

Casualty Loss Reserve Seminar

Insurance on the Internet

*September 11, 2001
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Insurance on the Internet

P&C Market Vision

PwC EIU - Key Findings

The Economist Intelligence Unit, in cooperation with PwC, surveyed 150 senior P&C executives in late 2000:

In three years, respondents expect e-business to generate 19% in annual savings on average, compared with an estimated 7% today.

Market Vision

The Future

Actuarial Implications

- Deepening customer relationships and cutting costs are top e-business priorities. Placing back-office processes online will be a key source of cost savings.
- Respondents say that online customer relationship management and integrated, multiple distribution channels are top priorities for enhancing customer relationships.

Source: The Economist Intelligence Unit Ltd. and PricewaterhouseCoopers 2001

Figure 1.1
How important are the following motivations for your company's e-business activities?

% responding "important" or "very important"



Source: EIU survey.

PwC EIU - Key Findings

Alliances will become increasingly important in the industry.

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Figure 2.2
How important to your e-business strategy are the following objectives for your alliances, mergers or acquisitions?

% responding "very important" or "critical"

Low (0-30%) Medium (31-60%) High (61-100%)

	Insurance carriers	Independent agents/brokers	Financial-services companies	Insurance dotcoms
Reach new types of customers	63	86	48	67
Cross-sell products or services	63	71	56	83
Gain access to technological expertise	54	71	56	83
Offer bundled products or services	53	71	48	100
Offer one-stop shopping for financial products	50	57	36	67
Achieve economies of scale	46	57	44	67
Share costs of establishing or maintaining web-enabled functions	40	57	28	33
Co-brand	37	14	32	50
Outsource non-core functions	28	14	24	50
Share marketing costs	29	43	28	50
Share costs for customer service	29	43	16	67
Reach overseas markets	18	0	32	50

Source: EIU survey.

- Insurance providers will turn to partnerships with organizations such as service providers, other insurers, and non-financial institutions in order to leverage core competencies, achieve economies of scale, and extend product and service capabilities to existing as well as new customers.
- Extended and virtual organization models will become increasingly prevalent.
- Alliance-management skills will be critical to success.

Source: The Economist Intelligence Unit Ltd. and PricewaterhouseCoopers 2001

PwC EIU - Key Findings

Carriers will broaden distribution by developing multiple, customer-centric access points.

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Figure 4.1
To what extent is your company using the following channels to distribute products?

% responding "to a great extent" or "to a very great extent"

Low (0-30%) Medium (31-60%) High (61-100%)

Now					In three years			
Insurance carriers	Independent agents/brokers	Financial-services companies	Insurance dotcoms		Insurance carriers	Independent agents/brokers	Financial-services companies	Insurance dotcoms
38	29	36	17	Captive/in-house agents	29	29	36	17
57	50	36	33	Independent agents/brokers	57	50	32	33
11	0	20	33	Direct writing through my company's website	42	21	48	33
25	14	8	33	Direct writing through a call centre	46	21	36	17
5	7	20	33	Website of a financial-services partner	35	29	32	33
13	29	16	50	Affinity groups	43	50	32	33
11	21	16	17	Worksite marketing/employers	32	43	24	17
7	14	20	33	E-marketplaces	32	36	28	33

Source: EIU survey.

- Selling and servicing through carriers' websites and call centers will grow sharply, providing them with direct access to customers and customer information.
- Carriers will also rely on a widening array of distribution channels, especially partner websites, e-marketplaces, affinity groups and employers.

Source: The Economist Intelligence Unit Ltd. and PricewaterhouseCoopers 2001

Forrester (GMAC123.com 7/27/01)

Market Vision

- GMAC recently bought the technology platform of eCoverage to create an end to end selling platform, combining affinity group marketing and automated sales fulfillment

The Future

Why Forrester thinks GMAC will succeed:

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- Pushing acquisition costs to new industry lows
 - Lower than USAA? Affinity group reduces advertising and direct marketing. Technology will help close new business without call centers or agents.
- Reaching a new, growing segment of customers
 - Modern conveniences of web technology backed by an A+ Rated Insurance Company
- Maintaining competitive loss ratios
 - Lack of existing customer base was a significant challenge to eCoverage and Esurance. It's difficult to make informed pricing decisions solely on new business. GMAC can mine existing customer data and tap into existing claims network.

Booz-Allen 4th Annual eInsurance Study

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- Reviewed 206 FS websites and site traffic data from Nielsen
- Insurers are far behind banks and brokerages. Less users and each user spends less time on the site
- Changes in the study over time:
 - 1997: Brochureware.
 - 1999 14% of sites have advanced features.
 - 2001 43% of sites have advanced features
- Fewer than 50% of sites allow users to view their accounts online, a basic feature of bank and brokerage sites
- Testing 50 Insurance web sites, 54% did not respond to an email question within one day, and 28% did not respond at all!
- 15% can track customer activity across channels

PwC EIU - Key Findings

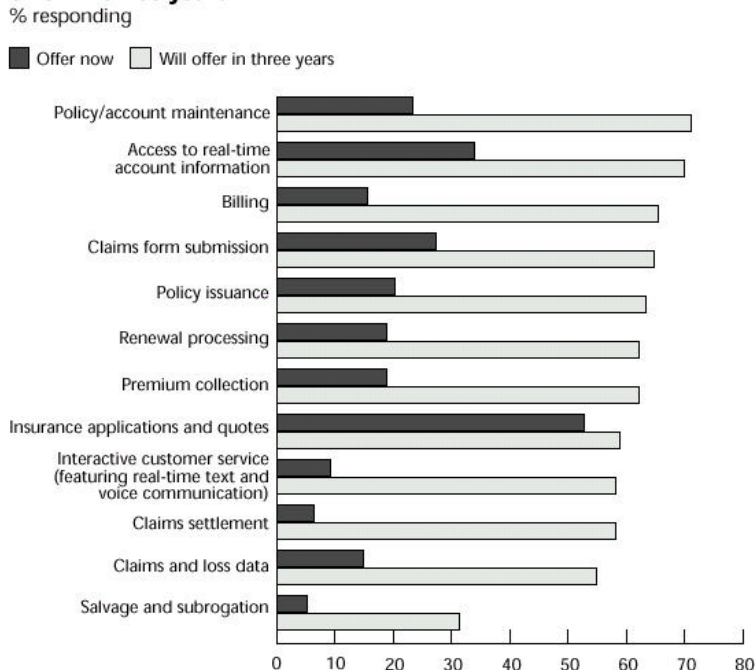
Insurance providers will offer more advanced customer services online.

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Figure 3.5
Which online features do you offer customers now, and which will you offer in three years?
% responding



Source: EIU survey.

- Respondents plan to increase the number and complexity of online offerings.
- These will include online claims settlement, real-time customer service and billing.
- Web-enabling these activities will be more difficult and expensive than putting basic functions online, however – companies will need to find innovative means for funding these investments.

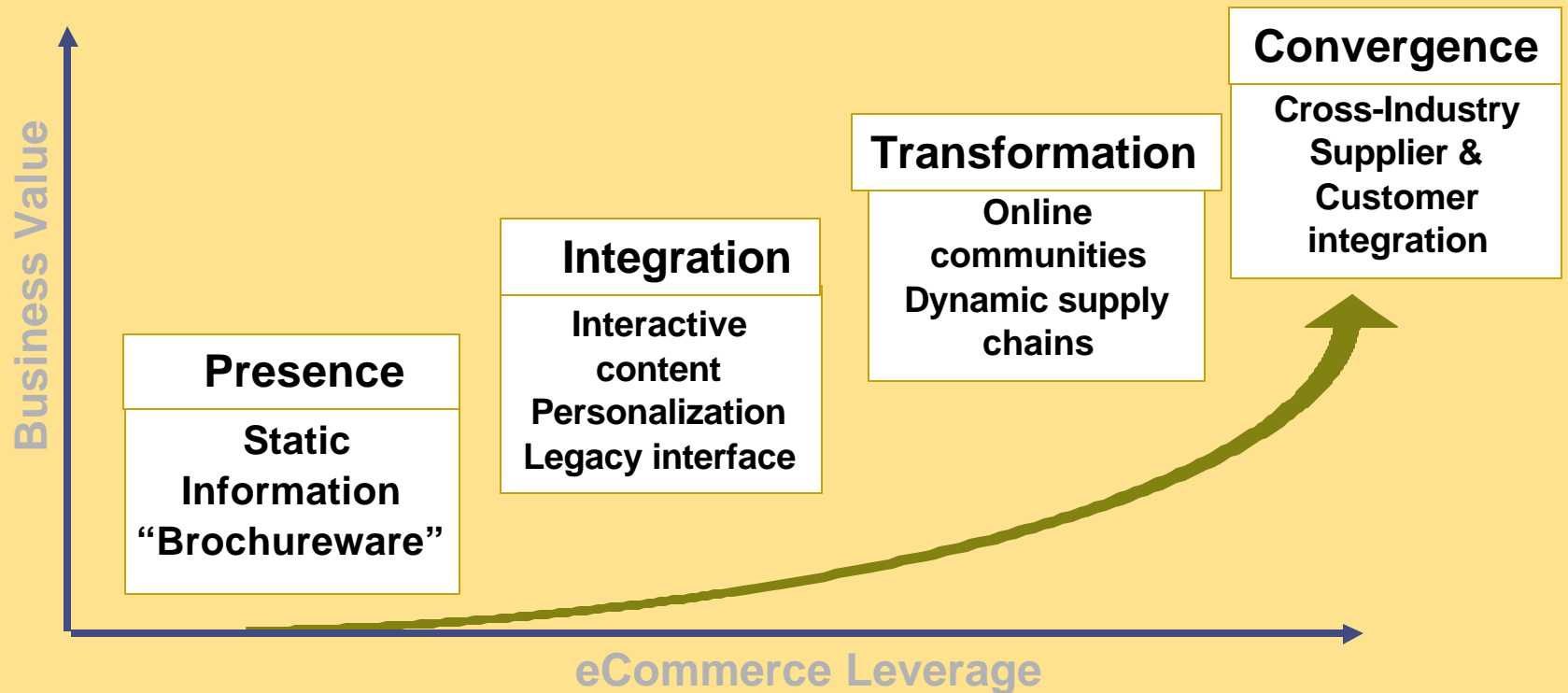
Source: The Economist Intelligence Unit Ltd. and PricewaterhouseCoopers 2001

What will eInsurance companies look like

Market Vision

The Future

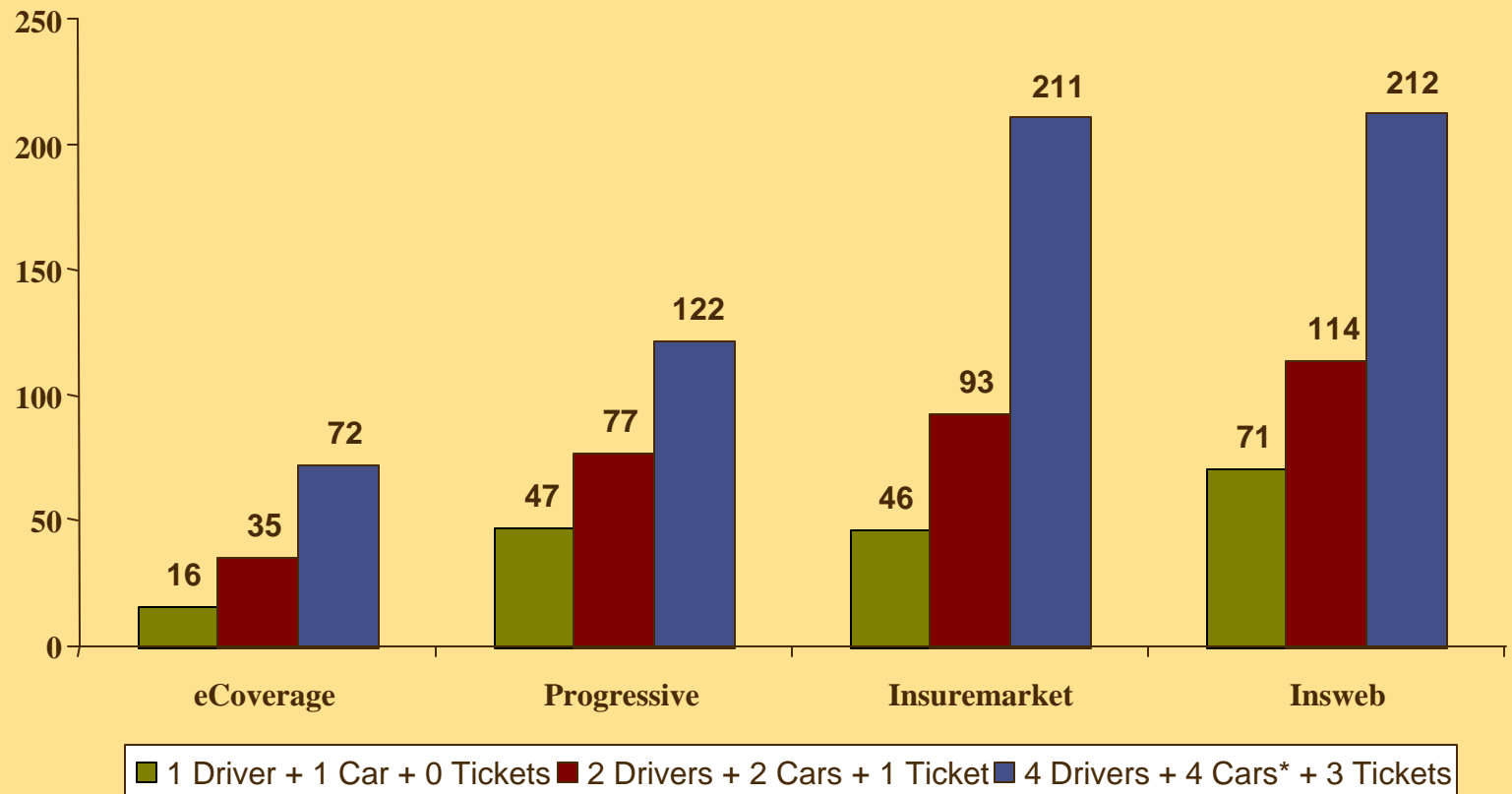
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Implications



*Many companies have achieved Stage 1, and a few have achieved Stage 2.
Opportunities and challenges of Stages 3 and 4 still are not realized.*

eInsurance - keeping the process simple

Number of questions to get a quote



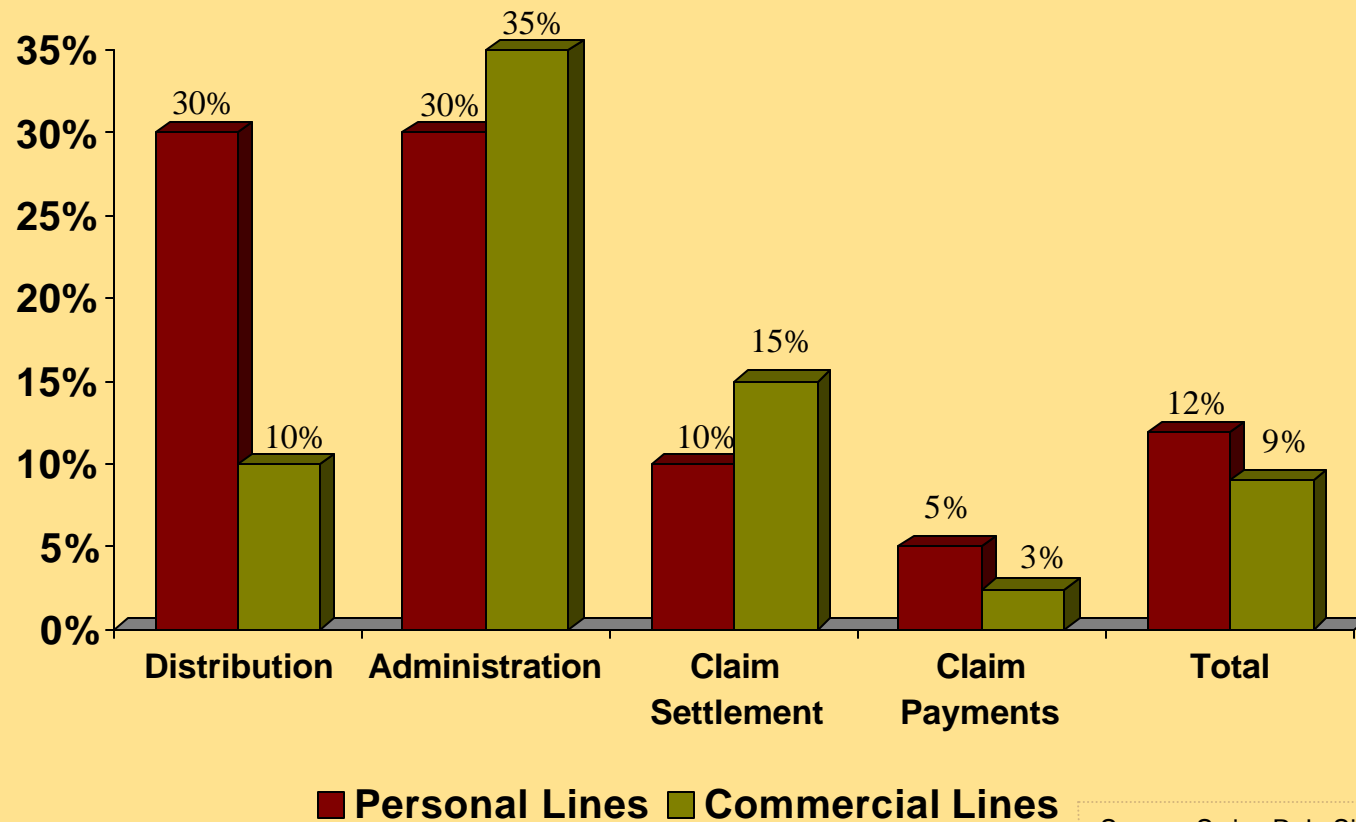
*Progressive only allows three cars to be quoted online.

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US P&C eBusiness Savings Potential

- Assuming all property/casualty insurers exploit the entire range of eBusiness opportunities, the industry could see the following savings:



Source: Swiss Re's Sigma

The Future is Right Around the Corner

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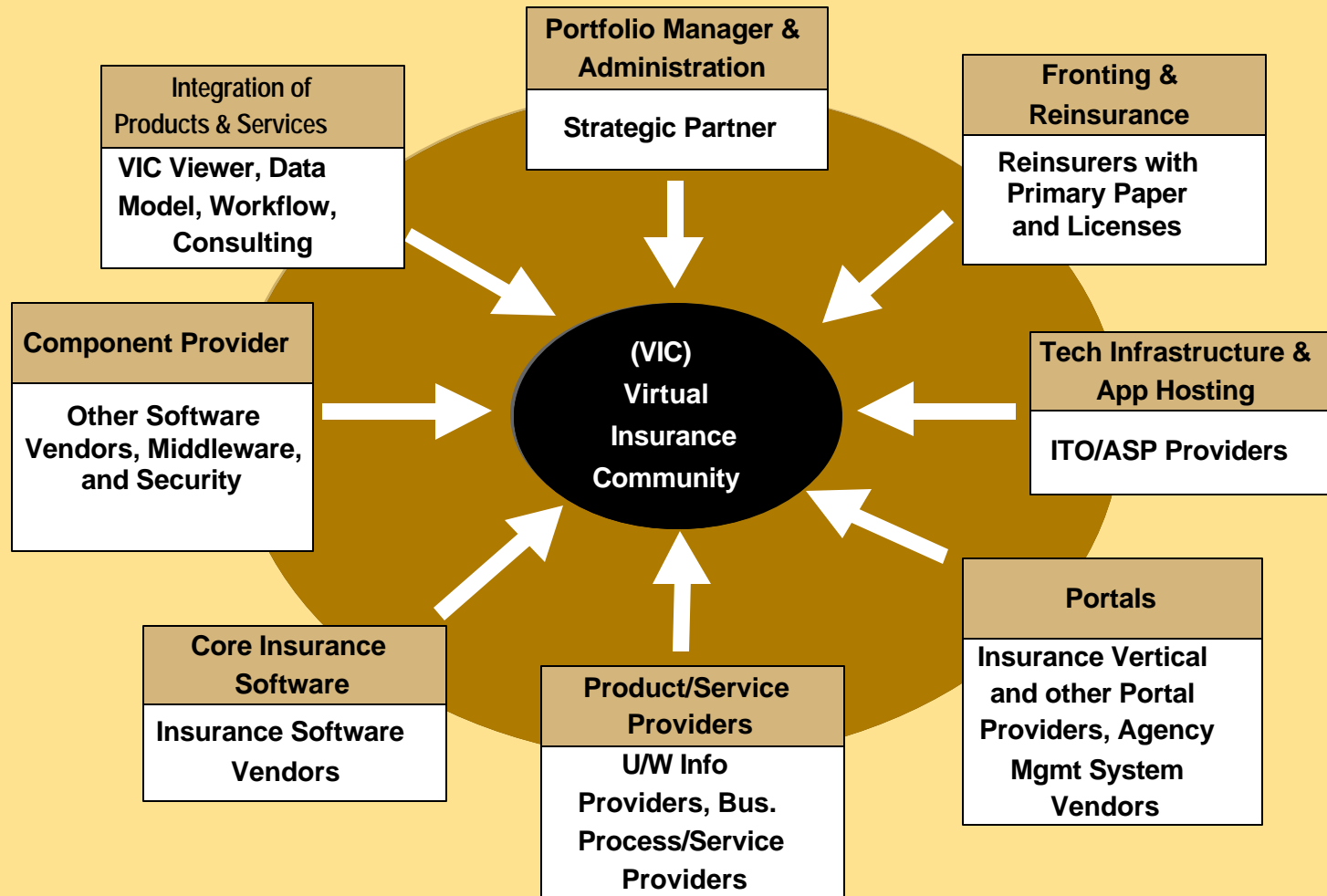
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- Virtual Insurance Companies
 - Outsourcing of value chain items to an ASP (APO)
 - As separate branch (dot corp) or dot com
- Insurance e-Marketplaces, Exchanges
 - Claims (P&C) and reinsurance e-markets are being developed
- Online settlement, risk transfer
- eClaims
- New Technologies
 - Smart cards
 - Wireless (Progressive - WAP, Palm)

Virtual Insurance Communities

Here is one approach some companies are using



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Online Exchanges / Marketplaces



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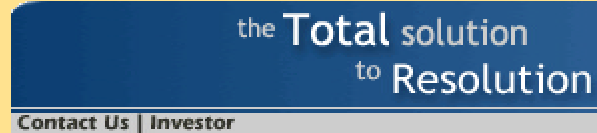
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Implications

- GRX Technologies (GRX)
 - Global Risk ExchangeSM
 - Commercial Coverages

- Bringing the traditional insurance supply chain online.
 - Risk Managers – Brokers – Underwriters
 - Collaborating in the same secure environment

- E-business Benefits
 - **Manage** - store and manage risk-related data
 - **Transact** - digitize the risk-placement process
 - **Collaborate** - share knowledge via online workroom tools

On Line Settlement



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- ClickNsettle.com
- ISO took 16% stake in May, 2000.
- The plaintiff or defendant submits a case for online negotiation. Once submitted, the parties have a maximum of 60 days to negotiate the value of the claim.
- If at any time during the negotiation the plaintiff's demand comes to within 30% of the defendant's offer, clickNsettle.com will split the difference and settle the case at the midpoint.
- Cases can settle at any time during the 60 day period - on day 1 or 59.
- www.cybersettle.com offers similar services.

eClaims - Process Moves From Here...

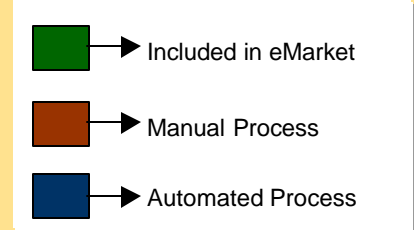


Manual process & information gathering – Multiple work steps, fragmented approach

'Cash out' is faster and easier

eClaims - . . . to Here

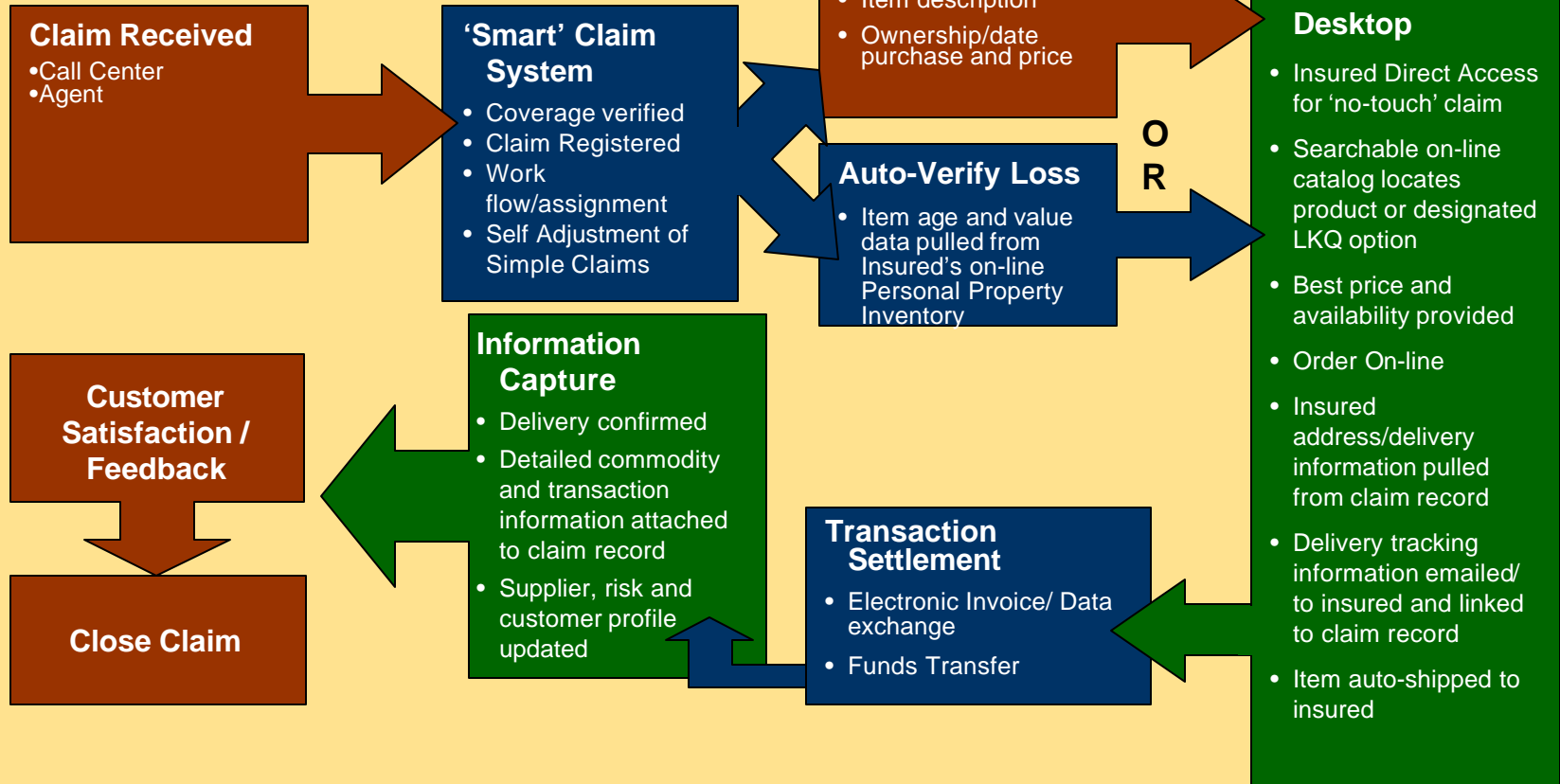
- **Seamless interface between claim process & providers/business partners**
- **Reduced human capital requirements**
- **Optimized and sustainable gains from expanded sourcing and compliance**
- **Speed and ease of customer service delivery**



Market Vision

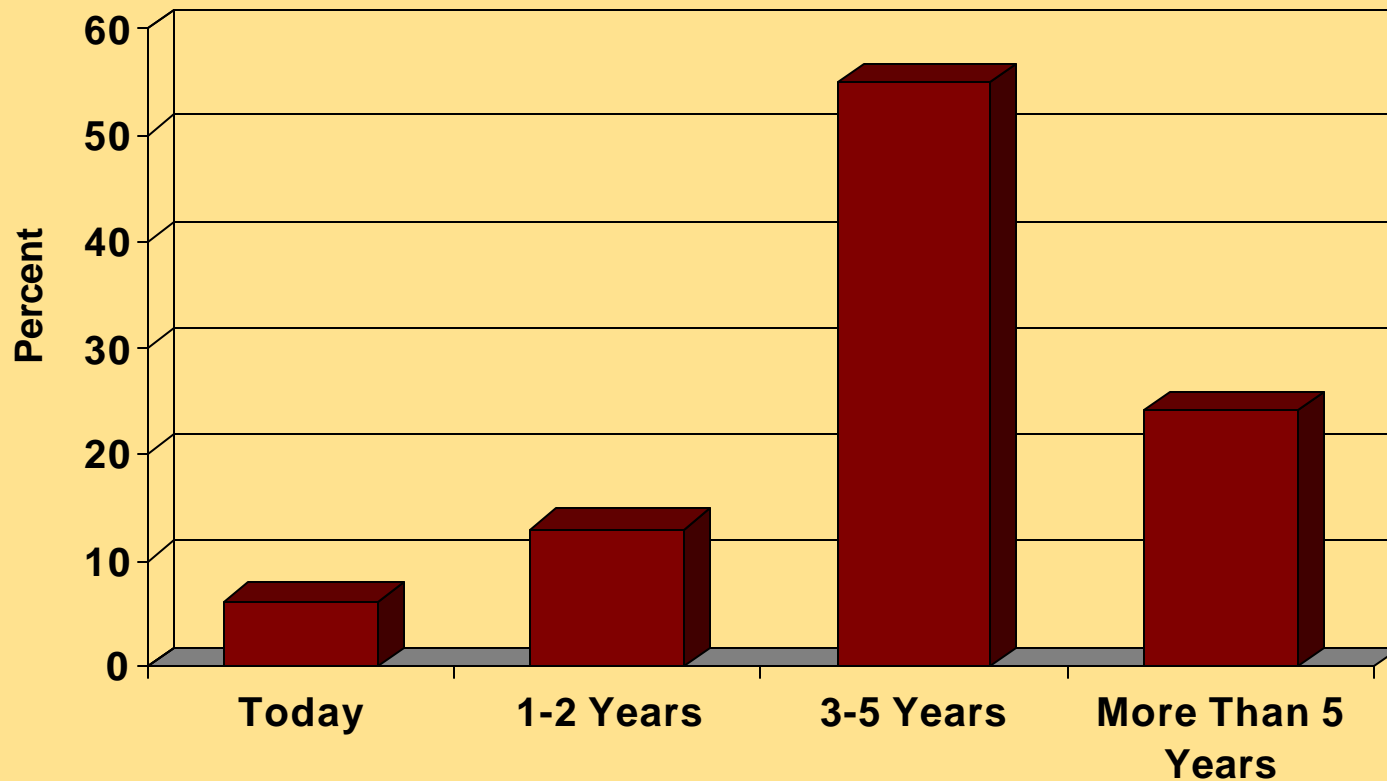
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Actuarial Implications



How long will it take?

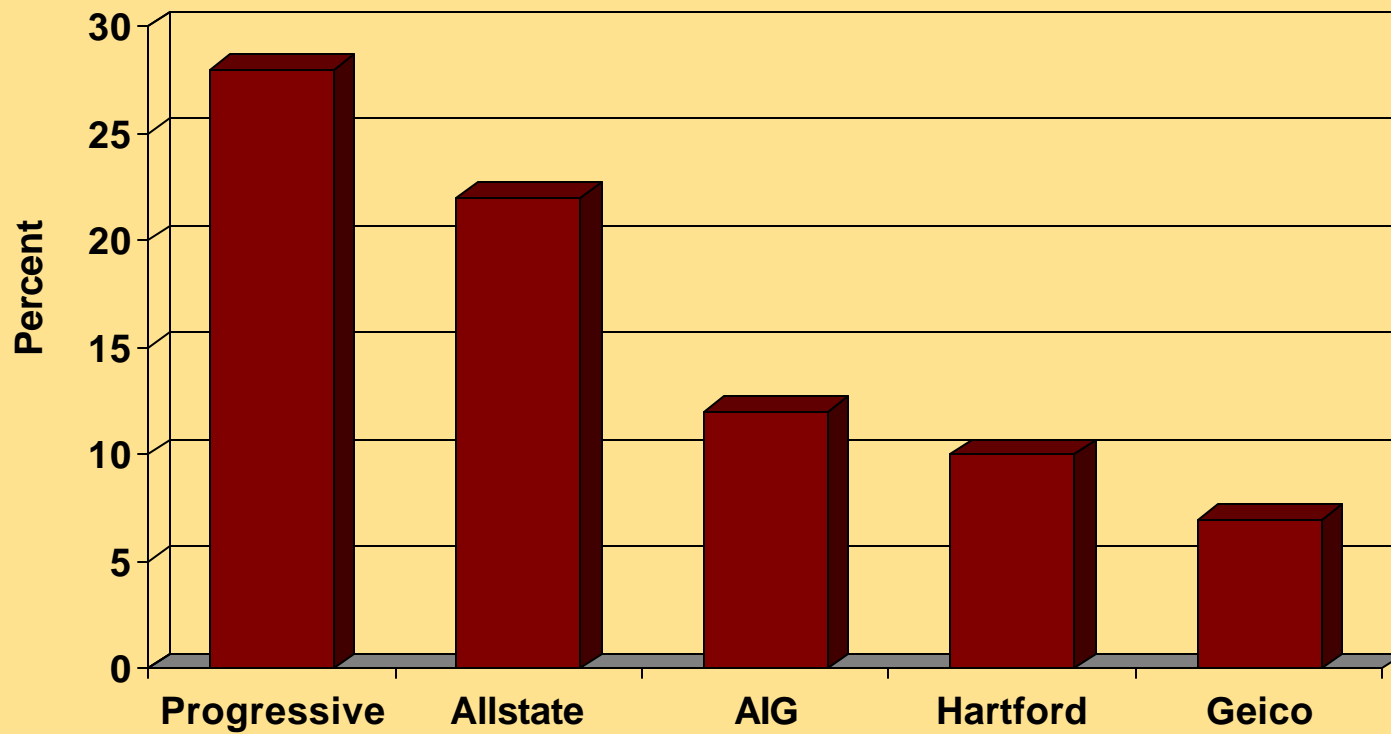
- How long will it take for the Internet to mature into a meaningful medium for the insurance industry?



Source: AM Best e-Fusion Survey, October 2000

Who are the leaders?

■ Who are the most e-savvy insurance companies?



Source: AM Best e-Fusion Survey, October 2000

Insurance on the Internet

***Actuarial
Implications***

The Actuary and Insurance

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- Speed, Speed, Speed
- Or is that Data, Data, Data
- Given recent dotcom failures, actuarial analysis of results may be more critical than ever
- Member of Technology Team
 - Actuaries can play key roles in developing and implementing technology strategies
- Productivity Improvements
 - Use of internet to increase efficiency of day-to-day activities
- Financial Reporting
 - Real-time management reporting
 - Asset/liability applications

How is reserving affected by eInsurance

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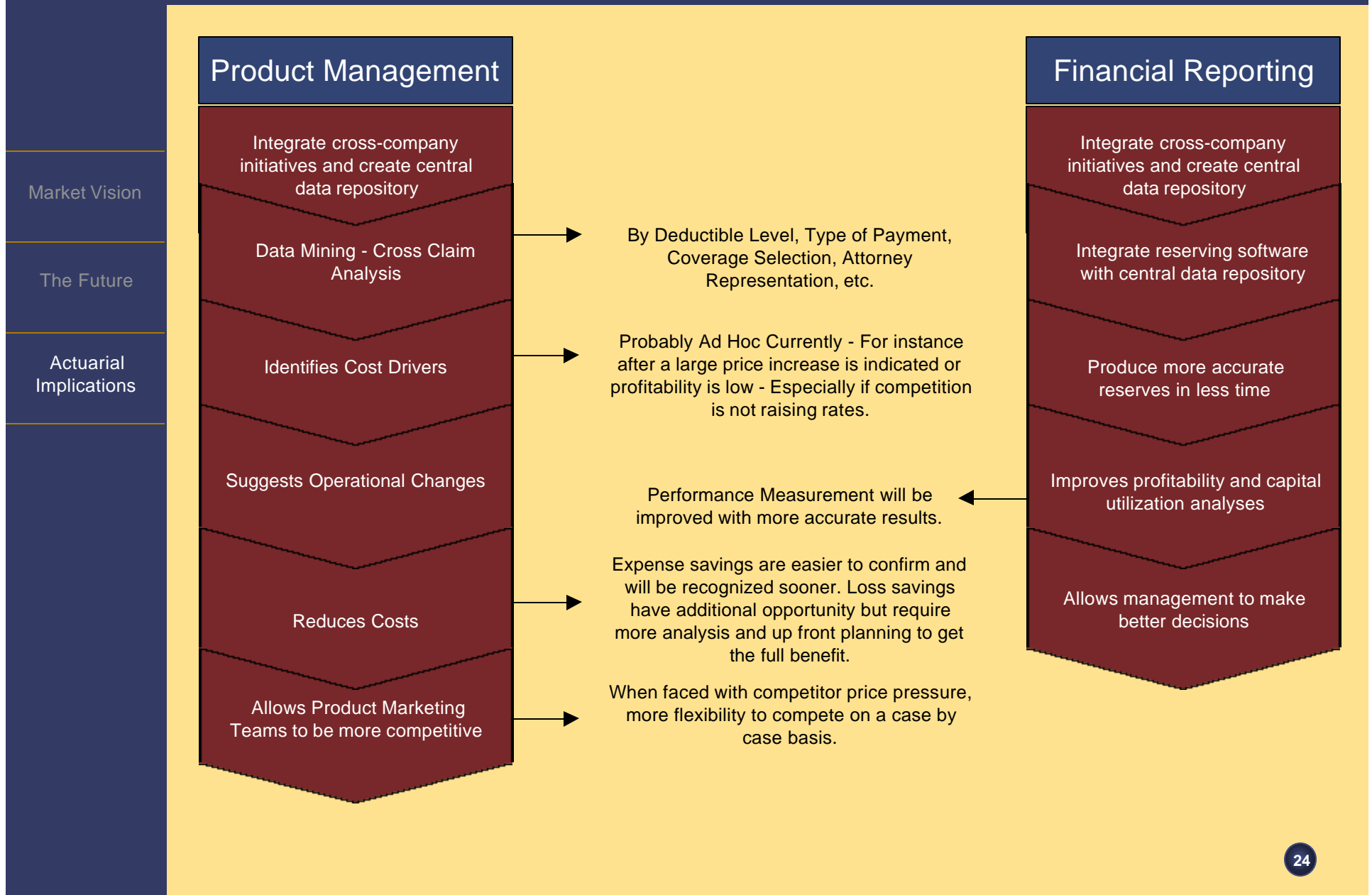
- Lack of data
- Seasoning of Startup books must be considered
- Speed up of claim and reserving process may lead to overstatements
- Profitability expectations of business generated online can affect a-priori loss ratios
- Quality of data - anecdotal evidence suggests that online submissions are more accurate than agent submissions

Actuarial Risk Areas for eInsurance

- Actuaries can help navigate the choppy waters of eInsurance:

Market Vision		Issue	Discussion	Opportunities	
The Future	Actuarial Implications	Speed / Measurement	<ul style="list-style-type: none"> How do you identify or “prove” savings to business users How long will it take for analysts to recognize savings 	<ul style="list-style-type: none"> Misinterpretation of performance measurement statistics could result in opposite of intended effect Without special preparation, recognition will take several years. Risk of essentially “flying blind” 	<ul style="list-style-type: none"> Early testing and sampling to develop transition expectations Develop and communicate integrated methods to accelerate recognition
		Data Integrity	<ul style="list-style-type: none"> Vast majority of data may come from legacy corporate database The database may touch all aspects of the statistical process, be very large, and have significant historical inertia behind its structure 	<ul style="list-style-type: none"> eInsurance information will likely feed directly into the corporate database, so issue must be addressed Corporate database may viewed as “sacred” by users Users may rely on other groups to ensure data integrity. They may assume data will look/feel the same both before and after eInsurance 	<ul style="list-style-type: none"> Must decide early on what changes will need to be made to corporate database to handle new data elements generated by eInsurance Consider going around the database for some functions

Actuarial Opportunities for Insurance



Actuarial Opportunities

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■ Data Mining

- Mining of corporate databases to price and reserve more accurately and more quickly

■ Actuarial Systems Integration

- Reserving and pricing software can (should?) be integrated with overall corporate initiatives

■ Non-Actuarial Systems Integration

- Actuaries can serve as a critical link between the technology initiatives and company operations

■ Rapid Product Development and Rate Filing

- Countrywide, multi product filings will need to be done in a matter of months instead of years

■ Automated Underwriting

- Online distribution will require streamlined underwriting

Conclusion

- Things are Going to Change
- Actuaries Should Have a Significant Role
- You Can Have an Impact on Your Company Today

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