WORLD INSURANCE REPORT 2014

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Preface

Capgemini and Efma are pleased to present the seventh ***World Insurance Report*** (WIR). This year's edition, presented in three parts, begins by chronicling the performance of insurance companies across the globe and continues with an examination of the ability of digital channels to improve both profits and the customer experience.

The WIR offers a multi-faceted view of insurer performance by measuring it along two tracks. The first examines how insurers fare against a range of industry-standard efficiency ratios, using data gathered from insurance companies within 14 countries around the globe. The second provides a view of how insurers stack up against the preferences and expectations of insurance customers globally, using our proprietary Customer Experience Index (CEI).

We found that non-life insurers mostly improved their performance against five different efficiency metrics, leading to generally higher profits. They also demonstrated proficiency and expertise in managing the fundamentals of the business. Our report compares this year's efficiency-modeling findings against the results of previous years, and also provides specifics on individual markets around the globe.

Delivering a positive customer experience, an increasingly important component of success, is the focus of our second measure of performance. Our CEI for insurance, now in its second year, takes a comprehensive measure of the variables that resonate with customers as they interact with insurance providers, and how these factors impact overall experience. This year's report demonstrates a clear link between improved levels of positive experience and customer behaviors that lead to greater profitability.

Our spotlight section this year focuses on the growth of digital channels, including internet and mobile, and delves into an examination of the digital capabilities of insurers across the globe. While we identified some leading digital practices across different insurance life-cycle stages, many insurers still have considerable ground to cover in delivering expected levels of digital service. Further, it goes on to recommend that a top-to-bottom digital transformation encapsulating customer centricity with operational excellence is the way forward for insurers seeking both top and bottom-line growth.

Our findings are intended to bring fresh, insightful perspective to today's evolving insurance landscape. We hope you will find our latest report useful in helping you understand peer-level performance, as well as the full range of attitudes and actions prevalent among today's insurance customers. With this information, we expect insurers will be better prepared to develop ongoing strategies for improved performance.

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Many Non-Life Insurance Markets Witness Increase in Profit Margins, Helped by Stronger Ratios for Claims and Investments

CHAPTER 1

INTRODUCTION

Non-life insurers across the globe showed improvement across a spectrum of efficiency ratios in 2012, leading to generally higher profits. Helping to boost performance was a significant reduction in the number of catastrophe-related claims. Insured claims fell to $77 billion in 2012, well below the amount reached in 2011 when the earthquake and tsunami in Japan plus severe storms in the U.S. pushed volumes to a record $126 billion.[1]

With fewer disasters, claims ratios improved in 2012. Insurers also benefitted by better aligning premiums to payouts in response to the record claim volume of 2011. Efficiencies gained from acquiring and serving customers through direct channels and newer technology platforms also began to have a positive impact, leading the way to improved underwriting ratios. In addition, a more stable macro-economy, combined with prudent investing principles, helped propel insurers' return on investment portfolios. Overall, the impact on profit margins was positive, with non-life insurers in most countries experiencing gains.

Figure 1.1 Non-Life Insurance Performance in Key Ratios (percentage point change) 2012

Countries / PP Change in Ratios, (2011-12)	Australia	Japan	Canada	Belgium	Germany	U.S.	U.K.	Nether-lands	Spain	Italy	Switzer-land	France	Brazil	India
▲ Claims Ratio	-14.8	-8.9	-4.9	-3.7	-3.2	-4.6	0.5	-0.4	-4.9	0.0	2.4	8.5	1.7	NA
▲ Operational Ratio	-1.6	-0.9	0.7	-0.1	0.4	1.9	-2.0	-0.5	3.7	0.3	0.5	-1.0	2.5	NA
▲ Acquisition Ratio	-0.5	0.0	0.0	0.0	-0.9	-1.0	-0.6	0.3	0.9	-0.4	-0.3	-1.0	6.2	NA
▲ Underwriting Ratio	-16.8	-9.8	-4.2	-3.8	-3.7	-3.7	-2.1	-0.6	-0.3	-0.1	2.6	6.5	10.4	NA

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

Note: ▲ refers to change; 2012 data for India is unavailable as the financial year ends March 31st; Due to rounding off numbers might not add up to the total change in underwriting ratio figure
Source: Capgemini Analysis, 2013; Company Annual Reports, 2009-12; Industry Reports from Insurance Associations and Regulators

[1] "Natural catastrophes and man-made disasters in 2012," Swiss Re, Sigma report, February 2013

EFFICIENCY METRICS SHOW IMPROVEMENT ACROSS THE BOARD

Our *World Insurance Report* takes stock of the performance of non-life insurers across the globe by calculating a broad range of industry-standard efficiency ratios, and comparing the results across years to demonstrate overall performance trends, as well as market-specific findings. The data for the report comes from insurance companies within each of the 14 countries examined. These countries include Australia, Belgium, Brazil, Canada, France, Germany, India, Italy, Japan, Netherlands, Spain, Switzerland, United Kingdom and United States.

- **Overall efficiency, as indicated by the underwriting ratio, improved in 2012,** as non-life insurers benefitted from a lower number of major natural disasters, as well as better management of operating and acquisition expenses. Globally, the underwriting ratio (a measure of claims, acquisition, and operational ratios combined, indicating efficiency) improved for most of the markets.

  Australia posted the biggest improvement in underwriting ratio, though the 16.8 percentage point decline followed a dramatic rise in 2011 when claims payouts were extremely high due to a number of major disasters. Australia's current underwriting ratio of 104.4 remains the second-highest of all the countries measured behind India. Japan also recovered from deterioration in its underwriting ratio in 2011 (also due to high claims payouts from natural disasters), posting the second most-improved underwriting ratio in 2012.

  Other countries to significantly improve their claims ratios which led to an improvement in underwriting ratios, included Belgium, Canada, and the United States. While Spain's claims ratio improved, its operating ratio deteriorated the most, leading to a minor degradation of its underwriting ratio.

  Brazil's underwriting ratio deteriorated sharply by 10.4 percentage points. The insurance penetration in that country remains lower than many other smaller markets in the region. France, hit hard by outsized claims, was the only country other than Brazil to experience significant deterioration in underwriting ratio.

- **Claims ratios across the globe are recovering**, following the devastating natural disasters and high payouts that impacted many markets in 2011. More than half the 14 countries measured (excluding India for which 2012 numbers are not available) registered improvement in their claims ratios (a measure of total claims disbursed against gross written premiums, reflecting the effectiveness of risk management). Australia and Japan recorded the greatest improvements, following major deterioration the year before. Both countries benefitted from favorable weather conditions compared to 2011, as well as from increased premium volumes.

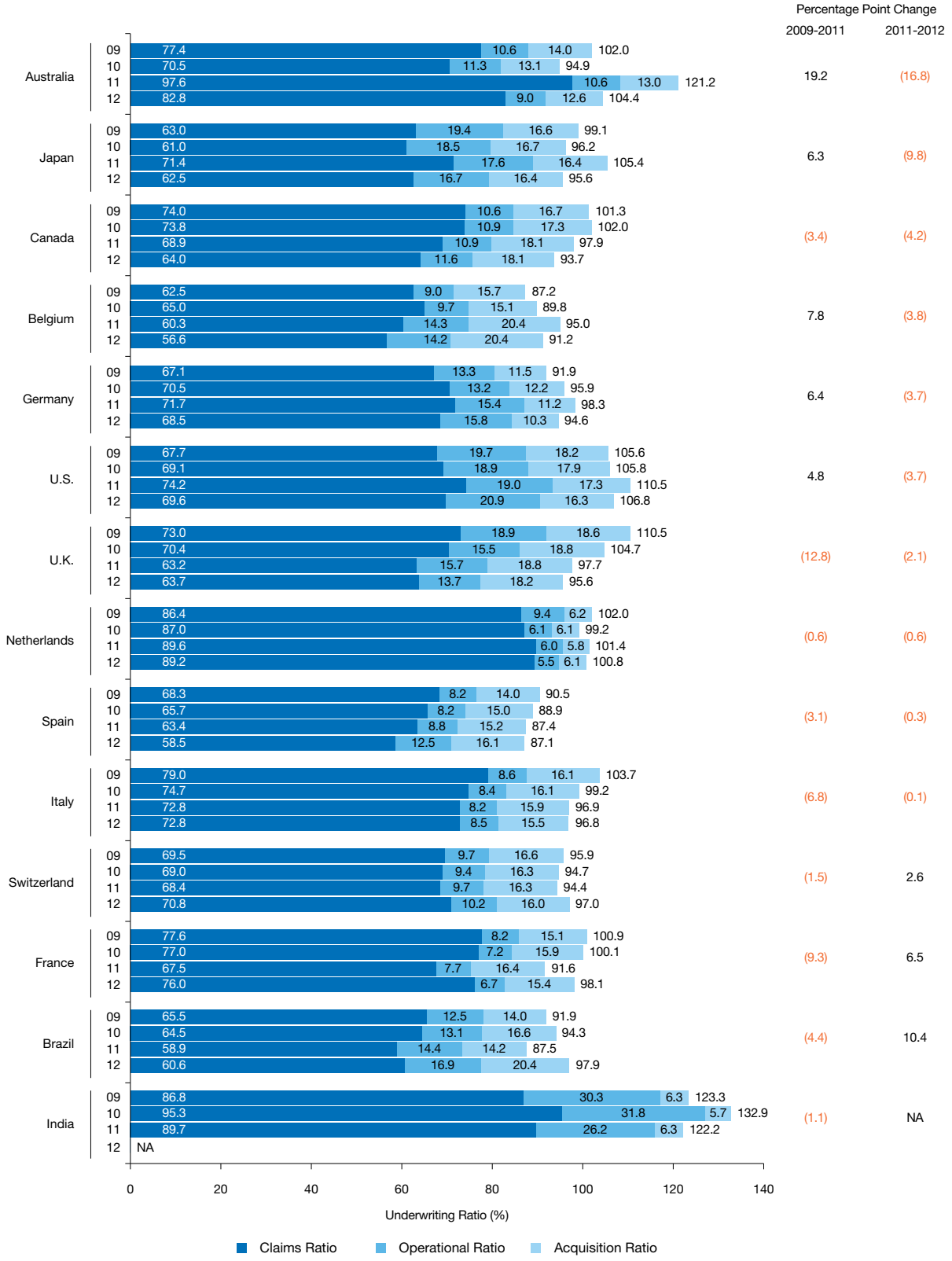
  In Netherlands, the claims ratio remained stubbornly high. At 89.2, it is the highest of all the countries measured, the result of stiff competition that has restricted insurers from increasing prices to offset rising claims. Spain and Belgium managed to improve their claims ratios significantly, despite being in already favorable positions. Improvements of 4.9 and 3.7 percentage points respectively brought the ratios down to 58.5 for Spain and 56.6 for Belgium, the only two below 60.

- **Operational ratios improved in nearly half the countries measured,** as a result of investments aimed at boosting productivity. The ratio is a measure of total operating expenses against gross written premiums, indicating the ability to manage routine expenses.

  By a small margin, the United Kingdom had the most success in improving operational ratios from a year ago, though they remain on the high side. The region appears to be still in the early stages of reaping benefits from streamlining operations. Netherlands and France, already lean operators, managed to improve their ratios further. Reductions in head count, as well as the use of more cost-effective channels such as the internet and mobile, are among the tools used to cut operating costs. Some of the less efficient markets experienced further degradation in their operating ratios. The U.S., Germany and Spain, which already had high ratios, witnessed further deterioration in 2012, likely the result of heavy technology investments that have yet to pay off. Japan was an exception, managing to improve its ratio slightly in 2012.

- **Acquisition ratios are improving modestly or staying the same in most countries,** as broad-based efforts to expand the use of direct sales and service channels slowly take hold. The ratio is a measure of commissions and fees against gross written premiums, reflecting the effectiveness of distribution channels.

Figure 1.2 Non-Life Insurance Underwriting Ratios (Combined Expenses as a Percentage of GWP) %, 2009-2012



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 Belgium, India, Italy, Spain, Switzerland, and the Netherlands; At the time of analysis, no 2012 data was available for India, where the financial year ends March 31st; The previous year ratios may have changed based on the refresh of results for some of the companies; Due to rounding off the numbers might not add up to the total underwriting ratio figure
Source: Capgemini analysis, 2013

The U.S., France, and Germany were the most successful in improving their acquisition ratios. Moving customers to direct channels such as the internet and mobile is the biggest lever insurers have to contain acquisition costs. Alternate channels reduce the cost of supporting a sales force, while also permitting anytime, anywhere access. Intermediaries such as agents and brokers, however, continue to hold sway in many markets. Acquisition ratios for Japan, Canada, Italy, and Belgium remained constant, while Brazil witnessed the largest deterioration (6.2 percentage points), giving it the least favorable acquisition ratio, followed by Belgium.

- **Profit margins mostly improved or held steady in 2012,** reversing heavy losses incurred in 2011 when catastrophe-related expenses were exceptionally high. Aside from more favorable weather conditions in 2012, resulting in limited claims payouts, global non-life insurers benefitted from gains in their investment portfolios, as well as ongoing improvements in efficiency.

The U.S., which experienced the biggest decline in profitability in 2011, was the biggest gainer in 2012. Though nine of the ten most expensive insured loss events occurred in the U.S. in 2012, including a major hurricane that hit the populous Northeast coast,[2] U.S. non-life insurers exhibited an ability to manage risk by expanding premiums in line with claims, boosting profitability. Italy also performed well, helped by significant gains in investment income despite incurring the country's highest insured losses ever, following a series of earthquake shocks.[3] Japan, hard hit by several natural disasters in 2011, benefitted from relative calm in 2012, as well as growth in premiums. In addition, the weaker yen enhanced earnings from recent overseas expansions by the nation's three major non-life insurance companies.

Only Spain experienced a substantial reduction in profits. Plagued by the weak economy, Spanish non-life insurers additionally experienced a significant decline in operating ratio, pointing to inefficiencies. Disappointing earnings also came from Switzerland, where small gains in investment and acquisition ratios were not enough to offset significant deterioration in the claims ratio. Despite being the most successful in bringing down operational costs, the U.K. experienced a slight decrease in profit margins from a year earlier.

FAVOURABLE WEATHER CONDITIONS DRIVE CLAIMS RATIO IMPROVEMENT, WHILE CONTINUED INVESTMENT IN OPERATIONS AND CHANNELS LEADS TO STABLE AND IMPROVING OPERATIONAL AND ACQUISITION RATIOS

For the most part, insurers across the globe exhibited expertise in managing the fundamentals of the non-life business. They mostly struck a reasonable balance between the volumes and prices of premiums, and payouts on claims. With underwriting ratios for the most part improving, they also demonstrated competency in overall business efficiency. Operational and acquisition costs improved or stabilized in many of the countries examined, and are expected to continue to improve as firms move forward with technological enhancements as well as greater use of direct channels. The following section examines the interplay of the various elements of the non-life insurance business within the specific markets of 14 countries.

AUSTRALIA

After suffering exceptionally high losses in 2011, the Australian non-life insurance industry, the world's 11th largest, buffered itself by increasing premiums in 2012, leading to improved overall performance. In addition to boosting premium volumes by 7.2%, the industry improved its claims ratio substantially, from 97.6% to 82.8%, largely due to a drop in the number of severe catastrophes to hit the country.

Compared to the $4.4 billion in claims paid out in 2011, non-life insurers paid only about $1.0 billion in 2012. However, re-insurers increased their premiums in 2012, in a bid to recoup the significant payouts they had made to insurers the year before. As a result, non-life insurers are likely to more closely examine their risk exposures going forward.

The industry made impressive gains in managing expenses, lowering its operational ratio to a record 9.0%, a decrease of 1.6 percentage points from a year earlier. The rise in 2012 premium rates may explain part of the reason for the improved ratio. Non-life insurers also are likely reaping the benefits of technology investments aimed at improving productivity and efficiencies. Over the long run, ongoing upgrades to legacy business models could propel lasting improvements in operational ratios.

[2] Ibid

[3] Ibid

Acquisition expense ratios continued a steady downward progression, reaching 12.6%, a decrease of 1.8 percentage points since 2008. Again, the rise in 2012 premium rates likely played a critical role in the ongoing improvement. Customers may also have been more motivated to seek out coverage, given the spate of disasters to befall the country in 2011, as well as the possibility of lower commissions. The ratio also likely reflects increased use of lower-cost mobile and internet channels, with 5% to 10% of non-life insurance customers using such channels to conduct their business. Acquisition ratios are expected to drop further as alternate channels gain in prominence.

Despite the substantial reduction in claims paid out in 2012 compared to 2011, Australian non-life insurers increased profit margins by only a modest 1.3 percentage points to 10.8%, higher than in 2011, but still lower than the three years prior. Higher re-insurance costs, as well as lower interest rates, had an adverse effect on profit margins and may continue to do so in the coming years. For 2012, relatively calm weather combined with higher premiums helped the industry lower claims, as well as operational and acquisition costs, and achieve a marginal profit.

BELGIUM

The Belgian non-life insurance market, the world's 17th largest, remained relatively stable in 2012. Premium volumes rose 0.2% to reach $14.5 billion, while the profit margin ratio decreased by 0.2 percentage points to 10.1%.

The already favorable claims ratio improved by an additional 3.7 percentage points, becoming the lowest of all the countries examined. The ratio may have benefitted from new modeling techniques for underwriting properties in catastrophe-exposed regions. Favorable weather conditions and fewer industrial and traffic accidents also likely contributed to the lower claims ratio.

The acquisition ratio, however, remained stubbornly elevated. At 20.4% it is the highest of all the countries examined, the result of high commission rates in Belgium's broker-dominated distribution model. Operational and investment ratios remained stable. The slight decrease in profit margins may be partly due to historically low premium rates for motor insurance, though these rates are expected to rise in 2013 due to the increasing cost of auto repairs.

BRAZIL

The Brazilian non-life insurance market, Latin America's largest, is poised to become stronger. As host of the FIFA World Cup in 2014 and the Olympic Games in 2016, Brazil is expected to expand its investments in roads, airports and other infrastructure, leading to increased opportunities for insurers. Already in 2012, premiums grew by 9.6%. Record-breaking new car sales, spurred by tax breaks, led to solid growth in automobile insurance, the biggest non-life line of business in Brazil. Premiums also grew robustly in lines such as liability, rural and special risks.

Performance by Brazilian non-life insurers has improved steadily over the past ten years, following a long period of high inflation and economic uncertainty. Revised regulatory frameworks, as well as government-sponsored incentive programs, including tax exemptions on long-term savings products, have formed the foundation for improved results. Expected continued growth should help Brazil increase its insurance penetration; currently it lags many smaller markets in the region.

Brazilian non-life insurers struggled somewhat in 2012, experiencing a deterioration of 1.7 percentage points in the claims ratio and 2.5 points in the operational ratio. Insurers there continue to invest in automated claims management systems aimed at increasing the efficiency of internal processes, reducing costs and providing more agile service to clients.

The acquisition ratio deteriorated markedly (by 6.2 percentage points) in 2012, mainly due to relatively higher commissions and fees paid for distribution. Non-life insurers in Brazil are dependent upon highly influential brokers to distribute their products. As a result, insurers are seeking to strengthen their relationships with brokers, as well as educate them about bringing better risks to preferred insurers. Other strategies include leveraging a variety of innovative low-cost delivery channels, ranging from gas stations and pharmacies, to the internet and bancassurance (in which bank distribution channels are used to sell insurance products).

CANADA

The Canadian non-life insurance industry, the world's eighth largest, improved its profit performance in 2012 mostly on the strength of its claims ratio, which decreased 4.9 percentage points to 64.0%, its lowest level in last five years. The absence of any major catastrophes was a significant factor in lowering claims. In addition, auto insurance reform enacted in Ontario, Canada's most populous region, helped rein in claims costs by better aligning them with premiums.

Heavy technology investments over the years have weighed on Canada's operational expense ratios, causing them to remain mostly flat since 2008, and then deteriorate by 0.7 percentage points in 2012. The current ratio reflects the high costs of upgrading and replacing legacy systems, as well as developing alternate distribution channels.

Canada's acquisition ratio, one of the highest in the industry, remained unchanged in 2012, due to continued heavy reliance on agents and brokers as product distributors. As customer acceptance of alternate channels increases, however, insurers are expected to enhance their digital capabilities. Auto insurance customers in Canada already are changing their habits; they increased their use of non-traditional channels by as much as seven percentage points in 2012.[4] As non-life insurers move to meet customer demands for greater digital interactivity, Canada's acquisition ratio is likely to improve.

Despite weak investment returns, Canadian non-life insurers were able to improve profit margins by 0.9 percentage points to 10.5%, the highest level in five years. While an improved claims ratio was the biggest driver of profits in 2012, upgraded acquisition and investment ratios could provide support for steadily increasing profit margins in the future.

FRANCE

French non-life insurers exhibited discipline in managing operational and acquisition costs, which contributed to a slight improvement in profit margins despite a sharp deterioration in the claims ratio. The industry's 8.5 percentage-point shift in claims ratio, the largest degradation by a wide margin, was striking given a rise in premium volumes as well as the absence of any major catastrophes.

The current claims ratio of 76.0% could be a readjustment back to a norm in the mid-seventies range, following an unusually large appreciation of 9.5 percentage points in 2011. Claims-related events to befall France were mostly on a small scale for an industry that is the third largest in Europe and the sixth largest in the world. These events included a cold snap that led to payouts of 500 million euros (for damaged pipes and overworked heaters); a rise in burglaries, and more costly claims for motor insurance and bodily injury.

France, already one of the most efficient operators in the world, was one of the few countries to improve its operational ratio in 2012, shifting it by one percentage point. Insurers are benefitting from significant investments they made in technology before the beginning of the global recession in 2007. In general, large-scale players like those in France are better able to take advantage of economies of scale, compared to their smaller counterparts.

Following steady deterioration in its acquisition ratio in 2011, France brought sales and service costs under better control in 2012, improving its ratio by one percentage point. France's successful use of the bancassurance model, combined with a gradual increase in the use of electronic delivery channels, contributed to the improvement in the French non-life acquisition ratio. So did an increase in premiums collected.

Despite degradations in their investment and claims ratios, French non-life insurers registered a modest profit-margin improvement. Various segments of the industry contributed to the growth. The property insurance business and the highly competitive car insurance industry each registered 3% growth from 2011. While construction insurance contracted 2.8% due to the region's economic slowdown, positive growth of 6.2% in homeowner's insurance more than offset that decline. With continued premium growth and the use of improved risk assessment measures already in place, profit margins are expected to gather strength going forward.

[4] "2013 Canadian Auto Insurance Satisfaction Study," J.D. Power & Associates, May 2013

GERMANY

German non-life insurers improved profit margins marginally in 2012, helped by significant improvement in the claims ratio and despite further degradation in the operational ratio. The industry, Europe's largest and the third in the world, substantially improved its claims ratio, following three years of deterioration. Many of the major classes of insurance, including motor vehicle, transport, and technical insurance, experienced strong premium growth. Also working in the industry's favor, claims expenditures for motor vehicle insurance declined for the first time in years.

Non-life insurers in Germany were not able to turn the tide on an operational ratio that shot up substantially in 2011, and deteriorated further in 2012. Despite efforts to reduce administrative costs, smaller players in particular did not have enough scale to enable them to cover their expenses related to research, development, and advertising.

Despite the lack of a highly effective bancassurance distribution channel in Germany, the industry's acquisition ratio continued to improve in 2012. The growing popularity of aggregators, especially for personal lines such as motor vehicle insurance where margins are already thin, have contributed to the improving ratio. An increase in premiums, combined with ongoing growth in low-cost alternative distribution channels and aggregator sites, is likely to lead to further improvement in the acquisition ratio.

Despite an increasingly tough operating environment, German non-life insurers managed a marginal increase in profits. The entry of international firms into the German market is intensifying competition and putting pressure on pricing. The German market has responded in several ways, including through an innovative joint venture of the finance arms of motor companies, as well as by withdrawing from accounts with loss histories. A rise in premium rates in 2012 also helped insurers overcome claims costs stemming from a series of summer storms.

INDIA

Following a major slump in 2010, profit margins among Indian non-life insurers recovered strongly in 2011-2012, despite a significant drop in the investment ratio. The Indian non-life insurance industry, among the world's top 20, improved its claims ratio substantially due to major decreases in claims payouts in the motor, health and liability insurance segments. A divergence was evident between public and privately owned companies, with public firms improving their claims ratio by 7.8 percentage points, compared to deterioration among privately held firms, resulting in increased premiums for motor vehicle and health segments.

Indian non-life insurers posted a positive gain in the operational ratio, following two years of deterioration. The industry should experience further momentum if a proposal to relax the cap on operational expenses from the current 26% to 28% of gross direct premiums is raised to 32.5% to 37.5%, providing insurers additional flexibility to make investments. In addition, a proposal to increase the limit on foreign direct investments from 26.0% to 49.0% is expected to help insurers raise capital to make technology investments.

High commission costs caused the acquisition ratio to deteriorate, following two years of improvement. An increase of 34.9% in total commission expenses was only partially offset by a 22.8% increase in premiums. Commission expenses were highest in the motor vehicle segment. In time, a shift toward direct sales and service channels is expected to bring down commission and acquisition costs.

Despite higher commission costs, profit margins improved substantially, reversing a loss recorded in 2010. Public companies performed better than their privately owned counterparts, helped by reduced underwriting losses, lower operating expenses and increases in premium income.

ITALY

Italian non-life insurers, among the top ten globally, made impressive gains in profitability in 2012, despite an earthquake in Northern Italy that was the seventh-most costly insured catastrophic loss globally for the year. Despite significant decrease in motor claims in Italy, there was no improvement in claims ratio and it remained one of the highest among the countries analyzed due to the impact of earthquake related claims and an increase in claims from commercial lines of business. Recent government reforms, however, may help to reduce claims costs going forward. A 2012 law known as Cresci Italia (Grow Italy) imposes several measures aimed at mitigating fraudulent claims, which should help reduce claims payouts.

Both operational and acquisition ratios have remained mostly flat over the past five years. To substantially improve operational ratios, the industry must focus on replacing legacy systems and developing lower-cost delivery channels. Acquisition ratios, meanwhile, remain high despite the passage of legislation, known as the Bersani law, which allows agents to work with more than one insurer. While the law has increased competition between insurance brokers, distribution channels continue to be dominated by agents and intermediaries. Moving the acquisition ratio out of its current holding pattern will require developing more robust alternate delivery channels.

Profit margins increased by 8.2 percentage points in 2012, the largest increase of all the countries examined. Profitability was aided by the new legislation introduced in early 2012 aimed at controlling claims costs by stipulating that a clinical instrumental examination must be produced to validate injury claims submitted. Italian non-life insurers face further opportunities for growth due to the government's recent decision that it would no longer step in as the insurer of last resort. Combined with the efforts to reduce fraud and improve competition, the reform should help generate growth in new insurance segments, such as disability, health and property, opening up further avenues for improved profits.

JAPAN

Compared to 2011 when multiple disasters led to exorbitant claims and wiped out profits for Japanese non-life insurers, 2012 was catastrophe-free, resulting in greatly enhanced profit margins. The Tohoku earthquake of 2011 resulted in the largest claim volume arising from earthquake insurance in Japan to date. As the volume of payouts dropped in 2012, the claims ratio improved significantly, bringing it back to pre-2011 levels.

Industry-wide consolidation efforts begun in 2009, resulting in ongoing operational cost reductions, also helped boost profits in 2012. The operational ratio for Japanese non-life insurers in 2012 reached its lowest level in five years. Today three insurance groups – MS&AD Insurance Group, NKSJ Holdings, and Tokio Marine Holdings – control more than 80% of non-life premiums. Japan has the second largest non-life insurance market in the world.

Over the past five years, Japanese non-life insurers have barely budged their acquisition ratios, which remain among the highest across the globe. The industry is heavily reliant on intermediaries, with more than 90% of insurance premiums collected through agents. In some segments, such as compulsory auto liability, virtually 100% of premiums come through agents.

The greatly reduced claim volumes helped boost profit margins by 2.2 percentage points in 2012. The industry was also aided by significant improvement in investment income, which benefitted from higher stock prices in the second half of the year, despite heavy investment in fixed-return instruments like government bonds. While 2012 ended on a positive note, Japanese non-life insurers face numerous challenges ahead, including a falling birth rate, an aging population, and the uncertain impact of a planned consumption tax hike on sales of Japanese auto insurance, which accounts for about half of all premiums written.

NETHERLANDS

The non-life insurance industry in Netherlands, marked by intense competition and razor-thin profit margins, experienced its third consecutive profit decline in 2012. More than 150 firms serve the market, the world's seventh largest, putting downward pressure on premium pricing and causing the claims ratio to remain stubbornly elevated. Though the claims ratio improved by 0.4 percentage points in 2012, it remains the highest of all the countries examined by a wide margin. Measures to improve access to historical data on customer claims is expected to lead to more accurate premium pricing and an improved claims ratio in the future.

Dutch non-life insurers have been far more successful in keeping operational expenses low. The industry's operational ratio improved another 0.5 percentage points in 2012, on top of ongoing improvements that have brought the ratio to the lowest level of all the countries examined. The attractive ratio is the result of the stiff competition that characterizes the industry, leading to highly successful measures to cut costs, including reducing headcount and mobilizing low-cost delivery channels.

Though the acquisition ratio for Dutch non-life insurers deteriorated slightly in 2012, it remains the lowest by far across the globe. Using direct channels to reach customers has become a core competency of Dutch non-life insurers. Today, direct connections are the most dominant form of product distribution, followed by brokers and bancassurance. The shift to direct channels is in keeping with the country's tech-savvy customer base, which is increasingly adept at navigating the more digital landscape.

Despite low operational and acquisition costs, Dutch non-life insurers have been unable to increase profit margins for the past three years. Profits declined by 0.6 percentage points in 2012, battered by stiff competition as well as the European economic slowdown. Going forward, Dutch non-life insurers may be able to increase profits by becoming more competitive through their branding strategies, rather than aggressive pricing.

SPAIN

Spain, which has suffered mightily throughout the Eurozone debt crisis, experienced the largest profit decline of all the countries examined, despite an impressive improvement in its claims ratio. A decrease of 4.9 points pushed the claims ratio to the second-lowest level of all the countries examined. Yet the economic slowdown in Spain is likely the root cause of this improvement: Reduced consumer spending pushed down the number of new-car sales, reducing the number of insured vehicles. The end result was lower claims payouts in 2012. The claims ratio is expected to improve as greater competition leads to lower prices.

Traditionally, Spanish non-life insurers have kept operating expenses relatively low. In 2012, however, the operational ratio increased by 3.7 points, bringing it to the highest level in five years, perhaps due to increased competition in a contracted insurance market. Especially given the slow growth of the Spanish economy in recent years, non-life insurers must undertake more consistent efforts to bring down costs and impose efficiencies. Prevailing sales and service methods are not helping in this regard. Agents and brokers continue to dominate the distribution of non-life insurance sales, holding 82% of the market, while the penetration of more cost-effective channels, such as mobile and internet, remain low.

Spain's sluggish economy kept investment income low. More forebodingly, the slowdown dampened demand by the market (the sixth largest in Europe) for insurance products. In the first quarter of 2012 alone, non-life insurance premiums declined by 2.3%. For the year, profits eroded by 2.7 percentage points to 8.8%, down from consistently stable profit margins in the 11% to 12% range. Lower profit margins may be a reflection of the highly competitive nature of the Spanish non-life market, which has been aggravated by online premium-comparison web sites, leading to heightened price sensitivity by buyers. Despite this poor performance, Spanish non-life insurers are expected to exhibit a recovery in the long run as the Eurozone continues to recover from the debt crisis.

SWITZERLAND

Swiss non-life insurers, serving the seventh largest market in Europe, exhibited middling performance all around, with slight deterioration in claims, operational, and investment ratios contributing to a dip in profit margins. Despite an increase in premium volumes across all major segments, the claims ratio worsened by 2.4 percentage points due to an uptick in damages from storms, hail, and frost.

Sizable technology investments in 2012, including the implementation of cloud computing, led to a slight degradation in the operating ratio (0.5 percentage points). Swiss non-life insurers are expected to maintain technology spending at a compound annual rate of 2.4% from 2009 through 2014. While the investments may cause operating ratios to edge up in the near term, they should result in operating efficiencies over time.

The acquisition ratio improved marginally by 0.3 percentage points. The ratio has remained mostly stagnant in the 16% range in recent years given the slow penetration of direct channels into the delivery mix. While Swiss non-life insurers are slowly diversifying into internet and mobile channels to control acquisition costs, they are still in a nascent stage compared to existing channels such as direct writing, agents, and brokers. Also stagnant was investment income, with Swiss non-life insurers exhibiting a bias toward low-risk, low-return fixed-income securities, despite low interest rates, which provided protection against the volatile European economy but put a damper on investment gains.

Profit margins slipped by 0.3 percentage points, but at 9.3% were still relatively strong compared to the industry's global peers. Continued growth in premium volumes for Swiss non-life insurers provides support for an expectation of improved performance in the future, particularly once the European economy gains more solid footing.

U.K.

The U.K. is the second largest non-life insurance market in Europe. The claims ratio deteriorated marginally by 0.5 percentage points, mainly due to a series of damaging weather related events and increased use of litigation. Rise in "claims farming" in which non reputable firms seek to charge highest possible claims from the insurers was another reason for the increase in claims ratio. Despite these factors, U.K. non-life insurers managed to increase premium volumes and offset the rise in claims costs to a large extent.

The U.K. non-life industry improved its operational ratio the most compared to its global peers. Despite the 2.0 percentage point improvement, operational expenses continue to run fairly high from a global perspective. The current improvement came about through a rise in premium prices, much like a similar improvement that occurred in 2010. To ensure lasting gains in operational efficiency, the industry must continue to also develop online channels and enhance processing platforms.

The acquisition ratio remained stable, despite intense competition in the mature U.K. market that is driving up distribution costs. In addition, increased use of aggregator websites is generating fee expenditures, as well as spurring competition based on low-cost pricing, rather than customization and branding. Though the industry improved its acquisition ratio by 0.6 percentage points, acquisition costs for U.K. non-life insurers in 2012 remained the highest of all the countries examined. As distribution models shift to include greater use of direct channels, those costs should come down.

Despite improvements in its operational and acquisition ratios, profit margins slipped by 0.2 percentage points, perhaps in reaction to the outsized gain (5.1 percentage points) achieved in 2011. The industry must also continue to develop online channels and improve underwriting capabilities to achieve more sustainable growth.

U.S.

Even though nine of the top ten costliest insured catastrophes occurred in the United States in 2012, U.S. non-life insurers posted the largest profit gains compared to their global peers. The high penetration of insurance in North America meant that more than half ($65 billion) of the total $119 billion of economic losses suffered in the region in 2012 were covered by insurance.[5] Hurricane Sandy alone caused $70 billion worth of economic loss, about $25 billion of which was covered by private insurers.[6] Despite the impact of multiple disasters, U.S. non-life insurers, demonstrating the fundamental strength and maturity of the world's largest non-life insurance market, improved their claims ratio a substantial 4.6 percentage points to 69.6%.

From an operational perspective, however, the industry performed poorly. Already high, the U.S. operating expense ratio deteriorated an additional 1.9 points, making it the worst-performing operating ratio of all the countries examined. One explanation is continued heavy investment in a variety of technology initiatives, including core systems transformation, predictive modeling, and claims processing. While these high technology investments are likely to push up the operating costs in the short run, they are likely to help insurers achieve operational efficiencies in the long run.

Along one technological measure, U.S. non-life insurers appear to be making headway: using digital channels to bring down acquisition costs. Acquisition ratios improved for the third year in a row, helped by increasing reliance on internet and mobile channels to conduct internet sales. By 2015, the share of sales through digital channels is expected to grow to nearly $14 billion, representing close to 11% annual growth and about 6% of the total category of insurance sales.[7] As insurers make greater use of direct channels, they will bring down acquisition costs further as well as enhance the customer experience.

Following a steep decline in 2011, profits surged in 2012 due to growth in premiums and an improved underwriting ratio, as well as strong top line growth. Overall net profit increased by 72.3% to $33.5 billion, from $19.5 billion in 2011. The 3.6 percentage point gain was a substantial improvement, though the 9.1% margin still fell short of the 10%-plus gains achieved in 2009 and 2010.

CONCLUSION

For an industry that depends so much on the ability to prepare for unforeseen disasters, non-life insurers across the globe performed well in 2012. Most turned a profit. This year they were helped by a reduction in the number of major catastrophes, as well as generally better performance in pricing premiums.

Insurers may not be able to control the incidence of natural disasters, but they are getting a handle on other factors that can affect claims payouts. Regulations and policies aimed at reducing claims fraud and reining in mismanagement by third parties are becoming increasingly standard across the board. Such steps will be important as the industry enters an era of increasingly volatile and unpredictable weather patterns, which will negatively impact claims.

Efforts to improve operational expense ratios are ongoing. Every insurer is aware of the cost reductions and productivity gains that can be had through wise investments in technology and automation. The continuing difficulty of achieving these benefits speaks to the multi-layered risks and complexities that characterize basic insurance underwriting. Companies able to develop technological proficiency will put themselves at a distinct advantage over their competition.

One operational area in which insurers appear to be making some headway is in moving to digital channels for sales and service. Internet and mobile connections hold great appeal for consumers increasingly accustomed to a digital lifestyle. As these channels take hold, they offer enormous upside to enhancing the customer experience while significantly improving overall profitability.

[5] "Natural catastrophes and man-made disasters in 2012," Swiss Re, Sigma report, February 2013

[6] Ibid

[7] "U.S. Online Insurance Forecast, 2010 to 2015," Forrester Research, April 2011

Insurers Have Ample Opportunities to Deliver More Positive Customer Experience, Potentially Impacting Their Profit Margins

CHAPTER 2

INTRODUCTION

Consistently delivering positive customer experiences is one of the most difficult – yet most important – aspects of achieving high performance in the insurance business. At its most basic, customer experience describes the interactions that occur between insurers and customers. Yet it also encompasses how customers feel about those interactions, both rationally and subconsciously. Intangibles such as perceptions, emotions, and expectations are all influential drivers of customer experience.

Though difficult to deliver, positive customer experience has become an increasingly important success factor in the commoditized, price-competitive insurance industry. Insurers that provide positive experiences can turn ordinary customers into advocates. Such customers feel respected, valued and engaged, creating a competitive advantage that is hard to beat: a customer base that is extremely loyal, connected, and ultimately more profitable.

Capgemini's Insurance Customer Experience Index takes a comprehensive measure of several variables that resonate with customers as they interact with insurance providers, and analyzes how these variables impact their overall experience. The results of this year's index indicate that insurance companies are steadily improving the experiences they provide customers, with North America and other developed markets in Europe mostly leading the pack.

This trend toward improved customer experience is significant, especially since our findings demonstrate a clear link between improved levels of positive experience and customer behaviors that lead to greater profitability. Positive customer experiences are more likely to result in increased referrals and additional business for insurers. These behaviors are more pronounced in emerging markets, presenting considerable opportunities to insurers operating in those regions. In addition, across all regions, positive experiences that occur particularly through the mobile channel appear to have a heightened impact on profitable customer behaviors, making it imperative for insurers to develop an effective mobile strategy.

Insurance customers, especially younger ones, are placing greater importance on digital distribution methods, even though agents remain the primary channel for conducting transactions. Insurers, however, are not delivering positive experiences in line with the level of importance being placed on these channels. To the extent insurers can better identify the products, services, and channels most important to customers, and segment those preferences by region around the globe, the better they will be able to drive positive customer experiences and, in turn, greater profitability.

CAPGEMINI'S CUSTOMER EXPERIENCE INDEX (CEI) MEASURES HOW WELL INSURERS ARE MEETING CUSTOMER EXPECTATIONS

Capgemini developed the Insurance Customer Experience Index (CEI) specifically to provide a granular view of how customers perceive the quality of their service interactions across three dimensions: products, networks/channels, and the customer lifecycle.

Currently in its second year, the insurance CEI is built from data captured through Capgemini's Voice of the Customer Survey, conducted in 2013. The survey queried more than 15,500 customers on their general satisfaction with their insurer, and also inquired more specifically about the importance of specific channels for executing different types of transactions, and for different types of products. Lastly, it questioned customers about their satisfaction with all those interactions. The survey produced 96 data points, and is thus one of the most comprehensive customer surveys capturing perceptions and insights around customer expectations and experiences.

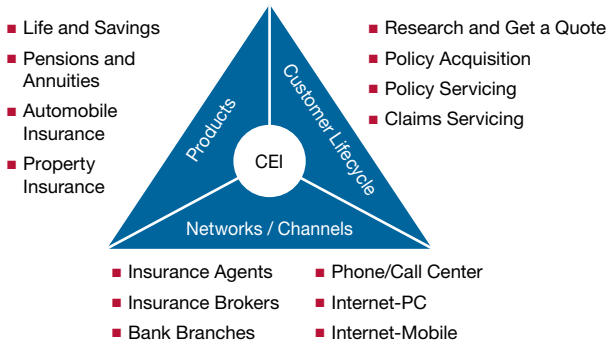
The insurance customers were located across 30 countries in five major geographic regions (see Methodology). The resulting data can be segmented by a wide range of customer variables, including the region, country, or the size of the city in which customers live, and by other customer characteristics, including age, sex, investable assets, employment, and education.

For insurance, the dimensions of the CEI consist of the following (see Figure 2.1): products (non-life and life, including auto and property insurance, pensions and annuities, and life and savings); networks/channels (agents and brokers, banks, internet, mobile, phone/call centers); and lifecycle stage (from researching and getting a quote, to policy acquisition and servicing, and claims servicing).

Leveraging the CEI, insurers can identify the gaps between customer expectations and experience levels and can subsequently align product, lifecycle, and network/channel capabilities more closely with the values and needs of their customers.

Since the CEI aggregates satisfaction scores only for those elements that customers rate 'highly important,' CEI scores are essentially an indicator of how well insurers are perceived to deliver on issues that really matter to the customer. Accordingly, even when insurers seem to be faring well, they can register a low CEI score if they are failing to meet the priorities of customers.

Figure 2.1 Dimensions of Capgemini's Insurance Customer Experience Index (CEI)

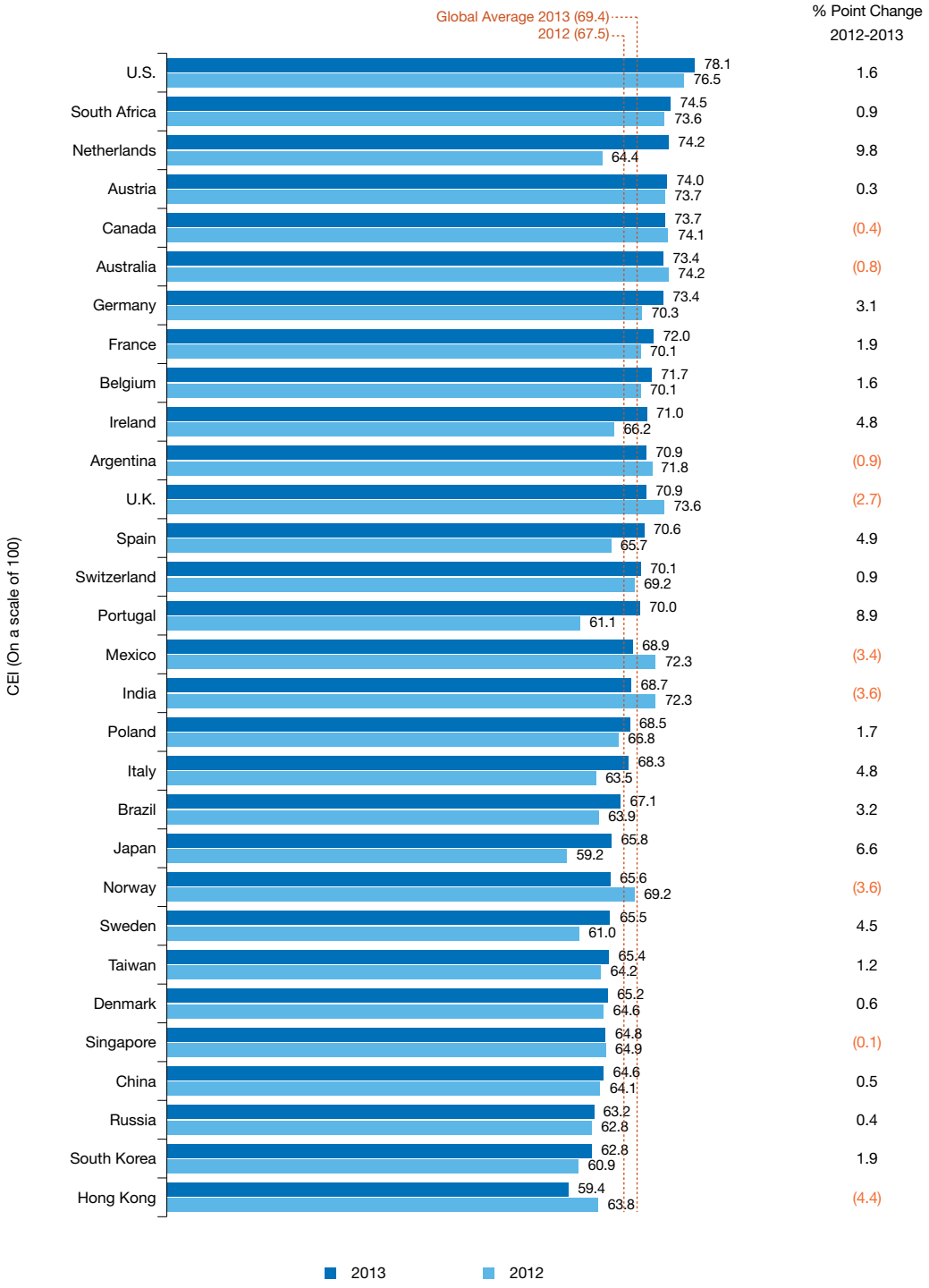


Note: Networks range from direct networks and agents to brokers, bancassurance, and alternatives such as supermarkets and car dealers. Channels are the access points that facilitate interaction, and include Internet-PC and Internet-Mobile
Source: Capgemini analysis, 2013

CEI SCORES INCREASED ACROSS SEVERAL MARKETS, HOWEVER THE PERCENTAGE OF CUSTOMERS WITH A POSITIVE EXPERIENCE IS STILL LOW

Insurers in more than two-thirds of the countries managed to improve their scores on our CEI in 2013 (see Figure 2.2). Netherlands recorded the largest increase in the percent of customers citing positive experiences, pushing its CEI ranking to the highest in Europe and third globally, behind the United States and South Africa. Other regional CEI leaders included Australia in developed Asia-Pacific, India in developing Asia-Pacific, and Argentina in Latin America. India, Australia, and Argentina managed to retain their positions as regional CEI leaders despite a drop in their CEI scores in 2013, pointing to a considerable gap between them and the rest of the countries in their respective regions.

Figure 2.2 Customer Experience Index, by Country, 2012-2013



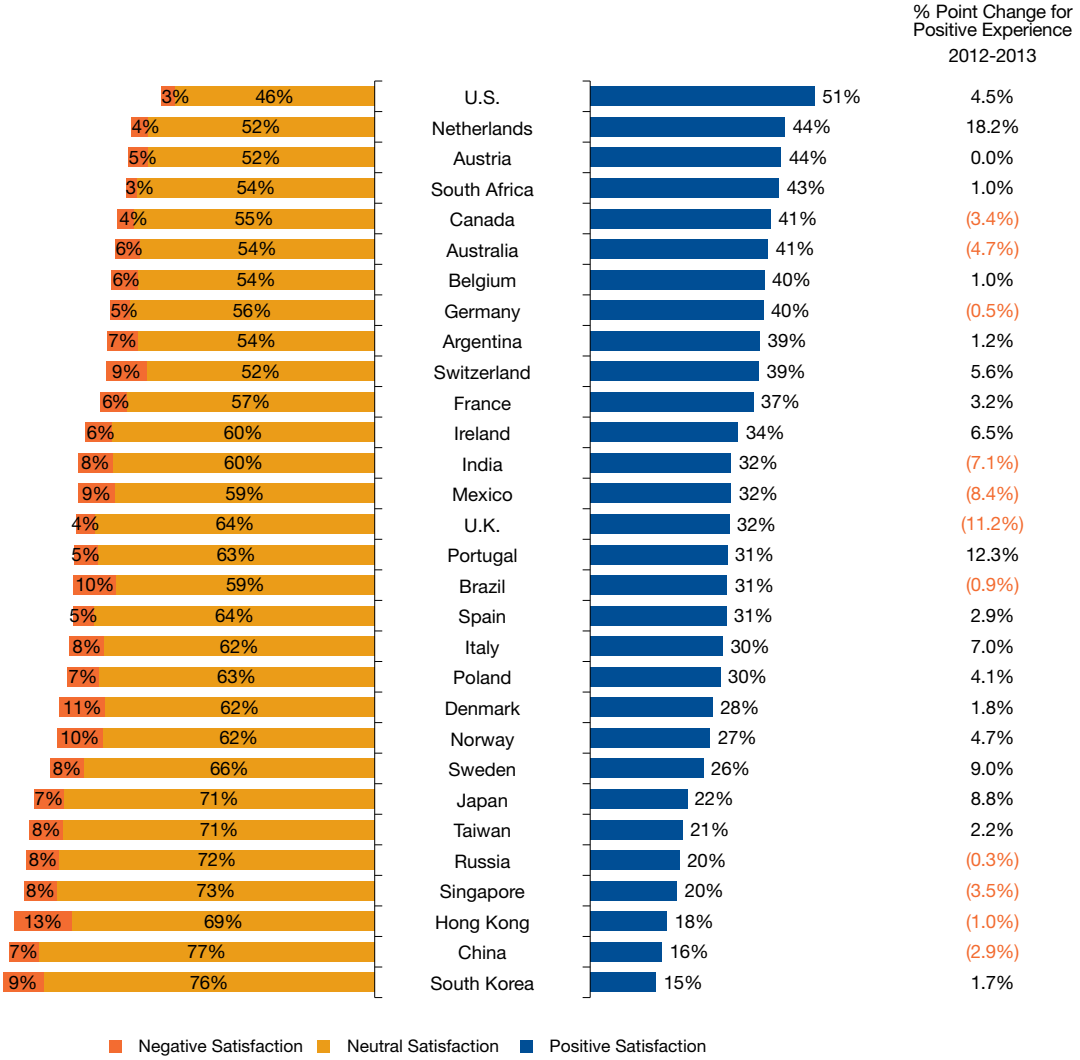
Source: Capgemini analysis, 2013; Capgemini Voice of Customer Survey 2012, 2013

Compared to 2012, several countries increased the percentage of customers having positive experiences (see Figure 2.3). The United States was the most successful at this, with 51% of its customers citing positive experiences, making it the first country with more than half of its customer base having positive experiences. Netherlands' 18.2% increase in positive experience was the largest leap of any of the countries, catapulting it to second place behind the U.S. This was primarily due to improved customer experiences through the digital (online and mobile) and the broker channels. In addition, the customer experience in 2012 was likely negatively affected by the greater number of catastrophic events that occurred that year. The 2013 scores, in effect, may indicate a return to normalcy.

While two-thirds of countries increased the number of customers citing positive experiences, the overall level of customers doing so remains low globally at 32% which is an increase of around 2% from 2012. Most customers describe their interactions with insurers as no better than neutral. This finding clearly points to a potentially large pool of customers (nearly 70%) who are not closely tied to their existing insurance providers and likely could be persuaded to switch, given proper incentives.

The top seven countries in providing positive customer experiences (see Figure 2.4) came mostly from the more mature markets of Europe (including Netherlands, Austria, and Belgium) and North America (including

Figure 2.3 Insurance Customers with a Positive/Negative Experience by Country (%), 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

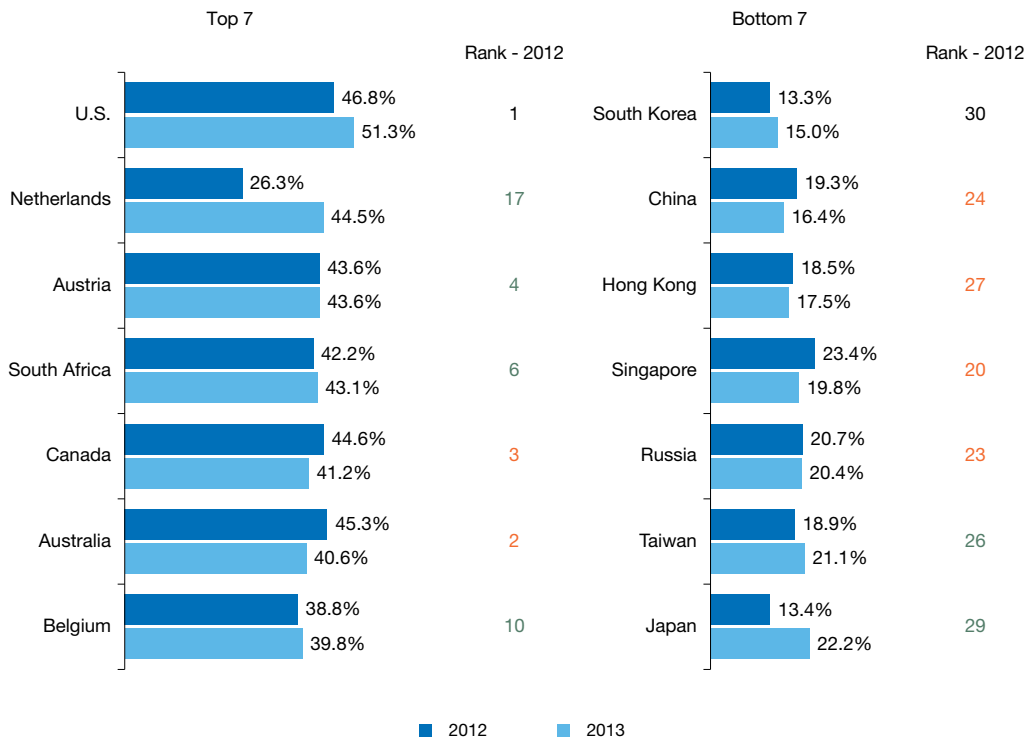
the United States and Canada). With the exception of Russia, the countries ranked lowest in providing positive customer experience were all located in Asia-Pacific. This outcome likely reflects the region's still-maturing insurance industry, as well as the higher expectations of its demanding customer base.

POSITIVE EXPERIENCES LEAD TO CUSTOMER BEHAVIORS THAT DRIVE PROFITABILITY

The close link between customer loyalty and profitability is widely acknowledged and accepted. On average, firms spend six to seven times more to attract new customers than retain existing ones.[8] Loyal customers devote more of their resources to a firm, stay longer with that firm, and are more likely to recommend it to family and friends. All of these factors, in turn, lead to increased profitability for the company.

A starting point for boosting loyalty is to ensure customers have positive experiences each and every time they interact with the company. In this respect, non-life insurers are doing a relatively better job than life insurers. Thirty-nine percent of non-life customers say their experiences are positive, which is considerably higher than the 29% of life insurance customers. Yet there remains plenty of room for improvement. More than half (54%) of non-life customers say their experiences are merely neutral and 7% say they are negative. For life customers, the corresponding numbers are slightly worse: 63% say their experiences are neutral and 8% say they are negative.

Figure 2.4 Top Seven and Bottom Seven Countries with a Positive Customer Experience (%), 2012, 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2012, 2013

[8] Reicheld, Fred. "Loyalty Rules: How Today's Leaders Build Lasting Relationships," Harvard Business Review

Our "Voice of the Customer" (VoC) survey found a firm link between the percent of customers having positive experiences and certain variables that lead to improved profitability. We found customers with positive experiences are nearly twice as likely to refer friends to their insurer (see Figure 2.5).

Customer referrals are an extremely important lever in increasing market share. Customers willing to share their positive impressions of a firm are often a primary source of new business. Their insights carry extra weight with potential new customers because they offer a level of authenticity that cannot be matched by claims from the firm itself. Especially in emerging markets, where customer experiences with insurance are relatively new, word of mouth can be a powerful factor in winning market share.

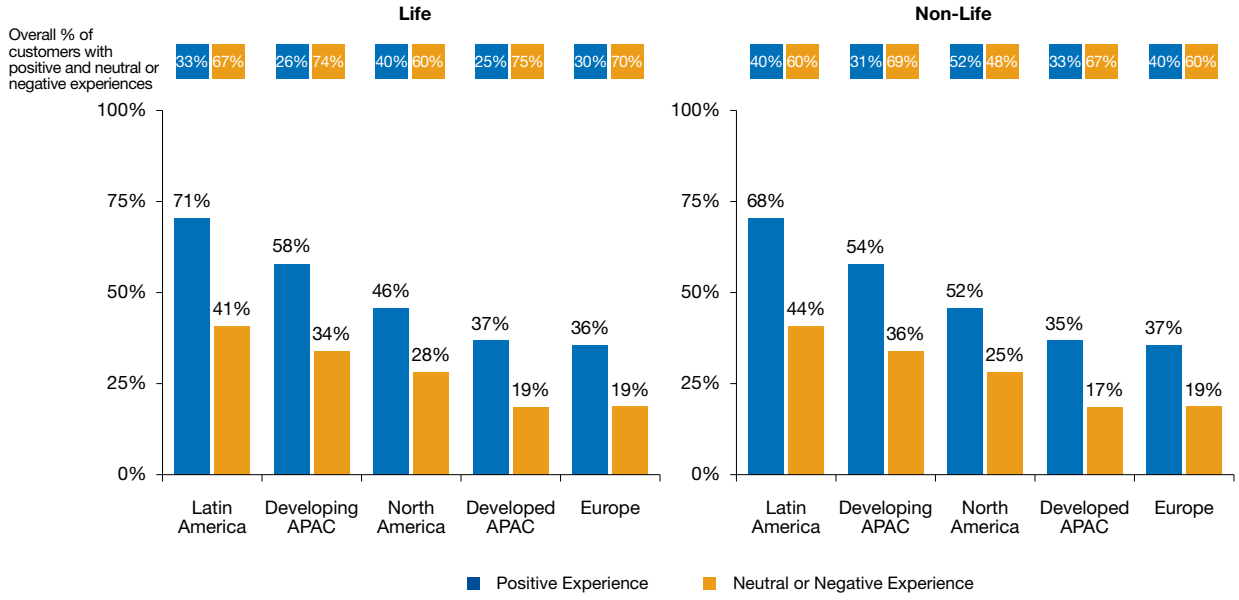
We found word-of-mouth recommendations to be especially pervasive in Latin America, where 68% of non-life customers with positive experiences say they are likely to refer a friend, compared to only 44% of those with neutral or negative experiences. Non-life customers in North America and developing Asia-Pacific are also likely to refer friends based on positive experiences, with more than half of the customers in both regions saying they would do so.

In addition to making referrals, customers with positive experiences are also more likely to buy additional products from their insurer (see Figure 2.6). Boosting product sales drives profitability in a variety of ways beyond simply increasing revenue per customer. For one, selling more products to existing customers is cheaper than acquiring new customers. In addition, customers with more products are likely to stay with the firm for a longer time. Increasing the rate of positive customer experience improves a firm's opportunity to excel along all of these dimensions.

We found that exactly 50% of non-life customers in Latin America and developing Asia-Pacific with positive experiences said they were likely to buy additional products from their insurer, compared to only about one-third of those with negative or neutral experiences. Similar ratios were evident among non-life customers in other regions of the world.

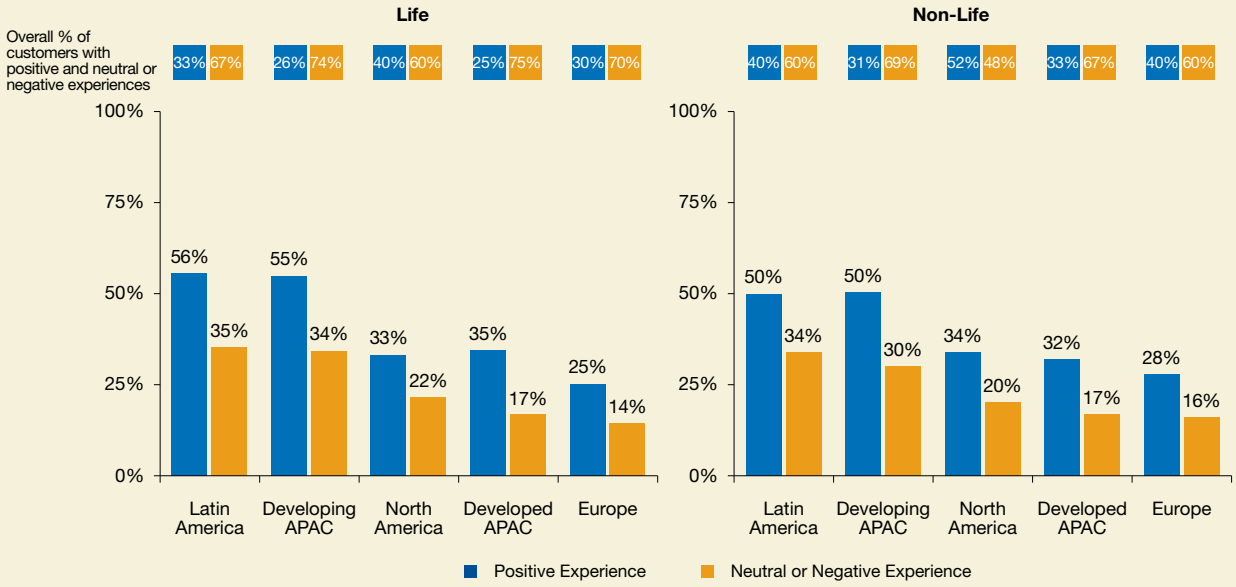
In contrast, customer experiences that are negative can be damaging (see Figure 2.7). In most regions, the percentage of customers who have expressed intent to leave their insurer is double for those with negative or neutral experiences when compared to those with positive experiences. This disparity is especially pronounced in the developing countries of Asia-Pacific where 44% of customers with negative experiences say they are likely to switch, compared to only 18% of those with positive experiences.

Figure 2.5 Percentage of Customers with Positive and Neutral or Negative Experiences Likely to Refer a Friend to Their Insurer, (%), 2013



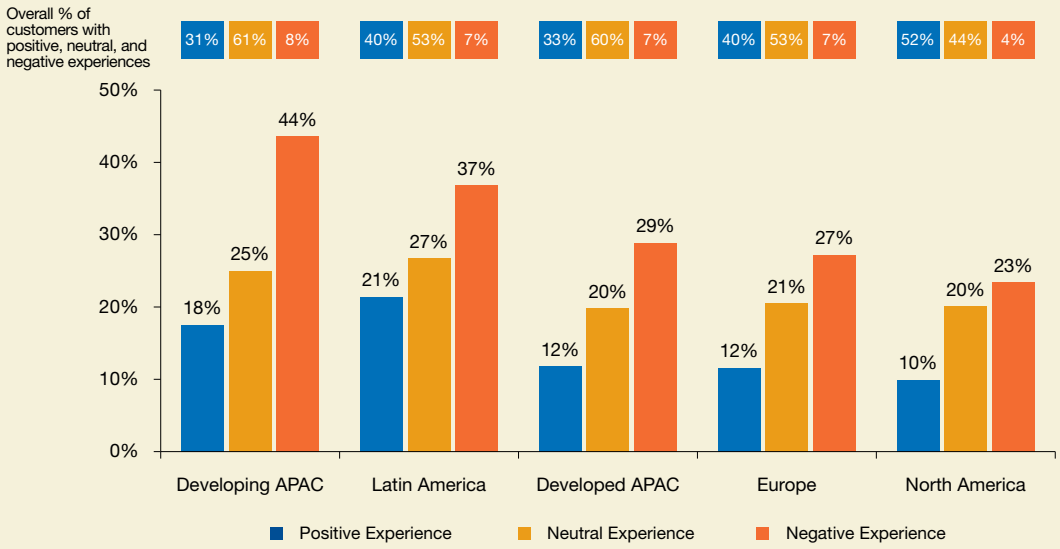
Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

Figure 2.6 Percentage of Customers with Positive and Neutral or Negative Experiences Likely to Buy Additional Products from Their Insurer, (%), 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

Figure 2.7 Customers with Negative, Neutral, and Positive Experiences Who Are Likely to Leave Their Non-Life Insurer, (%), 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

Neutral experiences are similarly harmful. A neutral experience does not dictate a neutral reaction when it comes to switching. Customers with neutral experiences are considerably more likely to switch insurers than those with positive experiences. The largest disparity is in North America where twice as many non-life customers with a neutral experience may switch compared to those with positive experiences. Accordingly, insurers can improve retention and avoid attrition costs by increasing the rate of positive experiences.

INTERNET-MOBILE HOLDS STRONG POTENTIAL TO MOVE CUSTOMERS TO MORE PROFITABLE BEHAVIORS

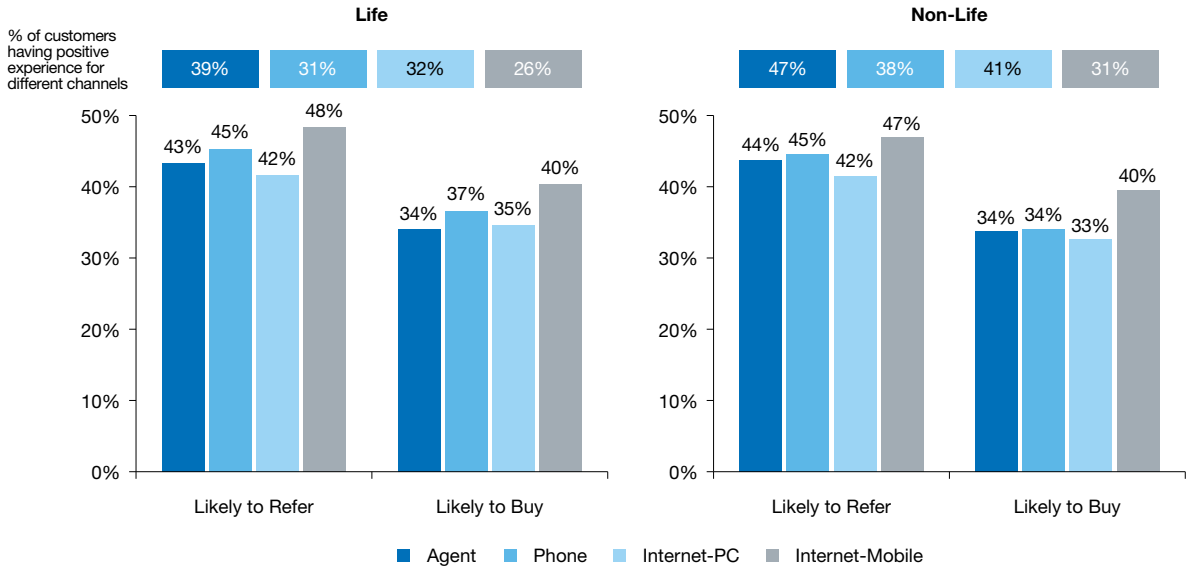
Agents and brokers have long dominated insurance sales. The complexity, need for advice, and long contract periods of life insurance plans make them naturally suited for face-to-face interactions. Our research found that the highest rate of positive experience (47% for non-life and 39% for life) occurred through the agent channel (see Figure 2.8), underscoring the effectiveness of this delivery method.

Yet insurers are increasingly turning to alternate channels, including the internet-PC and internet-mobile, in response to demands for greater convenience, especially as customers become more accustomed to using digital channels in other areas of their lives. Insurers also recognize they can cut costs by increasing traffic through alternate channels.

Despite growing demand for digital channels, customers do not report a high rate of positive experience when using them. Of all the alternate channels, internet-PC is most likely to provide a positive experience, with 41% of non-life customers saying so, followed by the telephone at 38% and the internet-mobile at only 31%. The numbers for life customers are even lower.

While internet-mobile is the least likely of all the channels to offer a positive experience, it has an outsized impact when it does. Customers having a positive experience via internet-mobile are the most likely, compared to all the other channels, to refer friends. They are also the most likely to buy additional products. These findings indicate internet-mobile holds the greatest potential to move customers toward more profitable behavior. Insurers with insight into the specific actions necessary to create positive experiences via the internet-mobile channel will be the ones most likely to benefit.

Figure 2.8 Percentage of Customers with Positive Experiences from Different Channels Likely to Refer or Buy Additional Products from Their Insurer, (%), 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

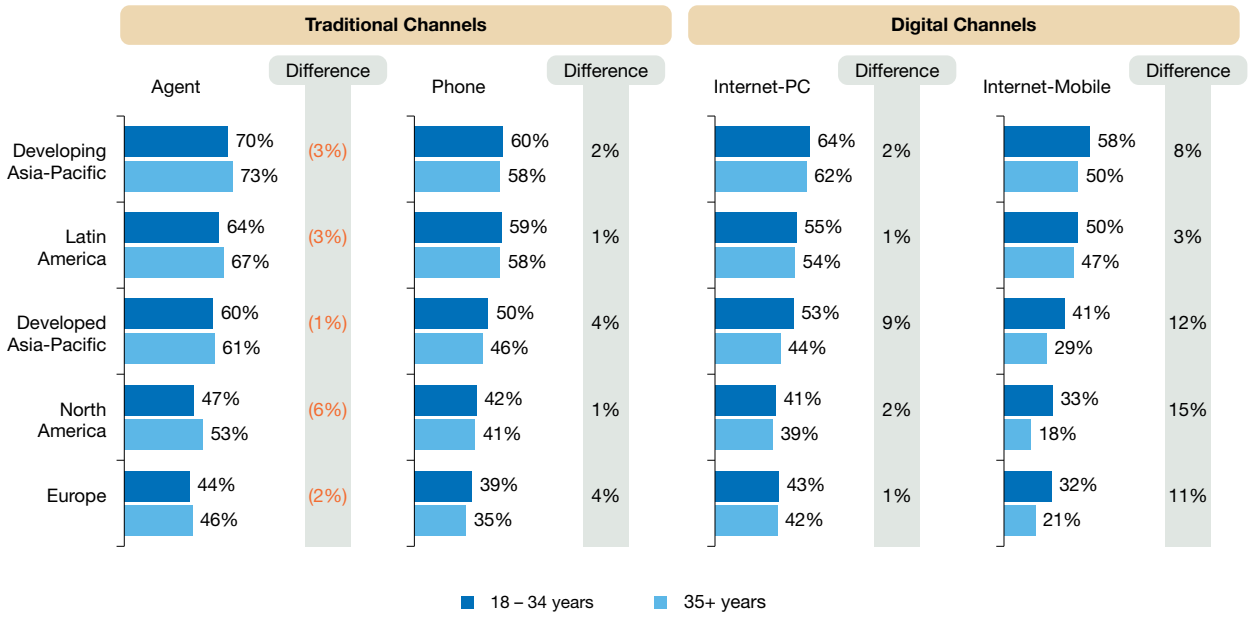
DIGITAL CHANNELS ARE INCREASINGLY IMPORTANT TO YOUNGER CUSTOMERS

Capgemini's Customer Experience Index addresses the need for greater precision in measuring customer experience. Our CEI allows for a granular understanding of what drives positive customer experience under a wide range of scenarios. Armed with more detailed information on the factors that drive positive experiences, insurers can better design and implement customer-focused strategies aimed at improving overall performance.

One outcome of our research is granular insights into the channel preferences of different types of customers. We found that younger customers are increasingly drawn to digital over traditional channels. While the agent channel remained important to insurance customers of all ages, it was more important throughout all regions to customers 35 years and older. Further, when only digital channels were examined, customers of 18 to 34 years preferred them, compared to older customers.

Yet the growing preference for digital channels among younger customers varies by region and type of insurance product. Among life insurance customers, the internet-PC and internet-mobile channels were most likely to be cited as important by younger customers in emerging markets such as developing Asia-Pacific, followed by Latin America (see Figure 2.9). This finding points to the importance of offering robust life-insurance sales capabilities via digital channels in emerging markets, since younger customers in these regions represent a strong driver of new business growth.

Figure 2.9 Life Insurance — Channel Importance by Region (%), Younger vs Older Customers, 2013



Note: Importance here represents the percentage of customers who rate the importance of the channel as high or very high divided by the total number of respondents in the region
Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

Among non-life customers, a similar trend of digital channels gaining ground among younger customers was evident (see Figure 2.10). The shift was most apparent among non-life customers in North America. There, a far higher percentage of younger customers (42%) cited the internet-mobile channel as important compared to older customers (23%). The percent of younger North American customers citing internet-mobile as important was on par with the 43% who also did so in the emerging markets of Asia-Pacific and Latin America.

Given these findings, providers of non-life insurance should strive to develop a full range of digital capabilities. In the emerging markets, basic sales and service offerings aimed at getting new digital-oriented customers into the insurance market are in order. In more mature markets, attention should also be given to developing innovative policy and claims services via digital channels.

INSURERS FAILING TO CREATE POSITIVE EXPERIENCES, ESPECIALLY FOR CHANNELS MOST IMPORTANT TO CUSTOMERS

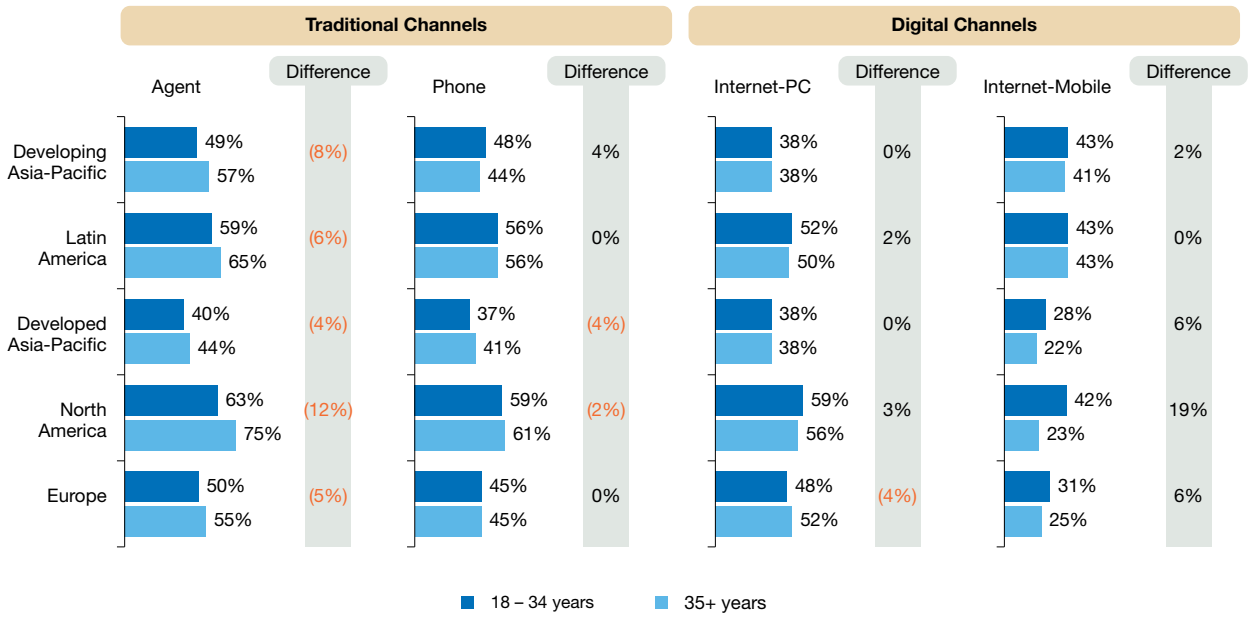
A critical aspect of customer experience involves the ability of insurers to meet the expectations of customers. We asked customers to rate the importance of various delivery channels and measured those findings against the level of positive experience associated with each channel. We found that across most channels, the level of positive experience fell short of the importance associated with that channel.

The gap was most evident among life insurance customers (see Figure 2.11). These customers were most likely to cite agents and the internet-PC as the channels most important to them.

Yet life insurers failed to deliver positive experiences in line with the importance customers gave those particular channels, as well as every other type of life-insurance delivery channel. To address the most serious gaps, life insurers should focus on empowering their agents through intensified training and equipping them with the latest and advanced tools, while also enhancing the digital capabilities they offer through the internet-PC.

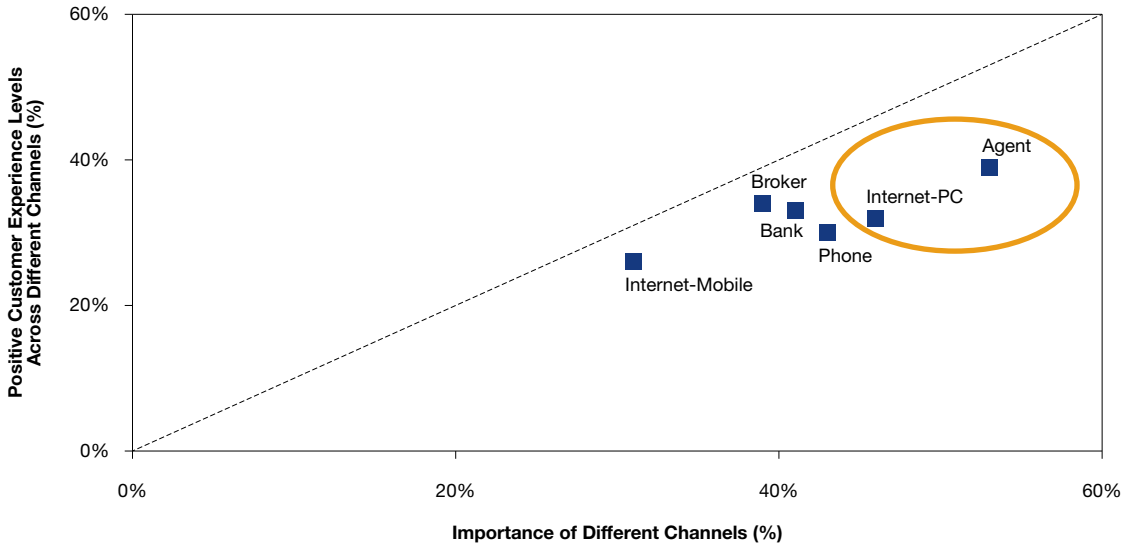
In non-life insurance, providers appear to be doing a relatively better job of delivering positive experiences (see Figure 2.12). However, positive experiences fell short when it came to agents, internet-PC and telephone, the three channels viewed as most important. To provide positive experiences in the channels that matter most, non-life insurers should again focus on training to improve agent interactions and make timely and relevant investments in improving digital offerings.

Figure 2.10 Non-life Insurance — Channel Importance by Region (%), Younger vs Older Customers, 2013



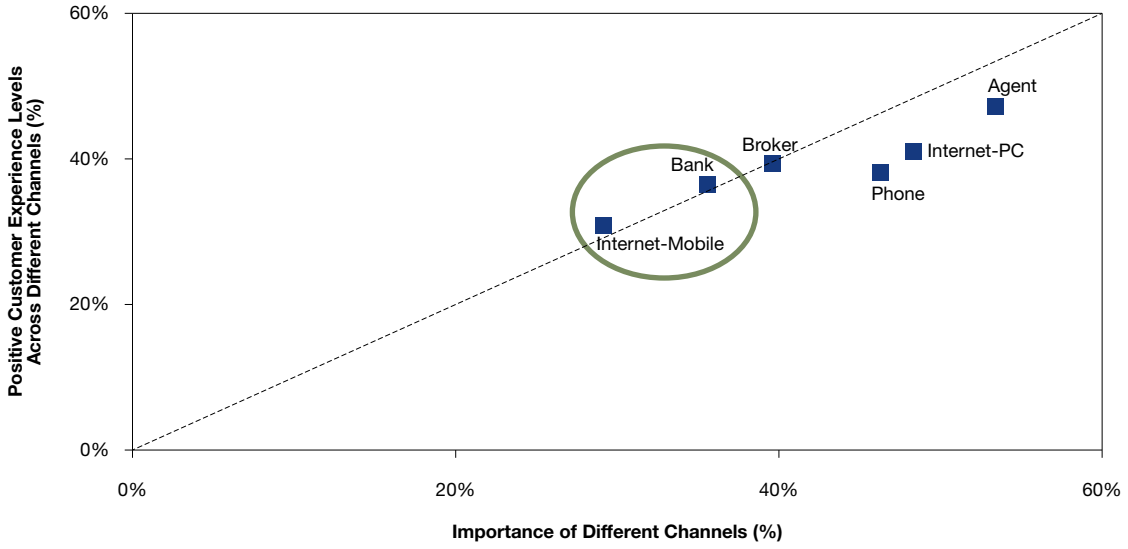
Note: Importance here represents the percentage of customers who rate the importance of the channel as high or very high divided by the total number of respondents in the region
Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

Figure 2.11 Life Insurance Client Importance and Positive Experience of Insurance Channels (%), 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

Figure 2.12 Non-Life Insurance Client Importance and Positive Experience of Insurance Channels (%), 2013



Source: Capgemini analysis 2013; Capgemini Voice of Customer Survey 2013

CONCLUSION

Customer experience is the sum total of a customer's interactions with a company, incorporating a wide range of variables, including expectations, values, standards, and perceptions. Getting a proper gauge of the customer experience is an in-depth process, requiring insurers to track interactions across the full range of product categories and channels, as customers cycle through the entire insurer relationship, from inquiry to claim.

The ability to derive insights about the customer experience can be highly beneficial to the bottom line. By taking requisite actions to promote positive experiences, insurers create an environment that leads customers toward more profitable behaviors, such as word-of-mouth recommendations and additional product purchases. A first step for insurers is to identify the channels most important to customers, and exceed their expectations around those channels.

While the agent channel remains most important to customers, digital channels are fast gaining in importance, especially among younger customers. The internet-mobile channel in particular demonstrates strong potential for fostering customer behaviors that lead to profitability. By developing strategies to improve the customer experience across the full range of digital channels, including internet-PC and internet-mobile, insurers will be better positioned to take advantage of profit-enhancing activities.

Growth in Digital Channels Requires Insurers to Embrace Top-to-Bottom Transformation

CHAPTER 3

INTRODUCTION

Though agents have long been the primary force in the distribution and servicing of insurance policies and claims, online channels have started making a lasting impression on the industry. Once an ancillary channel, the internet-PC is now ranked higher in importance by customers than a number of traditional channels. Insurers themselves are recognizing the wave of the future, reporting that within five years they expect nearly one-third of their business to occur over digital channels.

In taking measure of the industry's current client-facing digital capabilities, we found North American insurers exhibit the highest levels of online maturity, followed by those in Asia-Pacific, and then Europe. Non-life insurers are more digitally advanced than their life counterparts, exhibiting leading practice or advanced functionality throughout various touch points of the customer life cycle. Life insurers, in contrast, tend to offer only basic and intermediate online features.

Across the various stages of the customer life cycle, we found insurers globally are most adept at providing a rich digital experience when customers are researching policies and getting quotes. This expertise dovetails nicely with the high level of importance customers place on this functionality. Capabilities lag, however, in online claims servicing, pointing to an area where insurers need to devote more attention to meet evolving customer expectations.

Competing effectively in the future will demand an intense focus on improving digital connections with customers. Only by embracing digital will insurers be able to boost their top-line growth. At the same time, strategic investments in key operational areas will be crucial to driving higher profitability. Insurers that fail to initiate a top-to-bottom transformation of their digital capabilities risk falling behind their proactive competitors.

INTERNET EMERGES AS MORE IMPORTANT THAN MOST TRADITIONAL CHANNELS

In a relatively short time, the internet has had tremendous impact on the way consumers research, purchase, and monitor their insurance products. Our 2013 Insurance Voice of the Customer Survey found that customers view the ability to connect to insurers via personal computers linked to the internet as more important than gaining access through a variety of other traditional channels, including brokers, banks, or the telephone.

In many ways, insurance is a natural fit for the internet. An insurance purchase demands deep understanding of the different types of products available, how they are priced, and how they compare. The internet, in turn, remains an unparalleled medium for providing access to information. Virtually every major insurance provider around the globe offers detailed descriptions of their products as well as the ability to price policies via the internet, and third-party sites are often available to do comparison-shopping. Using the internet, consumers can conduct their insurance research at their own pace and convenience, and from whichever location they choose.

The advantages of the internet in insurance are not limited to research and information-gathering. Many insurers offer the ability to purchase policies via the web, as well as accomplish various customer-service related tasks. In addition to paying premiums and deductibles electronically, customers are often able to perform tasks online such as making address changes, viewing the status of applications and checking on the progress of claims. Across all of these dimensions – researching and getting quotes; buying policies; and performing service tasks related to policies and claims – the internet is viewed as more important to customers than the more traditional channels of brokers, banks, or the telephone.

The only medium to be ranked higher than the internet is the agent channel. This outcome no doubt reflects the deep roots of the agency interface in the insurance market. Agents representing insurance companies have been a mainstay of distribution since the very emergence of the market. Generally trained and highly qualified, these professionals are experienced in guiding consumers toward the most appropriate policies. Often, consumers turn to agents for support and clarification once they have already conducted research on the internet.

Mobile has yet to emerge as an important channel for insurance customers. Currently ranked least important, consumers are not yet viewing mobile as an essential tool for supporting the various stages of the insurance life cycle, even though the devices have become increasingly pervasive in their daily lives. However, as insurers continue to develop innovative apps for the mobile channel, recognition of the value of this increasingly ubiquitous channel is likely to grow.

EVOLVING CUSTOMER DEMANDS ARE EXPECTED TO SPUR AN INCREASE IN INSURANCE BUSINESS OCCURRING VIA DIGITAL CHANNELS

Globally, digital channels have been growing at a rapid pace for several years now, and are expected to continue to do so. The number of internet users worldwide reached 2.7 billion in 2013, up from 0.7 billion ten years earlier. Even though North America has the highest penetration rate of Internet users at 78.6%, the greatest percentage of Internet users overall (44.8% or 1.1 billion) is located in Asia, where population levels are highest.[9] These statistics underscore the importance of the internet's impact throughout every region of the world.

Additionally, mobile phones connected to the internet represent the fastest growing segment of the global communications market. Mobile broadband connections are growing at an average annual rate of 40% and currently equal 2.1 billion subscriptions worldwide, a global penetration rate of almost 30%. High-speed, third-generation (3G) networks are now capable of serving almost half of all people worldwide.[10]

Clearly, consumers are readily adopting digital connections. Digital devices are now standard platforms for supporting business communications, personal socializing, shopping, taking pictures, navigating, transacting, and countless other aspects of daily life. Over time, digital channels are similarly expected to play a larger role in how customers interact with their insurance providers. Even though a customer's relationship with an insurer can be fairly static – limited to annual renewals or one-off claims –

[9] Usage and Population Statistics, Internet World Stats, Q2 2012. http://www.internetworldstats.com/stats.htm

[10] ITU releases latest tech figures & global rankings, International Telecommunications Union, Oct. 7, 2013. http://www.itu.int/net/pressoffice/press_releases/2013/41.aspx#.UrCSrihpqx2

nearly 40% of insurance customers (39.9%) say they expect to increase their use of digital channels to a couple of times a year by 2018. Digital channels thus have the potential to change not only how customers interact with their insurers, but also how often.

INSURERS SEEK TO BROADEN MOBILE FUNCTIONALITY IN RESPONSE TO CHANNEL'S BURGEONING APPEAL

Over time, as mobile usage increases and as insurers continue to develop innovative applications, customer interactions via mobile are expected to increase. Currently, customers view mobile as the least important channel for interacting with insurance providers. Even so, insurers are well aware of the growing appeal of mobile apps and have begun bringing several to market. Basic apps let customers connect to agents, look up the details of their policies, pay premiums, and report claims via their devices.

Some insurers are using mobile apps to position themselves as trusted partners during moments of crisis. Allstate in the United States, for example, lets users request roadside assistance at accident sites. The United Kingdom's Aviva streamlines accident reporting by providing step-by-step guidance on how to report accident and scene details, and letting users upload photos. Some apps focus on helping customers earn discounts for taking steps that reduce risk. State Farm in the U.S., for example, has an app that helps customers track their progress in completing the steps of a safe driver program.

In an effort to directly appeal to younger customers, Netherlands-based Aegon created an insurance company that is accessible solely via a social network through digital platforms. Deeply integrated into the Facebook social network, the new company, called Kroodle, requires customers to log into their Facebook account before they can purchase products or conduct transactions. Customers who recommend Kroodle to others receive cash rewards. Other insurers, including Australia-based AAMI, are active on Facebook, with pages that seek to engage customers, as well as resolve their queries and provide product information.

Of all the channels, internet-mobile is most effective at offering immediate access to insurers at times when customers really need it. Mobile also excels at simplifying tasks so that they can be completed in just a few easy steps. This ability to provide near-instant relief during stressful situations is compelling. For customers who already rely heavily on their devices, mobile may have the most potential to create the types of positive experiences that lead to long-term loyalty.

The expected increase in digital usage reflects evolving customer demands. Customers consider anytime, anywhere access to product information and online functionality for monitoring and servicing policies to be baseline, must-have capabilities. As with many other digital purchases, customers strongly value the ability to first be able to thoroughly research and compare insurance products online before making a purchase. They expect all interactions over the internet to proceed with ease and simplicity, and do not hesitate to voice their complaints on social media sites if they do not.

Other key customer demands include the ability to get issues resolved and queries answered via instant chat or comprehensive electronic guides. Customers also want to be able to modify the details of their policies, such as add new beneficiaries or change contact information, without having to make a phone call or go into an office. When it comes time to making claims, customers want to be able to initiate them online by uploading photos and receiving immediate notifications. Further, they want to track the status of their claims on an ongoing basis online.

Given these customer demands and expectations, it follows that insurers are expecting digital channels to bring in more business. By 2018, insurers anticipate nearly one-fifth (19.7%) of their business to be generated through internet-connected PCs, up from 12.7% in 2013. Another 10.9% is expected to come via mobile channels, up from a mere 1.5% in 2013. In effect, within five years, nearly one-third of the insurance industry's business is expected to occur digitally.

Supporting such a large volume of digital business will require profound changes in the traditional back-office supports insurers have in place to run their businesses, as well as in the ways insurers interact on the front-end with their distributors, suppliers, and end-customers. Insurers will need to address all the digital demands of their customers, while also pursuing investments in key operational areas that will drive bottom-line growth. This will require a high level of leadership support and a dedicated implementation roadmap that includes an overhaul of the legacy IT systems and platforms currently employed by most insurers. Insurers that successfully execute the move toward digital transformation will be best positioned to capture the upcoming growth opportunities (see Figure 3.1).

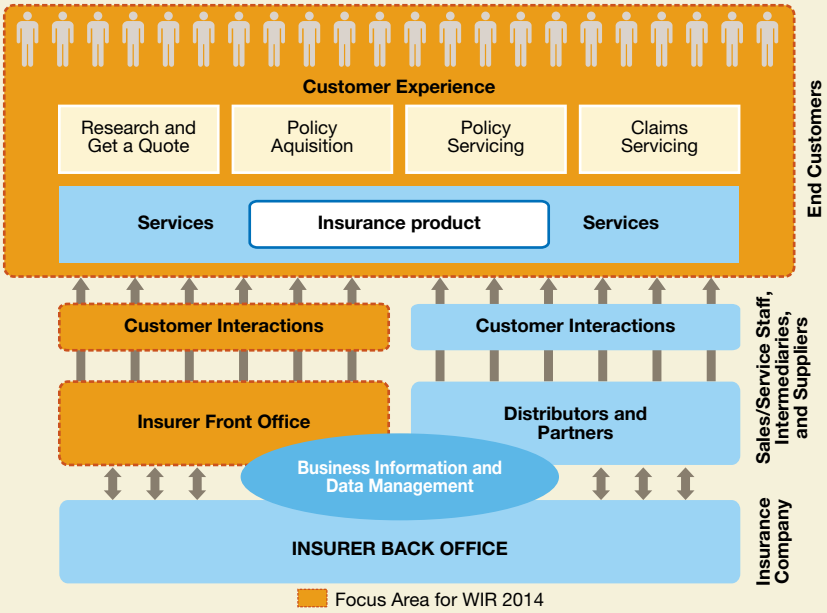
DIGITAL CAPABILITIES HAVE ROOM FOR IMPROVEMENT, GLOBALLY

Insurers face enormous challenges as they navigate away from traditional methods of selling products and serving customers, toward fully automated digital distribution and service. To provide a baseline for gauging the industry's current status and ongoing progress in the transformation, we analyzed the client-facing digital capabilities of more than 250 insurers from 14 countries, selected on the basis of their gross written premiums. We identified four essential elements of the insurance customer experience – Researching and Getting a Quote, Acquiring a Policy, Servicing a Policy, and Servicing a Claim – as well as specific touch points within each one of those categories.

These touch points — 15 in total — encapsulate specific moments when customers engage with their insurance providers, leading to satisfaction and delight at best, or frustration at worst. They are the critical customer experience moments that insurers must strive to perfect as they move along the process of digital transformation. We defined the maturity level of each touch point for each firm using a four-point scale that incorporates primary research based on executive interviews, as well as secondary research based on online mystery shopping. Assessments also included evaluations of mobile and social media usage.

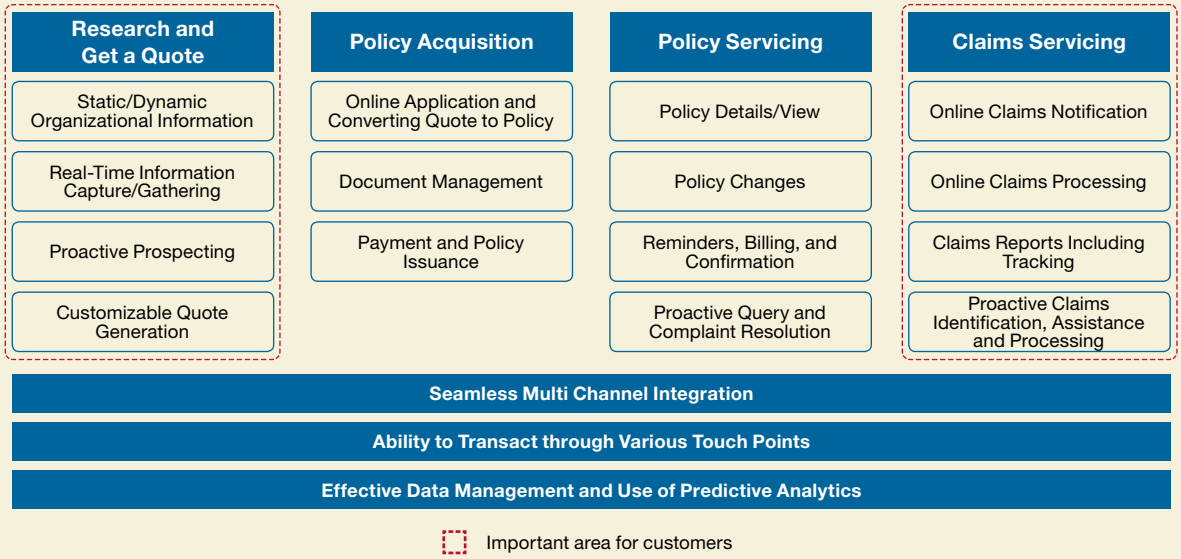
In the category of Researching and Getting a Quote, the specific customer experience moments we examined are those when customers inquire about products and agents, receive explanations about products and risk management activities, and obtain price quotes. In the category of Policy Acquisition, we examined when policies are issued, payments are executed, and these transactions are documented and reported to the customer. Under Policy Servicing, we evaluated those moments when customers view existing policies and take actions, such as renewing, upgrading or cancelling them, seek assistance with issues and receive bills. Finally, under Claims Servicing, we examined when customers get notified about claims and payout options, and track their claims (see Figure 3.2).

Figure 3.1 Operational and Business Model for Successful Digital Transformation



Source: Capgemini analysis, 2013

Figure 3.2 Key Areas of Functionalities That Firms Should Focus Across Customer Lifecycle



Source: Capgemini analysis, 2013

Globally, insurers exhibit the most advanced digital capabilities when it comes to disseminating information. They are adept at responding to customer requests related to inquiries about products and agents. They are similarly advanced at supplying price quotes on demand. In terms of supporting online purchases and offering access to self-service functionality on policies and claims, insurers globally are slightly less proficient, but still capable. The only area where insurers fall short from a global perspective is in paying out claims. Their capabilities in this area are nascent (see Figure 3.3).

Examined by region, digital capabilities and maturity levels across the globe vary. In general, North American insurers exhibit the greatest levels of maturity, having advanced capabilities across seven of ten touch points, as well as the sole leading practice designation (for responding to product inquiries). European insurers are the least developed from a digital perspective, offering only minimal self-service capabilities for customers wishing to change their policies or take actions related to their claims. Insurers in Asia-Pacific also offer the minimum when it comes to claims servicing, but perform slightly better than Europe in terms of allowing customers to acquire policies online and make changes to them. Asia-Pacific has benefitted from the entry into the marketplace of new insurers, which are taking advantage of newer, more flexible technology.

Digital capabilities also differ by insurance type. Non-life insurers proved to be more digitally advanced than their life counterparts. They are leading practice when it comes to responding to product inquiries and mostly advanced in all other areas of digital services, with the exception of paying out claims. Life insurers, in contrast, offer only a basic online presence in half of ten touch points. Their more subdued embrace of digital services may be due to the more static, long-term nature of the typical life insurance product.

Examined by region and insurance type, the strongest areas of performance for insurers overall are around the activities related to researching information and getting quotes. Non-life insurers in North America and Asia-Pacific are the only ones to excel in a specific area (online policy acquisition). Proficiency levels are the lowest among European life insurers, which exhibit subpar performance in policy and claims servicing, as well as policy acquisition. Across all segments, digital capabilities are most undeveloped in the area of claims servicing (see Figure 3.4).

Figure 3.3 Global Digital Online Capability Levels, 2013

	Value Chain	Global Rating
Research and Get a Quote	Product Inquiry	Advanced
	Agent information	Advanced
	Awareness of Insurance and Risk Management	Intermediate
	Quote Generation and Retrieval	Advanced
Policy Acquisition	Policy Purchase and Online Issuance	Intermediate
Policy Servicing	Provision For Financial And Non-Financial Endorsements	Intermediate
	Existing Policy Actions	Intermediate
Claims Servicing	Online Claims Notification	Intermediate
	Payout Options	Basic
	Claims Reports including Tracking	Intermediate

Basic Intermediate Advanced Leading Practice

Note: **Basic:** A primitive online feature providing simple information
Intermediate: Customers can interact via online channel
Advanced: Insurers are able to respond back to customer requests and simple transactions can be completed online
Leading Practice: The entire transaction life-cycle can be completed online without the need to be present in person
Source: Capgemini analysis, 2013; Company Websites

CUSTOMERS RANK RESEARCH, CLAIMS SERVICING AS MOST IMPORTANT DIGITAL CAPABILITIES

The current digital capabilities of insurers, as outlined above, in some respects align with customer expectations, indicating progress is being made toward effective digital transformation. In other areas, however, capabilities lag expectations, pointing to a long road ahead of investment and improvement. For insurers seeking to prioritize their digital investments, some insights into customer preferences may be instructive.

When life and non-life customers are asked to rank the importance of digital capability for various customer-facing activities, they place the greatest weight on the ability to research products and receive price quotes online. Nearly four in ten (39.5%) of non-life customers and 37.5% of life customers cite this capability as important. High customer expectations for research align well with insurers' general proficiency in this area. However, the next most desired area for online improvement is claims servicing, with 36.3% of non-life customers and 35.9% of life customers citing it. In this area, insurers' capabilities generally lag customer expectations.

Within the mobile channel, claims servicing is the functionality ranked most highly by customers, followed closely by researching products and getting quotes. Nearly one-quarter (24.5%) of life customers and 23.7% of non-life customers view the ability to service their claims via mobile as important. As with the internet channel, customer demands for convenient claims servicing via mobile are generally not being met. Insurers that make wise investments in customer-centric mobile capabilities may well become the insurer of choice for these mobile-focused consumers.

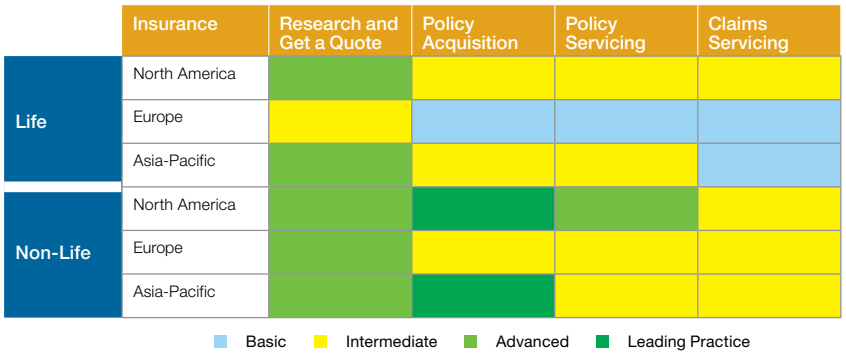
LEADING PRACTITIONERS USE DIGITAL PROWESS TO ENHANCE THE CUSTOMER EXPERIENCE

Every move a customer makes while clicking on an insurer's web site or navigating through a mobile app is a moment of truth, revealing whether the provider has the capability to serve customers in a simple and seamless manner. We have identified the key online functionalities insurers must have in place to deliver a positive customer experience during these moments of truth, as well as few leading practices.

Research and Get a Quote

Research and Get a Quote deserves particularly close attention. It is the online capability customers identify as most important to them (see previous section on this page). It also marks the first chance an insurer has to present its brand promise and make a positive impression. To that end, insurers should strive to present basic information in a compelling way and make efforts to supplement it with more dynamic data, such as video, testimonials, online chats and links to social media. Leading organizations are also using global positioning technology to provide real-time information on office or agent locations.

Figure 3.4 Digital Online Capability Levels by Value Chain, 2013



Note: **Basic:** A primitive online feature providing simple information
Intermediate: Customers can interact via online channel
Advanced: Insurers are able to respond back to customer requests and simple transactions can be completed online
Leading Practice: The entire transaction life-cycle can be completed online without the need to be present in person
Source: Capgemini analysis, 2013; Company Websites

Also crucial to the research and quote process, from a customer perspective, is the ability to capture information in real time. Through data capture, leading insurers are offering a wide range of customized services essential to establishing and cementing relationships. For example, they immediately detect if a visitor is an existing customer and pre-populate screens, creating convenience. They dynamically render an analysis of a customer's specific needs, pointing them to appropriate products. A few of them also act as expert guides, steering customers through the decision-making process using shared screens. Some firms also use customer data to drive various tools and calculators, as well as games that serve to educate and edify customers. Another best practice followed is to provide links to current competitor pricing.

These insurers streamline the research process for customers by being proactive in offering products that are particularly suited for them. Suitability might be determined by taking into account a customer's life stage, financial standing or even social behavior. Firms doing the best job of proactively prospecting to customers are sending offers in real-time based on a person's location.

The final, crucial element of the research process is to deliver a quote. Customers expect quotes to reflect their specific circumstances and be delivered in real time. They also want to be able to request quotes – and make follow-up inquiries – seamlessly through any channel. The delivery of a quote is one of the most tangible connections linking customer and insurer, so its execution should be as smooth and satisfying as possible.

Many insurers have already made significant progress in providing leading-edge functionalities in the area of Research and Get a Quote. Research is often a customer's first encounter with a provider, so presenting offerings in a targeted and compelling way is critical. Marmalade, a U.K.-based provider of insurance for young drivers, is an example of a firm that clearly knows its audience. It backs up its hip web presence with an appealing proposal for cash-strapped new drivers: those who demonstrate – through satellite technology installed in their cars – that they safely operate a vehicle can receive lower premiums.

Tools and calculators that let users explore different scenarios as they research premiums are essential to providing a rich experience. India's HDFC Life is like many insurers in its development of an intuitive interface that lets users easily modify terms to receive instant quotes.

Progressive, a U.S.-based auto insurer, simplifies the purchase decision by recommending an insurance package. As part of its recommendation, it lets users compare the prices offered by Progressive with prices offered by leading competitors.

MetroMile, a U.S.-based provider of insurance, offers car insurance based on how many miles a customer drives. Those who drive less can receive significant discounts. A plug-in device measures the distance traveled, and connects to a free app that helps users shorten commutes and save on gas.

Netherlands-based Aegon has a user-friendly iTerm Calculator app that leads users step by step through the process of choosing a policy and calculating a premium, and can connect users to live assistance.

Policy Acquisition

After the quote is generated during the research phase, insurers should be able to provide online functionality aimed at completing the transaction. Insurers should make it easy for customers to apply, submit documents, and pay for policies, all via online channels. If in-person help is needed, transition to a live agent should be seamless. Insurers at the leading edge of policy sales are also employing real-time risk engines so they can offer same-day responses to applications.

Once applications are in the pipeline, leading insurers are taking advantage of advanced document management technologies to increase the speed of processing. By using next-generation signature technologies, such as digital signatures and biometrics, insurers can enable policy purchases on a near real-time basis. Once policies have been issued, they provide electronic notifications immediately with back-up taking place in a cloud-based safe.

U.S.-based Progressive offers multiple bill-payment options, including paying the amount in full or installments, and paying through a checking account, online, or by phone, or mail. Another U.S.-based firm, USAA, emphasizes its expertise in document management by providing an easy way to store documents through its online facility. ICICI Lombard of India provides a digitally signed policy immediately through its online facility. (Some insurers, however, may be constrained by regulations from issuing policies online.)

Policy Servicing

Customers who find it difficult to monitor, renew or alter their policies once they own them will become less satisfied over time and more likely to seek out other providers. The ability to view policy details and make changes online should be considered standard insurance-policy features, along with online payments and receipts. Other standard features include making modifications to premiums, as well as adding or deleting insurance riders.

Insurers are differentiating themselves by adopting leading-edge best practices such as being proactive in their communications, as well as monitoring and responding to social media commentary. Other advanced digital features include giving customers the ability to monitor fund performance, switch funds, increase or decrease top-up amounts, provide updated rates of returns, reinstate lapsed policies, add or delete insured members, and provide multiple auto pay options.

U.S. auto insurer Geico provides a high level of online policy servicing by letting customers pay for premiums in a variety of ways such as automatic payment, web pay, phone pay, and other traditional methods, as well as execute a range of tasks online, including ordering ID cards, adding new drivers or cars, modifying email and postal address, and changing coverage.

Allstate's mobile app excels by enabling users to request roadside assistance at an accident site, in addition to offering more basic functionality such as letting policyholders view and manage their policies and upload claims. Another app, known as the Digital Locker, helps customers maintain all their insurance policy details in a single place.

Claims Servicing

Customers, globally, give high importance to Claims Servicing, ranking it second only to Research and Get a Quote (see page 37). Yet insurers across the board are least prepared to deliver a satisfying, fully digitized Claims Servicing experience to their customers. By adding advanced online functionality, insurers can greatly improve their track records in Claims Servicing, and in turn boost their rates of customer satisfaction and retention.

Basic functionalities insurers should seek to provide in claims servicing include: making it easy for customers to file claims via the internet, ensuring quick handling of filed claims through straight-through processing, and letting customers initiate claims payments automatically. Leading insurers let customers generate real-time reports about the status of their claims. They also let customers upload photos and videos to initiate the claims process.

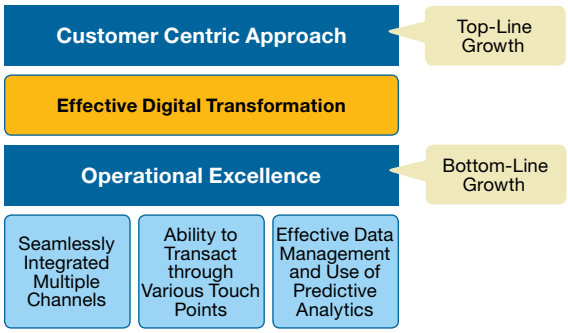
Leading insurers in U.S. such as Progressive, Geico, Allstate, and Nationwide Mutual Insurance have made investments in mobile that provide convenience and improve customer experience. They take advantage of mobile's convenience by letting users upload on-the-scene accident details, witnesses, and scene pictures, as well as view the status of their claims. Advanced mobile features in claims management include using GPS to provide automatic links to nearby third parties, such as towing companies or other roadside assistance services.

U.S.-based Progressive offers a mobile claims center that lets customers report claims, find roadside assistance, and upload accident photos. USAA is able to stand by its claim that "USAA Is Here for You," with a mobile app that lets users report claims, submit photos and view the status of their claims, all through the convenience of a mobile device.

DIGITAL INTENSITY COMBINED WITH OPERATIONAL EXCELLENCE IS KEY TO WAY FORWARD

With nearly one-third of the insurance industry's business expected to occur digitally within five years (see page 33), no insurer is immune to the need to make major improvements to the digital interfaces that connect to customers. Building digital links that create convenience and bring satisfaction to customers will be essential to spurring top-line growth going forward. But these improvements cannot occur in isolation. Insurers will also need to impose a plan for achieving operational excellence on the back end. Without taking steps to invest in operational supports, bottom-line growth will remain elusive (see Figure 3.5).

Figure 3.5 Way Forward for Effective Digital Transformation



Source: Capgemini analysis, 2013

On the front-end, customer-centricity is key. In today's "me" generation, customers are looking for providers that are engaging, dynamic, and proactive in reaching out in personalized and meaningful ways. By maintaining a vigilant focus on customers, insurers can instill greater levels of attraction, retention and loyalty, setting the stage for improved profitability.

The digital-savvy customers who are likely to respond to a customer-centric approach are desirable for many reasons. First of all, their ranks are growing. Secondly, they are adept at acting as vocal advocates for companies they like, paving the way for increased business along with reduced acquisition costs. Engaged customers also act as signposts for where the firm should be headed, leading to greater clarity on technological, marketing, and organizational strategies.

Managing a new and rapidly evolving technology-based channel requires a high level of digital maturity. Capgemini Consulting, in collaboration with the Massachusetts Institute of Technology (MIT), analyzed firms' digital maturity levels along two parameters: Digital Intensity and Transformation-Management Intensity. Digital Intensity indicates a firm's level of expertise in using technology to enhance the customer experience and improve internal operations. Transformation-Management Intensity is a measure of a firm's leadership in four areas: having a vision, imposing strong governance, engaging all relevant stakeholders, and supporting solid relationships between the IT and business groups.

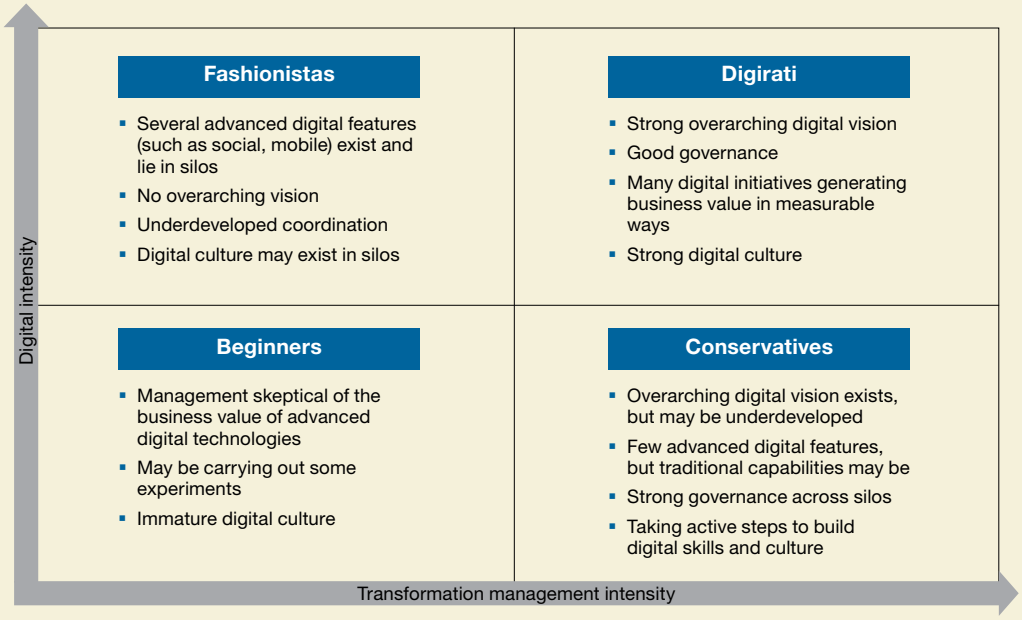
Great variation in digital maturity exists from firm to firm. The strongest, known as Digirati, have a solid digital strategy and vision, guided by good governance and a tech-savvy culture. These institutions already support several digital initiatives that are generating business value in measurable ways. At the other end of the spectrum are Beginners, whose management remains skeptical of the business value of advanced digital technologies. These firms may be carrying out some small-scale experiments, but their digital culture is immature.

In between are Fashionistas and Conservatives. Fashionistas embrace new technology, but lack the oversight, coordination and vision required to transform their efforts into practical business outcomes. Conservatives are strong in technology governance and management, but their digital efforts tend to be underdeveloped and lack advanced features (see Figure 3.6).

The study found that a firm's level of digital maturity is strongly correlated to its profitability and efficiency. Aided by their effective use of advanced technology, the Digirati were 26% more profitable and 9% more efficient than the average firm. Beginners were the worst performers, emerging as 24% less profitable and 4% less efficient than the average. Fashionistas and Conservatives had mixed results. Fashionistas were 6% more efficient than the average, but 11% less profitable, while Conservatives were 9% more profitable, but 10% less efficient. In effect, firms with higher digital intensity were found to be more efficient, while those with better transformation management skills were more profitable (see Figure 3.7).

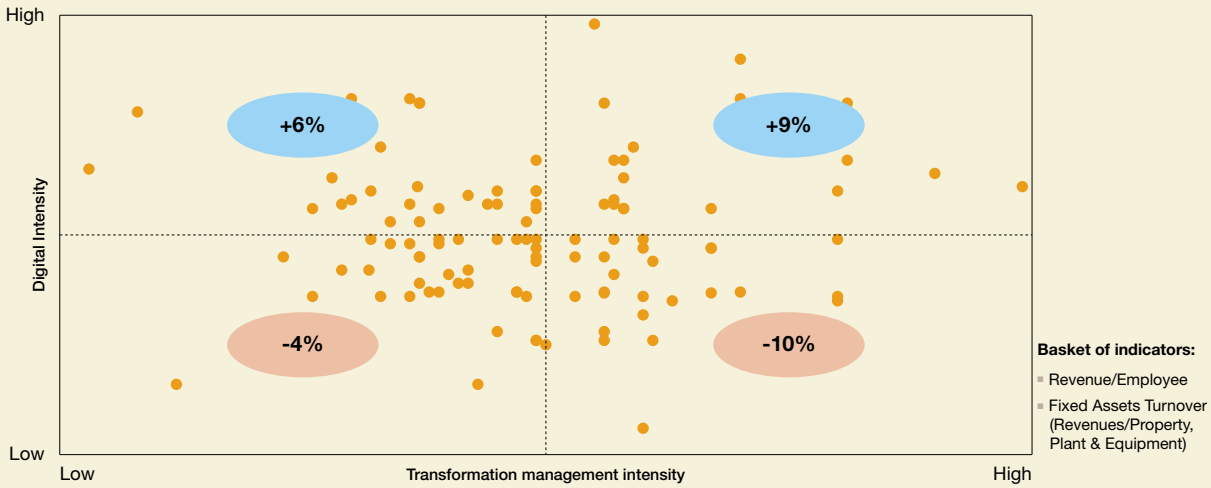
Profitability is also much improved at firms that combine digital intensity with a focus on the customer. Using the measurements of net profit margins and

Figure 3.6 Classification of Firms Based on the Maturity of Their Digital Capabilities



Source: The Digital Advantage, Capgemini Consulting & The MIT Center for Digital Business, 2012

Figure 3.7 Revenue Generation Efficiency For Firms Across Different Industries[a]



a. Average revenue performance difference for firms in each quadrant versus the average performance of all large firms in the same industry for the 184 publicly-traded companies
Source: The Digital Advantage, Capgemini Consulting & The MIT Center for Digital Business, 2012

earnings before interest and taxes, we found that firms with a strong digital presence and a customer focus are 26% more profitable on average than other firms. The contrast with firms with low digital intensity and low customer-centricity is striking. These firms are 24% less profitable on average than all other firms (see Figure 3.8).

Compared to other sectors such as banking and high technology, the digital maturity level of the insurance industry is relatively low. Around one-third (33%) of insurers fall into the Digirati category, putting the industry slightly behind the high technology and banking industries, which have 38% and 35% of their firms respectively in that category.

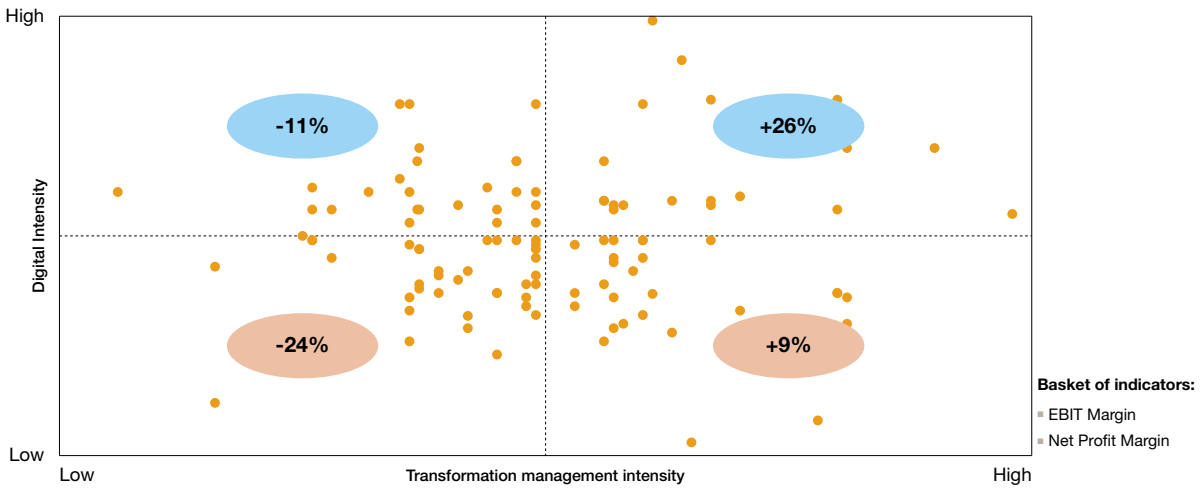
The insurance industry's performance is the result of focused investments by a few leading companies. Insurers typically tend to have more risk-averse cultures. About 33% of insurers fall into the Conservative category, which means they are are high on transformational intensity but low on digital intensity.

INVESTMENTS IN CHANNEL INTEGRATION, TOUCH POINTS, AND PREDICTIVE ANALYTICS WILL DRIVE BOTTOM-LINE GROWTH

The laser focus on customers at the front end must be paired with investments on the back end in business information and data management. Chief among these investments is multi-channel integration to ensure customers can easily progress from one channel to another. Customers should be able to switch from self-service channels to human-assisted channels, and back again, without having to re-enter information or re-explain themselves. At the modern-day insurer, information on policies, claims and payments should be available, updated and consistent, no matter which channel a customer uses to access it.

At the same time, the standard number of channels customers are using to access information is growing, requiring insurers to keep abreast of an ever-changing set of customer interfaces. Interactive chat and video chat are becoming just as important to customers as face-to-face or telephone interactions, demanding the same level of back-end support. Similarly, social media networks cannot be ignored. Maintaining an

Figure 3.8 Profitability Performance For Firms Across Different Industries[a]



a. Average profitability performance difference for firms in each quadrant versus the average performance of all large firms in the same industry for the 184 publicly-traded companies
Source: The Digital Advantage, Capgemini Consulting & The MIT Center for Digital Business, 2012

active presence on social media helps insurers set the tone of public discussions and ultimately improve brand visibility. Recognizing the vast set of touch points customers are demanding, and supporting each with strong foundational technology, will help insurers meet expectations and improve the customer experience.

As customer interactions occur, insurers must be prepared to capture and analyze the resulting transaction data. By combining ongoing transaction data with centralized customer data, insurers will be able to engage in predictive analytics, a proven method of targeting customers with products that are highly appropriate and also maximize the customer's value to the organization. Predictive analytics is essential to helping organizations anticipate the needs of their customers and act proactively, making it a critical element of a comprehensive back-office plan to improve the customer experience from beginning to end. While improving the customer experience by offering advanced digital features is key to enhanced top-line growth, leveraging digital transformation to automate operational processes and improve internal efficiencies can aid in boosting the bottom-line.

CONCLUSION

Insurers have realized the importance of going digital, yet many are still in the nascent stage, testing the waters and offering basic digital functionalities. Despite the conservative nature of the industry overall, a few firms are leading the way in terms of offering advanced digital features to their customers.

Insurers can no longer afford to take incremental steps on the road toward digital services. They need to be proactive in enhancing the customer experience through all digital touch points, while also driving operational excellence at the back-end to ensure profitability. There's no denying the growth of the digital lifestyle of today's consumer, and anything less than a top-to-bottom approach to digital transformation will fail to adequately deliver. As customer expectations and demands for advanced digital services increases, insurers need to implement a comprehensive digital strategy. Those that can execute a complete digital transformation will be able to achieve significant revenue-generation and cost-saving opportunities.

Methodology

SCOPE AND RESEARCH SOURCES

The 2014 *World Insurance Report* (WIR) covers both life and non-life (including health) 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, the Netherlands, Norway, Poland, Portugal, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, the U.K., and the U.S. We estimate these countries together account for approximately 94% of the global insurance market, based on data from our own analysis and from the "World Insurance in 2012" Swiss Re Sigma Report. The sample of countries covers 30 of the world's top 32 insurance markets in terms of premiums.

The 2014 WIR is based on a comprehensive body of research that includes 97 interviews with senior insurance executives. 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 fourteen studied countries, we analyzed country-level financials for enough 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, 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.

More specifically in our model:

- **Underwriting ratio**: Like the 'combined ratio' industry benchmark, it measures the percentage of gross written premiums 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 regulation, 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.

2013 GLOBAL INSURANCE VOICE OF CUSTOMER SURVEY

A global survey of customer attitudes toward insurance forms the basis of the seventh 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. They were also asked questions around factors that influence their decision to choose, stay, or leave their insurer, how likely are they 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 96 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. They can be 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 index 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

With more than 130,000 people in 44 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2012 global revenues of EUR 10.3 billion.

Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Capgemini's Financial Services Global Business Unit brings deep industry experience, innovative service offerings and next generation global delivery to serve the financial services industry. With a network of 24,000 professionals — 11,000+ in India dedicated to Financial Services — and more than 900 clients worldwide, Capgemini collaborates with leading banks, insurers, and capital market companies to deliver business and IT solutions and thought leadership which create tangible value.

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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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