Historically, life insurance companies have not been early or aggressive adopters of shared services in operations. As banks, manufacturers and companies in a wide range of industries embraced shared services to centralize, standardize and reduce the costs of various back-office functions, life insurers largely remained on the sidelines.

This lagging adoption by life insurers was mostly a result of the perception that individual product lines and business units (BUs) had such unique processing, support and technology needs that their back offices had to remain independent of those supporting other product sets. Today, however, this conventional wisdom is changing as the business case for shared services has become clearer and more compelling.
With current economic conditions forcing a re-evaluation of existing operational models and cost structures, shared services is a viable option to streamline processes, set the foundation for long-term operational excellence and increase long-term profitability. The strongest shared services value proposition in life insurance involves the creation of highly efficient and cost-effective operations centers that go beyond simple accounting and HR processes to support underwriting, policy administration, claims management and other core business functions across the product portfolio.

This paper will explore the critical questions and challenges life insurers must address as they seek to optimize core operational processes in shared services. Further, it will highlight the best-in-practice first steps to take in the shared services journey.

Common challenges, shifting perceptions and new opportunities

We define shared services as operations centers that support multiple product entities or lines of business and use common practices and procedures to ensure standardization and efficiency in specific processes, such as claims or billing. Typically, these operations centers now are internally staffed, although some resources may be outsourced. While many companies initially apply shared services operating models to accounting, finance, HR or IT, forward-looking insurers are also moving other operations, such as claims, billing, underwriting and policy administration processes, to shared services models. Operations centers allow organizations to generate significant value through consolidation and standardization while focusing specific capabilities and resources on the unique needs of individual product sets or lines of business. Top-performing shared services centers are notable for their customer focus, critical mass of process expertise, high service levels, objective quality measures and widespread use of enabling technologies.

While shared services has a well-earned reputation for reducing costs, life insurers have long feared that standardized processes would compromise their ability to deliver quality service to high-value customers or to tailor the customer experience by product. Further, it was widely believed that the needs and preferences of group life customers, for example, were so different from those of individual annuity customers that there was no way to manage even simple administrative tasks (e.g., address changes) through a single, centralized group. Because those lines of business also maintained their own profit and loss statements and unique go-to-market approaches, executive leadership was understandably reluctant to give up control of any operation or process with an impact on bottom-line performance. The concern over control was demonstrated by a preference for a direct-reporting management approach and a direct line of sight into service delivery.

One downside of this product-centric or BU-led management approach is the siloed organizations, processes and systems that have developed at many insurance companies. Decades of acquisitions and growth have also contributed to this organizational structure. In some cases, carriers have duplicative functions, with different teams handling the same basic work and activities at varying levels of competency and performance.

To be clear, shared services is not exclusively about cutting costs. It can also help life insurers manage a range of other challenges, including compliance with the increasingly complex regulatory changes underway in the US and abroad. New regulations demand a more rigorous, automated and repeatable approach to managing

![FIGURE 1: In deploying shared services, life insurers may explore a range of operational models to balance their needs for control and customization versus standardization.](image)

<table>
<thead>
<tr>
<th>Complexity of transactions</th>
<th>Center of excellence</th>
<th>Corporate/Regional office</th>
<th>Shared Service center</th>
<th>Local office</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Aggregates activities that require specialized knowledge or expertise</td>
<td>Aggregates strategic and governing activities</td>
<td>Consolidates organization</td>
<td>Has activities distributed for local service needs</td>
</tr>
<tr>
<td></td>
<td>Is issue/knowledge-intensive</td>
<td>Is decision-/action-intensive</td>
<td>Enables operational focus</td>
<td>Requires manual or end user intensive activities</td>
</tr>
<tr>
<td>Low</td>
<td>Is organized often by region</td>
<td>Calls for relative proximity to business</td>
<td>Is established to streamline, scale and centrally perform routine transaction-based activities</td>
<td>Critically needs local knowledge</td>
</tr>
</tbody>
</table>
risk, capturing the required data and delivering on multiple, complex reporting requirements. Current systems and processes greatly constrain insurers’ compliance efforts, forcing them into inefficient, costly and error-prone manual workarounds to deliver the required reports. With a higher degree of automation and efficiency, shared services centers can greatly streamline the process of regulatory reporting and mitigate the risk of non-compliance.

Collectively, these factors underscore why life insurers need to take the long view and consider strategic approaches to establishing a flexible and lower-cost operating structure suitable for the ongoing evolution of product portfolios and continuous improvement of processes. Centralizing core support, administrative and transaction processing capabilities in a shared services organization or a dedicated operations center represents such a strategy.

The business case for shared services

Cost savings are a key driver of the shared services value proposition. Our experience suggests that total net savings typically range from 15% to 40% from initial, pre-implementation baselines. Of course, start-up costs for developing the centralized operations center must be accounted for in preliminary return on investment (ROI) models.

Several factors contribute to the overall savings, starting with lower labor costs. The reduction of duplicate resources, labor arbitrage in offshore locations, economies of scale and process automation can produce a 25% to 35% decrease in the labor cost component of baseline expenses. Process simplification with the goal of enhancing efficiency and effectiveness can result in additional savings of 5% to 8% of overall baseline costs. Consolidation of similar work activities in fewer locations can deliver baseline cost reductions of 3% to 5% as well. Further, minimizing redundant infrastructure by consolidating and rationalizing systems helps cut technology budgets.

Enablers of shared services success

Insurers that have recognized the business case have embraced a number of critical enablers, including process simplification, automation and consolidation of technology platforms to support operational functions. Flexible, rules-based engines can help ensure that underwriting and claims management processes, for example, are standardized to the extent they can be while still meeting the unique needs of different product sets, user groups or customer segments. Strong technology platforms can be enhanced with additional data, advanced analytics tools and reporting dashboards to gain real-time views of performance.

Even for insurers that maintain multiple policy administration platforms, process standardization can help drive improvements. For instance, by breaking down functions into basic steps, it is possible to identify common operations and tasks that a single unit can perform in support of multiple product lines. Process “deconstruction” can also point the way to simplification and automation, which typically result in higher efficiency and fewer errors and exceptions. Such streamlined processes are excellent candidates for consolidation via shared services centers.

Lessons learned

Insurers who have leveraged shared services to reduce costs and improve performance point to the following lessons learned as keys to success.

Leadership commitment. Because the creation of operations centers can affect multiple functions and business units, senior leaders must establish and promote the vision, make the case for change, and provide visible support and advocacy before and during implementation.

Shared services or operations centers as a separate business. Treating a shared services center as a business can help drive operational excellence, provided that metrics and SLAs are clearly defined and enforced. For captive shared services centers, the management team running the site on a day-to-day basis must have the skills and motivation to lead the change and shape a high-performance culture.

Clear targets and accountability. The strongest business cases for shared services feature quantifiable ROI projections and specific performance targets. Further, process and performance “owners” should be identified to ensure suitable support and oversight are given to the new operating model.

Standardization of processes prior to implementation of shared services. Experience shows that standardizing processes before moving to centralized operational models is advantageous to generating sooner-than-expected cost reductions and performance gains. The re-engineering process can uncover common needs that are a good fit for centralization, as well as those sub-tasks that require customization for each product line or business unit.

Change management and the people factor. Because shared services represent a new way of working, companies should plan for effective communications, training and organizational change management programs. Thus, they can neutralize common threats to success (such as stakeholder resistance to change and low end-user adoption rates) and improve the likelihood of smooth, non-disruptive migrations.

Another effective model involves internal centers of excellence (in underwriting, for example) that focus on more strategic tasks and decision making, such as developing underwriting guidelines, introducing new products and so forth, while highly efficient operations centers or “processing factories” handle higher-volume administrative tasks.

The use of robust service-level agreements (SLAs) and more sophisticated reporting means executives can have confidence that the shared services center is delivering quality service experiences to their customers. Improved process visibility may also give managers that firsthand sense of “walking the floor” to see how service is being
delivered – even if customer service representatives and claims handling staff are located thousands of miles away.

**The path forward and where to start**

To chart the best course forward and define the optimal approach, life insurers must address a number of critical questions. Among them are:

- How efficiently and effectively are core processes operating today?
- What is the cost of pursuing the opportunity to labor cost savings?
- Where are the integration points or commonalities in processing needs?
- Which sub-processes must be customized by product line or customer segment?
- Do current operations have unique time zone and language requirements?
- What is the organizational appetite for change?

While the lessons of early adopters should be applied where appropriate, life insurers must carefully assess their unique product portfolios, policyholder base, competitive position and market opportunities. Leadership teams will want to prioritize which product categories are the best fit for centralization, given their current performance and future growth prospects.

Defining a clear and limited initial scope can help mitigate the risk of taking on too much change too fast. Further, experience shows that shorter implementation timelines can be less disruptive and build momentum for longer-term change through “quick wins.” These are important factors to bear in mind because underestimating the organizational impact of a shared services implementation can lead to higher-than-expected costs or outright program failure.

The history of shared services in other industries confirms that process refinement and technology enhancements are ongoing pursuits, not “one-off” undertakings. Many mature shared services centers naturally drive toward fully automated end-to-end processing models once they achieve the earliest cost reductions. Life insurers should prepare long-term improvement plans for their operations centers as they build on initial performance gains and cost savings and seek the optimal balance of process efficiency and service quality for the long term.

**Bottom line: shared services opportunities**

Advancements and innovations in technology, data management and sourcing models offer life insurers the opportunity to break free from traditional organizational structures. That is, they are no longer restricted to operations that are siloed by product line or business unit, with each providing (and paying for) its own service functions. The combination of market shifts, competitive pressures and macroeconomic realities have stressed the old siloed model to the point that it is no longer sustainable for the future.

Life insurers must assess and prioritize their own strategic opportunities and tactical needs. Whether they are structured as internal centers of excellence or cross-functional operations centers, it is clear that the time for shared services in life insurance operations has come.

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