The high-performance insurer of the future

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Executive summary

The last decade has been quite successful for the insurance industry. Across the globe we have seen relatively stable growth rates in all lines of business, and profitability levels higher than in many other industries. High performers have yielded returns on equity of 20 percent and above over a long period of time.

However, times have changed. With the financial crisis the pressure on growth and profitability has risen and will increase over the next years through slow gross domestic product (GDP) growth, commoditization, low long-term interest rates, intensifying competition from intermediaries, and an increase in regulation. As a consequence, insurance will be less attractive to investors.

Other factors that are likely to have a profound effect on the industry—but which are as likely to create new opportunities for insurers as they are to pose a threat—are shifts in the sources of growth, changes in consumer attitudes and behavior, and the consumerization of IT.

The key question for insurance companies worldwide is how to take appropriate counter-measures to improve costs and profitability, generate growth, and stay on course to achieving high performance under changed market conditions.

The ongoing Accenture High Performance Business research initiative recently concluded specific research into the insurance industry. Building on that research, we have analyzed which forces will shape the industry over the coming years and how they will affect competition and performance in different regions and different lines of business. These forces will change the rules of the game quite dramatically, usher in a "new normal", and determine which strategies are likely to be successful in the future.

Using this analysis, we have developed six business models which we believe will help insurers make progress in their journeys toward high performance over the next few years. Each model is made up of several dimensions, such as operating model, governance and defining capabilities, allowing insurers to compare their current model with the ideal state represented by the different models. Of course, given the five-year horizon, none of the models represents an exact recipe for success, but they do act as clear indicators of direction.

This report provides a broad overview of the major trends and forces affecting the insurance industry, and offers some possible models for future success that can open up a very fruitful discussion within the senior management team.

High-performance insurers of today

What does high performance mean and how can organizations increase their chances of becoming high-performance businesses?

These are the driving questions behind an ongoing Accenture program of original research that is now entering its eighth year. Accenture is monitoring more than 6,000 companies across all industry sectors to understand what it is about some organizations that enables them to achieve consistently superior performance over a sustained timeframe, across business cycles and industry disruptions and cycles of CEO leadership.

We define "high performance" as enduring or sustained outperformance of peers as measured by a set of widely accepted financial metrics. These metrics each define a core and distinct aspect of performance, and together they portray a comprehensive picture of business performance. The methodology for measuring and identifying high performance businesses across industries encompasses six measurements of high performance, namely growth, profitability, market perception, capital strength, cash and consistency.

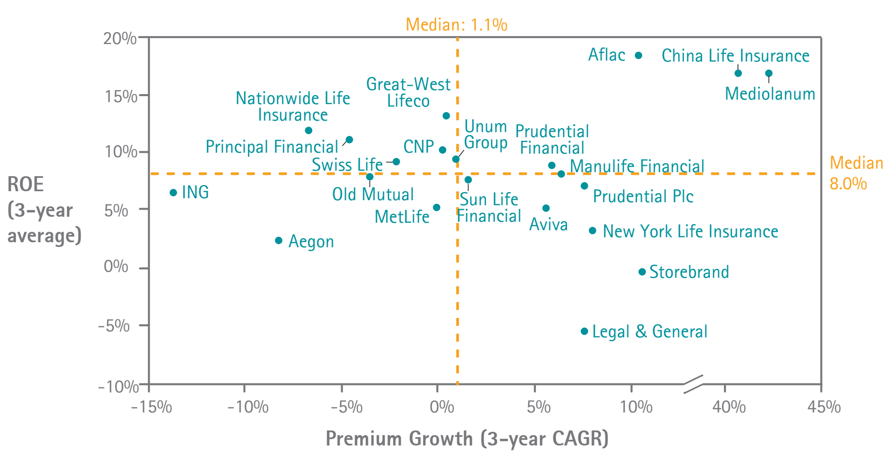
When applied to the insurance industry, we define these metrics as shown in figure 1.

As part of the Accenture High Performance Business research program we recently defined the high-performance insurer. This study[1] analyzed more than 70 leading carriers across the 15 key performance indicators listed in Figure 1, and gives the most up-to-date perspective on how the economic crisis has affected insurers, and how it has changed the market itself. In order to enrich the analysis, we included

Figure 1. Metrics for high performance in insurance

Criteria	Definition	Period
Growth	Total premiums	Three years compound annual growth rate
	Total premiums	One year
	Growth in capital	Three years compound annual growth rate
Profitability	Return on equity after tax	Three-year average
	Return on equity after tax	One year
	Return on equity forecast	One year
	Return on equity forecast	Two years
Market Perception	Total return to shareholders	Three years compound annual growth rate
	Credit rating	Current
Capital Strength	Solvency ratio: premium/surplus	One year
	Solvency ratio II: surplus/assets	One year
Cash	Cash/total assets	One year
Consistency	Consistency of premium growth	Three years
	Consistency of return on equity after tax	Three years
	Consistency of total return to shareholders	Three years/two years/one year

Figure 2. Leading life insurers: profitable growth matrix (2006-2009)



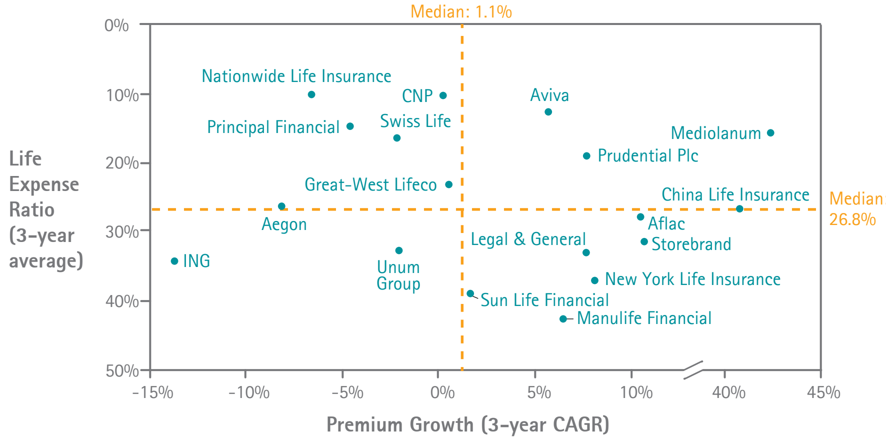
Sources: Accenture Research based on ISIS, Bloomberg, company data operational metrics such as combined ratios and expense ratios in our analysis of the carriers. Our analysis is shown in the graphs alongside for life, property and casualty (P&C) and multiline insurers.

If we look closely at the high performers mentioned, we can observe that they are very different in terms of their geographic footprints, products and services offered, and strategies. Nevertheless we identified a set of five key attributes common to all:

1. Effective customer-centric distribution.
This distribution model includes the sophisticated use of data to analyze and segment markets, and to create the right products. It also includes the development of multichannel distribution strategies that give insurers a powerful advantage in the marketplace. Mapfre, for example, has distinguished itself in this area, securing a leading position in the top right quadrant of Figure 6. It has achieved this through effective branding (giving it 79 percent unaided brand awareness in 2009), an efficient tied agent network in which 90 percent of new agents contract themselves to the insurer within a year, and a string of successful bancassurance alliances.

2. Responsiveness to the market.
Companies with this capability are good at spotting opportunities and risks before anyone else. They are quicker to get into or out of markets, to launch or modify their products, and to take advantage of new technologies. This approach has enabled Aflac to become the market leader in the niche medical products segment in Japan, while QBE has concluded 125 successful acquisitions in 25 years by focusing on niche and targeted acquisitions which are share price accretive in short order, and by displaying superior skills at both identifying valuable targets and completing the transactions successfully.

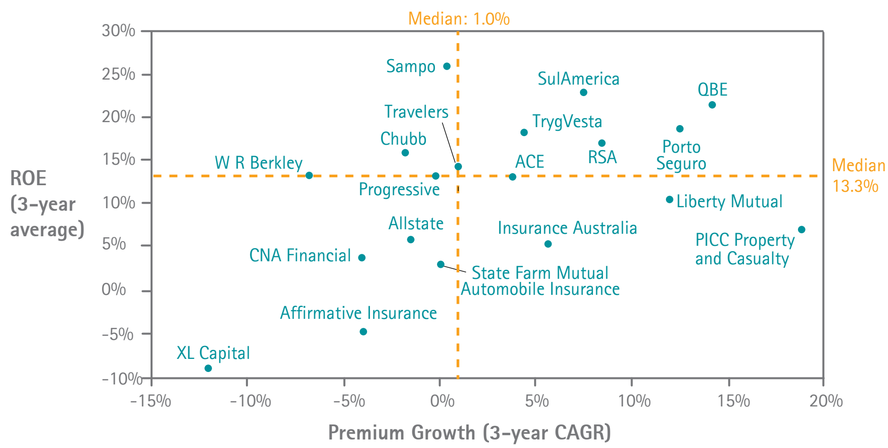
Figure 3. Leading life insurers: premium growth and expense ratio (2006–2009)



Medians: premium growth includes all the peers, while Life expense ratio excludes MetLife, Old Mutual, Principal Financial and Prudential Financial.

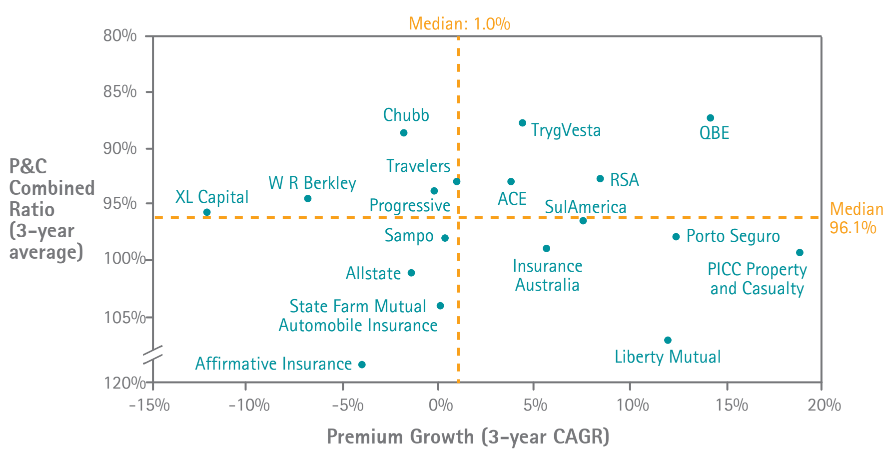
Sources: Accenture Research based on ISIS, Bloomberg, company data

Figure 4. Leading P&C insurers: profitable growth matrix (2006–2009)



Sources: Accenture Research based on ISIS, Bloomberg, company data

Figure 5. Leading P&C insurers: premium growth and expense ratio (2006–2009)



Medians: premium growth includes all the peers, while Life expense ratio excludes CNA Financial.

Sources: Accenture Research based on ISIS, Bloomberg, company data

3. Operational excellence.

Many high-performance insurers demonstrate operational mastery, with an operating platform that is simple, standardized and superbly integrated. They are highly automated and they measure everything. And they are never satisfied: they are continuously improving their systems and processes, and developing their workforces. At Metlife, for example, a consistent operating model, the convergence of processes, and continuous IT improvement are helping to deliver a targeted $400 million reduction in operational expenses.

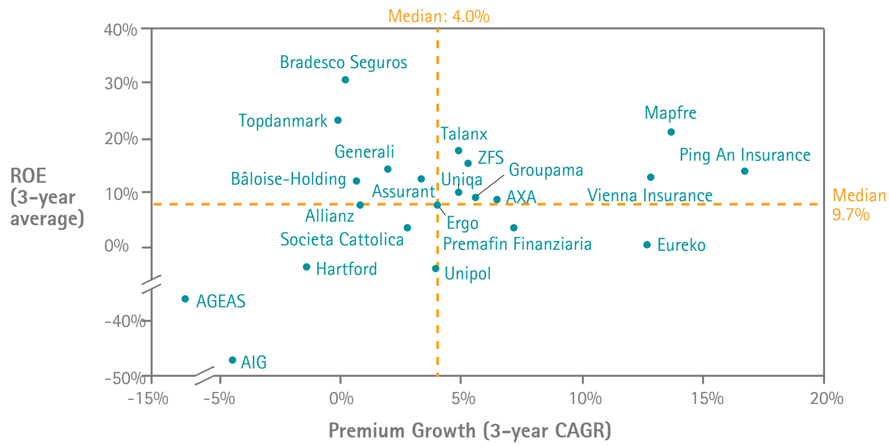
4. Relentless pursuit of cost reduction.

Another attribute of high-performance insurers is their unwavering commitment to minimize costs. This entails not only cost-cutting, but focusing on margin, on cost of service, and on changing the cost model, particularly switching from fixed to variable costs. It also means being open to all opportunities to reduce costs through sourcing models and offshoring. Progressive, for example, in 2009 reduced the combined ratio for its commercial auto line of business by 8.9 points. It achieved a ratio of 85.8 by, among other things, improving its handling of high-exposure claims and raising its operating efficiency. Metlife has optimized its cost structure and established a culture of high performance, enabling it to improve its auto and home expense ratio to 25.0 percent.

5. Focus on risk management.

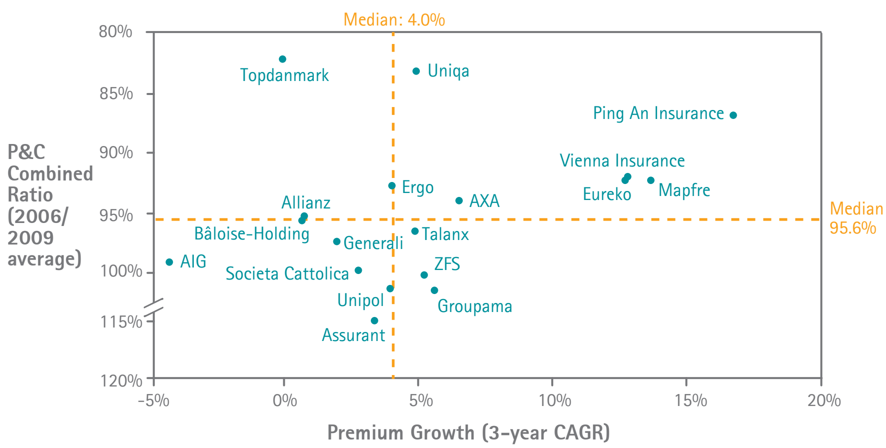
Most high-performance insurers take risk management very seriously. Their focus extends beyond underwriting risk to include investment exposure, control of financial flows, enterprise risk and the protection of customer privacy.

Figure 6. Leading multi-line insurers: profitable growth matrix (2006–2009)



Sources: Accenture Research based on ISIS, Bloomberg, company data

Figure 7. Leading multi-line insurers: premium growth and expense ratio (2006–2009)



Medians: premium growth includes all the peers, while P&C combined ratio excludes AGEAS, Bradesco Seguros, Hartford and Premafin Financiaria

Sources: Accenture Research based on ISIS, Bloomberg, company data

Although we find that high-performance insurers demonstrate all of these characteristics, our analysis shows that they generally excel in at least two. These spikes of excellence depend on the circumstances they face, their objectives and their strategies for achieving competitive advantage.

The attributes identified above certainly help to explain high performance today, but the question is whether they will be sufficient to guarantee high performance in the future. Accenture strongly believes that high performance is by no means a stable state.

The aim of this report is to develop a forward-looking perspective of high performance in the insurance industry. First we will paint a picture of the insurance landscape in the next five years by describing the forces and challenges which we believe will fundamentally shape the industry. Using this description of the future insurance landscape, we will then proceed to develop business models, operating models and capabilities which we believe will support high performance in the future.

Forces shaping the insurance industry

The insurance landscape is constantly in flux and the forces shaping the industry in the next five years will differ from those that shaped it over the past few years.

In our analysis, we identified a set of forces which we believe will challenge the current strategies of insurance carriers. Although these forces might not be completely new, what is new is their intensity and the speed at which they will take effect. These forces are:

- Shifts in growth from mature to emerging markets.
- Increases in the development and consumption of technology.
- An escalation of both risk and regulation.
- Changes in consumer behavior.
- Changes in the competitive landscape.

These forces will create a sea of challenges in which today's high performers, and those that are aspiring to be high performers in the future, will need to navigate.

Shifts in growth

The insurance industry has not been hit as badly by the financial crisis as the banking industry. The market capitalization of insurers has improved gradually since April 2009, and although the worldwide growth in premium volume is negative our research has shown double-digit growth rates in most emerging markets and recovering growth rates in mature markets.

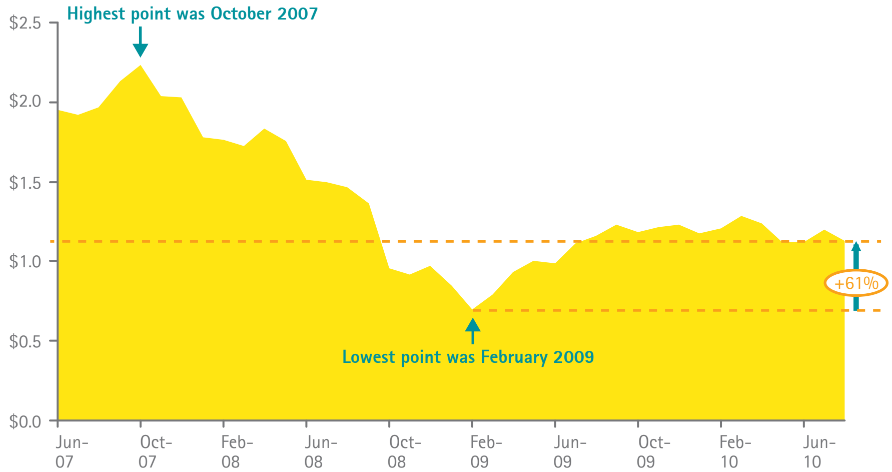
Although the current performance of the industry indicates a recovery, we believe it will be very challenging to attain the level of performance that prevailed prior to the financial crisis. Previous research by Accenture[2] looked into the global expansion strategies of leading international insurers, and found that BRIC and emerging Asian countries feature prominently in their growth aspirations. The insurance executives interviewed confirmed that these regions are the top target markets for global expansion of both their life and P&C operations.

It is our opinion that joining the gold rush in emerging economies which have shown high-growth potential will not be the only way for insurance carriers to achieve their profitable growth objectives. Our research has shown that there is also the need to address the untapped potential in established mature markets. An Accenture analysis estimates a premium growth potential between 2010 and 2015 of $400 billion to $600 billion in mature markets and $650 to $900 million in emerging markets.

This estimate is based on a set of growth drivers which we believe are particularly relevant to the insurance industry:

Figure 8. Evolution of market capitalization

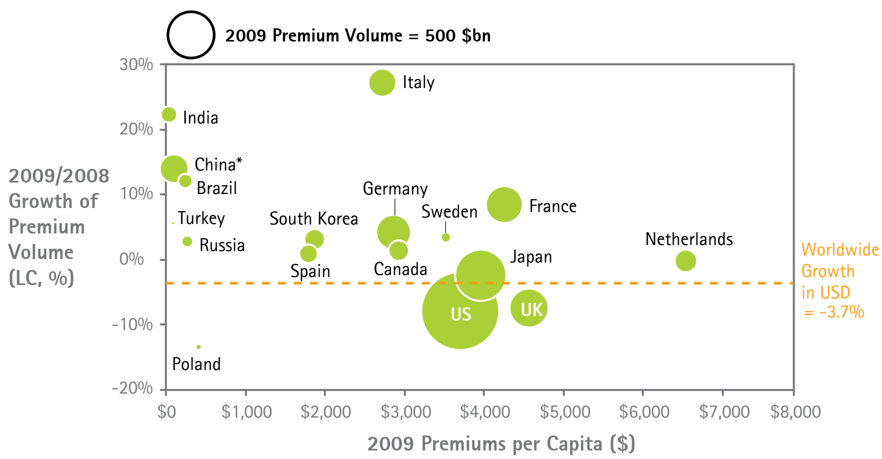
Total market capitalization of leading insurers* in US$ trillion



Note: market capitalization at month end; *global panel of 60 leading insurers
Source: Accenture Research based on Bloomberg

Figure 9. Key insurance markets

2009 insurance density in $ vs. 2009/2008 growth in percent, 2009 premium volume in $ billion



*China does not include Taiwan and Hong Kong
Source: Accenture Research based on Swiss Re, Economic Research & Consulting, sigma No. 2/2010

- Demographic changes (aging populations and increased longevity in advanced economies).
- New infrastructure investments driven by the shift towards a low-carbon economy and increasing urbanization.
- A burgeoning middle class in emerging markets.
- Untapped potential in the low-income population segment in rural areas of emerging markets.

Figure 10. Projected growth of insurance

	CAGR 2009-2015 (based on USD)
Total business	
World	3.9%
Industrialized countries	2.2%
Emerging markets	11.4%
Life business	
World	3.3%
Industrialized countries	1.6%
Emerging markets	10.1%
Non-life business	
World	4.3%
Industrialized countries	2.5%
Emerging markets	12.8%

Sources: Swiss Re Sigma, BMI, Accenture estimates

Aging populations

The world is growing older. This trend is particularly pronounced in advanced economies, where the United Nations[3] estimates the median age will rise from 39.7 today to 45.6 by 2050. Not only will the population get older, but with these changes entirely new consumption and spending patterns will emerge. An Accenture analysis of these demographics in the United States found that, by 2030, spending by the age cohort between 65 and 74 years of age will increase by 85 percent while that of the 75-plus age group will almost double.

Another aspect of the aging population is the increase in longevity. For example, the number of people aged 85 and above in the United Kingdom will double over the next 20 years. Despite improved medical care and living conditions, aging healthily will remain a huge challenge. The demand for community, residential and frail care will increase rapidly. This demand will further be fueled by an increase in the number of single households and of women joining the workforce. Household surveys show that women tend to assume the responsibility for care of the elderly. However, as women spend more time in the workplace the supply of informal care will be reduced. As care has generally, in the past, been provided on an informal basis, and has thus been unpaid, the private sector will need to step in to provide these services.

This trend offers huge potential for the insurance industry, as the demand for financial and pension products such as tailored equity release schemes and elderly-care packages is set to rise with the growth of these age segments. We believe that life, pension and health insurance in combination with assisted services such as home care will be the key segments which will benefit from these demographic trends. Accenture estimates that life and pension insurance business in mature markets will grow by $200 billion to $350 billion over the next five years, of which about $160 billion will be generated by the old-age provisioning segment. The expected rise in demand for health insurance globally represents some $120 billion of premiums. At the same time, the demand for new assistance services will grow in significance: worldwide coverage for automotive, travel, health and life care or other assistance services to insurance customers is estimated to increase by about $12 billion over the course of the next five years.

This section would not be complete without mentioning the fact that certain emerging markets also show a strong aging trend, especially China. However, we do not believe this to be as strong a source of growth as in mature markets owing to the fact that consumers in these sectors in emerging markets do not have the same buying power.

New infrastructure investments

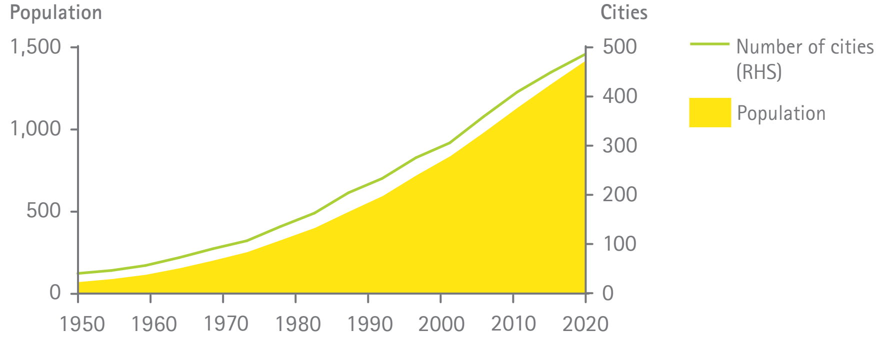
The quest for sustainability and the shift to a low-carbon economy will be a dominant trend in the next decade. The pressure for change will be exerted by rising commodity prices, concerns about energy efficiency, and natural disasters and freak weather. The industrial shift towards a low-carbon future will necessitate dramatic shifts in the underlying infrastructure of economies. Buildings, transport networks, energy sources, power generation and industry will all need to be updated and/or replaced. To avoid significant climate change by curbing carbon emissions, the International Energy Agency (IEA)[4] estimates another $500 billion will need to be invested annually in addition to the extra investment of $10,500 billion needed from 2010 to 2030 to improve energy efficiency and boost low-carbon renewable energy, among other initiatives. Worldwide cumulative investments in renewables will add up to $1,707 billion by 2020 according to the IEA estimate. Industry analysts estimate that the number of hydro-electric plants planned for the next years exceeds 2,000 worldwide.

Investment on this scale cannot go uninsured and will thus open up a new growth area for insurers. However, reliable data indicating the frequency and severity of potential claims is not yet available for some of the new risks. For example, the susceptibility of trans-regional renewable energy networks to damage or failure is uncertain and needs to be explored over time. Proper assessment and pricing of risks related to new investments will therefore require a new skill set. Insurers will need to expand and refine their capabilities in gathering and integrating a greater amount of different risk information. Quickly transferring and leveraging insights gained through new underwriting and risk experience will become more important. Enhanced usage of more sophisticated, IT-supported predictive modeling may help insurers to expand and refine their traditional approach to risk assessment and pricing.

Increasing urbanization has become a major social, economic and political issue in emerging countries. According to the United Nations[3] the total urban population of the developing world will more than double between now and 2050, increasing from 2.3 billion in 2005 to 5.3 billion. Furthermore, the size of cities in emerging markets is growing by the day. The number of cities with more than 1 million inhabitants is set to rise from 300 in 2005 to 479 in 2025, and the number of people inhabiting these cities will rise from 863 million to almost 1.5 billion. The rapid influx of new inhabitants is placing a strain on basic services such as public transport, roads, electricity and water, creating a pressing demand for investments in infrastructure. This new infrastructure will in turn need to be insured.

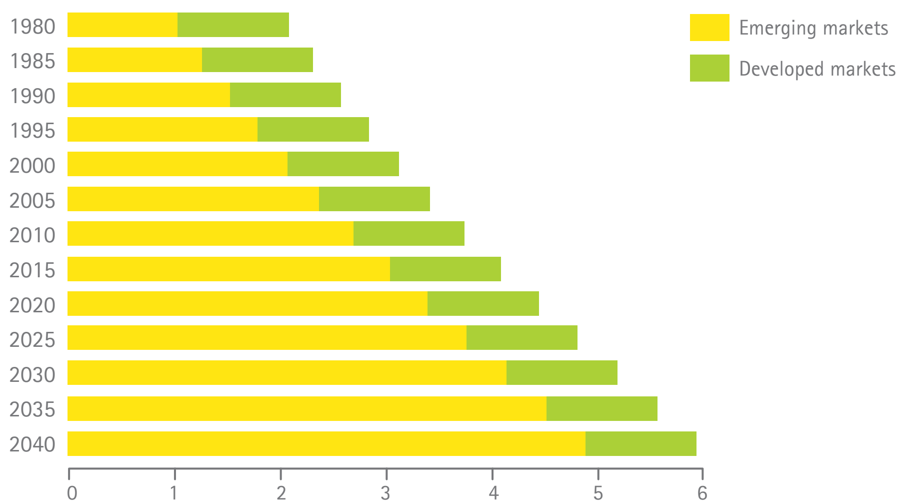
Figure 11. Urbanization is on the rise

Number of cities with more than 1 million people and population (million)



Source: Accenture: *New Waves of Growth in the Developed World* (United Nations)

Global urban population (billion)



Source: Accenture: *New Waves of Growth in the Developed World* (United Nations)

Rising middle class

Rapid growth is fuelling rising employment and incomes in emerging economies, creating a burgeoning group of potential consumers. The global middle class is expected to grow from 1.7 billion to 3.6 billion between 2010 and 2030. China is now the world's biggest car market. Indian retail sales are expected to record annual average growth of 5 percent a year for the next five years, compared with less than 1 percent in Western Europe.

This trend provides a host of new opportunities for the insurance industry. Although much of the demand generated by this growing middle class will be for low-cost products, this is likely to change as incomes rise and the demand for more sophisticated products grows. Throughout this growth trajectory there will be an increasing demand for insurance products, especially health, motor insurance and small property insurance. These may seem to be familiar product categories, but insurers must keep in mind that the new middle class is totally different from traditional customers in the mature economies. Not only are the volumes smaller but channel preferences and buyer values are also vastly different. One of the key buyer values is brand consciousness and affinity. Insurers should use this knowledge either to build a strong brand or team with a strong brand to create traction in these markets.

Low-income communities, especially in rural areas

The poorest people in the world are most in need of the security that insurance brings. They have little access to health services and they are most likely to live in areas which are prone to floods or natural disasters, a situation aggravated by climate change. Inhabitants of certain areas of Jakarta are being offered flood insurance in the form of a card which is valid for one year, an innovative product that was developed and launched by GTZ, a German development organization, Munich Re and Asuransi Wahana Tata, a local insurer and risk carrier. The growth of the Chinese and Indian economies in the 1990s has lifted 400 million people out of extreme poverty. The rural multiplier effect is what excites policy makers and business leaders alike. For every new opportunity for a villager to use his mobile phone to protect his crops, there is a knock-on opportunity for him to purchase a small refrigerator or a motorcycle.

Spotlight: Islamic insurance

The last decade has seen Islamic insurance products and services to the middle classes rise in significance, mostly in emerging markets. Muslim consumers remained conscious of the fact that conventional insurance is not acceptable in Islamic law. As pointed out by Swiss Re[5] recently, roughly 1.5 billion Muslims around the globe are underserved by insurers. The market potential seems huge, keeping in mind that Muslim countries account for about one fourth of the emerging markets' GDP. Takaful is an answer to growing demand for insurance-like coverage for retail customers in Muslim markets. It developed as a Sharia-compliant system of risk sharing and has been practiced for centuries. It is similar to mutual insurance concepts, exists in various models and is nowadays increasingly demanded by Muslim customers. The supervisory authorities of the relatively small but fast-growing United Arab Emirates recently announced specific regulations to increase transparency in the fragmented and competitive takaful market. This may result in consolidation and strengthening of the local market and support the UAE in its ambition to become the capital of Islamic finance. Swiss Re estimates a $1.7 billion premium volume already written in 2007 under takaful schemes worldwide, showing an impressive growth rate of 25 percent over the course of three years. Malaysia—which too has become a leading international player in Islamic finance—Indonesia and Saudi Arabia are the markets with the biggest potential for Sharia-compliant insurance services. Despite the global financial and macroeconomic crisis, Swiss Re estimates that takaful will grow at 17 percent per year (inflation-adjusted). Global takaful markets therefore could reach up to $7 billion by 2015, with the Middle East, northern Africa and some eastern Asian markets showing the highest potential.

Source: Swiss Re, press, Accenture Research

Spotlight: Insurance in rural India

One of the emerging economies with a significant rural portion of the population is India. There is no question that India's rural markets are becoming a powerful economic engine. The rural market in India contributes more than half of the sale of fast-moving consumer goods, clothes and durables, 100 percent of agri-product sales and nearly 40 percent of automobile sales.. In the last few years, the biggest growth in the Indian mobile telephony market has come from the hinterland where 175 million connections have been sold. This number is expected to rise to 440 million by 2012. Half of all life insurance policies are also sold in India's rural villages.

Max New York Life, one of the top 10 Indian life insurers, refocused its business model to tackle the new growth opportunity represented by the growing rural market. However, the company learnt that this growing niche market has its own specific requirements. For example, rural customers expect products and policies to be fairly simple. Also, products need to be flexible enough to allow customers to withdraw their money in an emergency with little or no penalty. Developing sales channels that are close to customers is critical, but challenges remain when cooperating with third-party organizations like non-governmental organizations. The case of Max New York Life shows that tapping the huge potential of an underserved market means more than just tweaking or transplanting urban products to the rural areas.

Source: Accenture analysis

There is a growing realization that global investment and growth will increasingly come from rural populations, as their savings translate into consumption.

Attractive growth markets and segments

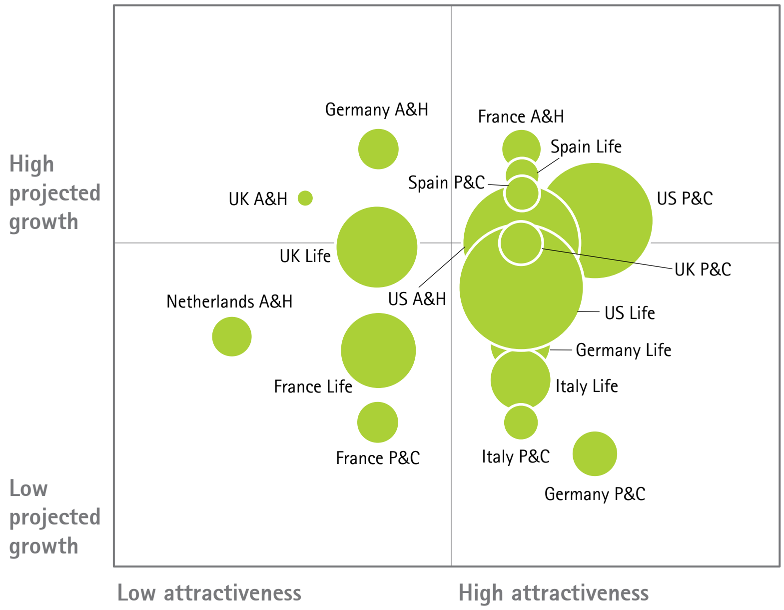
Based on these identified growth areas, Accenture performed an in-depth analysis to determine the size of the opportunity for the various insurance segments in mature and emerging markets.

Accenture believes that attractive growth opportunities in the emerging markets are widely spread across global regions. These emerging markets are of varying sizes and levels of development, and offer opportunities to local and global insurers. Among the most promising of these markets one finds the "usual suspects" like China and Brazil, which are already closely monitored by international players. The sheer scale of their populations and economic growth rates will continue to make these markets attractive over the course of the next few years. However, legal constraints will make it difficult for foreign players to seize growth opportunities quickly in markets like China and India—a situation that is not expected to change soon.

Among the more buoyant markets, the growth potential of Russia and Turkey remains to be discovered. Taking Russia as an example, the non-life segment (and especially the health insurance segment) is rapidly growing, fragmented and open to the participation of foreign players. On a slightly lower level, fairly mature South African and South Korean insurance markets still show sizable growth opportunities. However their overall attractiveness might be reduced given their established market structure and dominant local players—all barriers to entry for foreign players.

Figure 12. Sweet spots in mature markets

Attractiveness of selected mature geographies (preliminary results)



Bubble size indicates premium volume in 2009. "Attractiveness index" based on market concentration. Positioning of markets on the graph is relative to peer markets.

Source: Accenture Research (based on Swiss Re Sigma, BMI, Accenture estimates)

Spotlight: United Kingdom

High volumes of switching, fueled by the commission-based independent financial advisor model, have historically lead to an overstatement of the UK life market, with the impact of new regulation in the form of the RDR (Retail Distribution Review) expected to reduce new business churn. While recent economic conditions have led to declines (new business volumes fell by 19.5 percent in 2009), a return to growth is expected at 4.5 percent compound annual growth rate up to 2015, but will remain unpredictable as the impact of the RDR is not clear.

Opportunities exist for providers in the new regulatory environment to take advantage of distribution channels such as bancassurance and the possibility of tie-ups between providers and distributors. The launch of NEST (National Employment Savings Trust, a pension scheme being introduced by the government) from October 2012 could also lead to an influx of new investment into the market and thus improve growth prospects beyond 2012. NEST will require all UK employers to enrol employees automatically into a "qualifying pension scheme" which could be either an existing scheme or NEST. A move back to in-house asset management could also be a way for insurers to grow their share of this market. A history of diversification has produced complex financial conglomerates in the UK life sector, and consolidation is expected to be a major driver of change.

The mature UK property and casualty market remains very competitive, especially in the retail sector where the continued growth of aggregator websites is adding competitive pressures and changing the dynamics of the industry. The market is showing clear signs of saturation, requiring insurers to innovate for growth. However, more-demanding consumers and increasing pressure on price (driven by escalating fraud and bodily injury costs) are making it difficult to do so in certain sectors such as personal and motor insurance. Opportunities exist for insurers leveraging new distribution models, such as aggregators, sophisticated pricing and cost control to take advantage of M&A opportunities as the market returns to growth from 2011. Consolidation in the market is expected as major insurers such as RSA and Allianz have announced their ambitions to grow market share in the UK property and casualty market.

Source: Accenture Research

With regard to mature markets, Accenture believes that attractive business opportunities are spread across different countries and segments, with life and some health insurance businesses typically showing higher-growth prospects. The enormous US insurance market, which is built on the world's largest consumer market and commercial and industrial business volume, remains an attractive growth proposition going forward. Stronger growth in the gross domestic product will enhance the US market's attractiveness, while recent US legislation may also support the insurance sector's prospects. Though the impact of healthcare reform remains to be seen, insurance companies could significantly benefit under some scenarios. National investment in physical infrastructure and the growth of biotech and alternative energy businesses may play a role in the relatively strong growth forecast for the US property and casualty market.

Although the accident and health business segment shows strong growth rates in general, future opportunities need to be carefully considered by insurers given specific local frameworks and market conditions. In many mature markets, private insurers play a role within the social security network (for example, health insurance coverage in the Netherlands and Germany). The overall accessibility and attractiveness of the market segment may be impacted as a consequence. Smaller markets like Spain will also produce attractive business opportunities for foreign insurers as they return to growth and undergo a phase of consolidation and market restructuring.

Spotlight: Spain

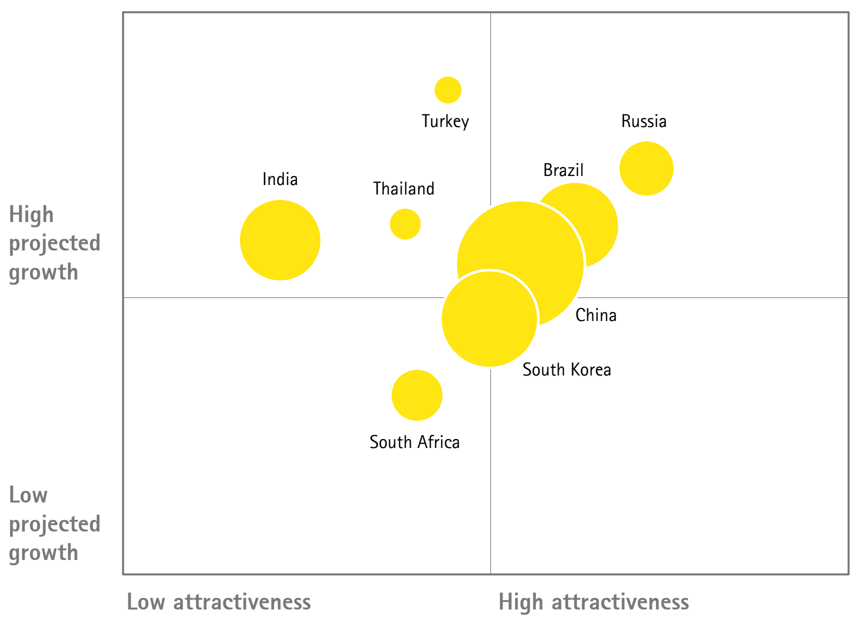
The growth potential of the Spanish insurance market ($86 billion premium volume) is reflected in its low insurance penetration rate (5.5 percent compared with the 8.6 percent average for Western Europe) and a low premium per capita level of $1,092 (as compared with the average of $2,922 for Western Europe).

The market shows sustained high profit levels: for example, the average combined ratio over the last few years is about 90 percent. Although Spanish insurers utilize all distribution channels, low-cost channels are still under-used (only 0.5 percent of premium income is generated via the Internet). In the life sector, which represents about 50 percent of total market premium volume, products are mostly sold through very dense banking branch networks (73 percent of new sales). Savings products from banks provide strong competition for insurers, while health products and services are covered by the social security network.

Spanish insurers were strongly affected by the macro-economic turmoil and are facing pressure on profitability through increasing competition, reduced growth and an increase in claims. A modest two percent increase in total business is expected for 2010. From a medium- to long-term perspective, the fact that Spain is the world's 10th biggest economy means that it will continue to offer significant potential for growth. The Spanish market is attractive to foreign players, given that the insurance market is fragmented (the top five players have only 27 percent of the market) and its robust historical premium growth (more than seven percent in savings-type life and in non-life products). Other opportunities could be generated by the need for local banks to sell off their life businesses in response to Solvency II, as well as the restructuring of the savings bank and mutual bank sectors.

Source: Accenture Research

Figure 13. High-potential emerging markets
Attractiveness of selected emerging markets (preliminary results)



Bubble size indicates premium volume as of 2009. "Attractiveness index" based on weighted parameters that indicate, e.g. competition level, burden of financial regulation, or ease of doing business in the market. Positioning of markets on the graph is relative to peer markets.

Source: Accenture Research (based on Swiss Re Sigma, BMI, own estimates)

Spotlight: Russia

By most standards, the Russian non-life segment is large ($30 billion in 2009) and rapidly growing. The increase in consumer wealth in the 2000s coupled with Russians' adoption of a consumer lifestyle is driving demand for car and property insurance. Infrastructure insurance is also a growing segment as new assets are built to enhance the security of the country. On the other hand, demand for life insurance is very low (density of $4 per capita) because ordinary Russians are focused on short-term needs. Also, life insurance is usually influenced by government regulation but the Russian government is inactive in this area. The lack of support for the aged and those injured in accidents will have to be addressed, but the life insurance business is an opportunity only in the long run.

Two macro factors influencing the insurance business are the low life expectancy of Russians and the economy's dependence on oil and gas, whose prices are volatile. The Russian insurance market is open to participation by foreign firms. Although there are over 700 insurance companies in Russia, the market is consolidating and already the top 10 companies account for 40 percent of the market.

Source: Accenture Research

Spotlight: India

Since the insurance sector was liberalized in 2000, India's insurance industry has grown almost six-fold. Growth accelerated with the entry of private players who aggressively spent on marketing and educating customers. Favorable demographics, increasing per-capita income and rising awareness will drive future growth. There is still huge potential to increase life cover (most Indians are grossly under-insured), non-life penetration is still only 0.6 percent of gross domestic product, and sectors such as pensions and health insurance will see faster growth owing to a lack of social security and facilitating regulations from the IRDA (Insurance Regulatory & Development Authority).

Over the next five years, the Indian insurance market is expected to continue growing at a double-digit rate, and eventually become the fourth-largest insurance market (by total premiums) in Asia. However, the market is highly concentrated (the top five players control over 80 percent of the market) and competitive, while customers are spread out across the country. As a result, doing business has been challenging for foreign companies.

Source: Accenture Research

Spotlight: China

In tandem with robust economic growth, China's insurance market has shown a compound annual growth rate of 26 percent between 1990 and 2009.The life insurance business has been growing fastest and accounted for 67.6 percent of total premiums in 2010. Recently, Chinese insurance companies have embarked on transforming their product mixes, focusing their sales efforts on risk products, especially individual life policies, while reducing the emphasis on universal life and investment-linked products. The trend is likely to continue as companies pursue quality growth by selling profitable risk-type products, and while regulators promote such changes.

Bancassurance has grown significantly and become the key sales channel for insurance. Despite its impressive growth record, China's insurance industry is still in the early stages of development, with life insurance depth and density merely 2.2 percent of GDP and $74 per capital respectively in 2009. The growth drivers for China's insurance market will remain strong in the medium term thanks to a number of factors: increasing household income, the dearth of attractive long-term saving vehicles, a large population which is aging fast, an increasing rate of urbanization and the emphasis on insurance in recent pension reforms. The focus of life insurance will gradually shift from death to annuity.

Since China became a member of the World Trade Organization in 2001, its insurance industry has opened up at a faster pace than both banking and brokerage industries. Since 2003 wholly foreign-owned subsidiaries of life insurers have been permitted with no limitation on business models, and all geographic limitations have been eliminated. As a consequence, foreign insurers now account for more than half of all insurance companies in China—although they account for less than 5 percent of the market. China's insurance market is still dominated by the three largest domestic life insurers, and state-owned insurers still maintain a strong position in China, partly due to their ownership of established distribution networks and large customer and claims databases.

Source: Accenture Research

Consumerization of IT

In the past couple of years we have witnessed unparalleled developments on the technology front. In different ways, these have transformed the insurance business—and continue to do so. Investments in IT will be either important or critical for insurers, as stated by the vast majority of insurance equity analysts in a global Accenture survey[6]. Reponses showed that analysts see the need for insurers to invest in two vital operational aspects: their operating efficiency and the impact of aging IT systems.

While the use of IT to improve efficiency will always be critical, investment in IT innovation will also play an essential role for insurers to stay ahead of market trends. We have moved beyond merely creating and communicating through computers to actively sharing and collaborating on a real-time basis through mobile computer devices. Consumers are now driving technology innovation by demanding more speed, access and collaboration.

Based on Moore's law, one could predict that in the next five years we will witness a proliferation of smaller computing devices, faster processing speeds and lower prices. In addition, we believe that the convergence of information, technology and humans will also have a huge impact on the sort of devices that are produced, and how they are used.

Pure-play consumer Internet companies have reduced their cost of sales dramatically and raised user expectations relating to experience, collaboration, mobile access and real-time responsiveness. By contrast, most corporations and public-sector organizations have fallen behind.

The insurance industry tends to lag behind the leaders in this area. Based on our experience with clients in the insurance industry we believe that the slow adoption rate has been due to:

- Inflexible legacy technology.
- Complex business models and processes.
- A mindset focused on operations rather than innovation.
- IT budgets that are dominated by non-discretionary spend: analysts estimate that insurers spend only 20 percent of their IT budgets on innovation.

One of the most fundamental challenges insurers are facing today is to remain relevant to a consumer base that is changing rapidly and fundamentally. We believe that insurers must take account of three technology trends in order to sell more profitably.

1. Going mobile

The proliferation of mobile and wireless technologies is a trend that cannot be ignored by insurance carriers. There are two aspects to this trend which we believe are particularly relevant to insurers. The first is the staggering growth in mobile Internet use. The

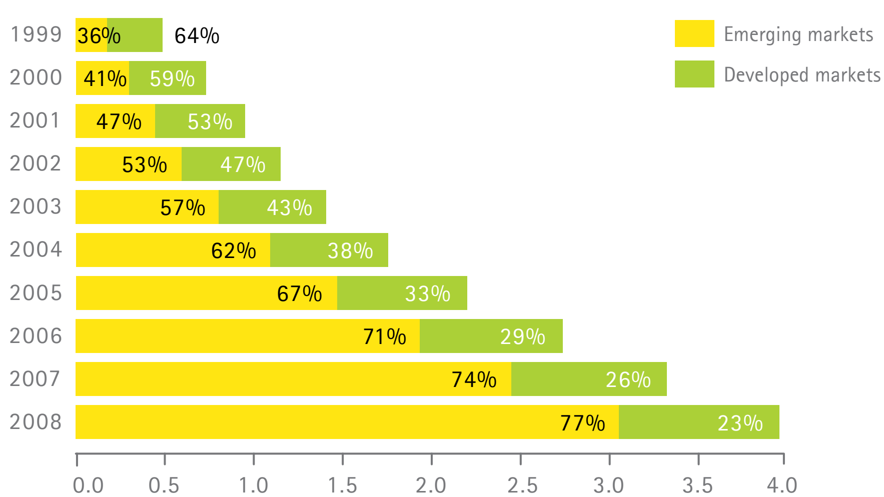
Spotlight: Amazon.com—using IT to sell more for less

Amazon.com was launched to take advantage of critical efficiencies and major structural cost differences which the Internet offered. Internet technology gave Amazon the scale, confidence and customer insight (through a powerful analytic capability) to expand from books into an ever-increasing number of categories, producing a 29 percent average rate of compound growth in revenue over the last five years (compared to Wal-Mart's eight percent). Amazon.com's operating costs (all operating expenses excluding the cost of goods sold) are currently running at 18 percent of revenue. This ratio is better than its retail peers: analysis suggests that other US booksellers have operating expenses of at least 27 percent of revenue—and probably higher.

Source: Accenture Research

Figure 14. Mobile is on the rise in emerging countries

Number of mobile cellular subscriptions (billion)



Source: International Telecommunication Union second is the growth and proliferation of mobile devices embedded with semiconductor chips with the potential to transmit various types of information.

Mobile phones have become ubiquitous across the globe. Driven by the development of wireless technology as well as the introduction of ultra-low-cost handsets breaking down barriers to entry, the growth of mobile phone subscriptions in emerging economies is staggering. Of the approximately 4 billion worldwide mobile phone subscribers, 77 percent come from emerging countries.

Mobile Internet is one of the key applications used on mobile devices. According to Forrester Research[7], mobile Internet adoption will continue to grow significantly, with users tripling from 13 percent of Western European mobile users in 2008 to 39 percent in 2014.

This is a tremendous opportunity for insurance carriers as customers have, through the purchase of a mobile phone, invested in an additional sales channel. Carriers are now challenged to transfer current capabilities to mobile devices and actively push information and services onto these devices. For the foreseeable future, digital and mobile channels will provide the most flexible, efficient and scalable means to acquire, service and retain customers—and grow customer share. Especially in emerging economies, the mobile channel will be essential and fundamental to low-cost distribution.

The ability of mobile devices to support location-based services, whereby a customer's location can be tracked on a real-time basis, is one of the most recent technological developments. Forecasting a compound annual growth rate of 12 percent, the Berg Institute[8] expects revenues from location-based services to rise from 2009's total of $270 million to more than $500 million in 2015.

Spotlight on insurance technology innovations: CUBISM

Accenture's solution, called Coaching Usage-Based Insurance Service Model (CUBISM), enables real-time, seamless analysis of a customer's driving behavior to make his or her risk transparent and allow for individual premium discounts. In addition, value-added services like real-time driver coaching, vehicle theft tracking, a driver logbook or a mobile assistant in emergency situations will provide additional benefits to the customer and help insurers to market a unique offering.

Using CUBISM, insurers can increase their profits through improved risk selection and pricing and lower loss ratios, while growing their revenues through improved customer loyalty and market differentiation.

Source: Accenture Research

This type of technology opens up a host of opportunities for insurers to enhance underwriting, sales and service. Innovative insurance companies are also starting to use location-based data to optimize risk selection and premium calculation for motor insurance. Using this technology, the insurer can monitor and analyze driving behavior in real time while the customer's privacy remains protected. Actual driving metrics will be used to discount individual premiums.

Mobile devices also give customers an additional way to interact with carriers for assistance following loss/accidents, and to give first notice of loss. These services could be enhanced by using location-based technology to improve service by increasing accuracy and speed.

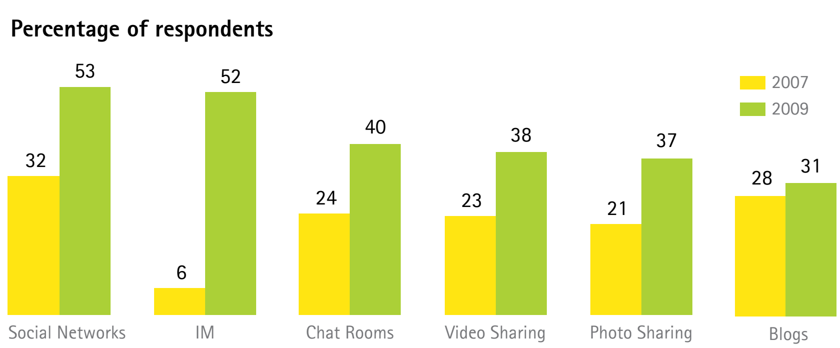
Customers can also use their mobile devices to share lifestyle data, thus enabling adaptive pricing and better-tailored business models. Mobile devices can also improve sales force effectiveness by providing real-time data to agents in customer-facing situations. Open mobile applications allow independent agents to become productive more rapidly.

2. Digital marketing

Internet penetration is high, and consumers are readily adopting new media channels while traditional media are having less impact. Digital marketing has now come of age. It encompasses established methods of digital communication with the customer, such as e-mails, as well as video-stream advertisements and established social interaction tools such as blogs and social networks.

The key driver behind digital marketing is networking and communication through social media. Social media have passed the experimentation stage

Figure 15. Adoption of social media
Increase in adoption of social media activities via PCs, 2007 and 2009



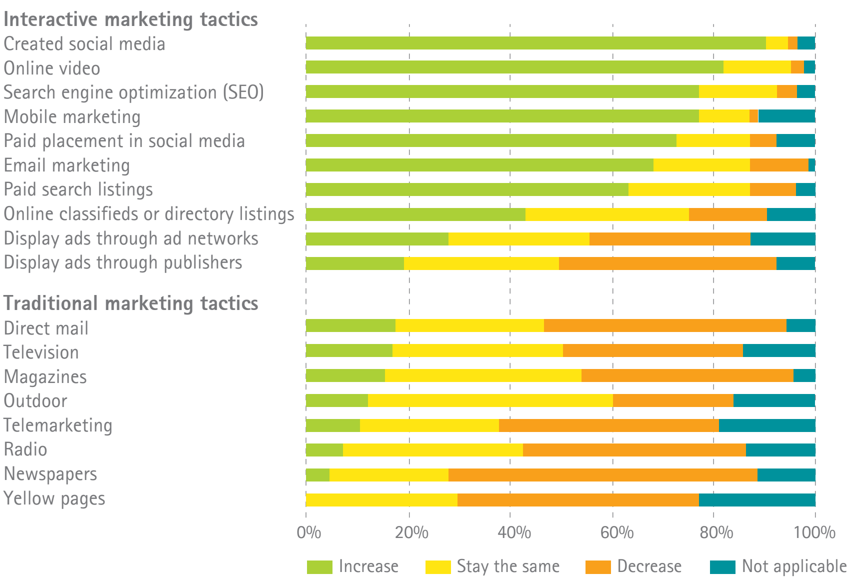
Source: Gartner: User Survey Analysis: Social Media Adoption Trends, June 2010

Figure 16. Consumers are connected via social networks
Global number of active users, 2009 (million)

Source: Accenture: *New waves of growth in the developed world* (Gartner, LinkedIn)

Figure 17. Traditional marketing methods are losing ground

"In the next three years, do you think marketing's effectiveness will increase, stay the same, or decrease for each of the following?"



Base: 204 marketers
Source: March 2009 US Interactive Marketing Forecast Online Survey

and are now a significant communications phenomenon. The usage of social media has doubled from 2007 to 2009, while the popularity of smartphones is now driving their move onto mobile devices.

The virtual world inhabited by an increasing number of customers is extremely complex, and digital marketing will be needed to reach them. More than any other industry, insurance built its market through networking and reputation. As a result, the potential value of social media to insurers should be quite extraordinary. On the other hand, social media are still maturing, and the risks to insurers are more significant than they are to many other industries. Nonetheless, insurers have an unprecedented opportunity to interact with consumers in the digital world.

Consumers will continue to move freely in the digital world and express their opinions publicly. Therefore, insurers have lost control of the content that describes their brand: much of this content is generated by customers, employees and even members of the general digital public, who may not even have had any touch points with the insurer. Traditional brand management is no longer possible: the user-generated input outweighs the company's branding efforts and may even reverse them, if not managed carefully.

Insurers still have to catch up with their customers in the digital world. Established digital media such as e-mails attract approximately 40 percent of marketing spend, followed by paid keyword searches. Online games and social networks attract roughly 14 percent of the budget, with blogs, podcasts, and wikis trailing in the single digits.

For insurers, digital channels can play an important role in various areas of marketing. For example, building a strong brand can be supported online by carefully-managed involvement in various kinds of social media, while user-generated content can be steered gently instead of leaving it to spiral out of control. Social media can also be used to reach clients more easily, and the selling process can be facilitated by offering an option to purchase online.

In addition, involvement in the digital world gives insurers the opportunity to gain a deeper understanding of their customers and gather important market, product and customer information through access to click rates, browsing histories and so on.

The fact of the matter is that customers will turn increasingly to digital tools for information, making each step of the consumer buying process susceptible to the influence of a variety of marketing tools.

3. Analytics

Ubiquitous computing and technology capabilities, paired with the social media consumer patterns as described above, have dramatically increased the volume of data at companies' disposal. According to research house IDC[9], the digital universe grew by 62 percent to nearly 800,000 petabytes in the last year. The estimate for 2010 is 1.2 million petabytes. This explosive growth means that by 2020, our digital universe will be 44 times as big as it was last year. High-performance businesses will be distinguished by their ability to create sense of the digital-information tsunami which is set to swamp us.

Deriving insights from this data will be a key source of commercial insight and thus of competitive advantage. But these insights are reliant on better ways of accessing, organizing and interpreting information. Insurers need more than deep functional insights—they also must develop a cross-functional view to enhance their ability to predict behaviors and consequences. Driven by globalization and greater business complexity, analytics is moving up the sophistication curve. It has now become much more useful because it generates actionable insights rather than simply insight. Crucially, the tools to process the huge amounts of data and analyze it are now commercially available and are integrated into the latest enterprise resource planning, financial and customer relationship software.

Companies across all industries and geographies are investing in business intelligence. The global business intelligence software market is estimated to grow by eight percent annually until 2014. Better analytical capabilities to segment demand, coupled with improved marketing techniques, will be critical to unleashing growth. Insurers can benefit from analytics across major parts of the value chain.

Spotlight: Analytics helps large US P&C insurer to achieve high performance

This insurer wanted to change the way it collected and managed data, and to optimize its business applications to become a more information-driven organization and push business-improvement initiatives. To achieve its business intelligence vision, it teamed up with Accenture. Among other initiatives, and with the assistance of SAS, Accenture defined the strategy for the use of high-end, grid-based analytic tools. SAS and Accenture built an analytics center of excellence within the company using SAS Enterprise Miner, SAS Business Intelligence and SAS Grid Manager, to promote collaboration and easy growth for the insurer's reporting and data mining needs. This allowed the company to manage and prioritize analytics and reporting in areas such as claims management, fraud detection and risk management.

Sources: Accenture, SAS

In terms of marketing and sales, analytics can be used to develop new segmentation approaches that are much more granular than is possible today. In conjunction with additional analyses, this segmentation can be used to create tailored campaigns and detailed profiling. Analytics will also play a very important role in churn reduction, one of the key challenges facing insurers in mature markets.

Analytics can be used extensively in customer and behavioral profiling, information that can be used to make product pricing and individual underwriting more accurate. In the future, analytics will be used to analyze price elasticity and apply consumer-goods-pricing techniques to the insurance industry.

Insurance carriers already use analytics throughout the claims process for fraud detection or predictive modeling. We believe this practice will quickly become widespread in the industry because of the enormous savings it can generate.

We firmly believe that the consumerization of technology will be game-changing for the insurance industry. The opportunities to create value in key insurance functions are far too big to be ignored, and consumers will increasingly demand that insurers use modern technology to provide them with tailored, personalized products and services. Those insurers that have mastered and deployed these new technologies will be the winners in the next five years.

Increase in risk and regulation

Observing the other forces shaping the industry, we believe that apart from financial risk there will be six risks which the high-performance insurer must take particular care in negotiating over the next three to five years. These are:

- Increased frequency of catastrophic events.
- Risks inherent in the lucrative emerging middle classes.
- Demographic shifts in core markets—particularly the risk posed by the aging of workforces.
- Uncontrollable social media attacks.
- Increase in regulatory intervention.
- Increase in cyber crime.

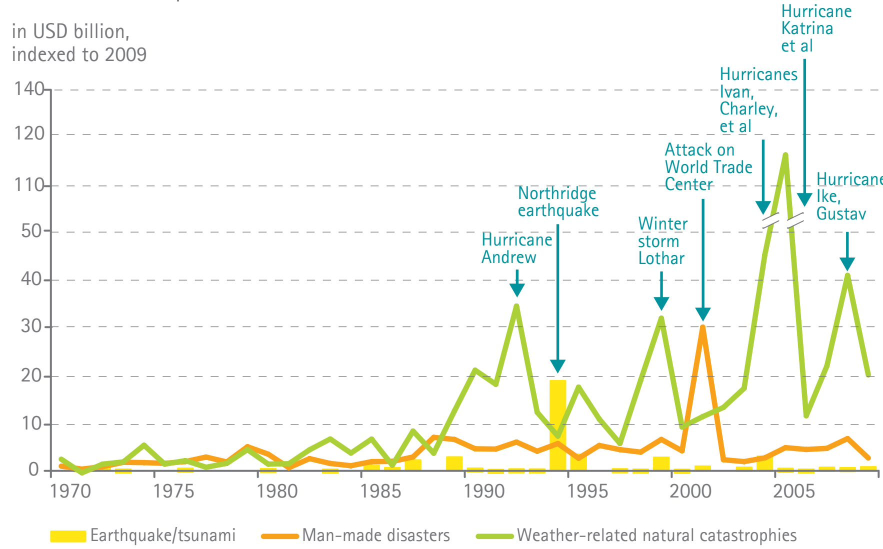
1. Increased frequency of catastrophic events

The increasing number of catastrophic events means that insurers are having to foot an increasingly large bill for claims. Natural catastrophes and man-made disasters cost society approximately $62 billion in 2009; the number of such events has increased since the 1970s. We believe that the incidence of catastrophic events will rise even further, posing a great risk to insurers in the next five years.

Dealing with this risk requires specific skills from insurers. The attraction and retention of experts in this field, as well as the development of predictive models, are key requirements. Only a few insurers with a substantial capital base will be able to underwrite these risks profitably.

Figure 18. Insured catastrophe losses are unpredictable

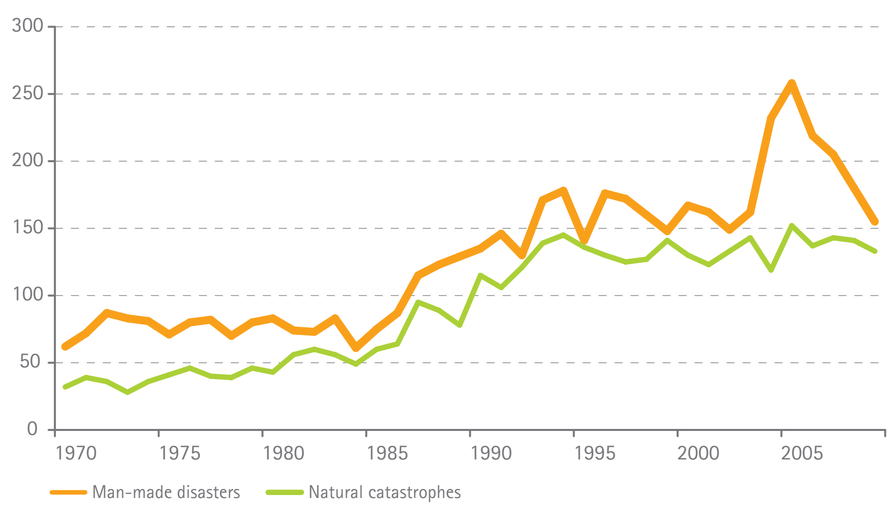
Insured catastrophe losses 1970-2009



Source: Swiss Re, Sigma No 1/2010. Natural catastrophes and man-made disasters in 2009

Figure 19. Number of catastrophic events (natural and man-made disasters) increased since 1970s

Number of events 1970-2009



Source: Swiss Re, Sigma No 1/2010. Natural catastrophes and man-made disasters in 2009

2. Risk inherent in the lucrative emerging middle classes

As the race to capture the growth potential of the emerging middle class gets going, insurers put themselves at risk by applying the underwriting criteria of their existing mature markets to this new market. The realities of the local market cannot be ignored. The middle classes in emerging economies will only be lucrative for those insurers that understand how they differ fundamentally from the middle class in mature economies.

According to a report by the World Health Organization (WHO)[10] on road accidents, compiled in 2010, low-income and middle-income countries have higher road traffic fatality rates (21.5 and 19.5 per 100,000 population, respectively) than high-income countries (10.3 per 100,000). Over 90 percent of the world's road fatalities occur in low-income and middle-income countries, which have only 48 percent of the world's registered vehicles. For example, road traffic injuries have now become one of the top 10 causes of death and disability among Russians.

The number of people diagnosed with diabetes worldwide is drastically increasing, supposedly linked to life-style changes that drive obesity rates. According to the WHO[11], the number of diabetics worldwide will have risen to 333 million by 2025; 80 percent of them will live in low- and medium-income countries. Increased affluence appears to play a key role in this growth: in industrializing countries, research indicates a correlation between diabetes rates and socio-economic groups. For example, India is expected to have the largest population of diabetics by 2030—80 million people—with the highest prevalence among the affluent urban socio-economic sector.

Spotlight: US demographic trends and their impact on insurance employers

A "talent time bomb" is evident in the United States. The gap between the number of American retirement-age workers (55- to 64-year-olds) and entry-level workers (20- to 24-year-olds) is rapidly widening. Starting from a baseline of 390,000 workers in 1980, the gap is expected to expand to nearly 22 million by 2020. The insurance industry will simply be unable to fill professional roles in key areas like claims management at previous rates for two mutually reinforcing reasons: experienced workers are leaving much faster than they can be replaced, and comparatively unattractive entry-level salaries will make it difficult to attract new talent to the organization.

Source: Accenture, *Rethinking claims*, 2008

Increased adoption of consumerist, credit-fueled lifestyles also increases the risk profile of the middle class in emerging economies. Once famed for their frugality, with saving rates of around 40 percent, the Chinese have now become profligate. The use of credit cards is growing rapidly, in line with the country's economic growth, higher income levels and burgeoning middle-class population. In 2008, China had 104.73 million credit cards in circulation, a 92.9 percent increase on the previous year. Saving rates among the urban Chinese young are now effectively zero.

Insurers operating in emerging markets will need to develop a strong local view on risk in order to identify and understand these emerging risks and to develop prediction and prevention methods rapidly.

3. Demographic shifts in core markets

The workforce in many countries is aging, and some industry sectors and geographies will begin to feel the impact of this aging in as little as five to 10 years. Even more critically, this is not a short-term problem. In fact, the population of developed countries is expected to continue getting older over the next several decades. By 2040, Italy, Japan and Spain will have as many people aged 60 or more as people between the ages of 15 and 59. By 2030, 28 percent of Germany's population, and 20 percent of those in the United States, will be older than 65, and 19 million people in the United Kingdom will be over 60.

This risk is currently being significantly underestimated by global insurers. Most carriers in mature markets have an above-average-age workforce and will lose a lot of experience and know how, currently "embedded in the brains" of personnel who will retire over the next five to 10 years. They will have to find ways to transfer this knowledge into the organization.

4. Uncontrollable social media attacks

Social media are a double-edged sword for the insurance industry because of its reliance on networking and reputation. Insurers have so far been quite hesitant to venture into social media. On the one hand, social media such as Facebook, Twitter and Four-square offer a "free" way to market, advertise and promote the brand to customers online. On the other, social media can also provide the vehicle for devastating attacks on an insurer's reputation and brands.

Social media have become a powerful and disruptive force that threatens insurers' ability to control and develop their brand among both customers and employers. Insurers do not own or run the platforms and technology that may be used to launch online attacks from unsatisfied customers, or consumers in general. However, it seems insurers have no choice: already customers are using social media extensively to talk about insurance. Approximately 1,000 entries on insurance are being posted every hour. Google's insurance blog has received more than 300 million entries.

Accenture believes that insurers cannot avoid this risk; they have to manage it. This means insurers need to monitor online conversations with customers and prospects actively. They need to be present in social media forums, expressing their point of view, and build up discussion forums themselves. To avoid (or to better deal with) social media attacks, insurers will need to strategically rethink their approach towards social media and implement appropriate measures. Key elements insurers need to address include creating an overall social media policy and building an ongoing monitoring capability to track social media content that is relevant and impactful to their business.

5. Increased regulatory intervention

In the aftermath of the global financial crisis, governments and their regulatory authorities have recognized the importance of a healthy insurance industry as a key pillar of a healthy economy. Regulation is here to stay and governmental enforcement will increase. We identified three types of regulations which we believe will be relevant to carriers, especially for those choosing to operate in emerging economies.

Financial regulation

The Solvency II Directive attempts to provide the basis for a solid insurance industry in Europe. This groundbreaking revision of insurance law presents European Union insurers with challenges both quantitative and qualitative—from calculating minor technical provisions to developing sweeping new transparency capabilities. Solvency II will add to the pressures on existing risk management capabilities.

Still, insurers expect Solvency II to have a positive impact on the market for those who look beyond compliance, and compete on the enhanced pricing and underwriting capabilities it enables. In the Accenture survey on Solvency II market readiness[12], a full 75 percent of the large European insurers surveyed saw a positive business case in complying with Solvency II. These forward-thinking companies see the benefits of integrating risk management into their overall strategic framework. The impact of this thinking will be felt throughout the global insurance industry as overseas subsidiaries of European insurers fall into line with their parent companies.

Market-entry regulation

Market-entry regulations could be a serious barrier to entry, especially for those insurance carriers looking for growth in new markets. Regulations range from imposed caps on foreign direct investment, set tariffs and conditions, re-insurance monopolies and restrictions on investments to low-return state and central government bonds. Next to more operational hurdles such as the lack of a local sales franchise or IT infrastructure, strict regulations potentially thwart the market-entry ambitions of foreign insurers.

For example, Indian regulators still require foreign insurers to contract joint ventures with local firms, foreign direct investment being capped at a 26 percent stake in the joint venture. A proposal to increase the foreign partner's stake to 49 percent has been pending for some time, with no immediate sign of a decision.

In China the insurance sector is still restricted. Life insurance joint ventures cap foreign ownership at 50 percent. Non-life joint ventures are initially limited to 51 percent foreign ownership, although this falls away after two years, following which there are no restrictions on ownership. Understanding the specifics of local market-entry regulations will be crucial to those insurers that are intending to expand into emerging economies.

Consumer protection regulation

Each year the global economy adds millions of new consumers of financial services. Most are in developing countries, where consumer protection and financial literacy are still in their infancy. Protecting the interests of consumers has become an important component of sound and competitive financial markets, particularly in those countries that have moved from state planning to market economies. Consumers in emerging markets lack experience of sophisticated financial products. Even in well-developed markets, weak consumer protection and a lack of financial literacy can render households vulnerable to unfair and abusive practices by financial institutions—as well as financial fraud and scams operated by intermediaries.

Improved consumer protection regulation is being implemented in many emerging markets. Policy makers are increasingly aiming to balance the country's financial inclusion and participation objectives with consumer protection. For example the Insurance Regulatory and Development Authority, India's supervisory body, recently announced several draft regulations for an open market consultation, which aims to reduce unfair practices and an information gap in domestic insurance in order to enhance market discipline among carriers and protect policyholders' interests. Malaysia's government is planning to introduce a new Insurance

Compensation Scheme to enhance protection for policyholders of life, non-life and takaful (Sharia-based) insurance. The proposal aims to protect policyholders from loss of claims or insured benefits in the event of an insurance or takaful carrier failing.

Accenture believes that as these emerging economies mature, consumer protection regulation will increase. Insurance carriers will have to take this development into consideration when devising new products and sales strategies aimed at underserved segments of the market.

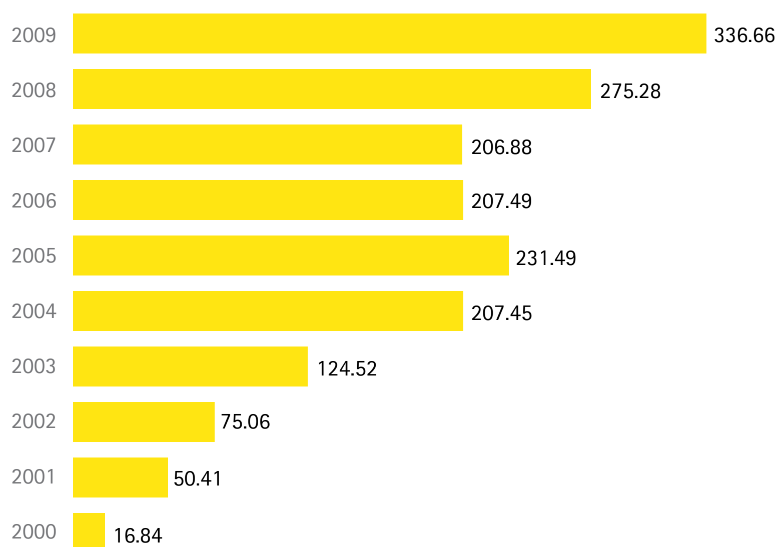
6. Increase in cyber crime

Cyber attacks and malicious activity continue to spread, and neither the economic recession nor geographic location has slowed cyber criminals. Cyber crime encompasses a host of crimes ranging from the non-delivery of merchandise after payment, advanced fee fraud, identity theft, credit card fraud, spam and the spread of computer viruses.

Internet penetration around the world continues to increase, and as developing countries gain broadband access, cyber criminals have more targets. Attacks have evolved from simple scams to highly sophisticated campaigns targeting some of the world's largest corporations and government entities. In addition, the Internet is an international medium that lacks international law enforcement procedures and cooperation, which slows efforts to fight cyber crime on a global scale. The annual cost of identity fraud to the UK economy is estimated to be £1.2 billion (approximately $2 billion), while the cost of online banking fraud in the United Kingdom was nearly £60 million (approximately $97 million) in 2009 after a sharp rise in the number of criminals using malware to harvest people's bank details. According to the *Internet Crime Report 2009* of the US Bureau of Justice Assistance, the reported losses from cyber crime in the United States more than doubled in 2009, from $265 million in 2008 to nearly $560 million in 2009.

Business and consumers need to be protected against these activities, and many insurance carriers have started to offer insurance against both identity fraud and Internet fraud. Cyber crimes pose a new set of risks which call for product innovation and underwriting skills to ensure that insurance carriers can profitably fulfill the growing need for protection against these types of losses.

Figure 20. Complaints received by the US Internet Crime Complaint Center



Source: *Internet Crime Report 2009,* US Bureau of Justice Assistance

Changes in consumer behavior

There are signs of fundamental changes in consumer behavior, a factor which will affect all insurers. The accelerating shift of demographic structures and the rapid development of online and mobile technologies are among the major forces driving changes in consumption patterns worldwide. On top of this, the recent financial market turmoil impacted the way consumers perceive their financial services providers.

Loyalty on the decline

Recent Accenture research[13] confirms that customers are increasingly dis-loyal to their insurance providers. Only one out of two consumers who intend to purchase insurance 'in the next 12 months' is planning to purchase from his or her existing provider. Clearly, customer retention will be a major challenge for insurers in the years ahead.

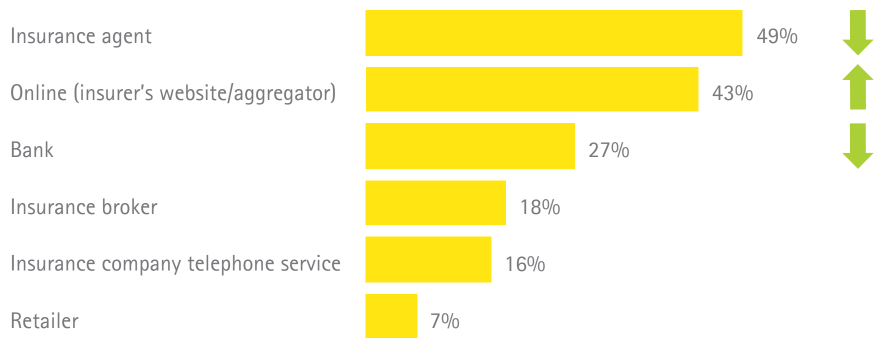
Clear channel preferences

The online channel is taking over as consumers increasingly consider purchasing policies via insurers' websites or online intermediaries. As revealed by the above-mentioned Accenture study, 43 percent of consumers who intend to acquire an insurance product in the next 12 months plan to do it online. Numerous Internet price comparison sites and aggregators serve as starting points from which to hunt for the best offer. Usage of Web 2.0 applications, social networks and more mobile technologies change the way consumers interact, both with other users as well as with their service providers.

Figure 21. The Internet will grow faster than any other channel in all of the surveyed markets

The proportion of insurance purchases/renewals online via insurers' websites and aggregators will increase

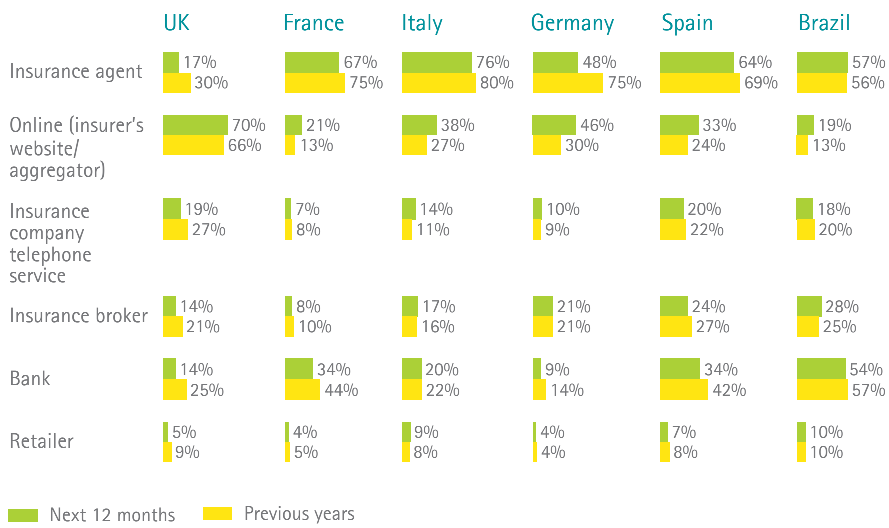
Question: How do you expect to purchase or renew insurance in the next 12 months?



Base size = Respondents planning to purchase or renew insurance product in the next 12 months

Channel behavior by country

Question: How do you expect to purchase or renew insurance in the next 12 months?



Base size = Respondents planning to purchase or renew insurance product in the next 12 months

Source: Accenture Multi-Channel Distribution Insurance Consumer Survey: Changing Channels (2010)

These technologies are creating a new type of consumer that breaks the mould of the conventional middle class. This development is critical for insurers, because the middle class represents their most important target market given its size and financial clout.

In Germany, for example, measured by standard income levels, more than 60 percent of the population belongs to the middle class. This large group of people used to be characterized by a relatively stable set of consumption attitudes and purchasing behavior across Western Europe. Insurers could thus rely on settled preferences regarding products, sales channels and marketing approach. In general, service and expectation levels used to be less demanding within this customer base.

All this is changing as the age pyramid inverts and new consumer groups form. In parallel we observe a trend towards individualization as traditional family structures break down and an increasing number of people remain single. According to the European Statistics Office, every eighth European forms a single household, which in turn causes a wave of individualization in terms of purchase patterns and product preferences.

Heterogeneity in emerging markets

Emerging markets with their young, economically active, increasingly well-educated and upwardly-mobile populations are increasingly attractive markets for companies in other parts of the world. However, a marketing strategy and operating model developed for mature markets will not readily 'travel' to new markets, where consumers are culturally, economically and demographically quite distinct from consumers in mature markets. Emerging markets tend to be characterized by a large, fragmented base of new consumers with low purchasing power and highly localized needs. These large populations are spread over a vast geographic area characterized by cultural barriers and marked differences in lifestyle and language. For these reasons, and in contrast to most mature markets, branding plays a major role in emerging markets. In a recent survey on consumer goods, global information and media company Nielsen[14] identified India amongst the top three most brand-conscious countries in the world. Upwardly-mobile members of the emerging middle classes wish to differentiate themselves in all areas of life, a strong desire that also applies to the financial services they consume.

Multi-dimensional view of consumers a necessity

Markets are developing in many different directions, with each market segment increasingly differentiated. As complexity grows, insurance carriers will need to develop a multi-dimensional view of their customers that supports more actionable segmentation and analysis. While demographic criteria are widely used among insurers, successful competitors will move beyond mere standard socio-demographic segmentation along indicators like gender, age, education level, occupation or income. Insurers need to factor in more sophisticated information to tackle growth opportunities in these diverse and complex markets. Insurers must understand customer behavior and preferences, aggregate information to know the breadth of their relationships with customers, and how customer value metrics can be used. Most insurers still lack a single view of their customers, reducing the effectiveness of their marketing, sales and customer service investments.

Accenture firmly believes that winning segmentation strategies require a more holistic, detailed and expanded view of the customer. For example, insurers must incorporate value assessments such as cost-to-service and cost-to-acquire in their assessment of customer segments in order to become more efficient and profitable while seizing growth opportunities. A deep understanding of customers' attitudes (for example lifestyle, interests, risk tolerance), needs (for example buying and usage drivers, and benefits sought) and perceptions (for example of brands and beliefs) can help insurers develop a more individualized approach that supports up- and cross-selling.

Successful insurance carriers will use actionable segmentation to serve customers more profitably and develop better products—all while building a loyal customer base.

The changing face of competition

Over the last decades, sales structures in insurance tended to evolve slowly. However, disruptive changes in some markets indicate that the pace of change is likely to pick up dramatically. Accenture believes that there are four forces that will alter the face of competition in global markets and drive further change.

1. The return of the broker

Brokers are among the most significant sales channels in mature markets. Based on information from the CEA, the European insurance and reinsurance federation, Accenture estimates that brokers account for 20 percent of the European insurance market—testimony to the fact that selling complex products to commercial customers is best handled personally by a non-exclusive expert.

However, the strong traditional position of brokers has been challenged over the past years by other channels. For example in the German life insurance market, which is dominated by tied agents, brokers' share of new business strongly increased to 32 percent in 2005 and then stagnated. In the UK personal lines property and casualty market, brokers have lost most of their foothold to the direct channel. To play to their core strengths, brokers had to take bold action. Radical consolidation, professionalization of advisory services, increased focus on segments, customers and products, and improved leverage of technology have helped them regain much of their former market in many countries. Overall, we believe this trend will continue, especially in continental Europe, which is currently still dominated by tied agents.

2. The rise of the aggregator

The rise of aggregators (for example, www.confused.com) in the UK market since 2003 marks another, more disruptive trend with regard to the ways in which insurers approach their customers. Acting as price comparison platforms and online intermediaries, aggregators have revolutionized the distribution of insurance in the United Kingdom. In the private motor business segment, they doubled their market share in 2008 to about 45 percent within a 12-month period. Market analyst Datamonitor[15] suggests aggregator-instigated sales could rise to 64 percent by 2011.

Accenture sees aggregators as catalysts of structural change in the insurance industry, introducing a new distribution dynamic. Aggregators will pose significant challenges for insurance companies as price awareness will increase and customer loyalty will decrease; the resulting customer churn will impact profits. Competition will sharpen as online intermediaries facilitate the entry of new market players, who will not have to invest in sales power to gain market share. The rise of aggregators will require established insurers to make substantial operational changes. For example, they will need to develop their online capabilities to grab the opportunities opened up by aggregators.

Insight-driven customer segmentation will be a prerequisite to gain and maximize customer value in this dynamic market. To take a larger share of the insurance value chain, future online intermediaries may take on policy/document fulfillment or claims services. And to seize the opportunities of entirely new business models, partnerships and alliances, online intermediaries may also serve as white-label platforms for new market entrants or brandassurers. Ultimately, aggregators have the potential of redefining what it takes to be an insurance provider.

3. New players

Joint-venture and partnering models are changing the competitive landscape across the world. Insurers are teaming up with large non-traditional players or companies from other industry sectors. Information from data provider BvD suggests that both mature and emerging markets find joint ventures attractive: 40 percent of almost 400 joint ventures in the insurance sector since 2000 were established in the Far East and Central Asian region, with about 30 percent in Western Europe.

Accenture believes that joint ventures will grow in importance over the next few years for two reasons. First, in these markets, gaining client access is crucial to quickly establishing a sustainable market position. In many cases well-established non-insurance players, such as telecommunication providers, can provide this access either through their own customer base and sales infrastructure or through access to their sometimes extremely large employee bases. Second, we observe increasing brand awareness among the new middle class in emerging markets. Apparently, brands are seen as a symbol of entry into the middle class and consumers are willing to pay a premium for them—another reason for insurance carriers to look for attractive non-traditional partners.

4. From payer to provider

Successful insurers will increasingly differentiate through excellence in customer servicing, an area that Accenture believes will change the face of competition. While many European players try to position themselves as "service insurers", the definition of what a service is remains unclear. We believe there are three levels of service customers are looking for.

The basics

A recent Accenture survey[13] among consumers in five mature, Western European markets and Brazil revealed that consumers do not rate insurers highly when it comes to service. Consumers ranked "speed of problem resolution", "accessibility anytime I need" and "knowledgeable and responsive phone support" as top criteria in their choice of insurance provider, but only 25 percent would recommend their current insurance provider. We can conclude that even though many insurers have reorganized their service operations to improve quality and accessibility levels, the survey results suggest that this level of service is not adequate to create a sustainable advantage.

Simplicity

Insurance is widely seen as a complex product with extensive application forms, numerous pages of hard-to-understand terms and conditions and a claims process that is sometimes bureaucratic. Some insurers are accordingly positioning themselves as "the easy way to do insurance" with a reduced set of products, simplified processes and terms and conditions, and a growing number of self-service options. They target younger customer segments with higher expectations of usability and a stronger desire not to buy what they do not fully understand. While this is a relatively new and promising space, creating a sustainable competitive advantage will require the capability to re-invent products and processes constantly.

Spotlight: Bajaj Allianz General Insurance Company

In 2001 the German Allianz Group teamed up with the Indian wheel manufacturer Bajaj Group to form Bajaj Allianz General Insurance Company. Based on an impressive average annual growth rate of 34 percent over the last six years, Bajaj Allianz achieved a market-leading position in its segments. Bajaj's enormous customer base, its well-known and trusted brand and its widespread network of salesrooms across rural and urban India, enabled Allianz to gain a head start in the local insurance market.

Sources: Bajaj Allianz, Accenture Research

Convenience

Successful insurers will not limit their services to paying a claim but to providing a solution to the problem the customer is facing. In this way they not only provide a service that is superior and difficult to replicate, but can control the claims process better, thus lowering claims costs. Assistance offerings and managed health care services stand out as two major business models that show future growth potential.

An impressive eight percent annual average premium growth rate over the last five years testifies to the success of "peace of mind" operator Mondial Assistance. The global market leader in its segment, Mondial Assistance serves about 250 million end-customers in the field of automotive, travel, health and life, pursuing its "helping people, anywhere, anytime" philosophy. Acting on the challenges posed by an aging customer base, the company develops innovative products and services in such areas as dependency assistance and chronic disease prevention. Mondial Assistance differentiates itself from traditional carriers in the customer service process. The company sees excellence in customer contact management supported by cutting-edge technologies as critical to its success. The results speak for themselves: the company's 61 percent Net Promoter[16] score contrasts sharply with the global industry average of 25 percent of consumers who are willing to recommend it to friends. From a financial perspective, Mondial Assistance controls costs through tight management of the provider network of mobile nursing services, breakdown services and so on.

Accenture sees the same business logic applying to successful managed-care organizations. In times of higher public and private health-care spending, top-ranked US carriers like Aetna Health or Cigna focus on delivering affordable, quality-oriented health coverage to retail customers. Medical and health-care supply to enrolled members is limited to the managed-care organization's network of health-care facilities and professionals. A variety of mechanisms help these organizations to control costs (for example, by providing monetary incentives to persuade health-care professionals to select less costly forms of care) while serving their customers' demand for improved quality (for example, by checking if professionals meet certain standards and requirements).

We believe that this field offers the most promising opportunities for insurance carriers to actually compete on service. A key challenge for them will be to decide and develop the optimum means to provide this service: through cooperation, joint ventures or through their own operations. Industry experience in auto repair networks suggests that only a few larger players will actually be able to build their own service networks to create a competitive advantage. Consequently, non-insurance service providers will become a much more important part of this industry.

The new normal

Given the forces that will shape the insurance industry over the next five years it is easy to see that there will be no "back to normal" after the financial crisis. Much has been written already about the so called "new normal" and the implications are visible in the marketplace. Growth rates have been slow in 2009 and 2010, and profitability levels are much lower than they once were.

Accenture believes that the new normal will be strongly characterized by significantly lower returns on equity than in the last decade—whereas ROEs of 15 to 20 percent were not too difficult to achieve prior to the financial crisis, in the next few years carriers that deliver 10 to 15 percent will be pleased with their performance.

And this will only be achieved by those that act decisively to respond to changed conditions. Insurers that employ the same strategies as before, and fail to develop the flexibility and new capabilities that circumstances demand, will be more likely to record ROEs of 5 to 10 percent.

We see five forces driving this development.

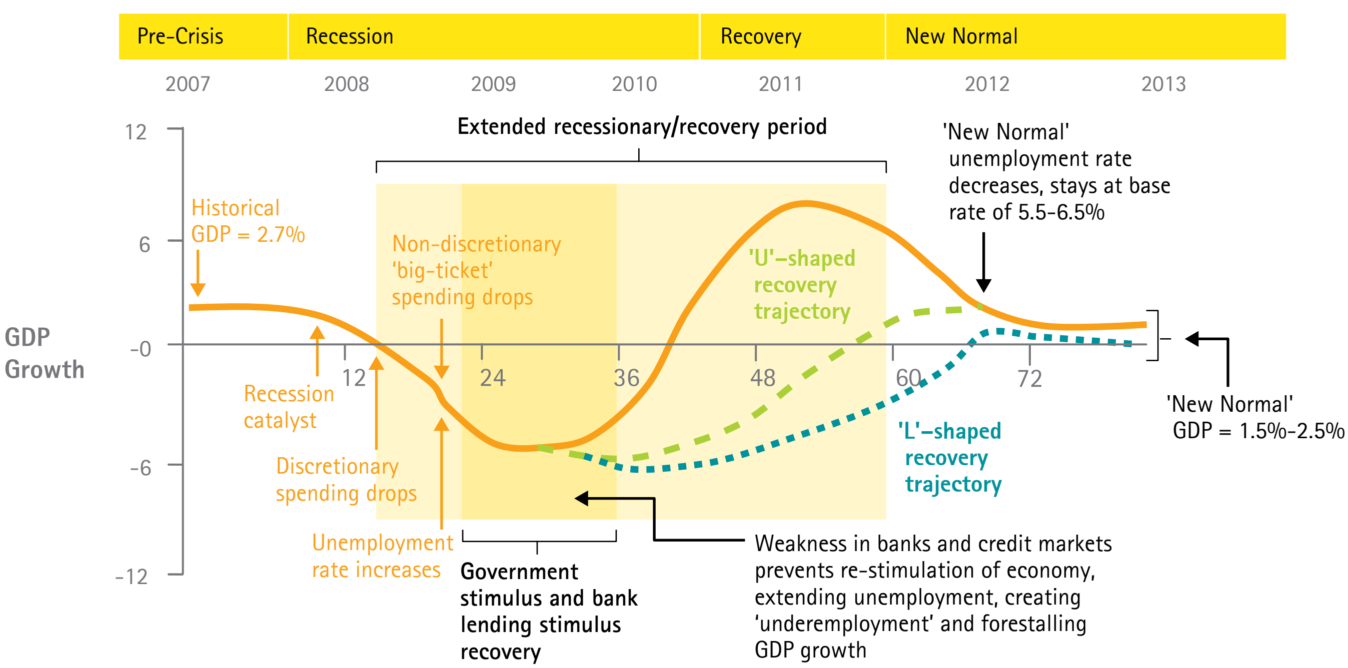
1. Slow gross domestic product (GDP) growth

The macro-economic view shows that recovery scenarios will most likely be protracted and anemic. Both the U-shaped and the L-shaped recovery trajectories project a much slower recovery in GDP growth than the more optimistic V-shaped scenario. The strong correlation between GDP and global insurance premiums, coupled with the assumption that economic activity and demand patterns will not simply return to pre-recession levels, constitute a clear warning signal for insurers. In order to maintain positive returns on equity over the next 10 years, they will need to implement major behavioral changes.

2. Low long-term interest rates

The downward movement in interest rates is another major inhibitor of both growth and profitability levels. An adverse interest and capital market environment will reduce investment returns for both life and non-life insurers globally. Unfortunately, there are indications that this trend could

Figure 22. Perspectives on the new normal



Source: Accenture analysis

continue for some time. In addition, a capital market that is depressed and volatile will also affect the ability of life insurers to make new sales of unit-linked products. Because it will be more difficult to generate investment returns on policies with a capital guarantee, non-insurance retirement products will become more attractive to customers.

3. Increased regulation

The introduction of the Sarbanes-Oxley Act in the US in 2002 heralded a tightening of regulatory restrictions on corporations that is being taken a level higher for insurers in the European Union by Solvency II. While this new directive has been welcomed by many EU-based carriers as imposing a set of standards that will ultimately benefit the industry, it is also acknowledged that it is likely to reduce their return on equity, in the short term, by approximately 2 percentage points.

Insurers elsewhere in the world have not escaped the implications of this trend. An abundance of new local regulations have been and are being introduced to protect consumers and investors, while global corporations often must comply with these regimes even if their head offices are located far away.

4. Commoditization

Property and casualty insurers will be increasingly squeezed by price competition that will intensify in a low GDP growth environment. In this environment, product innovation will be very rare and products will tend to become commoditized. This greater standardization will go hand in hand with improved transparency and sharpened price awareness, especially in personal lines.

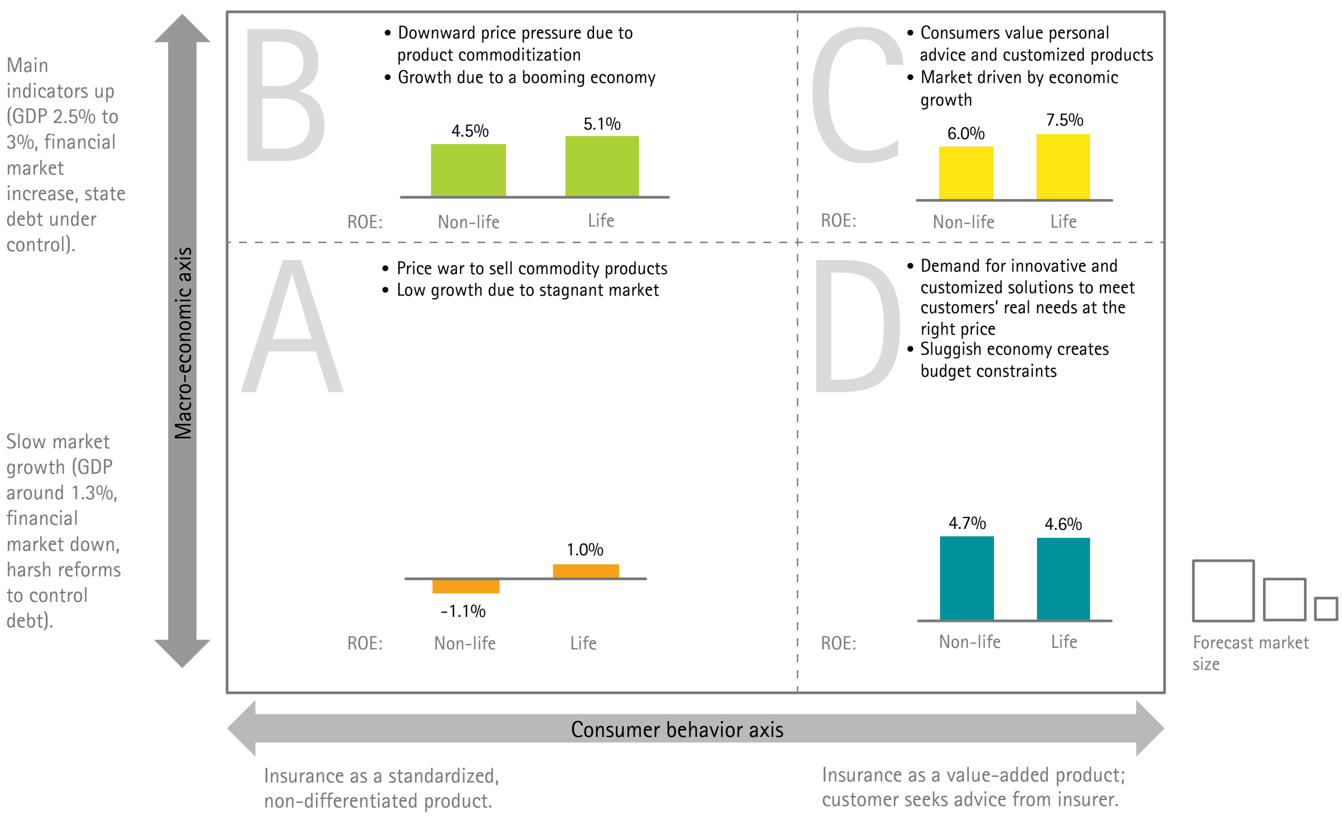
5. Stronger role of intermediaries

Finally, independent intermediaries will gain weight in the insurance business. Successful online aggregators in mature markets, for example, will try to grow their share in the insurance value chain by providing additional customer-centric services or taking on what were once seen as core competencies for insurers, such as claims services. In the process they will reduce the profits of traditional insurers.

Impact of the new normal

All these factors will shape the new normal for insurers, and threaten to further erode both the growth and profit prospects of insurers globally. Their combined impact was analyzed in a large-scale Accenture study[17] conducted in a leading Western European country toward the end of 2010, and validated by industry leaders in the country. The key findings were captured in a set of four possible scenarios for the insurance industry over the next decade (Figure 23).

Figure 23. Four scenarios for the future of insurance



Source: The Western European Insurance Market 2020, Accenture November 2010

Two key variables were examined for the scenarios. The first is the expected buoyancy of the economy, which is recognized as a major influencer of premium growth. The other is consumer preference for less costly, commoditized products as opposed to value-added personalized products and services. A shift along this continuum has had a major impact on the retail industry over the past decade, changing the mix of products sold, raising price competition and the need for promotion, and slashing profit margins in half. Accenture's survey indicates this trend may prove to be as influential in the insurance industry.

According to the survey, scenario A is likely to account for the bulk of the market in the forthcoming years. Macroeconomic forecasts in the mid-term envisage little if any rise in insurance activity. Compound annual growth rates (CAGRs) are expected to decline sharply when the average for the past decade is compared with the next: from 4.0 percent to 1.2 percent for P&C insurers, from 6.3 percent to 3.6 percent for H&PP carriers and from 6.4 percent to 0.5 percent for life insurers. The ROE for life companies is projected to drop to 1.0 percent, and for non-life companies to -1.1 percent. The market will be characterized by price wars and structurally declining profitability.

The sizes of the grids for scenarios B and C reflect the pessimism regarding the prospect of a strong and imminent economic recovery. In the former, the CAGRs are still projected to decline, but not as sharply as in scenario A: to 1.9 percent, 4.3 percent and 4.8 percent for P&C, H&PP and life carriers respectively. ROEs are likely to average 4.5 percent for non-life companies and 5.1 percent for life insurers. While the demand for insurance will grow under these conditions, price pressure will remain and the industrialization of insurance processes will be essential to address the need for low-cost, standardized products.

Even in scenario C, growth rates will be lower than the industry is accustomed to: 2.7 percent, 5.0 percent and 4.8 percent for P&C, H&PP and life carriers respectively. ROEs will be under pressure from the high cost of providing customized service: 6.0 percent for non-life insurers and 7.5 percent for life insurers.

Scenario D is expected to make up a significant portion of the market of the future, and an expanding one as new Generation Y customers, accustomed to social networking and its ability to personalize interactions, grow in number. This segment is likely to be characterized by micro-segmentation and complex, costly products—customers will be creating their own personalized cover through a portfolio of temporary guarantees. CAGRs over the next 10 years will be relatively low (1.9 percent, 4.3 percent and 0.5 percent for P&C, H&PP and life carriers respectively) and the average ROEs will be approximately half of their current levels: 4.7 percent for non-life insurers and 4.6 percent for life companies.

To avoid a decline in ROE, high performers will need agility and flexibility

While these findings are specific to the Western European insurance market, many of the most influential trends and market conditions that have shaped the four scenarios are common, to a greater or lesser degree, to most developed markets. While the data may differ, the broad direction and major characteristics that define the new normal are likely to be similar.

This means that most insurers face a similar imperative in the years ahead: to fundamentally transform their cost structure, not only to minimize the likely decline of their ROE but in fact to remain viable—if not actually to achieve profitable growth—in the face of intensifying price competition.

It is also clear that, given the rapidly-changing business, economic and political landscape, the new normal is a moving target. Now, more than ever, high performance is not a state to be reached, but a way of life. In fact, Accenture High Performance Business research in the insurance industry during 2008 and 2009 showed that many high performers did not keep their titles across both years. We can conclude that this churn in the leaders' group in insurance will continue. High-performance insurers will have to become adept at identifying and gauging the forces shaping the industry, and constantly adapting to a new normal that is perpetually in flux.

High performance thus becomes harder to define, and no longer only means operational excellence, or distribution effectiveness, or differentiation in the market. Rather, it becomes the shifting balance between a number of factors, including growth and profitability, focus and diversification, simplification and sophistication. More than ever, high performance will depend on agility and flexibility.

The high-performance insurer of the future

Market-related requirements for high performance

At the beginning of this report we argued that there is not only a significant potential for growth in emerging markets but also in certain segments of mature markets. However, creating a presence in each of the identified high-growth spaces will not on its own be sufficient to become a high performer—each market will require a specific approach. In short, high performers will have to balance growth and profitability while taking into account the needs of each of the markets in which they operate.

In response to the financial crisis, many insurance companies have reverted to drastic cost-cutting, but it will take more than this to stay successful in highly saturated and commoditized mature markets. We believe that the ability to optimize and industrialize the insurance value chain will be key to high performance in industrial markets. In particular, the optimization and professionalization of sales and distribution will lead the quest for growth. Taking sales effectiveness to the next level through the professionalization of the sales process will be decisive in capturing the high-potential growth segments in mature markets. Counter-balancing the focus on sales and distribution we believe that, post-crisis, insurance companies in mature markets should move beyond mere cost-cutting to accelerate all industrialization efforts. Enter the age of Industrialization 2.0, characterized by a relentless drive to reduce complexity, cultivate agile organizations and transform to lean operations.

In emerging markets, the emphasis will fall on innovation and simplification along the insurance value chain. Owing to the unique market dynamics of the emerging economies we believe that success will depend on a completely differentiated approach.

Innovation will be essential to ensure low-cost distribution to remote areas, and simplification will be pivotal in designing affordable products for illiterate, rural and poor customers. For example, in order to sell a $3 a year micro-insurance product profitably requires lowest-cost distribution and straight-through processing at the point of sale. Products have to be so simple that they can be understood by illiterate customers, sold on mobile devices and require no human intervention to process, issue and service. Insurers unable to shed the dead weight of old-world insurance paradigms will not be able to compete in a market requiring completely different products, prices and service models.

Business models for high-performance insurance

So how should insurance carriers best exploit new growth segments? Is merely expanding geographically and venturing into new markets the silver bullet? Is it necessary to have one foot in mature markets and the other in emerging markets to be successful over the next five years?

The number of strategic combinations in terms of geographical span is myriad. We do not believe that creating a large geographical footprint spanning mature and emerging markets is the only way achieve growth, nor will blindly venturing into emerging markets bring salvation.

An important first step in developing a strategy to grow profitably in the next five years is to decide on a business model which describes the strategic approach and targeted markets, geographies and segments. Accenture identified six business models representing different strategic and geographic combinations which, we believe, will be more likely than others to enable high performance in the short- to medium-term future.

Figure 24. Six business models likely to support high performance in the new normal

Business model	Defining characteristics
Industrializers 2.0	• Strong focus on mature markets. • Explorative in emerging markets.
Value Pickers	• Combined focus on mature home market with carefully selected segments in emerging markets. • Agile, selective, entrepreneurial.
Global conquerors	• Balanced multi-polar footprint spanning mature and emerging markets. • Multi-line business.
Emerging titans	• Sole focus on emerging markets. • Strong cultural fit with chosen markets. • Limited or no presence in mature markets.
Risk masters	• Expert and niche play. • Global presence with a niche focus on selected risks.
Brokers 2.0	• Internet-based brokers with a strong focus on price comparison. • Specialization of value chain with sole focus on distribution and sales.

While we believe that high performers are most likely to use one of these six models, there is no guarantee that other models will not produce high performers.

On the other hand, these business models do not automatically generate high performers. Accenture High Performance Business research has revealed that the business model alone is not enough; the operating model, defining capabilities and governance must also be rigorously aligned to enable high performance. Each of these dimensions must be integrated into our discussion of the high-performance insurers of the future.

Before we go through the different business models in more detail we will provide a brief definition of these dimensions:

Business model

The business model describes the markets and lines of business in which an insurer operates, the services it offers and, more importantly, how it positions itself and competes.

Operating model

The operating model describes the way the company operates along the value chain. This encompasses the organization, processes, technology and people.

Defining capabilities

The defining capabilities describe what a company is really good at and what distinguishes it from its competitors. These are capabilities that are part of the DNA of the company: they are widespread in the organization, repeatedly proven, and built, developed and sustained on purpose.

Governance

Governance is about how the company is managed (whether centrally, regionally, locally or in some combination). Governance also includes the key performance indicators by which the management steers the organization. We will now have a closer look at the business models which we believe will produce the high-performance insurers of the future.

Industrializers 2.0

Business model and strategy

Industrializers 2.0 have a strong focus on their home base in mature markets. They create profitable growth by continuously optimizing their business and operating models to fully leverage the remaining growth opportunities in their home markets. They mostly provide all lines of business through all of the important sales channels. In addition they have a strong focus on service, expanding their model with additional services in claims either with their own offerings or through cooperation with other service providers.

Industrializers have already successfully optimized much of their business, notably operations (policy administration, claims and underwriting) and IT. They are now turning their attention to the marketing and distribution space, using segmentation, analytics, technology and process standardization to move insurance sales from an art to a science. We believe that this characteristic will be pivotal for enabling high performance with this business model.

Insurers that make the most of the Industrializer 2.0 model also explore opportunities in emerging markets … but cautiously.

This business model would be most suitable to multi-line insurers with a turnover of between $15 billion and $50 billion.

Operating model

Industrializers 2.0 build operating models that allow them to take their current strong positions in mature markets to the next level through optimization and industrialization. Their operating models are therefore based on principles such as harmonization, standardization, automation, management transparency, outsourcing where practical, and continuous improvement. The operating models of Industrializers 2.0 encompass all aspects of the insurance value chain and multiple distribution channels.

In the past, Industrializers focused on the back office and IT; now they are applying the same Industrializer principles to the front end. They reduce the complexity of their product range significantly by understanding the full costs of complexity, abandoning low-volume and low-margin products and building a new range of modular products which can be configured at the point of sale according to individual customer needs. They use technology to reduce time to market through centralized product configuration and pricing engines, as well as Web-based sales and agency systems.

Their underwriting approach is highly analytical, using data and deep insight into customer behavior, risk profiles, claims history and predictive modeling. They focus strongly on value as opposed to volume, and carefully execute their explicit underwriting strategy which is based on highly professional risk management.

In marketing and distribution they go far beyond the traditional approaches. Their segmentation and marketing approach is highly data- and analytics-driven, strongly linked to product development. They use digital marketing extensively across all sales channels, which they have integrated to provide multiple ways to interact with customers in sales and service situations. Their sales force is well trained with common processes for acquisition, advice and service. Sales people are strongly supported by technology, with analytics tools for campaigns, customer acquisition and servicing.

Insurers that excel at the Industrializer 2.0 model only operate on a local level where proximity to customers is a necessary requirement for selling business. They have a very precise and strategic view of the commonalities between their businesses in different countries, and harmonize wherever possible. The only core insurance processes which would require this proximity are distribution and, to some extent, customer service, product development and underwriting. All other core insurance processes such as policy administration and services, product development and claims are relentlessly industrialized and shared either across the whole group or regionally if that makes more sense. Many of the larger European carriers have consolidated themselves regionally, many of them in Ireland.

Processes are simplified, standardized and automated where possible. Customers are offered increased access and availability through front offices specialized in dealing with the most frequent requests for policy administration and first notice of loss. Industrializers 2.0 use sourcing as an active means to create even more synergies and critical mass for cost benefits. Repetitive non-qualified processes such as scanning and indexing are sourced out to service providers to further enhance profitability.

Non-core insurance processes such as HR, finance and accounting are either shared or sourced out to third-party service providers.

The organization is skills-based rather than location-based. Instead of replicating functions at each location, similar processes are centralized and administered by employees with appropriate skill and compensation levels. For example, low-skilled employees are used to process simple, repetitive tasks within a centrally-based service center serving multiple locations and regions. Shared service centers use team-based organizations which share joint responsibility for the volume of work and which are of comparable size to allow bench-marking and transparency in terms of efficiency.

Technology is based on a common platform with standard components for all parts of the value chain, except for distribution. Industrializers 2.0 see distribution as a key success factor in disparate markets and cultivate a strong awareness for local differences that are decisive for a market.

Their application development and maintenance is either shared or central, and in many cases offshored or outsourced to a few strategic providers. The same holds true for their infrastructure, which is highly consolidated and outsourced where suitable.

On the other hand, Industrializers 2.0 can use a significant part of their IT budgets for technology innovations that help them optimize their operating model and processes. They assimilate new technology quickly, pilot it rapidly in small areas, adapt it to their needs, and roll it out consistently.

Overall, Industrializers 2.0 have a holistic view of the value chain and regard industrialization as an end-to-end approach.

Governance

Rigorous management is at the heart of the governance model for Industrializers 2.0. A single, central authority manages the business through a cascade of well-defined business metrics. Metrics and performance indicators are strong management tools and are used daily, and where possible on a real-time basis, to monitor and improve industrialized processes continuously.

Industrializers 2.0 use a branch model to manage their businesses. Key functions like operations, claims, IT, HR and finance are based at group or regional level where the strategic directions in these functions, as well as the key investments, process models and technology components, are decided. The functional counterparts in each country are more focused on day-to-day operations and implementation with curtailed decision-making powers.

As a consequence the local senior management consists of operators rather than classical managers of an independent insurance company. The only exception is at the front end, in marketing and sales, where Industrializers 2.0 grant their local branches a higher degree of decision-making in order to allow sufficient agility in responding to the requirements of the local market.

Decisive capabilities

Apart from the host of capabilities which are in general necessary for high performance, we believe there are three capabilities which are absolutely decisive for insurers that derive the greatest benefit from the model:

1. Excellence in operations

Industrializers 2.0 will have the most sophisticated business model. They are excellent managers of complexity, with a deep knowledge and understanding of the metrics that matter. They measure all aspects of the process, understand how to influence costs and are value-obsessed. They align operating goals with individual targets and incentives and they seek, attract and retain the people who excel at this approach. They see continuous improvement as a way of doing things and increasingly introduce innovations from outside the industry, sometimes through senior hires coming from the manufacturing industry.

2. Excellence in business architecture

Creating cross-border operating models that create value is one of the most challenging tasks in the insurance industry. Many companies have moved in that direction, but few have realized the value they were seeking. Industrializers 2.0 excel at this because they make deliberate and transparent choices between group and local benefits. They acknowledge the fact of local differences, understand their root causes, align business models where favorable, but know when to stop. They view cost synergies as only one part of the equation and also take account of the potential value of adapting to local requirements. However, they relentlessly measure the results of this equation and change their approach if they do not realize these results. For them, entrepreneurial autonomy is not valuable in itself but something that is necessary only in certain situations for specific roles.

3. Excellence in marketing and distribution

The most important capability of Industrializers 2.0 is their ability to professionalize the full process from segmentation to distribution and sales. They view this process as a science rather than an art, and are best in class in this field.

Accenture defines the “science” of sales as the use of analytics to complement the instincts, judgment and experience of sales teams, enabling more effective fact-based decisions. The most common uses of sales analytics include mining of prospect databases and providing agents with analytically-driven customer segmentation schemes. We are convinced that the segmentation schemes currently used by insurers are not sophisticated enough to capture the heterogeneity of consumer needs. To win as an Industrializer 2.0 in highly saturated and commoditized markets, insurers will need to optimize analytical capabilities and make actionable insights available to their sales forces.

Industrializers 2.0 will also be strong in a number of additional capabilities, but we believe that these three will make the difference. In short, while they will be very strong in strategy they will be superb managers.

Value Pickers

Business model and strategy

Value Pickers have a strong position in their mature home markets and in selected segments in emerging high-growth markets. They are the perfect portfolio optimizers, leveraging their strong position in a mature market, mostly in their home country, to quickly scan, select and conquer high-growth opportunities in emerging markets. Agile, selective and entrepreneurial, they invest capital in those markets and products with the highest return and shortest payback periods.

They very specifically choose which regions, lines of business and channels they want to target, and rigorously focus on establishing a leading position in their chosen segments as rapidly as possible. They manage to attain top market positions in all of the segments in which they operate.

Value Pickers are not interested in building global presence for its own sake, focusing strictly on generating value in markets and regions which they deem to be of high potential. These markets are not necessarily chosen using an obvious strategic logic. The link between them is that each market is attractive in terms of growth rates, entry barriers and competition; is receptive to the Value Picker's specific capabilities and offerings; and offers an opportunity to achieve a market-leading position quickly.

This business model is most suitable for insurance companies (both life and non-life) of medium size (less than $50 billion in annual premium volume).

Operating model

The operating model of a Value Picker should enable the agility and entrepreneurship necessary to rapidly identify and execute on high-value opportunities in new markets. This is the first and foremost objective of a Value Picker; creating synergies on a group level is second priority.

Value Pickers differentiate between the operating model used in their home market and in emerging markets. In their home markets, Value Pickers follow the same approach as Industrializers 2.0, placing a similar emphasis on standardization, automation, complexity reduction, professionalization of marketing and sales and so on. Because this model is used in only the home market, Value Pickers can be even more focused on optimization than Industrializers 2.0.

Outside of their home markets agility is key for the operating models of Value Pickers. This can be achieved through two different models.

1. Autonomy

Some high-performance insurers have used this model in the past. There are two variants: either acquiring a local company, or using a greenfields approach, often with little more than capital, some staff, and some products and processes provided by the parent company. The new company was motivated by a strong desire to build up its own business with as little interference from the group as possible, and relied heavily on local entrepreneurs. This model was quite successful in the last decade, but its strong growth rates have slowed considerably in recent years. Slower growth rates mean that such operations must come up with different ways to deliver value to the overall group, often through identifying and exploiting group-wide synergies. This approach represents something of a departure from the traditional autonomy, and requires a radical change in governance—something that local management can find difficult. Successful Value Pickers address this challenge directly and tend to move towards a hub-and-spoke model. However, such a change is an extremely fragile and time-consuming process.

2. Franchise

Accenture believes that a franchise approach might produce superior results for Value Pickers, as suggested by some examples in the banking industry, such as Banco Santander. Successful Value Pickers will create re-usable and modular franchise models which consist of common products, processes and platforms which can rapidly be deployed and configured to local needs. Using this model, Value Pickers will only choose markets in which their franchise model can be successful and they will not use all parts of the model in all countries. Thus the attractiveness of any particular market is determined by how well the model is matched to it. Through these franchises the Value Picker will be able to attain the level of local authenticity necessary for success whilst re-using the brand and modular operating model building blocks of the mother company.

This franchise model is to some extent similar to the cross-border model we described for the Industrializers 2.0. However, it is much more modular. In the cross-border model, the operating blueprint is either wholly or partly rolled out in each country, while the franchise model comprises several alternatives depending on the lines of business, the sales channels, the types of products or the market's level of maturity. These modules can be combined to produce a model that is suited to a particular market.

As for the Industrializers 2.0 group, technology plays an important role for the Value Pickers. However, their approach is less centralized. In the home market, the IT function is fully centralized to create efficient and effective IT operations and systems. In their growth markets, Value Pickers use several platforms depending on the regions and markets they operate in. When it comes to delivery, Value Pickers leverage their presence in markets that are also attractive for cost-efficient offshore delivery. In terms of innovation, Value Pickers use their growth markets as pilot areas for new technology or new applications of existing technology and re-import successful elements into their home market.

If markets are carefully selected, we believe this model will deliver better results than the autonomous approach used in the past.

Governance

Value Pickers will choose a governance model that matches their operating model. In their home markets they are organized centrally, with strong directives relating to processes, compliance and key performance indicators.

In their growth markets Value Pickers apply a different governance approach, leaving much more decision-making power to the local operations. Accordingly, strategic key performance indicators, such as growth rates, market share development and profitability, are preferred.

In terms of this model, local companies are connected to the parent group not by directives but rather by their re-use of group assets. In this way, they maintain the entrepreneurial attitude that is pivotal for gaining market share and quickly achieving a leading position. However, Value Pickers that use the franchise model have zero tolerance for deviations from the model without very good and fact-based reasons.

Decisive capabilities

Having a geographical footprint across mature and emerging markets, Value Pickers must strike a balance between the optimization and industrialization required in their mature home markets and the innovation and simplification required for success in emerging markets.

In particular, we believe Value Pickers that excel in the following capabilities are more likely to achieve high performance in emerging markets:

1. Excellence in strategic planning

Value Pickers are very good managers and excellent strategists. They have a comprehensive and rigorous view of the markets in which they are interested. Their portfolio analysis is very fact-based and they have clearly defined thresholds based on value rather than volume. These principles determine whether a market is attractive or not, and they will walk away from markets that do not meet their criteria.

2. Excellence in mergers, acquisitions and alliances

Value Pickers must excel in the full gamut of M&A capabilities, from acquisition strategy, target screening and due diligence to post-merger integration. Accenture firmly believes that Value Pickers can only be successful if they focus on value and performance and not only on achieving a presence in an emerging market. Identifying the value and growth opportunities, and then following through with an agile merger, acquisition or partnership will set the scene for high performance in these markets.

3. Excellence in risk management

Since they operate a portfolio of dispersed businesses in several regions, risk management is a key capability for Value Pickers. They deeply understand the risks associated with their markets as well as the risks they underwrite in these markets. They use this capability to manage their portfolios and make investment or divestment decisions. Furthermore, they have built up a risk management capability that they leverage across all group companies.

4. Excellence in people management

Running a dispersed portfolio in different countries requires the right type of management in the right places, especially under the franchise model. Value Pickers attract and retain top local management for these roles and manage to find the fragile balance between autonomy and entrepreneurship on the one hand and group benefits on the other. They lead their local management by incentives rather than directives, but react quickly when targets are not met. They create a culture of smart entrepreneurship and visibly reward success.

These four capabilities offer Value Pickers the most likely route to achieving high performance.

Global Conquerors

Business model

Global Conquerors have global reach, cover multiple geographies and engage in multiple lines of business. Although this model is not completely new we believe it will continue to be successful. The Global Conqueror business model is complex, and requires operating models and capabilities able to cope with multiple lines of business in multiple geographies.

This business model is suitable only for large corporations with a premium volume that exceeds $50 billion. We believe that maybe one or two insurance companies will be able to become high performers using this business model.

The growth dynamics for a Global Conqueror differ from those of other models. To sustain their large organizations they need to generate substantial growth, but their size makes it difficult to act rapidly and nimbly. Their challenge lies in attaining solid, sustainable and profitable growth against a backdrop of scale and complexity.

Operating model

Owing to their complexity and scale, we believe Global Conquerors can only be successful by creating multiple hub-and-spoke operating models. Re-use and replication are central principles in this operating model. They enter new markets using tried-and-trusted operating models and processes, making enhancements and adjustments only where absolutely necessary.

At the core of this network there is a central hub with central operations for a limited number of functions. These will include risk management, asset management, some IT functions such as architecture, and the group level of the remaining functions such as HR, finance and controlling. Attached to this central hub are regional hubs, each designed for the region the company operates in. They constitute the group level for local companies, encompassing all major functions and decisions for that region. The local companies themselves will operate under the branch model or under the franchise model according to the markets in which they operate.

Global Conquerors put a lot of emphasis on asset creation and re-use. Given their size, their growth ambition in absolute terms is much higher than that of any other player. Hence, they need to be fast but efficient, which can only be achieved through common models and approaches. They have global delivery centers exploiting the benefits of labor arbitrage, they use shared services wherever possible, and they roll out their models forcefully. Overall, the business model of Global Conquerors is extremely complex and offers many opportunities to fail, or at least to produce inferior performance compared to other models. However, the sheer spread over multiple regions and segments offers the chance of stability through diversification in volatile global markets.

Governance

Finding the right balance between central and regional models and local market requirements is a huge challenge—especially when one is targeting all major and emerging insurance markets. In order to master this challenge Global Conquerors develop a multi-tiered governance model.

Strategic global objectives are set centrally; these include all decisions relating to risk management, asset management and strategic IT. These objectives are then cascaded down to regional governance structures where the key decision-making takes place. This includes decisions relating to market entries and expansion, all major investment decisions, the design and roll-out of target regional operating models or common platforms as well as regional capital allocation.

The local companies focus on day-to-day operations.

Decisive capabilities

With their broad regional spread and their multiple operating models, Global Conquerors must excel in a number of the distinctive capabilities already described above in the sections on Industrializers 2.0 and Value Pickers. However, we believe there are two quite distinctive capabilities essential for Global Conquerors to master:

1. Excellence in governance

Global Conquerors have to overcome the challenges imposed by the breadth of their organization, balancing global, regional and local demands. They constantly revisit their governance models, adapting the allocation of decision-making power in order to balance central and regional synergies with local requirements. They operate under a complex set of local market initiatives, regional programs and global direction-setting. They are not dogmatic about centralization, delegating to regions and local operations what cannot be harmonized or does not create sufficient cross-border synergies.

2. Excellence in asset development, and asset and resource allocation

Global Conquerors benefit from their vast pool of resources and their financial ability to build assets that can be re-used as often as possible. They ensure they have a transparent view of their key resources (capital and people), local needs and the return on these resources. Hence, they deliberately and continuously redirect capital and skills to the part of the organization where they can generate the most value. Furthermore, they constantly develop re-usable assets (platforms, products, technology tools, process models) and deploy them across the entire organization to maximize value. Global Conquerors must constantly work to deal with the challenges posed by their sheer scale. Only a very few Global Conquerors will demonstrate superior performance over time to become high performers.

Emerging Titans

Business model

Emerging Titans are large-scale insurers that are solely focused on their emerging home markets. They use their position as incumbent to develop a business model that fully exploits the growth opportunities in these markets. They are growing fast in concert with their markets, and operate on a far larger scale than traditional players in the mature insurance markets. They are dominant in their markets and leverage their installed basis primarily in distribution.

At least for the immediate future they have limited or no presence in mature markets. However, looking at other cross-industry examples, we believe that Emerging Titans are just beginning to understand their competitive power in the global market, and expect them in due course to become serious competitors in other markets.

This model would suit large corporations with a premium volume that exceeds $50 billion.

Operating model

Emerging Titans have a centralized operating model, which they operate at scale with a high degree of standardization and automation. This approach starts at distribution, which is often based on leveraging mobile channels and the Internet or creating innovative and simple ways to activate a broad base of part-time sales representatives in rural areas. The product range is simple, and easy to understand and sell.

Likewise, their processes are very simple, standardized, highly automated and cost-efficient to adapt to the significantly lower average premium volume in these markets. Therefore they use technology extensively either to allow for straight-through processing from the point of sale onwards, or to enable self-service.

Their organization is hierarchical with a higher number of reporting levels than at Western companies due to the size of the organization. The organizational model is developed top-down and allows only a little leeway in adapting to specific requirements.

Low labor costs are leveraged to offer products and service more cheaply than foreign competitors. These low costs also provide an important advantage for their expansion into other, more mature markets—something we are already seeing in other industries such as consumer electronics and automobiles.

Emerging Titans fully exploit the value of technology, and often benefit from a smaller legacy in their IT operations. They have a nearly scientific approach to doing business, using data extensively to improve operations and to better understand customer needs.

While the operating models of Emerging Titans may appear quite simple, especially compared to the models of Global Conquerors, they are in fact highly sophisticated when it comes to managing data and using technology to create competitive advantage.

Governance

Emerging Titans are managed centrally and top-down. In line with the surrounding culture, they are often very hierarchical and sometimes managed in a way that is almost militaristic.

Despite this central, hierarchical organizational structure, these organizations are far from conservative. They contain dedicated groups that constantly focus on innovation. These groups continuously analyze business and operating models, look beyond their company or even industry to learn best practices and incorporate them into their organizations, and keep a close eye on technology trends and their application in business environments.

Decisive capabilities

Despite the relative simplicity of their operating models, we believe that Emerging Titans excel in a number of decisive capabilities that allow them to become High Performers. Five of these capabilities are decisive in the quest for Emerging Titans to achieve high performance:

1. Excellence in large-scale management

Emerging Titans know how to operate at scale. They have the ability to develop large-scale models and the rigor to implement and manage them. This includes the capability to constantly measure the relevant key performance indicators as well as the ability and willingness to enforce compliance and instantly deal with deviations. Emerging Titans are obsessed by the specific way "it has to be done".

2. Excellence in simplicity

Emerging Titans always find the easiest way to do business. Without a legacy of complex products, processes and systems they master simplicity out of the sheer need for low costs. This includes a deep understanding of customer needs, product and process design, as well as the extensive use of technology.

3. Excellence in learning

Emerging Titans are fast learners. They do not shy away from looking at other places for new ideas, best practices or different approaches. They take what is most suitable for them and adapt it to their needs.

4. Excellence in low-cost distribution

Insurance distribution in mature markets can be quite expensive—something that emerging markets cannot tolerate. Emerging Titans have always operated under these conditions and have developed a mastery of distributing at low cost. This includes electronic channels like the Internet and mobile devices, but also large-scale part-time sales agent networks to operate in rural areas. Despite the size of such an organization, Emerging Titans have managed to keep complexity—and thus costs—to a minimum.

5. Excellence in technology

Emerging Titans are strongly interested in new technologies and how they can improve their business. They spend a higher portion of their budget on innovation, experiment and pilot a lot, and implement a new technology quickly once they have taken the decision to use it broadly.

Emerging Titans are one of the most fascinating potential high performers to watch. Their focus as well as their size provides vast opportunities for further expansion. Once this happens they will become serious competitors for the incumbents in mature markets, addressing a specific, price-sensitive market segment with a highly-competitive offering.

Risk Masters

Business model

As we have described above, we believe that big catastrophic events will become more frequent and more intensive in their effects. In addition, we expect that investments in large-scale renewable energy will continue. We therefore believe that the global demand for carriers specializing in these types of risks will increase. We call these players Risk Masters.

Risk Masters are characterized by a very high level of specialization on an international level. This business model can only be successful on a global scale.

There is demand for the services that Risk Masters offer in industrial markets, and when the right operating model is used, we believe a small number of these insurers could achieve high performance.

Operating model

To be a high-performance Risk Master means, to a large extent, leveraging specialized skills on a global level. We therefore believe that Risk Masters need a truly global operating model, in which all major operations are highly harmonized and standardized. Wherever possible these operations will also be centralized. This will be true for most of the functions that are not client-facing. Sales, underwriting and claims, however, will be local because of the required proximity to brokers and clients and the need to accommodate local conditions. Key account management, however, will be increasingly global, reflecting the structure of many of the larger clients that Risks Masters serve.

IT automation plays less of a role than it does in other business models. Products and policy administration are highly tailored and the need for large-scale IT support to increase the efficiency of repetitive processes is not as pronounced as in the other models. Risk Masters do use technology for process support in underwriting and for decision support on complex risks. High performers in this field have a scientific approach to underwriting that requires considerable data and analytic capabilities. For this process Risk Masters use the latest technology—for example, in claims prevention, where sensor technologies are used for preventive maintenance.

Risk Masters have developed a skills-based model that attracts experts who receive the support they need to use their skills and their experience to best effect. Standard processes and technology are used to generate predictable results in similar situations while at the same time focusing the expert capacity on evaluation rather than on activities that add less value.

In addition, Risk Masters focus their operating model on those areas that actually create value for their businesses. Administrative tasks, repetitive tasks relating to data collection and IT infrastructure do not add value and are consequently outsourced to specialist providers.

Governance

In line with the operating model, the governance model of Risk Masters is truly global. The company is structured and managed according to specific types of risk and key accounts rather than according to local entities. Hence, most decisions are taken at the highest level because they are applicable to the total organization.

Decisive capabilities

For Risk Masters, four capabilities will be decisive for success:

1. Excellence in underwriting

Given the types and volume of risks they will have to deal with globally, underwriting and risk management are clearly vital capabilities for specialty insurers. However, Risk Masters, with their specialized understanding of all dimensions of risk, have raised the bar in this area. Their understanding goes beyond potential damage. They use predictive modeling, statistics and other data to probe the underlying drivers such as market conditions, regulatory requirements and long-term implications. As specialists, they can call on a rich pool of data to make their analyses more accurate.

2. Excellence in risk management

Underwriting these risks requires a solid capital base and the right allocation of capital to risk. Risk Masters have developed highly sophisticated risk management systems which provide real-time transparency of their actual risk (as opposed to the risk estimated at the time of underwriting), their allocated capital as well as their profitability. This allows them to constantly model their position and to adapt it when necessary.

3. Excellence in people management

Risk Masters depend heavily on highly skilled personnel in practically all company functions. Therefore, they have developed sophisticated models to recruit, train, further develop and incentivize highly-skilled people. In order to deal with the increasing global scarcity of such resources, Risk Masters have developed specific programs to recruit undergraduates early and train them, including sponsoring relevant post-graduate programs.

4. Excellence in industry knowledge

To ensure their profits, Risk Masters need to really understand the industries in which they underwrite. They therefore organize themselves along industry as well as risk lines in order to keep abreast of industry developments, the regulatory environment, new manufacturing techniques and new types of raw material.

Thus far, no high performers have emerged from this business model but, given the strong growth rates expected in the risk sector, we are confident some will do so in the not-too-distant future.

Brokers 2.0

Business model

The Brokers 2.0 model encompasses two basic types of broker. On the one hand there are traditional brokers who use electronic channels extensively, either to communicate directly with customers through an aggregator model or to establish Internet-based wholesale models for smaller brokers, specifically in mature markets. On the other hand, there are the rising aggregators, which we described earlier.

Both types of broker focus mainly on distribution, positioning themselves as independent sources of advice and price comparison for an increasing number of customers who value independence and are used to gathering information and comparing products and prices using electronic channels.

Operating model

Brokers 2.0 generally use local operating models, focusing on distribution and product procurement. They have developed sophisticated online processes that address customers' needs for convenience, transparency and individuality.

They use analytics, digital marketing, mobile technology and data management extensively in order to provide a customized user experience. In line with successful Internet players in other industries, they are obsessed with customer-centricity and constantly rethink and adapt their customer interaction models. (We even expect that some of the classic Internet pure-plays will increasingly use insurance products as a way to leverage their existing customer bases.)

Brokers 2.0 continuously expand their model, and have moved from price comparison to premium collection, online advice and fulfillment services such as first notice of loss.

In terms of product procurement, they increasingly use their market position to influence insurance carriers in product development and pricing. As they develop their own brand, they sometimes also venture into white-label products.

On the wholesale side they provide the full range of brokerage services from price and product comparison, advice support, application fulfillment, claims fulfillment, document administration and client administration.

Governance

Because of their small number of employees and their focus on a small number of countries, governance models are relatively simple. IT and key processes are organized centrally, whereas all marketing decisions are taken and implemented locally. Decision processes are short and agile and implementation starts almost instantly. The management is usually a mixture of people with an insurance background and those with Internet experience.

Decisive capabilities

Brokers 2.0 are likely to achieve high performance on the basis of two decisive capabilities:

1. Excellence in technology

To a large extent Brokers 2.0 are technology companies. They use highly sophisticated applications especially in customer interaction, dynamic content management and data analytics. They are early adopters, experiment with new technology extensively and improve their model regularly.

2. Excellence in customer interaction

Brokers 2.0 are successful because they really understand what their customers want and measure what their customers do. Customer segmentation, customer analytics, digital marketing and the full range of Web 2.0 technologies are extensively applied by Brokers 2.0 in order to serve one single purpose: providing a customer experience that is as individually tailored to the customer's specific needs as possible.

Success not assured

As indicated at the beginning of this chapter, these six business models do not automatically generate high performers. On the contrary, some are quite difficult to master and in each case a number of companies will fail to implement the model successfully.

Figure 25. Summary of the characteristics of the six high-performance insurance models

Dimension/ Model	Business model and strategy	Operating model	Governance	Decisive Capabilities
Industrializers 2.0	• Strongly focus on mature home market • Optimize position and performance in mature markets • Move from art to science in marketing & distribution space • Are typically multi-line insurers with premiums of $15 – $50 billion	• Optimize and industrialize across the value chain • Expand principles to front end • Leverage analytics, digital marketing • Share or outsource non-core processes • Run skills-based organization, centralized functions • Leverage common platform with end-to-end approach	• Have rigorous, single and central management through well-defined business metrics • Use branch model with key functions (e.g. claims, IT) at group or regional level • Have local operations and management focused on day-to-day business	• Operations • Business architecture • Marketing & distribution
Value Pickers	• Are portfolio optimizers with strong position in mature home markets, selective in emerging markets • Run their business in an agile, selective and entre-preneurial way • Are typically life or non-life insurers with premiums less than $50 billion	• Differentiate between home and emerging markets • Optimize and industrialize across the value chain in mature home markets • Operate agilely outside their home market with either autonomy or franchise approach	• Are organized centrally in home markets with strong directives • Follow more decentralized approach in growth markets with use of more strategic key performance indicators	• Strategic planning • Mergers, acquisitions and alliances • Risk management • People management
Global Conquerors	• Have global reach in mul-tiple geographies and lines of business • Strive for solid sustain-able and profitable growth against backdrop of scale and complexity • Are typically large insurers with premiums more than $50 billion	• Create multiple hub & spoke operating model with re-use and replication principles being key • Run central hub with operations for limited number of functions (e.g. IT) • Build regional hubs • Operate local companies under branch or franchise model • Build global delivery centers and use shared services	• Set strategic objectives on central, global level and cascade through regions • Make key decisions on regional level (e.g. M&A, investments) • Have local organizations focused on day-to-day operations	• Governance • Asset development and asset & resource allocation
Emerging Titans	• Focus on their emerging home markets only to exploit growth opportunities fully • Are dominant in their markets and strong in distribution • Are typically large insurers with premiums more than $50 billion	• Have a centralized operating model • Run their business with a high degree of standardization and automation • Are sophisticated in data management and technology use	• Manage centrally and top-down • Are highly innovative	• Large-scale management • Simplicity • Learning • Low-cost distribution • Technology
Risk Masters	• Specialize in specific types of risk internationally • Run their business as niche experts and on a global scale • Focus on industrial line of businesses	• Skill-based employment & operating model • Centralize operations above all for non-client facing functions • Tailor products and policy administration • Attract highly-skilled experts • Outsource repetitive tasks in data management and IT to specialist providers	• Run globally and aligned with key clients and specific types of risk • Take decisions at the highest level	• Underwriting • Risk management • People management • Industry expertise
Brokers 2.0	• Position as independent sources of advice and price comparison to customers • Operate as aggregators or as traditional brokers who use e-channels extensively	• Focus mainly on local business in distribution and product procurement • Use technology like analytics, digital marketing, mobile • Continuously expand their model to offer additional functions to clients	• Have fairly simple governance model • Organize IT and key processes centrally • Take and implement marketing decisions locally • Have mixed management with industry and Internet background	• Technology • Customer interaction

Furthermore, we will see companies trying to move from one model to the other, for example from an Industrializer 2.0 to a Value Picker model.

We also acknowledge that there is some overlap of models, and also that our descriptions of their operating models, their governance and their decisive capabilities are neither exhaustive nor true for all players. Nonetheless, we believe that in general these models differ significantly in the four dimensions we have used, and provide a useful taxonomy of the possibilities open to insurance companies in pursuit of high performance.

Different models: common principles

Despite all the differences between the business models we are convinced that all high performers in insurance share a set of common principles. Hence, regardless of the model, the following list of principles can serve as a check list to determine whether a company is on track to achieve high performance.

High-performance insurers pick their growth markets very carefully

High-performance insurers take a conscious decision to determine their sources of growth, either through the markets and segments they operate in or through the way they compete in low growth markets. This analysis will allow them to decide the business model they will choose. They aspire to rapidly achieve a top position in each market, and will divest if this cannot be reached quickly enough.

High-performance insurers meticulously align operating model, governance and capabilities to their business model

High performers do not make compromises. They choose their business model deliberately and meticulously align everything else to it. It is this alignment, rather than simply the business model, that provides the basis for achieving high performance.

High-performance insurers use technology extensively as an enabler

High performers regard IT not as a support function but as an enabling function and a source of competitive advantage. Consequently, they invest in new technology and derive the maximum value from it through selling more at a lower cost.

High-performance insurers manage complexity

High performers have a deep understanding of the implications of complexity for processes, costs and consumers. They develop intelligent models to reduce complexity by providing differentiated products based on standardized modules.

High-performance insurers build agile organizations

High performers build an organization and corresponding infrastructure that are agile, allowing for fast decision processes, rapid deployment of new solutions and a strong mindset for change.

High-performance insurers are obsessed with value

High performers are not focused on top-line growth or cost reduction alone. They do nothing without a strong business case and are obsessed with increasing the value they get out of their business.

High-performance insurers execute faultlessly

High performers understand that only faultless execution realizes the value that great concepts promise.

Many of these principles have been constant requirements for achieving high performance in insurance—but sticking to them is materially more difficult in today's markets. Some are deceptively simple. In fact, Accenture's work with leading insurance companies over the years has shown that only a few companies are able to adhere to all of them constantly, and so attain high performance.

Conclusion and outlook

The next years will be both challenging and interesting for the global insurance industry. While the sector has not been as severely affected by the financial crisis as other financial services industries, insurers will have to resign themselves to a significantly lower return on equity while at the same time adapting to a much higher degree of change in the coming years.

At the beginning of this paper, we identified five strong forces that will shape the industry. Our subsequent analysis suggests some conclusions that insurers should ponder (see table):

Force	Conclusion
Shifts in growth from mature to emerging markets	Insurance today is much too complex and complicated for insurers to benefit fully from the strong growth in emerging markets
Increase in consumption and development of technology	Those who master IT will be able to create a competitive advantage
Increase in risk and regulation	Insurers need to move from compliance to competition to benefit from the regulatory changes
Changes in consumer behavior	Unlike in the past, consumers will drive change in the insurance industry over the coming years
Changes in the competitive landscape	Insurers will have to move from being payers to providers to unlock additional value from claims services, and to differentiate their services

As a consequence, insurance will become less attractive as an industry and for investors than it was in past decades. The trends driving slower growth and lower profitability are already visible in the marketplace. Insurers that fail to respond effectively to the new normal can expect, at best, a return on equity of 5 to 10 percent. Our analysis suggests that, in the worst case, insurers that do not take appropriate counter-measures risk losing most of their profitability over the next years. However, we believe there is still a lot of value potential in the industry for insurers that identify the right niche and/or business model.

We have therefore developed six business models which we believe will lay the foundation for high performance over the next few years. They are not a recipe for success, but a useful map to identify the areas where the most value can be created. Each company needs to determine the most suitable model for itself. Ultimately, it is not the model that matters as much as the skill with which it is implemented.

We have described these business models in detail, including the corresponding operating models, governance and defining capabilities. This allows insurers to assess their current position in relation to their chosen model, and to identify gaps and areas for action.

Insurers need to act now. They need to make clear and deliberate choices about where their growth will come from, and then align their operating model, governance and capabilities to their chosen business model. Even for today's high performers, change will have to be significant in order to reach profitability levels attractive to both investors and employees.

The industry is still financially attractive to those players that start to adapt to change now. This study could serve as the starting point for this journey.

For more information about Accenture's High Performance Insurer of the Future study, or any of issues discussed in this report, contact Hendrik Jahn at hendrik.c.jahn@accenture.com.

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 204,000 people serving clients in more than 120 countries. 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. The company generated net revenues of US$21.6 billion for the fiscal year ended Aug. 31, 2010. Its home page is www.accenture.com.

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