

Global Trends in Non-Life Insurance 2013: Policy Administration

How an increased focus on product development and delivery with technology support impacts the non-life insurance industry



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1. Highlights

Economic growth has slowed down in most advanced markets over the past two years. However emerging markets have witnessed a better growth rate. property and casualty (P&C) insurance industry premiums continued to grow moderately by 2.6% in 2012 as compared to 1.9% in 2011¹. The outlook for P&C insurance is expected to remain positive in the future as compared to life insurance.

With growing competition, rising costs, and changes in customer preferences, P&C insurers are now focusing on product innovation and differentiation. Digital or technological transformation plays a key role in driving product innovation. So in addition to meeting customers' needs, insurers are developing products which will help in increasing their underwriting efficiency and reducing costs. Various technological tools such as telematics, gamification, and product configurators are the key drivers in product innovation. Insurers implementing these tools are expected to gain a competitive advantage.



¹ *World Insurance in 2012: Progressing on the Long and Winding Road to Recovery*, 24 June 2013. Swiss Re, <http://www.swissre.com/sigma/>

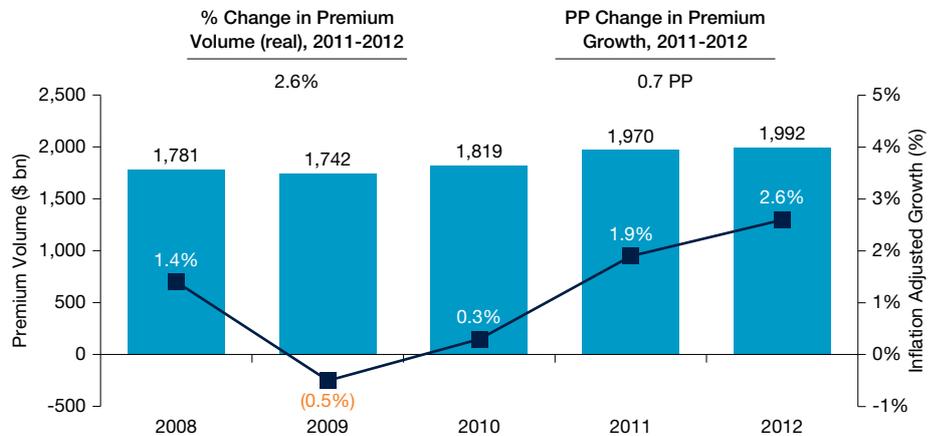
2. Introduction

2.1. Global P&C Insurance Performance²

In 2012, the uncertain economic environment due to the ongoing financial crisis remained a big challenge for insurers around the world. Limited investment income opportunities coupled with slow economic growth in almost all advanced markets³ added to the challenge. Performance in emerging markets⁴ was better compared to advanced markets, but growth slowed down due to an over-dependence or reliance on exports to advanced markets.

The global real gross domestic product (GDP) growth slowed to 2.5% in 2012 from 3% in 2011. Economic growth in advanced economies was crippled by the Western Europe crisis, slowing to 1.2% from 1.5% in 2011. This could be mainly attributed to tight fiscal policies, restrictive credit conditions, and uncertainty about the future of the euro. However, a few Eurozone countries fared better, especially Germany which grew by 1%. In the second half of 2012, several developments were undertaken to reduce short-term risk in the European region and provide long-term solutions such as ECB's⁵ "Outright Monetary Transactions" program in conjunction with the European Stability Mechanism (ESM). Elsewhere, the U.S. showed a moderate growth in the second half of 2012.

Exhibit 1: Global P&C Insurance Premium Volumes (\$ bn) and Inflation Adjusted Growth (%), 2008–12



Source: Capgemini Analysis, 2013; *World Insurance in 2012: Progressing on the Long and Winding Road to Recovery*, 24 June 2013. Swiss Re, <http://www.swissre.com/sigma/>

The premium for global P&C insurance grew by 2.6% in 2012. Emerging markets continued to register a solid premium growth of 8.6% in 2012, while advanced markets increased by 1.5% in 2012. Advanced Asia registered a growth of 5.8% mainly due to strong growth in South Korea, Hong Kong, and Japan. Improving economic activity helped North America to register a growth of 1.7% in 2012, while

² All figures in this section are from *World Insurance in 2012: Progressing on the Long and Winding Road to Recovery*, 24 June 2013. Swiss Re, <http://www.swissre.com/sigma/>

³ Advanced markets include: the U.S., Canada, Western Europe (excluding Turkey), Israel, Oceania, Japan and the other advanced Asian economies (Hong Kong, Singapore, South Korea and Taiwan)

⁴ Emerging markets include: all other countries which are not mentioned as advanced economies

⁵ ECB: European Central Bank

Western Europe's premium declined mainly due to contractions in the U.K., Dutch, Italian, and Spanish market. Although emerging Asia⁶ and Latin America posted a strong growth, the weak performance by Central and Eastern Europe and Middle East region affected the overall premium growth rate.

The P&C insurance industry outlook for the near future is positive when compared to life insurance. The industry will continue to recover throughout 2013 and emerging markets will continue to drive the growth. Advanced markets will have a gradual recovery since the market is slowly reviving in many countries.

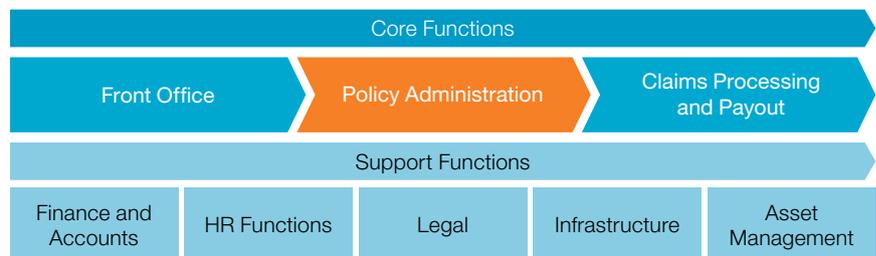
2.2. Insurance Value Chain

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.

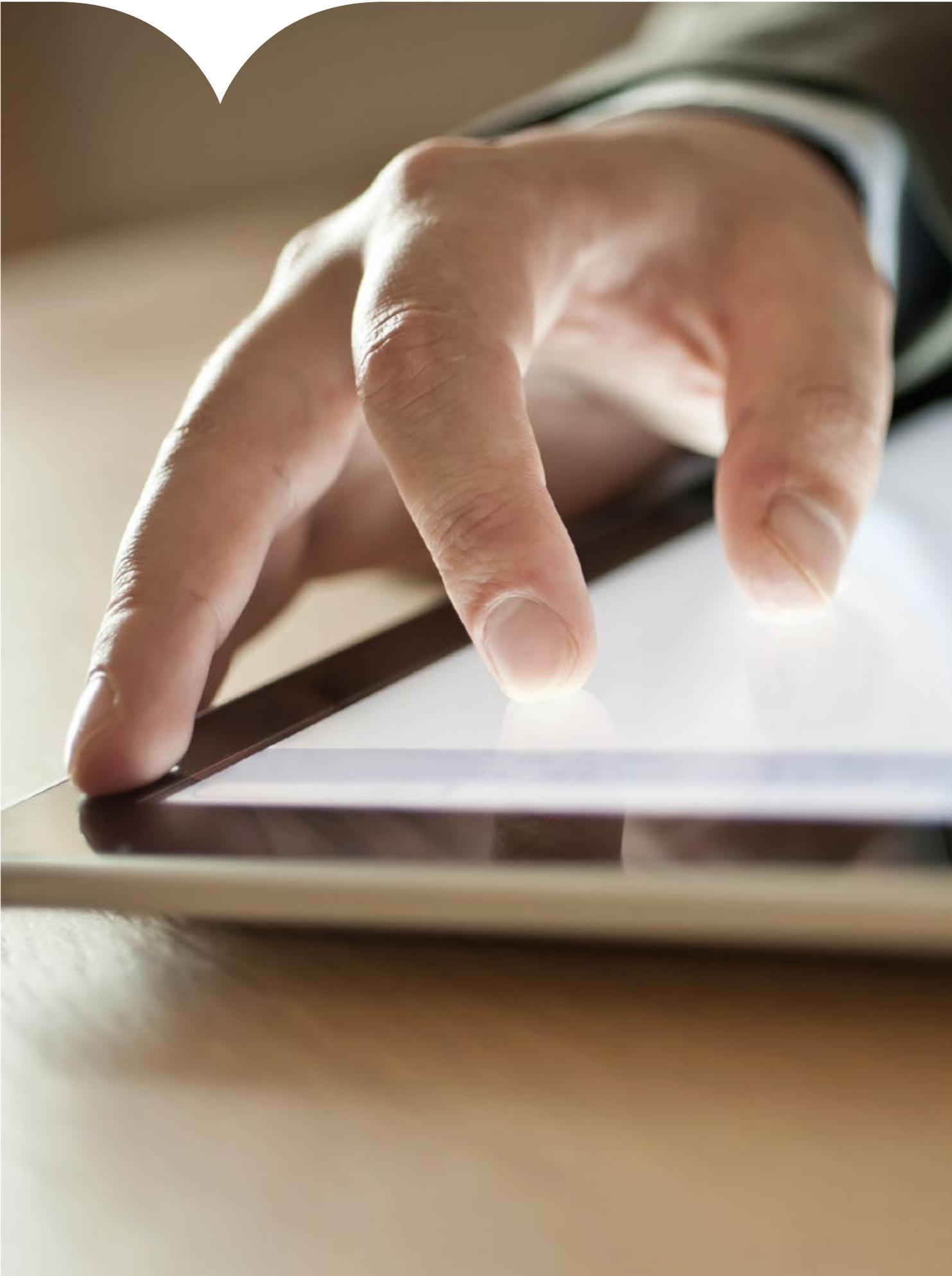
Exhibit 2: Insurance Value Chain



Source: Capgemini Analysis, 2013

This paper focuses on the policy administration of the insurance value chain from the P&C perspective.

⁶ Emerging Asia includes: China, Thailand, Malaysia, Philippines, India, Indonesia



2.3. Emerging Trends

Non-life insurers continue to focus on improving policy administration and underwriting functions through continued investment in overhauling policy administration, increased adoption of geographic information systems, and increased focus on leveraging underwriting workbenches. These trends were covered in detail last year and remain relevant. However, during the course of this year another major trend emerged⁷:

- Increased adoption of technologies to support product development and delivery such as telematics, gamification, and product configurators

With complex emerging risks such as growing competition, rising costs, and changing customer preferences, insurers are forced to adopt innovative ways to maintain a competitive edge.

Innovation can be applied to product, process, organization, or marketing. Currently, product innovation through the use of the latest technologies has become the fastest emerging trend. Insurers are now focusing on developing innovative products to improve policy administration and underwriting. This growing demand for new technologies has resulted in a digital transformation in the insurance industry.



Global Trends in Non-Life Insurance 2012: Policy Administration and Underwriting



Global Trends in Non-Life Insurance 2012: Claims



Global Trends in Non-Life Insurance 2012: Front Office

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

3. Trend 1: Increased focus on product development and delivery with technology support

3.1. Background and Key Drivers

Insurers are increasingly looking to excellence in product development as a key component for competitive differentiation. They continuously reassess product development and initiating technology transformations to develop new products which will best address customer needs. In late 2012 and early 2013, insurers in all regions have built strategies and begun digitalization transformation⁸. Using techniques and tools such as advanced analytics, many insurers are offering an enhanced customer experience with better policy administration, pricing, underwriting, and fraud control.

The main drivers are:

- Reducing operational cost by investing in technologies to automate certain business processes such as underwriting or processing of new applications
- Improving productivity of intermediaries by streamlining the exchange of information

To achieve these goals, insurers are investing or spending more on the development of technologically advanced products. The level of upgraded technology among P&C insurers is gradually improving, which will fuel opportunities for them in the future.

3.2. Analysis

Digital transformation has gained momentum among insurers, and the number of insurers using the latest technologies has been increasing constantly. In the P&C insurance industry for example, the use of telematics for both personal and commercial auto insurance has been rising steadily over the past five years, especially in advanced markets such as the U.S. and the U.K.

Exhibit 3: Key Drivers for Product Innovation



Source: Product Innovation in Non Life Insurance Markets, Swiss Re, 2012

⁸ Gartner, Inc., "Digitalization Redefines the P&C and Life Insurance Industry", Kimberly Harris-Ferrante, 14 August 2013

Exhibit 3 shows how each element (telematics, gamification, and product configurators) plays a crucial role in driving product innovation. Telematics refers to the use of wireless devices and “black box” technologies to transmit data in real time back to an organization.⁹ Telematics, sensors, and mobile devices provide insurers with real-time data that can be used in pay-as-you-drive insurance or other platforms. It can also be used to drive new pricing models. It is expected that 57% of vehicle owners will switch to a black box insurance policy by 2017¹⁰. With such policies, insurers benefit from reduced costs and achieve significant product differentiation from their competition.

Gamification technology is used by insurers to position complex products online in the form of games. Since usage-based insurance is becoming ubiquitous, insurers should now focus on the usage of gamification as a product differentiator¹¹.

Insurers are increasingly exploring product development and configuration engines which will allow end-users, who are on the front line and are often, pressurized by need for better speed-to-market and product innovation, to not only conceive but also develop new products, and get them to market quickly. Many insurers are now adopting two approaches for software selection in product configuration: end-to-end product configuration and core product configurators with only key functionalities. Both these approaches focus on making the life easier for business end-users.

These product innovations will help in several ways:

- Insurers can focus on using innovation to improve their pricing process and better meet customer requirements.
- In capital markets, where investors are likely to continue to seek new types of investment opportunities, insurers can design products matching the business and financial investment risk profile.
- Insurers can offer more flexibility in product selection by increasing the variety of ways available for firms/individuals to mitigate risk.

3.3. Implications

Globally, digitalization has become one of the top priorities for insurers. In long run, it will help insurers to gain the competitive advantage through product differentiation. It also helps insurers in lowering transactional costs and improving the customer’s satisfaction through innovative products. The main enablers for product innovation are telematics, gamification, and product configurators. These technical enablers are playing a key role in reducing risk and enhancing the policy administration and underwriting process. Insurers offering pay-as-you-drive insurance should evaluate their big data processing and analysis needs to determine additional investments that may be needed in data warehousing and analysis tools. These areas have created new opportunities for professional services firms to leverage their implementation experience and assist insurers in developing systems that boost insurance sales.

9 Gartner, Inc.: “IT Glossary” <http://www.gartner.com/it-glossary/>

10 Research commissioned by GoCompare.com. On 7-8 February, 2012, Vision Critical conducted an online survey among 2,008 British drivers with their own car insurance policy who are Springboard UK panelists

11 Susan Kuchinskias, “Gamification and telematics,” Telematics Update, 30 July 2013, <http://analysis.telematicsupdate.com/infotainment/gamification-and-telematics>



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