The Voice of ACORD Members on Global Trends

April 2010

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1 Introduction

This ACORD 2020 research is an ongoing effort to gather research papers and surveys from various sources to create a future view of our business and a vision for the future role of ACORD. The longer view will support the development of overall strategy and serve as a compass to provide direction when preparing annual operating plans and budgets.

This document includes the voices of ACORD members and reflects the thinking of 400+ executives representing 100+ organizations. The charts and illustrations show aggregated results and italicized fonts in the text are quotes from individuals in the group.

Some opinions expressed by participants may not be consistent with the larger group and are not intended to reflect the views of ACORD management. We do plan to improve the usefulness of the Standards roadmaps that we provide based on these discussions.

ACORD members are highly aware of the wide range of issues facing the industry, and the often complex ways in which those issues are interrelated. They sense the dual nature of many of the themes that are shaping the market: the ability of a driver to act as either an opportunity or a threat depending on context.

While ACORD members can be critical of their own organizations, they are also confident about the future. They are concerned to manage change effectively, realistic about the challenges they face, and appreciative of the rewards that lay ahead for those who succeed.

Above all, members of the ACORD community show a shared commitment to improving the industry for all its stakeholders, and to securing its successful future

We want thank all the executives who participated in the discussions. We appreciate and value your contribution. Nothing we can do can change the past, but everything we do changes the future.

Gregory Maciag
President
ACORD

2 How To Use This Document

This document presents the major themes and individual views of executives from the ACORD membership.

You can use the document:

1. as contrast to your opinions and future views.
2. as a pre-read for planning sessions.
3. to make a case for industry standards.
4. to support the Cost Benefit Analysis process.
5. to factor mega-trends into annual planning.
6. to seed a new generation of plug and play solutions.
7. to understand trading partner concerns.
8. to get the most value from ACORD participation.
9. to help shape ACORD's future view.
10. to Own Y/our Future.

Global Futures & Foresight (www.thegff.com) provided the research on global and micro trends included in this document. GF&F also facilitated the series of Roundtable discussions among ACORD members to gather comments and opinions that shape the following pages.

GF&F provided the analysis and illustrations and will be available for internal executive sessions for member organizations as a service upon request.

Technology Trends were provided by Strategy Meets Action (SMA) (https://strategymeetsaction.com) and are in Section 8.

3 About This Document

The results are organized by industry grouping and four main themes:

- People
- Technology
- Business models
- Regulation.

Sections 1 through 5 introduce the report and its broad conclusions. Section 6 summarizes the contextual material provided by Global Futures & Foresight to seed our discussions.

Section 7 takes this collection of global trends and relates them to the industry as a whole while Section 8 addresses the future of technology.

Sections 9, 10 and 11 give details of particular trends affecting the EU, US and UK regions respectively.

Section 12 presents the comments of participants from the Life, Health and Annuity community. Environmental issues and energy supply are perceived as the most important issues for the sector, and responding to regulation is seen as its biggest weakness. The aging population represents a potential opportunity, although product complexity and talent supply are challenges. LAH participants see their customers and businesses becoming more mobile and flexible. Uncertainty associated with regulation remains a key variable, while reducing costs is seen as more of an issue than increasing sales – the reverse of the situation in the other sectors.

Section 13 details the findings for the Property and Casualty sector. The most important driver for the sector is the evolution of the agency/company relationship and the business processes that flow across it. Regulation is seen as potentially threatening. Globalization, however, is regarded positively as a source of growth. The maturity of the industry gives it strength, but also accounts for the outdatedness of much of its technology and the perceived inertia of its culture. Short-termism and discontinuity of technology present obstacles to growth, but also reflect the fragmentation of the sector. More responsive, customer-centric services are seen as important to future success.

Section 14 focuses on agents and brokers in the LAH and PCS sectors. Cultural factors are the most important issues here. Despite perceived weaknesses in entrepreneurialism, job interest and understanding of technology, the sector feels positive about its capabilities. The pressure to reduce costs while maintaining quality and improving service is acute.

Section 15 details the responses of the Reinsurance and Large Commercial members. Here demographics and global issues figure prominently. The industry's capitalization is a strength, while technology, talent and processes are all areas of concern. Underwriters and brokers agree that legacy systems can impede progress and that organizational clarity is important for success.

Section 16 summarizes the topics discussed at a London roundtable as part of the research process.

Section 17 covers the vendor and service provider community, a diverse group with issues that differ in emphasis from those of the clients they serve. Talent issues are prominent as they are in the insurer community, but the skills and expectations differ. Regulation can be an opportunity for vendors and service providers.

Risk transfer is seen as the sector's leading strength, with product complexity, business fragmentation, and poor career image as weaknesses. Vendors and service providers are unconvinced of the potential for virtualization technology. It is deemed to be relevant by the wider research population, yet this group's technology issues tend to be closer to home. They spoke about the pace of technology change and the perceived costs of implementing standards. Vendors do favor Pay-Per-Use business models for the future, unlike the other groups involved in the research.

4 Owning Y/our Future

The future is designed

ACORD was created more than 40 years ago to realize a vision of increasing efficiency by bringing together trading partners today in order to collectively create a better tomorrow. The success of ACORD in doing so is unparalleled.

The future is plural

Figuring what the future may hold and preparing for it have been major concerns of humankind ever since we started to think, plan – and worry. Our ability to imagine future eventualities is what drives us to provide for our families, create organizations and increase our knowledge. It's why we developed insurance, which is a means of making the future more predictable, more certain.

But it's also why we buy into visions of the future that feed our desires or that indulge our fears. Sometimes it's hard to remember that no matter how good the research, or how high the status of the research's sponsoring body, no one can foresee the future with perfect accuracy. The best we can do is to create scenarios that are more or less plausible, expose the reasoning behind those scenarios and present options for dealing with them. Above all, we have to bear in mind that whatever we do today shapes the future, including the way we react to scenarios of the future.

While we can't have 100% perfect *fore*sight, we can make use of our *in*sight. As decision makers, we're obligated to understand the possibilities awaiting us, and to control, to the best of our ability, the forces shaping them.

ACORD members have generously given their attention, experience and creativity to our 2020 Vision project over the last year. Together we have examined the patterns, interests, constraints and innovations that are contributing to our unfolding future. We've looked at big-picture, global factors and specific industry sector issues. This report presents our findings.

During this process I've noticed that not only is the shape of the future up for grabs, but that we also inhabit different presents. We collaborate in order to get on the same page: that's because as well as having interests in common, we also each have our own story to write. If you're a large, global underwriter you're going to see the world differently than a niche broker. Solution providers share some goals with their customers, but not all of them. Our diversity is one reason why we make the effort to share understanding and find common ground. The success of our industry relies on our ability to balance individual interests with the common good. And because we collaborate so effectively in sharing our presents, we are well equipped to shape our joint and several futures.

Facing forward

The meaning of "the present" varies depending on perspectives, capabilities and goals. These are factors that accumulate within organizations, and which are not always under explicit management control. For example, you can't legislate for how your customers regard your competitiveness, though you can influence their experiences and attitudes. Your organization's roots and history will help to define its comfort zone as well as determining its stock of evolved capabilities.

Individual opinion leaders – who are not necessarily one and the same as the top management – set the organization's agenda and steer its attention. While we all engage in a common industry, there's a level at which we all live on different planets.

Generally, organizations that apply a steady measure of rational attention to their capabilities and goals are also adept at managing change – and these virtues tend to generate a culture that promotes and realizes positive change. So, wherever and whatever you are today, if you have the means to reflect on what you're doing and how you're doing it, you're ready to shape a future that suits you. Reason and action give you power over the future.

4 Owning Y/our Future

The personal journey

We're all interested in global effects, but if we're honest we're more interested in ourselves. What does the future hold for me? How can I make it work for me? How can I survive and thrive amid the coming changes? What do demographic, technological, environmental, political and industrial changes mean for me, my career, my family, and my well-being?

If how we react to the future *makes* the future, then the more we can think through the implications of predictions, the better shape we'll be in. However, this isn't how people normally deal with the future. Instead of questioning their own reactions, and exploring what their options are, they look for reassurances that an outcome will or will not occur. They externalise the future rather than taking responsibility.

Taking responsibility for the future isn't intuitive. We're used to the idea that stuff happens – that we're victims or beneficiaries of events. The more complex our world grows, the harder it is to believe that we can control it. Yet control it we do. We influence what happens around us, and we're completely responsible for our own actions.

I believe this is one area where an insurance industry mindset can be an obstacle. An industry founded on the pooling of risk and the valuing of outcomes can act as though the future is already written, and that it's delivered to us rather than created by us.

Being part of the movement

Since what people *don't* do is just as important, and sometimes more important, than what they do in shaping the future, we need to find ways of making sure that everyone who can contribute to a positive future is productively engaged. We need to share our vision, explain the drivers and our assessments of them, and suggest the roles and responses we want others to take. Articulating the future for the stakeholders we work with is a vital part of ensuring that future comes about.

The ACORD community is positive about the future and committed to making the kinds of changes that will benefit everyone in the industry. But I know that none of us meets with total and immediate comprehension and support from everyone whose help we need to evolve the industry. It's especially frustrating because our intentions are benign: we're in the unusual position of selling a proposition that benefits everyone and disadvantages no one.

Industry standards lead to a win-to-the-power-N situation. That's not something you hear every day, so people who hear the message can understandably wonder if they've heard right, or whether there's a hidden agenda somewhere. For the record, ACORD has no agenda other than the all-round improvement of the insurance industry's business capability. But how do you persuade your peers and co-workers that implementing standards – and taking standards farther and deeper into their business processes – is one of the key ways in which they can command the future?

Implementers of ACORD Standards have found that often the best way to lead change is to start small, and increment in small bites. A big vision isn't turned into reality in one step, or one day. Once you've painted a picture of the future, you still need to take all the actions required to turn the picture into reality. For this reason, we don't construct generic business cases for standards adoption – though we do provide tools to help people create specific business cases. We often find that the greatest immediate benefits of implementing standards come with tactical applications.

So, for example, a company looking to implement a new process can use the relevant standards rather than design their own solution – simply because the standard exists, is proven, and is actionable. The company saves time and money with this one decision. This is a great example of the industry's investment in standards paying back to the community in a quiet but measurable way.

For many standards implementers in this kind of situation, there's no grand vision of standards adoption at work. Nevertheless, any use of standards at the tactical level opens the door to greater benefits.

4 Owning Y/our Future

Being part of the movement (Continued)

Standards-enabled point solutions create organizational learning and habituate developers to using standards rather than inventing their own solutions.

As the practice spreads through imitation and competition – with standards-based projects delivering faster time to market and return on investment – the use of standards comes to form an operational capability of the organization. The organization evolves, if you will, a new ability to respond to its environment by practicing the use of standards and noting its success with standards-enabled projects. In the process the organization becomes easier to do business with, more available for collaboration with business partners, and better positioned for entry into new markets.

Taking personal ownership of the future, and doing your part to bring people along with you, is the sure way to a prosperous future we can all share in.

5 Getting T/here

How you prepare for the future depends on where you're starting from, and the range of potential futures you select to make your own. In this report we will look at how the macro-issues mesh with the micro: how we can respond to the forces around us and how we can best make use of our strengths as an industry. There's no single strategy that will suit every party engaged in insurance activity, yet the scenarios we've explored form an agenda for action. Crafting your own take on the future, and plotting the course that's going to take you there, is the next step.

One theme running through the discussions that created this document is the dynamic between urgent issues and important ones. Matters of survival necessarily command our attention ahead of topics related to a more distant time. Being able to twin-track their short- and longer-term plans is a key competence for organizations that want to stick around to enjoy the future they envision.

Recognizing that both timeframes deserve consideration and alignment is rare enough, but I believe our shared perspectives on risk, service and competition put our industry in a strong position to manage this duality. Decision makers will increasingly find themselves dealing with issues that straddle both timeframes: talent is a prime example here, with companies looking to grow their expertise over the long haul as well as matching staff profiles to current needs. It's possible that we'll need the artificial stimulus of scenario planning to wrench some long-term topics into the headspace we reserve for “live issues”; this may be the best way of getting to grips with, say, water and energy shortages ahead of their actual impact. *Be prepared*, as the scouts say.

The dimensions of control involve people, technology, business models and regulation:

People

Insurance is a people business, and the more technology and process discipline we apply to the sector, the more important the human dimension becomes. Evolving lifestyles, globalization and communications technology are creating a world where the boundaries between work and play are blurred. We are challenged with serving this world as well as managing organizations around its implications. Changing the ways that we hire, motivate and value people will be as important as looking at our customers in new lights. These new practices and perspectives will drive the innovation and collaboration we're going to need to thrive in the future.

Technology

Information and communications technologies enable us to integrate processes and remove waste, but they also promote fragmentation of markets and faster product cycles. Customers demand personalized, self-drive insurances while carriers are able – through the use of standards-enabled technologies – to be more promiscuous in the operation of their value chains. There's no doubt that the clock-speed of business will continue to creep upward. Regardless of their particular technical strategies, decision makers will need to approach ICT issues from a risk management perspective as well as a business case standpoint. Spending on ICT isn't avoidable, but it's always negotiable. Our industry is in a strong position to wring excellent value from its technology partners, thanks to the investment it has put in to ACORD standards, and the solid relationships that vendors have built with their clients.

Business Models

We are on the brink of a new era in insurance business models as companies take advantage of new technologies and markets to reinvent themselves and the sector. Anticipating customer needs, enabling personalization and making innovation a part of the management process will generate significant value and inspire new levels of competition. At the same time, all players will be tackling the challenge of doing more with less – not just this quarter, but every quarter, forever. Those who develop expertise in process improvement and adapt their cultures to continuous change will have a definite edge.

Regulation

The regulatory environment is a key determinant of the industry's shape and value, yet it is perhaps the least predictable variable with which we have to deal. For this reason, maintaining dialogues between the regulators and the regulated will continue to be a health

5 Getting T/here

Regulation (Continued)

factor for all of us. The industry has shown a talent for forming close working relationships, which bodes well for the future. Smart players will bake regulatory compliance into their business processes, so that conformance becomes as important as performance. The ACORD Framework will be a key asset for planners here, providing a comprehensive reference architecture as well as an entry point into the standards themselves.

Stepping into the waves

Time is continuous, but we can only manage time by thinking of it in discrete pieces. If we don't break down and digest the waves that surround us, we'll be borne away on them. No matter how overwhelming the forces around us may seem, there's always a way we can tackle them – bit by bit.

The ACORD community standardizes the industry's information assets piece by piece, so each player is able to navigate the currents of external change. Collectively, we can steer a sure course for a profitable future.

6 Global Futures & Foresight

Member Roundtable discussions were preceded by a presentation on global trends provided by David Smith, President of Global Futures & Foresight. This provided the outside world view that members would discuss and use to drive their industry sector commentary.

Global Trends
Global Instability
Volatile Worldwide Economy
Globalization 2.0
Global Warming
Energy, Water, Talent Shortages
Bio Grows
Aging Societies
Un-retirement
Work-Life Blend
Feminization
Wealth, Health Happiness
Urbanization
Social Awareness
Declining Trust
Cult of celebrity
Individualization
Age of Brands
Social Applications
Tech Convergence
Video Everywhere
VOip & ipTV
Nano-Technology
Digital 24/7 Lifestyle
Cashless Society
Mobility & Convenience
Rise of Robots

Figure 1: Global Futures & Foresight

Mr. Smith provided highlights of various trends and noted that improved healthcare and population growth are significantly changing world demographics. The global population is expected to rise from 6.5 billion in 2005 to 7.7 billion in 2020 and 9.6 billion in 2050. Interestingly, he emphasized that because people are not dying as young as they did, we are evolving a new world order: *Who knows how to do business in such a world. A world where two-thirds of the next 2.5 billion births will be in Muslim nations*. He noted that many financial firms are already providing products and services consistent with the rules and regulations of Islamic Law (Takaful).

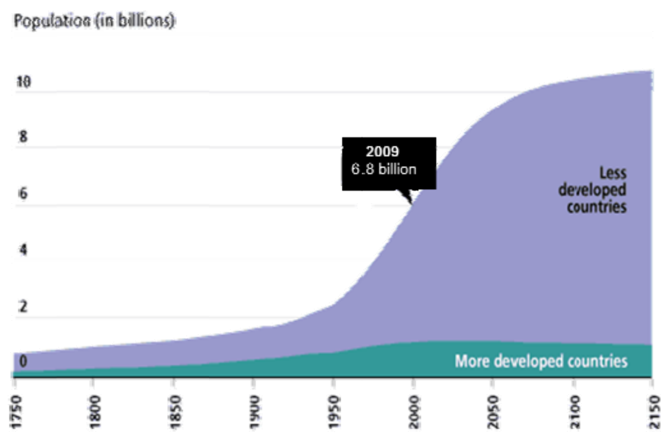

Figure 2: Population Research Bureau

Mr. Smith also discussed the changing influence of the world's largest economies. Projections are that China will exceed the USA in Gross Domestic Product in 2050 with India closely following the USA.

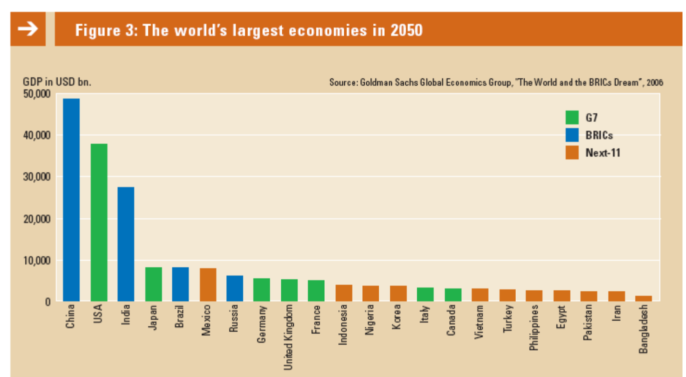

Figure 3: Goldman Sachs Global Economic Group

His presentation also focused big issues and risks such as:

- Piracy and Terrorism
- Cyber-risk
- Climate Change
- Demographic Change
- Migration
- New Markets and Channels
- New Technologies

6 Global Futures & Foresight

In citing research conducted as part of the Lloyd's 360 Risk Project he presented findings on the future of insurance:

- Customer demand for new products
- Ten year events occurring every two years
- Need for better models and strategies for managing risks
- Graying of the insurance workforce
- Mobile devices (GPS, RFID) provide new data and enormous implications for risk and claims
- Post credit crunch regulation

As part of our research, GF&F identified the various challenges for the insurance industry identified by members during interviews:

- Financial crisis
- Global recession
- Being competitive
- Increasing sales
- Lowering cost
- Eliminating paper
- Client access to information
- Meeting 24/7 expectations
- Talent acquisition and retention
- Trust
- Customer insight
- Building client relationships
- Response time
- Faster underwriting
- Claims inflation
- Differentiation
- Standardization
- Legacy thinking
- Addressing generational needs
- Learning from business partners

Various surveys were referenced about the future of our business and the concerns of CEOs. Top on the list were over-regulation, inflation, future liabilities, terrorism and the aging population. *(Source: PWC CEO Survey)*

The research stressed the prevalence of multi-channel strategies, otherwise insurers may lose customers and agents. And because of the demographics cited earlier, the interest in micro-insurance has increased over the years. According to the International Financial Corporation, low-income consumers have $5 trillion in annual purchasing power. Investments in micro-insurance will be up from $5bn 2008 to $25bn in 2015 *(Deutsche Bank)*.

Analysis of future markets shows that Takaful markets are largely underdeveloped. While Muslims represent 25% of global population, they represent only 5% of insurance premiums. The Halal market is set to grow from $2.7 trillion to $30 trillion in 2050 *(Gulfnews 08/06/10)*.

ACORD Standards do provide for the exchange of unstructured data, which can represent 80% of enterprise information. And according to IDC, estimates are that managed data grows every 5.5 years by a factor of ten.

The remaining GF&F presentation addresses an array of topics including:

- Virtual education
- iHealth
- Western World debt
- Banking
- Energy
- Water
- Genetic Mapping
- Social Networking
- Food
- Aging

7 Findings

All insurance sectors are impacted, either directly or indirectly, by megatrends impacting the world.

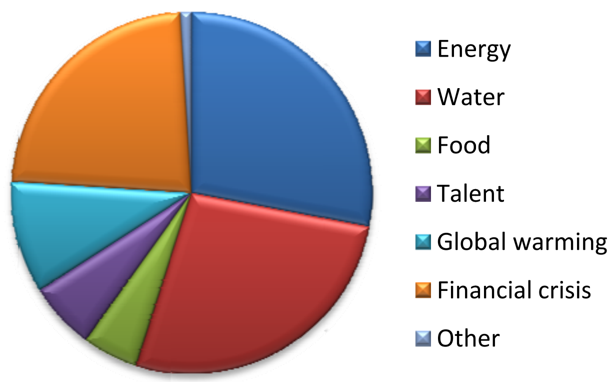

Figure 4: Global Drivers

Given that the need to acquire and retain talent is an issue that is acutely impacting the ways in which people work, it is interesting to see that when we spent some time together addressing some of the global challenges, we put talent acquisition and retention in context. Energy shortages rank as the single biggest problem according to 28% of the group, shortly ahead of water with 27%.

What is surprising is the extent to which the financial crisis is reckoned to be the single most important issue humanity is faced with. Overall 23% of people in the survey believe this – only 5% less than believe energy shortages are more of a problem.

It must be said that while humanity, indeed capitalism, has come through major economic trials and depressions in its history, modern man has not yet faced a modern global famine, national or continental water shortage, or acute energy shortage. Perhaps this reflects a degree of short-termism in the panels' thinking or else highlights the precarious position and period of uncertainty that financial services find themselves in. Reading the results without the vendor grouping shows a change in most important issue: Water replaces Energy as the prime concern with a 31% to 24% difference.

Figure 5 shows a consolidation of the most cited drivers across all groups partaking in the study, with the drivers listed in no particular order.

When these drivers are translated into specific questions, we are faced with issues such as *When will New Orleans become uninsurable?'* Increasingly the industry is facing a *higher volume of transactions for the same revenue. [We] need to process more transactions for same cost and in same time.* Of course the current backdrop of *financial instability [and] reduced capital as a consequence* is of prime importance, not just for the immediate effects on the industry but because it deflects attention away from other longer-term, but no less urgent, issues.

Industry Drivers	
1.	Talent Issues – flow, aging, diversity
2.	New Business Models – potentially disruptive
3.	Regulations – how far will they go?
4.	Technology
5.	Emerging Markets, Globalization
6.	Distribution Model Changing
7.	Mergers and Acquisitions
8.	Market Fluctuations – how to increase sales and reduce costs
9.	Customers – trust and engagement
10.	The Environment – Green Issues, Global Warming

Figure 5: Global Futures & Foresight

One member from a large commercial firm, describing the drivers for their sector and various business functions over the short term, said:

For your industry sector: *Green issue will grow a lot. Keeping up quality and service.*

For your company: *Marketing trying so hard. Very conservative. With the economy the way it's going, we need to get more competitive without sacrificing quality. The way to do that is to take the standards and go "hog wild". It may be expensive now but you get everyone on board, reduced costs, enterprise wide solution.'*

For your ICT function: *Business drives IT so business needs to get the value of Standards, not just IT people so ACORD needs to get to the business people.*

7 Findings

People

Member comments include:

"Be competitive.

"Adopt standards."

"We need to emphasize the benefits of standards including being able to bring products to market quicker."

IT can't deliver quick enough to meet the business needs.

"Management do not always *understand the benefits of standards. And, that people want to do it the way they've always done it."*

"We need to reach new people coming into the company with greater understanding of the potential of IT."

"Younger staff get IT. They've been brought up on computers."

"More of the insured customers will be going into the systems directly and via the agent into the carriers systems to get a quote."

"The agent needs to be kept in the loop. Agents need to get rid of some of the paper in their systems. Imaging systems can help here."

"Mobile computing, video, voice, instant communication 24x7 will be a huge benefit and an explosion of connectedness"

"The day at the desk at the office are gone. Working from home and mobile are the way ahead."

'*Weaknesses affect ability to attract talent - i.e. poor entry level jobs as is lack of technological adoption,'*

Given that the issue of talent was consistently raised as one of the major issues, it would appear as if the issue is heavily interlinked with other themes.

For example, one suggestion is that the industry *needs to use tech to attract talent.* But technology may be just as beneficial for ensuring companies retain the wealth of information locked in aging, and soon to be retired, brains: *Aging brains a major issue - how to keep wealth of information in industry in just a few days?'*

One issue not captured graphically but mentioned in the interviews is that of increasing societal diversity. From an *agency viewpoint - lack of multiculturalism in the workplace. Change is moving slowly.* Other economy-wide trends impacting the industry include the e*ducation system - needs to cater to students ability,* which suggests remedial training is needed for many incoming graduates, as is occurring throughout business sectors as perceived educational levels drop.

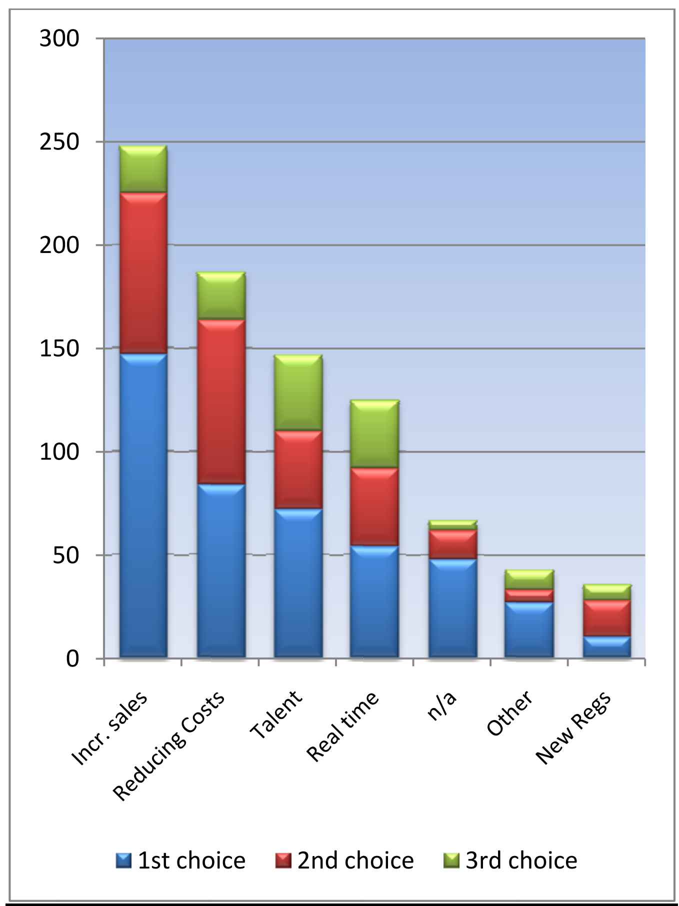

Figure 6: Major issues facing the industry

7 Findings

Technology

The industry is said to suffer from a *'Lack of innovation, (with) inertia a major problem. Technologically challenged - completely underinvested in.'* Given this statement and the increasingly central role of technology in providing a better work environment, ensuring customer satisfaction, and co-ordinating business, it can safely be said that technology and issues surrounding it constitute one of the biggest issues the industry has to deal with. And many in the industry know this; as one commentator states: *technology needs to be used to develop better customised relationships with key clients.*

One interviewee commenting on the current challenges for his industry sector said it was to *"Be competitive. Adopt standards but that there was a long way to go. We need to emphasize the benefits of standards, including being able to bring products to market quicker. IT can't deliver quick enough to meet the business needs. Management don't understand the benefits of standards. And, that people want to do it the way they've always done it."*

He went on to comment about a hope for the industry being in its younger leaders: *we need to reach new people coming into the company with greater understanding of the potential of IT. Younger – under 40's get IT. They've been brought up on computers.*

As is the case with implementations whose return on investment is a long lasting, slow burning process, many potential benefits of technology accrue in future years, including the *need to get better handle on data, so they can report in a systematic way big issues in next 2-3 years.'*

Talking about the next five years this commentator said that they needed to *learn from our business partners, carriers and agents. More of the insured customers will be going into the systems directly and via the agent into the carriers systems to get a quote. The agent needs to be kept in the loop. Agents need to get rid of some of the paper in their systems. Imaging systems can help here. Mobile computing, video, voice, instant communication 24x7 will be a huge benefit and an explosion of connectedness.* He went on to say that *the day at the desk at the office are gone. Working from home and mobile are the way ahead.*

The need to communicate with, sell to and service customers while they are on the move and with increasing speed across the internet is registered in these results in favor of mobile computing and implementing "The Grid", a faster version of the internet. Despite these affirmations, siren voices warning that t*ech could dumb us down* still linger.

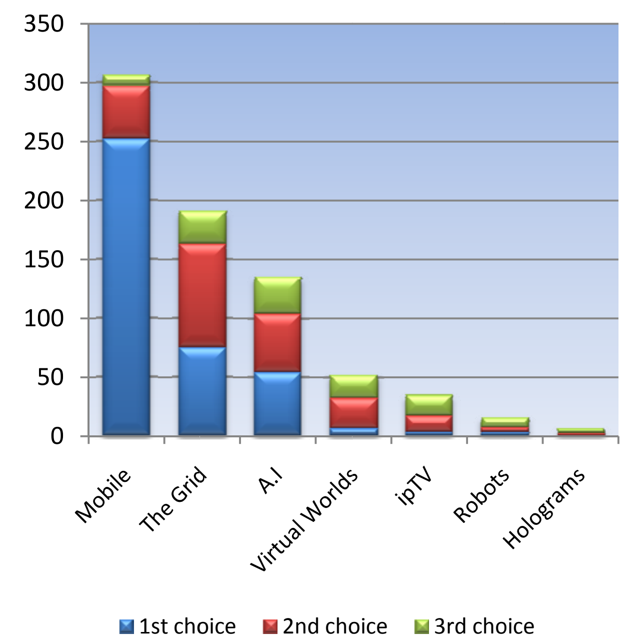

Figure 7: Technology adoption over the next few years

It becomes clear from these comments that the industry, far from seeing an end to its reliance on information technology, is becoming increasingly reliant on technology to interface with their channels to markets, customers' agents, independent agents, regulators and for them back to the carriers and providers and underwriters.

This market has always been information intensive and now faces an increased pace of change of technology, customer service expectation and regulatory reporting and intervention. Speed, innovation, cost reduction, efficiency, service levels, straight-through-processing, connectedness and facilitating mergers and acquisitions have all been stated as outcomes the interview panel are looking for IT to deliver on.

7 Findings

Technology (Continued)

To achieve this, the industry will need to conform around agreed information and interchange standards or face unnecessary costs and barriers to implementation of IT in the future.

However, the barriers to implementation are numerous. One commentator points out that *less than smooth implementation of the standards* could cause problems, adding *it's not plug-and-play.*

Despite standards being just that, there are also concerns that *different interpretations of the standards can cause problems*, and that first *we need to identify what can be standardized.* Other barriers are less technical; indeed cultural aspects are also cited as a significant barrier: *some of it's a mind-set – think their world is unique. Ego stuff,* says one commentator.

Many of these views mirror those of the Fort Lauderdale panel. Figure 8 shows that **Other IT Priorities**, **Cost** and a **Lack of Vision** are the three perceived main barriers to standardized data, but the results also reveal that **Unclear Benefits** and a **Lack of Understanding** are also significant obstacles to overcome.

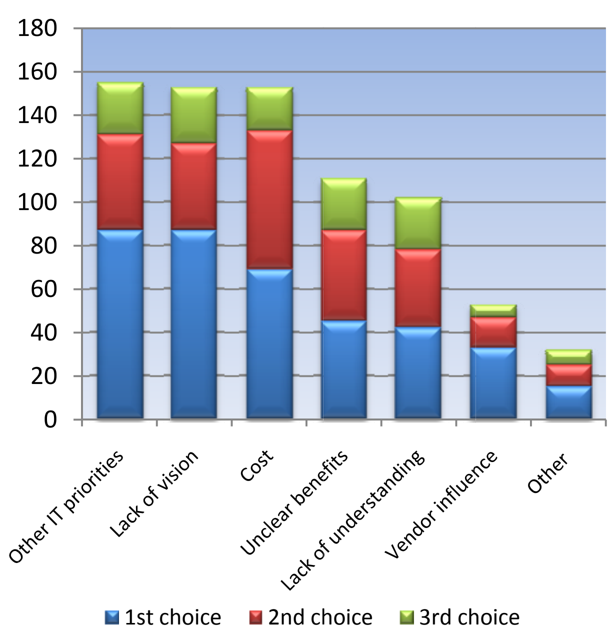

Figure 8: Barriers to standards

However some of the interviewees suggested that standards *might give upper management a better pattern of what they have to understand about the IT in the company,* which would undoubtedly solve some of the issues raised throughout – of benefits not clearly explained or understood and of a lack of vision as to what IT could actually do. Indeed several of the potential benefits are summarised as: *standardizes technologies so they can leverage their time acting for their clients, agents, carriers, vendors, customers. No more proprietary systems.*

As an aside, the possibility of standards contributing to a more general trend of changing work patterns is raised. Would standards lead to *more remote workers,* asks one interviewee? Certainly the secondary effects of such an implementation could carry as much significance for the future of the industry as the more immediate primary effects.

That said, the primary effects should not be ignored. Interoperability and Real Time Straight Through Processing are cited as the two biggest benefits to accrue from standardization (Figure 9). Better customer service resulting from quicker access to information and increased accuracy are also cited, as are reduced expenditure and lower costs, despite cost being cited as one of the principal barriers to implementation. This seeming paradox is explained by the fact that standards are *worth cost of capital but couldn't compete against nationwide projects' ROI, but then the opportunity upside is long-term.*

7 Findings

Technology (Continued)

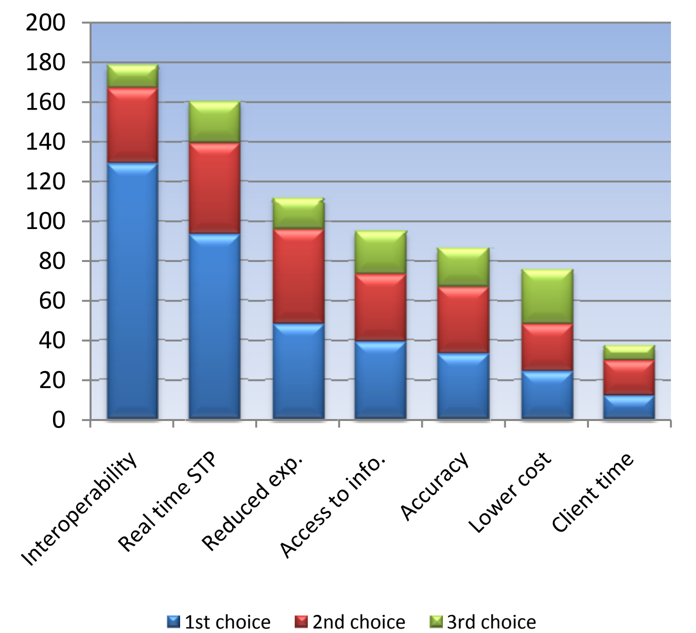

Figure 9: Benefits of Standards

Business Models

An interview with a manager at a large multiline insurance company operating in the US and Canada commented on the industry challenges today as being *economic downturn; mergers and acquisitions*, and their own company's challenges as *being very competitive in the marketplace.*

Commenting on their current ICT challenges she mentioned a talent/knowledge issue: [*We have a*] *Standards Guru, been there for 20 years in the same role, implementing standards. What happens when he goes? The business people should be listening to the keynote speakers at the Implementation Forum. IT isn't allowed to get involved in standards unless business grabs them into standards projects*.

Commenting on the challenges of the next five years she had this to say: For our industry sector: *Green issue will grow a lot. Keeping up quality and service will be vital. Marketing are trying so hard but are very conservative. Word of Mouth marketing is something we have to get into. With the economy the way it's going and we are not the cheapest, we need to get more competitive without sacrificing quality. It may be expensive now but you get everyone on board, reduced costs, enterprise wide solution.* For our ICT function: *Business drives IT so Business needs to get the value of Standards, not just IT people so ACORD needs to get their arguments to the business people.*

For the industry as a whole: *Need(s) to get the motivation back into people.* This may prove somewhat difficult given the very real divide between those who believe technology and standardized data will accrue measurable benefits and those who would rather *keep the furniture in the same place – [there's] too much change.*

One proposed method of instilling motivation is to give staff *more ownership of the change as they've been involved in the change. Change committee write the process. Staff empowered with cash to fix problems. Client-focused – be in their shoes. Customers will be attracted to happy empowered staff. Hire people who like people, not for insurance skills.*

Others suggest that what is needed is a rethink of the business model and more focus on customers; one commentator suggests the industry needs *new models – got to get away from paper. What do the customers want us to do and how do they want us to do it. We aren't paying sufficient attention to this, certainly not enough. People want more choice and faster reaction.*

But what would these new models look like? *One model they want to get into is in the infinity model for personal lines*, says one interviewee, while another asserts *new models could emerge in insurance selling world. Customer co-creating/collaborating to create new products and services.*

With 36% of the panel's vote, **Networked Business** is cited as being the most popular model to appear over the next five years. It is quite possible that *cross-border activity – i.e. in health insurers writing across US state borders / Single European Payments Area*, may spur growth in this business model type.

7 Findings

Business Models (Continued)

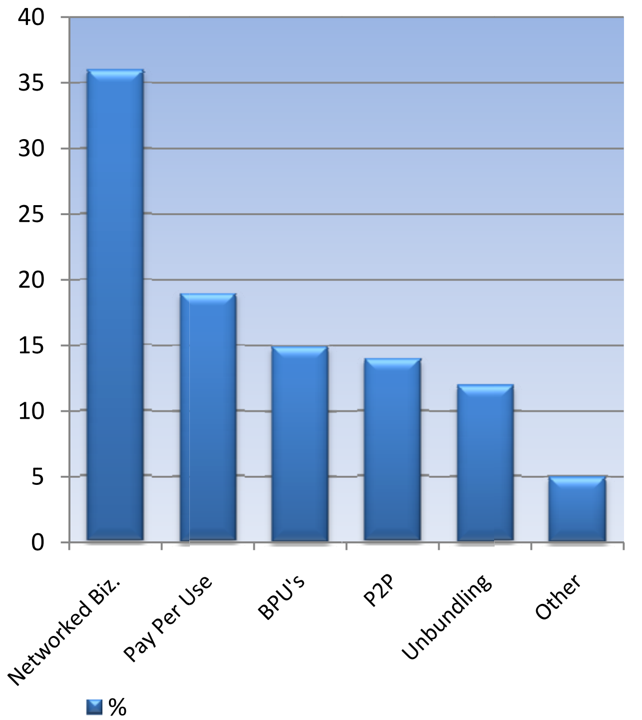

Figure 10: Business models of the future

In fact **Networked Business** proves more popular than the next two options combined. **Pay Per Use** and **Business Processing Unit** type models accrue 19% and 15% respectively, although differences occur when viewed by sector, as is discussed in later chapters.

Regardless of the specific changes to business models and the possible emergence of new types, in general *change is accelerating, the need to be tuned in to it is greater than ever and the need to adapt quickly is greater than ever. We are a slow moving industry, this presents huge risk. Some will adapt. The others will die.*

Some of those with perhaps better survival prospects are those who go *global; even smaller agents will need partners to deal globally,* states one employee. As to what will drive the global moves, one possibility stated is that *M&A will change dynamics (more aggregation of agencies).*

Regulatory

Overall by far the biggest priority impacting on work priorities is **Increasing Sales**, which tallies close to 250 points using the weighting system. The second most voted for issue is that of **Reducing Costs**, on 187 points. Taken together these two issues outweigh all others combined. This could be read in a number of ways: insurance players are being adversely impacted by the credit crunch and are expecting a rapidly declining outlook – most insurance after all is funded, beyond the basics, by disposable income.

The other potential situation is that insurance companies needed simultaneously to cut costs and increase sales prior to the credit crunch – signalling perhaps an industry ill equipped to cope with recessionary effects. With close to 150 points **Retaining and Acquiring Talent** ranks third, indicating its importance. However the impact of **New Regulations**, which has arguably strengthened as the downturn has progressed since the November 2008 poll was taken (Figure 11), is viewed with considerable less importance; in fact it was cited fewer times than were **No Answer** and **Others**, indicating it was perhaps the furthest thing from participants' minds in November 2008.

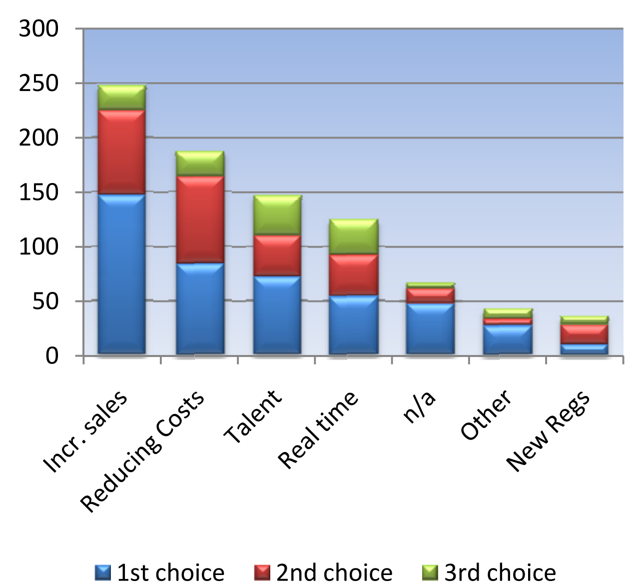

Figure 11: Major issues facing the industry

7 Findings

Regulatory (Continued)

The low importance attached to regulatory review is not shared among those participating in later sessions and roundtables. Issues abound such as how regulators will view c*hanging risk, unknown risk. How will obesity affect fast food restaurant liability – they are starting to be sued for health issues?* Ultimately the industry would like to know the extent of *federal oversight – a new layer of control?'* Furthermore just how far will the regulations go – will they involve *exposure reporting – capital at risk?*

Irrespective of the scope of regulations, some feel the industry as a whole *need[s] to stay on top to prevent migration of companies out of US.* There remain questions as to the potential destination of any such emigrants; others asked questions about *Bermuda – tax haven pressures – removes advantages of domiciling in low tax places?*

Also acknowledged is that *changing regulation can go either way. Health insurers need to communicate better with public* with regard to regulations, notes one commentator. However, the question of *will it make us money, save us money or be a necessary evil – regulations probably the latter,* still pervades.

This mindset, of treating regulations as a cost as to be met, ignores the possibility of using them to your advantage. Regulations alone cannot confer a competitive advantage as they will have an industry-wide, or at least sector-wide application. However, were they to be built upon and the goal shifted from merely meeting them to surpassing them, then new levels of transparency, and potentially trust, could be achieved.

8 Technology Trends and Insurance

Information and communications technologies (ICT) have played an important role in the insurance industry in the twentieth century and the first decade of the twenty-first century. Over the next ten years, ICT will have an even more pervasive impact on insurance. Other chapters in this document identify specific technologies and technology trends, including sections covering the global view of the future, micro-trends for key geographic areas and for each insurance line of business. Chapter 16 incorporates these technology discussions and presents a macro view of the key trends in ICT and the implications for insurance.

In analyzing the insurance industry and the trends for technology over the next decade, two overarching trends stand out: the transition from *automation* to *insight* for the management of the business, and the transition from *operational* to *strategic* taking place as the focus of the organization.

From Automation to Insight

For over 50 years, insurers have used technology to automate the business – improving efficiencies, streamlining operations and enabling high volume transactions. There are still many opportunities for automation – cost control and processing speed will remain key drivers for the foreseeable future. But the real emphasis for ICT in insurance will be in capitalizing on massive amounts of data using sophisticated analytics to provide new insights. The increasing use of intelligence and analytics in both the back office and the front office (real-time), and throughout the whole ecosystem of partners, will place new requirements on the technology infrastructure. The way that data is captured, stored, exchanged, routed, combined, analyzed and applied will continue to change.

From Operational to Strategic

Insurers have traditionally evaluated and deployed ICT to make their businesses run better, to improve communications with their customers and partners. The focus has been centered around operations – not just about efficient transactions but about using ICT to manage the business. Over the next ten years, ICT will begin to change the nature of the insurance business itself – expanding opportunities for insurers and enabling the insurance industry and its participants to be a positive force for change in society. This may sound like hyperbole, but the technology trends and insurance implications explored in this chapter will expand on this theme. New and emerging technologies will require insurers to take a much more strategic view of ICT. The history of ICT in insurance has been one of asking "how can technology help run my business." Insurance leaders in the future will instead be asking "how can technology help reshape my business."

Technology Trends – a Macro View

The technology trends that will have the most impact on insurance through 2020:

- **Internet of Things** - trillions of connections
- **Information** - zettabytes of data
- **Insight** - millions of analytical engines
- **Interaction** - thousands of new ways to interact
- **IT Provisioning** - big ideas for obtaining ICT services

The Internet of Things

Trillions of things are being connected to the Internet – extending way beyond traditional computing and mobile communications devices. Sensors, radio frequency id tags, actuators and other miniature devices are being attached, implanted or built into everything from cars to cows, packages to pets, and railroads to rivers. These devices are increasingly being connected to the Internet, often via GPS. The information flowing from these devices is incorporated into the normal operations of firms in many industries – including retail, transportation, and agriculture – as well as military and government. Some humans are even connected to the Internet through implanted pacemakers or other medical devices.

Information

The amount of electronic data generated in 2010 is projected to be over one zettabyte, equivalent to 2^{70} or a billion terabytes[i]. For reference, all the books in the US Library of Congress total a mere 15 terabytes (representing over 140 million books). The amount of electronic data in the world is expected to increase at a 60% compound annual growth rate over the next 10

8 Technology Trends and Insurance

Information (Continued)

years[ii]. This means that the quantity of information stored in the world in 2020 will be 100 times that stored in 2010. As mind-boggling as these numbers are, they may be too conservative. The trillions of devices that are part of the Internet of Things will generate increasingly massive amounts of data.

This places data squarely at the center of the future of ICT. In a way it is "back to the future" since the early days of computers were known as "data" processing.

Insight

The availability of ever increasing amounts of data – both structured and unstructured, will provide a wealth of new opportunities. Data properly organized becomes information, which through analysis can lead to knowledge. And, according to the old adage, knowledge is power! However, the reality is that "knowledge is potential power; only applied knowledge is power.[iii]"

Insurance companies have always held large amounts of data. The challenge has been how to capitalize on that data. Winners in the next decade will be those that understand how to continually derive new insights by unleashing powerful analytic engines – applying those engines to their data in both the front office and the back office. Even today, there are a host of analytical tools available and a core group of experts in the industry with the ability to implement them and apply that knowledge to the business. In the next decade, insurers that harness analytics to gain and apply real-time insights will possess a significant competitive advantage.

Interaction

It is helpful to view technology trends for interaction in the next decade in terms of their two shaping dimensions: devices and networks. The variety and functional capability of devices continues to explode. The ability of devices to input, retrieve, view and exchange information is increasingly pervasive and expansive. The pace of adoption and the sophistication of devices are remarkable. Consider that not long ago, mobile phones were seen as telephones to be used only for emergency or mission critical situations. Consider the staggering plethora of communication options and features now available through handheld devices. This advancing ability to instrument trillions of things will continue to provide more and more data giving insurers the power to leverage analytics to better understand risks and customer needs.

The second dimension of interaction is the emergence of communications within and between networks of individuals. Social media such as wikis, blogs, and social networks (e.g. Facebook, LinkedIn) have rapidly gone from the province of a few young adults and old nerds, to an everyday tool used by millions of people of all ages for all sorts of purposes. Friends and colleagues keep in touch, jobs are offered and filled, people amass to support causes and initiatives, products and services are promoted, views are disseminated. These new capabilities and services are pushing the boundaries of information sharing and communication and will play an increasingly important role for businesses in the future.

IT Provisioning

The final "I" of technology trends is less visible to most people, but is critically important to corporate strategists and planners. A quiet revolution is underway in the way that IT resources and services are obtained, delivered, and used. To say that this is a new trend would be disingenuous – options for procurement of IT have evolved over many decades. But, the forces of globalization, computing power and data storage availability, steady advances in software development methodologies, and bandwidth of communications technology have converged to enable a rich set of options for sourcing ICT.

Today, computer hardware, software services, telephony capabilities, and human resources can be quickly assembled and accessed from remote locations to handle specific tasks. ICT expertise is now spread throughout the globe with instant availability via the Internet. Large centers of excellence, fully staffed by IT providers, offer services to businesses and governments anywhere on the planet. Techniques for workload sharing and balancing among computing resources have been refined to maximize investments in these resources. Telephony technology for automated call routing, predictive dialing, and resource allocation provide support for call centers oceans away. Two new software delivery models provide further options – software-as-a-service (SaaS) and cloud computing.

8 Technology Trends and Insurance

IT Provisioning (Continued)

Cloud computing is an Internet based model where all computing resources – servers, storage devices, networks, and software – are in the cloud, appearing as virtual resources to the user. Individuals or businesses make requests for service to the cloud and are unaware of what resources are actually used to service that request. Whether it is a request to retrieve specific information, the need to store data, or the desire to run a computer program, the cloud determines how to allocate from the pool of resources and complete the users' request.

Software-as-a-service (SaaS) is related to cloud computing. It is another new, flexible way to run software based on a remote computer with pricing based on usage. SaaS may be deployed from a dedicated computer that is not in a cloud, but the more natural implementation will increasingly be in conjunction with cloud computing. These models will continue to evolve over the next decade and become more widely used.

The range of new provisioning options offers more rapid implementation, variable cost structures, and an on-demand usage model. Businesses do not have to make the up-front investment of time, money, and physical assets to develop and deploy a computing system. The combination of computing models with sourcing options for human resources enables new business models – not just for IT but for the business as a whole.

Fundamental Changes to the Insurance Business

Insurance is fundamentally a digital, information intensive business. Many of the items *covered* by the insurance contract are rooted in the physical world – people, vehicles, vessels, buildings, building contents and other tangible items. But the nature of insurance products and services are digital – a promise on paper, the scheduling of a partner to provide repair services, a check to pay for damages, the monthly payout on an annuity contract. Because insurance is a service-based industry, relying on information and human expertise, the 5 key technology trends will have a tremendous impact on the industry. New business opportunities for insurers will emerge over the next decade and beyond – opportunities not just to run the business, but also to reshape it. Technology driven opportunities for insurance include:

1. New Risks
2. New Ways to Package and Deliver Insurance
3. New Approaches to Sell and Service Insurance
4. New Ways to Manage Risk
5. New Business Models

New Risks

Technology advances change the type and magnitude of various exposures and introduce brand new risks. Many of the physical objects insured by property and casualty insurers will become increasingly smart with the addition of on board computers or sensors – smart cars, smart buildings, smart cargo etc. Insurers will need to keep pace with these changes to ensure that coverages and pricing are appropriate.

Perhaps more interesting are new risks emerging over the next decade. Insurers must follow developments in biotechnology, nanotechnology, robotics, cyber-terrorism and other areas. Product liability risks and personal health risks associated with genetically modified foods and animal cloning are one example. In the health care arena, personalized drugs, remote and robotic surgeries, and the growing of new organs are just a few of the developments that create the potential to both increase or decrease risks.

New Ways to Package and Deliver Insurance

Innovative ways to package and deliver insurance offerings that have been the subject of academic discussions and experimentation will become possible on a larger scale over the next decade. These include micro-insurance, usage-based insurance, product bundling, and person-based insurance. Micro-insurance has two distinct segments – developing and developed nations. Programs are already underway in developing countries to provide crop insurance through a small surcharge on seeds purchased through a mobile phone. In developed countries, the technology to add small charges for service transactions for insurance cover is now available and cost effective.

Usage based or pay-as-you-go insurance has been implemented by certain auto insurers around the world, but the potential exists to extend the concept to other personal lines areas as well as commercial lines.

8 Technology Trends and Insurance

New Approaches to Sell and Service Insurance

Evolving technology capabilities for interaction present a host of opportunities for insurers to communicate with agents, prospects, policyholders, claimants, partners and other members in the ecosystem. Insurers already have pilots underway to determine how to best capitalize on social media and devices such iPhones and Blackberries.

Most insurers are becoming adept at incorporating new communication devices and leveraging new communication techniques. But the challenge is to go beyond the ability to exchange text messages or gather customer feedback through Facebook. Pioneering insurers will develop new approaches to sales and service that are based on their ability to integrate and analyze information from all these channels in real-time – and use that to increase share of wallet and to better service customers.

New Ways to Manage Risk

The Internet of Things and the widespread availability of real-time analytics will enable more proactive risk management. Historically insurers have provided loss control services and advice for commercial customers, creating a win-win situation for the insurer and insured. Increasingly valuable information is becoming available real-time about the current condition and performance of cars, machines, water pipes, vessels – and even human bodies. Coupled with analytic engines, this information will be used to take preventative measures, avoiding accidents and mitigating losses.

New Business Models

The insurance ecosystem is about to become more complex. Traditional participants such as agents, brokers, claim service providers, reinsurers and others will remain. Over the next decade, expect to see partnerships for insurance products and service delivery extend more into other industries. More retail products will have options for bundling insurance. More services will be available via mobile phones. Specialized providers of monitoring services will emerge.

Experts in new technology areas such as biomedicine and nanotechnology will be consulted. Financial instruments (and related regulation) will give rise to even more providers of advice and counsel. All of these create the opportunity to introduce new business models in terms of product development, new sales channels and service delivery. The expansion of micro-insurance and usage-based insurance requires new or revised business models.

Looking Back

These scenarios may seem like science fiction, but look back 15 years to 1995. The Internet was in the early stages of commercialization. Many insurers did not even have a web site, and those that did were experimenting. Mobile phones were scarce and the technology was primitive – the only function available was to make a phone call! Real-time analytics were practically non-existent. Claim adjusters were not able to take pictures of damages on-site – unless they used an analog camera, had the film processed and mailed the photos into the claims department. Insurers had essentially three ways to communicate with customers – phone, face-to-face or mail. And despite over a decade of client/server architectures, most transactions were still completed in overnight batch runs.

With the pace of change accelerating, the next 10 years is sure to see at least as much, if not more change, particularly for the insurance industry.

Implications for Standards

In a world of trillions of connection points, vast information flows, sophisticated analytic engines and many ways to access and view information, the need for standards becomes even more important. The insurance industry has the potential to capitalize on these ICT developments, but only if standards are in place and broadly implemented, enabling participants throughout the insurance ecosystem to easily exchange relevant, timely information with the appropriate privacy and security.

The first age of standards in the insurance industry has reached maturity. We've witnessed successful efforts to standardize data exchange between producers and carriers, standardize forms and move toward common data models for use within the insurance enterprise.

8 Technology Trends and Insurance

Implications for Standards (Continued)

While many industry participants have not fully implemented all these standards, the trend toward data and communication standards is clear. Existing standards must be more widely used to create a strong base for future standards. Widespread implementation of common enterprise data models will enable more fluid partnering and allow analytic engines to churn through data from different parts of the business – overcoming the issue of the siloed data that exists today.

The next age of standards will accommodate a wide range of structured and unstructured data coming from sources inside and outside the traditional boundaries of the insurance industry. The insurance industry must collaborate with other industries to ensure that data flowing throughout the ecosystem is leveraged for the benefit of customers and the insurance company.

The ecosystem is continually becoming more complex, creating more requirements for exchanging data with new and different types of entities. The winning insurance organizations of tomorrow will be those who are best able to capitalize on ICT to make the transition from automation to insight and from operational to strategic.

The potential for new markets, products, channels, delivery methods and claim services is set to explode – and standards are poised to play an important role in this future.

9 Micro Trends: EU

1. Population

According to the European Commission, the EU will have 52m fewer people of working age by 2050[iv]. 52% of Europeans fear that people in employment will be increasingly reluctant to pay taxes and social contributions to support older people[v]. Economic impact: Reduced economic activity, tax take, and support for the aging society and potentially reduced disposable incomes.

2. Population aging drags economic growth

The fiscal impact of aging is projected to be substantial in almost all member states, according to the report. It predicts that spending on pensions, healthcare and long-term care will increase by 4.75 percentage points of GDP by 2060 in the EU as a whole and by 5 percentage points in the Euro zone. The Commission predicts that annual GDP growth rate will decline significantly in the future, with a smaller working-age population acting as a drag on growth and on per capita income. The EU ratio of workers aged 15-64 to those over 65 is forecast to fall from 4:1 to 2:1 by 2060[vi]. Economic impact: Declining growth rate exacerbates the increasing cost of care for the EU's aging populations. New economic opportunities in care sector accompany huge fiscal liabilities. Maybe encourage EU to increase immigration.

3. Going green

A February 2010 analysis by the European Wind Energy Association (EWEA) shows that European Union Member States are on course to achieve the goal of 20% renewable energy use by 2020. The EWEA estimates that 21 Member States will meet or exceed their national targets: 13 predict they will meet their target and eight forecast exceeding their target. Only six Member States believe they will not manage to reach their target through domestic action alone, although none of these expect to be more than 1% below their target[vii]. Economic impact: Reduced dependence on Russian gas, middle eastern oil and the rest of the volatile hydrocarbon markets.

4. Rising mental health costs

The number of people with dementia will increase considerably from about 10m today to about 14m people in 2030. The demographic forecast of costs will result in an increase in the whole of Europe of about 43% between 2008 and 2030 to over €250bn[viii]. Economic impact: Heavy economic cost for welfare. Increasing research and development flows towards developing coping and remedy solutions. Impact on the labour market as more middle-aged people of working age are diverted to caring for older family sufferers.

5. Sovereign debt concerns

The bankruptcy of a Euro-region country would spell the end of European Monetary Union (EMU), said Carl Heinz Daube, the head of Germany's debt agency[ix]. Economic impact: Euro dissolution could spell severe recession for many economies and the potential break-up of the EU.

6. A hobbled giant?

"The European Union would need to resolve a perceived democracy gap dividing Brussels from European voters and move past the protracted debate about its institutional structures. Continued failure to convince sceptical publics of the benefits of deeper economic, political, and social integration...could leave the EU a hobbled giant distracted by internal bickering and competing national agendas, and less able to translate its economic clout into global influence[x]." Economic impact: Protracted political deadlock could ensure gradual structural decline of economy and the dwindling importance to the world economy in comparison to fast growing major economies such as China, India, and Russia.

7. Booming cloud services

Cloud-based unified communication services are forecast to grow by nearly 80% annually across Europe for the next four years as businesses look to alternative delivery models that require a lower upfront cash investment. The market in the region was worth €46.9m in 2009 according to analyst Frost and Sullivan, but given the maturation of the technology and interest generated by the recession it is expected to reach €1.6bn in 2014, representing compound annual growth rates of 79.3%[xi]. Economic impact: A transformed IT world could lead to leaner and more agile businesses that can

9 Micro Trends: EU

7. Booming cloud services (Continued)

engage and disengage services without the usual M&A barriers of internal incompatible technologies.

8. Retail Consolidation

The top retailers' consolidation is accelerating as retailers develop greater capabilities and leverage scale. The top 15 retailers by growth (sales added) are forecast to capture 66% of retail sales growth from a base share (2009) of 43%[xii]. Economic impact: Certain to ensure consumption remains an important part of the economic mix but choice and competition may suffer as a consequence.

9. Discount growth

Discounter brands represent a significant component of future growth, with the top 15 European discounters with a modest 13% share of chain retail sales increasing their sales added capture from 25% to 30%, ratcheting their chain retail share to 15% by 2014 in a very competitive retailing and slow economic growth market[xiii]. Economic impact: Consumers aiming to reduce spending where possible – potential drive for value across all sectors. Discounting drives retailers to increasingly squeeze their supply chain on cost, and ethical and sustainable policies could become casualties.

10. Changing racial mix

The EU's total population was up 0.48% in 2007 – adding some 2.39m people to reach 497.5m inhabitants, Eurostat said on 23 September 2008. Some 80% of this growth comes from immigration, and only a fifth from so-called natural change, meaning the increase of births over deaths. This is a result of steadily declining fertility rates amongst native-born Europeans. According to Eurostat, in 2007 there was an average of just 10.6 births for every 1,000 citizens, totaling 5.3 million registered births in the union last year, an increase of 0.8%. There was a net increase in immigration of 16.4%, or 1.9m new people coming to the EU[xiv]. Economic impact: Could cause political and social unrest and impact European economic activity adversely. Could compel retailers and government to tailor their products, services and messages to disparate immigrant groups.

11. Conflicting religions

According to the US's Migration Policy Institute, residents of Muslim faith will account for more than 20% of the EU population by 2050 but already do so in a number of cities. Policy Exchange, a British study group, found that more than 70% of Muslims over 55 felt that they had as much in common with non-Muslims as Muslims. But this fell to 62% of 16-24 year-olds[xv]. Economic impact: Rising religious interest in general may raise conflict in the workforce. UK statistics show Muslims there often earn less than the general population and this may compound alienation.

12. Rising housing costs

The European Commission's latest annual Social Situation Report shows that Europeans now spend more of their income on housing costs than they did ten years ago (almost 4 percentage points more), while mortgage debt has increased sharply across the EU. On average, Europeans spend one fifth of their disposable income on accommodation. Rent and mortgage payments only make up 30% of total housing costs in the EU while the other 70% pays for repairs, maintenance and fuel[xvi]. Economic impact: Unaffordable housing, a generation without the means to jump on the property ladder – all could lead to lower disposable incomes (after housing costs). Aging living accommodation may need massive investment to replace or refurbish it over the coming decades.

13. Youth unemployment: a lost generation?

In November 2009, the youth unemployment rate (under-25s) was 21.0% in the Euro zone and 21.4% in the EU27. In November 2008 it was 16.6% in both zones. The lowest rate was observed in the Netherlands (7.5%), and the highest rates in Spain (43.8%) and Latvia (36.3% in the third quarter of 2009)[xvii]. Economic impact: Potentially disastrous – could heavily influence politics in future years. This young workforce could be easily tempted away to fast growth economies if they have skills that are in high demand. This could exacerbate the shrinking population and reduce further the EU's economic capacity and capacity to care for its aging population.

9 Micro Trends: EU

14. Increasingly connected

Total mobile broadband subscribers in key European markets will rise from about 22m at the end of 2009 to over 43m in 2011. Total revenue from mobile broadband access in the major markets will rise from less than €6bn in 2009 to more than €11bn in 2011[xviii]. Economic impact: Opens up room for new disruptive business models. Creates a more mobile workforce with higher access to information.

15. Political discord in the Union

Dutch opinion polls show 92% of the population wants Greece to be moved out of the EMU. In Germany, the popular tabloid *Bild* leads a non-bailout campaign with 72% of the population against any sort of financial transfer from Germany into southern countries[xix]. Economic impact: Markets may choose to attack the weakest link, leading to fears of a domino effect of the weakest EU members. Could cause the break-up of the EMU and fragment Europe's markets. Over time it could increase the cost of doing business across Europe and we could move from convergence to divergence of European states, currencies, laws and business practices.

16. Savings still healthy

In the third quarter of 2009, the seasonally adjusted gross saving rate of households was 13.7% in the EU27, compared with 14.2% in the second quarter of 2009. In the Euro zone the household saving rate was 15.8% in the third quarter of 2009, compared with 16.2% in the previous quarter[xx]. Economic impact: Households generally have a decent cushion, although in some cases high savings rates are unwelcome. Economists frequently argue the need for more German consumption.

17. European tourism booms

By 2020 Europe will remain the most popular tourist destination, but its share will drop from 60% in 1995 to 46%[xxi]. Economic impact: Increasing competition may enforce industry changes – possibly with job cuts helping to make the industry leaner. Overall though, tourism should continue to be a motor for Europe.

18. Poverty risk

There are currently 80m people living in or at risk of poverty in the EU, including 19m working poor[xxii]. Economic impact: Loss of taxation, earnings, savings, together with increased health risks and compensatory government spending (handouts).

19. Energy profile

With the right kind of collaboration and investment, electricity production from wind and its contribution to meeting European electricity consumption could rise from 83 TWh in 2005 to 965 TWh by 2030, supplying 23% of European electricity[xxiii]. Economic impact: Potentially higher prices per megawatt (with needed government subsidies?) accompany a decrease of reliance on Russian gas and less chance of blackouts should transit countries have political confrontation with Russia.

20. Banking issues

24 European banks (accounting for 65-70% of the sector) may need to issue about €240bn ($327bn) annually for the next three years to fund existing and new businesses, as well as to meet the new Basel stable funding requirements, Citigroup said[xxiv]. Economic impact: Heavy outlays may see banks attempt to make up the costs elsewhere – such as interest rates and other charges on the consumer.

21. Booming e-commerce

European business-to-consumer (B2C) e-commerce sales totalled €106bn ($133bn) in 2006 and will grow to nearly €323bn ($407bn) in 2011, according to eMarketer[xxv]. Economic impact: New areas of growth appear, heavily disrupting traditional channels.

22. Job creating industries

The switch to green energy is also expected to create significant employment. A European Commission report sees 250,000 jobs created over the next decade as wind power shifts its focus to the seas, where wind is more plentiful and the public less critical.

9 Micro Trends: EU

22. Job creating industries (Continued)

Over 200,000 skilled jobs could be created in the solar energy sector, and the same number in bio energy plants to generate energy from burning household and agricultural waste[xxvi]. Economic impact: Could help create an area of comparative global expertise – perhaps establishing Europe as a key player in these industries.

23. Smart infrastructure

Smart meters in Europe can save €6 billion per year, or €120 billion ($175 billion) over the meters' 20-year life[xxvii]. Economic impact: Savings on both state and personal levels – meaning legally binding CO2 targets easier to meet, and personal cost savings may enable spending elsewhere.

24. Rising personal indebtedness

At least 20 million people are over-indebted in the EU (as of October 2009[xxviii]) "With the increasing unemployment rates the number of people with debt problems can be expected to grow substantially over the next months", explains Hans Grohs, president of ECDN, an alliance of more than 40 debt advice organizations, consumer agencies and researchers. Economic impact: Could severely burden social safety nets if indebtedness leads to bankruptcy or unemployment. Indebtedness will depress consumption and may affect interest rate decisions.

25. Social networking ubiquitous

Of the 282.7 million European internet users ages 15+ who went online from a home or work computer in December 2008, 211 million visited a social networking site, representing a penetration of 74.6%, according to data from comScore's World Metrix[xxix]. Economic impact: Once a sound model of monetarization has been proven, the potential in this area is huge. Media reports also suggest time spent at work on social networking sites totals billions of Euros. Getting the balance right will be a challenge for employers and staff alike.

26. R&D efforts bested by BRICS

Asian economies could overtake Europe and the United States to become world leaders in research, according to an EU taskforce charged with predicting emerging trends over the coming two decades. China and India will be global powers in R&D, accounting for around 20% of the world's research investment – more than doubling their current share, according to *The World in 2025*[xxx]. Economic impact: Highly lucrative jobs could be lost to China and elsewhere if R&D spending and infrastructure is not improved and the resultant markets could be developed outside the EU in the first instance. Potentially leaves the EU as a secondary market for new and emerging technologies and market sectors.

27. Climate change challenges

Chief UK government scientist John Beddington says climate change would mean northern Europe would become a new key global center for food production. The United Nations Environment Programme predicts widespread water shortages across Africa, Europe and Asia by 2025[xxxi]. Economic impact: Could result in some areas declining in habitability. Water pricing is also a strong possibility. Could limit ability of some high water usage industries to operate within the EU.

28. Energy security and Russian gas

According to forecasts by the International Energy Agency (IEA), production of natural gas within the EU will decline from the 2006 level of 216 billion cubic metres per year (Gm3/year) to 90 Gm3/year by 2030, even as demand for gas is expected to rise significantly. The need to import gas will accordingly increase by up to 90% during the period. Russia and Norway are currently the most significant suppliers of gas to the EU. Their combined share of the EU's gas imports during 2006 was 62%. The findings show that there is little potential for an increase in the level of Norwegian gas exports to the EU, while many of Russia's fields are closer in proximity to China[xxxii]. Economic impact: Any potential shortfall of gas, as in the Ukraine/Russia standoff of 2009 could have far-reaching consequences for all dependent EU countries.

9 Micro Trends: EU

29. Zero carbon buildings

The European parliament has approved a measure requiring all new buildings to produce the energy they consume themselves, starting from December 2018. To accomplish this, renewable sources such as solar energy and high efficiency devices like heat pumps to produce heating and cooling, will be applied[xxxiii]. Economic impact: High initial outlays may be countered by long term savings. May stall new building programmes and make some unviable.

30. Increasing health expenditure

Health expenditure in the EU is expected to increase from 9% of gross domestic product in 2010 to around 16% by 2020, according to Healthcast 2020[xxxiv]. Economic impact: Potentially huge. Such a rise will need to be offset elsewhere and the possibility of reform could trigger widespread protest.

10 Micro Trends: USA

1. Migration fuelled population growth

The Pew Research Center, an independent research group, estimated in March 2008 that more than one in seven US residents will be foreign-born within about two decades' time. The Center has even gone so far as to predict that 19% of Americans will be foreign-born in 2050. Pew estimates that the total population will have grown to 438m by that time, with immigrants accounting for 82%, or 117m, of the increase[xxxv]. Economic impact: Possible need for bilingualism in the workplace. New niche markets will appear, bringing new business opportunities with them. Potential baby boom as immigrants establish themselves in the US.

2. Generation conflict

The greatest problem for the workforce may be the failure of different generations to talk to one another. In an online survey by employment services provider Randstad USA, 51% of baby boomers (born between 1946 and 1964, according to this survey) and 66% of the generation that preceded the boomers reported having little to no interaction with colleagues from Generation Y (born between 1980 and 1988). No contact, no knowledge transfer[xxxvi]. Economic impact: Lack of knowledge transfer will affect future performance – but more immediate effects may include a lack of communication within a given organization and inability to empathize with their customers.

3. Boomers delaying retirement

The Center for Economic and Policy Research (02/09) says the US housing collapse has left the majority of those around retirement age almost completely reliant on entitlements. The net worth of median households aged 45 to 54 has dropped more than 45% since 2004, to just over $80,000. Households led by 55 to 64 year- olds have lost 38%[xxxvii]. Economic impact: Huge loss to American economy necessitates longer working for boomers – strangles younger generation's chances of jobs and leads to an older workforce with all its characteristics.

4. Skills shortage

On September 19, 2008, *Business Week* reported that companies and countries will need more people to fill knowledge worker positions. By 2020, that number will exceed 4bn. Projections indicate that there will be shortages of between 32m and 39m people to fill these positions. The US will have the biggest shortfall – needing as many as 14m more people[xxxviii]. Economic impact: Lost capacity within the economy could ensue. Educational institutions could witness a rise in margins. Could lead to further outsourcing and off-shoring of knowledge jobs, and to calls for increased immigration.

5. Schools failing

A 2008 study calculates that one third of American college students have to enrol in remedial classes at an estimated cost of $2.3bn to $2.9bn annually[xxxix]. Economic impact: High remediation costs may make foreign labour look more attractive.

6. Educational reform

Disrupting Class: How Disruptive Innovation Will Change the Way the World Learns by Michael B. Horn, with Clayton M. Christensen and Curtis W. Johnson applies a business change model devised by Christensen, a Harvard Business School professor, to the technological changes lapping at the foundations of public education. By 2019, nearly half of all public high school courses will be taught online, Horn predicts. Nationwide in the US, 700,000 kids attended virtual schools as of January 2008[xl]. Economic impact: Huge public savings associated with lack of needed infrastructure and all the disruption in the necessary infrastructure traditionally required. Could put pressure on home environments to be suitable for learning.

7. Decline of the consumer?

An AlixPartners survey of March 2009 found Americans say when the downturn ends, their spending will return to 86% of pre-recession levels – taking a trillion dollars per year out of the economy[xli]. Economic impact: Given reliance on consumption, this would result in further job losses associated with impaired consumption.

8. Savings rate up, but for how long?

After years of negative savings rates, the national average hit 3.3% in January 2010. Still, advisers believe consumers should save at least 9% of their personal income[xlii]. Economic impact: An increased savings rate

10 Micro Trends: USA

8. Savings rate up, but for how long? (Continued)

is needed as part of global rebalancing but will disrupt the US economy in the short- to mid-term.

9. Savings rate to endanger jobs?

A 5% savings rate would mean $530bn less in spending each year if US incomes fail to rise. If they rose by 2% a year, a 2.3% savings rate would mean $250bn less spending, all else being equal[xliii]. Economic impact: Less spending equals lower margins for companies which will result in job losses.

10. New era of renewable energy

President Obama has allocated more than $100 billion toward renewable energy funding[xliv]. Economic impact: New hubs may appear around renewables – potentially giving life to the desert southwest (solar) and the Great Plains (wind).

11. Greenhouse gas cuts

The US pledged in January 2010 to cut its greenhouse gas emissions by 17% from 2005 levels by 2020 under an international climate agreement, though it made its commitment contingent on passing legislation at home[xlv]. Economic impact: May impact the carbon- intensive economy short term but has the potential to induce savings.

12. Recovery varies by area

According to the projections of a US Conference of Mayors study titled *US Metro Economics*, Dayton, Ohio, is not expected to see a significant employment bounce until 2015; Hartford, Connecticut, not until 2018, and Detroit, Michigan, not until after 2039[xlvi]. Economic impact: Some regions may become economically unviable, inducing a revolutionary approach to business in such areas. More likely is a slow death of such cities.

13. Debt overload

Congressional Budget Office projections show the debt reaching two to five times the total national income within the next 50 years. Action, and change, is sorely needed[xlvii]. Economic impact: America may not be the next Greece but government debt could slowly drown the credibility of the US government unless action is agreed upon and implemented.

14. Ill equipped for aging

Social Security will begin to run at a deficit around 2017 and will deplete its trust fund by 2041 unless changes are made now. At that point, money coming into the program would only cover about 70% of the money paid out each year. Medicare and Medicaid will deplete their trust funds in only about ten years and will be the largest component of all U.S. government spending by 2030[xlviii]. Economic impact: Medicare reform and healthcare reform more generally are needed (whether in the current proposed form or not), although critics will point to the impact on national debt. In any event this will require higher funding than is forecast to be available at present.

15. Health issues multiply

The number of new cancer cases diagnosed each year will jump 45% in the next two decades to 2.3m, up from 1.6m in 2010, affecting many older adults and minorities[xlix].Economic impact: Implies a rise in healthcare costs – potentially raising premiums beyond the reach of many. Could reduce the size of the workforce and remove valuable knowledge from firms.

16. Long term decline in household spending

Between now and 2020, the US will experience very minor growth in per-household spending. But after that, spending on consumer products is expected to fall and to continue falling in constant dollars, according to Nielsen[l]. Economic impact: The main engine of the US economy is faltering – meaning a replacement will need to be found to accommodate the excess labor created through the service economy.

17. Socio-economic retrenchment?

Nielsen created a set of long-term demographic and economic projections that model the potential impacts of the aging US population. The projections make use of five groups of households (Struggling, Lower Mid, Upper Mid, Affluent and Wealthy), each accounting for 20% of total, using an income-to-poverty ratio.

10 Micro Trends: USA

17. Socio-economic retrenchment? (Continued)

Households in the Struggling group have incomes that are no more than 1.5 times the poverty threshold. For a single-person household under the age of 65, this equates to having a yearly income less than $15,732. For a six-person family with four children, this means having a yearly income less than $40,407. All together, the Struggling group has a median income of $12,201.

Five Affluence Groups

Projections using household income-to-poverty ratio

Groups	Struggling	Lower Mid	Upper Mid	Affluent	Wealthy
IPR Ranges–	<1.5	1.50-2.75	2.75-4.00	4.00-6.25	>6.25
Median HHI–	$12,201	$30,402	$48,501	$72,395	$132,487
% of HHs–	19.7%	20.9%	18.4%	20.9%	20.2%

Source: The Nielsen Company, U.S. Census Bureau

From now until 2020, the projections show that the Struggling and Lower Mid groups will be the only ones to gain share, with the Struggling group growing by over 10%. The lower affluence groups will grow at the expense of all other groups. By 2050, the projections show that the Struggling group will have grown in size by nearly 70%, pulling households from all other affluence groups, particularly those in the middle.

For families with children, the growth in Struggling households will be even stronger. By 2050, nearly one third of all families are expected to fall within the Struggling group. In the same timeframe, nearly 40% of all households whose household head is over the age of 65 are expected to fall into the Struggling group[li]. Economic impact: The erosion of the middle class could be disastrous for the U.S – it was after all the pillar on which the economy grew in the late 20th century.

18. Changing demography

By 2037, nearly one in three households will be headed by a person over the age of 65. Of these households, nearly three quarters will be non-Hispanic white, nearly half will be single persons, and the majority of persons in the 65+ age range will be women[lii]. Economic impact: A graying economy will impose costs but present new opportunities as well. Changing demography will alter consumption patterns as well as care and travel needs, marketing strategies and housing needs.

19. Increasingly connected

Come the year 2015, the US will have a penetration of some 149 million WiFi-enabled mobile phones according to a recent study performed by Coda Research Consultancy. Based on this information, the US will account for 66% of all WiFi-enabled mobile phone shipments in the year 2015 with a growth rate of 25% CAGR between the end of 2009 and 2015[liii]. Economic impact: Business and individuals can benefit from quicker processes and ultimately save money. New channels and business models can form, and remote and mobile working can increase, potentially reducing operational costs and greenhouse gas emissions.

20. Obesity, the new normal

If people keep gaining weight at the current rate, fat will be the norm by 2015, with 75% of US adults overweight and 41% obese, US researchers predicted in 2007[liv]. A more recent November 2009 study notes if current obesity trends continue, more than 40% of adults in the US will be obese and spending on the epidemic will quadruple to $344bn by 2018[lv]. Economic impact: The rather large straw that broke the camel's back? Healthcare costs will rise across the board, bringing the possibility of brand new models but imparting plenty of premium priced pain in the meantime. Many products and services will need to be adapted to cater for the larger citizen at potentially high cost.

21. Smart homes

The number of US homes with smart meters will jump from about 8m now to 40m by 2015[lvi]. Economic impact: Savings across the board and more awareness and focus on reducing consumption of energy.

10 Micro Trends: USA

22. Smart grid

The electricity sector could shave up to 18% off its energy use and carbon dioxide emissions by 2030 by aggressively embracing smart-grid technologies, according to a new analysis[lvii]. Economic impact: Less need for power generation and any associated imports.

23. US loses academic supremacy

China is now second only to the US in terms of academic papers published, and will take first place by 2020 if current trends continue[lviii]. Economic impact: The US will still retain many world class institutions but may attract fewer foreign students, especially Chinese. Foreign students traditionally account for a large percentage of Silicon Valley startups.

24. Social networks

Among all countries, the US leads the way with the largest number of people checking out social networking sites – 142.1m unique visitors in December 2009[lix]. Economic impact: Once a sound model of monetisation has been proven, the potential in this area is huge and has the capacity to disrupt many of today's service models and engagement strategies. Media reports also suggest time spent at work on social networking sites totals billions of dollars.

25. B2B social media

US B2B firms are set to increase expenditure on social media, as they attempt to navigate their way through current financial difficulties. Forrester predicts (April 27, 2009) that expenditure will rise from $716m to at least $3.1bn between 2009 and 2014, at an annual rate of 34%. This is part of an expected rise in spend on interactive marketing from $25.5bn to almost $55bn over the same period[lx]. Economic impact: New marketing opportunities accompany this attempt from business to cut down costs by dealing direct.

26. Increasingly tolerant

Millennials are significantly more likely to be accepting of interracial marriage. While 85% of Millennials say they would be fine with a marriage to someone from any of the groups asked about, that number drops to about three quarters (73%) among 30-to-49-year-olds, 55% among 50 to 64 year-olds, and just 38% of those aged 65 and older. Economic impact: Better racial relations may lower costs overall, but more definite is the potentially for hybridity of consumption – that is, products and services no longer stigmatized by association with a given group.

27. R&D efforts bested by BRICS

Asian economies could overtake Europe and the United States to become world leaders in research, according to an EU taskforce charged with predicting emerging trends over the coming two decades. China and India will be global powers in R&D, accounting for around 20% of the world's research investment – more than doubling their current share, according to *The World in 2025*[lxi]. Economic impact: Highly lucrative jobs could be lost to China and elsewhere if R&D spending and infrastructure are not improved.

28. Waste not want not

Food waste accounts for 25% of fresh water use in the US, and 300m barrels of oil – about 4% of the country's total oil consumption[lxii]. Economic impact: Efficiency savings like this, if encouraged or enforced, could save billions of dollars.

29. Open source business

In a December 2008 study of 250 North American partners, CMP Media found that 48% of end customers are looking to streamline business processes, rather than endure pure cost cuts. 75% of end customers are buying some version of managed services, but the definition of managed services is quite broad. Economic uncertainty is pushing companies to prove technology before buying it, which skews toward open source, which is all about trying before buying[lxiii]. Economic impact: A weak economy may hasten the development of the sector as firms seek to control costs.

10 Micro Trends: USA

30. Augmented reality

55% of internet experts surveyed by Pew believe that by 2020 many lives will be touched by the use of augmented reality or spent interacting in artificial spaces[lxiv]. Economic impact: Potentially revolutionizing advertising and introducing transparency to the pricing process in many retail environments. Will allow for instantaneous comparison and global real-time “face-to-face” interaction.

11 Micro Trends: UK

Taking a UK consequential view, here are several micro-scenarios to help us consider what the future might be influenced by. It's not exhaustive but the hope is that it stimulates creative thinking that will help us identify the future of the London and Lloyd's markets.

1. Long term low interest rates

UK savings attract low interest and those on index linked and fixed incomes will fare badly in the coming years. Economic impact: Will retirees compete in the labor market again?

2. Banking as a utility

Banks revert to the style of the 60's, when knowing your customer and lending them only what they can afford to borrow were basic precepts. Economic impact: lending may be delayed a long time until people can rebalance their assets. Economic recovery may suffer.

3. Increased global regulation

Can we expect a consensus around strengthening and standardizing regulation on a global basis? Economic impact: This could go well or badly for the UK and London particularly. London markets may inadvertently (or deliberately) be adversely impacted by foreign/global regulatory intervention. Cost of compliance increases and innovation falls away.

4. Increasingly migrant labor goes home[lxv]

Lower social cost to UK of job losses. Fewer trades people to pick up new government construction initiatives designed to create jobs and raise country's economic activity. Difficult to get construction projects resourced in the future. Fewer major structures to insure than expected

5. Lower immigration from visa restrictions[lxvi]

Reduced birth rate in population as fewer immigrants arrive. Economic impact: Increased speed of aging population. Faster/higher dependency ratio of workers to retirees.

6. Reduced emigration from house values weak sterling[lxvii]

1.5m UK residents a year had planned to permanently leave the UK every year by 2020. Older citizens (+40) staying in the UK longer than they planned. Expensive citizens to support if unemployed. Distorting labor market with more, older talent than before.

7. Fewer foreign visitors to UK

Spending 20% less year-on-year[lxviii]. Economic impact: Less tax income and lower revenues and employment

8. Increased domestic tourism[lxix]

Car hire seeing a steep increase in bookings for UK-based trips. Recent car rental figures have doubled compared to last year. Economic impact: More UK tourism from UK residents. Suggesting that more families are now opting to holiday closer to home than abroad. Boost for UK tourism.

9. Declining trust (peer-to-peer, media, institutions[lxx])

Government finds it harder to communicate with citizens. Less desire to work for distrusted market sectors. Economic impact: Some sectors (investment banking, insurance etc.) could find it increasingly hard to attract scarce talent as the economy turns up. Insurance is regularly the least trusted industry in studies such as the annual Edelman survey.

10. New technology solutions

Innovative, technology-based, stakeholder-focused solutions could lead us out of recession quicker and reduce costs during it. Economic impact: Shorter recession, faster upturn/reduced cost to industry. Software-as-a-service (SAAS) and Cloud computing have the advantage of being deemed operational costs not capital costs on balance sheets.

11 Micro Trends: UK

11. Growth in reliance on the internet

More people are downloading discount vouchers from internet sites, finding bargains, ordering low cost food etc. This is the first downturn in the internet era. Economic impact: More business activity could go online, faster than originally forecast[lxxi]. Traditional providers lose revenues. Less retail real estate needed, lower insurance premiums from this sector.

12. Emerging green technology mass market

Despite the recession, companies are still setting aside a large chunk of their IT spending for green technology[lxxii]. Cutting cost is still a significant motivating factor behind green investments, along with reducing regulatory risk and improving public perception. Economic impact: Reduced industry cost and better perception of UK industry. May be an advantage for the London Market to consider.

13. More video-conferencing

Up to 20% less business travel where videoconferencing is being used[lxxiii]. Down two million airline seats globally per annum[lxxiv]. This may be a permanent change. Economic impact: Less flights and lower revenues to airlines and the Treasury and to UK inbound and outbound business travel and tour industries. Reduced B2B exhibitions.

14. Increased mobile data services

71% of consumers in a February 2009 poll intend to make use of mobile data services daily[lxxv]. Significant ramp-up in 2009. Economic impact: Telco industry should do well in this wave. Resulting in a more mobile, connected workforce.

15. More outsourcing

60% of major UK firms say they plan to outsource more[lxxvi]. 80% say it's to reduce cost. Is there the capacity to absorb this? Can standards be maintained? Will this rapid expansion reduce service quality across UK industry? Need middle manager skills to manage outsourced arrangements but over 50's being laid off. Economic impact: Reduced productivity, falling service levels. If outsourcing is offshored then job losses and tax revenues could happen.

16. Speed-sourcing, fast outsourcing

The established offshore players with experience are most likely to win new business. India may win whilst locations like Vietnam may be considered too risky[lxxvii]. Economic impact: UK becomes increasingly reliant on and vulnerable to changes in the Indian economy.

17. Growth in flexible working arrangements

Despite double the number of company failures in 2009, 40% of UK workforce with children under 16 and carer duties will be eligible to ask to work flexibly[lxxviii]. Only 8% of employers trust employees to work remotely. 42% of workers said they could work better at home[lxxix]. Economic impact: more costly working arrangements for companies to manage. Could disadvantage carers' job security? Employees continue to work ineffectively.

18. Externalise to rapidly developing economies

Huge opportunity for business to focus on fast growing economies[lxxx]. Economic impact: Shorten recession if foreign revenues increasingly earn from abroad. More dependent on foreign economies and their preferences for insurer and reinsurer.

19. CSR

CSR creates shareholder value but switching from environment to governance in the recession. Government will either miss or need to incentivise/legislate for environmental change to meet UK carbon reduction targets[lxxxi]. Economic impact: More cost or more bureaucracy? Less conservation of energy resources, slower switch to sustainable energy sources and recycling. Economy remains vulnerable to next energy price hike in recovery. Slows down fledgling alternate energy sector which represents a potentially fast growth, high value insurance market.

11 Micro Trends: UK

20. Decreasing focus - environmental programs

Environmental, social, and governance activities do create value for their shareholders in normal economic times. The global economic turmoil has increased the importance of governance programs—and decreased the importance of environmental programs—in creating shareholder value[lxxxii]. Economic impact: Lessening focus on taking action on reducing carbon emissions exposes UK to missing these targets and incurring additional costs. It also means some players miss chance to reduce costs through environmental recycling and using less resources. This could make UK industry less competitive internationally when compared with other 'greener' countries companies.

21. Less biofuel

Sugar cane prices remain high due to 2008-9 and 2009-10 shortfalls in supply[lxxxiii]. Ethanol produced from sugar cane in high demand in countries like Brazil but some plant manufacturing capacity being delayed due to economic situation. Economic impact: Could delay making ethanol a viable contributor to reducing UK carbon emissions from petroleum. Most carbon in UK comes from motor vehicles. IATA (representing 230 airlines) has committed that 10% of fuel used by its members will be from alternate greener sources. Shortage of supply could slow take-up of ethanol-powered transport. Fewer major power plants built needing insurance cover.

22. Growth in green housing/buildings

Grants and financial incentives needed to develop green buildings. Government may be unable to fund this for years to come due to high cost of countering the impact of the recession[lxxxiv]. High cost of heating homes in UK and low efficiency makes UK less competitive. Economic impact: Building industry leaders see that decisive action on sustainability may actually stimulate economic activity and job creation, while cost savings can be achieved through less energy consumption and greater waste reduction.

23. Over-50's and new graduates hardest hit by job losses[lxxxv] in recession

Higher wage-earning over-50's pay proportionately higher taxes[lxxxvi]. Tax revenues lost to the Treasury. Job experience lost to companies? Less ability to cope with change/complexity? Graduates may move abroad, maybe for long term. (New brain drain).

24. Families more at risk in this recession

More women work, more single parent families and more female breadwinners[lxxxvii]. Women losing jobs alongside men. In the 1980 recession the industries they tended to work in, service, retail etc, were not deeply impacted. They are now and women workers predominate in these sectors which are set to be hit hard in this recession. In past recessions women working increased as they buffered falling household incomes. This isn't available this time. Economic impact: Extra support needed faster for families this time around.

25. Women increasingly under prepared for pensions provision

As they lose their jobs they may lose employers pensions provision and be more likely for pensions poverty[lxxxviii]. Economic impact: Additional cost to government and economy to support them in their later life.

26. Increasing savings rate

60% of Britons have changed their saving habits (March 2009). Switch from debt-funded spending £30bn in 2008 to savings £45bn could create a £75bn swing, equal to 5% of GDP[lxxxix]. Economic impact: Deepens recession and/or Slows economic recovery as saving increases and spending falls.

27. Rising barriers to foreign students

More expensive and more protracted (visa process). Last year 50,000 foreign undergraduates started studying in the UK. Said to be worth £5bn to the UK – split between fees and spending per annum. Economic impact: Loss of revenue. More students may want to come to the UK because of weaker pound.

11 Micro Trends: UK

28. Fewer graduate job opportunities

5% fewer graduate jobs over 2008[xc]. 50% more graduates entering the general job market (150,000) and potentially more graduates may be unemployed or go abroad to work. UK may lose them for longer than just the recession as their host economies entice them to stay on during the upturn. Economic impact: Loss of vital skilled workforce for UK will hit growth and performance particularly in high IP sectors. This will also potentially speed up the aging of our society and the rate at which the Dependency Ratio falls.

29. More funded Gap Years

As one professional services firm just did, pay new hire graduates £10,000 to take a Gap Year and start work afterward. Economic impact: Preserves graduates for UK economy and delays them taking up their graduate places until the work is there and keeps them out of unemployment.

30. Increasingly-debt burdened graduates

300,000 graduates graduate in 2009. Average debt over £20,000. Total cost to economy to date almost £22bn[xci]. Economic impact: Will they pay it back? Will government need to 'forgive' these loans to keep graduates in the UK or entice them back if they've left? If the best leave who will run 'the city'.

31. Generation wars

Generation Y refuses to pay for the folly of Baby Boomer led business greed and governments who created the massive debt incurred in fighting the worst consequences of the credit crunch. They refuse to support the retiring generation through tax. They go abroad or hide income from HMRC. Economic impact: Disaster for the workforce and tax revenues. Increases the speed at which UK society ages and becomes uncompetitive.

32. Increasing creativity

Increasing creativity in products, services, distribution methods, business models in both large and small firms. Increasing entrepreneurship. Economic impact: Accelerates economic activity and recovery as well as market reform and modernization.

33. Innovative start-ups and small businesses

Driven by layoffs and increasing creativity during the downturn[xcii]. Rapid growth of the networked company. Economic impact: Accelerates economic activity and recovery. Challenges large and established corporations.

34. Increasingly innovative auto industry

Car sales down nearly 60% in January 2009 on 2008[xciii]. Commercial vehicle production down 60%. Duel energy source, new engine plants, maybe 'magnetic' engines needed to stimulate the auto market. To appeal to more cost conscious and 'environmentally' aware consumers. Economic impact: Recovery of automotive industry and economy sped up. Reduces carbon emissions.

35. More sole traders/consultants

from the ranks of the retrenched/redundant white collar workers. Economic impact: Slower tax collection as sole traders delay paying tax for their first year in business. More mobile workforce/company structure but probably older workforce too.

36. Increased customer service and loyalty

Small-and-medium sized businesses saying that despite pressure to reduce price they will put their customers first and focus on increasing customer loyalty[xciv]. Economic impact: Reducing costs to customers but increased service levels. Maybe reduced churn in some markets will expose poorer service providers and accelerate their demise and the rise of new firms.

37. Growth in stress and stress-related illness

75% of people say the credit crunch will have a negative impact on their health. 90% expect money worries to lead to increased stress[xcv]. Economic impact: less productive workforce, greater strain on the NHS, higher costs to employers of less productive workforce.

11 Micro Trends: UK

38. Growth in extreme working

More people working longer hours – to prove themselves to their boss and attending work when ill to demonstrate their commitment and working while ill at home[xcvi]. Economic impact: Work longer potentially, spread illness to coworkers and more time off work by employers reduces company productivity and capacity. Increases the cost of running the economy and slows down output.

39. Increasing mental health problems

Could be a 26% rise, affecting more than 1.5million people in UK as a result of the downturn[xcvii]. Economic impact: Cost to NHS, cost to health insurance and cost to employers for unproductive workforce.

40. Reducing wellness

People living on a strict budget eat half the recommended five portions of fruit and vegetables a day[xcviii]. Consumers abandoning restaurants for Low cost, high fat and sugar fast food – Domino's, KFC and Subway all expanded their networks in 2009[xcix]. Gym membership collapsing[c]. Economic impact: Future cost to the NHS, acceleration of obesity and related illness, such as diabetes. Less fit, able and well workforce. Increased cost to health insurers, rising premiums. Lost productivity and earlier deaths. Service industry job creation in fast food sector.

41. Rising crime levels

Burglaries, motor thefts, robberies and bank and credit card fraud all rising[ci]. Bank fraud up 185% in 2008 on 2007[cii]. Economic impact: Higher insurance costs, higher costs of credit, stricter safeguards on credit being made available slowing the circulation of credit in the economy and making it more expensive. Slower recovery.

42. Growth in internet advertising

Ad firms engaging in internet advertising are experiencing slower decline[ciii]. This is protecting the Ad industry from experiencing the full potential of recession[civ]. Economic impact: More jobs preserved in the advertising industry that would otherwise have been lost.

43. Growth in DIY makeover

Relatively, room makeover products are doing well in the recession so far, down 3% at B&Q. More trades people will find work scarce because we are moving home less, moving into new commercial property less and doing a makeover ourselves. Economic impact: trades people may find work hard to come by and may be hit hard in this housing collapse led recession. We may lose the indigenous trades people we have which could slow economic recovery when it comes and drive rapid immigration again (Polish plumbers).

44. Reducing funding for education

Unemployed are looking to more secure public sector teaching jobs[cv]. 40% increase in online teaching job applications[cvi]. Schools have a more austere future with less private finance available, fewer employees on loan, and a curtailed government school building and investment program. Economic impact: Short term rise in teaching posts filled, reducing the number of people unemployed and temporarily swelling teacher numbers. Longer term decline in facilities available to educate school-age children could set back plans for a highly skilled workforce in the UK. May be hard to re-engage companies after the recession. May be hard to entice city workers back to the financial services industry.

45. UK population growth

The UK population of 61m will pass 70m by 2028[cvii] (ONS February 1st 2009). The fertility rate for UK resident women born outside Britain is 2.5, compared with 1.7 for those born here, causing rapid growth and higher relative population growth from immigrants. The UK population grew by 434,700 in 2007. Economic impact: Right to live in the UK may enable these projections to happen. Working restrictions may mean new migrants need to be highly skilled. Either way a fast pace of change is set for the UK which could cause political and social unrest and impact economic activity adversely.

11 Micro Trends: UK

46. Growing global population

Population of 6.7 billion is expected to rise to 9.2 billion by 2050[cviii]. 1.75m of the next 2.25m born in the world will be born in Muslim countries. This may change the balance of culture towards Islam and away from the mainly Judeo Christian roots of the existing developed nations. Population growth is considered the second greatest threat to the UK behind terrorism, but ahead of climate change. Economic impact: New global governance oriented away from Judeo Christianity towards Islam or Hinduism. This could change the relative competitiveness of the UK economy adversely if it is not conformant.

47. Falling new housing

Government admits it is falling behind targets for 3m new homes in the UK by 2020[cix]. London's target of 50,000 affordable homes by 2011 is also unlikely to be met. 107,000 new homes were built in 2008 against 148,000 housing starts in 2007. Economic impact: Building job losses, construction and property development firms and suppliers close, against a backdrop of high home demand. Could increase depth of recession and leave UK with too few homes in the early upturn, putting increased price rise pressure back into the system.

48. Generation Y quits

50% of young professionals feel they lack good work-life balance and, despite the toughening jobs market, would consider leaving their jobs as a result[cx]. Younger workers will have to accept that in difficult times decisions will be taken more speedily and workloads will increase. Their managers, meanwhile, will have to make an extra effort to keep Net Geners engaged and motivated. Economic impact: They could just find jobs abroad and leave. A brain drain of mega proportion and impact.

49. SAGA generation redundant

SAGA generation redundant (+50) unemployment rate rising twice as fast as any other age cohort[cxi]. Forced early retirement and MRA's limiting opportunities for this generation to get ahead and be re-employed. Economic impact: Experience lost from the workforce, making it less able to deal with the complexities of more small firms and more outsourcing making up our economic activity.

50. Delayed retirement

40% of over-50's working say they want to delay retirement, 15% say by 5 years or more[cxii]. This could lead to less mobility in the workforce as employees stay on longer before retirement. Defined contribution pension assets have fallen 35% from September 2007 to January 2009. The economic climate is one reason why people are staying on. Another is that 25% of those aged 55 are likely to make it to 95 and 10% to 100. Economic impact: Reduced workforce mobility but increased experience available. An older, less adaptable and less energetic workforce.

51. Increasing teen pregnancies?

In a bid to secure free housing for single mums. This would put further pressure on the social resources funded by the economy. Economic impact: Maybe there will need to be a new deal with social responsibility accompanying social welfare rites – a new deal?

52. Online is the new High Street

Christmas spending online was up 14% 2007 on 2008. Nearly 60% of us spent more online this year and 37% of shoppers did half their Christmas shopping online[cxiii]. Online searches for discounts grew by over 100%, a clear indication of how consumers are becoming more price sensitive and turning to the internet. Shopping being led by online grocery sales[cxiv]. Economic impact: Need to have more inclusive indices of shopping activity which include online spending to indicate market activity. Could lose VAT and tax revenues from products bought online from abroad. Could lose market share and business for UK retailers to foreign competitors. The postal industry however should have an increasing boost in business. Consumers could save up to £13bn if everyone bought all their products online and therefore potentially reduce UK economic activity permanently.

11 Micro Trends: UK

53. Profit squeeze for retailers

3% fall in retail sales, but food is expected to rise 3% leaving the non-food sector liable to fall by 7%. At the same time 5% increase in costs expected to continue and unlikely to be able to pass this on[cxv]. Economic impact: Non-food sector will be squeezed in revenues and margin and will seek to reduce costs and shed labor, delay investment and exacerbate the recession. Fewer retail premises to be insured.

54. Growth in convenience stores?

More people have been shopping locally in the downturn it was announced in November 2008. Sainsbury's will open 50 convenience stores in 2009[cxvi]. Waitrose opened its first convenience store in December 2008. This trend may have been a result of people using their cars less. With fuel back at around $40 a barrel people may be lured by the lower prices of the large discounter and out-of-town stores[cxvii]. Economic impact: Poorly performing convenience stores sector put under even greater pressure by majors entering their market which may not continue to boom. More job losses and business failures.

55. Growth of discount stores

German retailers Aldi and Lidl have seen sales surge. 50% of Aldi's shoppers are now white collar. Economic impact: Pressure on prices and competitiveness of UK supermarkets may cause Job losses and failures while attempting to compete with discounters' rapid expansion plans. This may lower the cost of shopping for many[cxviii].

56. China rising

In 2007 China surpassed Germany to become the third-largest economy in the world. The global economic crisis is bringing down Chinese growth figures to around 8% for 2009 but that's better than the economic performance the major industrialized countries will experience. In 2007, the gap between the growth rates of China and other big countries was huge. In 2009 the gap between them will be even bigger[cxix]. Economic impact: China may dominate the world economically and ultimately politically even earlier than forecast if these predictions turn out to be true. Global governance will increasingly favor China and its allies rather than the old arrangements among the industrialized nations.

57. Failing small businesses

There were 4,607 compulsory liquidations and creditors' voluntary liquidations in England and Wales in the fourth quarter of 2008 − up 51.6% compared to the same period a year ago[cxx]. That equates to one in every 150 companies going into liquidation. Economic impact: A failing SME sector could hurt innovation and market upturn and contribute more job losses.

58. Rising religious interest

Back to Church Sunday attracted double the number of people to attend in 2008 over 2007. The Church of England is confident of retaining 10 to 15% this year nationally, meaning an extra 3,000 to 4,000 congregants nationally[cxxi]. Economic impact: Relief of stress and support for a 'hurting' nation. More relaxed, healthier workforce.

59. Rise of extreme political parties

Disillusionment with the Government among traditional labor voters may tempt them to support the BNP or not turn out at all for elections. The British National Party won its first seats in the European Parliament in 2009. Economic impact: Two MEP's don't really make a difference but may change the climate of discussion around immigration – which could impact the economy adversely.

60. A permanently changed consumer?

About 3.8m people have negative equity in their homes or are about to. Another 1.2m will be hit if house prices drop by a further 10% to 20%. 7.2m are planning to use their home equity as part of their pension and are likely to be hit by falling house prices[cxxii]. The shift to negative equity has the potential to be a mammoth welfare disaster for the nation. Economic impact: It may take many years for people to feel affluent again based on the value of their principal asset – their home, reduce their rate of saving or debt reduction and start spending again. This could stall the economic recovery.

61. Rising risk of protectionism

US and other economies raise barriers to free trade. Economic impact: UK economy damaged.

11 Micro Trends: UK

62. People go back to basics

Consumers work hard, save their money and favor ethical companies and tangible products and services. Economic impact: Deepens recession and/or slows the recovery as we rein in spending, pay back debt and save more.

63. Relatively slower recovery

Other countries less debt burdened may recover faster – Brazil, India, Russia, even China etc. UK slips relatively behind their competitors. Economic impact: UK becomes less competitive and world influence falls.

12 Life, Health & Annuity

Global Drivers

The Life and Health insurance sectors are impacted, either directly or indirectly, by megatrends impacting the world. These are shown in Figure 12.

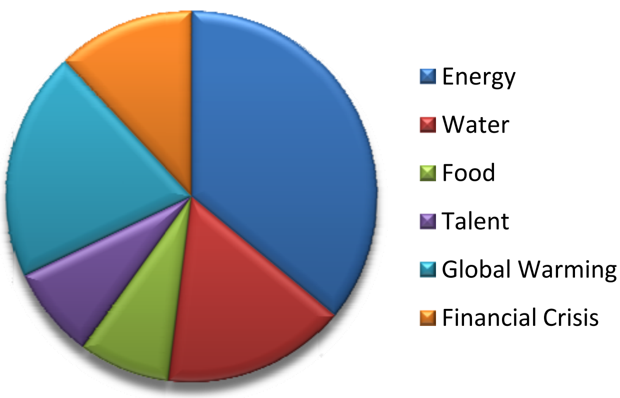

Figure 12: Global Drivers

Energy and **Global Warming** are cited as having the biggest impacts on the sector, although this finding shouldn't diminish the importance of the other drivers. The most significant deviation from the overall insurance industry results is the relative unimportance ascribed to the **Financial Crisis** by LAH.

In addition to these global drivers, a consolidated list of industry drivers impact the sector. On closer inspection, the list does not show energy as a standalone industry driver. Its role can thus be considered a vital part of the meta-themed "environmental impact", and of course of underlying importance to the economy.

The group discussed the financial crisis to a large extent and the impact on an aging population. A shift from a focus on wealth creation to wealth management by an increasingly larger retirement community will impact product development and distribution.

As with other groups, **Talent** was also included on the list of drivers.

Industry Drivers	
1.	Consumer Confidence due to the Recession
2.	Pandemics – Swine Flu, Spike in the Death Rate – Could be Considered a Strength for Life and a weakness for annuity
3.	Aging Population – Aging Workforce & Life Expectancy of Insured
4.	Regulatory Changes – National Health Care? Federal Regulations, Compliance Issues
5.	Debt – Personal, Corporate, National
6.	Distribution Model Changes – Web 2.0, Social Networking, Mobile Devices. New Ways of Selling Insurance.
7.	Target Market Change – 401K, Lack of Formal Pension Plan, Modernization of Processes & Systems for the Younger Consumer
8.	Environmental Impact – The Green Effect, Changing Weather Patterns, Pollution, Global Warming
9.	IFRS – Financial Reporting
10.	Talent

Figure 13: Life, Health & Annuity industry drivers

12 Life, Health & Annuity

Strengths and Weaknesses of the Sector

Figure 14 notes some of the strengths and weaknesses ascribed to the sector by its executives.

Strengths	Weaknesses
Longevity of the Industry itself	Reputation of the Industry
Reputation of a Carrier	Compliance & Regulatory Constraints, Regulatory Expense
	Products are Complex
Data Security – Minimal Fraud Exposure	Outdated Processes
Risk Management – Good	Legacy Systems
Predictive Financial Modeling – Actuarial Pricing	Longevity of Liabilities of Inforce Contracts
Collaborative Environment	Resistance to Change – Conservative Sector
Technology Adoption for Speed to Market – Standards Adoption	Fear of Channel Conflict – Distribution Wars
70% of the Population has Life Insurance	Overconsumption of Information
Collection of Information – Historical Data	Large Portfolio of Products
Large Market Base	Capital Requirements
	Commoditization
	First Year Commission Payments – The Whole Compensation Model

Figure 14: Life, Health & Annuity strengths and weaknesses

Impacts of drivers upon strengths and weaknesses

A group of LAH executives was asked to ascribe opportunities and threats (using proxies of strengths and weaknesses) to the various drivers identified.

With four perceived opportunities and seven threats ascribed to it, Regulatory Change/Control is both the most impactful driver and the most negative in the minds of the Life and Health group. Indeed it would appear that the opportunities arising from ascribed strengths of Security of Private Information, Minimal Fraud, Risk management and Collaboration are not enough to prevent this driver from being perceived as a net threat. Indeed several weaknesses are thought of being exposed by Regulatory Change; namely Product complexity, Outdated processes, Legacy systems, Old liabilities, Resistance to change, an Overconsumption of information as well as too many (conflicting) products. It would thus appear that LAH does not believe it is capable of successfully implementing Regulatory change, even if it were to deliver some new opportunities.

The Target Market driver was cited as being similarly mixed in its outcomes, but is seen as an overall opportunity by a margin of five to four. Strengths of Carrier Reputation, Security of Private Information, Predictive Models, Speed to Market as well as a Large Market Base are all considered opportunities against this driver; only once did the Life and Health group perceive a strength as being weakened by any of the drivers. Four weaknesses were perceived as threats: Reputation of Industry (Low Trust), Complex products, Outdated Processes and Distribution Wars.

Consumer Confidence was likewise thought of as a net opportunity for the sector by a margin of five opportunities to four margins. So was an aging population (four to two) which was the only driver where a hitherto weakness was considered an opportunity – in that the weakness of liability of old contracts will eventually be negated somewhat by an aging population. All other drivers were considered net threats – most notably and not surprisingly Pandemics (two to five), debt (two to three) and distribution model (three to four).

Risk Management was the most cited strength impacted by the drivers and only one of these five was considered a threat – not surprisingly the group thought a pandemic might negatively impact this strength. There again it also considered it a strength against a pandemic (pandemics are after all highly volatile) as it can be against the drivers of an Aging Population, Regulatory Change/Control and Debt. Carrier Reputation was also considered an area of opportunity against the four drivers Consumer Confidence, Debt, Distribution Model and Target Market. The Security of Private Information was a strength also thought to be an opportunity when viewed against the drivers of Consumer confidence, Regulation and Target Market.

12 Life, Health & Annuity

Impacts of drivers upon strengths and weaknesses (Continued)

Outdated Processes was the most frequently noted weakness, appearing five times against seven of the drivers. Short of Aging Population and Debt, it is thought to present a weakness against every driver – Consumer Confidence, Pandemic, Regulatory Change/Control, Distribution Model and Target Market. Liability of (Old)/ Enforcing Contracts also appeared five times although once as a possible mitigated weakness as discussed above. Two other weaknesses appeared against more than half of the drivers: Reputation of Industry (Low Trust) and Product Complexity.

People

In the Cohn & Wolfe Financial Confidence Survey[cxxiii] of January 2009, only 13% said they found financial services trustworthy. Ratings of honesty were lower still at 10%. While guilt by association with the "masters of the universe" may overstate the degree of the problem, evidence from the ACORD process reveals widespread acknowledgement of a trust gap with the public.

Complex products are a weakness routinely identified by the LAH sector, and the danger is that consumers view the industry as suspiciously as they do the products. Part of the problem is that *consumers don't understand different policies so much*, and that *we need to better engage our customers.* Perhaps engagement attempts have thus far proven inadequate because trust needs to be a mutual process. Indeed one employee asks: *Why don't we trust our customers?* It is unlikely, given the importance of customer service in acting as a differentiator in a sector whose products appear homogenous to outsiders, that organizations with a trust deficit in their customers are positioned well to deal with such distrust in themselves.

The presence of outdated processes is unlikely to inspire confidence in consumers increasingly techno-savvy and demanding in their service requirements. Complex products, a lack of trust, outdated processes and distribution wars threaten to completely overshadow some of the opportunities available to the sector. Indeed the industry's longevity, minimal exposure to fraud and data security breaches, and large market base all have the potential to increase trust in the industry if only public engagement were more actively pursued.

Of course public engagement is not a goal in of itself; the second most important issue facing the industry is increasing sales according to the panel. Structural issues relating to *saturated markets, 70% of the population has life insurance,'* and *high levels of consumer debt* are significant and may limit potential growth performance over the medium to long term.

The third most important issue cited by the participants at Fort Lauderdale is the issue of talent. In the minds of many this is directly related to the conservatism of the sector, its outdated processes and the work environment presided over by managers from the baby boomer generation (1946-1960) as well as issues such as the sector's reputation.

Another key driver is the issue of aging populations. This issue is especially important as it covers not only the consumer market but also the internal staffing structure of an organization. One employee acknowledged that *internally – employee base 5,000 to 6,000 near retirement, in 5 years 40% of staff can take retirement*. Not only does this intensify the focus on talent as both a near- and medium-term issue but also brings *M&A [questions] based on this issue.* Furthermore the LAH sector has to contend with an aging population whose graying presents ambiguous results. *Weaknesses could be perceived as a strength and vice versa* where aging is concerned says one; at its base level, aging could be positive for Life but negative for Annuity.

12 Life, Health & Annuity

People (Continued)

It is hard to portray weaknesses as strengths and vice-versa in the face of pandemics – another major issue the industry must plan for. While risk management is generally believed to be good, planning for an unknown scale is difficult, and a strong or especially deadly pandemic could override risk management controls and perhaps even capital requirements. Furthermore outdated technology and legacy systems could severely hinder the progressions of payouts should a glut of claims be lodged, potentially leading to customer dissatisfaction and related problems of trust.

Technology

As is suggested in one comment with regard to virtual management, the prospects of a deepening use of mobile technologies are of importance. This is confirmed by our positing of the question "What top three technologies would you like to implement in your organization over the next five years?"

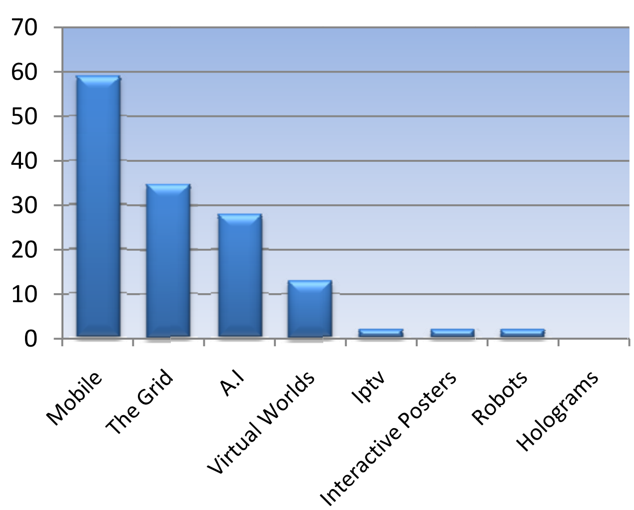

Figure 15: The next technology

As Figure 15 suggests, much of the sector's technology intentions center on mobile communications. Ideally all technologies should be *easy-to-use technologies that help responsiveness to the consumer.*

Reusable processes and services that can be used as standard on a plug and play basis are, according to one LAH employee, the goal.

However outdated processes, legacy systems and the conservative nature of the sector, three noted weaknesses, could threaten the timely introduction of such technology. Which is a pity, considering the rich ideas presented by LAH executives at one roundtable. For instance, *'Google Wave and other technologies – how can we use these new channels to sell to the younger demographic? A new way of interacting, a virtual way/avatar needed. Mobile will be number one as everyone uses them at a fast pace. Fully automated process needs to be seamlessly integrated into the medium – i.e. via Facebook.'*

Indeed this comment tends to suggest that covering the mobile aspect of technological implementation may well be the bare minimum that comes to be expected. But this alone will not prove a differentiator for a company in the sector. Although speed to market is considered a strength by many in the sector, many talk of distribution wars as being a current weakness, and one that could further fragment the process resulting in reduced effectiveness.

Given the myriad of privacy issues linked with data and new technological media being used within the industry, there would appear to be risks associated with the misuse of, or incorrect implementation of, new technology. This is especially pertinent since one of the sector's self-identified strengths is that of low fraud risk and high data protection. One executive noted that *richer information, especially around health insurance is available– - how do we manage and secure the data?*

Low consumer confidence and trust in the sector is prevalent, which ostensibly heightens the need for involved and meaningful public dialogue. The long process of regaining trust is one of many that would benefit from the use of newer technologies. However, given weaknesses identified in the sector surrounding the fear of channel conflict and distribution wars, it remains to be seen whether the obvious benefits of technological adaptation and adoption can overcome the barriers to change.

Standardized data is one such process that could enable improvements across the board for the industry. Indeed, as Figure 16 shows, the potential benefits are wide-ranging.

12 Life, Health & Annuity

Technology (Continued)

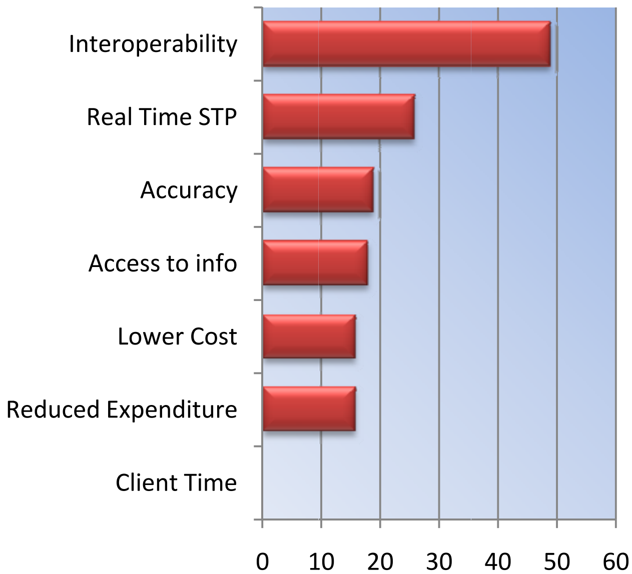

Figure 16: Benefits of standards

Generally the pattern of most through least cited benefits mirrors the general industry-wide pattern, with the exception of increased time with clients, which is not cited as a benefit by any of the LAH executives. However, the barriers preventing the efficiencies of standardized data are numerous. Figure 17 shows those most cited by LAH executives.

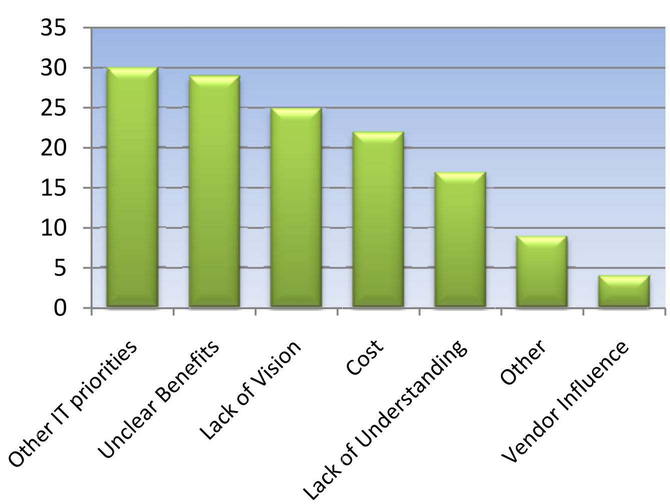

Figure 17: Barriers to industry standards

Generally the LAH results in Figure 17 mirror those of the overall industry, albeit with a strong deviation relating to **Unclear Benefits**. Ranking fourth overall, the results from LAH effectively switch its position with that of **Cost**. The barriers reflect noted weaknesses within the LAH sector – most notably the fear of change.

Many of these barriers are succinctly described by one LAH executive as *tech often ahead of where the business is. Benefits are soft, accrue over a time period. 1st connectivity with partner hard, then later ones get a lot easy. It is often an overhead not a profit center or providing fast benefits. Getting business buy-in.* Above all is the need to *illustrate how beneficial the benefits of reusable standardized processes and data [are].*

Balancing implementation needs of business and compliance with the standards. Time is often of the essence. Overcoming these barriers will require people to *prove how the standard benefits us. Evangelizing how the standards are good.*

It almost seems as if the problems are acknowledged and clear, but change still seems improbable to most in the sector. As noted earlier, the only certainty is change itself, and despite the numerous barriers to internal change, change will be forced upon the sector by external forces sooner or later.

Business Models

Technological progress is but one of the drivers impacting the world and increasingly creating circumstances where the only constant is change. In what is self-described as a *conservative sector,* this presents many issues, not least concerning changes to, or new versions of, its business model.

To assess this we asked "What new business model do you think could have the greatest impact on your market?" Within LAH Unbundling proved an attractive pick for 28%, despite proving the least popular among the overall insurance industry with a relatively low 12% of the overall vote. As can be seen in Figure 18, **Networked Business** also proved a popular pick and was the only other category that ranked above the overall industry average.

12 Life, Health & Annuity

Business Models (Continued)

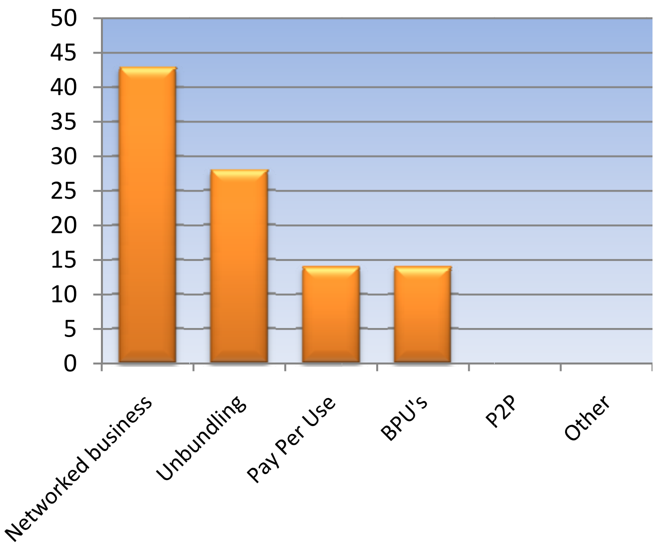

Figure 18: the next business model

Indeed the networked model by its definition reduces paper – a wish echoed by many in interview.

As to how these models might affect the day to day operations of the LAH sector, one employee commented that it would probably involve *virtual management. Working in a virtual way, more "disorganized", less traditional, and uncomfortable. They think of themselves as a consulting organization yet 70% of workforce just wants to do their job and go home. Need to feel more empowered.*

As is suggested in the above comment with regard to virtual management, the prospects of a deepening use of mobile technologies are of importance.

It remains to be seen whether high levels of corporate debt will hinder or expedite changes in the organizational model. It is perhaps likely to do both, and while those who do change are by no means guaranteed success, those that do not have the ability or desire to change are at best likely to find themselves playing catch-up in the future.

Regulatory

That regulatory change appears comparatively unimportant (Figure 19) should not detract from its importance, ascribed to by many in interviews and in later sessions. It should be noted that the below results are from November 2008, and given the precipitous decline in the world economy in the ensuing months, it may now be accorded higher importance. The fact that such an important issue ranks far below others merely confirms the range and severity of issues facing the sector.

The elephant in the American political room continues to be healthcare. *Will we end up with National Health Care?* asks one employee aware of the change this would potentially enforce on health insurers. Will federally mandated capital requirements be imposed en masse across financial services in the wake of the downturn? Furthermore *richer info, especially around health insurance* is being collated, which poses many questions for the sector. *With all the new data and potential privacy laws, can insurance companies use this data – is it legal? Is it ethical? Black market insurance? Genetics tests etc to get a lower rate?*

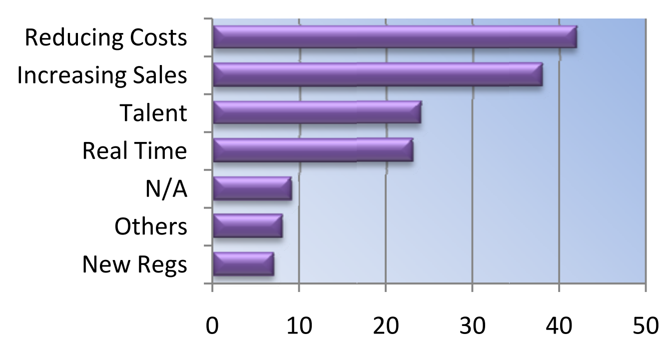

Figure 19: the next business model

There is a hope that the sector's perceived strengths in risk management may discourage heavy-handed regulation and that the collaborative nature of the industry may allow it some bargaining power should regulation be in the offing. However executives are almost unanimous in their belief that structural weaknesses in the LAH sector may complicate compliance issues.

12 Life, Health & Annuity

Regulatory (Continued)

Product complexity, legacy systems, outdated processes, a cultural resistance to change and the liability associated with old contracts are all potential weaknesses identified by the sector that may inhibit, slow down or otherwise complicate any compliance efforts.

'Will it make us money, save us money or be a necessary evil? Regulations probably the latter.' Given the probable truth in this comment, regulatory compliance can arguably no longer be seen as the goal. Transparency is here to stay, thus regulatory compliance becomes the minimum requirement as it gains you no competitive advantage. Meeting it gains you nothing but adds cost. Therefore the goal must be to exceed the minimum and make it public. It is in essence a cultural and goal setting shift, albeit one that faces significant mental hurdles.

Costs and Sales

Perhaps the most striking deviation from the overall industry concerns the top two issues shown in Figure 19. Whereas the industry overall ranks **Increasing Sales** as more of an issue than **Reducing Costs**, by as much as 25% more, the roles are reversed for LAH. The data does not reveal whether this is because of comparatively higher levels of LAH insurance penetration resulting in the need for increased sales being somewhat moderated or whether costs are comparatively high in this sub-sector. That both issues rank highly suggests the explanation may lie more in costs, and indeed this view is supported by one employee who cites the *saturated market* as a major issue.

Another cites emerging issues as: *Product differentiation, not much changed over the year accessibility and how it's distributed. Making distribution feel they have the tools to do the job in a differentiated way.* Although ranking a distant third, the issue of talent would appear to be a critical one in this sector and across the industry. There is also a sense that as well as being a threat, this represents a considerable opportunity.

Boomers are often cited as retarding technological adoption and hence constricting the talent flow into the industry; their retirement, notwithstanding the potentially severe business impacts, may represent a point of change. From such a change, technology, with its ability to reduce costs in the long term, increase sales and attract talent could be implemented with more scope and ambition. The longer term challenges, in the eyes of one employee, directly involve technology: *B2B, electronic channels, integrated externally with trading partners. All business through independent distributors. As they get more IT savvy they want more service.*

13 Property & Casualty

Global Drivers

The Property and Casualty insurance sector is impacted, either directly or indirectly, by megatrends impacting the world.

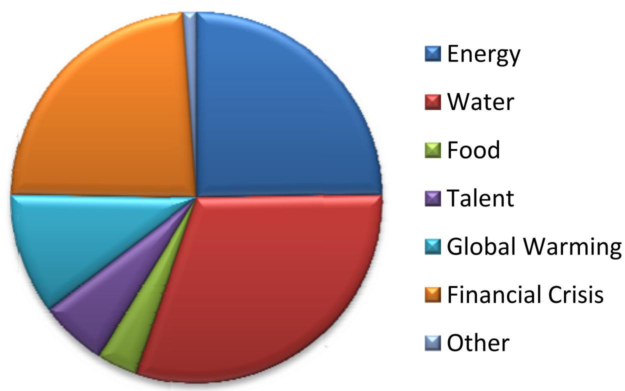

Figure 20: the next business model

The three overwhelming global drivers are viewed as **Water**, **Energy** and the **Financial Crisis**, much in line with the insurance industry's overall take. In addition to these global drivers, a consolidated list of industry drivers, as seen in Figure 21, are impacting the sector.

Note also that several of the drivers listed in Figure 20 are reliant on each other, with many displaying a cause and effect relationship. For example, **Aging**, **Technology** and the **Financial Crisis** have all led to *non-international players seeing international players making money across the world. Spreads risk by operating globally, it's all about risk management.* This in turn contributes to M&A possibility, which is also listed as an industry driver by those in P&C.

From a P&C provider perspective the top issues are *the economy, increase sales, being more efficient. Reducing costs*. This participant went on to pose a question about the smaller agencies: *What's going to happen with the smaller companies and agencies who maybe can't deal with all the issues, technologies – can they survive as independent organization. Regulation, what's coming – who knows.*

Industry Drivers	
1.	Aging – Losing Intellectual Property
2.	Technology, Speed of Technology Changes
3.	Speed to Market
4.	Agent/Company Relationship – Changing Biz Model
5.	Climate – Global Warming, Catastrophe
6.	Regulations & Compliance, Return to Standard Walls, Self Service, Change in Agency Model
7.	Cloud Computing
8.	Workforce Diversity, Changing Workforce, Blend New Talent & Work Ethic, Work Styles
9.	Social Networking Opportunities
10.	Mergers & Acquisitions
11.	Market Fluctuation
12.	Data Security
13.	Emerging Markets, International Marketplace

Figure 21: Property & Casualty industry drivers

13 Property & Casualty

Strengths and Weaknesses of the Sector

Figure 22 notes some of the strengths and weaknesses ascribed to the sector by its executives.

Strengths	Weaknesses
Product Value, Consumer Peace of Mind	Resistance to Change
Track Record in Paying Claims, Consumer Trust	Antiquated Technology
Focus on Safety Contribution to Risk Management	Legal Climate Suey!
Stability – Longevity and Industry as a Whole	Lack of College Degrees for Insurance Industry, No Feeder Program like Little League Baseball
Investments – Contribution to Financial Markets	Unappealing Perception (Not Sexy Enough) Career Path
Strong Networking	Aging Workforce
Community, Local Distribution, Human Touch	Lack of Consumer Trust
Long Term Employment, Offers Career Path	Regulatory Rating, Bureau Inaccuracies
Data Rich	Regulatory Climate, Impression of Deep Pockets
Demand Continues	Inefficient Process, Paper Intense, Non-Green
Mature Industry	Non-Nimble Adaptability & Rate of Change
	Lack of Diversity, Language Barriers, Cultural Understanding
	Financial Investment Reliance

Figure 22: Property & Casualty strengths and weaknesses

Impacts of drivers upon strengths and weaknesses

At a roundtable in London, a group of P&C executives were asked to ascribe opportunities and threats (using proxies of strengths and weaknesses) to the various drivers identified in Figure 22.

With eight opportunities and four threats flowing from it, changes in Agency/Company Relationship Business Process was cited as the most impactful driver. Accentuating existing strengths of Product Value/Consumer Peace of Mind, Track Record Claims Paid/Consumer Trust, Contribution to Risk Management, Stability, Networking, Community, Employment and consolidating the perceived benefit of a Mature Industry were all given as positives. However, as a driver, only Regulation was perceived as having more threats attached to it, as it was thought to threaten existing weaknesses concerning the legal climate, aging workforce as well as a lack of talent and feeder system.

As mentioned, Regulations and Compliance was viewed as the driver with most threats. Weaknesses of Resistance to Change, Antiquated Technology, the Legal Climate, Regulatory Rating/ Bureau Inaccuracies and the Regulatory environment were thought to present threats as and when the driver is fully enacted. On the positive side, it was thought that this driver would promote Risk Management and Networking, while the process being Data Rich would also encourage opportunities.

This P&C group was also generally in favor of globalization (by five to two), citing Product Value, Consumer Trust, Contribution to Risk Management, Stability and Continued Demand as strengths that will provide opportunities flowing from Emerging Markets. However, Antiquated Technology and an Aging Workforce were considered weaknesses that may be exposed as a threat to the sector under this driver.

Overall the most frequent strength cited as an opportunity against the drivers was Networking. Against the Technology, Speed to Market, Agency/Company Relationship Business Process, Regulations/Compliance, Market Fluctuation and Data Security drivers it was considered as providing major opportunities.

Nowhere was a driver seen as threatening this strength. However, the driver of social networking was seen as entirely threatening which is a surprise given the seeming opportunities prescribed by the group to the non-technological version. Stability/Longevity, Product Value/Consumer Peace of Mind and having a Mature Industry were seen as the other major strengths – indeed all were viewed as strengths with regards to Mergers and Acquisitions as well as changes in Agency/Company Relationship Business Process.

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Impacts of drivers upon strengths and weaknesses (Continued)

Again, none of these strengths was thought of as compromised by any of the drivers.

It should be noted that of the weaknesses highlighted by the group, none was thought to be mitigated against by any one of the drivers – perhaps reflecting disbelief that new technology or regulation can alter an already established culture. Antiquated Technology and Aging Workforce were the two most commonly cited weaknesses that would pose threats – appearing six times apiece. Both were considered implicit threats against the drivers of Aging Workforce and (the otherwise positively regarded) Emerging Markets. Antiquated Technology was also thought to reduce speed to market, and count against new technology introductions, as well as hinder regulations compliance and data security.

It should also be noted that resistance to change and a lack of new talent and a feeder system to deliver it were considered major weaknesses with five instances each. Mercifully not one driver has all of these four major weaknesses listed, although the presence of three of the four against the drivers Aging Workforce, Technology and Social Networking suggests that these drivers, although not attracting the attention of those listed above, also present acute threats to the sector.

People

When asked about the challenges in five years time, one P&C commentator stated the problems as: *Staffing? How to change distribution systems to keep up with society. How to manage this with Boomers still in charge and with them as customers along with three other generations. We have to address this now because it takes so long to achieve.* Given the time needed to address this important issue it should also be considered today's primary issue. However, as Figure 23 shows, it doesn't really factor against the two shorter-term objectives of increasing sales and cutting costs. As is seen with almost all groups, people issues, despite registering prominently as drivers, are considered less of a priority. To illustrate this, Figure 23 shows that talent issues are only third in importance to the P&C sector, although not as distant a third as in the LAH sector. Even so the role of talent in resolving the other issues is obvious, and its surprisingly low ranking is perhaps indicative of the immediate problems faced by those in the sector.

As is also hinted at in the comment above, issues will also arise concerning the presence of generations with very different expectations of the workplace. Incorporating new talent into what is described as an *aging workforce resistant to change* may well become one of the major future issues, and opportunities, for the sector. Given their familiarity with technology, Generation Y may be better placed to engage customers (especially younger ones) in more innovative ways than the baby boomer generation.

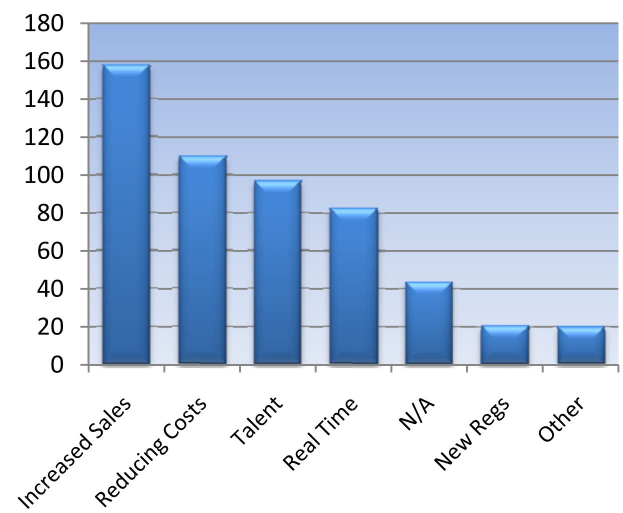

Figure 23: Issues impacting the industry

When asked what barriers standardized data implementation faces, one respondent said *multi-generational is an issue – the older folks protect their own turf.* Generalizations aside, it does seem that the generational issues are wedded to technological ones, thus pressing more importance on the talent (through flow) trickle.

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Technology

When asked what technology meant for their industry sector, one commentator stated that *technology has caught up with the vision many agents and the industry have had. Customer expectations are growing.* The challenge is now in implementing the vision.

Some organizations have already started to use technology to help create individualized products and policies that seek to correct erratic teen driving. The potential to deepen the role of technology is also evident as *all sorts of risk can be tracked to create unique policy/price.* This should not represent the extent of organizations' ambition however, and it seems many in the sector are aware of this: *In five years customers will want complete transparency and connectivity through agent to carrier. Information much more prevalent in the future customers will want more choice and be more demanding.*

As to the practical steps the industry plans to, or says it needs to, take in order to realize this: *Internet 2.0, speed, faster internet. Connectivity everywhere. Need partners to get involved with technology so they can co-operate with one another. Investment in internet infrastructure.* Thus it would appear that many in the sector have still not implemented what are increasingly standard media.

If Web 2.0 has still not been implemented, it raises questions about the next new technology. Moore's Law would dictate that the pace of change will quicken and it would seem prudent to address the technology issue now. This may be a point that has echoed throughout the last couple of decades, but given the raft of challenges confronting the industry, now would seem to be a good time to fix the technology infrastructure. After all, the changes in organization, business models and personnel cannot occur when the existing technological support is built on sand.

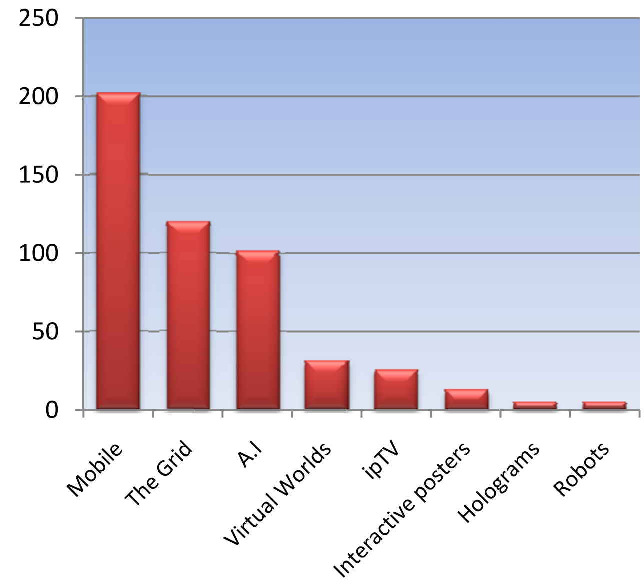

Figure 24: Tomorrow's technology

Specific suggestions as to what is needed center on *portable computing. More decentralisation and control. Not AI or more automation. IT knowledge of business to be able to understand the business.* The desire for more autonomy in technology is reflected by the Fort Lauderdale panel. As can be seen in Figure 21 mobile technologies ranked as the most popular for implementation over the next five years.

The only other two technologies taken seriously by the majority are the Grid and AI. One commentator suggests that *maybe ARTIFICIAL Intelligence (AI) could be useful. We will need to deal with the fuzzy issues they need to factor in which is hard which means a human has to validate the data before offering surety.* He also comments on some long-term issues such as addressing *some simple things like – single sign-on, security, fraud!*

Given the use of virtual worlds to recruit talent, conduct meetings, share information and potentially advertise and sell to clients, its relatively lowly position is perhaps surprising. That is perhaps until you consider the aforementioned weaknesses that impact the industry, namely technological illiteracy, resistance to change and being focused on cost control.

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Technology (Continued)

There lies a very real danger that by implementing just one or two technology types, the industry as a whole effectively stands still as other industries implement technological solutions in a more holistic manner.

What this means for the standardization of data remains unclear. One P&C employee notes that standardized data *increases the ability for connectivity. We've standardised the internet and XML which even allows this industry level standardization possible. Need easy connectivity for agents to do due diligence and reduces the friction and cost for them.* Indeed, real time straight through processing ranks as the greatest benefit from standardized data with 109 points as shown in Figure 25.

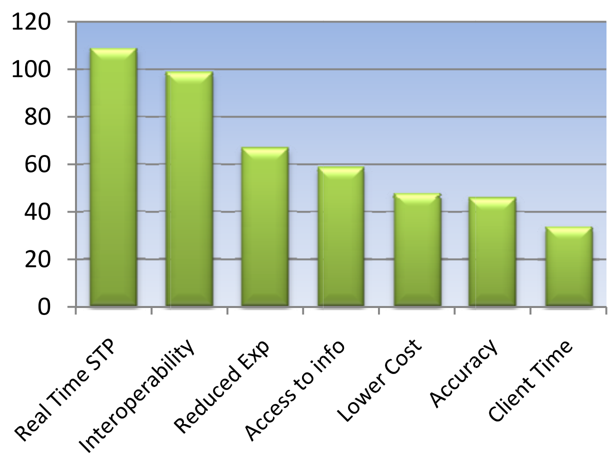

Figure 25: Benefits of standards

Many of our interviewees also described more than one benefit flowing from it. One suggested that it *enables multiple partners. Internally sorts out standards within the firm. Cutting expenses, easier to do changes in your own systems. Helps with M&A as we all agree to use a third party standard, e.g. ACORD.*

Another suggests that standardized data would *substantially reduce friction cost, reduce costs by 2-4 basis points*, but he warns there is a *hell of a long way to go.*
Significant company advantages, and increased quality and speed would result but he warns we have *barely scratched the surface of these opportunities.* The reason for this it seems is cultural: *Risk avoidance is the industry core skill – change is risk so the industry is averse to change. Some is behavioural, learning barriers.*

Others are more forthright concerning the barriers to standardized data. The *inability to think long-term to see the big picture* gives rise to the attitude of if *it's not broken don't fix it, not a priority, costs too much money.* Others point to a possible lack of leadership on the issue: *People in the systems [department] make all the decisions not the strategic thinkers at the top of the organization, maybe this is a bit of a lack of leadership.* Without effective leadership, the quest for standardized data may prove elusive as *even those that do understand it say there are a whole load of more important short-term issues to address. We'll do it when we've caught up.*

These views are demonstrated in Figure 26.

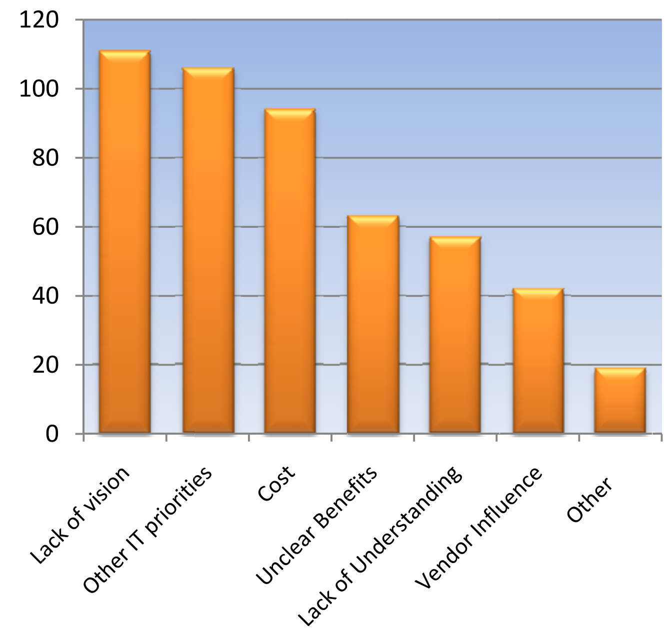

Figure 26: Barriers to standards

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Technology (Continued)

In addition to the lack of vision among the leadership cited above, others cite the *lack of IT's ability to explain the business benefits to the business* as a problem, which undoubtedly contributes to unclear benefits and a lack of understanding, two prominent barriers. The markets structure may also contribute to the perceived problems: *Substantial fragmentation within the industry. Zero barriers to entry in the insurance business. Largest P&C in Canada has less than 13%.*

Ultimately the P&C sector, as much of the industry itself, is looking for *ROI, impact, sales increase,* yet standardized data is *competing with other IT projects, and big impact projects always win out.* In other words it may be seen as *worth cost of capital but couldn't compete against nationwide projects' ROI but the opportunity upside is long term.*

Overcoming barriers

Seeing as it *was hard to get real time prioritized,* overcoming barriers to standardization may prove very tough, especially given the financial climate. However a few P&C executives gave their view on the matter:

Has to be customer driven. As customers demand this agencies will need to adapt. Carriers find it harder to change. This is the first time the industry has come together and is speaking the same message around connectivity, real-time, customer service, web expectation, methods of advertising. 2008 year of awareness. 2009 is the year of recession. This expedient of falling insurance performance then the industry may need to change the cost of doing business. More time selling and relationship management and less processing effort and cost. Need to change the time usage not lose the time (reduce the people). Real time today = cost savings in 5-7 years. It's about building customer value.

Needs a long term default change to include and justify why not and this priority has to last multiple generations of changes in leadership.

Business Models

The ideal is to develop *anticipatory business models meeting customers' needs before they know they have them.* The panel seemed to think that Networked Business was one potential such model. The potential for P2P models also resonates more strongly with the P&C group than with any other grouping.

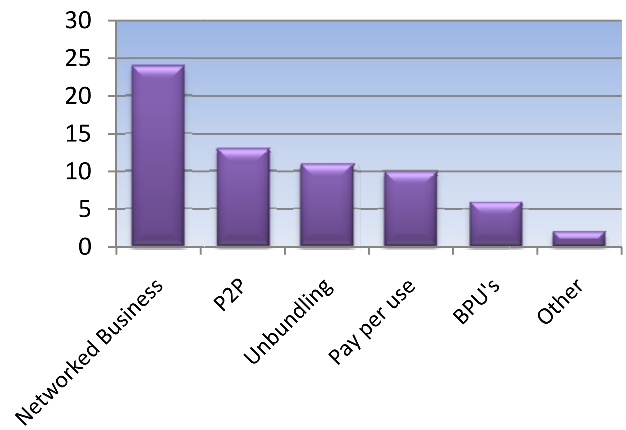

Figure 27: The next business model

What is certain is that *new models – got to get away from paper. What do the customers want us to do and how do they want us to do it. We aren't paying sufficient attention to this, certainly not enough. People want more choice and faster reaction.* The need to develop a more responsive model is evident with regards to emerging economies; not only will it allow foreign ventures a better chance of succeeding (and hedging of risk) but will potentially discourage rivals eyeing your own market: *Cross border activity - i.e. in health insurers writing across US state borders / Single European Payments Area.* In addition foreign ventures do *not always operate in a stable environment,* which therefore impresses further the need for efficient processes.

In addition to these issues, the question remains as to *how do individualized products drive different behaviours? Or would it reinforce – i.e. living in a crime ridden area would require higher insurance premiums. Social responsibility – can we help educate, bring about social consciousness?* The issue of CSR is rarely mentioned in connection with the insurance industry but remains a genuine area of differentiation and, if done correctly, perhaps a medium for regaining public trust.

13 Property & Casualty

Regulatory

Despite New Regulations being given less prominence by the panel in November 2008 (as seen in Figure 28), several important and interesting points are presented concerning regulations in the interviews: *Databases (combined) could capture wealth of info. Insurance industry worried about it. Does the government want the database? Does the government want to look at it?* asks one commentator.

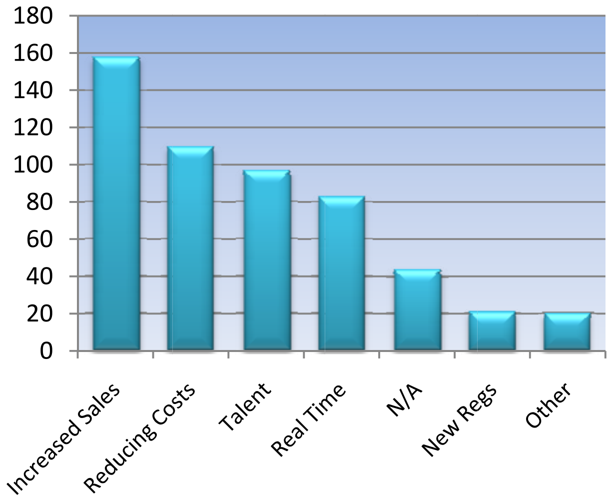

Figure 28: Issues facing the industry

14 Agent & Broker

We had the opportunity to convene both LAH and P&C agents and brokers in various roundtable discussions. This section provides a slice of our research reflecting their voices.

Drivers

A consolidated list of industry drivers, as seen in Figure 38, is impacting the sector.

Industry Drivers	
1.	Talent – Losing it in the Industry, Retiring, Young, Lack of Interest, Off Shore Resources – Service Centers
2.	Self Service Nature of Younger Generation
3.	Regulation – Health Insurance, Increasing Regulatory, Group, Entry into P&C
4.	Green – Changes in Building Structures, Fossil Fuels
5.	Decrease in Cycle Time – Expectations of customer impact quality at delivery because of quick turn-around
6.	Technology – Corner, Direct Sales, Carriers going to Multi-Channels
7.	Cultural Changes – Hispanic getting larger, Bosnian Communities, Islamic, Chinese, Buddhism, Christian
8.	Environment/Weather having Greater Impact – Rates, FL going under water, People not staying in the same areas, Handle of local customers and Global Customers, Websites are opening up Potential.
9.	Rise of Robotic Intelligence – Artificial Intelligence
10.	Insurers Buying Agents – Banks not buying as many Agents

Figure 38: Agent & Broker industry drivers

Impact of Drivers on Strengths and Weaknesses

With five opportunities and one threat ascribed to it, the agent group saw Cultural Changes as the most significant driver impacting their sector. Citing strengths of being Entrepreneurial, a sense of Professionalism, being a Trusted Advisor, Community Involvement and Independence as being opportunities under cultural change, only resistance to change was cited as a weakness that could present a threat.

Changes in the Environment/Weather were also viewed in a positive way, with the only negative being a resistance to change. Against this were perceived strengths (and hence opportunities) of possessing a Big Picture View, Being a Good Listener and Community Involvement.

Elsewhere in the industry, a lack of entrepreneurial spirit is frequently cited as a major weakness, so it comes as somewhat of a surprise that within the agent group, Being Entrepreneurial is the most frequently impacted strength. Even more encouraging is that it is seen only as an opportunity as none of the drivers are reckoned to impinge upon its strength.

The drivers of Self Service Nature, Going Green, a Decrease in Cycle Time and Cultural changes are all thought to benefit entrepreneurial spirit. Equally cited is Community Involvement, which is thought to provide opportunities under the Talent, Regulations, Cultural Changes and Environment/Weather drivers; again, without being undermined as a strength by any of the drivers.

Quantitatively no weakness was cited as much as the top two strengths, indicating an overall benefit from the drivers – indeed for every three strengths (opportunities) posted under any given driver there was only one threat (weakness). Mirroring trends elsewhere in the industry, a resistance to change was cited as the major weakness impacted, although the relative strength of entrepreneurialism in this sector ensured only three instances of it being cited.

14 Agent & Broker

Impact of Drivers on Strengths and Weaknesses
(Continued)

Nevertheless with regards to cultural changes and the rise of robotic intelligence, it was regarded as a threat. The only other threat to register more than one incident was the theme of being technologically illiterate, which was likewise cited as a threat to the rise of robotic intelligence driver and technology in general.

Strengths and Weaknesses of the Sector

Strengths	Weaknesses
Longevity of Industry – Agents have been around for a long time	Lack of "Cool" in Insurance as Carrier
Entrepreneurial	New Talent into System – Start People with poor Jobs
Relationships	No Training Plan or Management (Sales)
Professionalism	Inability to balance Sales & Service
Customize/Adaptable to Customer Needs – Industry has been talking about our demise for years	Lack of Adaptability – Resistance to Change, Not Looking for New Ways, Not Adapting
Look at big picture, broad view to come up with package to respond to customer's needs	Technology Adoption, Prioritization, Under Utilization, Carriers Supporting Lowest Common Denominator, Allows Weak to Survive
Good Listeners – Listening to Customers	No Succession Planning
Trusted Advisor	
Community Involvement – Tight Knowledge of Local Environment	
Agencies that embrace technology are more efficient	
Independent	

Figure 39: Agent & Broker strengths and weaknesses

People

It is noted by one agent that *weaknesses affect ability to attract talent.* Two of the major weaknesses referred to were the lack of technological progress and the talent feeder system that does not provide interesting jobs at the entry level. However, perceived opportunities flowing from sectoral strength were also identified with regards to talent; namely Being a Trusted Advisor, Community Involvement, and Independence.

Technology

The democratization of technology flowing from Web 2.0 and the rise of social networking are cited as perhaps the most impactful technology. One respondent notes that *customers [are] doing the research themselves, then come to the agent to place the business.* They go on to explain that in their view, *agents can explain the coverage better than the web at the moment. Can have an interactive session face-to-face.* Nevertheless, the potential for this trend deepening has profound implications for business models, including disruptive ones, as well as clearly demonstrating the importance of understanding technology and the increasing role it is assuming in wider society.

An interviewee from a mid-sized retail agency commented that in his industry sector the current challenge is to process a *higher volume of transactions for the same revenue. We need to process more transactions for the same cost and in the same time.* Commenting on his own company he said that their ICT was *cutting edge. The carriers are focusing on dysfunctional agents whereas they are at the cutting edge and need carriers to engage with them.*

So here it would seem that the carriers are perhaps going at the pace of the slowest agency rather than supporting a broad range of capabilities at the cutting edge. Commenting on his agency sector's challenges over the next five years: *Responding to clients' needs for immediate access to data. 9 of 10 contacts are turning a rate not building up relationship.* And, for his company's priorities over the next five years: *Younger generations want relationship through technology but also want relationships. They want consulting, authenticity and transparency.* For his ICT function over the next five years: *Carriers don't have this on their agenda. They use technology to process efficiently but*

14 Agent & Broker

Technology (Continued)

consumers want relationship as well.

It becomes clear from this commentator from a mid-sized retail agency that they are not feeling well supported by the carriers in helping to create and maintain relationships with their clients. An opportunity exists here for the carriers and vendors perhaps?

For *independent agents, representing multiple carriers – Streamlining workflows allows them to compete with direct writers. Clients expect instant access to information. Technology is vital to allow them to compete. Allows them to leverage their independent nature and survey the full marketplace. This is also a retention tool and a sales tool.* Clearly technology is a differentiator, at most levels, and while larger organizations have a natural capital advantage over smaller rivals, the embedded corporate culture and other issues may harden resistance to change, thus benefitting smaller, nimbler players.

The sector also calls for *standards technologies so they can leverage their time acting for their clients. Agents, carriers, vendors, customers. No more proprietary systems.* However barriers to standards remain: *Some of it's a mindset – think their world is unique. Ego stuff.* Overcoming the psychological and cultural barriers present will require proper analysis of *Cost, time, competition. Need to work with standards.*

Another retail agency interviewee makes these recommendations for overcoming the barriers to implementing standards: *Produce guidelines and share success stories. Need folks to lead so that others can build business cases. Pool business cases.*

Organization

When pressed on future issues, one agent assessed the likely scenario as: *Providing access to the agents customers. Sometimes the agent will act for the client other times the client will want direct access. The client will still come to the agency for advice and assistance with claims etc.* It is likely that the role of the agent will continue to evolve therefore, and possibly, as hinted at in earlier sections, developing a strong online presence.

As to what the drivers are in changing organization roles and structures, one respondent summarized them as *analysing what customers want regularly – change workflows changes quarterly. Client advisory council. Keep the furniture in the same place – too much change. Culture of change in the office. Change is something we do – we handle it well. They get to voice their opinions – involved in the change – transparency and accountability emerged from change to structure and operating processes. More ownership of the change as they've been involved in the change. Change committee write the process. Staff empowered with cash to fix problems. Client focused – be in their shoes. Customers will be attracted to happy empowered staff. Hire people who like people, not for insurance skills.* Clearly customer service and staff retention are two powerful drivers guiding the future of the organization – the shift to client focused models is a recurring theme throughout the interviews.

From a commercial international division operating in the agency markets, their view of the current imperatives is *financial instability and coping with reduced capital as a consequence*. And looking ahead over the next five years: *To meet the risk of exposure they need data. They've been acquiring companies. Lots of data and systems but it's hard to aggregate and use the data. ACORD can help them internally use the data they've acquired in purchased companies.*

Aggregate the data for underwriters and reinsurers. Find opportunities and look for over exposures. Integrating is the issue from an M&A activity. Looking at some of the issues arising from global warming he goes on to say: *Capacity for industry to cover natural disasters. Interiors getting very competitive, coastal folks finding it hard to get insurance cover, particularly for reinsurance. Generates an availability problem for the insurance buying public.*

An affluent and increasingly large underserved market will prove an attractive one for someone with an appropriate new business model, and examples of new insurance models are emerging worldwide. At the very least, the potential loss of many coastal markets, which by some estimates will comprise 75% of the US population by 2025 presents a huge organizational challenge and an almost certain disruption to current business models.

14 Agent & Broker

Regulations

The agent group was similarly positive concerning the effects flowing from regulation. Perceived strengths such as Longevity of Industry, Professionalism, possessing a Big Picture View, Being a Trusted Advisor and Community Involvement were all thought of as presenting opportunities under this driver while there were no perceived weaknesses or threats.

This is not to say that regulations present no threat, but that agents are ostensibly optimistic about navigating any changes successfully.

15 Reinsurance & Large Commercial

Drivers

	Industry Drivers
1.	Volatile Worldwide Economy
2.	Climate Change
3.	Regulation
4.	Urbanization
5.	Claims Inflation
6.	Inertia
7.	Aging Population
8.	Technological Changes
9.	Trust
10.	M&A
11.	Talent Shortages
12.	Global Market Business opportunities
13.	Business Processes
14.	Nano Technology – Technological Revolution, Rise of the Robots
15.	Energy & Water Shortages
16.	Cultural Differences
17.	Change in broker business model

Figure 40: Reinsurance & Large Commercial industry drivers

Strengths and Weaknesses of the Sector

Strengths	Weaknesses
Cycle Management (Reinsurance is Counter Cyclical)	Position on the Value Chain (Bottom Rung)
Global Expertise	Service Delivery is a Problem
Well Capitalized as an Industry	Lack of Innovation – Inertia
Well Connected Networks of Companies	Technologically Challenged (Old, Legacy Systems)
Tremendous Intellectual Capital & Talent	Intellectual Arrogance
Globally Connected Culture	
Broker Driven Distribution System (Good Relationships – Established Long Term)	
Intellectual Confidence	

Figure 41: Reinsurance & Large Commercial strengths & weaknesses

Overall the Aging Population driver was viewed as the most important driver – introducing four opportunities as well as three threats. Global Expertise, being Well Capitalized as well as possessing Global Mindset and Confidence were seen as strengths that would present opportunities. The threats meanwhile all stemmed from weaknesses comprising Service, Lack of Innovation (Inertia) and being Technologically Challenged. Urbanisation, with three opportunities and two threats, and Claims Inflation with two opportunities and three threats represented the most frequently noted drivers. However three other important drivers need mentioning due to the polarity of responses contained there within.

The Volatile World Economy and Mergers and Acquisitions were viewed as opportunity-giving without any perceived threats. Strong Cycle Management, Global Expertise and being Well Capitalized were noted as strengths that could provide opportunities in the Volatile World Economy, while being Well Capitalized, Strength of Network and a Global Mindset were thought to provide M&A opportunities.

Conversely the driver of Talent Shortages was seen as uniquely threatening, not only by weakening a hitherto strength of Global Expertise but also by the threat posed by a Lack of Innovation (Inertia) and being Technologically Challenged.

The key strengths identified center heavily on being Well Capitalized, which was cited almost twice as many times as the next most frequent strength. Against the drivers of Volatile Worldwide Economy, Climate Change, Urbanization, Claims Inflation, Cost of Capital, Aging Population and M&A it was viewed as opportunity-enabling. More interesting owing to its partial weakening under some drivers is the issue of Confidence. While the group identified Claims Inflation and Aging Population as two drivers under which confidence would provide opportunities, it was also thought that under the drivers of Inertia and (changing) Trust that this strength would be compromised somewhat.

15 Reinsurance & Large Commercial

Strengths and Weaknesses of the Sector
(Continued)

The weaknesses identified by the RLC group mirror those found in other sectors. Being Technologically Challenged was thought to threaten (or at least compound problems with) seven drivers comprising Urbanization, Claims Inflation, Cost of Capital, Inertia (probably by encouraging it), Aging Population, Talent Shortages and Technological Change itself. A Lack of Innovation (Inertia) was noted as a weakness against six drivers – dovetailing those outlined for Technologically Challenged with the exception of Claims Inflation and Cost of Capital but with addition of Climate Change as a driver under which a threat, or series of threats, might emerge.

The underwriters consider technology to be one of the greatest drivers impacting them in the coming years, and the need for change to their existing practices and processes. Many of these new processes and technologies will be necessary to engage with the increasingly globalized nature of the industry. They will need to do this in order to exploit their strengths in people, knowledge and their supporting environment in the London market.

Process change was identified as necessary in order to mitigate a number of key weaknesses of the underwriting business, namely bureau processing, its high cost location, its disproportionate focus on exceptions, the markets management of change, their cultural barriers to change, their use of legacy systems and processes and the subscription market operations. Underwriters also believe that as mergers and acquisitions continue they may need to realign their skills towards the client and increasing swap their underwriter roles for those of the Broker.

The underwriters identified that they had significant business opportunities because of globalization. They can leverage ten strengths they identified, namely high skill levels, capability to build bespoke solutions, their knowledge of different businesses, the use of the English language (although some saw this as a potential limitation in some markets), central settlement, a single market for all classes, their access to decision makers, their ability to move quickly if so minded, an equitable legal framework, and the general infrastructure and services to support them available in the London market.

The group believed that cultural barriers and the weaknesses associated with technology and process change became less of a threat as time goes by. Technology is becoming simpler, more effective and more pervasive in everyday life, while the expectation of effective technology and processes is increased by the changing profile of the people involved.

The associations represented in the workshop mainly focused on the drivers of change impacting their service provision and transaction processing for the sector. Under the heading of "Managing with and through legacy infrastructure" they identified a number of drivers which will impact the London Market in the coming years. These drivers include e-placing of business, the removal of paper (or some of it at least), straight through processing (STP), back office integration and the separation of deal makers from the back office process – the removal of brokers from the administrative and accounting processes.

Associations also identified the shifting demographics of an aging and retiring workforce, the entry of culturally different younger talent to the market and a decreasing talent pool as key drivers the industry will need to grapple with in the coming years.

Finally they identified that regulatory change was inevitable and that the bureau model could help them adapt to new regulation in a consistent and timely manner. They believe that their process models were too expensive for some types of business and may not easily accommodate new regulatory requirements.

They identified the market's key strengths as those of having an appetite for risk, their use of the Bureau model for processing and "London's" brand value.
They saw the key weaknesses of the market as being its cultural inertia, slowing and impeding change, the market's lack of availability of data and an impending skills shortage. The Bureau Model was thought to provide opportunities for the following drivers: e-placing, removal of paper, straight-through-processing, technological advancements, back-office integration and the separation of deal-makers from the processors. However, these strengths were all weakened by the markets cultural inertia.

15 Reinsurance & Large Commercial

People

Globalization and people (talent) will be two of the key factors for them in the changing landscape for business in the next decade. Their knowledge and skills will be pitted against competing lower cost environments and economies. They will also need to be available in all time zones and recruit and make room for new talent.

The underwriters considered that their key strengths are high skill levels among their people, their infrastructure and their ability to build bespoke solutions for their clients. They considered their key weaknesses to be that of the single Bureau operation, their legacy technology and processes and their cultural barriers to change.

Technology

With regards to specific technologies to be implemented in their place of work, the reinsurance sector mirrors overall trends with emphasis on Mobile computing, Virtual Worlds/Avatars and the Grid, although the relatively few respondents render in-depth analysis void.

The benefits of standards, as well as introducing technologies, are also considered to make *work easier. Throughflow of transaction chain, reduced cost, faster, more accurate,* are all considered benefits from such standardization.

However barriers remain in the *belief that the policies are all specialized, we need different information than anyone else. Need to identify what can be standardized. Get the data into the ACORD forms rather than relying on supplemental forms.*

Another commentator reflects on how to overcome the barriers to implementing standards and tells us that *the certification of each of player is not consistent. Partners interpret the standards differently, creating data incompatibility issues. Different players require different information. Each carrier requires different data sets and are not all covered by the standards. Unique elements resulting in less than smooth implementation of the standards. It's not plug-and-play yet. Catalogue the errors.*

Business Models

One interviewee notes that *coastal folks are finding it hard to get insurance cover, particularly for re-insurance. Generates an availability problem for the insurance buying public.* An increasingly large and affluent, underserved market will probably prove an attractive market for someone with an appropriate new business model. At the very least, the loss of coastal markets, which by some estimates will comprise 75% of the US population by 2025[cxxiv], presents a huge organizational challenge and an almost certain disruption to current business models. Another interviewee questions whether the internet and green issues will lead to *more remote workers?*

A lack of strategic vision and difficulty in cost justification appear the biggest threats to standards. While cost justification, a lack of understanding and unclear benefits can be mitigated somewhat by effective education and engagement, strategic vision may remain more difficult to infuse from external sources.

Regulatory

When asked about future issues, one interviewee suggested that they are easy to spot: *Regulation and technology.* Furthermore, tangible aspects of the expected regulation were identified, such as *trying to get away from state rules and move to national rules.*

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Regulatory (Continued)

Strengths	Weaknesses
Central Settlement	Legacy Bureau processing
Single market for all classes, Access to decision makers, Ease of access within London Market	Lack of market management of change
Can move quickly when So Minded.	Subscription market operations
High Skill levels, knowledge of different businesses	Disproportionate focus on exceptions
Lloyd's brand & license	Cultural barriers to change
Lloyd's capital structure	Legacy
Bespoke solutions	High cost location (operations & taxation)
General infrastructure: banking; legal; ancillary	
Established International center	
English language	
Equitable Legal Framework	

Figure 42: London Market Roundtable

People (Underwriters)

Underwriters stressed the need to *focus on the client and do it very well.* This will be important when considering any global moves, especially given the cultural, legal and organizational issues associated with foreign ventures. Indeed the market situation suggests it is possible as *product design – more of the process related part – multi jurisdiction product design – could be applied to multiple markets, leveraging needed skills.* The need for a *global operating platform [is] to export* London market model. In fact the commentator making these suggestions thought it would be *easily exported. Russia, Brazil etc don't need to build up own infrastructure – can be externally operated and deployed by local partners (not fully fledged). The value chain has to be fully optimized – then labor costs will not be the driving force any longer.* One necessary precursor would be that *we have to stop the market going for perfection – more standardization needed, or at least more clarity. Bespoke avoidance needed as an important precondition for aligning the rest of the value chain.* That said, it was deemed possible by the panel that cost reduction (in London) could be achieved in part through virtual working, and other comments defended bespoke solutions, arguing that outliers were extremely important as they constituted a firth or so of the Market.

Legacy is a drag on ability to move forward because of the longevity of systems and information: *Why is there resistance to change in the back office? Clearly legacy.* It was argued that the history of failed technology projects hampers willingness to move on. However, another important aspect is not just disappointment with previous project attempts, but rather an appreciation of the very legacy systems that so many acknowledge as being problematic. *'Every time at meetings when we discuss legacy systems, we always recognize we don't move them forward well. We like our (old) systems – they work. New tech is making it easier to change. A lot of recent literature suggests legacy systems are an advantage, as a lot of subject matter inbuilt is very valuable – how do we pull this knowledge out and put it in the new system? Search engine tech to find useful data in unstructured text database?* Indeed the notion that as technology progresses and improves it will help ensure transferability of information over from legacy systems is a recurring one noted amongst groups and interviewees.

Technology (Underwriters)

To a large extent the issues of technology and organization are intermingled throughout the industry, especially given the former's propensity to re-order and drive the latter. For underwriters there appears to be an especially close link, as nearly all technology issues have an organizational link and vice versa.

Central settlement, a perceived strength, results in quicker payment of premium, and quicker payment of claims. Other benefits include a reduced cost of processing, consistency of approach and more transparency. It is a *great idea – similar to treaty settlement (in the US). It is ease of use, it is efficient, will drive down costs [but] how do you get people on board?* asks one American commentator.

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Technology (Underwriters) (Continued)

Certainly, encouraging more market openness to agree architecture would help. Central settlement has worked well for carriers, but *needs to develop parallel in other areas e.g. placing.*

There was some disagreement concerning aspects of technology between underwriters. One group stated that *technology would back up the market strength of a single market for all classes.* The group asked: *how much is face to face and how much can be automated? Or done through IT communications? The more you can focus on what's core to your business then the more competitive you can be, Automation of back office operations becomes less of a competitive advantage.*

When offered this logic, another group responded that *we challenge this (being a strength) – technology today allows this to be done anywhere. Sure, having all the subject matter in one place is a strength but with technology today, it can be done in other underwriting centers.* In essence they argue that technology will not accentuate existing strengths, but in fact may represent an opportunity for outsourcing or offshoring. When one considers that *knowledge is not location dependent,* it is easy to see how what was considered a strength by one group could easily be seen as a weakness once drivers such as technology impact it. Another potential driver is in the form of the Generation Y clients (those born 1980s-2000 depending on source). It was surmised that the *new generation might not like the way we do business today (the London model of f2f), e-business may be more popular. They might not want to talk to us.* Given then that *knowledge is not location-dependent – many companies are moving to Zurich not just for taxes but access to talent*, it becomes apparent that *anything can move, and if the tax base is better and the talent is there, then it's going to happen.*

With regards to technology, one perceived strength alluded to by one group is the ability to move quickly when so minded although the needs remains to align players in the market to implement change. They argued that mandatory changes from regulators distort priorities and strategic change because of externally imposed time pressure. In their view, they must sort out the process (model) first and then apply technology.

When put to the roundtable there was agreement – to a point – but the participants disputed whether or not the industry could really move as quickly as it thought. *You only move as fast as your slowest player. We think we can move but it never goes as planned,* said one commentator. Thus the absolute necessity in successfully aligning industry players, for other underwriting centers are rapidly developing their sectors, and *again, as underwriting centers pop-up, banking, legal, and people, will move. Build it and they will come.* This alignment of industry players may not prove easy however as there exists a *difference between a based company in the market (retain and expand business) and a foreign-owned company in the London Market (just an outpost exploiting a niche market).*

Above all lies the *need to make technology really easy to use. The year 2020 gives a newer more technologically able and savvy generation a chance.* The roundtable agreed that *technology needs to be easy to use if we are to incorporate all global differences addressed in the underwriting process.*

Organization (Underwriters)

With competition from new markets utilizing new technology and new platforms taking business from London, the need to build a compelling business case has arrived. The roundtable *agree it's a weakness,* but note *there is at least recognition of this.* Part of this business case needs to address issues of cost, efficiency and complacency with outsourcers noted several groups who also stressed the need to introduce competition in service provision.

One area of particular interest is the 80:20 model. Several groups commented on the *need to apply 80:20 and also separate technology from business improvement.* The roundtable meanwhile noted that there is *not enough 80:20 rule.* They state that *for 80% we could build more effective system solutions but then we always need the 20%. If we don't build system to a worst case scenario, then the 80% becomes more difficult to handle.* A point of which there is little disagreement is that lack of market management of change represents a major weakness.

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Organization (Underwriters) (Continued)

There is a *need for the market to enforce standards.* In addition are the following needs: *Need for a collective role but currently very fractured. Need to eliminate different interpretations of the same standard. Need to enforce one interpretation of standards. Need to agree change with all participants in the market.*

RLC Brokers

The brokers considered that the removal of global boundaries, the need for cost reduction and their changing role were the principal drivers impacting them. They identified their key strengths as being their people and business networks and their use of technology. Their key weaknesses were their tendency to change at the pace of the slowest amongst them and their traditional organizational structure.

Overall technology is considered a strength, yet is frequently considered a threat. Indeed, in enabling cost reduction, as well as innovation in legacy practices, technology possesses the dual characteristic of being both a strong enabler and weak threat. It enables the changes we want to implement but demands changes of us in the process which this group says they are not adept at. Their people and business networks are seen as strengths, but overall they are perceived as being negatively impacted by most of the drivers of change impacting them in the near future.

The removal of global boundaries is said to provide opportunities for leverage of these capabilities, but the accompanying trends of cost reduction and changes in the broker model are thought to threaten this strength.

A slow pace of change and the traditional organization structure are considered two major weaknesses threatening the ability of brokers to reduce costs and embed e-trading into the business fast.

People (Brokers)

An interesting angle taken from one commentator concerning people is the structure within which they operate: *People from production (market, underwriting) forget what is already on the book,* resulting not only in poorer service but also reduced income as *profitability is driven by the tail end, not new production.* The proposed solution offered by the commentator is to *align incentive systems from a full life cycle perspective, making sure that not just new production is incentivized.* Although primarily an income generating tactic, this solution would also ostensibly result in an increased quality of client service.

Brokers expanded strengths and weaknesses

Strengths	Weaknesses
People / business network	Traditional organizational structure
Non traditional capital makes its way to Insurance in new forms such as 'Insurance derivatives'	Change at pace of slowest
Expertise in product development	Traditional organizational structure
Technology	Technology
Client focused & needs	Opportunities primarily in Non-traditional Market.
Global operations	Business development

Figure 43: RLC Brokers' strengths and weaknesses

Technology (Brokers)

While nobody from the broker groups sought to deny that new technology can dismantle legacy, several did elucidate the extent of the problem of legacy – a strategic threat encompassing much of the insurance industry. *Legacy is attributable to culture and technology,* says one, who continues: *technology is not the driver itself, a business driver/ imperative is. Legacy cannot be dismantled easily – it has to be integrated so you have to pick and choose which things you are going apply tech to.* He then points to *a lot of people are trying to change tech at the front end – the desktop, but this has to be integrated downstream (and downstream legacy).*

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Technology (Brokers) (Continued)

Unsurprisingly this can be difficult organizationally and it is here that traditional markets appear to concede a strategic weakness versus start-up destinations. *Bermuda, Qatar don't have these issues to deal with,* says the commentator. The logical threat arising from legacy is that dealing with it ineffectively may stifle future innovation – itself arising from technological advances. One group, however, noted that while *markets compete on service expertise... Technology is a low barrier to entry and competitors can catch up quickly – markets should not compete on price alone.*

As the role of new technology continues to deepen beyond that of price reduction into such areas as marketing and e-trading, it would follow that while technology may indeed be a low barrier to entry, the successful use or otherwise of technology may make it the only barrier for some organizations.

When questioned about one group's assertion that *electronic trading deliverables tend to be boring – find ways to make them more sexy (e.g. underwriting floors in Second Life)*, the response from the roundtable was that there will always exist a *first mover advantage – competitive advantage in terms of cost and ease of doing business.* This tends to suggest that the benefits of technological adoption and use are seen by many senior people in these organizations. Indeed it is acknowledged that *technology could be a great benefit in improving the quality of what we offer.* The key questions however, remain: who will attempt this jump first, to what extent, and when?

Organization (Brokers)

For many the question of what to attempt technologically and when, is dependent on others: *In London subscription means London can be slow to move, and can be overtaken. You move at the pace of the slowest.* Indeed this seems to reinforce the view, stated in the previous paragraph, that legacy is a cultural (organizational) issue as much as it is a technological one. However the organizational issues at the heart of the broker model are arguably more important than the questions around technology.

It has been suggested that individual brokers should segment the services they offer internally so that they can clearly identify and focus on those that give competitive advantage, and so that they can appropriately price each element of their services. Other possibilities include brokers collectively reviewing processes and addressing outsourcing areas of broker-provided services that do not give competitive advantage. In addition brokers could collectively review their strategic requirements on a more regular basis in order to influence markets such as London, rather than reacting to the markets' views of their own strategic interests.

When asked to comment about BPO, one group responded that when one looks at *variable costs versus fixed costs – given that business floods in and floods out, by outsourcing flexible costs (i.e. outsourced BPO) makes sense.* They also noted however that *training of people, and raising of awareness among staff is key.* Allowing for this, concerns still abound as *retail agents have no leverage over BPO (supplier), which brings up a legal issue surrounding use of information* as well as *cultural issues surrounding data protection/privacy.* The last issue mentioned is that *BPO can lead to a loss of pipeline.*

Such tactical measures, however successfully implemented, do not amount to a panacea: *Many responses given here (outsourcing etc) are more of a tactical nature – outsourcing etc offers short-term relief but by 2020, brokers need more clarity in their operating model, focus and a clear position in the market. There is a role for brokers (value orientated) and an end game is approaching, sooner than we might think, thanks to the internet, and we must be ready to clarify the broker's position.*

The solution may be to take a larger stake in capital investment, away from traditional financial services. This would require work to understand the dynamics of insurance derivatives and look at ways to support development of these. One possibility is *Disintermediation – focusing on wholesaler role and retailer role. Product design for mass markets (wholesaler) – maybe focus on non traditional products – i.e. Shariah.* Indeed *large underwriters do not cover non traditional products – i.e. Shariah. Global coverage may enable this, providing an opportunity to export into*

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Organization (Brokers)

BRIC countries existing markets. But such a move isn't universally welcomed. One broker asks: *Do brokers want to participate in risk securitization process? Will probably stick with traditional role of risk management consulting – leave the rest to financial markets.* Another briefly mentioned but equally important issue raised was that of succession planning, which was deemed key.

The future direction for the broker model will probably be at least partially decided by answering *what do the customers' value in what we do?* The question is complicated by *multi-generational buying styles – different approaches needed for different customers – five generations.*

Concurrently, brokers (and indeed the industry) must carefully assess the eastward financial shift and the opportunities, and threats, it provides. A good starting point would be to review market and individual organizations' structures and provenance of insurance products to ensure they can take advantage of new markets. Beyond structures, the need to meet the human factors is as important as ever, as *in order to grow we need to tab education and training and recruit the right people, who have local expertise on the ground.*

There is a clear need to adapt to the language and culture of the new markets, which successful local recruiting would enable: *We have to be open-minded with regards to legal systems for example.* Beyond secondary operations there is also the need to consider that foreign markets are often at different stages of development, meaning *a lot of folks are first time buyers – a lot of knowledge transfer needs to happen. It's a bigger network and with bigger geographical spread.*

These issues also compound technology issues when expanding abroad as *technology infrastructures are not always established or similar. Who pays for this technology? From carrier or distribution- it differs.* Whether or not these challenges can be met is important, as the rise of the east and its emergence as a consumer market raises *both an opportunity and a threat...a changing of the balance of power.* To allow technology or human resource issues to cloud the opportunities present would in effect leave only the threat, which given the rapidity of the rise of eastern economies, may well prove more difficult to manage than the opportunities.

Regulation (Brokers)

Although little was explicitly said concerning regulation, there can be no doubt that it is a key issue for the industry: *There are two dimensions, the tradition of history and the customization and appetite for risk. Both must be blended for the market to remain a market of choice for global business. This is a critical issue,* commented one group.

London Market Summary

The level of interplay between the four main themes analyzed, those of people, technology, organization and regulations provide a complex interaction of cause and effect. Legacy, a combination of cultural and technological histories, is an issue each sector readily acknowledges, and it is even said to constitute a drag on the ability to move forward. The industry self-identifies legacy as a major constriction on talent throughflow, due to the perceived lack of dynamism in the sector.

This inability to use cutting edge technology to recruit also directly impacts the lack of innovation within corporate organization as well as decisions relating to the adoption and use of new technology. The disjuncture between the acknowledged benefits of standardized data for example and the implementation of such technology can be accounted partially by economic factors, but also highlights the conservatism of the sector. In essence, several barriers are purely cultural, although several commentators hope that as technology improves in its usability that the migration from old proprietary systems to standardized ones will become smoother, and enable them to extract the valuable data stored within.

Conservatism also features with regards to the impression of regulations, which will only be grudgingly taken on board as they would constitute a cost in the mind of the industry. Their implementation across the industry would eliminate any comparative advantage stemming from them, therefore the goal must be to exceed the minimum and make it public, thus achieving full transparency. It is in essence a cultural and goal-setting shift, albeit one that faces significant mental hurdles. It is essential however that these goals be met, not because the industry hasn't done well

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London Market Summary (Continued)

without them thus far, but because change will be enforced upon the industry if it does not act.

As several commentators pointed out, there is an economic and strategic advantage afforded to the first mover. That advantage is being ceded to newly developing financial centers in the middle and Far East, who immediately accrue the benefits of standards and other technology owing to their lack of legacy systems.

The deepening of telecommunications combined with the emergence of rival power centers present an acute threat, in that knowledge is seen as increasingly footloose. And yet these very same threats also present a golden opportunity for the insurance industry, not only through competition-induced performance improvements but through the opening up of whole new markets and customer bases.

Another potential benefit of strategically implementing technology and standardizing data is that of increased dialogue with customers, both present and future. The sense of urgency conveyed by many commentators concerning organizations' purpose, their talent flow, and ultimately their business model is justified and needs to be acted upon soon.

16 London Roundtable Topics

As part of the pre-reads, GF&F circulated topics identified by members in various interviews.

1. Insurance Industry is not good at Change

Many insurance CEOs (89%) indicate that their organizations will need to implement substantial change over the next several years to deal with a broad range of external forces. The challenge across the industry is that only 65% say that they have successful track records of implementing change, leaving a 24 percentage point gap between the need and the ability to execute change.

2. Insurance companies want to partner

CEOs recognize that change is not simply about changing "things" such as technology, but is also about breaking down cultural and political barriers. 46% of insurance CEOs say that they plan to partner extensively and change their businesses' mix of capabilities, knowledge and assets.

3. Regulation

The current turmoil has inflicted serious damage on the institutional framework governing financial services regulation in Europe. Confidence in financial markets has been lost. Trust between national regulators has been seriously eroded. There is a risk of further fragmentation of supervision along national lines. All of these have the potential to set the Single Market back decades.

4. Regulatory compliance

IFRS 4 Phase II, Solvency II, and market consistent embedded value have planned implementation dates of 2012. Between now and then, all insurers need to build the infrastructure to implement the upcoming changes. This would be a large operational undertaking even in the best of times, but the credit crisis and recession have increased the challenge. The financial crisis will undoubtedly drive greater regulatory scrutiny, with regulators requiring greater disclosure and compliance.

5. Internet brings disintermediation

The Internet has made online quoting and online sale of property and casualty (P&C) lines mainstream. These options raise some challenging questions about the continued role of agents.

6. M&A disruptive to long term goal achievement

The pace of mergers and acquisitions (M&A) has accelerated. This acceleration creates challenges for IT departments that are tasked with integrating disparate business applications, inflexible core systems, and vast yet still valuable repositories of legacy data. On the business side, managers are also faced with bringing together different business models, cultures, and work-styles.

7. Globalization brings cross-border competition

Globalization is creating opportunities for carriers to expand into new markets, where they must find ways to operate effectively in unfamiliar business and regulatory conditions. Meanwhile, the ease of operating across geographic and industry boundaries has lowered the barriers to entry for new competitors.

8. New ways of doing business

New entrants to the industry and increasing customer demands are creating a need for new product development capabilities like never before.

9. More frequent catastrophic weather

Evidence of 10-year events, such as catastrophic weather, occurring every two years or so. These events prompt the need for better models, processes, and strategies for managing risk and interacting with customers.

10. Advancement and outsourcing

Continued advancements in technology and bandwidth, in addition to increasingly skilled workforces in emerging markets, can support continued outsourcing. But many insurers are now asking whether the outsourcing value proposition is still as compelling as it was in years past.

16 London Roundtable Topics

11. Risk management, monitoring, mitigation

Mobile devices, global positioning systems (GPS), radio-frequency identification (RFID), genomics, implanted medical monitoring devices, and telematics provide a flood of new data with enormous implications for risk and claims. But insurers are struggling with the new technologies – are they disruptors, opportunities, or both?

12. Aging insurance industry

The graying of the workforce in insurance continues. Consider a recent wire service story that has Lloyd's of London CEO Richard Ward lamenting the London insurance market could face a crisis because fewer graduates want careers in the industry.

13. Falling market in shipping

As the driver for shipping is international trade, demand for shipping depends on what's happening in the world economy, what's happening to commodity prices and seaborne commercial trade. Marine insurance rates have been hit by the downturn. In the hull and machinery insurance market, we've seen a 25% to 30% fall in income due to value adjustments going downwards as ships are worth a lot less. The freight market effectively collapsed last year after six years of the strongest market in a hundred years.

14. Transformational downturn

As one chief investment officer at an insurance company indicated, "this is a transformational downturn . . . but I can't get my arms around what things will look like on the other end."

15. Bermuda

Bermuda is challenging the London insurance market on its ability to innovate and utilise new technology, according to Ernst & Young's first annual survey of insurance market chief operating officers. The results suggest London has retained its crown as the most important insurance center but needs to be watchful and able to react swiftly to market developments if it is to remain a competitive place to do business.

The survey found Bermuda ranked highly for the insurance placing process primarily, closely followed by innovative insurance products, access to capital markets and the appropriate degree of regulation. London scored highest for the availability of skilled, qualified staff, closely followed by access to business and operational costs excluding regulation.

"Bermuda is gaining a competitive foothold in the world markets through its innovation and efficiency of the placing process – and it's presenting a very real challenge," Leggett said. "Consolidation within the global reinsurance industry is causing dramatic structural change within the industry – and it is emphasising Bermuda's competitive foothold," he added.

16. Singapore

Singapore has been successful in attracting global insurance industry players as shown by the exponential growth of Lloyd's syndicates setting up in Singapore. Lloyd's has created a specialist underwriting center in Singapore by adopting the One Lime Street subscription style market for writing risks. This has proven to be very successful. In 2005 there were three syndicates. There are 15 today. The preferential rate of tax for offshore income into Singapore as a reinsurer or broker equivalent to 10% tax as compared to the standard corporation tax of 18%, which is not particularly high anyway. There are other wide ranging concessions including on Takaful reinsurance, which is closer to 5% tax.

17. Hong Kong

Corporate rates of tax in HK are competitive but not as competitive as Singapore, equivalent to 15% in Hong Kong, with no special rates for offshore reinsurance. It is also considered to be more expensive as a rental location by quite some distance, and infrastructure is also more expensive.

18. Middle East, Bahrain, Doha and Dubai

Looking to the future, there is potential for further growth in regional capacity in the Middle East, and Bahrain, Doha or Dubai could eventually emulate the success of Singapore but a lot of energy, vision and commitment is needed to even begin to catch up.

16 London Roundtable Topics

19. UAE – Dubai market and competitor

The growth of the UAE's insurance market soared by 27% in 2006, dwarfing all other Middle East economies, according to latest figures from Moody's Investors Service. The rating agency said total premiums volumes had reached $2.7bn (Dh10bn) in the UAE, while its nearest competitor, Saudi Arabia, achieved $1.6bn. The regulatory standards achieved by new financial hubs, such as the Dubai International Financial Center (DIFC), were also keeping pace with more mature insurance markets worldwide.

20. Accounting and Settlement

In the London insurance market, the accounting and settlement (A&S) process covers the establishment and payment of all monetary amounts against insurance policies related to premium and claims. The future of the A&S process is a topic of current and particular interest to market participants whose concerns include the high operating costs, a lack of transparency, and a "London only" view of a key insurance process for a market with an increasingly global focus.

Responsibility for the accounting and settlement of a risk transaction has, over the years, passed amongst key market participants, from insurer to broker to a specialist service provider accept responsibility for and the cost of A&S activities at various stages of the market's evolution. The current state, with broker involvement in premium accounting, cash management, and claims processing looks set to change again.

A&S is serviced in the market by two distinct providers: infrastructure and processing service providers. Infrastructure providers have built and currently maintain market repositories and messaging hubs to facilitate the storage and exchange of transactional information between brokers and insurers, while processing providers offer a service to conduct processing activities within the A&S process on behalf of the broker or insurer.

Lack of visibility across the lifecycle of the A&S process has led to frustrations about how customer service levels and process cycle times are adversely affected when specific process steps are serviced by other market participants.

Levels of investment and progress to move towards a standardized A&S process, with quicker cycle times and lower error rates have been inconsistent across the market. The resulting variation leads to participants involved in the process only moving at the pace of the slowest. For many brokers and insurers this pace is too slow.

Confusion exists as to who owns A&S within broker and insurer organizations. This has always been considered a middle- or back-office activity. Market initiatives are not fully understood and owned by the key business stakeholders (i.e. underwriters) and have historically been driven in isolation by operations or IT.

There is a lack of competition to challenge the bureau service, and more recently the IMR infrastructure, and offer the choice of an alternative market utility for A&S. Maintaining multiple gateways, relationships, and operating procedures for the many one-to-one market interactions required when not using market infrastructure is both expensive and inefficient. There is also a need for the current or future solution to service increasing levels of business outside of London.

17 Vendors & Service Providers

Global Drivers

Vendors feel they are, or will increasingly be, impacted either directly or indirectly, by megatrends impacting the world. These are shown in Figure 29.

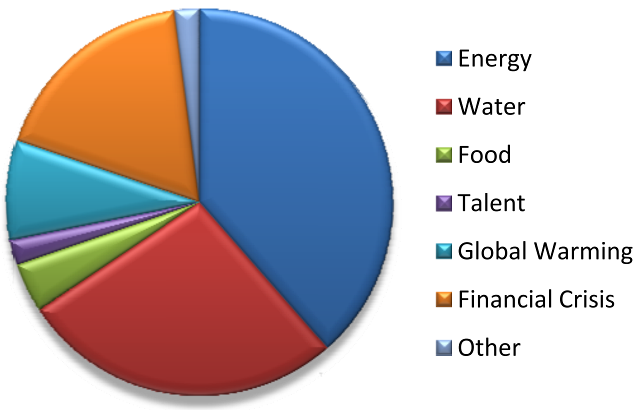

Figure 29: Global issues

In addition to these global drivers, many of whose effects are important but slow-burning, a number of other drivers were nominated by vendors.

Impacts of Drivers

The vendors noted the most important driver to be that of Young Talent and its expectations. Despite, or perhaps because of, issues of legacy and culture, it was viewed as much more of a threat than an opportunity, by six to two. However when the threats are unpacked to reveal 'lack of innovation,' 'not a trendy career,' and 'not an attractive career,' it is hard to see how these weaknesses will intensify with the addition of new talent.

Perhaps the vendors viewed these weaknesses as a fundamental block to the attraction of new talent, which seems to be supported by their belief that 'a declining number of older workers,' although classified as a weakness, would in this case be an opportunity. Alternatively this could be interpreted as the very resistance to change cited elsewhere as a block for the sector.

Somewhat surprisingly, the Government Burden and Transparency was viewed as an overall opportunity for the sector by five to three. Strengths that would be utilized included Risk transfer, Growing wealth as an industry, Financial Stability and Emerging Standards as well as mitigation of the weakness of business fragmentation. Two of three threats were also listed as opportunities – an unwelcome increase of business fragmentation as well as a negative impact on growing wealth as an industry.

The similarities between this vendor grouping and those in London should not be overlooked as both sets note issues surrounding regulations and government to be both threats and opportunities. This finding highlights the importance of correct policy choice and implementation by those in power, as well perhaps as a feeling of uncertainty on behalf of the vendors.

Industry Drivers	
1.	Attracting Young Talent (New Expectations of Technology & Working Environments)
2.	Disruptive Business Model (Unimaginable Change Becomes Possible) Green/Virtual Workforces
3.	Product Differentiation – Simplification, Less Personalization, One to One
4.	Government Burden, Regulatory, Transparency
5.	What Business is this Industry Really in? (Data Management, Selling Insurance, etc.)
6.	Distribution Channels
7.	Economics Issues
8.	Emerging Markets, Globalization
9.	Federal Charter (New Entrants)
10.	Shrinking Industry
11.	Mass Customization, Going Green
12.	Global Risk Understanding (ERM)
13.	Virtualization (Outsource, Chopping up the Value Chain), Private Labeling
14.	Growth in Self Insurance

Figure 30: Vendors & Service Providers industry drivers

17 Vendors & Service Providers

Impacts of Drivers (Continued)

Strengths and Weaknesses of the Sector

Strengths	Weaknesses
Risk Transfer (DNA of Capitalism)	Product Complexity
Relationships	Relationships
Strong Vendor Community (Preserve Inertia?)	Innovation (Lack of Receptiveness)
Not Trendy Industry	Not Trendy Industry
Growing Industry as Wealth Increases	Cost of Conversion
Stability (Strong Balance Sheets), Risk Averse	Declining Number of Distribution Workers
Brand Reputation	Not Attractive Career
Emerging Standards	Lack of Understanding of Technology (clients)
	Lack of Entrepreneurial Skill
	Inertia
	Business Fragmentation

Figure 31: Vendors & Service Providers strengths and weaknesses

Disruptive business models were also viewed as an overriding opportunity by a margin of five to two. Traditional strengths such as a strong vendor community were thought to benefit as was a hitherto weakness of fragmented business. Conversely, existing weaknesses such as product complexity and a lack of innovation were thought to be weaknesses under this driver, although ostensibly a disruptive business model would by its very nature introduce innovative concepts.

Risk transfer (dubbed the DNA of capitalism by the group) was thought to be the most common strength as measured against the drivers. Against Disruptive Business Model, Government Burden/Transparency, the Economy and Globalization it was thought to be an opportunity. None of the drivers was thought to lessen the importance of this. Strong vendor communities and Emerging Standards were also considered strengths – in fact both were considered as opportunity-enabling as Risk Transfer. Both appear under Distribution Channels, Product Differentiation and Disruptive Business Models as strengths that could lead to opportunities, while the former also appeared under What Business? and the latter under the Government Burden/Transparency driver.

Key weaknesses highlighted include Product Complexity (Consumer Understanding) and a Lack of Innovation, the first of which was listed against every key driver – suggesting that product complexity, or at least the consumer understanding of it, could be set to increase. Another weakness featuring prominently is that of fragmented business. It appears twice as a mitigated weakness and twice as a threat, unlike the other weaknesses that only constitute threats. The Economy and Government Burden were thought to represent threats but both the Government burden and Disruptive Business Models drivers had the potential to mitigate this weakness.

People

Although Talent ranked as the most important driver for the vendor group at the roundtable, as an issue it ranks second behind Increasing Sales. Whereas the industry as a whole places Reducing Costs as a higher priority, it is much less so among the vendors (Figure 32)

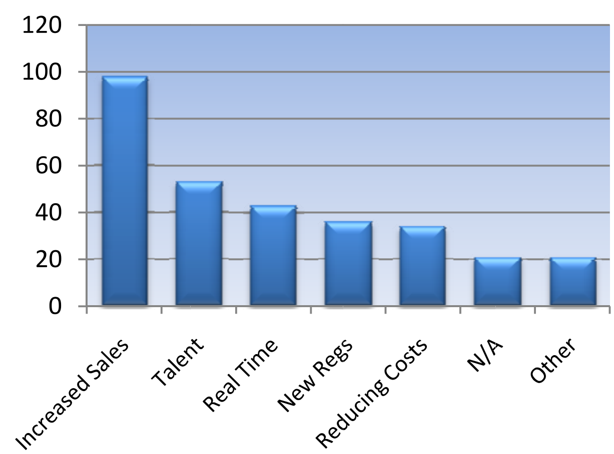

Figure 32: Issues impacting the industry

17 Vendors & Service Providers

People (Continued)

That talent seems to be of more importance to Vendors due to the comparative unimportance of reducing costs should not obscure the value attached to it by commentators. One vendor said that *product complexity causes vendors issues, as does declining workforce and lack of talent through-flow.* The issue of an aging workforce and lack of talent throughflow is one repeated amongst all sectors of the insurance industry
and would seem to be central to the role played by all sectors in the future, especially given the opportunities surrounding P2P and other disruptive business models. The issue of talent throughflow is inextricably linked to changes in approaches to work. *Life and work balance and family* create an *uncertain future* for the industry. Not only will the industry culture be challenged by such developments, but technology provisions will also have to be made as will ensuing organizational change. The demand for more flexible working may require virtual methods of work despite fears over the loss of interpersonal relationships, for which the sector and industry currently has a self- identified strength.

That there is a structural problem in the sector (as well as industry) is obvious to some: *Yes, I think so. People have lost the "hard work" ethic. Too much fluff in our procedures and operations. Need to get the motivation back into people. People want everything now. Cost of college education gone off the charts. Need to get it back to getting more kids through college.* Increasingly it would seem the issue is not of fewer college graduates, but of a diminished talent flow into the insurance industry

Technology

Vendor results do not diverge significantly from overall results with regards to the type of technology they expect to see in the next five years – with the rankings the same as the Overall segment. However with Virtual Worlds/Avatars drawing less support than the overall industry average, the primacy of the top three votes is extended.

That there is a reasonably large disconnect between the thoughts of vendors and the industry as a whole (excluding vendors) concerning Virtual Worlds/Avatars and their potential is somewhat concerning. It is of course very possible that vendors realize the potential of Virtual Worlds/Avatars but do not think it likely that the risk-averse insurance industry will adopt this technology, yet the disparity nevertheless suggests the need for increased dialogue between the industry and its vendors.

As is confirmed by mobile technologies; ones that allow 24/7 accessibility, one vendor commented that '*Instant gratification for everything. Drives need for technology*'.

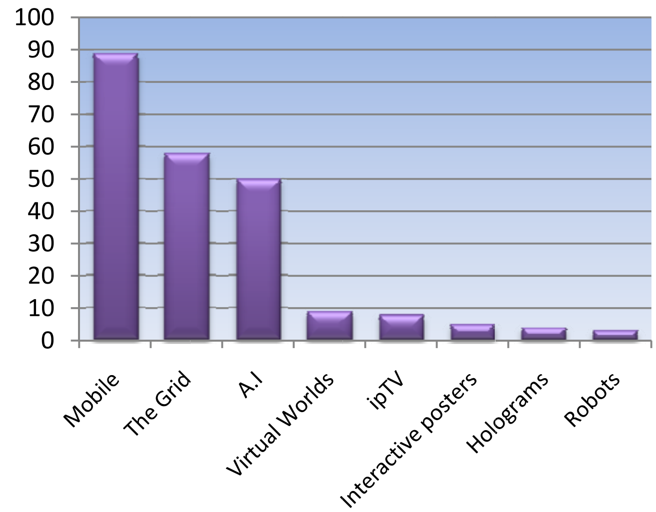

Figure 33: Technology to be implemented

For one vendor, the major issue is not necessarily strategically planning the next technology, but rather *keeping up with technology. Microsoft is their provider.* It is also their goal to *maintain focus amid financial and economic crisis.* Going forward, the vendor predicted future issues as *changing technology. Staying abreast of certification – HIPA, Sarbanes Oxley New regulation. New business models.*

Another vendor summarized the technological dimension for their industry sector as: *Be competitive. Adopt standards. Long way to go. Emphasise the benefits of standards. To bring products to market quicker. IT can't deliver quick enough to meet the business needs. Large group of small companies that provide coverage to agents. Highly mechanized but haven't introduced standards. Management don't understand benefits of standards. People want to do it the way they've always done it. Need to reach new people coming into the company with greater*

17 Vendors & Service Providers

Technology (Continued)

understanding of potential of IT. Younger – under 40's get IT– brought up on computers.

As to what benefits standards could confer, vendors cite Interoperability and Real Time Straight Through Processing, in line with the overall industry average. The one significant divergence is that of Reduced Expenditure as an advantage. Whereas Reduced Expenditure ranks third overall, the vendors deem it less of a benefit than either improved Accuracy or better Access to Information as can be seen in Figure 34.

There is more significant divergence from the industry average, especially if vendors' results are excluded from that average, with regard to the barriers preventing standards. Vendors cite Cost as the most sizeable obstacle against an overall industry average ranking of third. Lack of Vision and Other I.T Priorities fill both series' top three, indicating that the industry as a whole has a reasonably good grasp on what barriers it is facing.

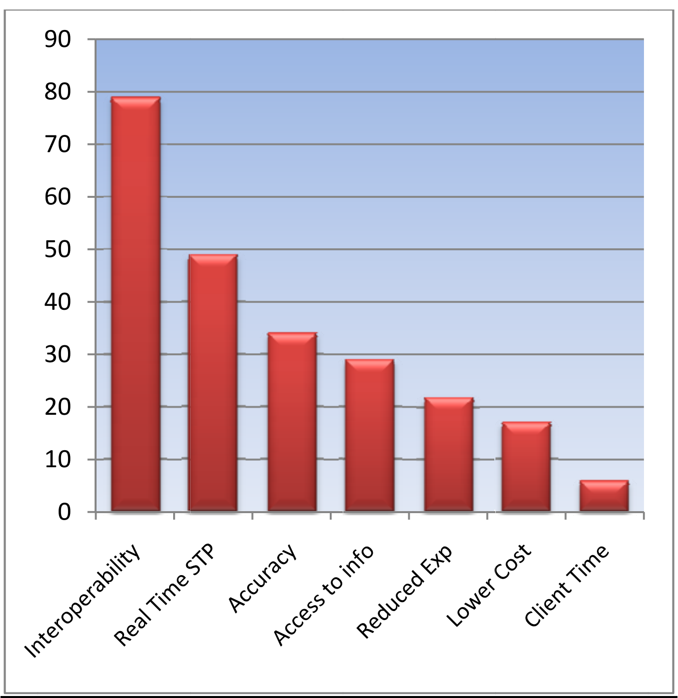

Figure 34: Benefits of standardized data

One area of seeming disagreement between the vendors and the rest of the industry revolves around the issues of vendors being an obstacle to business. Although ranking sixth overall and only seventh by the vendors' reckoning, the disparity in points weighting is considerable. Despite these differences, an employee's summary of the benefits does not differ radically from those offered in other sectors: *Collaboration, ease of doing business.* Another suggests that vendors *need to develop greater awareness of companies to get to do business in real-time. Handle transactions electronically. Making progress need to make more progress. Standards enable efficiencies*.

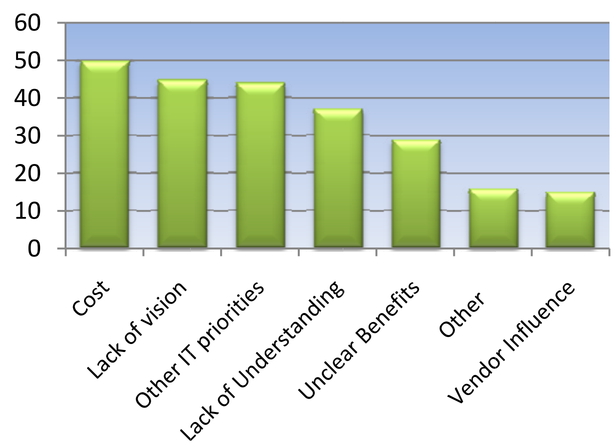

Figure 35: Barriers of standardized data

Another potential obstacle echoed in other sectors is the potential for *different* interpretations of the standards to cause problems.

Perhaps the most comprehensive analysis offered by a commentator on the issue for vendors was: *People have in mind that it will cost too much. It will cost less in the long run. People don't understand what standards mean to them. They don't know how to get started.*

Need to educate people in the industry so they know how to get started. The commentator continues, noting the differing impact based on organizational weight: *Larger companies have dedicated people but smaller companies can't afford to put people into engaging with standards full time. Need to help them facilitate how they can ease into it without negatively impacting their business.*

17 Vendors & Service Providers

Technology (Continued)

He concludes by saying that we need to *educate the business people and senior management on the values of standards. Help IT people explain the benefits of standards to the business. Help to help people prioritize standardization.*

Need to get the people on top to engage with the benefits of standards. Also, businesses are used to doing things the way they've always done things – if they are successful they see no reason to change it.

Business Models

Unlike the overall industry average, and indeed all of the major sectors covered, vendors rank Pay Per Use as their preferred option for new business models as shown in Figure 33. Elsewhere Networked Business ranks higher. Regardless of the type of business model suggested, it would seem the vendors group is very aware of the need for business model change.

Ideas include: *Building more collaborative relationships with other parties in delivering total solutions by being a systems integrator. New models could emerge in Insurance selling world. Customer co-creating/collaborating to create new products and services. More middle men coming. More retail sites using web sites to generate business.*

The drivers behind the need to change are numerous – including engaging emerging markets, delivering on customer expectations and saving money, but perhaps one of the biggest drivers is *demographics of customers [in]changing business models.* New media for reaching younger markets are needed, without alienating the soon retiring baby boomers who constitute much of the personal insurance lines in the western world.

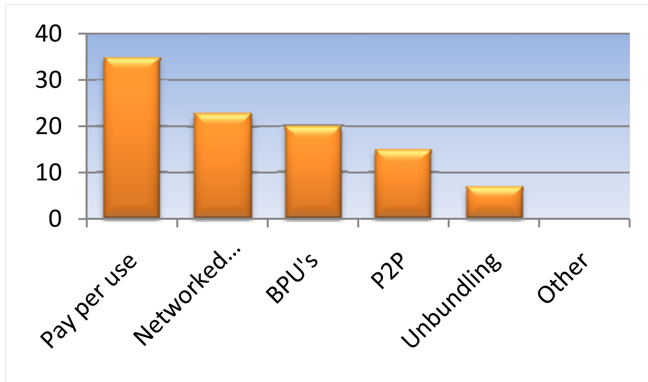

Figure 36: The next business model

As to what might constitute concrete steps in the establishment of a new model, one commentator suggests that vendors start with '*Learning from our business partners, carriers and agents.'* He continues *More of the insured going into the systems, via the agent into the carries systems to get the quote and be able to keep the agent in the loop. Agents need to get rid of some of the paper in their systems. Imaging systems need this. Mobile computing, video, voice, instant communication 24x7. The day at the desk at the office has gone. Working from home, mobile.*

As noted elsewhere, this perspective reinforces the view held throughout that organizational and technological change and progression are, in many instances, the same issue.

It is suggested by some in other insurance sectors that at least partnering with foreign entities will be vital if the industry is to become successful abroad. A similar situation is likely within the vendor grouping. One commentator says they *do business in China. Some sales capability, mostly in Japan,* and goes on to say *China is going to have a big impact on how we do business with them and within the USA.* This commentator also states they *do a lot of business within India for software development.*

One comment tends to suggest that operating several different business models to fit the situation is already practiced by some vendors: *We behave differently in different states of our economies,* says one, although this approach risks disconnect with regards to best practice and lessons learned.

17 Vendors & Service Providers

Regulatory

Vendors seem far more concerned about the impact of new regulations than do other sectors of the industry. Overall new regulations are the issue of least concern, even polling below N/A and Other. However as Figure 37 shows, vendors rate the issue far higher.

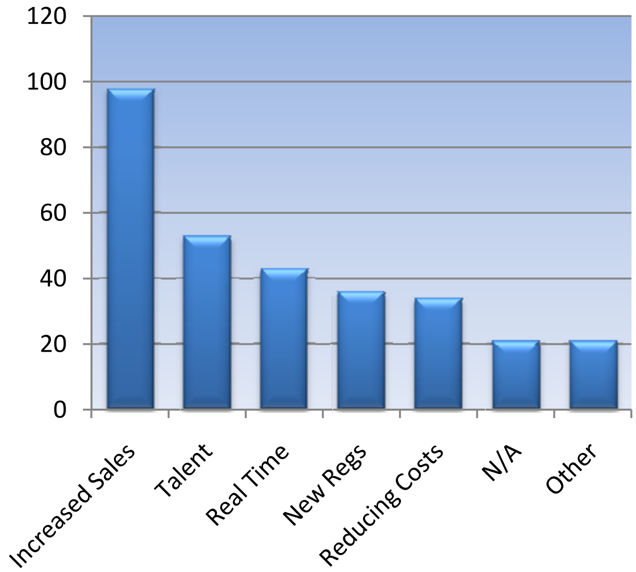

Figure 37: Issues impacting the industry

Appendix: Engaging Your Future

ACORD 2020 inside: A Call to Action

Over the past year ACORD has gathered insights into the drivers of change set to increasingly impact the insurance industry, focussing attention particularly on the changes coming in the next decade - out to 2020.

The drivers of change identified covered a wide range of issues and presented as opportunities or threats to the industry depending on the industry sectors perceived relative strengths and weaknesses. Some issues the industry will be called to face are urgent and important whilst others are perceived as important but are competing with many other urgent items on today's insurers agenda and are not getting the attention they will deserve in due course.

This ACORD 2020 research report succinctly summarises the many drivers of change impacting the industry that were identified by the study so far. The report throws light on the potential impact of these drivers of change on the industry as a whole and by sector.

The sectors covered are Property and Casualty, Life, Health and Annuity, Reinsurance and Large Commercial and the Broker and Agent channels. Input was also sought from key vendors and service providers to the industry along with a general round-up of the many trends changing the geo-political and economic map of the world, our economies, markets, consumers, regulation and the technologies and business models we will likely be deploying by the end of the decade.

Our first goal of alerting the insurance industry to the colossal degree of change it will undoubtedly face in the coming years is well underway and furthered in this paper. ACORD will stand tall in the industry as a voice of wise counsel to the many firms it engages with as it helps them to become aware of their need for preparedness at this time. Being aware of the need to change is the first step for any insurer in reducing the risk of change overcoming them without warning and to enabling them to prepare their organizations in advance and to take advantage of it for commercial benefit.

In many Insurance sectors, in established markets, the products and services offered are markedly undifferentiated and are all too often oversupplied in saturated markets. This frequently leads to price being the most important factor in the buying decision. The goal of sustainable differentiation is hard to achieve in markets where products are hard to protect and copycat strategies are the norm.

Becoming aware of the trends shaping our world, our markets, our communities, our channels and our customers will make us more able to align ourselves with their needs, frequently ahead of our competitors. Being fast-cycle isn't one of the most obvious characteristics visited on the risk managed insurance industry but this may well be a time when a new attitude to change prevails. An acceptance and embracing of constant change could deliver real advantage to a player or groups of players on the global stage if they respond consistently quickly to change. Speed of change could well be the sustainable differentiator many are looking for.

Change

To reprise the *'Voice of ACORD Members'* report we can expect change in many areas of our business life including these major topics raised here but certainly not limited to them:

Geopolitical change is forecast to have China competing with the United States as the world's largest economy by 2017, according to Goldman Sachs. Indeed, today they are already the equal of the US on a purchasing power parity basis. This is returning the world economic order to one last seen in 1820 when China was the largest economy on Earth. During the reign of Queen Victoria of England the UK rose to economic and political ascendancy and dominated world trade and set the religious, moral, legal, business and community standards everywhere its empire touched. Following the second world war, as the UK started to lose its empire and dealt with the tremendous debt burden the war had left them with, the USA rose to global economic ascendency and in its turn, set these standards and has dominated the global political agenda ever since. We are now seeing another mighty shift in global influence.

China's marketization programme has been running for 28 years and whilst many have predicted their 'wheels would fall off ' economically and politically this hasn't happened. Whilst they are able to preserve hope amongst their massive workforce that they would one day enjoy

Appendix: Engaging Your Future

Change (Continued)

their turn in the economic miracle, most are prepared to suffer the pain of the state growing at an average of 10% per annum. This change is exacerbated by the other fast growth economies of India, Russia and Brazil as they flex their muscles on the world stage and increasingly have their say on how trade is undertaken around the world. China is not a democracy and India's version of democracy would be hardly recognisable to many in the 'West'.

The consequence of these mighty changes on the global trade and political agendas will be manifest and will be further exacerbated by the 'Next 11' high growth economies including Mexico and Egypt, Indonesia, Iran, Pakistan and other Islamic nations. Even if you don't plan to visit their economies, their economies plan to visit you directly or indirectly.

Population change always unleashes new opportunity for prepared providers. The global population of the Earth has risen 3bn in the past 40 years and is set to rise a similar number in the next 40 years. Of these new born people 1.75bn of the next 2.5bn people will be born in Muslim countries, changing the faith and cultural balance of the world. Most of these new high growth populations are outside of the traditional democratic western world and as they acquire new wealth they demand our attention. Either we go to their markets or in the fullness of time, however long or short that might be, they will surely visit our markets.

The HALAL, Islamic, Sharia Compliant marketplace for goods and services around the world is set to rise from $2.7tn today to over $30tn in the next 4 decades. The industry is well aware of Takaful insurance, Sharia compliant insurance, but the HALAL movement is bigger than this. As the market develops this fast growth, increasingly wealthy group, demands products and services that are adapted to their values and beliefs.

How we set up our businesses, to be fully HALAL compliant, to convey Takaful insurance to them will be as important as having a Takaful insurance product in the future. The aging population in many large markets and across the western democracies, will increasingly shape how we work, where we work from and who we work for. Older consumers, agents and employees will need to be handled differently to the other 3 or 4 generations in the marketplace and in our organizations. The key political question of our generation will be how we handle the expectations and needs for caring for our older citizens in their later years. The insurance industry will play a key role in this along with governments. Immigration, training and re-training, care, employee acquisition, development, retention and some would say exploitation, are all going to be key issues for economies and companies alike to address in order to meet their economic needs.

Insurance industry drivers of change identified by the ACORD 2020 project are numerous and only the key topics are discussed below. These 9 drivers of change will have a significant impact, in the coming decade, on the insurance industry across all its sectors and across the world and are set to change where it operates from, what the industry offers, its distribution methods and how it services its channels and customers.

1. Climate Change
2. Demographic Change
3. New patterns of Migration
4. Cyber-risk
5. Piracy and Terrorism
6. Regulation
7. New markets and Channels to Market
8. New business Models
9. New Technologies

1. Climate Change is on everyone's agenda. We are agreed that we need to conserve scarce resources and be less wasteful, recycle what we do use, reduce our energy and water consumption per capita and move away from our reliance on fossil fuels to energize our economies. This agenda has been forecast to cost the world between 2% and 5% of global gross domestic product (GDP) per annum.

For insurers, climate change also means changing risk models, adapting products and reducing coverage to certain groups who are considered to be increasingly vulnerable to the expected more severe weather patterns and rising sea levels. Most major firms are commenting that their corporate social responsibility programmes are more focussed on attracting and retaining talent and customers and to improve their reputations rather than contributing to reducing the impact of climate change.

Appendix: Engaging Your Future

Climate Change (Continued)

ACTION

- How are you identifying new market opportunities as a result of scarcity and shortages?
- Do you know how the climate change agenda might transform over the next 10 years?
- How are you positioning yourselves to increase consumers' trust in you through this issue?
- What is the opportunity for increasingly forecast scarce resource derivatives?
- What health and life insurance opportunities or threats open up against this agenda?

2. Demographic change is well rehearsed and the ACORD 2020 contributors were well versed in its potential impact, yet few firms differentiated in their company literature between Gen-Y and Baby-Boomer readers, those in their 30's and those entering retirement in their 60's. The aging workforce contains knowledge that most firms need to retain in one way or another and they need to recruit bright young minds to the industry, yet few solutions were offered.

Participants commented that the use of more modern technology to communicate with new and established markets may be attractive to younger workers and knowledge systems may be able to contain much of the retiring workforce's know-how. If technology can help here it is important that it not be 'bolted on' to existing systems but the longer view of the potential development of new technologies be considered and a strategic position be found that lays a path out towards the use of artificial intelligence and animated avatars to replace call agents.

3. Migration of talent across the world changed from a generally south to north, low skill migration to one that now extends to highly skilled talent moving from developed economy to developed and developing economy. Some regions of the world are unused to large scale population migrations and are ill prepared to cope. This impacts the talent pool, customers and product design, distribution and description.

In the USA the Hispanic American workforce will make up nearly 25% of the workforce by 2050, and 80% of the potential to increase the labour force in the UK will come from women. Handling the language and cultural aspects of these massively shifting populations will be a core competence of successful insurance companies in the coming years.

ACTION

- In your markets do you know the forecast population and talent mix in the next 10 years?
- What impact will the forecast age and education mix in your talent acquisition area have on your staffing plans in the coming decade?
- Who will you be competing for talent with this decade – local, regional, global competition?
- In what way are your products and services targeted at specific age cohorts?
- How are you mapping your markets future cultural base with your own talent and products?
- What opportunities or threats exist from these demographic changes?
- What will be your stance on Takaful and HALA products and services?

4. Cyber-Risk is still a relatively new phenomenon, yet it is already attracting considerable attention from the world's police and military and from the insurance industry. Over the next decade we are forecast to become increasingly aware of our vulnerability to cyber-crime at a time when we are relying more on the security of our technology to manage our lives for work, health, buying and leisure activities.

ACTION

- What products and services are impacted by the forecast increase in cyber-crime?
- What sized market will this be for you within the decade?
- How are your distribution channels going to be impacted?
- Will your network in 2020 be risk-free from attack, what will it look like?
- How adaptable are our infrastructure systems & networks – what would it take to change?

Appendix: Engaging Your Future

5. Piracy and Terrorism are not new in our societies. They do however change how they go about their activities and change the balance of risk that insurance needs to cover. The Large Commercial and Lloyds markets are traditionally adept at covering this risk. As the general level of global economic activity rises and new sea routes open across the Northpole how will we cope with assessing risks out to 2020.

ACTION

- What will be the likely most changeable scenarios for us to focus on?
- In what way will we, our competitors, customers and products change to meet these threats?
- What new forms of terrorism might emerge in the next 5 to 10 years?

6. Regulation is becoming increasingly stringent and multi-layered. Well intentioned governments, at every level of government, are convinced that they have a role to protect consumers from being mis-sold insurance. This can be understood when we realise that governments need people to take more responsibility for their welfare provision, from health to retirement, as they respond to the received wisdom that they cannot afford to be the major source of provision in these important areas of our lives.

IFRS 4 Phase II, Solvency II etc. all have implementation dates of 2012 and we can be fairly certain that these aren't the last legislative initiatives the insurance industry will be required to conform to in this coming decade. The ACORD commentators were sure that the burden of regulatory compliance would only increase this decade.

ACTION

- What's your best guess estimate of future regulation?
- How will your information, technology, data and process systems cope with new regulatory requirements?
- In what way are you planning to extract competitive advantage from compliance?
- How are you redesigning your infrastructure to be able to adapt to regulation faster and at a lower cost?
- In what way are you consolidating, standardizing and connecting your data and processes to facilitate regulatory compliance?
- What other areas of insurance are liable to have increased regulatory attention in this coming decade?

7. New Markets and Channels to Market are constantly being identified. As the global economic balance shifts eastwards and technology gives us new connectivity with our markets how will we respond? Technology is enabling us to reconfigure access to distant markets and direct connection with our end customers. Regulation and accepted or contractual practices may be an impediment today but how might this evolve over the coming decade, a decade of enormous change?

ACTION

- How will you reach out to attract and service customers at home and abroad?
- How might non-traditional players enter your local markets in this decade?
- What are the forecast preferred access methods of consumers by 2020?
- What potential channel conflict might you encounter?
- How can you give advice/sell using technology to replace people, is this even desirable?
- Who will you be partnering with to distribute insurance by 2015 – Apple, Google, Facebook?
- What is the potential for implanting your brand abroad in fast growth economies?
- How are you planning to engage with new or fast growth global finance centres such as Shenzen, Shanghai, Singapore, Seoul or Dubai?

Appendix: Engaging Your Future

8. New Business Models have formed over the past several hundred years of business. The end of the hierarchically structured corporate have been heralded by Management Gurus for the past 20 - 30 years. Today we know we no longer need to be co-located to be as efficient as one that is. The industrial model of production is passed and technology now enables us to run distributed, partnered, outsourced models of business in any combination, more efficiently than if we were all in the same building.

Research is telling us that once we realise we no longer need to be located near our employer we will likely move away to a place we consider more pleasing. The networked business model, where organizations collaborate for so long as it is mutually beneficial could be extremely flexible and allow upgrading and downsizing of an organization's departments as required. As people become increasingly used to changing employer more frequently, as is forecast, then they become micro components of this network and move towards portfolio working - working for more than one employer at any one time.

ACTION

- What might your organizational structure look like in 10 years time?
- How will your ICT systems and processes enable this reorganization of work?
- In what way do your HR processes and contracts facilitate remote and portfolio working?
- What core competencies do you believe you will need to own and operate locally by the end of the decade?
- How will your information and data structures support this potential changed business model?

9. Information technology has been driving change in the products and services the insurance industry has offered and in its business models and channels to market for the last 60 years - since the very first computers were available, this is set to continue.

Insurers were some of the first users of early information technology and very quickly grasped the operational potential it presented. Insurance products and technology itself have been inseparable ever since. The advantage of early adoption of IT can be easily lost as each new generation of technology is layered onto older technology and soon the complexity and enormity of regularizing the technological infrastructure looks daunting and hard to justify from a commercial standpoint.

Early contributors to the ACORD 2020 process identified that this issue regularly holds back the ability of the business to create the normalized and standardized business technology infrastructure it needs to deliver the speed and wholeness of service it would like to be able to offer. It will need to find ways to have a flexible and interoperable business and information communications infrastructure in place in the coming years to cope with the process, product and channel changes forecast by the study. Technology is itself continuing to define ways to measure risk through remote telemetrics, new channels to market and distribution methods, new levels of service and responsiveness and through its use, new consumer expectations and opportunities.

ACTION

- What does your 10 year technology roadmap look like?
- How might technology enable new products and services?
- What skills and resources will you need to require to operate the 2020 technology?
- What decisioning technology will be in place in your company by 2020 – who does it replace?
- What telemetrics will you employ in your processes by 2015?
- To what extent will you be standardized and interoperable with other players by 2020?
- How do you measure your technological, data and process interconnectivity with others?

Appendix: Engaging Your Future

For greater insights to the many drivers of change identified in the ACORD 2020 Vision study to-date let me direct you back to the report and its findings. It can form a firm foundation in understanding the magnitude of change the industry faces in the coming decade as the world literally expands in population and economic terms.

Understanding that there is significant change upon you and seeing the need to respond to it, are the first steps in creating an adaptable organization, one that can factor in, or out of your attention, the drivers of change that appear before you. To know that the issues the drivers of change throw up have been well considered and that any change required of the organization have been examined reduces your exposure to risk and potentially gives you an advantage against your competitors.

At this stage of enlightenment it would be reasonable to say that any organization behaving as described above would be adept at turning insights into thoughtfully considered foresight with actionable outcomes.
The remainder of this paper addresses some of the principle barriers and enablers of an organization becoming adaptable, risk reduced and fit for the future.

Enabling the Organization

The ACORD 2020 project has surfaced impactful drivers of change set to increasingly impact the insurance industry through this next decade. The following section will help you consider what shape you are in to evaluate these changes and to assess your willingness and ability to embrace them for the good of your organization. There are 8 primary factors affecting your ability and desire to interact with these drivers of change:

1. Vision
2. Cycles
3. Resources
4. Behaviours
5. Culture
6. Values
7. Communications
8. Capabilities

These factors interact with one another to create an environment in your organization that is either conducive to you being responsive to the drivers of change or not. They can be expressed as a series of questions to ask of your organization:

1. How is your organizations vision informing your search for drivers of change that reinforce its attainment and how is your vision informed by the drivers of change you encounter?
2. In looking ahead, are you aware of where you are in your product, market and economic cycles in the locations you operate in and as a result, in what way do you set greater or lesser priority to investigating the future?
3. Do you apply money, time and senior management attention to looking ahead at the drivers of change potentially impacting you and is this proportionate to your need for change and innovation?
4. Do you have sufficient Entrepreneurial personnel at sufficiently senior positions to engage with the drivers of change set to impact you and do you know who they are across your organization?
5. In what way does your culture encourage or discourage forward thinking?
6. What are your organizations values and in what way do they support a forward looking culture and encourage personnel to look ahead, beyond next year?
7. In what way do your most senior executives encourage entrepreneurial thinking and behaviors through their communications?
8. What capabilities do you have, in-house, to examine the future, extract insights and develop actionable foresight for the organization?

Unpacking these a little may enable you to leverage the considerable insights presented to you by the ACORD 2020 Vision project. Each in turn offers the potential to increase your engagement with the future, see more opportunity to change and adapt to that future and thereby help justify the development of a more streamlined and standardized organization.

Appendix: Engaging Your Future

Enabling the Organization

These are set out in brief below.

1. Vision

As you consider the multitude of drivers of change set to impact your organization the first place to look for a filter through which to engage them is through your stated vision for your organization. Everyone has a vision and it always describes a place in the future that the leadership of the organization want it to move to, it is seldom a statement of keeping the organization where it is today. So inherently, the vision of the firm is a statement of change. If you apply the description of that new vision for the organization to the drivers of change coming towards you, hopefully it will soon become apparent which ones directly impact the vision and which do not. At the same time as assessing the drivers of change for relevance, you should be prepared to see that the vision may no longer be appropriate in the new future you are becoming increasingly aware of. Either way, mapping the drivers of change, identified through the ACORD 2020 Vision project, collected from its members over this past year, against you company's vision should be the first and most urgent action to take.

2. Cycles

Your marketers will be adept at being able to tell you where your products and services are in their life cycle - from rising stars to cash cows and how you are positioned against your competitors. They will equally be able to tell you the state of every market you play in, by sector or by geography. Your economic advisors will be well placed to advise you how the economies you operate in are set to change and by what degree.

Each of these cycles, and others, have an impact on your propensity to need or want to change and your ability to look for reasons to change or not. Consider the organization with mainly cash cow products - products that need little promotion, selling or investment but bring in healthy profits from well honed distribution and service processes.

To develop a great career in this firm you would invariably need to be a great manager of resources with a good operational mindset. How attractive in this organization would a far sighted, entrepreneurial spirited leader, always looking to embrace change, be. Of course, enlightened organizations of this kind would actively seek such individuals and be on the lookout for change so it can develop new propositions to refresh its product portfolio.

Understanding where you are as organizations or division in these various cycles is important as they highlight the need to change and thereby hopefully the desire to change and embrace new opportunities. Many of the drivers of change identified in the ACORD 2020 Vision study are grist-to-the-mill of firms needing to refresh their products and service propositions. Understanding where you are in your economic, business and product cycles also influences what resources you are prepared to make available to studying the drivers of change impacting on you.

3. Resources

Amongst the many pressing issues clamouring for the attention of the leadership of your business, Strategic Planning and forecasting often appears the least urgent. It frequently gets set aside amidst the imperatives of conforming to the latest regulation, keeping up with increasingly demanding customers, implementing the latest technology or partnering with specialists and third parties to improve performance and drive down costs.

If you trace the history of many of the largest organisations back to their origin you frequently find an individual who persevered against the odds and identified a change that could be converted into a business opportunity, often far from being the established norm of the time, and took a chance and exploited the opportunity. It is by being able to assess changes in the market and the change around you that you are alerted to major opportunities for your organization.

You need to refresh your organizations products and service offerings and by so doing give yourselves the greatest opportunity to prosper in the future. The alternative of course is to buy up those that do take these chances and absorb them.

If you are in an economic lean time or prospering by living off past innovation you will need to keep a sharp lookout ahead for when the markets change. Applying the right amount of resource to examining the drivers of

Appendix: Engaging Your Future

3. Resources (Continued)

change which you will likely encounter is a key competence in operating a risk mitigated, agile business which is well prepared to meet its future. As much as the idea of an agile organization sounds like yesterday's consulting speak, the requirement to be agile today has never been greater. Filtering in and out of scope the enormous changes taking place across the world and in your markets, requires the application of resources - money, time and executive attention. These are all required to make forecasting and planning your future more reliable and deliverable and need to be applied in a measure commensurate with your position in your various cycles and markets.

4. Behaviours

Let's consider three types of leaders in your organization; the Entrepreneur, the Leader and the Manager. There are those that seek-out and are energized by engaging with new ideas, new opportunities and change.

Change is the life blood of these types of 'Entrepreneurial' thinkers. Their behaviours reflect these desires and can frequently be seen to be out-of-place, in highly structured, process and risk oriented organizations. They also rarely make it to the highest levels of these types of organizations without special care in the HR and management function to protect and retain them in the business. These are the people who identify new opportunities and help cast new visions for the organization.

The 'Leaders' in the organization are the eloquent communicators who are able to lead the organization into the new territories the entrepreneurial types have envisioned. Without the skills of these compelling communicators little change will take place.

The final group in this simple behavioural analysis are the 'Managers'. These are the people who lead the various operational components of the organization and drive out value for the enterprise. Without them there is no point in being in business. They fine tune and operate the engine of the organization defined to meet the vision set by the entrepreneurs and led towards by the leaders.

Knowing who is who in your organization is vital. Without knowing who the entrepreneurial behavioural types are you could fail to engage with the drivers of change however relevant and interesting they might appear. Entrepreneurs exist at every level of your organization. Help them connect and communicate and use them at every opportunity to engage with the driver changing your business. Let them review the content of the ACORD 2020 Vision results and apply sufficient resources and attention to them to allow them to identify how best your organization can exploit the impending change.

Of course, it's imperative that the leader and manager types also make a contribution to the Imagineering process of reconfiguring your business for the future, as they are the more practically minded and action oriented leaders of your firm. However, these are not the people who will be most energized or excited about engaging with more abstract ideas of impending change and can be negative to the envisaging process for your organization before the time is right to apply tests on the emergent ideas.

5. Culture

A good definition of culture might be 'what we do round here whilst the boss is away', i.e.: what we do naturally in this organization. If you can describe your own organizations culture, using this definition, without reference to the posters on the walls around your office, and say how they impact your propensity to engage with the future then you are in good shape. If you can't it's a really worthwhile thing to do. Why you might ask? Because if you know what your organizations culture is you will know how natural or not it is to spend time and money on looking into the future of your business. You will know if the people who do this are honoured, promoted and rewarded for thinking these things through or bypassed, leave in frustration or ejected from the organization in time.

If your culture is entirely operational, process oriented, risk averse and is all about being more efficient and effective then imaginative, entrepreneurial minded individuals might find it hard to survive and you might well be losing opportunities to de-risk your firm and exploit opportunities and find yourself playing catch-up with your closest competitors.

Appendix: Engaging Your Future

5. Culture (Continued)

Creating this culture is a compelling component of being a more nimble, agile, future-aware organization. In time the analysts are bound to increase the importance of this component in their rating of the potential future value of your stock. After all, analysts care about your firms future and who's leading you into it more than they care about your past performance.

Having a culture that enables you to engage with the future of your business at all levels makes you a much more likely survivor than an organization that doesn't. There are many components of a firm’s culture, or the culture of your division, one key component are the values you espouse, communicate and operate by.

6. Values

The values we hold corporately drive much of the behaviour of the organization. One of the reasons for the recent failure in the banking industry is, according to a very senior banking figure, because the banks had lost their purpose, and some parts of the bank had abandoned the values that went along with that purpose and set out on the path to make money their purpose, goal and outcome.

If the organizations values are unknown, confused or randomly adhered to across the enterprise it is not surprising that some parts of the firm do not conform to them. Having at least one forward looking value will help orient the enterprise towards its future and help it to build the culture necessary to engage and be ready to change as the drivers of change indicate, in other words - be agile. Without one or two values espousing this behaviour it would be hard to build a culture of renewal and exploitation of the future and hard for Entrepreneurial leaders to thrive and be the watch-keepers for the organization.

It is always worthwhile knowing what the values of the organization are but at times of change it is vital. Your values and your culture act as protection against inappropriate behaviour when a great deal is changing at the same time, as indeed it should be for you right now. They help keep the new propositions, structures, engagements with partners and channels and with regulators and government in line with the intent of the firm. The way we know what our culture and values are in part, is by what we communicate and who communicates them.

7. Communication

Frequently our internal and our external communication is all about how successful an organization we have been in the past. Past sales performance attracts investors, customers and talent and is required by regulators. What attracts analysts and forward oriented, entrepreneurial talent, is what you communicate about your future. Your chief executive and chairmen will be frequently repeating a story about the future direction of your organization. If part of your communication can contain how you are examining the future and that you are honouring and rewarding those that consider how the firm can prosper and take advantage of the change coming, then the enterprise will soon learn that this behaviour is seen as acceptable and valuable to the business.

Whilst consultants can bring new skills and processes to bare on the enterprise, only its participants really understand its culture, internal influences and politics. It’s key for the future prosperity of the organization that you encourage outside in thinking. You consider what's coming at you and therefore those that undertake this need to be given airtime across the enterprise and freedom and permission to act. It's what's talked about, and measured, by the leadership of the organization that gets done by the organization. Make building a forward looking culture part of your enterprise by communicating its importance to you at every opportunity.

8. Capabilities

The context to consider the matter of capability here is, the capabilities of your organization to examine the future and extract meaning and understanding sufficient to allow you to act upon it.

Many people understand processes such as SWOT (Strengths, Weaknesses, Opportunities and Threats), EOMA, Porters 5 forces. These are all useful tools in preparing a marketing plan. All too frequently the drivers of change informing the SWOT and 5 forces process are not acquired with sufficient rigour and thoroughness for the process to be of much use in setting the organisations course towards the future.

Appendix: Engaging Your Future

8. Capabilities (Continued)

The SWOT process within the ACORD 2020 vision research phase has had a rigorous set of global and local drivers of change set out for the industry participants to engage with and map the industry's sectors perceived strengths and weaknesses against to drive out the opportunities and threats contained in the report.

Forward looking research requires the use of a number of 'Futures Research' tools and methods that have been derived from over 50 years of academic and commercial development of tools to examine the future. Best known are probably Scenario Plans, but they are also some of the most time consuming and costly to prepare. They create a rich view of the potential futures the organization is likely to encounter but require skill to operate and interpret them. Having the skills inside the organization to execute all these methods is not necessary but understanding that there are a variety of tools and methods available with different attributes is important for some senior executives to be aware of. Spending a little time being alerted to these options may prove useful as you turn into the winds of change coming towards you.

Summary

The ACORD 2020 project provides insights into the future for participants in the insurance industry to engage with and assistance in being able to engage with them. This paper is part of that intent. ACORD is a major force in the world of standardization of data, forms and processes in the insurance industry. By highlighting the considerable body of evidence that large scale change is befalling the insurance industry, by forewarning the industry it is contributing to reducing the risk to the industry of being ill-prepared to meet this change and hopefully enabling its members and others to thrive through the change.

The greater the degree of change that you believe you will be confronted by, be it people - talent, consumers, agents, brokers, underwriters and investors - technology, economic, political, social, organizational, regulation and legislative, commercial, environmental or other, the more you will need to prepare in advance to meet it. In preparing to meet this change a key component of successful organizations will be having flexible, interoperable, standards based processes and ICT systems.

This paper is a clarion call to the industry to engage with the contribution of over 400 participants of the insurance industry across two continents who shared their views of the future in the ACORD 2020 Vision study to-date and take action to respond to it.

As General Eric Shinseki, previous Chief of Staff, U.S. Army said "If you don't like change, you're going to like irrelevance even less".

David A. Smith
Chief Executive

Global Futures
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