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The Changing Landscape of Risk: Are Insurers Meeting The Challenge?

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“It is not necessary to change ...

“ ... Survival is not mandatory.”

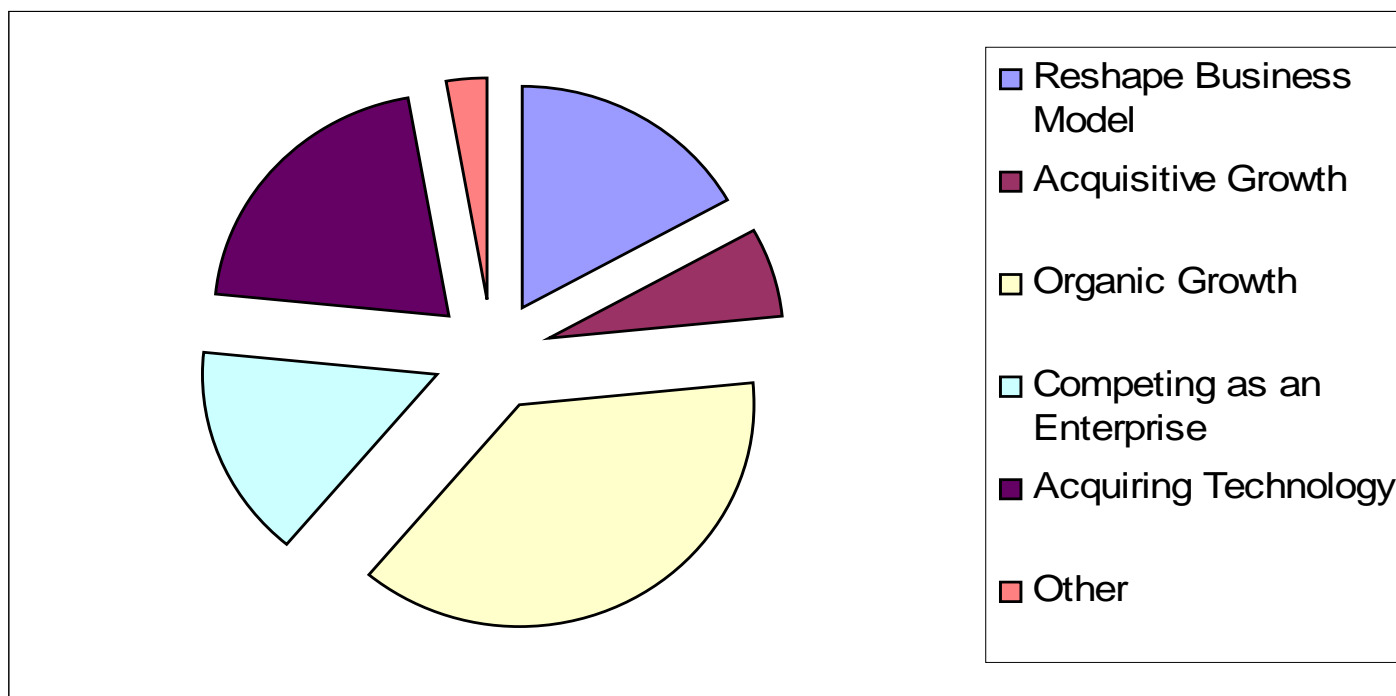
Dr. W. Edwards Deming

Discussion Guide

- **Insurer's 2008 Goals**
- **Market Forces in Play**
- **Insurance Industry Initiatives**
- **Guidance**
 - Insurance Industry
 - Technology Firms
- **Looking to 2009 +**

General Insurer's 2008 Goals

General insurers (n = 451 North American insurers) told us in the 2008 Insurer's Choice survey that **organic growth (38%)** was their most important strategic business priority for this year.

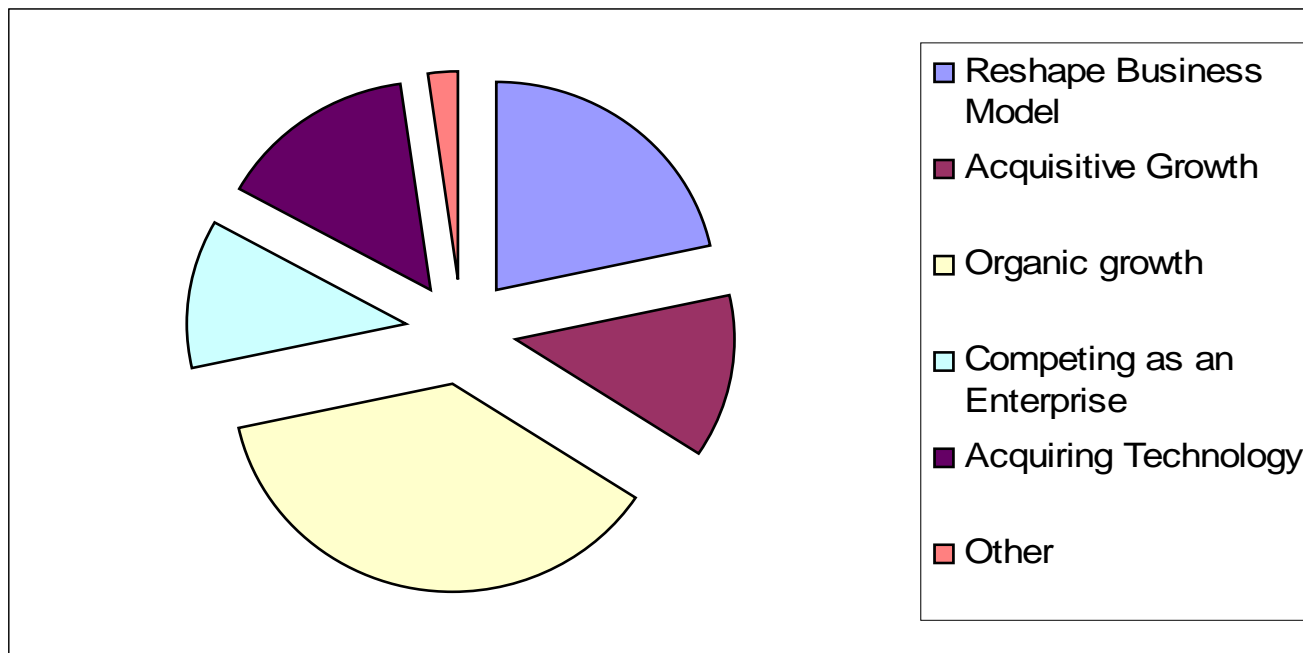


Acquiring technology to support new business strategies (21%) was their second most important strategic business priority.

Insurer's 2008 Goals: North American Insurers

Life Insurer's 2008 Goals

Life insurers (n = 88 North American insurers) also told us in the 2008 Insurer's Choice survey that organic growth (38%) was their most important strategic business priority for this year.



Reshaping their business model to drive their company's tactics and operations (22%) was their second most important strategic business priority.

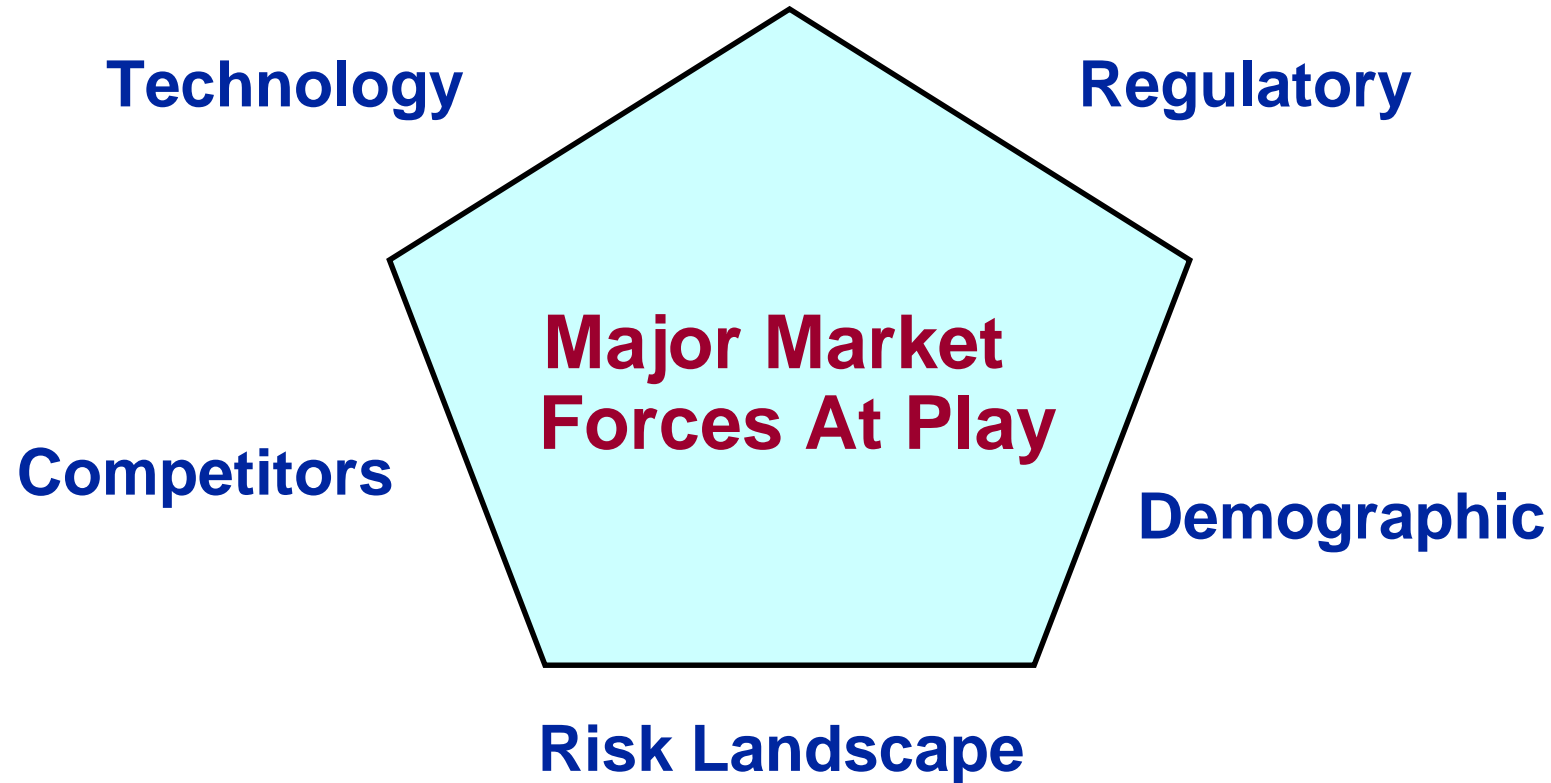
Insurer's 2008 Goals: Global Insurers

Global Insurer's 2008 Goals

Insurers worldwide stated in a 4Q2007 survey their top five 2008 goals were:

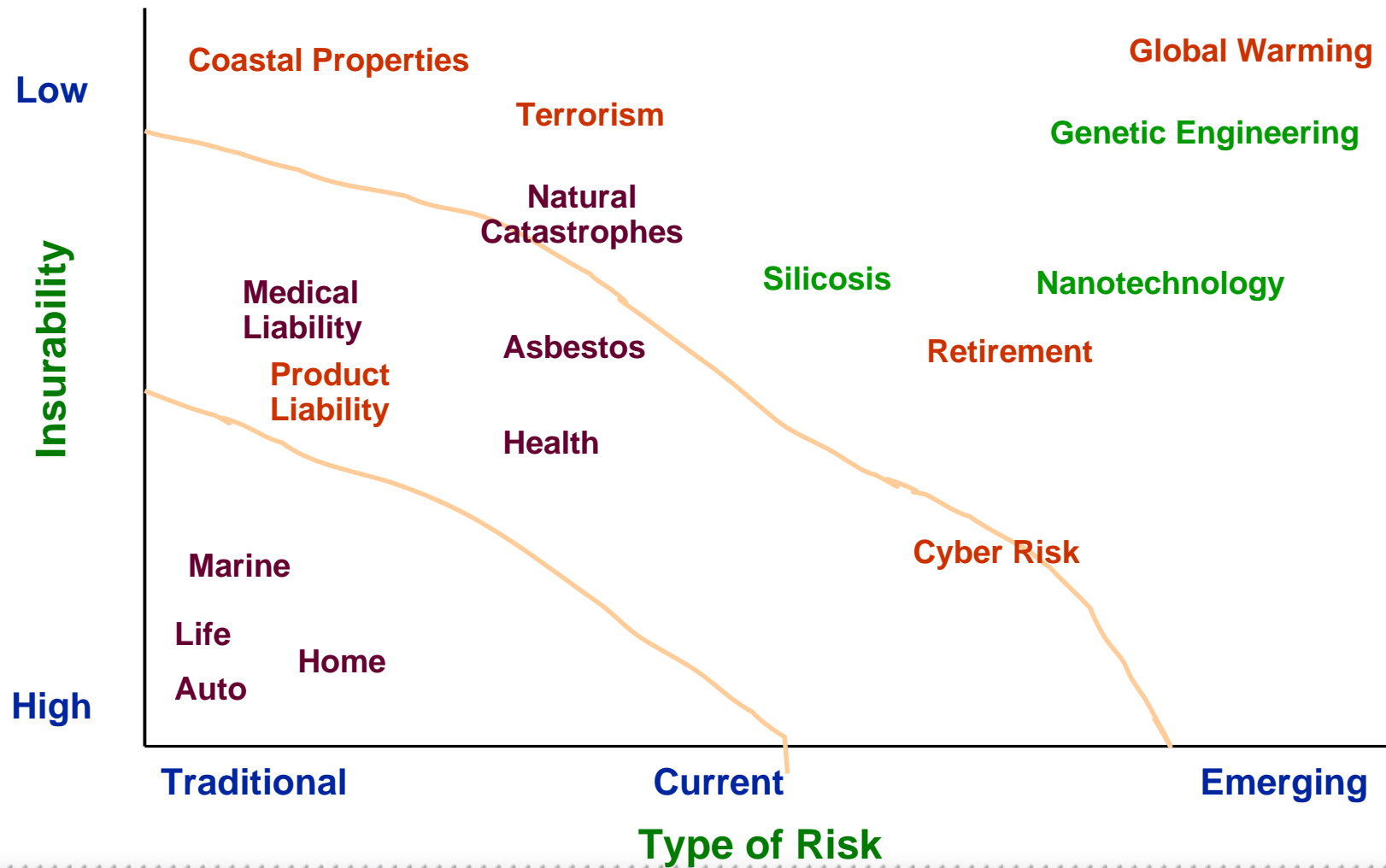
- **Regulatory compliance**
- **Growth (primarily organic growth)**
- **Transformation / rationalization of core administrative processes**
- **Reducing cost**
- **Risk management**

Market Forces At Play



Market Forces At Play

Changing Landscape of Risk



Competitive Situation

General (P&C) Insurers

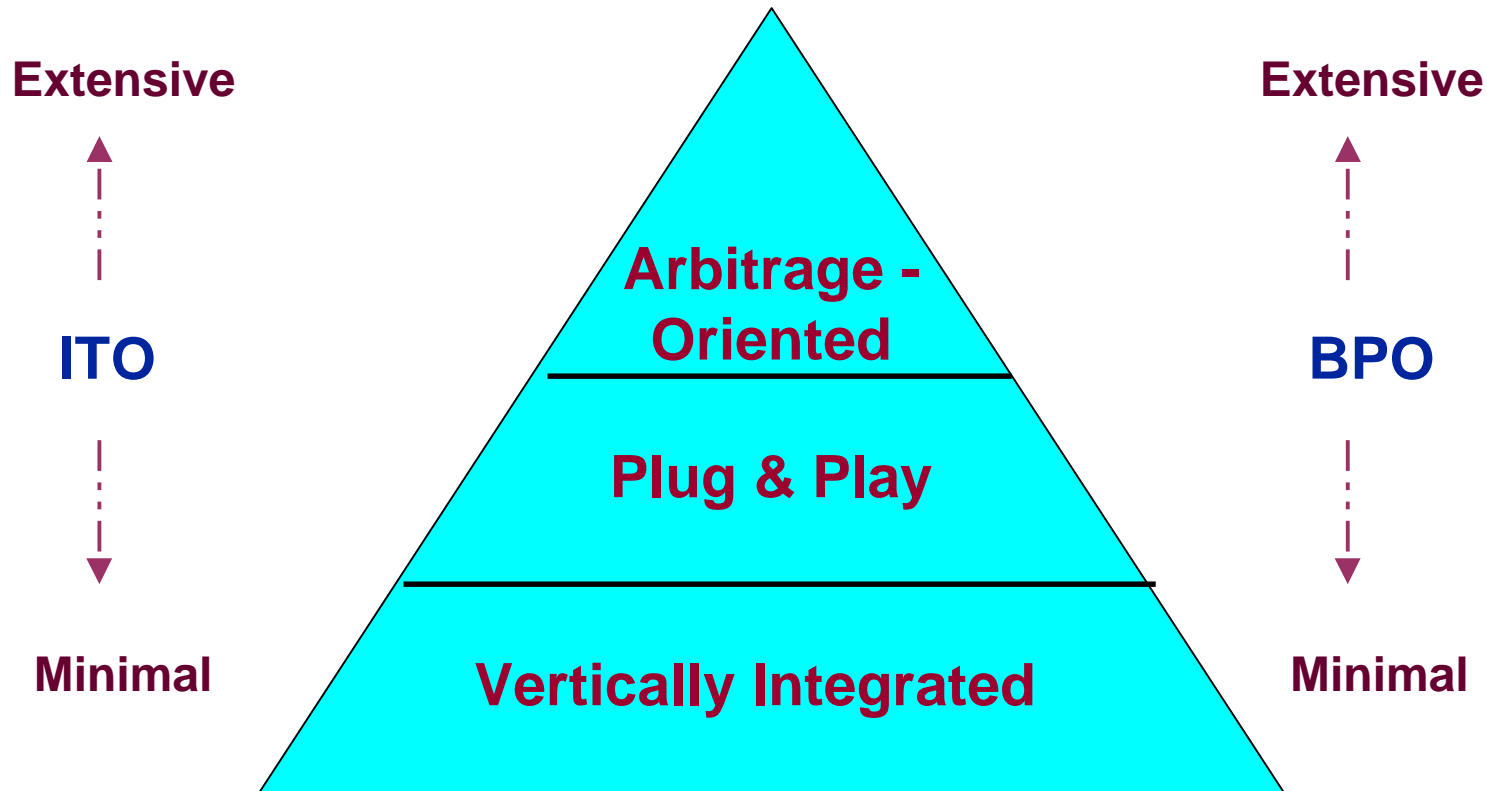
- Other general insurers
- Reinsurers
- Insureds
- New entrants

Life Insurers

- Other life insurers
- Investment Firms
- Banks
- New entrants

Market Forces At Play

Insurer's Approach to Technology



Regulatory Compliance

Local regulations; global impact. The “homogenization” of regulations will cascade across the globe.

Both Life and General Insurers

- Solvency II (EMEA and A/P)
- Terrorism Legislation (EU and US)
- Optional Federal Charter (US)

Life Insurers

- Suitability (US)

General Insurers

- Contract Certainty (U.K.)
- Socialization of insurance (Florida, US)

Never-ending global pressure on capital adequacy, transparency and suitability. Will there be fewer insurance companies within the next 3 – 5 years?

Market Forces At Play

Multiple Generations Going Strong

More people, living longer, will significantly impact retirement income trends.

Americans age 65 or older: 3 million in 1900, 35 million in 2000

Senior women outnumber senior men 3:2 in U.S.

2/3 of all the seniors in the world who have ever lived are alive today



By 2080, there will be one million people over age 100

U.S. median age in 1820 was 17; by 2030 it is projected to be 42

Global population of 600 million senior citizens will double to 1.2 billion in 20 years

Sources:

<http://www.ssa.gov/history/lifeexpect.html>

http://www.ageworks.com/course_demo/200/module2/module2b.htm

Insurance Industry Initiatives



Two Paths In Play

Acquisitive and organic growth both in play. Scale and scope equally important for insurers to succeed.

A/P



- Insurers from Australia, Taiwan, Japan and South Korea establishing new networks of channels and customers in neighboring Asia countries.
- Asian insurers generating organic growth through new critical illness and annuity products

Europe



- European insurers have been building up their operations in small but fast-growing markets in CEE and Asia / Pacific markets through partnerships and acquisitions.
- Other engines of growth are 360° products for the “third age” segment as well as savings and retirement products. Health and Accident products have experienced dramatic growth in the Netherlands due to the insurance industry’s management of the Dutch health system.

North America



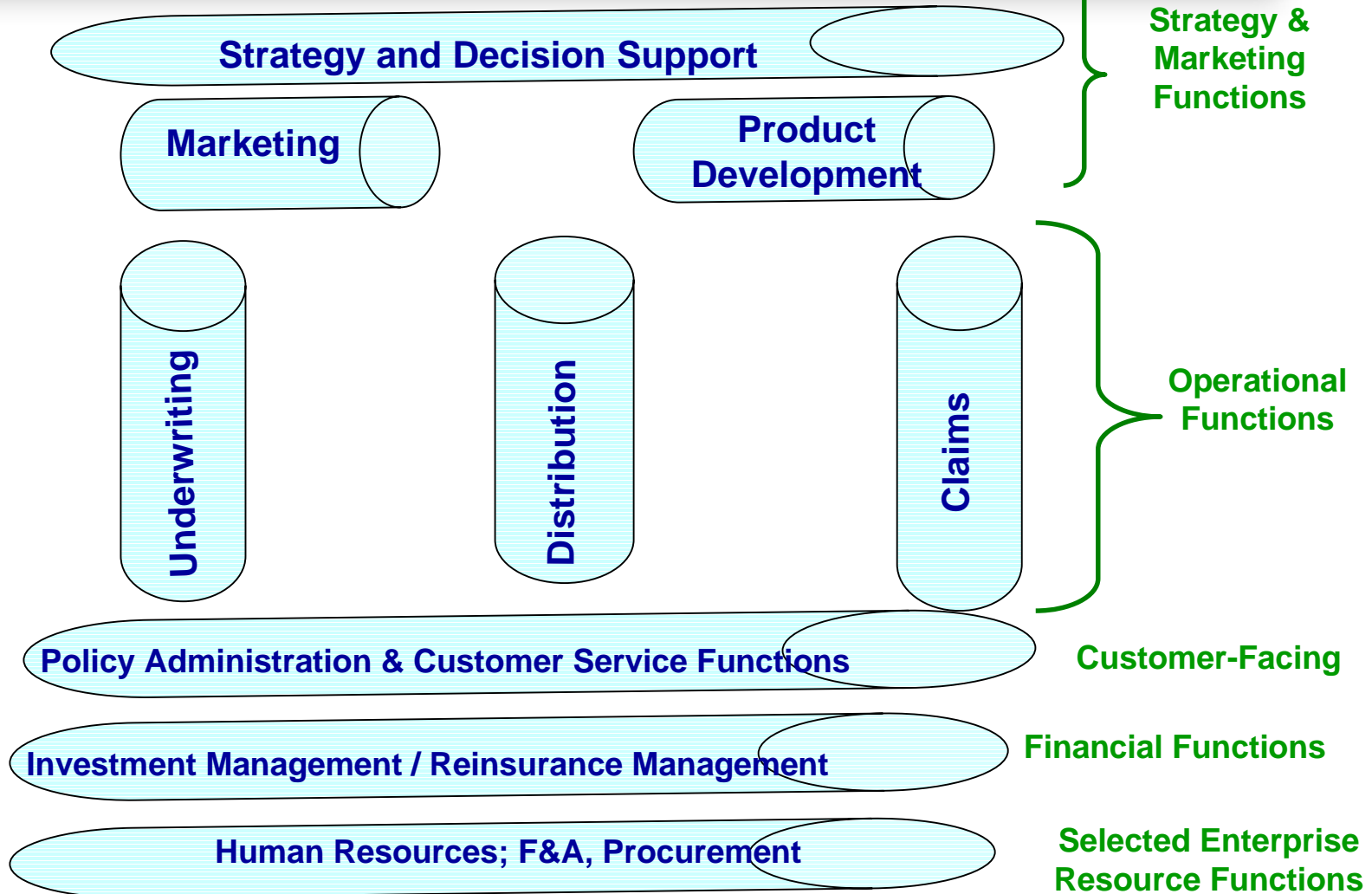
- Steady but infrequent carrier acquisitions (i.e., Liberty Mutual’s acquisition of Ohio Casualty).
- Continued march of insurance brokers going private (USI Holdings, Alliant Insurance Services, Hub International)

Rationalization Under Way ?

A definite maybe leaning to yes. In 2008, Insurers around the world will accelerate their activities of reducing the number of core administrative systems they use to increase productivity and decrease costs.

- **EMEA insurers completing IT infrastructure consolidation projects. They are now addressing core administrative system standardization and rationalization**
- **Asia insurers are streamlining their core administrative systems.**
- **In the U.S., P&C insurers are replacing their 4+ decade old (multiple) billing systems with new integrated core administrative systems.**

Insurance Industry Initiatives: Regulatory Compliance Information Transparency and Agility



Insurance Industry Initiatives: Cost Improvement
Cost Improvement

EMEA insurers pursuing offshore delivery and BPO to control costs.

Canadian insurers actively pursuing strategies to control costs.



Orchestrating Cost Improvements

U.S. insurers pursuing BPO to control costs.

A/P insurers developing new strategies to control costs.

Insurance Industry Initiatives: Cost Improvement

US Insurers Plans For Using BPO

US Insurance Industry BPO Investment Planning Horizon For Four Cross-Industry Functions

Base: US Insurers With At Least 2,500 Employees

Shorter Term

Longer Term

Within 12
months

Between 12 –
24 months

Between 24 –
36 months

Greater than 36
months



Customer
Care

Human
Resources
Procurement

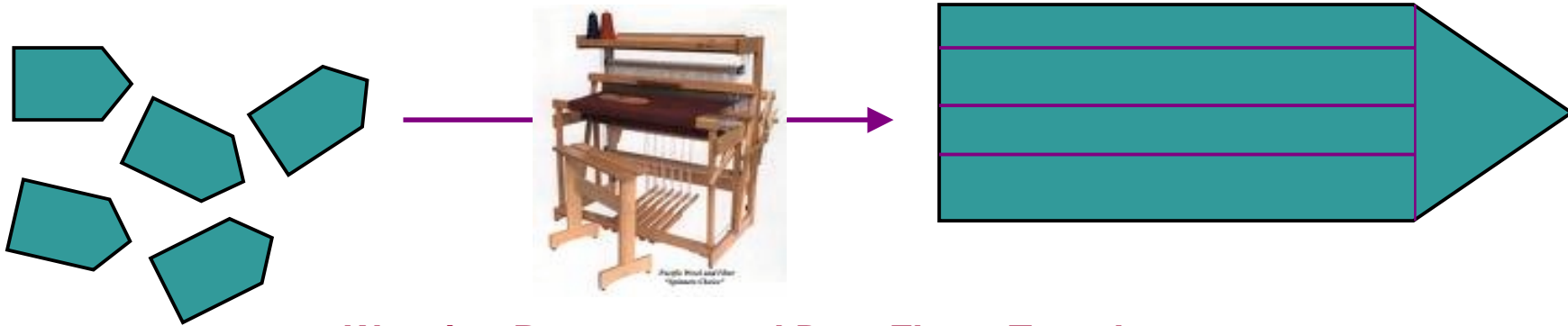
F & A (Insurers with
2,500 – 4,999
employees)

← - - - F & A (Insurers with
5,000 or more
employees) - - - →

Source: IDC's Vertical Market IT Solutions Survey 2007

Competing As One Entity

Speed-to-market depends on insurers competing as one coherent and informed enterprise.



Weaving Processes and Data Flows Together

- Standards (i.e., ACORD, XML)
- Enterprise applications
- Performance Management / Business Analytics
- Data Flows
- Rules Management
- SOA
- Sourcing options

All of these must be knit together into one organizational piece.

Insurance Industry Initiatives: Business Models

New Strategic Focus

Business Models are the architectural plans that support the insurance company strategy.

Business models support insurance company strategy



USAA
Customer-Centric Strategy

ManuLife
Product Manufacturer Strategy

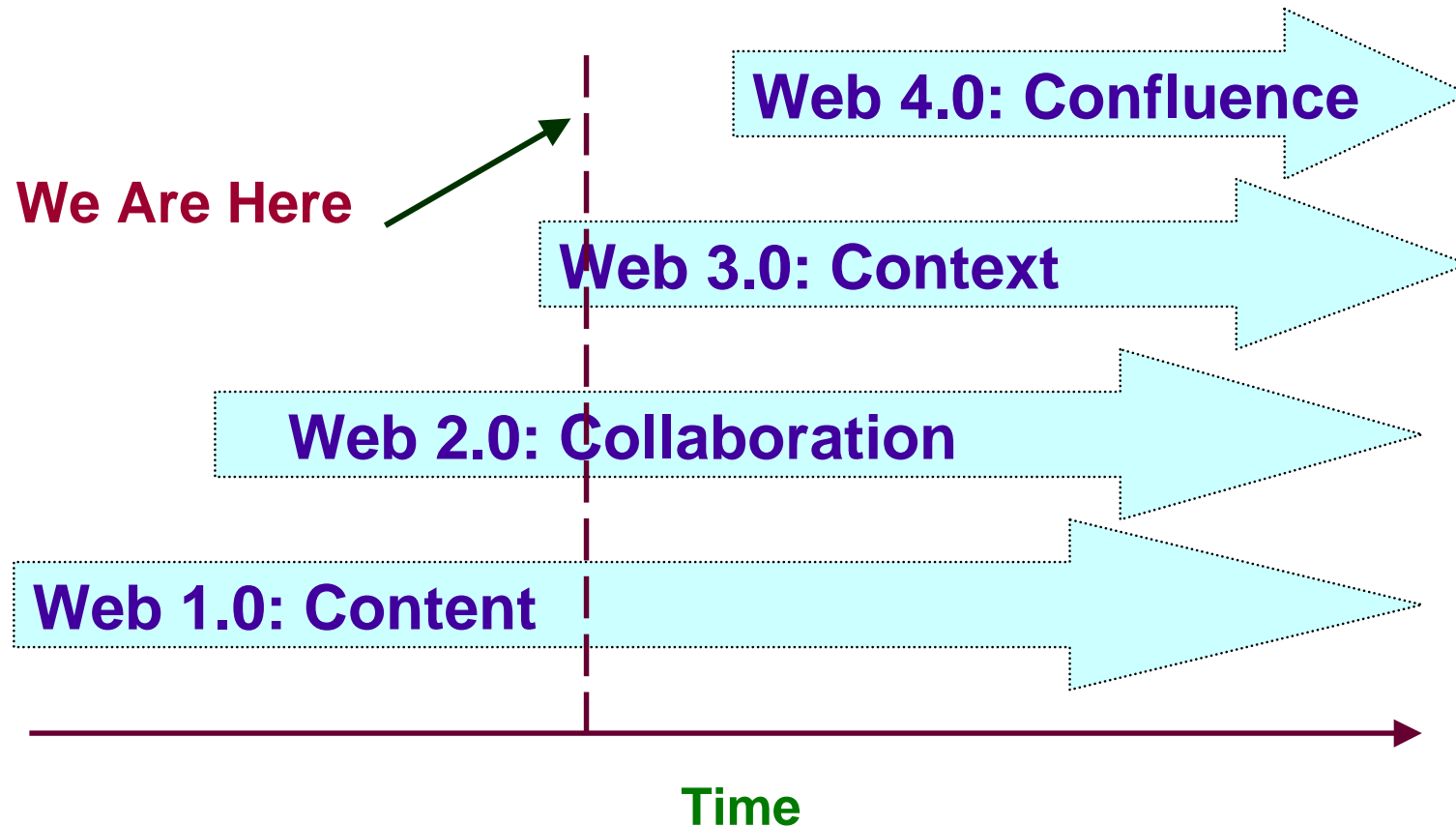
Geico
Low-Cost Insurer Strategy

The Hartford
Channel Rich Strategy

Insurance Industry Initiatives: The Evolving Internet

Using The Evolving Internet

Competitive opportunities evolve as the web evolves.

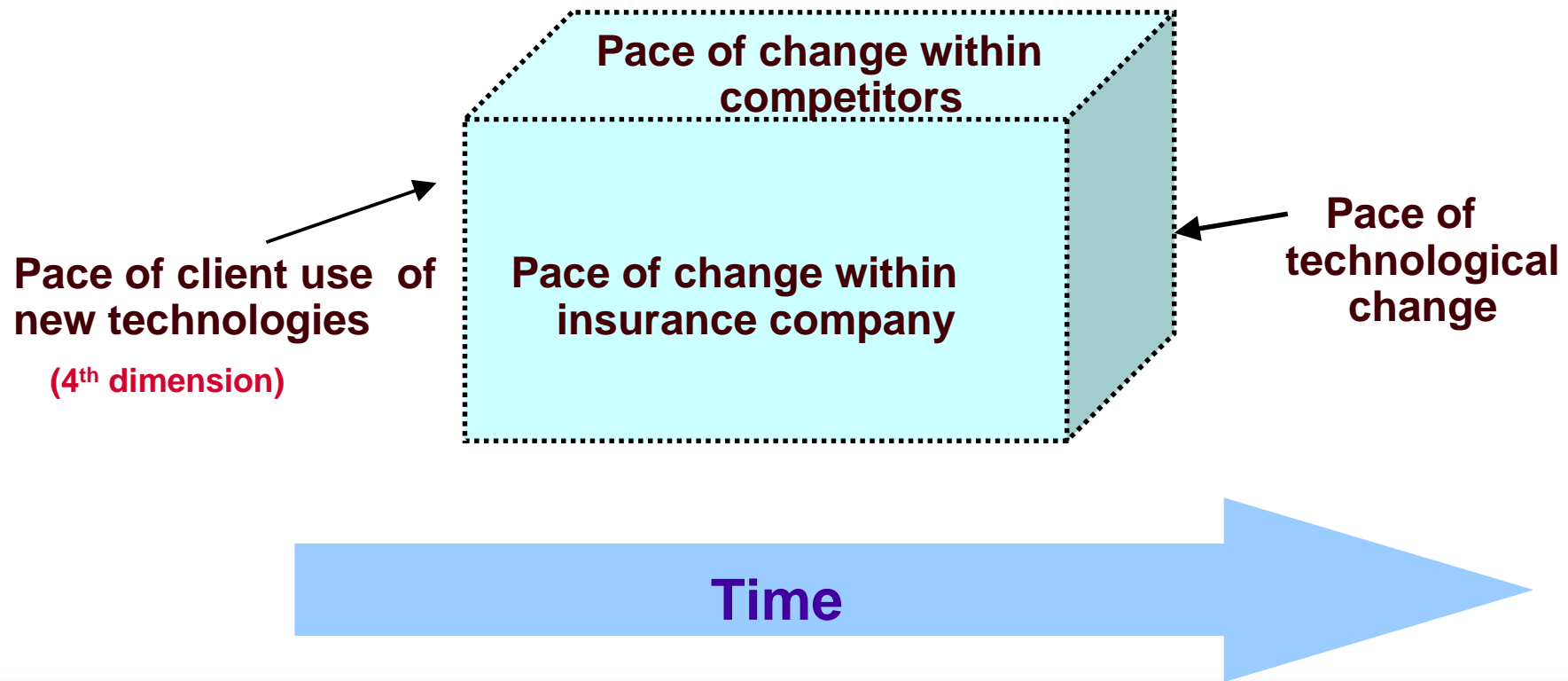


Guidance



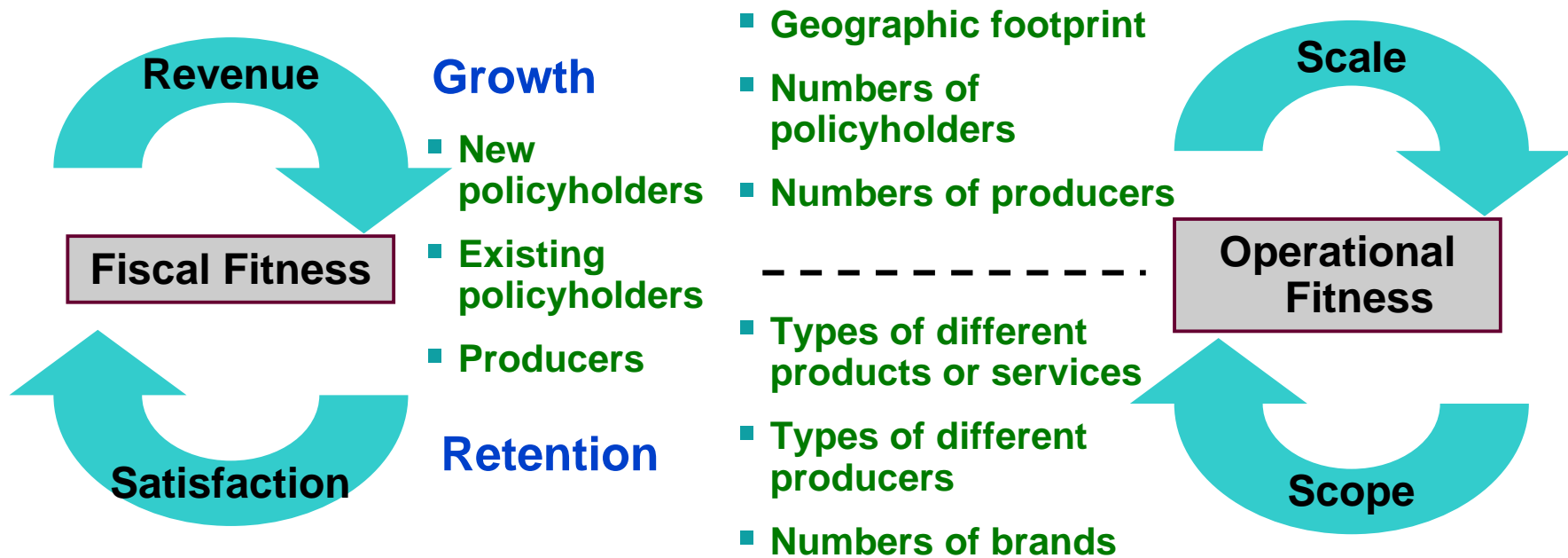
Pace of Change is Quickening

When the pace of change outside the insurer's walls is faster than inside the company, ... **(the end is nigh)**



Having The Ability To Change

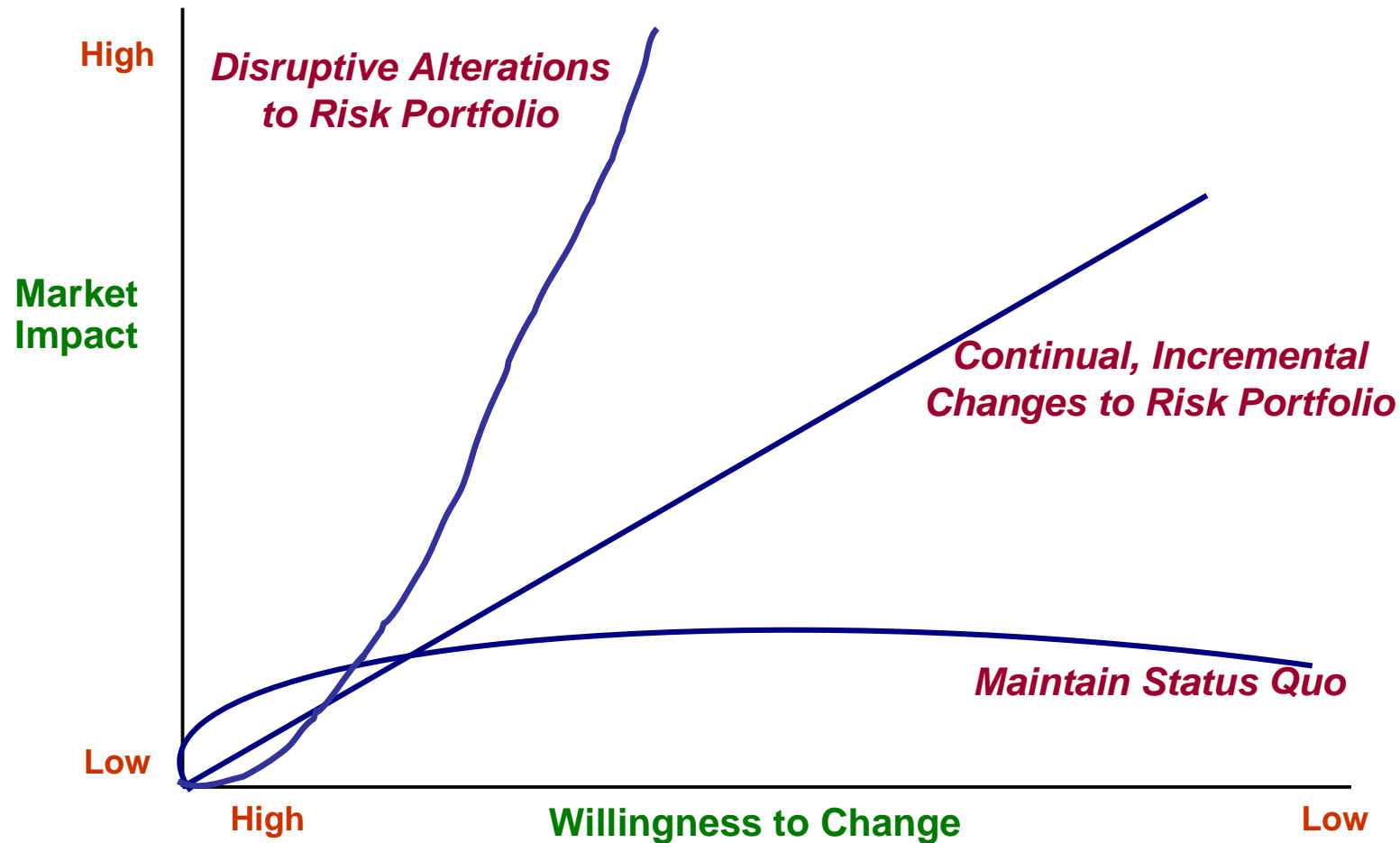
Change requires two types of fitness: fiscal and operational.



Both types of fitness mandate operational and decision-support systems that enable flexibility and responsiveness.

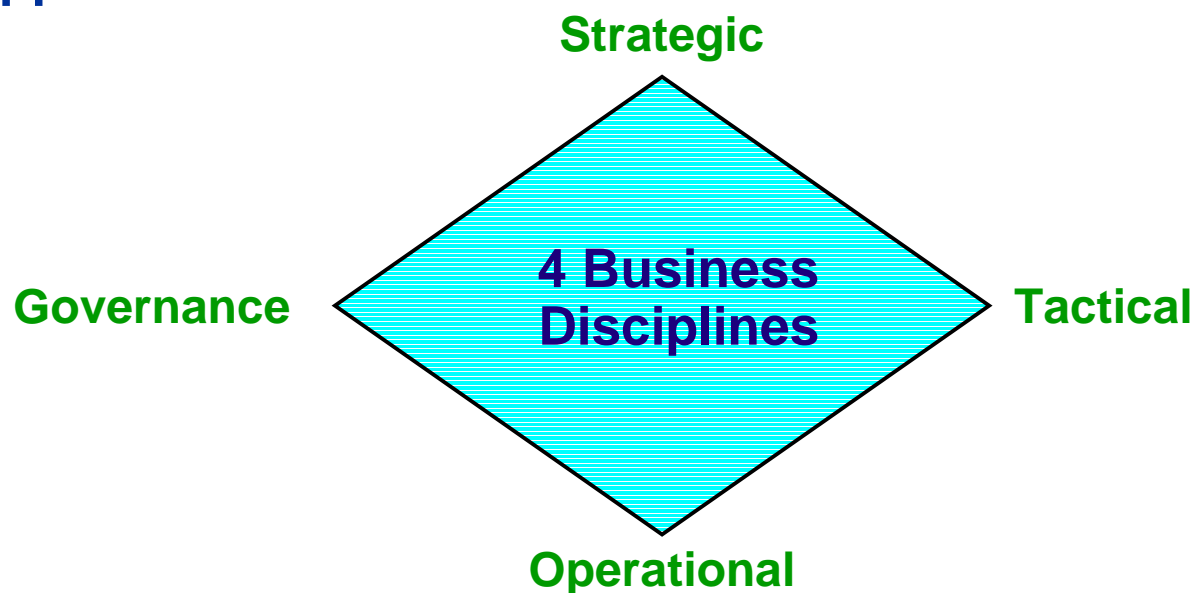
Insurance Companies

Insurance companies must decide how willing they are to change.



Technology Firms

Technology firms must constantly prove their knowledge of the segments of the insurance industry and the business processes they support.



Technology firms have to develop their products and services as well as their go-to-market approach based on an insurer's four business disciplines.

Looking to 2009 +

These issues will remain critically important to both general and life insurers in 2009 and the years beyond.

- **Organic growth**
- **Externalities**
- **Transparency & viability**
- **Being informed / Enterprise Risk Management**
- **Shaping / adapting to the Pace of change**

Questions?



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