Profit optimization and cost excellence for insurers

Achieving competitive advantage through strategic revenue improvement and cost reduction
The business problem

Insurers are facing challenges in achieving profitability targets and releasing funds to invest in transformation programs. Profit improvement, particularly cost optimization, is an imperative to address these challenges.

Insurance industry trends

- Sustained low interest rates and stagnant revenue growth have increased emphasis on costs to drive profitability.
- Legacy claims and underwriting systems and rigid operating models are impeding adoption of new business processes.
- Shifting consumer expectations are impacting product, distribution and servicing changes.
- Digital connectivity is generating new sources of data, innovation opportunities and heightened service expectations.

Challenges to profit optimization

Responding to these industry trends requires organizing around a set of management imperatives. However, insurers face significant operational and tactical challenges in achieving these imperatives.

1. Respond to market changes
   - New business models threatening future growth and profitability
   - Insurance distribution and service models falling out of favor
   - Key processes and systems no longer competitive
   - Management unaware of how company performs versus competitors

2. Deliver on profit mandate
   - Management team charged with large run-rate expense reductions
   - Successful initiatives to lower costs leading to decline in quality and demand
   - Multi-year initiatives in underwriting and claims competing for finite resources, but ineffective monitoring of progress and value delivered

3. Simplify and rationalize
   - Multiple insurance units operating in parallel with similar capabilities; processing and management systems with weak transparency
   - Past acquisitions not fully integrated; benefits not realized
   - Federated support functions inconsistent across the enterprise
   - Sourcing and vendor management not supporting control and cost mandates

*Expense ratio figures include commission and operating expenses. Source: SNL
Overcoming the challenges

EY’s Profit Optimization and Cost Excellence group can help address these challenges and support the development of a comprehensive profit transformation strategy. Our services can lead to sustainable outcomes for clients and help to fund the transformation of existing business models to help drive revenue and efficiency.

Identify
- Analyze baseline revenues, costs, operational metrics and financial data
- Apply targeted performance analyses, including benchmarking, spans and layers, and leading practice comparisons

Assess
- Assess resources and locations to improve efficiency and costs via a portfolio of levers, e.g., shared services, outsourcing and offshoring (see portfolio below)
- Evaluate various profit improvement options and scenarios

Plan
- Prioritize improvement initiatives based on solid business cases
- Determine bottom-line impact, design target operating model and develop execution plan/benefits tracking approach

Implement
- Create multi-year implementation road map
- Implement target operating model changes, including organizational design, processes and technology

Deliver
- Establish benefit tracking and realization framework with both short- and long-term cost and performance improvement targets
- Develop governance structure with incentives aligned to performance

Realizing the benefits

Consistent with the company strategy and culture, optimization levers are used to deliver a next-generation operating model with sustainable benefits and improved customer satisfaction. On average, companies can achieve benefits of 15% of their cost base by applying a combination of the levers below.

### Disruptive
- Smart automation (RPA+)
- Product innovation and portfolio optimization
- Omnichannel selling and servicing
- Robot advisors
- Micro-service and API-based architecture
- Scan functional partners (FinTechs) on specific value chain vectors

### Traditional
- Restructuring/spans and layers
- Process simplification and streamlining
- Zero-based budgeting
- Strategic sourcing and demand management
- Carve-out/asset
- Restructure rewards, incentives, benefits and compensation programs

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<th>Short term (less than one year)</th>
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Time to generate benefits
EY difference

Our deep understanding of cost and efficiency improvement levers combined with our extensive operational insurance experience enables us to support successful outcomes.

EY differentiators

- Leveraging breadth of capabilities (e.g., strategy, risk, tax, claims, UW, policy management, distribution) to create a holistic view
- Using proven methodology and accelerators to detect and execute value generator opportunities
- Understanding the needs of boards and executive teams
- Organizing and sourcing our teams based on your needs

Key enablers

- Hypothesis generation and revenue/cost analysis
- Portfolio of market practices and comparisons
- Spans and layers analysis
- Total cost of ownership and operating efficiency reporting
- Operational efficiency and savings initiative summaries
- Benefits tracking and realization framework

Potential benefits

- Reduced operational costs
- Improved service quality and customer satisfaction
- Increased capacity to innovate and adopt change
- Improved speed to market
- Improved financial controls and transparency
- Decreased turnaround times
- Enhanced processing consistency and accuracy

Case study

The case study described below describes how EY assisted a multinational insurer to develop an enterprise-wide profit assessment and profit optimization strategy. The project identified and developed a road map for benefits that exceeded initial company targets.

Client issue

- Global life and disability insurer operating in multiple countries
- Trailed competitors in operating efficiency and profitability
- Management’s public commitment to significantly reduce expenses

Approach

- Undertook rapid profit and efficiency assessment
- Designed global target operating model aligned to business strategy
- Developed prioritized listing of strategic improvement initiatives with supporting business cases
- Benchmarked FTE function and cost by level, location and work type
- Identified opportunities to improve efficiency via process improvement, organization redesign and technology rationalization
- Detailed execution plan for quick win/“low-hanging fruit” initiatives

Benefits

- Delivered enterprise-wide transformation road map realizing hundreds of millions of dollars in cost reduction – more than 15% of addressable expense
- Identification of opportunities to improve efficiency through process improvement, organization redesign, technology rationalization and shared services
- Rationalization of vendor relationships across all geographies
- Benefit tracking and sustained realization framework in place