



Insurance Industry Outlook

The Top 10 Issues in Insurance In 2009

Overview

Earnings growth, strong operating fundamentals and record underwriting profits are all hallmarks of the sustained performance the insurance industry achieved in the past few years. Recently, the industry's solid footing has been weakened by an unprecedented chain of financial and economic events. As they head into 2009, insurers will not be able count on continued investment returns to drive results and need to carefully scrutinize the overall effectiveness of their operations. Thought leaders within these organizations are examining the business issues that will influence continued success and focusing on tactical opportunities to improve their business performance.

The Top 10 Issues in Insurance

1. Being competitive in a price driven market
2. Maintaining compliance with changing statutory, federal and international regulations
3. Creating a consistent customer experience that promotes customer acquisition and retention
4. Promoting "ease of use" across varied lines of business and distribution channels
5. Effectively mitigating and managing regulatory reviews, fines and penalties
6. Managing product development and life cycle components effectively
7. Increasing growth with decreasing levels of support resources
8. Increasing work automation, process efficiency and continuous improvement opportunities
9. Building consistent processes that can be extended across products or lines of business
10. Optimizing legacy and mainframe system environments

About this Survey

Pegasystems conducted a survey of insurance industry leaders and asked them to share their views on the "**Top Ten Issues in Insurance**" for 2009. The goal of the survey is to provide insight into the business challenges these leaders forecast and are working to address in 2009. Survey participants were asked to rank how important these issues were to their 2009 business objectives. The survey respondents covered a broad range business and technical professionals from all lines of business within the insurance industry.

Key Themes for 2009:

- **Competitive Pressures are Intense** – In a crowded marketplace, an insurer must execute flawlessly to make gains on the competition. With buyers viewing insurance products as commodities, the ability to compete more effectively or differentiate their value to customers is crucial to an insurers continued success.
- **Need to Increase Business Agility** - Business agility is a strategic imperative as insurers try to respond quickly to changing business needs, governing regulation or the competitive marketplace. Insurers must build new agility into rigid and inflexible infrastructures in order to address these needs effectively.
- **Focus on Customer and Partner Experience** - Insurance companies understand all too well the impact a negative customer service experience can have on their bottom line. As a result, many carriers are working to improve their customer service and deliver a cohesive service experience to customers and business partners such as agents, brokers and consultants.

Top 10 Issues in Insurance in 2009

The following list comprises the Top 10 Issues that insurers are working to address in 2009 (as ranked by survey participants).

1. Being competitive in a price driven market

100% of survey respondents ranked being competitive in a price driven market "important or higher". In a marketplace full of options, it is difficult for insurers to differentiate the products and services that they offer. The industry has made great strides developing new products or offering unique services to complement their traditional product mix. Innovative products such as long term care or "pay as you drive" insurance offer a compelling value, but purchase decisions usually boil down to a simple comparison of price. With products that are viewed as commodities, it adds to the challenge insurers have of attracting and retaining good customers. Insurers are working to meet this challenge by differentiating their products, improving customer service and reducing their internal cost structure.

2. Maintaining compliance with changing statutory, federal and international regulations

96% of participants ranked maintaining compliance with changing regulations "important or higher". Amongst the most highly regulated industries in the world – with regulatory agencies at all levels of government - insurers will likely face increased oversight in the days ahead. This isn't a small challenge considering insurers are already dealing with Sarbanes Oxley, Solvency II and the possibility of an Optional Federal Charter. Carriers are scaling to meet these challenges by improving the processes that control and manage compliance within their organizations. A key to making these efforts a success is to build not only control, but flexible processes that give insurance organizations the agility to address ongoing compliance changes.

3. Creating a consistent customer experience that promotes customer acquisition and retention

88% of respondents ranked a consistent customer experience "important or higher". Insurers often have one opportunity to make a positive impression on a customer - an interaction that can have implications on future purchase decisions. When you factor in the costs to acquire and retain good customers, these are interactions that insurers must get right. Many carriers are working to understand current or prospective customers better by developing a 360 degree view that illustrates a customer's intrinsic value or potential needs. This consolidated perspective provides insurers with a means to anticipate a customer's needs, tailor service based on customer value and initiate appropriate cross sell or up sell opportunities.

4. Promoting "ease of use" across varied lines of business and distribution channels

88% of respondents felt that "ease of use" is "important or higher". Historically, insurance companies have not been known for making things easy on their business partners and customers. The "ease" with which customers or distribution partners can do business with an insurer often positively or negatively influences their willingness to select that carrier. As technology advances, agents, brokers and consultants are demanding that new business submissions, policy changes or claims processing be easy to manage and track. Carriers are adapting to the multi-channel needs of their distribution partners and working to deliver a cohesive experience across contact centers, e-mail, web, mail.

5. Effectively mitigating and managing regulatory reviews, fines and penalties

87% of respondents ranked mitigating and managing regulatory concerns "important or higher". Risk mitigation is a key business driver for any insurance organization- especially when it comes to regulatory oversight and compliance. In addition to being costly, regulatory reviews, fines and penalties can negatively impact an insurers brand and growth prospects. Process control is an essential component of an insurers risk mitigation practices. Insurers are taking control of their internal processes to better identify operational risks before they happen and proactively address issues that present themselves.

6. Managing product development and life cycle components effectively

83% of respondents ranked product development and life cycle management "important or higher". In complex insurance organizations, product lifecycles can be difficult to manage. Product development efforts require alignment across functional areas such as distribution, sales, underwriting, claims, financial and legal - to name a few. Consequently, the product development process can be disjointed and lengthy – limiting an insurer's ability to capitalize on new opportunities or changes in the market. Insurers are seeking to improve their product development processes by aligning their organizations to deploy and manage products with greater effectiveness.

7. Increasing growth with decreasing levels of support resources

83% of respondents ranked managing growth "important or higher". The insurance industry is navigating one of most challenging business environments in recent history. In this new marketplace, insurers will have opportunities to grow organically and through acquisition alike. While opportunities

remain, insurers will be tasked to achieve this growth with fewer resources than they have had access to in the past. In order to handle increasing volumes, insurers are working to improve productivity by optimizing how work is handled in both front and back end operations.

8. Increasing work automation, process efficiency and continuous improvement opportunities

79% of respondents ranked increasing work automation, process efficiency and continuous improvement “important or higher”. By nature, insurance is a people intensive business. Insurance organizations rely on the collective skill and experience of their workforce to help them manage their business effectively. Consequently, an insurer’s work environment is often highly manual with processes that are difficult to measure - never mind control or improve. Insurers are looking at new opportunities to improve inefficient back office operations; incorporating the knowledge of their best workers into automated work processes. Carriers are using things like straight through processing to automate low complexity work processes; freeing up resources to focus on the exceptions with greatest cost implications to their business.

9. Building consistent processes that can be extended across products or lines of business

67% of respondents ranked building consistent processes “important or higher”. Multi-line insurance companies have a host of products tailored for a distinct customers, market segments or lines of business. Often times these processes, and the systems supporting these processes, have been developed to suit the unique needs of that product line or market segment. Insurers have a tremendous opportunity to leverage the inherent similarities within these processes to extend and reuse process components across products and lines of business. For example, there are many common elements within a personal or commercial auto claims processes – common processes that insurers could reuse in both lines of business. Insurers are identifying opportunities to build a foundation of common processes that allows them to extend and specialize new business processes with greater consistency and speed.

10. Optimizing legacy and mainframe system environments

61% of respondents ranked optimizing legacy systems “important or higher”. Perhaps more than any other industry insurance companies rely on legacy systems to help them manage their day-to-day operations. Insurance back offices are supported by inflexible and outmoded mainframe system environments that can’t keep pace with the needs of the business. These systems can be expensive to maintain and often inhibit an insurer’s ability to drive operating

improvements and efficiencies. While their functionality may be limited, legacy systems remain valuable sources of data, intellectual property and competitive differentiators – core business functions that are difficult to replace. Insurers are aggressively pursuing new solutions to pull the good aspects of these systems into far more efficient and agile business environments.

How can Pegasystems SmartBPM® for Insurance help insurers address these issues?

Twelve of the top 20 U.S. insurance carriers have chosen Pegasystems to perform a wide range of applications from new business to underwriting, rating, claims, customer service, and marketing. While their needs are different, they have all chosen Pegasystems for the same reason; Pegasystems drives the growth of their business by enabling them to optimize processes iteratively. Organizations can do more than react to change, they can “Build for Change®”, implement solutions in quick order, realize ROI quickly, and enjoy increasing returns on a continuous basis.

Carriers choose Pegasystems rules-driven SmartBPM® to power their most rules-intensive processes to insulate users from back-end systems and orchestrate processes across the organization, moving applications and claims from specialists in the front-office to the appropriate resources in the back-office. SmartBPM provides insurers with the tools they need to automate work, and also manage change to drive the efficiency and effectiveness of their business.

About Pegasystems

Pegasystems (NASDAQ: PEGA), the leader in Business Process Management, provides software to drive revenue growth, productivity and agility for the world’s most sophisticated organizations. Customers use our award-winning SmartBPM® suite to improve customer service, reach new markets and boost operational effectiveness.

Our patented SmartBPM® technology makes enterprise applications easy to build and change by directly capturing business objectives and eliminating manual programming. SmartBPM® unifies business rules and processes into composite applications that leverage existing systems – empowering businesspeople and IT staff to Build for Change®, deliver value quickly and outperform their competitors.

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