

How relevant is offshoring for Australian insurers?

Offshoring for Australian insurers is becoming increasingly relevant due to:

- ongoing market competition and pressure on financial results, making process efficiency imperative
- Australia's global economic position with exchange rate forecasts that make offshoring an attractive proposition in the medium term
- the increasing ability of offshore service providers to provide services in the 50-200 Full Time Equivalent (FTE) range means that an offshore strategy may provide alternative, cost-effective sources of talent for Australian insurers who are struggling to attract and retain talent in Australia.

What factors are critical for success?

(1) Take a strategic view of offshoring as part of your business model.

Some key questions to consider include:

- Can you gain competitive advantage through offshoring or is offshoring a must to retain a 'seat at the table'?
- Are there other areas of your business where there are more pressing challenges that could deliver a greater bottom line impact?
- Can you take a cross-business view and align offshoring initiatives across functional areas to share management infrastructure, maximise scale and potential benefits?
- What are the relative merits of a captive shared service centre versus an offshore provider's experience and infrastructure?

(2) Governance, effective change management and ongoing communications are key in making offshoring work – especially where a third party outsourcer is involved.

(3) Effective risk management, including appropriate consultation with APRA, is a must.

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PwC's Shared Services, Outsourcing and Offshoring team have offshoring expertise gained at a local, regional and global level. If you require advice on this topic, please contact your PwC representative or the following key team members:

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Why offshoring is becoming increasingly relevant in the Australian insurance industry

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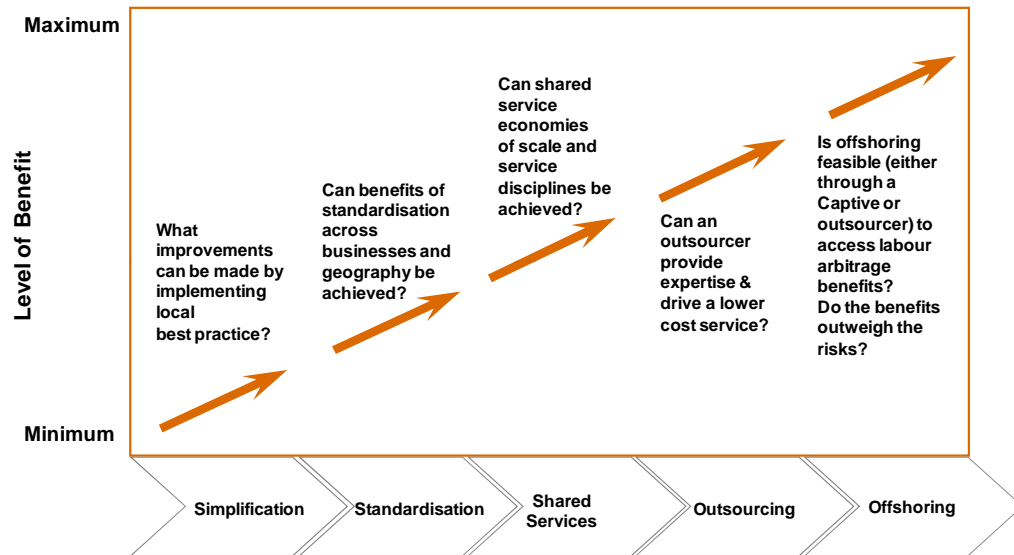
What would you like to grow?

Offshoring has been used as a mechanism to drive further cost efficiency across many industries over the last twenty years.

As a sector, insurance has been slower in the take-up than some other industries. However, offshoring has become a proven concept in the global insurance market, particularly for European and American insurers.

For many insurers, offshoring is the culmination of back and middle office efficiency initiatives covering process simplification, standardisation, the development of onshore 'captive' shared services and some selective outsourcing.

Offshoring extends the benefits achievable by providing access to resources at a lower price point in a foreign 'offshore' market. This paper examines the relevance of offshoring for Australian insurers.



What can be offshored?

In the global insurance industry several core back office process areas have been commonly offshored including:

- information technology application maintenance and development
- human resource transactional activity
- finance and accounting transactional activity.

What can be offshored? (continued)

In addition, insurance companies who have offshored activity have generally moved 'up the value chain' into delivering some middle office processes from an offshore location. Processes sometimes have to be adapted to include onshore review and sign-off steps and use various enabling technologies to overcome remoteness challenges.

Middle office process areas which have been successfully offshored include:

- analytics
- call centre activities
- claims administration
- policy administration
- underwriting (development of underwriting files/underwriting within agreed guidelines)
- actuarial support.

Which insurance companies offshore?

- Offshoring has been prevalent across both the Life and General Insurance markets – particularly within Europe and North America.
- Global insurers such as Aviva, Allianz, RSA, Prudential, Swiss Re, AIG and Metlife have all used selective offshoring on a reasonably large scale whether through captive centres or outsourced agreements to try to minimise costs and access relevant talent bases. Each of these companies has offshored multiple functional process groups including a selection of the those highlighted above.
- Some global outsourcing organisations such as Accenture, Genpact, EXL and WNS all have relatively deep insurance industry offerings from offshore delivery centres and provide a range of back and middle office services to a number of insurers.

Where are insurers locating their offshore centres?

Multiple locations have been used for offshoring including Eastern Europe, India and other Asian countries.

- India has been a key hub for insurance industry offshoring – with numerous major captive and outsourced centres in cities such as Bangalore, Chennai and Mumbai.
- The Philippines and Malaysia are also emerging as offshore destinations with strong levels of English – Metlife and AIG have significant offshore operations in these locations.
- Some insurers have set up a global network of shared service centres in each major geography eg Swiss Re has delivery centres in Bratislava, Bangalore and Kansas City.
- Notably large international insurers are not using China as an offshore destination.