

Asia/Pacific Top 10 Strategic Initiatives for Insurance in 2008

The Year of the Customer



A/P Top 10 Strategic Initiatives for Insurance in 2008: Talking Points

Top 10
2008

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1. Top 10 Initiatives: What are these?

1

An annual listing of strategic initiatives for Asia/Pacific insurers.

2

Issues integrate business strategies with their technology-related initiatives.

3

Focus is on key strategic approaches. Does not necessarily correlate with highest IT outlay.

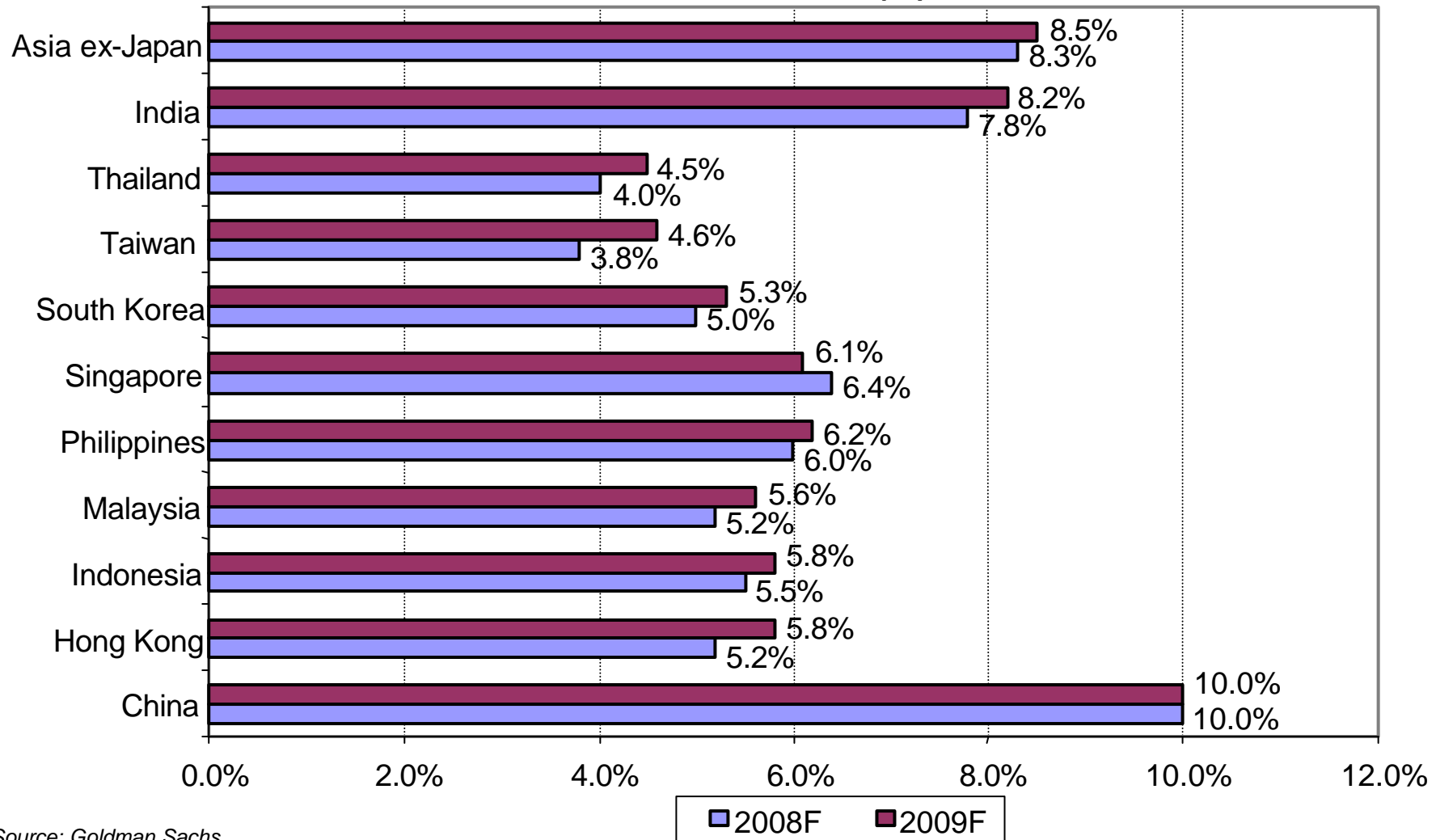
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Offers a benchmark for insurers to compare & contrast with their own initiatives.

2. Situation Overview for 2008

Excellent growth prospects

Annual GDP Growth (%)



Source: Goldman Sachs

Explosion of the Asian insurance industry

Insurance Premiums per Capita & YoY Growth by Country, 2006

Countries	Life business (US\$ premiums /capita)	YoY nominal growth in life business (%)	Non-life business (US\$ premiums /capita)	YoY nominal growth in non-life business (%)
Japan	2,829	-4.20%	760	-2.00%
Hong Kong	2,456	18.50%	332	4.70%
Australia	1,389	8.70%	1,192	-0.10%
Taiwan	1,800	6.30%	450	1.20%
S Korea	1,480	19.10%	591	18.30%
Singapore	1,617	7.90%	341	6.00%
Malaysia	189	8.80%	103	6.60%
Thailand	60	10.60%	50	13.30%
China	34	13.90%	19	25.20%
India	33	64.80%	5	20.50%
Indonesia	13	32.40%	9	6.50%
Philippines	13	22.70%	8	25.80%
Vietnam	6	2.20%	5	19.10%
Average YoY nominal growth		16.30%		11.20%

Source: Swiss Re, Sigma No 4/2007

Explosion of the Asian insurance industry

- Leading the industry is **China**.
 - China has already leapfrogged to **Asia's 3rd largest insurance market** after Japan & South Korea.
 - Projected to become the **world's leading market within a decade**.
- Other countries in the spotlight: **India, Thailand, Malaysia, Indonesia, Singapore, Vietnam**.
- Some are attracting attention because of **liberalization & removal of competitive barriers**.
- A/P is emerging as a new powerhouse of the global insurance industry.

3. 2008 Top Initiatives for Insurance

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1. **Improving customer experiences**
2. **Distribution channel management**
3. **Transforming legacy core systems**
4. **Investing in online insurance portals**
5. **Data integration & management**
6. **Growing through acquisitive expansion & partnerships**
7. **Cost containment**
8. **Business performance transformation**
9. **Fraud management**
10. **Risk management & compliance**

The initiatives fall into 3 areas:



2008 Top Initiatives for Insurance: 1. Improving customer experiences

- With demanding clients & intensifying competition, insurers have to **appeal to customers.**
- Carriers comprehend the value of CRM & are **investing in analytics to provide an enhanced customer experience.**
- They are **identifying profitable market segments & reengineering less lucrative sectors.**
- **3/4 are raising business intelligence (BI) budgets** - spending on staffing, software, consultants & systems integrators.
- **Challenge on improving customer experience** lies in **shortage of data quality & quantity.** This includes:
 - Determining & extracting the appropriate data,
 - Creating a holistic view of customers,
 - Leveraging information for analysis & segmentation.

2008 Top Initiatives for Insurance: 2. Distribution channel management

- Insurers are **utilizing a multi-channel distribution strategy** to reduce reliance on traditional agent network.
- Bancassurance for e.g., offers facilities to tap banks' extensive customer network & brand equity. It accounts for **47% of premiums in Korea, 45% in Malaysia, & 25% in Singapore & Hong Kong.**
- Consequently, **focus this year is on ensuring the ease of conducting business with insurers.**
- Insurers **need to attract & retain distribution channels** by incorporating value-added services, marketing & sales support tools.

Tools to attract distributors:

- Provide alert on cross or up-selling opportunities
- Create prospecting letters & sales scripts for sales campaign
- Prepare marketing collateral
- Help solicit new or service existing customers



2008 Top Initiatives for Insurance:

2. Distribution channel management (con't)

Tools to help them acquire & retain customers:

- Assist in financial need analysis
- Provide tools to customized product portfolios & calculate accurate quotations
- Offer easy access to product specialists
- Reduce proposal turnaround time with online submission & exception-based underwriting
- Reduce policy lapses or premium defaults via producer-defined system alerts



Tools to retain distributors:

- Offer attractive commissions & competitive premium rates
- Incentivize right behavior by giving more visibility into KPIs
- Introduce innovative training schemes like e-learning programs



- Channel management will be a **key initiative among progressive carriers going forth.**
- Those with more efficient channel management strategies will **secure more new & repeated clientele.**

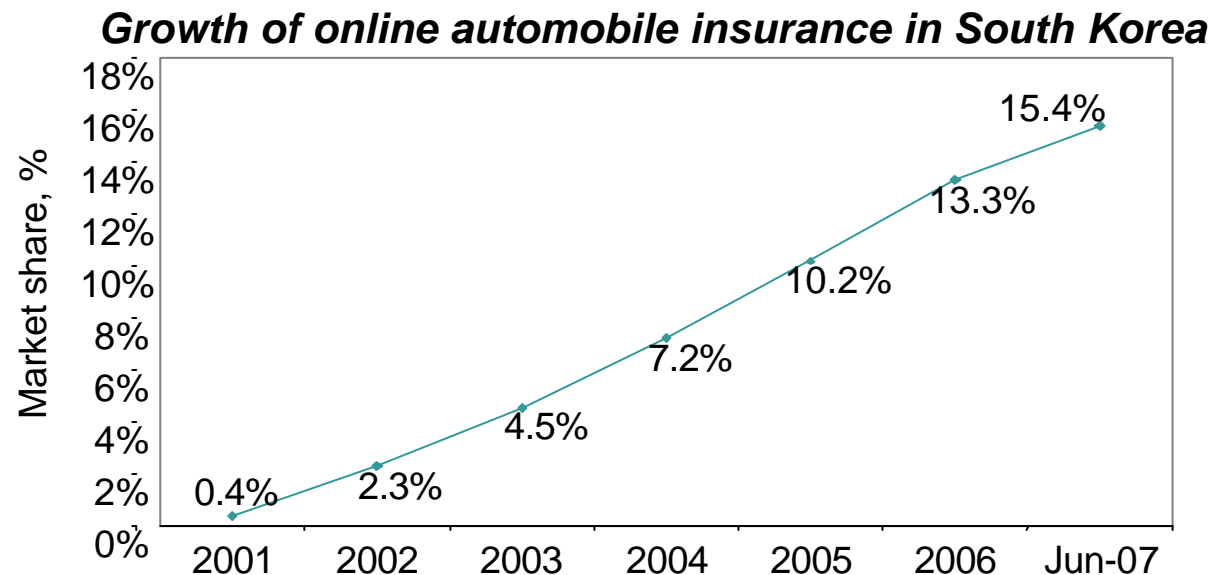
2008 Top Initiatives for Insurance: 3. Transforming legacy core systems

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- Issues arise from **legacy IT systems evolving haphazardly** over the last 20+ years.
- However, **decommissioning & replacing systems require major investments**. These support mission-critical operations that cannot be disrupted.
- Most are **adopting a progressive replacement** to minimize risk & implement systems quicker. They are replacing parts in stages, targeting key pain points like claims & rating/quoting systems.
- Enhancements must:
 - Be comprehensive, yet available as independent modules to complement existing IT architecture,
 - Have open, multi-faceted, expansible applications to scale,
 - Have end-to-end processing capability, & feature automate processes.
- These could possibly be **web-based applications** to allow for easy interface with incumbent systems.

2008 Top Initiatives for Insurance: 4. Investing in online insurance portals

- There is an increasing popularity for **online channel for insurance (e-surance)**.
- The internet provides cost efficiencies & generates savings, some of which are passed on to Internet-savvy customers.
- **E-surance's market share expanded dramatically** as carriers focus on revenue generation over the web.
- In Korea for e.g., online automobile insurance's share of non-life insurance premiums **surpassed 15% in 2007**.



Source: Korean Non Life Insurance Association (KNIA), 2007

2008 Top Initiatives for Insurance:

4. Investing in online insurance portals (con't)

- With aggressive expansions, concern are being raised over **fears of overheating competition** which might damage the price merit of e-surance.
- For instance, spectacular growth in Korea was **achieved via providing low-priced insurance, often at a 10-15% discount.**
- Insurers need to look beyond competing on price, to **focusing on differentiation through customer satisfaction.**
- This includes **adopting technology, distribution, & marketing systems** that enable customers to view instantaneous quotes, purchase policies, & communicate with agents online.

2008 Top Initiatives for Insurance: 5. Data integration and management

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- Insurers **possess massive amounts of fixed & unstructured data.**
- Having highly fragmented data leads to inefficiencies & compromised information quality. Insurers are **thinking more strategically about creating more structured information.**
- They are embracing **information life cycle management (ILM) to apply policies, processes & tools to manage the flow of information over its lifespan.**
- ILM promises to **deliver the right information to the right device at the right time** & helps generate more value from data repositories.
- Incorporate ILM-specific software into their offerings to automate storage categorization or retrieval are vendors such as EMC, Microsoft, Cisco, IBM, HP & Symantec.

2008 Top Initiatives for Insurance:

6. Growing through acquisitive expansion & partnerships

- Asia’s organic growth remains strong, but recent years have witnessed **acquisitions by international insurers or incumbents** from the mature markets of Australia, Taiwan, Japan, & Korea.
- Following its ascension into WTO, **China continues to be a preferred expansion option** for international players.
- An easier means to expand into emerging markets is **via joint ventures or partnerships with local insurers.**

Selected Strategic Partnerships by Insurers in Asia, 2007

Country	Date	Description of the Partnership
India	March 2007	3-way JV between HSBC Insurance (Asia), Canara Bank and Oriental Bank of Commerce.
China	June 2007	China Life and Franklin Templeton Investments opened their Hong Kong-based asset management company, China Life Franklin Asset Management Co
Taiwan	June 2007	Taishin Financial Holding Co. Ltd. and AEGON NV JV to develop and distribute life insurance and pension products in Taiwan.
Malaysia	June 2007	JV between CIMB Group and Aviva Plc.
India	July 2007	Diversified conglomerate Rajan Raheja Group (RRG) and Australian QBE Insurance Group JV to establish a general insurance company in India.
China	September 2007	HSBC Insurance (Asia) and Beijing-based strategic partner National Trust Limited for a JV insurance company in China.

2008 Top Initiatives for Insurance:

6. Growing through acquisitive expansion & partnerships (con't)

- With no shortage of foreign entries, **competition can only intensify.**
- This will manifest in prices, customer relations, innovative sales methods, creditworthiness, underwriting criteria, etc.
- Carriers will continue with such expansions & partnerships, but **need to ascertain any collaborations are symbiotic.**
- For instance, the **domestic partner** provides knowledge & experience on the **local market & works on developing government relations**; the **foreign peer** leverages its **technical expertise & best practices** in processes & systems.

2008 Top Initiatives for Insurance: 7. Cost containment

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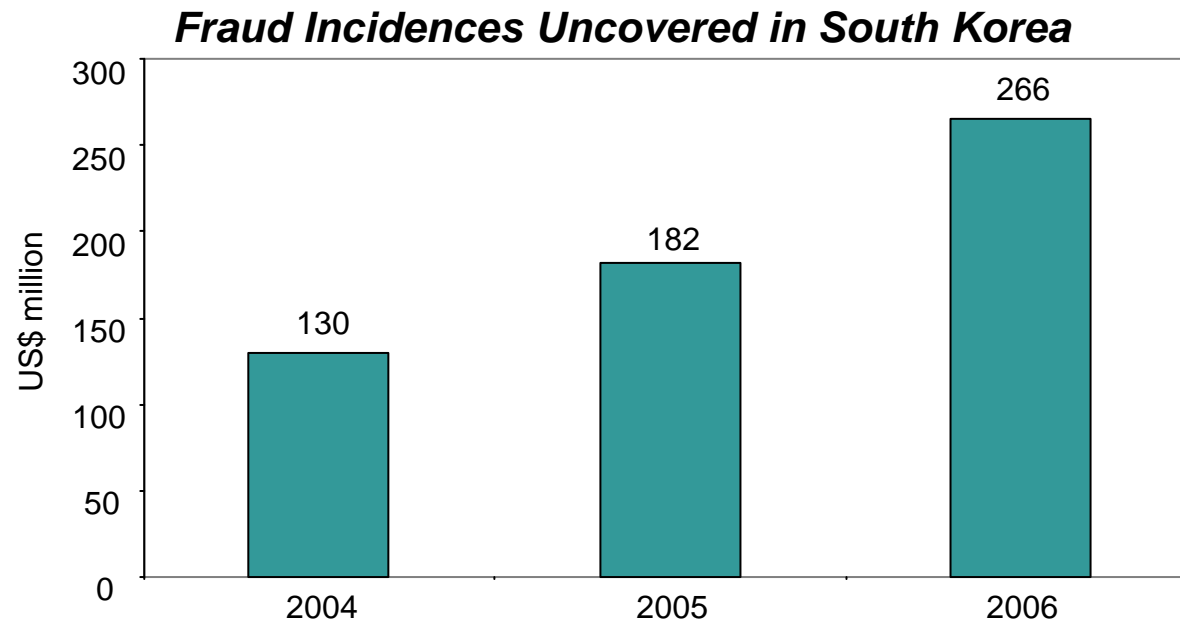
- With liberalization comes **heightened competition & increased cost pressures.**
- Ballooning cost stems from:
 - Operation of siloed IT applications & incremental cost of legacy systems,
 - Projects that suffered cost overruns,
 - Expansions & acquisitions,
 - Underwriting losses engaging in price wars.
- Insures are on a **cost-control mode**. Steps are taken to:
 - Improve underwriting capabilities & adhere to underwriting disciplines,
 - Enhance risk management,
 - Implement STP to create more effective management of claims & processes.
- Cost containment programs are delicate issues. Most would require **spending more before seeing the associated cost savings.**

2008 Top Initiatives for Insurance: 8. Business performance transformation

- Business process transformation or business process reengineering (BPR) is crucial to **weed out inefficiencies, improve productivity, & optimize business performance.**
- Unfortunately, BPR efforts are sometimes ineffective. Insurers may **implement IT systems without realignment of process flows, rationalization of activities, or fine-tuning of structures.**
- Consequently, existing processes do not get fine-tuned. We envision **insurers focusing more on this reengineering element.**
- Successful insurers **engage their employees in the transformation process,** & help them overcome any cultural resistance.
- They also have **highly collaborative reengineering techniques between business & IT divisions.**

2008 Top Initiatives for Insurance: 9. Fraud management

- Insurance losses from fraud **accounts for 5-10% to total insurance costs.**
- In Korea for e.g., insurance fraud (predominantly accident insurance fraud) **surged 46% YoY in 2006 to 35,000 incidents worth US\$266 million.**
- This is weighing down profits & **often cited as one of the major causes for chronic losses at Korean carriers.**



2008 Top Initiatives for Insurance: 9. Fraud management (con't)

- Asian insurers have been **stepping up on fraud prevention & detection efforts.**
- Lending further regulatory clout is **International Association of Insurance Supervisors (IAIS).**
- IAIS published a guidance paper, outlining the **Insurance Core Principal 27 (ICP 27)** which requires supervisors to allocate appropriate resources & implement effective procedures to detect & prevent fraud.
- We also advise:
 - Informing customers of financial & legal ramifications of attempting to defraud the insurer,
 - Investing in perceptive fraud detection solutions & incorporating prevention & detection applications at the design, underwriting & claims stage,
 - Creating shared databases for information exchange.

2008 Top Initiatives for Insurance: 10. Risk management and compliance

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- Companies are increasingly exposed to diverse risk & **need to engage with insurers for their risk-financing mechanisms.**
- Meanwhile, **insurers facing a slew of new initiatives from their regulators.** Hence, carriers need to astutely manage risk.
- A key focus is Solvency II - **full implementation has been delayed to 2012**, but some **Asian regulators are forging ahead with measures to enhance solvency standards.**
- For example, **Taiwan Insurance Bureau revealed plans to adopt Solvency II & IFRS accounting standards** following the collapse of conglomerate Rebar Holdings from embezzlement.
- Solvency II will:
 - Drive IT investments to improve data management & create a cohesive data architecture,
 - Enable an integrated risk reporting framework to appease regulators,
 - Provide invaluable information to devise initiatives around pricing & product selection, etc.

2007 Top Initiatives for Insurance: Recapping the Top Initiatives...

Top 10
2008

Initiatives 1- 5

1) Improving customer experiences

2) Distribution channel management

3) Transforming legacy core systems

4) Investing in online insurance portals

5) Data integration and management

Initiatives 6-10

6) Growing through acquisitive expansion & partnerships

7) Cost containment

8) Business performance transformation

9) Fraud management

10) Risk management & compliance



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4. Key Take-Aways for Insurers

1) Nominate your own top initiatives from our listing.

Not all issues require equally attention. Shortlist based upon your **competitive situation, IT maturity, market conditions, business strategy & risk tolerance.**

Ensure that these **issues are communicated through the organization**, & resources committed into the projects.

To drive commitment & active cooperation, key personnel need **adequate feedback, & KPIs must be instituted** to measure performance correlated to these initiatives.

2) Begin with small, focused investments.

Commence with **small investments & evaluate progress at regular intervals**. Ambitious initiatives rarely succeed.

For instance, when it comes to transforming legacy core systems, a progressive decommissioning of systems is less risky.

3) Have the IT team speak the same language as the business divisions.

Technology is not used for technology's sake. Success from IT investments will be muted without **alignment of IT strategies with business goals.**

Initiatives may begin with the IT team, but **requires ongoing feedback & buy-in from business divisions.**

IT is merely a tool. You still need to **concentrate on operational strengths, have excellent project management framework, & commitment from top-level executives.**

4) Constantly engage with the vendors.

Actively manage your vendor relationships & engage in a constant dialogue to generate maximum partnership value.

This enables vendors to **thoroughly comprehend your needs, better customize updates or administer specific support & staff training.**

Take-Aways for Insurers

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5) Be open to innovation and change.

The insurance industry maybe traditional, but still needs to **continually innovate to capture & exploit new growth opportunities.**

Here, think outside the box & **look beyond your traditional structure or process.**

Seek fresh perspectives & best practices on issues like marketing strategies from outside the industry.

5. Key Take-Aways for Vendors

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1) Be attuned to the strategic themes in the market.

These issues are keeping senior insurance executives awake at night. Your **go-to-market approaches should be based these strategic, tactical & operational planning, & governance issues.**

Formulate conversations with insurers around these topics to **show that you comprehend their pain points** & are in tune with industry developments.

2) Enhance your exposure to the Asian insurance market.

The Asian insurance segment carving an important niche for itself.

Insurers' corresponding IT investments are on the uptick. Our spending guide projects the **software component rising at 5.8% to US\$3.3 billion, & that for services up 5.9% to US\$8 billion in 2008 ***. These figures are massive & you do not want to miss opportunities by neglecting this sector.

Projects relating to **analytics deployment for CRM, channels, enhancement & integration of core systems & applications, & improving operational efficiencies with BPR will fuel spending.**

* See: Doc # FIN208395 "Asia/Pacific Insurance Industry IT Spending Guide", released in August 2007. This is a dynamic query tool for spending forecasts across a broad range of spending segmentations, forecasted for years 2007–2011.

Key Take-Aways for Vendors

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2008

3) Begin by collaborating with the more savvy insurer pacesetters.

These are progressive, technologically savvy, & willing to lead the technological evolution across Asia. **They make excellent pilot institutions.**

Demonstrate strong insurance industry domain expertise, product competency, & executional excellence to pacesetters to capture their business.

Provide proof of concept to demonstrate feasibility. Success with leaders would pave the way for future engagements with followers.

4) Be elastic in offering solutions customizable to insurers' unique business needs.

The key to winning contracts is to offer **skills & products that are comparatively superior compared to competitors' offerings or clients' internal capabilities.**

Customization requires **localizing technology to suit requirement of domestic audiences, & collaborations with selective local service vendors.**



Thank You!

Further Questions?

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For more Information...



Related reports by Financial Insights:

- *Asia/Pacific Insurance 2008 Top 10 Strategic Initiatives: The Year of the Customer* (# FIN210442, January 2008)
- *Worldwide Insurance 2008 Top 10 Strategic Initiatives: It's a Mad, Mad, Mad, Mad World of Insurance Opportunities* (# FIN209565, November, 2007)
- *Bancassurance in Japan: Gearing Up for Liberalization* (# FIN209315, November, 2007)
- *InsureTech 2007 Executive Survey: Insurance Insights for Asia* (#FIN208461, September, 2007)
- *Asia/Pacific Insurance Industry IT Spending Guide* (# FIN208395, August, 2007)
- *Orchestrating the CRM Transformation in Asian Insurers: Focusing on Customer Analytics* (# FIN208072, August, 2007)
- *Asia/Pacific Insurance Industry IT Spending Guide* (# FIN208395, August, 2007)
- *Business Transformation at NTUC Income: Creating the Income System of the Future* (#FIN207368, June, 2007)
- *FinTech Asia 2007 Insurance Executive Survey: Peering into the Crystal Ball* (# FIN206059, March, 2007)
- *Wireless Insurance Strategies: The Pursuit of Further Innovation* (# FIN203745 October, 2006)
- *Insuring Asia's Future Online - The Changing Face of eInsurance* (# FIN201956, June, 2006)