficiency for insurance firms, reducing dependency on internal IT staff and allowing insurers to concentrate on their primary business. Insurance firms generally have lagged behind their financial counterparts, such as banks, in terms of adopting today's technological platforms. However, the capability of cloud-based solutions to increase operating efficiency and minimize costs is likely to compel life insurance firms to adopt this technology.

While even business process outsourcing (BPO) bears data security concerns, its use has grown rapidly in the insurance industry, primarily due to its clarity in data ownership.

As concerns such as data privacy, security, and regulatory compliance issues are eliminated, agent/broker applications will show the greatest potential for adoption on the cloud/SaaS. Agent/broker applications primarily deal with highly generic information, such as product details, marketing and sales (including CRM), and commission/compensation data, rather than customer-sensitive information.

6.3. Implications

Although some insurers have started using cloud-based solutions for their agent/broker applications, adoption is still in the initial stages. The perceived impediments for adopting the cloud-based model include loss of control, differentiation, and regulatory, as well as compliance risks. While data security is the primary concern for both BPO and cloud-based solutions, SaaS trails BPO in adoption due to its lack of clarity in data ownership.

In such a context, insurers might first need to understand the importance and utility of such technologies, and subsequently, realize how they can be leveraged to maximize output across their specific expectations.

Despite the above challenges, many insurers are showing interest in deploying cloud-based services for agent/broker applications over the next 12 months.

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About the Author

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