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Insurance | the way we see it

Global Trends in Life Insurance 2013

Recent key trends and their implications for the life insurance industry

People matter, results count.

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1. Highlights

It is possible today to leverage a wide range of data across every part of the business, not just in the actuarial or underwriting areas.

Premium volume (inflation adjusted) in the global life insurance and pensions industry increased by 2.3% in 2012 after decreasing by 2.7% in 2011. The growth was mainly driven by North America and Asia Pacific, with considerable differences across the individual countries.

The growth in life insurance products is expected to remain sluggish in the short term. However premiums in emerging markets will accelerate, supported by India and China.

Life insurance firms are implementing newer technologies to better understand their customers' needs, provide the customer a seamless experience across distribution channels, and reduce operational costs. Insurers are looking to empower business process management with cloud technology that provides updated information to various departments. This enhances the employees' ability for quick processing and decision-making.

Historical and other forms of data are a major resource for evaluating risks in insurance. Insurers receive significant volumes of data from new avenues such as telematics, social media, and various other unstructured sources. Big data technologies are taking the business world by storm, introducing new approaches to rapidly analyzing large amounts of data from many sources.[1] Insurers are now entering a new level of maturity in the use of analytics in insurance. It is possible today to leverage a wide range of data across every part of the business, not just in the actuarial or underwriting areas.

1 Stuart Rose, The Analytical Insurer: What Does Big Data really mean for Insurers? Speech presented at ICTC 2013, Canada

2. Introduction

2.1. Global Life Insurance Performance

In 2012, the global economic environment and financial markets remained challenging for insurers. Economic growth slowed down in most advanced markets, while Western Europe even fell back into recession. Emerging markets performed better, but growth slowed due to their reliance on exports to advanced markets.

Growth of global real GDP slowed to 2.5% in 2012, compared to 3.0% in 2011, which was below the average of the previous 10 years (4%). The slowdown in advanced economies was due to the onset of recession in Western Europe.

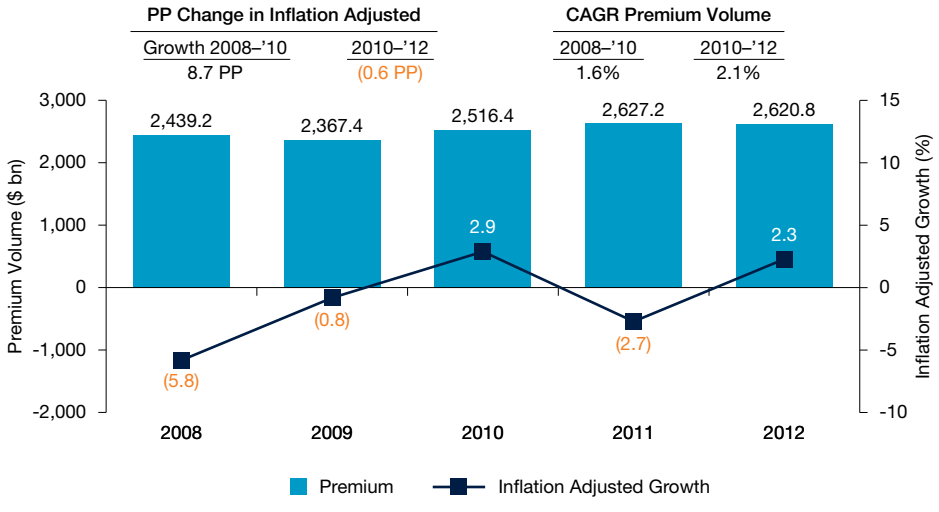
Financial markets witnessed another turbulent year, which was again largely driven by the events in Europe. The European Central Bank took vigorous steps by offering an unlimited amount of long-term loans to all the Eurozone banks to ensure funding of solvent banks, to prevent bank runs, and to keep credit flowing.

After witnessing a negative inflation-adjusted growth of 2.7% in 2011, global life premiums increased by 2.3% in 2012 to US$2,620 billion. This growth was led by improved growth in all key emerging markets whose premiums expanded by 4.9% in 2012.

In emerging Asia, premiums declined marginally by 0.4%. Growth stabilized in China with robust growth in East Asia while premiums continued to contract in India with a negative growth of 6.9% in 2012, (compared to negative growth of 9.6% in 2011, due to regulatory changes for issues like mis-selling and low transparency). Driven by significant growth in the Brazilian life insurance market, life insurance premiums in Latin America outperformed all other regions to grow by 17% in 2012.

Advanced markets bounced back to witness a growth of 1.8% in 2012, compared to negative growth of 3% in 2011, which was largely supported by a robust performance in advanced Asia and the U.S., while Western Europe continued to shrink because of the macroeconomic situation.

Exhibit 1: Global Life and Pensions Insurance Premium Volumes ($ billion) and Inflation Adjusted Growth (%), 2008-12



Source: Capgemini Financial Services Analysis, 2013; Swiss Re Report, World insurance in 2012

Growth in life insurance products will remain sluggish in 2013 due to limited demand as a result of the weak economic conditions in the advanced markets. However, the advanced Asian economies are expected to perform better and life insurance will continue to have a steady growth trend. Premium growth is expected to be strong in Latin America and improve in Africa and the Middle East, supported by rising incomes and increasing risk awareness.

Profitability for the life insurance industry will remain low in the near future due to continued pressure on earnings because of low interest rates, low demand, and increasing regulatory changes.

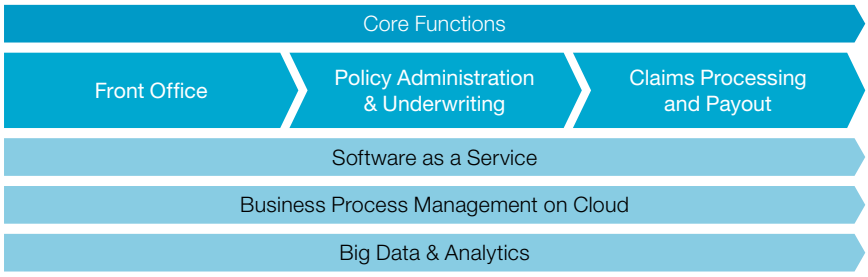
2.2. Insurance Value Chain

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



Source: Capgemini Analysis, 2013

This paper focuses on three trends in life insurance which are:

1. Increased use of Software-as-a-Service
2. Increased interest in Business Process Management on the Cloud
3. Leveraging Big Data and Analytics-based solutions

The impact of these trends on the core functions of the insurance value chain are:

Exhibit 3: Impact of Trends on Core Functions

	Front Office	**Policy Administration & Underwriting**	**Claims Processing & Payout**
Software as a Service	Improved sales enablement, Campaign management, and POS empowerment	Integration to help in new business / underwriting and self service capabilities for customers	Faster claims registration, billing, and payments
Business Process Management on Cloud	Multi distribution / channel optimization and effective monitoring of channels	Straight through processing and optimization of business processes	Reduced claims processing time and effective risk management
Big Data & Analytics	Enhanced customer retention with use of predictive analytics	Enable telematics based pricing for customers	Fraud detection and granular claims performance analysis

Source: Capgemini Financial Services Analysis, 2013

For more information on life insurance trends, please read our other papers in this series.

Global Trends in Life Insurance 2012: Claims Processing and Payout

Global Trends in Life Insurance 2012: Front Office

Global Trends in Life Insurance 2012: Policy Administration and Underwriting

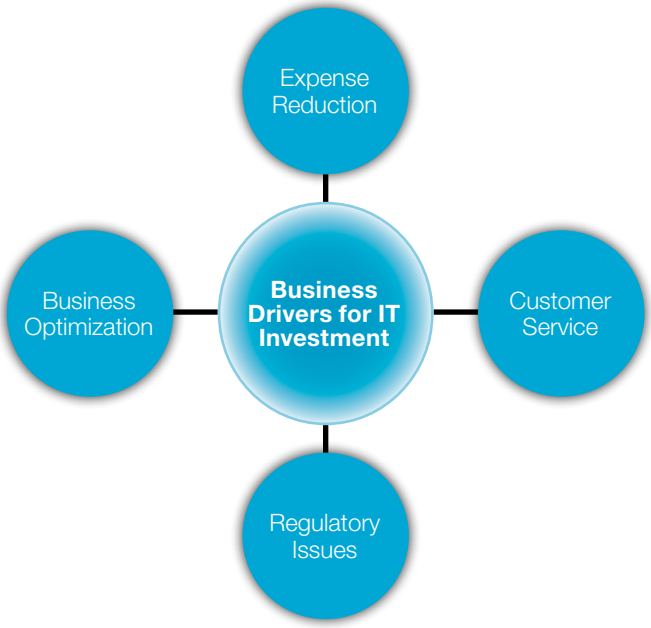
3. Trend 1: Increased Use of Software-as-a-Service

Background and Key Drivers

With the changes in the regulatory and economic landscape, along with cautious spending by consumers, life insurers are looking for an approach to enable better risk management and operational efficiencies. In order to meet this objective, insurers are rethinking their products, distribution networks, and delivery of value to their customers.

Technology plays a key role for insurers as they make changes across the value chain to address the challenging and competitive environment. The key business drivers that are prompting insurance firms for technology investments in 2013 are illustrated below.

Exhibit 4: Key Business Drivers for Technology Investments



Source: Capgemini Financial Services Analysis, 2013

Front office, policy administration, and new business/underwriting are the key business areas where insurers are focusing their technology investments. These investments have mainly been in the form of Software-as-a-Service (SaaS) deployment, which is cost-effective and frees up IT resources.

A number of business and technology drivers support this deployment across the globe. Some of the key ones are:

- Various factors such as competition and unstable economic conditions are forcing insurers to reduce costs related to “non-productive” or “non-revenue-generating” activities. An increased focus on associating with SaaS service vendors helps them do this.
- Lower policy and transaction volumes for tier 2 and 3 insurers are causing them to choose SaaS models.
- SaaS licensing models are becoming popular due to lower costs when compared to an internal deployment.

Analysis

As part of the customer service strategy, life insurers are seeking to empower their customers to interact directly with them. In order to achieve this they are investing in self-service portals/capabilities for both producers and consumers. This will also help them to reduce the administrative burden on their producers and agents. Insurers are opting for SaaS delivery model for these self-service portals due to its efficiency, flexibility, and cost-effectiveness.

Insurance firms have also increased the usage of SaaS solutions for their non-core functions such as distribution networks. This helps provide a consistent customer experience across various distribution channels, as well as reducing costs. Insurance firms are also increasing the usage of SaaS solutions across different segments such as underwriting systems, billing, claims registration, document management etc, in order to meet customer demand.

SaaS solutions will help life insurers process new applications, assess risk, and reduce the cost of issuing policies. With this approach, life insurers can shorten implementation times and get ready access to IT maintenance and monitoring capabilities without the need to hire specialized experts. The key benefits of the SaaS approach for automated systems are:

- **Faster Deployments and Upgrades:** With the SaaS model, the implementation of newer products is fast, efficient, and more cost-effective since the SaaS provider manages all the regular maintenance of the existing portfolio and the associated updates and upgrades.
- **Higher Employee Productivity:** The SaaS model provides cross-channel access to new business data entry processes, helping customers, brokers, and internal sales and support teams. Employees can also get faster assistance through integrated help desk capabilities that are part of the standard service.
- **Other:** One of the major advantages for implementing SaaS- based models is that the capital expenditure is reduced considerably. SaaS also addresses issues related to very high operating expenses associated generally with all non-revenue generating activities such as registering claims or marketing.

Implications

To make successful technology investments in the current environment, insurers may need to first understand the importance and utility of SaaS technologies and subsequently analyze how they can be leveraged.

SaaS deployments will help life insurers free up IT resources, reduce costs, and reduce time-to-market. For better results, insurers need to evaluate SaaS vendors for their flexibility for future enhancements. Insurers also need to consider deploying different SaaS applications for their producers, which will help them to drive revenue and improve customer service through their agent operations.

Life insurance firms have started realizing the power of SaaS in increasing self-service adoption and providing higher customer service. Its usage across various systems such as policy administration and underwriting will reduce operating costs. Therefore it is expected that usage of SaaS across the value chain will grow for the next few years.

4. Trend 2: Increased Interest in Business Process Management on the Cloud

Background and Key Drivers

The insurance industry recently has started to appreciate the advantages of business process management (BPM) to optimize their business processes and/or adopt their business processes to changing/new organizational goals.

Some of the key challenges in the insurance industry include legacy mainframe technology, poor adoptability, faster change in regulations, distributed teams working in silos, and high customer expectations. In recent years, BPM has emerged as a key technology that addresses the challenges faced by insurers. BPM provides a way for insurance firms to gain competitive advantage and meet their business objectives.

Key factors driving the adoption of BPM are:

- BPM enables insurers to standardize operations / processes by providing access to common guidelines, while allowing each unit to use specific customized rules.
- BPM allows for continuous review and optimization of processes so they can be monitored and refined based on the requirements and changes in the market environment.
- Insurers can improve profitability by attaining significant cost savings through reduction in manual efforts and expenses by eliminating unnecessary tasks.
- Customer service can be improved by providing latest information to various stakeholders, providing timely updates to agents and customers, speeding up processes, and reducing lag time.

Analysis

Over the past couple of years, interest in BPM has been rising among life insurers. So far, adoption of BPM is higher in North America, although rising steadily in other geographies such as Europe and APAC. The key areas where life insurers are using advanced BPM capabilities include underwriting and new business processes.

However there are various challenges in implementing BPM. Not all processes in the life insurance can be streamlined. The time to market for BPM is high, which could take up to few months, and the relevance offered by BPM might be lost due to long gestation periods. The other major challenge with BPM is that it enables only intra- and inter-organizational processes and does not support an end-to end-supply chain that involves external entities as other processes in the value chain.

BPM on the cloud could offer solutions to the challenges faced by BPM in life insurance. This can be achieved through lesser investments, particularly in infrastructure. Along with this, the cloud provides an option that enables usage-based pricing. BPM on the cloud also brings down time-to-market by reducing procurement time and the setting up of infrastructure. Time to market is estimated to be reduced from a few months to a few days. The cloud also provides an advantage of operating anywhere and anytime, enabling external stakeholders, geographical teams, and partners to access the same resources.

However, there are a few challenges which insurers need to overcome to implement BPM on the cloud. Insurers should identify the processes that need to be offered on the cloud—not all the processes can be migrated. Insurers should also consider network bandwidths across geographies before implementing the system since speeds could vary significantly from region to region.

Security of the system and data should be taken into consideration before migrating since the data resides in a central database outside the company. Data privacy laws vary from country to country, so insurers need to overcome the challenge of regulatory compliance and legal issues before migrating to the cloud.

Implications

Life insurers can implement BPM with cloud solutions to enhance productivity, align IT execution with business strategy, increase profitability, standardize underwriting process, and gain competitive advantage.

The growth of an insurance firm greatly depends on continuous process improvement, operational efficiency improvement, and costs /expenses reduction. To achieve these benefits and leverage the full benefits of BPM on the cloud, life insurers need to do the following:

- The integration of BPM with the cloud should be highly coordinated among various departments and should be carried out by a committed team of cross-functional professionals.
- The size of network bandwidth and security of the system must be addressed since the cloud resides outside the organization.
- Best practices and prior successful implementations of BPM on the cloud should be closely studied for effective integration and transformation.

5. Trend 3: Leveraging Big Data and Analytics-based Solutions

Background and Key Drivers

Recent advancements in analytics allow life insurance companies to develop a better understanding of their risks and pricing strategies. When it comes to processing and handling data, insurance firms typically rely on data warehousing or point data solutions. This may serve them well for pricing and compliance, but the total amount of data available to insurers could be leveraged to discover more information. This has led to increased interest in Social, Mobile, Analytics, and Cloud (SMAC) technologies along with big data solutions.

Big data includes information from various sources, including telematics and social media networks. However, the use of big data analytics in insurance is currently very low and is expected to increase in the future. Insurers in emerging markets are working on areas of applicability of big data with most of the insurers expecting to have strategy development completed by 2014.

The key drivers for the significant rise of insurers' interest in big data and SMAC are:

- Insurers need to tap into large amounts of unstructured data from social media as a way of learning more about customer behaviors.
- Insurers are facing a rapid increase in the speed of data acquisition, since new business models are allowing for real-time acquisition (for example, the use of real-time data from social media, or from real-time mobile insurance quotes).
- In order to derive insights out of the growing amount of data, insurers need improved modeling capabilities.

Analysis

Life insurance is a data-intensive industry, and has one of the highest potentials for big data solutions. Regulations in some countries also mandate that life insurance companies store entire policy data until the policy is in force, or 5-7 years after the claim is paid out.

The insurance industry has gathered data for years, and their ability to manage the volume and velocity of accumulated data (especially with legacy systems) might become a major factor in future profits or losses. According to a recent survey[2] nearly 50% of life and pension executives believe that harnessing big data developments will provide a key source of competitive advantage and increased market share.

2 "Life insurance 2020: Competing for a future," (PwC, 16 October 2012), http://www.pwc.com/en_GX/gx/insurance/pdf/pwc-life-insurance-2020-competing-for-a-future.pdf

Exhibit 5: Tapping into Rich New Sources of Data

Source: Capgemini Financial Services Analysis, 2013

Life and pension insurers, irrespective of size, specialty, or location, are gradually recognizing the importance of big data for their future strategies and overall competitiveness.

However, life insurers have some hurdles to overcome. For example, their interaction with customers is relatively infrequent except for premium payments, and they do not have rich transactional data to work with compared to banks. For reasons such as these, the life insurance industry's use of big data solutions has lagged behind other sectors. This is true despite the presence of new market entrants whose aim is to help insurers gather and analyze huge amounts of data for useful and action-ready information.

Customer segmentation, underwriting, pricing optimization, and fraud detection are the key areas where life insurers are investing in data-related technologies.

However, the silver lining is that some leading and innovative insurers have already proven that big data can go long way in creating significant savings, enhanced revenue, and improved competitive advantage. Big data can help drive benefits across all business functions of the insurance industry, such as:

- **Customer Analytics:** Customer segmentation and targeting, persistency management, sales and distribution multi-channel optimization, and personalized customer experience
- **Quotes Analytics:** Resource allocation/optimization per sales channel, and identification of genuine leads
- **Claims Analytics:** Claim triage optimization, fraud detection, and granular claims performance analysis

- **Workforce Analytics:** Workforce assurance analysis and forecast, demand and supply analysis, workforce allocation and resource optimization, and pipeline management and optimization
- **Real Time Decision Making:** Real-time tailored offers based on customer profile and experience, targeted cross-sale, and upsale offered by aggregators
- **Integration:** Integrated systems to facilitate payment through multiple modes (as chosen by the claimant) and ascertain efficiencies in claim processing and benefit settlements

Insurers with proper use of big data can reap benefits such as increased productivity, increased sales revenue, reduced costs, and better customer experience. Customer segmentation, underwriting, pricing optimization, and fraud detection are the key areas where life insurers are investing (or plan to invest) in data-related technologies.

Implications

There are various advantages of big data for life insurers and in order to maximize the benefits, insurers need to do the following:

- The data collected by insurers should be comprehensive and huge, such as information from social media networks, mobile applications, third party consumer databases, and medical records.
- Since big data is projected to grow across the globe, vendors need to focus on major technical investments and coordination with insurers to understand and provide the best service.

The high level of data collected from third party sources, social media networks, telematics, and other sources will enable insurers to assess consumer risk and detect any frauds.

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