

A world of change is affecting the insurance sector and the products it offers. As insurers adapt to economic turmoil and other forces affecting their business – in part by embracing new technologies and raising the bar for insurance advisers and brokers – shifting consumer demands are also driving innovation in new insurance products. For insurance companies and the clients they serve, the dynamics are worth tuning into.

INSURANCE TRENDS 2008

The global economic crisis will not leave the insurance sector unscathed, industry analysts agree. But as companies reposition themselves to compete for customers through new products and services, the main driver of innovation will continue to be technology.

In a report published last month, Celent, the Boston-based strategic consulting firm, said that while the economic crisis was sure to affect insurers for years to come and would “severely constrain” future growth, it was also an opportunity for carriers that position themselves correctly.

“The world has changed, but not ended,” said Donald Light, senior analyst with Celent’s insurance practice and co-author of the report. “Insurers, their technology groups and technology vendors need to recognize this change and adapt to it.”

Doug Grant, principal at Insurance-Canada.ca Inc., which provides consumers and insurance professionals with information about insurance-related topics pertinent

to Canada, agrees that the economic crisis will likely affect life insurers because they are so closely tied to the financial markets. The impact on the property and casualty (P&C) sector will be less significant because of the current regulatory environment and the sector’s lower dependence on investment returns. However, P&C could still be negatively affected due to an economic downturn.

“I agree that it’s a good time to take stock and build on the current trend toward enhanced technical capability,” says Mr. Grant. “A slowing economy means companies will be looking for efficiencies, and technology will help them get there.”

Ron Sanderson, director, policyholder taxation and pensions at the Canadian Life and Health Insurance Association in Toronto, says the increasing sophistication of insurance products means advisers will have to improve their knowledge and training continuously so that they can explain the new products to consumers and make appropriate recommendations.

At the same time, the competition for talent throughout the financial services sector is putting pressure on the insurance industry to recruit and retain skilled employees.

“Some community colleges – often with the support of life and health insurance companies – are now offering programs targeting entry-level advisers,” says Mr. Sanderson. “The programs are aimed at developing appropriate skills and knowledge both prior to licensing as advisers and in terms of ongoing professional development.”

He adds that while the relative maturity of the Canadian life insurance market means there is little room for domestic growth, there is increasing demand for savings and income protection products with strong focus on critical illness, long-term care and income management.

“As older consumers have shifted their attention from conventional life insurance protection needs to retirement savings and wealth management, life insurance companies have focused on retirement income plans that both

grow and preserve invested capital, as well as ‘lifestyle’ plans that provide income and security if the insured becomes ill or disabled,” says Mr. Sanderson.

But while Canada’s life insurance market may be mature, some specialized segments of the industry are in their infancy and expect significant growth in coming years.

Take health insurance for pets, for example. Winnipeg-based SecuriCan General Insurance Company, Canada’s only underwriter that provides nothing but pet insurance, says the sector is growing by 25 per cent a year and is likely to continue doing so for the foreseeable future.

SecuriCan president and chief operating officer Randy Valpy says the potential for the growth of the pet insurance business in Canada and the United States is massive.

“Less than 2 per cent of Canada’s estimated 14.4 million dogs and cats are currently insured, and the number is about the same in the U.S. By comparison, 23 per cent of dogs and cats in the U.K. are

“The world has changed, but not ended. Insurers, their technology groups and technology vendors need to recognize this change and adapt to it.”

insured,” says Mr. Valpy.

The reason for the difference is that pet insurance was started in the U.K. nearly 70 years ago, while it’s been available in North America for less than 20 years.

The increased cost of pet health care due to advances in veterinary science means complex procedures can be very expensive. For example, cancer therapy can cost up to \$10,000 and treatment for hip dysplasia can set a “pet parent” back \$3,000 per hip.

Yet the cost of insurance is relatively low. SecuriCan’s average monthly premium is \$41 for a dog and \$24 for a cat.

Mr. Valpy says one of the reasons why more people don’t insure their pets is that they often believe that an indoor animal is relatively protected from accidental injury that may occur outdoors.

“But the vast majority of our claims – 76 per cent in fact – are for illness rather than accidental injury. If pet parents don’t plan for that, the costs of having their pet treated can be overwhelming,” he says.

Managing change

High-tech overhaul giving insurance sector new flexibility

The insurance sector was one of the first major players to embrace technological change when mainframe computers arrived, but now it faces a new challenge to meet the needs of a rapidly evolving market.

In its groundbreaking 2006 insurance industry report – Insurance 2020: Now what? Exploring initiatives for innovation – IBM’s Institute for Business Value found that the automation of the insurance business had created a densely interconnected collection of manual and IT system processes.

The report also found, however, that the complexity

in insurance systems often prevented carriers from working holistically, placing them at a disadvantage as technology continued to level the playing field for traditional carriers as well as emerging players.

James Bisker, the report’s co-author and global solutions manager, Non-Life, with the IBM Global Team based in Columbus, Ohio, says many carriers are moving toward modernizing their core processing capabilities and infrastructure to achieve the flexibility they need to compete.

“Consumers are better informed and more demanding than ever before, and they are driving the need for the

right tools for producers so they can deliver more sophisticated services directly into the hands of consumers,” says Mr. Bisker.

At the same time, the insurance industry’s core operations need to be enhanced so that they can deliver straight-through processing and swifter, more agile product development, risk modelling, underwriting and claims processing, he says.

One of the “mega trends” identified in IBM’s 2006 report remains very much a factor in 2008: The impact of modern information networks and the ongoing transfer of financial responsibility to end

customers will drive attitudes regarding increased services and convenience. Applicants and policyholders from a range of demographic groups will shift loyalties to carriers that consistently meet their expectations.

This means carriers that optimize their processes and improve their product offerings through innovation are likely to thrive, while those who don’t will be overtaken by more nimble niche players.

For example, the Professional Provident Society (PPS), a South African provider of insurance products to graduate professionals such as doctors and lawyers, want-

ed to improve its ability to bring new products to market in order to respond to changing customer demands and stiffening competition.

Working in collaboration with IBM business partner Silvermoon Group, PPS replaced all of its legacy systems with a completely new, modular application infrastructure based on the principles of the IBM Insurance Application Architecture (IAA), which unified several previously disparate policy systems.

The benefits of the change included enabling PPS to bring nine new insurance products to market in less than a year and to quickly modify its products in response to competitor actions.

Commenting on the enhancements, Stephan Clark, head of business applications at PPS, said, “Our legacy systems were bound up...there were many dependencies and a great deal of duplication of data. This meant that if we wanted to change a rule or a policy in the system in order to introduce a new product offering, we had to change not just one part of the system, but many, while still keeping everything in sync. It was very risky...there were so many interdependencies that any one problem could bring down multiple systems.

“Most of what we need to do to introduce a new product is now easily accomplished... It is vastly more efficient than it was before.”

INS 2

Insurance can create a financial foundation, writes Neil Skelding of RBC Insurance

INS 3

Canada’s insurance sector is on a talent drive, and it is reinforcing its strategies for attracting, retaining and developing personnel

INS 4

Brokers bring value to the table

Keeping You Covered for 30 Years



Baird MacGregor Insurance Brokers LP specialize in providing cost-effective insurance and unique risk management solutions since 1979. A trusted name in commercial and personal insurance brokering, Baird MacGregor regularly outperforms its competitors in delivering quality client care, customized insurance packages, strict adherence to a conscientious business approach, and commitment to negotiating the best insurance terms possible for its clients.

For a dependable partner in all your insurance needs, contact Baird MacGregor and experience the difference today!

30 YEARS STRONG

Commercial • Transportation • Personal • Life & Benefits

Toll Free 1.800.268.1424
825 Queen St. E. Toronto, ON. M4M 1H8
www.bairdmacgregor.com
sales@bairdmacgregor.com

BAIRD MACGREGOR
INSURANCE BROKERS LP

INSURANCE PROBLEM?

THE GENERAL INSURANCE OMBUDSERVICE provides Canadian consumers of car, home and business insurance with a cost-free, independent and impartial process to resolve their complaints.



FOR MORE INFORMATION

VISIT US AT GM.GIOCANADA.ORG
CALL TOLL FREE 1-877-225-0446