



Transaction Cost Economics in the Insurance Industry

**ACORD LOMA
Insurance Systems Forum
2005**

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Cresskill, NJ 07626**





TCi Consulting & Research

Company Overview

- **Founded in 1989 as a boutique consultancy**
- **Mission: to provide high level IT management consulting and benchmarking services to the insurance industry**
- **Founders/Managing Directors have extensive experience in the industry**
- **Over 70 insurance company clients**



TCi Consulting & Research

Benchmarking

Providing research services to the life and annuity industry since 1993

Three annual studies since 1996:

- **LIITES - IT expenses and effectiveness**
- **LIONS - Operations for Life**
- **ACES - Operations for Annuities**



TCi Consulting & Research

Benchmarking

New studies initiated in 2003:

- **PLACES - Operations for Personal Lines P&C**
- **ELITE – Enterprise-wide IT for all lines of business**



TCi Consulting & Research

Benchmarking

New studies initiated in 2004/2005:

- **LOBES Life – Line of business expenses for Life**
- **LOBES Annuity - Line of business expenses for Annuities**
- **CLASS – commercial lines P&C operations expenses**



Transaction Cost Drivers

Product Complexity
Distribution Complexity
IT Complexity
Labor Costs
Centralized/decentralized
Business Process Outsourcing



Today's Business Drivers

Competition from Banks & Financial Services Firms

M&A Activity – Industry Consolidation

Burgeoning Retirement Market

Entering New Distribution Channels

Building Scale



Building Scale

Property & Casualty

- **Top 10 US Property & Casualty Companies account for 46% of Premium Income in 2003***
- **Top 200 account for 95% of premium income in 2003***

Life and Annuity

- **Top 10 US Life and Annuity Companies account for 46% of Premium Income in 2003***
- **Top 25 account for 74% of premium income in 2003***

* Source: Tower Group, The Insurance Industry's Four Tenets of Competitive Advantage, Feb. 2005



IT Cost Ratio

IT Cost Ratio = Total IT costs divided by Total Annual Premium/Deposits Insurance Products Only

- **Average – 3.9%**
- **Highest – 5.5%**
- **Lowest – 2.7%**

Source: 2004 ELITE Survey- Boston Consulting Group and TCi Consulting & Research



LIONS Participants 2004

(Operations for Life)

Allstate Financial

AXA Financial

ING

Jackson National Life

John Hancock Life

MetLife

New York Life

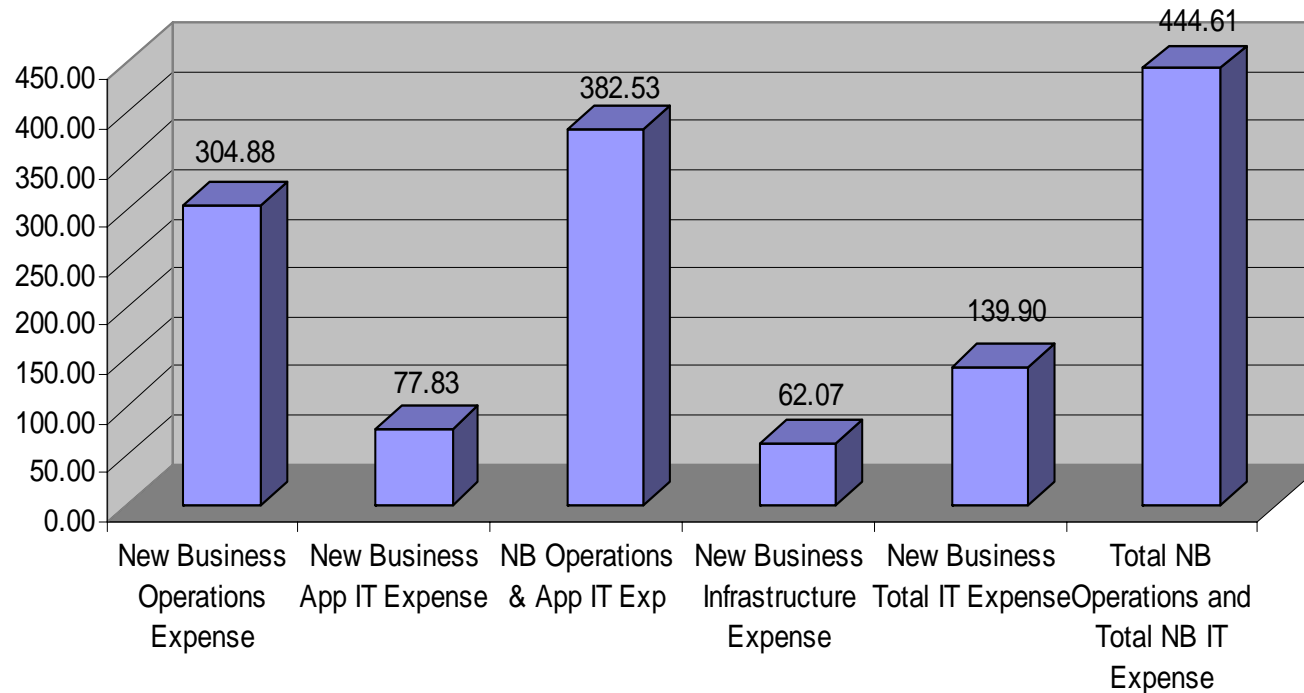
Prudential Financial

Samsung Life (Korea)

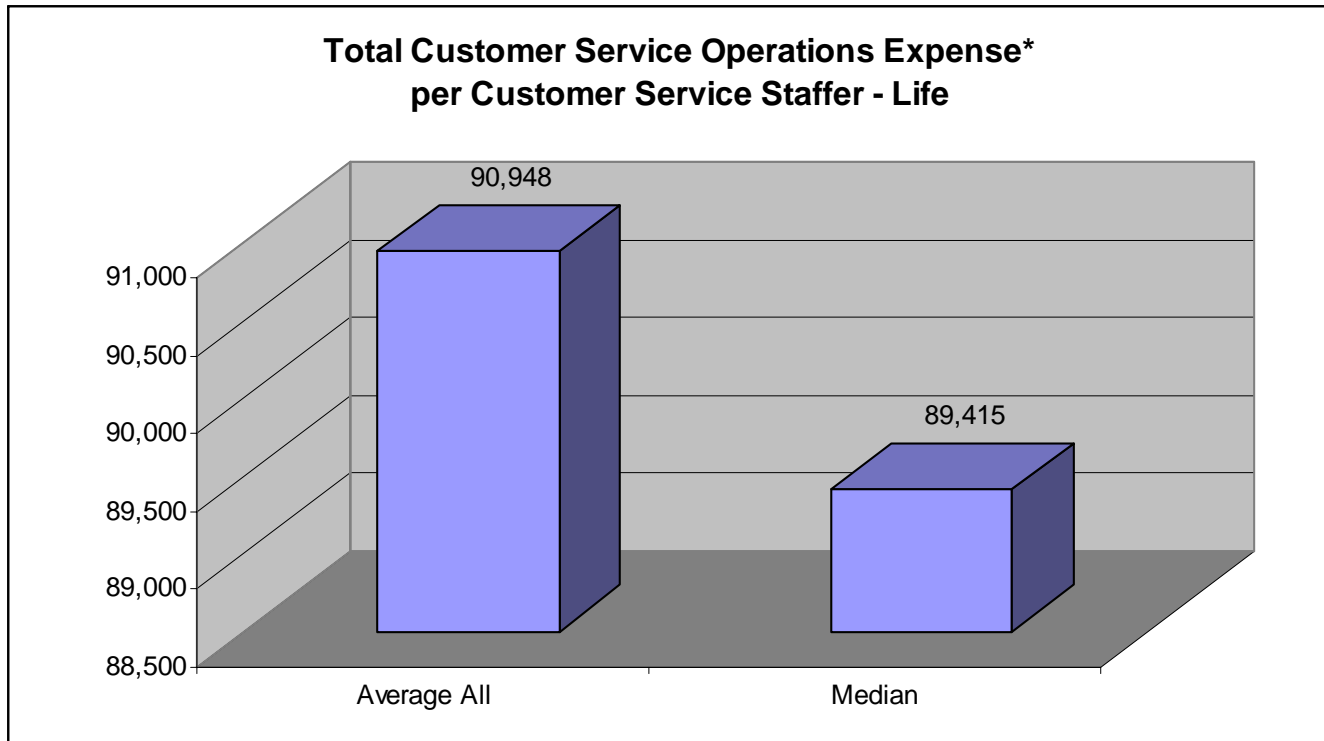
Sun Life Financial

New Business IT & Operations Expense per Written App

New Business IT & Operations Expense per Application Written - Life



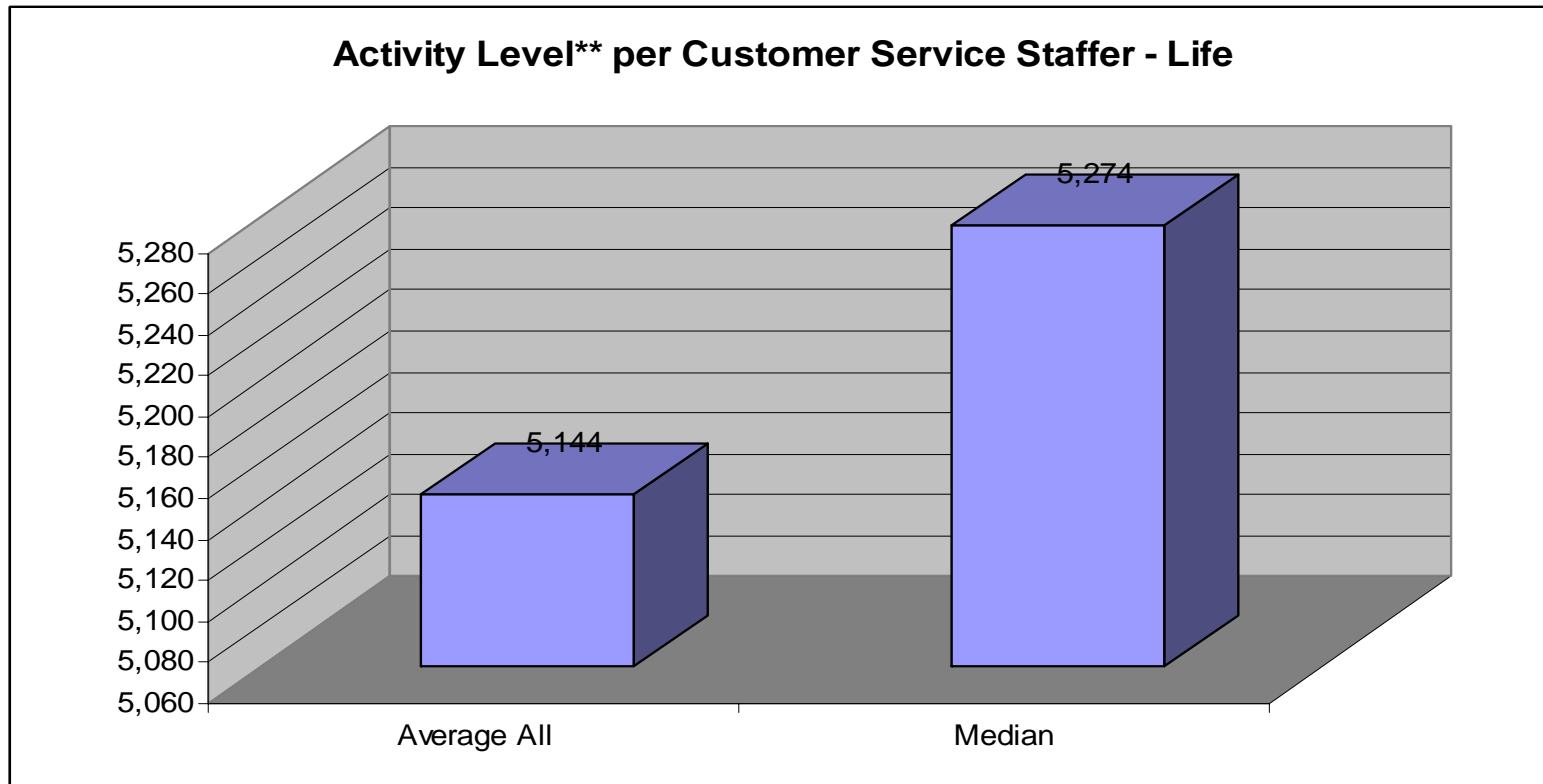
Customer Service Operations Expense per Staffer



Source: LIONS Survey 2004 TCi Consulting & Research

* CS Operations Expense includes Policy Administration, Policy Changes, Policy Statements, Claims, Disbursements, Call Center & Remittance.

Activity Level per Customer Service Staffer



Source: LIONS Survey 2004 TCi Consulting & Research

** Activity Level includes transactions for Policy Administration (not Address Changes and Return Mail),

LIITES Participants – 2004

(IT Costs – Life/Annuity)

AEGON Direct Marketing LIITES/L

**AEGON Financial Services
Group LIITES/A**

**American Express Financial
LIITES/L, LIITES/A**

**American General Life Cos., LLC
LIITES/L**

AXA Financial LIITES/L, LIITES/A

Fidelity Investments LIITES/A

ING LIITES/L, LIITES/A

**Jackson National Life LIITES/L,
LIITES/A**

Legacy Marketing Group LIITES/A

**Lincoln Financial LIITES/L,
LIITES/A**

MetLife LIITES/L, LIITES/A

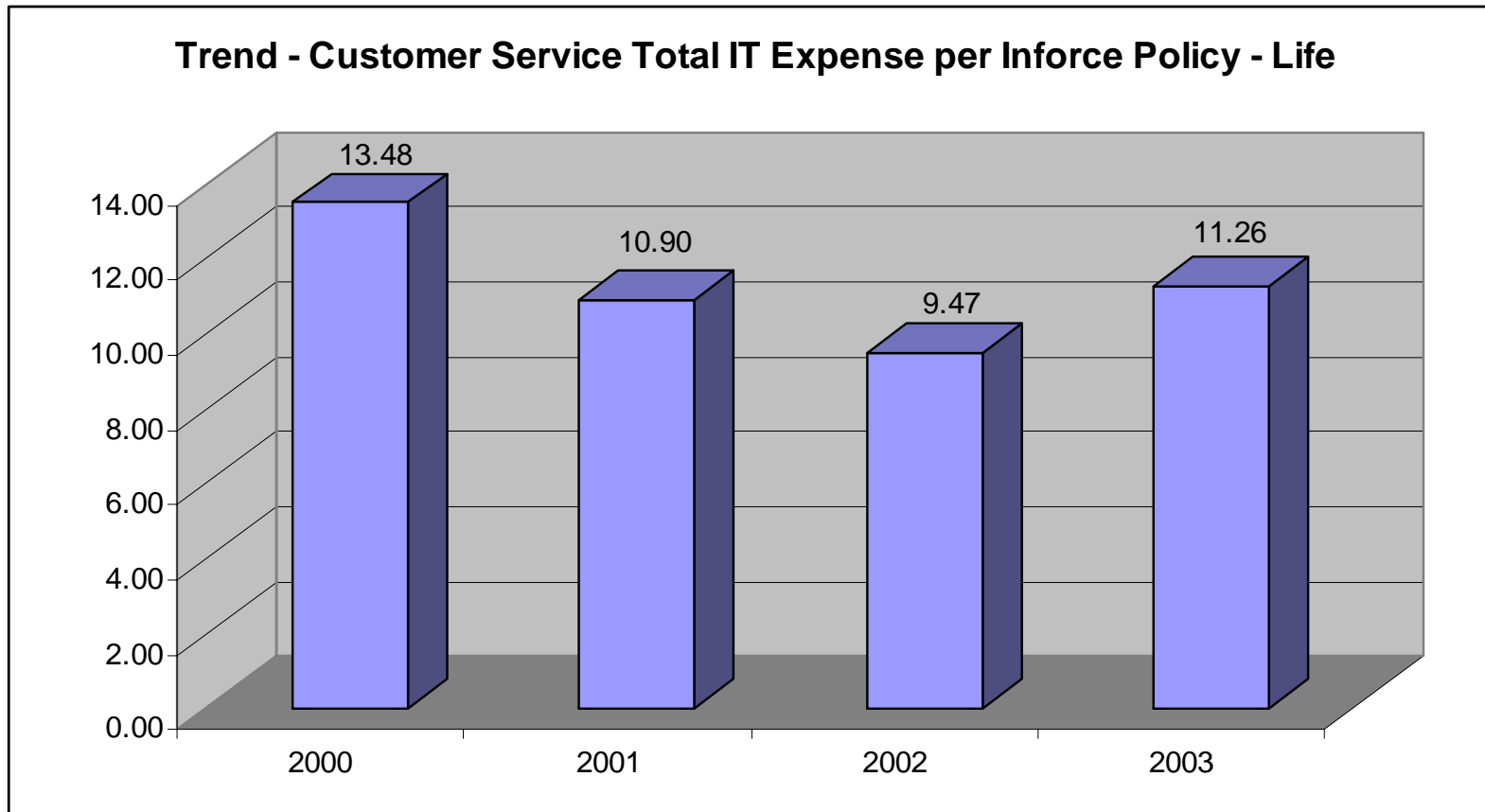
**Prudential Financial LIITES/L,
LIITES/A**

**Sun Life Financial LIITES/L,
LIITES/A**

**Thrivent Financial LIITES/L,
LIITES/A**

**The Travelers Insurance Co
LIITES/L, LIITES/A**

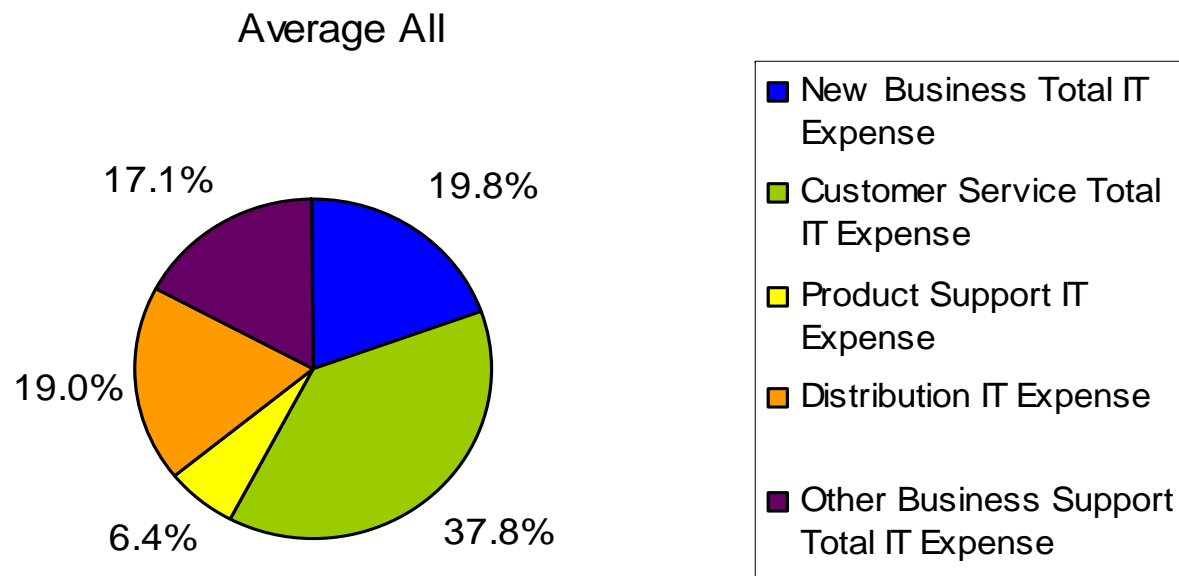
Trend – Customer Service IT Expense per Inforce Policy



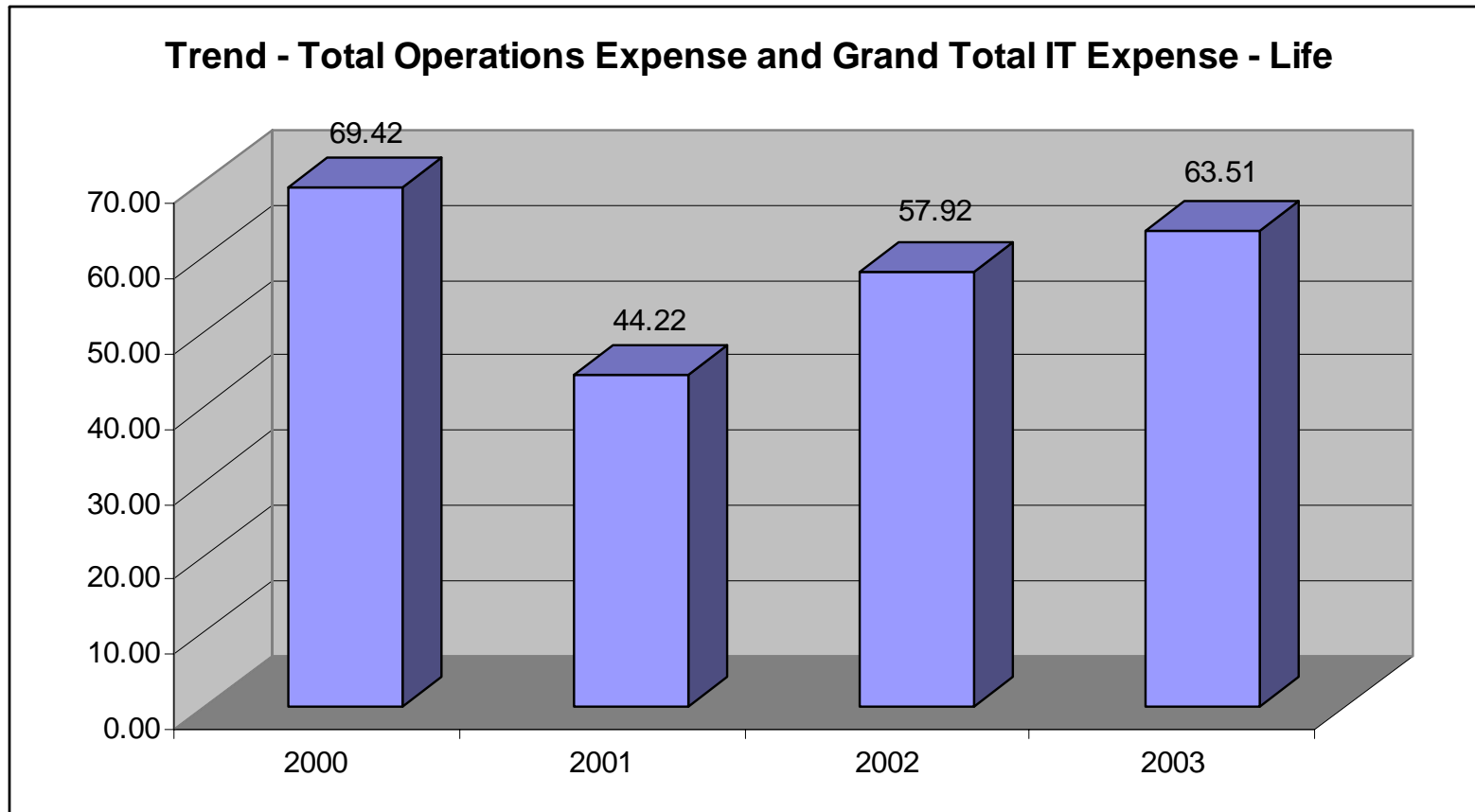
Source: LIITES 2004 – TCi Consulting & Research

Grand Total IT Expense (LIITES/L) Components

The greatest portion of Grand Total IT Expense is attributed to Customer Service Total IT, 37.8%. The second largest investment in IT is for New Business Total IT, 19.8%.



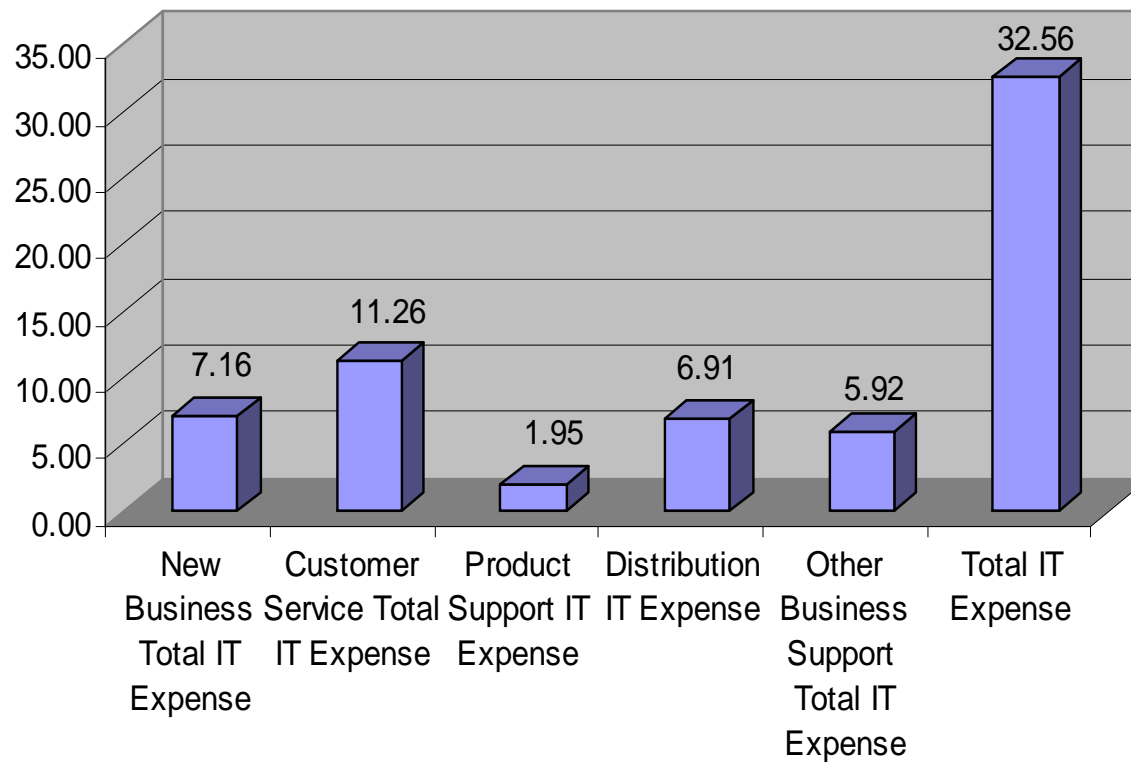
Trend – Total Operations and IT Expense per Policy



Source: LIITES 2004 – TCi Consulting & Research

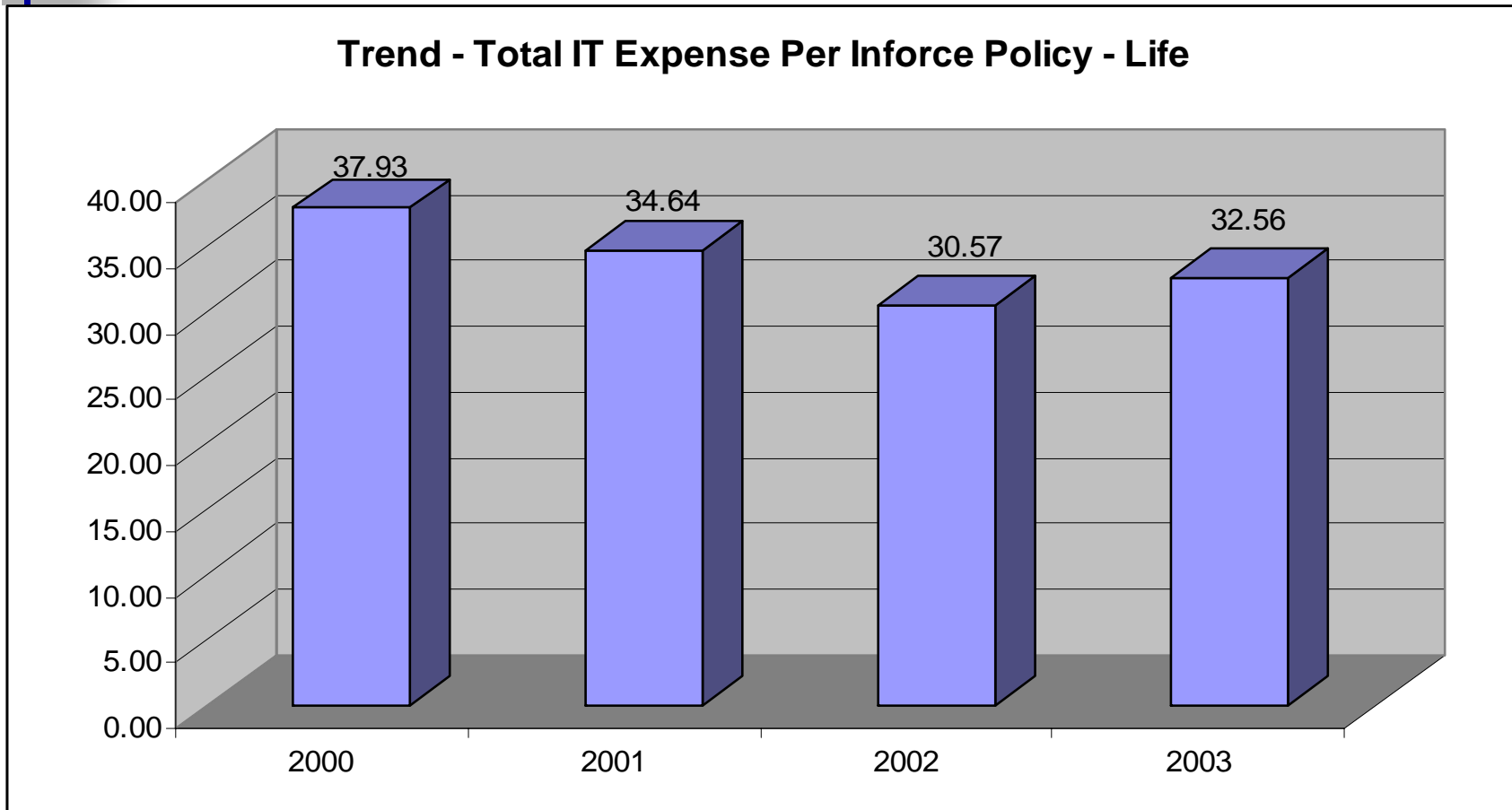
Total IT Expense per Inforce Policy

Total IT Expense by Function Per Inforce Policy - Life



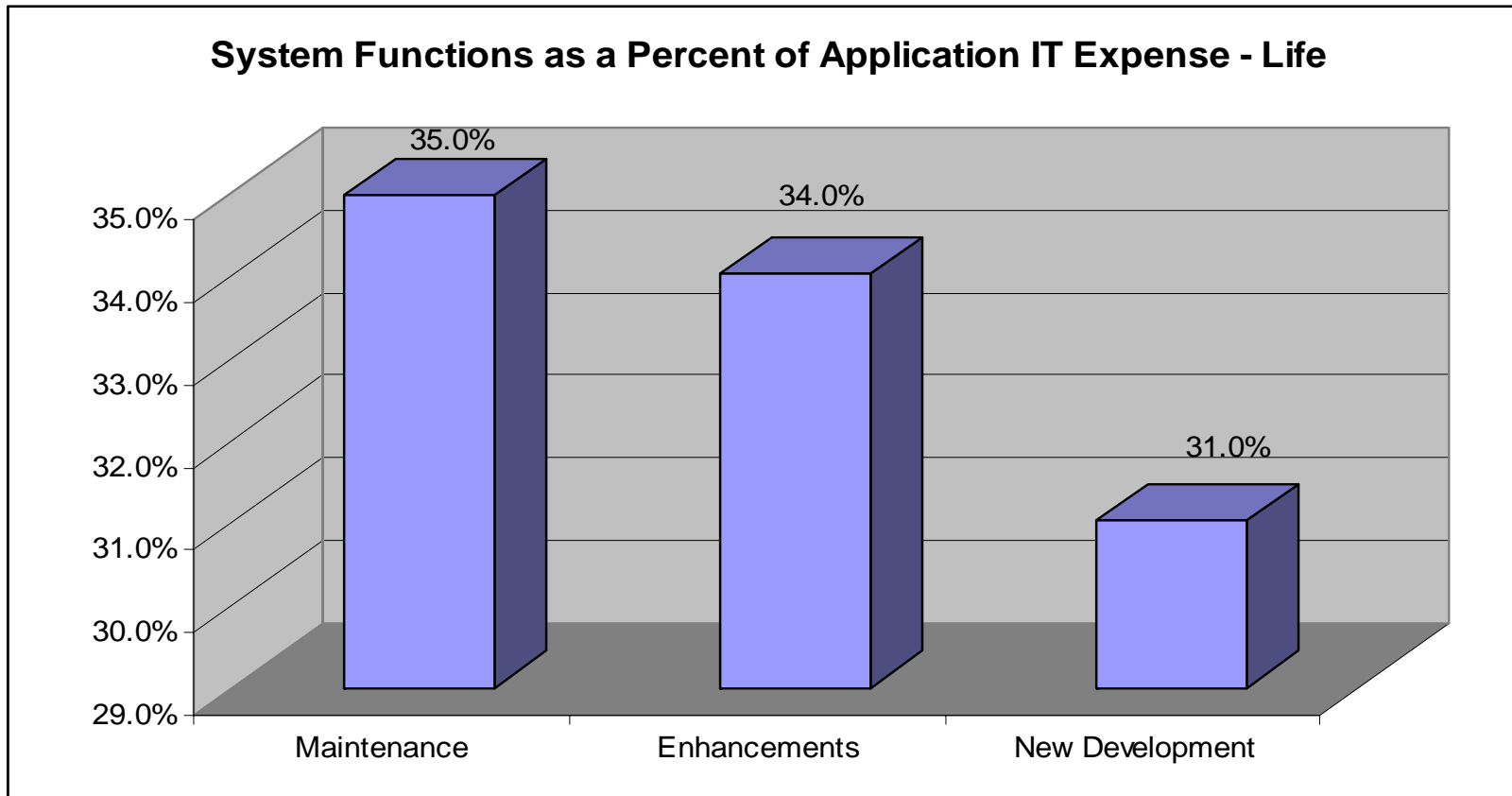
Source: LIITES 2004 – TCi Consulting & Research

Trend – Total IT Expense per Inforce Policy



Source: LIITES 2004 – TCi Consulting & Research

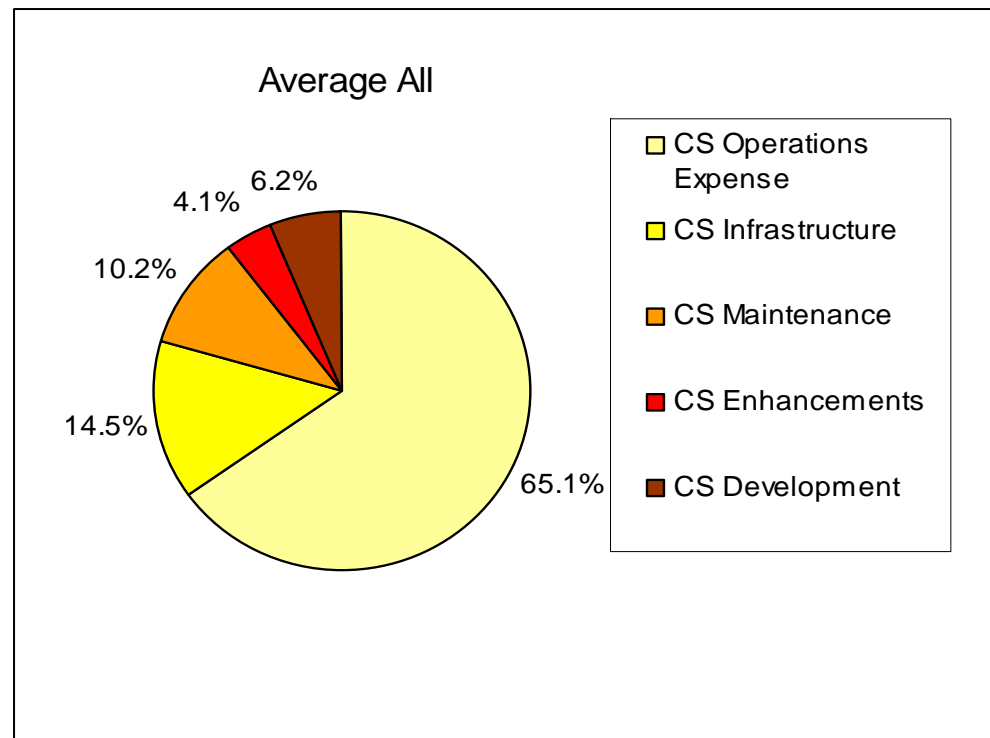
System Functions as a Percent of Application IT Expense



Source: LIITES 2004 – TCi Consulting & Research

CS Processing Expense (LIITES/A) Components

As a percentage of CS Processing Expense, CS Operations Expense averaged 65.1%. The second largest component was CS Infrastructure IT Expense at 14.5%.





ACES Participants 2004 (Operations for Annuity)

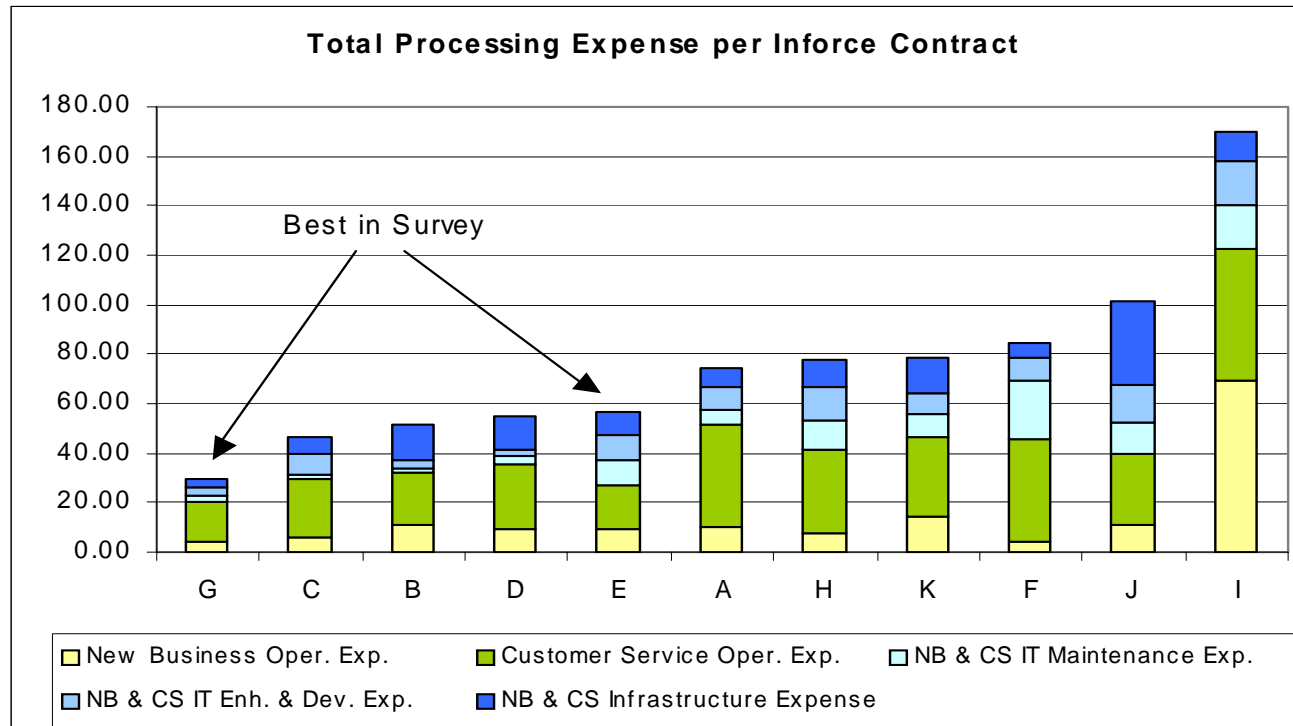
**AEGON Financial Services Group
Allstate Financial
AXA Financial
Jackson National Life
John Hancock Life
Legacy Marketing Group**

**Mass Mutual
MetLife
New York Life
Prudential Financial
Sun Life Financial**

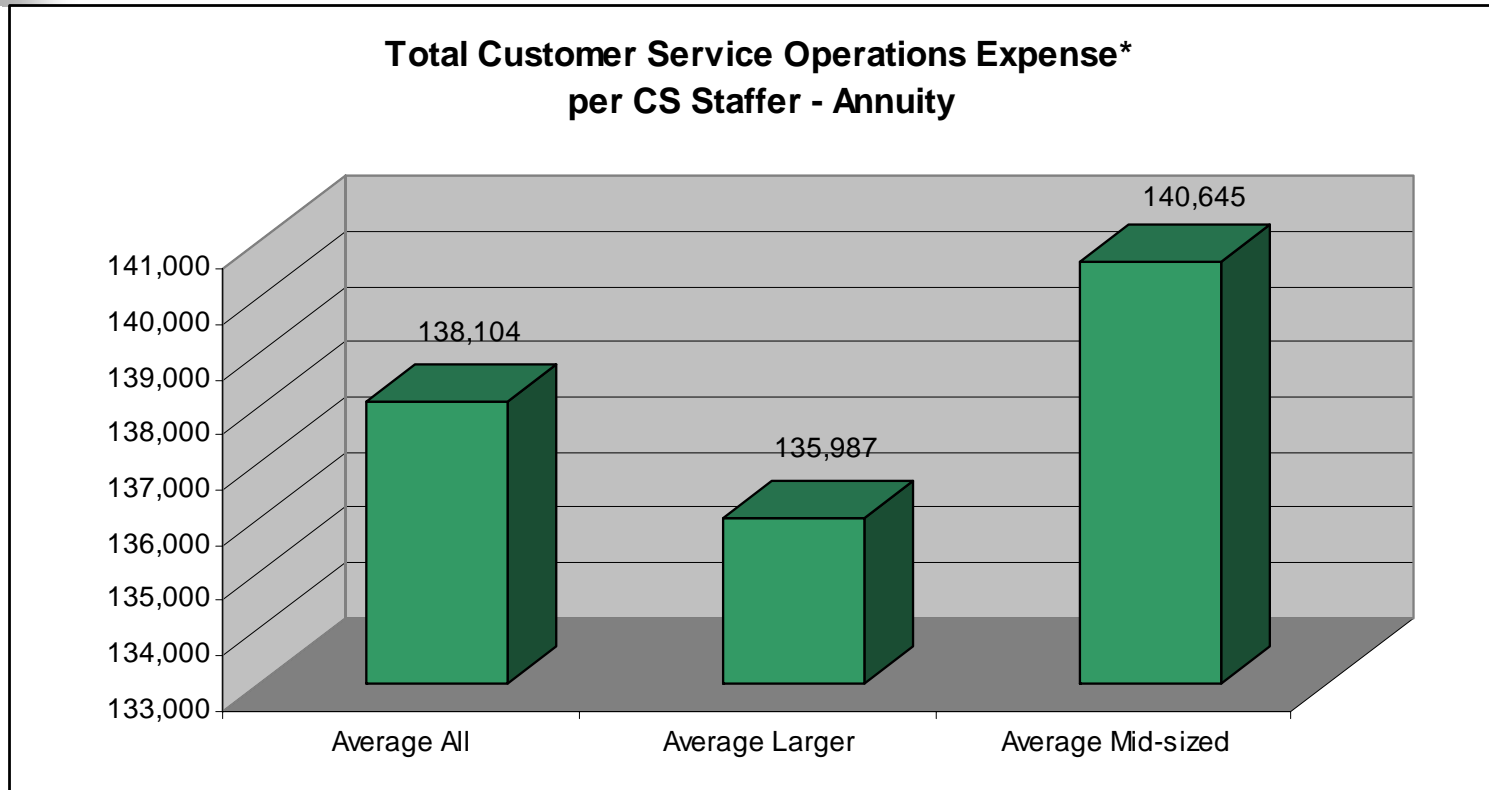
Best In Survey (ACES)

Total Processing Expense

The companies in the survey are shown in ascending order of Total Processing Expense per Inforce Contract. The Best in Survey are ranked 1st and 5th. The amount of each expense component is displayed by a different color.



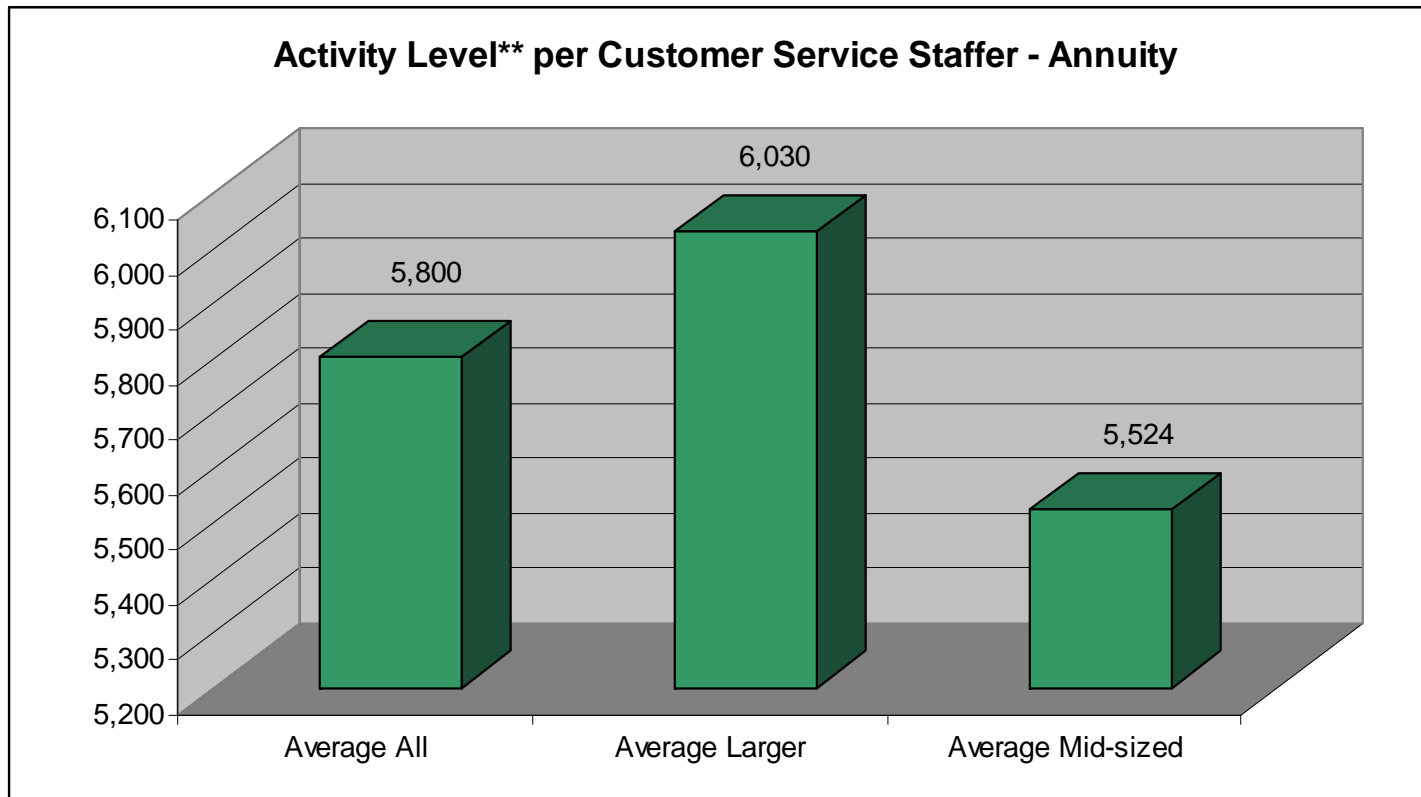
Customer Service Operations Expense per Staffer



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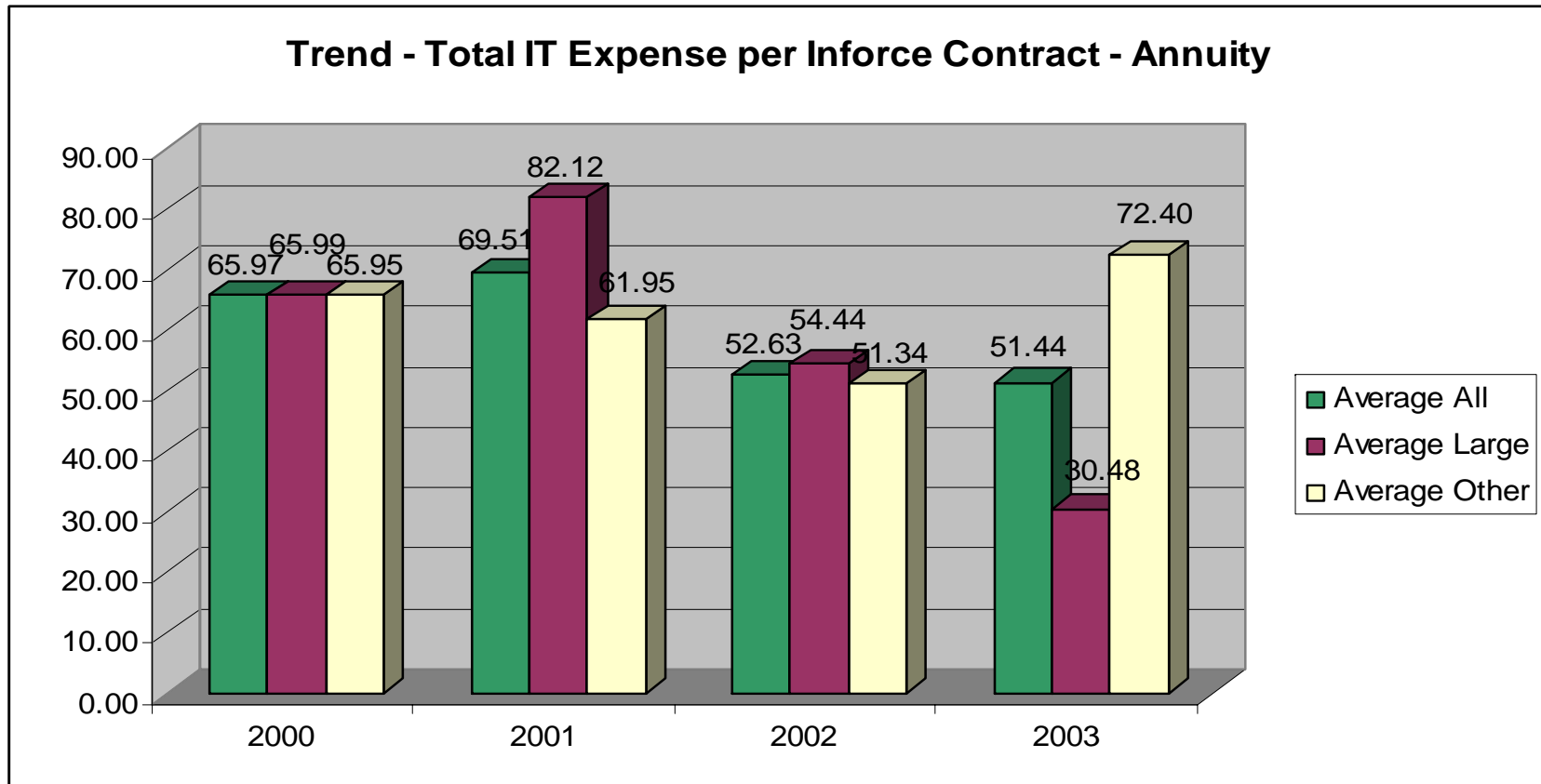
Activity Level per Customer Service Staffer



Source: ACES Survey 2004 TCI Consulting & Research

** Activity Level includes transactions for Contract Administration (not Address Changes and Return Mail), Disbursements and Call Center.

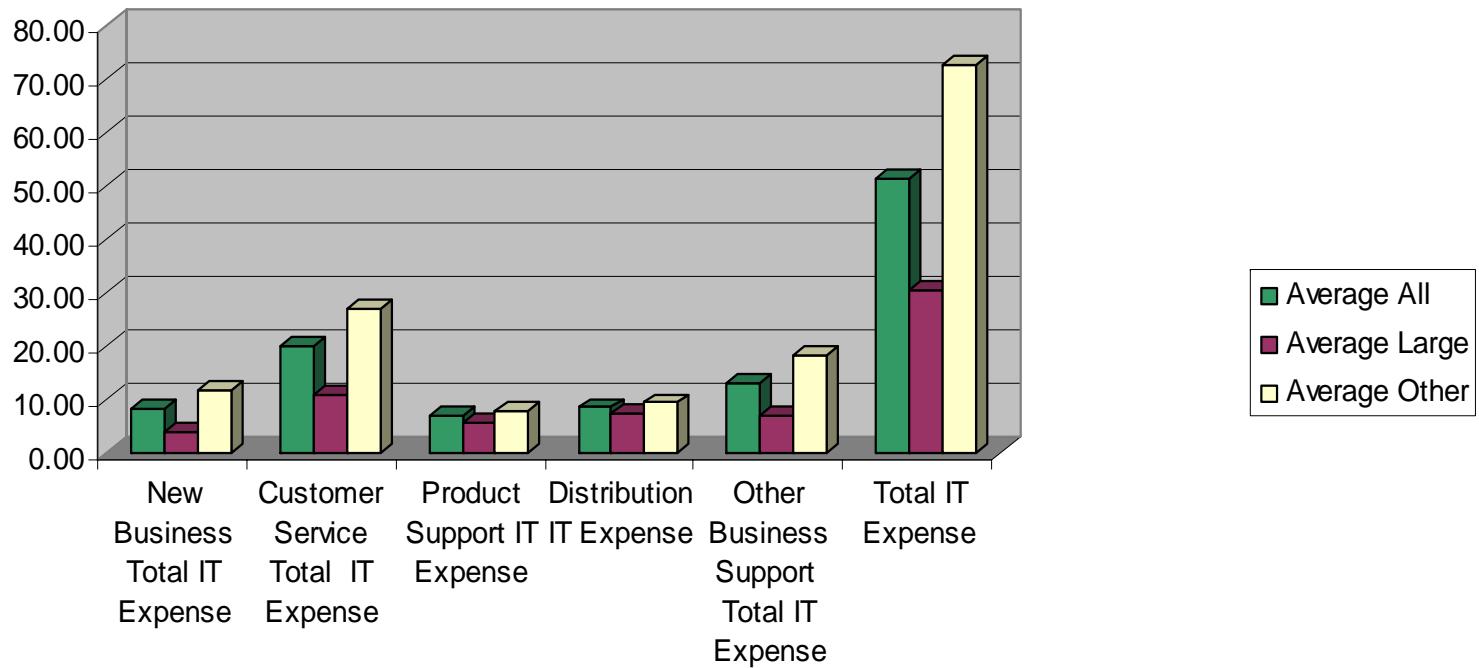
Trend – Total IT Expense per Inforce Contract



Source: LIITES 2004 – TCi Consulting & Research

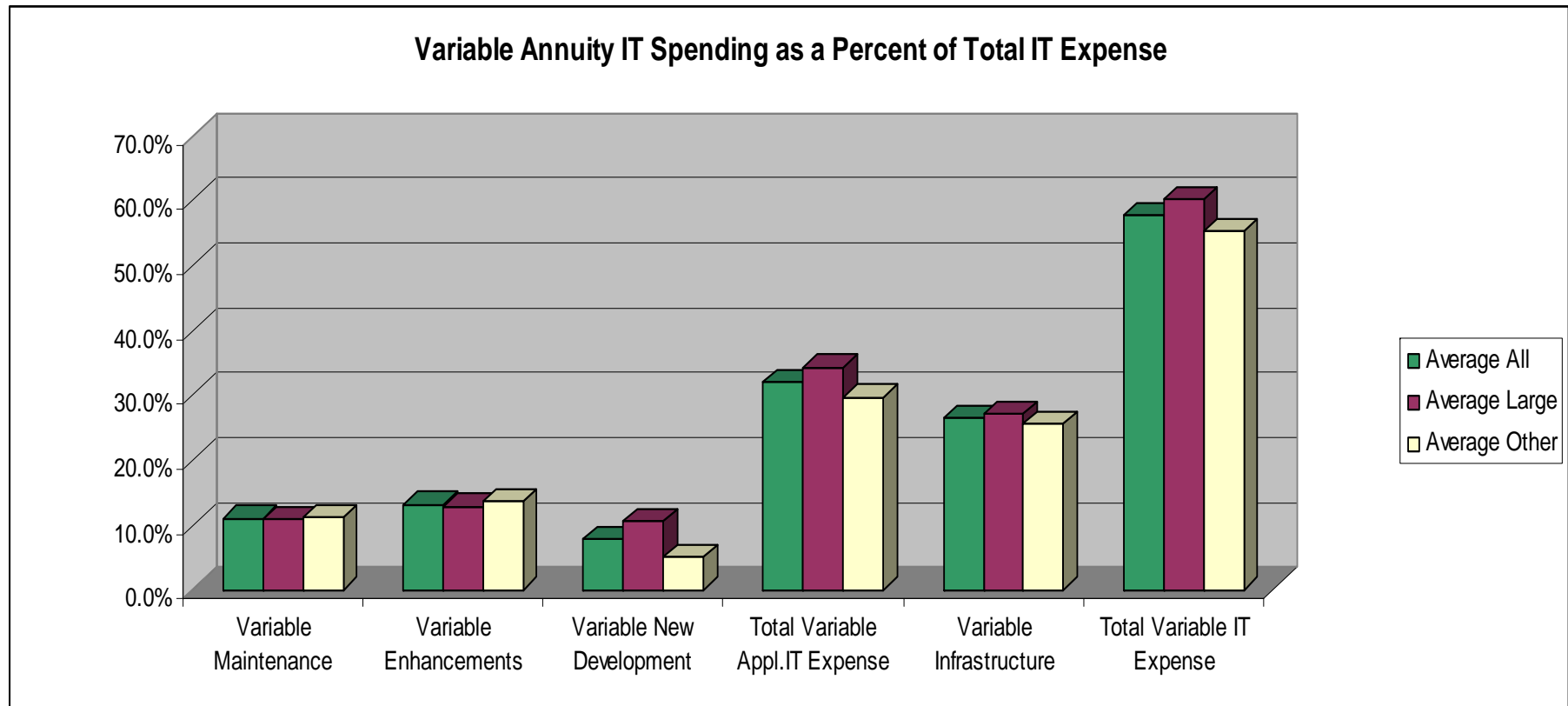
Trend- Total IT Expense by Function per Inforce Contract

Total IT Expense by Function per Inforce Contract - Annuity



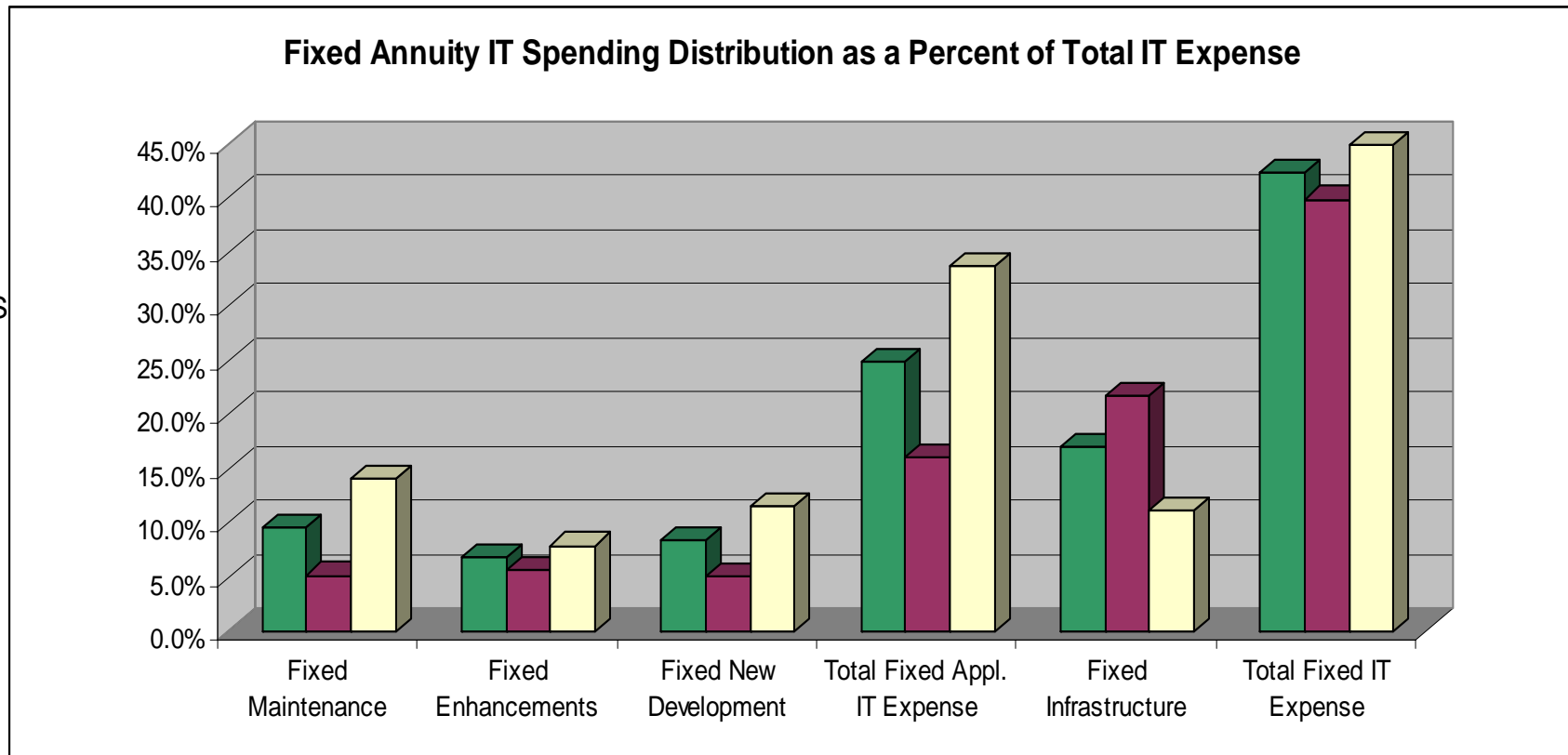
Source: LIITES 2004 – TCi Consulting & Research

Variable Annuity IT Spending as a Percent of Total

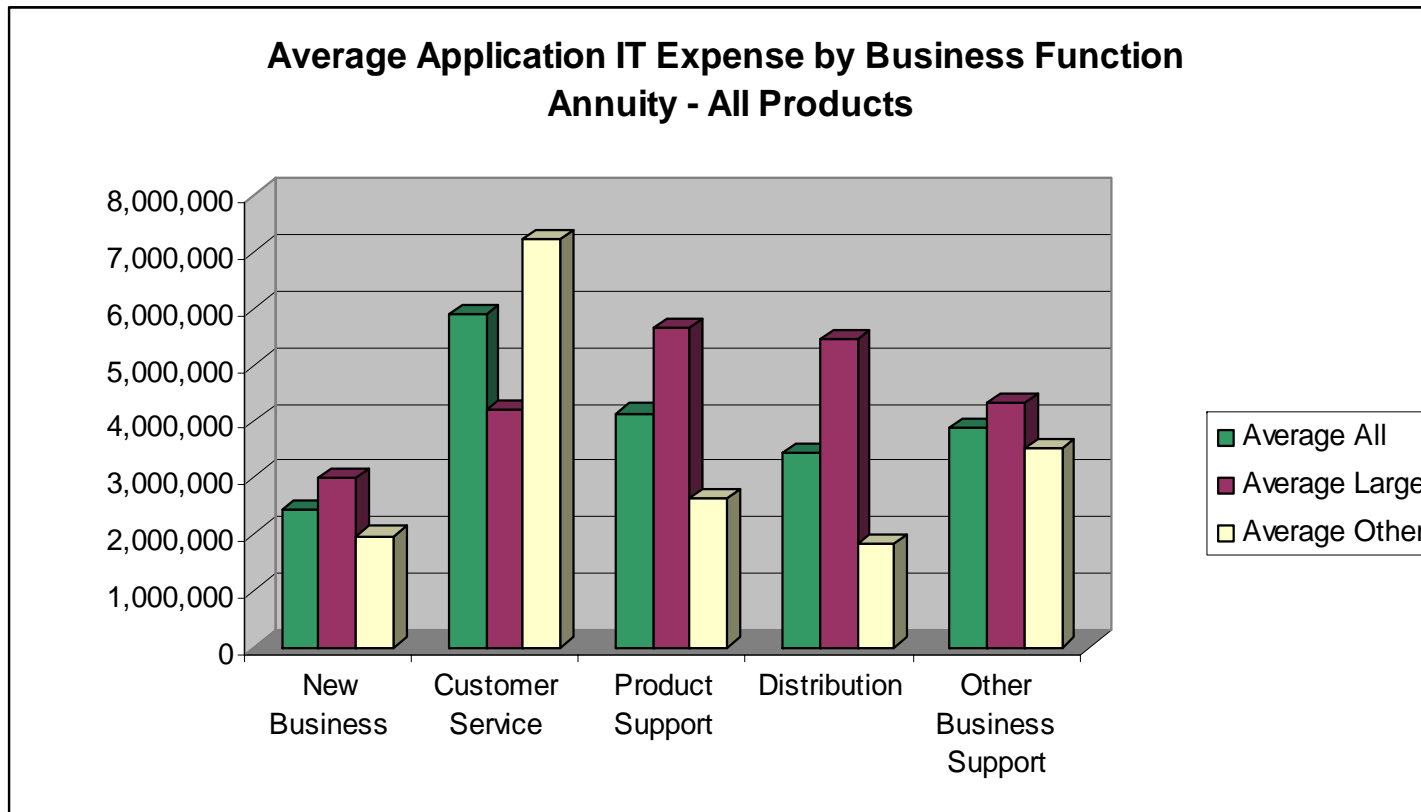


Source: LIITES 2004 – TCi Consulting & Research

Fixed Annuity IT Spending as a Percent of Total



Average IT Application IT Expense by Business Function



Source: LIITES 2004 – TCi Consulting & Research



QUESTIONS?



TCi *Tested*SM

PROCESSES

*find the best way to support
life and annuity productsSM*