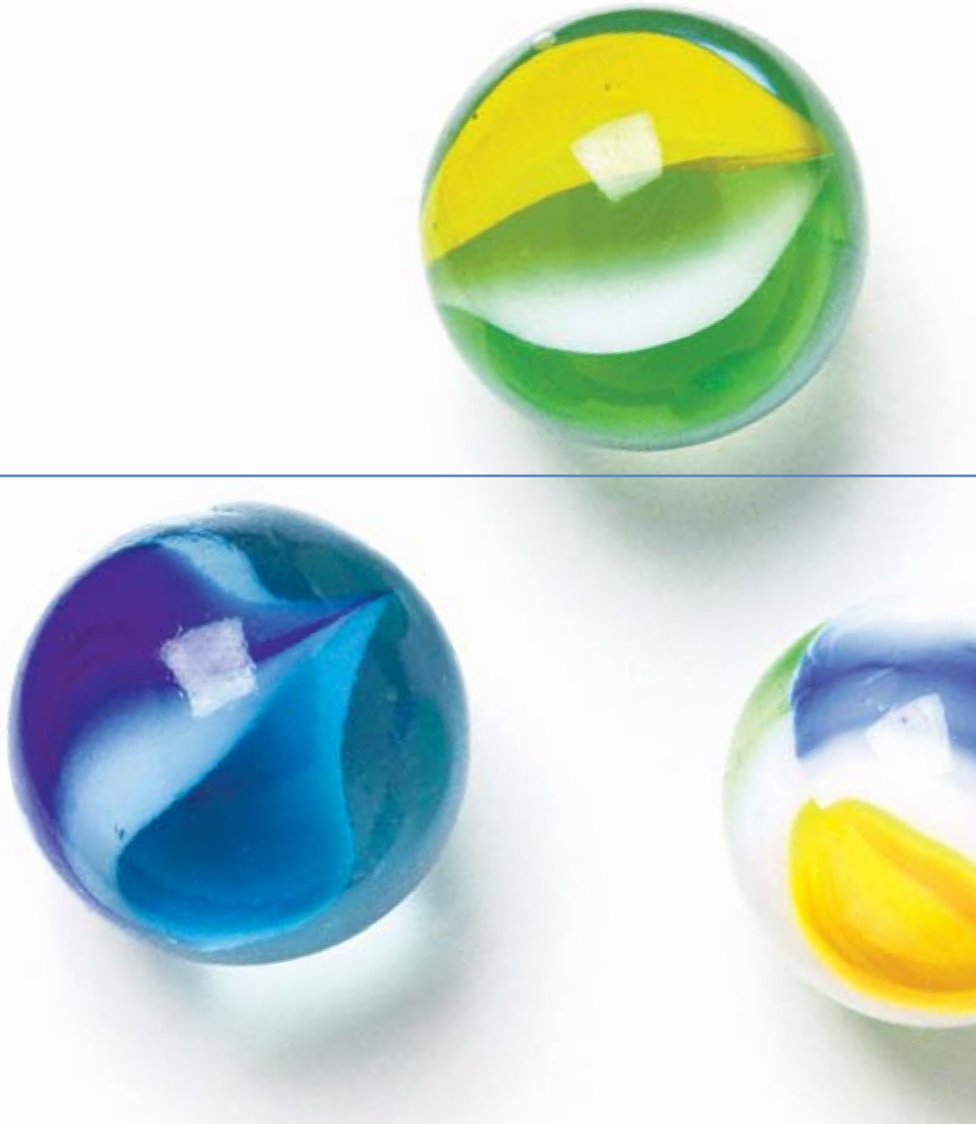
The High Performance Insurer

Profitable Growth in the New Reality



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Planning for a more profitable future

As insurers' priorities shift from weathering the storm to capitalizing on the opportunities of the upturn, so their focus broadens from single-minded cost reduction to strategies for profitable growth.

It goes without saying it won't be easy.

The markets insurers are contesting are different than before. The economics are tougher and customers more demanding. New technologies are changing the ways in which insurance is created, bought and sold. And far-reaching shifts in the global economy are creating opportunities and threats that may not have been obvious a short while ago.

To confirm what it is that insurers need to do to succeed in this altered landscape, Accenture researched 60 leading carriers worldwide. The study identified the high performers – those companies that achieved superior results across 15 key business metrics and across the business cycle – as well as the five key attributes that drive these levels of performance. It also highlighted the challenges insurers face as they prepare for the upturn.

The most important finding was that innovation, responsiveness and agility – together with precise and cost-efficient execution – are the qualities that will give insurers a sustainable competitive advantage as they pursue profitable growth.

The challenges of the new reality

Accenture has, for many years and across many different sectors, studied the world's most successful organizations to learn the traits of high performance. Our ongoing High Performance Business research program – which has encompassed some 6,000 corporations – identifies those that consistently deliver superior returns, and then analyzes the actions and attributes that elevate them above the rest of the market.

The most recent wave of this research – The High Performance Insurer[1] – studied not only the high performers. It also examined the challenges facing insurers as they gear up to compete and win in a more vigorous environment.

Tougher economics

The first of these challenges is a new, more demanding economic reality. The combined pressures of rising costs, diminishing investment returns, and a strong need to replenish lost capital have left insurers operating in a very different market cycle than in years past. In addition, the economic downturn has rewritten the playbook for product, making some obsolete overnight; and customer, with large sections of the economy such as small businesses exiting the insurance market. While demand may ultimately recover, it is unlikely that the abundant profits of prior years will be repeated anytime soon.

More demanding customers

An important factor affecting this economic outlook is a change in the way many consumers perceive and purchase insurance. According to a global consumer attitude survey commissioned by Accenture[2], loyalty toward insurance providers is a weak 25 percent while trust in the industry, at 40 percent, is the lowest of the 13 business sectors surveyed (see Figure 1). Consumers have become more willing to consider switching providers, with 25 percent having done so in the 12 months prior to the study and 20 percent expecting to do so in the next six to 12 months. This promiscuity is supported by the power of the Internet to facilitate comparisons – and the swift conclusion of the sale. Yet while they may be more price sensitive than ever, consumers are not necessarily willing to accept scaled-down features and service as a trade-off for economy. As a result of this, together with the investment required to develop the online channels many consumers prefer to use, the cost of acquisition and retention is rising.

Evolving technologies

The rapid emergence of new technologies such as mobility, cloud computing and analytics, and the convergence of the 4Cs (communication, collaboration, communities and content) are another challenge facing insurers. While the industry has tended to be a conservative adopter of technological innovation, two factors are forcing them to adopt a bolder approach: the expectations created among consumers by technology leaders in other, more customer oriented industries (such as consumer goods and retail), and the market gains achieved by competitors (such as Geico and Progressive) that have been quick to take advantage of technological advances. Key among these are multi-channel distribution strategies, customer analytics and predictive modeling. The hurdles along this path are not only the investment required, but also legacy systems that resist integration with the complex new technologies, and a shortage of the new-age skills needed to understand, implement and support them.

Altered global market structure

As insurers prepare to pursue growth both at home and in less familiar markets, they are encountering a changed landscape. The balance of economic power has shifted, resulting in a multi-polar world that is giving rise to aggressive new competitors and vast potential markets. But to defend their territory and expand into new ones, corporations need to review the suitability of their global operating model and their ability to comply with both local and global regulations. Currently, despite insurance having been relatively slow to internationalize, seven of the 10 largest carriers derive between 20 and 60 percent of their revenue outside their home markets[3]. Eighty percent of those surveyed believe global expansion is either critical or important to their future performance – getting the strategy right will be essential to the realization of these ambitions (see Figure 2).

Competitive forces

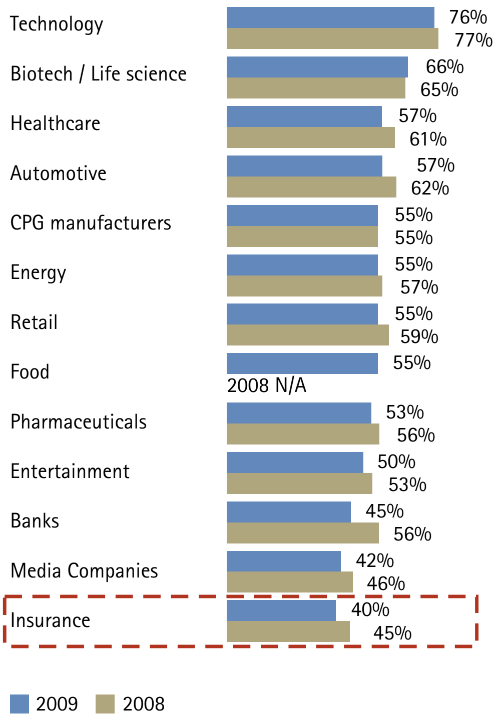
As demand in local markets starts to revive, as insurers gear up to expand into new territories, and as capital positions strengthen, providing the means to close in on acquisition targets, so the opportunities for growth begin to emerge. These will fuel the performance of those insurers that are alert, nimble and equipped to seize the opportunities. On the other hand, they represent a serious challenge for those that are inwardly focused and encumbered by strategies, systems and processes that impede their agility. They will be the losers as the high performers grow their sales, profits and market share.

Together these challenges add up to a formidable barrier to high performance – but also a unique set of opportunities for those insurers that are able to clearly identify the initiatives needed to overcome them, and that possess the attributes which allow them to execute these initiatives decisively.

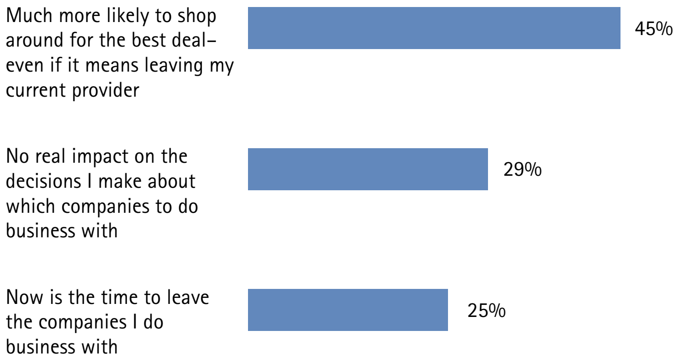
1. The High Performance Insurer, Accenture Research, September 2009
2. Global Consumer Behavior Study, Accenture Research, April 2009
3. Global Multi-Country Operating Model Survey, Accenture Research, June 2009

Figure 1: Insurers are having to deal with consumers whose trust and loyalty are low – and declining

Question: How much do you trust businesses in each of the following industries to do what is right?



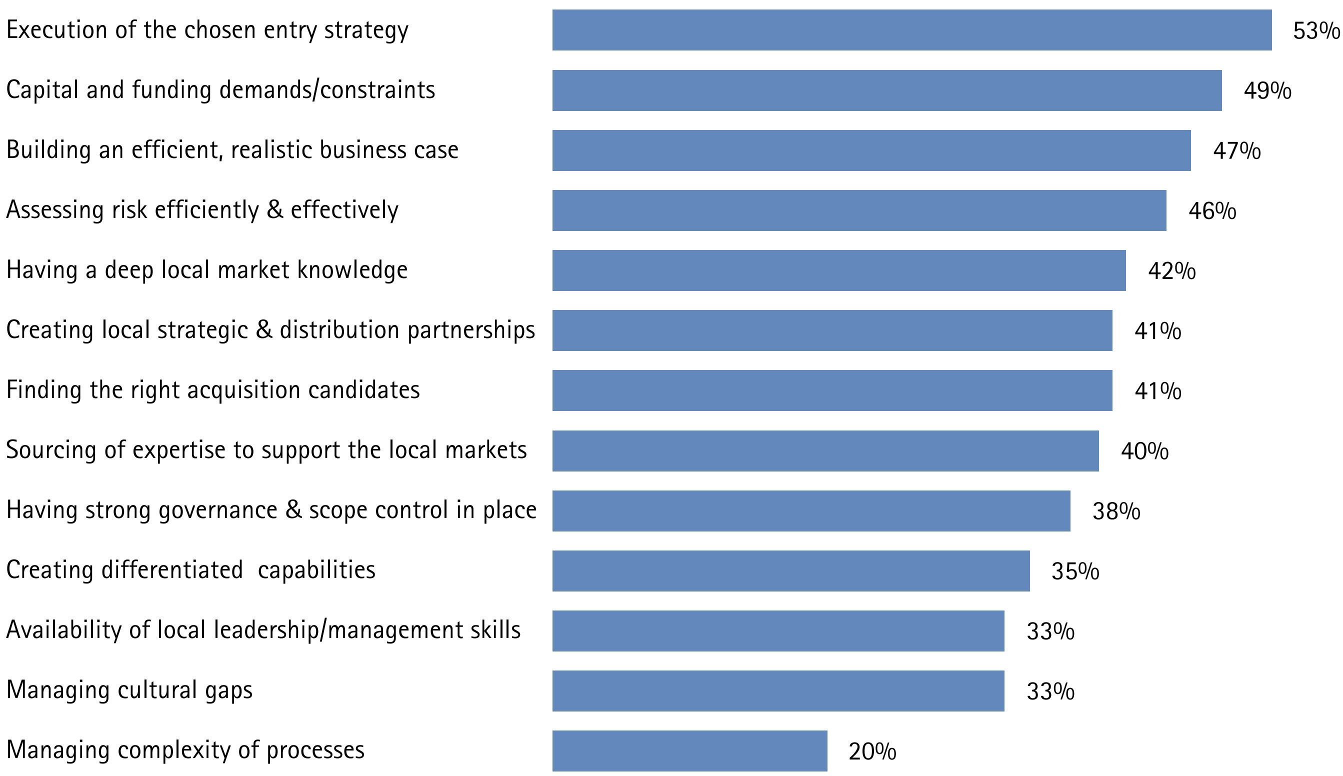
Question: Which one of the following statements best describes your reaction to the economic crisis?



Source: Global Consumer Behavior Study, Accenture Research, April 2009

Figure 2: Insurers that plan to expand internationally face a daunting array of challenges

Question: What will be the main challenges for your company in terms of international expansion in the next three years?



Source: Accenture Multi-Country Operating Model Survey 2009

Key attributes of high performance

The High Performance Insurer study identified those organizations that have delivered consistently superior returns, such as a 20 percent return on equity on a sustained basis, double-digit growth in earnings per share, and a combined ratio below 90 percent. These high performers were analyzed, to understand what it is about them that allows them to succeed year after year, in good times and bad.

This research, combined with Accenture's 30 years of experience working with many of the world's leading carriers, has taught us that there are five key attributes that drive high performance in insurance. They are:

Effective customer-centric distribution

This includes the sophisticated use of data to analyze and segment markets, and create the right products and marketing plans. It also entails the development of multi-channel distribution strategies that meet customer and producer needs and give insurers a powerful advantage in the marketplace. Experience shows that the effective use of these strategies goes a long way toward raising customer acquisition and retention rates, which in turn can increase the cross-sell ratio by 30 to 40 percent, reduce the cost of acquisition by 20 to 30 percent, and support a 5 to 10 percent rise in premiums.

Responsiveness to the market

This is the ability to identify opportunities and risks as they emerge, and also to act decisively. The attribute is apparent in insurers that enter and leave markets, and launch and modify products, ahead of the pack. They take advantage of new technologies while others are still trying to assess their likely impact, and they form partnerships and react to acquisition opportunities before others have seen the writing on the wall.

Consistent operational excellence

Insurers that have rationalized, simplified and standardized their operating platform have taken a major step toward high performance – typical improvements include a 50 percent increase in speed to market and as much as a 30 percent reduction in new business cycle times. A high level of automation and trouble-free integration contribute powerfully to efficiency and accuracy. Operational excellence also implies a commitment to continuous improvement and the never-ending development of the workforce.

Relentless pursuit of cost reduction

High performance insurers cut costs. But more than this, they work continuously on transforming their cost structure. The former can deliver savings, in the IT organization, of five to 10 percent. Overhauling the enterprise's cost structure and creating a fully IT-enabled business may increase IT costs, but can reduce the business's costs by between 10 and 40 percent. Key aspects of a transformed cost structure are a focus on margin, a firm grip on the cost of service, and a determination to convert fixed costs to variable costs wherever feasible. Another is openness to opportunities such as outsourcing – in an earlier Accenture survey, insurers that used business process outsourcing to consolidate their processing platforms reported cost and other benefits that were, on average, 17 percentage points greater than those that did not use BPO[4].

Active risk management

If ever there were doubts about the importance of effective enterprise-wide risk management, recent experiences have thoroughly dispelled them. Long-term success is unlikely to be sustained unless the insurer has a thorough understanding of its underwriting risk, its investment exposure, the control of its financial flows, its enterprise risk, and the threats to customer privacy – and has taken effective steps to control and mitigate each of them.

While the strategies of the world's most successful insurers differ, Accenture's research reveals that for a company to achieve high performance it needs to excel in a minimum of two of the five key attributes, and to manage the other three areas at least satisfactorily. It also needs to have a critical and creative frame of mind that allows it to objectively re-evaluate its products, processes, skills and infrastructure in the light of the new reality that confronts it. And when necessary, it must be willing to modify or even transform these vital components.

4. Accenture Platform Consolidation Survey

Going where the customers are

The insurance industry was built by taking to its extreme the familiar business principle: "go where the customers are". In many cases this meant going right into the customer's home. The traditional selling model provided both personalization and customization. More and more frequently, however, insurers are finding that prospective clients – particularly those in the under-45 demographic – do not want to meet in person, at least not initially.

Younger clients are much more comfortable "kicking the tires" on life insurance purchases by using a variety of investigative techniques, many of them enabled by Web 2.0 or smart phone technologies. They are used to modeling their own financial situation – and their anticipated insurance needs – on interactive media sites. They may use social media to find out what sorts of decisions others in their age and income bracket are making.

Emotional bonds

When Accenture examined customers' attitudes to life insurance, in a large-scale global consumer survey in mid-2009, we confirmed that buying life insurance is not an emotional purchase. The bonds that customers form with their insurers are not likely to be broken, but that is because of the high "hassle factor" of trying to switch carriers, not because of any real emotional link between customer and carrier.

This should not come as a surprise. Compared to other industries, life insurance carriers have fewer opportunities to interact with their customers. Many of the interactions beyond the initial sale have moved to service centers, the Internet, or self-service. Winning insurers, however, will deliver a distinctive and consistent experience – both for key customer segments and for key producer segments.

We believe, for example, that life insurers must do a better job of connecting the purchase of life insurance to life events such as college graduation, marriage, and the birth of children. Ironically, users of social media broadcast much of this information onto the Internet; insurers need a systematic approach to collecting, analyzing and acting upon the data that is available. Social media provide insight into the prospective customer's personal preferences, attitudes and psychographics, data which is often accompanied by highly relevant financial information provided by consumers themselves. Insurers can use social media to help prospective customers share stories, open dialogues about financial needs, and educate themselves about specific products.

Web presence

To do this, insurers need to take steps to enliven their presence on the Web. Most are still at the stage where their websites do little more than direct consumers to nearby offices and/or agents. While this is a useful function, it does not satisfy consumers' emotional needs – and may discourage younger consumers from further exploration. The fact that the under-40s are generally under-insured reflects this resistance to traditional sales channels.

Website themes that help establish a customer's true profile – with financial personality, a personal profit and loss statement, and life maps that chart life events both past and anticipated – can go a long way toward closing this gap. At the same time, the information derived from models such as these provides a better framework for segmenting customers and the producers who serve them.

Multiple channels

The retail industry has developed very sophisticated and precise models to evaluate where storefronts should be placed. Winning carriers will need to develop similar virtual market coverage models, leveraging analytics to determine exactly where to place sales capacity.

Working within these market coverage models, carriers can then use multiple channels – including the Web, social media and smart phones – to educate consumers and generate demand. The emphasis should be on making insurance a product that is bought, not sold.

For instance, companies need to incorporate their underwriting rules into smart phone technology, including iPhone, .NET, Blackberry or Android deployments. When consumers use smart phone applications to seek information, carriers will then be in position to provide more informed question and answer sessions, lower application error rates and shorter turnaround times. Smart phones can also make an agent's day more connected, building a stronger social bond between the carrier, the agent and the end customer.

Collaboration

Similarly, carriers can leverage collaboration technologies such as Cisco's TelePresence to develop a virtual – but powerful – "kitchen table" customer experience. This connects with the needs of the under-45 segment using a cost-effective, 24x7 channel.

Of course, it will not be enough to establish a presence in the channels that consumers prefer to use. Performance scorecards should also measure how effective each channel is in capturing both the mindshare and the share of wallet of targeted consumer segments. By evaluating results from their distribution-related technology investments, carriers can then make more informed decisions on aligning channels, recruiting new production capacity, and changing the experience offered to customers.

Adapting to the new reality

As insurers plot their course into and beyond the upswing, the only sure thing is that the landscape will be different. The challenges will be demanding, but many of them will also be unfamiliar. Consumers will place unprecedented demands on their insurance providers. Governments and other regulatory bodies will insist on stricter compliance. The technologies at insurers' disposal will be powerful but constantly evolving.

To deal with a world that is faster and more complex, insurers will need to gain a clear view of what is required to achieve high performance. They will need to have a critical and creative frame of mind that allows them to objectively re-evaluate their products, processes, skills and infrastructure in the light of the new reality that confronts them. And when necessary, they must be willing to modify or even transform these vital components – if not the organization itself.

To find out more about high performance in insurance, visit Accenture's website at www.accenture.com/insurance.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With approximately 177,000 people serving clients in more than 120 countries, the company generated net revenues of US$21.58 billion for the fiscal year ended Aug. 31, 2009. Its home page is www.accenture.com.

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