



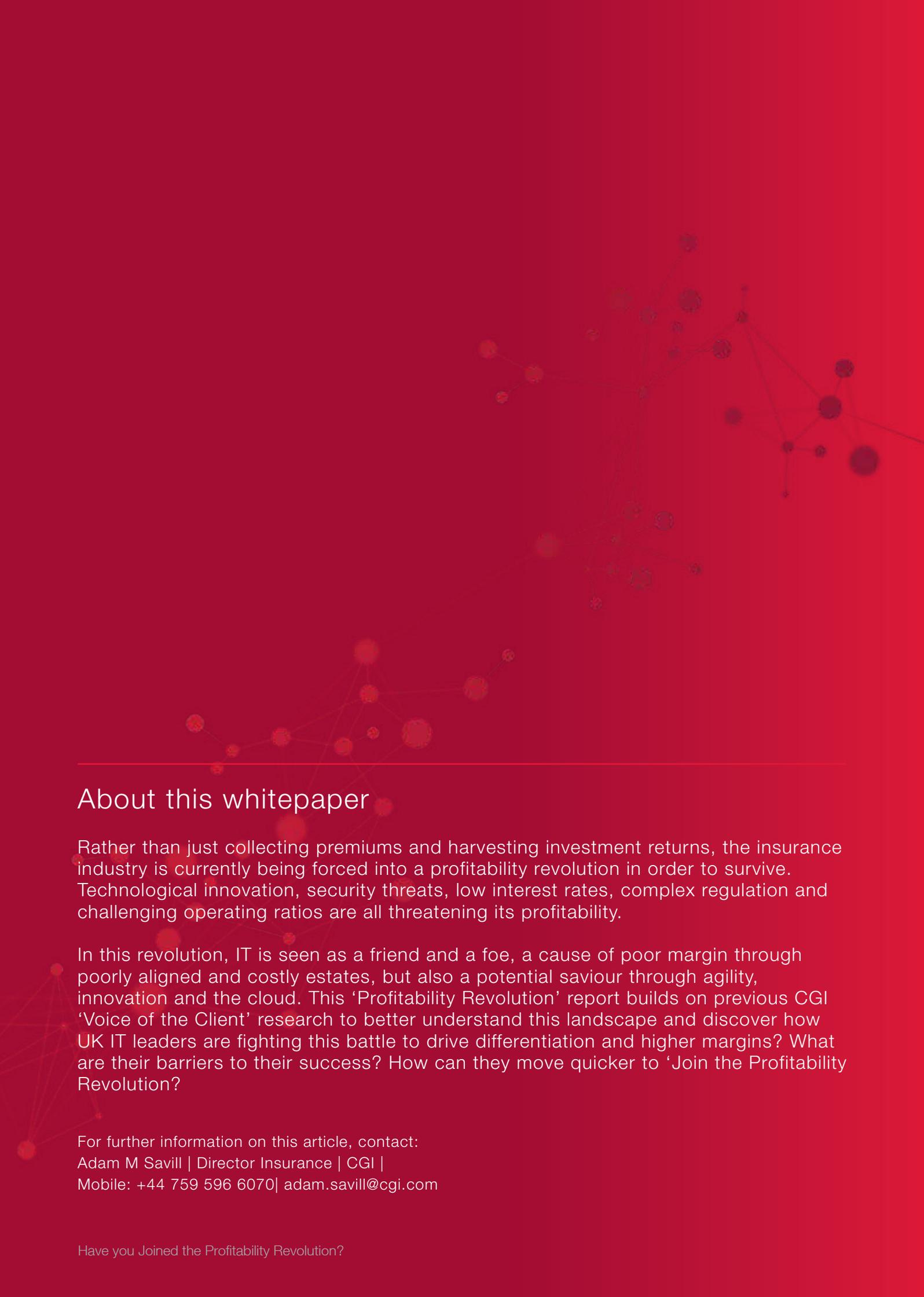
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# Have you Joined the Profitability Revolution?

Driving Cost Reduction in Insurance





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## About this whitepaper

Rather than just collecting premiums and harvesting investment returns, the insurance industry is currently being forced into a profitability revolution in order to survive. Technological innovation, security threats, low interest rates, complex regulation and challenging operating ratios are all threatening its profitability.

In this revolution, IT is seen as a friend and a foe, a cause of poor margin through poorly aligned and costly estates, but also a potential saviour through agility, innovation and the cloud. This 'Profitability Revolution' report builds on previous CGI 'Voice of the Client' research to better understand this landscape and discover how UK IT leaders are fighting this battle to drive differentiation and higher margins? What are their barriers to their success? How can they move quicker to 'Join the Profitability Revolution'?

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Have you Joined the Profitability Revolution?

# Context

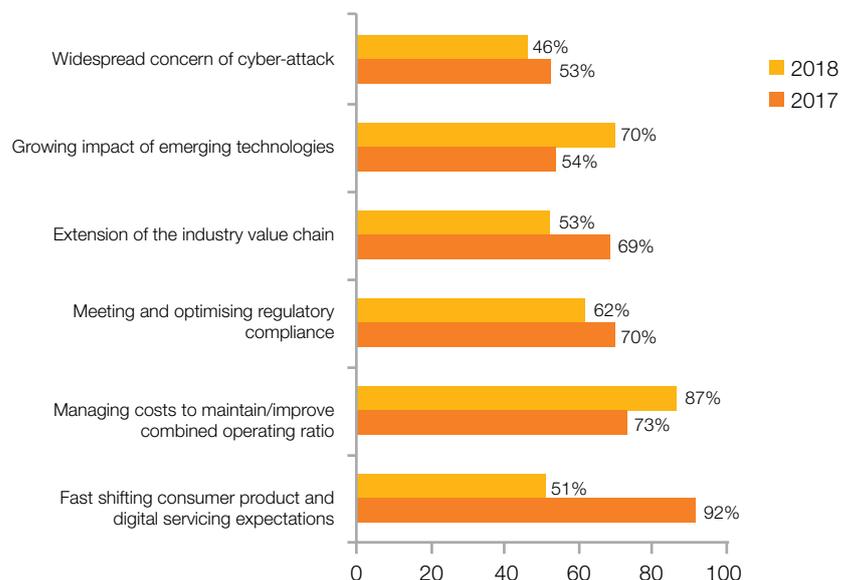
The Insurance Industry is currently engaged in a revolution as important as Lloyd's Coffee House in combining shipping industry players to discuss maritime insurance or the effectiveness of the Great Fire of London in developing modern property insurance to pay for repairs. Instead of coffee and fire, today's catalysts are a combination of technological innovation, security threats, low interest rates, complex regulation and challenging operating ratios. These challenges have forced the whole industry, brokers, insurers and agents alike, to battle to find new ways to write profitable business. Insurers' traditional focus has been on top line revenue growth through more policies and better investment returns, but increasingly the industry is looking to improve the bottom line through better cost management.

In this revolution, IT is seen as a friend and a foe, a cause of poor margin through poorly aligned, out-of-date, costly estates, but also a potential friend through agility, innovation and the cloud. CEOs used to view IT as a cost centre but now look to their CIOs to deliver revenue-generating solutions as well as driving cost competitiveness. Against this backdrop, IT insurance leaders have adopted a variety of strategies including dynamic pricing and channels, agile IT delivery, cloud flexibility, targeted automation and improved Cyber Security. It is the prioritization of these approaches that reveals the perceived strengths and weaknesses of individual organisations.

CGI runs a yearly world-wide study of its Insurance client base called the 'Voice of the Client' covering 75 insurance clients interviewed across 13 countries of which 49% are with the business and 51% with IT. This report, 'Have you Joined the Profitability Revolution', builds on this research to analyse the extent to which these world-wide trends are reflected in the views, strategies and approaches of UK Insurance IT leaders. The table highlights the 2017 and 2018 answers to the question of 'what are the current trends that may be affecting your business' and 'how is your business tackling them in terms of priority' from the 'Voice of the Client' and contrasts them with the 2018 answers from the UK.

**Chart 1 CGI's 'Voice of the Client (2017)' plus the 'Profitability Revolution' (UK 2018)**

The following are current trends that may be affecting your business.  
How is your business tackling them in terms of priority?



The 'Key Take Aways' from this survey in terms of the view of Global responses is that CIOs are focused on fast shifting consumer product & digital servicing expectations, managing costs to maintain/improve combined operating ratios and regulatory compliance. However, the main difference for UK CIOs is less focus on digital servicing expectations and more on the impact of emerging technologies

All CIOs understand the need to reduce costs to take advantage of these trends and turn them from threats into opportunities, but are being held back by poor labour co-operation, lack of sufficient change budget and insufficient senior leadership support. This report will aim to answer how CIOs can truly 'Join the Profitability Revolution' through reducing costs proactively deploying new technology and agile IT.

# Trends

There are a number of global trends that are driving the 'Profitability Revolution' within the Insurance Sector including a flourishing Insurtech scene, a plethora of disruptive technologies, security threats, low interest rates and complex regulation that are increasing the pressure on combined operating ratios. There are certainly regional variations to these trends, such as lower top-line growth in mature markets and emerging markets such as Eastern Europe surge ahead, though volumes are smaller. However, the direction of travel for these is still the same with greater pressure to reduce costs to achieve sustainable profitability.

The 'Voice of the Client' survey highlights the fact that fast shifting consumer products continues to be the highest priority trend affecting Insurance business followed by regulatory compliance and fear of cyber-attack. However, the trend that probably gets most publicity is the introduction of disruptive technologies, such as blockchain, digitisation, robotics and Artificial Intelligence (A.I.). These innovations have not always been developed to meet a specific customer need and the best commercial uses for blockchain, apart from Bitcoin, have yet to be fully exploited. However, digitisation, robotics and A.I. have all been targeted at driving down costs by automating existing processes to deliver them more effectively rather than developing new business models.

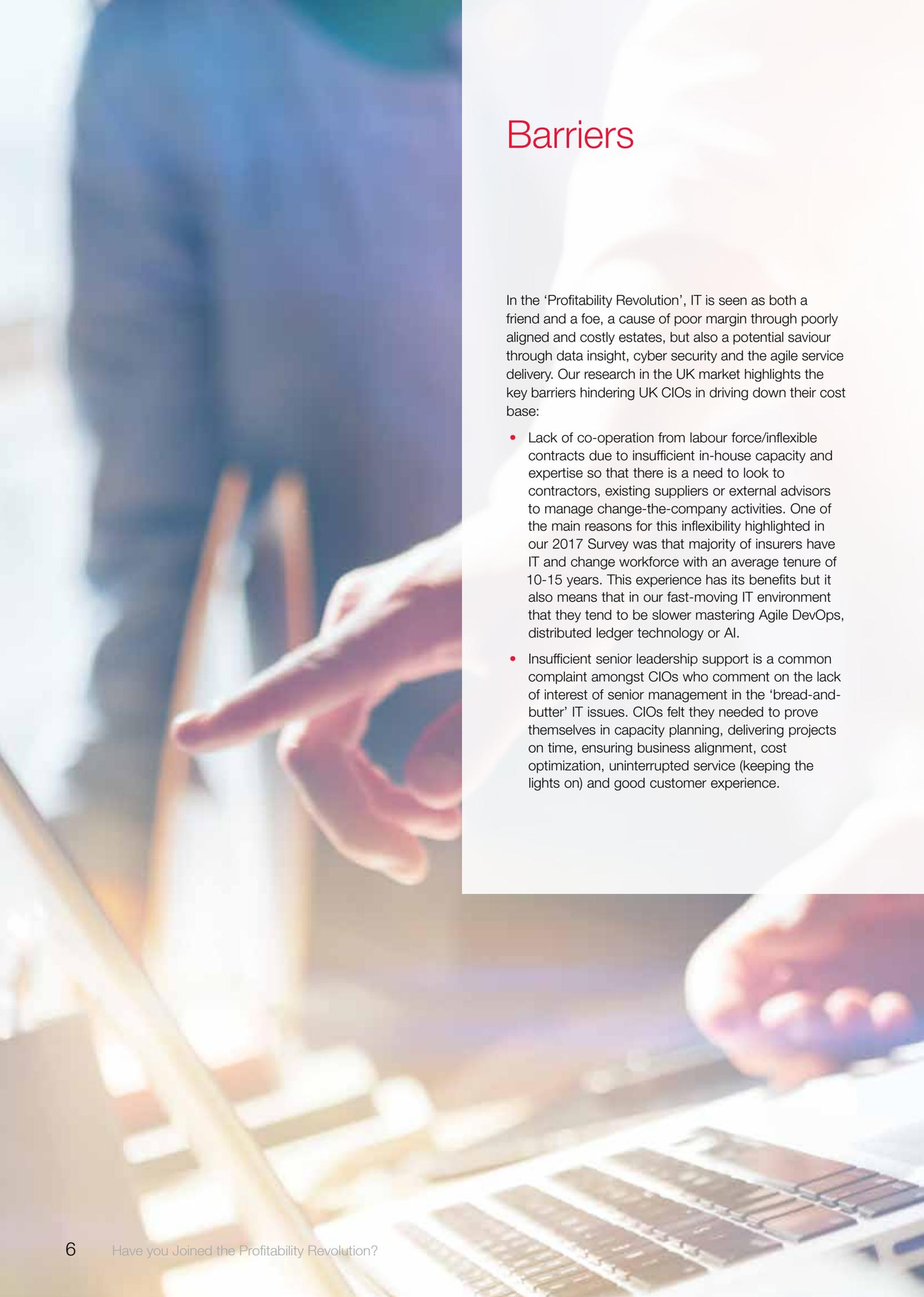
Disrupters from outside of the Insurance industry, perhaps most noticeably Amazon's recent foray into Insurance, have also had a catalysing effect within the industry by increasing expectations from customers, suppliers and partners alike. The huge change in people's experience of digital servicing in fast moving consumer goods has led to a justifiable rise in expectations in Insurance.

The development of telecoms and computer power in hand held devices is another disrupter that has changed the dynamics of the industry in terms of channels to market, pricing and promotion. Customers under the age of 30 expect to use their mobile devices for all commercial and personal interactions and consider letters and shops to be from an analogue age. It is imperative that insurers provide the optimal digital Customer Experience (CX) if they are to remain engaged and relevant with their customer.

No discussion of trends is complete without a reference to the ongoing, costly challenges of meeting and optimizing regulatory compliance. This has become more time-consuming and complex as new regulation covering disclosures, fraud, GDPR and IDD, come into force. The ability to retain passport rights to freely underwrite policies and insure across the European borders will be under scrutiny as UK Insurers struggle to remain compliant with Solvency II, and the implications of Brexit on the regulatory environment are still unclear.







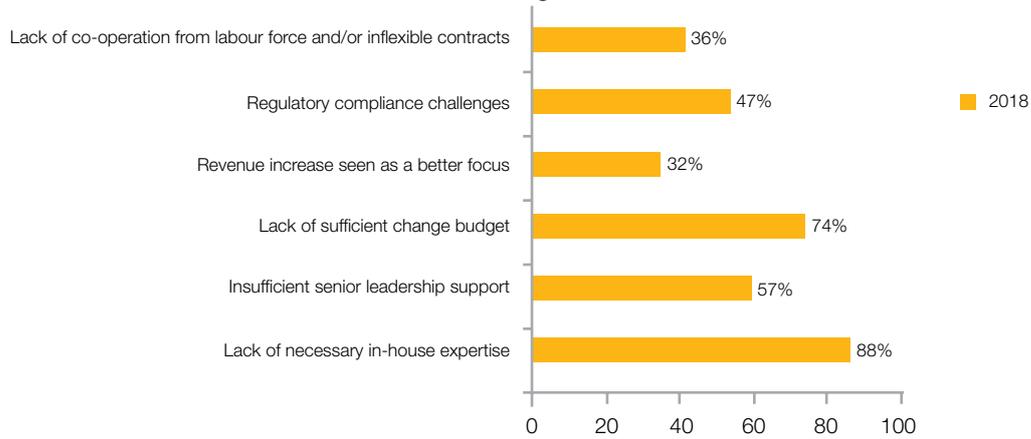
## Barriers

In the 'Profitability Revolution', IT is seen as both a friend and a foe, a cause of poor margin through poorly aligned and costly estates, but also a potential saviour through data insight, cyber security and the agile service delivery. Our research in the UK market highlights the key barriers hindering UK CIOs in driving down their cost base:

- Lack of co-operation from labour force/inflexible contracts due to insufficient in-house capacity and expertise so that there is a need to look to contractors, existing suppliers or external advisors to manage change-the-company activities. One of the main reasons for this inflexibility highlighted in our 2017 Survey was that majority of insurers have IT and change workforce with an average tenure of 10-15 years. This experience has its benefits but it also means that in our fast-moving IT environment that they tend to be slower mastering Agile DevOps, distributed ledger technology or AI.
- Insufficient senior leadership support is a common complaint amongst CIOs who comment on the lack of interest of senior management in the 'bread-and-butter' IT issues. CIOs felt they needed to prove themselves in capacity planning, delivering projects on time, ensuring business alignment, cost optimization, uninterrupted service (keeping the lights on) and good customer experience.

**Chart 2 CGI's 'Profitability Revolution' (UK 2018)**

Please rank how you see the following barriers to achieving cost reduction  
Barriers to achieving cost reduction in 2018



- This also manifests itself in a low change budget as one CIO complained that, despite a budget of tens of millions that none had been allocated to 'change-the-company' projects. In some companies the change elements of IT has been usurped by the business who, as the revenue-earners, would claim the right to investigate new technologies and solutions. This has led to some insurance companies complaining of having effectively dual IT departments, the CIOs' one covering BAU and the businesses covering change the company projects with their own mini-IT teams running 'proof of concepts' or unsupported niche application hubs.

It seems that today's CIOs must fight and win a number of internal battles in order to succeed.

# Winning the Profitability Revolution in 2018

The Insurance Industry is currently engaged in a profitability revolution and UK CIO must take decisive action in order to be in the winning side. Our research clearly shows that CIOs must consider the following three areas:

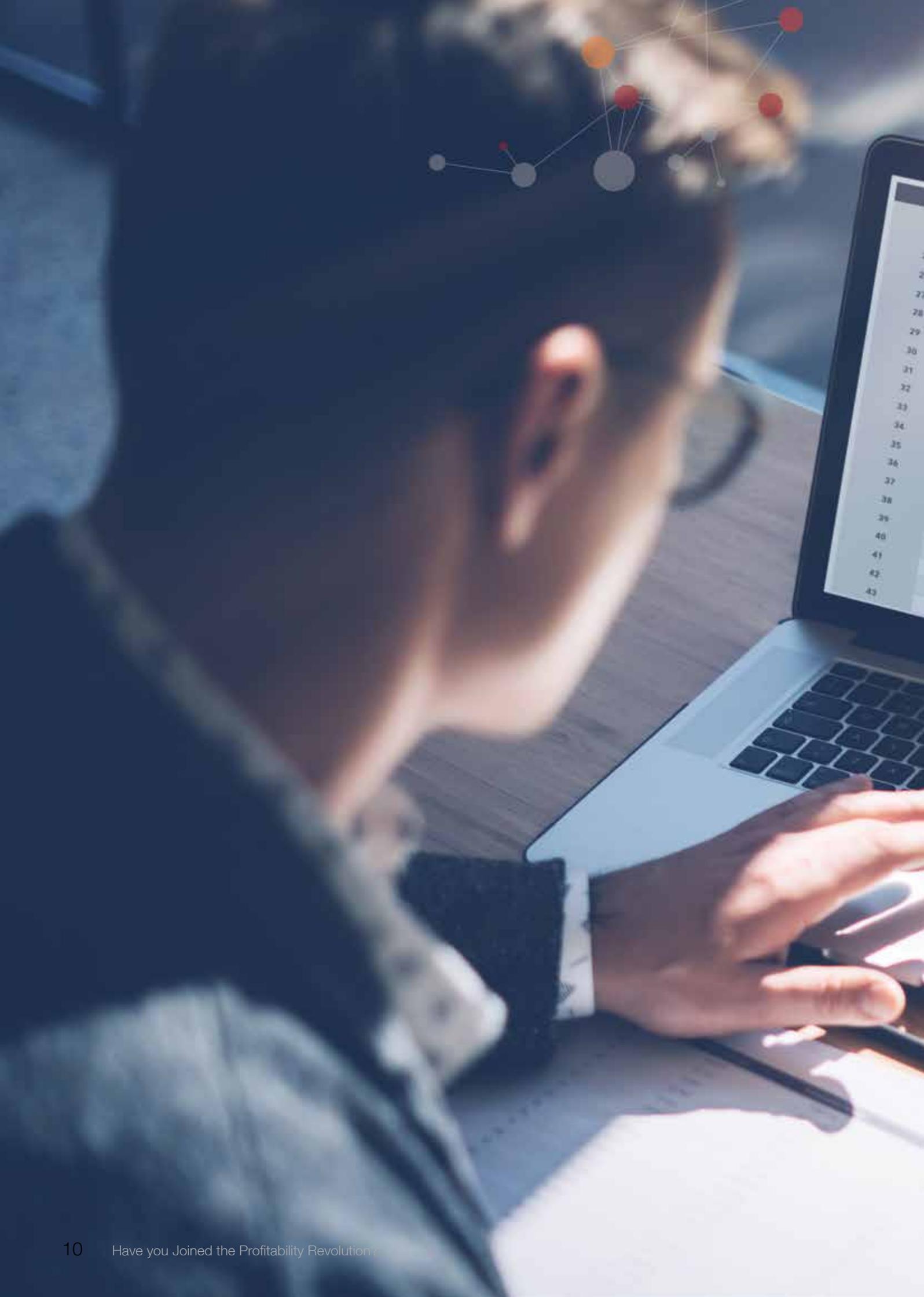
- Firstly, they must manage their existing IT estate better. This they can do through application management (AM), simplification and rationalization to reduce the cost and time take to manage their BAU. This approach can then be supplemented by migrating these consolidated applications to data centre near-shore or off-shore which should be run by external suppliers with specific expertise and cheaper costs
- Secondly, they must unlock their potential of their own data through better data analytics and insight using consistent Management Information (MI) that is aligned to the needs of the business. This can be difficult as insurers use multiple software platforms within different business areas e.g. policy admin or claims systems, but achieving better insight into your own data will be the key to future differentiation
- Thirdly, they need to be more vigilant in maintaining the security of their business systems due to the rise in organised cybercrime, hacktivism and the proliferation of internet-enabled devices. There is no cyber security panacea, but sensible steps such as senior sponsorship, treating it as a business-wide risk, active response teams and demanding improved security from your suppliers will help reduce the risk.

The 'Insurance Industry' is currently going through a revolution because of the catalysts of technological innovation, security threats, low interest rates, complex regulation, multiple data sources and challenging operating ratios. In order to win this 'Profitability Revolution', CIOs are re-thinking the way they approach reducing costs by managing their legacy IT estate better, combining more insightful data analytics whilst developing new ways to combat cyber security threats. Application management, MI and cyber ensure that you gain the most value possible from your legacy investments whilst keeping them secure. It is important to find the right partner to succeed in these key areas. A partner with vast experience in delivering and running AM projects, proven frameworks, methodologies and tools, partnerships with leading solution providers, data insights as well as, Cyber experts and a global delivery model.

CGI works with 7 of the top 10 UK insurers and 8 of the top 10 global insurers, working with more than 160 insurance clients worldwide and offers all of the above. We welcome the opportunity to discuss how your business can benefit from better AM, Cyber and data insight. Please contact me at [adam.savill@cgi.com](mailto:adam.savill@cgi.com) or visit our website at [www.cgi-group.co.uk](http://www.cgi-group.co.uk).







Year	Age	Annual Savings	Cumulative Savings	Monthly Savings Goal
23	47	£2,553		
24	48	£2,776	£482,246	
25	49	£2,857	£511,929	
26	50	£2,943	£540,219	£224
27	51	£3,031	£568,887	£221
28	52	£3,122	£598,065	£218
29	53	£3,216	£627,852	£215
30	54	£3,312	£658,252	£212
31	55	£3,411	£689,269	£209
32	56	£3,514	£720,907	£206
33	57	£3,619	£753,170	£203
34	58		£786,053	£200

## The Author

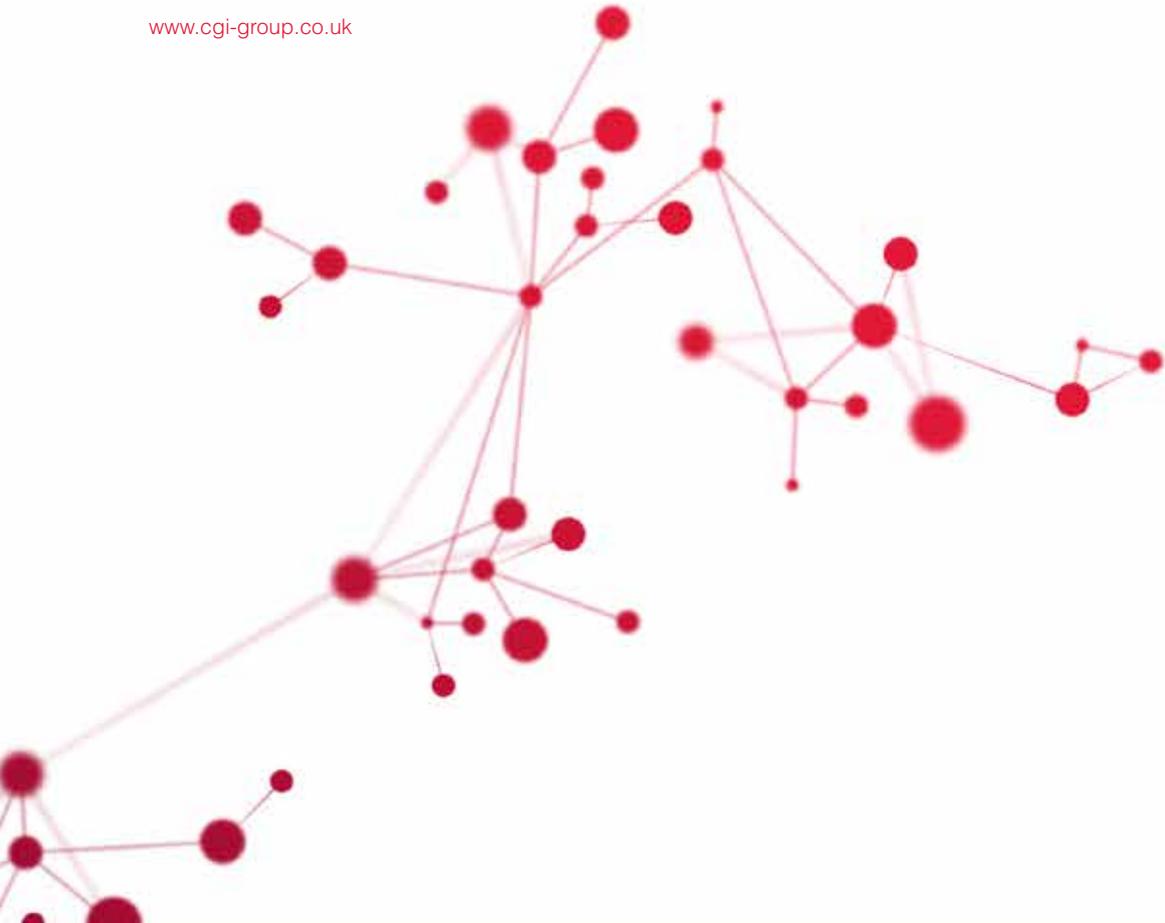


Adam is an ex-CIO and Director in CGI's Financial Services business, managing large financial services' accounts. He has over 20 years experience at CxO level with blue chip customers in the UK, Europe and North America.

Adam is a thought leader who has written several white papers on IT and Business Change such as 'Staying Connected whilst on the Move' and 'Mobility and the Enterprise'.



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A network diagram consisting of red circles of varying sizes connected by thin red lines, forming a complex web of connections. The diagram is positioned in the upper half of the page, extending from the left edge towards the right.

## About CGI

Founded in 1976, CGI is one of the largest IT and business consulting services firms in the world. Operating in hundreds of locations across the globe, CGI professionals help clients to achieve their goals, including becoming customer-centric digital organizations. We deliver an end-to-end portfolio of capabilities, from high-end IT and business consulting to systems integration, outsourcing services and intellectual property solutions that help accelerate clients' results. CGI works with clients around the world through a unique client proximity model complemented by a global delivery center of excellence network to help clients accelerate results, transform their organizations and drive competitive advantage.

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