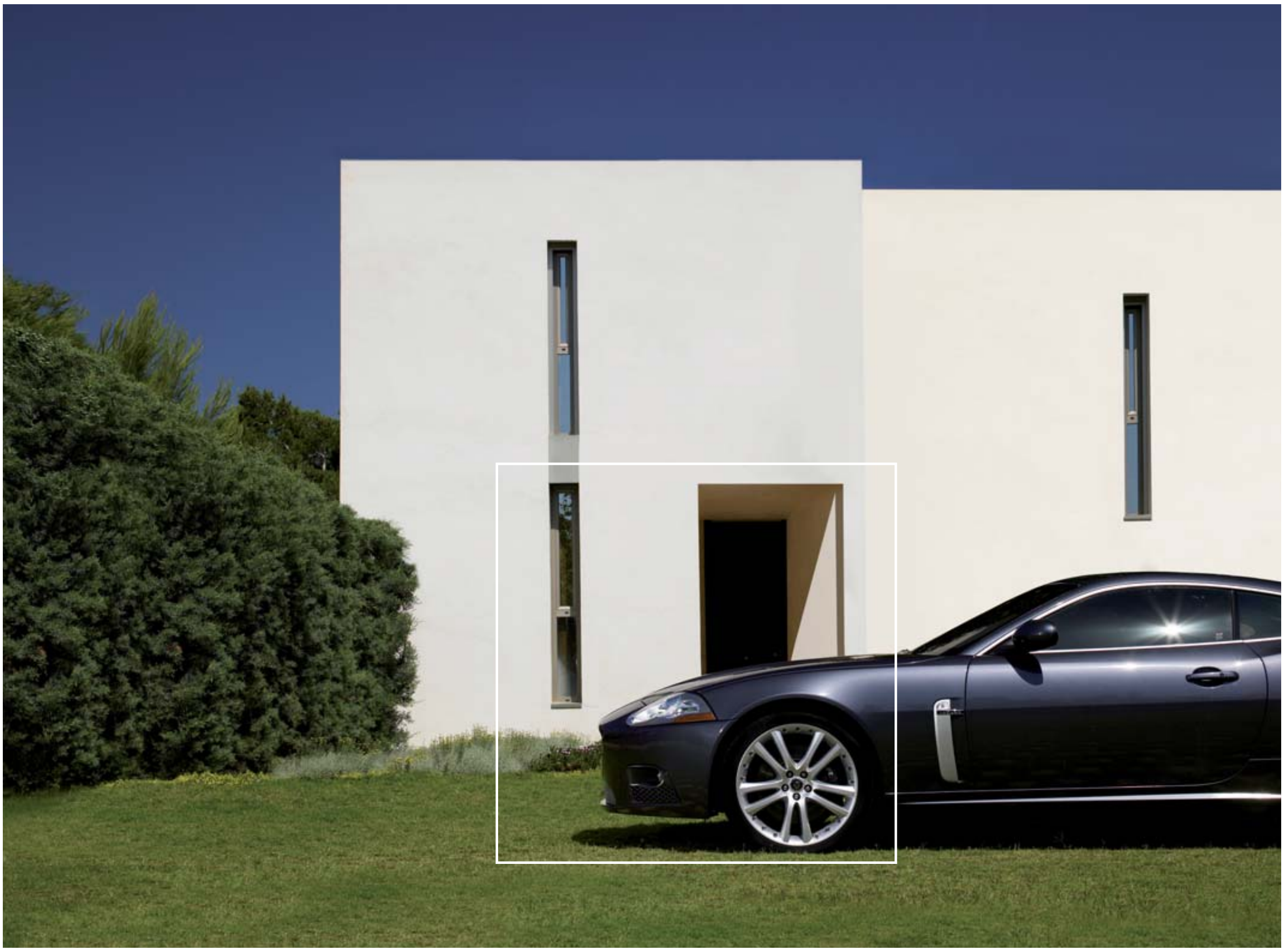
Sleeker by Design

Achieving Cost-efficiency in the European Insurance Market



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Foreword

The world is currently experiencing arguably the biggest crisis in the financial services industry since the Great Depression. First, media focused on the sub-prime crisis, then the world held its breath as Wall Street in its traditional form ceased to exist and the crisis moved on to affect entire smaller nation states.

The insurance industry has also been hit by the crisis. AIG much publicized bailout by the US Federal Reserve has been followed by European victims such as Ethias (Belgian state tries to assist), Fortis (sold in parts, autumn 2008) and RBS Insurance (buyer yet to be found as this report goes to print). Note that many of these were affected by a crisis that started in their banking arms.

As the immediate fallout from the credit crisis becomes evident we believe focus will shift to more long term financial sustainability. One way to view this is to measure cost efficiency. Arthur D. Little has measured operative expense ratios in 50 of Europe's largest non-life insurers over a period of 36 months. Critically we have been examining who has a fundamentally low expense ratio and is thus likely to perform reasonably well in the business down-turn we are now experiencing the first phase of, and who appears more exposed.

Clearly the expense ratio is not the only way to judge likely long-term financial sustainability but one measure among several. What a low expense ratio essentially gives an insurer is freedom to manoeuvre; versus companies with a higher ratio it has a range of options not available to those where a higher proportion of net earned premium income is consumed just to sustain ongoing operations.

Moreover, we have asked the question what drives strong performance in terms of cost efficiency. Are there universal rules? And what are the secrets of the top performers? For those companies that ended up high in the rankings of the subsequent pages: well done! For those who did not, study the leaders carefully.

For all stakeholders to the insurance industry whether you are an industry insider or outsider, shareholder, customer, journalist or scholar we wish: Happy Reading!

Gerrit Seidel　　Erik Almqvist

Executive summary

This survey by Arthur D. Little ranks the 50 major European insurance companies on cost-efficiency (as measured by their net expense ratio) and takes a closer look at the strategies adopted by the top performers to achieve their high-ranking positions.

Europe's most cost-efficient insurance company is Macif from France, followed by Topdanmark from Denmark and Trygg-Hansa from Sweden. The Nordic countries hold the top three places in the ranking: Denmark is the most efficient country followed by Sweden and Norway. The Netherlands has the least cost-efficient insurance companies, with companies from Switzerland and Austria performing only slightly better.

The top-performing insurance companies all have a number of characteristics in common:

- The will to improve continuously at all levels in order to deliver more value for customers.
- Efficient distribution channels customized for each customer segment.
- Extensive use of IT and the internet, both internally and in customer-facing activities.
- Centralized support functions permitting economies of scale, knowledge-sharing and the efficient allocation of resources.
- Salaries and bonuses linked to performance, both on an individual level and on a company level.

Introduction

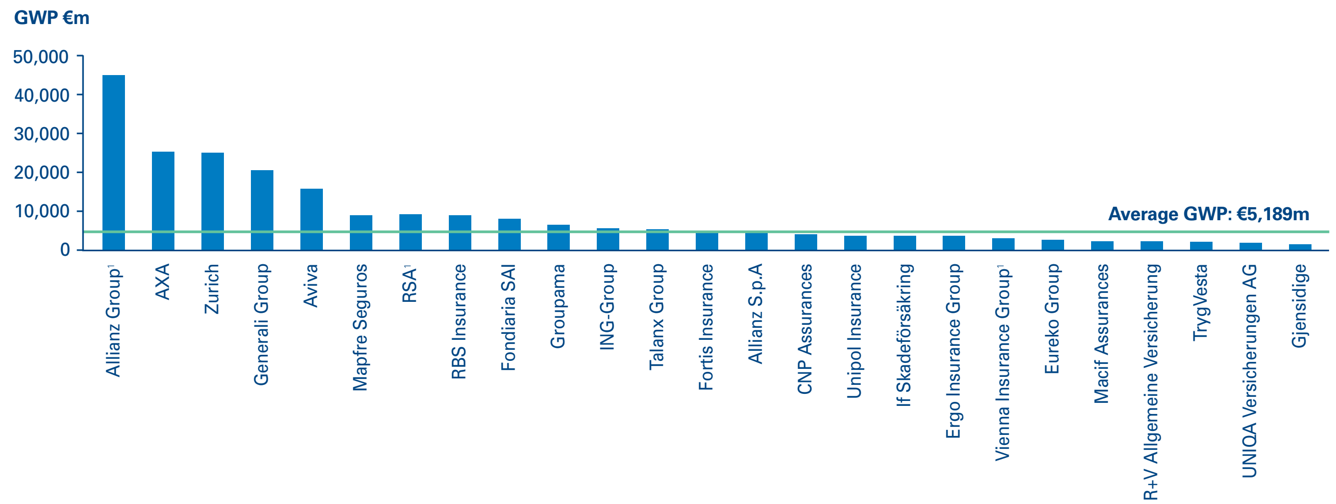
Arthur D. Little has consolidated data from 50 major insurance companies in Europe with the aim of identifying the most efficient. The ranking produced by the survey shows that no one country has a monopoly on maximizing cost-efficiency.

The study, conducted by Arthur D. Little's Global Financial Services Practice in June to November 2008, focuses solely on non-life business, which includes insurance types such as property, health & casualty and motor, and does not cover life insurance business. In those cases where a company has both life and non-life segments, the life business has been excluded.

The survey covers the largest insurance companies based on net premiums written in each of 14 selected countries: Austria, Belgium, Denmark, Finland, France, Germany, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK (see figure 1 and figure 2). As a result, the companies in the study are not necessarily the largest in Europe. They appear in the survey because they rank high in their respective home market.

A full list of the 50 insurance companies included in the survey, listed by country, can be found in the Appendix.

Figure 1. Gross written premium 2007: Company 1-25



Source: Annual reports, Allianz[1] consolidated GWP includes Allianz S.p.A. and RSA[1] includes Codan Forsikring and Trygg-Hansa, Vienna Insurance Group[1] includes Donau Versicherung AG

Introduction

Measuring efficiency

The ranking is based on the net expense ratio, one of a number of ratios used to report costs and premiums in the insurance business. The ratio is calculated by dividing the net operational cost (acquisition cost + administration cost) by the net premium earned (after reinsurance and unearned premiums). The ratio obtained shows how much the company spends for every Euro received in premium income – in other words, how efficient it is.

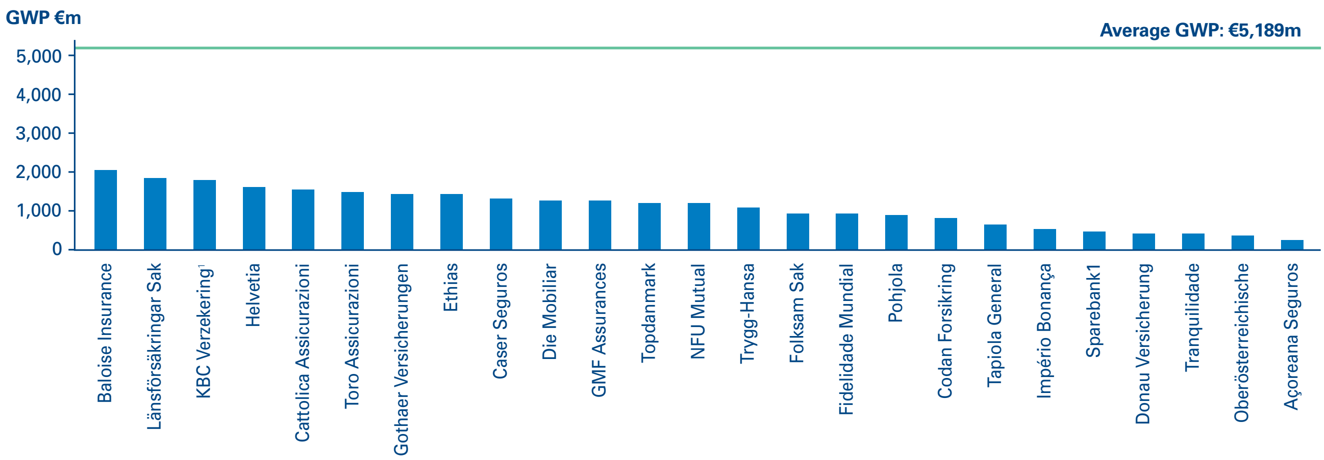
Achieving efficiency

The study also includes analysis of insurance companies that appear at the top of the survey rankings and gives an indication of how they have become so efficient.

Sources

All data is drawn from the insurance companies' annual reports and Arthur D. Little's own analysis, except where specified.

Figure 2. Gross written premiums 2007: Company 26-50



Source: Annual reports, [1]Figures from 2006 annual reports

Measuring achievement

The survey highlights a wide variation in cost-efficiency among Europe's large insurance companies. The company at the top of the cost-efficiency ranking achieves a cost ratio two and a half times smaller than the lowest-ranked.

Methodology

The survey covers 50 insurance companies, the largest from 14 European countries, based on their gross premiums.

The companies included in the survey have been ranked according to their net expense ratio (NER), (see figure 3). The NER is obtained by dividing net operational cost (administration cost + acquisition cost) by net earned premiums (after reinsurance and unearned premiums).

The data has been gathered directly from each company's official reports and the ratio has been calculated by Arthur D. Little to obtain maximum comparability[1].

To make the ranking less vulnerable to extraordinary events, the NER used is an average of the ratios from three years: 2005-2007.

The country ranking is based on the average NER of the reviewed companies in each country (see figure 4).

Only non-life insurance operations have been included. For those companies offering both life and non-life insurance, only the non-life NER has been calculated.

Figure 3. Insurances ranked by average cost ratios 2005-2007

	Rank	Insurance company	Country	NER %		Rank	Insurance company	Country	NER %
Above[1]	1	Macif Assurances	France	14.23	Below[1]	26	Açoreana Seguros	Portugal	25.83
	2	Topdanmark	Denmark	14.44		27	Generali Group	Italy	27.02
	3	Trygg-Hansa	Sweden	15.72		28	R+V Allgemeine Versicherung AG	Germany	27.08
	4	TrygVesta	Denmark	17.06		29	Vienna Insurance Group	Austria	27.35
	5	RBS Insurance[3]	UK	17.55		30	Allianz	Germany	27.52
	6	Folksam Sak	Sweden	17.69		31	Eureko Group	The Netherlands	27.52
	7	If Skadeförsäkring	Sweden	17.85		32	Oberösterreichische Versicherung	Austria	27.57
	8	Ethias[3]	Belgium	18.56		33	Zurich	Switzerland	27.91
	9	GMF Assurances	France	18.81		34	Groupama	France	28.45
	10	Gjensidige	Norway	19.41		35	AXA	France	28.52
	11	Länsförsäkringar Sak	Sweden	19.78		36	Fidelidade Mundial	Portugal	28.61
	12	Sparebank1	Norway	20.61		37	RSA	UK	29.03
	13	Fondiaria SAI	Italy	20.70		38	Donau Versicherung	Austria	30.26
	14	NFU Mutual	UK	20.79		39	Baloise Group	Switzerland	30.45
	15	Codan Forsikring	Denmark	21.00		40	KBC Verzekering[2]	Belgium	30.83
	16	Talanx Group	Germany	21.24		41	Império Bonança	Portugal	31.12
	17	Caser Seguros	Spain	21.28		42	Gothaer Versicherungen	Germany	31.44
	18	Pohjola	Finland	21.36		43	Tranquilidade	Portugal	31.72
	19	Cattolica Assicurazioni	Italy	21.95		44	CNP Assurances	France	32.57
	20	Taipola General	Finland	22.33		45	ING-Group	The Netherlands	32.95
	21	Mapfre Seguros	Spain	22.48		46	Ergo Insurance Group	Germany	33.23
	22	Unipol Insurance	Italy	22.62		47	Aviva	UK	34.43
	23	Allianz S.p.A.	Italy	23.63		48	UNIQA Versicherungen AG	Austria	35.60
	24	Toro Assicurazioni	Italy	24.40		49	Helvetia	Switzerland	35.67
	25	Die Mobiliar	Switzerland	24.93		50	Fortis Insurance[3]	Belgium	35.79

Note: [1]Versus average (25.18%) [2]2006 & 2005 figures only

[3]As this report goes into print the insurance arm of RBS is for sale as a result of financial difficulties mainly in the banking side of the group. The Belgian state is trying to save Ethias Group as the company suffer from severe losses from its large shareholdings in troubled bank Dexia. Fortis was sold in parts during the autumn of 2008 as the banking arm of the group collapsed.

Source: Annual Reports, Arthur D. Little analysis

[1] In a few cases, the NER could not be calculated directly from the company reports. The ratio has then been obtained from the respective Investor Relations department. Moreover, for those companies with international operations that do not report non-life insurance per geographical segment, consolidated non-life figures have been used. This means that their cost-efficiency reflects operations in several markets.

Measuring achievement

Figure 4. Insurances ranked by efficiency in their own market

Austria
1. Vienna Insurance Group
2. Oberösterreichische
3. Donau Versicherung
4. UNIQA Versicherungen AG

Belgium
1. Ethias
2. KBC Verzekering
3. Fortis Insurance

Denmark
1. Topdanmark
2. TrygVesta
3. Codan Forsikring

Finland
1. Pohjola
2. Tapiola General

France
1. Macif Assurances
2. GMF Assurances
3. Groupama
4. AXA
5. CNP Assurances

Germany
1. Talanx Group
2. R+V Allgemeine Versicherung
3. Allianz
4. Gothaer Versicherungen
5. Ergo Insurance Group

Italy
1. Fondiaria SAI
2. Cattolica Assicurazioni
3. Unipol Insurance
4. Allianz S.p.A.
5. Toro Assicurazioni
6. Generali Group

The Netherlands
1. Eureko Group
2. ING Group

Norway
1. Gjensidige
2. Sparebank1

Portugal
1. Açoreana Seguros
2. Fidelidade Mundial
3. Império Bonança
4. Tranquilidade

Spain
1. Caser Seguros
2. Mapfre Seguros

Sweden
1. Trygg-Hansa
2. Folksam Sak
3. If Skadeförsäkring
4. Länsforsäkringar Sak

Switzerland
1. Die Mobiliar
2. Zurich
3. Baloise Group
4. Helvetia

UK
1. RBS Insurance
2. NFU Mutual
3. RSA
4. Aviva

Source: Arthur D. Little analysis

Most efficient insurance companies

Arthur D. Little's calculations show that the average net expense ratio of the 50 insurance companies in the survey is 25.18%. The most efficient company, with an NER of 14.23% is Macif Assurances. Second most efficient, with an NER of 14.44%, is Topdanmark and third most efficient, Trygg-Hansa, with an NER of 15.72%.

Some of the insurance companies at the lower end of the European ranking are nevertheless stars in their respective market.

"The most efficient company, with an NER of 14.23% is Macif Assurances."

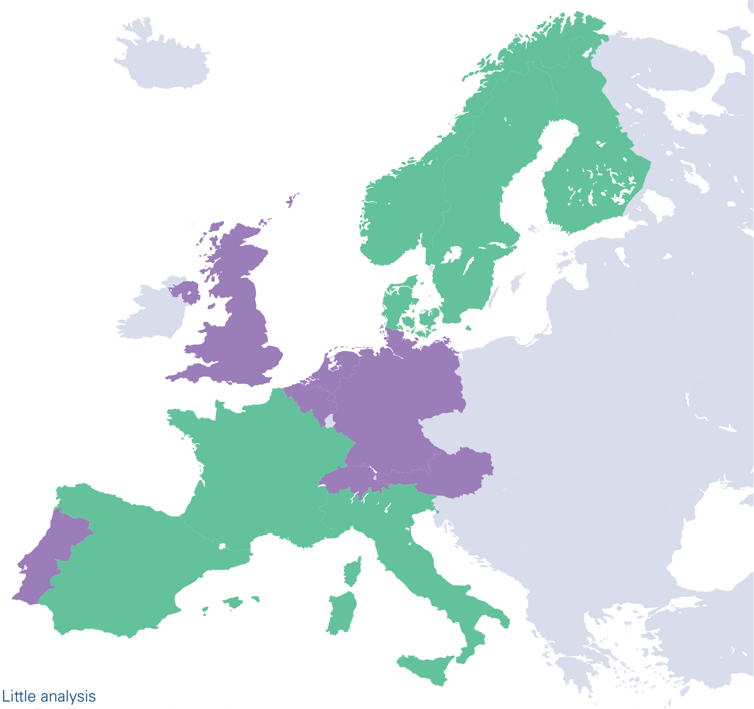
Measuring achievement

Most efficient countries

Arthur D. Little has taken the average NER of the insurance companies from each market to rank each country according to the cost-efficiency of its insurance companies (see figure 5). This ranking shows that Europe's most efficient insurance companies are concentrated in the Nordic countries: Denmark (average NER: 17.50%), Sweden (17.76%) and Norway (20.01%).

The ranking shows that the least cost-efficient insurance companies are concentrated in Austria and The Netherlands, both of which countries have an average NER of over 30%.

Figure 5. Countries ranked according to the efficiency of their insurers



	Rank	Country	Average NER %
Above[1]	1	Denmark	17.50
	2	Sweden	17.76
	3	Norway	20.01
	4	Finland	21.84
	5	Spain	21.88
	6	Italy	23.39
	7	France	24.52
Below[1]	8	UK	25.45
	9	Germany	28.10
	10	Belgium	28.39
	11	Portugal	29.32
	12	Switzerland	29.74
	13	Austria	30.20
	14	The Netherlands	30.23

Source: Arthur D. Little analysis
Note: [1]Versus European average (25.18%)

Success in context

The strategies adopted by individual companies play a key role in their success, but external factors also have an important impact on each insurer's performance.

Market share

There are large differences across Europe in terms of how dominant the large insurance companies are in their home market. Analysis shows that countries where a few dominant players hold a very large market share often have a lower average cost ratio (see figure 6). One reason for this is that large players have a greater ability to leverage economies of scale than companies operating in more fragmented markets. This is underlined by a general trend towards consolidation in most regional markets.

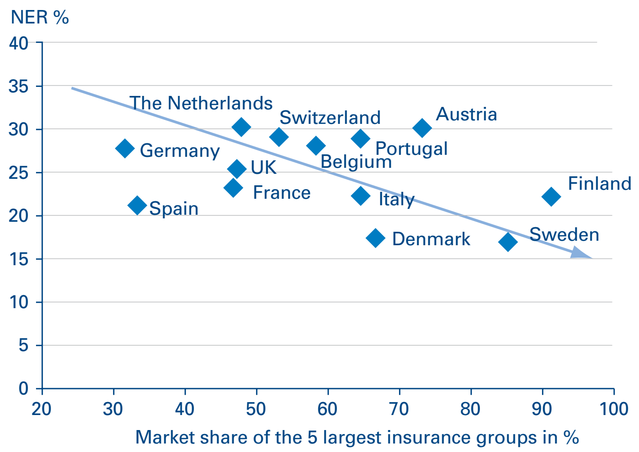
"Analysis shows that countries where a few dominant players hold a very large market share often have a lower average cost ratio."

Internet penetration

Internet is only one of many distribution channels used in the insurance industry; to a great extent insurance products are still sold via phone and other traditional distribution channels. However, companies that use the internet as a major sales and transaction channel can service a large number of customers at a low cost, thereby reducing distribution costs. The internet can also be used to improve service quality and deliver services more efficiently.

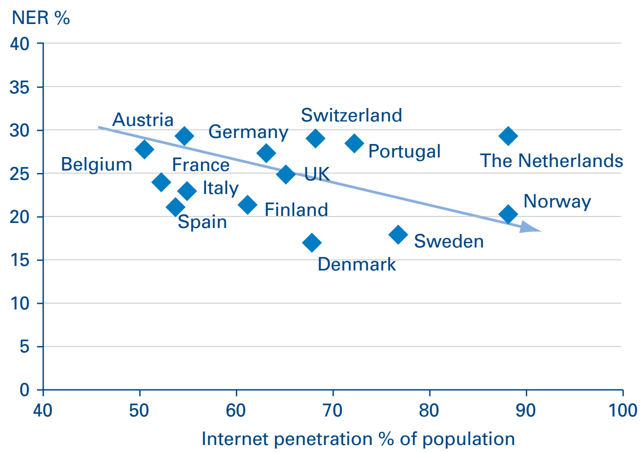
Despite the potential benefits of using the internet as a distribution channel, there is only a weak correlation between internet penetration and cost-efficiency in the insurance industry (see figure 7). While the Nordic countries and The Netherlands are all at the forefront of internet usage, only the Nordic insurance companies exploit the internet's potential. Companies from The Netherlands seem not to leverage this opportunity.

Figure 6. Market share of the 5 largest non-life insurance groups vs. country NER



Source: The European insurance and reinsurance federation: European insurance data 2006, Arthur D. Little analysis

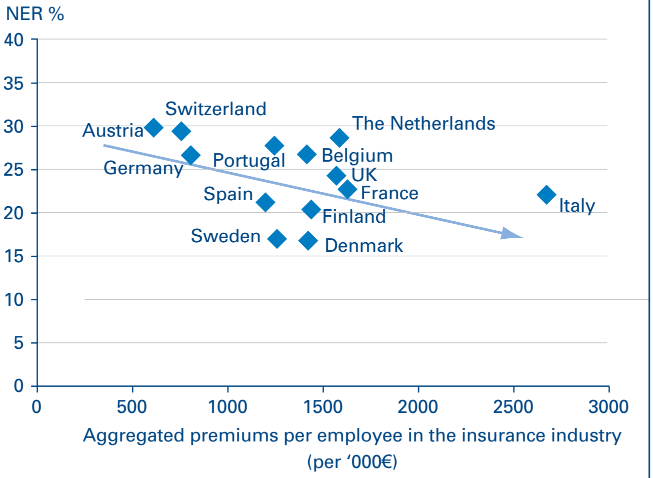
Figure 7. Internet penetration as % of population vs. country NER



Source: Internet World Statistics December 2007, Arthur D. Little analysis

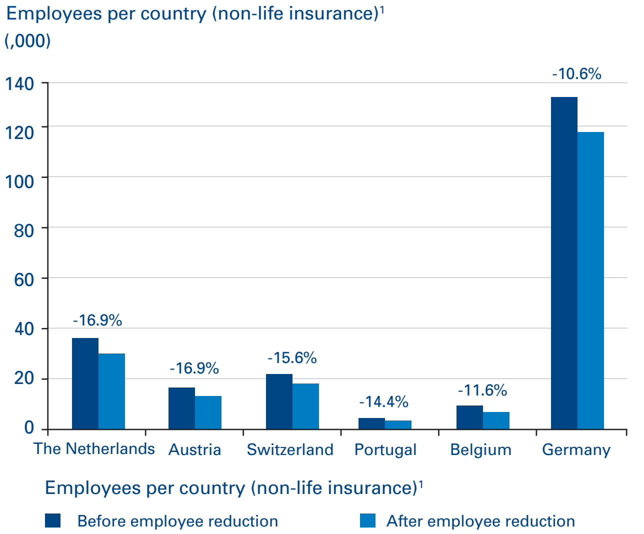
Success in context

Figure 8. Aggregated premiums per employee vs. country NER



Source: The European insurance and reinsurance federation: European insurance data 2006, Arthur D. Little analysis

Figure 9. Average employee reduction in the 6 least cost efficient countries[1]



Source: The European insurance and reinsurance federation: European insurance data 2006 and 2007, annual reports Note: [1]Arthur D. Little estimates

Workforce productivity

Calculating premiums per employee indicates the level of productivity in the insurance industry in each country (see figure 8). However, this ratio is a weak indicator for the operational efficiency of individual enterprises.

Companies with high productivity operate with less staff and thus lower costs. In order to run on low staff levels, companies need a high degree of automation. The Nordic countries, which all appear at the top of the cost ratio ranking, are at the forefront of IT and internet usage.

The high ratio for Italy (shown in figure 8) can be explained by the fact that Italy has the largest share of external brokers and distribution partners of all European countries. As a result, not all people involved in the sale of insurance are included in the statistics used here.

Reduce staff or improve productivity?

In order to reach the European average NER, the least efficient insurance companies would have to cut operational costs by 3 to 5%. Since a large percentage of operational costs in insurance companies comprises staff expenses a large part of the cost reduction would have to be achieved through lay-offs.

In fact, for the six least efficient countries to reach the European average cost ratio, the total workforce would have to be cut by between 10% and 17% (see figure 9). This would probably be a conservative estimation since other costs such as IT would have to increase in order to compensate for the reductions in staff.

Another way to improve the expense ratio would be to increase productivity and generate more revenue from the existing workforce. The most realistic solution is probably a combination of staff reductions and productivity improvements.

The top performers

While each of the top ten performers has a distinctive vision and approach, there are also common elements in their strategies[2].

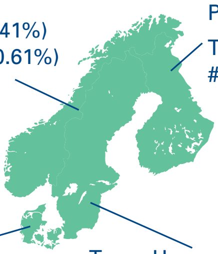
Top-performing regions

The Nordic insurers are the most efficient in Europe and six insurance companies from this region are represented in the top ten (see figure 10). There are a number of reasons for this:

- **Business process reengineering**: During the 90s in Scandinavia, many non-life insurance firms went through a period of business process reengineering. This included reducing dependance on their own (expensive) sales force and making increased use of more efficient distribution channels. They also used IT to increase the automation of processes and applied strict target operating models that were rolled out throughout the firm.
- **A mature market**: The Nordic insurance industry is mature in comparison with many other markets and characterized by a high degree of consolidation. As a result, a few dominant players in each country enjoy substantial economies of scale.
- **Decentralization**: Many of the Scandinavian insurance firms are characterized by decentralized structures with short communication channels, a cost-conscious culture and a flat hierarchy which allows them to respond quickly to changes in the market.
- **Internet penetration**: Nordic insurers can take advantage of the high internet penetration in this region which allows for both efficient distribution and a high level of customer service.

"The banks are becoming an increasingly important distribution channel in the Mediterranean region. For example, 7% of non-life insurance policies in Spain are now distributed through banks."

Figure 10. Top-performer analysis
Geographical analysis – Nordics



Source: Arthur D. Little analysis, Note: NER in parenthesis. European average: 25.18%

Figure 11. Top-performer analysis
Geographical analysis – Mediterranean

Source: Arthur D. Little analysis, Note: NER in parenthesis. European average: 25.18%

[2] The top performer's analysis is based on interviews for all companies except RBS Insurance and Ethias Group

The top performers

While only two insurance companies from a Mediterranean country (France) appear in the top ten, many companies from the Mediterranean countries (France, Italy, Spain) are more efficient than the European average (see figure 11 on page 9). This can be attributed to a number of factors:

- **Distribution**: In Mediterranean countries, insurance policies tend to be distributed through agents and brokers rather than costly branches. For example, in Italy, only around 7% of sales are distributed through insurance-company employees, while in The Netherlands over 30% are distributed in this way. In Spain, approximately 70% of revenues come from agent and broker sales. The banks are becoming an increasingly important distribution channel in the Mediterranean region. For example, 7% of non-life insurance policies in Spain are now distributed through banks.
- **Consolidation**: The Spanish market (the most efficient outside the Nordic region) has long been fragmented but is currently going through a process of consolidation. In the motor insurance segment, for example, the top ten players held more than 80% of the market in 2006. By contrast, in Germany, the top ten non-life insurers control less than 60% of the market.
- **Maturity**: In the French insurance market (which is more mature than its Mediterranean neighbours), the top performers have developed efficient distribution strategies, flat organizational structures and automated processes. However, the performance of French insurers varies considerably and there is still room to improve efficiency.
- **Productivity**: Staff productivity in the non-life sector is higher in the Mediterranean countries than in central Europe. However, in order to reach the efficiency levels of their Nordic peers, Mediterranean insurers still need to increase automation through IT.
- **Top-line growth**: The Spanish and Italian insurance industries have experienced healthy top-line growth in the past few years, with the Spanish insurance market growing with a CAGR (compound annual growth rate) of 8.2% between 2003 – 2006.

Top-performing companies

The top ten insurers all use similar strategies in order to achieve high levels of efficiency. Hallmarks of their approach include:

- decentralization
- multiple distribution channels
- centralized support functions
- performance-based compensation
- internal and external benchmarking
- high levels of automation
- leveraging economies of scale
- close monitoring of costs

Macif Assurances (France)

Profile

Macif was founded in Northern France in 1960 and over the past half century has grown to serve over 5 million clients with 14 million contracts throughout the country. Macif has a market-leading position in France in the home, car and boat insurance markets. The company has an extensive distribution network with over 500 branches, 33 call centers and 8,500 employees. In 2007, it wrote premiums totalling €2,598m.

Achieving efficiency

Macif is a mutual insurance company with a strong corporate culture of social responsibility. There are a number of factors contributing to its efficiency:

- **Decentralized organizational structure**: The company is made up of 11 self-managed regions, each administered by a regional committee which includes delegates elected directly by policyholders. Each region operates as an independent profit center to ensure quick decision-making and minimize bureaucracy. The regions are benchmarked against each other which helps to raise cost awareness and allows best practices to be spread throughout the organization.

The top performers

- **Use of the internet**: Macif has been handling clients online since 2000 and today the internet is an important factor in reducing time spent on costly administration. Macif's webpage is the most frequently used and visited of the French insurance companies' online services.
- **Centralized support functions:** Certain support functions, such as IT, HR and some of the marketing and administration, are centralized in order to achieve economies of scale. Central decisions are taken by a board constituted of one representative from each region.
- **Multiple distribution channels:** Macif distributes approximately 50% of its insurance policies through low cost channels such as the internet and telephone. The company is currently working towards using banks to distribute its policies (bancassurance) which is another highly cost-efficient channel.
- **Retaining expertise:** Good Human Resources policies and remuneration (including profit-sharing) means the company has a very low employee turnover. By keeping experience and expertise in the organization, Macif is able to serve its customers more efficiently and increase customer satisfaction as a result.

Topdanmark (Denmark)

Profile

This Danish insurance company can trace its roots way back to 1899. However, the brand 'Topdanmark' was not used until 1972 when Topdanmark Liv was established.

Today, Topdanmark is one of the largest non-life insurers in Denmark, with more than 2,300 employees and about 40 branches all over Denmark. In 2007, it wrote premiums totalling €1,210m[3]. The company's key business lines are motor, property & casualty and agricultural insurance.

Achieving efficiency

One of Topdanmark's goals is to have a lower cost ratio than the general level on the market and to lower this ratio continuously by ensuring that administration costs grow more slowly than premiums. It plans to achieve low growth in administration costs through increased automation and increased self-service.

Topdanmark has a multi-distribution channel strategy: it uses both its own channels, such as branches and call-centers, and external partners, such as Danske Bank and Handelsbanken, to distribute its products. By using partners, Topdanmark is able both to increase its sales power and to lower its fixed costs.

Topdanmark has a strong customer focus with the explicit goal that "it should be easier to be a customer with us than with any other insurance company."

In recent years, Topdanmark has invested heavily in IT in order to improve efficiency in functions such as sales and claims handling. This is reflected in the large share of both staff and expenses dedicated to the IT department: over 300 of the 2,300 employees are located in the IT department, while IT accounts for 18% of the company's total expenses.

As important as investment in IT is the high profile Topdanmark gives the IT department within the company's organization and strategy. The IT department is involved in decision-making at all levels of the organization and works closely with business units to make sure that all IT projects are built to be as practical and functional as possible.

Trygg-Hansa (Sweden)

Profile

Trygg-Hansa was established in 1971 after a series of mergers between several Swedish insurance companies. Today, Trygg-Hansa's 1,700 employees service approximately 1.8 million customers all around Sweden. In 2007, Trygg-Hansa wrote premiums totalling €1,059m[4]. The company's key business line is property & casualty insurance.

Achieving efficiency

The company has a centralized model with support functions gathered in regional centers. By concentrating expertise and specialist functions in a few locations the company can use them more efficiently and allocate them in the most productive way. This model also allows knowledge to be spread more quickly, resulting in a learning organization with a higher competency level.

The top performers

The company focuses on making distribution as efficient as possible. For example, it empowers and supports customer-facing staff to allow them to service customers directly and avoid having to send them to different functions within the company.

Trygg-Hansa uses performance-based compensation to encourage improvements in efficiency and profitability. All employees are entitled to a bonus, determined in part by individual performance against a number of targets, and in part by the company's performance against financial targets. This two-part system motivates employees both to do well individually and to support the company as a whole.

TrygVesta (Denmark)

Profile

TrygVesta was established in 2002 when the Danish insurance company, Tryg, bought the general insurance part of Nordea. TrygVesta now has 3,700 employees and services more than two million private individuals and 100,000 businesses. In 2007, it wrote premiums totaling €2,274m[3]. The company's key business lines are motor, fire, property and personal accident insurance.

Achieving efficiency

There are a number of key factors that contribute to TrygVesta's efficiency:

- **Strategic partnership with Nordea**: Cooperation in distribution gives TrygVesta access to Nordea's extensive branch network.
- **Growth of self-service**: TrygVesta is aiming to increase the degree of self-service in its business in order to lower administration and distribution costs. Corporate clients can already manage much of their insurance on-line and in Sweden and Finland private customers can buy their car and home insurance over the internet.
- **Increased automation**: A new sales system that allows agents to finalize sales on the spot is being implemented throughout the group. In addition, the company is moving towards a system where the entire claims-handling process will be undertaken by computers.
- **Staff motivation**: Performance-based compensation for all employees is used to motivate and retain competent staff.

The company's strategic partnership with Nordea, in particular, has given TrygVesta a number of advantages:

- **Solid distribution platform**: Nordea has more than 1,200 branch offices, allowing TrygVesta to reach customers all around the Nordics in a way that would not be possible if TrygVesta operated alone. In fact, 10% of TrygVesta policies are now sold through Nordea.
- **Strong brand**: Nordea has one of the best-known brands in the Nordic financial services industry. When TrygVesta enters a new market, such as Sweden or Finland, selling through the Nordea brand gives it very high awareness without expensive marketing.
- **Loyal customer base**: Existing Nordea customers who start buying TrygVesta products through the Nordea bank are less likely to change insurance provider due to their close connection with Nordea in other product lines.
- **Proven and scaleable business model**: Using Nordea's existing systems and organization allows TrygVesta to achieve improved economies of scale and to access an established and well-functioning distribution network.
- **Knowledge-sharing**: Nordea holds an enormous amount of experience and knowledge in providing financial services in the Nordic region, knowledge which transfers to TrygVesta through the partnership.

The top performers

RBS Insurance (Scotland)

The insurance arm of RBS is currently for sale. From what can be judged from the outside this chain of events was started by actions and decisions taken at group level rather than the insurance arm. In particular the ill-timed acquisition of Dutch bank ABN Amro through a consortium led by RBS seems to have put the latter in a financially highly precarious situation.

Profile

RBS Insurance is one of the largest general insurers in the UK with more than 26 million policies. The company is also expanding abroad with operations in Spain, Germany and Italy. RBS Insurance employs over 18,000 people across the UK. In 2007, it wrote premiums totalling €8,683m[5]. The company's key business lines are motor, home, travel and pet insurance.

Achieving efficiency

A number of factors contribute to RBS Insurance's efficiency:

- **Distribution and sales partners**: The company uses distribution and sales partners to avoid taking on fixed costs, and is focusing heavily on developing partnerships to strengthen efficiency in distribution. Partners contribute to fixed costs and this allows RBS to reach customers without having to build costly branches. Partnerships also give economies of scale, both operational and in purchasing.
- **Selling online and by phone**: RBS Insurance is the number one insurance provider in the UK by phone and internet (50% of its car insurance policies are sold over the internet). By selling over the internet and by phone RBS Insurance reduces its administration and sales costs dramatically.
- **Part of a major group**: RBS Insurance is a part of one of the world's largest financial services companies, the RBS Group, which allows it to take advantage of the economies of scale attached to such a large organization.
- **Shared support functions**: RBS Insurance shares support functions with the four other customer-facing divisions in the RBS Group, and this gives it access to IT resources, for example, that it could never afford if it stood alone. The fixed costs linked to the support functions are divided between all divisions. In addition, having all support functions in one place makes it possible to leverage purchasing power.

Folksam Sak (Sweden)

Profile

Folksam Sak is one of Sweden's four largest insurance companies, with a third of the home insurance market and a 25% share of the car insurance market. Folksam, which has its headquarters in Stockholm, has 3,400 employees. In 2006, it wrote premiums totalling €891m[3]. Its key business lines are motor and property & casualty insurance.

Achieving efficiency

During 2006, Folksam succeeded in increasing premiums by 3% while lowering costs by 7%. It achieved this through an efficiency-enhancing program launched in 2005 and expected to reach its full strength during 2007.

Folksam is currently developing a partnership with Swedbank, a Swedish commercial bank, with the aim of strengthening both parties and lowering operational costs. For example, all capital management, which was previously handled by Folksam, is now being dealt with by Swedbank, which gives economies of scale and is expected to lower related costs by 50%. The partnership also gives Folksam access to Swedbank's extensive branch network, through which Folksam is distributing its products to a wide customer base at low cost.

Folksam was an early adopter of computer-based CRM systems and this has allowed the company to simplify customer-related administration and to process information extremely efficiently.

The company's business governance is also very effective. Folksam has clearly formulated goals and monitors progress against these continuously in order to achieve maximum efficiency in all areas of its business. In particular, it uses:

- **A balanced scorecard**: Folksam started using a balanced scorecard as early as 1997 in order to formalize its vision and strategy. Efficient internal processes are one of the cornerstones of its vision.

The top performers

- **Internal communication**: Targets and goals are communicated very clearly throughout the whole organization to ensure employees focus on the right things.
- **Internal benchmarking**: Business units at all levels undergo central monitoring against a number of parameters and are benchmarked against each other to help the company identify best practices and mark out areas for improvement.
- **External benchmarking**: Folksam benchmarks its business against comparable units in competitor organizations in order to identify its own weak spots and make sure that the organization continues to improve.

If Skadeförsäkring (Sweden)

Profile

If is one of the largest insurance companies in northern Europe with 6,600 employees servicing 3.8 million customers in the Nordic and Baltic countries. The company was created in 1999 following the merger of the P&C insurance businesses of Swedish Skandia and Norwegian Storebrand. In 2007, If wrote premiums totalling €4.085m[6]. Its key business line is property & casualty insurance.

Achieving efficiency

If uses a detailed system to monitor costs continuously across the whole organization from a cost and profitability perspective. This system instantly registers any area in the business where costs are getting too high and the problem is addressed immediately. In addition, the company has launched a project to increase cost-efficiency in claims handling. In its industrial business area, this has allowed it to reduce staff numbers and reduce costs.

If currently aim to improve cost-efficiency further by developing functions such as IT service & support, product development and pricing, on a regional rather than a national level. So, it has a number of single support functions for all countries in the Nordic region; likewise for the Baltic region. By having these functions in one or two locations, rather than in several different countries, If can share out fixed costs and benefit from the economies of scale that come from larger volumes.

In addition, this structure helps to improve quality and efficiency, since by concentrating expertise, the company avoids the risk of overstaffing or understaffing in different countries.

Ethias (Belgium)

As this report goes into print the Belgian state is trying to save the Ethias Group by injecting capital. The Ethias Group has large shareholdings in amongst other Dexia, shares that now trade at a fraction of their previous value and capital adequacy is a major concern for the group.

Profile

Ethias dates back to 1919 when insurance policies were offered to public-sector employees and their families only. Today, Ethias provides life and non-life insurance as well as bank services to approximately one million customers throughout Belgium. This makes Ethias the third largest insurer in the country with a 16% market share. Its non-life products include primarily motor and home insurance. In 2006, Ethias wrote premiums totalling €1,383m.

Achieving efficiency

Ethias is a mutual insurance company and regards its policy-holders as associates rather than clients. The company distributes insurance policies mainly through its own network and via contact centres. However, internet has during the past few years become an increasingly important channel for distribution and Ethias is continously working on improving its online offer. As a result, the company is the unchallenged leader of online insurance in its home market. Ethias online strength is evident in a number of formats:

- **Website**: The company website, www.ethias.be, is a fully-fledged distribution channel and the company wrote more than 39,000 policies via the internet in 2006. Affiliates can consult and manage their insurance online via a personal and secure portal.
- **Extranet**: Ethias is a large provider of insurance to the public sector and private business. The extranet is the portal for corporate clients where they can manage their case files on a remote basis. Ethias' extranet has one million visits a month and 90% of Ethias's work accident claims pass through it.

The top performers

- **'My Ethias'**: In 2006, this interactive portal for private customers logged more than 2.9 million policy consultations with over 730,000 visitors.
- **Health portal**: The free health portal, www.e-sante.be, launched by Ethias in 2002, further strengthens its online profile. Today, www.e-sante.be is Belgium's leading health website. It receives 650,000 visits a month and has 125,000 subscribers for its e-newsletter.

GMF Assurances (France)

Profile

GMF can trace its roots back to 1934, when it was created by civil servants for civil servants. Today, the company is one of the largest insurers in France with more than 5,800 employees, 3 million members and about 390 agencies all over France.

GMF's key business lines are property and car insurance and the company insures more than 2.5 million vehicles and 2.4 million properties. In 2007, GMF wrote premiums totalling €1,860m in the non-life insurance sector.

Achieving efficiency

Key factors contributing to GMF's efficiency include:

- **Multiple distribution channels**: GMF has a multi-channel distribution strategy; formerly it used only agencies but since 2001 has developed a combined telephone and internet platform. All its policies can be bought via the company's website and customers can view their contracts online and declare any changes in their situation.
- **Market focus**: One of GMF's specific long-term goals is to attract young customers. For example, the company aimed to attract 50,000+ young customers in 2007 through aggressive pricing and targeted advertising, such as the sponsoring of The Rugby World Cup, held in France in 2007.
- **IT Investment**: During recent years, GMF has invested heavily in IT. In 2007, it began to rationalize documentation in order to optimize its relationship with customers, increase employee productivity and reduce operational costs.

Since 2005, GMF has belonged to Covéa, a group that owns other large insurance companies, such as MAAF. Having become part of the Covéa group, GMF has seen an important reduction in the cost of damages, and now has access to a shared network of inspectors and repairers. IT and legal functions have been pooled, and the costs associated with reassurance and advertising have been reduced. GMF also benefits from the shared development of new products. For example, MAAF recently launched a new car insurance product based on the number of kilometres travelled and GMF is about to launch a similar product.

Gjensidige (Norway)

Profile

Gjensidige's history dates back to the mutual fire insurers established in Norway during the 18th century. Today, Gjensidige has a 31% share of the market, with more than 1 million customers. The company is the market leader in private and agricultural insurance and the second largest commercial insurer in Norway. Gjensidige has approximately 2,000 employees in Norway and 5,000 employees in total. In 2007, the company wrote premiums totalling €1,975m[6].

Achieving efficiency

A decentralized organizational structure has been a hallmark of the business for decades. As a result, decision-making is quick and efficient and lead times are short. Distribution is organized around five geographic regions, which are benchmarked against each other continually to encourage the spread of best practices throughout the organization.

Gjensidige has incorporated a clear cost focus into its business strategy and aims to *"ensure continued discipline with regard to cost control and efficient asset management"*.

Its recently launched cost-cutting program aims to achieve greater efficiency both internally and in distribution, specifically to reduce costs by approximately €44m by the end of 2008. The workforce was reduced by more than 200 people in 2007.

The top performers

Remuneration is performance based in order to align employees' performance with overall profitability.

Multi-channel strategy

An important component contributing to the company's efficiency is its multi-channel strategy, which aims to make Gjensidige the supplier closest to the customer. The strategy incorporates:

- 135 offices to provide direct contact whenever it is required.
- Regional customer centers, with evening opening hours, which handle contacts online and via telephone.
- Call centers divided between "call-in" and "call-out" with specialized staff to increase efficiency.
- An active strategy to increase the use of the internet as a distribution channel: a 5% discount is given to customers buying policies on-line and in order to receive their share of 2007's redistributed profits, members were required to log on to the Gjensidige website and register themselves.

Customer loyalty program

To increase customer loyalty Gjensidige has created a program called Gjensidige FORDEL, which 40% of the company's one million customers have joined. To become a member of the program, customers have to have at least three qualifying policies with Gjensidige. In return, they receive discounts and benefits.

The customer loyalty program helps to increase efficiency in two ways:

- By giving more depth and breadth to customer relationships.
- By reducing the customer loss ratio.

Annual measures of customer satisfaction conducted by Gjensidige show that members of the loyalty program are more satisfied than non-members.

[3] DKK / EUR 0.1341

[4] SEK / EUR 0.1062

[5] GBP / EUR 1.3571

[6] NOK / EUR 0.1256

Secrets of success

What are the key factors affecting cost-efficiency among Europe's largest insurers? Analysis of the survey's top performers shows they all share six vital characteristics.

The common characteristics shown by the survey's top performers are:

- customized distribution channels
- efficiency in distribution
- performance-based compensation
- centralized support functions
- IT and the internet
- decentralization

Customized distribution channels

The top-performing insurance companies distribute their products via a wide variety of distribution channels. This allows them to approach each customer segment in the manner that optimizes efficiency.

Topdanmark is a good example of a company that uses a multi-distribution strategy, combining almost every available distribution channel, from sales reps, sales centers and call centers to car dealers, brokers, partnership banks and pension companies.

- **Own sales force**: Sales to private customers are often handled either by a company's own sales representatives and through call centers. Using its own sales force gives a company full control over distribution, however it can be costly and requires considerable strategic effort. Therefore, a sales force is best used for customers with large accounts, such as corporate clients. Personal service and individual negotiation can help in building trust with these clients and increase the size of each account.
- **Brokers and agents**: In segments where local presence is key (e.g. rural areas) many companies rely on local brokers or agents to distribute their products and handle customer contact. Selling through an agent means giving up some control over the product but provides more flexibility and lower fixed costs, since many agents are only paid commission on the policies they sell.
- **Bancassurance**: Bancassurance (distribution through banks) is becoming increasingly popular and is an efficient distribution channel, providing access to a large distribution network with low corresponding fixed costs. The bank controls the distribution of the product and may even sell it under its own brand name. An example of an insurer that takes advantage of this is TrygVesta, which sells its products in Finland through Nordea, a considerably better-known brand in this market.
- **Telesales**: Telesales is one of the most important distribution channels in the insurance industry. Insurers achieve efficiency by using skilled personnel able to handle customers' questions and requests quickly without having to transfer each call. Gjensidige, for example, divides calls handled by its call centers into incoming and outgoing calls, thus allowing employees to specialize in one type of call and help their customers more efficiently.
- **Internet**: A well-functioning online sales channel allows insurers to sell products and services around the clock at low cost by avoiding costly manual administration. Furthermore, encouraging customers to manage their insurance online can lead to efficiency improvements in, for example, claims handling. Ethias is a good example of an insurer whose customers can handle most of their insurance business independently via an online portal.
- **Partnerships**: A partnership with another organization, such as a sports club, gives insurers access to a distribution network without incurring large fixed costs. In partnerships, the partner organization usually controls distribution. Good examples of insurers using partnerships to distribute their products are Folksam (which cooperates with labour unions and sports clubs) and Gjensidige (which has a partnership with the Norwegian farmers' unions). These partnerships help the insurer to reach out to a large number of potential customers, often with a standard tailored policy.

Secrets of success

Efficiency in distribution

One way to improve cost-efficiency is by minimizing the number of staff involved in each customer contact. Ideally, a single employee should be able to handle as many issues related to a customer's request as possible. Three factors are important in achieving this goal:

- **Empowerment**: To service customers efficiently, all customer-facing staff should be trusted to make as many decisions as possible without having to consult management.
- **Training**: In order to handle a wide range of customer-related issues customer-facing staff need comprehensive training in all aspects of the insurance business.
- **Support systems**: The insurance company must use advanced IT support systems to give customer-facing staff the information they need to service customers.

Performance based compensation

Performance-based compensation is an effective way of motivating staff to be cost conscious and to work towards profitability.

Performance-based compensation can take a number of different forms:

- **Variable salary**: The closest connection between performance and compensation is achieved through a commission-based salary. For this type of system to function, the work done by the employee has to be easy to measure, a fact that has made it common among sales personnel and sales agents.
- **Bonuses**: By attaching a bonus to the fulfillment of a target, a company can give employees extra motivation to work towards this goal. For the bonus system to have effect, employees must have a real opportunity to affect the outcome and different goals for different positions are therefore necessary.
- **Stocks**: One way of making employees feel more involved in the company is by allowing them to buy company shares at a favorable price. As owners, the staff are rewarded when the company does well, and this gives them the incentive to work towards profitability and efficiency.

Traditionally, companies have used performance-based compensation to motivate sales staff. However, many of the top performers now recognize the need for better reward systems for support and back office functions and are developing methods to link compensation to performance in these areas.

A good example of this is If Skadeförsäkringar where all employees in all functions are involved in a bonus program linked to both personal and company targets. A prerequisite of an effective bonus program is the ability to monitor and measure performance in all functions and If has been investing heavily in this.

In addition to motivating staff, performance-based compensation is a way to retain qualified staff. This is a priority for TrygVesta, for example, where two-thirds of the company's costs are staff related.

Centralized support functions

Centralized support functions are a common feature of the top performers, enabling these companies to achieve economies of scale, improve knowledge-sharing and allocate resources more efficiently:

- **Economies of scale**: Concentrating functions such as IT, marketing and HR in single central departments can deliver significant cost savings. For example, fixed costs can be divided by larger volumes of output leading to a lower per unit cost. In addition, larger volumes also give companies stronger purchasing power with suppliers.
- **Knowledge-sharing**: Concentrating expertise and specialist know-how in one place enables knowledge and ideas to spread fast and efficiently. The stimulating and sometimes competitive climate that results from having many talented people working together is also the perfect seed-bed for creativity and innovation.

Secrets of success

- **Efficient allocation of resources**: Consolidating resources enables top-performing enterprises to smooth out interdepartmental workload peaks and lows, thus reducing backlogs whilst increasing staff motivation. With all resources located within a centralized function, management can allocate resources where they are most needed at any time.

IT and the internet

IT and the internet can be used to improve efficiency in all parts of the insurance business, from internal processes and customer service to distribution and sales.

Internal processes

The way IT is used for internal processes probably has the greatest impact on cost-efficiency. IT allows information to be distributed efficiently through a company, making it possible for staff and management to take well-informed decisions. Recognizing this, TrygVesta, for example, is moving towards a system where claims handling can be fully automated from the beginning to the end. At Topdanmark, IT management is involved in decision-making at all levels of the organization and works closely with business units in order to maximize the use of IT.

Self service

Internet-based customer service, where existing customers can get an overview of their policies and get their questions answered on-line, is a way to reduce the need for expensive human customer support. With TrygVesta, for example, corporate clients can add and withdraw employees from their policies via the internet.

Internet-based customer service can also help to improve customer satisfaction, since customers no longer need to go to a branch or wait in a telephone queue for service.

Sales and distribution

Distributing insurance over the internet makes it possible to reduce the use of expensive sales staff and middlemen. RBS Insurance makes good use of the internet, selling 50% of its car policies on-line, while Gjensidige encourages internet sales by giving a discount if customers buy online.

However, it is not possible to distribute all insurance products over the internet; this channel is most suitable for simple products that demand limited special knowledge.

Decentralized organization

Decentralized organizations tend to have fast and efficient decision-making and are able to spread cost-consciousness more easily through the firm.

Shorter decision-making processes

In a decentralized business, decisions are taken closer to the market, which speeds up the process. A decentralized structure gives top management more time to concentrate on strategically important issues instead of everyday operational matters. A good example of a decentralized insurer is the French company, Macif, which has 11 independent geographical units, each managed by a locally elected board. This structure ensures a good fit between the market and the organization.

Responsibility spread through the organization

Having a decentralized organization divided into different business units with profit/loss responsibility helps insurers to encourage cost-consciousness throughout the organization. Linking remuneration with each manager's performance helps to align the manager's priorities with the organization's profitability target. Furthermore, delegating responsibility and awarding managers a high degree of freedom often has a positive impact on motivation.

Creation of a benchmarking culture

A decentralized organization offers top management the opportunity to benchmark different business units against each other. Benchmarking helps identify and spread best practices throughout an organization. It also encourages managers to become more efficient in order to prove their abilities.

Gjensidige is a good example of a decentralized organization that benchmarks its geographical units against each other continually in order to identify and spread best practice.

Appendix: Companies included in the survey

Figure 12. The companies divided by country of origin

Company	Country	Company	Country	Company	Country
Donau Versicherung	Austria	Allianz Group	Germany	Tranquilidade	Portugal
Oberösterreichische Versicherung	Austria	Ergo Insurance Group	Germany	Fidelidade Mundial	Portugal
UNIQA Versicherungen AG	Austria	Gothaer Versicherungen	Germany	Caser Seguros	Spain
Vienna Insurance Group	Austria	R+V Allgemeine Versicherung	Germany	Mapfre Seguros	Spain
Ethias	Belgium	Talanx Group	Germany	Folksam Sak	Sweden
Fortis Insurance	Belgium	Cattolica Assicurazioni	Italy	If Skadeförsäkring	Sweden
KBC Verzekering	Belgium	Fondiaria SAI	Italy	Länsförsakringar Sak	Sweden
Codan Forsikring	Denmark	Generali Group	Italy	Trygg-Hansa	Sweden
Topdanmark	Denmark	Allianz S.p.A	Italy	Baloise Insurance	Switzerland
TrygVesta	Denmark	Toro Assicurazioni	Italy	Helvetia	Switzerland
Pohjola	Finland	Unipol Insurance	Italy	Die Mobiliar	Switzerland
Tapiola General	Finland	Eureko Group	The Netherlands	Zurich	Switzerland
AXA	France	ING-Group	The Netherlands	Aviva	UK
CNP Assurances	France	Gjensidige	Norway	NFU Mutual	UK
GMF Assurances	France	Sparebank1	Norway	RBS Insurance	UK
Groupama	France	Açoreana Seguros	Portugal	RSA	UK
Macif Assurances	France	Império Bonança	Portugal		

Source: Arthur D. Little analysis

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Sleeker by Design

Jaguar Cars Limited is a luxury car manufacturer based in Coventry, England.

Since founded in 1922, Jaguar's philosophy has been to design and produce beautiful luxury cars which provide their customers with comfort, refinement and an unrivalled driving experience.

This cannot be achieved without satisfying all their stakeholders´ interests and ensuring development is sustainable over the long term.

Arthur D. Little

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