# 2015 WORLD INSURANCE REPORT

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# Preface

**Introducing the Eighth Annual World Insurance Report**

Capgemini and Efma are pleased to present the 2015 World Insurance Report (WIR). This year's edition, presented in three chapters, provides a comprehensive overview of the current status of the insurance industry, including detailed assessments of financial performance and customer experience, as well as an overview of looming challenges. An appendix offers a high-level overview of the performance of the non-life insurance industry in 15 countries around the world.

In the first chapter, we analyzed publicly available financial information to see how insurers are faring against a range of industry-standard efficiency ratios. We found that a healthy reduction in claims-related expenses helped boost profits throughout most regions globally, despite the resistance of important levers, such as operational and acquisition ratios, to improvement.

Extensive consumer research, based on surveys of more than 15,500 respondents across 30 countries in five regions throughout the world, form the second chapter of our report. In this section, we documented a disquieting drop in the volume of positive experiences customers are having as they interact with their insurance providers. This trend is especially troubling given the strong link we quantified between positive customer experience and advocacy, an important source of loyalty and profitability.

In the third chapter of our report, we outlined the many changes that threaten to negatively impact stability in the insurance industry. Some of these forces of change come from unexpected quarters, while others have been in the works for some time. Alongside this picture of a changing landscape, we highlighted the tools and strategies available to insurers as they seek to maintain their competitiveness.

We hope you will find our 2015 WIR useful in helping you understand the challenges and opportunities facing global insurers. Armed with details related to peer-level performance and customer attitudes and perceptions, we expect insurers will be better prepared to develop and implement ongoing strategies for continued profitability.

**Jean Lassignardie**
Global Head of Sales and Marketing
Global Financial Services
**Capgemini**

**Patrick Desmarès**
Secretary General
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CHAPTER 1

# Non-Life Insurers in Most Markets Demonstrate Improved Underwriting Performance

## KEY FINDINGS

**Non-life insurers in most regions witnessed improved underwriting ratios due to a significant drop in claims expenses.** Australia, Germany, Japan, and Italy recorded the highest improvements, while Netherlands and Switzerland deteriorated the most. The lower claims payouts contrasted with operating and acquisition costs, which were more resistant to positive change. Overall, the improvement in underwriting ratios led to robust profit margins for non-life insurers in most markets.

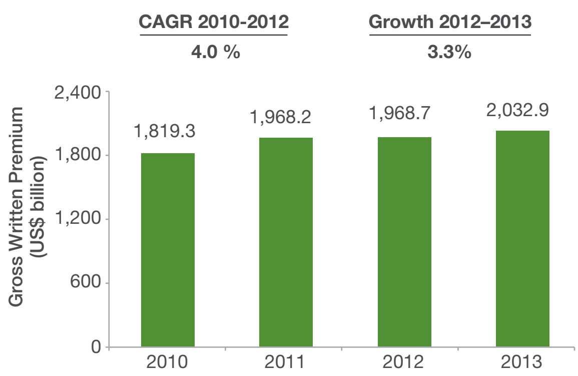
**Global non-life premium volume grew by 3.3% aided by strong growth in emerging markets and marginal improvement in some of the mature markets.** Of the markets analyzed, Brazil in Latin America and India in Asia-Pacific witnessed the highest growth in their non-life premiums. Among the developed markets, Sweden and Switzerland posted the highest growth rates while other countries, such as Australia, Japan, Spain and Italy, experienced declines in their premium growth. Given advancements in technology and widespread adoption of different risk mitigation measures, especially in developed markets, it is expected that premium volumes will drop even further in the near future.

## INSURERS RECORDED HIGHER PROFITS AIDED BY DROP IN CLAIMS EXPENSES

Non-life insurers in most countries recorded healthy profits, aided by a significant drop in claims payout expenses. Global insured losses in 2013 dropped by nearly half to US$45 billion, from US$81 billion in 2012. At the same time, global firms exhibited proficiency in managing the basic risks of the non-life business, showing more improvement than not in the claims ratio, which measures their ability to balance the volumes and prices of premiums against payouts. Other business basics, such as managing operational and customer acquisition costs, proved more resistant to improvement, as operational and acquisition ratios remained largely unchanged or deteriorated slightly in 2013. Despite those difficulties, profitability in the sector was substantial, with insurers in more than half the countries posting double-digit margins.

**The global volume of non-life gross written premiums (GWP) increased by 3.3% in 2013, to reach US$2.03 trillion.**[1] While the 3.3% increase was a sizable jump over the very slight increase posted between 2011 and 2012, it fell short of the compound annual growth of 4.0% experienced between 2010 and 2012 (see Figure 1.1).

**Figure 1.1 Global Non-Life Gross Written Premium Volumes (US$ Billion), 2010-2013**

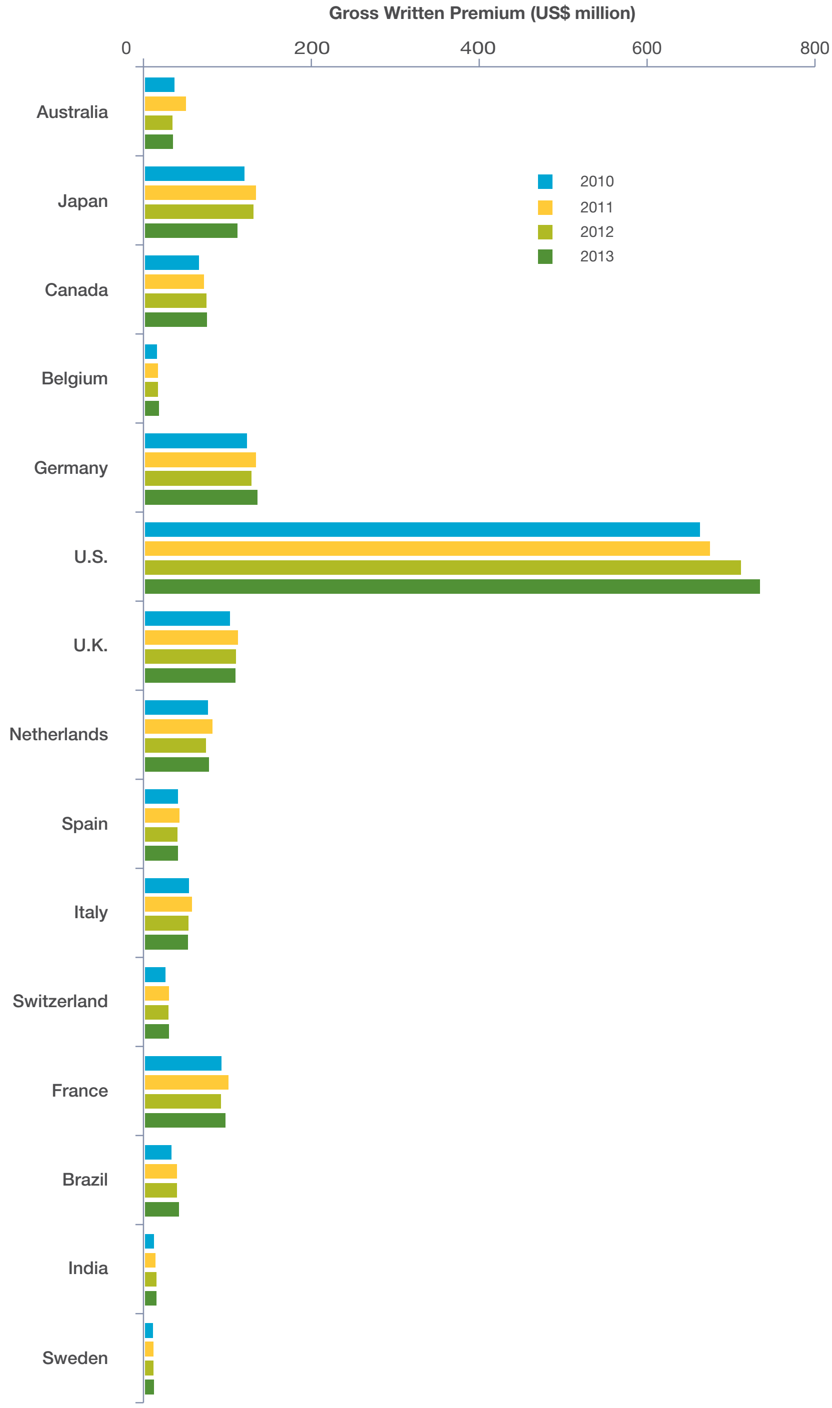



Source: Capgemini Financial Services Analysis, 2014; Swiss Re sigma Reports 2010-2014

[1] "Natural catastrophes and man-made disasters in 2013", Swiss Re sigma 1/2014, March 2014

**While emerging markets witnessed robust growth rates, developed markets found it tough to increase their premium volumes.** Brazil in Latin America and India in Asia-Pacific posted the highest increases in gross written premium volumes, at compounded annual growth rates of 8.4% and 8.8% respectively. The more mature markets, beset by stiff competition, experienced more modest growth. The United States and Germany, for example, expanded only in the 3 percentage point range. Several other advanced markets such as Australia, Japan, Spain, and Italy experienced declines in premium growth (see Figure 1.2). This trend is likely to continue further as adoption of advanced risk mitigation technologies such as telematics and automated home systems, mostly in developed markets increases, resulting in lower incidents and likely lead to a reduction in premiums charged.

**Figure 1.2 Non-Life Insurance GWP Volumes by Country (US$ Million), 2010–2013**

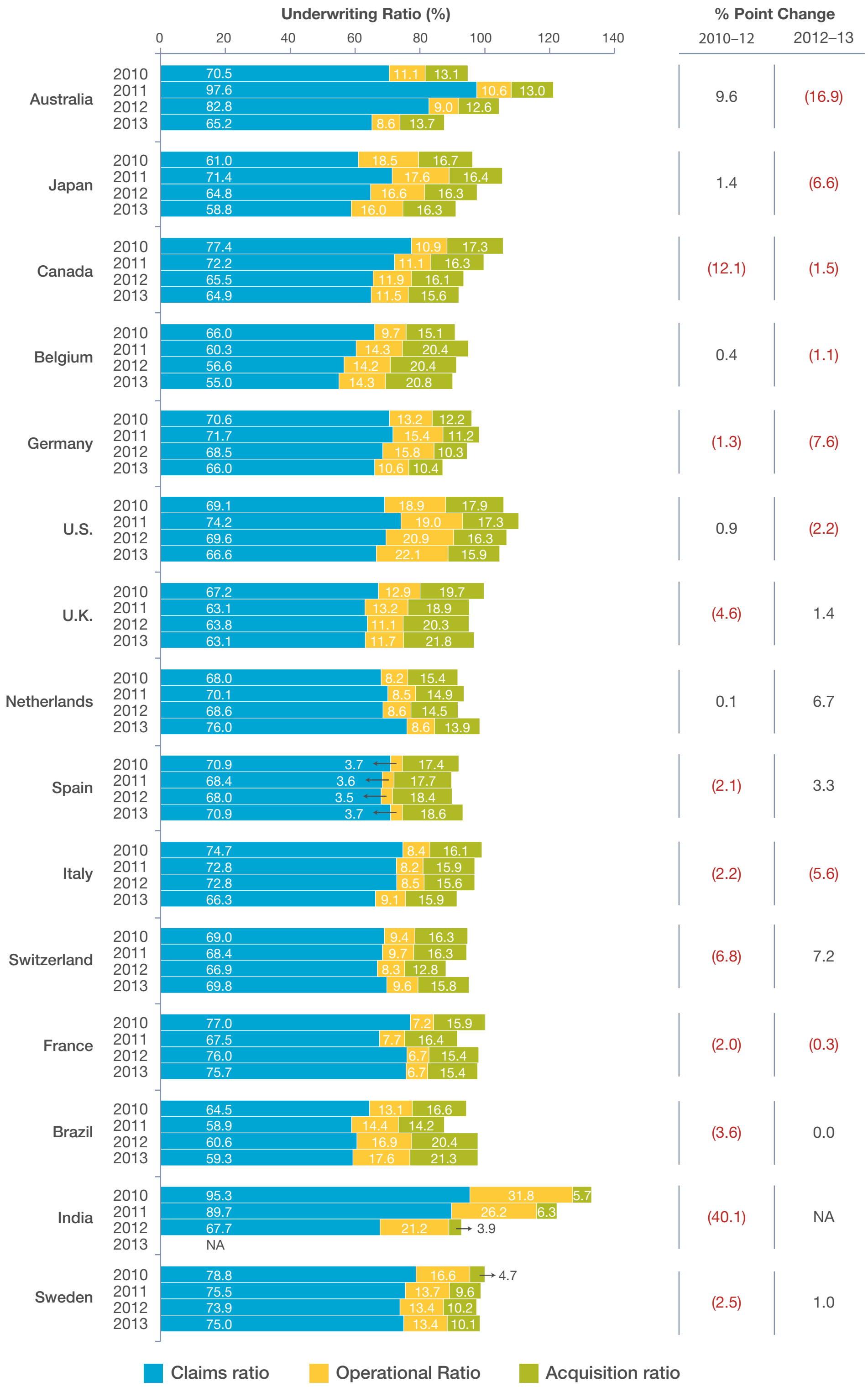



| | Gross Written Premium (US$ million) | CAGR 2010-2013 |
|---|---|---|
| Australia | 34.7<br>48.4<br>32.3<br>32.7 | (2.0%) |
| Japan | 117.2<br>130.7<br>127.7<br>108.8 | (2.5%) |
| Canada | 63.4<br>69.0<br>72.2<br>73.0 | 4.8% |
| Belgium | 14.0<br>15.1<br>15.3<br>16.6 | 5.9% |
| Germany | 120.8<br>131.3<br>125.8<br>132.8 | 3.2% |
| U.S. | 655.5<br>667.1<br>703.8<br>726.4 | 3.5% |
| U.K. | 99.7<br>109.5<br>107.4<br>106.8 | 2.3% |
| Netherlands | 73.7<br>79.7<br>71.5<br>75.1 | 0.6% |
| Spain | 38.9<br>40.7<br>38.4<br>38.6 | (0.2%) |
| Italy | 52.3<br>55.4<br>50.9<br>50.6 | (1.1%) |
| Switzerland | 23.9<br>28.5<br>27.6<br>28.4 | 5.8% |
| France | 90.1<br>98.4<br>89.7<br>94.6 | 1.6% |
| Brazil | 31.0<br>37.2<br>37.4<br>39.5 | 8.4% |
| India | 10.4<br>12.2<br>13.1<br>13.4 | 8.8% |
| Sweden | 8.8<br>10.2<br>9.8<br>10.6 | 6.4% |

Source: Capgemini Financial Services Analysis, 2014; Swiss Re sigma Reports 2010-2014

**Underwriting ratios mostly improved, with reduced claims costs acting as the most significant lever.** In nearly two-thirds of the countries, underwriting ratios improved or stayed the same (see Figure 1.3). The largest improvements in underwriting ratios occurred in Australia, Germany, Japan, and Italy. Only in Germany did a significant decrease in operational expense play a role in enhancing the underwriting ratio. In all other countries, operating and acquisition ratios stayed about the same or deteriorated slightly.

**Figure 1.3 Non-Life Insurance Underwriting Ratios (Combined Expenses as a Percentage of GWP) %, 2010–2013**




Note:The ratios are valid only for non-life insurance; The ratios reflect non-life data as reported by the countries themselves, and hence include health insurance for Italy, Spain, Switzerland, and Netherlands; At the time of analysis, 2013 data was not available for India; The previous year ratios may have changed based on the refresh of results for some of the companies; PP refers to Percentage Point Change.
Source: Capgemini Financial Services Analysis, 2014; Company Annual Reports, 2010-2013

Coming after a $12.5 billion underwriting loss in 2012, the global underwriting profit of $8.5[2] billion in 2013 was a welcome turnaround. The profits were the third best of the past decade, following $28.9 billion in 2006 and $23.0 billion in 2007. Fewer natural disasters combined with premium rate revision led to improved claims ratios, which in turn helped propel the underwriting profits.

**Most countries were successful in lowering their claims ratio significantly (see Figure 1.4).** Australia experienced the largest decrease in the claims ratio by a wide margin, thanks to premium rate increases and portfolio remediation measures, as well as decreased loss and loss adjustment expenses. In Japan, a reduction in direct claim payments for fire insurance helped pull down the claims ratio, while the Italian non-life insurance market benefited from the decrease in claim frequency and from the major attention on fraudulent claims mitigation (subsidized by new regulations).

In Spain and Netherlands, where claims ratios experienced significant degradation, competition hampered the ability of non-life insurers to employ premium pricing as a tool to improve claims ratios. In both markets, insurers lowered premium prices as a means of gaining share in tough markets. Spanish motor insurers, for example, reduced premiums by 10% to 20%. Such price reductions had the effect of increasing claims expenses.

**Despite ongoing efforts to drive productivity and improve the bottom line through automation, little change occurred in the operational ratios of non-life insurers in most countries.** Companies are striving to make wise investments in technology and automation, yet most are still struggling to achieve the types of operational benefits that would give them a clear competitive advantage. Only in Germany, where non-life insurers have successfully deployed numerous cost-reduction measures, did operational ratios improve in a significant manner. In the United States, where the expenses of supporting the world's largest insurance market are already high, regulatory requirements, anti-fraud measures, and legacy replacement costs drove operational expenses up even further. The industry as a whole needs to continue to make technology investments aimed at taming the inefficiencies and complexities of basic insurance underwriting.

**Acquisition ratios remained mostly flat, even as insurers embraced the use of alternate channels to distribute products.** The burden of supporting multiple distribution methods may explain the difficulty insurers have encountered in bringing down acquisition ratios. Even though digital channels offer enormous upside to enhancing the customer experience and improving profitability by helping insurers lower their commission costs, entrenched delivery channels are likely to continue to play a role in product distribution for some time. As insurers continue to make gains in moving customers to alternate channels, they will begin to reap the benefits of more streamlined distribution.

**Figure 1.4 Non-Life Insurance Performance in Key Ratios, (percentage point change), 2012–2013**

| Countries / % Point Change in Ratios, (2012-13) | Australia | Japan | Canada | Belgium | Germany | U.S. | U.K. | Netherlands | Spain | Italy | Switzerland | France | Brazil | Sweden |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ▲ Claims Ratio | -17.6 | -6.0 | -0.6 | -1.6 | -2.5 | -3.0 | -0.7 | 7.4 | 2.9 | -6.5 | 2.9 | -0.3 | -1.3 | 1.1 |
| ▲ Operational Ratio | -0.4 | -0.6 | -0.4 | 0.1 | -5.2 | 1.2 | 0.6 | 0.0 | 0.2 | 0.6 | 1.3 | 0.0 | 0.7 | 0.0 |
| ▲ Acquisition Ratio | 1.1 | 0.0 | -0.5 | 0.4 | 0.1 | -0.4 | 1.5 | -0.6 | 0.2 | 0.3 | 3.0 | 0.0 | 0.6 | -0.1 |
| ▲ Underwriting Ratio | -16.9 | -6.6 | -1.5 | -1.1 | -7.6 | -2.2 | 1.4 | 6.7 | 3.3 | -5.6 | 7.2 | -0.3 | 0.0 | 1.0 |

High Deterioration | Medium Deterioration | Low Change | No change | Medium Improvement | High Improvement

Note: PP refers to percentage point change; 2013 data for India is unavailable since the consolidated data for Indian insurance firms has not been published yet
▲ refers to change
Source: Capgemini Financial Services Analysis, 2014; Industry Reports from Insurance Associations and Regulators

[2] AM Best Reports

**Profit margins for non-life insurers around the world mostly rose on the strength of improved underwriting ratios.** Fewer natural disasters, combined with premium rate revisions, led to better claims ratios. These improved ratios in turn boosted underwriting ratios, a measure reflecting the overall efficiency of insurance companies. Operational and acquisition ratios remained mostly unchanged, causing little impact on underwriting ratios or overall profitability.

U.S. and Australian non-life insurers witnessed the highest growth in profit margins. The Australian market benefited from a massive improvement in the claims ratio, while the United States experienced a major decline in natural disasters following a series of them the previous year. Canada suffered the highest losses. Despite growth of 3.2% in premium volumes, a large number of natural disasters took its toll on profitability. The only other country to experience losses was Germany, where severe hailstorms struck heavily populated areas.

## CONCLUSION

Though non-life insurers experienced the benefits of a relatively quiet year in 2013, some of our findings portend growing difficulties in expanding the business going forward. For one, the volume of premiums is growing more slowly in developed markets than emerging ones. Insurers also face a challenge in developing an accurate pricing model to assess the impact of newer risks such as cyber security and increasing terror threats, which could have a negative impact on claims ratio. In addition, insurers continue to leave profits on the table by largely failing to bring down operational and acquisition costs. With rising global temperatures expected to increase the frequency and intensity of natural calamities, the non-life insurance business is only going to get tougher. Global non-life insurers will need to tighten up all aspects of their businesses to be prepared for this shift.

CHAPTER 2

# Alarming Drop in Customer Experience Underscores Rising Customer Expectations

## KEY FINDINGS

**Globally, positive customer experiences decreased significantly in 2014, indicating that steps taken by insurers are not matching rising customer expectations.** North America witnessed the largest drop of 8.3 percentage points, followed by Latin America with 5.3 percentage points. A steep drop in positive customer experience by the Gen Y segment contributed to the large decline in North America. The huge drop in positive experience levels of U.S. customers enabled Austria to overtake it and emerge as the country with the highest percentage of customers citing positive experiences.

**The agent channel delivered positive experience levels that were almost double those of digital channels, suggesting that digital channels are dragging down global customer experience levels.** Customer expectations of digital channels such as mobile and social media are rising rapidly along with their usage and importance. However, more than 40% of customers cited positive experiences through the agency channel, while less than 30% of customers had positive experiences through digital channels such as mobile and social media.

**Claims servicing is still an area of concern for most insurers when it comes to enhancing customer experience.** This process had the lowest percentage of customers with positive experiences. In most regions, customers who made a claim in the past year reported positive experience levels that were significantly lower than customers who did not make a claim. For example, North American customers who made a property claim in the past year reported a positive experience level of 24%, compared to 47% for customers who did not make a claim.

**The drop in positive experience levels was much steeper for the Gen Y segment compared to other age groups across all regions, especially in the developed markets.** In North America, the drop in experience levels for Gen Y customers was approximately 10 percentage points steeper than other age segments, while in developed Asia-Pacific the difference was around five percentage points.

**Positive experiences led to better customer advocacy, however advocacy levels varied across regions.** Developing Asia-Pacific (Developing APAC), Latin America, and North America displayed higher advocacy levels, while those in developed Asia-Pacific (Developed APAC) and Europe were quite low. Only delighted customers (those with very positive experiences) displayed positive advocacy.

## DROP IN POSITIVE CUSTOMER EXPERIENCE WAS PERVASIVE ACROSS THE WORLD

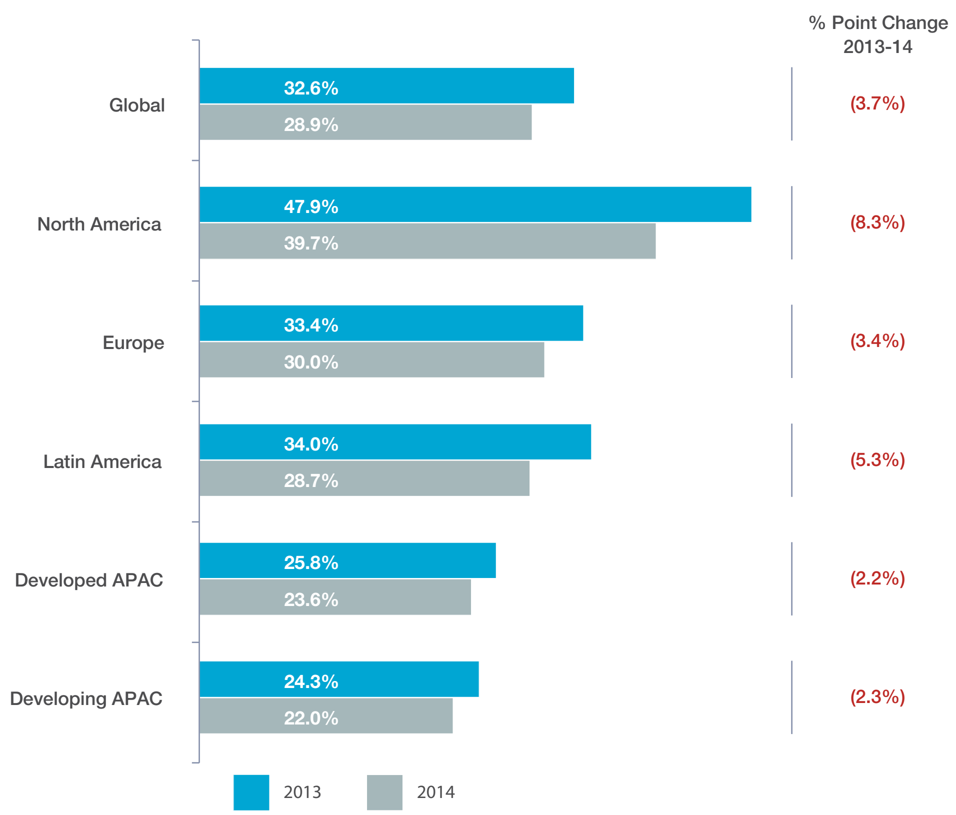
Despite ongoing efforts to improve service, positive customer experience levels decreased significantly across the world in 2014 (see Figure 2.1). The global level, already low in 2013 at 32.6%, decreased by another 3.7 percentage points to 28.9%. Of the 30 countries surveyed, 80% recorded a decline in the percentage of customers with positive experiences. Furthermore, about one-third of these customers witnessed a decrease of more than 5 percentage points.

This was the first time we observed such a drastic drop since we began tracking customer experience three years ago.

North America, which in 2013 had the highest level of positive customer experience at 47.9%, experienced the largest decrease (8.3 percentage points), followed by Latin America with a 5.3 percentage point drop. The United States had been the only country in 2013 to record positive customer experiences in excess of 50.0%. But a large decline of 10.5 percentage points resulted in only 40.8% of U.S. customers citing a positive experience in 2014. As a result of this drop, the United States dropped down to the second place behind Austria (see Figure 2.2). This decrease may have to do with a decline in satisfaction with digital channels. Positive experience levels for digital channels such as mobile and social media was around 30%, compared to 50%+ rates for the traditional agent channel for both life and non-life.

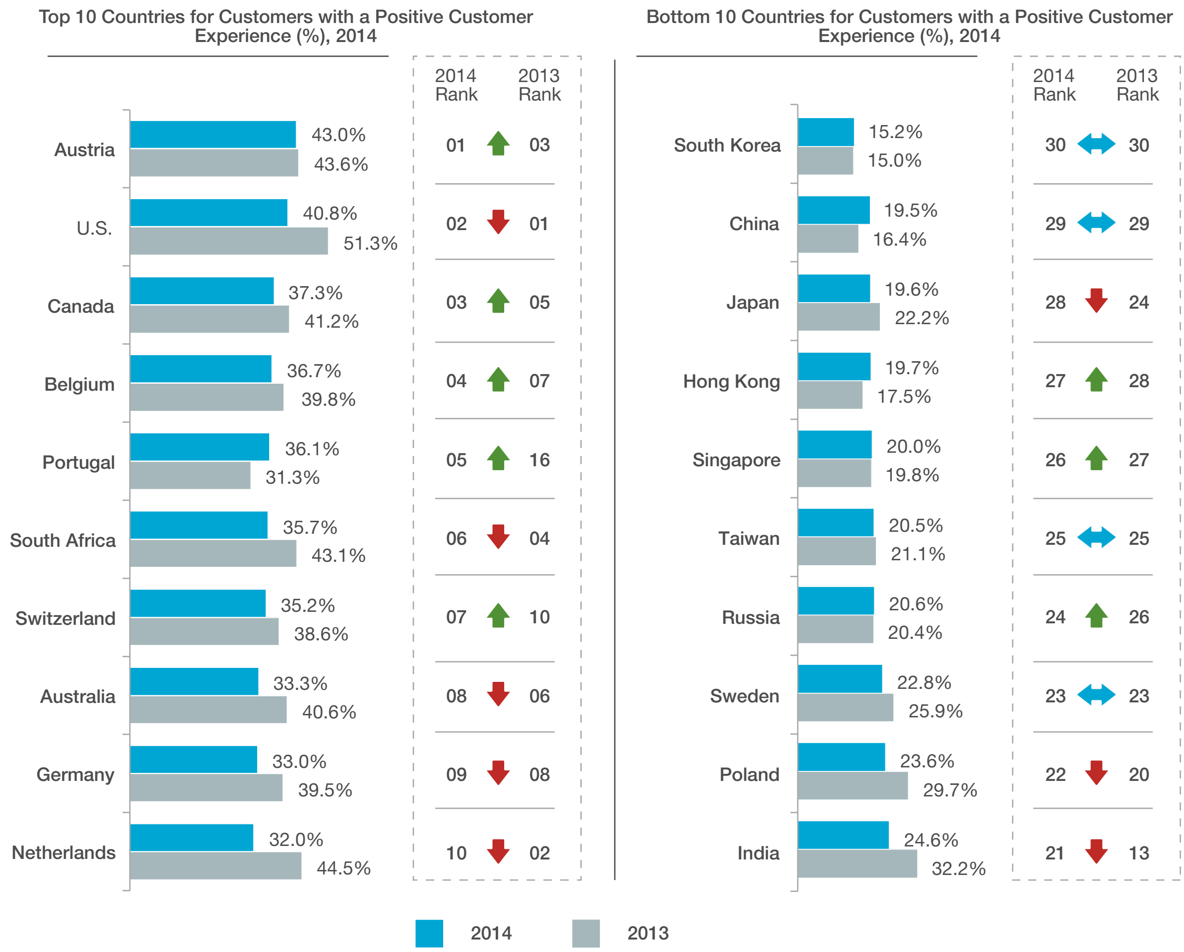
Positive customer experience levels in Europe decreased by 3.4 percentage points to 30.0%, reflecting large declines in countries throughout the region. Netherlands, France, Germany, Poland, and Spain witnessed the largest declines in Europe, each recording decreases in positive customer experience of more than 5 percentage points. Portugal was the only country that had a significant increase (4.8 percentage points) in the number of customers with positive experiences. However, this increase reflected already low levels of positive customer experience in the country and existing room for improvement.

**Figure 2.1 Customers with Positive Experience, by Region (%), 2013–2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

**Figure 2.2 Top 10 and Bottom 10 Countries with Positive Experience (%), 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2013, 2014

In developed and emerging Asia-Pacific, where positive customer experience remained the lowest in the world, the levels decreased further, by 2.2 and 2.3 percentage points, respectively. Seven of the ten countries with the least amount of customers having a positive experience were located in Asia-Pacific in 2014. The inability of insurers to meet the constantly evolving expectations of the tech-savvy populations they serve appeared to play a role, particularly in the developed Asia-Pacific markets of Hong Kong, Japan, and Singapore.

## POSITIVE EXPERIENCE DROPPED ACROSS ALL CHANNELS, THOUGH AGENT CHANNEL STANDS TALL

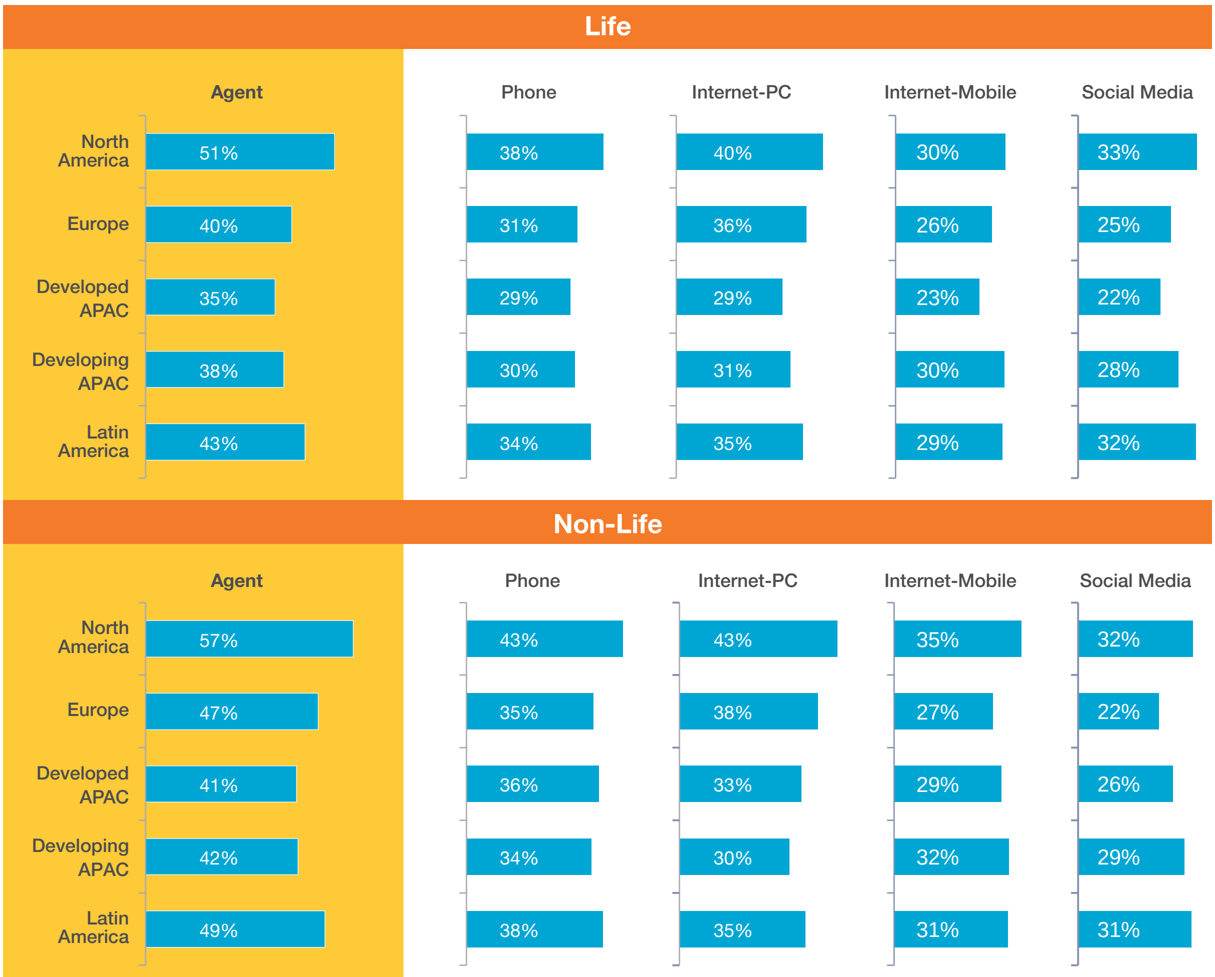
The agent channel continued to be most important to customers of all ages across all regions. In addition, it provided the highest levels of positive customer experience across all markets for both life and non-life insurers (see Figure 2.3). The agent channel was the most successful in North America with more than 50% of customers claiming a positive customer experience. In all other regions, positive experience levels through the agent channel were well ahead of the remaining channels.

Digital channels, particularly mobile and social media, were found to drag down experience levels across the globe, with less than 30% of customers citing positive experiences from these channels in most markets. Most customers are now accustomed to receiving exemplary services via the digital channels for sectors such as retail, travel, and to a certain extent, banking. Hence their expectations from these digital channels are quite high even while receiving insurance services. As such, the experience levels from digital channels are lower when compared to the agent channel. The ongoing importance of agents in the channel mix and their ability to deliver consistent positive experiences dictates a moderated approach to channel management. While insurers need to continue enhancing mobile and social media channels, they should take care to ensure that these enhancements are not carried out at the expense of the agency channel. Rather, ongoing investments need to support all types of channels, at least for the foreseeable future.

In addition, insurers should strive to bring some of the qualities that define traditional channels to the newer channels, and vice versa. For example, insurers should try to replicate the intimacy and personal service that characterize the agent channel as they develop more modern channels. Similarly, they should empower their agents with digital tools that advance the convenience and availability found in newer types of channels.

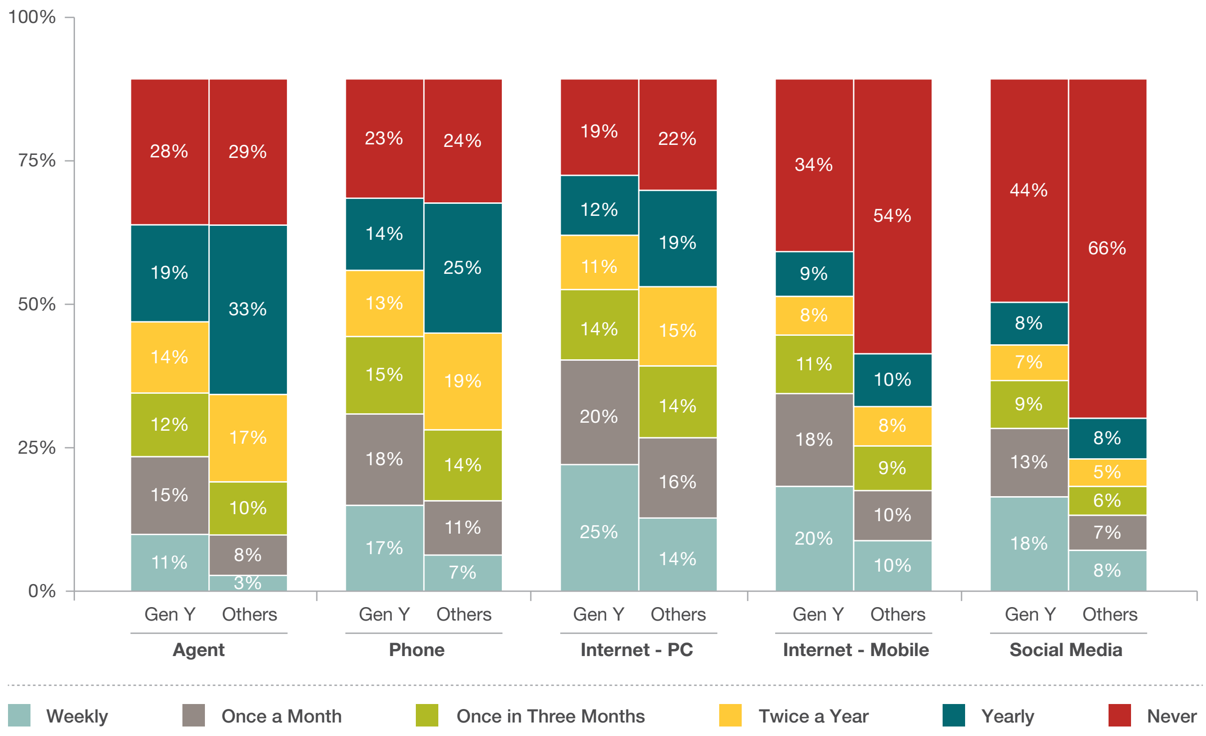
In the future, usage of Internet-mobile and social media channels are expected to increase more than usage of traditional channels. Furthermore, the Internet-PC may challenge the agent channel as the most frequently used channel. It is currently the most frequently used channel during pre-sale (information gathering and quote search) and insurers need to enhance their seamless integration capabilities in order to meet expectations in one of the more prevalent customer journeys of research online-purchase offline. Customers will continue to place high importance across the full range of channels for their insurance needs. Insurers thus need to focus on delivering excellent service across all channels. Currently, the frequency of interactions with their insurers is much higher for digital channels such as the Internet-PC, mobile, and social media over traditional channels such as agent and phone (see Figure 2.4). Insurers also have more opportunities to provide positive experiences to Gen Y customers as they interact with their insurer on a more frequent basis, especially using mobile and social media channels. As the popularity

**Figure 2.3 Positive Experience Levels by Channel and Region (%), 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

**Figure 2.4 Frequency of Channel Usage – Gen Y Customers vs. Others (%), 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

of digital channels continues to rise, insurers can use them to increase the frequency of touch points and the number of opportunities to wow customers.

## CLAIMS SERVICING STILL A CONCERN, BUT EFFORTS TO ENHANCE CLAIMS EXPERIENCE RESULTED IN MARGINAL IMPROVEMENTS

The multi-faceted insurance lifecycle offers numerous opportunities for insurers to provide positive experiences to customers. Yet across almost every dimension of the lifecycle, insurers struggled to do so. The level of positive customer experience declined for nearly all types of activities related to purchasing and holding all types of insurance policies (see Figure 2.5).

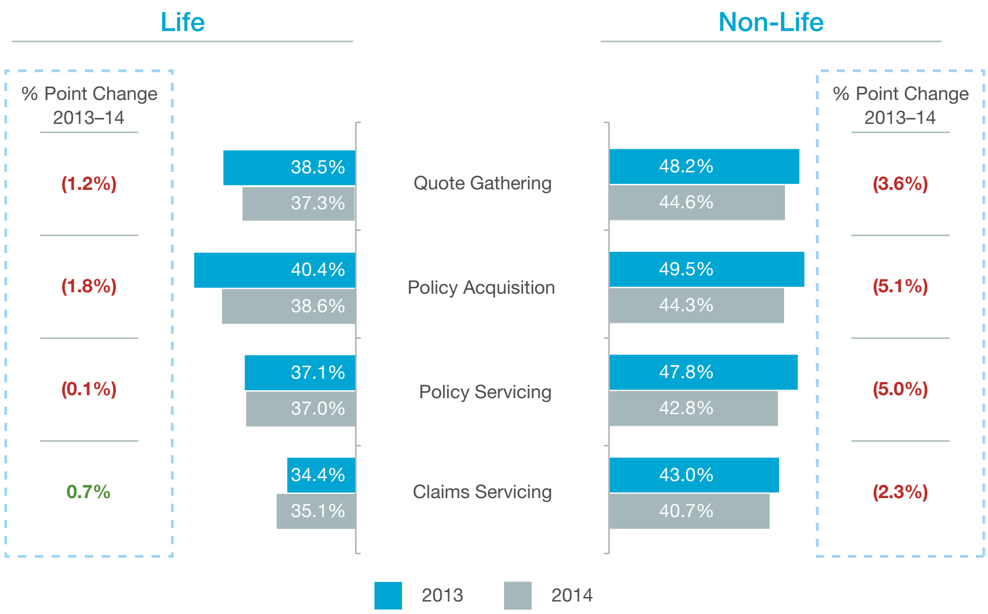
Non-life insurance customers recorded the biggest declines in positive experience compared to life customers. Positive experience in the policy acquisition phase of non-life insurance declined by 5.1 percentage points, followed by policy servicing, with a decline of 5.0 percentage points, and quote gathering with a decline of 3.6 percentage points. Despite these large decreases, the level of positive customer experience in non-life insurance is still considerably higher than in the life insurance sector, where year-to-year declines were smaller.

Claims servicing remains the lifecycle stage with the lowest levels of positive experience for both life and non-life customers; however, the decline in experience levels was lowest for claims servicing. The lower rate of decline indicates that insurers are taking steps to enhance the claims experience. Nevertheless, customers still view these efforts as inadequate. Effectively leveraging technology to minimize the impact of risk and deliver faster processing can help enhance the overall claims experience of customers.

A close look at the data related to claims servicing underscores the difficulty of delivering positive customer experiences in that area (see Figure 2.6). Auto and property insurance customers who made any claim in the past year had significantly lower positive experience levels than customers who did not make a claim. In North America, for example, only 24% of property insurance customers who made a claim in the past year reported a positive experience, compared to 47% of customers who did not make a claim.

The lower levels of positive experience related to claims servicing were pervasive, despite ongoing efforts insurers have made to automate the claims process. For customers increasingly accustomed

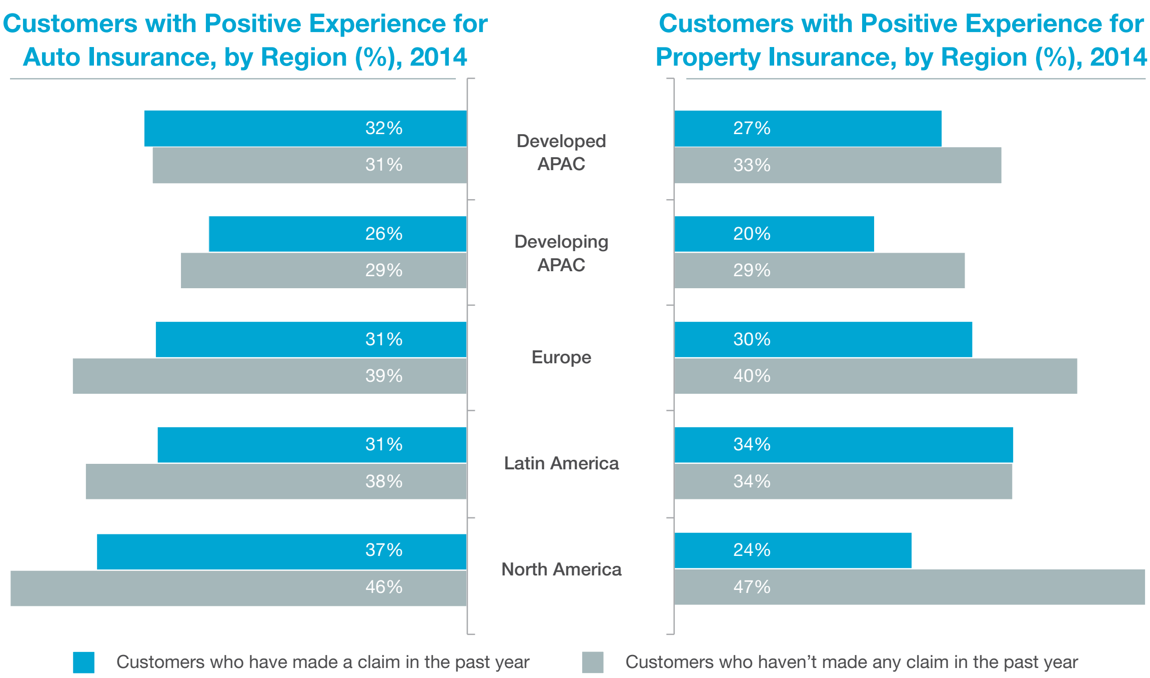
**Figure 2.5 Insurance Customers with Positive Experience, by Lifecycle Stage (%), 2013–2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

to conducting a wide range of personal activity via streamlined, frictionless internet and mobile transactions, the insurance claims process likely feels inconvenient and cumbersome. The pressure for insurers to provide a quick and efficient response is even greater, given that claims are typically tied to an undesirable incident. Additionally, faster claims processing can save significant costs for the insurer. The longer a claim remains open, the more it is going to cost the insurer. Insurers' performance in

**Figure 2.6 Impact of Claims on Positive Customer Experience**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

claims servicing is probably the result of customer expectations that have been set beyond most insurers' current capabilities.

### GEN Y SEGMENT PRESENTS HUGE CHALLENGE FOR INSURERS, ESPECIALLY IN DEVELOPED MARKETS, AS THEY STRIVE TO MATCH RISING EXPECTATIONS

Generation Y, the customer segment aged between 18 and 34, is said to be comprised of individuals who are confident, ambitious and most important, tech-savvy. Having never experienced adult life without the aid of the internet or smart devices, digital technology is essential to the Gen Y lifestyle. With Gen Y comprising one-quarter to one-third of the population in many markets, this segment is of high importance to insurance firms, especially given the high potential of their lifetime values. Insurers must devise strategies that can attract and retain this valuable age segment. The downside is that Gen Y expectations are quite lofty. Any failure to match these expectations will result in a negative impact on experience, as witnessed in our findings this year.

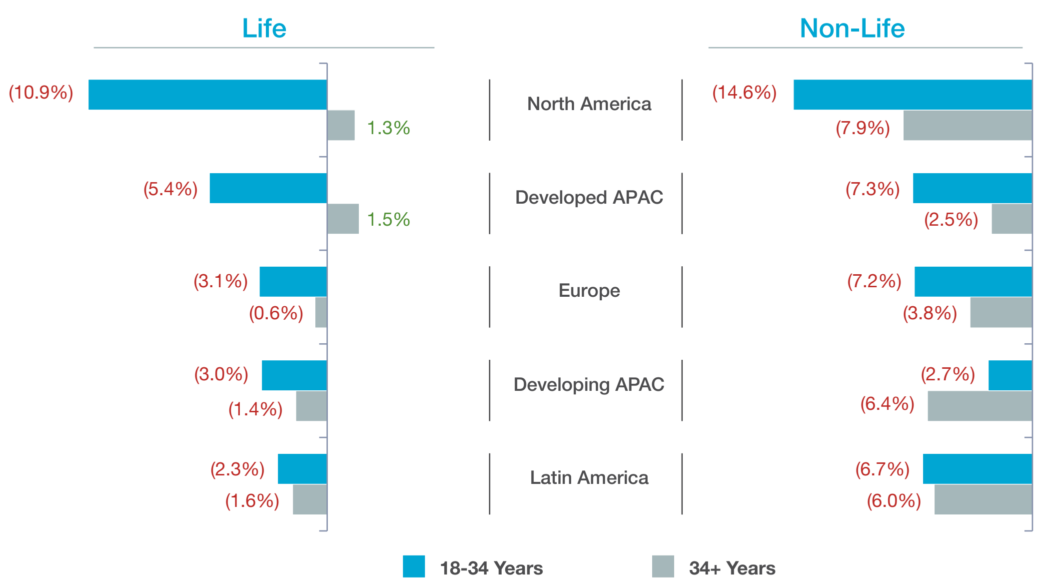
Especially in developed markets, the drop in customer experience levels for Gen Y customers was very steep (see Figure 2.7). For life customers in developed Asia-Pacific, for example, the positive experiences of Gen Yers decreased by 5.4 percentage points, compared to an increase of 1.5 percentage points for those older than 34. In North America, the difference was even more marked, with positive experiences declining by 10.9 percentage points for Gen Yers, compared to an increase of 1.3 percentage points for older respondents.

This decrease in positive experience for Gen Y customers contributed significantly to the overall decline in positive experience levels throughout the industry. The largest Gen Y-related decreases occurred in North America among life and non-life customers, as well as in developed Asia-Pacific and Europe among non-life customers. These results underscore the very high service expectations that Gen Yers have cultivated as a result of having grown up on a full array of digital media and servicing from a wide range of providers. As a result, insurers must continue to adapt the quality of their automated digital services to cater to the higher expectations of Gen Yers, or risk losing them to newer, more agile competitors.

#### Gen Y Customers Place Much Higher Importance on Mobile, Social Media Channels

Gen Y customers, given their affinity for technology and their expectations around instant access to information and service convenience, are far more interested than older customers in using advanced alternate channels (see Figure 2.8). In North America,

**Figure 2.7 Change in Customers with Positive Experience, by Age and Region (%), 2013 –14**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

for example, the distinction is sharp, with 53% of Gen Y life customers citing social media as an important channel, compared to only 18% of those 34 years and older. Similarly, 58% of Gen Yers view the mobile channel as important, compared to only 25% of older customers.

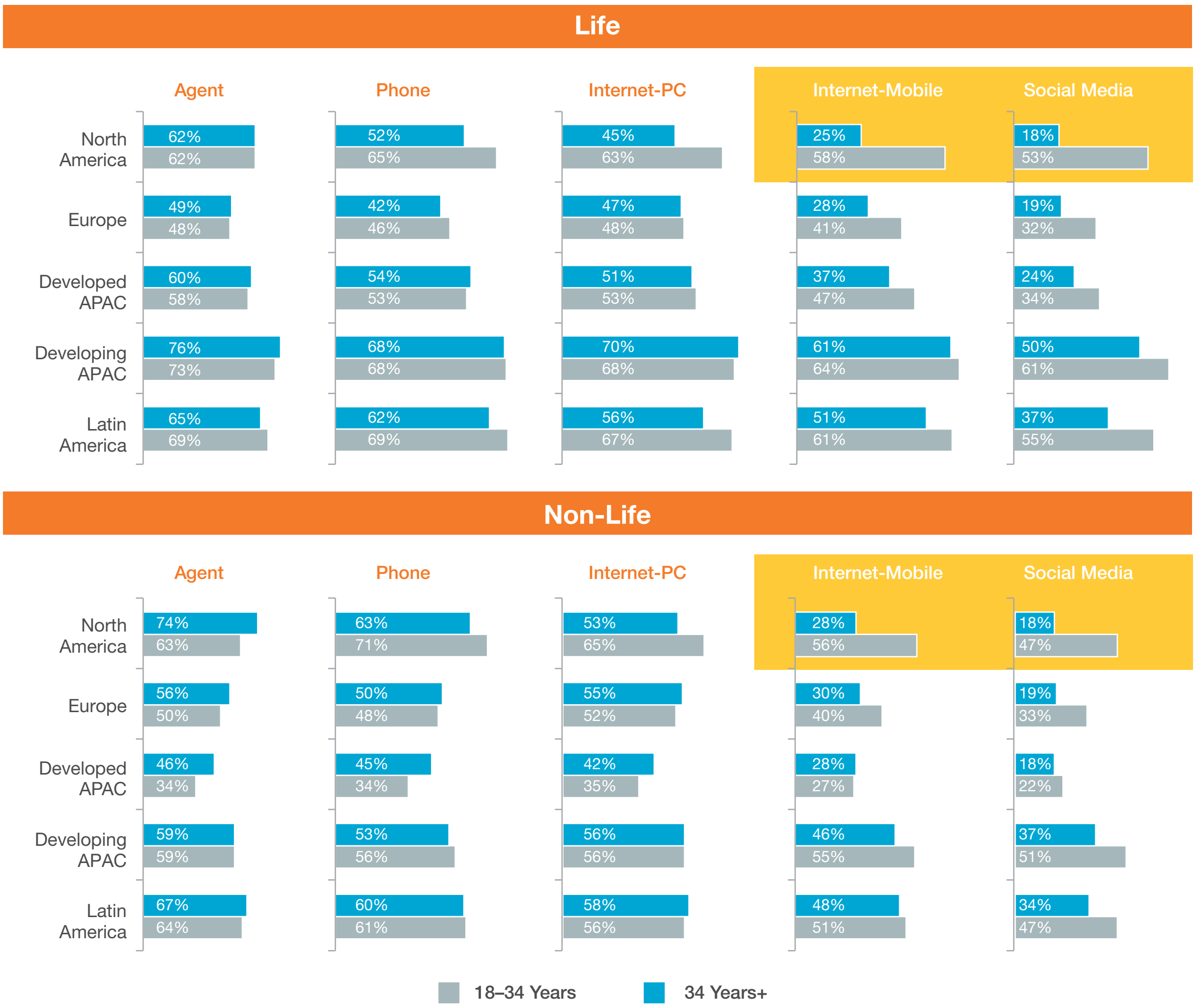
Effective channel management is expected to play an enormous role in insurers' success in providing positive customer experiences in the future. Our data shows that channel usage and preferences are in a state of flux. As a result, insurers will need to satisfy the desire of some customers for the comfort and familiarity of traditional channels, while at the same time meeting the needs of others for faster, more convenient service.

**Decline in Positive Experiences Pervasive across All Channels, Particularly for Gen Y Customers**

An examination of the importance of particular channels highlights ongoing trends in channel preferences (see Figure 2.9). Globally, the importance of the agent channel declined, even for non-Gen Y customers, while the internet and mobile channels exhibited the largest increases in importance, for both Gen Y and non-Gen Y customers. At the same time, however, the level of positive experience related to every type of channel largely declined.

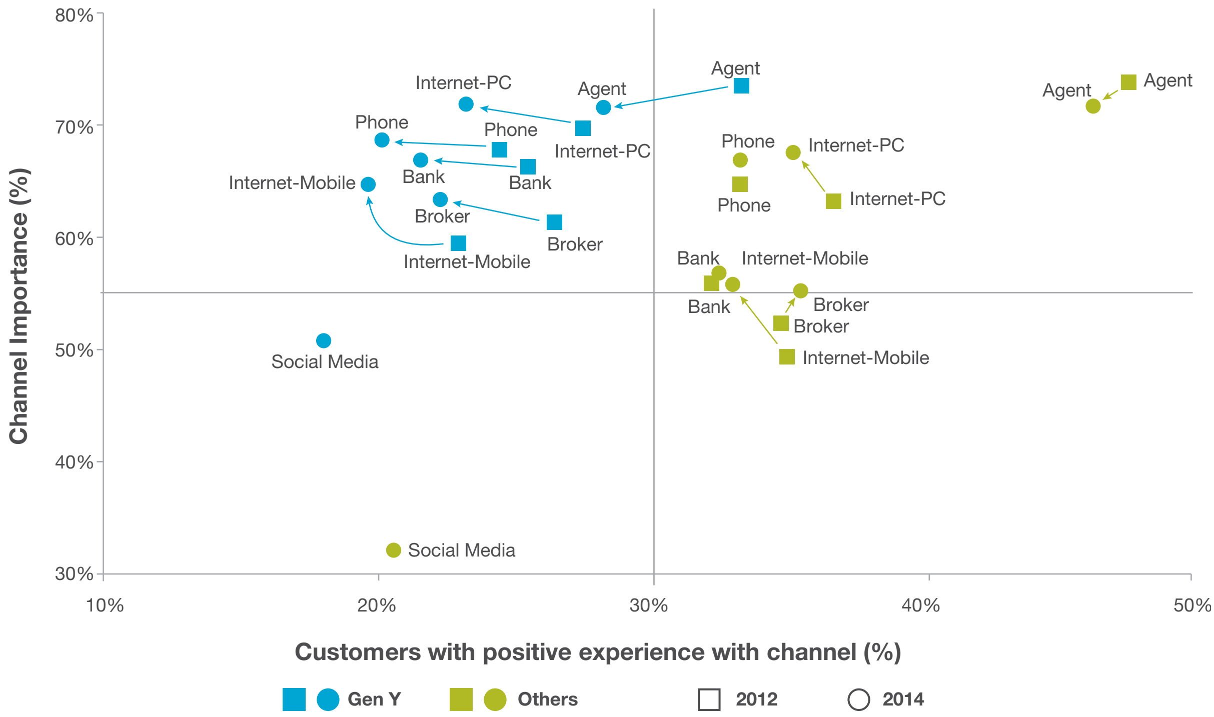
Customer experience levels dropped the most for the agent channel, however, it still remains the most important channel and also the channel providing the highest levels of positive customer experiences.

**Figure 2.8 Channel Importance by Age and Region, 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

**Figure 2.9 Importance vs. Positive Experience with Channel for Gen Y Customers and Others, 2012–2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

The majority of customers, no matter their age, had fewer positive experiences regardless of the channel they used. This widespread dissatisfaction may be a reflection of the difficulties providers are having as they maintain existing channels while also adding new ones. The most significant difference between Gen Y and non-Gen Y customers came in their assessment of social media. More than 50% of Gen Yers cited social media as an important channel, compared to only 30% of older customers.

## CUSTOMER ADVOCACY LAGS IN EUROPE AND DEVELOPED ASIA-PACIFIC

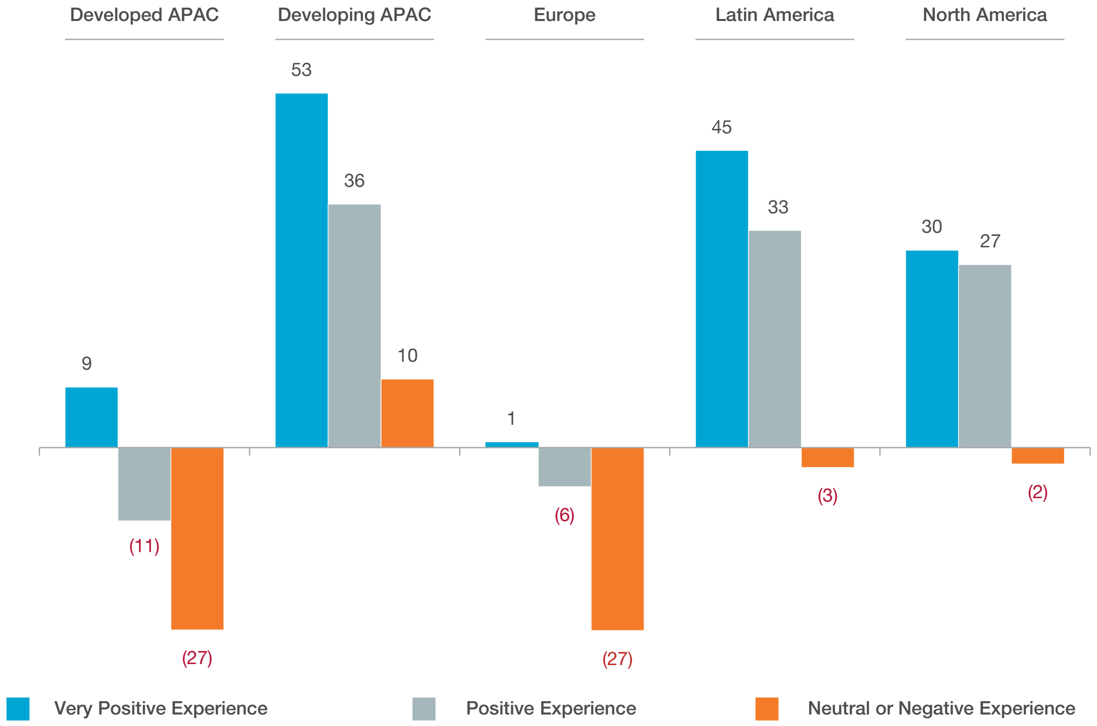
For insurers interested in acquiring new customers and strengthening their market position, there is no better ally than the customer advocate. Our findings related to customer advocacy[3] proved that positive customer experience is fundamental to increasing customer advocacy (see Figure 2.10 and Figure 2.11). Further, some regions have much higher advocacy levels than others.

In developing Asia-Pacific, Latin America, and North America, customers with very positive and positive experiences displayed much higher advocacy levels than customers with neutral or negative experiences. In developing Asia-Pacific and Latin America, customers who had very positive experiences recorded the highest advocacy levels-53 and 45, respectively, for life customers, and 51 and 40, respectively, for non-life customers

Meanwhile, customer advocacy levels in developed Asia-Pacific and Europe were much lower than in other regions. Though delighted customers (i.e., those with very positive experiences) in developed Asia-Pacific and Europe had higher levels of customer advocacy, the levels did not reach nearly the same heights as in other regions. In effect, insurers must aim very high in providing a delightful experience.

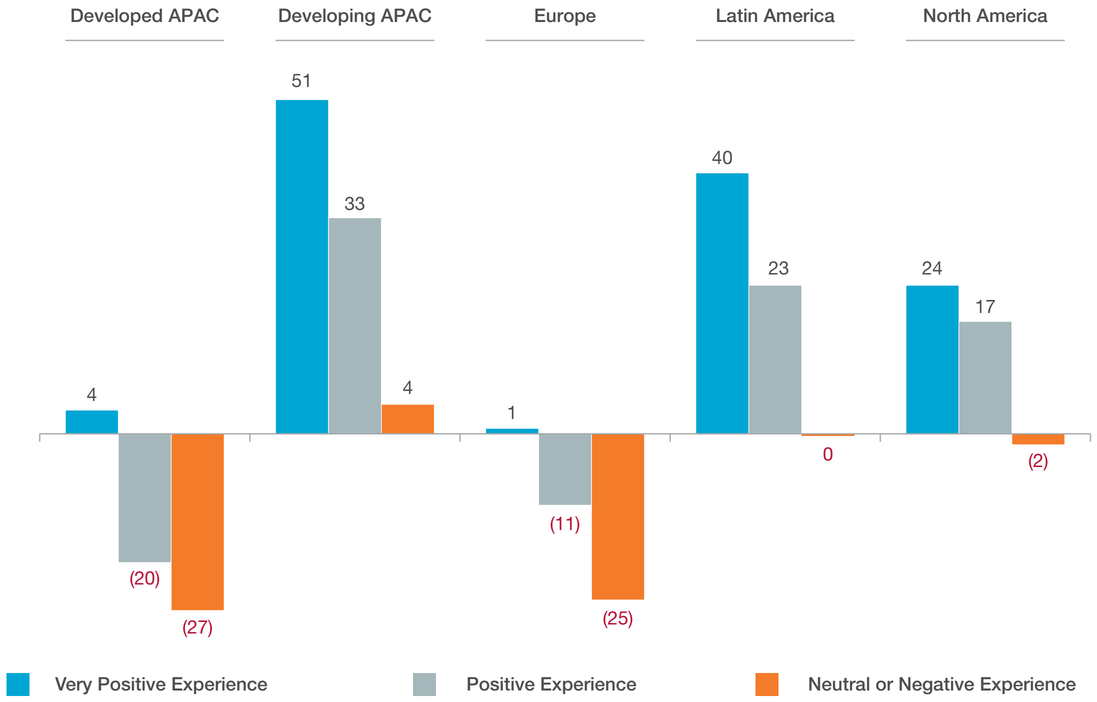
[3] "Customer advocacy rates were calculated by asking customers how likely they were to refer a friend, family member, or colleague, and determining the difference between the percentage of customers likely to refer and those not likely"

**Figure 2.10 Customer Advocacy for Life Insurers with Very Positive, Positive, and Neutral or Negative Experience, by Region, 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

**Figure 2.11 Customer Advocacy for Non-Life Insurers with Very Positive, Positive, and Neutral or Negative Experience, by Region, 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Insurance Voice of Customer Survey, 2014

Especially for customers in Europe and developed Asia-Pacific, the delivery of a very positive experience has become a bare minimum necessity.

An important point to note is that even for those customers who had a positive experience, the advocacy levels were negative in the regions of Europe and developed Asia-Pacific (-6 and -11, respectively for life insurance and -11 and -20, respectively, for non-life customers).

## CONCLUSION

Expectations are one of many factors that lead to positive customer experiences in the insurance industry. As customers have become increasingly exposed to advanced digital services from a wide range of providers, their expectations with respect to insurers have become heightened. Insurers have had a hard time meeting these higher expectations, particularly when it comes to the complicated matter of settling claims, or interacting with digitally demanding Gen Yers.

Insurers can take a number of steps to counteract the negative impact that heightened expectations have had on the level of positive customer experiences. Given the strong affinity that customers have toward traditional channels like agents, and the growing popularity of alternate channels, insurers should strive to blend the most beneficial qualities of each. Agents can be empowered with digital tools, while alternate channels can become more customized and personalized.

Hitting upon a winning formula for service delivery can help insurers move back up the scale in creating positive customer experiences. Such experiences are crucial to building customer advocacy, an all-important measure of customer loyalty, engagement, and profitability.

CHAPTER 3

# Disruptive Change Requires Insurers of the Future to Sharpen Strategic, Analytic Skills

## KEY FINDINGS

**Big Data analytics is expected to have the biggest impact by far on the insurance industry, with 78% of executives citing it as a key disruptive force.** Regulatory change was ranked second at 46% and economic uncertainty ranked third at 42%.

**These top three disruptive forces represent only a small portion of the many factors expected to dramatically affect the insurance landscape.** Other disruptive agents include demographic shifts, extreme weather events, new competition from non-insurers, and advanced technology.

**Insurers globally are falling short of their desired maturity levels in every one of seven core capabilities identified in our Insurance Capability Maturity Model (see Figure 3.7).** To better prepare for the many changes looming ahead, insurers must assess their current strengths and weaknesses, and develop a strategic plan for moving forward.

**Insurers globally are performing at the lowest maturity levels when it comes to capabilities related to customer interactions.** These include connecting elegantly with customers, engaging regularly with them, and having a complete view of customer data and relationships.

**Regional differences are exhibited by insurers in their maturity levels related to various capabilities.** Insurers in North America operated at much higher maturity levels across all core capabilities when compared to those in other regions.

**To move from the current states of mostly basic and median competency to leading-edge and advanced practices, insurers must adopt a more customer-centric approach.** The use of analytics to assimilate customer data, view relationships as a whole, and deliver personalized products through appropriate channels will be essential to succeeding as a customer-oriented insurer of the future.

## WIDE VARIETY OF DISRUPTORS LOOM

For decades, even centuries, the classic insurance sale has involved a warm handshake. Agents selling traditional products focused on delivering personalized service through face-to-face visits, often in a customer's own home or office. The consultative selling process, which hinged on lengthy relationship building, could take weeks.

When the internet entered onto the scene in the late 1990s, communication that was once dependent on human interaction found a new outlet. Though agents and brokers continued to be the preferred sales channel, the internet began to attract greater numbers of users, while the addition of other alternate channels fragmented distribution even more. Internet-PC has now become the second most preferred channel for insurance customers and is fast catching up with the traditional channel of agent.

Though the internet's influence has been significant, it was only the first of several disruptors impacting the insurance industry in a significant manner (see Figure 3.1). Insurers are going to be impacted significantly in the very near future and in some cases they are already facing the impact. This series of rifts will affect the industry's traditional products, processes, and channels, forcing insurers to innovate or lose out on new opportunities.

**The disruptors on the horizon encompass a wide range of change.**

### Demographic Shifts

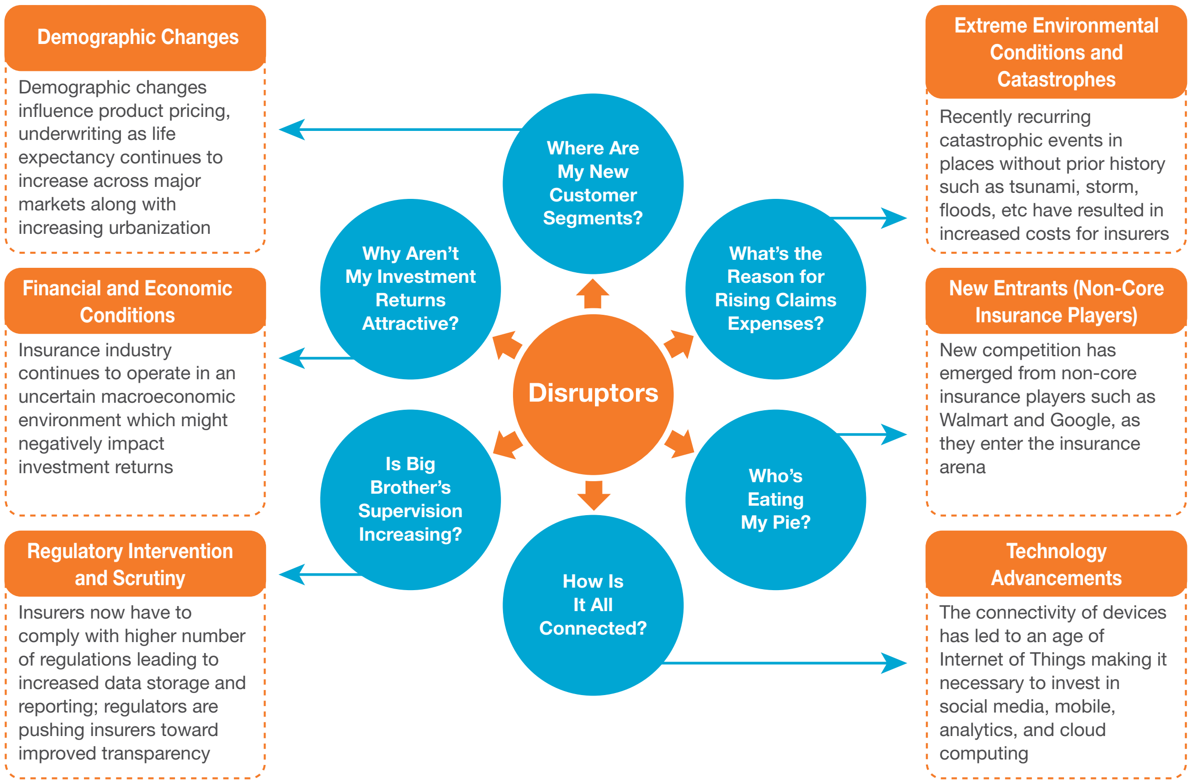
Globally, the population of people aged 65 years and older is expected to triple to 1.5 billion by mid-century[4], presenting a host of economic and social burdens. For insurers, the aging population will likely trigger higher demand for products related to an older customer base, such as retirement income and long-term care insurance. Increasing rate of urban migration, especially in emerging markets, is also leading to change in the demand for different insurance products. The shifting population will also affect the processes insurers use to calculate vital rates, as well as assumptions about future ranges of uncertainty, which will influence product pricing and underwriting.

Aside from an aging population, the number of teen drivers and single-parent families are expected to rise in the future. The longevity of the world's older population, combined with growing numbers of younger customers, will put pressure on insurers to offer a full suite of robust delivery channels that can meet the broad range of customer distribution preferences. In effect, from a demographic perspective, insurers have opportunities to offer new products for an aging population, as well as multi-faceted delivery channels for an increasingly diverse customer set.

### Increased Frequency of Extreme Weather Events

Growing rates of natural calamities, combined with increasing urbanization of disaster-prone areas, is causing the economic costs of calamities to rise precipitously. Three times as many natural disasters occurred from 2000 through 2009, as did from 1980 through 1989, with growth in climate-related events accounting for nearly 80% of the increase.[5] From 1980 to 2011, estimated damages caused by natural disasters rose from about $25 billion to about $350 billion.[6]

**Figure 3.1 Key Disruptors for Insurers**




Source: Capgemini Financial Services Analysis, 2014

[4] "Attitudes about Aging: A Global Perspective", Pew Research Global Attitudes Project January 30, 2014.

[5] "Natural Disasters, Armed Conflict and Public Health",The New England Journal of Medicine, Jennifer Leaning, MD and Debarati Guha-Sapir, PhD, November 13, 2013

[6] EM-DAT, The International Disaster Database, www.emdat.be/natural-disasters-trends

The rising cost of claims associated with disasters is changing the landscape of the insurance business. From a product perspective, insurers need to consider adding riders to their policies, as well as new products, to address co-insurance needs. In terms of processes, insurers have an immediate need to expand their use of advanced modeling tools to better predict catastrophes and expected losses. From a channel point of view, disasters offer insurers the opportunity to move more customers to alternate channels. In an emergency, more customers may be impelled to turn to alternate channels such as mobile and social media to receive faster turnarounds on claims. Insurers could also use these channels to warn customers about impending disasters, as a way of mitigating risk. Though extreme weather poses serious threats, insurers have tools at their disposal, such as analytics, to predict catastrophic events and the incidence of claims, which help them better manage the event and overcome risks, positioning the company with a competitive advantage.

**New Entrants**

Many companies with little or no background in insurance see opportunity to bring greater transparency and simplicity to the processes of researching and purchasing insurance. These companies have inherent advantages that may position them as threats to existing insurers. The U.S. discount retailer Walmart, for example, plans to market health insurance plans online and through its stores to its massive existing loyal customer base[7], an effort that could fracture existing ties insurers have with their customers and distributors. Insurers are also wary of high-tech firms like Google or Amazon, which could parlay their expertise in areas such as search engines and one-click shopping to the insurance arena. Google has in fact made some inroads in this direction with the acquisition of an aggregator website BeatThatQuote.com in the U.K. region. Other pursuits of Google such as driverless cars, Google Glass, and automated home technology are likely to have huge implications on the insurance industry.

The threat of competition from new, innovative entrants should propel insurers to aim higher in terms of developing more personalized products and delivering them through convenient, digital channels. Opportunities exist for insurers to take advantage of in-house customer data to develop products that reflect improved risk profiling and the impact of customer life events. Insurers may also want to consider forming strategic alliances with non-traditional players to broaden their expertise in areas such as product distribution and development and gain access to better risk profiling.

**Economic Uncertainty**

Five years on from the financial crisis, the global economy still is not back to its pre-crisis form, raising the specter of an ongoing strain on insurance profit margins. In addition, the persistent global financial pressure may cause consumers to curtail their purchases of cars and homes, thus lessening demand for basic insurance products. Near-zero interest rates in several developed markets also have a significant impact on insurers' investment returns.

Increasing uncertainty about profit margins could have a significant impact on product line-ups. Insurers may want to simplify their existing product lines so that it becomes easy for customers to understand these products better and thereby enable sales through direct channels or develop niche products for which they can charge higher premiums. In addition, consumer demand for various products may shift based on prevailing economic conditions, creating the need for insurers to flexibly respond with both safer fixed-income products and higher-return, equity-linked products. Finally, dampened buying behavior by consumers may lead insurers to develop new products built around evolving consumer models. An example of one such model is the car-sharing service, Zipcar.

With rising economic uncertainty, insurers will feel greater pressure to increase operational efficiencies and reduce the time to market for new products. They may also want to optimize their distribution channels by pushing simpler products toward alternate channels as a way of reducing costs, while utilizing the agency network to leverage the potential for cross-selling and up-selling. All in all, financial pressures will likely encourage insurers to become bolder about choosing and executing upon a particular strategy-be it in product innovation, operational improvement, or channel distribution-to overcome the profit pressures of financial instability.

[7] "You Can Now Get Health Insurance at WalMart", Huff Post Business, Anne D'Innocenzio, October 6, 2014

## Regulatory Change

One outcome of the global financial crisis has been a comprehensive examination of supervisory practices, accompanied by a raft of new guidelines and requirements for insurance firms and their holding companies. New sets of complex regulatory and reporting standards are affecting all aspects of the business, including financial reporting, capital financing, consumer protection, risk management, exposure, transparency, and others. This regulatory change is occurring at the national, global, and regional levels.

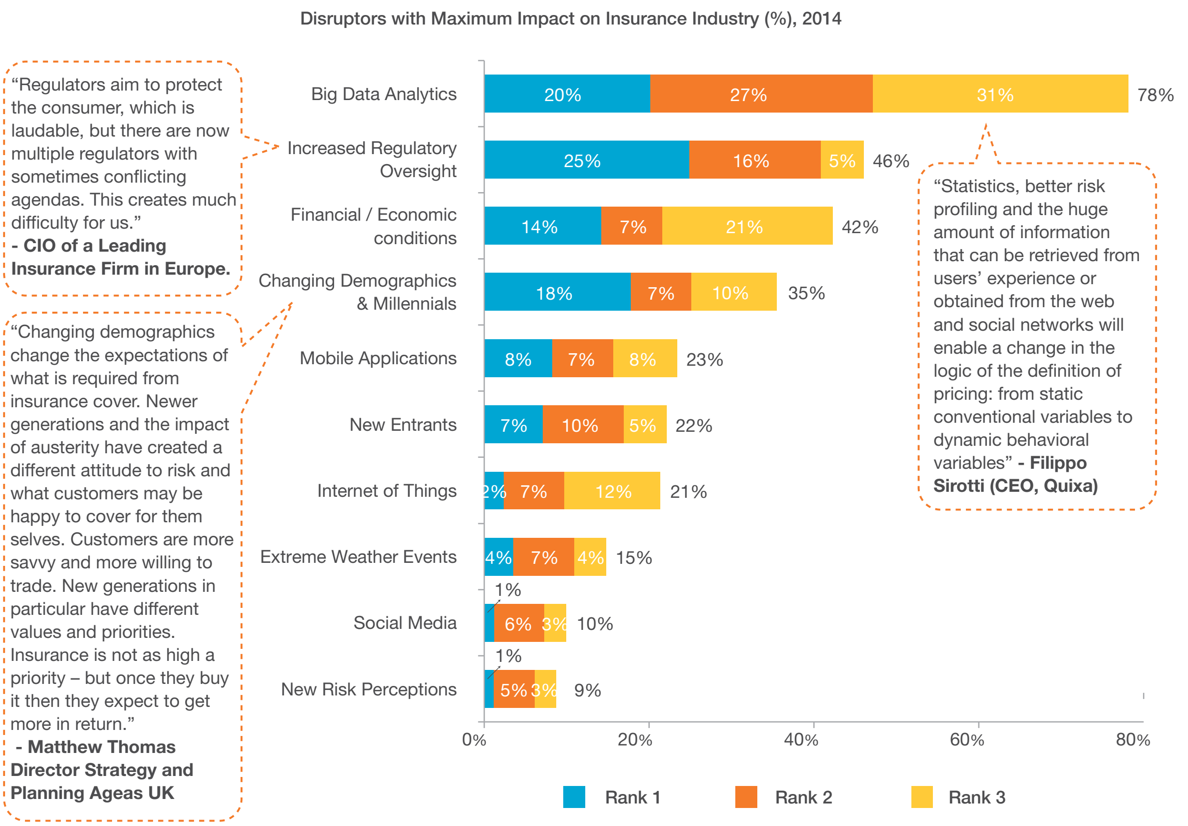
In some cases, the regulatory burden could be onerous enough to cause insurers to alter existing products or even stop offering certain ones altogether. At the very least, many insurers expect to introduce changes in product design and pricing in response to impending regulatory requirements. Insurers will need to understand how regulatory changes will impact the business and long-held processes, and ensure they have the technical knowledge and expertise to properly implement the new rules, as well as put in place appropriate measures for ongoing control and governance. They will need to have systems and distribution channels that are flexible enough to incorporate the regulatory changes and also adapt to future ones. For well-prepared insurers, the massive amount of regulatory change offers an opportunity to assess and upgrade current reporting functions and enterprise risk management, as well as evaluate whether new talent is needed.

## Internet of Things

The internet, already a source of lasting impact on the insurance industry, will continue to act as a major disruptor as it evolves to incorporate the Internet of Things (IoT). Any type of natural or man-made object can become part of the IoT network and have the ability to transfer data over it. Under such a scenario, devices such as heart monitors, car engines, and stress gauges on bridges, will be able to transmit real-time status information to data stores where it can be analyzed.

Access to all this data could fundamentally alter the insurance business by providing a much more detailed view of an insurer's exposures and risks. Insurers

**Figure 3.2 Disruptors with Maximum Impact on Insurance Industry (%), 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

could use this data to redesign or re-price products to make them less risky and more profitable. Further, by developing a robust, multi-channel feedback loop with customers, insurers will be able to act upon the data they receive and potentially reduce losses. The IoT will no doubt tax the ability of insurers to store, model, and analyze all the data it generates. Privacy issues will also likely arise, perhaps leading to more burdensome regulations. But for insurers who embrace these challenges, the IoT offers the potential to expand the level of detail related to every aspect of the business, from product design and pricing, to underwriting, service, and claims.

### Largest Disruptor of All is Analytics

A common denominator in all of these forces is the powerful impact that data analytics can have on illuminating both the risks and opportunities relevant to each disruptor. In every case, analytics based on Big Data can be used to identify threats and minimize the incidence of loss. In fact, industry executives identified Big Data analytics as having the greatest impact on the insurance industry, with 78% ranking it as one of the top 3 disruptors, well above increased regulatory oversight, which was ranked by 46% of executives (see Figure 3.2). In North America, insurers believe analytics will have more impact on the insurance industry than any other disruptor. In Europe and Asia-Pacific, insurers ranked it as a close second. Because of its reach, analytics has the potential to change the very nature of the business. Several insurance executives expect analytics to enable a change in their pricing models that are currently based on static conventional variables to more accurate and dynamic behavioral variables. Given its expected impact on pricing, underwriting, and the business in general, insurers must begin sharpening their expertise and skills in analytics in short order.

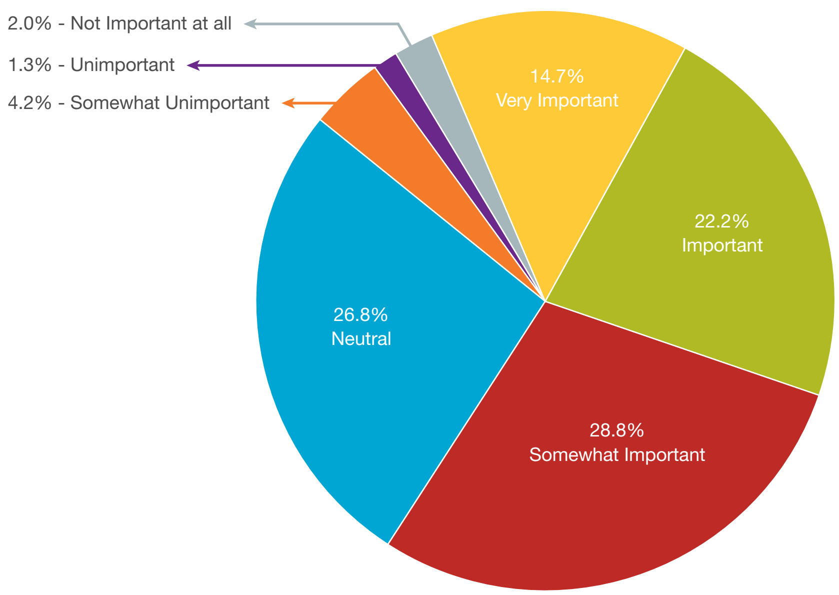
## QUICKENING TRENDS POINT TO ADDITIONAL VULNERABILITIES

Insurers may be in the business of identifying and minimizing risks, but that does not make them immune to outside forces. The disruptors outlined in the previous section make insurers vulnerable to several trends in the near future, all of which have the potential to undermine the business, if no counterbalancing measures are taken.

### Rising Consumer Expectations

Consumers have become accustomed to the idea of instant gratification through the web, as capabilities like one-click shopping, instant downloads, and immediate access to a person's full social network become the norm. The rapid-response service consumers receive from other providers has heightened the expectations they have of their insurers, making it only natural that they should start to demand capabilities like personalized insurance products and location-based awareness. Among other demands, customers expect simpler procedures for choosing, paying for, and renewing policies, and

**Figure 3.3 Importance of Seamless Channel Experience (%), 2014**




Source: Capgemini Financial Services Analysis, 2014

quicker claims processing through improvements such as photo and video estimating, ease of uploading documents and proofs, mobile-based payments and receipts, automated assignment of claims to an adjuster, and straight-through processing.

Meeting the higher expectations of consumers will require insurers to place greater value on customer perceptions. Insurers will need to review, and potentially revamp, every angle of the insurance process from the customer perspective. Better visibility on pricing, quicker problem resolution, improved privacy protections, and greater product choice will be among the priorities of customers in this new environment. To better compete, insurers must be prepared to make the necessary investments to becoming fully customer centric.

**Changing Channel Preferences**

Non-traditional channels, not only the internet, but also mobile and social media have already had a large impact on insurance sales and distribution. Over time, growth in these alternate channels is expected to continue to expand, both organically and at the expense of traditional channels. And even though in-person agents will remain relevant to the sales process, alternate channels, such as video, e-mail, text, and social media, will increasingly be used to supplement their interactions.

Currently, social media accounts for a small portion of insurer transactions. Most insurers (85%) view it more as a vehicle for improving and building their brand image. But many other value-added focus areas exist, including connecting agents with customers and providing a feedback loop for customer opinions.

Aside from supporting a wide range of channels, insurers need to ensure customers can move seamlessly between channels and receive consistent service across all of them. More than two-thirds of the customers noted that it is important for their insurer to offer a seamless channel experience (see Figure 3.3). Among the customers who received a seamless channel experience from their insurer, 51.3% of them were satisfied with the level of service being offered. The positive experience levels of customers who were satisfied with the seamless channel experience offered by their insurer are quite high at 72%. Offering high-quality, seamless channel service is a highly effective strategy that can enhance customer experience significantly.

**Entry of Non-core Insurance Players**

Consumer companies that have built up large customer bases through their online or digital platforms have the ability to enter the insurance space free from the burden of legacy platforms. Such companies could lure away potential new customers, presenting a considerable threat. The Japanese shopping site, Rakuten, for example, is leveraging its well-established customer connections and advanced digital servicing capabilities to offer insurance policies over the internet at very low premiums. Alternatively, insurers could band with new types of competitors, entering into strategic alliances that would draw upon the strengths of each firm. Already, such alliances have taken on multiple forms. American Family Insurance in the United States has teamed with Microsoft to support startups that specialize in advancements leading to safer and smarter homes. Allstate Canada has teamed with a provider of home monitoring and security to offer a 25% discount to customers who install the system.

Coles, one of the largest supermarket chains in Australia, which began offering car insurance in 2010, has recently entered the life insurance space as well. While its car insurance is issued by Wesfarmers insurance, the life insurance partnership is with MetLife. Due to its vast customer reach, Coles has been successful in increasing the number of insurance policies sold on a regular basis. As of May 2014, Coles has signed up more than 330,000 insurance customers while its rival supermarket, Woolworths, has close to 125,000 insurance customers. Such alliances illustrate the need of insurers to be open to the possibilities of the services that outside providers can offer.

**Emergence of Niche Insurance Products**

New business models and markets are leading to the emergence of unknown risks. The advent of driverless cars, for example, raises questions around liability. In the event of driverless accidents, liability could shift to manufacturers and software providers, creating the need for a new type of insurance product. Similarly, growing cyber-security threats are increasing the need for new types of cyber insurance. Other factors, like rising air pollution and the expanding use of e-cigarettes, may potentially trigger liability claims in the future, though the exact level of risk related to these factors is still unknown. Insurance firms that can accurately assess and price these new types of risks will have a competitive advantage as these niche insurance products emerge.

**Risk Mitigation Technologies**

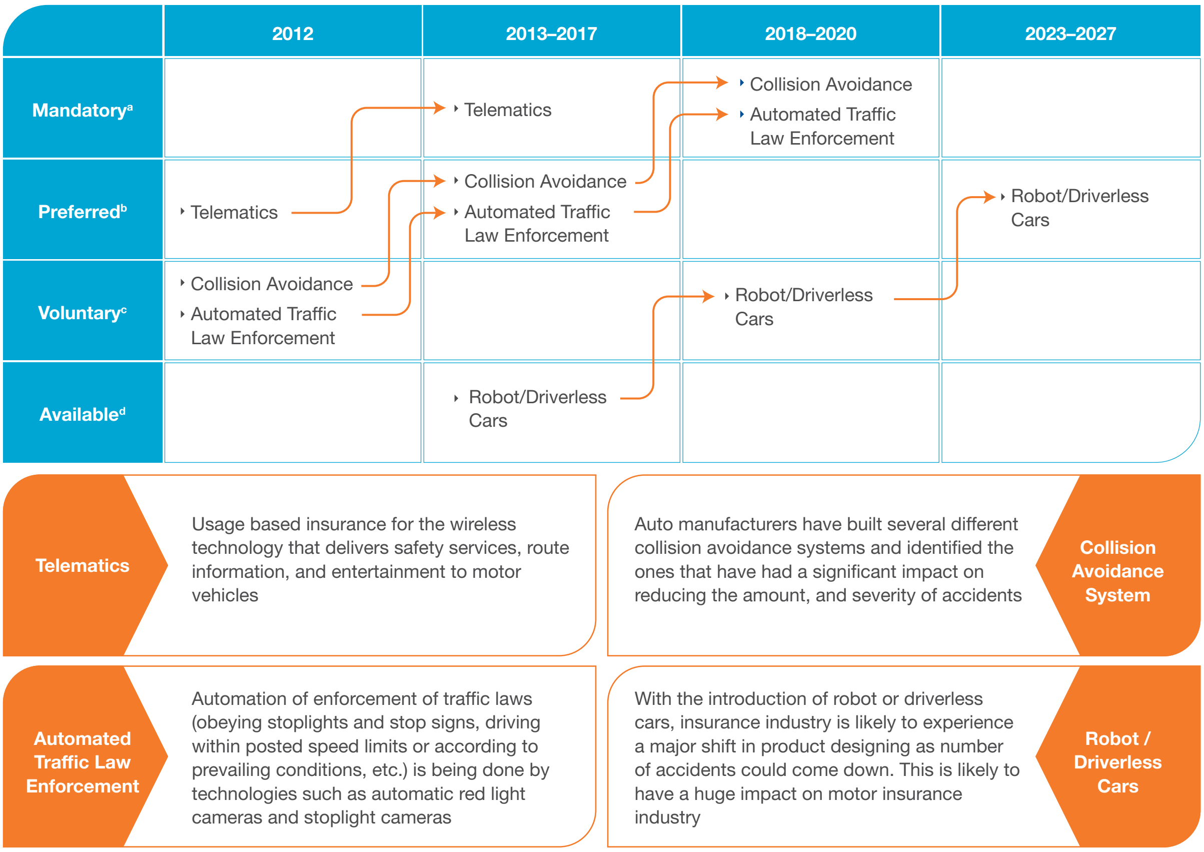
Industries including automotive, health care, and home security are exploring the use of various technologies to help them reduce consumer risks. Over the next several years, carmakers are expected to develop and make available a wide range of risk-mitigating technologies, including telematics aimed at delivering safety services directly to cars, and collision avoidance systems aimed at reducing the severity of accidents (see Figure 3.4). These technologies have the multiple benefits of minimizing risks, while also providing insurers with information that can be used to sell more personalized products and increase customer intimacy. Our research found that 65% of customers would let insurers monitor their driving behavior in exchange for reduced premiums based on positive risk assessments.

Advancements in health care are similarly making it possible for insurers to monitor the health of their customers. For example, fitness bands and other types of wearable technology can be used to detect physical changes or unhealthy behaviors. Despite data privacy concerns, a majority of customers (56%) are willing to allow insurers to track their health conditions in return for reduced premiums in the case of a positive risk assessment. The Vitality Group, a member of South Africa based Discovery Holdings Limited, is an early innovator in this field, granting customers premium discounts and other rewards for improving their health and fitness.

More than 50% of non-life customers are willing to allow insurers to monitor their driving habits in return for better risk assessment and personalized advice, while nearly two-thirds of them would allow insurers to do so in return for a reduced premium for a positive risk assessment (see Figure 3.5). Several insurers have already begun to leverage telematics for this purpose while others are likely to follow suit in the near future.

Finally, technology in the form of smart home systems is also affecting insurers. Such systems detect the risks of floods, fires, gas leaks, and burglaries, triggering real-time alerts to customers and insurers. Ideally, such systems will work on a proactive basis to

**Figure 3.4 Expected Timelines for Adoption of Risk Mitigation Technologies in Auto Industry**




Note: a. Government requires new vehicles and retrofitted older vehicles to have telematics and/or various collision avoidance technologies, and installs the environmental hardware/systems to make automated traffic law enforcement work; b: Positive or negative incentives promote use; c: Decision based on individual vehicle owners; d: The technology exists
Source: Capgemini Financial Services Analysis, 2014; "A Scenario: The end of Auto Insurance", Donald Light, Celent, May 8, 2012

prevent the occurrence of damage in the first place. Insurers should seek out partnerships with smart home technology providers to support innovative products and more flexible pricing. In the United States, for example, State Farm has teamed up with a home security provider to offer discounts on home monitoring systems, as well as homeowners insurance.

**Regulatory Standardization**

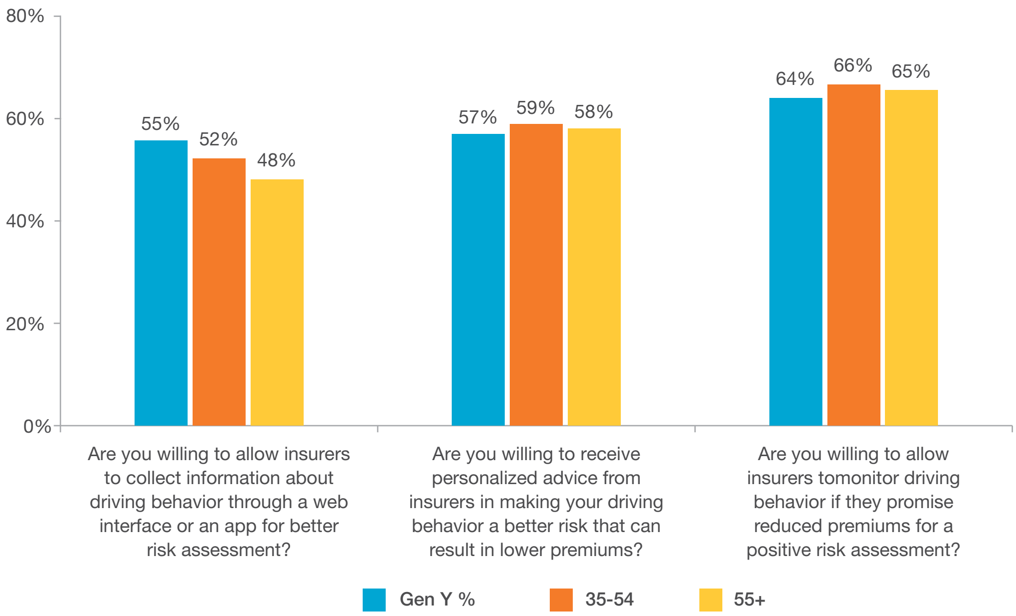
A push for more regulations and greater rules uniformity across regions will impose a significant burden on insurance firms in the coming years. The Common Framework or ComFrame subjects active insurers internationally to more stringent capital requirements and imposes additional governance and compliance guidelines related to enterprise risk management. As a result, global insurers can expect increased costs related to capital adequacy and greater reporting complexity. Regionally, insurers will also have to adhere to various directives. In Europe, Solvency II proposes a uniform approach for measuring assets and liabilities, requiring insurers to demonstrate a greater understanding of the risks inherent in their business operations and products. In North America, solvency, corporate governance, accounting standards, and consumer protection are all subject to more stringent regulation. In Asia-Pacific, the China Insurance Regulatory Commission is shifting its focus from rules concerning products and pricing to solvency and reporting, placing greater importance on enhanced enterprise risk management.

**Big Data Analytics**

Extensive use of analytics has the power to positively impact every aspect of the insurance process. In the area of product development, analytics can help insurers tap into the wisdom of crowds to create products that address genuine and emerging customer needs and bring in new business. Real-time analytics combined with sophisticated hypotheses make it possible to create very narrow but meaningful customer segments, leading to better response rates in marketing efforts. When it comes to policy administration and underwriting, analytics can help insurers better understand risks, identify potential losses, and put strategies in place to avoid them. Effective use of analytics can also help reduce claims fraud.

Analytic tools range from the simple use of ad-hoc reports and root-cause analysis, to more sophisticated statistical analysis, to the advanced techniques of optimization schemas and network theory. As human capital becomes increasingly scarce and

**Figure 3.5 Percentage of Non-Life Insurance Customers Allowing Their Insurer to Monitor Their Driving Habits in Return for Better Risk Assessment, Personalized Advice, and Lower Premiums (%), 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Voice of the Customer Survey, 2014 expensive, insurers will be more inclined to turn to a combination of what-if analytics, visualization, and unstructured data to develop actionable insights aimed at improving performance. The use of analytics does not come without its challenges, however. Insurers will need to overcome the problems of data inconsistency, legacy infrastructure, a shortage of analytical skills, and privacy concerns to leverage the full potential of analytics.

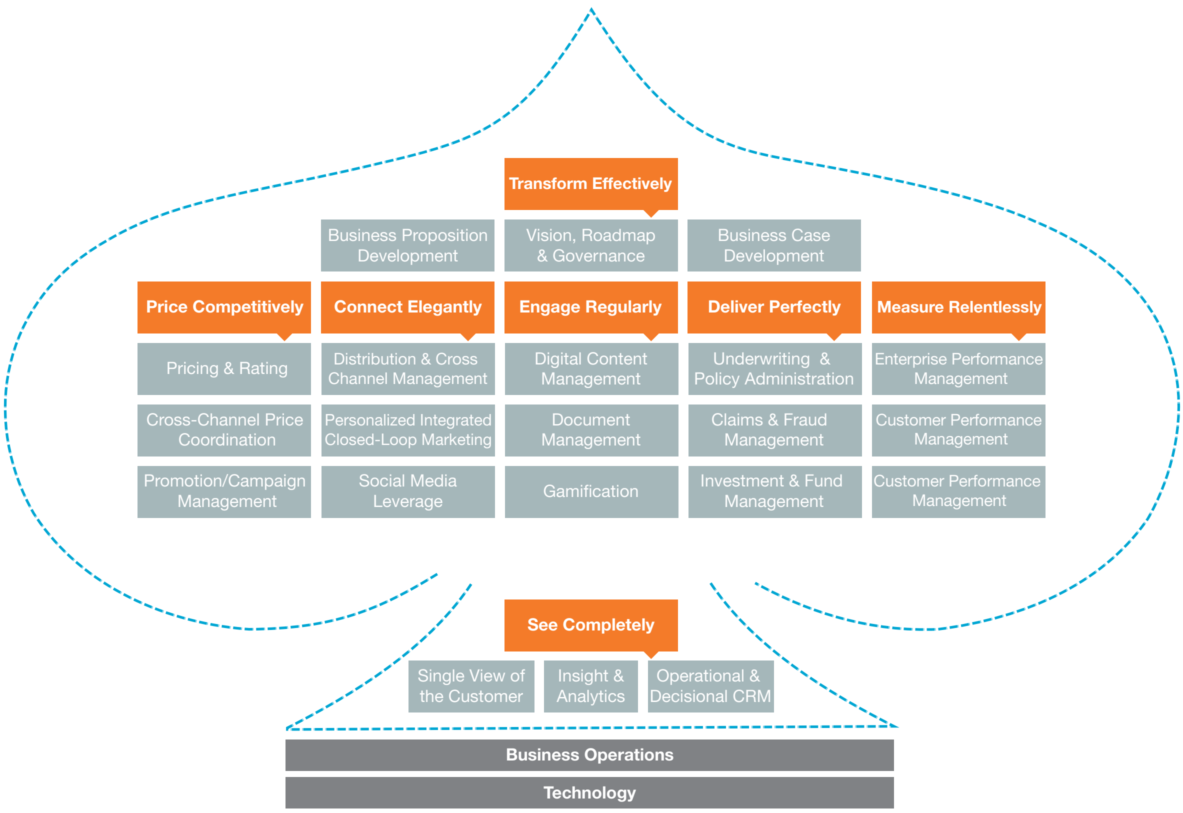
### Channel Evolution

Insurers' channel strategy is currently in a state of flux. On one hand, digital channels such as mobile and social media are evolving rapidly. While on the other hand, the age-old traditional agent channel is still the most preferred one—leading to efforts by insurers to empower agents with digital tools. However, with the rise of direct distribution channels, customers now have viable alternatives to the traditional agency channel, putting additional pressure on agents to increase their operational efficiencies and expand their customer reach. To better compete with the direct channels, agents are incorporating new technologies into their routines. Some, for example, are using social media platforms, such as Facebook and Twitter, to enhance their visibility. Predictive analytics can be used to arm agents with customer insights, enabling them to take advantage of cross-selling and up-selling opportunities. While the use of digital tools could lead to increased acquisition costs in the short run, over time efficiencies should take hold. More important, digital technologies should enhance customer experiences, bolstering the agent channel's status as the most important one for a majority of customers.

## MATURITY MODEL IDENTIFIES GAPS IN INSURER CAPABILITIES

With so many pressures bearing down, insurers have no choice but to face the future with a strategic plan. The first step in doing so is to assess current strengths and maturity levels by utilizing a capability framework. We have identified seven core capabilities (see Figure 3.6) that insurers need to develop in order to enhance customer experience and take advantage of opportunities created by the disruptors. Our Insurance Capability Maturity Model (see Figure 3.7)

**Figure 3.6 The Capgemini Insurance All Channel Experience (ACE) Business Capability Framework**




Source: Capgemini Consulting All Channel Experience Capability Framework; Capgemini Financial Services Analysis, 2014

**Figure 3.7 The Capgemini Insurance All Channel Experience (ACE) Business Capability Maturity Model**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Transform Effectively** Know your customers. Develop the vision, value proposition, business model, roadmap and business case to re-build your insurance company around the customers' needs | The insurer does not know enough about its customers' expectations to know that it needs to change. No clear road map or business case exists | The insurer knows enough about its customers to realize it needs to change. Some value proposition definition has taken place, and there is an emerging case for transformative change. High level costs and benefits have been identified | The insurer understands the experiences that customers value. Options for change have been identified and evaluated, and a transformation program is about to be launched | New customer-centric product and service propositions have been designed. The road map, business case and resources are all in place, and the transformation to a customer-centric insurer is underway | The insurer has successfully redesigned its business around its customers. It delivers valuable customer-centric propositions and is achieving high levels of customer satisfaction. Growth and profits are both rising healthily |
| **Price Competitively** Manage pricing across all channels to drive profitable sales | The technical price is reasonably accurate, but the sales price is kept the same across all channels and customer segments | Same as Minimal, but with differentiated pricing across some channels. Basic customer segment and channel analysis is used in developing promotions | Cross-channel pricing strategy, such as factory gate pricing, is in place. Price elasticity of demand is understood and acted upon | Same as for Median, except that the technical price is further refined based on multiple additi-onal data sources, eg: external databases, social media and telematics | As for Advanced, plus customer lifetime values are fully understood and incorporated into sales pricing, and pricing is optimised across all channels |
| **Connect Elegantly** Maintain an informed personal dialogue with individual customers, across communication and distribution channels, so as to understand them better | Communication is only via conventional channels. No use of social media. No analysis of customer data when devising marketing campaigns | Emerging use of digital channels, including social media. But poor coordination of cross-channel messaging and communications | Applying cross-channel insights to segment and personalise communica-tions, but still providing different customer experiences across channels | Increased consistency, across channels, for most interactions. Insight gathered from social media is used extensively to inform the conversation | All channels, including social media, are fully integrated real-time for all interactions – so the customer always feels the insurer knows him/her well |
| **Engage Regularly** Use high-quality, rich and inspirational content, together with sophistica-ted engagement strate-gies, to drive high customer engagement | Content is minimal and managed on an ad-hoc basis. No engagement strategy is in place, and there is little or no gamification | Original content exists, but publishing is uncoordinated. Strategies for gamification are emerging | Original content is regularly refreshed. Some limited customer segmentation informs content distribution and channel selection. Basic gamification strategies are in place | Sophisticated analytics support targeted and personalised marketing across channels. Content is managed centrally, and is template-driven for consistency. Gamification is widely applied | New content is continually being created and published to customers to whom it is relevant, through the right channels at the right times. Advanced content management and gamification platforms are in place |
| **Deliver Perfectly** Deliver underwriting, claims, fraud management and investment services efficiently and effectively, improving customer experience | Primarily manual capability, drawing heavily on a dispersed set of spreadsheets and other tools | Automated systems are in place, but are not integrated end to end, and/or lack a portal or web front end for customers | Real-time straight-through processing is in place, enabled by customer portals or web front ends integrated into back end systems | Real-time straight through processing is further supported by mobile capabilities, providing customers with a choice of access channels | Full end-to-end integration and automation. Seamless multi-channel access capabilities are available to customers and third parties (eg: loss adjusters) |
| **Measure Relentlessly** Monitor and optimise the performance of your business across all channels to improve efficiency–enabling higher profitability and margins | Limited performance and investment tracking takes place. Many decisions are made based on gut feel. Performance measures are not aligned throughout the insurer | Performance measures are primarily financial. Some understanding of customer and channel profitability is available | A performance management framework exists and incorporates non-financial measures. Customer and channel analytics are available to support key decisions | A cascaded balanced scorecard is in place. Analytics are widely available to decisionma--kers. Non-financial measures such as Net Promoter Scores, reten-tion and share of wallet are reported on regularly | Customer, channel and product profitability are all tracked accurately, and available through real-time dashboards. Decision-makers have all the real-time analytics they need. Business activities are constantly refined in response to analytics |
| **See Completely** Use a single view of data for all strategic, tactical and operational Decision -making to improve accuracy, avoid duplica-tion and increase insight | Customer data is unreliable, out of date or not readily available. Little insight is gleaned. Data governance and management are poor | Customer data is more usable. But more time and effort is spent on data gathering and report preparation than on subsequent analysis | The insurer captures, stores and uses data (both structured and unstructured) generated from multiple sources / channels, to improve both the customer relationship and internal operations | A single customer view is available based on a centralised data repository. The insurer leverages this data to identify next best actions and improve the customer's experience | The insurer has a comprehensive single view of each customer, and also understands each customer's relationships with others (eg: family, businesses). Accurate, real-time data supports predictive analytics, planning and delivery |

Source: Capgemini Consulting All Channel Experience Capability Framework; Capgemini Financial Services Analysis, 2014 defines seven core capabilities along with the specific attributes that characterize leading-edge performers within each category. Globally, we found insurers are falling short of their desired levels of maturity in every category, ratcheting up the need to develop improved strategic plans and begin executing against them.

Global insurers exhibited the lowest maturity levels when it came to connecting elegantly and engaging regularly with customers, as well as having a complete view of customer data and relationships (see Figure 3.8). Leading-edge practitioners of connecting elegantly maintain an informed personal dialogue with individual customers across all communication and distribution channels. These channels are fully integrated, operate on a real-time basis, and include social media. Yet most insurers operate at a basic level of connection, offering a full range of channels, but supporting only disjointed customer experiences across them.

In terms of engaging regularly with customers, leading insurers continually create and publish high-quality, rich, and even inspirational content, making it available to just the right customers, through the right channels, at the right time. These leaders employ advanced content management and gamification platforms to support their ongoing communications efforts. Most insurers, however, are only beginning to get a handle on content management. They may have original content, and refresh it on a regular basis, but their ability to personalize it for different customer segments is limited to non-existent.

Insurers are also struggling in their ability to view customer relationships completely. Ideally, insurers would have a singular, comprehensive view of each customer, including their connections to other household members and/or businesses. These views would be updated on a real-time basis to support predictive analysis, planning, and service delivery. In reality, most insurers have become proficient in capturing and storing customer data, but they struggle with being able to create a single, up-to-date view, and perform effective analysis.

Insurers performed at median maturity level when it came to four other capabilities: pricing products competitively, delivering services perfectly, measuring relentlessly, and transforming the business effectively.

Leading practitioners of pricing competitively understand customer lifetime values based on multiple data sources and incorporate them into differentiated pricing for customers. These insurers are also adept at optimizing pricing across channels. Most insurers, however, are more rudimentary in their approach to pricing, offering a minimal amount of differentiated pricing across channels and performing limited customer segmentation for specific product promotions.

In terms of delivering services perfectly, leading insurers aim to ensure an unparalleled customer experience. They deliver underwriting, claims, and investment services in a fully automated manner, and can guarantee a smoothly integrated experience no matter how many channels a customer uses. Most insurers, however, still have a long way to go in delivering a perfect experience. They are still working on seamless integration of their channels, and have yet to institute real-time straight-through processing in response to customer interactions and requests.

Many insurers are still in the early stages of fully monitoring their businesses. Ideally, measurements of customer, channel, and product profitability are tracked and available through real-time dashboards, providing decision-makers with up-to-date analytics that can be used to continually refine business activities. In reality, most performance measures used by insurers are financial in nature, and there is little tracking of customer and channel data to support business decisions.

Finally, most insurers are struggling to transform their businesses into customer-centric entities. The ones in the lead have succeeded in redesigning their firms around their customers. They are delivering value propositions that speak to customers and are achieving high rates of customer satisfaction, along with growing profitability. Most insurers, however, have neither fully developed a road map and business case for becoming a thoroughly customer-centric organization, nor have they allocated the resources to execute such a plan.

The inability of insurers to achieve their desired levels of maturity was consistent across the board. Though insurers said they would like to improve upon every capability in the maturity-level matrix, they expressed the greatest desire to improve their skills with respect to pricing competitively, delivering services perfectly, and transforming into a customer-centric business. Meanwhile, insurers have the most work to do with respect to engaging customers regularly and connecting with them in an informed manner, as well as having complete views of customer relationships. The upshot is that insurers must begin to scale up their strategic planning with respect to all the capability areas. Only by developing comprehensive

**Figure 3.8 Gap between Current and Desired Maturity Levels**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Transform Effectively**<br>Know your customers. Develop the vision, value proposition, business model, roadmap and business case to re-build your insurance company around the customers' needs | The insurer does not know enough about its customers' expectations to know that it needs to change. No clear road map or business case exists | The insurer knows enough about its customers to realize it needs to change. Some value proposition definition has taken place, and there is an emerging case for transformative change. High level costs and benefits have been identified | The insurer understands the experiences that customers value. Options for change have been identified and evaluated, and a transformation program is about to be launched | New customer-centric product and service propositions have been designed. The road map, business case and resources are all in place, and the transformation to a customer-centric insurer is underway | The insurer has successfully redesigned its business around its customers. It delivers valuable customer-centric propositions and is achieving high levels of customer satisfaction. Growth and profits are both rising healthily |
| **Price Competitively**<br>Manage pricing across all channels to drive profitable sales | The technical price is reasonably accurate, but the sales price is kept the same across all channels and customer segments | Same as Minimal, but with differentiated pricing across some channels. Basic customer segment and channel analysis is used in developing promotions | Cross-channel pricing strategy, such as factory gate pricing is in place. Price elasticity of demand is understood and acted upon | Same as for Median, except that the technical price is further refined based on multiple additi-onal data sources, eg: external databases, social media and telematics | As for Advanced, plus customer lifetime values are fully understood and incorporated into sales pricing, and pricing is optimised across all channels |
| **Connect Elegantly**<br>Maintain an informed personal dialogue with individual customers, across communication and distribution channels, so as to understand them better | Communication is only via conventional channels. No use of social media. No analysis of customer data when devising marketing campaigns | Emerging use of digital channels, including social media. But poor coordination of cross-channel messaging and communications | Applying cross-channel insights to segment and personalise communica-tions, but still providing different customer experiences across channels | Increased consistency, across channels, for most interactions. Insight gathered from social media is used extensively to inform the conversation | All channels, including social media, are fully integrated real-time for all interactions – so the customer always feels the insurer knows him/her well |
| **Engage Regularly**<br>Use high-quality, rich and inspirational content, together with sophistica-ted engagement strate-gies, to drive high customer engagement | Content is minimal and managed on an ad-hoc basis. No engagement strategy is in place, and there is little or no gamification | Original content exists, but publishing is uncoordinated. Strategies for gamification are emerging | Original content is regularly refreshed. Some limited customer segmentation informs content distribution and channel selection. Basic gamification strategies are in place | Sophisticated analytics support targeted and personalised marketing across channels. Content is managed centrally, and is template-driven for consistency. Gamification is widely applied | New content is continually being created and published to customers to whom it is relevant, through the right channels at the right times. Advanced content management and gamification platforms are in place |
| **Deliver Perfectly**<br>Deliver underwriting, claims, fraud management and investment services efficiently and effectively, improving customer experience | Primarily manual capability, drawing heavily on a dispersed set of spreadsheets and other tools | Automated systems are in place, but are not integrated end to end, and/or lack a portal or web front end for customers | Real-time straight-through processing is in place, enabled by customer portals or web front ends integrated into back end systems | Real-time straight through processing is further supported by mobile capabilities, providing customers with a choice of access channels | Full end-to-end integration and automation. Seamless multi-channel access capabilities are available to customers and third parties (eg: loss adjusters) |
| **Measure Relentlessly**<br>Monitor and optimise the performance of your business across all channels to improve efficiency–enabling higher profitability and margins | Limited performance and investment tracking takes place. Many decisions are made based on gut feel. Performance measures are not aligned throughout the insurer | Performance measures are primarily financial. Some understanding of customer and channel profitability is available | A performance management framework exists and incorporates non-financial measures. Customer and channel analytics are available to support key decisions | A cascaded balanced scorecard is in place. Analytics are widely available to decisionma--kers. Non-financial measures such as Net Promoter Scores, reten-tion and share of wallet are reported on regularly | Customer, channel and product profitability are all tracked accurately, and available through real-time dashboards. Decision-makers have all the real-time analytics they need. Business activities are constantly refined in response to analytics |
| **See Completely**<br>Use a single view of data for all strategic, tactical and operational Decision -making to improve accuracy, avoid duplica-tion and increase insight | Customer data is unreliable, out of date or not readily available. Little insight is gleaned. Data governance and management are poor | Customer data is more usable. But more time and effort is spent on data gathering and report preparation than on subsequent analysis | The insurer captures, stores and uses data (both structured and unstructured) generated from multiple sources / channels, to improve both the customer relationship and internal operations | A single customer view is available based on a centralised data repository. The insurer leverages this data to identify next best actions and improve the customer's experience | The insurer has a comprehensive single view of each customer, and also understands each customer's relationships with others (eg: family, businesses). Accurate, real-time data supports predictive analytics, planning and delivery |

Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

plans for proficiency across the board can insurers hope to counteract the waves of disruptive change that are threatening to undermine the business and profitability.

**Regional Differences in Maturity Levels Emerge**
Insurers in some regions were ahead of those in others in terms of their maturity levels for some capabilities. Insurers in North America were operating at higher levels of maturity across most core capabilities when compared to those in other regions.

No insurers in any region had reached their desired levels of maturity for any single capability, though most aspire to be at advanced and/or leading-edge maturity levels across all the capabilities (see Figure 3.9). While insurers in Asia-Pacific and Europe are equally concerned about their ability to transform the business, they are focused on different capabilities for getting there, with Europeans particularly focused on pricing products competitively and delivering them perfectly, and those in Asia-Pacific more focused on connecting to customers.

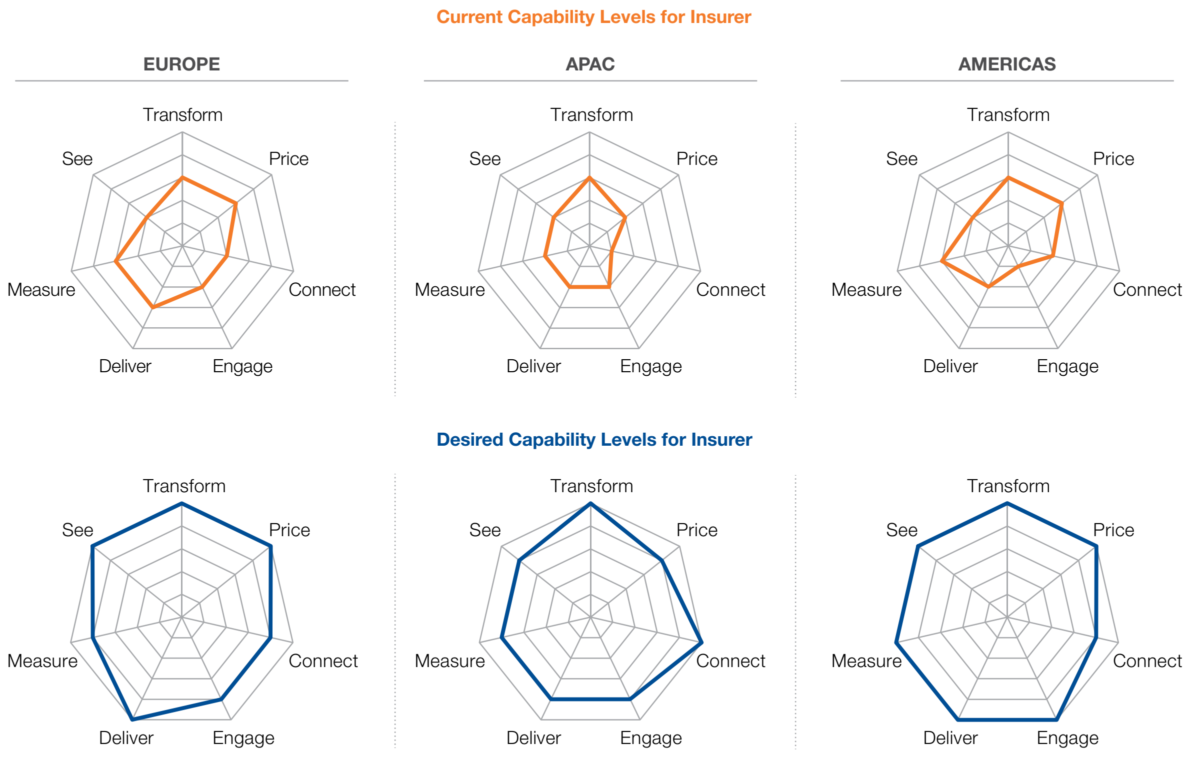
While insurers in different regions agreed on the goal of transforming the business, they emphasized different ways of getting there. For North Americans, pricing competitively, delivering services perfectly, and measuring constantly were most important. As insurers strive to achieve their desired levels of maturity in the capabilities they deem most important, they will need to develop detail-oriented action plans that include regular progress updates.

## WAY FORWARD REQUIRES CUSTOMER-ORIENTED APPROACH, ANALYTICS

To move from the current states of mostly basic and median competency, to leading-edge and advanced practices, insurers must adopt a more customer-centric approach. Higher customer expectations demand that insurers orient their businesses foremost toward fulfilling customer needs. The use of analytics to assimilate customer data, view relationships as a whole, and deliver personalized products through appropriate channels will be essential to succeeding as a customer-oriented insurer of the future.

Within each core competency area, insurers have the opportunity to adopt leading-edge practices that could enable them to upgrade current procedures and embark on a path toward greater profitability.

**Figure 3.9 Current and Desired Maturity Levels of Insurers in Different Regions across Seven Major Capabilities**




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

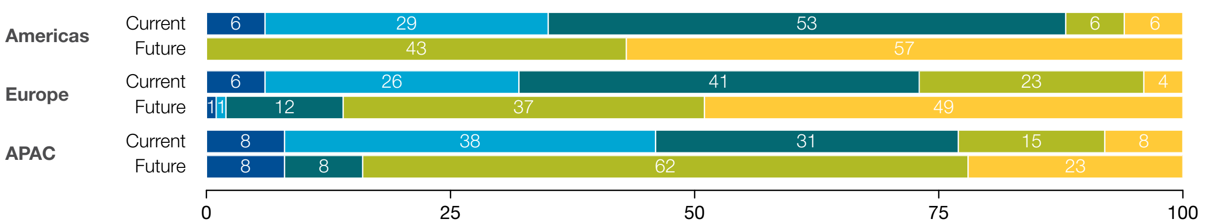
### Price Competitively

Leading insurers currently engage in a number of worthwhile pricing practices, including differentiated pricing based on usage, risk behaviors, or customer segmenting (see Figure 3.10). Plus they offer pricing perks such as vanishing deductibles and discounts for early renewals.

While adequate, every one of these activities could be further refined through widely available technology (see Figure 3.11). Predictive analytics, for example, could be used to determine pricing based on a customer's lifetime value, rather than on basic customer segmentation. Analysis of customer data could also be used to develop dynamic pricing strategies based on life-stage changes or individual risk, representing an upgrade from risk pooling. By incorporating and analyzing externally gathered data, such as health status, road conditions, or even social media connections, insurers can further personalize pricing, leading to greater customer satisfaction.

**Figure 3.10 Price Competitively – Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Price Competitively**<br>Manage pricing across all channels to drive profitable sales | The technical price is reasonably accurate, but the sales price is kept the same across all channels and customer segments | Same as for Minimal, but with differentiated pricing across some channels. Basic customer segment and channel analysis is used in developing promotions | Cross-channel pricing strategy, such as factory gate pricing, is in place. Price elasticity of demand is understood and acted upon | Same as for Median, except that the technical price is further refined based on multiple additional data sources, e.g. external databases, social media and telematics | Same as for Advanced, plus customer lifetime values are fully understood and incorporated into sales pricing, and pricing is optimized across all channels |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.11 Price Competitively – Current Leading and Potential Future Practices**

**Current Practices**

- Segment-based pricing
- Usage-based pricing (Auto)
- Rating on actual risk behavior (driving habits, lifestyle habits, adoption of risk mitigation measures, location, home and vehicle data)
- Proactive renewal retention pricing including claims-free discounts, vanishing deductibles, early renewal discounts, renewal rate change capping, and customer profiling for flight risk
- Unique products and coverage to tune the products to segment needs and to reduce the ability for simple price comparisons

**Potential Future Practices**

- Lifetime value pricing
- Connected Internet of Things or devices
- Incorporating new risk determining data sources (i.e., road conditions, connected vehicles around customer)
- Pricing based on individual risk than risk pooling, possible through availability of data
- Dynamic pricing based on changing life stage; ability to select/ deselect risk choice on the go
- Incorporate projected individual customer servicing costs based on behaviors and channel usage
- Discounts for expanded personal data access for underwriting and for claims (car systems, wearable technology, building / security systems, genetic information)
- Expanded customer segmentation based on social media connections

Source: Capgemini Financial Services Analysis, 2014

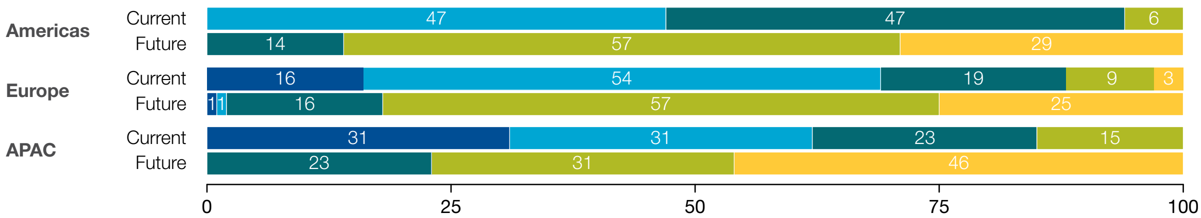
**Connect Elegantly**

Current leading-edge practices include streamlining interactions across physical and digital channels, as well as seamlessly incorporating into these channels communication with various third parties, such as wealth and property managers or senior citizen caregivers. (see Figure 3.12). Insurers are also getting better at inserting their offerings into other customer interactions, such as by offering travel insurance on an airline's site or making use of real estate on social media.

More sophisticated future practices include incorporating data from wearable technology, personal digital assistants or smart dashboards in the home or car that would automatically transmit customer data related to risk factors (see Figure 3.13). Ideally, insurers would not only collect and analyze the data, but create a feedback loop to customers aimed at encouraging less risky behaviors.

**Figure 3.12 Connect Elegantly – Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Connect Elegantly**<br>Maintain an informed personal dialogue with individual customers, across communication and distribution channels, so as to understand them better | Communication is only via conventional channels. No use of social media. No analysis of customer data when devising marketing campaigns | Emerging use of digital channels, including social media. But poor coordination of cross-channel messaging and communications | Applying cross-channel insights to segment and personalize communications, but still providing different customer experiences across channels | Increased consistency, across channels, for most interactions. Insight gathered from social media is used extensively to inform the conversation | All channels, including social media, are fully integrated real time for all interactions-so the customer always feels the insurer knows him/her well |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.13 Connect Elegantly – Current Leading and Potential Future Practices**

**Current Practices**

- Incorporating social media
- Personalized campaigns
- Integrated interactions across physical and digital channels
- Next best action intelligence help drive customer interactions
- Understand, support and integrate additional parties to the communication, e.g., wealth and property managers, local surrogates for overseas military, senior citizen caregivers, personal translators, partners, assistants, etc.
- Insurance offerings are being integrated into other customer interactions (e.g. travel insurance at airline and travel websites, association and affinity group offers, extended warranties in the checkout line, insurance at bank kiosks and ATMs, credit insurance or extended warranties as part of auto dealer purchases)

**Potential Future Practices**

- On board (vehicle) and smart home dashboard communication
- M2M, telematics (motor, home), assisted living, telemedicine
- Not just collecting data but feeding it back to the customer to prevent risk vs. reacting to risk event
- Digital virtual / cognitive networks
- More sophisticated interaction approaches as personal digital agents become parties to the dialogue

Source: Capgemini Financial Services Analysis, 2014

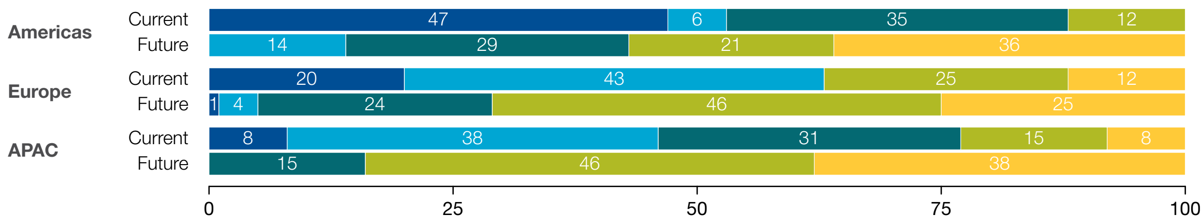
## Engage Regularly

Leading insurers are taking advantage of numerous methods of producing high-quality content for customers (see Figure 3.14). They use a variety of mobile and web channels to offer rich, relevant information, such as car maintenance and home safety advice, discount programs, and risk mitigation tips.

To motivate customers toward better behaviors, insurers are also tapping into gamification concepts like achievement and goal setting and they support mobile technologies for payments and photo uploading, simplifying transactions and data capture (see Figure 3.15). Insurers of the future can improve engagement by adopting always-on natural-language digital agents to support 24/7 natural communication. They can take advantage of data from in-home or wearable monitoring devices to support real-time risk mitigation communication with customers. And gamification could be carried to a higher level, to help customers understand complex risk.

**Figure 3.14 Engage Regularly – Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Engage Regularly**<br>Use high-quality, rich and inspirational content, together with sophisticated engagement strategies, to drive high customer engagement | Content is minimal and managed on an ad-hoc basis. No engagement strategy is in place, and there is little or no gamification | Original content exists, but publishing is uncoordinated. Strategies for gamification are emerging | Original content is regularly refreshed. Some limited customer segmenta-tion informs content distribution and channel selection. Basic gamification strategies are in place | Sophisticated analytics support targeted and personalized marketing across channels. Content is managed centrally, and is template driven for consistency. Gamification is widely applied | New content is continually being created and published to customers to whom it is relevant, through the right channels at the right times. Advanced content management and gamification platforms are in place |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.15 Engage Regularly – Current Leading and Potential Future Practices**

**Current Practices**

- Advanced content management and gamification platforms are in place
- Proactive life-event communications
- Cross sell third-party value-added services
- Provide rich content such as risk mitigation tips (e.g., park near street lamps)
- Interactive live chat, audio or video for quoting or policy servicing assistance
- Use of mobile photos for simplified data capture (e.g. drivers license, car VIN, auto ID card capture, item bar codes)
- Increase mobile app and consumer website value; engagement with related value-add information and services (e.g., *auto*: vehicle purchase discount programs, local gas prices, car maintenance advice, vehicle usage recording, vehicle type affinity groups etc.; personal property: home inventory tools, home moving / packing tools, home safety and maintenance advice, repair and maintenance links or discounts, etc.)
- Support personal communication preferences including language, visually impaired support, and audio options

**Potential Future Practices**

- On board (vehicle) and smart home dashboard communication
- Real-time risk mitigation techniques derived from monitoring Internet of Things devices (i.e., wearables, Telematics, smart home monitoring)
- Real-time risk mitigation techniques derived from accurate prediction of severe weather events
- Digital agent – natural language based digital agent (i.e., Siri)
- Cognitive agents – leverages with NLP learning to create environment of virtual agents that answer questions on coverage and other non-insurance advice
- Gamification to help customers understand complex risk
- Seamless movement across devices and channels
- Engagement also supported by wearable technologies and motion / gesture sensing capabilities

- Support for a variety of payment options including new mobile payment and electronic wallet options, as well as electronic signatures (where allowed)

Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

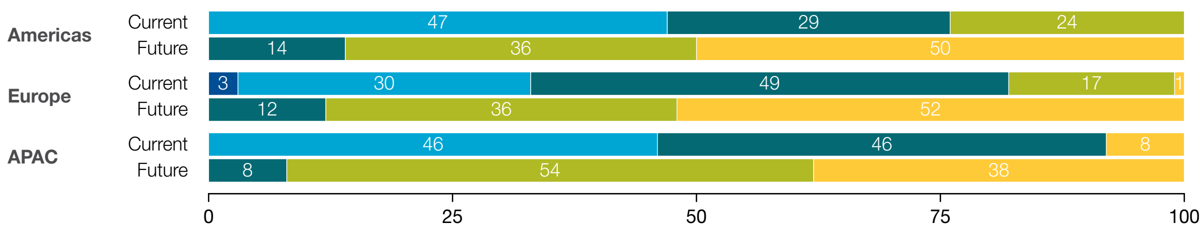
**Deliver Perfectly**

Current leading practices in service delivery involve a significant amount of automation and integration. Wherever possible, electronic channels are used to support transactions between customers, agents and third parties, such as confirming policy coverage, processing claims, sharing files with attorneys and reinsurers, and reporting on a claim's status (see Figure 3.16). In the event that personal communication with customers is required or requested, those interactions occur seamlessly without a need for customers to repeat or resend information.

In the future (see Figure 3.17), 100% straight-through processing via widespread adoption of industry-specific standards will bring all third parties and channel partners into the insurance ecosystem, further speeding up transaction times, reducing hassles for customers, and contributing to customer satisfaction and profitability.

**Figure 3.16 Deliver Perfectly: Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Deliver Perfectly**<br>Deliver underwriting, claims, fraud management and investment services efficiently and effectively, improving customer experience | Primarily manual capability, drawing heavily on a dispersed set of spreadsheets and other tools | Automated systems are in place, but are not integrated end to end, and/or lack a portal or web front end for customers | Real-time straight-through processing is in place, enabled by customer portals or web front ends integrated into back end systems | Real-time straight-through processing is further supported by mobile capabilities, providing customers with a choice of access channels | Full end to end integration and automation. Seamless multi-channel access capabilities are available to customers and third parties (e.g., loss adjusters) |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.17 Deliver Perfectly – Current Leading and Potential Future Practices**

**Current Practices**

- Real-time straight-through processing is further supported by mobile capabilities, providing customers with a choice of access channels
- Full end-to-end integration and automation. Seamless multi-channel access capabilities are available to customers, agents, and third parties. Specific examples include:
  a) Electronic policy coverage confirmation and policy notices to lineholders
  b) Electronic policy billing and payment to mortgagees
  c) Claim processing vendor portals and integration for visible car repair status to the claimant
  d) Shared claim file access to attorneys and reinsurers
  e) Policy change and claim electronic notices to agents
  f) Electronic claim submissions from companies
  g) Workers compensation payroll updates from payroll system vendors, etc
  h) Cross-organization calendars and workflows

**Potential Future Practices**

- 100% straight through processing: wide spread adoption of industry-specific standards will help bring all third party providers, channel partners etc. to the ecosystem thus making it truly straight through
- Customer services such as telemedicine, assisted living

- Leverage underwriter time and expertise
- Risk profiling and transaction analysis for underwriting assignment of policy activities requiring manual review and analytics providing underwriter pricing and risk retention advisement
- Fraud models and monitoring cover all areas including channel partners, policyholders, claimants, claim vendors, employees, etc

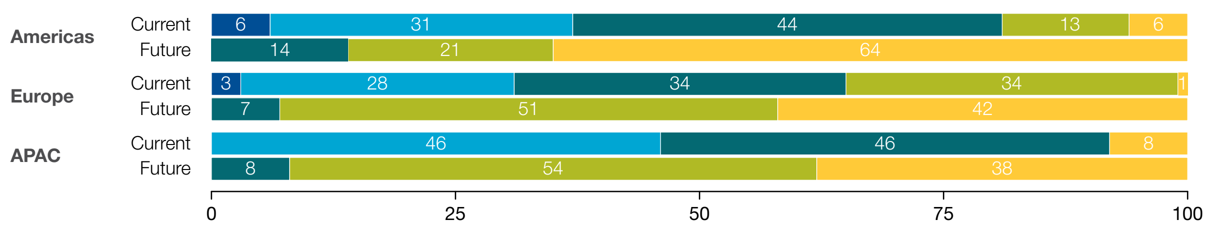
Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Measure Relentlessly**
Insurers that excel in monitoring their business do not rely solely on financial measures. They also track measurements related to customer, channel and product profitability (see Figure 3.18). All of that information is made available through real-time dashboards and can be manipulated and analyzed on demand.

Leading insurers devise measurements related to all aspects of the insurance process, including agents, underwriters, call centers, auditors, inspectors, claim examiners, adjusters, attorneys, and case managers. In the future, increasingly sophisticated analytics will enable insurers to not only keep constant tabs on all aspects of the business (see Figure 3.19), but also more accurately predict the outcomes of various events, even those that occur with less frequency. Increasingly detailed analysis will help lead to better risk measurement and in turn, improved profitability.

**Figure 3.18 Measure Relentlessly – Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Measure Relentlessly** Monitor and optimize the performance of your business across all channels to improve efficiency -enabling higher profitability and margins | Limited performance and investment tracking takes place. Many decisions are made based on gut feel. Performance measures are not aligned throughout the insurer | Performance measures are primarily financial. Some understanding of customer and channel profitability is available | A performance management frame work exists and incorporates non-financial measures. Customer and channel analytics are available to support key decisions | A cascaded balanced scorecard is in place. Analytics are widely available to decision-makers. Non-financial measures such as Net Promoter Scores, retention and share of wallet are reported on regularly | Customer, channel and product profitability are all tracked accurately, and available through real-time dashboards. Decision-makers have all the real-time analytics they need. Business activities are constantly refined in response to analytics |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.19 Measure Relentlessly – Current Leading and Potential Future Practices**

**Current Practices**

- Customer, channel and product profitability are all tracked accurately, and available through real-time dashboards. Decision-makers have all the real-time analytics they need. Business activities are constantly refined in response to analytics
- Processing timeliness, efficiency and effectiveness have targets that are measured, analyzed and improved all across the value chain, from agents, underwriters, call center servicing, document production and distribution, premium auditors, inspection services, claim examiners, adjusters, attorneys, case managers, bill review services, salvage auctions, subrogation units, etc.

**Potential Future Practices**

- Insurers could move to use analytics to predict channel partner profitability thus improving their sales effectiveness
- Integration of similarity analytics to analyze risk and usage of application quality from high-performing / profitable distributors augmented with analytics to predict propensity to bind. Movement to analyze the sources of the UWE and optimize where UWE is incurred (NOTE: This happening in some leading carriers now)
- Also insurers could measure and identify bad risk from good risk and thus price individually and improve profitability

Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

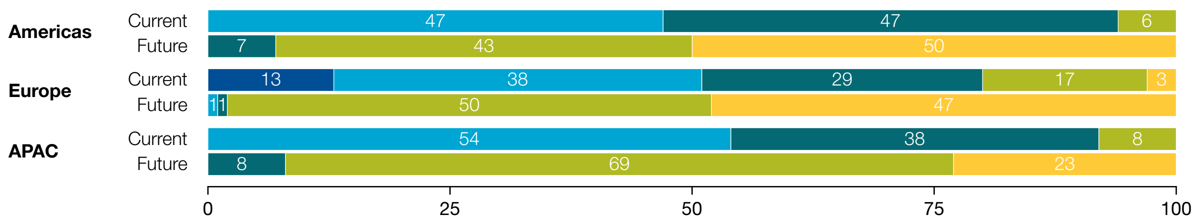
## See Completely

Leading insurers have been able to attain a single comprehensive view of customers, including each one's links to other entities, such as household members or businesses. The idea of a single comprehensive view also applies to all channel partners, claims vendors, and third-party services (see Figure 3.20). These insurers employ a standard process for integrating all external economic, demographic, and competitive information into their data stores.

Insurers of the future will extend their views of customers to include data retrieved from social media activity and wearable technologies (see Figure 3.21). This singular view will also include customer-specific claims and underwriting information to inform decisions on new business, renewals, and claims handling processes.

**Figure 3.20 See Completely – Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **See Completely**<br>Use a single view of data for all strategic, tactical and operational decision-making to improve accuracy, avoid duplication and increase insight | Customer data is unreliable, out of date or not readily available. Little insight is gleaned. Data governance and management are poor | Customer data is more usable. But more time and effort is spent on data gathering and report preparation than on subsequent analysis | The insurer captures, stores and uses data (both structured and unstructured) generated from multiple sources/channels, to improve both the customer relationship & internal operations | A single customer view is available based on a centralized data repository. Theinsurer leverages this data to identify next best actions and improve the customer's experience | The insurer has a comprehensive view of each customer, and also understands each customer's relationships (eg, family, businesses). Accurate, real-time data supports predictive analytics, planning and delivery |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.21 See Completely – Current Leading and Potential Future Practices**

**Current Practices**

- The insurer has a comprehensive single view of each customer, and also understands each customer's relationships with others (e.g., family, businesses). Accurate, real-time data supports predictive analytics, planning and delivery
- MDM capabilities provide unique customers and other analysis targets across systems and operating entities
- Same comprehensive single-view approach for better managing all channel partners, claims vendors and third-party services
- Single standard process for integrating external economic, demographic, industry and competitive information into analysis, models and reporting

**Potential Future Practices**

- Single-view of customer extended to M2M, wearables, social analytics
- Claims and underwriting information is viewed as a network of related entities and the link analysis influences new business, renewal, and claims handling processes
- Identifying and preventing risk events through analytics

Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

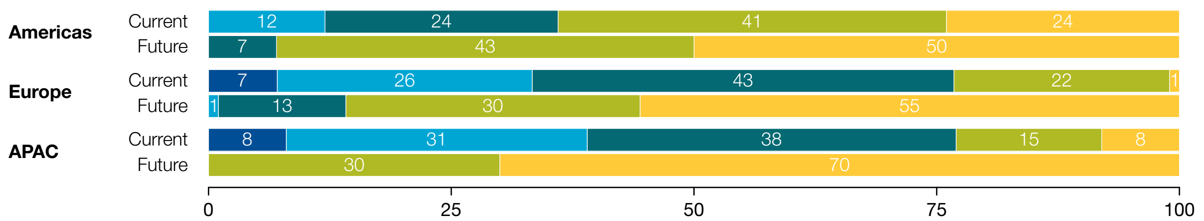
## Transform Effectively

Leading-edge practitioners have removed all historical organizational and processing workflows tied to siloed sales and service channels, achieving a fully customer-centric entity (see Figure 3.22). End-to-end straight-through processing, through a network of electronic collaboration tools, creates the experience of a virtual insurance company for customers.

In the future, leading insurers will further exploit straight-through processing, minimizing gaps and delays in the insurance sales process (see Figure 3.23). As virtual insurance companies, these firms will take advantage of telematics and location-based services to provide immediate service to customers during times of need.

**Figure 3.22 Transform Effectively – Current and Desired Maturity Levels of Insurers in Different Regions (%)**

| Capability | 1 Minimal | 2 Basic | 3 Median | 4 Advanced | 5 Leading |
|---|---|---|---|---|---|
| **Transform Effectively**<br>Know your customers. Develop the vision, value proposition, business model, roadmap and business case to re-build company around the customers' needs | The insurer does not know enough about its customers' expectations to know that it needs to change. No clear roadmap or business case exists | The insurer knows enough about its customers to realize it needs to change. Some value proposition definition has taken place, and there is an emerging case for transformative change. High-level costs and benefits have been identified | The insurer understands the experiences that customers value. Options for change have been identified and evaluated, and a transformation program is about to be launched | New customer-centric product and service propositions have been designed. The road map, business case and resources are all in place,and the transformation to a customer-centric insurer is underway | The insurer has successfully redesigned its business around its customers. It delivers valuable customer-centric propositions and is achieving high levels of customer satisfaction. Growth and profits are both rising healthily |




Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

**Figure 3.23 Transform Effectively – Current Leading and Potential Future Practices**

**Current Practices**

- The insurer has successfully redesigned its business around its customers. It delivers valuable customer-centric propositions and is achieving high levels of customer satisfaction. Growth and profits are both rising healthily
- Today's electronic transaction and document workflows, together with collaboration tools allow virtualized insurance company processing locations and support outsourcing of selected individual workflow steps
- Removal of historic organizational and processing workflows tied to individual sales and servicing channels - moving to true multi-channel support and all channel experience

**Potential Future Practices**

- For certain lines of business (personal auto), carriers or new market entrants are able to offer insurance during the sales purchase. Entry of the Vehicle Identification Number and small set of information provides ability to receive quote, bind, and coverage through digital device
- Additional usage of telematics and location-based services provides the ability to service customers at time of need (for healthcare and other personal lines coverage)

Source: Capgemini Financial Services Analysis, 2014; Capgemini WIR 2015 Executive Interviews

## CONCLUSION

Insurers are being confronted by several waves of disruptive changes that threaten to upend long-standing ways of doing business. Factors outside the insurance industry's control, such as an aging population, ongoing economic uncertainty, and growing frequency of natural disasters, portend greater difficulty in the ability of insurers to effectively manage their business. Complicating the issue is the increase of new competition from non-core insurance players against a backdrop of more stringent regulations.

In the face of so much fundamental change, insurers are tasked with putting into motion strategic plans aimed at deepening and enhancing their core capabilities. Our Insurance Capability Maturity Model highlights the significant gaps between insurers' current capabilities and their desired levels providing a blueprint for the insurers to achieve these desired maturity levels in order to address the emerging challenges. Along every measure, insurers have ample opportunity to improve their practices and procedures, and ultimately achieve better performance. The way forward involves adopting a more customer-centric approach to every type of insurance activity, thus ensuring that heightened customer expectations will be met.

Critical to insurers reaching their full potential will be the effective use of analytics. Industry executives are well aware of the power of analytics, with 78% ranking it as a top 3 disruptor.

Used effectively, analytics represents a positive force of change. Big Data analytics, in collaboration with effective leverage of the mobile channel and the Internet of Things (IOT) phenomenon, has the power to help insurers address the growing demands of their evolving businesses.

# Appendix

## Efficiency Ratios – Country Analysis

### AUSTRALIA

In 2013, Australia stood out for lowering claims expenses and improving profit margins more than any of its global counterparts.

Australia recorded a 17.6 percentage point decline in its claims ratio, the highest of all the countries by a wide margin. The decline, mainly attributable to lower claims costs related to fewer natural perils, led to a claims ratio of 65.2%, moving Australia to the middle of the pack globally in claims ratio performance. Favorable discount rate movements, as well as premium rate increases and portfolio remediation initiatives, also contributed to the improved claims ratio.

An ongoing decline in the operational ratio to 8.6% contributed to Australia's status as a top performer in terms of operational efficiency. Investments in core transformation and communications infrastructure helped bring about operational improvements. However, anticipated investments in enterprise risk management and consumer protection to meet regulatory requirements may cause operational costs to rise in the future.

Acquisition ratio deteriorated by 1.1 percentage points to 13.7%, likely due to increased competition and initial upfront investments in developing and promoting the direct channels which are becoming popular among the Australian customers. And Australia's 5.7 percentage point drop in investment ratio to 4.7% was the steepest of all the countries. Lower interest rates, which affected the performance of fixed income instruments, along with conservative investment strategies, led to Australia's lowered investment income of $4 billion.

Despite these setbacks, Australian non-life insurers experienced significant improvement in their profit margins. The resulting 15.7% margin was, along with Sweden's, the largest in the world. The substantial decrease in claims expenses, combined with impressive operational performance and the increase in written premiums all contributed to the noteworthy profits of Australian non-life insurers.

### BELGIUM

Modest improvement in the already favorable claims ratio for Belgian non-life insurers led to solid growth in profit margins in 2013.

Fewer catastrophic events helped ease Belgium's claims ratio to 55%, the lowest of all the countries surveyed. Increased use of advanced predictive analytics, as well as improved premiums and increased insurance-product sales also aided in lowering the ratio.

The operational ratio held steady at 14.3%, keeping Belgian non-life insurers in the bottom one-third globally in terms of operational performance. Belgian non-life insurers continued to focus on improving efficiency and controlling costs through the use of technologies such as telematics, legacy-system replacement, and big data aimed at powering advanced predictive analytic tools.

Belgium's already high acquisition ratio deteriorated further, increasing slightly to 20.8%, the third highest of all the countries surveyed. Non-life insurers relied heavily on brokers and agents, contributing to the industry's high acquisition costs. However, direct channels are expected to increase in importance, especially in auto insurance.

Higher interest rates and a favorable regulatory environment helped nudge investment income upward by 0.8 percentage points to 11.1%. Europe's ongoing recovery in the housing market may push investment income up further.

Driven by positive outcomes in the claims ratio and investment income, profit margins expanded solidly by 2.4 percentage points to 12.5%. With auto insurance expected to grow by 15.8% by 2017, profit performance should continue to improve in the years ahead, underscoring a positive outlook for the Belgian non-life insurance industry.

## BRAZIL

Despite fast growth in the Brazilian non-life insurance market, efficiency ratios did not change much in 2013 from the previous year.

The large consumer market in Brazil remains vastly untapped for insurance, helping to explain the more than 8% expansion in premiums in the country in 2013, more than almost all other markets. The capitalization and reinsurance markets saw the largest year-on-year growth at 26.4% and 17.5%, respectively, while the property and casualty market increased by 11.5% from 2012.

Along with growth in premiums came an increase in claims in 2013. The 2014 World Cup, held in Brazil, caused summer travel insurance claims to increase by more than 60% over the previous two years. A high number of accidents and robberies also contributed to higher loss rates. Accidents alone account for R$6 to R$7 billion in losses per year. In addition, between January and May 2013, a series of droughts significantly impacted industries in the northeast region, causing an estimated $350 million worth of insured losses. Despite the many factors contributing to an increase in claims, strong premium growth led to an improvement in the claims ratio of 1.3 percentage points to 59.3%, enough to offset the claims losses.

Reliance on traditional distribution models had a negative impact on acquisition and operational costs in 2013. The acquisition ratio increased marginally to 21%, putting it among the highest in the world. The operational ratio also deteriorated slightly, rising to 17.6%, also among the world's highest. The industry continues to rely heavily on broker sales channels, even though broker fees typically cost 20% to 25%. Currently, less than 1% of car insurance sales are transacted online with sales mostly being pushed to traditional channels despite the popularity of online price comparison sites.

Adherence to traditional business models has prevented Brazil from achieving improved performance through innovation. Greater efficiency, for example, could help non-life insurers open up the market for lower income customers who have traditionally been underserved due to cost constraints.

## CANADA

Record insured losses from catastrophic events adversely affected profits for non-life insurers in Canada in 2013, despite a slight improvement in the claims ratio.

Flooding in Alberta and ice storms in southern Ontario and eastern Canada resulted in nearly $3.2 billion of weather-related insured losses in 2013, the highest level in the industry's history. Despite this burden, the claims ratio improved by 0.6 percentage points to 64.9%, mainly due to a modest increase of 3.2% in total premiums, along with higher interest rates and insurance sales.

Following two years of deterioration, Canada's operational ratio recorded modest improvement of 0.4 percentage points to 11.5%, putting it squarely in the middle of the pack for this measure. The operational performance reflects the improvements Canada is starting to realize following heavy investments made to upgrade processes and replace legacy systems.

Canada has experienced steady improvement in its acquisition ratio, and recorded another improvement of 0.6 percentage points to 15.6% in 2013. The industry continues to make strides in making cost-efficient direct channels, such as internet and mobile, available to customers.

Despite modest improvement in the investment ratio of 0.3 percentage points to 7.1%, the impact of Canada's widespread natural disasters made their mark on profits. The industry's profits slid by 5.8 percentage points, reaching 5.8%, putting Canada among the bottom rung of profit earners in 2013.

## FRANCE

The French non-life insurance industry exhibited stable performance in 2013, with only slight deviations from 2012 results.

The claims ratio changed marginally from the earlier year. At 75.7%, France's claims ratio is among the highest in the world, despite relatively modest insured losses in 2013 of around EUR 500 million due to damage from floods, hailstorms, and heavy snow. A rise in gross written premiums due to tariff increases helped bolster France's claims ratio.

Similarly, France's operational and acquisition ratios were virtually unchanged. The operational ratio shifted by 0.1 percentage point to 6.7%, marking France as still one of the most efficient operators in the globe. In 2013, France bested the world's next-most-efficient operator by 1.5 percentage points.

France's skill in keeping operational costs low extended to its acquisition capabilities. With acquisition expenses remaining exactly the same at 15.4%, France continued as a relatively efficient acquirer, ranking within the top five. France's ability to keep acquisition costs low may be challenged by a proposed law aimed at making it easier for customers to terminate policies. The law is expected to increase customer churn and generate greater competition.

Investment income experienced a slight decline (0.3 percentage points) to 9.4%, marking the second year in a row of lowered results. In response, French non-life insurers are moving to higher-yield investments such as corporate bonds and attempting to reduce their exposure to peripheral Eurozone sovereign debt by reducing investments in high-risk member countries.

The modest movements in France's claims, acquisition and operational ratios resulted in a small increase in profits to 7.9% from 7.6% in 2012. A rise in gross written premiums as a result of tariff increases across almost all product lines helped push profits upward. The highest growth came in the property segment, with motor remaining the largest contributor to written premiums.

## GERMANY

Despite a large leap forward in operational efficiency in 2013, German non-life insurers were among the very few to register losses in 2013. Massive flooding and severe hailstorms inflicted high levels of insured losses on German non-life insurers.

Of all the countries, Germany was the only one to show improvement in its operational ratio. Its upgrade of 5.2 percentage points gave it an operational ratio of 10.6%, putting it in the top half of operational performers globally. The improvement came after years of steady increases in operational expenses. Finally in 2013, cost-reduction efforts, combined with productivity-enhancing investments in IT, appeared to pay off.

Germany's claims ratio improved by 2.5 percentage points to 66%, marking it as one of the better performers in claims, compared to its global counterparts.

Germany remained one of the most efficient acquirers in the industry (second only to Sweden in 2013), despite a deterioration of 0.1 percentage points in its acquisition ratio to 10.4%. Increased competition between casualty insurers in the middle market and in the residential and marine markets in particular, appeared to sharpen the acquisition skills of German non-life insurers, despite the continued importance of brokers and aggregators in selling insurance products.

Following a sizable uptick in 2012, investment income dipped from 10.0% to 9.2% in 2013 due to low interest rates and conservative investment activity. To improve their income from investments, German non-life insurers are adjusting their investment portfolios to include corporate bonds, commercial real estate, and infrastructure-financing projects aimed at generating higher yields.

Germany's operational gains and ongoing acquisition efficiency were not enough to offset a fairly significant 1.3 percentage point decline in profit margin to 6.7% in 2013. Damaging floods and hailstorms accounted for much of the profit deterioration in Germany. In addition, increased competition has prevented German insurers from making the types of rate increases required to compensate for lower profitability. In commercial lines, for example, risks are underpriced by about 20%. With market saturation and greater competition reducing the feasibility of rate increases, German insurers need to explore new routes to profitability, including improved underwriting and better protection from claims volatility through reinsurance.

## INDIA

A decline in the claims ratio and low acquisition costs helped Indian non-life insurers post solid profits in fiscal year 2013.

A significant increase in gross written premiums contributed to a 4% improvement in India's claims ratio. The 19.1% growth in gross written premiums combined with declines in claims ratios for the fire, marine, and motor insurance segments. Motor insurance continued to be the largest non-life insurance segment, amounting to almost half of the total non-life premiums written in the country.

Following two years of making major strides in improving the operational ratio, Indian non-life insurers brought down the ratio once again in fiscal year 2013 to 21.2%. The industry will gain greater ability to make further operational improvements when a proposal to increase the limit on foreign direct investments in Indian insurance companies to 49.0% gets approved by the Cabinet. The increase is intended to give insurers greater flexibility in raising capital to make technology and other investments.

In the still nascent Indian non-life insurance market, acquisition costs remain low. Non-life insurance in India features low per-capita premiums and to date has only penetrated 0.8% of the market. Four public sector companies collect more than 55% of premiums, though private sector players are gaining share. De-regulation of pricing has also contributed to the growth of premium volumes. In this environment, Indian non-life insurers improved their acquisition ratio to 3.9% in fiscal year 2013.

Investment income, which remained flat from a year earlier, did not have a significant impact on profit margins. However, the increase in GWPs, resulting in the decline in the claims ratio, helped boost profits to 8.8%.

## ITALY

An effort to reduce the volume of fraudulent claims payouts in Italy appeared to have a positive impact on non-life insurers' claims ratios, as well as profits in 2013.

Italy was one of only a handful of countries to substantially improve its claims ratio, moving it 6.5 percentage points to 66.3%. The claims ratio improvement was mainly caused by the drop in claim frequency. For example, in motor third-party liability (MTPL), the frequency dropped from 7.4% in 2010 to 5.6% in 2013 mainly due to decrease in car usage and improvement in road safety. The claims ratio gains may also be the result of a 2012 law known as Cresci Italia (Grow Italy) that aims to mitigate fraudulent claims, and likely helped to reduce claims payouts.

Italy's operational costs have been edging higher in recent years. In 2013, they expanded 0.6 percentage points to 9.1%. Intensifying competition, particularly in motor lines, along with increased administration and channel management costs, have been pushing up operational costs.

Italy has taken steps to drive competition between insurance brokers by passing legislation, known as the Bersani law, letting agents work with more than one insurer. Despite the law, distribution channels continue to be dominated by agents and intermediaries, keeping acquisition costs up. In 2013, Italy's acquisition ratio deteriorated slightly to 15.9%.

Following an increase in 2012, investment income dropped slightly to 3.6%, reflecting an increasingly conservative investment strategy. Even so, Italy's favorable claims ratio helped boost profits 1.5 percentage points to 10.2%, continuing an upward swing since 2010.

## JAPAN

Aided by significant improvement in its claims ratio, Japan's non-life insurance industry recorded an increase in profits in 2013.

The 6 percentage point decline in the claims ratio marked Japan as the third-best performer globally along that measure. The claims ratio of 58.8% was Japan's lowest of the last five years, driven by fewer payouts related to the Tohoku earthquake of 2011 and the absence of any major catastrophes since then. Increased premium income due to rate revisions, including in the industry-wide No-Claim Bonus system also contributed to the improved claims ratio.

Japan's non-life insurers continued to reap the benefits of consolidation, helping to bring down operational costs for the third year in a row. Although there are 47 general insurance companies in Japan, which is the world's second-largest non-life insurance market and Asia's largest, more than 70% of premiums are collected by three companies: Tokio Marine Holdings, NKSJ Holdings, and MS&AD Insurance Group (see Methodology for more details). While this consolidation has brought about operational improvements, Japan's operational ratio of 16% in 2013, an improvement of 0.6 percentage points, kept it on the lower rung in terms of operational performance globally.

Acquisition ratios in Japan have barely budged in recent years, stagnating around 16% and putting Japan among the bottom half of global performers in acquisition. Agents remain the primary distribution channel for insurers with more than 90% of the insurance in Japan collected through agents. For some segments, such as compulsory automobile liability, insurers are solely dependent on agents.

Decline in claims and operational ratios, coupled with increase in premium income helped Japan's non-life insurance industry to post a profit margin of 4.5% in 2013. Due to the decline in gains from sale of securities, the investment ratio of non-life insurers witnessed a decline in 2013. Solvency margin ratio, the indicator of financial soundness increased for insurance companies in Japan and the investment portfolios of insurers continued to remain highly skewed towards fixed return instruments such as government and municipal bonds

## NETHERLANDS

Despite very high claims expenses in 2013, Dutch non-life insurers managed, for the first time in recent history, to nudge profits upward.

The tough competition in the Dutch market has long put intense pressure on premium pricing, causing the claims ratio to remain stubbornly high. The trend continued in 2013 with deterioration in the claims ratio of 7.4 percentage points to 76%, the highest of all the countries. A general decline in premiums, accompanied by an increase in the amount of property and casualty claims exacerbated Netherlands' claims performance in 2013. In addition, the European economic crisis took its toll in the form of a significant rise in claims for suretyship (a specialized line of insurance guaranteeing the obligation of one party to another) over the last three years.

Dutch non-life insurers continued to exhibit much more success in keeping operational expenses low. Though the operational ratio was unchanged from 2012, it remains one of the lowest in the world at 8.6%. In such an intensely competitive market, cost efficiencies have become an essential aspect of achieving profitability. With the Dutch non-life insurance market reaching saturation, the industry is expected to continue to streamline operations in the coming years.

Dutch non-life insurers continue to make gains in bringing down acquisition costs. An improvement of 0.6 percentage points in the acquisition ratio to 13.9%, one of the world's lowest, reflects the industry's expertise in using direct channels to reach customers. The use of direct connections, now a dominant form of product distribution, is in keeping with the high level of competition that characterizes the Dutch market, as well as its tech-savvy customer base.

Dutch non-life profits reversed an ongoing decline, recording an improvement of 0.3 percentage points to reach 4.5%. Even so, the result remained among the lowest in the world. Given the stiff competition of the Dutch market, non-life insurers may need to focus on more innovative branding strategies to achieve market share, rather than aggressive pricing.

## SPAIN

In 2013, non-life insurance industry in Spain witnessed contraction in the volume of premiums written. The decrease in the premium volume was primarily due to motor insurers slashing their rates by 10-20% that has reduced the premium volume. General liability insurers also slashed their rates as numerous insurers are pushing to write business. Driven by the decline in premium volume, the claims ratio of the industry witnessed a deterioration of 2.9 percentage points in 2013.

Operational ratio of the industry recorded a nominal increase. Although the operational costs were well under control, the decrease in the premium volumes resulted in the slight push of the ratio. However, it is expected that the train accident that occurred in July 2013, may lead to increased insured losses of rail infrastructure, death benefits, disability, and medical costs.

Agents, tied agents, and brokers enjoy a higher share amongst the non-life distributions channels in Spain. Although the insurers' acquisition ratios increased marginally in 2013, increased costs associated with intermediaries are driving up the insurers' acquisition expenses. Non-life insurance market in Spain is highly competitive with increasing number of international players. The entry of multiple domestic and international insurers is driving up the acquisition and retention costs of customers. Also, with increasing demand for aggregator websites, insurers are investing more for acquiring new customers, especially in the motor segment due to falling premium rates, which might hamper the profit margin.

Despite the continuing prolonged economic crisis in the Eurozone, the Spanish non-life insurance industry has seen good investment returns. The Spanish non-life insurance industry witnessed an increase of 1.2 percentage points in the investment return in 2013. Spanish investments in government bonds and instruments in countries not affected by the Eurozone crisis helped the firms reap good returns from the same. Moreover, Spanish non-life insurers have started to look outside Europe to nullify the Eurozone crisis impact and to expand internationally as well. Most of the investments have been routed to countries including Morocco, Algeria, Mozambique, Angola, Cape Verde, and Equatorial Guinea.

Due to the decline in premium volumes, the profit margin of the industry declined in 2013. It has been observed that large sized insurers have had higher profit margins than small sized insurers that will lead the insurers to invest in tools and technologies like stochastic modeling for better underwriting efficiencies.

## SWEDEN

Very high investment income helped the Swedish non-life insurance market overcome deterioration in its claims ratio to record the industry's highest profit margin in 2013.

Sweden's claims ratio was adversely affected by fallout from storms and fire damage, causing it to rise to 75.0%, one of the world's highest. Growth in premium income from major non-life business segments, combined with various claim prevention measures, helped to at least mitigate the full impact of the disasters on claim payments.

The mature Swedish non-life insurance market-the industry is dominated by four firms that hold around 80% of market share-has an acquisition ratio of 10.1% which is among the world's best. The operational ratio was however high at 13.4%.

The industry benefited greatly from the high yields of the Swedish equity market in 2013. Propelled by a 20.5% increase in Sweden's OMX 30 equity market index, Swedish non-life insurers expanded their investment ratio by 2.2 percentage points to reach 18.0%, the highest in the world by a wide margin. The industry allocated about 30% of investment portfolios to equities. An increase in the fair value of fixed income instruments due to declining interest rates also contributed to higher investment income for the industry.

Though the increase in claims caused profits to narrow by 0.8 percentage points from a year earlier, Sweden's profit margin of 15.7% was still among the highest in the world. Sustaining high profit margins will be dependent on the industry's ability to maintain high investment income, as well as achieve greater operating efficiencies.

## SWITZERLAND

Despite deterioration in the claims ratio, Swiss non-life insurers managed to record double-digit profit margins in 2013.

Although Switzerland witnessed a lower number of catastrophic events in 2013, the industry's claims ratio shifted adversely by 1.0 percentage points to 69.8%, landing Swiss non-life insurers in the bottom one third of global performers for this measure.

Switzerland was one of the few markets to experience significant degradation in operating ratio, likely due to sizable investments being made to replace legacy systems. Despite the deterioration of 1.3 percentage points, Swiss non-life insurers still were among the high-performing handful that achieved an operating ratio of less than 10.0%. While ongoing technology investments may cause operating ratios to edge up in the near term, over time they should bring additional benefits to Switzerland's already efficient system.

Switzerland has been making measured gains in improving its acquisition ratio. In 2013, it broke 16.0%, reaching a ratio of 15.8%. The slow but steady improvement reflects the increasing penetration of direct channels into the delivery mix, alongside continued reliance on agents and brokers to distribute products.

Investment income improved marginally by 0.4 percentage points, reflecting the Eurozone's low interest rates and challenging economic environment. The gradual recovery of the global financial market is likely to have a positive impact on the Swiss investment ratio, which reached a healthy 6.8% in 2013.

The investment income provided a boost to profit margins, which reached a respectable 12.0%, reflecting an increase from 2012 of 1.4 percentage points. Higher premium income was also a factor in the profitability of Swiss non-life insurers. Premium income expanded by 1.6%, driven by fire and motor insurance, as well as health and accident insurance. Gradual economic growth in the Eurozone, combined with stabilization of interest rates, is expected to further propel results in the future.

[7] "OMX Stockholm Index", Bloomberg, www.bloomberg.com/quote/OMX

## UNITED KINGDOM

A modestly improved claims ratio led to a healthy bump in profits for non-life insurers in 2013 in the United Kingdom.

Despite large-scale flooding in 2013, the U.K. claims ratio improved marginally to 63.1%, keeping it in the top half of performers along this measure. An uptick in premium prices aimed at recouping losses from floods in 2012 resulted in a slight decrease in the number of claims incurred. Looking forward, the claims ratio is expected to further improve, as U.K. non-life insurers continue to explore ways to reduce claims costs, including flood insurance subsidies and inflation control measures for bodily injury claims paid by motor insurers.

Following a significant drop in 2012, the operational ratio rose slightly to 11.7%, marking U.K. non-life insurers as average performers compared to their global peers in managing operational costs. These costs should continue to come down, now that several insurers have upgraded their claims administration systems and others have outsourced claims management.

Attracting new customers has long been tough in the U.K.'s highly competitive, mature non-life insurance market. The property and casualty segment, for example, has grown new customers by only about 2%, a situation that results in bigger spending to attract customers, including higher commissions to aggregators. The reality of the U.K.'s stiffly competitive market has been reflected in consistently high acquisition costs, with 2013 being no exception. The U.K.'s acquisition ratio deteriorated the most of any other country in 2013 (by 1.5 percentage points) and, as in 2012, its acquisition costs were the highest of all the countries. Increased use of alternate distribution channels is expected to reduce acquisition costs over time.

U.K. investment income experienced a marginal decline due to an increase in government bond yields and the impact on longer maturity fixed interest rate investment instruments.

Despite deterioration in its operational, acquisition and investment ratios, and only a modest improvement in the claims ratio, U.K. non-life insurers managed to post a solid, double-digit profit, on the strength of a 2.5 percentage point increase in profit margin, the world's third-largest increase. In the future, improved underwriting capabilities should set the stage for continued growth.

## UNITED STATES

Compared to 2012, when nine of the top ten costliest insured catastrophes occurred in the United States, 2013 was a mild year, resulting in better claims performance by U.S. non-life insurers.

Insured losses due to natural disasters totaled $12.8 billion in 2013, far below the average annual loss of $29.4 billion recorded from 2000 to 2012. The lack of major disasters helped reduce the industry's claims ratio by 3.0 percentage points to 66.6%. Claims costs and loss ratios also came down due to increasing use of telematics data to send crash notification alerts and support immediate assistance of clients.

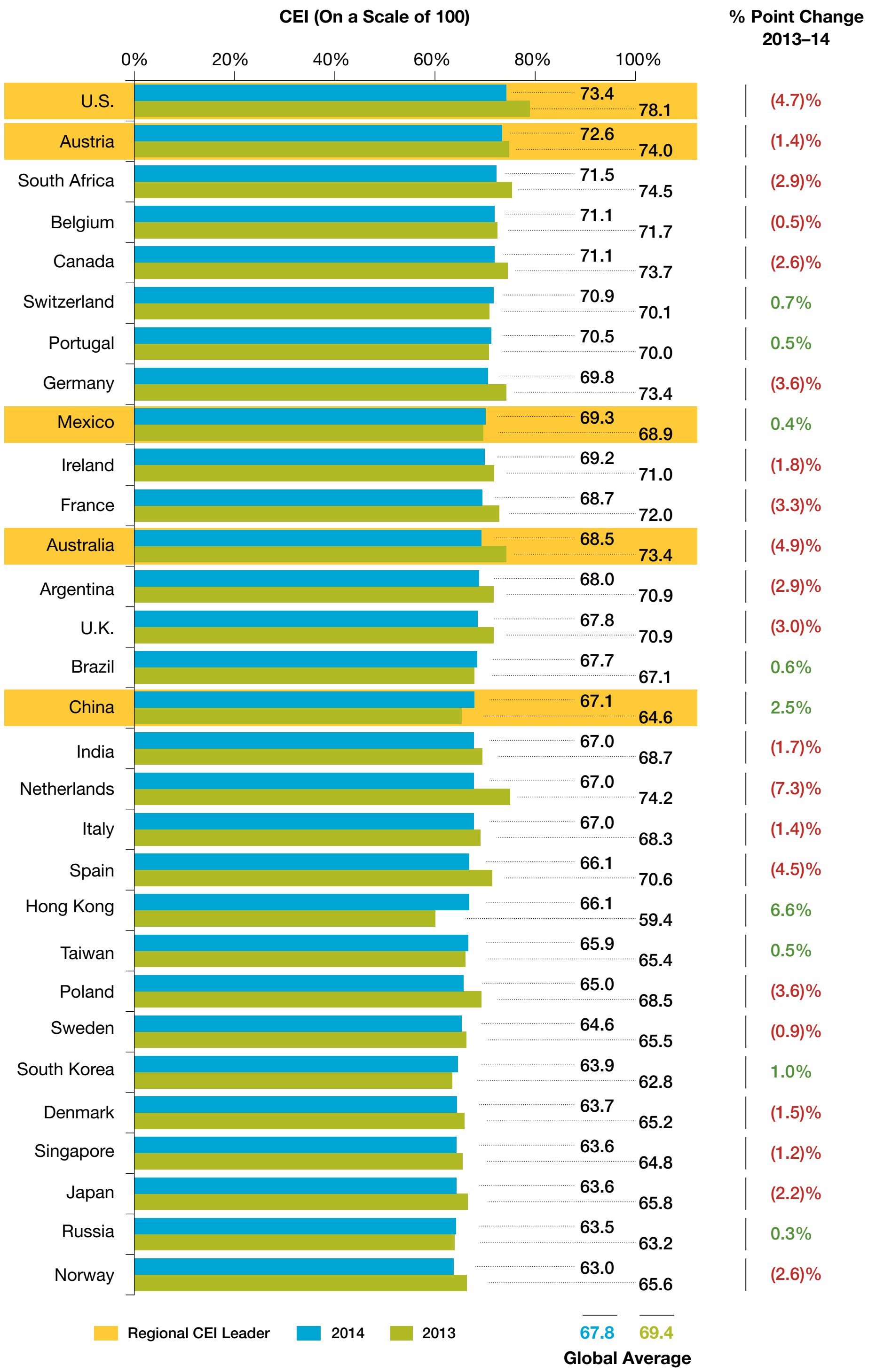
In 2013, the operational ratio deteriorated an additional 1.2 percentage points to 22.1%, making it the highest of all the countries examined. Continued heavy investment in complex initiatives, such as customer-centric business models and integrated technology, explain the industry's high costs. In addition, non-life insurers are investing on advanced and improved security solutions as they strive to keep up with the stringent regulations aimed at improving customer protection and fraud prevention.

U.S. non-life insurers were more accomplished when it came to acquiring customers. The acquisition ratio continued a steady decline from 2010, reaching 15.9%. Nearly 63% of consumers already use online channels to compare rates and get quotes. By 2015, online purchases of auto and home insurance policies in the United States are expected to grow to nearly to $14 billion. As direct channels continue to gain momentum, U.S. non-life insurers will likely continue to pare down acquisition costs, while also improving the customer experience.

For the third consecutive year, U.S. non-life insurers experienced a slight decline in investment income, though the resulting investment ratio of 10.8% was still a healthy amount. Income from stocks and dividends decreased by 1.4% to $47.4 billion.

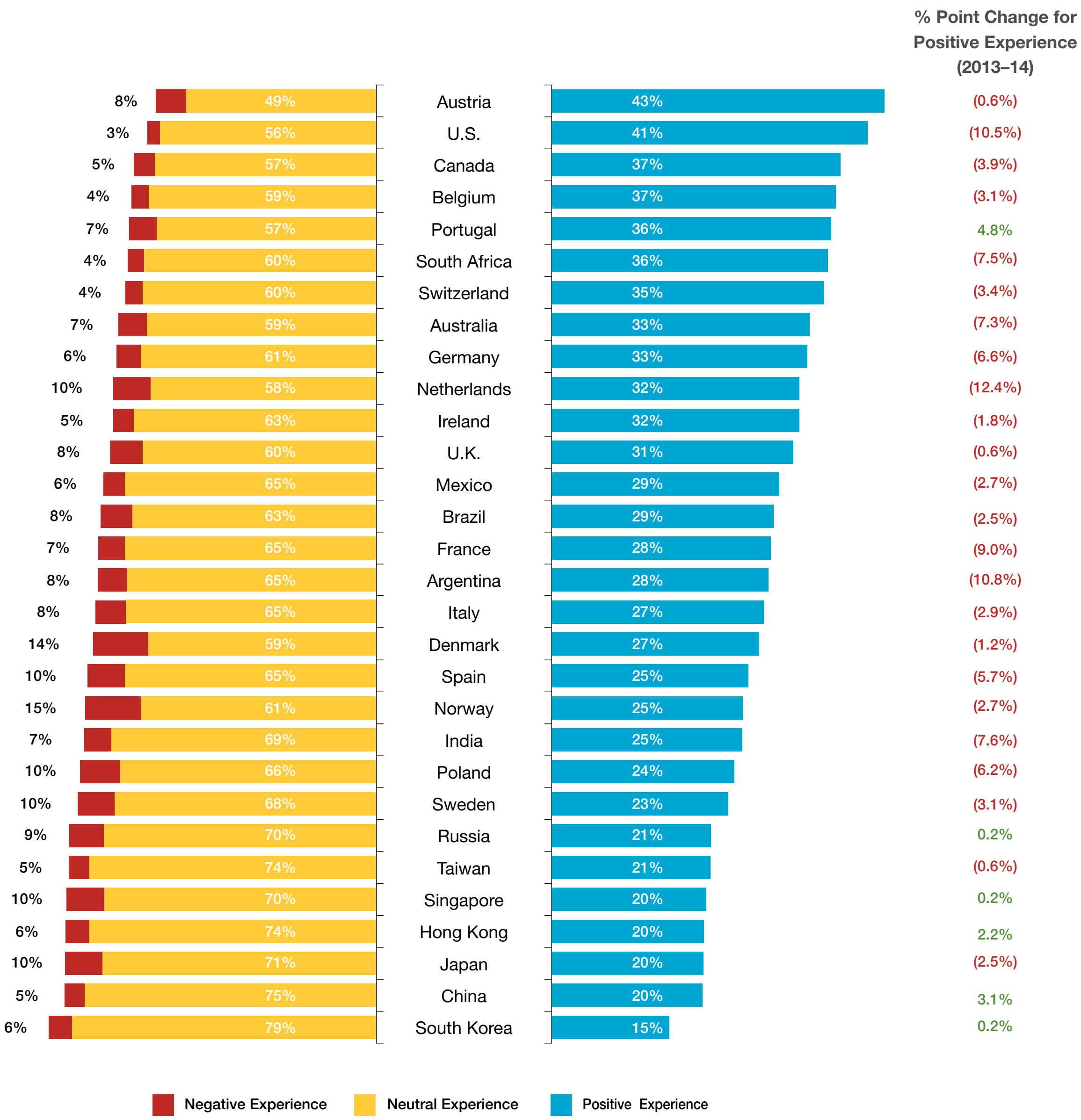
Despite the decline in investment income, U.S. non-life insurers posted the second-largest increase in profit margins of all the countries examined, boosting it by 4.0 percentage points to 13.1%. Lower insured losses stemming from fewer natural disasters, improved underwriting results, and an increase in premium growth all contributed to the industry's profitability, which was the third-largest of all the countries examined. In 2013, net income after taxes increased by $28.7 billion to $63.8 billion.

**Figure A1 Customer Experience Index, by Country, 2013–2014**




Source: Capgemini Financial Services Analysis 2014; Capgemini Voice of Customer Survey, 2014

**Figure A2 Insurance Customers with a Positive/Negative Experience, by Country (%), 2014**




Source: Capgemini Financial Services Analysis, 2014; Capgemini Voice of the Customer Survey, 2014

# Methodology

## SCOPE AND RESEARCH SOURCES

The *2015 World Insurance Report* (WIR) covers both life and non-life segments (with a focus on non-life in Chapter 1). This year's report draws on research insights from 30 markets: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Mexico, Netherlands, Norway, Poland, Portugal, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom, and the United States. We estimate these countries together account for approximately 94% of the global insurance market, based on data from the "World Insurance in 2013" Swiss Re sigma Report. The sample of countries covers 30 of the world's top 32 insurance markets in terms of premiums.

The 2015 WIR is based on a comprehensive body of research that includes 165 interviews with senior insurance executives of 100+ leading insurance firms. Of the total firms interviewed, 48% sell both life and non-life insurance, 20% focus solely on life, and 32% are dedicated to non-life.

## EFFICIENCY RATIO ANALYSIS

For each of the 15 studied countries, we analyzed a sufficient number of country-level financials from companies to ensure coverage of more than 50% of each market's total non-life premiums. For each of the analyzed companies, we obtained the country-level breakdown of financials (Gross written premiums (GWPs), Claims, Commission and Expenses, Operational Expenses, Investment Income, Profit before Tax) through extensive secondary research sources and from local Capgemini insurance subject matter experts.

Where no country-level breakdown was available, we took the premium income of the parent company and estimated the cost data for the analyzed country, using the percentage of individual country premiums to global premiums. The few companies that did not provide verifiable data on either a country or global level were omitted from the analysis.

Our Efficiency Model, valid only for non-life insurance companies, indicates the cost and financial-performance ratios of each country based on core and non-core insurance business. The efficiency ratios are calculated using various expense and profit metrics against GWP. The ratios are consistent with industry-defined ratios for individual insurers, but provide a better comparison for industry performance in different regions.

**Our model specifications:**

- **Underwriting ratio –** Like the combined ratio industry benchmark, this ratio measures the percentage of gross written premiums (GWPs) an insurer pays out in claims and expenses. The lower the ratio, the less premium revenues are being eroded by expenses.
- **Claims ratio –** (total claims and benefits disbursed) / (GWP)-offers a proxy for underwriting efficiency. In general, a lower claims ratio produces higher returns.
- **Acquisition ratio –** (total commission and fees paid) / (GWP)-reflects the effectiveness with which distribution networks are being managed. While it is beneficial to financial results to keep the acquisition ratio low, these costs are inherently higher in some business models, so it may be more relevant for a firm to focus on the trends in its own acquisition ratios than to benchmark directly against other businesses or regions.
- **Operational ratio –** (total operating expenses) / (GWP)-helps to explain the maturity with which insurers are managing routine expenses. In general, the lower the operational ratio the better.
- **Investment ratio –** (net investment income + capital gains (losses) / (GWP)-shows returns on insurers' investment portfolios. In general, the higher the investment ratio the better.
- **Profit margin –** (profit before tax) / (GWP)-measures profits from the overall insurance business.

In all cases, ratios depend on a variety of external factors, including general economic conditions, government regulations, business type, consumer preferences, etc. As a result, it is rarely relevant to compare ratios directly across regions or markets. It is typically more germane to compare trends over time within regions or markets, and perhaps within business types or insurance segments.

## 2014 GLOBAL INSURANCE VOICE OF THE CUSTOMER SURVEY

A global survey of customer attitudes toward insurance forms the basis of the eighth annual World Insurance Report. Our comprehensive Voice of the Customer survey polled more than 15,500 insurance (personal lines) customers in 30 countries. The survey sought to gain deep insight into customer preferences, expectations and behaviors with respect to specific types of insurance transactions. The survey questioned customers on their general satisfaction with their insurer, the importance of specific channels for executing different types of transactions, and their satisfaction with those transactions, among other factors. The survey also questioned customers on the importance they ascribe to digital channels (Internet and mobile) and their satisfaction levels for services offered via these digital channels. Participants were also asked questions around factors that influence their decision to choose, stay, or leave their insurer, how likely they are to refer a friend, buy additional products, or leave their current insurer, how they view the utility value provided by insurance products, how they would like to use newer channels such as social media, and other issues. We supplemented these detailed findings through in-depth interviews with senior insurance executives around the world.

## CAPGEMINI'S CUSTOMER EXPERIENCE INDEX

The responses from the global Voice of the Customer survey, which analyzed customer experiences across 112 data points, provide the underlying input for our Customer Experience Index (CEI). The CEI calculates a customer experience score that can be analyzed across a number of variables. The scores provide insight on how customers perceive the quality of their insurance interactions. These interactions are dissected by product, channel and lifecycle stage, as well as by demographic variables, such as country, gender, age, and investable assets. The result is an unparalleled view of how customers regard their insurers, and the specific levers insurers can push to increase the number of positive experiences for customers. The CEI provides a foundation for insurers to develop an overall retail delivery strategy that will increase satisfaction in ways that are most meaningful to customers.

# About Us

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As a global not-for-profit organisation, Efma brings together more than 3,300 retail financial services companies from over 130 countries. With a membership base consisting of almost a third of all large retail banks worldwide, Efma has proven to be a valuable resource for the global industry, offering members exclusive access to a multitude of resources, databases, studies, articles, news feeds and publications. Efma also provides numerous networking opportunities through working groups.

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**We would like to extend a special thanks to all of the Insurance companies and individuals who participated in our Insurance Executive Interviews.**

The following companies are among the participants who agreed to be publicly named:

ANSVAR INSURANCE AUSTRALIA, Achmea, AEGON UK, Aflac Japan, AG Insurance, Ageas Hong Kong, Ageas UK, Ageas UK Limited, AIG, Allianz BeNeLux N.V., Allianz Global Assistance France, Allianz Polska , Allianz SE, Allianz Suisse, Allianz UK, Argenta Assurantiën, AXA Belgium, AXA Commercial Lines and Personal Intermediary UK, AXA Direct and Partnerships UK, AXA France, AXA Polska, AXA Seguros Generales., AXA Winterthur (Switzerland), Baloise Belgium n.v., Baloise Insurance, Barclays Insurance, BCI Seguros S.A., Belfius Insurance, BNP Paribas Cardif, BNPPARIBAS , Broker : MDS Auto S.A., Caser Seguros, Catlin, CBL INSURANCE GROUP, CNA , CNA Insurance, CNP Assurances, Combined Insurance, a division of ACE., ConTe. it - Admiral Group Plc., CREDIT UNION INSURANCE LTD NZ, Delta Lloyd Life, Direct Line Group, DKV Seguros, ERGO Insurance, Ergo Italia, Ethias NV/SA, Etiqa, FARMERS MUTUAL GROUP INSURANCE LTD, Federale Insurance Group, Fidea N.V., Fluo, Folksam, Friends Life, Friends Life/Zurich, Generali Belgium, Generali Deutschland Holding AG, Generali Poland, Generali Seguros, Genworth Financial, Groupama Garancia, Grupa PZU, Gruppo Assimoco, Gruppo Aviva in Italia, Gruppo Helvetia Italia, GUILD INSURANCE, HDI SEGUROS, IF…, ING Life & Non-Life Belgium, José Alvarez Quintero (Fidelidade - Companhia de Seguros, S.A.), KBC Bank & Verzekeringen, Länsförsäkringar, Legal & General, Lloyds Banking Group Insurance, MAIF , Mapfre, MKB Általános Biztosító Zrt, Monuta, Mutua Madrileña Aseguradora, NFU Mutual, Nordea Liv & Pension, Old Mutual, ONVZ, Open Life Towarzystwo Ubezpieczeń Zycie S.A., P&V Group, Pelayo Mutua de Seguros, Pelayo Seguros, Poste Assicura S.p.A., QBE European Operations, Quixa, R + V Versicherung, R+V Versicherung AG, Reliance Life Insurance Company, Royal London, RSA Sun Insurance Office , santalucia, SARA Assicurazioni S.p.A., SBI Life Insurance, SCOR, Securex, Skandia, SulAmérica , Swedbank Life Insurance SE, TAL, The Hartford, The Tokyo Marine Research Institute, The TT Club, Towarzystwo Ubezpieczen Europa S.A. ; Towarzystwo Ubezpieczeń na Życie Europa S.A., UNIQA Insurance Group AG, WESFARMERS INSURANCE, Yarden, Zilveren Kruis Achmea, Zurich Brasil Seguros, Zurich Insurance Group - Zurich North America, Zurich Insurance Plc, Zurich Insurance Services

**We would also like to thank the following teams and individuals for helping to compile this report:**

William Sullivan and Sivakanth Dandamudi for their overall leadership for this year's report; Chris Costanzo, Priyadarsani Das, Srividya Manchiraju, Varun Rawat, Shradha Verma, Balakumar B, and Krithika Venkataraman for researching, compiling and writing the findings, as well as providing in-depth market analysis.

Capgemini Global Insurance network for providing their insights, industry expertise and overall guidance: Keith Aylwin, Fernando Simoes do Carmo, Sirlene Cavaliere, Apparao Chathurvedula, Chun Hing Cheung, Martijn van den Corput, Carlalberto Crippa, Enrique Diez Ordas De Cadenas, Ramesh Darbha, Luuk van Deel, Keith Gage, Andrew Hood, Filip Goldman, Manuela Gomes, Raffaele Guerra, Sridhar Kalyanam, Yuka Kitagami, Uwe Korte, Peter Kuijvenhoven, Laurent Leport, Cindy Maike, Darek Mazurek, Thomas Meyer, Masamitsu Murata, Ravi Nadimpalli, Joel Augusto Carvalho de Oliveira, Anthony Pavia, Seth Rachlin, Marien van Riessen, Krister Rydmark, Dipak Sahoo, Paula Simurro, Christopher Stevens Diez, Yamada Takehito, Lloyd Unger, Jan Verlinden, Alan Walker, Nigel Walsh, Nadine Yang, and Shuji Yoshida.

Karen Schneider and Marion Lecorbeiller for their overall marketing leadership for the report and the Global Product Marketing and Programs, Corporate Communications and Field Marketing Teams for producing and launching the report: Vanessa Baille, Stacy Prassas, Suresh Chedarada, Alison Coombe, Kanaka Donkina, Mary-Ellen Harn, Shankar Janyavula, Sathish Kumar Kalidasan, Ed Johnson, Vinod Krishnan, Gabriella Lucocq, Martine Maître, Sourav Mookherjee, Partha Karmakar, Erin Riemer and Omkarnadh Sanka.

Alain Enault and the Efma Team for their collaborative sponsorship, marketing and continued support.

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