Valor de la información en tiempo de crisis

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Teradata Participation Topics

- Insurance Market context
- Improvement alternatives in time of economic crisis
- How does information and data intelligence contributes to the strategic objectives achievement
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- Insurance Market context
- Recommended areas to focus on, in time of economic crisis
- How does information and data intelligence contributes to the strategic objectives achievement
In January 2009, the Insurance Information Institute (I.I.I.) hosted its 13th annual industry forum and, as is its custom, presented a panel of insurance company CEOs to share their views on industry challenges. A couple of weeks later, the Council of Insurance Agents and Brokers (CIAB), on the eve of its annual Legislative Leadership Summit, held a teleconference on the very same subjects, offering the broker’s view.

- P-C industry is resilient because it is conservative in its risk management and because it is focused on a strong business model.
- The industry needs to reassess its reliance on catastrophe models. It’s certainly an area where there’s a dependency that we really need to understand.”. Another is that diversification is not a strategy in and of itself, according to Montross. Diversification is a byproduct, and the operation risk associated with diversifying portfolios is much greater than the diversification benefit.
- From the perspective of insurance buyers, clients more than ever want to see options during the insurance selection process. The majority of clients are seeking alternatives.
- The biggest concern that will affect Main Street insurers is that they are going to be faced with a greater number of companies contracting or going out of business.
- Another challenge facing the industry in 2009 is that the cost of capital is rising. At the same time, the capital markets are practically closed, making the cost of raising capital prohibitive.
- On the regulatory front, after dealing with the financial crisis, President Obama will probably address insurance industry reform. Because of the AIG situation, insurance holding companies will not be exempt from regulatory reform.
- There will be a big push for health care reform this year. President Obama’s program for health care reform is too focused on coverage availability and not enough on cost control. Two things that are needed to control health care costs are health care retirement accounts and wellness programs.
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1. It’s Back to Basics:

> **Ensuring solvency** by exiting marginally **profitable products**, **stricter underwriting guidelines** and the use of reinsurance to **reduce risk profiles**. Solid **claims processing** has emerged as a genuine competitive differentiator, and 90 percent of insurers PricewaterhouseCoopers has met with are considering automating and streamlining their claims process.

2. Investment Management Effectiveness:

> Capital markets are generating **investment losses** and **impairment write-downs**. Review the **risk appetite**, **investment strategies** and **internal compliance policies**. Control their **investment costs** and **rationalize their products** to better reflect **market risk**.

3. Maintain Adequate Capital and Surplus and Manage Liquidity:

> May need painful capital infusions to remain **solvency**. Manage **liquidity risks** that could leave them short of cash. Rating downgrades force insurers to unexpectedly make **collateral postings**. **“Trigger analyses”** and **capital contingency plans** are a new staple of business.

4. Cost Reduction:

> Lower **premiums**, higher **losses** and tightened **margins**. Cut costs, and opportunities abound for intelligent, sustainable **cost control strategies**. Avoid compulsive cuts that impair business operations, such as **lower sales** or staff cuts resulting in **poor service**. Retain the **capacity to grow** in the eventual economic recovery.

5. Changes in Sales and Distribution:

> Sales of life and variable annuity products have been dropping. Personal lines auto and home carriers are in a softer underwriting cycle. Respond by reinventing life and annuities products around retirement and asset preservation and focusing on good business practices such as maintaining producer and **customer relationships** and supporting **agent productivity** and **profitability**.
6. **Privacy and Information Protection:**

- New state and federal privacy and data security requirements are resulting in duplicative compliance initiatives. Avoid redundancy by taking a **holistic, integrated** approach to **privacy**, and find ways to translate **compliance spending** into **operational efficiencies** and **strategic improvements**.

7. **International Financial Reporting Standards (IFRS):**

- Significant changes to insurance **accounting and financial reporting**, with impacts on earnings and balance sheets. Preparing for a transition that will take effect as soon as 2012. Can use conversion it to **make a fresh start** and **discard outdated processes and procedures**.

8. **Regulatory Reform:**

- New regulation is increasing monitoring of **financial performance** and capacity. Insurers which receive TARP funds may be subject to executive pay limits and other federal mandates. Game-changing proposals such as an optional federal insurance charter for the life and property & casualty industries are also now on the table, and insurers could be affected by broader financial reforms that address holding company **solvency and liquidity**. The fragmented nature of insurance regulation means that **individual state regulators** will remain a wild card.

9. **Economic and Tax Policy:**

- With the presidency and both houses of Congress solidly in Democratic hands for only the second time since the 1970s, insurers must carefully monitor developments in economic and tax policy, especially as pressure grows for revenue increases in the face of ballooning budget deficits. Two key areas to watch: **Business tax increases** that could offset desirable corporate tax reductions, and new limitations on insurers’ ability to defer US tax on **foreign earnings**.
• Although the industry is facing the inevitable challenges posed by global economic turmoil, the Middle East insurance industry is well positioned for growth.

• The emergence of compulsory insurance classes, principally motor and health insurance will continue to drive demand - where health is expected to replace motor as the largest class of business in the region over the next ten years. Another key factor to affect the development of the industry is population growth; currently the region has a younger demographic and as it matures the demand for insurance products will grow.

• Life assurance was identified as another key potential growth driver for the industry. The penetration of life assurance products has been limited in the Middle East, with low levels of awareness for products.

• Tremendous optimism for growth potential across the region in the future, with industry leaders estimating that this segment will grow by 16 to 20% annually by 2012.

• It was recognized that the development of corporate governance, enterprise risk management and investment in human capital are key to realizing the industry's potential. The Middle East insurance landscape also remains heavily fragmented, with over 400 companies generating a total premium level of less than US$15 billion.

- Balance risks and opportunities in life insurance and retirement-income services, general insurance and health insurance; Rethink growth strategies in Central and Eastern Europe; Strengthen balance sheets and capital adequacy; Readdress operating issues; and Prepare for changes in global regulatory oversight.

- Opportunities to capitalize on innovative products in health insurance and retirement income. Consumers will focus on protection, Product features will be more transparent going forward, e.g., retirement products will provide for more clearly defined income streams and both life and retirement offerings will provide some upside participation in profits and investment earnings.

- General insurance: little top-line growth in 2009 as demand for primary insurance continues to shrink.

- Capital-raising strategies will increase demand for reinsurance and reinsurers will drive prices up.

- Health insurance presents accelerated growth opportunities in Europe for 2009, for both life and nonlife companies. Consolidate to achieve quality and cost-containment objectives. Expand and enter new markets if have proven expertise in provider contracting, medical management, disease management, care for the aged and administrative infrastructures for billing and reimbursement.

- Central and Eastern European insurance markets are projected to grow, but at a slower pace. Focus on simple and transparent protection products, such as savings, endowment and health. Longer term, demand will increase for property-casualty insurance and for reinsurance for natural catastrophes and commerce.

- "Adequate capital" is changing, as rating agencies revisit requirements and the European Commission and individual countries consider modifications to proposed Solvency II regulations.

- In terms of readdressing operating issues, realize increased productivity in traditional distribution channels and begin to more aggressively distribute products through web-based and social networking mechanisms. Moreover,

- Effective use of technology will be a key element of achieving operating efficiencies.

- The financial crisis will drive greater regulatory scrutiny, with regulators requiring greater disclosure and compliance. Models may be overhauled to add focus on liquidity and structural asset-liability management and to capture all activities of all entities in the group.

- IFRS 4 Phase II, Solvency II, and market consistent embedded value: 2012. Between now and then insurers will need to build the infrastructure to implement the upcoming changes.
Insurance Trends in a Turbulent Environment

- **Growing Compliance** - Finance, ERM, and compliance solutions are top-of-mind. Companies are implementing methodologies for Solvency II and looking for infrastructure solutions.

- **Competition** - Relationship Management solutions will grow in importance as carriers seek to grow organically and protect their customer bases.

- **Cost Reduction** - Life and non-life insurers are looking for cost take-out opportunities, including in data management and data infrastructures solutions, eliminating data redundancies and improving internal and external data access services.

- **Pricing Accuracy** - Companies are looking for deeper and richer analytics to improve pricing accuracy and underwriting limits management.

- **Investment Disarray** - Companies are looking to hedge unit-linked products given the uncertainty and volatility of the global capital markets.
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Phases in the Corporate Maturity

- **Operate**: Business startup; defining and developing products and services.
- **Understand**: Internal operations; KPIs are product and business unit focused.
- **Change**: Customer focused; KPIs are cross-functional or enterprise wide.
- **Grow**: Market segmentation across products and business units; target markets drive strategies.
- **Compete**: Performance measured against competitors and customer profitability.
- **Innovate**: Management innovation drives industry standards, practices and productivity.
The Key Internal Factors

- Business
- Organization
- People
- Process
- Information Technology
Recommended areas to focus on, in time of economic crisis

CUSTOMER ADMINISTRATION
- Maintain and capitalize customers through innovation with the inconvenience of budget constrains
- Insight knowledge of customer life cycle, to learn changes in their needs patrons and profit (total lifetime value)
- Unified customer view. Integration of all customer records across Bus (insurance brands: life, property and casualty, etc)

COST CONTROL
- Identify best practices in cost reduction (example: learn and control marginal costs per service-bundle in each B)
- Governance model. Look for ways to guarantee that all improvement initiatives are aligned with the strategic objectives, and that the information and analysis that supports the related process exists. Be able to leverage information and analysis across all BU, required to fulfill those initiatives

RISK MITIGATION AND CONTROL
- Control internal factors of fraud; Identify preferred third party (providers, agents)
- Analysis and predict underwriting risk associated such as (insolvency, payment delay, litigation)
We need to change our perception of the customer

**Outbound: Days**

“I have an offer …”

“Let me find the best customer(s) for this offer.”

**Inbound: Milliseconds**

“I have a person …”

“Let me find the best offer(s) for this person.”

Gartner estimates that inbound channels have a 10X higher response rate than traditional outbound channels.
In order to generating insights about customers, strategic intelligence focuses on:

- Relationship Pricing
- Risk and Probability of Fraud
- Customer Profitability
- Customer Responses
- Next Best Activities
- Propensity To Buy

Operational intelligence further explores:

- At what price will this customer buy?
- What will this customer buy next?
- Is this customer ready to buy?
- What is this customer’s probability of fraud?
- How profitable has this customer been?
- Will this customer react on this channel?
And Define the Right Strategies that Might Have a Positive Impact

During challenging economic times, insurers are faced with difficult decisions about how and where in the business and IT to cut costs

- Evaluate the Impact on Various Departments
- Leverage Self-Service Approaches
- Shift Costs to Vendors
- Carefully Evaluate Product Development Plans
- Create an Efficiencies Team
- Improve Adoption of Technology
- Evaluate the Effectiveness of Distribution

Avoid approaching all seven cost-cutting initiatives at once, but focus first on three or four that fit your resource availability and competency.
But Any Strategy, Must Consider A Complete View of the Enterprise

- Enhance the ability to manage and use data throughout the enterprise
- Use data management and analysis tools that can be shared across the enterprise and with distributors
- Use risk segmentation results and profiles throughout the organization for pricing, product development, marketing
Considering the risk involved

- Mitigating and managing risk has become a proactive discipline – not only in terms of avoiding the debilitating effects of regulatory non-compliance but also from the perspective of identifying new opportunities to gain competitive advantage.

- The fundamental challenge is ensuring that accurate, timely, and functionally relevant data is delivered throughout the enterprise.
Because the industry is changing

- Market: $2.5 trillion insurance industry has history of underperforming
  - On the verge of cyclical downturn
  - Struggling to manage extraordinary catastrophic risks (equity markets, natural catastrophes, pandemic)
  - Unprecedented competitive threats
  - Increased demand for profitable growth

- Drivers of Transformational Change
  - Multiple Catalysts: Capital Markets, Rating Agencies, Regulators, Competition, Globalization, Technology, Risk Based Management Paradigm

- Key Issues for an Insurance Company
  - Financial, Risk, and Performance Management
    - Management of assets & liabilities, capital, operational risks, strategic & performance management, pricing, reinsurance, and hedging move center stage
  - Data Management
    - Massive volumes of raw data, metadata models not focused on key issues, granularity, quality, availability (frequency, lag)
We need to improve our performance

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<th>Risk Mitigation</th>
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<tr>
<td><strong>Robust risk capital measurement</strong></td>
<td>Justify lower capital or higher ratings to regulators and rating agencies</td>
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<td><strong>Accurate capital allocation</strong></td>
<td>Optimize risk-adjusted returns</td>
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<td><strong>Move from point estimates to projected distributions of results</strong></td>
<td>Quantify the true risk profile of the enterprise</td>
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<td><strong>Better performance metrics</strong></td>
<td>Identify which businesses add or destroy economic value</td>
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<td><strong>Treaty-level analysis of reinsurance portfolio</strong></td>
<td>Save by restructuring or eliminating reinsurance</td>
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<tr>
<td><strong>Exploit diversification and hedges with liabilities</strong></td>
<td>Improved investment returns</td>
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<td><strong>Quantify aggregate exposure to annuity and life insurance guarantees</strong></td>
<td>Hedge unacceptable capital markets exposures</td>
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<td><strong>Greater transparency</strong></td>
<td>Compliance with SOX, Solvency II, and reduction of operational risk</td>
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<td><strong>More granular, more frequent, better quality data</strong></td>
<td>Enables real integration of risk analytics with business processes and better decision-making</td>
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With an integrated Risk information structure

Increasing risk sophistication requires increasing data integration, availability and quality.
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Many Opportunities to Improve the Business – Where to Focus?

### Key Business Processes

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<td>Channel Management, Recruitment &amp; Retention</td>
<td>Catastrophe Management</td>
<td>Underwriting Risk Analysis</td>
<td>Investment Management</td>
<td>Product &amp; Customer Alignment</td>
<td>Enterprise Performance Management Enablement</td>
<td>Privacy &amp; Data Security</td>
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<td>Sales Reporting &amp; Performance Analysis</td>
<td>Claim Service Provider / Vendor Management</td>
<td>Fraud &amp; Abuse</td>
<td>Reinsurance Optimization</td>
<td>Customer Acquisition</td>
<td>Operational Analysis &amp; Reporting Enhancement</td>
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<td>Customer Service Management</td>
<td>Risk Management</td>
<td>Customer Retention</td>
<td>Consistent Compliance Infrastructure Assurance</td>
<td>Accessibility &amp; Performance</td>
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### Business Improvement Opportunities

- Distribution Management
- Claims Management
- Operations Management
- Risk Management
- Customer Management
- Finance & Performance Management
- Information Management
Teradata has the right approach

Direction & Measurement
Opportunities & ROI
Insights & Knowledge
Integrated Information
Data Residence

Business Perspective
Linkage
Information Technology Perspective

EDW Roadmap for Insurance Industry - V 9.00.01