KPMG

KPMG Insurance System Survey 2015

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Foreword

KPMG is proud to release the latest edition of its Insurance System Survey, which aims to give an insight into what changes are currently underway within the industry. We take a close look at the various IT systems in use and at the latest trends in the marketplace, offering explanations and contextualisation where possible.

Nowadays, more than ever before, the rapidly-evolving IT landscape requires insurance companies to be vigilant in updating their systems and objectives according to the unique needs of the industry. To that end, we hope that this survey proves to be an informative tool in providing an overview of what the industry looks like in 2015, and in which direction it is heading.

Thank you for your interest in the survey and please contact KPMG Luxembourg if you have any feedback.

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Preamble

This analysis is the nineteenth edition of the KPMG System Survey, which was published for the first time in 1991.

Preamble

This report is the second separate survey for the insurance sector, which allows us to focus in more detail on sector-specific trends and challenges.

The conclusions set forth in this report are based on data gathered via questionnaires which were sent to every insurance company in Luxembourg. KPMG guarantees the confidentiality of the respondents' individual answers.

We would like to take this opportunity to warmly thank all the participants who took the time to answer our survey. Their repeated commitment allows us to present you with these results, and to provide valuable insights on the market year after year.

Geoffroy Gailly

Dieter Putzeys

Eva Kartner

Executive summary

Highlights

The KPMG Insurance System Survey focuses on insurance companies in Luxembourg. This survey aims at reviewing the core systems they use and identifying the trends driving the IT community.

Our panel is predominantly composed of life insurance companies (69%), who are present on both the international (69%) and the national (31%) markets. These figures are in line with those of the insurance sector in Luxembourg as a whole.

IT staff & outsourcing of IT functions

Our analysis shows that on average the IT staff accounts for 7.90% of the total number of employees. We can see that this number depends on the size of the company. Bigger companies tend to have larger IT departments.

The recruitment trends are specific to the size of the company: small entities tend to outsource the IT function partially or completely while the rest plans on maintaining or even hiring additional staff. Indeed, 33% of the small-sized entities disclosed that they have outsourced all or part of their IT functions. This outsourcing trend might be linked to the opportunity to access a wider range of competences, to share expertise as well as to control cost.

Compared to two years ago, insurance companies on our panel are shifting much more to the outsourcing of IT functions.

But with more actors taking the outsourcing challenge, the other side of the coin is that the outsourcing satisfaction rates from our panel have has been seriously affected, mostly linked to contractual and operational issues.

IT budget

A significant part of the ongoing IT costs are stable in small and medium-sized companies.

It is interesting to highlight that no participants plan to decrease their ongoing IT costs by more than 10%. On the other hand, 67% of the large-sized companies (i.e. those with 200+ employees) will increase their IT expenditures by more than 10%, a proportion that appears to be connected to the size and development prospects of those companies.

IT priorities

The respondents indicated the following top three IT priorities for 2015: software replacement, IT governance framework, and compliance/regulatory.

These were already high on the agenda in 2012-2013 and our panel still seems to perceive the renewal of the IT landscape as the answer to these challenges faced by IT executives.

Regulatory constraints are still cumbersome as insurance companies in Luxembourg today are on the way to becoming compliant with all the rules and regulations of the sector.

Core systems

There is almost a 50-50 split between in-house and packaged solutions for policy management tools. The majority of the insurance companies that took part in our survey use packaged systems for asset management and accounting.

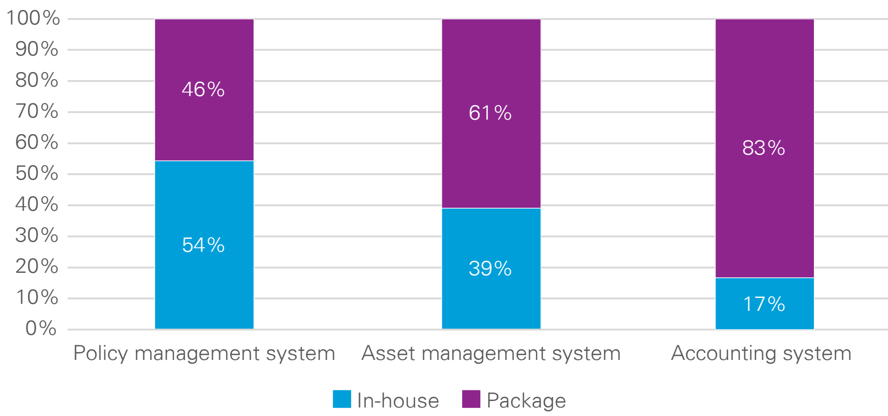

Figure 1: Core systems: in-house versus packaged

A possible explanation is that a lot of insurance companies in Luxembourg, which are relatively small, have a natural tendency to move towards packaged solutions due to cost reasons.

Packaged solutions seem slightly better at satisfying the requirements of market needs with respect to accounting and asset management systems. But packaged solutions are probably less suitable to policy management systems insofar as insurance companies need policy management systems that allow them to differentiate themselves and come up with tailor-made solutions for their customers. This may explain the major proportion of in-house solutions to policy management systems.

With regard to the participants' level of satisfaction with the core systems, it has dramatically fallen compared to two years ago. This trend is even more pronounced for the asset management tool.

Despite this declining satisfaction, insurance companies on our panel are not planning on changing their core systems in the near future (especially for policy management and asset management tools).

Surprisingly, almost half of the respondents will change their accounting system in the coming five years, even though this system has the highest satisfaction rate among the three core systems.

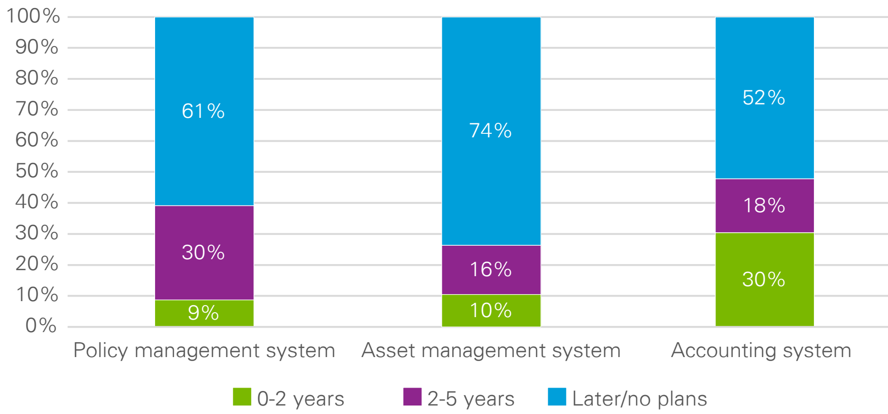

Figure 2: Horizon of replacement of the three main systems

This clearly indicates that even if "satisfaction rate", "competitive advantage" and "key differentiator" are major indicators of the perceived quality of core systems, they are not the key drivers for deciding to change them. These results imply the presence of stronger reasons driving executives to change one of their core systems: for instance, budgetary reasons, company policy restraints, administrative burdens, and, above all, heavy costs and workloads from the transition/transformation process.

As for the policy management system, Solife has established itself dominantly as the tool most chosen by our panel.

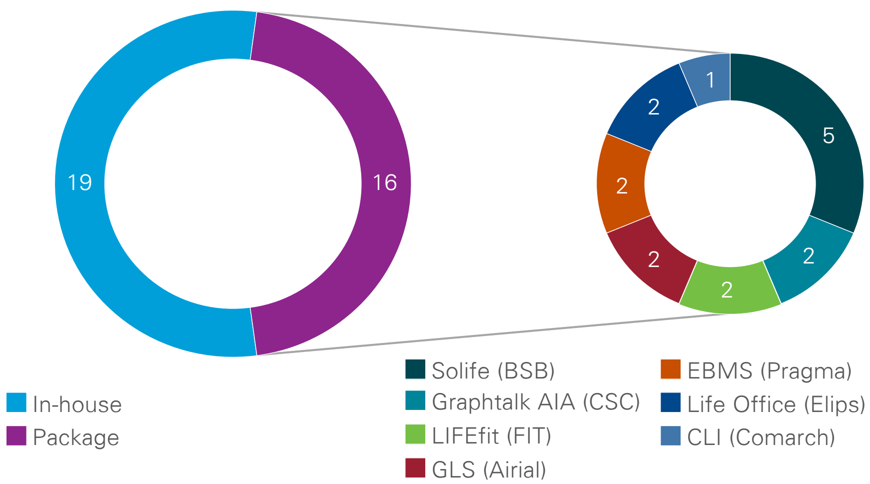

Figure 3: Policy management systems: in-house versus packaged

1 Approach and participation

The figures in this report represent data gathered by surveying IT department heads from insurance companies in Luxembourg, both those active in the life and in the non-life insurance segment of the market.

Type of participants

We believe that the high participation rate, along with the range in characteristics of the respondents (in size, market, and segment), guarantee the relevance and the consistency of the figures and trends presented in this report.

Trend

In total, we are pleased that 28.75% of the insurance companies in Luxembourg took part in our survey. This percentage is slightly higher than the participation rate of the KPMG Insurance System Survey 2012-2013 (26.5%).

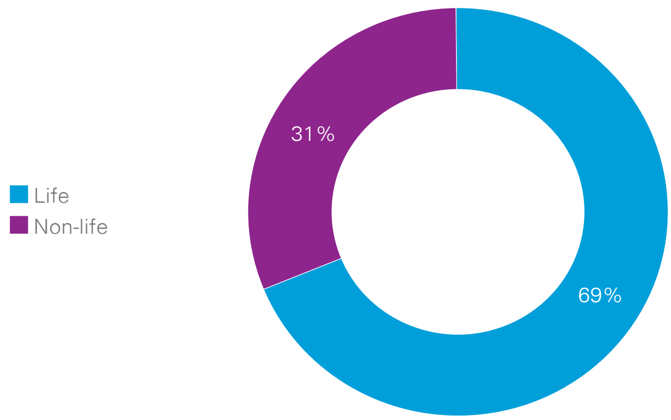

Figure 4: Respondents by company type

The split of life and non-life companies in our sample is in line with the insurance sector as a whole (+/- 60% of the insurance companies in Luxembourg sell life insurance products).

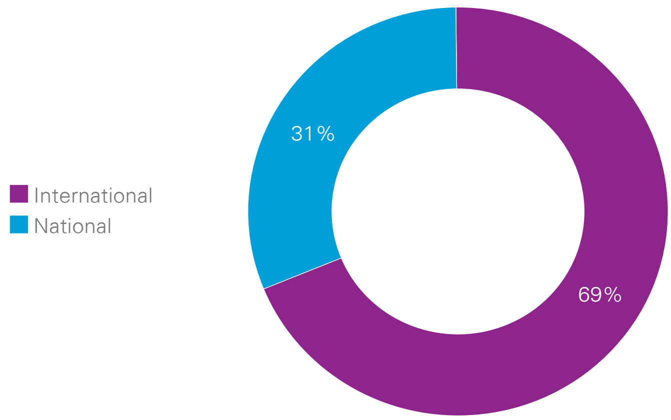

Figure 5: Respondents by market type

Size of participants

As shown in previous editions of this survey, a company's size roughly determines its IT department's size. This is the reason why we decided to split the results into the following three categories when deemed useful:

- Small-sized companies: less than 50 employees;
- Medium-sized companies: between 50-200 employees;
- Large-sized companies: more than 200 employees.

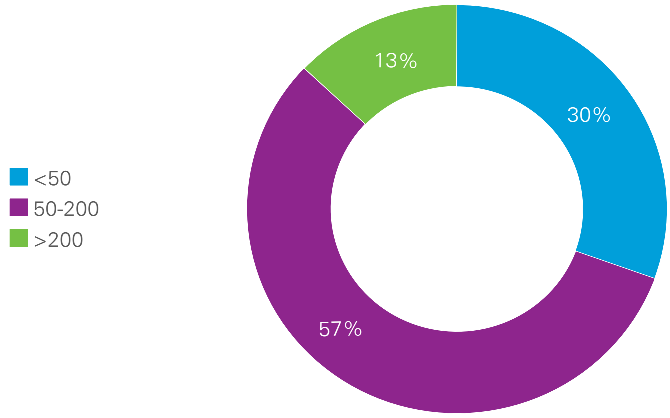

Figure 6: Population by size (in number of employees)

The majority of our respondents are IT department heads, although those from small-sized companies were often CEOs. This may be because companies with under 50 employees usually have very small IT departments, or even lack them altogether (as shown in the next section).

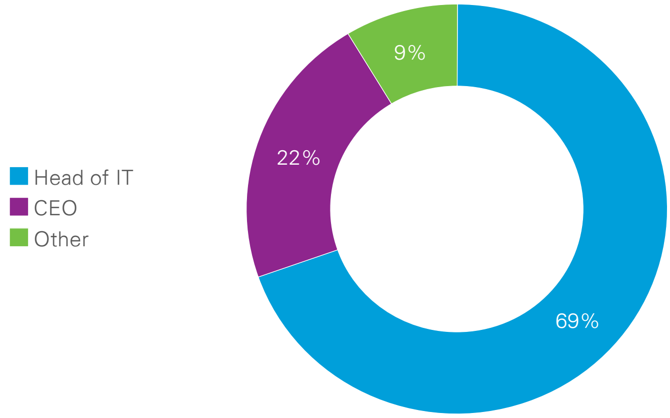

Figure 7: Profile of the respondents

2 General results

IT Staff

Our analysis shows that on average the IT staff accounts for 7.90% of the total number of employees. Insurance companies today have smaller IT departments than two years ago and this trend is predominant in small-sized companies.

Trend

KPMG Insurance System Survey 2012-2013 found that insurance companies had, on average, an internal IT staff to total staff ratio of 8.35%. Almost 12% of the sample had completely outsourced their IT division.

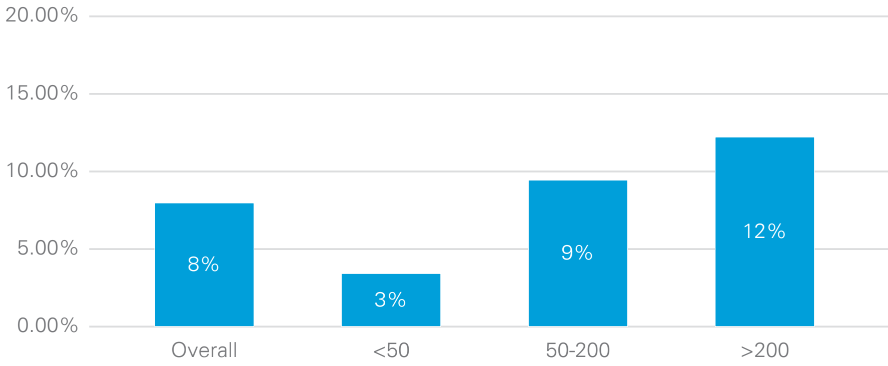

Figure 8: Average percentage of IT staff by company size, excluding undertakings with outsourced IT divisions

Human resources

Twenty-one percent of the panel (all small-sized companies) indicated that they have completely outsourced their IT department. This percentage has considerably increased over the last two years. In addition, of the companies that outsource their IT functions, a large majority are small or medium-sized.

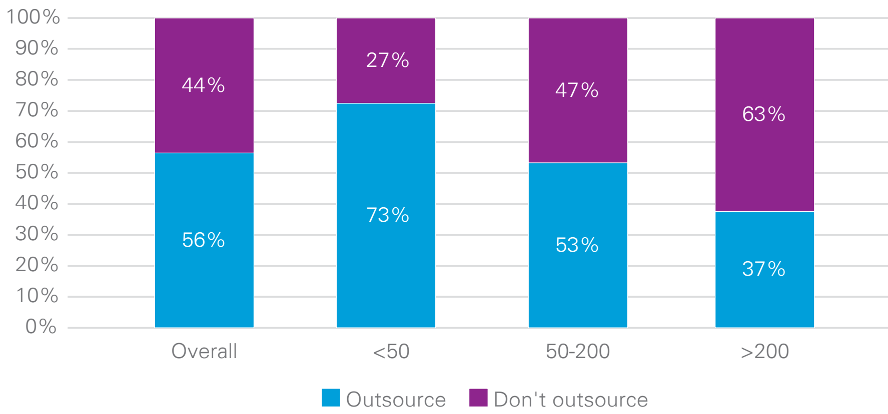

Figure 9 : Companies that outsource versus companies that do not outsource (by company size)

Surprisingly, notwithstanding the appetite of medium-sized companies for outsourcing, they tend to have a significant number of IT staff. Sixty-three percent of large-sized companies do not outsource, which is also reflected in the fact that they have the biggest IT departments compared to the other two categories.

The analysis of the compiled data revealed that the percentage of internal IT staff is noticeably larger in medium and large-sized companies than in small-sized companies. This trend will be on the rise in the future as more small-sized companies indicated that they plan on outsourcing (part of) their IT staff. A large portion of medium and large-sized companies, on the other hand, will enlarge their IT teams in the coming two years. Interestingly, no respondents will decrease their IT staff in the near future.

These results indicate that the size of the company has an influence on the way the insurance sector is gearing up to face the IT challenges ahead. Small entities tend to outsource the IT function partially or completely while the rest plans on maintaining and may even hire additional IT staff.

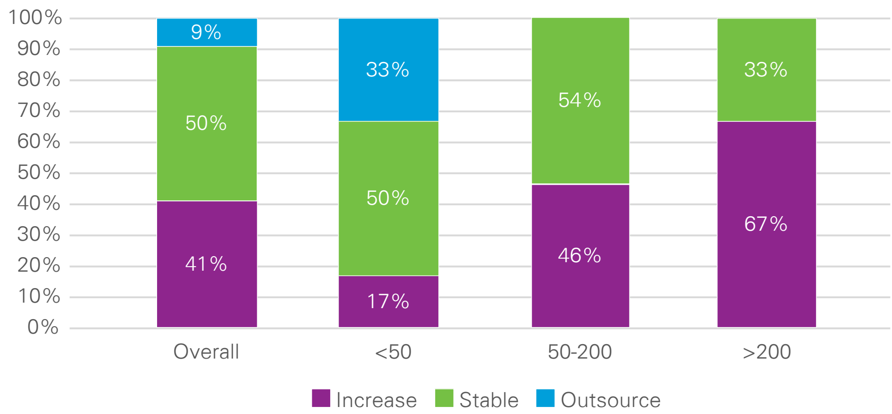

Figure 10: Recruitment of IT staff (by company size)

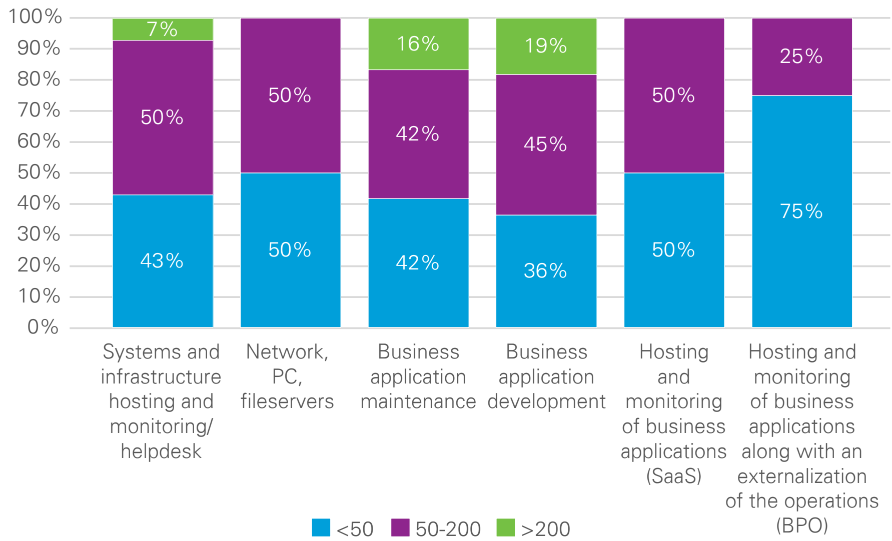

Figure 11: IT functions already outsourced (by company size)

Distribution of resources within the IT department

Trend

Distribution of resources within the IT department (KPMG Insurance System Survey 2012-2013):

- Development: 47%
- Production: 37%
- Organization: 16%

If we compare the same sample, the overall distribution of resources within the IT department is still the same. The development tasks still remain the most important activities of the IT departments.

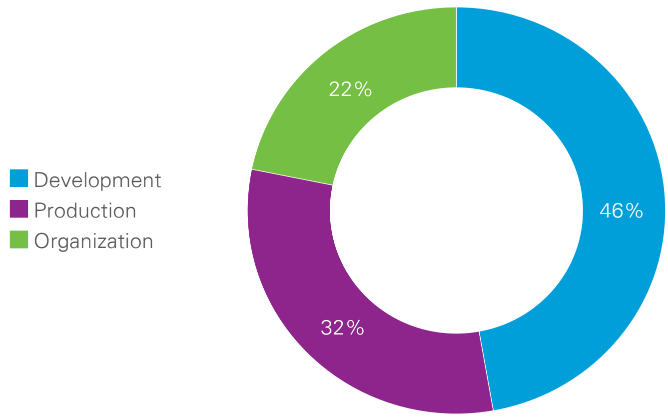

Figure 12: Distribution of resources within the IT department

It seems that organizational tasks are becoming more relevant which might indicate that software replacement is high on our participants' agendas.

Trend

In comparison to the results of KPMG Insurance System Survey 2012-2013, the distribution of resources within IT departments has changed remarkably. On the one hand, 71% of the small companies in our sample have completely outsourced their IT functions, which was not yet the case two years ago.

On the other hand, medium-sized companies have drastically reduced the size of their IT departments. The IT headcount in large companies has not changed significantly.

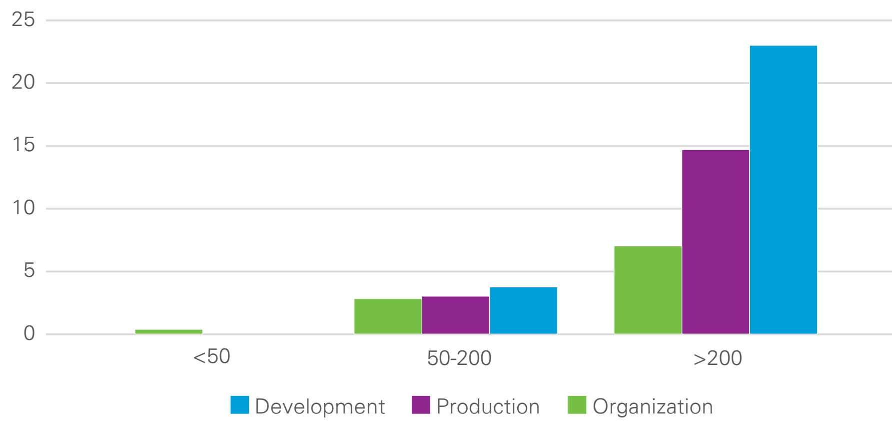

Figure 13: Distribution of resources within the IT department (by company size)

IT priorities

The main IT priorities for our panel are:

- Software replacement
- IT governance framework
- Compliance/regulatory

Software replacement is still a hot topic on the agenda of many IT departments. This is due to the fact that many solutions that are currently in use are no longer up to today's standards. It is interesting to note in this context that cost reduction lags far behind for the companies in our sample (8th IT priority).

The second and the third priorities are closely linked. A substantial number of local and European regulations (PSA, Solvency II, EMIR, PRIPs...) will come into effect in the coming years and insurance companies are in the middle of preparing themselves to become compliant with these regulations.

These 3 subjects were already defined as IT priorities by our sample two years ago, showing that it takes time to tackle these challenges.

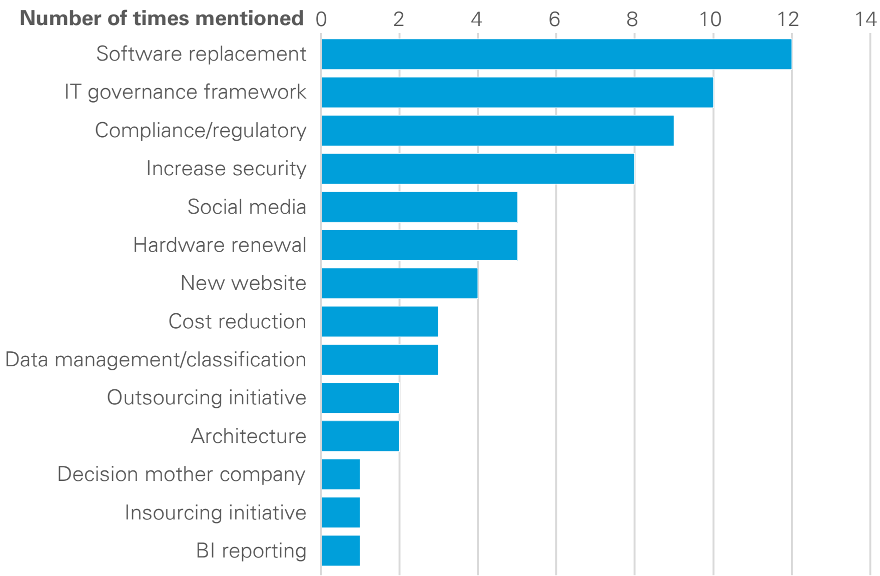

Figure 14: IT priorities

Trend

IT priorities 2012 (KPMG Insurance System Survey 2012-2013):

1. Business process review
2. Compliance/regulatory
3. Software replacement
4. IT governance framework

Our panel's top four priorities are: (see Figure 15 on the next page)

1. IT: 56%

2. Regulatory: 18%

3. Innovation: 15%

4. Insourcing/outsourcing: 11%

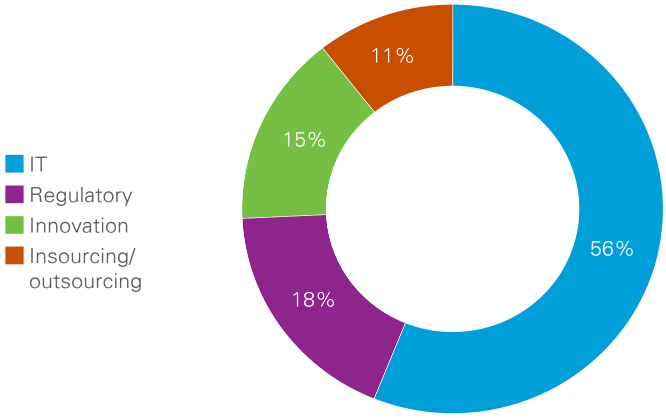

Figure 15: Combined IT priorites

Business topics

The areas that will have the biggest impact on IT are:

1. Regulatory (Solvency II, EMIR, PRIPs, FATCA…)
2. Business intelligence / data warehouse
3. Document management
4. Product engineering

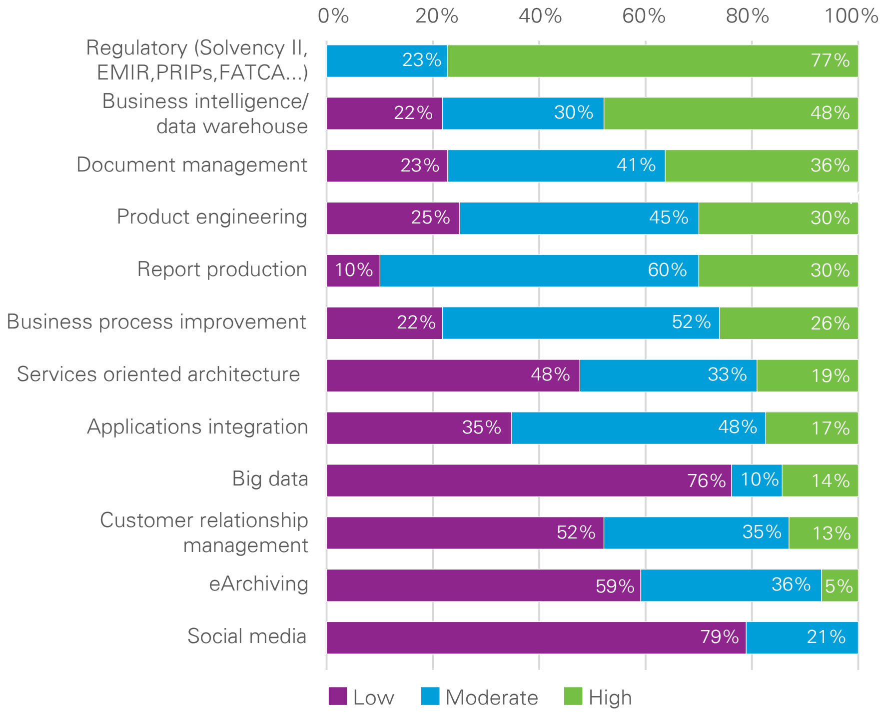

Figure 16: Impact of business topics on IT department

Combined, the business topics with the highest impact on the IT departments of the companies in our sample are:

1. Regulatory: 51%
2. IT: 17%
3. Commercial: 17%
4. Innovation: 15%

Trend

The results indicate that regulation will have the biggest impact on the insurance sector. This was already the case two years ago and this is not surprising since the burden that insurance companies face in terms of new regulations requires a great deal of developments and adaptations.

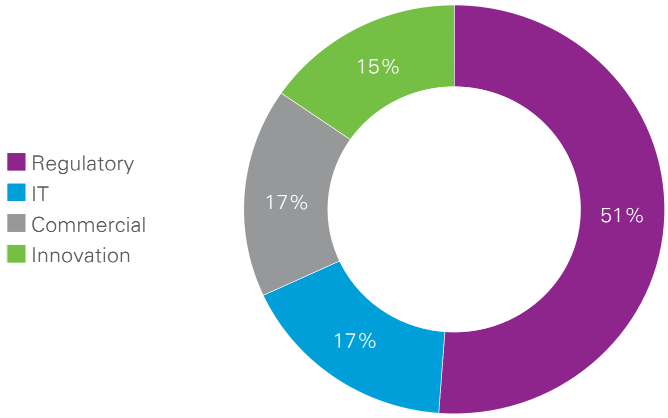

Figure 17: Combined impact of business topics on IT department

IT budget versus total budget

Our analysis shows that on average 16.86% of the company budget is dedicated to IT. Interestingly this percentage varies significantly for the three categories in our sample. Medium-sized companies tend to spend almost two times more than large-sized companies.

A fundamental decision for executives when preparing their IT budget is to differentiate between:

- "Run the company" i.e. maintaining the operations running as they are today versus
- "Change the company" i.e. investing in new projects

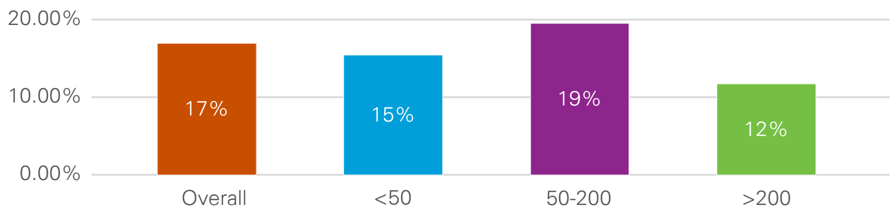

Figure 18: Part of the total budget allocated to IT

Run the company

For most companies, ongoing IT costs will either remain stable or even increase. Indeed, more companies, and above all large-sized ones, are considering increasing their spending by more than 10% compared to two years ago.

Trend

The number of companies that will slightly decrease their costs to run the company is on the rise for small and large-sized insurance companies. The number of companies that will decrease their costs to change the company is in decline (KPMG Insurance System Survey 2012-2013).

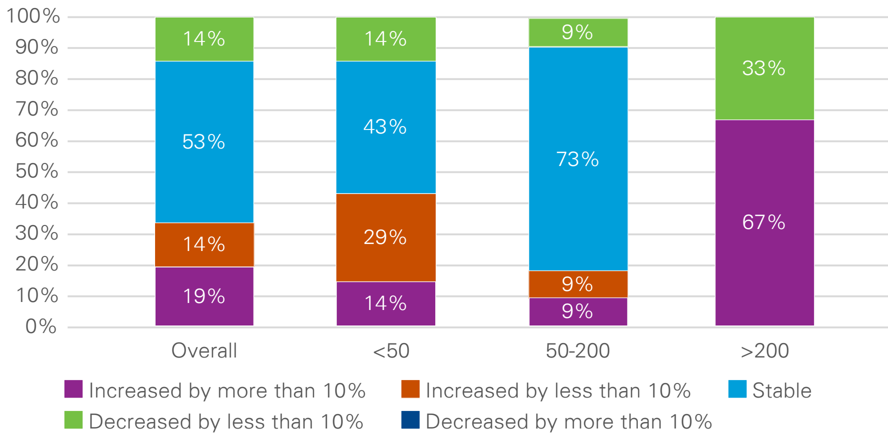

Figure 19: Ongoing IT costs (by company size)

Change the company

Only a minority of our panel will invest less money to change the company. All companies, regardless of their size, are seriously considering allocating larger budgets for new investments. This is another indication that the majority of the insurance companies are aware of the challenges ahead (i.e. they are aligning themselves with the various new regulations and with changing market conditions), and that they are investing money to face those challenges.

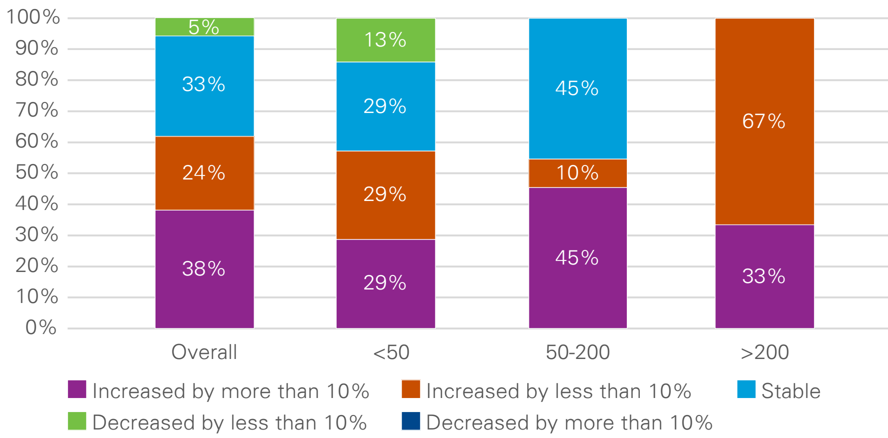

Figure 20: New investments (by company size)

Adequacy of IT budget

The IT budget is perceived as being adequate by the majority of the respondents. In small and medium-sized companies, the IT budgets are not always sufficient to cover the necessary expenditures.

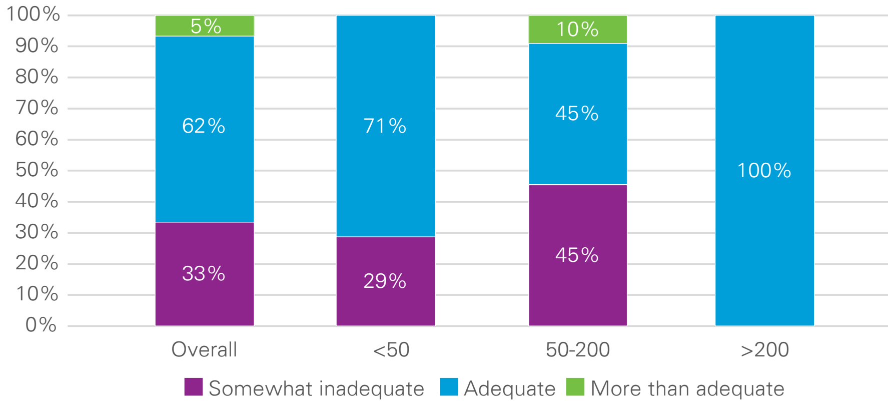

Figure 21: Adequacy IT budget

Actual IT spending

It's important to highlight that 33% of the small-sized companies will spend more than initially budgeted. This is not surprising, given that the same group indicated that their IT budget was somewhat inadequate.

Almost one in two medium-sized companies think that their IT budget is inadequate, but only 18% will actually spend more than initially planned.

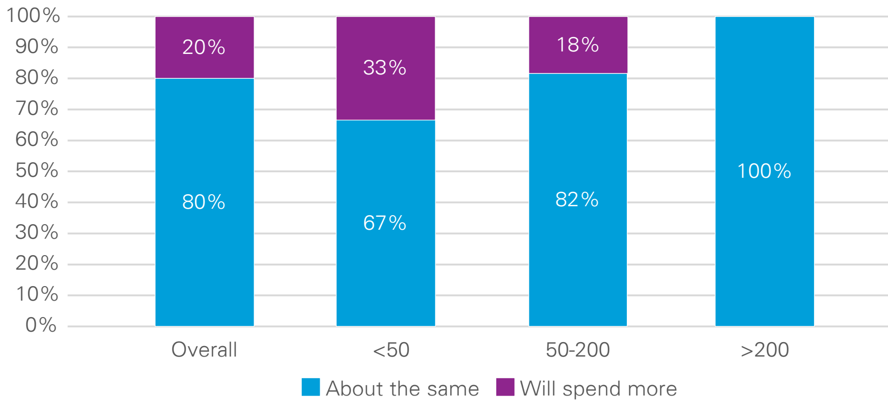

Figure 22: Comparison of expected IT spending to actual IT budget (by company size)

Trend

The KPMG Insurance System Survey 2012-2013 highlighted that 29% of small-sized insurance companies planned to spend less. This year no respondent indicated that they will spend less.

Conversely, 33% of large-sized companies disclosed two years ago that they will spend more, which is no longer the case for all the large-sized companies on our panel.

3 Policy management system

Market players

Trend

The market shares of in-house and packaged solutions are almost equal. This is in line with the results of the KPMG Insurance System Surveys 2009-2010 and 2012-2013.

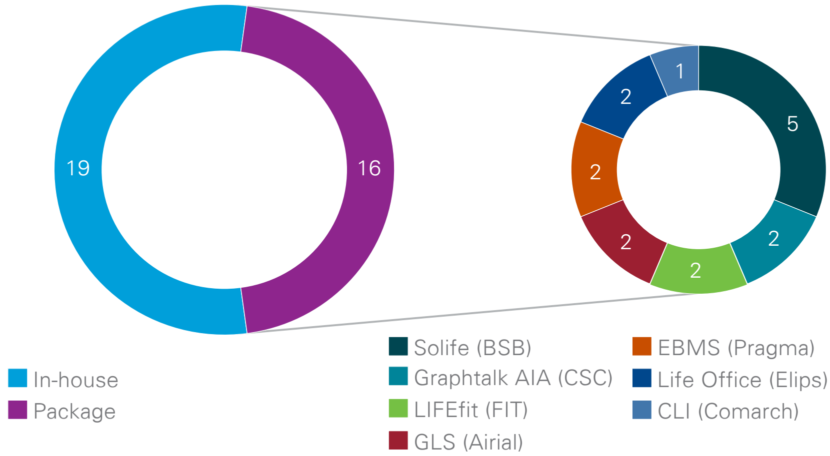

Figure 23: Policy management systems: in-house versus packaged

There is almost a 50-50 split between in-house and software packages for policy management systems.

Note that some companies use more than one policy management system, which explains why some figures are higher than the number of participants.

Contrary to the two other core systems, the majority of respondents indicated here their preference for in-house solutions. This tendency can be attributed to the fact that insurance companies need both to differentiate themselves with regard to policy management and to offer tailor-made solutions to their customers.

In terms of players, BSB (Solife) has the largest market share in our sample, and is preferred by small and medium-sized companies.

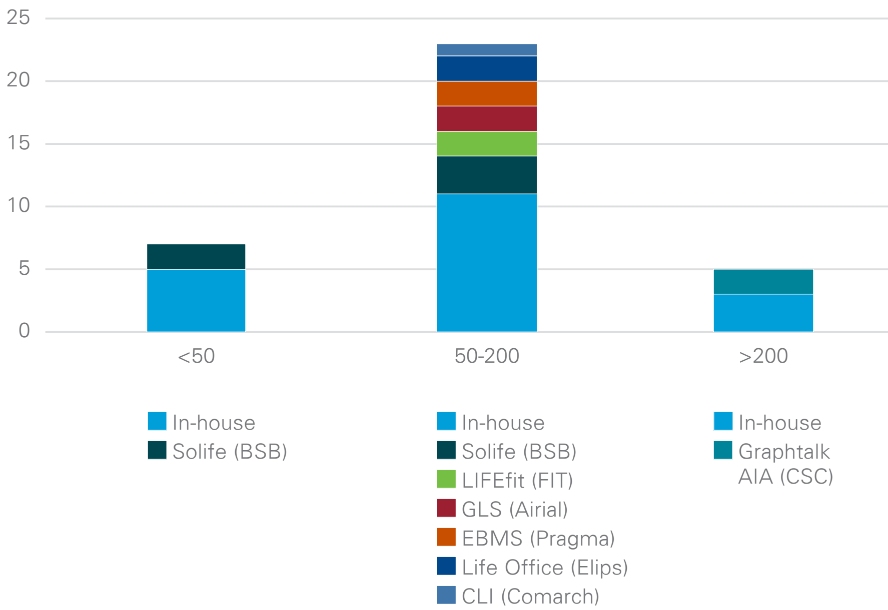

Figure 24: Policy management systems (by company size)

The majority of the life insurance companies on our panel have in-house policy management systems. The ratio between in-house and packaged tools is almost in balance for non-life undertakings. This finding shows that a lot of insurance companies on our panel still use policy management systems that were developed internally.

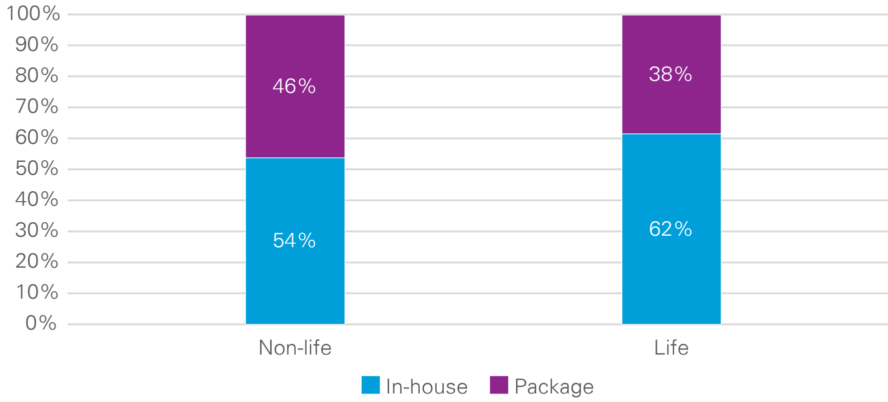

Figure 25: Policy management systems: non-life versus life

The majority of our sample purchased their policy management solutions and deployed them locally. The SaaS delivery model is popular within small companies while some medium-sized companies have completely outsourced their policy management tool.

The biggest insurance companies in our sample seem to prefer a local deployment of their policy management systems. This preference can be partially explained by the larger size of their IT teams.

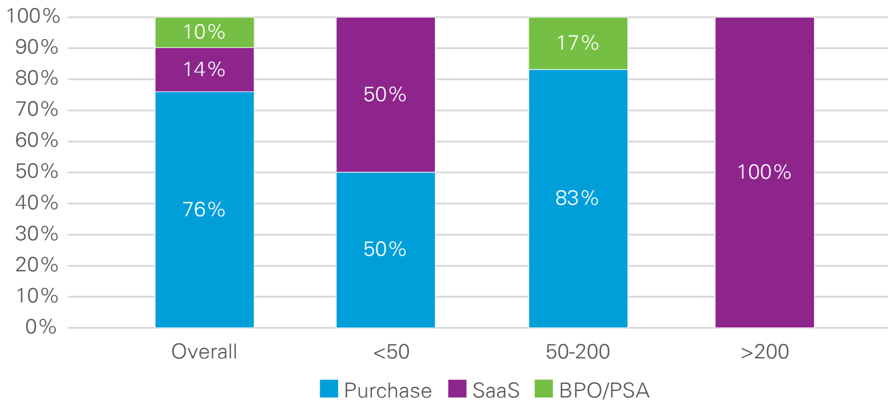

Figure 26: Delivery model (by company size)

Satisfaction with the policy management system

Fifty-five percent of our panel is neither completely satisfied nor completely dissatisfied with their policy management system. No respondents indicated being completely unsatisfied.

Trend

Satisfaction with policy management system (KPMG Insurance System Survey 2012-2013):

- Very satisfied: 8%
- Satisfied: 61%
- Not satisfied: 31%

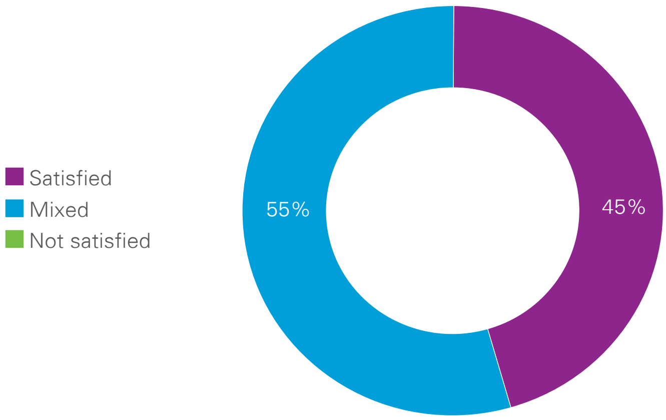

Figure 27: Overall satisfaction with policy management system

An interesting finding is that all the large companies in our sample are satisfied with their policy management systems. This could indicate that this group has the manpower (i.e. the in-house systems) and/or the financial resources (i.e. packaged solutions that they have bought) to fully customize software to their needs. Indeed, the satisfaction ratio tends to grow in proportion to the company size.

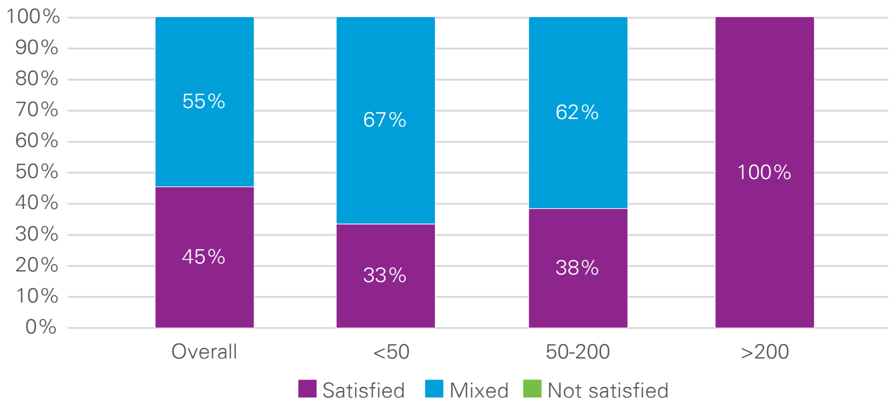

Figure 28: Satisfaction with management system (by company size)

There is not much difference in satisfaction rates between companies that use in-house solutions and those that use third-party ones, with in-house software being favored by a margin of 4%.

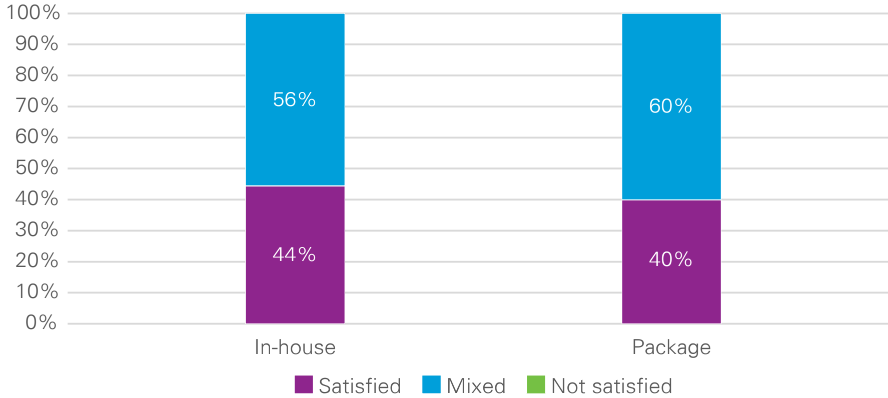

Figure 29: Satisfaction with policy management system: in-house versus packaged

Eighty-six percent of our panel disclosed that their policy management system gives them a moderate to strong competitive advantage.

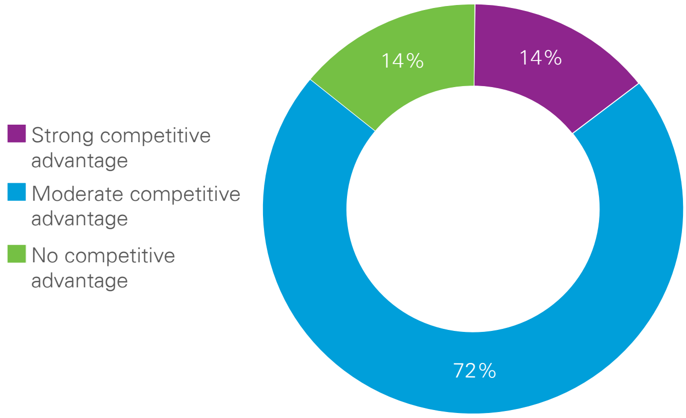

Figure 30: Competitive advantage from policy management system

Eighty-six percent of the insurance companies indicated that their policy management tool helps them deliver an above-average quality of services to their clients.

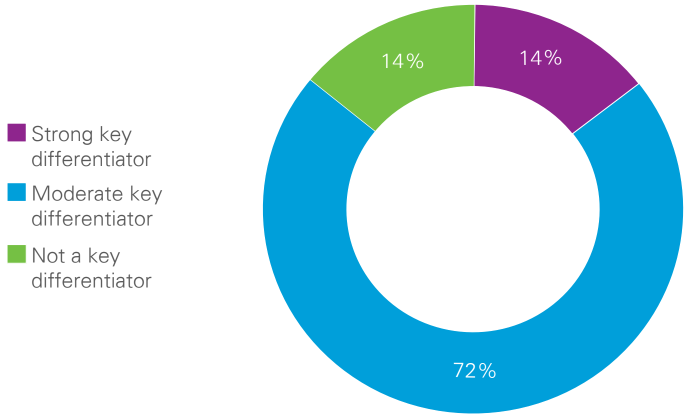

Figure 31: Policy management system as a key differentiator

Trend

Competitive advantage from policy management system (KPMG Insurance System Survey 2012-2013):

- Strong competitive advantage: 14%
- Moderate competitive advantage: 45%
- No competitive advantage: 41%

There has been a sharp fall in the number of companies who think that their policy management system gives them no competitive advantage.

Trend

Key differentiator policy management system (KPMG Insurance System Survey 2012-2013):

- Strong key differentiator: 14%
- Moderate key differentiator: 23%
- Not a key differentiator: 63%

More and more respondents perceive their policy management solution as a key differentiator.

It is interesting to highlight that, of the companies indicating that their policy management system gives them no competitive advantage, all of them use in-house tools. Surprisingly, they do not have the intention of changing these tools in the near future.

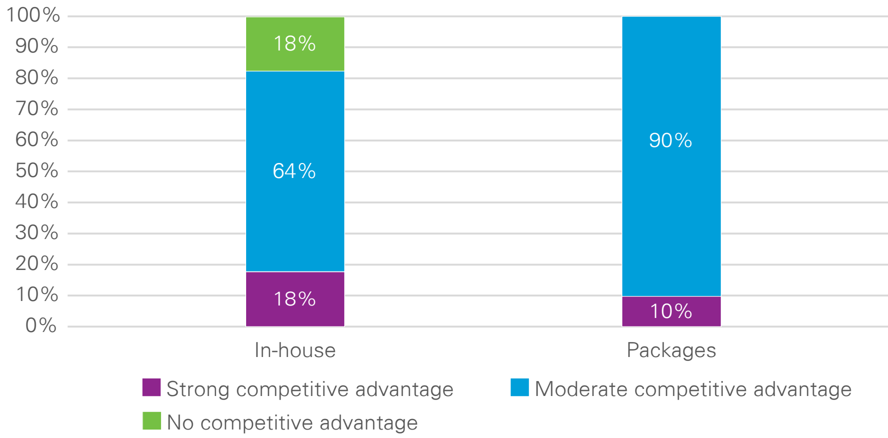

Figure 32: Competitive advantage from policy management system: in-house versus packaged

Of the respondents who specified that their policy management system gives them no competitive advantage, none have concrete plans to change their system in the near future. Of those who did note a moderate competitive advantage, only 7% have concrete plans to change their system.

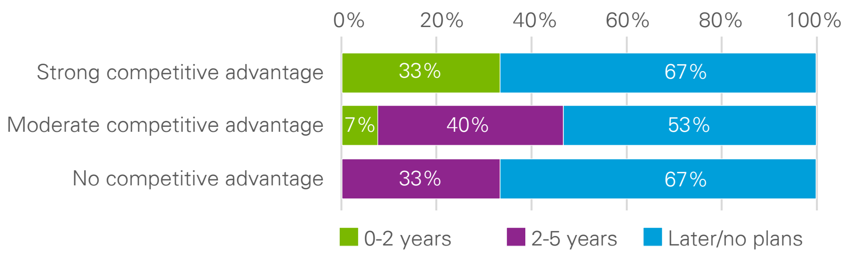

Figure 33: Correlation between competitive advantage level and horizon of replacement of the policy management system

Similarly, of the executives who do not find their policy management tools to be key differentiators in rendering above-average service to their clients, none will replace these tools in the near future. For those who believe their policy management tools to be moderate key differentiators, only 7% will replace them in the near future.

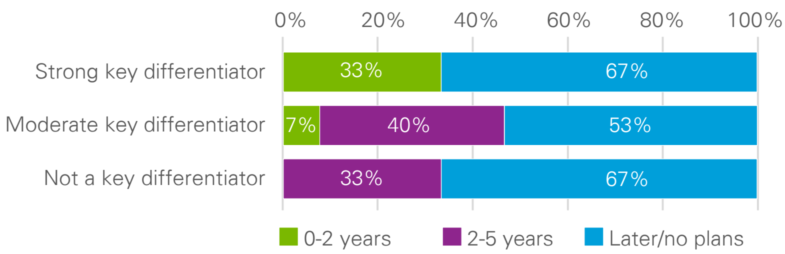

Figure 34: Correlation between key differentiator level and horizon of replacement of the policy management system

Trend

These results lead to the same conclusion reached in the last survey: that offering a competitive advantage and rendering above-average service are not key drivers in the decision process to change the policy management tool within insurance companies in Luxembourg.

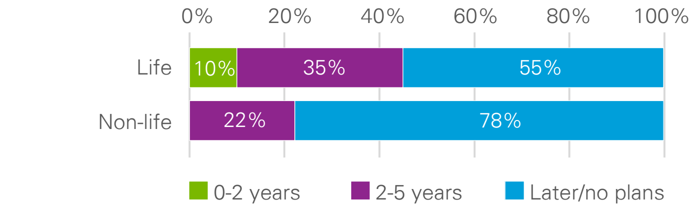

Figure 35: Correlation between type of company and horizon of replacement of the policy management system

Of the respondents who disclosed that innovation has a high impact on their IT departments, 67% do not plan to change their policy management system in the near future. This percentage is almost the same for the companies who think that innovation has a low impact on their IT departments.

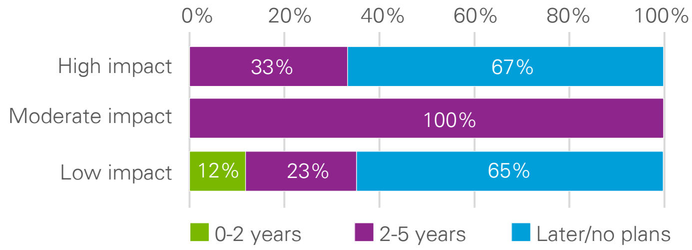

Figure 36: Correlation between Innovation level and horizon of replacement of the policy management system

It is apparent that there are other reasons driving executives' decisions to change their policy management tools, such as budgetary pressure, company policy, administrative burdens, and above all transition burdens. In practice, making the decision is a lengthy process requiring a fully dedicated project team and an adequate budget.

Replacement of the policy management system

Trend

Thirty-nine percent of the panel plan to change their policy management tools in the next five years, as opposed to 36% two years ago (KPMG Insurance System Survey 2012-2013). It seems that more and more companies are realizing that their current policy management systems are outdated and that they will need new ones to face the challenges ahead.

Moreover, only 9% of our panel have concrete plans to change their policy management tools in the next two years.

The majority of our respondents have no plans to change their policy management systems in the next five years. This contradicts the finding that only 45% of the respondents are satisfied with their current policy management solution.

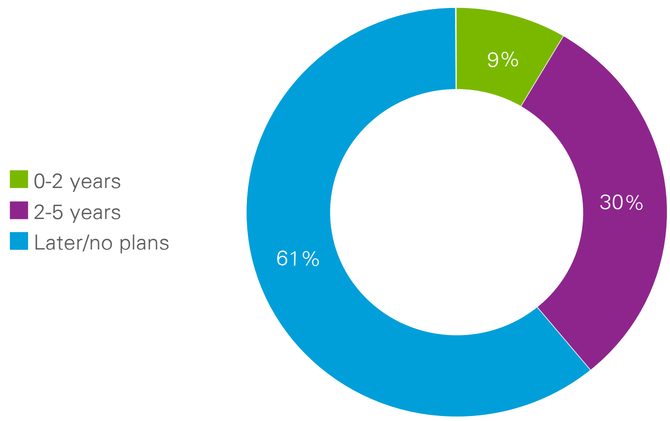

Figure 37: Horizon of replacement of the policy management system

More than half of the polled companies that intend to change their policy management system within the next five years are considering alternative delivery models (SaaS and BPO). This trend can especially be observed in small and medium-sized companies which tend to have smaller IT departments.

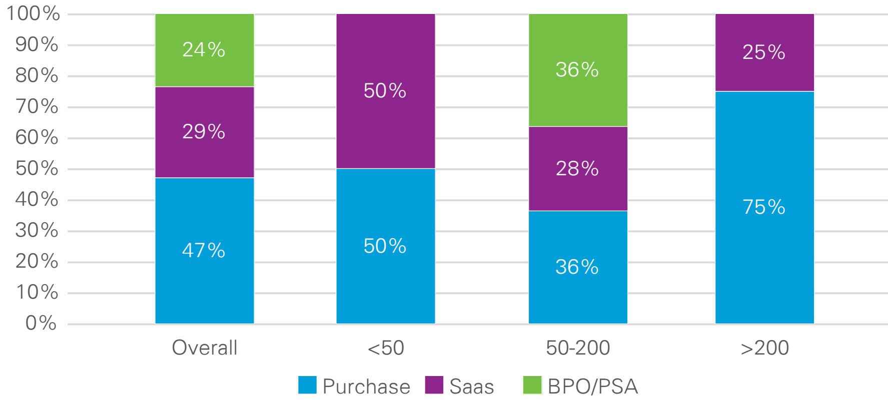

Figure 38: Targeted delivery model (by company size)

A large majority of small and medium-sized companies have no plans at all to replace their policy management system despite the fact that they expressed mixed feelings regarding their satisfaction (see Figure 39 on the next page).

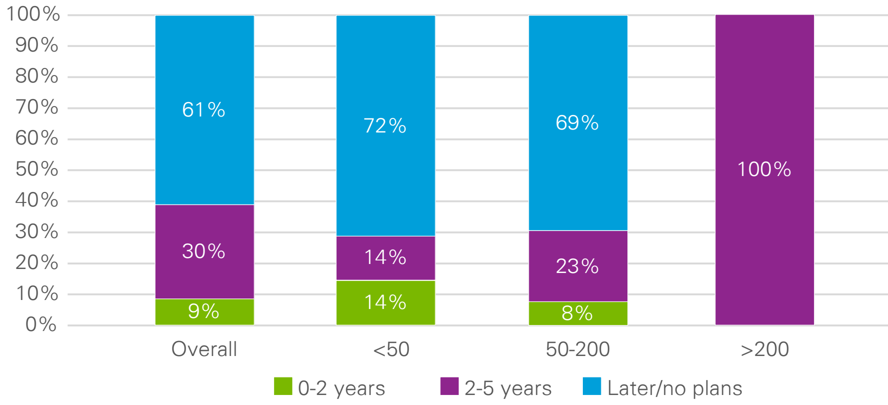

Figure 39: Horizon of replacement of the policy management system (by company size)

Almost half of the companies that use an in-house policy management system have plans to replace this tool in the next two to five years versus 30% for the undertakings that use a packaged tool. This proportion is counterintuitive as companies with in-house solutions tend to be more satisfied with their system than companies with packaged solutions are.

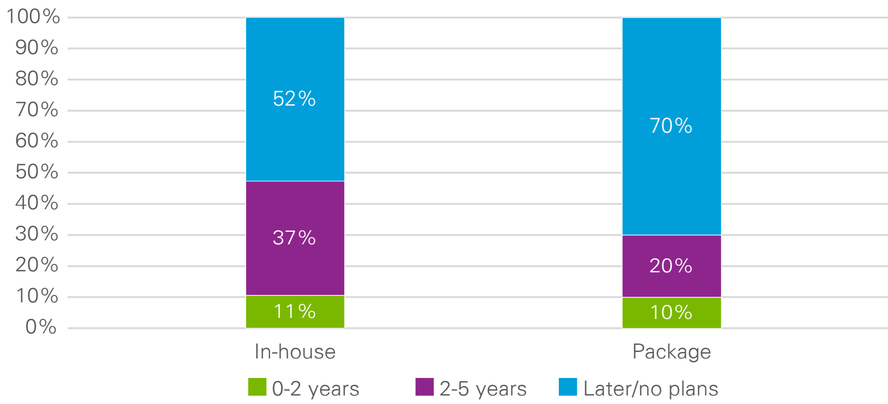

Figure 40: Horizon of replacement of the policy management system: in-house versus packaged

Reasons to change the policy management system

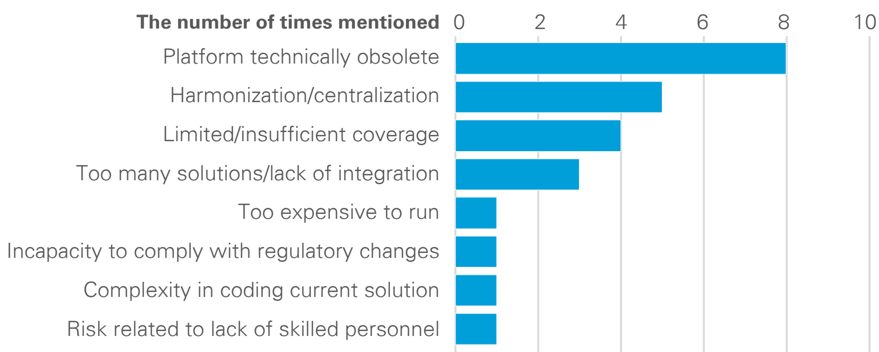

Figure 41: Reasons to replace policy management system

Trend

Reasons to replace policy management system (KPMG Insurance System Survey 2012-2013):

1. Current system is outdated
2. Need for uniformization
3. Price of existing IT set-up
4. Relationship with software company

Our respondents will replace their policy management solutions for the following reasons:

1. Current system is outdated (technically, functionally, or regarding regulatory requirements): 54%
2. Need for uniformization: 34%
3. Price of existing IT set-up: 12%

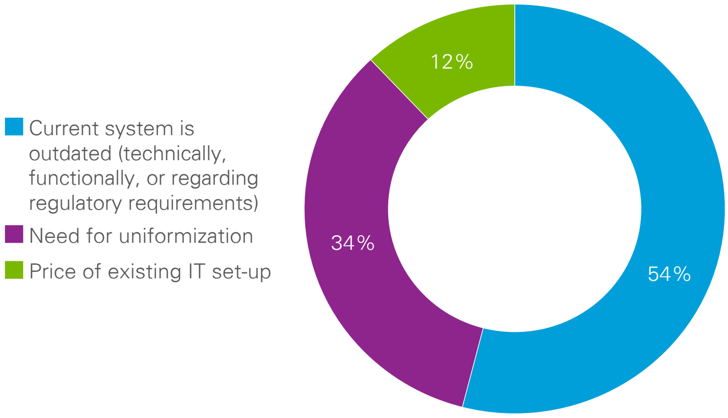

Figure 42: Reasons to replace policy management system

If we look at the first reason in more detail (the current system being outdated), the following split can be made:

1. System does not offer all the features the company needs: 62%
2. System does not use the latest technology: 31%
3. System is not able to handle new legal frameworks: 7%

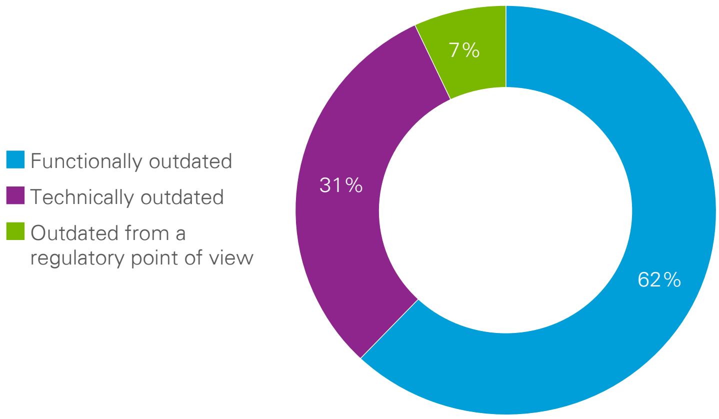

Figure 43: Reasons behind policy management system being outdated

Even with the current regulatory burden, only 9% of respondents will change their policy management systems based on the fact that their tool is not suited for forthcoming regulatory requirements.

4 Asset management system

Market Players

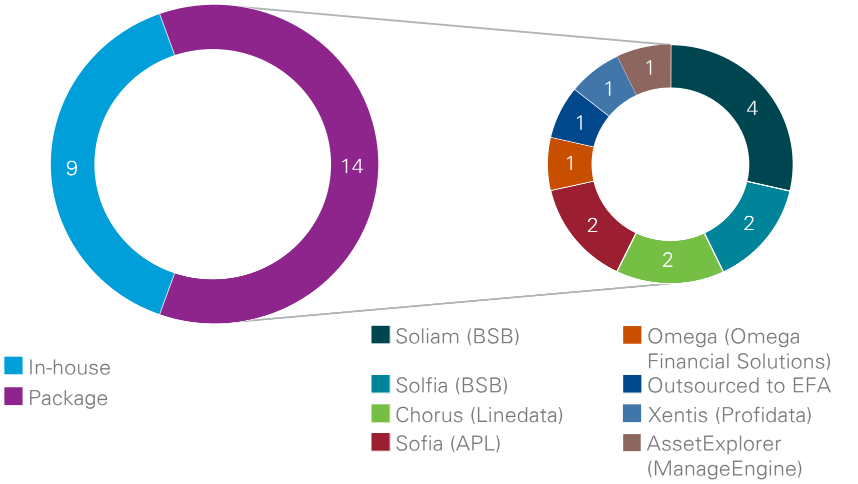

Figure 44: Asset mananagement systems: in-house versus packaged

Trend

Sixty-one percent of our sample use external asset management systems, which is slightly more than was found in KPMG Insurance System Surveys 2009-2010 and 2012-2013.

A small majority of the respondents (61 %) use third-party solutions to manage their assets.

With their relatively small size, insurance companies in Luxembourg are looking more towards packaged solutions for asset management systems. These solutions seem to be meeting companies' needs and satisfying market requirements.

Some companies in our population use more than one asset management solution explaining figures higher than the number of participants.

In terms of software providers, Soliam (BSB) is the most widely used in our sample. It is mostly small and medium-sized companies who prefer BSB. It is interesting to highlight that two outsourcing companies (EFA and Solfia BSB) appear for the first time in this list.

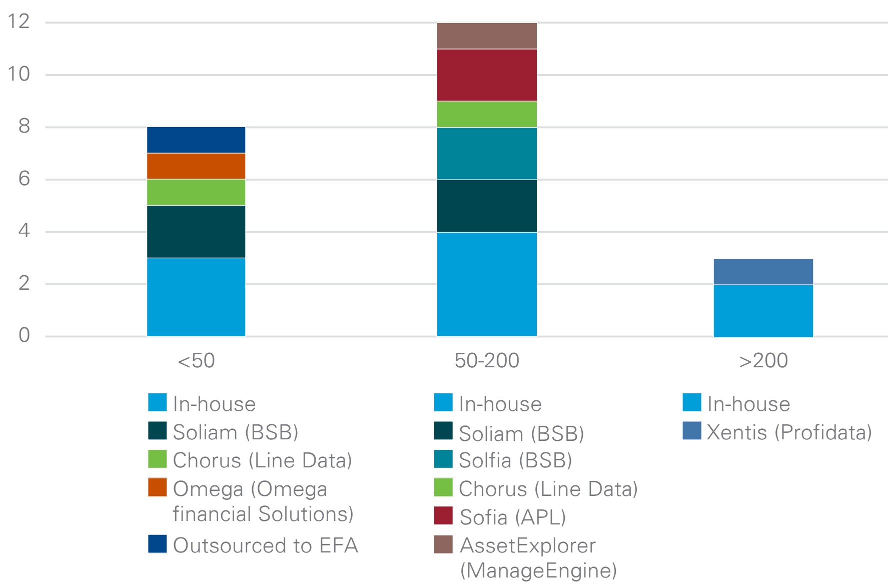

Figure 45: Asset management systems (by company size)

A small majority of the insurance undertakings in our sample use packaged asset management tools. Unlike what we found on policy management system usage, more non-life than life insurance companies use in-house asset management tools.

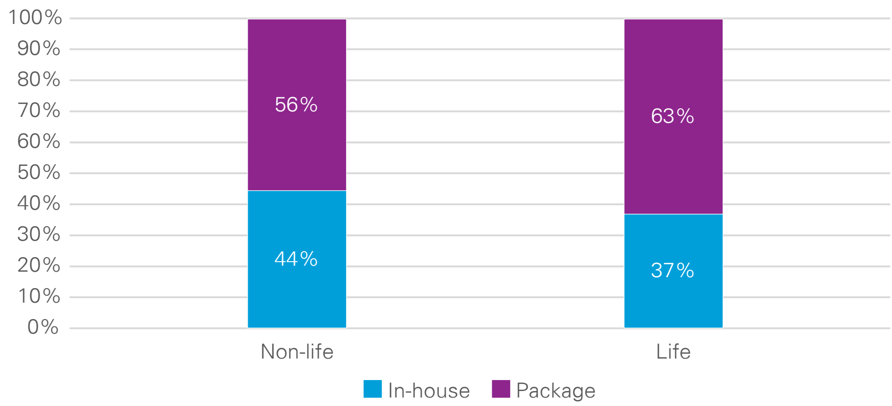

Figure 46: Asset management systems: non-life versus life

The majority of the insurance companies in our study purchase their asset management tools. Especially small and medium-sized companies have taken the step to SaaS and/or BPO delivery models. These alternative models can be of interest to them as they do not have the necessary manpower and/or budget to perform the asset management tasks internally.

An interesting finding is that, just like for policy management systems, the BPO delivery model is only preferred by medium-sized companies and in the same proportion.

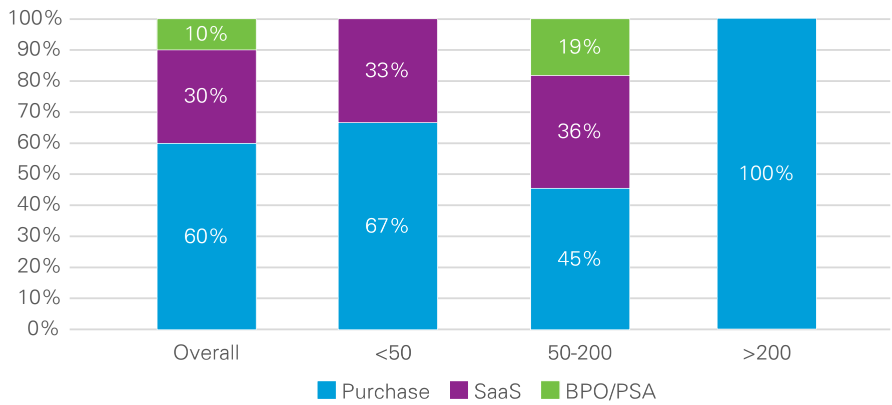

Figure 47: Delivery model (by company size)

Trend

In the KPMG Insurance System Survey 2012-2013 the following result was found:

- 27% not satisfied
- 73% satisfied

Although the number of dissatisfied respondents is a third of what it was, the number of satisfied respondents has drastically plunged, giving way to a large majority of those with mixed satisfaction.

Satisfaction with the asset management system

Only 37% of the respondents are completely satisfied with their current asset management solution.

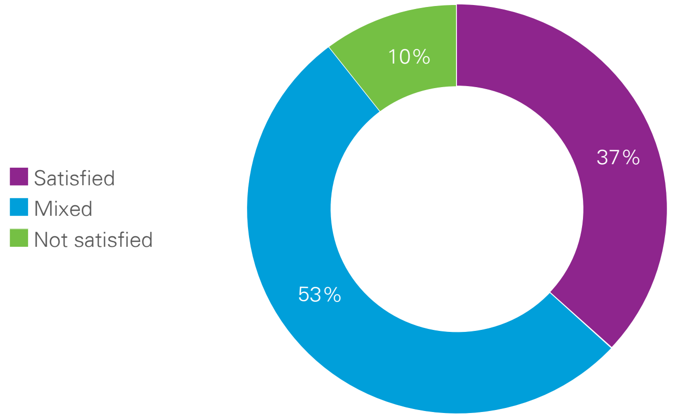

Figure 48: Overall satisfaction with asset management system

The majority in our sample have mixed feelings about or are satisfied with their current asset management system. The portion of respondents that are not satisfied with their asset management tools can be found in medium-sized companies.

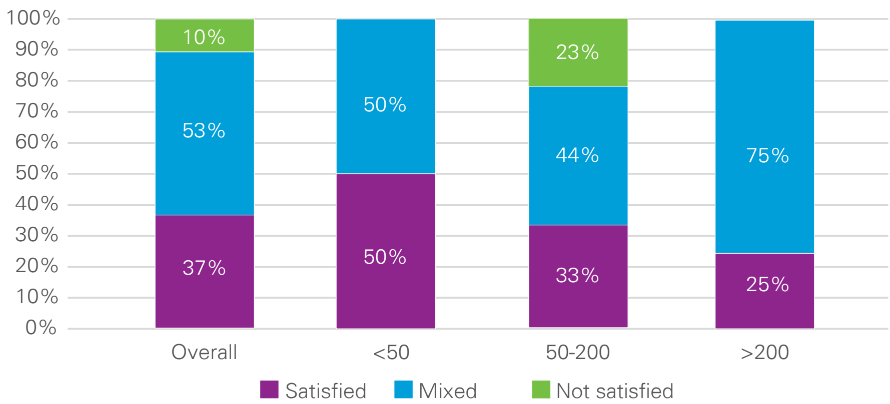

Figure 49: Satisfaction with asset management system (by company size)

Insurance companies in our panel that use a packaged asset management solution are on average far more satisfied than the ones using an in-house tool. The respondents that indicated that they were dissatisfied with their current tools, surprisingly, said that they will not change their system in the next five years. The interpretation here is the same as for the policy management system: there are obviously stronger reasons driving executives to the decision to change the system, like for instance budgetary or strategic constraints (see Figure 50 on the next page).

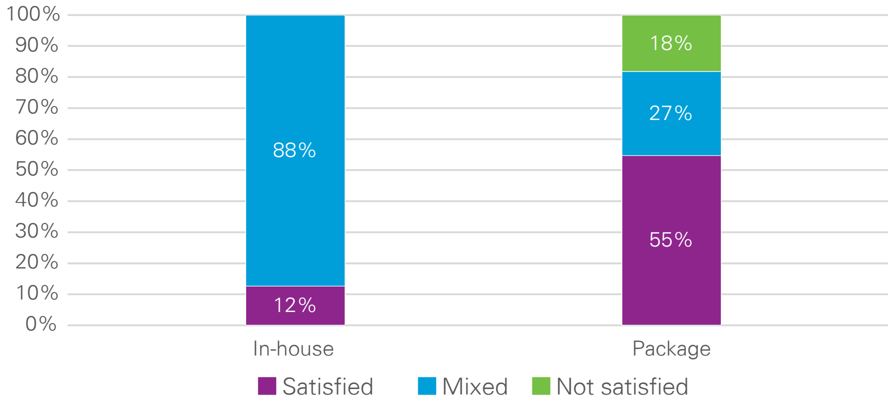

Figure 50: Satisfaction asset management system: in-house versus packaged

Roughly 60% of the respondents indicated that their asset management system gives them a moderate to strong competitive advantage.

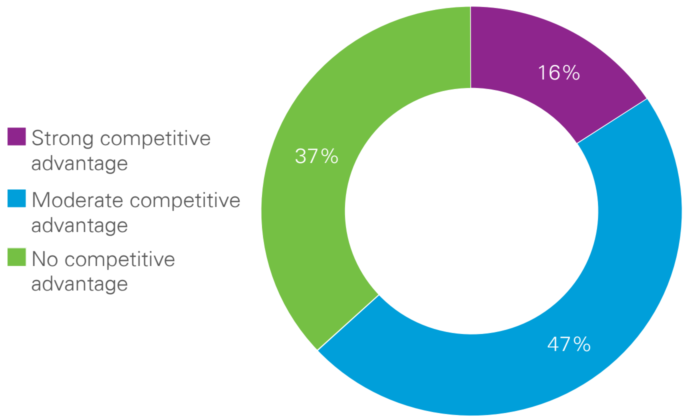

Figure 51: Competitive advantage from asset management system

Fifty-eight percent of our panel disclosed that their asset management solution helps them deliver an above-average service to their clients.

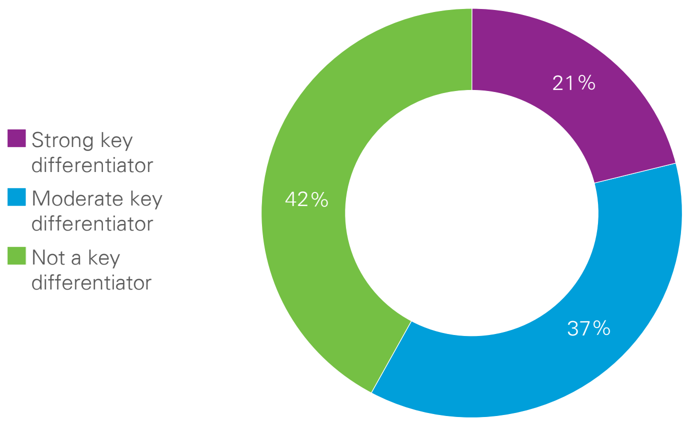

Figure 52: Asset management system as a key differentiator

Trend

Competitive advantage from asset management system (KPMG Insurance System Survey 2012-2013):

- Strong competitive advantage: 10%
- Moderate competitive advantage: 30%
- No competitive advantage: 60%

The number of companies in our population who think that their asset management system does not give them a competitive advantage has decreased considerably.

Trend

Asset management as a key differentiator (KPMG Insurance System Survey 2012-2013):

- Strong key differentiator: 10%
- Moderate key differentiator: 45%
- Not a key differentiator: 45%

Twice as many respondents are now considering their asset management systems as a key differentiator.

Insurance companies using a third-party asset management system are more convinced that it gives them a competitive advantage than those using an in-house tool are of an advantage therefrom.

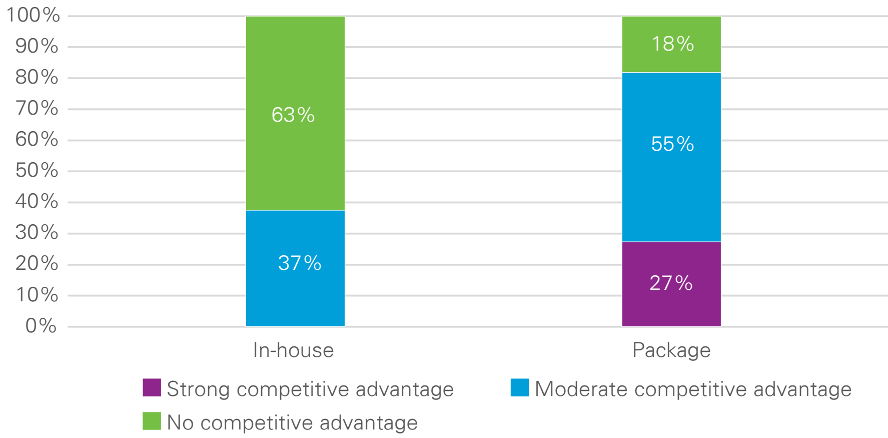

Figure 53: Asset management system as a competitive advantage: in-house versus packaged

A large majority of respondents indicating not to perceive a competitive advantage from their asset management tool currently have no plans to change this tool in the short-term.

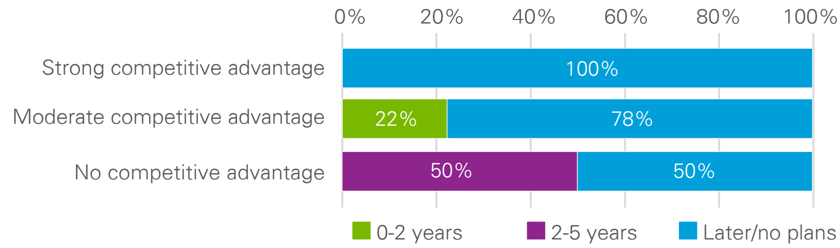

Figure 54: Correlation between competitive advantage level and horizon of replacement of the asset management system

Contrastingly, a large majority of firms not finding their asset management tool a key differentiator in rendering their clients above-average service will select a new tool in the coming years.

The largest portion of respondents that plan to change their asset management system in the coming five years can be found in large-sized companies.

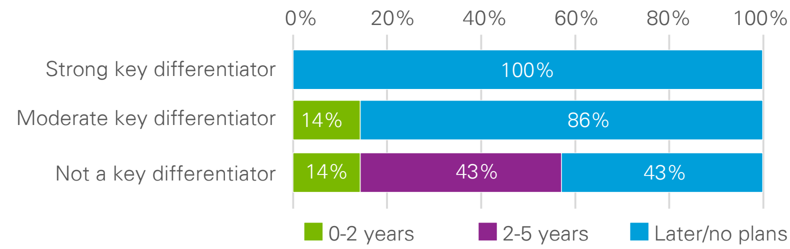

Figure 55: Correlation between key differentiator level and horizon of replacement of the asset management system

A significant part of the non-life insurers in our sample will replace their asset management system in the next two to five years. A minority of the life insurance companies will change their asset management tool in the next two years.

The same minority of life insurance companies also have plans to replace their policy management systems within the next two years.

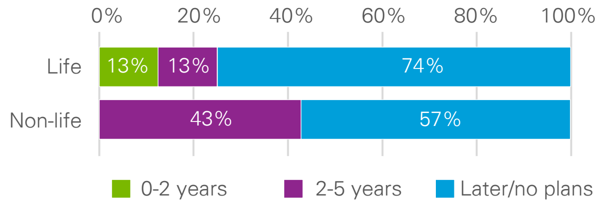

Figure 56: Correlation between type of company and horizon of replacement of the asset management system

Of the participants who considered innovation levels to have a high or moderate impact on their IT departments, none of them plan to change their asset management system. This implies that level of innovation is not a key driver in decisions to change asset management systems.

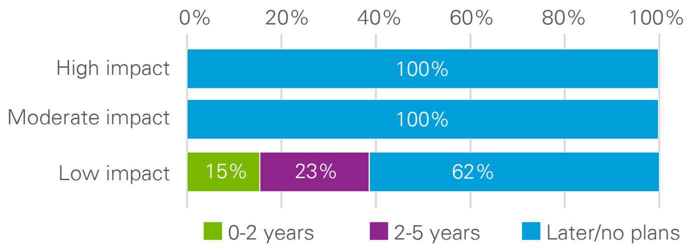

Figure 57: Correlation between innovation level and horizon of replacement of the asset management system

Replacement of the asset management system

The majority of the respondents have no intention of changing their asset management solution in the next five years.

Trend

Twenty-six percent of our sample are considering changing their asset management tool in the next five years, as opposed to 18% two years ago (KPMG Insurance System Survey 2012-2013).

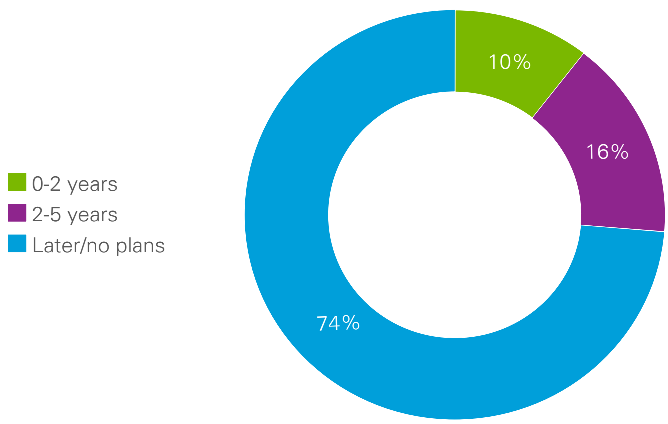

Figure 58: Horizon of replacement of the asset management system

Small and large-sized companies especially will replace their asset management solutions in the next five years.

Forty-three percent of the companies that intend to change their asset management systems are considering alternative delivery models (SaaS and BPO). This trend is especially present in small and medium-sized companies.

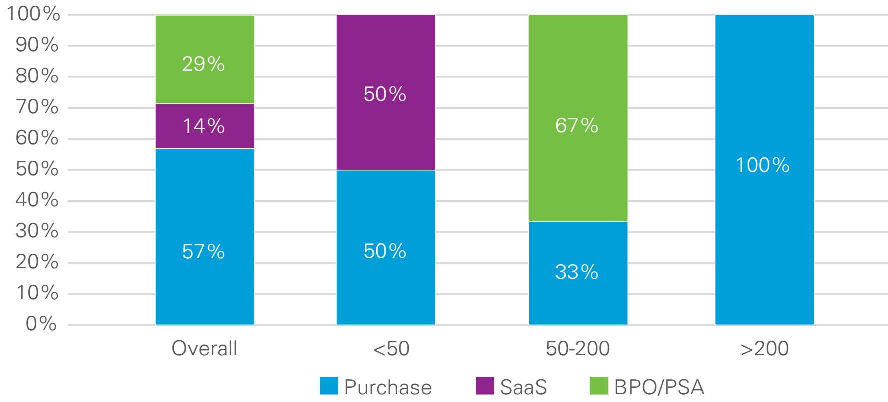

Figure 59: Targeted delivery model (by company size)

The results show the same trend as does the policy management tool: a large majority of small and medium-sized companies have no plans at all to replace their asset management system despite the fact that they expressed mixed satisfaction levels in it.

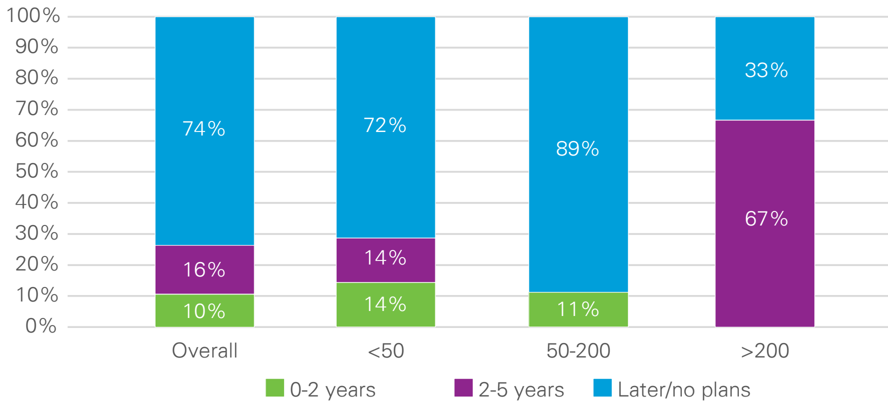

Figure 60: Horizon of replacement of asset management system (by company size)

Half of our panel plan to replace their asset management systems in the next five years. Only a small minority of the packaged asset management systems will be changed. These findings are in line with the satisfaction of both types of tools.

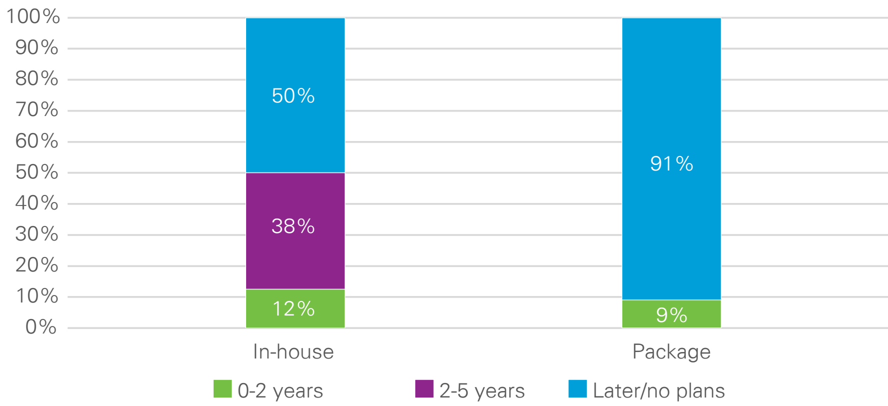

Figure 61: Horizon of replacement of the asset management system: in-house versus packaged

Reasons to change the asset management system

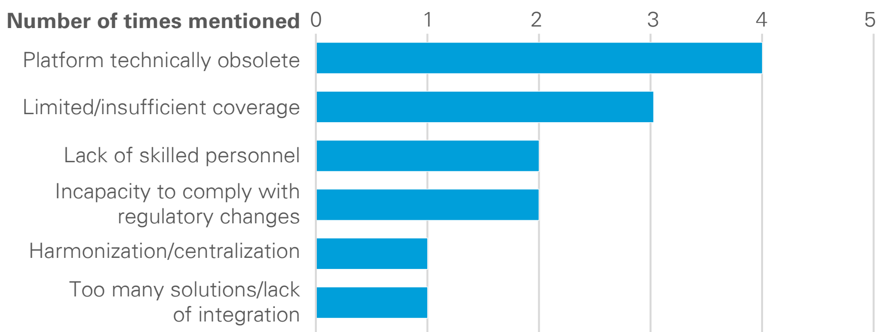

Figure 62: Reasons to replace asset management system

Our respondents will replace their asset management solutions for the following reasons (see Figure 63 on the next page):

1. Current system is outdated (technically, functionally or regarding regulation requirements): 70%
2. Need for uniformization: 15%
3. Price of existing IT set-up: 15%

Trend

Reasons to replace asset management system (KPMG Insurance System Survey 2012-2013):

1. Current system is outdated
2. Need for uniformization
3. Price of running current system
4. Relationship with software company

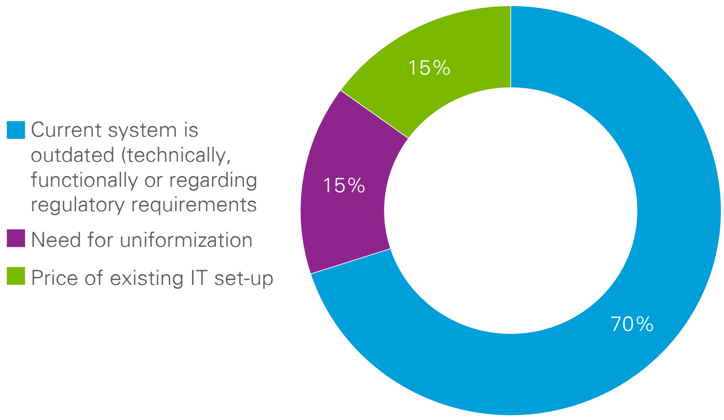

Figure 63: Reasons to replace asset management system

The first reason (current system is outdated) can be further broken down:

1. System does not offer all the features the company needs: 44%
2. System does not use the latest technology: 33%
3. System is not able to handle new legal frameworks: 23%

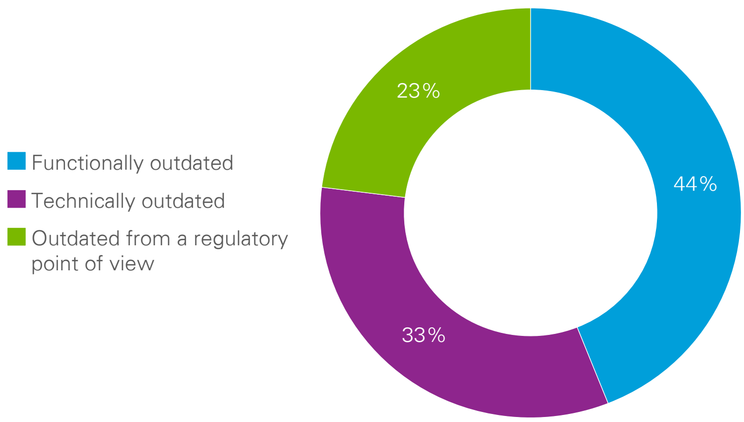

Figure 64: Reasons behind policy management system being outdated

5 Accounting system

Market players

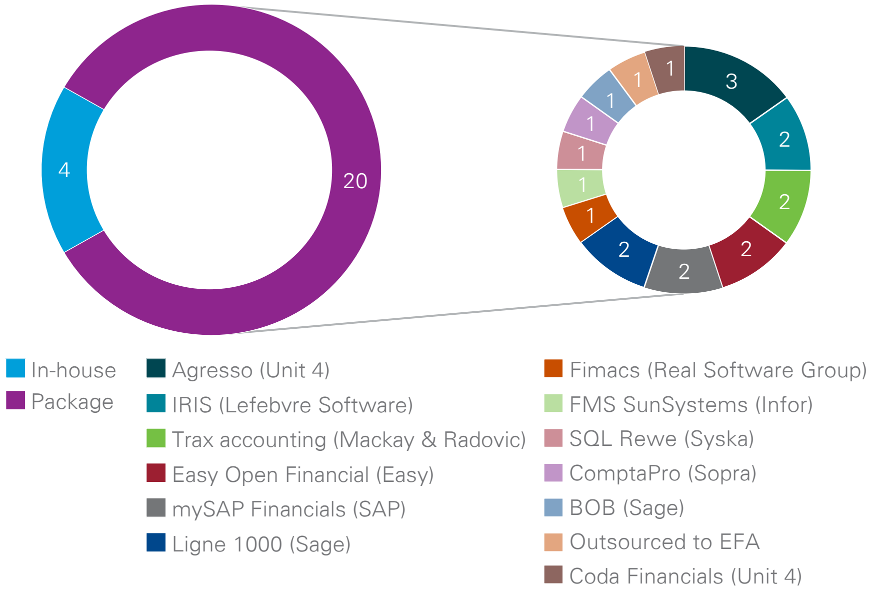

Figure 65: Accounting system: in-house versus packaged

A large majority (83%) of the insurance companies in our population use third-party accounting systems.

On the same lines as asset management systems, insurance companies are looking more towards packaged solutions than towards accounting management systems. These solutions seem to meet companies' needs and satisfy market requirements.

Some companies in our sample use more than one accounting system, explaining figures higher than the number of participants.

Trend

In the insurance sector, the accounting systems market continues to be very fragmented, i.e. there are many players each with a small market share. One conspicuous change in the last two years is the emergence of some companies who use in-house accounting tools, though they remain a minority. (KPMG Insurance System Survey 2012-2013).

Unit 4 (Agresso and Coda Financials) is the market leader in our study. Agresso is used in small and medium-sized companies while Coda Financials is only used in large companies.

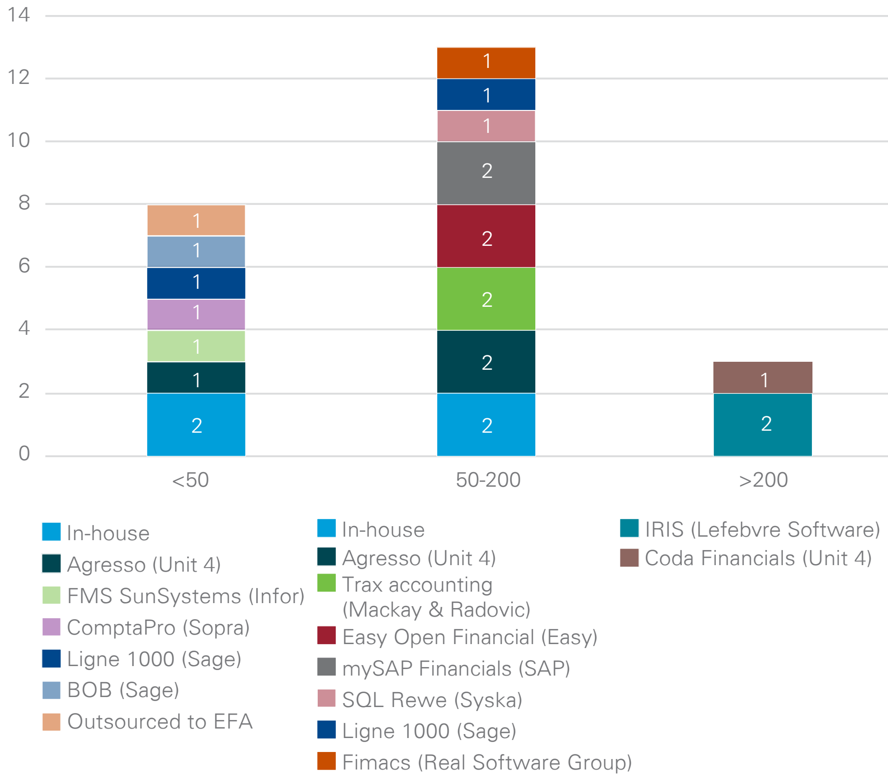

Figure 66: Accounting system (by company size)

Only a minority of the companies in our sample use in-house accounting systems. This can indicate two things:

1. It is difficult to develop and build an in-house accounting system
2. The accounting systems available on the market are good and mature

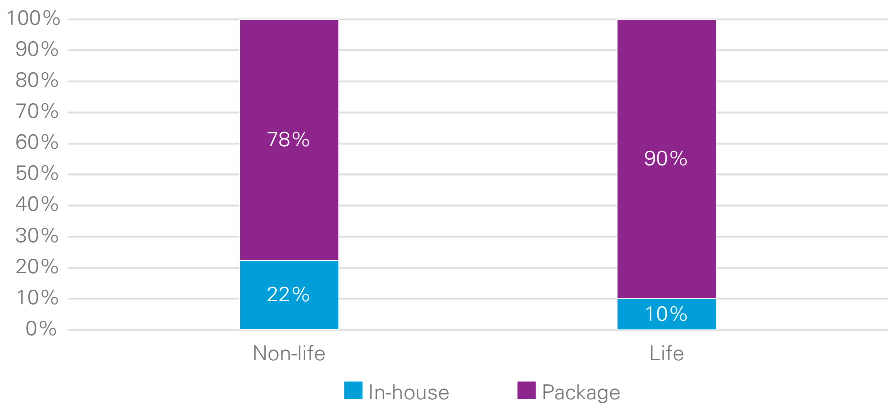

Figure 67: Accounting systems: non-life versus life insurance companies

Out of the three main systems, the accounting system is the least outsourced on our panel. This might indicate the importance of this tool for insurance companies or the lack of outsourcing options. (see Figure 68 on the next page)

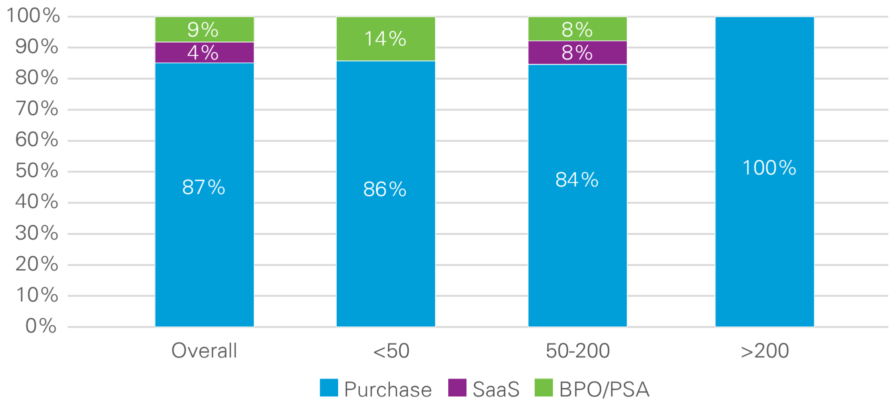

Figure 68: Delivery model (by company size)

Satisfaction with the accounting system

Trend

Overall satisfaction with the accounting system (KPMG Insurance System Survey 2012-2013):

- Very satisfied: 12%
- Satisfied: 76%
- Not satisfied: 12%

In general, the respondents are slightly less satisfied with their accounting solution than two years ago.

About half of our sample are satisfied with their accounting systems, while 19% of them are not. All of the unsatisfied companies are medium or large-sized.

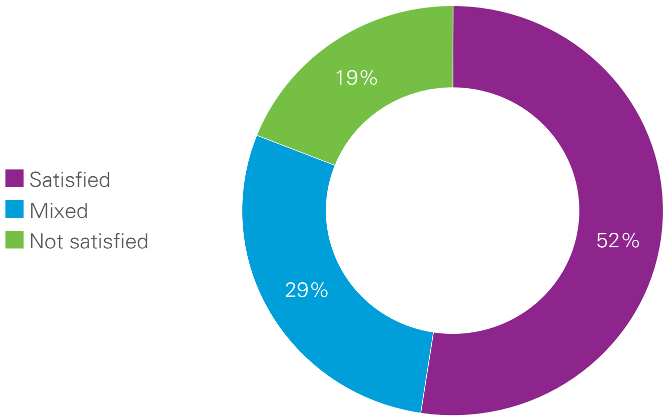

Figure 69: Overall satisfaction with accounting system

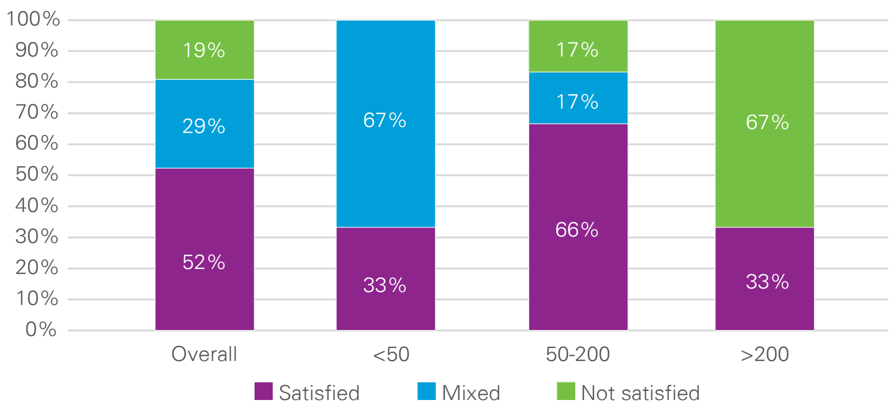

Figure 70: Satisfaction with accounting system (by company size)

Even if the satisfaction rates are about the same (around 50%) for both in-house and packaged systems, the results show that all of the unsatisfied respondents are using packaged solutions.

This might indicate that packaged solutions are not completely adapted to the need of insurance companies in Luxembourg.

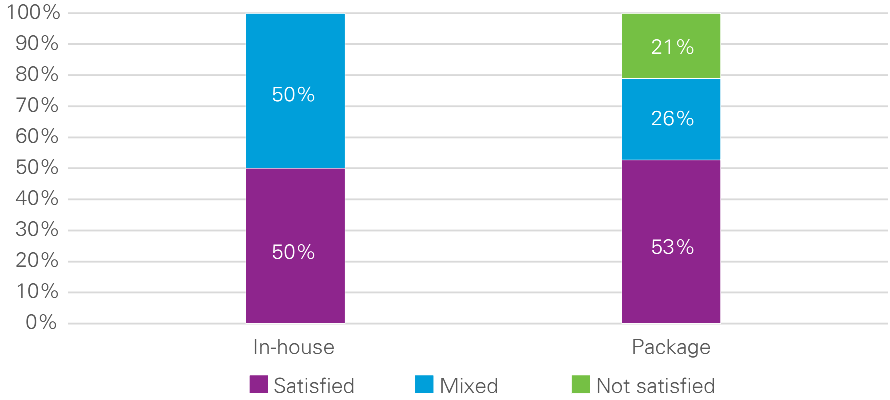

Figure 71: Satisfaction with accounting system: in-house versus packaged

Seventy-six percent of our panel disclosed that their accounting system gives them no competitive advantage.

The same proportion of our sample indicates that their accounting tool does not help them render above-average services.

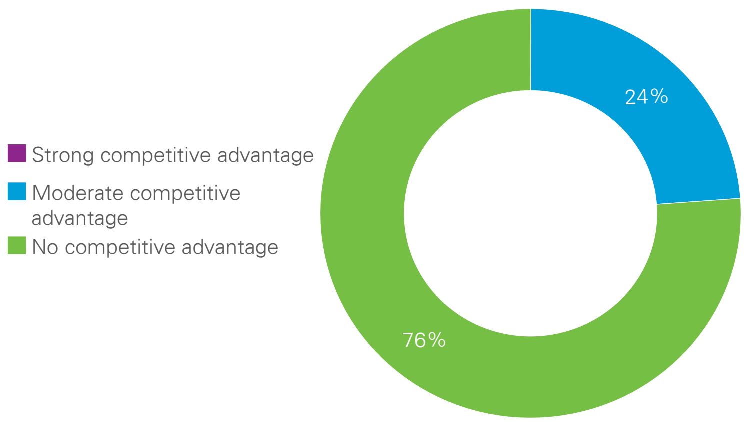

Figure 72: Competitive advantage from accounting system

Trend

Competitive advantage from accounting system (KPMG Insurance System Survey 2012-2013):

- Moderate competitive advantage: 10%
- No competitive advantage: 90%

More respondents are convinced that their accounting solution gives them a competitive advantage than two years ago.

Trend

Accounting system as a key differentiator (KPMG Insurance System Survey 2012-2013):

- Moderate key differentiator: 14%
- Not a key differentiator: 86%

More respondents are convinced that their accounting solution enables them to render quality services to their clients than two years ago.

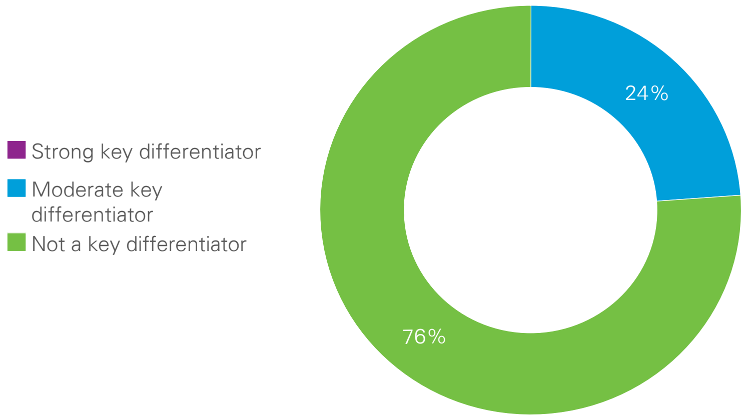

Figure 73: Accounting system as a key differentiator

Respondents that use an in-house accounting tool think on average that this tool gives them a bigger competitive advantage than the ones using a third-party system.

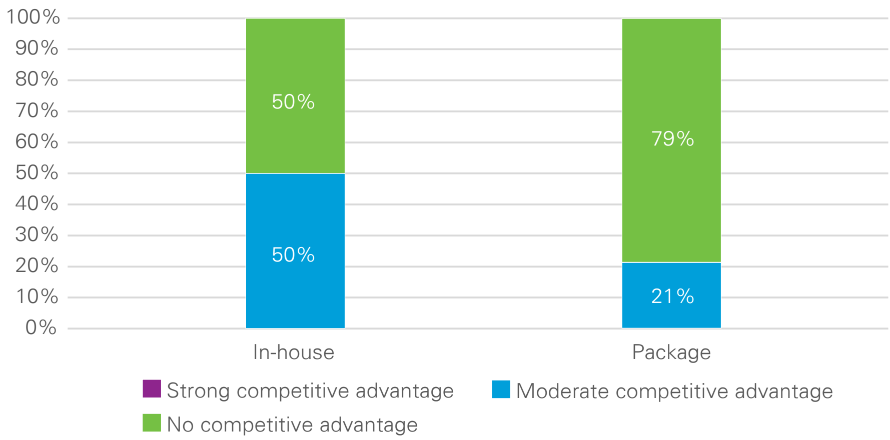

Figure 74: Competitive advantage from accounting system: in-house versus packaged

Unlike the policy management and asset management systems, our analysis revealed a correlation between the competitive advantage/key differentiator level and the replacement horizon of accounting systems.

As specified hereafter, a considerable number of respondents will change their accounting solution in the next five years.

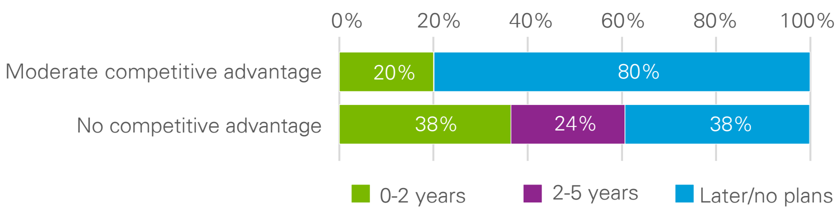

Figure 75: Correlation between competitive advantage level and horizon of replacement of the accounting system

Of respondents specifying that their accounting system gives them no competitive advantage, 62% will replace their system in the next five years. Fifty-seven percent of those whose accounting tool is not a key differentiator leading to above-average service will do the same.

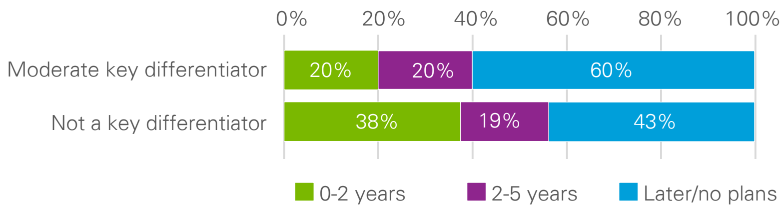

Figure 76: Correlation between key differentiator level and horizon of replacement of accounting system

About half of the accounting systems will be replaced in the coming five years. This percentage is similar for life and non-life insurance companies.

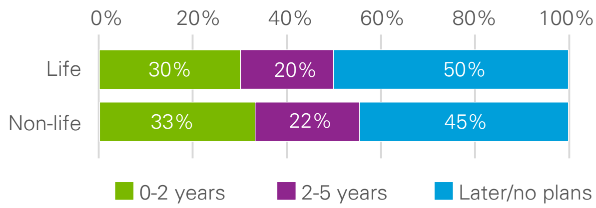

Figure 77: Correlation between type of company and horizon of replacement of accounting system

None of the participants who disclosed that innovation level has a high impact on their IT departments have concrete plans to replace their accounting systems. Surprisingly, however, a minority of participants who do plan to do so consider innovation level to have a low or moderate impact on their IT departments.

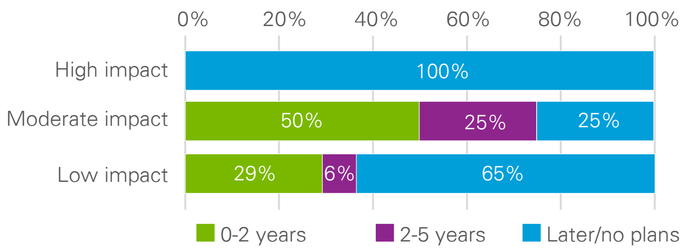

Figure 78: Correlation between innovation level and horizon of replacement of the accounting system

Replacement of the accounting system

Fifty-two percent of our panel disclosed that they have no plans to change their accounting systems in the next five years. Unlike the two other systems (policy and asset management), this proportion is linked to the fact that the greater part of our participants are satisfied with their current accounting tool.

Almost half of our sample will replace their accounting system in the coming years. The majority of this group indicated that they had mixed feelings about or were not satisfied with their current accounting solution. Small and large-sized insurance companies especially have the intention of changing their accounting software.

Trend

Forty-eight percent of our panel are considering replacing their accounting tool in the next five years, as opposed to 29% with this intention two years ago (KPMG Insurance System Survey 2012-2013).

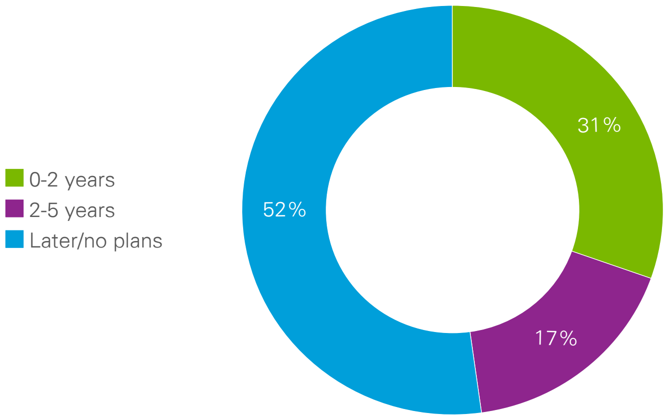

Figure 79: Horizon of replacement of accounting system

Thirty-seven percent of the companies that are planning on changing their accounting systems are looking into an SaaS tool. This trend is only applicable for medium and large-sized insurance firms on our panel.

Remarkably, no one in our sample is considering a BPO delivery solution.

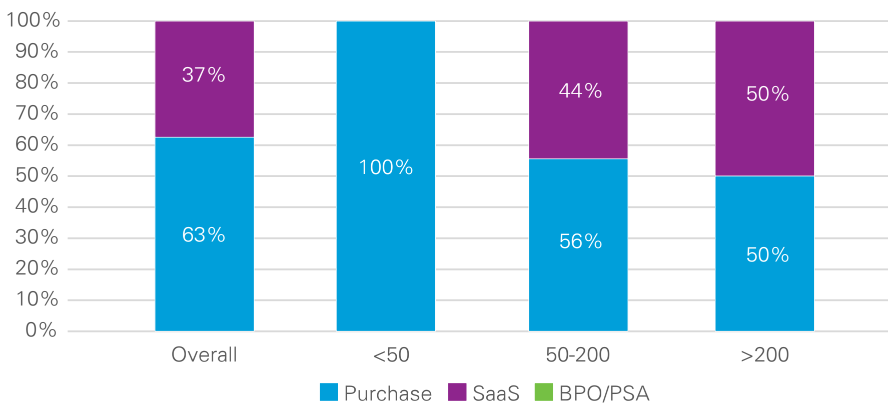

Figure 80: Targeted delivery model (by company size)

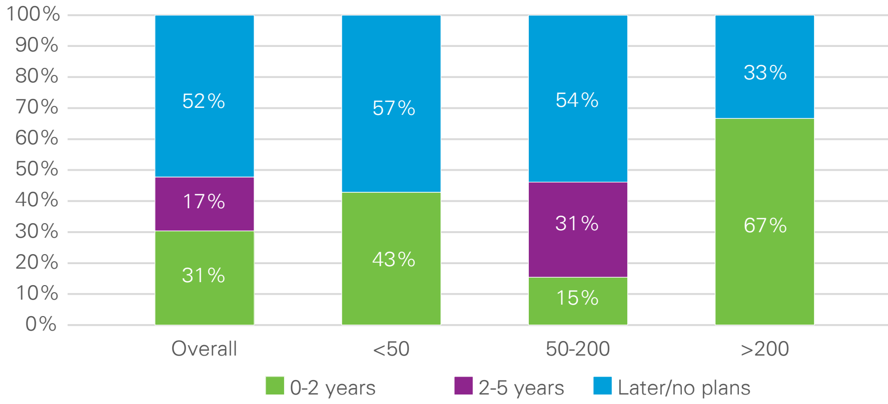

Figure 81: Horizon of replacement of accounting system (by company size)

Only insurers that use a packaged accounting system will replace this tool in the coming five years. The in-house accounting systems will not be changed. This finding seems to contradict the fact that half of the companies have mixed feelings about their in-house accounting system.

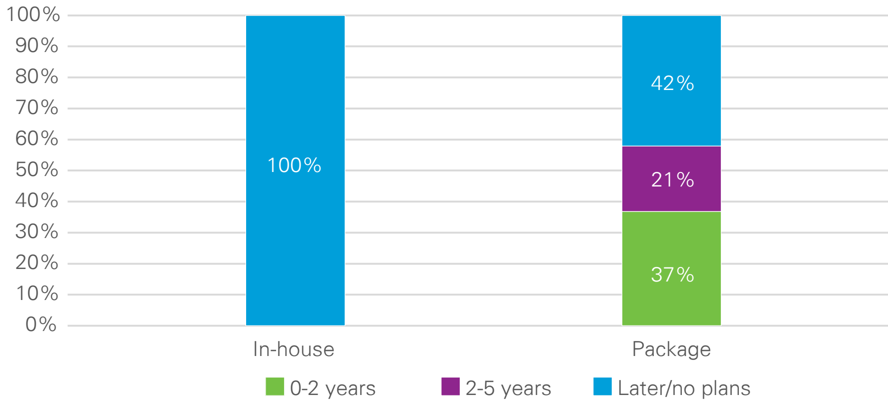

Figure 82: Horizon of replacement of accounting system: in-house versus packaged

Reasons to change the accounting system

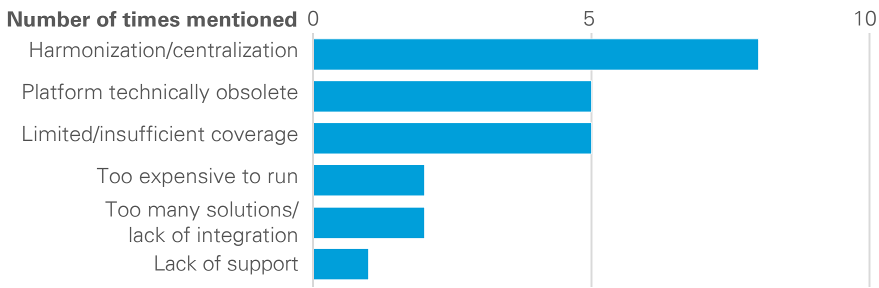

Figure 83: Reasons to replace accounting system

Our panel put forward the following reasons for replacing their accounting systems:

1. Current system is outdated (technically, functionally, or regarding regulatory requirements: 48%
2. Need for uniformization: 43%
3. Price of existing IT set-up: 9%

Trend

Reasons to replace accounting system (KPMG Insurance System Survey 2012-2013):

1. Current system is outdated
2. Need for uniformization
3. Price of existing IT set-up
4. Relationship with software company

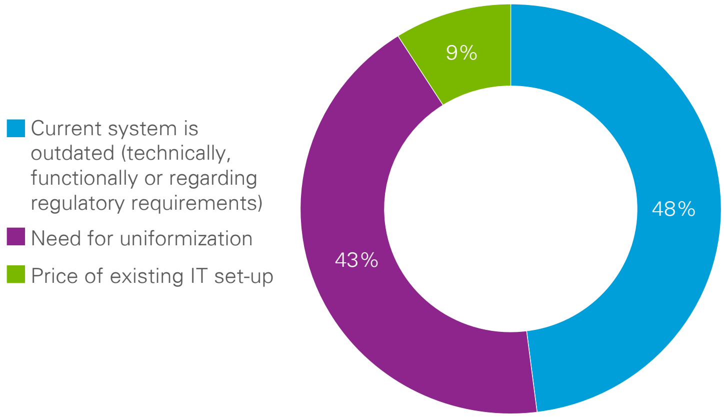

Figure 84: Reasons to replace accounting system

When we look into the first reason (current system is outdated), the following split can be made:

1. System does not use the latest technology: 46%
2. System does not offer all the features the company needs: 45%
3. System is not able to handle new legal frameworks: 9%

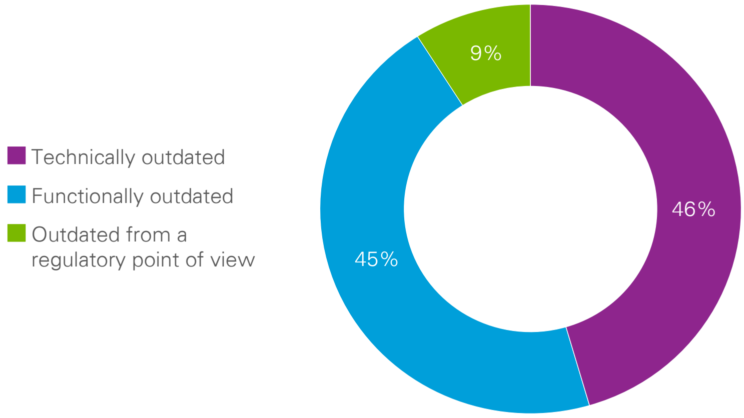

Figure 85: Reasons behind accounting system being outdated

6 Outsourcing of IT functions

Outsourcing of IT functions

Comparison

Our analysis shows that many insurance companies in our sample have outsourced various IT functions over the last two years. This observation contradicts the fact that our panel had no intention to outsource additional IT functions in 2012 (KPMG Insurance System Survey 2012-2013).

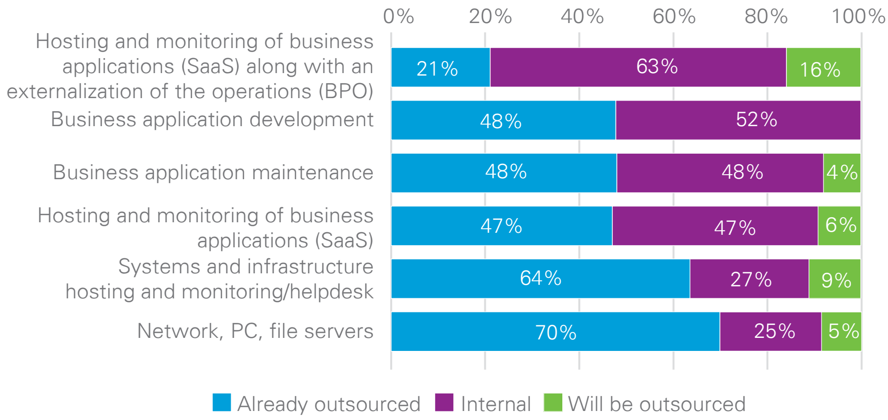

Figure 86: Outsourcing of IT functions

After analyzing the responses of the participants we can conclude that outsourcing IT functions is on most insurance companies' agendas. Of the functions that have already been outsourced, the following were the most popular:

1. Network, PC and file servers
2. Systems and infrastructure hosting and monitoring/helpdesk
3. Business application development and maintenance

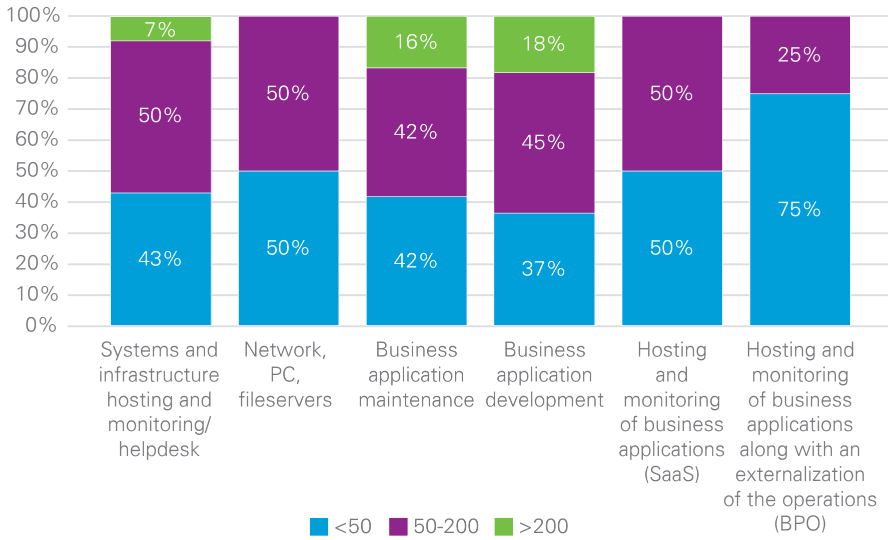

Figure 87: IT functions already outsourced (by company size)

The main reasons for outsourcing specific IT functions are:

1. Focus on core business
2. Reduce costs
3. Access broader range of services/packaging
4. Streamline/facilitate the IT evolution

Comparison

KPMG IT Outsourcing Provider Study 2014 found out that the main reasons for outsourcing in the financial sector are:

- Flexibility/ scalability: 62%
- IT/ operational risk reduction: 48%
- Cost optimization: 45%

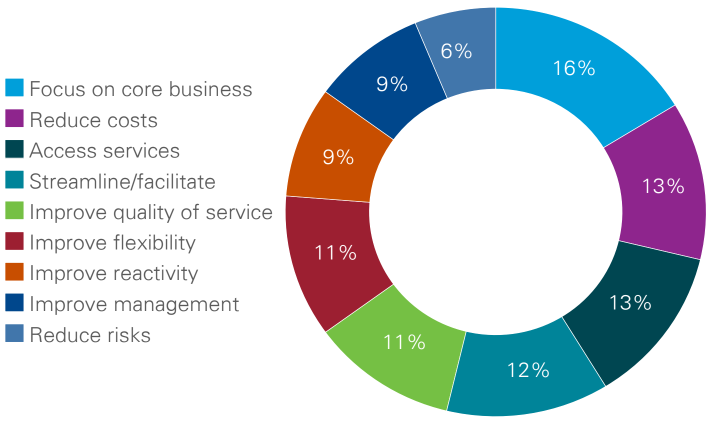

Figure 88: Reasons for outsourcing

The majority of the insurance companies that have outsourced their IT functions are partially satisfied with the results of this decision. However, the number of respondents who are satisfied with the results of outsourcing IT functions has fallen sharply. In 2012, 61% were positive, against 27% now.

This can partially be explained by the fact that insurance companies on our panel have noted more difficulty related to outsourcing than in 2012 (KPMG Insurance System Survey 2012-2013).

Comparison

Satisfaction with outsourcing (KPMG IT Outsourcing Provider Study 2014):

- Very satisfied: 42%
- Satisfied: 45%
- Partially satisfied: 10%
- Not satisfied: 3%

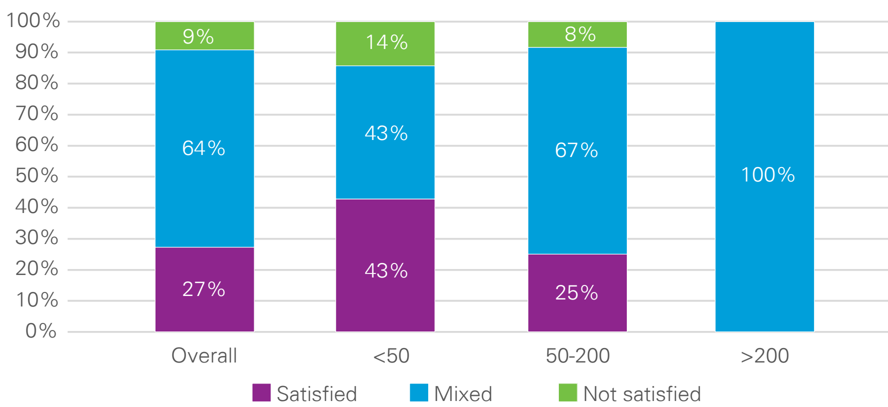

Figure 89: Average results of outsourcing (by company size)

Insurance companies that have already outsourced IT functions cited the following main problems (see Figure 90 on the next page):

1. Contractual issues
2. Operational issues
3. Quality issues

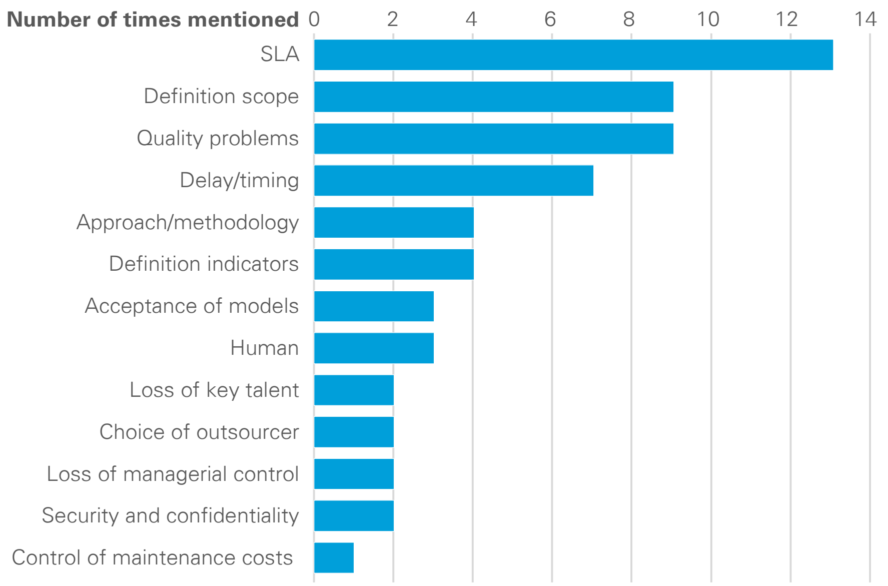

Figure 90: Main difficulties outsourcing

The Solvency II Directive and the PSA law contain specific rules for the outsourcing of functions and activities. In order to comply with these rules, insurance undertakings have to take specific actions.

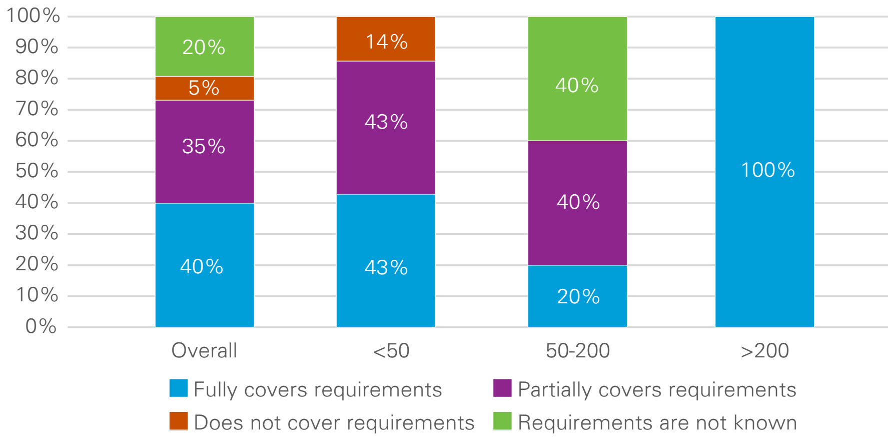

Figure 91: Solvency II outsourcing constraints (by company size)

Our analysis shows that small and medium-sized companies especially still have to work ahead to align themselves with the requirements related to outsourcing found in Solvency II Directive and the PSA law.

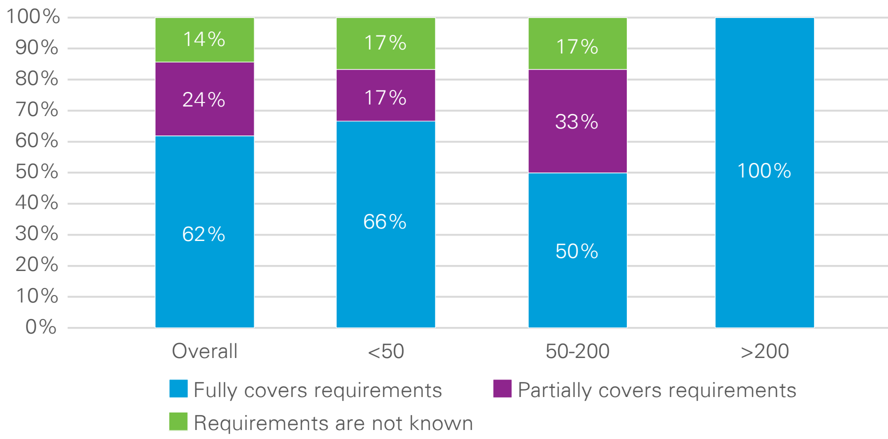

Figure 92: PSA outsourcing constraints (by company size)


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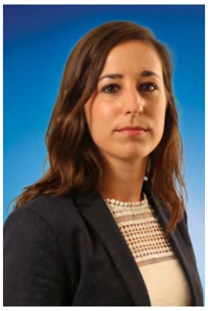

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