

WNS

Extending Your Enterprise



Business Process Outsourcing:
A **survival tool** for the life insurance and
annuities industry after the economic tsunami

While economic indicators are starting to signal a slight recovery, the treacherous waters in which the life insurance and annuities industry has been treading have far from receded. Recent third-party expert statements paint a sober picture

- Ernst & Young's 2009 Insurance Outlook for the U.S. Life Insurance market – posted to the Insurance Law Center on April 21, 2009 – noted that U.S. life insurers will be dealing with the multiple lingering side-effects of the global financial crisis and deepening recession for some time to come. The implications of the current economic crisis may take months or perhaps years, to fully evaluate. Once the immediate crisis passes, insurers will have to adjust to an environment that has fundamentally changed – both for them and for the consumer.
- According to Laura Bazer, vice president, Moody's, "Rising investment losses, falling equity markets, and weakening economic conditions will pressure the profitability, financial flexibility and capital adequacy of [life] insurers over the next 12 to 18 months." (Source: Resource magazine, February 2009.)
- A February 27, 2009 article on StreetInsider.com said, "After the close, Standard & Poor's lowered its counterparty credit and financial strength ratings on 10 groups of U.S. life insurers and its counterparty credit ratings on 7 U.S. life insurance holding companies." Standard & Poor cited higher loss assumptions. The firm said, "Today's rating actions primarily reflect the incorporation of these incremental asset stress factors into our capital adequacy analysis as well as the effects of severe equity market declines and volatility on earnings and capital adequacy. We expect that the effect of these factors will challenge life companies' competitive strengths and ability to generate profitable business. Over the past few weeks, we also took rating actions on several other life companies because of related issues."

These statements reflect a wider view that there is clear and present danger for the industry. But there is a life raft available for this highly risk-averse sector.

BPO to the rescue for life insurance and annuities companies

Business process outsourcing (BPO) represents a strategic and efficient option for companies looking to thrive in these tumultuous times. If implemented properly, BPO can be a fast and simple solution to rapidly reduce costs, help organizations survive the economic downturn and set the stage for future growth and expansion after the economic tidal wave subsides.

Rapid cost reduction is mandatory for companies trying to survive in the most challenging economic climate in over 60 years. But BPO delivers benefits which extend far beyond cost savings.

While insurance companies already outsource highly transactional processes such as claims and payments, new business processing and underwriting support, they can gain significant additional value by leveraging BPO for other processes. For example, outsourcing research and analytics for actuarial support can optimize pricing and more accurate premium calculations helping the company target additional consumers based on demographics, groups and risk profiles. A BPO provider with deep domain experience can support customer retention, cross sell and up sell initiatives and exploit new sales channels and entry into new geographies.



An area that can provide immediate business benefits and cost efficiency is policy servicing. For example, experience suggests that it costs insurance companies between \$200 - \$350 per year to service a U.S. life policy. A BPO provider with deep domain and customer support expertise can service the same policy for approximately \$100 per year, representing annual savings of at least 50 percent. Let's look at several case studies which demonstrate BPO's value to insurance companies today.

Annuities administration for a global insurance company

As a result of its partial offshoring of simple annuities administration-related tasks, one of the world's largest insurance groups was experiencing significant error rates and longer response times which led to end-customer dissatisfaction. As a result, the company chartered WNS with delivering all activities related to its annuities administration, ranging from simple tasks such as change of bank details and issuing tax certificates to highly complex processes including reissuing retained payments to customers and performing audit work on the guaranteed minimum pension quotes built for the customer at the start of the annuity.

Leveraging its deep knowledge of the insurance industry and its experienced team, WNS was able to achieve:

- Increase in customer satisfaction from 76 percent to 88 percent
- Consistent turn around time of more than 98 percent
- 8 percent improvement in accuracy and 50 percent reduction in errors reported by customers
- Zero customer complaints for more than a year

Clearing the decks for success - Eight simple rules for life insurance and annuities companies

1. Ensure BPO is a CEO priority

In uncertain times, sponsorship for critical initiatives such as BPO must come from the very top of the organization. Only the CEO can deliver the message that there are no other options for the business. If the commitment is not there, then the junior management sees implementation as optional, easily finding ways to opt out with spurious arguments.

The prevarication of junior staff and their desire to protect their jobs can delay the delivery of savings, and jeopardize the success of the business.

When the CEO takes a positive decision and makes outsourcing a priority, significant success can be attained. For example, the CEO of a re-insurance company that was acquiring a closed books business mandated the outsourcing of all its operations. By doing so, the company was able to complete six conversions of policies to its new, single system within six months, and increase its policies under management by \$6 billion in five years.

2. Approach outsourcing with an open mind

Merely thinking policy renewals or rules-based transactions limits the extent to which BPO can be used as a "survive and thrive" tool for insurance companies. Smart insurance organizations have been outsourcing these types of processes for years. But the BPO industry has moved well beyond volume-based voice and data work into highly complex industry and insight processes – think research and analytics for actuarial pricing support, identifying customers' proclivity to pay premiums or buy new policies in different geographies and socio-economic categories, sales support for customer retention, cross sell and up sell, or assisting financial advisors prepare portfolio analysis. Smart insurance companies collaborate with providers to

24 processes for a U.S. top 10 financial planning, asset management and insurance company

A premier financial planning, asset management and insurance company with more than \$450 billion in assets under management had just completed one of the largest spin-offs in U.S. history and needed to focus on its core product development and marketing. The company decided to turn to a BPO provider to deliver its servicing functions, requiring

- 1) the ability to transition the work of approximately 350 FTEs in six months
- 2) to maintain and significantly improve operational performance to bolster the confidence of the sales force distressed about the loss of the iconic brand name of the parent organization
- 3) to design an efficient program capable of handling 24 fragmented processes with significant variability and cyclical volumes
- 4) to develop a pricing structure with optimum client benefit which also incentivized the provider to drive continuous improvement;
- 5) to provide a robust security environment
- 6) to provide business continuity planning.

In its three year partnership, WNS has delivered

- 50 percent cost savings across all operations outsourced to WNS
- Effective management of volume variability with enhanced service outcomes, enabling the company to eliminate overhead cost during lean times
- Accuracy improvements of 78 percent across all processes
- A FINRA-licensed team to ensure compliance with U.S. securities regulations

determine ‘the art of the possible.’ They begin by determining what is core and non-core to their business.

In the insurance industry, core processes include product development, sales/agency administration and regulatory compliance. But beyond these, most SG&A and highly complex processes can be seamlessly transitioned and successfully outsourced to a provider with a proven track record and substantial insurance industry expertise.

3. Keep it simple

Speed to cost reduction with no diminution of quality should be the first and foremost objective of BPO as a survival tool. This is not the time to radically transform business processes, implement new enterprise technology, or put in the latest bells and whistles. It’s time to get the cost out, and fast. For example, in the insurance industry, instead of trying to integrate multiple policy administration or claims systems overnight, companies should outsource the operations of some of these systems – both IT and business processes – to a service provider and move to a single system over a period of time. There may even be opportunity to monetize some of these assets by entering into a right contract and financial model with a BPO service provider. Keeping it simple also means avoiding a wholesale overhaul of the business model at once. This does not mean that changes in workflow, or standardization of processes which can be accomplished during transition or shortly thereafter should be off the table. Keeping it simple means being realistic about the aspirations for the program in times of economic uncertainty, focusing only on obtaining the benefits that truly matter.

4. Move fast

Companies can move fast on their outsourcing program by mandating aggressive timelines across the board. Truth is, there is no change without urgency. This is the time for insurance companies to quickly take a look at their

closed book of business, open book business running on older legacy systems, and claims and payments associated with older policies and systems that do not have cross sell or up sell opportunities and outsource these operations to a BPO service provider to reduce costs. But fast is the key word here. If moving quickly to implement BPO is not seen as vital to the basic survival of the company, it will not produce the desired results. Imposing deadlines for the development and

implementation of a roadmap, including scope, provider selection and transition will mobilize the organization.

5. Empower an internal outsourcing champion, and put top talent on the case

Survival programs are always led from the top and center. As evidence of executive commitment, the appointment of an outsourcing Champion / program management leader with the right level of responsibility and authority is critical to success. This must be someone who is fully accountable for and committed to the success of the program, has organizational respect, knows how to exercise authority, is not distracted by other responsibilities, is a good politician and has a personal incentive to succeed. For example, when a large insurance company decided to make its first foray into outsourcing its underwriting and claims processes, it assigned its CIO the role of ‘outsourcing czar’ as the organization had already successfully outsourced IT processes under the guidance and leadership of this executive who well understood the challenges and complexities of outsourcing. It also appointed highly knowledgeable business owners to oversee the processes, and these business owners report into the CIO who holds ultimate responsibility for the success of the underwriting and claims processing outsourcing initiative.

6. Develop a realistic deployment plan

Even when outsourcing is being implemented for cost, a measured, tightly sequenced but rational program that meets milestones and is not disruptive to the business has a much greater chance of success than an all hands-on, sprint-to-the-finish program. In their haste to cut out more cost, companies at times push for or buy into an unrealistic transition roadmap. When the first failure occurs because processes cannot be documented thoroughly, the network is not ready or work shadowing is insufficient, the naysayers come out in force. A deployment strategy that builds up steam over time after the success of initial phases is far more likely to meet objectives.

Protection, changes, premiums and payments services for a global insurance company

The client was experiencing challenges with its legacy systems and had no flexibility in how it serviced its protection policy holders. It also had unequal amount of work allocated to its payments team due to surrenders and switches, which led to quality, team performance and service level issues.

In the protection policies process, WNS has achieved for the client

- A versatility increase from 80 percent to 320 percent against the number of staff required per work type
- An overall versatility improvement from eight percent to 30.5 percent against maximum possible versatility
- Significantly increased accuracy and reduced errors reported by customers

In changes, premiums and payments – which are managed across three teams – WNS has:

- Maintained versatility at 130 percent across the three teams; significantly increased accuracy levels in premiums and payments;
- Continuously met all critical and key SLAs
- Maintained end-to-end WNS-controlled turn around time at 99 percent

For example, when choosing to outsource policy changes processes, it is best to begin with simple products like term life insurance to enable the provider to quickly ramp-up in terms of both offered products and the client's internal working style and culture. After that program is successful, other more complex processes, such as actuarial, underwriting and policy transactions, can be transitioned to the provider.

7. Insist on alignment

Outsourcing can mean a massive dislocation of culture, resulting in a tug of war between client and provider. When new people and processes are introduced into the equation, dissonance naturally occurs. In the insurance industry, there are four key alignment points. First and foremost, the provider must understand what values are important to the client and adjust its working style accordingly. Second, the provider must design its deliverables to support the client's needs. Third, the provider must have solid and proven insurance domain expertise – such as a requirement that all team members are LOMA- or other industry body-certified – in order to effectively design and deliver the program. And fourth, all operations, processes and expectations must be documented to ensure the provider has full understanding of, and insights into, the various state, federal and compliance regulations to which the client must adhere to.

8. Debit budgets in advance

This little trick obtains commitment where it counts - in the budget process. Building BPO savings into the current year's budget in advance ensures managers have no excuse but to be committed to the implementation of the BPO program or find some other way to get the cost out fast. Truth be told, short of cutting staff to the bone, there is rarely another way. This is particularly true in cost center functions such as underwriting support, policy changes, claims and finance and accounting. A BPO provider with insurance domain

expertise knows the types of cost savings which can be attained per outsourced process, and can work with the client to craft a contract specifically designed to attain them. For example, an experienced service provider may well commit upfront to savings of 50 percent or more in policy servicing, and 20 percent year on year productivity gains in underwriting support.

Advantages life and annuities insurance companies gain by moving to a BPO model today

In general

■ Standardized business processes



Consolidating business processes offshore in an effort to reduce cost has a positive by-product – levels of standardization that are difficult to achieve through incremental efforts such as process reengineering when times are easier. With standardization, the organization is well-positioned to take the next step to transform processes through technology and quality, taking them to the next level of efficiency.

■ Rationalized delivery model

The greatest challenge in moving to a shared service, or horizontal structure, is overcoming misconceptions and fears about diminution of service levels, risk and performance. By 'wrenching' processes out of the business lines in the name of corporate survival, the objections which delay or derail consolidation and centralization are, in effect, overcome.

■ **Commercialized approach to operations**

Most companies cannot put a price on the cost of paying a bill, collecting a receivable or interacting with a customer. Imposing the discipline of a BPO contract replete with unit cost, turn around times, and customer satisfaction levels makes the organization think differently about consumption and service levels, making the actual cost to sell a product or service, transparent.

■ **Support for rapid global market entry**

One of the major differences between this economic crisis and past recessions is the extent to which financial markets and economies are now integrated and globalized. Survivor companies will have to move rapidly to serve global markets, focusing much of their resources to compete. This means having the flexibility to quickly scale back, middle and



front offices processes. BPO provides that scale, expertise and flexibility. Providers can rapidly tap into talent pools globally to deliver business processes; with connectivity, savvy companies will become agnostic as to delivery location, just as easily consolidating general ledgers in Manila as in Milwaukee or Manchester.

Of particular and vital relevance to the insurance industry

■ **Critical data-based insights via research and analytics**

Life insurance and annuity companies heavily depend on the returns they can generate by investing premiums collected. But given the state of the economy, investment incomes are

plummeting. Leveraging outsourced research and analytics can help insurance companies attain the investment income required to stay afloat. Outsourced research and analytics for actuarial support can proactively optimize pricing. And research and analytics experts can successfully take insurance companies' raw data and turn it into highly valuable information and insights which assist in all areas, especially sales and marketing campaigns.

■ **Customer retention and sales initiatives**

With rampant job losses, reduced income and fear of non-essential expenditures, insurance consumers have been reducing coverage enhancements and even abandoning paying renewal premiums. Outsourcing customer retention and sales functions is a cost-effective strategy to aggressively reach out to customers, offer alternate plans and cross sell or up sell additional life insurance and annuity products. And a service provider with deep insurance industry domain knowledge possesses the insights needed to sell appropriate products to individual consumers by doing an in-depth analysis on each customer and suggesting the most suitable alternate products, riders and policies. Further, an insurance industry savvy services provider can help insurance companies extend their sales efforts through alternate channels such as banks and supermarkets.

■ **Systems and technology optimization**

As a result of growth by mergers and acquisitions, most insurance companies utilize a wide array of disparate policy and claims systems across their enterprise. This is inefficient, expensive and potentially fraught with error. Consolidating systems and technology platforms into one or two systems operated by a BPO provider can result in improved customer service, greater productivity and efficiency, and lower cost.

■ **Reduced compliance costs**

Fiduciary reporting and compliance is extremely costly and time consuming. An outsourcing services provider who understands the intricacies and imperatives of compliance can significantly reduce both the time and expense associated with the strict regulations to which insurance companies must adhere.

Which life and annuities insurance processes are ripe for business process outsourcing?

New business support	Policy administration	Premium administration
<ul style="list-style-type: none"> ▪ Sales ▪ Conversion ▪ Quote acceptance ▪ Cross-selling and up-selling ▪ Customer enquiries ▪ Actuarial services ▪ Exposure assessment ▪ New business data entry ▪ Rules-based underwriting ▪ Policy issuance 	<ul style="list-style-type: none"> ▪ Manual remittance exception processing ▪ Policy benefits ▪ Policy reinstatements and quotes ▪ Policy changes ▪ Inbound customer service ▪ Endorsements ▪ Renewals 	<ul style="list-style-type: none"> ▪ Fund applications ▪ Refunds ▪ Billing ▪ Premium mode changes ▪ Bank information changes ▪ Premium audits <div style="background-color: #8B4513; color: white; padding: 2px;">Claims</div> <ul style="list-style-type: none"> ▪ Claim setup ▪ Examination ▪ Review ▪ Settlement ▪ Correspondence ▪ Tax compliance ▪ Policyholder and broker claim enquiries ▪ Claim assessment ▪ Settlement

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About WNS

WNS is a leading global business process outsourcing company. Deep industry and business process knowledge, a partnership approach, comprehensive service offering and a proven track record enables WNS to deliver business value to some of the leading companies in the world. WNS is passionate about building a market-leading company valued by our clients, employees, business partners, investors and communities.

To learn more, please write to us at marketing@wns.com or visit wns.com