



Shifting Priorities in the Life and Annuity Industry

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Discussion Overview

- **The Five Key Trends**
- **A Summary of Participants**
- **Challenges, Issues, and Implications**
- **The Role of Technology**
- **A Framework for Success**

An Industry In Transition

1. Shifts in Demographics

- Demographic changes are # 1 on the list (95%)
- Ethnic markets (88%)
- Diversity brings complexity

2. Translating Strategy into Action

- Narrowing margins demand effective resource utilization
- Alignment of Technology and Business critical

3. Organic Growth Preferred

- Channel conflict and confusion is costly, optimize existing
- Enhanced products matching features to changing needs

4. Service Provides the Advantage

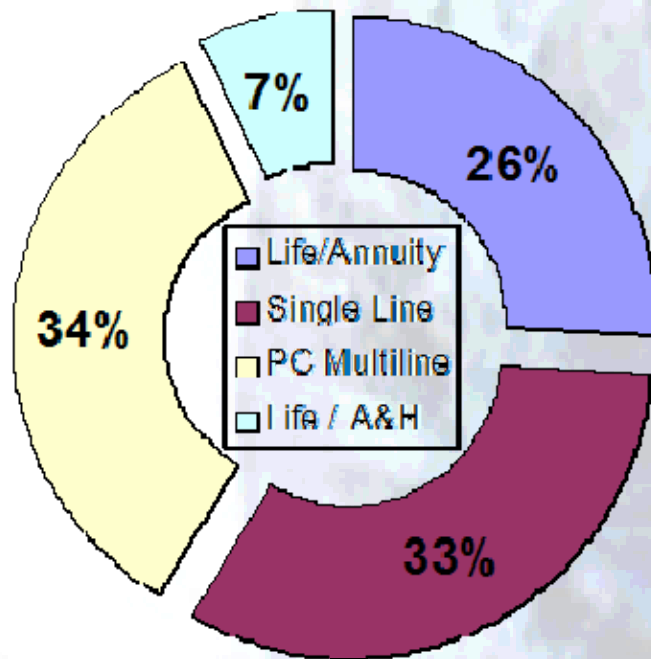
- Converging products profile service as the differentiator
- As market segments multiply, the customer is the key

5. Technology, an (Expensive) Enabler

- Investments are needed, but within the context of service

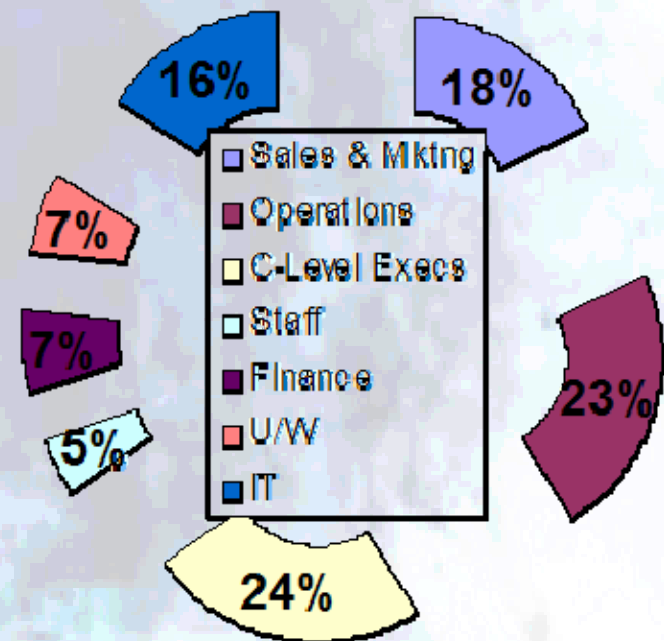
Respondents Industry Wide

- Respondents as diverse as consumers are becoming

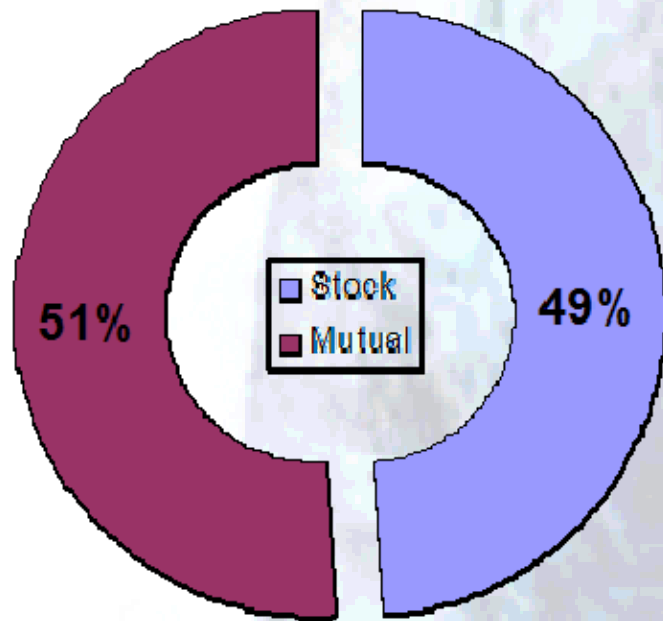


- Mainly Life and Annuity, but most product mixes represented

- Almost every department responded
 - 51% EVP or higher
 - 93% Director or Higher

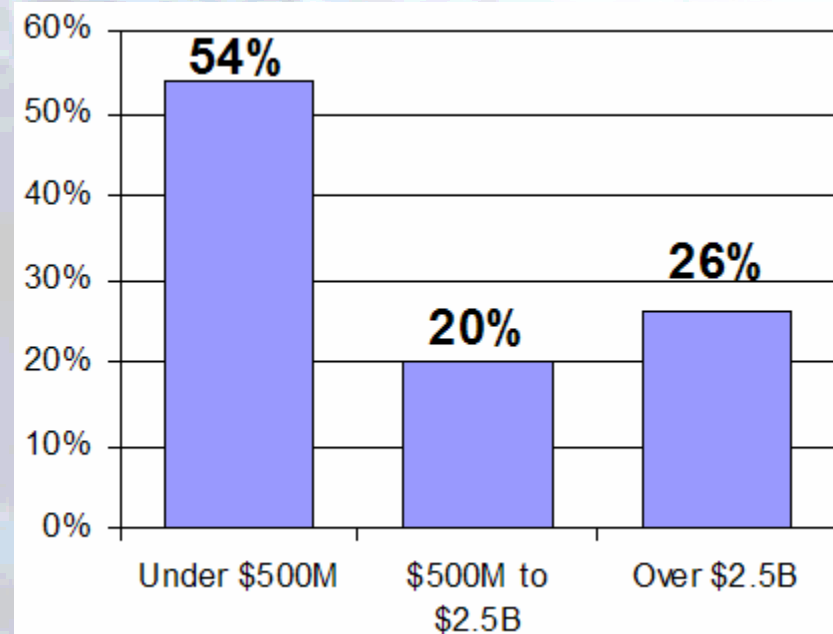


All Company Forms and Sizes



- Stock and Mutual Split

- A good array of company sizes



Facing Common Challenges

- **Clear vision, goal, and strategy for where to be in 3 years?**
 - 85% Strongly Agree / Agree
- **Effectively use process improvement to generate results?**
 - 54% Strongly Agree / Agree
- **Is technology an enabler of competitive advantage?**
 - Only 45% Strongly Agree / Agree (less than half)

YET...

- **Plan on large tech investments to remain competitive?**
 - 65% Strongly Agree / Agree
- **Will expense ratios decrease measurably in next 3 years?**
 - 50% Strongly Agree / Agree
 - 31% Strongly Disagree / Disagree
 - 19% Don't Know

Key Strategic Issues

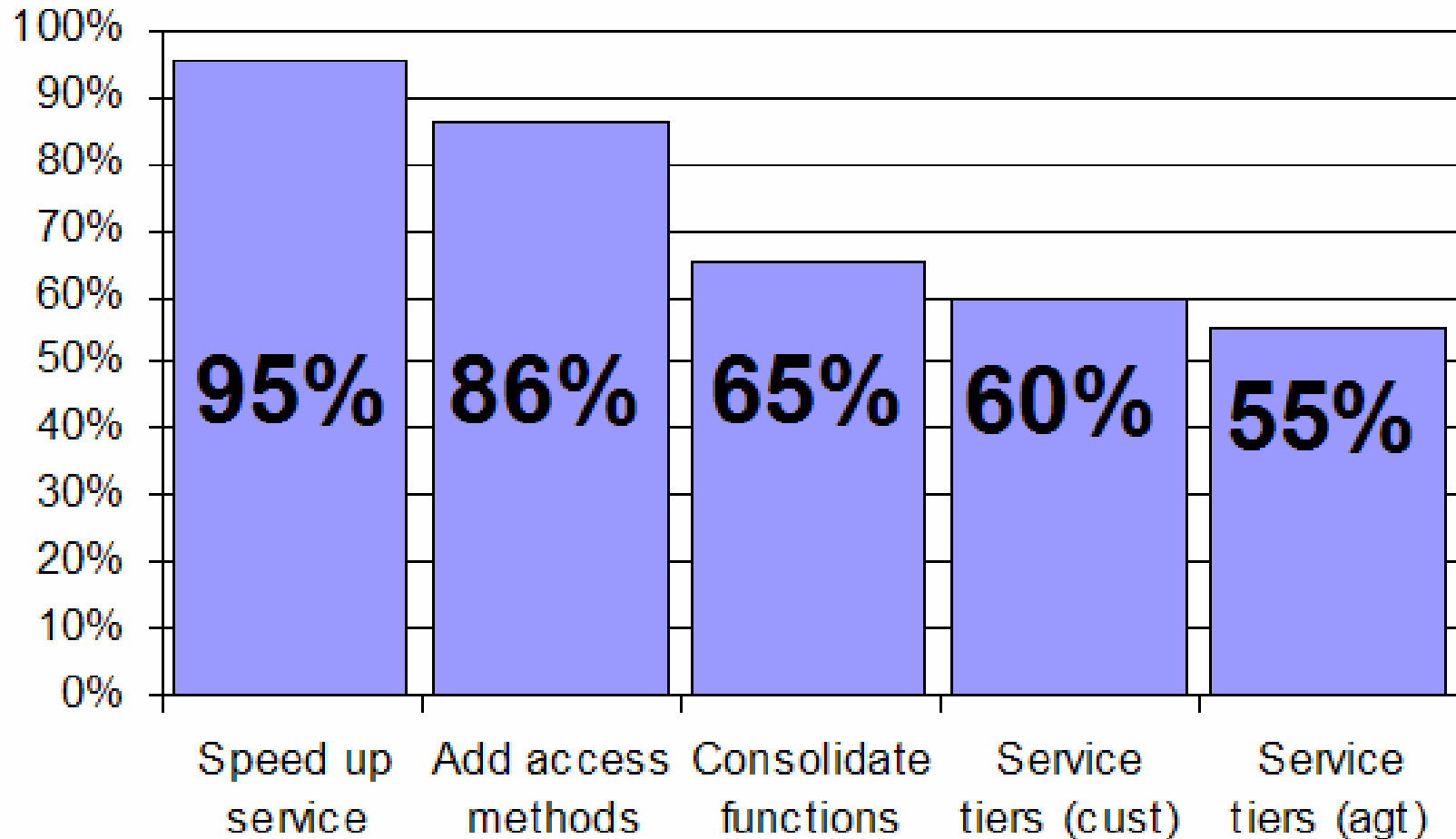
- **Ethnicity and Age will be defining demographics driving product design, sales process, and service delivery**
 - Insurers need a diverse product portfolio for cash management, lifestyle protection, wealth transfer, and inflation protection
 - Multi-lingual sales and service will provide competitive edge
- **Privacy and Compliance costs will continue to increase**
 - Tax reform is an unpredictable wildcard provoking wait-and-see
- **Concentration of resources will continue**
 - Divestitures and discontinued products will increase **(66%)**
 - Niche companies will be more successful **(59%)**
 - Mergers and acquisitions will improve economies of scale **(49%)**
- **On the other hand...(Agree / Disagree / Don't Know)**
 - Global expansion a growth source? **All Over** (37% / 30% / 33%)
 - Banks and related a major threat? **No** (19% / 47% / 34%)
 - Internet impacting channel profits? **Unknown** (15% / 22% / 63%)

Sales / Marketing Focus Clear

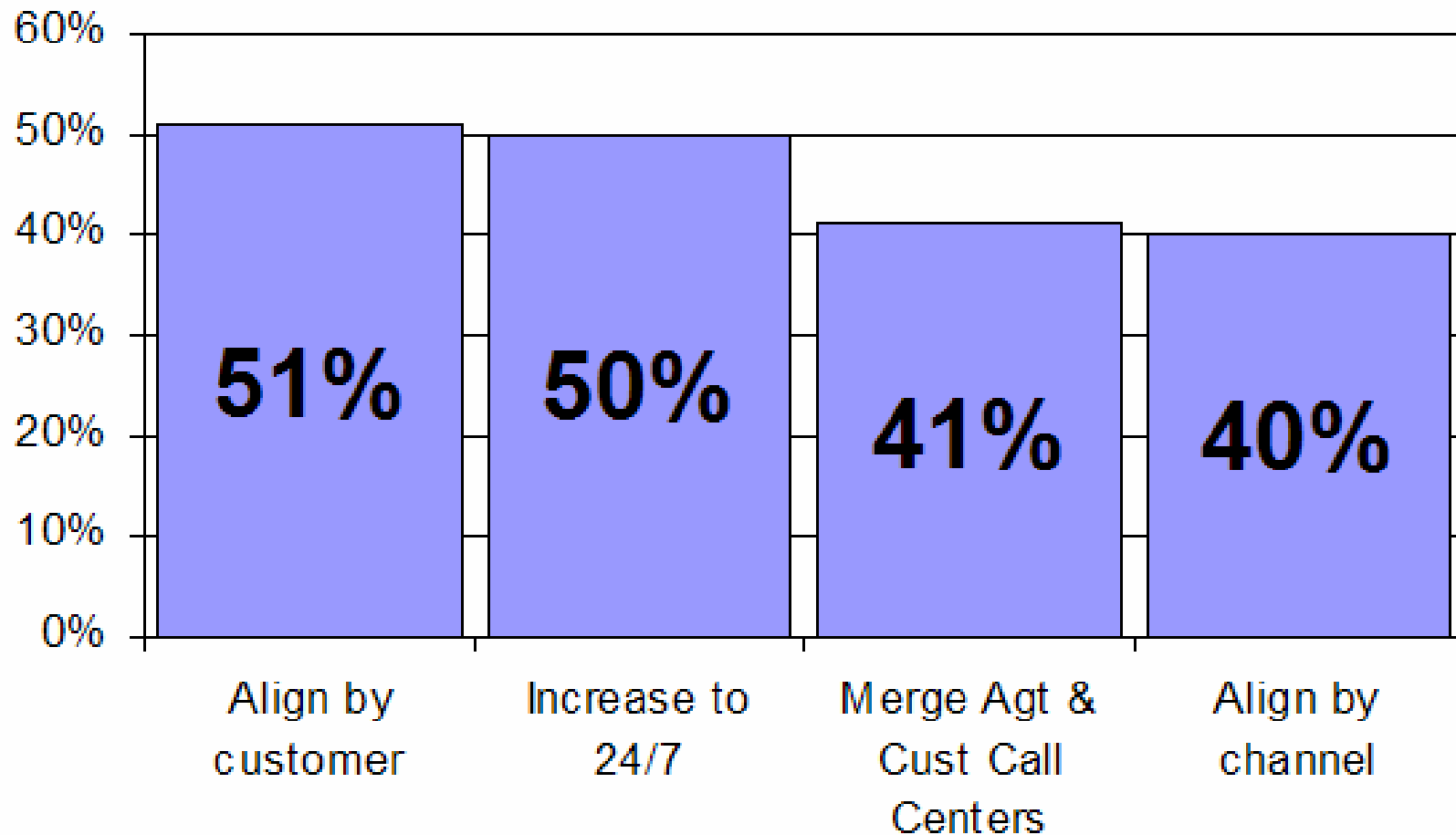
(Very Likely / Likely)

- **Leveraging existing efforts - a top priority**
 - Enhance existing products and/or reduce cost? 83%
 - Expand existing field force? 74%
 - Increase focus on retirement / lifestyle products? 73%
- **With technology key in optimizing current agent profits**
 - Integrate use of web tools and e-learning into the field? 81%
 - Provide field access to a web portal (rpts, comm, CRM)? 84%
- **Yet some strategies remain unclear or even avoided**
 - Increase internet-based products and sales? 46%
 - Increase marketing of variable investment products? 41%
 - Build private-label products for sale by other carriers? 40%
 - Expand into new lines like P&C or A&H? 24%
- **And one long standing carryover...**
 - Increase direct marketing efforts (phones and mail) 52%

Operationally, Some Clear Trends...



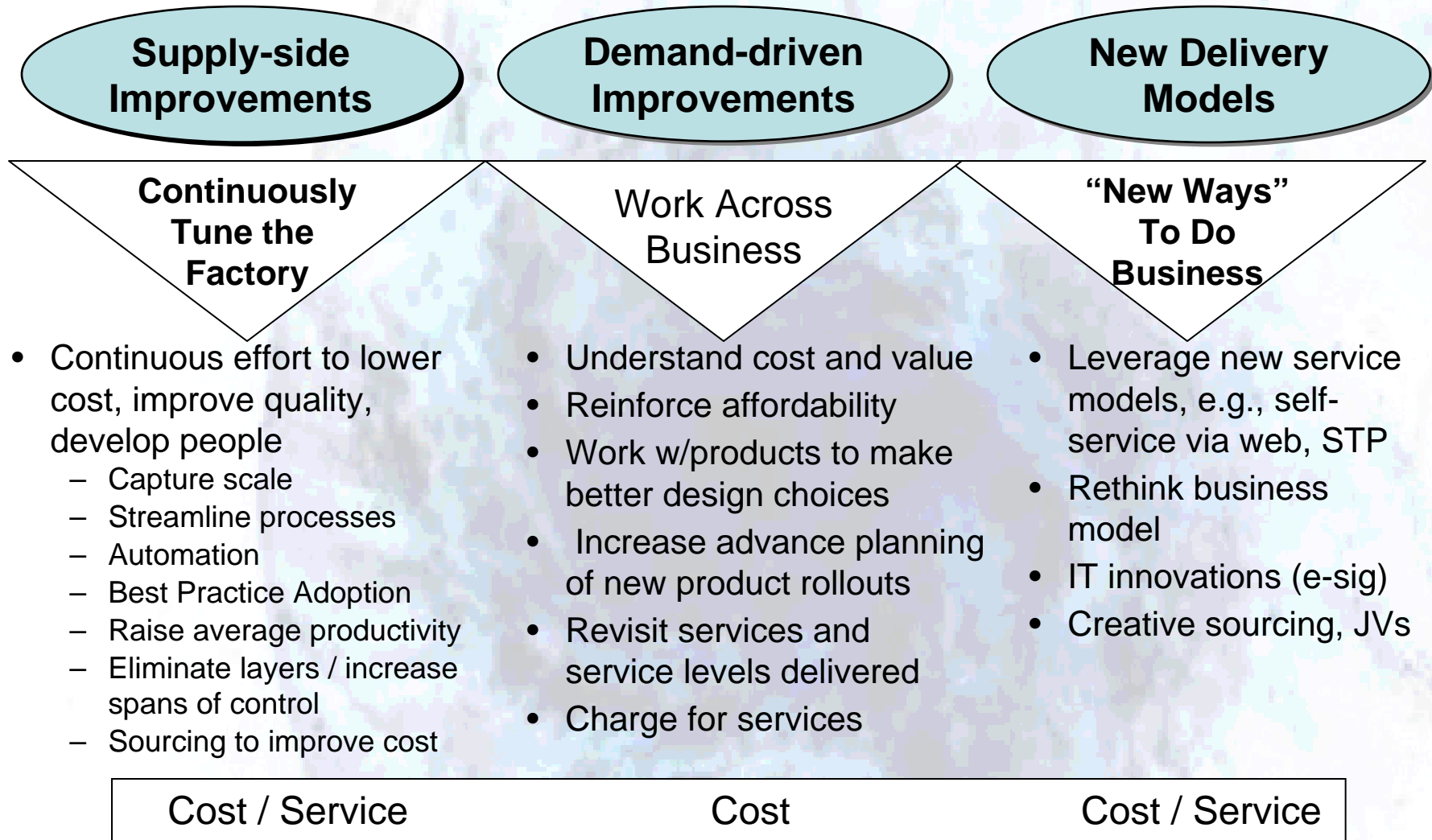
...and Some Not So Clear Ones



Expense vs. Service Still An Issue

- **A definite move towards more self-service and web / internet-based access to records and information**
 - Will seniors and differing culture accept these new tools?
 - What will the total cost be over time, and will it be less?
- **Will service tiers be approached; how and where?**
 - Will customers receive different services based on premium or profit?
 - Will agent service be tiered based on production or earnings?
 - Will a higher tier be created, adding cost, or will the current tier be the top and others get less service going forward?
- **Consolidation remains an opportunity, questions on how**
 - By agent, by geography, by product, by consumer, or by company?
 - How can overlaps and handoffs be handled efficiently?
 - Phone center consolidation happening more and more
 - Geographic consolidation Unlikely / Not Very Likely (68%)

Service / Cost Levers



Primary Impact

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Many Believe Competitive Advantage Will Be Built On Service...

- ***“The top priorities for gaining competitive advantage through service will be:***

- *Training for consistent delivery of service,*
- *Having adequate technologies to effect good service, and*
- *Monitoring to make sure good service is delivered.”*

- Insurance Company President

- ***“Straight through processing...technology that meets targeted customer needs at cost effective price...use of technology...technical automation and process improvement...economies of scale...reduced cycle time...reduced costs...better service...faster time service...delivery efficiency...speed to market...superior service.”***

- A Medley of Comments and Responses

...Which Will Require Technology

- **Technology remains the most consistently supported strategy surveyed, as well as the most mixed in results**
 - The emphasis on service as a differentiator puts pressure on information technology to deliver cost-effective solutions
 - Focused, targeted development of transactional systems paired with the leveraging of existing investments seems optimal
 - A platform of key technologies have been developed over the past decade that represent the foundation upon which the service edge can be constructed, requiring focus to fully leverage
- **Full admin systems replacements have tapered off**
 - Phased plans that consolidate onto one legacy platform pursued
 - Modular enhancements are being used to extend the life of legacy systems while enhancing their functionality
 - Front ends providing graphical interfaces are being combined with data warehouses to “wrap” the commoditized portions of legacy systems, leveraging the transaction processing while enhancing the usability

Shifting Role of Technology

Low....Business Impact of IT Approaches.....High

Support Business

- ▶ Low transactions frequency per customer
- ▶ Face-to-face distribution
- ▶ Technology status quo
- ▶ Reactive
- ▶ I/T costs are an expense to be managed
- ▶ Investment in maintenance

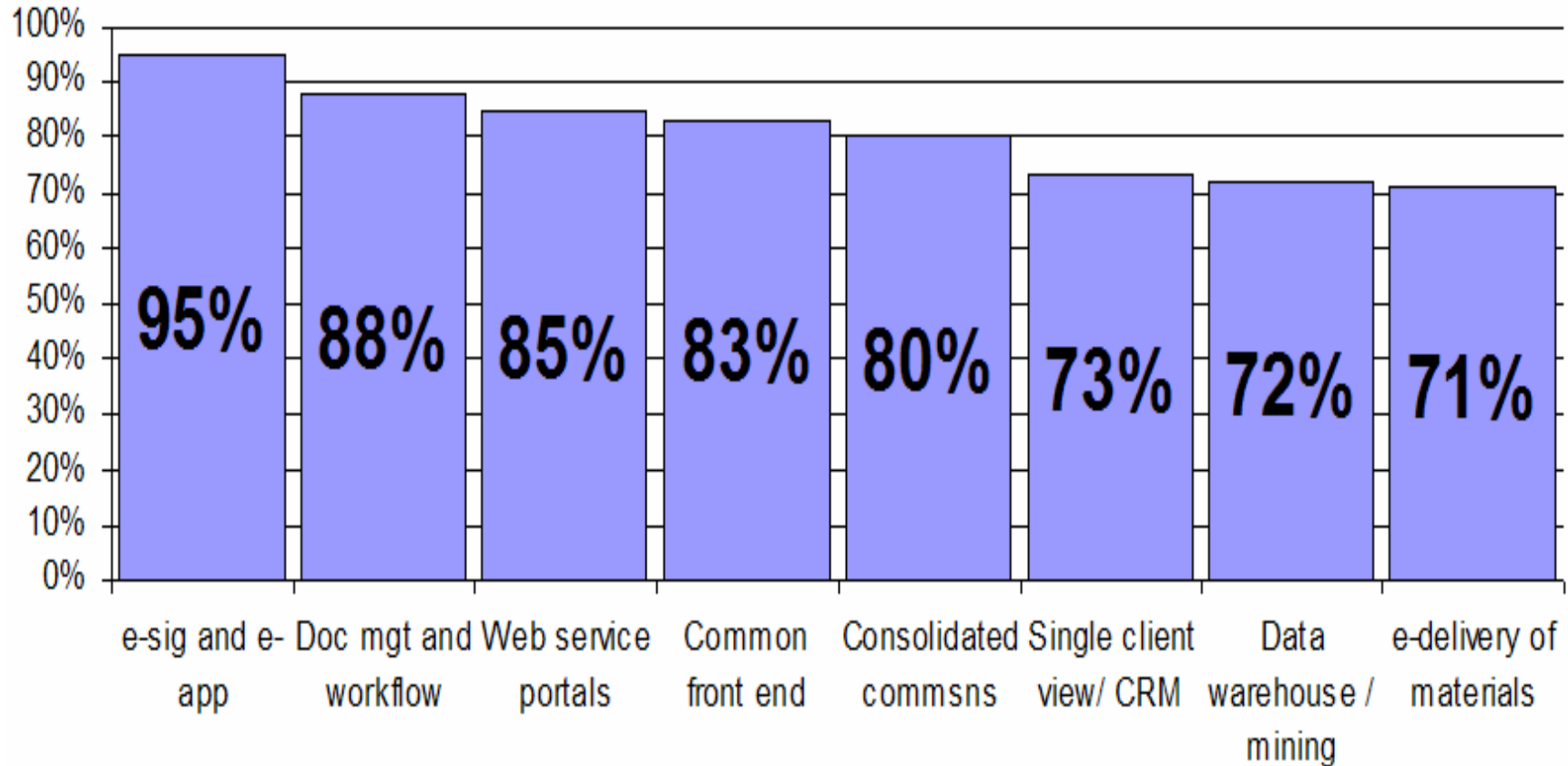
Enable Business

- ▶ Moderate to high transactions frequency
- ▶ Technology used to sell or service business
- ▶ Balance around back office and market-facing
- ▶ IT Spend is investment
- ▶ Investment in maintenance, with step-change improvement

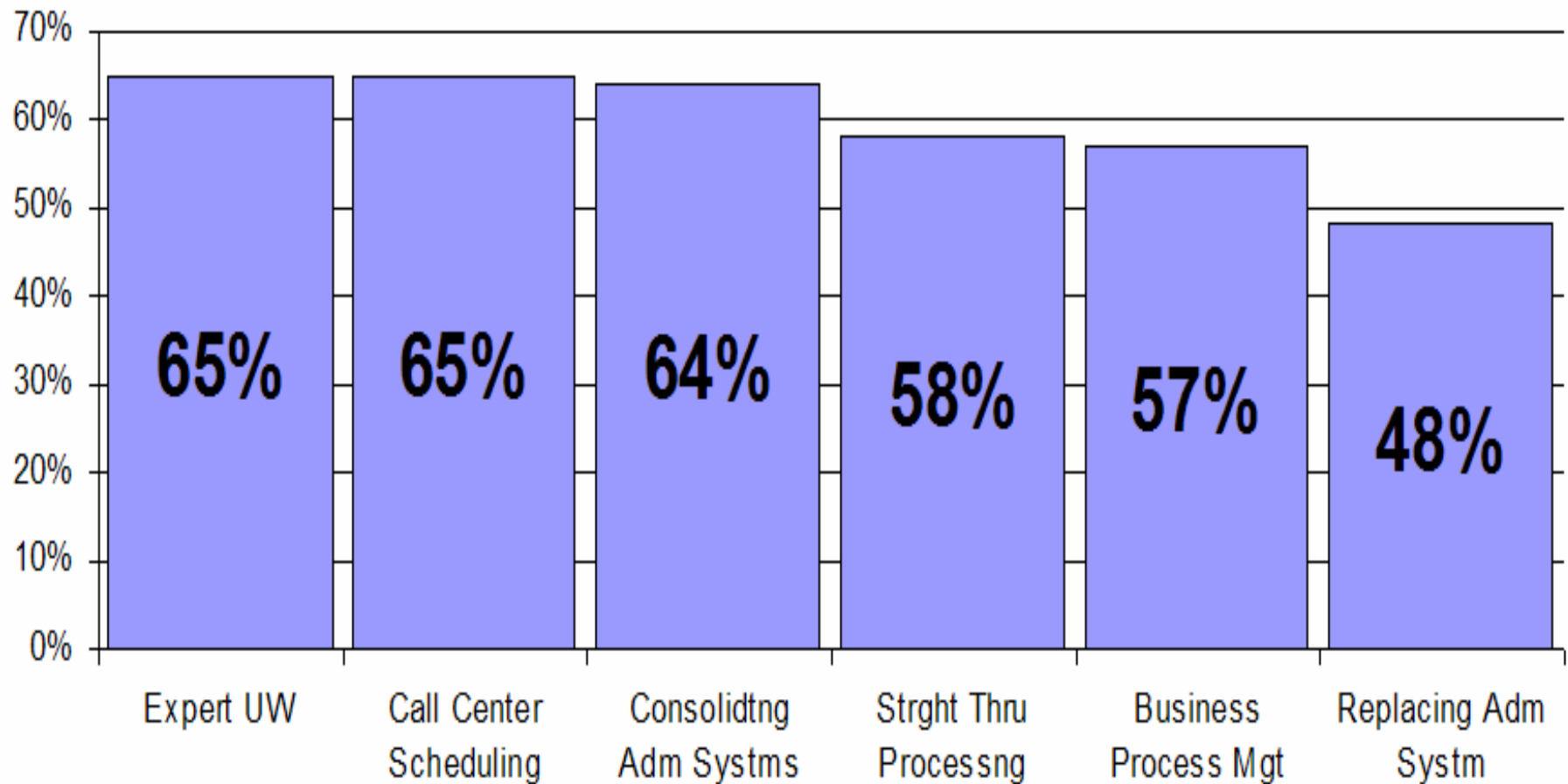
Drive Business

- ▶ High transactions frequency
- ▶ Remote distribution of product and services
- ▶ Capability weighted toward market-facing systems
- ▶ Investment is critical to company success
- ▶ Investment in breakout strategies

The Top IT Investments



Followed Closely By...

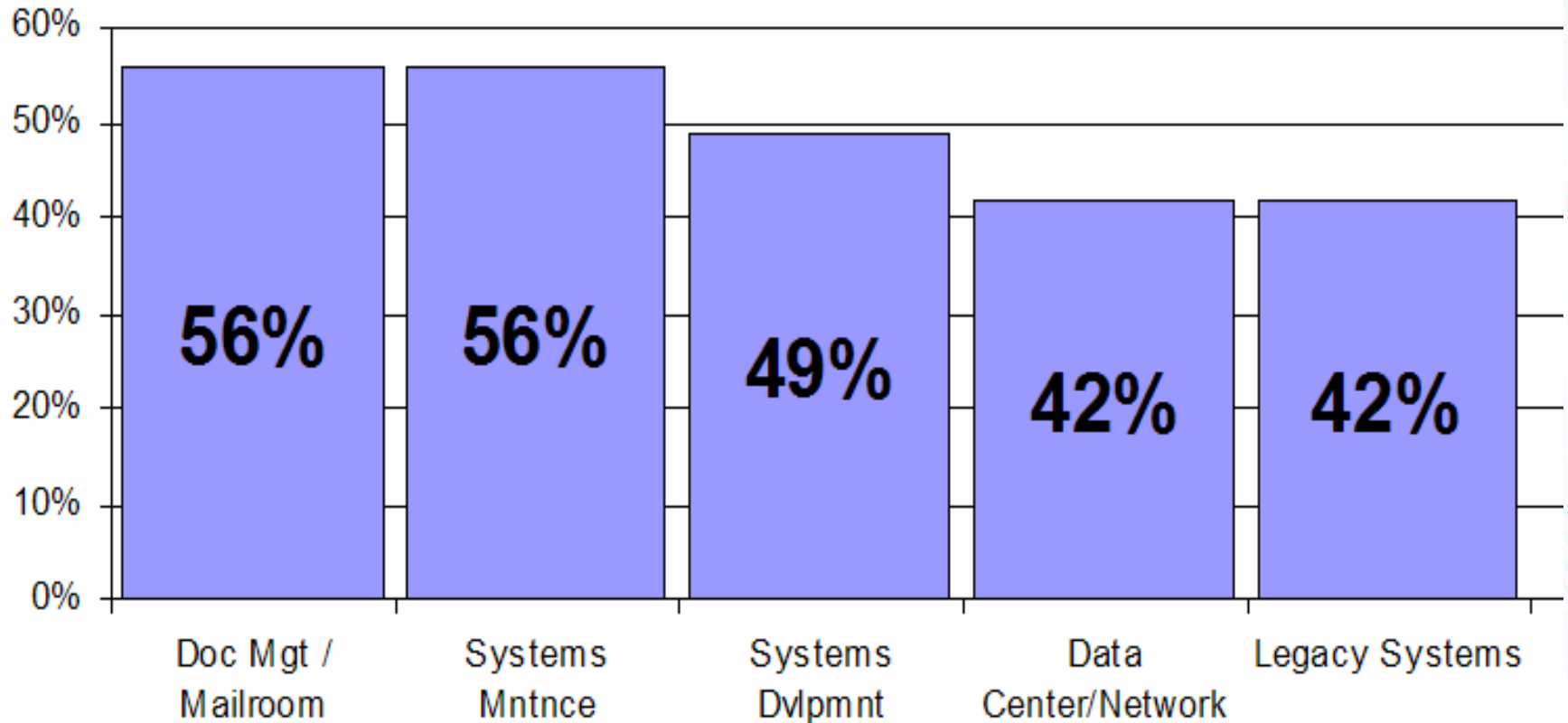


Outsourcing Trends Mature

- **Outsourcing has slowed down in recent years due to:**
 - Changes in the economics of the global marketplace
 - Selective nationalist preferences
 - Risk management and the fear of terrorism
 - Some less than successful attempts in the service sector
- **Current trends are targeted and for selective purposes:**
 - Still heavy in IT, part maintenance and part large development
 - Targets of non-core areas, non-customer areas, inactive lines
 - Focus is away from core competencies and to commodity tasks
- **Onshoring and development centers have grown in use:**
 - Bringing key resources from global sources to the U.S.
 - Acquiring and owning a center in another country
- **Sourcing efforts are being directly impacted by:**
 - Converging labor costs
 - A growing need for customer centric differentiation

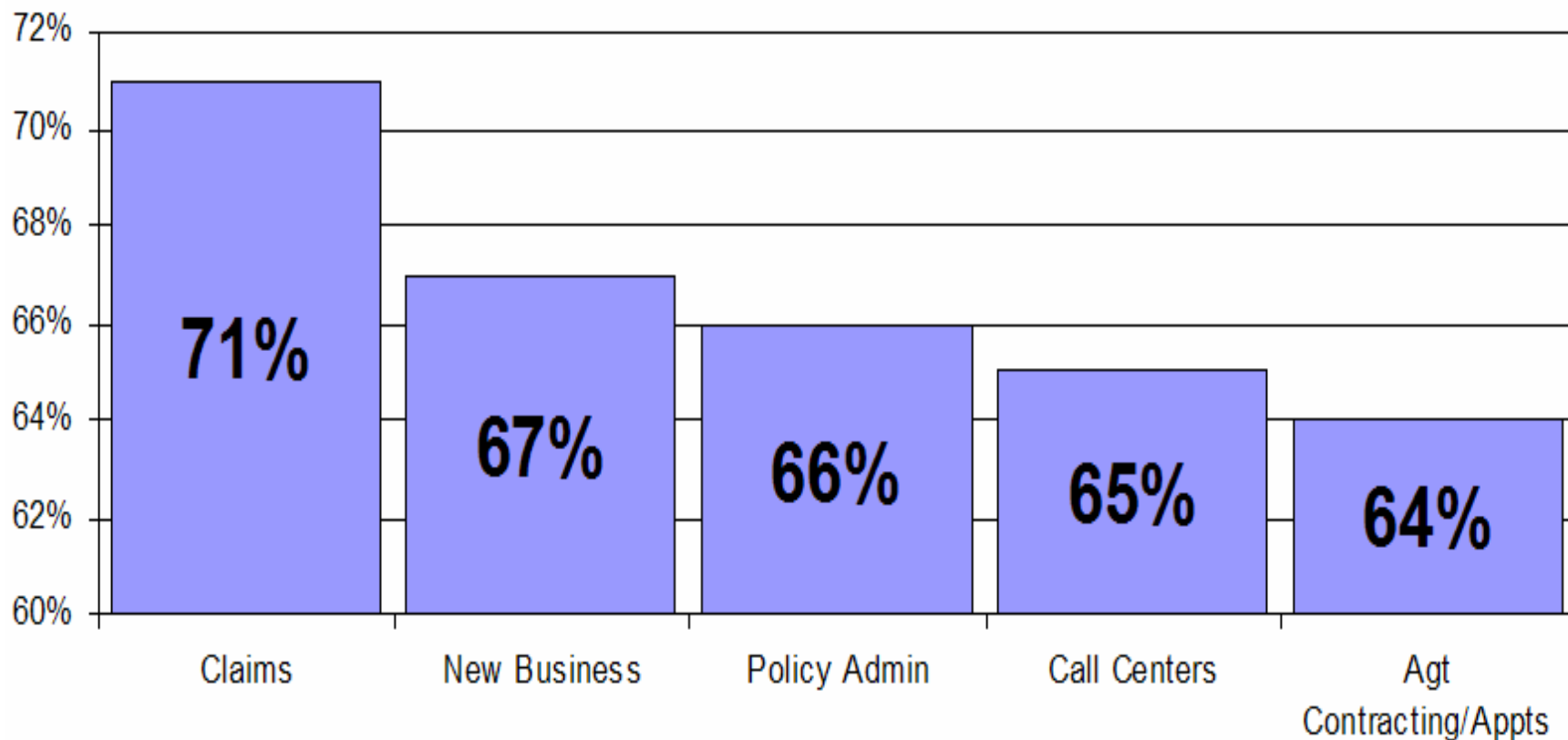
Top Candidates for Offshoring

Somewhat Likely, Likely, Very Likely



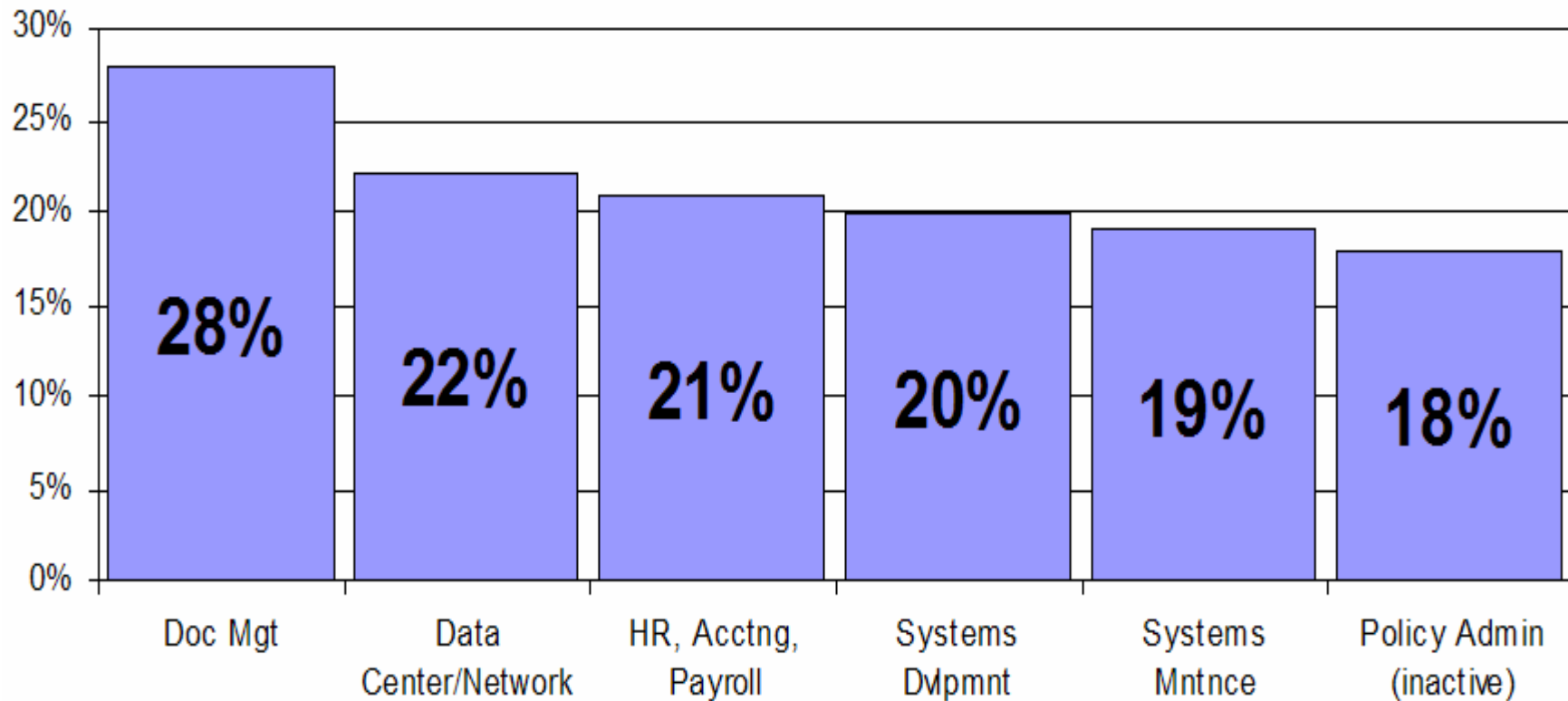
Least Likely for Offshoring

Not Likely, Don't Know



On-Shore Sourcing Interest Up

Functions Ranked as Most Likely Candidates



A Framework for Success

- **Customer Centric Focus**
 - Internalize Awareness of Diverse Customer Needs
 - Commit to a Plan and Stay the Course
 - Optimize Distribution through Tools, Training and Targeting
- **Operational Excellence**
 - Be F.A.S.T.
 - Service Remains the Differentiator for \$uccess
 - Membership Has Its Privileges: Tiers by Need
- **Technological Alignment**
 - Availability, Accessibility, Reliability, and Simplicity
 - Matching Method to Market
 - Leveraging for Efficiency, Investing for Advantage

Questions?

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