WHAT YOU NEED TO KNOW

INSURANCE

Global Trends in Non-Life Insurance 2012: Front Office

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

People matter, results count.

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1. Highlights

The global non-life insurance industry witnessed a modest 1.9% growth (in real terms) in premium volumes during 2011.[1] The global economic slowdown, particularly in Europe was the primary culprit. Sluggish growth was somewhat offset by the trend of rising premium rates in certain regions and lines of business. Overall, however, industry profitability remained under pressure globally as a result of record losses from 2011's catastrophic events and a sub-par investment environment. Growth, in premium volume and profits, appears uncertain for the near future, as the slowdown in Europe and North America continues to forestall economic growth in Asia-Pacific.

The non-life insurance industry is experiencing shifting trends across the front office, policy administration, and claims—the three core functions of the insurance value chain. This paper examines key trends in the front office function of non-life insurance companies. Key drivers of these trends include the need to:

- Increase the focus on innovation
- Implement a faster speed to market
- Address changing customer demands
- Empower agents and brokers

Moreover, a backdrop of increased competition and morphing customer behavior magnifies an already uncertain climate. Customers increasingly seek innovative options and more personalized coverage for their own specific needs. New technologies are enabling insurers to quickly design and introduce innovative products to help meet these demands.

A rapidly proliferating online population and burgeoning smartphone usage are driving investments in internet channel developments, which would benefit insurers and customers, and ultimately lead to increased sales and customer satisfaction.

1 *World Insurance in 2011*, Swiss Re, May 2012

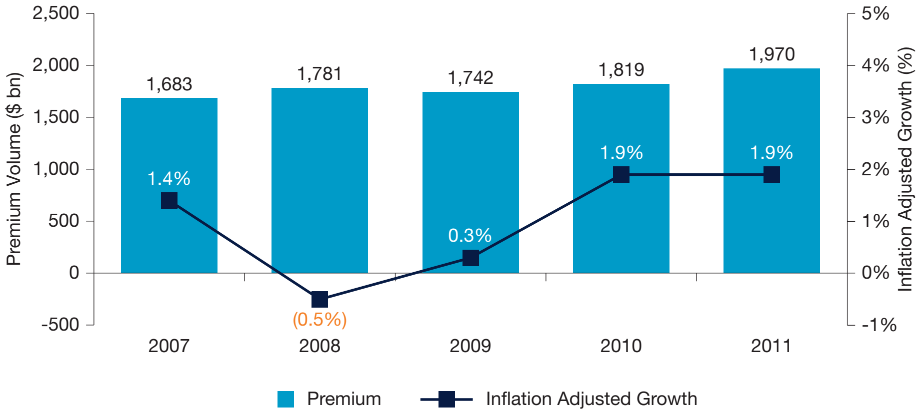
2. Introduction

2.1. Global Non-Life Insurance Performance

After a 2010 post-crisis recovery of 4.1%, worldwide economic growth in 2011 weakened to 2.7% real GDP.[2] This slowdown had a negative impact on the global insurance industry, and direct premiums dropped by 0.8% in real terms – primarily led by a decline in the life insurance sector. The near future looks uncertain for the global insurance industry, primarily because of the ongoing economic crisis in Europe. Emerging markets, however, are expected to continue their growth, although at a slower rate, while the United States is likely to experience moderate growth.

Global non-life insurance premiums grew at a moderate (real) rate of 1.9% in 2011.[3] This growth was primarily caused by an increase in the premium rates in certain geographies and lines of businesses. Advanced economies experienced a minimal 0.5% growth in premiums due to recession in Europe and weak growth in the United States. On the other hand, emerging markets continued their robust growth with a 9.1% rise in premiums, although at a slower pace compared to 2010.

Exhibit 1: Global Non-Life Insurance Premium Volumes ($ bn) and Inflation Adjusted Growth (%), 2007–11



Source: Capgemini Analysis, 2013; Swiss Re Sigma Reports, 2009-12

2 *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

3 "*World Insurance in 2011,*" Swiss Re, May 2012

Forecasted slow growth in the North American economy and a recession in several European countries are expected to continue to put pressure on the growth of the non-life insurance industry in these regions in 2012.

Significant catastrophic losses during 2011, particularly in Australia, Japan, and New Zealand, negatively impacted the profitability of the overall non-life insurance industry. Investment income was also truncated in the prevailing low interest rate environment.

Forecasted slow growth in the North American economy and a recession in several European countries are expected to continue to put pressure on the growth of the non-life insurance industry in these regions in the near future. Premium growth in Asia-Pacific is expected to remain robust and support global premium growth. This growth, however, could remain lower than that in the recent past, primarily due to slower economic growth in the region.

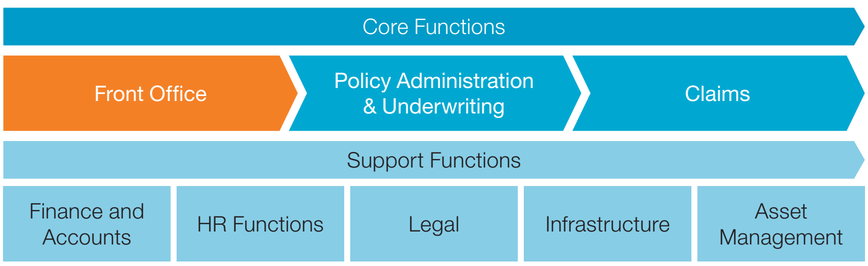
2.2. Insurance Value Chain

Insurance companies' 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 the front office function of the insurance value chain for non-life insurers by identifying key front office trends and their potential implications.

3. Emerging Trends

Non-life insurers are experiencing increased competition, changing and emerging customer demands, and proliferation of alternative distribution channels.

Slower growth and shifting customer needs are helping to drive non-life insurers toward increased product innovation. The number of online and smartphone users is increasing exponentially, offering an opportunity to grow revenues through these low-cost distribution channels.

To that point, the traditional role of intermediaries, such as brokers and agents, needs to be revised to bring this function into the 21st century.

These changes have led to a global emergence of the following key trends in the front office for non-life insurance companies[4]:

1. Increased focus on product innovation
2. Accelerated use of internet channels for distribution
3. Increased need to empower brokers and agents

Global Trends in
Non-Life Insurance 2012:
Claims

Global Trends in
Non-Life Insurance 2011:
Front Office

Global Trends in
Non-Life Insurance 2011:
Policy Administration

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

4. Trend 1: Focus on Product Innovation

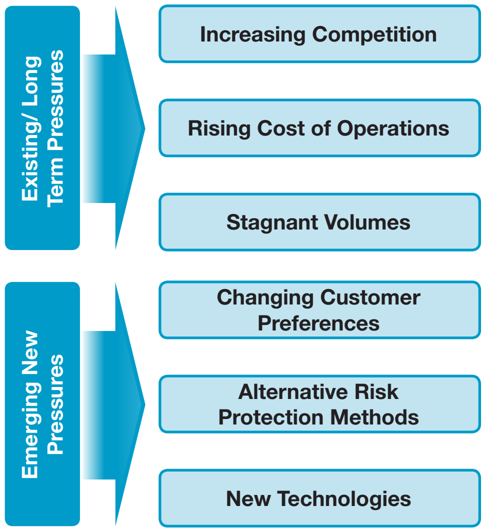
4.1. Background and Key Drivers

Global non-life insurance experienced minimal premium growth over the last five full years from 2007 through 2011. Growth was particularly stubborn in industrialized economies, which grew only 2.4%, compared to 13.7% in emerging economies.[5]

While industry growth has been limited, competition is on the rise as companies vie for the same customer base. Although the majority of customers continue to work with agents/brokers, they have the more information at their fingertips today than ever before, empowering them to challenge their brokers' recommendations. This information advantage is a direct result of the internet, social networking, and novel uses of mobile and handheld technologies.

As emerging new technologies enable insurers to quickly introduce innovative products, customers' expectations have increased and their product launches, based on pay-as-you-go concept, have been possible due to advancement in telematics technology.

Exhibit 3: Modern Pressures Lead to Need for Product Innovations



Source: Capgemini Analysis 2012

5 Swiss Re Sigma Reports, Swiss Re, published annually. Available at http://www.swissre.com/sigma/

4.2. Analysis

There is an increased focus on product innovation to meet changing customer preferences. As non-life insurers struggle to grow in a saturated market, they understand the importance of innovation to help propel future growth. If insurers don't align with changing customer demands by offering innovative and cost-effective products, customers are likely to defect to insurers that can offer them.

New product innovations could very well help the growth rate, particularly in industrialized markets, which comprise more than 80% of total non-life insurance volumes in terms of premiums.

4.3. Implications

To capitalize on the important implications new product innovations offer, insurers must:

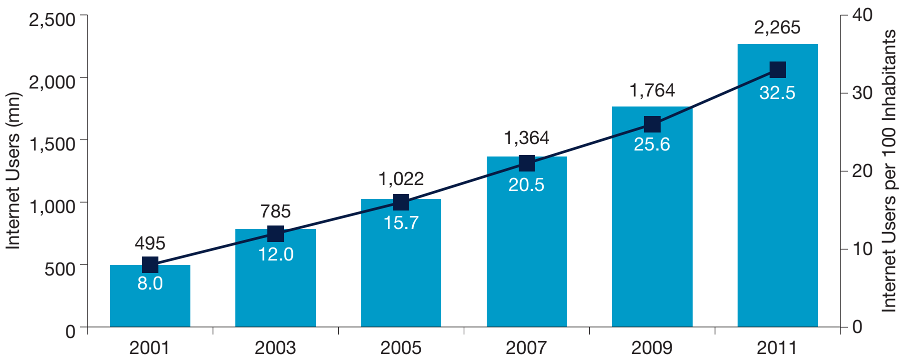
- Adopt business processes, offer products, and provide customer service initiatives that parallel consumer preferences
- Provide more flexibility in product offerings, expanding the means by which firms/individuals can mitigate risk, based on their specific needs
- Develop enhanced customer intelligence capabilities, including integration of predictive analytics, business intelligence, and CRM solutions

5. Trend 2: Continued Growth of Internet Distribution Channels

5.1. Background and Key Drivers

The online population has proliferated swiftly over the last decade. In 2001, the number of online users totaled fewer than 0.5 billion vs. more than 2 billion by the end of 2011—a CAGR of 16.4% over that period.

Exhibit 4: Total Global Internet Users (mn) and Internet Users per 100 Inhabitants, 2007–11



Source: *ICT Data and Statistics*, International Telecommunication Union (ITU), June 2012

The overall density of the online population also increased. From 2001 through the end of 2011, there were 33 users per 100 inhabitants, compared to fewer than ten during 2001. Europe and North America remained leaders in terms of online population density, with 68.4 and 53.4 online users per 100 inhabitants respectively. Developing countries outpaced developed countries in terms of growth, as online user density more than tripled to 24.4 per 100 inhabitants in 2011, from 7.7 five years prior.

The insurance industry, however, has not kept pace with this trend in customer interactions by offering online capabilities for its customers.

Smartphone adoption has also gone global in a big way. The number of smartphones in use worldwide is estimated to have crossed the 1 billion mark as of 3Q 2012—and is likely to double by 2015.[6] Six countries lead the way with more than 50% smartphone penetration among the population: Australia, U.K., Sweden, Norway, Saudi Arabia, and UAE.[7] And more than of 40% the population of United States, New Zealand, Denmark, Ireland, Netherlands, Sweden, and Switzerland use smartphones.

As the capabilities of desktop browsers and smartphones improve, insurers will be able to provide better interfaces with advanced capabilities, such as illustrations. As this is a relatively low-cost sales medium, insurers can pass along the cost advantage to customers by way of lower premiums.

5.2. Analysis

As the number of online users continues to grow, insurers have begun to utilize this platform to broaden their customer base. In an effort to increase direct sales and upgrade their customer service and brand image, the majority of P&C insurers are now seeking to leverage the internet as an alternative channel.

6 "Smartphones in Use Surpass 1 Billion, Will Double by 2015," Bloomberg News, http://www.businessweek.com/news/2012-10-17/smartphones-in-use-surpass-1-billion-will-double-by-2015

7 "New Research Shows 6 Countries Are the Clear Leaders in Smartphone Adoption. Do You Know Which Ones?" Google Blog, http://googlemobileads.blogspot.in/2012/05/new-research-shows-6-countries-are.html

Apart from utilizing the internet as a selling tool, insurers are increasingly building self-service portals and mobile applications, providing anytime/anywhere customer service. To help increase sales and improve the customer experience, they are also leveraging internet and mobile capabilities by empowering their sales force and agents/brokers with real-time connectivity.

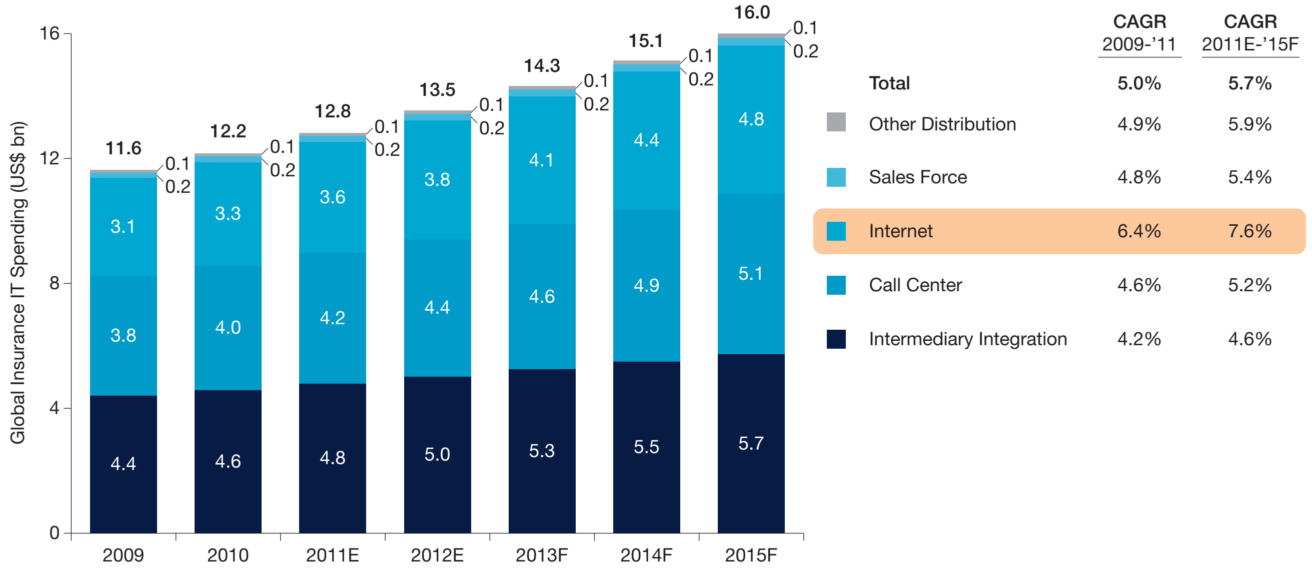
As might be expected, non-life insurance companies will be focusing more keenly on leveraging the internet. Market segments, such as auto and home insurance, are commoditized and generally require less advice while buying these products, making it easier to sell them online. However, internet use is now spreading beyond personal lines of business, and some non-life insurers have started to launch online commercial insurance product offerings for small- and medium-sized businesses.

5.3. Implications

As non-life insurers realize the importance of the internet, they are expected to accelerate their investments in internet channels. IT spending on internet channels is expected to outpace other segments with a growth rate of 7.6% from 2011-2015, compared to 5.7% growth in overall channels spending.

In order to achieve optimal results, insurers will first need to study the profile of a typical customer who uses the internet to obtain information to buy insurance. This customer intelligence will allow insurers to devise strategies to convert a surfing prospect into a paying customer.

Exhibit 5: Estimated IT Spending on Insurance Channels: Global Non-Life Insurance Industry ($ bn), 2009–2015F



Source: Ovum: Insurance Technology Spending Through 2016, July 2012

Later, as online insurance transactions continue to increase, insurers will need to develop scalable systems to automate insurance activities and offer a user friendly interface for the interaction. Increased investments in the various internet channels means insurers will need to analyze their overall distribution strategy. A customer-centric multi-channel distribution strategy becomes very critical to success. They need to integrate customer data in order to provide a consistent customer experience as they negotiate across channels.

6. Trend 3: Empowerment Among Agents and Brokers

6.1. Background and Key Drivers

While alternative distribution channels continue to proliferate globally, traditional intermediaries—agents and brokers—remain the dominant network for non-life insurance distribution.

Although a growing number of customers use the internet for research, they tend to seek out a live agent when purchasing a product, primarily for expert advise on risk analysis, coverage requirements, and premium options. While some customers have begun to purchase online insurance products that are easy-to-understand, such as home and auto insurance, they tend to seek the help of an agent or broker to understand more complex products, such as property, casualty, and commercial. Agents and brokers can also offer added value by assisting clients during the claims intimation and settlement processes.

Agents and brokers seek advanced technology, too. There is increased pressure on insurers to empower agents and brokers with advanced tools, which offer faster processing and a better sales experience. While customers are looking for speed and convenience during and after the sale, agents and brokers often lack the latest technology to meet these needs.

Using today's technological tools would help empower agents/brokers to make the best decisions for their customers, on-the-spot, without the encumbrance of a weighty and often hierarchical approval process. Empowerment of this nature would help them retain current customers and add new ones. Agents /brokers also offer a significant advantage for cross-selling and up-selling vs. direct channels, such as the internet and mobile devices—not to mention that they are the first line of interaction with the client, adding even more value in risk assessment.

6.2. Analysis

As discussed in Section 6.1, agents/brokers play an important role and offer extraordinary value to both insurers and customers. Yet to remain competitive they need empowerment. Emerging technology offers non-life insurers the empowering tools agents and brokers require to help them improve the sales and customer experience.

Mobility solutions with the insurer will allow agents/ brokers to offer anytime/ anywhere customer service, address a significant number of policy service requirements, and accelerate the sales cycle. Mobile solutions can improve agent/ broker productivity by offering features, such as automated policy application and document submission, and real-time data inquiries/updates.

If non-life insurance typically requires more policy servicing and renewals compared to life insurance, it stands to reason that developing an agent/broker application on the cloud might help the insurer accelerate policy issuing and servicing process. While insurers may charge distributors (particularly brokers) for using these platforms, a pay-as-you-go model will allow insurers to offer these services at minimal rates. The variable-cost model of SaaS solutions provides opportunities for those insurers, mainly small- and mid-sized, with limited budgets.

A POS solution allows customer binding at the POS, itself, leading to an increased sales conversion ratio and reducing the chance of customer attrition to another channel or insurer. These solutions can help shorten the policy issue cycle and lower costs by reducing paper work, postal charges, check processing fees, etc.

Agents /brokers are also seeking enhanced capabilities and the latest technologies to increase their sales/commissions. Empowering them with these tools will help attract and retain the highest performers. Empowerment will also act as a differentiator among industry players firms endeavor to attract new distributors and retain existing ones.

Insurers should also equip agents and brokers with enhanced business powers and social media capabilities to help them expand their business. In this regard, many P&C and general insurers currently delegate some binding and underwriting authority for standard policy coverage, which helps distributors increase sales.

6.3. Implications

In the face of increased competition, changing and emerging customer demands, and proliferation of alternative distribution channels, non-life insurers need to seek assistance from professional services firms to develop robust mobile solutions, SaaS platforms, and POS tools, as they build roadmaps, and develop and implement innovative tools for agents/brokers.

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