



IBM Global Business Services

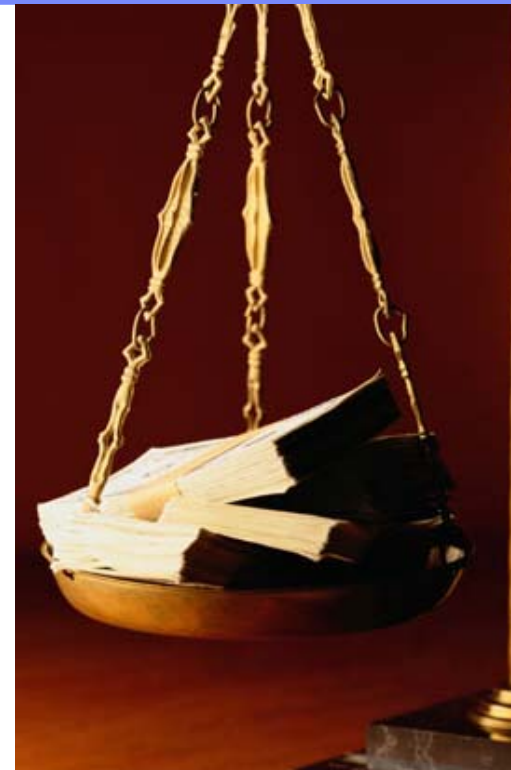
*IBM Institute for Business Value*

# Balancing the Scales

Toward a stable *and* dynamic insurance future

Portorož, Slovenia

David W. Kerr, Partner and Insurance Practice Leader  
Growth Markets Unit



## With the dust settling from the Global Financial Crisis, what new challenges does the Insurance industry face?

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- **Which forces could disrupt the industry landscape?**
- **What are clients expectations and what will they pay for?**
- **How will the basis of competition change?**
- **What steps must firms take today to win?**

## 2009 saw disruption and volatility in markets, radical swings in sales, impacts in consumer confidence

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- **While most insurer core operations were stable, decision making became very short term in nature**
  - Multi Nationals with banking components needed cash flow from all global entities
  - Sales shifted from Unit Linked/Investment to traditional insurance – with impacts on profits and operations
  - Market uncertainty created budget uncertainty – so capital and operational investment dropped
- **With markets stabilizing and recession receding in many countries, is it back to “Business as Usual”?**
- **IBM’s insurance industry research over last 5 years has shown an increasing trend towards foundational shifts in the industry, and the need for innovation**
- **Additional research was needed to look at the impact of the Financial Crisis, both from the insurer side and, just as important, from the consumer side**

## We surveyed close to 10,000 individuals and conducted secondary research to determine how firms will compete for the future

- Which forces will disrupt the industry landscape?
- What will clients pay for?
- How will the bases for competition change?
- What steps must firms take today to win?

IBM Institute for Business Value



Economist Intelligence Unit



CFA Institute



### Scope

- Our analysis focused on gaining insights from selected industry participants:
  - Life insurers
  - P&C insurers
  - Comprehensive providers (Bancassurer etc.)
  - Regulators
  - Academics

### Approach

- We surveyed 7,655 consumers and 2,569 business leaders from 500 firms<sup>2</sup>:
  - Qualitative interviews of 50 executives
  - Survey of 2,469 executives, in partnership with the Economist Intelligence Unit and the CFA Institute
  - 33% Americas, 35% EMEA<sup>3</sup> and 32% Asia
- We conducted secondary research and developed quantitative models

Note: <sup>1</sup>Primary research was conducted from August 2008 through December 2008, <sup>2</sup>85% of business leaders are Board or C-level, EVP or divisional head with the remainder Director, SVP or VP level; <sup>3</sup>EMEA is Europe, Middle East, Africa

## Insurers must balance prudence with innovative operational execution to keep ahead of the game

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- 1. Given the fallout from the Global Financial Crisis, insurers need to demonstrate fiscal prudence to garner and retain their clients' trust.**
- 2. Insurance continues to be a local business – Global insurers must recognize that one size does not fit all when entering new markets**
- 3. While the basic business model of insurance remains consistent and sound, innovation around front and back office processes and functions will produce benefits**
- 4. Understanding and connecting to customers is central to success**

## Findings

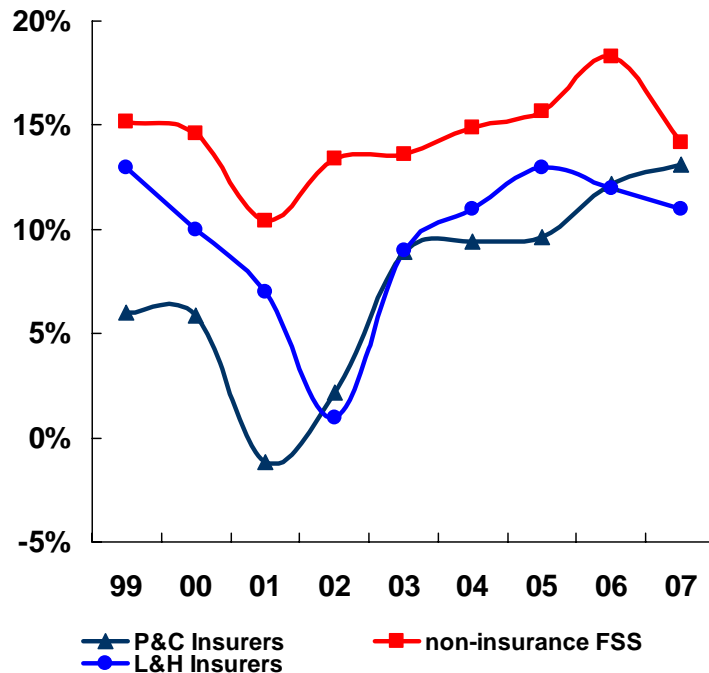
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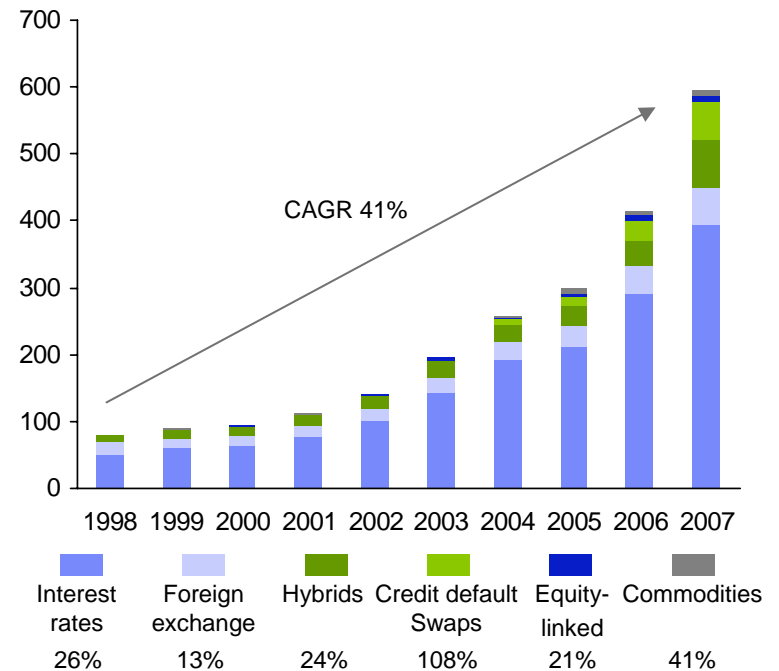
Insurance vs. financial services

# While banks profited from lack of transparency in the markets, insurance has been the risk-averse "boring stepchild" of the FSS sector

### Profitability Insurers vs. Banks (US Only, ROE %)



### Intransparency example: Global Over-the-Counter Derivatives (Notional Amounts Outstanding, \$ Trillions)



Source: Insurance Information Institute, UBS, BIS, Institute for Business Value analysis

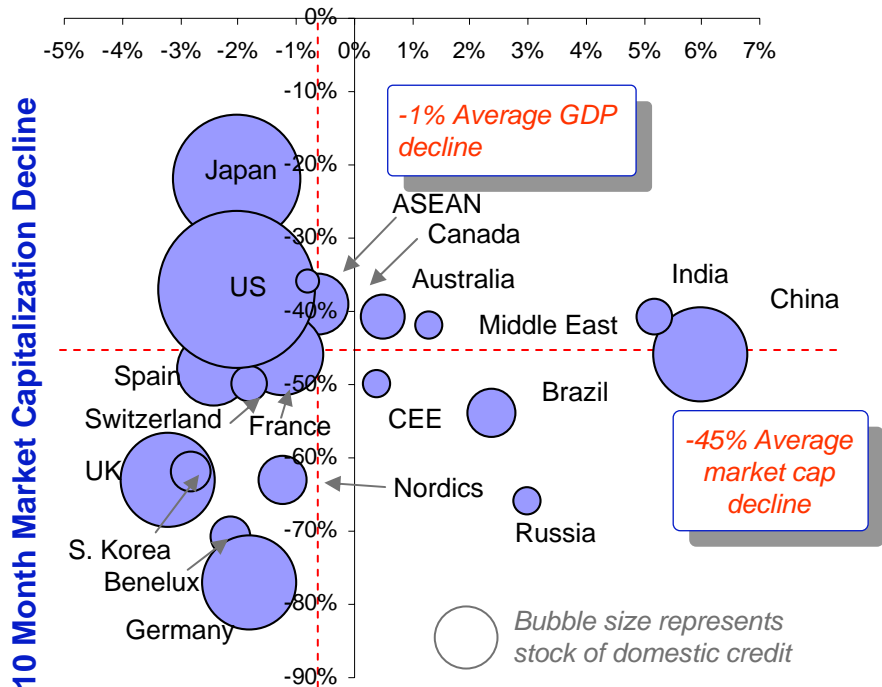
**The banking industry took advantage of pockets of opacity to generate large profits**

Insurance vs. financial services

# The Global Financial Crisis unfairly caught the insurance industry in a wealth destruction storm of unprecedented magnitude

## Financial Services Market Capitalization Decline and GDP Growth by Region

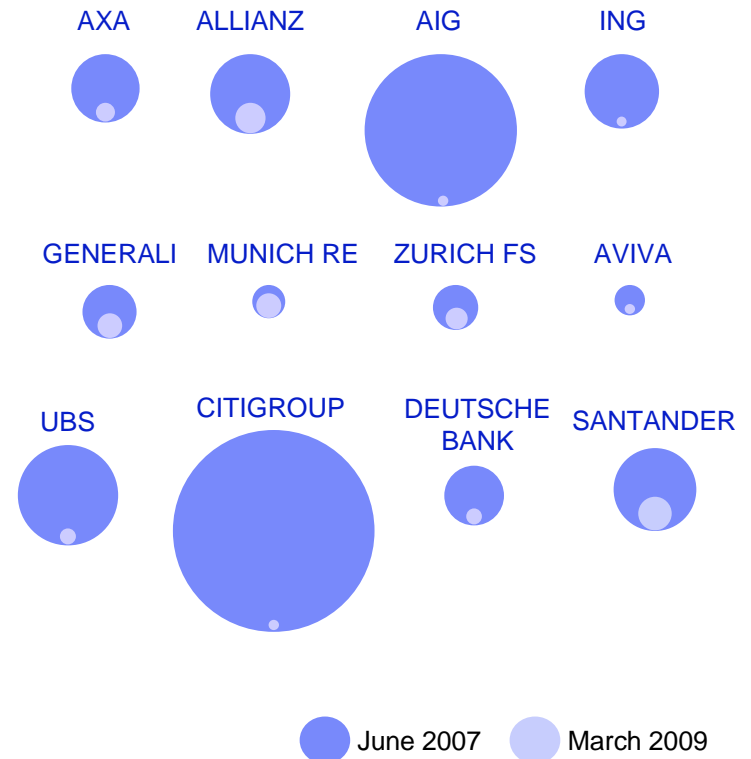
(Projected GDP Growth vs. Market Cap Decline)



2009 GDP Growth / Contraction

## Example Firm Market Capitalization, June 2007 – March 2009

(\$ US billions)



Source: Reuters; Economist Country Forecast reports; 2008 CIA World Factbook; Forbes; EIU Macro Model; Institute for Business Value analysis

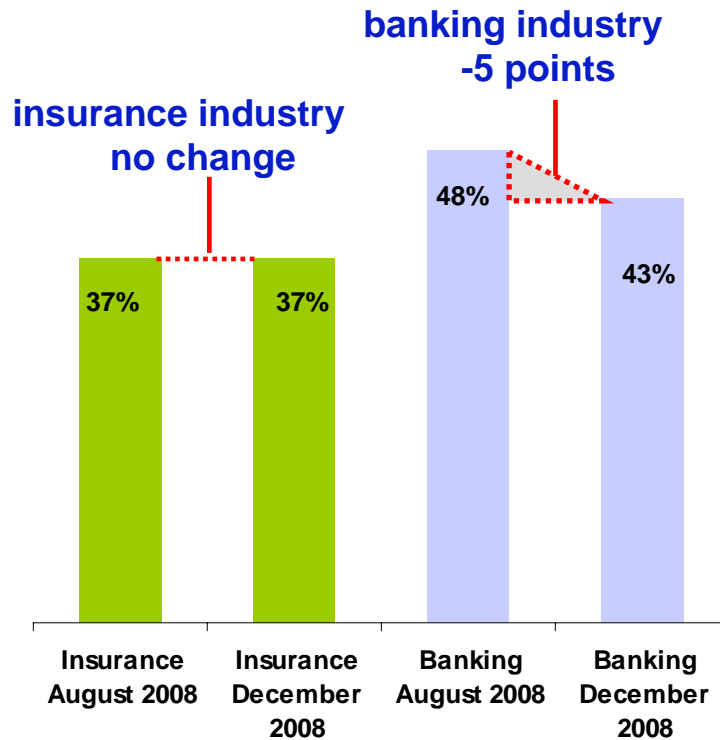


Insurance vs. financial services

**This happened even though from a customer point of view, there is a clear distinction between insurers and the rest of Financial Services**

### Trust in the Financial Services Industries

(Percentage of Survey Respondents)



### Consumer Awareness of Financial Services Elements

(Percentage of Survey Respondents)



**Consumers clearly equate the financial sector and crisis with banks, not with insurers**

Note: Questions asked (left) "In general, ... companies can be completely trusted"; (right) "When you personally think of financial services, which of the following do you associate with the industry (check all that apply)?"

Source: Institute for Business Value consumer survey 2008

Insurance vs. financial services

# The business of insurance itself has not suffered beyond the "normal" industry cycle expectations

## Combined ratios 2008

*(Random Sample)*

<b>Allstate</b>	<b>99,4</b>
<b>Vienna Insurance Group</b>	<b>96,4</b>
<b>Baloise</b>	<b>90,9</b>
<b>Topdanmark</b>	<b>82,4</b>
<b>AXA</b>	<b>95,5</b>
<b>Allianz</b>	<b>95,1</b>
<b>US P&amp;C industry</b>	<b>104,7</b>
<b>US catastrophe losses</b>	<b>5,2%</b>

*“The basic function of insurance—the orderly transfer of risk from client to insurer—continues uninterrupted.”—  
Robert Hartwig, president Insurance Information Institute*

*“The downward slide of P&C rates seems to have leveled off in the 4th quarter of 2008...” —  
Swiss Re*

## Allianz Group

### Life/Health

- Traditional business held firm.
- Operating profit of € 1,206 million despite financial markets turmoil.

### Banking

- Continuing banking operations recorded an operating loss of € 31 million.



**Any major losses were either due to banking operations or imprudent investments**

Insurance vs. financial services

# The four megatrends uncovered in earlier IBM research still appear to hold for the insurance industry future

## Mega-Trends Shaping the Insurance Industry in 2020

	Megatrend	Indicators
1 Consumer Expectations	Active and informed consumers across demographic groups reward non-traditional operators	Customers are more empowered than insurers currently imagine and may take rapid actions
2 Insurance Operations	Technology virtualises the value chain and lowers barriers to entry	The use of componentization and new sourcing models are showing provable costs and efficiency benefits
3 Business Performance	The building blocks of insurance products are granular and provide more even revenue streams	Usage based Insurance gaining hold; insurers finding new product/service mixes driven by increased analytics
4 Regulation	Regulatory coordination and affirmed industry standards broaden to international scales	Both EU and US pushing toward more centralized oversight

Source: Institute for Business Value analysis

## Findings

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1. Given the fallout from the Global Financial Crisis, insurers need to demonstrate fiscal prudence to garner and retain their clients' trust.
2. **Insurance continues to be a local business – Global insurers must recognize that one size does not fit all when entering new markets**
3. While the basic business model of insurance remains consistent and sound, innovation around front and back office processes and functions will produce benefits
4. Understanding and connecting to customers is central to success

Regional vs. global

# 2020 Research shows the complexity of serving multiple demographic groups who expect different products, channels and services

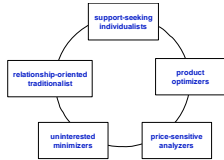
## Insurance Customers in 2020: Behavioral Changes

	<b>Gen Zers</b> (8-25)	<b>Gen Yers</b> (26-43)	<b>Gen Xers</b> (44-54)	<b>Boomers</b> (55-74)	<b>Seniors</b> (75+)
<b>Ages in 2020</b>					
<b>Value in 2020</b>	20% of population 5% of assets	20% of population 10% of assets	15% of population 15% of assets	30% of population 35% of assets	15% of population 35% of assets
<b>How will they seek protection?</b>	<ul style="list-style-type: none"> <li>▪ Demand that loyalty be earned early</li> <li>▪ Fit products into hard working, high consumption, minimal savings lifestyle</li> <li>▪ Expect technology sophistication</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expect personal control and high level of service</li> <li>▪ Want products that support major life events (moving, marriage) that trigger financial decisions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Taking longer-term approach</li> <li>▪ Demand support for wealth-building via investments, educational savings, retirement assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Demand multi-channel service options</li> <li>▪ Seek support for transition to wealth preservation, such as transfer and retirement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Seek products that match their conservative, cost-conscious approach</li> <li>▪ Want high-touch service and advice</li> </ul>
	<b>Radical Behavioral Change to 2020</b>				<b>Gradual</b>
<b>How will insurers court future policyholders?</b>	<ul style="list-style-type: none"> <li>▪ Offer on-line services, basic products</li> <li>▪ Grow with customers who are willing to share info</li> <li>▪ Provide individual attention with service and product customization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Offer consultative, collaborative approach to sales, service</li> <li>▪ Meet convenience expectations</li> <li>▪ Settle on 1-2 channels</li> <li>▪ Avoid marketing that relies on behavioural assumptions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Offer non-traditional products to satisfy life stage needs</li> <li>▪ Provide greater access to onsite and remote specialists</li> <li>▪ Provide high multi-channel use as they transition to later life stages</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide preservation-based products, services to largest, richest segment</li> <li>▪ Enhance multi-channel delivery experience, customized care</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enhance transparency in customer service</li> <li>▪ Offer consultative approach to sales</li> <li>▪ Enhance branding for security, advocacy</li> </ul>

Note: Percent of population and percent of total assets controlled are represented only for people 18 and older  
 Source: Forrester Research; IBM Institute for Business Value

Regional vs. global

# Our latest studies show that simple age based demographics do not properly represent client segmentation in insurance or banking



Segment	Uninvolved Minimalists	Price-sensitive Analyzers	Active Demanders	Traditional Service Expectants	Convenience Desirers	Ethics Seekers
Percentage of total	19.1%	21.4%	20.6%	9.2%	21.9%	7.9%
Key theme	"Finances are important, but I don't know how"	"I want the best bargain"	"I want it all, and I want it now"	"I have special needs, and I want them taken care of"	"Make it easy for me at whatever cost"	"I want a smarter, more responsible provider"
How to approach them	Prepackaged products, one-stop shop	Standardized, transparent and efficient	Best-in-class	Through competent advisors	Simple and standardized	With ethical standards of excellence

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**support-seeking individualists**

**uninterested minimizers**      **price-sensitive analyzers**

*Definitions necessarily become broader, but psychographic segments remain distinct*

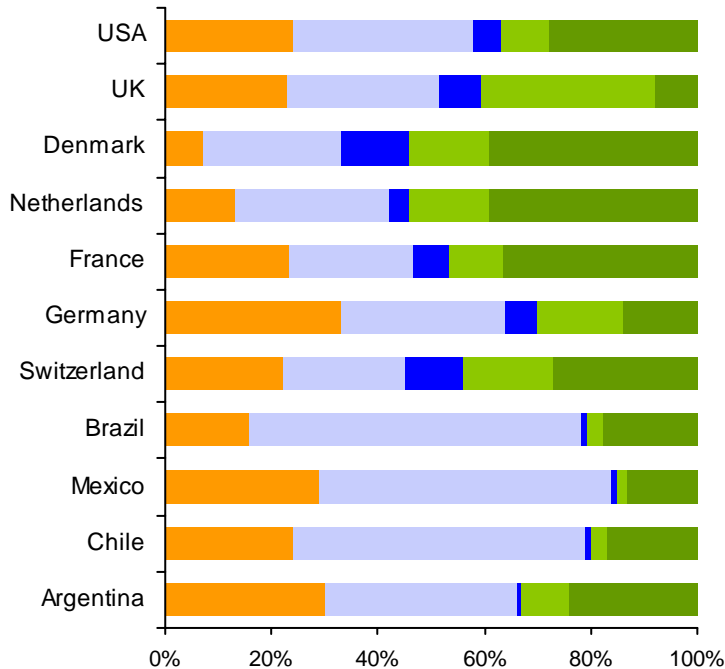
Source: Institute for Business Value consumer survey 2008. n=7,655

Regional vs. global

# We don't see the regional nature of insurance business being overcome anytime soon...

## Insurance Customer Segmentation

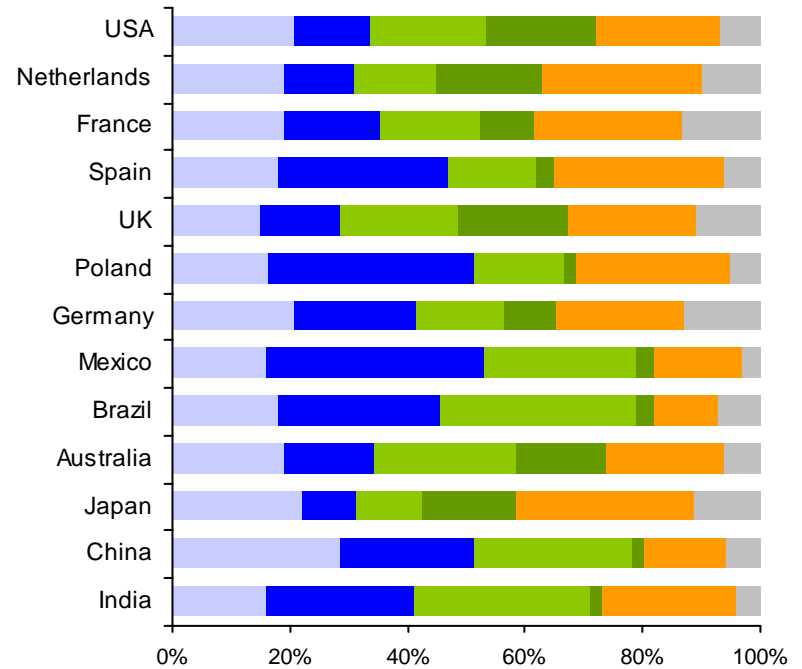
(Percentages by Country)



- Individualists    Optimizers    Minimalists
- Analyzers    Traditionalists

## FSS Customer Segmentation

(Percentages by Country)



- Uninvolved Minimalists    Price-Sensitive Analyzers
- Active Demanders    Trusting Service Expectants
- Convenience Desirers    Ethics Seekers

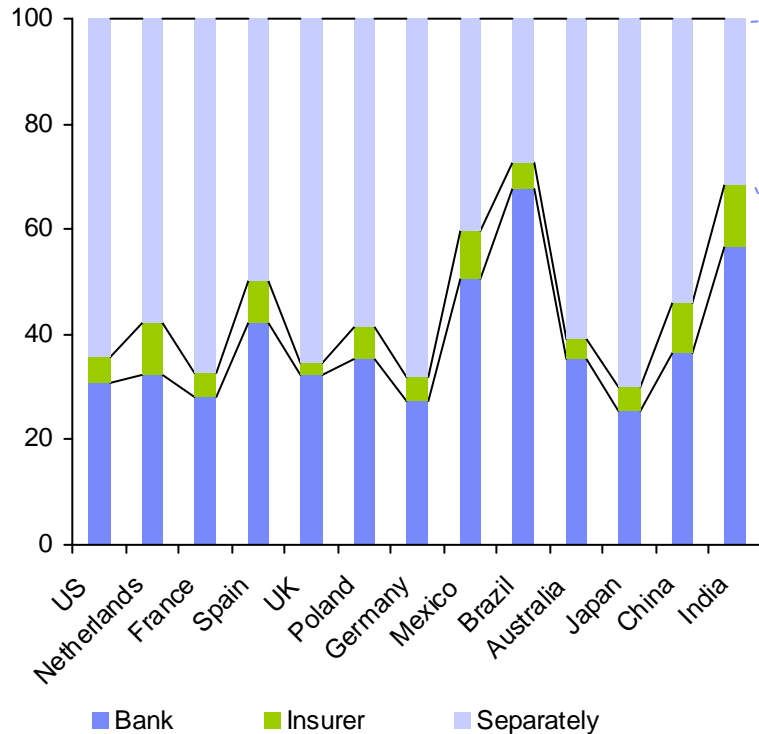
Source: Institute for Business Value survey data 2007 and 2008. left n= 4400, right n=7,655

Regional vs. global

# ... which does explain the mixed success of integrated one-stop-finance or bancassurance models

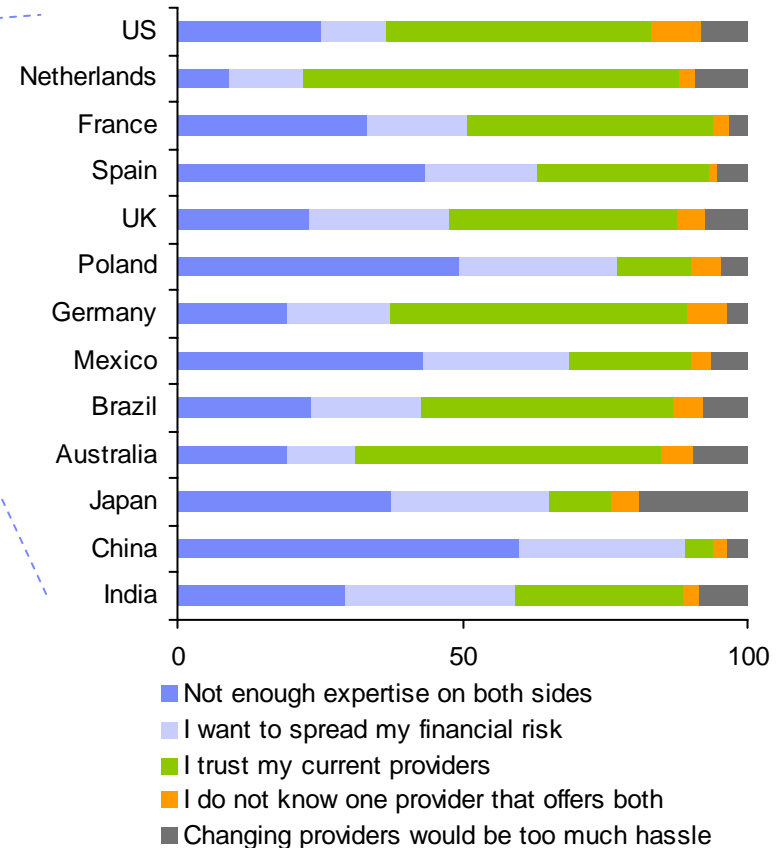
### Consumer Acceptance of Bancassurance Providers

(Percentage of Survey Respondents)



### Reasons for Bancassurance Rejection

(Percentage of Survey Respondents)



Note: Questions asked (left) "If a bank offered insurance products and services and vice versa, which would you use?"; (right) Q as followup to left: "Why separately? "

Source: Institute for Business consumer survey 2008, n=6,219

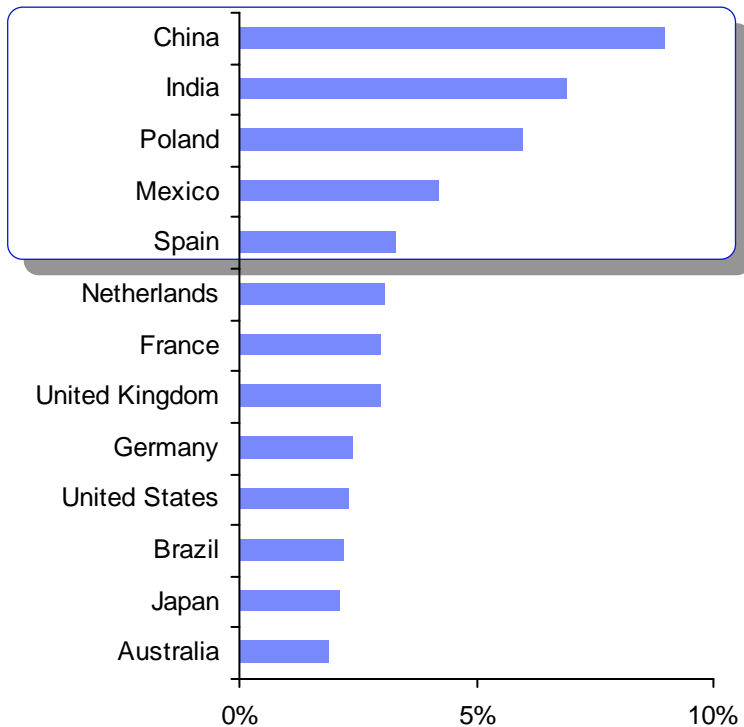


Regional vs. global

# "Going global" provides growth opportunities, but also a challenge due to increased customer empowerment

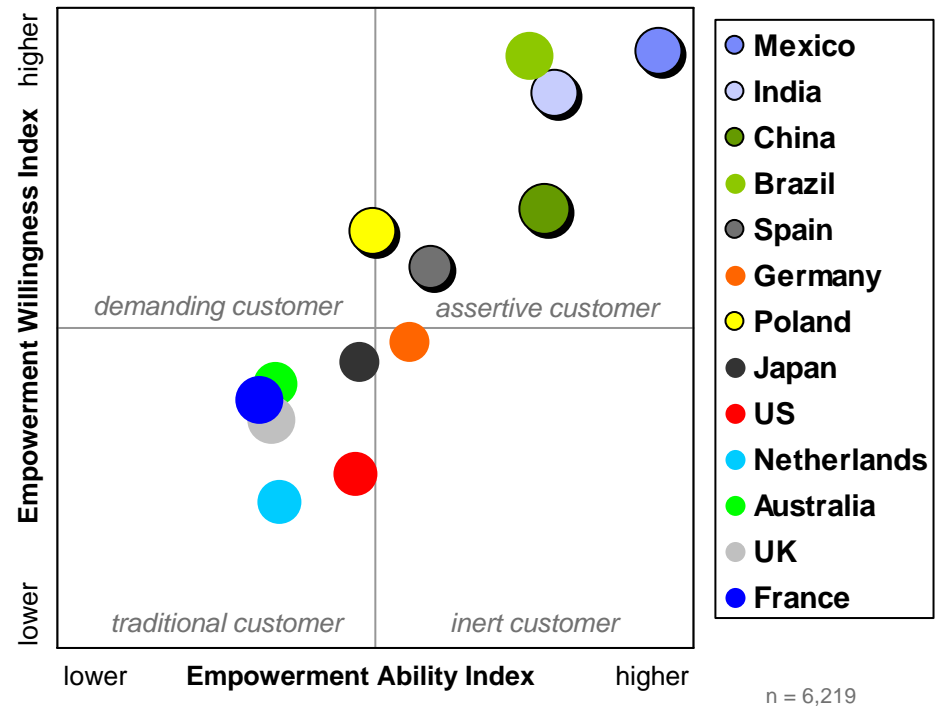
## Projected Growth in Surveyed Markets

(GDP per Capita CAGR through 2013)



## Insurance Consumer Empowerment

(Survey Respondents)



Source: IMF World Economic Outlook Database, CIA World Factbook, Institute for Business Value consumer survey 2008

**Global synergies can be achieved by acting smarter - each country has its own local market**

## Findings

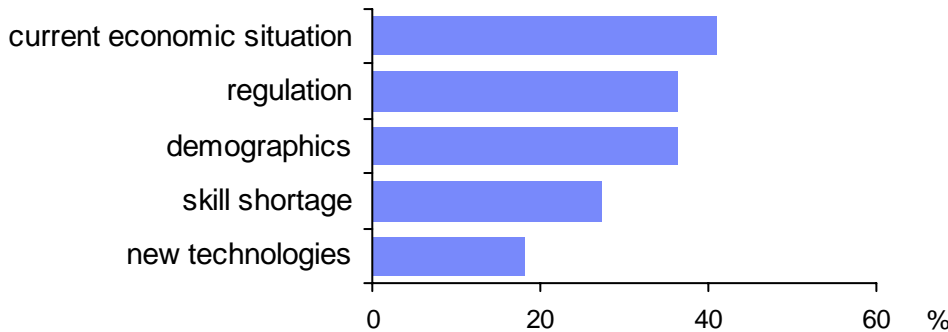
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Conservatism vs. innovation

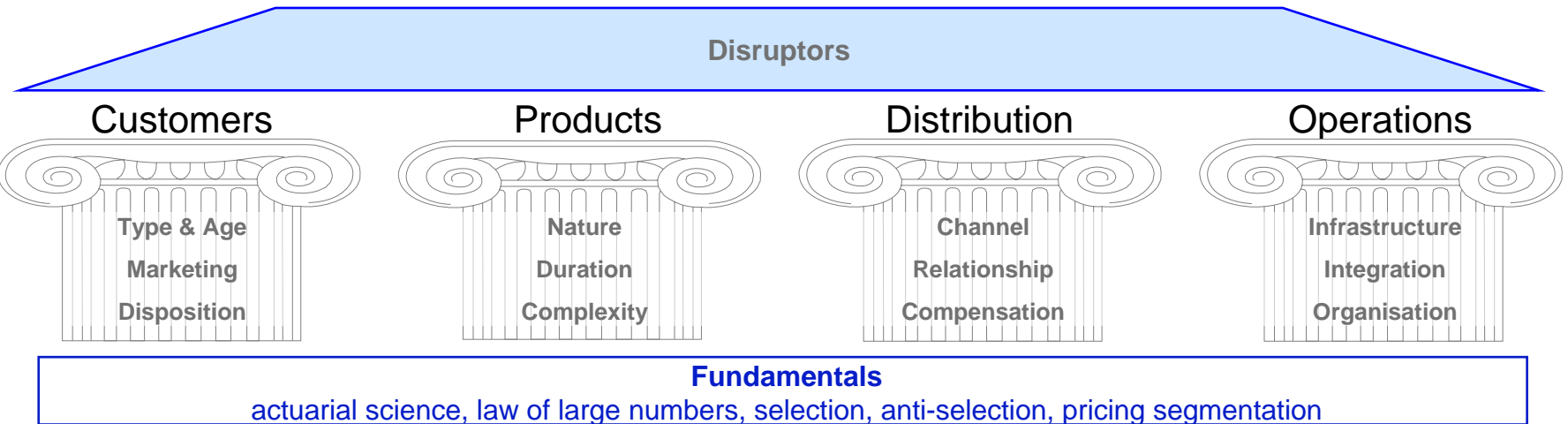
# The pillars of the insurance industry remain unchanged - disruptors are seen as mostly long term impacts

*Frequency of specific disruption factor mentioned during interviews*



*“What keeps me up at night is the growing focus on the short term” – Dutch insurance executive*

*“Insurance is long term business” – U.K. insurance executive*



Source: Institute for Business Value interviews

Conservatism vs. innovation

## While regulatory changes are unlikely to be as severe for insurers as for banks, they will impact how insurers operate and compete

### Examples of regulation areas, aspects and impacts

Financial	Solvency II	"Why does anyone expect it to do any better than Basel II when there are problems?" "As with Sarbanes-Oxley, there will be the cost with little or no benefits."
Operational	State versus Federal (United States)	A move towards Federal regulation will change the competitive environment
Underwriting / Pricing	Use of credit	Restrictions on the use of credit scoring

***"Insurers that are able to control costs and adapt their administrations to changing regulations and competitive pressure will remain."*** – Executive of Major European Insurer

***"Given that insurance business is so regional, international regulation efforts will be interesting."*** – Chief regulator, EU country



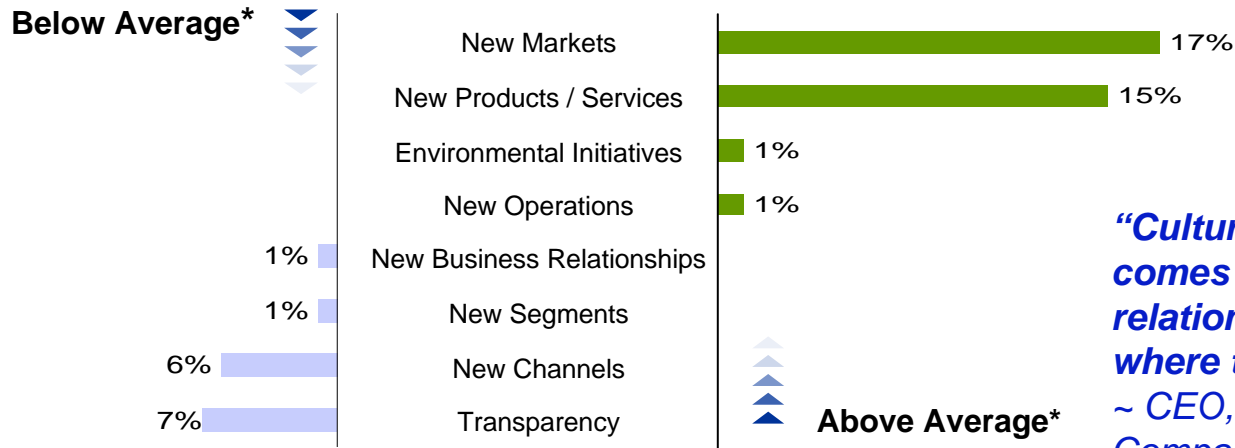
***Suggestion : Use investment in regulatory compliance as a means to improve transparency, analytical capability – and ultimately competitiveness!***

Source: Institute for Business Value interviews

Conservatism vs. innovation

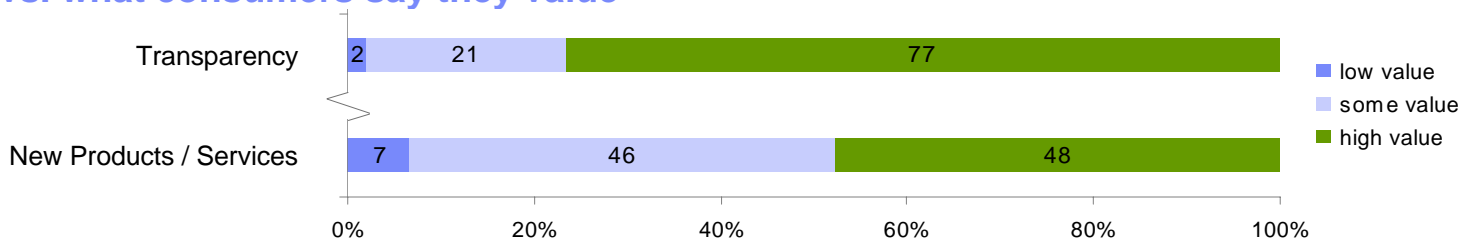
# Insurance leaders recognize innovation as important future value driver, yet are often out of sync with consumer's needs

Focus areas to benefit from rising customer purchasing power according to insurance CEOs...



**“Cultural - leading innovation comes from a robust comfortable relationship with customers - where the reality is”**  
 ~ CEO, Australia Insurance Company

... vs. what consumers say they value



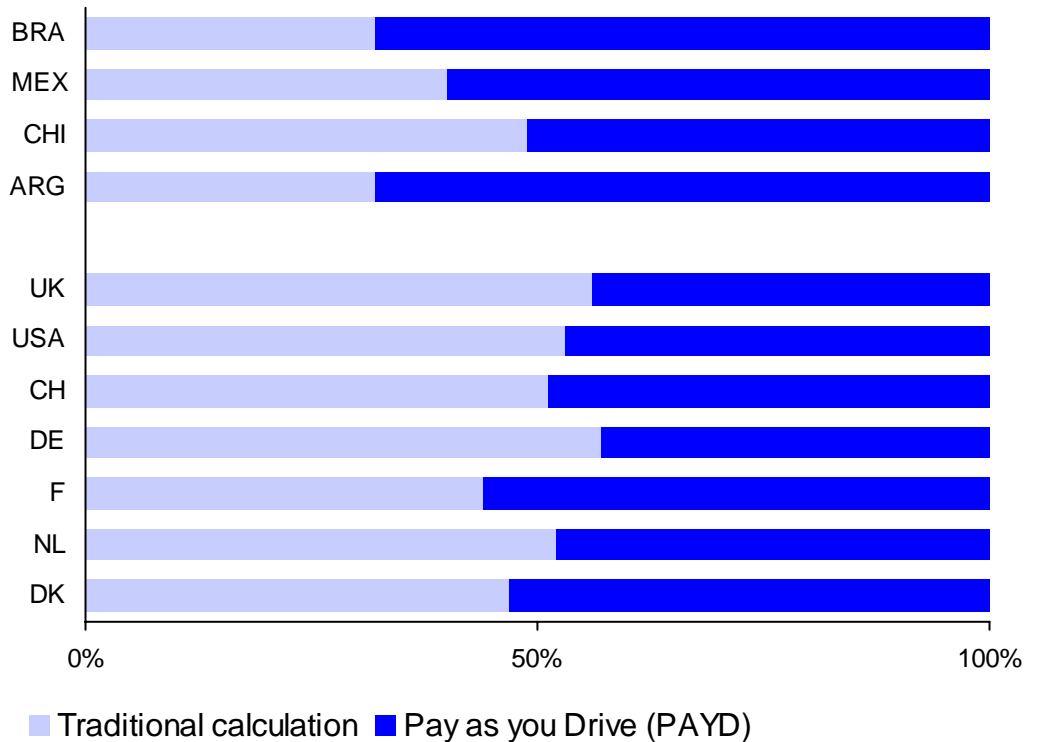
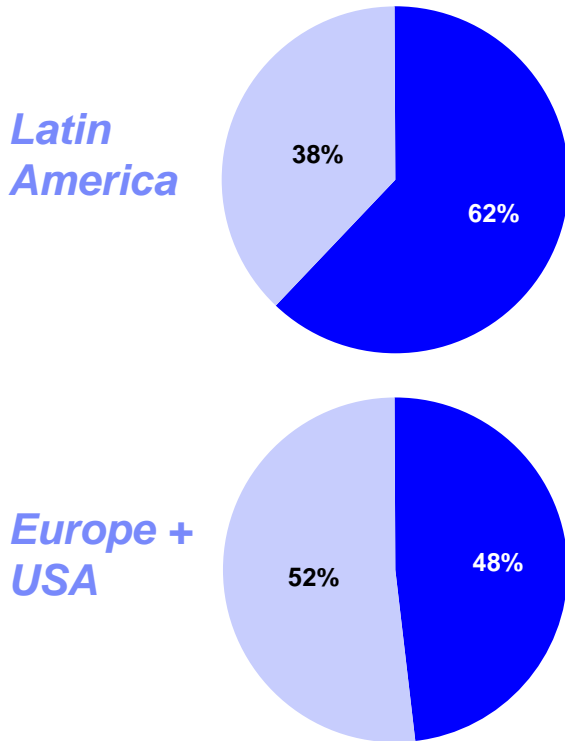
Source: Insite for Business Value, Global CEO Study 2008; Institute for Business Value T3 consumer survey 2007/08

**CEOs need to listen to their customers more**

Conservatism vs. innovation

# The market for innovative approaches exists – acceptance, as usual, differs by region

*Which premium calculation method would insurance customers prefer, usage based or traditional?*

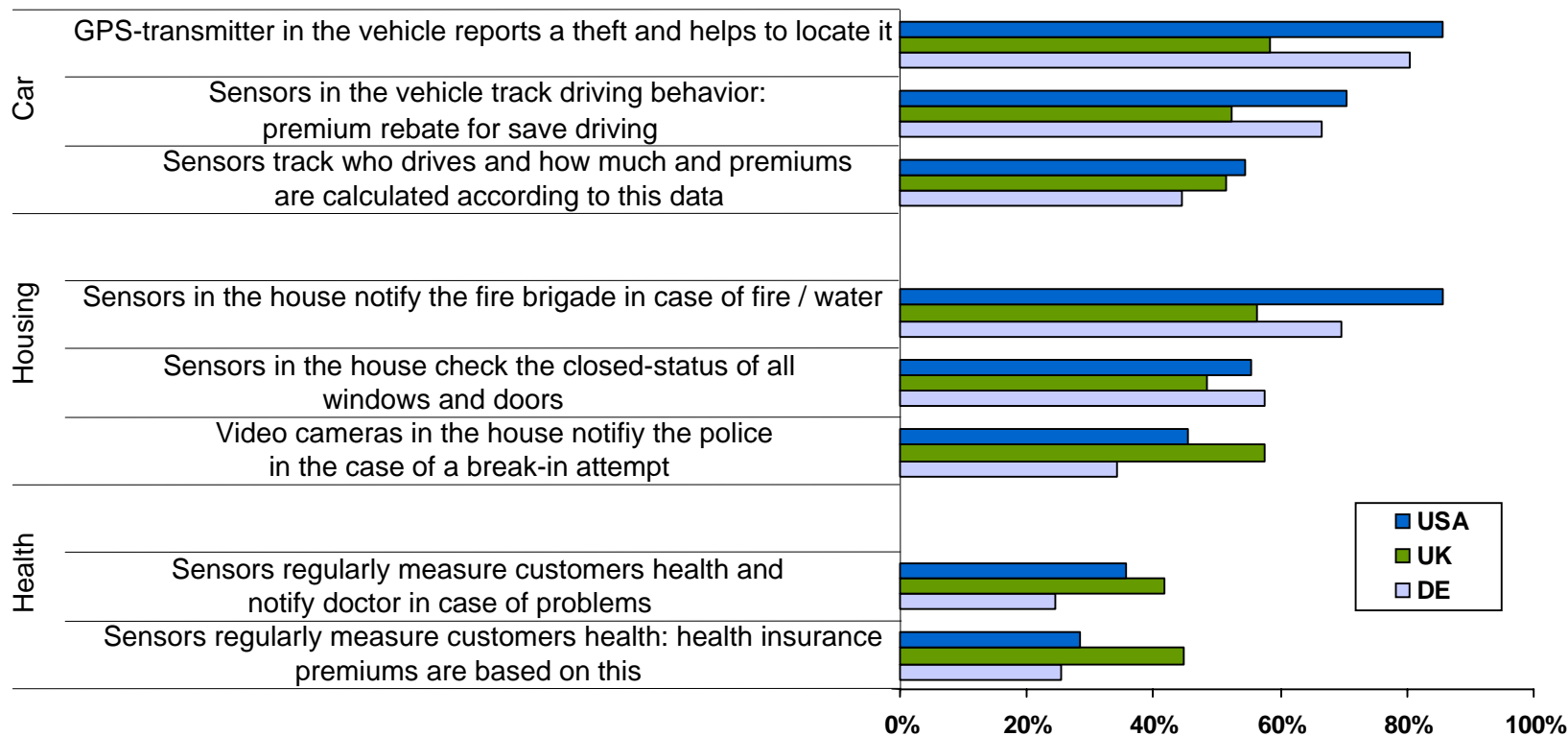


Source: Institute for Business Value T3 consumer survey 2007/08, n=4400.

Conservatism vs. innovation

# The acceptance of innovation is also dependent on factors such as the nature and the granularity of behavioral data

## Ideas for Improved Safety



Source: Institute for Business Value T3 consumer survey 2007/08 U.S., U.K. and Germany, n=1,200



*National context dominates variance – a reflection of the general “data protection climate” per country.*

## Findings

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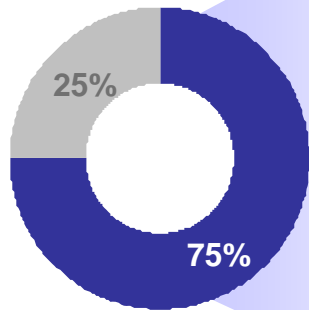
Value for customers vs. customer lifetime value

# Insurers will need to gain insight on and respond to a decidedly more active and enabled customer

## Customers Take Control of Their Financial Relationships

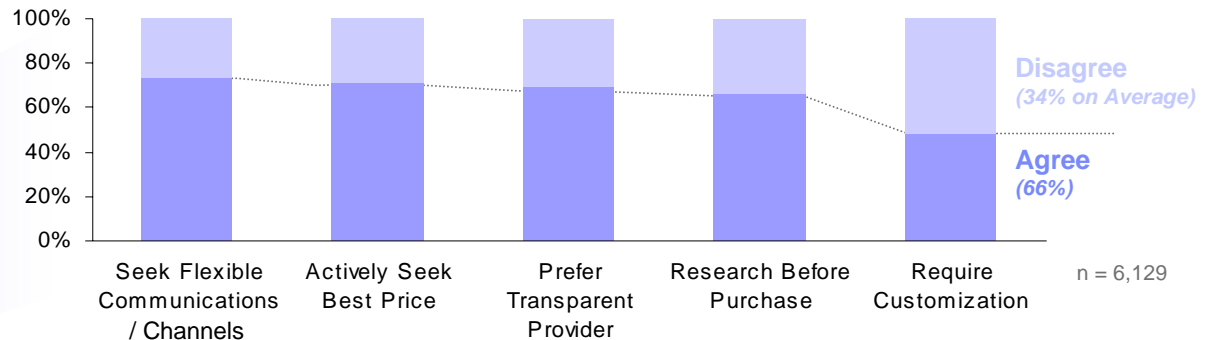
(Percentage of Consumer Survey Respondents)

### Customers Actively Involved in Finances

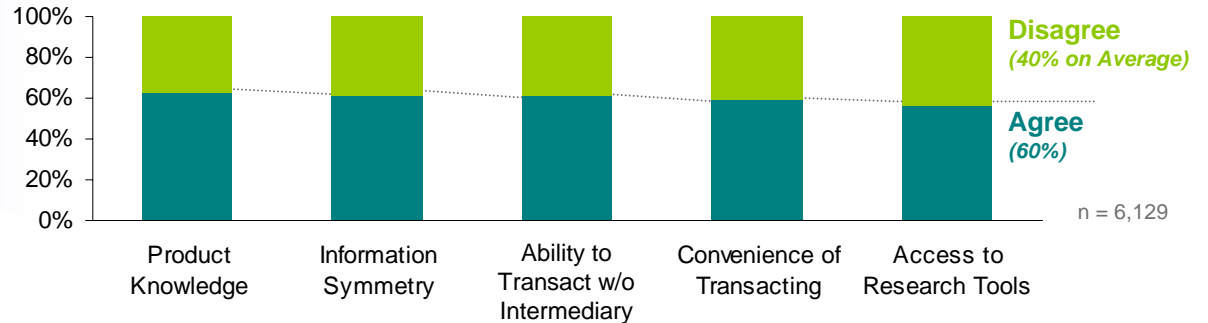


n = 6,129

### Customer Importance - Behavioral Factors



### Customer Importance - Enablement Factors



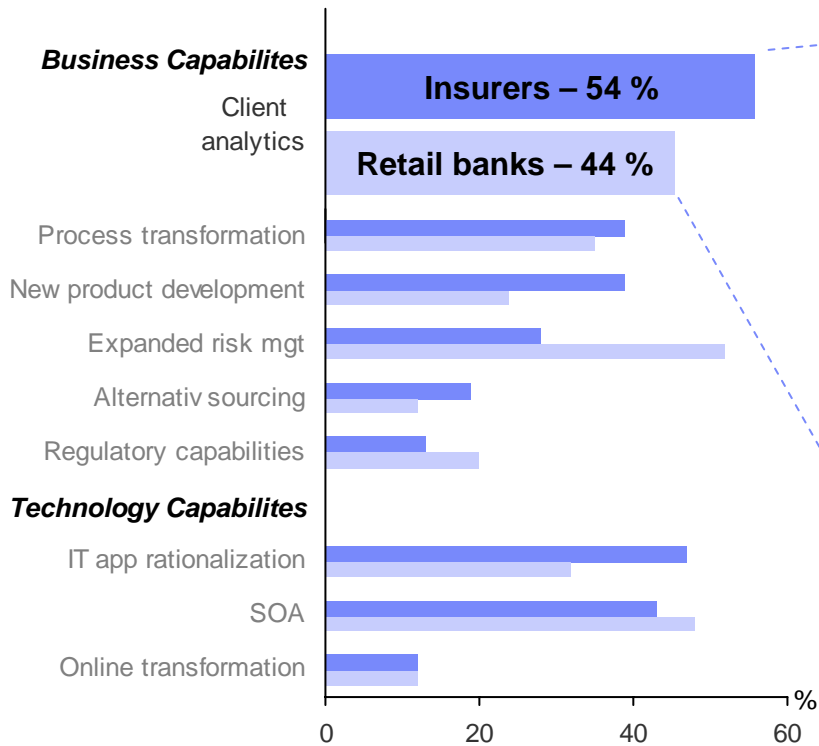
Source: Institute for Business Value consumer survey 2008; IBM Institute for Business Value analysis

Value for customers vs. customer lifetime value

# The insurance industry has realized this and is investing in customer insight, specifically analytic capabilities

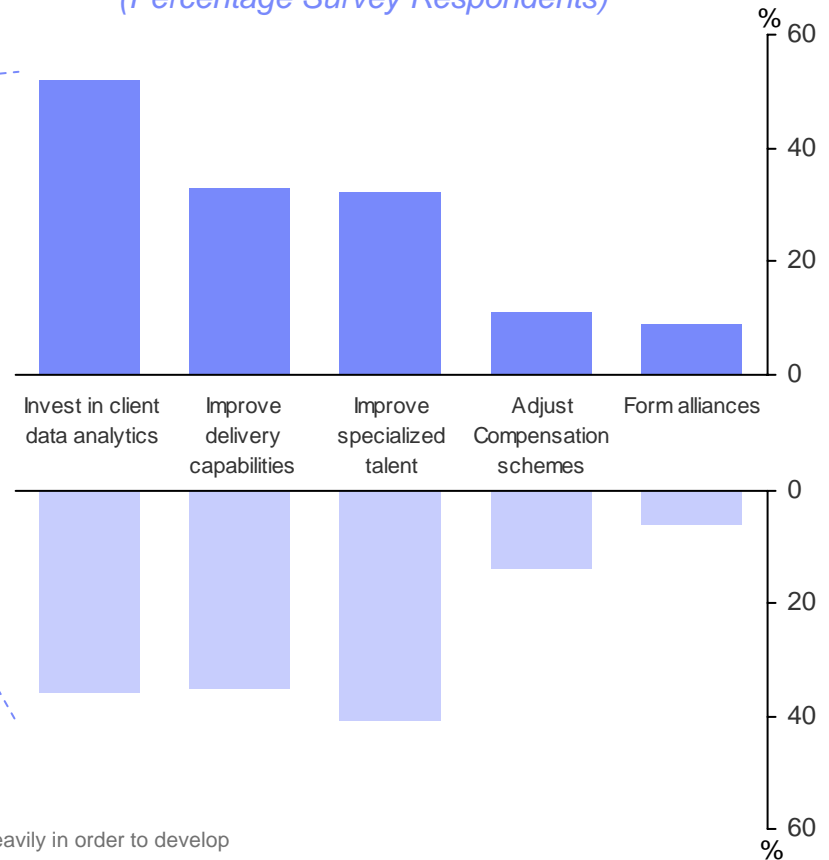
## Investments in Strategic Capabilities

(Percentage Survey Respondents)



## Customer focused investments

(Percentage Survey Respondents)



Note: Questions asked (left) "Within the next five years, in which areas will your firm invest most heavily in order to develop strategic capabilities?"; (right) "How will your firm build, or improve, its focus on the client?"

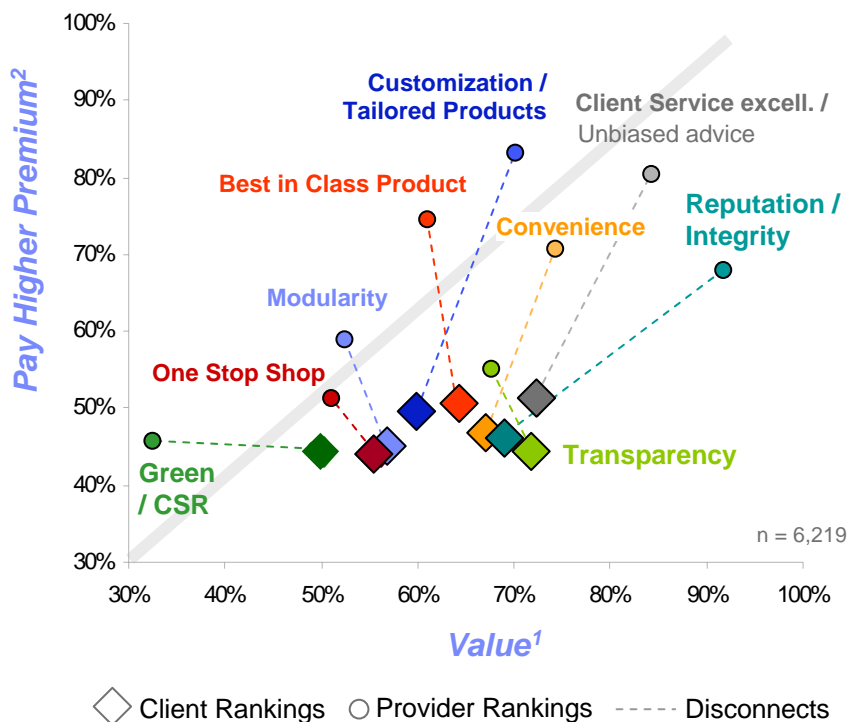
Source: IBM/EIU survey 2008; Institute for Business Value analysis. n=452

Value for customers vs. customer lifetime value

# Still, providers far overestimate customers' willingness to pay for extra value; segment level insight is key to profitable investment

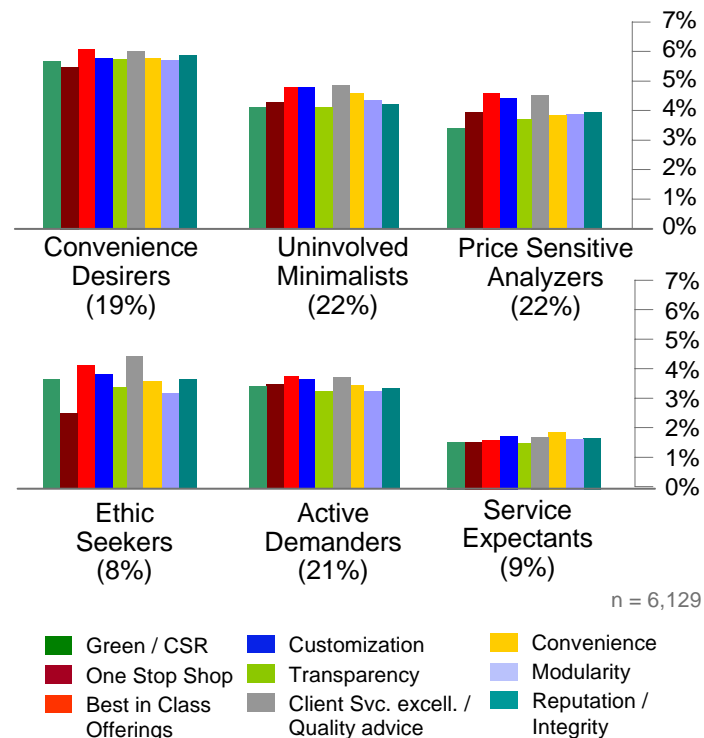
## Disconnects: Consumer Vs. Provider Perceived Value and Premiums

(Percentage of Survey Respondents)



## Consumer Indicated Premiums by Segment<sup>2</sup>

(Percentage Higher Premium Willing to Pay)

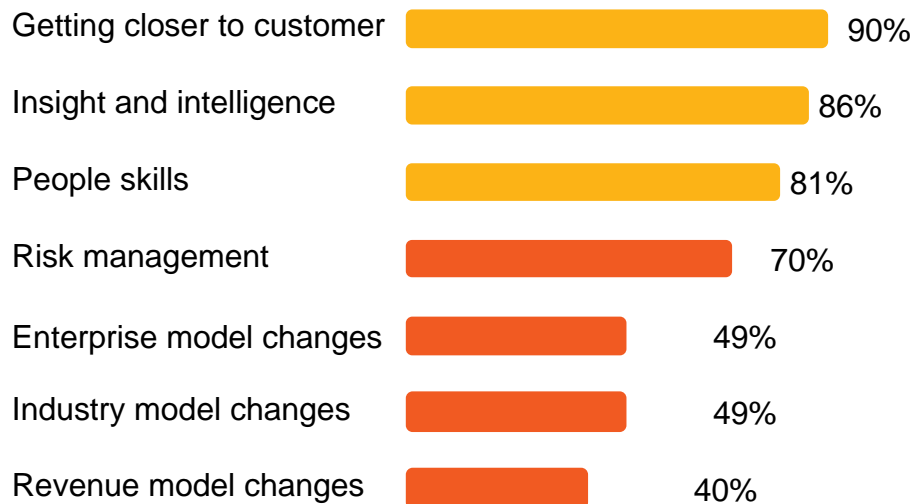


Note: Questions asked: <sup>1</sup> "Will the following financial services capabilities become increasingly important/less important to you over the next five years?"; <sup>2</sup> "To what degree would you be willing to pay over existing rates to ensure your financial services provider effectively delivers on the following factors?"

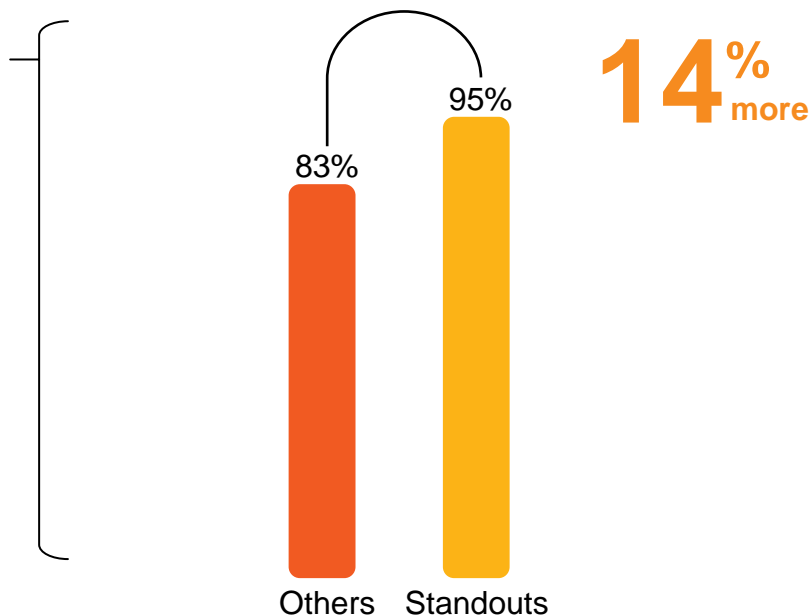
Sources: Institute for Business Value consumer survey 2008; IBM / EIU Survey 2008; Institute for Business Value analysis

# According to the IBM 2010 CEO Survey, 'Getting closer to the customer' is THE top priority for Standouts - and the next big thing for insurers ...

## Dimension to focus on over the next 5 years



## Getting closer to customer



*"We are turning sharply to the direction of customer orientation, which is achieving good results."*

All-lines insurer, Japan

*"Convenience for customers is new to the insurance industry, we are behind other industries here."*

P&C insurer, the Netherlands

Source: Q13 Which of the following dimensions will you focus on more to realize your strategy in the new economic environment over the next 5 years? Left side Insurance n=78, right side global n=1523, n=303

## **Weathering the storms – questions to ask yourself:**

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- **What is your mix of prudence and innovativeness?**
- **Are you investing in a climate of trust and transparency, internally and externally?**
- **Do you really know your customers today and how they are changing?**
- **Do you know what they will pay for?**
- **How are you preparing your team for a future of technological, economic, and cultural change?**
- **Do you have a vision for the future?**

## For Further Information :

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- For a copy of the original research, please visit <http://www.ibm.com/gbs/insurancebalance>
  
- For follow-on questions and/or help please contact :
  - David Kerr : [davidkerr@cz.ibm.com](mailto:davidkerr@cz.ibm.com)
  - IBM Institute for Business Value :
    - Christian Bieck : [christian.bieck@de.ibm.com](mailto:christian.bieck@de.ibm.com)
    - David Notestein : [danotes@us.ibm.com](mailto:danotes@us.ibm.com)