Insurance in 2015 – Determining the Position
New Coordinates in the German-speaking Insurance Market
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The sea change on insurance markets continues. Strategically, insurers are focusing on regulatory changes and changing customer behavior and on the new understanding of risk in the wake of the financial and economic crisis. The resulting market dynamics pose new strategic challenges for insurance company management, often calling for far-reaching action.

In 2005, Accenture and the Institute of Insurance Economics at the University of St. Gallen (IVW-HSG) analyzed the retail market in the insurance industry in the German-speaking countries and presented the trends to expect in the insurance market up to 2015. Now after five years we are at the half-way point in the period under observation. This current study addresses the events and developments of the past five years against the backdrop of the financial and economic crisis and takes another look at the future insurance market of 2015. Web 2.0 has given rise to “Insurance customers 2.0.” They will be a major focal point. As everyday life becomes increasingly digitized, they too are better informed and more demanding. The study will examine the trends towards increased regulation. They have become all the more intense as the financial crisis has unfolded and shattered consumer trust in the financial sector. Technology has advanced at a rapid pace in recent years, affecting the insurance industry in general and product and process innovations in particular. The study will delve into these aspects, too.

The findings reveal future strategy options in the German-speaking insurance market to insurance managers in charge of business growth. They also assist managers in making business decisions and provide recommendations for action.

We thank all the managers who participated in our survey. They have done much to ensure the success of this study. Our thanks also go out to the experts on our advisory board for the advice and support throughout the study as well as to the authors.

Zurich / St. Gallen, November 2010

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Dynamics of change

1. Regulation and changing customer behavior are exerting pressure on the insurance industry to change

Regulation, altered customer behavior and socioeconomic change are the three external factors setting the pace of change in the German-speaking insurance market in the years ahead. This pressure to change felt by the industry is not triggering innovation, however, and carriers are considered only slightly willing to innovate. Capital markets and social systems are the determinants of change in the life insurance segment. The nonlife segment is shaped by increased individualization in society, technological developments and new types of interaction with customers.

2. Insurers are returning to their core operational business and risk management after the financial crisis but have failed to capitalize on business opportunities from the crisis

The financial crisis is a key factor driving change. As such it has increased the amount and stringency of regulation and prompted the industry to return to traditional risk business. Comprehensive enterprise risk management has become all the more significant as a result of the crisis. Insurers have failed to capitalize on business opportunities created by the crisis, for example, in life insurance and advisory services. Insurance companies are engendering no more trust in customers than banks are.

3. Market structures are slow to change

The survey respondents expect no significant structural changes in the insurance markets. Only market leaders and providers of niche products are likely to grow their market shares as differentiation increases. In the crisis, cooperatives have gained appeal in the eyes of consumers, particularly in Switzerland, because of the long-term orientation of their business model and products.

4. Advisory services and insurance of persons are viewed as dynamic and attractive

Insurance of persons business and advisory services on insurance and retirement products are viewed as appealing and dynamic segments in Germany, Switzerland and Austria, the three countries examined in the study. Occupational benefit plans are seen as particularly appealing in Germany and Austria. In the nonlife segment, growth is expected to be minimal in all three countries, whereby non-automotive insurance is viewed as much more attractive than automotive insurance.

5. Retirement planning is considered both an opportunity and a challenge

Private capital-financed retirement products continue to gain ground in all three markets. At the same time, survey respondents expect a further decline in the percentage of the population able to afford private retirement products. Occupational / company retirement schemes remain significant. Banks are expanding their market share in retirement products in spite of the financial crisis and addressing new, young customer groups.
Paths to customers

6. "Insurance customers 2.0" are more independent and demanding as well as being more sensitive to price

Customers are changing. They have new needs, expectations and values. This poses new challenges for the carriers. In their dealings with insurance companies, "Insurance customers 2.0" are better informed and more independent. Customers expect more. They want product flexibility, a range of reasonably priced and standardized products, and a high level of service. Increasing use of the new media and greater product transparency have a big part in these changes.

7. Quality advisory services and customer trust are crucial to success in personal insurance sales

Although customers are changing their behavior, insurance business in the future will remain a "push" proposition. Customer trust will be the decisive factor for success in insurance sales. Personal marketing will be more important than alternative or nonpersonal channels for retirement and life insurance products in particular. Both of these categories require trust and extensive advice. Fee-based advisory services will gain ground while organizational units engaged just in distribution will lose it.

8. Insurance companies need to rethink access options and priorities in distribution management

The industry views brand recognition and a multi-channel range as keys to success with customers. In fact, brand names and name recognition are actually less important to customers. The main criteria they apply in selecting their insurers are good advice and service plus competitive pricing. Two other pivotal consumer demands are the transparency and comparability of prices and contractual terms.

9. The multi-channel-sales approach is emerging as the standard and the electronic channel as a must

A multi-channel-sales approach is becoming the standard in retail business, both for life and nonlife products. Technology-based channels are considered increasingly significant, particularly in the nonlife segment. Distribution through tied-agents is declining overall but remains important for customer groups and product segments requiring personal contact based on trust. Life insurance customers favor personal selling to technology-based channels, although the latter are gaining in popularity. Distribution through banks will gain in importance, albeit at a slower pace than predicted five years ago.

Innovation in products and services

10. Insurers have yet to adapt product development and their understanding of innovation to customer needs

The industry continues to exhibit relatively little willingness to innovate. Yet customers demand new products that are easier and more flexible and that can be adjusted to their own individual requirements. What customers do not want is a new product range, additional services and ever more complex products. Customers continue to demand comprehensive product solutions such as combination products or a bundle of products geared to their specific needs. Natural restitution is also more common and increasingly acceptable to customers.

11. Gearing products and services to specific customers (customer groups) requires flexible customer analytics

In the years ahead, insurance companies will be focusing more than before on individual categories of customers. Marketing oriented to the specific target group is considered a key to gaining access to customers. Seniors (aged 50 and older) are rated as a particularly attractive growth segment. The demand for a range tailored to specific customer groups and optimized with customer analysis puts new demands on carriers in terms of product development and distribution.
12. Improved risk selection is crucial to success but challenging to implement
With their return to risk business and the growing significance of segmenta tion, insurers are more sophisticated and effective in risk selection. Strategi cally, new possibilities are arising for the range of products and services. They involve consumer-oriented “pay-as-you-x” approaches and are widespread in other countries. Insurance companies have to tackle new challenges in areas such as complex data analytics.

13. Prevention is a promising approach for insurers’ customer relationships and their business model
Insurers are warming up to the idea of prevention and there is growing demand for it among customers. In market performance, new insurance models are focusing increasingly on preventing losses rather than remedying them. However, what customers primarily expect from this new model are price discounts and special conditions as a trade-off for prevention.

Success factors in value generation

14. Insurers are not in agreement about the levers critical to their success other than strict cost management and process innovation
The managers surveyed rated many elements as being similarly important. The emerging picture tends to be indifferent and unfocused as regards actual levers for operating value. However, strict cost management remains important as a way of countering mounting cost and profitability pressures, also in core areas such as distribution. Carriers continue to optimize their processes by industrializing their value chain. Digitization to optimize products and services is likely to increase.

15. Insurers are seeking new ways of “industrializing” in areas where value creation remains extensive
All in all, insurers have retained their value creation model and will probably remain reluctant in the future to outsource processes to third parties. Increased differentiation by business model is not foreseeable. That does not preclude insurance companies considering an in-house shift of parts of the value chain to their own foreign branches abroad.

16. Insurance companies will be vying for qualified workers in the future
Insurance companies increasingly face a shortage of qualified workers. Coping with the consequences of demographic change will be pivotal to their staying competitive. It will be crucial for them to have a corporate culture that appeals to employees and applicants. It is expected that carriers will compete vigorously with each other to win over qualified, motivated and top performing sales staff.
Insurance companies continue to see major changes in their business environment. Factors influencing this change fall into two categories. The first comprises certain constants shaping the entire economy in German-speaking countries. The second type relates to shorter-term forces at work specifically in the insurance sector and directly affecting daily business in that sector.

One constant is the change in demographics that is turning us into an aging and shrinking society. Two others are the politically charged modification of social security systems and ongoing globalization, a driving force in making societies and economic systems ever more tightly networked.

These dominant forces coexist with forces of industry-specific change and will strongly affect practical aspects of the insurance sector. Examples are technological innovation, changed customer behavior and the degree of regulation in the insurance market.

The pace of technological progress has accelerated, increasingly forcing insurance companies to respond flexibly to new trends. The Internet illustrates this change. Use is rising and is constantly diversifying. The growth of mobile and ubiquitously available technologies has accelerated this trend, causing even faster digitalization of everyday life. Digital communication, information and exchange is increasingly taken as a matter of course in the economy and in society. This trend has brought about a change in attitudes, demands and behavior of modern consumers. They are more independent, better informed and more demanding in the way they act. Web 2.0 has given rise to “Customers 2.0” and naturally also “Insurance customers 2.0.” They will be a central focal point of this study because of their pivotal importance. Besides technology and customers, there has also been a change in the regulatory framework of the industry. The financial and economic crisis intensified and initiated new fundamental approaches and considerations in the regulation of the insurance sector. Policymakers and society directed their attention to the function and importance of the financial sector. The insurance industry can expect a lasting long-term increase in regulation with an emphasis on risk management, transparency and consumer protection.

At the same time, there is an increase in the speed and intensity of major change cycles in the business environment of insurance companies. This acceleration is evident in general social, economic and technical developments as well as in trends specific to insurance. The greater intensity can be seen in the increased complexity, diversity and networking of these changes. For insurance company managers, these developments pose new strategic challenges often requiring far-reaching action.
Goals of the study

The goal of this study is threefold. First, it identifies the relevant triggers and types of changes in the German-speaking insurance market. Second, it analyzes the developmental trends resulting from them. Third, it recommends actions managers in the insurance industry can take. The information is intended to help the managers as they tackle upcoming challenges and to recommend options for successful strategies. These core goals are modeled after those in the 2005 study "Insurance 2015 - Retail Markets in the Midst of Radical change." That study was also a collaboration between Accenture and the Institute of Insurance Economics at the University of St. Gallen (I.VW-HSG).

It has been five years since the publication of the first study, so we are now at the half-way point of the period under observation. That seems an apt time to take stock of the retail market and see how it measures up to the statements made in 2005. Which factors triggering change in the insurance industry are still having an effect? What new developments are emerging on the market? What effects has the financial and economic crisis had? How should the current developmental trends be analyzed and what options for action do insurance managers have?

The financial and economic crisis is undoubtedly a major determinant in the current markets. The crisis over the past two years and its many ramifications on the insurance industry have become new parameters for the survey. A second major aspect is the change taking place in customers. Its consequences are becoming increasingly clear, also for the insurance business. To better understand the customer’s viewpoint, the authors also integrated a consumer survey in the 2010 study. It analyzes the situation from a different perspective and enables these findings to be reconciled with the results of the industry survey. By merging these two viewpoints, the study allows a comprehensive forecast to be made for the German-speaking insurance market in 2015. Insurance managers can use the resulting lines of action to help make business decisions.

Methodology

This study, like its predecessor, was conducted in the German-speaking insurance markets in Germany, Switzerland and Austria and focuses on retail business in the life and nonlife segments. The subjects covered by the 2005 survey were supplemented with questions on current aspects of the insurance industry and expanded with the inclusion of a representative consumer survey.

The reliable three-step procedure was retained. First, the representatives of I.VW-HSG and Accenture recapitulated the statements drawn up in 2005, taking into account current trends and findings. Then they identified new developments in Germany, Switzerland and Austria and compared them to trends in other important international markets.
An expert workshop was then held to update the model for these statements. In this second study phase, insurance experts from I.VW-HSG and Accenture discussed and identified new updated statements based on the earlier ones. They incorporated the most recent changes and trends in the business environment for the insurance industry. In a third phase, the revised statements underwent empirical testing that included a survey of insurance managers in the three countries and for the first time, a survey of insurance customers.

In March 2010, a total of 2,140 managers from the German-speaking insurance market were invited to fill out a standardized questionnaire. A total of 762 managers accepted this invitation, for a response rate of 35.6 percent. There were 82 responses from Austria, 211 from Germany and 469 from Switzerland. The biggest category comprised participants active in both the life and nonlife segments. It accounted for 40 percent of the total. The responses from the nonlife segment were about twice as numerous as those from the life segment. Agents were also included in the survey but with only 21 responding, they made up only a negligible portion of the total survey. A look at the positions held by respondents shows that 40 percent of them belong to management or top management. Somewhat more than half of the responding companies are international.

The supplementary customer survey was carried out based on a representative sample of insurance customers from all three countries with the same gender and age distribution.

To draw a broad and structured picture of the insurance landscape in 2015, the authors took the empirical data from the responses of managers and customers and supplemented them with commentaries and research findings from I.VW-HSG as well as empirical values and market studies from Accenture. The authors were thus able to illuminate the empirical findings and put them in a practical context.

At this point, we would like to thank everyone involved for their support in carrying out this study. We thank those from the insurance industry who took part as well as participating customers. A special word of thanks also goes to the experts, who provided advice and support for the study while it was going on. Their excellent discussions and input were invaluable to its success.
The idea of insurance companies acting as long term capital investors has stood the test of the financial and economic crisis. Although the market environment is relatively stable and long-term in nature, the insurance sector must also deal with a variety of changes. The question arises whether the financial and economic crisis will mean just a temporary return to traditional business or result in other, farther-reaching changes. A frequent danger of a crisis is to neglect factors that are less obvious because they are continuously at work. These factors trigger change processes in the economy and society and shape customer and supplier needs and behavior in lasting ways. The study shows that several hot issues remain on the carriers’ agenda: new risk factors, cost pressure, socioeconomic development, and regulation. The pivotal questions are these: What impact do these factors have on the behavior of customers and service providers? Which other factors influence the behavior of market participants? Will the playbook and market structures change significantly? Which submarkets will profit from the transition? How innovative is the insurance sector in reconciling conflicting aspects such as new risks and costs, regulation and different customer behavior? Which changes will be short lived and which will be long term?

1. Regulation and changing customer behavior are exerting pressure on the insurance industry to change

The dynamics of change in the German-speaking insurance sector is dictated mainly by external factors such as regulation and changing customer behavior (Figure 3).

Ever tougher regulations on the ability to assume risk and on transparency are putting a lasting mark on the business models of insurance companies. Resources also continue being tied up for the development and implementation of corporate governance guidelines and solvency regulations as well as for the implementation of information and transparency regulations. With this host of requirements, the insurance industry has focused mainly on legal compliance in recent years. The implementation of regulatory requirements in the future might also hold potential for business opportunities. Refined risk models were previously of interest mostly to financial and risk management departments for aspects such as risk selection and customer analysis. Today they are increasingly shaping the business model and value chain of insurance companies.

Carriers are changing the market with their business activities and strategies on the one hand; on the other hand, changes in consumers and employees provide fresh stimuli for carriers to make adjustments. The socioeconomic change currently taking place also deserves special attention. Demographic changes are not the only factors involved. The managers surveyed say customers are increasingly sensitive to price and want greater transparency.
They also note that customers are becoming more independent in their purchasing decisions. The consumer survey conducted in this study confirms this view. Customer loyalty will further decline overall in the years ahead and customers will show a greater willingness to switch to alternative service providers. Insurance companies and their customers also interact differently with each other because of the big growth in the use of new media. Although the industry does not perceive pressure from consumers as being a main trigger for dynamic changes, these changes have made competition fiercer. Demanding consumers are one aspect of socioeconomic change. The suppliers make up the other side of the equation. Employees of insurance companies will bring social change into the companies and thereby shape the business model and value chain.

However, the pressure to change perceived by the insurance industry is not necessarily the equivalent of a pressure to innovate. Those surveyed say the industry was only slightly willing to innovate (Figure 4). They also say that the pressure from customers demanding innovative products is quite slight. Insurance companies feel pressure to innovate mainly in the form of cost and profitability pressure but also because of a need to keep up with innovative competitors. Although representatives of the industry rate their own company’s willingness to innovate as higher than others in the industry, there is certainly no general culture of innovation.

The insurance industry is less fazed about coping with new risks such as those related to genetic engineering and the environment. These new risks are driven just as much by external factors and are therefore just as uncontrollable. Nevertheless, dealing with them appears to be more a part of daily insurance business than addressing regulatory requirements or changes in customer behavior.

In the industry view, regulation is a driving force for the pace of growth in life insurance business. So too are capital market trends, demographic changes and the revamping of the social security markets. Government regulations play a greater role in life insurance than in the nonlife segment. In nonlife business, the survey managers anticipate changes due to individualization, technological advances and new communication behavior on the part of customers.
Sociologists have tried to divide 20th century societies in the western industrialized countries into generations whose members have differing primary environments and character traits.

The veterans went through one or even both of the World Wars and the economic depression in the 1930s. 20 years after World War II is when the baby boomers were born. This was the only time after the end of the 19th century that witnessed an increase in the number of children born per woman. The decades to follow saw the advent of the information society, characterized by use of computers, the Internet and mobile communication. This was the key criterion of the generations. Generation X and the Digital Immigrants were still around in the predigital days whereas Digital Natives and Generation Z grew up with these modern means of communication and are sometimes known collectively as the Net Generation. The latter have never experienced life without the Internet or cell phones.

Experts have not yet reached consensus on exactly when a given generation begins and ends. Further generations are distinguished according to purchasing power, for instance, the Silver Generation or the Gold Generation.

One main focus of this study was on “Insurance customers 2.0.” Shaped by a digital environment, these customers have new demands and expectations regarding communication with insurance companies and services from those companies (Commentary on Consumer Survey Page 25).

<table>
<thead>
<tr>
<th>Generation</th>
<th>Born</th>
<th>Main environmental conditions of members</th>
<th>Distinct character traits of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veterans</td>
<td>Before 1946</td>
<td>World Wars I and II had a direct impact on them and possibly also the economic depression in the 1930s.</td>
<td>Disciplined. Not accustomed to change. Set roles.</td>
</tr>
<tr>
<td>Baby boomers</td>
<td>From 1946 to 1964</td>
<td>Period with a high birth rate. Intensively experienced the Civil Rights Movement in the US and the Vietnam War.</td>
<td>Open and rebellious in their youth (leftist student movement in 1968). Later they tended to be conservative. Accustomed to having the same job for a lifetime.</td>
</tr>
<tr>
<td></td>
<td>Born after World War II, five years later in Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation X</td>
<td>From 1965 to 1979</td>
<td>Oftentimes both parents worked outside the home. Well educated.</td>
<td>Individualistic. Self-confident. Minimal interest in status symbols. Switching jobs was not unusual. Open roles.</td>
</tr>
<tr>
<td></td>
<td>Before 1980</td>
<td>First encountered the Internet and computers as adolescents or adults. Nevertheless familiar with these technologies. They are the teachers of the Digital Natives.</td>
<td></td>
</tr>
<tr>
<td>Digital Immigrants</td>
<td>Before 1980</td>
<td></td>
<td>Optimistic, pragmatic. Self-confident. Sociable and open to collaboration. Expect flexibility at the workplace. Communication experience with the Internet and virtual groups.</td>
</tr>
<tr>
<td>Digital Natives</td>
<td>From 1980 to 1995</td>
<td>Grew up with the Internet and computers. Well educated. Born into smaller families with older mothers.</td>
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<tr>
<td></td>
<td>After 1995</td>
<td>Have never lived without the Internet or cell phones.</td>
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<tr>
<td>Generation Z</td>
<td>After 1995</td>
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2. Insurers are returning to their core operational business and risk management after the financial crisis but have failed to capitalize on business opportunities from the crisis.

The industry expects regulations to increase in number and stringency as the financial and economic crisis unfolds (Figure 5). The volatility of the capital markets and the higher investment risks associated with it have prompted many companies to adopt more cautious strategies for their investment business and to return to traditional risk business. However, capital investment business is still highly rated for its dynamism and appeal (Figure 9 to Figure 11).

The back-to-the-basics approach is experiencing a renaissance. At the same time comprehensive enterprise risk management is becoming much more important. The challenge for companies in the years ahead will be to integrate risk management in their business model and value chain while continually adapting it to their risk strategy.

Innovation in life insurance products and advisory services for retirement planning and insurance business are where the survey respondents saw the biggest business opportunities from the crisis. They also said the insurance industry is not actually seizing any of the business opportunities arising from the crisis (Figure 6). Insurers have weathered the crisis better than the banking sector. But they have failed to turn that to their operational advantage. For instance, they neither acquired new accounts nor strengthened public trust in their industry. Insurance consumers still trust their regular banks more than their own insurance companies (Commentary on Consumer Survey page 25).
Figure 5
How realistic do you think it is to expect the following developments in light of the financial and economic crisis?

In 2015
Regulations on capital and risk management will be much more stringent for carriers (e.g. Solvency II)
Comprehensive risk management will be considered more important due to the increase in systemic risks
Risk business will have a much bigger role than capital investment / investment business in the strategy of insurance carriers
Carriers have fundamentally changed the way they understand and manage risks
Share of those surveyed in %

<table>
<thead>
<tr>
<th>Very unrealistic</th>
<th>Somewhat unrealistic</th>
<th>Somewhat realistic</th>
<th>Very realistic</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>100</td>
<td>65</td>
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Figure 6
To what extent are insurers capitalizing on opportunities to profit from the tarnished image of the banks?

Market shares in advisory services (insurance and retirement planning)
Market shares in life insurance (private individuals)
Product innovation in life insurance
Customer acquisition
Customer loyalty
Market shares for occupational / company retirement schemes
Brand positioning / brand establishment
Market shares in capital investments / investment
Product innovation in other business areas
Implementation of supervisory authority / regulation separate from those of banks
Share of those surveyed in %

<table>
<thead>
<tr>
<th>Not capitalizing on opportunities</th>
<th>Capitalizing somewhat on opportunities</th>
<th>Definitely capitalizing on opportunities</th>
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Insurance companies are masters of their core area of expertise and central discipline, the management of risks. That is why they have so far succeeded better than other financial service providers in navigating relatively stably through the turbulence of the financial and economic crisis. They have barely suffered any losses in their core business. In addition, the mutual trust between global actors in the insurance and reinsurance markets was never in question during the crisis. In spite of this stability, insurers have not been able to position themselves ahead of other crisis-shaken financial service companies in terms of consumer trust.

Tougher regulations governing capital and risk management are now also being put in place for insurance companies. Traditionally, insurance companies have been in the business of modeling and managing insurance risks. With these regulations, a new focus emerges as crucial to stability and business success: enterprise risk management (ERM). Pertinent requirements have already been enacted in Switzerland with Swiss Quality Assessment and in Germany with MaRisk (minimum requirements for risk management) and will become the EU standard with Solvency II starting in 2013.

A global risk management study carried out by Accenture underscores the increasing significance of enterprise risk management. The integration of risk management in the business model and the merging of business and risk strategy are the two areas in which the insurance companies see the biggest need for improvement and modification in the years ahead.

Companies have to take the following steps before risk management can contribute substantially to their business success.

- **Organization and governance:**
  Set up enterprise risk management and pertinent committees with clear-cut responsibilities based on a communicated and accepted ERM framework consisting of documentation on the organizational structure, guidelines, processes and methods of risk management.

- **Risk management processes:**
  Have those responsible for risk consistently practice and continuously improve the process of identification, assessment, mitigation, monitoring and evaluation of all enterprise risks.

- **Risk analytics:**
  Model all types of risk and simulate alternative stress tests and scenarios as a basis for determining and allocating the required risk capital.

- **Reporting:**
  Compile and prepare risk information tailored to the recipient for internal and external target groups, e.g. C-level, committees, risk managers, auditing, supervisory authorities, etc.

- **Information management and data governance:**
  Set up standard enterprise data management to ensure the discriminatory power of risk analyses and reporting.

Thus, the tougher regulations and systematic refinement of enterprise risk management systems help to improve the long-term stability and reliability of the insurance industry. In the future, this stability should allow insurance companies to increase customer trust and to differentiate themselves from other financial service providers, especially if turbulence keeps recurring in the financial markets.

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Insurance companies will be more sharply differentiated than today. A new playbook will apply to the insurance market and be only partially comparable to the current one.

Survey respondents expect to see an increase in market share for top competitors and providers of niche products (Figure 7), but a genuine structural change involving new market participants is not in sight. Takeovers or market entries are limited to competitors from the EU or will not occur according to survey respondents. Nor are investors putting any pressures on market structures. In Austria, 43 percent of survey respondents consider it realistic or very realistic to expect greater differentiation among competitors (Figure 8). Only about a third of the respondents in Germany and Switzerland agree with that scenario. Nonetheless, 41 percent of the Swiss, 38 percent of the German respondents and 50 percent of managers surveyed in Austria consider it likely that the playbook will change for the insurance market in the future. The study findings do not really allow one to make any conclusions about the possible nature of the changes in the playbook.

Opportunities for providers of niche products stem mainly from the increased segmentation of the market and the handling of run-off business by special providers. In the crisis, cooperatives have scored points for the long-term orientation of their business model and products, particularly among Swiss customers.1 Survey respondents do not agree in their assessment of future market shares of strictly sales organizations, banks and alternative sales organizations.

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4. Advisory services and insurance of persons are viewed as dynamic and attractive

Regulatory pressure, changed customer behavior and socioeconomic change are the key forces of change. They also influence how survey respondents assessed the dynamism and attractiveness of the submarkets. The aging population opens up new prospects for business growth in health insurance and retirement planning yet also poses challenges and risks. The scores for the attractiveness of the cited submarkets differed in the German-speaking countries because of varying basic conditions in the three countries (Figures 9 to 11). Insurance of persons business is considered more attractive in Germany and Austria than in Switzerland.

Growth in advisory services for insurance and retirement planning will be dynamic not least because of changing customer behavior and an increase in regulations. New media is gaining in importance in insurance distribution but customers appear to have a growing need for expert advice. The reason for this seeming contradiction is that customers increasingly have their first interaction with an insurer over the Internet. Later in the relationship, personal contact is still crucial for the customer’s perception of service quality and ultimately his trust. Product complexity also increases the need for advice. To what extent will carriers utilize the appeal and dynamism of the advisory services market in light of ongoing cost pressures and the resulting cuts in agent networks? Or will they even utilize them? The answer to these questions is of great strategic importance.

Survey respondents consider the non-life segment less dynamic in the years ahead because of market saturation and minimal potential for product innovation. In Germany in particular, this segment is viewed as unattractive compared to the other submarkets. In light of ongoing profitability pressure in automobile insurance, the survey respondents believe this segment will be more attractive and dynamic than the rest of the nonlife sector. This trend is evident in Germany from the steadier growth rates in many product groups and the growth potential from product bundling.
Figure 10
How would you rate the attractiveness and pace of change in the submarkets?

Figure 11
How would you rate the attractiveness and pace of change in the submarkets?
5. Retirement planning is considered both an opportunity and a challenge

Substantially fewer survey respondents than in 2005 expect government to withdraw as a provider of retirement pensions by 2015. Nevertheless, this scenario is still viewed as realistic or very realistic by 49 percent of respondents in Germany and by 42 percent of them in Austria (Figure 12). People in Switzerland appear to consider government more trustworthy as a social insurance provider. In all of the countries covered, private, capital-financed retirement schemes are gaining ground over pay-as-you-go systems. It is likely, however, that major segments of the population will be unable to afford an adequate financial arrangement in retirement with the decline of pay-as-you-go pension benefits. This view is shared by 63 percent of industry representatives in Germany, 55 percent in Austria and 39 percent in Switzerland. Occupational and corporate retirement schemes continue playing a role.

Insurance companies have not fully seized opportunities from the growing retirement planning market, however, while banks have prevailed in this segment in spite of the crisis. In fact, 46 percent of survey respondents in Germany and 52 percent of them in Austria say banks are likely to increase their market share in retirement planning by 2015 (Figure 13). Only 29 percent of Swiss respondents share this view. The customers tend to confirm this view. In Germany, 46 percent of responding customers can imagine going to a bank to take out life insurance or to enter into a retirement scheme. This figure is 60 percent in Austria and 45 percent in Switzerland. The results from the consumer survey also show that the younger generation is increasingly open to banks as distribution channels.
“Being close to customers” has long been a formula for success in insurance sales and distribution. But what exactly does it mean to be close to customers? Why are tied-agents still so under the gun? Are insurance companies succeeding in meeting the needs of customers under the tougher regulatory requirements and constant cost pressure? With this array of operational challenges, there is the risk of losing sight of tomorrow’s customers. Diverse sociocultural and socioeconomic changes are accompanied by changes in how customers behave and in what they need. What do customers expect from their insurance firm? What does the term “innovation” mean to customers? What are they willing to pay? Are today’s instruments and processes still effective in reaching tomorrow’s customers?
What do customers say?

In May 2010, a sample of 1,519 insurance consumers in Germany, Switzerland and Austria were surveyed. The objective of the survey was to juxtapose the insurers’ opinions and the statements derived from them with the perspectives of consumers. The industry and customer perspective are then compared and contrasted with each other based on the individual statements. The general needs and expectations of consumers are summarized below.

The feeling of receiving good service and solid advice is ranked as most important by customer respondents, along with an individualized and adaptable choice of products. Over 60 percent of customers say transparency and comparability promote trust whereas 68 percent and 44 percent of customers, respectively, say speed of claim resolution and a stable price engender loyalty toward a company. Customers are showing a definite willingness to compare premiums in order to obtain a lower price. It is therefore no surprise that 60 percent of customer respondents say a low price is one of their main criteria when purchasing an insurance product.

The consumers in the survey can be described in terms of customer type based on dimensions such as relationship tendency, need for advice, activity and price. Customer types are categories of customers characterized by similar behavior. For example, price-sensitive analysts (overview below) are the only consumers who put price before the desire for good service and solid advice. The customer types also differ in their willingness to be proactive to obtain a better price and to do without service. Price-sensitive analysts are willing to shop over the Internet for lower premiums and switch completely to electronic communication with their carrier or dispense with advice whereas relationship-oriented individualists are not.

The majority of those surveyed say support in preventing a damage event is important or very important. But customers are most interested in price discounts or special contract conditions in exchange for appropriate prevention behavior. Customer loyalty programs and the good name of the insurance company are not among the key criteria. Nor do customers show much

Customer types* | Guiding principle
--- | ---
Relationship-oriented individualists | "I want personalized advice and a choice of products to meet my specific needs."

Passive customers in need of advice | "I want solid advice."

Indifferent demanders | "I want the best whatever it may be."

Price-sensitive analysts | "I want the best value for the money."

Percentage of those surveyed in percent

<table>
<thead>
<tr>
<th>What do customers consider important in their dealings with an insurance company?</th>
<th>36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most of all, want to feel like they are receiving good service and solid advice and appreciate having the personal contact partner.</td>
<td>27</td>
</tr>
<tr>
<td>Most of all, want to feel like they are receiving good service and solid advice and appreciate having the personal contact partner.</td>
<td>19</td>
</tr>
<tr>
<td>Want possibilities for individually adapting a product and price as well as a big selection of products and additional services and product innovations.</td>
<td>19</td>
</tr>
<tr>
<td>Want possibilities for individually adapting a product and price as well as a big selection of products and additional services and product innovations.</td>
<td>19</td>
</tr>
<tr>
<td>Would do without personalized contact, service or individualism just to obtain a less expensive premium.</td>
<td>19</td>
</tr>
<tr>
<td>Would not do without personalized contact, service or individualism just to obtain a less expensive premium.</td>
<td>19</td>
</tr>
<tr>
<td>Rely frequently on their insurance agent.</td>
<td>19</td>
</tr>
<tr>
<td>Rely frequently on their insurance agent.</td>
<td>19</td>
</tr>
<tr>
<td>Want favorable price, transparency and comparability as well as an inexpensive price.</td>
<td>19</td>
</tr>
<tr>
<td>Want favorable price, transparency and comparability as well as an inexpensive price.</td>
<td>19</td>
</tr>
<tr>
<td>Obtain information themselves rather than relying on their insurance agent.</td>
<td>19</td>
</tr>
<tr>
<td>Obtain information themselves rather than relying on their insurance agent.</td>
<td>19</td>
</tr>
<tr>
<td>Nonlife: Internet sites of insurance companies, Internet portals, associations / organizations, tied-agents, banks, Internet sites of insurance companies</td>
<td>19</td>
</tr>
<tr>
<td>Nonlife: Internet sites of insurance companies, Internet portals, associations / organizations, tied-agents, banks, Internet sites of insurance companies</td>
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<tr>
<td>Nonlife: Internet sites of insurance companies, Internet portals, associations / organizations, tied-agents, banks, Internet sites of insurance companies</td>
<td>19</td>
</tr>
</tbody>
</table>

*a own survey results. N=1,519. Method: cluster analysis.
The survey respondents vary in terms of commitment and general interest in their insurance product. Of the 1,519 individuals surveyed, 47 percent say they only think about insurance if it is time to take out a new insurance policy. A further 30 percent rely on their insurance agent often whereas 23 percent obtain thorough information frequently. Customers behave in similarly committed, passive or indifferent ways, relying on their personal advisor or obtaining the information on their own. Different customer groups consequently prefer different distribution channels, too.

Relationship-oriented individualists and passive customers in need of advice tend to be more common in all three countries than indifferent demanders or price-sensitive analysts (Figure 14). Relationship, individualism and advice are important to many customers in all three countries but most of all in Austria. Unlike the other countries, Switzerland had many customers with the traits of the indifferent demander. In Austria, relationship-oriented individualists form the biggest customer category while few customers fall into the category of price-sensitive analysts. A demographic analysis shows that the percentage of customers requiring advice increases with the age of the group surveyed. By contrast, the younger generation tends to be more open to the new media. In fact, it expects to be able to interact electronically with the insurance company. Accordingly, younger customers are more likely to imagine switching completely to electronic media for their communication with the insurance company or to purchase insurance products exclusively over the Internet. An analysis of these customer types by age group, however, shows that over half of the customers 35 and younger value personal contact and that many older customers are also open to the new media. Insurance customers who use the new media to make product comparisons and to communicate tend to be younger but cannot be described by demographic criteria alone. In fact, the consumers on Web 2.0 have new skills, needs and values. Web 2.0 consumers have mobile and ubiquitously available technologies and use this smart digitalized world to obtain information and to communicate. Thus, they are always more independent, better informed and more demanding in the way they act. Web 2.0 consumers are also becoming "Insurance customers 2.0." This development affects the behavior of all customer groups described above, but in different ways.
Customers’ sensitivity to prices, willingness to compare different products

Customers’ need for transparency (e.g. regarding costs)

Customers’ need for flexible adjustment of products to changes in their life circumstances

Customers’ level of information and knowledge (e.g. from comparison portals, greater transparency due to regulation)

Demand for lower-priced standardized products (e.g. through direct channels)

Customers’ independence in the purchase process (e.g. thanks to greater transparency brought about by comparison portals or regulation)

Customers’ need for support / care

Demand for comprehensive total solutions / combination products (e.g. car or cell phone with insurance protection)

Customers’ need for support on prevention (e.g. accident prevention, theft protection, losses connected to natural disasters)

Customers’ need for security / protection

Customers’ need for advice

Number of carriers with whom customers have a policy

Willingness of the customers to make information available

Average duration of customer relationship (loyalty)

Share of those surveyed in %

Slight decline Unchanged Slight increase Sharp increase

Figure 15
What changes in customer behavior do you expect over the next five years?

6. “Insurance customers 2.0” are more independent and demanding as well as being more sensitive to price

The surveyed carriers say the pressure from customers to change is an insignificant factor yet customers really are changing their behavior in distinct ways. “Insurance customers 2.0” are more independent and demanding and are more sensitive to price. To obtain cheaper premiums, they are increasingly willing to use the new media, for example, to make thorough comparisons of products from different insurance companies. Industry representatives logically rate future customers much higher in level of information and knowledge (Figure 15). “Insurance customers 2.0” are also more self-reliant in their dealings with carriers, a trait obvious from their desire for transparency and comparability of insurance products. New insurance customers are becoming more demanding of their carrier. They want insurance solutions that are more flexibly adaptable to changes in their lives and cheaper standardized products. Customers are also going to consumer portals, for example, and sharing more information on their experience with a product or service. Interactions with social networks definitely provide opportunities for positioning and marketing.

All in all, future customers are expected to have higher standards. “Insurance customers 2.0” want to feel like they are receiving good service and solid advance. To do so, they expect digital information channels, transparency, competitive prices and fast claim resolution. For many customers, insurance is a difficult product to comprehend. They will not really know whether they selected the right product from the right company until a claim occurs. Because of this, customers consider trust especially important in their dealings with insurance companies. For insurance customers of the future, however, it appears that insurance companies will not be able to engender trust primarily with a well-known name or brand. Contrary to industry belief, a company’s brand name or name recognition is of secondary importance to customers when they select an insurance carrier. A well-known brand continues to be an important instrument for communicating values, however. Given the ever more virtual business environment and the increase in product versions, this fact should not be underestimated. The customer survey also shows that trust increases with personal contact. For instance, more customers trust their regular bank, their personal customer advisor or their personal insurance company than they trust the industry in general.
Insurance customers are changing. The Internet and the possibilities it opens up have had far-reaching effects on their behavior and attitudes. About three out of four persons in Austria, Germany, and Switzerland today have online capabilities. The extent people use the Internet has grown steadily for years regardless of age, educational level and income.

Customers have also changed the way they use the Internet. About two thirds of Swiss aged 15 and older use the Internet to find information whereas nearly 30 percent use it for home banking and already one out of four for shopping. Current surveys suggest that a growing number of customers in the German-speaking countries are familiar with Internet purchasing of insurance policies.5 “Insurance customers 2.0” are increasingly interactive and utilize the capabilities of Web 2.0. Three out of five German Internet users already take part in social media such as wikis or Weblogs, entering input or comments on a variety of subjects. In consumer portals (e.g. www.ciao.de, www.comparis.ch), users share their opinions and experiences on different products and services or compare the range of products and services offered by different vendors. For these reasons, the consumer in Web 2.0 is generally more critical and better informed but also interested in dialog.

Insurance companies do not have a big presence right now on Web 2.0. The Web sites insurers do have are there mostly to present the company and its products. Insurers trail far behind in intersectoral comparisons of company sites on the Internet. For example, the sites present product information on cluttered screens or are not integrated with offline distribution channels.6 The industry is still not fully exploiting the strategic possibilities of using the Web, cell phones or other innovative channels to integrate content and product/service range in a multi-channel approach. Common barriers to implementation are a lack of profile data for Web site users, inflexible technical infrastructure or fragmented Web platforms. An analysis of their own digital skills could help insurers to optimize their Web site’s visibility and attractiveness and the frequency with which it is used. Customer data obtained on the Internet could also be useful for sales and distribution.

Possible starting points for carriers could be a competitor’s benchmark for the functionalities of their own Web site. This would help them increase user-friendliness and enhance the online experience for customers. Oftentimes, bad site and data quality or noncompliance with Web standards impede performance and are detrimental to customer satisfaction. They are avoidable barriers. Web sites with optimized design and technical features adapt site content and structure to the individual customer in real time based on a handful of information. The eBay Web site is a good example. Insurers can influence customer behavior in the information process and in purchase decision-making much more efficiently and tap into new growth potential on the Internet.7

7 Accenture interactive analyses.
7. Quality advisory services and customer trust are crucial to success in personal insurance sales

Although customer behavior is changing, the insurance business will remain a "push" proposition in the future. The majority of those surveyed said insurance products continue to be sold; customers do not actively demand the products (Figure 16). With brands having little impact and customer loyalty declining, customer trust will continue to be a crucial determinant for success in the selling of insurance in the years ahead. The trust customers place in their personal insurance company or personal customer advisor is much higher in Switzerland than in Germany and Austria. Of customers surveyed in Switzerland, 80 percent say they have "some" or "a great deal of" trust. In Germany, 69 percent of those surveyed say they trust their personal customer advisor and 67 percent, their own personal insurance company. The situation is similar in Austria, where more trust their advisor (78 percent) than their insurance carrier (66 percent).

Customers expect not only a product but also the advice and support that go with it. This statement underscores the important part that trust plays (Figure 17). Personal contact contributes considerably to customer trust. In addition, the majority of customers prefer personal sales to alternative or nonpersonal channels precisely in the segment that is so lucrative for insurance companies, life insurance business (Figure 23). The probable reason is the customers' need for competent advice. This will require insurance companies to work hard to recruit good customer advisors in the future, too. Perceived and straightforward advice is therefore becoming increasingly more important than mere agent activity. Thus the industry representatives say fee-based advisory services will be more important in the future than their commission-based advisory services (Figure 18). Opinions diverged on whether compensation for sales in the future would be based more on qualitative features. Many fewer survey respondents than five years ago expect organizations engaged strictly in distribution to increase their market share. This expectation is especially low in Germany.
8. Insurance companies need to rethink access options and priorities in distribution management

As in the 2005 survey, industry representatives continue to view brand recognition / branding and multi-channel capabilities as the keys to reaching customers (Figure 19). The industry confirms the significance of inexpensive products in customer contacts. Well-known brands / branding and multi-channel capability are seen as especially important in Switzerland whereas inexpensive products are most important in Germany. Innovative products and partner management are viewed as more important keys for customer access in Austria than in Germany and Switzerland.

On the other hand, a company’s name recognition or good reputation is increasingly less important to customers for selecting an insurance carrier. What customers want instead when selecting an insurance company are “solid advice and service” and a “good price” (Commentary on Consumer Survey Page 25). Accordingly, customers in all three countries want more transparent information on contractual terms plus more effective ways of comparing prices and contractual terms. The desire for improved comparability is much more pronounced in Austria than in Germany and Switzerland.

In other words, companies cannot rely merely on having a high level of name recognition. A company’s ability to reach selected customer segments with inexpensive, simple and adaptable products will be the key to business success in the future. Insurance customers must critically question precisely which services customers actually perceive and value.
9. The multi-channel approach is emerging as the standard and the electronic channel as a must

The industry is developing additional new access channels for customers, both in the life segment and in the nonlife segment. The multi-channel approach is emerging as the standard in the retail insurance business. Survey respondents stress the growing importance of insurers’ Web sites, Internet portals or other technology-based distribution channels. They also cite the potential significance of alternative distribution channels; car dealers in nonlife business for instance. Mobile distribution is also drawing attention. Industry representatives consider presence at Internet portals to be increasingly important (Figure 20) but not yet vital to gaining access to customers (Figure 19). By contrast, young customers in particular are open to the Internet as an access channel (Commentary on Consumer Survey Page 25). A growing number of customers no longer want a personal meeting, at least not at the start of the relationship. When asked if they use Internet portals to take out nonlife insurance, 37 percent of survey respondents 51 and older say yes. Among the 36 to 50 year-olds, that figure is 44 percent and among those 35 and younger it is a high 50 percent. The opposite trend emerges for use of the tied-agent network. When asked if they use the tied-agent network to take out nonlife insurance, 70 percent of survey respondents 51 and older say yes. For respondents aged 36 to 50 that figure is 66 percent and among those 35 and younger it is just 58 percent. Thus, it is more conceivable to younger consumers to switch completely to electronic media to communicate with insurers or to purchase insurance products exclusively over the Internet. The trend emerging for life insurance is similar, though less pronounced. Another factor in this segment is that younger consumers are more open to taking out insurance from a bank than older ones. 57 percent of customers aged 35 and younger cite banks as a conceivable distribution channel compared to 43 percent for those 51 and older.

What is striking is the great acceptance consumer respondents express for associations and employer organizations as potential distribution channels (Figure 21). In Germany and Switzerland, half of the consumers surveyed say they would use this channel to take out nonlife insurance whereas in Austria an even higher 66 percent are open to this distribution channel. Asked about taking out life insurance through their employer, 46 percent of survey respondents in Germany say yes compared to 56 percent in Switzerland and 50 percent in Austria. These high acceptance rates could be due to trust in employers, price advantages or perhaps also convenience.
### Figure 21

Which of the following distribution channels would you use to select/take out nonlife insurance?  
(Customer view)

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>By no means</th>
<th>Probably not</th>
<th>Probably</th>
<th>Very probably</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tied agents / agency</td>
<td>10%</td>
<td>25%</td>
<td>38%</td>
<td>26%</td>
</tr>
<tr>
<td>Associations / organizations</td>
<td>12%</td>
<td>33%</td>
<td>43%</td>
<td>12%</td>
</tr>
<tr>
<td>Insurers’ own Internet sites</td>
<td>18%</td>
<td>32%</td>
<td>36%</td>
<td>14%</td>
</tr>
<tr>
<td>Internet portals</td>
<td>22%</td>
<td>34%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Banks</td>
<td>18%</td>
<td>43%</td>
<td>32%</td>
<td>7%</td>
</tr>
<tr>
<td>Brokers / independent financial advisors</td>
<td>21%</td>
<td>43%</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>Alternative distribution channels</td>
<td>23%</td>
<td>44%</td>
<td>52%</td>
<td>2%</td>
</tr>
<tr>
<td>Stationary distribution</td>
<td>23%</td>
<td>44%</td>
<td>45%</td>
<td>10%</td>
</tr>
<tr>
<td>Mobile distribution</td>
<td>69%</td>
<td>25%</td>
<td>5%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Distribution through the tied-agent organization is losing ground overall to the new media. It is still a key channel, however, for customers and product groups requiring personal contact based on trust. In addition, customers do not necessarily view the new media as alternatives, but more often as supplements to personal contact. In short, multi-channel distribution is a “hygiene factor.”

The insurance companies face a variety of challenges. They must adjust their own business model to meet the needs of “Insurance customers 2.0.” At the same time, they have to address the customers’ desire for high-quality contact in advisory services and distribution as well as contact that is personalized, competent and based on trust. Loyalty is on the decline because the Internet now allows customers to compare and simplify purchases. Although interested in a good price, most customers are unwilling to dis-pense with service in the form of advice, insurance protection or customized arrangements (Commentary on Consumer Survey Page 25). Given these tough demands and this high degree of complexity, carriers will probably have no choice but to increase their investments in a multi-channel strategy.
Figure 22
What is the relative importance of the individual distribution channels in life insurance / retirement planning? (Industry view)

Nonlife insurance business
Industry representatives and customers both say Internet portals and insurance companies selling directly over their own Web sites are gaining in importance in nonlife segments (Figure 20 / Figure 21). The tied-agent network remains a comparatively significant sales channel yet is losing further ground. Internet portals are playing an ever larger role especially in Germany. The focus in Switzerland is on insurers selling directly over their own Web sites (Figure 22). The responding insurance companies have mixed feelings about the future significance of the tied-agent organization. On the whole, life insurance customers strongly prefer a personal sales approach to a nonpersonal one (Figure 23). This confirms the ever greater importance of advisory services. Respondents still indicate that the significance of banks will increase in the future but to a lesser extent than in 2005. Among respondents in Germany and Austria, 46 percent and 52 percent, respectively, believe banks will increase their market share in retirement planning products. Only 29 percent of insurance companies responding in Switzerland share this opinion.

Life insurance business
Survey respondents tend to ascribe growing importance to personal distribution through brokers / independent financial advisors as well as distribution over Internet portals and insurers selling directly over their own Web sites (Figure 22). The responding insurance companies have mixed feelings about the future significance of the tied-agent organization. On the whole, life insurance customers strongly prefer a personal sales approach to a nonpersonal one (Figure 23). This confirms the ever greater importance of advisory services. Respondents still indicate that the significance of banks will increase in the future but to a lesser extent than in 2005. Among respondents in Germany and Austria, 46 percent and 52 percent, respectively, believe banks will increase their market share in retirement planning products. Only 29 percent of insurance companies responding in Switzerland share this opinion.
Figure 23
Which of the following distribution channels would you use to select / purchase a life insurance policy / retirement product? (Customer view)
To reach customers, insurance companies have to ask themselves what basic needs insurance customers have and how insurance companies can satisfy those needs. Everything companies consider and do revolves around the customer, not the product. The survey of insurance customers highlights their need for service, good value for the money, and product adaptability. Other keys to gaining and retaining consumer trust are quality advisory services as well as transparency and comparability. Quality advisory services is not just a matter of distribution, it is part of the services a carrier delivers on the market. Thus, the customer must be integrated to an ever greater extent in the value chain at the insurance company. The insurance industry has to ask itself which services it wishes to provide in the future, how it wishes to provide them and to whom it wishes to provide them. Innovation in products and services illuminates the following questions: What types of differentiation are currently seen on the market? On which customer needs is the industry focusing in its current product development? Which innovative approaches are evident in products and services and what implications do they have for the business model?

10. Insurers have yet to adapt product development and their understanding of innovation to customer needs

Survey respondents say their own industry shows little willingness to innovate. This assessment is substantiated by the small number of product innovations named. Survey respondents cite numerous examples of process and sales innovations but have difficulty naming or describing product innovations. The few examples are confined to concepts such as “variable annuities,” “pay-as-you-live / drive / etc.,” “niche products,” “crash box / crash recorder,” “help point,” but also “simple products.” However, industry representatives consider the customers to be open to changes in the range of products and services. Three of four survey respondents expect an increase in demand for comprehensive total solutions and combination products (Figure 24). Combination products bundle together several coverages or solutions such as components from the nonlife and life segments or even from insurance and consumer segments. There is a definite trend toward customer-specific bundles of products as distinguished from tiny insurance policies covering specific risks. Natural restitution is accepted with respect to benefits and will be even more prevalent in the future. The majority of those surveyed believe it is somewhat realistic or very realistic that insurers will increasingly issue not only monetary payments / benefits but also payments / benefits in kind (Figure 25).

By contrast, the majority of customers view mere product innovation as unimportant or as no improvement. For example, the majority of customers...
describe additional services or innovations in an insurer’s product range as unimportant (Commentary on Consumer Survey Page 25). Instead, customers stress a desire for flexibly adaptable products, low prices, (cost) transparency and products that are more readily comparable and understandable. So a new understanding is emerging of products and services. Customers reward product innovation that is simple, flexible and combinable but are less interested in innovation involving additional components and greater complexity. The insurance industry faces the big challenge of adjusting its product development to meet customer needs. How will companies offer flexible and adaptable products in the future to specific customer groups at the lowest possible price? In other words, innovation in products and services must be closely coordinated with processes and distribution. Companies will only succeed in doing so by being customer-centric, not product-centric.

11. Gearing products and services to specific customers (customer groups) requires flexible customer analytics

Marketing oriented to a specific target group is considered a key to gaining access to customers (Figure 19). The survey respondents therefore assume that the industry will focus even more heavily on individual customer segments in the years ahead (Figure 26). Segmentation is an attempt by insurance companies to position themselves in submarkets instead of developing products for the entire market. One advantage is that customer relationship management is more unique and often more efficient. Another is the concentrated coverage of a submarket. Further pluses are differentiation, pricing and a more unique range of products and services as well as a more balanced portfolio in line with risk management. Service tailored to a specific customer category correlates with two things customers want: a product range priced to fit their situation (in life) and individualized and adjustable insurance protection (Commentary on Consumer Survey Page 25).

Sociodemographic criteria, economic features and wealth or income are three frequent segmentation criteria in the insurance industry. Customer value and stage in life are two others. Survey respondents clearly consider senior citizens (aged 50+) as the growth segment owing to changing demographics and the increasing concentration of wealth in this age group (Figure 27). However, studies show that the insured parties’ personal set of attitudes and values are what count, not demographic fundamentals. This set can be described with the aid of customer typologies, for example, as was done in the Commentary on the Consumer Survey. Customer types are categories of customers characterized by similar behavior. Customer groups such as “Relationship oriented” or “Price sensitive,” for example, illustrate different values on the market. They can also show which factors the individual cat-
In which customer segments do you see the greatest potential for growth over the next five years?

- Senior citizens (50+)
- High earners
- Middle-aged clients (30 to 50 year-olds)
- Small and medium-sized enterprises
- Self-employed / freelancers
- Families
- Junior clients (30 and younger)

Share of the top two items named in %

- Germany
- Switzerland
- Austria

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Categories consider most important. For instance, the "price-sensitive analyst" wants good value for the money but also transparency and comparability plus supporting technology.

Study findings show that segmentation strategies succeed especially when they consider factors such as customer value or risk profile. Segmentation can go beyond being based on relatively simple demographics or financial indicators and address complex customer needs. But insurers will first have to develop and implement this type of segmentation more fully. Most companies collect an increasing amount of data but few are able to evaluate it methodically and continuously. This type of customer analytics requires insurers to have value chain processes featuring fast and flexible product development, group orientation or individualized distribution. Existing infrastructure systems are often not flexible enough to depict the different product versions. As a result, companies have difficulty monitoring success and thus allocating responsibilities.

Overlapping product segments imply further problems or could even lead to a cannibalization of the product range. Given this complexity, the object is to develop characteristics that are manageable and that have maximum discriminatory power. Furthermore, the internal organizational structure must match the segmentation strategy. Insurers are still product- and division-centric, so they have difficulty making customers the absolute focal point of all they do. The industry needs to rethink this orientation with an eye to the long term as part of its segmentation strategy. Can companies handle this increasingly complex external performance with an infrastructure that is as standardized as possible internally yet still agile? Or could the trend toward segmentation perhaps even bring about a renaissance of more flexible agent-based selling involving individualized contracts? Only the future will tell.

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Regular annuities apply price calculations based on the average life expectancy of the general population. These products therefore typically appeal to people with a high life expectancy. For insured parties with a lower life expectancy, annuities are unattractive because total benefits add up to less. “Enhanced annuities” can help alleviate the problem. With this annuity product, the lower the insured party’s life expectancy, the higher the annuity payment. These higher annuity payments offset the shorter expected duration of payments.

Here is an example. Let us assume a discount rate of 2.5 percent, a one-time payment of EUR 100,000 at age 64 and from then on annuities paid in arrear (in other words, the first annuity is paid at the age of 65). Under these conditions, an insured not-smoking man would receive an annuity of just under EUR 6,850 a year. A smoker could receive about EUR 8,970. Enhanced annuities take into account the smoker’s shorter life expectancy and offer him higher annuity payments.

Basically, this example is a matter of risk selection, a customary practice for the sake of rate fairness, especially in the life insurance segment. For instance, physicals are customary in connection with term life insurance. The uniform rates common in today’s large insurance markets mean potential customers with preexisting medical conditions have practically no access to the private annuity market. The terms are simply too unfavorable for them.

Enhanced annuities are not yet established in the German-speaking market. Only a handful of firms offer this type of product to their customers. LV 1871 and DSP Deutsche-Senior-Partner AG are two examples of financial service providers already carrying enhanced annuities in their product portfolio. Enhanced annuities for smokers have been on the British market since 1995. Preexisting medical conditions entitling a customer to an enhanced annuity include, for example, various types of cancers, heart problems, diabetes, Alzheimer’s or liver disease. About 20 percent of the annuity insurance policies sold in Great Britain classify as enhanced annuities.
12. Improved risk selection is crucial to success, but challenging to implement

With segmentation becoming ever more important and the industry returning to risk business as a core segment, refined and improved risk selection could become a lever for the success of a company’s products and services. More than three quarters of survey respondents say that the importance of scoring and risk selection for a company’s success will increase or increase sharply in the future (Figure 28). The same percentage stress the strategic significance of risk selection in the sales process and see potential for new lines of products and services (Figure 29). Insurers could conceivably assume “bad risks” in a way geared to profitable growth. Several US carriers are doing just that in automotive insurance right now. Insurers could also conceivably develop products based on the consumer-oriented “pay-as-you-x” model (“pay-as-you-live,” “pay-as-you-drive,” etc.) With this kind of product and distribution strategy, companies must be able to collect pertinent data and analyze it in a way that allows segmentation. Then they can develop the products consumers want and put them out on the market quickly. Over half of industry representatives in Switzerland (50 percent) and Austria (57 percent) think it is realistic that customers will be willing to provide larger volumes of personal data to carriers in the future. Only 38 percent of the respondents in Germany think so (Figure 30). Insurers fail to realize that the younger generation is increasingly open to sharing data — in exchange for a reduction in premiums of course. It is probable, however, that the exchange of data will be restricted because of data protection regulations. In addition, it must be kept in mind that the idea of risk selection ultimately and regularly leads to sociopolitical discussions on the “breakdown of societal solidarity,” especially with regard to life insurance.
13. Prevention is a promising approach for insurers’ customer relationships and their business model

The idea of prevention is increasingly relevant for insurance companies. This is true operationally as the companies return to risk business and financially as an answer to mounting cost and profitability pressures. Beyond that, the insurance companies surveyed believe that prevention holds opportunities for their range of products and services. After all, customers will need more support with regard to prevention. In fact, the majority of customer respondents say support from insurance companies on claim prevention is very important or important. Under the current model, insurers make good on damage or loss. The industry respondents believe this model could conceivably shift instead to insurers actively and systematically preventing loss or damage (Figure 31). Insurers could team up with other companies to provide new services. For example, they could collaborate with security firms to protect customers against theft of household belongings and property. On a critical note, customers mostly expect price discounts and special conditions from insurance companies in exchange for their prevention behavior. They are less interested in obtaining information from the insurance companies about ways of preventing damage or loss.
The use of new technologies is increasingly important in the insurance industry as a means of countering the mounting pressure to differentiate in heavily saturated markets. This is opening up new possibilities in damage prevention and risk management in particular, e.g. risk-adjusted pricing, efficient reduction in loss ratios, etc. Advanced apps for smart phones are driving forces in this respect, as are modern GPS techniques.

A new trend from the US is emerging on the market. Cell phone and iPhone apps are definitely on the increase (www.progressive.com – search keyword: apps). These technologies are already available from Basler Versicherungen for efficient use of a weather warning for rain, hail and snow (www.baloise.ch – search keyword: Sicherheits-App [safety apps]). People living in risk areas can use the service to obtain early information on severe weather and take precautions ahead of time to minimize damage. This severe weather warning for prevention is sent out as a text message. It is no longer just offered by Basler Versicherungen. In fact, it is firmly established and available from a number of providers throughout Germany (www.deutscher-warndienst.de), Austria (www.uniqa.at search word: Unwetterwarnung [severe weather warning]) and Switzerland (www.wetteralarm.ch). Another example is Wiener Städtische and its claim service app for the Austrian market. The full version provides information and fast assistance with claim forms, checklists and first aid measures in the event of damage / injury from severe weather, fire, burglary, etc. (www.wienerstaedtische.at – search keyword: SchadenService-App [claim service app]).

Car insurance is one segment where these new technologies are already prevalent today. In Switzerland, AXA Winterthur has already successfully introduced an innovation in this area: the crash recorder10 (www.crash-recorder.ch). This device records all important data 20 seconds before and 10 seconds after an accident so the accident can be reconstructed later on. It was launched in March 2008. In a statistical analysis, AXA has shown that young drivers with crash recorders have caused 15 percent fewer accidents since the launch than those driving without the device.

This same segment uses an approach still considered controversial in the market: pay-as-you-drive insurance (PAYD)11. An onboard unit is installed in the vehicle to record and process GPS position data. The primary goal of this approach is to be able to calculate premiums individually and independently based on vehicle use. In 2007 UNIQA became a pioneer in the German-speaking market with its introduction of a product called SafeLine. One focus of SafeLine is on additional safety functions. They enable the onboard unit to give the insured party active support in emergencies. For instance, it provides an emergency button function in a breakdown, a crash sensor function in an accident or a car finder function in the event of theft. In other PAYD models, the emphasis tends to be on intentionally punishing risky drivers with higher premium rates for speeding or the like. More progressive approaches12 take a different tack. Their primary aim is to push for active damage prevention instead of “punishing” bad risks. While driving, drivers are carefully coached in real time. The object is to affect their driving behavior positively and improve it continuously. For example, a beep sounds in the car when they exceed the posted speed limit, drive in a gas-guzzling way, etc. This approach is already being used in Germany. It offers untapped potential for carriers not only in auto insurance for direct insurance business and insurance business with carmakers, but also for health and travel insurance.

12 Accenture insurance service model based on coaching.
Factors for success in value generation

Figure 32
What changes could occur over the next five years in the importance of the following elements to business success?

<table>
<thead>
<tr>
<th>Element</th>
<th>Share of those surveyed in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process optimization / process management</td>
<td>14 54 29</td>
</tr>
<tr>
<td>Efficient distribution management / distribution guidance</td>
<td>18 55 24</td>
</tr>
<tr>
<td>Comprehensive risk management</td>
<td>21 50 27</td>
</tr>
<tr>
<td>Ability to innovate / time to market</td>
<td>21 51 26</td>
</tr>
<tr>
<td>Strict cost management / cost controlling</td>
<td>22 45 31</td>
</tr>
<tr>
<td>Customer relationship management</td>
<td>23 56 20</td>
</tr>
<tr>
<td>Scoring and risk selection</td>
<td>23 57 19</td>
</tr>
<tr>
<td>Modern IT infrastructure</td>
<td>24 50 24</td>
</tr>
<tr>
<td>Successful employer branding (e.g. talent search, training, forging bonds of loyalty with good employees)</td>
<td>26 59 21</td>
</tr>
<tr>
<td>Market segmentation</td>
<td>32 53 12</td>
</tr>
<tr>
<td>Strict performance management</td>
<td>31 52 13</td>
</tr>
<tr>
<td>Appealing corporate culture for employees and applicants</td>
<td>31 46 16</td>
</tr>
<tr>
<td>New generation of managers</td>
<td>38 45 13</td>
</tr>
</tbody>
</table>

Obsolete structures cannot effectively cope with individual customer requests, mounting cost pressure and the ever tougher demands of risk management. It is no wonder that carriers’ internal projects have focused for years on steps to industrialize and streamline operations. The processes and infrastructures at insurance companies have developed organically over the years and continue to be quite rigid and relatively staff- and paper-intensive in spite of these efforts. Tough demands are put on distribution and on products and services, however. Carriers have to be able to respond quickly and flexibly to opportunities and challenges. What goals are pursued with industrialization measures? What do industry representatives consider to be the levers crucial to success? Against this backdrop, how does the industry assess the future value chain model? Will there be a change in value creation, which has traditionally been extensive? Are growing customer expectations or innovative competitors forcing the industry to upgrade its technology? The insurance sector could face shortages not only in process landscapes but also in staff availability. Demographic change has implications for technical aspects of insurance but also means future competition for qualified employees. Are insurers aware of that?

- Automation in this context means that subfunctions of a production process are transferred to machines. Machines perform these subfunctions and associated control functions automatically.
- Digitalization involves the conversion of (analogue) information into digital form with an eye to storage, integration in a database, evaluation and other types of electronic processing.
- Industrialization is a generic term covering standardization and automation, continuous improvement based on the monitoring of key business metrics, consolidation, integration of work elements or systems across several processes, value creation and sourcing.
- The object in consolidating process elements is to bundle similar activities together.
- A standardized process is defined and implemented identically across all parts of the value chain. The place or person involved in the performance is irrelevant.
- Sourcing is defined as shifting non-differentiating activities to outside providers. Companies are focusing on their core areas of expertise.
- Value creation is a transformation process aimed at adding value.
- The value chain comprises the entire manufacturing process of a product or service.
In 2015, carriers will be rethinking their tied-agent network for cost reasons and stepping up their search for alternatives. The insurance industry will be largely "industrialized". Insurance companies will further digitize their value chain in terms of their range of products and services.

**Figure 33**
How realistic do you think it is to expect the following developmental trend?

<table>
<thead>
<tr>
<th>% Very unrealistic</th>
<th>% Somewhat unrealistic</th>
<th>% Somewhat realistic</th>
<th>% Very realistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>30</td>
<td>63</td>
<td>31</td>
</tr>
<tr>
<td>5</td>
<td>30</td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td>0</td>
<td>32</td>
<td>54</td>
<td>12</td>
</tr>
</tbody>
</table>

**Share of those surveyed in %**

14. **Insurers are not in agreement about the levers critical to their success other than strict cost management and process innovation**

Given cost and profitability pressures and growing requirements on the complexity of the value chain, insurance companies have to ask themselves which operational levers are critical to their success. Further digitalization and other process optimization are becoming increasingly important for company success. The willingness to innovate is seen as greatest in the process area as opposed to the distribution or product area. Insurers nonetheless tend to be indifferent and unfocused about the concrete operational levers of their business. Many elements are similarly important for company success (Figure 32). The survey respondents agreed completely on the importance of strict cost management as a means of countering cost and profitability pressures. Carriers appear to be willing to consider radical action in the years ahead such as abandoning the tied-agent network for cost reasons and looking for alternative distribution channels (Figure 33).

The old product-centric organization is giving way to a trend to make the customer the focal point of all efforts. Outsourced infrastructures can no longer meet the resulting need for segmentation, product diversity, electronic communication with the customer and refined risk selection. Those infrastructures are also increasingly too expensive. In light of ever tougher requirements and ongoing cost pressures, insurance companies are also working to optimize processes by industrializing their value chain.

Digitalization is an ever more important focal point of process optimization. Further process digitalization is foreseeable as part of internal process optimization but also as a factor for the success of products and services. Insurance customers are turning with increasing frequency to mobile communication channels such as insurers’ Internet sites, comparison portals or most recently also smart phones to contact their agents and insurance companies. The insurance industry must therefore integrate the customers more fully in its own processes. Tomorrow’s customers will make the initial contact via the new media and expect online functions for tracking the progress of claim processing or for submitting feedback and complaints. The industry has to get used to that. Insurance companies able to capitalize on the opportunities of smart technology will reach “Insurance customers 2.0” in their own world.
### Figure 34
**How profound will the value creation within the industry be in 2015?**

<table>
<thead>
<tr>
<th>Business Process</th>
<th>Only outsourced</th>
<th>Mostly outsourced</th>
<th>Mostly done in-house</th>
<th>Only done in-house</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td>4</td>
<td>67</td>
<td>28</td>
<td>1</td>
</tr>
<tr>
<td>Underwriting</td>
<td>6</td>
<td>45</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Risk management</td>
<td>1</td>
<td>7</td>
<td>49</td>
<td>42</td>
</tr>
<tr>
<td>Finance / controlling / HR / other</td>
<td>1</td>
<td>12</td>
<td>58</td>
<td>30</td>
</tr>
<tr>
<td>Claim management</td>
<td>2</td>
<td>19</td>
<td>65</td>
<td>15</td>
</tr>
<tr>
<td>Customer service</td>
<td>1</td>
<td>4</td>
<td>63</td>
<td>16</td>
</tr>
<tr>
<td>Advisory service / distribution</td>
<td>1</td>
<td>2</td>
<td>60</td>
<td>5</td>
</tr>
<tr>
<td>Policy processing / administration</td>
<td>1</td>
<td>2</td>
<td>46</td>
<td>11</td>
</tr>
<tr>
<td>Asset management</td>
<td>2</td>
<td>4</td>
<td>44</td>
<td>11</td>
</tr>
<tr>
<td>IT</td>
<td>2</td>
<td>6</td>
<td>39</td>
<td>2</td>
</tr>
</tbody>
</table>

Share of those surveyed in %

<table>
<thead>
<tr>
<th></th>
<th>0</th>
<th>20</th>
<th>40</th>
<th>60</th>
<th>80</th>
<th>100</th>
</tr>
</thead>
</table>
| **Figure 35**
| **How realistic do you think it is to expect the following trends in market structures and the competition model?**

| **In 2015**
| Insurers will increasingly outsource business processes to their own foreign branches.
| Legal regulations (e.g. data protection, license) will prevent the outsourcing of parts of the value chain and the establishment of new providers with the corresponding specializations.

<table>
<thead>
<tr>
<th>Share of those surveyed in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very unrealistic</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

### 15. Insurers are seeking new ways of "industrializing" in areas where value creation remains extensive

The value generation model has traditionally had a high degree of vertical integration. Overall, this feature will remain the rule even with digitalization, increased complexity and cost pressure (Figure 34). In their core business, insurers will make only minimal use of opportunities to outsource business processes to outside companies. Most survey respondents say IT will be the only process to be provided largely or exclusively by outsiders. Outsourcing will focus increasingly on technical infrastructure but also on information processing and preparation. Respondents also see possibilities for outsourcing areas such as asset management, policy processing / administration, and advisory services / distribution. This last area named confirms the increasing importance of brokerage firms. There is no trend in sight for increased differentiation of insurance companies by business model, e.g. as a product factory or strictly as a claim manager.

Value creation will remain high, but carriers will shift parts of the value chain to foreign branches within their own enterprise (Figure 35) to cope with cost and profitability pressures when the opportunity arises. The majority of survey respondents say regulation will prevent individual elements of the value chain from being outsourced or specialized new providers from being established.
Alternative sourcing strategies such as cosourcing or outsourcing are ways carriers can increase efficiency and cut costs, especially when facing the difficult market trends of recent years. Sourcing makes these improvements by optimizing value chain structures and industrialized processes.

Sourcing strategies are typically divided into the following three service categories:

- Sourcing of application development and operations (AO) and IT infrastructure (IO)
- Sourcing of horizontal business processes such as finance, human resources, and procurement
- Sourcing of vertical business processes such as policy administration and claim management

Although most managers in the insurance industry deal with cosourcing and outsourcing, they rarely entrust complete functions or core processes to others. At most they might assign them to another part of the same group. There are only isolated instances right now of horizontal and vertical business processes being successfully outsourced in the German-speaking insurance market. Insurance firms in English-speaking markets and in France and Italy are much further along by comparison. In vertical sourcing, they already have established strategies for the outsourcing of business processes. IT (AO / IO) is the area where German-speaking carriers are most active in applying alternative sourcing strategies. For instance, Zurich Insurance Company outsourced the development and operation of IT infrastructure (network and workstation services) and applications to external partners as part of its new sourcing strategy. This step reduced infrastructure costs by 45 percent.13

Cost and profitability pressures plus strategic considerations are prompting insurers to adopt new approaches to sourcing. The number and scope of these “run-off” decisions will grow in the years ahead. Originally, this term was mainly confined to business no longer underwritten that is being proactively redeemed. Today it refers increasingly to the management of all contracts which are considered problematic or for which everyone involved agrees that redemption is the suitable step to take. Accenture, Compre, DARAG, and other specialists for winding up transactions are already carving out a place for themselves in this growing market segment and offer professional services.

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13 Gartner Research, 9 September 2009, ID Number: G00167356.
In 2015
The insurance industry will face a shortage of qualified workers
Share of those surveyed in %
- Very unrealistic
- Somewhat unrealistic
- Somewhat realistic
- Very realistic

Successful employer branding (e.g. talent search, training, forging bonds of loyalty with good employees)
Appealing corporate culture for employees and applicants
Share of those surveyed in %
- Sharp decline
- Decline
- Unchanged
- Increase
- Sharp increase

In 2015
Companies will vie intensively with each other for good customer advisors. Acquiring and retaining these advisors will become a central responsibility of distribution management
Share of those surveyed in %
- Very unrealistic
- Somewhat unrealistic
- Somewhat realistic
- Very realistic

16. Insurers will be vying for qualified workers in the future

The insurance industry has long been aware of changing demographics and their effects on retirement planning. So far, they have focused much less on how this change would affect the work world. The German national statistics office predicts that about 40 percent of the labor force in 2020 will be 50 or older. The portion of young workers will decline accordingly. AGV, the employer association for German carriers, reports that an employee in the German insurance industry in 2008 had an average age of 41.2 years. Ten years earlier, the average age was 38.1. Age distribution within companies is consequently shifting in the direction of the 50+ generation. Companies will in all likelihood be vying with each other for young talent.

The majority of survey respondents recognize that coping with this demographic change will be a crucial aspect of staying competitive. More than half of respondents believe insurance companies will face a shortage of qualified workers by 2015 (Figure 36). Respondents say it will be increasingly important to have a corporate culture that appeals to employees and applicants (Figure 37). Insurance companies will have to redouble their efforts to project an appealing image on the labor market and create an appealing corporate culture. Other industries are already using an array of tools. Examples include personnel marketing, employer branding and succession planning, age-appropriate workplaces and work hours, private retirement planning and career planning, life-long learning and systematic knowledge transfer.

A qualified, motivated and high-powered sales team is especially vital to growth in mature markets. Competition among insurers for qualified workers will become fiercer (Figure 38). Insurance companies will have to answer a number of questions when developing instruments and strategies to counter the shortage of qualified staff. Which qualifications and skills will be needed in the future? How can employees retain their ability to learn and perform as they grow older? What can be done to stir young people’s interest in the company or for a career in the insurance industry? What can be done to instill loyalty for the company in qualified staff or to win them over for the company? Demographic trends can be accurately forecast in general, but companies must take steps now to prevail in the long term in the competition for qualified employees.
The demographic change is being re-evaluated as a factor influencing value creation. Shifts in societal structures are now showing ramifications for the recruitment and loyalty of employees. Insurance companies are stepping up efforts to be competitive in the employer market so they can remain or become attractive to job applicants.

Which trends do the survey respondents believe have lost significance since the study five years ago?

• Contrary to forecasts five years ago, no far-reaching structural changes occurred, emerged or are strongly expected. The consolidation still anticipated in 2005 largely failed to materialize. The only shifts respondents in 2010 predict are stronger positions for market leaders and providers of niche products. Even the enormous financial burdens some insurance companies had to shoulder from the financial and economic crisis did not unleash pressures to consolidate. Nor are any such pressures expected in the near future.

• Pure sales organizations have not won out in the insurance industry. Key competitors have developed differently than expected, particularly with respect to the independence of product providers.

• Technology is no longer the primary innovation driver. Instead, it is viewed as a means to an end, namely, to respond more effectively to customer wants. Customer segmentation and analysis is playing a big role in these efforts, too.

Which aspects of carriers’ value chains and of their products and services do the 2010 respondents rate similarly to the 2005 respondents?

• The insurance segments receive ratings for relative attractiveness similar to those five years ago.

• Retirement planning remains one of the big challenges for the insurance industry. Survey respondents say the earlier trend is continuing. A large portion of customers will not be able to afford sufficient financial security in retirement. The 2010 study confirms macroeconomic and societal trends already identified in 2005, particularly the changing demographics and the revamping of social insurance systems. Carriers active in retirement planning have yet to gain the upper hand over banks despite all the criticism leveled at the latter for their role in the financial and economic crisis.

• The insurance industry may still be far from having a thoroughly industrialized value chain, but there is a strong observable trend toward the standardization and automation of internal processes. Carriers will continue to show great restraint about outsourcing to third parties. What little outsourcing is done will be confined to noncore.

By juxtaposing key findings from the predecessor study “Insurance 2015” conducted in 2005, we can recognize stable long-term trends and identify and analyze new developments that have emerged over the past five years. Also new in the 2010 study was a consumer survey to supplement the view of industry trends.

Which forces of change in the insurance market are more important today than they were in 2005?

• Insurance customers are increasingly customer-centric. A decline in customer loyalty was observed back in 2005. Now, the industry is focusing more heavily on its customers and their changing behavior. As a result, distribution management is now established in top management as a strategic issue. Efficient distribution management is increasingly based on carefully conceived customer analytics. That poses new challenges for the insurance sector. Adopting a multi-channel approach is viewed more and more often today as a mandatory step to improve customer orientation.

• Risk management is one of the few issues to have gained great significance for the industry since 2005. This is a direct result of the financial and economic crisis. It is also a primary area of activity for insurers, not least because of ever-increasing regulation.

• Risk selection is being further refined, as expected in 2005. The more intense focus on risk management has also been a factor in this increase. One new aspect is that more and more carriers are pursuing a prevention approach in their range of products and services. Five years ago, that was not yet recognized as a business opportunity. Instead of a reduction in product diversity, respondents in 2010 noted a trend toward individualized and flexible products.

As a result, distribution management is now established in top management as a strategic issue. Efficient distribution management is increasingly based on carefully conceived customer analytics. That poses new challenges for the insurance sector. Adopting a multi-channel approach is viewed more and more often today as a mandatory step to improve customer orientation.

Development and change of trends “Insurance in 2015”
Adapt sales model to be customer-centric

Tomorrow’s customers will be increasingly diversified in how they access insurers. These differences will have consequences for insurers’ strategies and models for distribution. The retail sector will see technology-based distribution channels gain the most ground. To participate in potential growth, carriers will have to supplement personalized sales (which will remain important in the future) with technology-based channels. At the same time, customers consider trust and solid advice vital. This is a plus for a personalized sales approach involving competent staff geared to quality. Insurance companies can counter this change in demand within an effective, integrated multi-channel strategy and management system that incorporates interconnected online and offline channels. Efforts to optimize the development and use of customer and sales data are just beginning. The goal is to have integrated data analytics covering all distribution channels. The system must make available comprehensive, consistent and up-to-date sales data across the entire sales organization. Building on these efforts, the industry can improve customer segmentation based on multidimensionality and risk profiles. Segmentation can help the sales team to reach the right customer with the right product at the right price through the right channel. The insurance sector can expand ways of increasing the potential for selling across segments and distribution channels. Insurers must be willing to put their sales model to a fundamental test. That is critical to success. After all, tomorrow’s insurance customers want the product and service range, the advisory services and the distribution they are offered to be centered on their needs and on solutions to meet those needs. Insurers should therefore drop sales models divided strictly by segment and product in favor of integrated concepts. Overall, changes in customer behavior give carriers a number of possible starting points for differentiating themselves in terms of competition and profitable growth in otherwise saturated markets.

This study covered a broad range of current issues in the German-speaking insurance industry and took stock of the current situation in the insurance markets. The comparison of findings from 2005 and 2010 also made clear that the market dynamics of recent years have shifted the coordinates in the insurance industry.

Insurance companies must now plan for new challenges. Chief among them will be risk management, changing customer behavior, the development of distribution channels and value creation. To which challenges should decision-makers in the insurance industry pay special attention? What action should insurance companies take?

Recommendations for action
Set up integrated risk management
Overall, the insurance industry has been relatively successful in dealing with the consequences of the financial crisis. Nonetheless, the crisis has dramatically illustrated how closely intermeshed individual types of risk are in the insurance business and how mandatory it is to view and manage these risks in this context. The only way insurers can meet this challenge is with an effective risk management system. Besides providing transparency about risk exposure in all business segments, this system must be able to determine group aggregations and diversifications and integrate the relevant risk-adjusted management information into the business strategy and decision-making processes. To do so, risk management must be anchored in top management as a strategic issue.

The industry must overcome its narrow and confined view. Processes are often still highly fragmented in terms of organization, process and system. Insurers must move away from this fragmentation and toward integrated enterprise risk management. The risk management system must be fed comprehensive and comparable quality-monitored data from across all segments. This need often results in a simplification of risk and finance architectures and an integration of quantitative and qualitative risk management methods and tools. Besides performing tasks strictly related to compliance, the risk management system must be proactive in providing top management with tools to help it make decisions. These tools must enable insurers to allocate capital based on risk and return and to manage product and capital investment portfolios in a risk-adjusted way.

Step up their use of industrialization and outsourcing
The German-speaking insurance market has pushed standardization and automation of internal business processes in recent years. An increasing number of insurance carriers have used these approaches to generate potential for growth, efficiency and productivity. These efforts will become even more urgent in the future and remain a priority for management. Survey respondents predict mounting cost and profitability pressures for the industry. They also expect a business environment in which a company’s success will depend increasingly on risk-based core business contributing stably to profits. The management is called on to identify the major strategic levers of business. In doing so, it cannot rely solely on strict cost management, which tends to involve short-term action. Instead, managers will have to make further progress in industrializing the value chain and recognize that a suitable transformation of the organization (business process management) is a factor critical to success. The next logical step for insurers to take to realize sustainable cost and efficiency potential would be to outsource value creation processes in core and support areas to specialized service providers.

Take new approaches to personnel policy
In the years ahead, insurance companies will feel the effects of demographic change not only actuarially. The shrinking pool of young and talented employees and applicants will also be a challenge to their personnel policy and strategy. Successful players in the industry will devote greater effort to solving this problem in the years ahead and give it higher priority in their strategic planning and operational measures. Conventional formulas will not be enough in this fight to recruit the best talent. Special work-time models and other existing personnel tools must be expanded and supplemented with innovative personnel policies such as talent management or models for performance incentives. With targeted branding in the labor market, the insurance companies should be able to improve the efficiency of personnel recruitment, the quality of applicants and the long-term loyalty of employees. This will set them apart from the competition in positive ways. In many instances, this brand creation is developed and implemented as part of a more comprehensive program involving corporate social responsibility. Thus insurance companies will have new ways of enhancing their appeal as employers for employees and applicants in the more competitive environment and in direct competition with other sectors.
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