

ADVISORY

Insurer and pension service provider survey

Trends report

FINANCIAL SERVICES





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Executive Summary





Against the backdrop of a dynamic and uncertain economic climate, change is the new constant, and with this change comes challenge. As does every sector, the insurance and pension service provider industry, too, faces several challenges. In this context (see 'setting the scene'), we conducted a survey to investigate some of the industry's primary challenges and the reason why they can be difficult to overcome.

In an environment of fast-paced technological change, the insurance and pension service provider industry continues to evolve rapidly. The use of new technologies is generating new opportunities. New entrants (with no legacy) are well-positioned to lead this change, particularly by leveraging mobile technology and social media. Another change facing the insurance industry is the digital insurer. Digital insurers derive no legacy and benefit from their data-driven business models (e.g., Google, Amazon, Apple, and other retailers), which fundamentally changes the way in which insurance is purchased and sold.

According to our survey results, many insurers are in the process of either replacing or modernising their policy administration systems and are simultaneously seeking solutions to exit legacy segments and/or sell non-core books for increased efficiency, agility and flexibility in their products and services management. Prior to conducting the survey, we anticipated strong focus among insurers and pension service providers on innovation; however, the survey results reveal that the reality is different. Innovation scores very low on the priority list for pension service providers and insurers. This suggests that companies are focused first on raising the bar of their existing IT (legacy) landscape and on reducing cost. Equally critical is making the landscape increasingly adaptable to technological change. Our survey also shows that insurers and pension service providers tend to allocate the majority of their budgets on rationalising and standardising their application landscape. So the effort is more in realising the pre-condition to innovate.

Along with indicating limited focus on innovation, the survey results suggest that respondents differ with respect to the competitive advantage of IT. Some pension service providers and life insurers see no competitive advantages of IT. However, at every segment, at least one company understands the strong competitive edge that IT offers. This contrast between responses is noteworthy.

The challenge of using new (internet-based) technologies is that companies must pay adequate attention to information security to mitigate the risk of losses due to, for instance, cybercrime attacks, and help ensure compliance with both local and global regulations. We expected enhanced attention for

Innovation
scores low

The focus is on
reducing legacy
systems



Big data
has yet to
be executed
upon

More work has
to be done
with **fewer**
people

cyber security due to some recent scandals, but the survey results indicate that improving information security is a relatively low priority for many insurers.

Further, the interest among insurers and pension service providers to outsource their IT activities such as housing and hosting appears to be on the incline. In reality cloud computing, SAAS and BPO outsourcing initiatives are limited, and 43 percent of our survey respondents are reconsidering in-sourcing functions.

Big data is a hot topic, because new answers can be found in massive databases. Internal and external data can be used to better identify customers or potential clients to do business with. But even more important is to know which customers to avoid or charge more fees due to, for example, fraudulent behaviour. These competitive advantages of big data are being discussed but appear not to have been executed upon yet.

Data quality is also an important topic and a prerequisite in a data-driven business model. It needs to be improved and extended to cope with regulatory requirements and new distribution challenges to gain insights on customer needs. Data quality becomes all the more important when customers can see their portfolios via a 'my domain' website. Thus, it is a serious challenge, because upgrading it is excessively time consuming and, therefore, expensive.

Quite contradictory to the industry's challenges on the technology front is an anticipated decrease of IT staff, as reflected in the survey results. This expectation is aligned with the several announcements of personnel reductions within the financial sector. It is interesting to note that the survey shows that more than two-thirds of IT budgets will be equal or even increase in relation to previous year. More specifically, one in three companies increases its budget for change projects with more than 10 percent. These facts seem contradictory and indicate that work needs to be done with fewer people.

If we summarise the outcome of the survey, the progress on reducing legacy is limited and makes insurers vulnerable. The question is to what extent will traditional insurers progress on mitigating legacy with fewer people in a market that demands innovation and low costs?

Limited innovation – along with the struggle of traditional insurers and pension service providers to cope with legacy and cost reduction – gives new entrants with green field solutions the potential to generate market share with the use of new technology.

Thus, increased competition at the cost level and client satisfaction between insurers and pension service providers may be expected. However, we should not forget the new entrants. Competition is likely to be tough, because new players will have no legacy systems/high fixed cost structures, and the young generation will not likely be convinced with traditional branding alone.

Setting the scene

The organisation or individual behind the insurance policy is becoming less significant – a trend that is already visible in the banking and mortgage industry. Traditional branding, expensive commercials and acquired loyalties are no longer distinctive; instead, we are in an era where 'Likes' or 'Tweets' provide the real competitive edge. Of course, critics argue that Tweets, for example, could focus on negative services/experiences, leading to adverse publicity and, thus, negative outcomes. Nevertheless, the power, reach and influence of the social media cannot be trivialised.

and the need for greater interactive communication with participants. This could impact the prevailing IT pension service provider landscape and, therefore, influence strategic decisions to make the IT landscape future-proof.

Strategic decisions are required to make the IT landscape future-proof

The organisation behind the policy becomes less important

Pension service providers face the challenge of reducing cost levels and being transparent about their cost structure and expected payment levels. In addition, pension service providers continue to await new regulation on pension contracts, but expect to invest in or replace their systems to adhere to the new regulation

The youth's expectation from insurers today is flexibility – to change a policy online or submit car damage details, including photographs, directly after an accident via their mobile phones, for example. In today's era of technology, the multiplicity of free apps is perceived as a standard and almost essential functionality to offer rather than a novelty or luxury. In the case of pension service providers, apps are not as essential, since participants usually do not check their personal pension overviews daily or monthly. However, apps can be instrumental in attracting the younger generation.

New entrants with green field solutions **have** the **potential** to **generate** market share



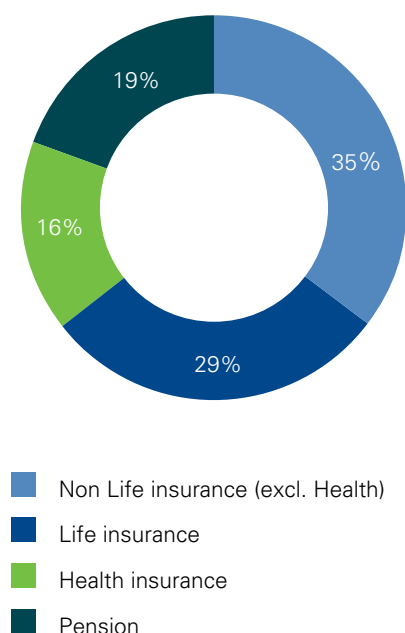


1 Introduction



The insurance and pension service provider industry is expected to face significant changes in the future due to decreasing margins, increasing regulatory requirements and - especially for insurers - less new production, evolving technologies and new (international) competitors. All these developments are likely to put considerable pressure on the business and cost models of traditional insurers and pension service providers.

Figure 1
Segmentation of survey respondents



The genesis of our insurers and pension service provider system survey lies in the many enthusiastic responses we received to both of our banking surveys. The positive response encouraged us to conduct this survey, which aims to provide insight into the current state of the insurance and pension service provider industry. It also focuses on trends related to IT challenges and reflects our vision on IT trends within the industry in the Netherlands. We also performed benchmarking between these two sectors and the banking sector.

A total of 14 companies participated in the survey, including mainly mid-sized insurers and pension service providers. The survey is based on both interviews and questionnaires and features insurers and pension service providers that focus primarily on the Dutch market. For most companies surveyed, IT organisation is centralised. Therefore, this survey focuses on the non-life, life, health and pension segments. As most insurers focus on more than one segment, the 14 companies collectively were surveyed 31 times to cover their presence in all the active categories. The results of a segment include all the companies active in that segment, with their specific results. The following graph shows that all four segments account for a significant share of the survey.

The report should be of interest to any insurer, pension fund and pension provider currently seeking to determine its IT strategy to accommodate growth and transformation.

Amstelveen, December 2014
Peter van Toledo and Fons Basten



2 IT trends



The world is rapidly changing. The financial sector is dynamic in nature, partly due to continuously evolving and new possibilities in IT. In this context, when we launched the survey, the most relevant trends were selected, and the respondents were then asked to rank these.

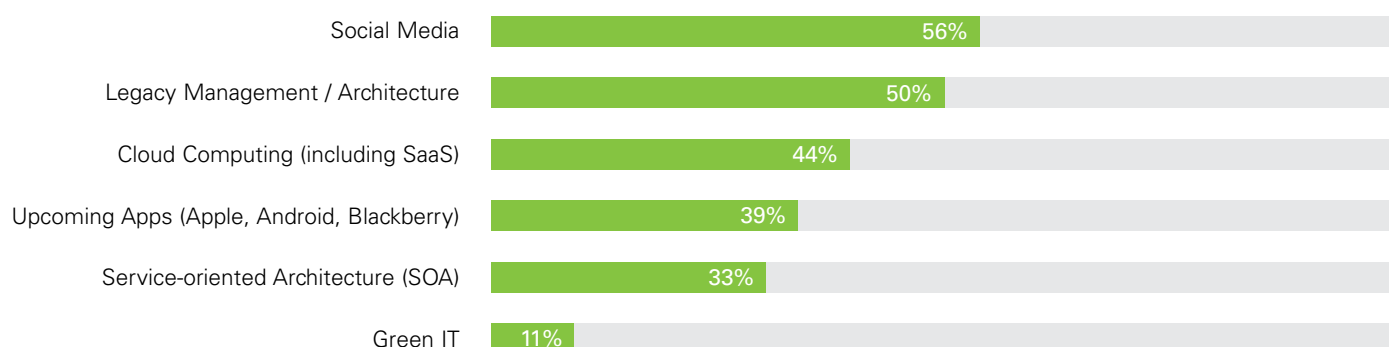
IT trends are very important, as they contribute significantly to the competitive advantage of an insurer or pension service provider. Therefore, it is important to focus and invest in the right IT trends. This chapter focuses on the most noteworthy trends within the insurance and pension service provider industry.

In our survey, we asked the respondents about IT trends in the insurance and pension industry.

The majority (56 percent) identify social media as an important IT trend. As with many new technologies, the business case and return on investment (ROI) for such initiatives are not always clear or well-defined, as creating a plan is easy, but realising the benefits is just as difficult. However, the initial feedback is extremely positive. One insurer reported a 200 percent improvement in self-service usage as a result of new web and mobile programmes. Another example in the US is the way mobile technology helped non-life insurers effectively respond to large-scale disasters due to tornados and severe weather conditions that caused havoc in six Midwestern states in November 2013. The insurer received more than 7,500 homeowners' claims across the six states. In addition to sending representatives and catastrophe response vehicles onsite, a new smart phone application called PocketAgent also played

Figure 2

Applicability of each trend for the respondents





The majority of respondents identify **social media** as an **important IT trend**



an important role, enabling policy holders to file claims quickly and easily from remote locations. [www.insurancenetworking.com/news/Insurers-4-Most-Promising-Tech-Initiatives-33442-1.html]

Indeed, social media is crucial to engage the youth and is, therefore, a crucial tool of the future. This trend complies with the fact that insurance products are more often sold via the internet and that social media compensates for the loss of human contact. ING expects that in two years, 95 percent of all customer communication will be digital [<http://finno.wordpress.com/2013/11/05/ing-over-2-jaar-verloopt-95-van-het-klantcontact-digitaal>]. Moreover, the branding of products and communication between insurers and customers often takes place via social media – for example, the number of ‘Likes’ on an insurer’s Facebook page. Every ‘Like’ can be seen as an ambassador and becomes even more important when this person has potential customers as (Facebook) friends. Traditional branding is no longer distinctive [<http://amweb.nl/branche-724322/de-25-sterkste-verzekeringsmerken-van-nederland>].

Improving the application landscape is also considered critical, as reflected in the respondents’ selection of legacy management/architecture (50 percent) and cloud computing (44 percent). Both trends indicate that improvements in the application landscape and IT services are still needed. Legacy management remains a concern for insurers and pension service providers. Both sectors are hampered by systems built a long time ago, which limits cost-cutting programmes and new product development, marketing campaigns and other initiatives. Based on observations, long-lasting programmes appear to be necessary to phase out legacy, which also affects budgets and resources for innovation projects.

Cloud computing is another aspect on the IT management agenda. In this context, DNB (Dutch Central Bank) recently removed a major roadblock to initiating cloud computing. It made arrangements with some cloud providers with respect to the ‘right to examine’. This opens the door for cloud computing; however, the financial sector continues to be restrained in its use of cloud computing on a large scale. As a result of data confidentiality and limited experience, the cloud trend is relatively low on the radar currently. However, the trend is likely to gather pace as result of action stemming from cost-cutting programmes.

In our survey, 39 percent are in the process of creating an app to facilitate customer interaction. We expected this number to be higher in the current environment, given the younger generation’s inclination towards smart phones and apps. They are used to access anytime, anywhere. An app for them is no longer a surprise; they simply expect one!

Apps have also been rolled out for agents, enabling them to offer quotes and calculate premiums on their phones or tablets. On the other hand, insurers still have to take significant strides towards social media adoption [Social Media Insurance Monitor van ITDS 2013]. This survey reveals that considerable attention is paid to web care and promotion campaigns, mostly via Twitter. Only a small group develops apps. The use of Facebook by insurers is on the rise, with Kroodle as a real differentiator. This means that, in general, insurers make limited use of the possibilities of mobile computing. This is in contrast to the younger generation, which intensively leverages the potential of mobile



computing. In the sum, the global trend of 'mobile first' seems to be less common for the insurance industry. The need to roll out an app is possibly less attractive for pension service providers because pension overviews are rarely checked or modified continuously or frequently.

39 percent of the companies surveyed are **creating an app**

The non-life insurance industry differs from the life insurance and pension industry, especially with respect to claims processing. As many insurance professionals say, the moment of truth for insurance policies is the moment of claims processing. If the claims process does not confirm the expectations of a client, the probability of the customer switching loyalties to another insurer is high. Therefore, claims handling is critical to sustainable policy administration. An innovative claims-handling app, including supporting facilities for the claims department, is a major differentiator, especially for the youth. On the other hand, various insurance software suppliers offer apps as part of their total software solution, which makes the gap between legacy and a standard package more visible.

Big data helps to use **more internal and external data** to **improve decision making**

The survey shows that Service-oriented architecture (SOA) is another noteworthy trend for insurers and pension service providers. The benefits of SOA are increased flexibility and reusability of the current functionality. However, the previously mentioned issues resulting from legacy also prevent rapid migration to this modern architecture. The importance of SOA for a company is typically dependent on whether the company wants to simply focus on standard packages or to also maintain its existing IT landscape – which makes the implementation of SOA even more critical.

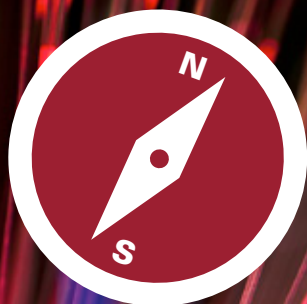
According to the survey results, interest in green IT is limited, which is surprising considering to the degree of focus on the environment in companies' CSR agendas.

The big data trend seems to have led to several benefits, including the improved use of internal and external data to make increasingly informed decisions. For example, more (internal and external) data is used to either accept a client or to determine its risk profile. Another example of a use related to car insurance is to convince consumers that letting the insurer monitor their driving behaviour is actually a good thing. This is because the technology, while not new, has only become affordable recently. In the current model, thousands of people have the same risk profile, when, in fact, they do not if you consider their driving behaviour.

Traditional insurers tend to look at averages rather than specifics. Currently, the procedure entails filling out a form with one's birth date and the type and age of one's car. This is what car insurers use to evaluate policy risk. Advanced big data technologies such as telematic driving data gathered by car companies or information collected from social media profiles can help augment the risk profile. Currently, only 2 percent of the car insurance industry in the US offers insurance products based on monitored driving. However, this number is expected to increase to about 10–15 percent by 2017, as technology becomes increasingly inexpensive and consumers become more accustomed to being tracked and their data collected. Other countries such as the UK and Italy are already using such data to analyse risk profiles and to determine culprits behind car accidents. [www.bbc.co.uk/news/business-24941415]



3 What drives IT strategy



In the previous chapter, we discussed some key IT trends shaping the insurance industry. These trends are likely to drive IT strategy in the future. However, the sector continues to be plagued by legacy systems and failed IT projects. The combination of the challenges associated with eliminating legacy systems and the need to innovate requires a clear vision and efficient leadership. It is critical to understand how to make progress on the required improvements in the wake of budget restraints and regulatory compliance mandates. This chapter focuses on certain key aspects of IT strategy for insurers and pension service providers.

The **contrast** between opinions on the **competitive edge** of IT is **remarkable**

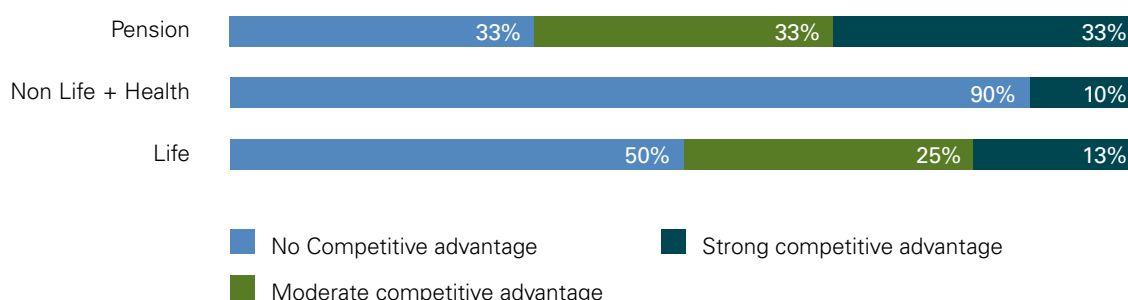
3.1 IT and competitive edge

At the outset, we need to consider to what extent the insurer or pension service provider assumes that IT has a competitive advantage. The answer to this question usually defines the IT strategy. The higher the competitive advantage, the greater the need to invest in it and initiate IT projects – to realise the required functionality to achieve this competitive advantage. Our survey shows that some pension service providers and life insurers see no competitive advantages of IT. However, in every segment, at least one company understands the IT edge. This contrast is remarkable. If IT does have a strong competitive edge, the followers are right and then they can easily move towards market leadership by just executing their IT strategy. New distribution channels, time to market, continued pressure on cost cutting, and the rising popularity of smart phones and tablets are just a few examples where IT can be a major differentiator.

Historically, to achieve a competitive edge through, IT strategy has often been executed by developing a self-made insurance or pension system. However, in recent times, a number of standard packages offer more and better technology and functionality than legacy systems.

Figure 3

Does the IT system provide a competitive advantage?

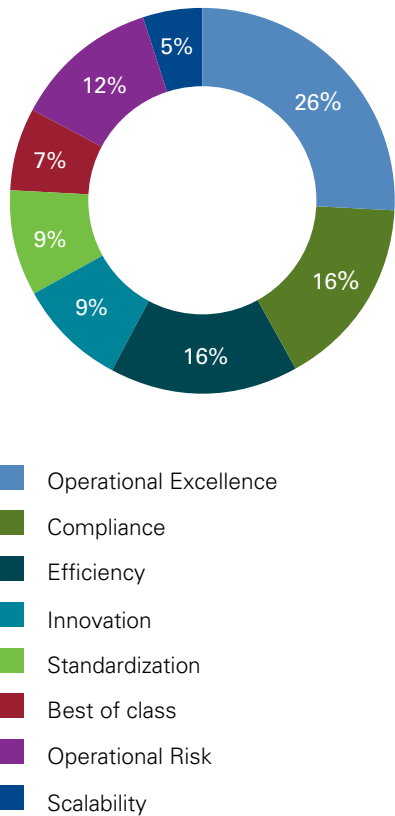




3.2 IT strategy

In our survey, the respondents were asked to name the key items of their companies’ IT strategies. Among the several items selected, operational excellence tops the list. Other items such as compliance and efficiency are also important in their view. In contrast, innovation scores low, indicating that companies are focused on improving the quality of their existing IT landscapes. The low score achieved by the “best of class” category is interesting and suggests that companies are focused more from an internal perspective and are less competitive than expected. This is also in line with the high score (50 percent of respondents) of the IT trend legacy management and architecture.

Figure 4
Key business criteria for deriving your IT strategy



As can be observed in Figure 4, innovation is fourth on the priority list of the respondents. This appears to contradict the IT trends observed in the previous chapter.

With respect to social media, it has been cited as the most important trend and, therefore, insurers and pension service providers need to acknowledge, understand and innovate on this trend.

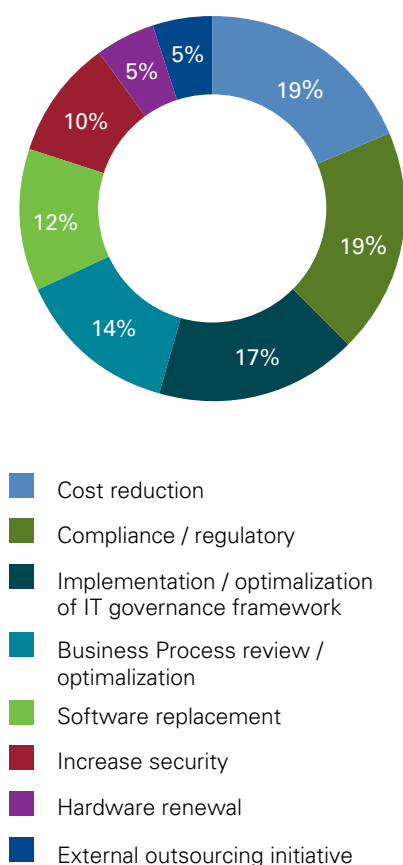
The social media phenomenon is very much thriving today and is not something futuristic envisioned for the distant realms of time. The younger generation already expects the flexibility to buy, manage and change policies online and on the go. Further, the organisations or entities behind policies are becoming less important; it’s all about the functionality and the convenience of the product today. The social media has become the platform of evaluation and feedback for the customer, with ‘Likes’ and ‘Tweets’ replacing expensive commercials and acquired loyalties.

Although pension service providers typically do not need frequent attention online or on the go via apps, apps can still serve as effective marketing tools to reach out to the younger generation. In addition, pension service providers need to lower their costs and be more transparent with their participants with respect to cost structures.

Ranked last on our survey is scalability. Previously, we discussed key IT trends in the industry and noted that one such key trend in IT was cloud computing, as cited by 44 percent of the survey respondents. These observations, when combined, lead to the conclusion that this advantage of cloud computing – scalability – is not a factor that contributes to cloud computing scoring high with insurers and pension service providers.



Figure 5
Key IT priorities for 2014



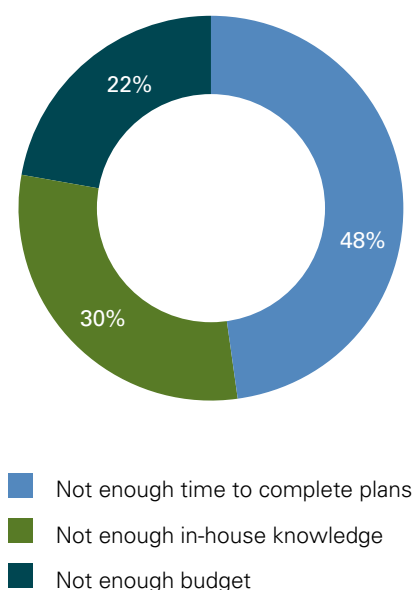
3.3 Key IT priorities

Among the most critical IT priorities, according to our respondents, are cost reduction and compliance. However, realising both options seems almost like a contradiction in terms. The optimisation of IT governance, business processes and software replacement are next in line. Due to the many expensive legacy systems, the priority to replace IT systems was expected to be much higher. Surprisingly, security is at a lower rung, especially when you consider all the attention that cybercrime and related incidents are receiving, both within and outside the financial sector.

The execution of IT strategy/top priorities is always challenging. Creating the plan is easier than the execution and the realisation of benefits. In our survey, we asked for the key concerns for not realising IT strategy (in time). In this context, about half of the participating companies cite time as the primary concern. Apart from spending time on realising IT strategy, IT departments need to run an IT organisation and resolve operational IT issues, keep the environment up-to-date and secure, and facilitate new regulation and product introductions in a timely manner.

However, from our survey results, it seems that time is spent on IT strategy only after challenges that are relatively more operational in nature are addressed (which is often not the case). As such, management needs to revisit prioritisation.

Figure 6
Main concerns around implementing IT strategy or priorities



Time is the
main concern
for **50 percent** of
the respondent
sample

Knowledge and budget are also major concerns, although they rank lower on the concern list. Of course, time, knowledge and budget are closely related when realising an IT strategy. However, not having enough time to execute strategy effectively appears to be the biggest concern for IT management currently.

4 Core applications



The market in the Netherlands is characterised by the presence of a limited number of relatively small IT vendors, and only a few system implementations are initiated each year. The demand for new best-in-class systems is significant, but the efforts and risks to implement new systems are high. How does the branch cope with these challenges?

4.1 The Dutch market of software suppliers

In our survey, we asked insurers and pension service providers about their software suppliers. The results suggest that there are no dominant software vendors in the Dutch market. The IT landscapes are characterised as a combination of self-made systems and standard packages. The self-made systems become legacy after several years, which initiate many replacement projects. However, many of these projects are not successful. A number of successful implementations of standard packages in the Netherlands have been observed in non-life and small pension service providers. In the life and pension sector, the complexity of portfolios is sometimes underestimated and is often the reason why transformation to other standard packages is not successful, even after several years. That's not to say that there are no success stories; but often the transformation in such stories lead to a near-complete transition of policies to the new system, which means that the old system still needs to be operational for a small portion of the portfolio.

The availability of **business rule engines** within standard packages is an **important driver of migration**

The lack of dominant software suppliers may at first be interpreted as a sign of healthy competition. However, the drawback is that due to the limited number of implementations, development and support for domestic financial products and interfaces tends to be expensive for the software vendor. However, there is a constant need for new systems that can support new demands on straight-through processing (STP) and regulatory compliance against low costs.

We have observed some progress in recent times. In the non-life branch, a number of big insurers have initiated migration to a standard package, and more are expected in the future. The availability of business rule engines within standard packages is an important driver of such migration, which is likely to help achieve STP and related cost savings in processing the transaction flow. At the health branch, we have noted a trend towards standard software packages. The life and pension industry does not make a great deal of progress in implementing standard packages. The reason is that in this area, more investments have to be made to accommodate different products, and conversions are time consuming and complex.



Self-made applications appear to be less attractive than standard packages

4.2 Satisfaction with existing systems

Assessing the satisfaction level is challenging, as business processes are highly automated, and no insurer or pension service provider can afford to support a non-performing system. Information accuracy and completeness, performance and business continuity are vital requirements for every business unit; systems that do not meet these quality requirements simply have to be replaced or need to be compensated outside the system, often with time-consuming and expensive manual activities.

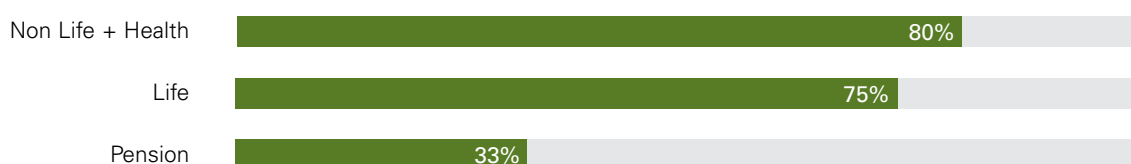
Our survey respondents were asked to indicate the extent to which they are satisfied with their existing systems. Insurers are often satisfied with the quality of their existing applications. In contrast to users, employees at pension service providers, however, are not. The required versatility of a pension system, especially with respect to the different kinds of pension arrangements, requires mature, reliable and flexible systems. The survey suggests that existing pension systems do not fulfil these expectations. This indicates an opportunity for Dutch pension software suppliers. For life systems, the survey shows that the satisfaction rating is high. This may be attributed to the fact that life systems have two standard packages for which both satisfaction and non-satisfaction statements are prepared.

The same questions were asked for self-made applications and standard packages. The survey shows a relatively high number of self-made applications in the pension industry in comparison with insurers. When you relate this statement with the satisfaction rates, you can conclude that self-made applications score lower on satisfaction in relation to standard packages. Self-made applications appear to be less attractive than standard packages.

The transition from self-made applications to standard packages is best seen in the non-life category. Considering the new demands on STP and direct distribution via the internet, the business case in this category is clearer than in life insurers and pension service providers. Based on the survey, we expect more such transitions. For non-life business, several transitions to Quinity, CCS and Intrasure are anticipated. These software suppliers are also focusing outside the Netherlands, which could benefit Dutch insurers in the long term.

Figure 7

Overall satisfaction levels for the existing system



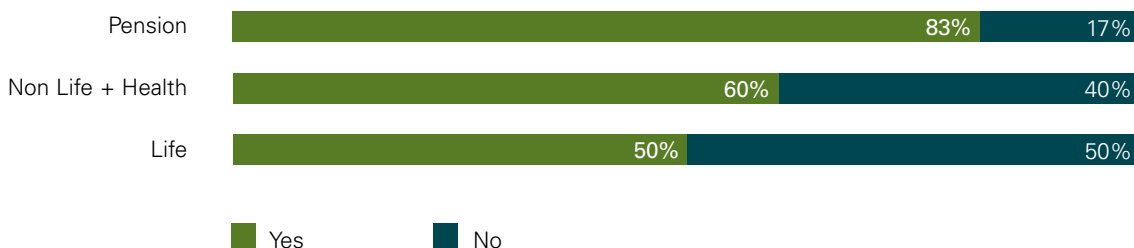
Due to the limited new production and availability of new up-to-standard systems in life insurance, it is not easy to present a business case for transition to a standard package. For pension service providers, transition to another (standard) application is very complex, due to the required conversion of the full history of an pension fund portfolio. This complexity makes the transition expensive and risky, which adversely influences the outcome of the business case.

Another trend indicates that standard packages will be the future in the financial services domain. The buying initiatives of Keylane serve as a case in point. In the last two years, Keylane, which is supported by a private equity company, has acquired pension software vendor Actuera, non-life software company Quinity and, most recently, life software vendor Leanapps. Further, software vendor Pyramide, which focuses on financial software, bought Innovact (pension administration software) in 2013.

The future will prove if these integrations will lead to improved software packages as a result of synergy benefits and if clients stand to benefit from such integrations.

Figure 8

Is the key back-office system developed in-house?





4.3 Reasons for replacing existing applications

Additionally, we asked respondents to identify areas of improvement and the triggers in their application landscape to change this in the near future. According to the respondents, a relatively low number of triggers are present in the pension and life industry to initiate an application replacement. In contrast, more triggers are present in the non-life (including health) category. An overall trigger is considered to be too expensive to run, and compliance with regulatory requirements is only a trigger in the pension industry. This is an interesting observation, because in the life and non-life branch, regulatory requirements are expanding. It appears that in the previously mentioned branches, regulatory requirements can be easily realised in the current application landscape. Outdated or technically obsolete systems are applicable for all branches, which is inherent to a sector that uses systems intensively and for long durations.

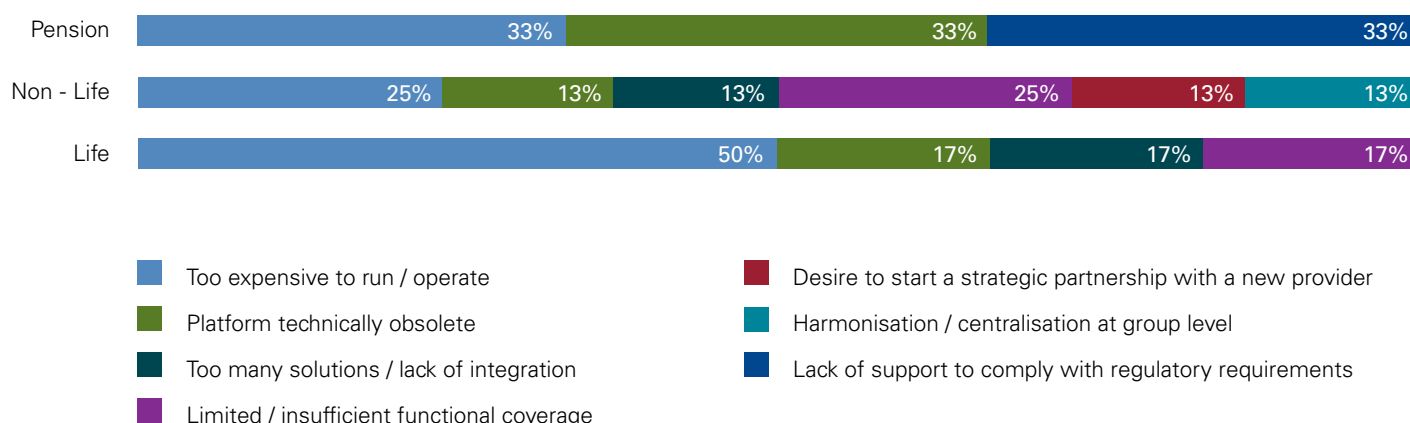
The survey shows that lack of integration and insufficient functional coverage are triggers in the life and non-life branches, and these do not seem to be an issue for the pension industry. Most pension service providers use a limited number of applications, which also result in relatively few integration issues. The lack of limited or insufficient functional coverage is not applicable to pension service providers – this trend is interesting, as the general satisfaction of pension service providers is very low; or this perhaps suggests that functional expectations are very low and they are mainly concerned about regulatory requirements.

Lack of integration and insufficient functional coverage are seemingly not an issue for the pension branch

A greater number of long-term triggers to initiate a replacement often serve as future proofing of the system and, even more important, the probability to adopt the most recent technology possibilities. Of course, the replacement of an insurance or pension system may not be underestimated; this is often the case when you take notice of the number of delayed or even cancelled IT projects. However, the need to replace is, or will exist, because business cases show positive ROI. Regarding pension service providers, it is more the question of whether they have the ability to change (is there an alternative?). The new pension legislation is expected to make this change even more difficult. On the other hand, whoever can execute this change will likely achieve much fame and success.

Figure 9

Reasons for changing the existing system in the near future



4.4 Non-core applications

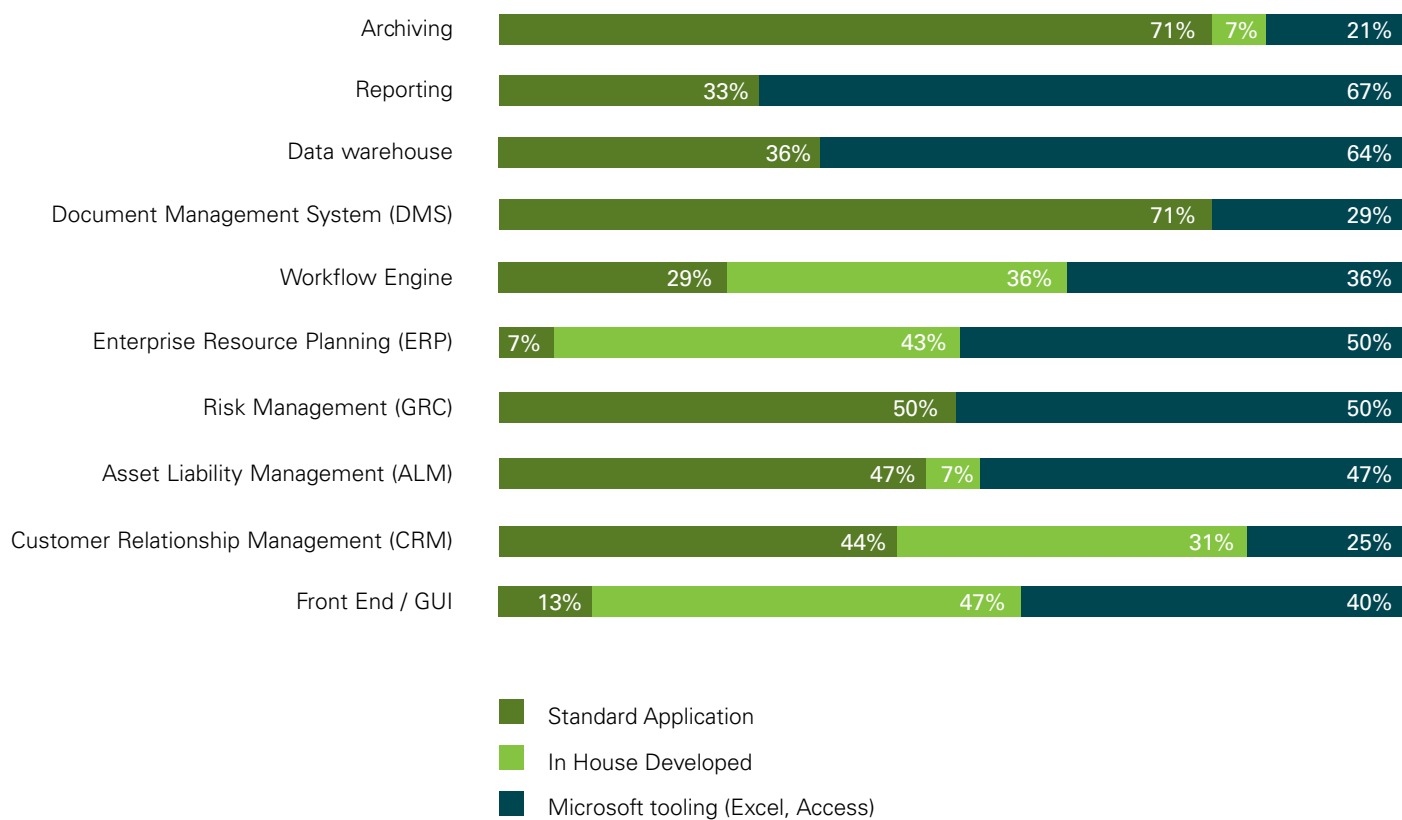
Our survey also featured questions on non-core applications, the responses to which resulted in an overview of several types of supporting applications, and whether these applications are standard package or in-house developed. We also came across many companies that have not implemented applications for these processes, but use only end-user tooling (such as MS Excel, MS Access). Reporting, data warehouse, document management and risk management (GRC) systems are rarely developed in-house. In most cases, business processes are first supported by end-user computing, and when the process matures and becomes increasingly critical, the end-user computing is migrated to a standard package; alternatively, additional modules of existing packages are activated. As the graph below illustrates, the use of end-user computing is significant, which implies many possibilities for standard package introductions if they can reduce the current functional gap and become cost-effective.

In our survey, we also asked if and when organisations plan to change their non-core applications. We noted that for half of the non-core application landscape no plans to migrate to another application are present. This means that the other half of the non-core application landscape will probably be replaced in the near future.

50 percent
of the non-core
applications will
be **replaced**



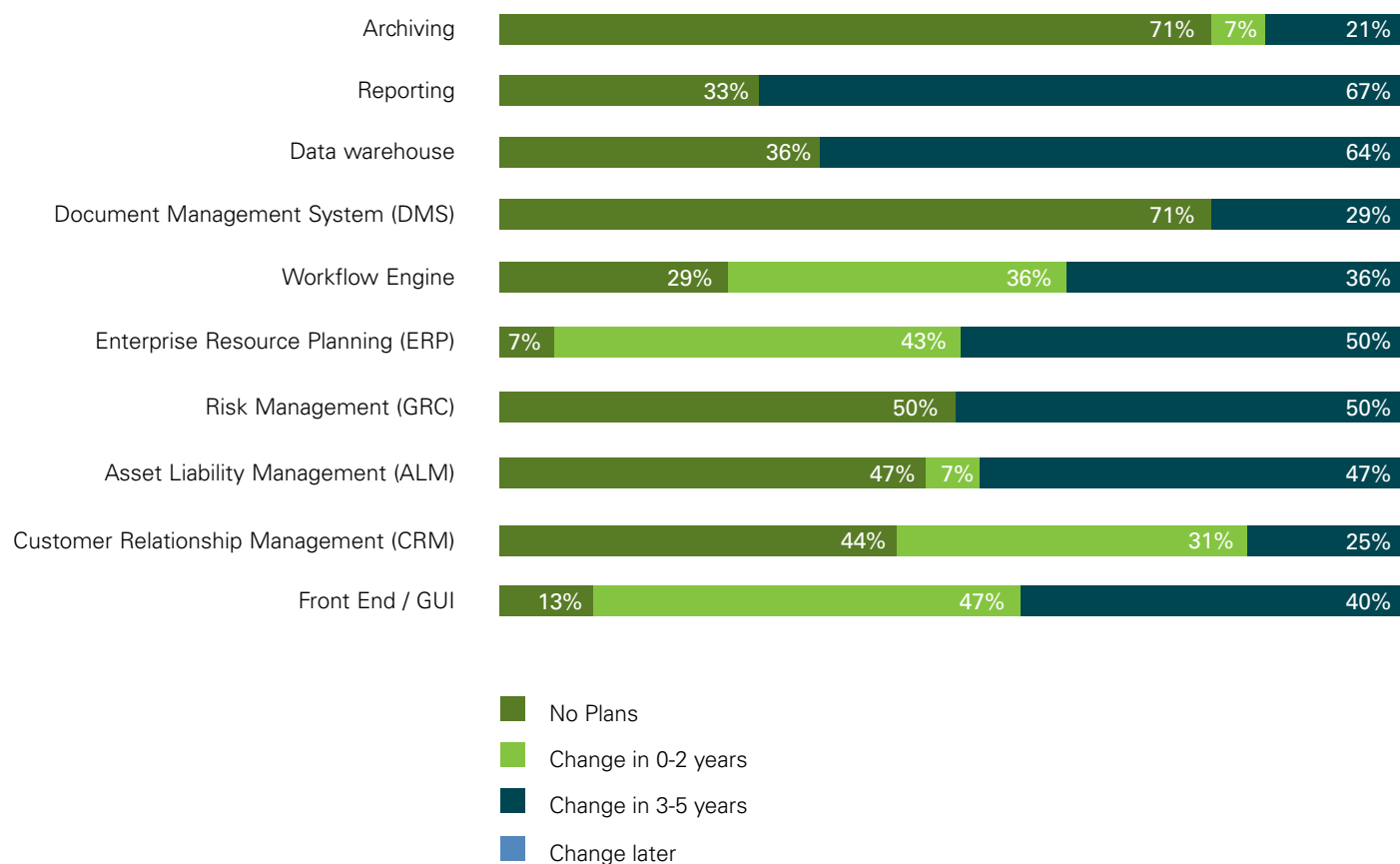
Figure 10
Current solution per functional area





The graph below shows more details for every kind of supporting application and related plans to replace the application in the insurance and pension industry. In our survey, we also sought answers related to the level of satisfaction with respect to non-core applications. For every kind of supporting application, the satisfaction rate was high. Therefore, there appears to be no argument to change the supporting system. However, we see indications to change applications to rationalise and standardise the application landscape and/or reduce the IT (license) costs. Trends such as big data/data analytics can also be a cause – for example, for data warehouse needs to be upgraded. So, at an application level, there is no driver to change; however, when you assess it from an entity perspective, many drivers are applicable.

Figure 11
Expectations on the change in systems





5 IT human resources





Due to the financial crisis, insurers and pension continue to face major problems. To resolve these issues, they will have to reorganise themselves, which could amount to downsizing. During the first two years of the financial crisis, 350,000 jobs were shed by banks and insurers globally.

Dutch insurers are no exception in this regard, given recent reports about their plans for further layoffs. This includes both internal and external staff, but the contracts of external staff are especially at risk.

5.1 IT versus other staff

IT is very important for continuity and market competitiveness. Therefore, the support of experienced and technically sound IT professionals is very critical to business. IT staff at Dutch insurers and pension service providers accounted for 11 percent of total staff, which is 1 percent more than at banks [KPMG Banking systems survey 2012].

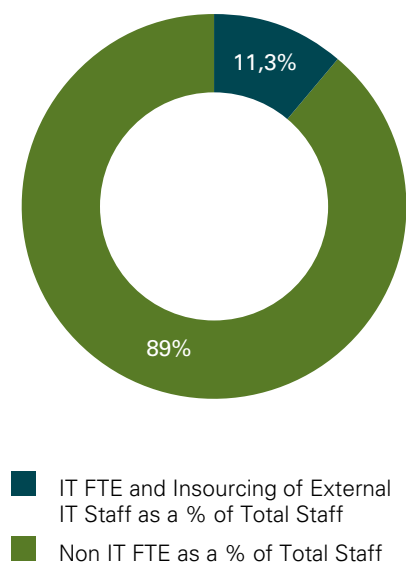
The spread of employees in IT varies significantly, from **3 percent** to **17 percent**

The survey shows that the spread of employees in IT varies significantly, from 3 percent to 17 percent. Two companies that responded to our survey cited an IT staff count of 17 percent. These two companies are not comparable from a size perspective (a large and a small-sized company). IT employees at four other companies account for 3–4 percent of the total staff count. These four companies are small or mid-sized companies.

Thus, such differences may be attributed to the fact that some organisations have more IT activities outsourced than others. It is possible that some organisations have a smaller business side, because the policies are sold and administration is performed by intermediaries and, therefore, they have a relatively large IT department. Another reason could be the range and complexity of the product supply, which has a direct impact on the IT department. Specific reasons, of course, depend on distinct dynamics at the company level.

**Figure 12**

IT FTE and in-sourcing of external IT staff as a percentage of total staff

**Figure 13**

Spread of internal IT Staff as a percentage of total staff



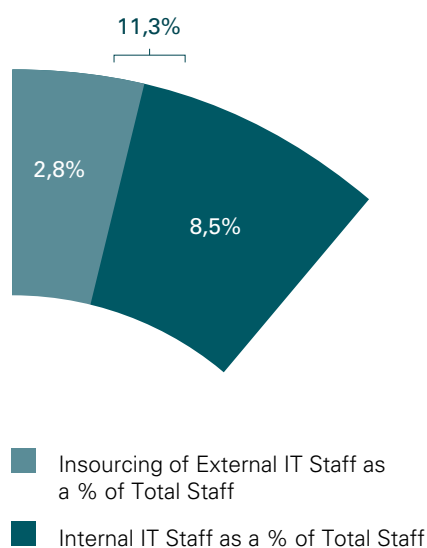
5.2 Extent of the use of external staff

IT staff can be split between internal employees and the insourcing of external employees. The survey shows that on an average, internal employees account for about 75 percent of total IT staff. The proportion of external IT staff can be understood by taking into account the increasing regulatory demands (e.g., Solvency II) that impact the application landscape. Further, the replacement of policy systems and social media initiatives requires initiating IT projects. For such projects, external IT resources are often hired.

The division of internal and external employees across the three main departments of IT (general, infrastructure and development) appears to be relatively balanced, with a few more internal employees on the IT general (management) side and more external employees in IT development. We expected fewer external employees on the IT general side and more in the IT development area, because from a governance perspective, if possible management functions should be given to internal employees. In individual cases, the number of external employees on management/project functions is higher than internal employees. So it seems that either external staff has enough confidence to perform these crucial functions or internal staff is not well-equipped (trained and/or experienced) or sufficiently be able as a team to manage these critical functions; therefore management is forced to hire external employees.

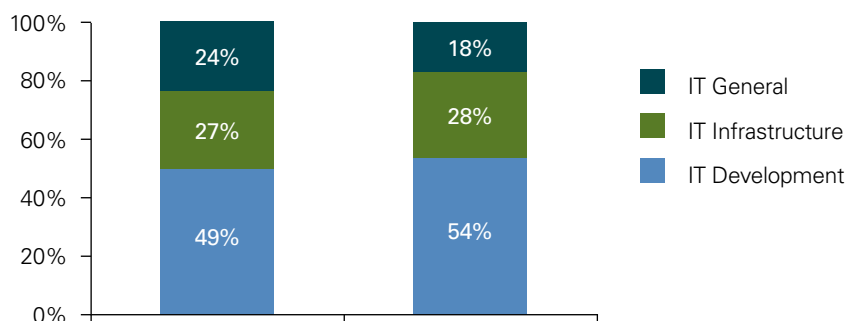
Figure 14

Internal versus external IT staff



We expected
**fewer external
employees
on the IT
general front**

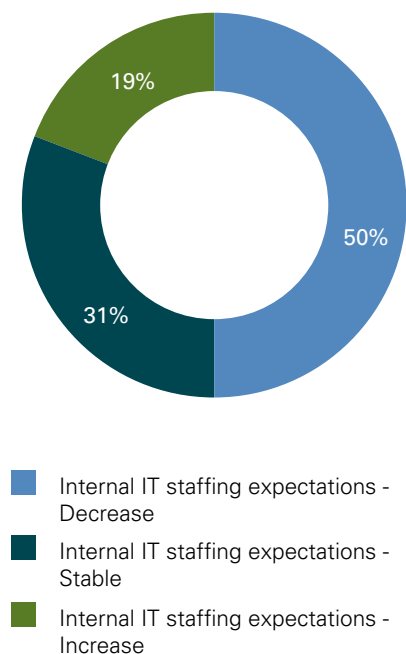
Figure 15
IT staff over the divisions



5.3 Outlook of IT staff

The survey results suggest that 20 percent of the respondent companies expect to increase their internal headcount and one-third expects to stabilise in terms of headcount. Although this outlook is not very optimistic, it is more positive than anticipated. Because we expect that the number of jobs in the insurance and pension industry will continue to decrease in the future, as insurers and pension service providers should further optimise and reduce their operations, outsource non-core activities (e.g., IT data centres) and shrink their geographical footprint.

Figure 16
Plans for internal IT staff recruitment



The number of **jobs** is expected to continue **decreasing in the future**

As the number of (external) jobs reduces, the question is whether experience and knowledge levels can be maintained at sufficient levels to respond to new (technical) developments. The difficulty is that the benefits will be clear in the short term (decreased costs); however, the decrease in competition levels due to fewer (innovative) investments is likely to become visible in the long term.

Apart from reductions in the number of IT employees, the way of working is also changing. Initiatives such as bring your own device (BYOD) and remote-location working have had a significant impact on the service catalogues of IT departments and also on companies as a whole. The impact of these developments should be considered in relation to both the reductions in the number of IT employees and other ongoing IT projects.

The decreasing number of jobs contradicts the increasing IT investments described in chapter 6. This contradiction could impact the pressure on current employees (to achieve more goals in less time). We fully understand why companies need to cut costs to retain their clients and stay competitive. However, they also need to respond to new technologies and other trends – many companies cannot easily do so because they have a complex and outdated landscape. This situation opens up possibilities for new entrants (with no legacy).

6 Budget



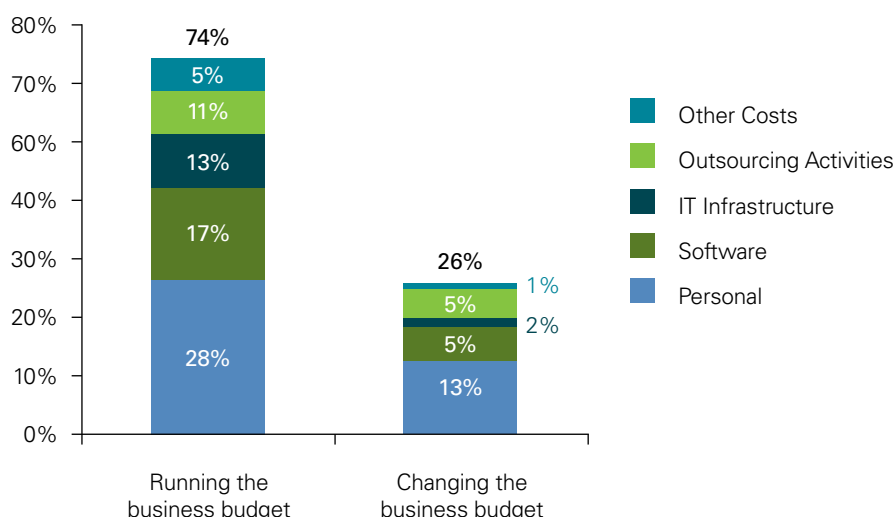
Cost is an element that is becoming increasingly important for insurers and pension service providers. Moreover, the transparency of cost levels has garnered much media attention in recent times. Due to all the initiatives/projects it is hard to implement cost cutting in the IT area.

The survey results show that almost three quarters (74 percent) of the IT budget is spent on 'running the business.' Research by Gartner shows that the average spend in all industries on 'running the business' is 60 percent. This means that more money is invested in running the business than in the market, or relatively less money is being spent on changing the business. We assume that the first reason is more valid. This implies that cost cutting on 'running the business' is feasible. As a result, more capital and time would be available for spending on innovative projects.

As part of the budget for 'running the business,' 38 percent (28%:74%) costs is dedicated for personnel, while the 'changing the business' budget has 50 percent reserved for personnel. This means that the impact of reorganisation or salary freezes would be less on 'running the business.'

Figure 17

Division of running and changing the IT budget





Other significant areas for running the business are software, IT infrastructure and outsourcing. Software licenses will be part of the software bucket. It may be worthwhile to assess start-up negotiations with software vendors on the level of license fees. The same applies to outsourcing and its fee structure. The costs of IT infrastructure are influenced by the current state of the infrastructure employed.

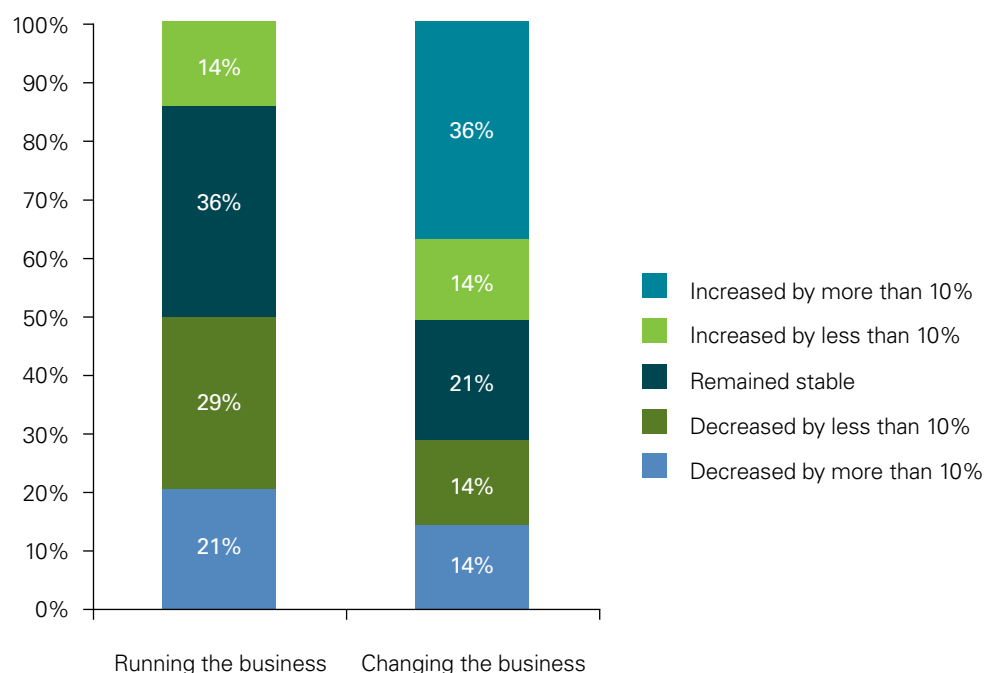
If you compare the budget with actual spending, only 14 percent of the companies surveyed expect to spend more than the budgeted amount.

Half of the respondents expect that the budget will increase in the near future, and just a minority expects the IT budget to decrease. This is an unexpected outcome of the survey, as we anticipated that more companies would be willing to cut their IT budgets. IT budgets would increase primarily due to investments in the current landscape (to standardise and rationalise), insourcing or reducing outsourcing, and the start-up of new innovative or regulation projects.

IT budgets are likely to either remain **stable** or **increase**

Figure 18

Expectations around the IT budget and investment







7 Outsourcing





Outsourcing has been steadily growing over the past 15 years – first for IT services and subsequently for back-office business processes. The need for cost savings is usually the most influential factor behind organisations' decisions to outsource. The second-most influential factor is access to skills. Technology functions need to react quickly to be able to offer the right skills and capabilities to successfully fulfil the role demanded of them today. The heart of this role requires understanding both the technology and strategic business landscapes. This is why CIOs are seeking new skills and capabilities.

The cost saving to **outsource** is **not a driver** for **insurers** and **pension service providers**

CIOs demand confident and reliable relationships to be built with the service provider and this, in turn, will require service providers to invest in stronger skill sets to fulfil the role [Strategic visions on the sourcing market, KPMG, 2013]. However, based on the survey, reducing costs is not the primary driver in the insurance and pension industry. The main drivers reflect the current level of flexibility and quality of IT services within insurers and pension service providers. The question is, can this be solved through outsourcing?

Outsourcing core insurance or pension systems to a partner or leveraging cloud computing may be worth investigating in the wake of attempts to lower the 'cost-to-income ratio', and to rationalise the often complex application landscape. The standardisation of products and a base of increasingly mature vendors and suppliers also facilitate the trend to buy standard packages and/or tap cloud solutions (SAAS-solutions). We expect insurers and pension service providers to further explore and leverage these possibilities. An important obstruction to initiating cloud computing has been removed by DNB (Dutch Central Bank), which has made arrangements with some cloud providers around the 'right to examine'. This opens avenues for easy and reliable cloud computing.

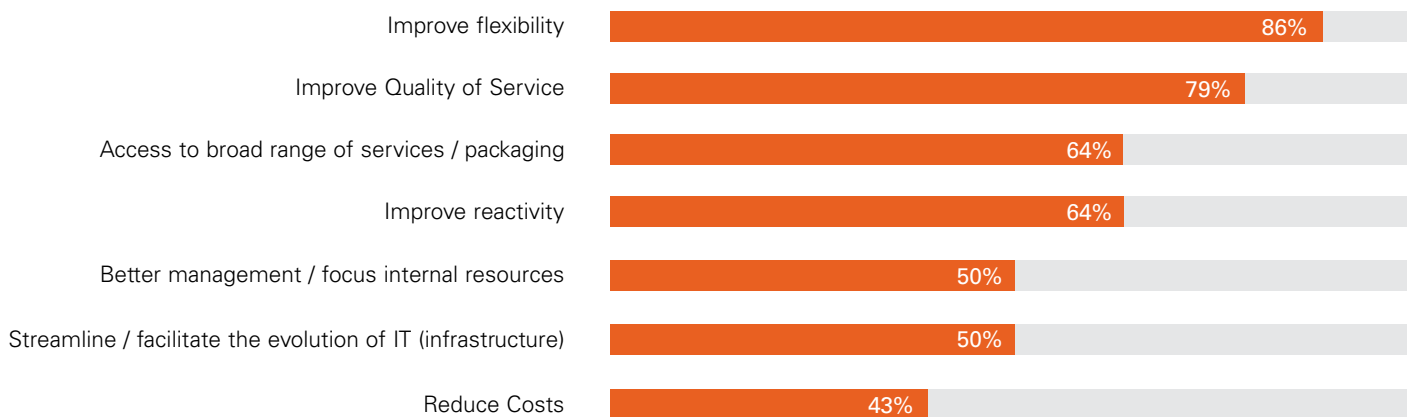
Further, recent guidance from DNB to pension funds is likely to put this topic on the management agenda across the industry. If a pension fund has already outsourced, this guidance, will help them to assess existing outsourcing risks. In case a pension fund wants to outsource, this guidance will provide direction to outsource in a controlled manner.



Further, the prevailing availability of more mature standard software packages is a valid point to start discussions on replacing the legacy with a standard package. Switching from a self-built application to a standard package is also a type of outsourcing, including all the related (dis-)advantages. We also observed that Dutch software suppliers are becoming increasingly active outside the Netherlands, which may also give impetus to the size and maturity of the software supplier.

Figure 19

What are the reasons for outsourcing?



The survey results suggest that the number of outsourced initiatives is limited, especially when these are related to the realised initiatives. The current statement of many insurers and pension service providers is that there is no need for outsourcing. It even turns out that outsourcing is, in many cases, not evaluated as a success – 43 percent of the respondents are reconsidering in-sourcing certain functions back to their own organisations.



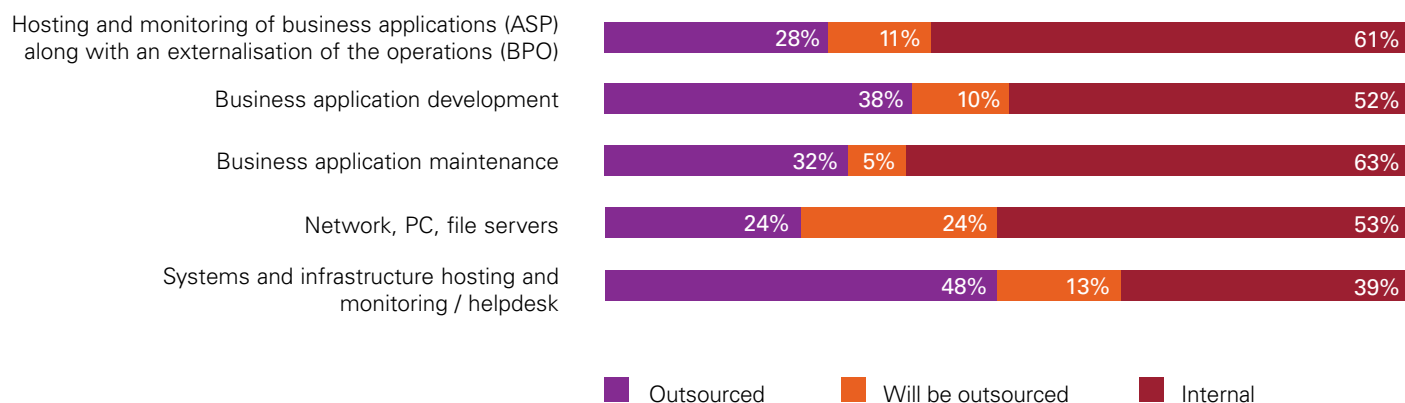
43 percent of the **respondents** are **reconsidering in-sourcing** certain **functions**

Our survey also queried the respondents on the main difficulties that an IT organisation tends to face with respect to outsourcing. The top three are:

- Acceptance of outsourcing models by the business (billing, relationship between the client and the provider, etc.)
- Contractual part/Service Level Agreements (SLAs)
- Choice of the outsourcer

Figure 20

IT functions outsourced or will be outsourced





Despite most organisations' growing experience with outsourcing, the transition period often proves to be cumbersome and is often the first wrong step to generating dissatisfaction around outsourcing as a concept [*KPMG Sourcing Advisory 3Q13 Global Pulse Survey*]. In our experience, the main reason why companies often face issues with their outsourced IT activities is the lack of sufficient experience in managing relationships with their IT outsourcing suppliers.

Another reason can be that the expectations of IT providers are set much higher than those of their own organisations. This is supported by the focus of IT strategy on cost cutting (see Chapter 3), where the attention tends to be on improving the flexibility and quality of service with respect to outsourcing. These goals need to be better aligned to drive focus increasingly on one, single integral IT roadmap.

Some of the challenges that arise while outsourcing IT services are often a result of an underestimation of the processes that need to be redesigned to suit the service provider; the impact of the changes within their own organisation; and the magnitude or complexity of the project. Undefined measurable performance and lack of clarity also cause frequent problems. In other words, the legacy problem intensifies when you start outsourcing.

Another fundamental issue is the selection of a service provider based on costing. This tends to favour 'generalist' service providers who may have little or no experience in servicing insurers and pension service providers, with their specific regulatory requirements on the control of outsourced services by right of audit or Service Organisation Control (SOC) report. This leads to misunderstandings and failures in meeting the required service levels.

KPMG's outsourcing research studies in recent times have consistently shown a direct correlation between outsourcing governance capabilities and client satisfaction with outsourcing efforts. In other words, the effort pays off with outsourcing. Focusing on how to improve outsourcing governance capabilities can, therefore, lead to heightened satisfaction among companies that outsource.







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