Internationalization: a path to high performance for insurers in uncertain times

As internationalization takes on new urgency for large insurers, creating an optimal multi-country operating model is key.
Introduction

A new research study has revealed that internationalization is a high priority for leading insurers even in the midst of the continuing economic slowdown. Indeed, it may take on greater urgency as economic rebalancing around the world accelerates and pushes insurers to aggressively embrace geographic diversity.

Insurers with a well-established international footprint must focus on scaling up their operations and integrating them into highly efficient multi-country regional or global operating models. Maintaining a series of autonomous companies in various countries will not deliver the results expected of large international players. Designing, implementing and operating an effective multi-country operating model, however, will be a significant challenge.

For companies with international aspirations but who have not yet established operations, time may be running out. And the execution challenge is even greater. They need to build presence rapidly, while simultaneously developing multi-country operating models that will support their expansion.

Survey highlights

Accenture interviewed senior executives from more than 100 global insurers to understand their motivations and plans for international expansion. We also examined the opportunities and challenges they see in deploying their multi-country operating models.

Key findings:

• More than three-quarters of insurers surveyed rated international expansion as a critical or important driver of economic value.

• Most plan further international expansion in the next year; for Life insurers the greatest investment will be in emerging markets (principally China, India and South Korea), while P&C insurers anticipate a more balanced expansion across both emerging markets and Western Europe.

• The current economic turmoil offers increased opportunities for international expansion in the next three years.

• The drivers for international expansion include: spreading risks and balancing business cycles, managing costs more efficiently and taking advantage of attractive stock prices.

• The major challenges anticipated to successful international expansion are primarily internal constraints: executing the entry strategy, building the business case, assessing risk and developing local market knowledge.

• Multi-country operating models incorporating regional level integration of business operations and IT, Finance and Human Resource functions is prevalent among large insurers; global operating models are emerging. These models have important cost benefits.
The insurance industry has been slow to integrate operations across geographies and some early business models have not been particularly successful. In some countries, protectionist regulations have been a major constraint on both the entry of foreign insurers and on any subsequent cross-border integration. Language and cultural differences have constrained customer-servicing activities across borders. Although they do exist in insurance, scale economies related to fixed cost structures have perhaps been more limited than in other, faster globalizing industries.

Large insurers have incrementally extended their presence globally over many years, often through acquisition. But, other than slowly unifying their brand names, they had maintained fully integrated, nationally-based operations. Historically, these companies had not sought to globalize many aspects of their operating model or leverage insurance manufacturing capabilities across borders.

However, change is unfolding. Labor arbitrage has arguably been the strongest driver to date for relocation of manufacturing across borders. It is only recently that some regulatory and technology trends have reached a point where standardization across countries has become feasible. Continuing competitive pressures are now driving insurers to leverage costs across multi-country operations.

Many of the largest insurers now have well-established international operations which represent a large proportion of their overall income and value. Seven of the ten largest insurers worldwide derive between 20 percent and 60 percent of their revenues from outside their home region—Europe, North America or Asia-Pacific (see Figure 1). We believe that they are now moving from an ‘establishment’ phase to a ‘realization’ phase, recognizing the importance of growing their earnings from international operations through both revenue and cost synergies.

Figure 1. Geographic distribution of income for global top 10 insurers (2008 geographic split)

The maturity and extent of multi-country operations differs among the top 10 global insurance groups

1 Based on Fortune 500 Ranking of Global Insurance Groups, 2007 Revenues
Please note: for all companies except AXA and Aegon, this split is based on differing measures of insurance premium income, depending on the reporting segmentation provided by each company. For AXA and Aegon this split is based on revenues. Where possible asset management and banking figures have been stripped out. As directly comparable splits are not available across these companies, the geographic splits above should be regarded as indicative.
Multiple approaches to international expansion

Rationales for expanding internationally vary greatly among insurers. The economics of operating networks of businesses internationally are complex, especially given the competitive and regulatory constraints under which financial services firms operate from country to country. In fact, some countries like the US are not uniform yet at a country level, while regulations in the EU offer some possibilities to fundamentally change operating models.

Aiming to be number one or two in every territory of operation may be an impractical strategy. A more pragmatic approach seeks to build and maximize overall profit and opportunity across a geographic and business portfolio.

For some insurers, internationalization has simply been a response to the limits of size of their home country markets. A large multi-line global insurer, based in one of the smaller European states, moved to establish cross-border operations within Europe many years ago. Old Mutual, originally one of South Africa’s two dominant life insurers, has since its demutualization in 1999 expanded operations to Europe, North America, Latin America and Asia. QBE, a leading commercial lines P&C insurer based in Australia, has grown substantially over the last decade, expanding into North America and Europe. Indeed, its home market now accounts for only about one-fifth of its premium base.

**Life insurers**

Many Life insurers from developed markets (principally the US, Japan and Europe) have looked to expand in the emerging markets of Asia. They recognize the rapid growth in wealth and demand for secure investment propositions. The recent deregulation and opening of markets in both China and India has been a particular attraction.

Major life insurers such as AIG, Allianz, AXA and Prudential (UK) have presented their capital strength and reputation to regulators and customers in these new markets. They have also leveraged their product design and innovation strengths as well as their ability to manage large direct or agency sales forces to gain market share in Asian markets.

These companies will generally seek to establish scale in each country to underpin a sustainable competitive position locally. However, local sales and servicing operations are ultimately ‘asset gatherers’, while asset management operations can be readily leveraged cross-border with strong economies of scale. So, these companies need to understand and optimize the different economics of local sales versus potentially global asset management. To be successful, they need asset management operations that are large in the aggregate, but do not necessarily need to be dominant in product sales in each local market.

**P&C insurers**

In the P&C sector, reputation and capital strength are clearly important factors but may not be as much of a differentiator as for providers of long-term life and annuity contracts. In mainstream personal and commercial lines areas, the products are also more commoditized and margins can be thin, so scale in territory is arguably a more important driver of profitability than in life insurance. Market entries with poor prospects of attaining sustainable scale, either through further acquisition or accelerated growth, may not contribute to long-term success.

The international operations of some major insurers with both Life and P&C operations—such as AXA, Aviva and Zurich Financial Services—indicate that these companies maintain a broader geographic presence in life insurance with varying market positions, but are more selective and scale-oriented in their P&C operations.

**Niche players**

A scale play may not be feasible for all insurers looking overseas for growth. Friends Provident plc, a relatively small competitor in the UK Life insurance sector, has taken a niche approach to international growth. It established a relatively successful International business, with sales operations in Hong Kong, Dubai and Singapore; unusually with much of the processing serviced from the UK. This business is focused on developing a customer base among affluent expatriate workers—a ‘follow the customer’ strategy.
A few European life insurers, in particular Italian companies, have reversed this operating model. Initially attracted by tax incentives and grants, they have established cross-border bases in Ireland from which to serve parts of their home country business. One-half of the total life premiums written in Ireland are now foreign-risk business (€15 billion in 2006). Some limited tax advantages still continue today, but these insurers now find that operating under Irish regulations also enables them to be more flexible in launching new products.

There are also many niche areas in P&C, especially within large and specialty commercial lines, such as ‘Global Program’ business. A small group of insurers including AIG, Allianz, RSA and XL sustain international networks that can support the servicing of global insurance programs for large corporate clients. Although global program servicing will typically be part of indigenous insurance operations, the scale of the local operation is not an important factor in its own right—it only needs to be sufficient to be able to maintain the skill base and quality of servicing demanded by corporate risk-manager clients.
Equity analysts value international expansion

According to insurance equity analysts, both domestic and international growth are important.

To gain insight into how insurers can earn superior financial ratings in a turbulent marketplace, Accenture commissioned a separate global survey last year of more than 100 leading insurance equity analysts in 14 of the world’s largest insurance markets—nearly one-quarter of the insurance equity analyst community.

That survey showed that insurance equity analysts overwhelmingly value the ability to generate sustained organic growth over acquisition-led growth. Ninety-one percent said organic growth in traditional markets will be important or critical to superior ratings in the near-term. But they also place a strikingly high value on emerging markets growth. For example, 85 percent of life insurance analysts said that expansion initiatives (organic or mergers and acquisitions) into emerging markets will be an important driver of superior ratings.

The implications of that survey are that, in the view of the equity analysts, insurers need both a credible growth story for their home markets and a robust strategy to drive international expansion that will rapidly deliver organic growth. Penetrating emerging markets, however, will require a deep understanding of local conditions, regulations and cultural nuances—and an ability to scale efficiently across borders. Without a proper strategy, the tantalizing growth prospects of emerging markets may turn out to be illusory.

Prudential plc, based in England, is an example of a company which has placed a priority on international expansion. According to a recent Deutsche Bank report, their analysts attribute 62 percent of the economic value of the company to its Asia and US life businesses, and only 25 percent to its UK life business (14 percent to its global asset management and UK property/casualty businesses).

Financial crisis as catalyst

With the importance of international expansion recognized, our new survey sought to understand some underlying considerations that may be applicable across the wide range of motivations and approaches being adopted.

Conventional wisdom would suggest that the financial crisis has dampened the appetite for internationalization. However, it appears to actually be a catalyst, according to our latest survey of over 100 global insurers about their expansion plans.

Over 80 percent of companies in the survey group rated international expansion as either an important or critical driver of economic value in the insurance industry over the next few years. Three-quarters of respondents think the current economic turmoil will offer more opportunities to grow outside of their home market in the next three years. Spreading risks and balancing business cycles was cited as the single most important driver for international expansion. Undoubtedly, insurers recognize the importance of geographically diversifying earnings in difficult economic conditions.

Asked about their own companies’ plans, over 60 percent of respondents plan to expand internationally in the next 12 months (see Figure 2). Life insurers anticipate the greatest investment in emerging markets (principally China, India and South Korea), while P&C insurers show greater interest in Western Europe (see Figure 3).

Spurred in part by the financial crisis, we are witnessing a re-balancing of financial resources from developed economies to some of the emerging economies. This trend will drive large insurers—as is the case in other industries—to reshape the geography of their business.

Life companies, in particular, will be affected. While wealth accumulation is accelerating in emerging markets, financial services providers—including insurers—in the US, UK and other developed countries face a loss of confidence among their customers and an emphasis on reducing debt rather than making new investments.
Figure 2. “Does your company plan to expand internationally in the next 12 months?” “What areas are you planning to expand geographically in the next 12 months?”

“Does your company plan to expand internationally in the next 12 months?”

Yes 62%

No 38%

“What areas are you planning to expand geographically in the next 12 months?”

Life 68%

P&C Personal 43%

P&C Commercial 45%

Source: Accenture Multi-Country Operating Model Survey 2009

Figure 3. “Which countries do you expect to receive the highest level of investment for the international expansion of your company in the next 3 years?”

Please select the top 3 regions for your Life activities

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRIC countries</td>
<td>57%</td>
</tr>
<tr>
<td>Emerging Asian countries</td>
<td>43%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>30%</td>
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<tr>
<td>Eastern Europe except Russia</td>
<td>30%</td>
</tr>
<tr>
<td>North America</td>
<td>13%</td>
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<tr>
<td>Middle East/Africa</td>
<td>13%</td>
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<tr>
<td>Japan</td>
<td>11%</td>
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<tr>
<td>Latin America except Brazil</td>
<td>9%</td>
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<tr>
<td>Australia/New Zealand</td>
<td>7%</td>
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</table>

Base: Life respondents

The biggest focus for Life companies in the BRIC markets and other Asian emerging countries will be on China, India, Russia and South Korea.

Source: Accenture Multi-Country Operating Model Survey 2009

Please select the top 3 regions for your P&C activities

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Western Europe</td>
<td>42%</td>
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<tr>
<td>Emerging Asian countries</td>
<td>42%</td>
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<tr>
<td>BRIC countries</td>
<td>40%</td>
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<tr>
<td>Eastern Europe except Russia</td>
<td>29%</td>
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<tr>
<td>North America</td>
<td>27%</td>
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<tr>
<td>Latin America except Brazil</td>
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<td>7%</td>
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<tr>
<td>Japan</td>
<td>0%</td>
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</tbody>
</table>

Base: P&C respondents

The biggest focus for P&C companies in the BRIC markets and other Asian emerging countries will be on China, India and Brazil.

Source: Accenture Multi-Country Operating Model Survey 2009
Assess the challenges

Figure 4. “What will be the main challenges for your company in terms of international expansion to be a top performer in the next 3 years?”

The survey respondents cited a wide range of challenges on the path to successful international expansion (see Figure 4). Interestingly, most of these—including four of the top five—are primarily internal constraints: executing the entry strategy, building the business case, assessing risk and developing local market knowledge. These are all resolvable, potentially with the assistance of external support. Only the creation of partnerships/alliances, the availability of acquisition candidates and the sourcing of local management are inherently dependent on the external environment and therefore, not as readily under the control of insurers.
That portfolio diversification—spreading risks and balancing business cycles—and growth are major drivers of international expansion may be unsurprising. Interestingly though, “optimizing cost efficiency” was the second most important driver for international expansion identified in the survey (see Figure 5). A sizeable majority—some three quarters—also said that optimizing market share in a limited number of countries (as opposed to a larger number of countries) is a winning international expansion strategy.

These findings suggest that most leading insurers have matured in their internationalization lifecycle—shifting from an ‘establishment’ to a ‘realization’ phase in which international operations are material contributors to the enterprise’s overall revenue and profit profile.

During the initial phase of internationalization in which new locations are established, opportunities to achieve cost optimization are limited. Cost efficiencies—as well as increased profitability—are more easily realized as insurers scale up and integrate operations cross-border.

**Optimize costs**

Figure 5. “What is the importance of the following drivers for the international expansion of your company in the next 3 years?”

- **Spreading risks and balance business cycles**: 77% (Very important driver), 48% (Important driver)
- **Optimizing cost efficiency**: 74% (Very important driver), 38% (Important driver)
- **Rapid increase in gross written premiums/net written premiums**: 68% (Very important driver), 57% (Important driver)
- **Leveraging differentiated capabilities**: 62% (Very important driver), 42% (Important driver)
- **Exploiting attractive prices for M&A opportunity**: 59% (Very important driver), 35% (Important driver)
- **Compensating gross written premiums slow growth in home country**: 57% (Very important driver), 43% (Important driver)
- **Benefiting from attractive government policies**: 46% (Very important driver), 34% (Important driver)

Source: Accenture Multi-Country Operating Model Survey 2009
Accenture has defined four types of underlying operating models which characterize the philosophies that companies might adopt in managing international operations.

The four models are:

**International ‘Columbus’ model**
Highly centralized operations based in home country with limited end customer offering localization.

<table>
<thead>
<tr>
<th>2009 current model</th>
<th>2012 expectation</th>
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<tr>
<td>13%</td>
<td>13%</td>
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**Multi-National ‘Mini-me’ model**
Highly decentralized operations with strong localization around offerings.

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<thead>
<tr>
<th>2009 current model</th>
<th>2012 expectation</th>
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<tr>
<td>19%</td>
<td>17%</td>
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</table>

**Regional ‘Hubbing’ model**
Shared support services at regional level with a balance between localization of offerings and efficiency of supporting operations.

<table>
<thead>
<tr>
<th>2009 current model</th>
<th>2012 expectation</th>
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<tr>
<td>55%</td>
<td>50%</td>
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**Globally Integrated (‘One World’ model)**
Globally integrated operations: strategy, management and operations handled as a single globally-integrated entity.

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**Global ‘One World’ model**
Strategy, management and operations handled as a single globally-integrated entity.

The Columbus model is probably appropriate only for relatively few specialized insurance businesses, such as the earlier examples of UK-based Friends Provident plc or Global Program lines. The other three—Mini-me, Hubbing and One World—represent the continuum of a typical internationalization lifecycle, moving from initial establishment of operations—often by acquisition—through increasing levels of integration of functions within a multi-country model. We see the regional Hubbing model as a potential stopping-off point on an evolution from Mini-me to One World.

The Hubbing model is dominant among the survey respondents—employed by 55 percent (see Figure 6). This again confirms the extent to which most leading insurers are already well past the ‘establishment’ phase—only one-fifth are operating a decentralized Mini-me model.

Interestingly, the number of insurers adopting the Hubbing model is projected to slightly decline over the next few years—from 55 percent to one-half of the survey respondents. They are transitioning to the One World model which is expected to increase dramatically—from 13 percent today to 20 percent in three years. While One World adoption has occurred mostly among the largest international insurers to date, smaller insurers—with less than $20 billion in premium income annually—are now poised to embrace this model.

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**Figure 6.** "What best describes your current operating model across different geographies/countries?” “What model do you plan to use in the next 3 years?” “What benefits have been achieved from the implementation of your multi-country operating model?”

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<table>
<thead>
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<th>Operating Model</th>
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Source: Accenture Multi-Country Operating Model Survey 2009
According to the respondents, two of the greatest benefits of their company’s models are in the reduction of operational and IT costs. Their view suggests that global integration within a One World model is most effective in reducing these costs. In addition to these cost-saving efficiencies, we believe the One World model also enables opportunities to leverage scarce capabilities—such as strategic planning and product development—in order to promote top-line revenue growth.
Determining which capabilities should be leveraged and which functions can be shared within a multi-country operating model is a critical part of an international expansion strategy. Also, at what level should the shared capabilities and functions reside—regional or global?

According to the survey respondents, IT infrastructure and services, Finance and Human Resources are the functions that should be the most leveraged at a large-scale regional or potentially global level (Figure 7). Distribution and channel management, underwriting and claims, on the other hand, should remain in the local territory or shared on a small-scale regional basis.

In order to make their international expansion strategy more successful, three-quarters of insurers said they are currently undertaking or planning to implement changes to their IT infrastructure and services (see Figure 8).

We would agree that IT, Finance and Human Resources functions, and additionally Procurement, are appropriate for regional or global sharing within a multi-country operating model for the following reasons:

- Some high cost resources associated with IT, Finance and HR can be better managed if these functions are centralized and aspects sourced to lower-cost geographies.
- More importantly, as support functions they are generally less contentious candidates for centralization than core business processing functions.
- Most importantly, they can be very effectively used to impose consistency and control from the group center on disparate territory operations—and potentially overly independent local management groups.

These functions can provide the levers that enable the headquarters of a large international company to more effectively manage the execution of group strategy and a ‘one enterprise’ agenda.
Developing shared support function services and creating IT application development/maintenance centers of excellence is an essential starting point. Many insurers have successfully established regional—and increasingly global—shared models around these functions.

However, regional business processing operations are also catching on. In Europe, for instance, at least two major P&C firms and one large Life company are establishing regional operating centers which include business processing supporting multiple territories and which run off a single IT system platform. Another Life company has already achieved the latter across four countries, delivering substantial benefits in the area of IT cost reduction (40 percent savings) and time to market for European products.

We believe that, ultimately, maintaining a series of autonomous companies in various countries will not deliver shareholder value. Insurers will increasingly need to drive out value from across their international operations to justify their geographic presence. To do this, they will have to architect and implement an operating model which optimizes and leverages the strengths within their particular organization to drive organic growth over the longer term.

Figure 8. "What changes to your multi-country operating model are you considering for the next three years in order to make your international expansion strategy a success?"

We believe that, ultimately, maintaining a series of autonomous companies in various countries will not deliver shareholder value. Insurers will increasingly need to drive out value from across their international operations to justify their geographic presence. To do this, they will have to architect and implement an operating model which optimizes and leverages the strengths within their particular organization to drive organic growth over the longer term.

Figure 8. "What changes to your multi-country operating model are you considering for the next three years in order to make your international expansion strategy a success?"

Source: Accenture Multi-Country Operating Model Survey 2009
4 Application development and maintenance
Looking ahead: the “new normal”

A “new normal”—slower growth and lower margins in a new financial services landscape—will emerge in the post financial-crisis world and insurers will have to quickly adapt both at home and internationally. Slower growth will require greater innovation and customer focus to drive top-line growth. Margin pressures will require greater operational efficiencies to reduce costs. Shifting consumer and societal attitudes—such as the green and sustainability movements—will require recognition and re-positioning for new opportunities.

A new financial services landscape, deeply changed in the banking sector, will require insurers, with their long-term business model, to step up as a trusted partner for their customers. Becoming a preferred trusted advisor could carry strong branded products and deserve premium pricing.

Looking ahead to this “new normal”, the challenges will be greater across an international group, but so could the potential rewards.

Based on the survey findings, it appears that many large international insurers have already recognized the need to achieve a modest level of cost-optimization within their cross-border operating models. But we believe the “new normal” will require a more ruthless and relentless pursuit of cost management.

We also believe that it will be necessary but particularly challenging to create a universal and unifying culture of innovation across an international group. Individual country operations have their own underlying national cultures and may also have histories as separate (pre-acquisition) entities. To deliver rapid speed-to-market product development—boosting revenue growth—and to manage the public image and overall positioning of the enterprise consistently around the world will be difficult. However, if achieved, a group-wide culture of innovation could be self-reinforcing and therefore even more valuable.

Creating an effective multi-country operating model

In our experience, creating an effective multi-country operating model and realizing full value from it requires:

1. Clear Strategy

Understanding of what makes an insurer unique—whether product, service, brand or business model—and the capabilities required to deliver on that promise.

Greater simplicity in the model of all an insurer does—product, process and systems standardization—and clarity around optimal scale and how to achieve it.

Prioritization of execution as a core capability.

2. Strong Execution

Enterprise leadership aligned to transformation; implementing the new operating model must become as important as delivering the business plan.

A clear vision, road map and business case shared across the enterprise; integration of the business case into the operating plan.

Program leaders committed to the cost/benefit rationale and empowered to deliver the simplification agenda.

A program team capable of managing the most difficult transformation areas required, including intense culture change and legacy system decommissioning.
We do not yet see any individual insurer, or group of insurers leading the way and actually reaping the benefits across an entire business. But strategic initiatives are in flight and execution will be key. In fact, the insurance industry may need to look to other industries for examples of the level of product, operational and strategic innovation needed to ensure success in the post-financial crisis world. Consider, for example:

- Consumer goods companies such as Apple and Procter & Gamble which are exemplars in product innovation. They succeed in creating demand—and renewing that demand—through rapid and radical product design and innovation. They create simple to use products, that sell in high volumes, with a strong brand for premium pricing—and execute global manufacturing faultlessly to capture cost synergies of cost with local packaging for maximum client impact.
- Retailers such as Wal-Mart and Tesco set standards in the efficiency of their day-to-day distribution operations and even more so in their relentless focus on customer centricity. They are able to expand their brands, and collect and analyze information to better understand and market to their customers, continuously gaining share of wallet.
- Other companies excel at managing brand positioning and image management, such as BP, an oil company which has successfully cultivated a ‘green’ reputation.

Clearly, the innovations of these product manufacturers and retailers do not directly translate to the insurance industry, but elements of their management approach and culture might be adopted to deliver a unique customer experience at a significantly reduced cost. Perhaps the area where insurers could most learn from others is how to create a reputation and image as trusted advisor—a competitive necessity in this period of economic uncertainty when consumers crave financial security. The combination of these elements will be a key enabler of value creation in the “new normal”.

Conclusion

The slow-growth, low-margin environment that insurers are experiencing is driving them to look ever more diligently at profitable international expansion. Existing international insurance groups view their cross-border investments as a way to reduce portfolio volatility and dependence on home-country operations for earnings growth.

A key success factor in expanding internationally is adopting the appropriate multi-country operating model. While there is no one-size-fits-all model, many leading insurers are building market share in a limited number of geographies and sharing support functions such as IT, Human Resources and Finance on a regional or global basis to optimize costs. Insurers we recently surveyed tell us that sharing and managing functions at a regional level will be the prevailing strategy.

Post-crisis, a “new normal” will emerge. Insurers will need to manage costs even more carefully as margin pressures and competition intensify. Moving to the next level of industrialization of operations, and at the same time expanding successfully into foreign markets is a way to achieve that goal, but it will take a clear vision, a culture of innovation, and an unwavering commitment to execution.
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