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A strategic approach to  
cost reduction in insurance.

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# A strategic approach to cost reduction in insurance.

The imperative to reduce costs is hardly new. However, current economic conditions, combined with market forces that have gained momentum in the insurance industry over the past few years, have caused cost reduction to become a top strategic business priority.

The manner in which this priority is addressed depends largely upon the circumstances in which the insurer finds itself. For some the imperative is survival, with short-term stability being the primary goal. For others it is improvement of their cost structure and their operational capability, the aim being to emerge from the downturn a more formidably positioned competitor. And for high-performance insurers, the strategy may be to fundamentally transform their cost structure, implementing a new business model that enables them to capitalise on the opportunities for growth that the economic crisis presents.

For insurers in India, the strategy in a broad sense may be to improve their operating cost structure in an increasingly competitive environment while continuing to capitalise on the opportunities for growth in a largely under-penetrated market. Further liberalisation of India's insurance sector proposed for 2009 is likely to intensify competition from foreign players while emerging opportunities in areas such as micro insurance and health insurance can give rise to challenges on managing network expansion costs against revenue gains.

In Accenture's view, irrespective of the situation, arbitrary cost reduction is no longer sufficient— and could even be damaging. What is needed is a more strategic approach, where cost cutting is part of a broader agenda. This may not only yield cost reductions—including lower loss costs—of up to 30 percent, but also can equip and position the organisation for profitable growth.

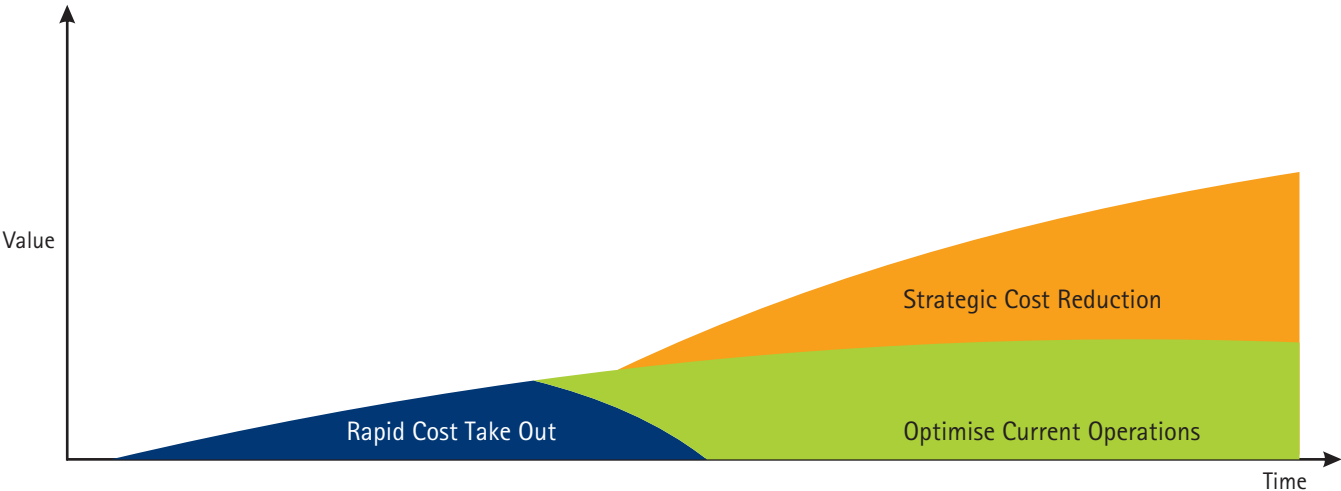
# Strategic Cost Reduction creates an efficient organisation positioned for growth.

There are different approaches that can be adopted to reduce cost (see Figure 1). Short term strategies may aim to cut expenses as rapidly as possible. Others seek to optimise the current model in order to move to higher levels of efficiency.

Strategic Cost Reduction, on the other hand, entails broader ambitions and more far-reaching changes to both the current operating model and the organisational structure—in fact, throughout the value chain. Its aim is not simply to take out cost but to build capability that supports the business strategy.

It defines value not only from an internal perspective, but also in terms of what it means to customers, agents, regulators and shareholders. The result is a highly efficient and operationally superior organisation that is positioned for profitable growth and continuous capability development.

**Figure 1 – Cost Reduction Strategies**  
The three broad categories of cost reduction



**Rapid Cost Take Out**

- Quick-hit process improvements
- Organisation streamlining
- Span-of-control enhancements
- Procurement optimisation

**Optimise Current Operations**

- Activity and process improvements
- The elimination of activities that add little value
- Organisational layer improvements
- The establishment of shared services
- The outsourcing of non-core activities

**Strategic Cost Reduction**

- Process optimisation with an enterprise-wide focus
- Enterprise organisation re-design
- Enterprise-wide technology integration
- BPO and bundled outsourcing
- Implementation of operational excellence capability
- Segmented sales and service strategies

# A powerful solution that extends throughout the enterprise.

Accenture's approach to cost reduction is more effective than tactical, narrowly-based efforts because it is aligned with the business strategy, it includes the entire enterprise, and it is planned and effectively implemented by an experienced team of specialists.

What also sets Strategic Cost Reduction apart from other cost-cutting approaches is its inherent creativity. It purposefully challenges established industry assumptions and conventions, looking not only to insurance trendsetters but also to other innovative industries for new and effective practices. Its aim is not simply to reduce costs but, if possible, to change the shape of the cost curve.

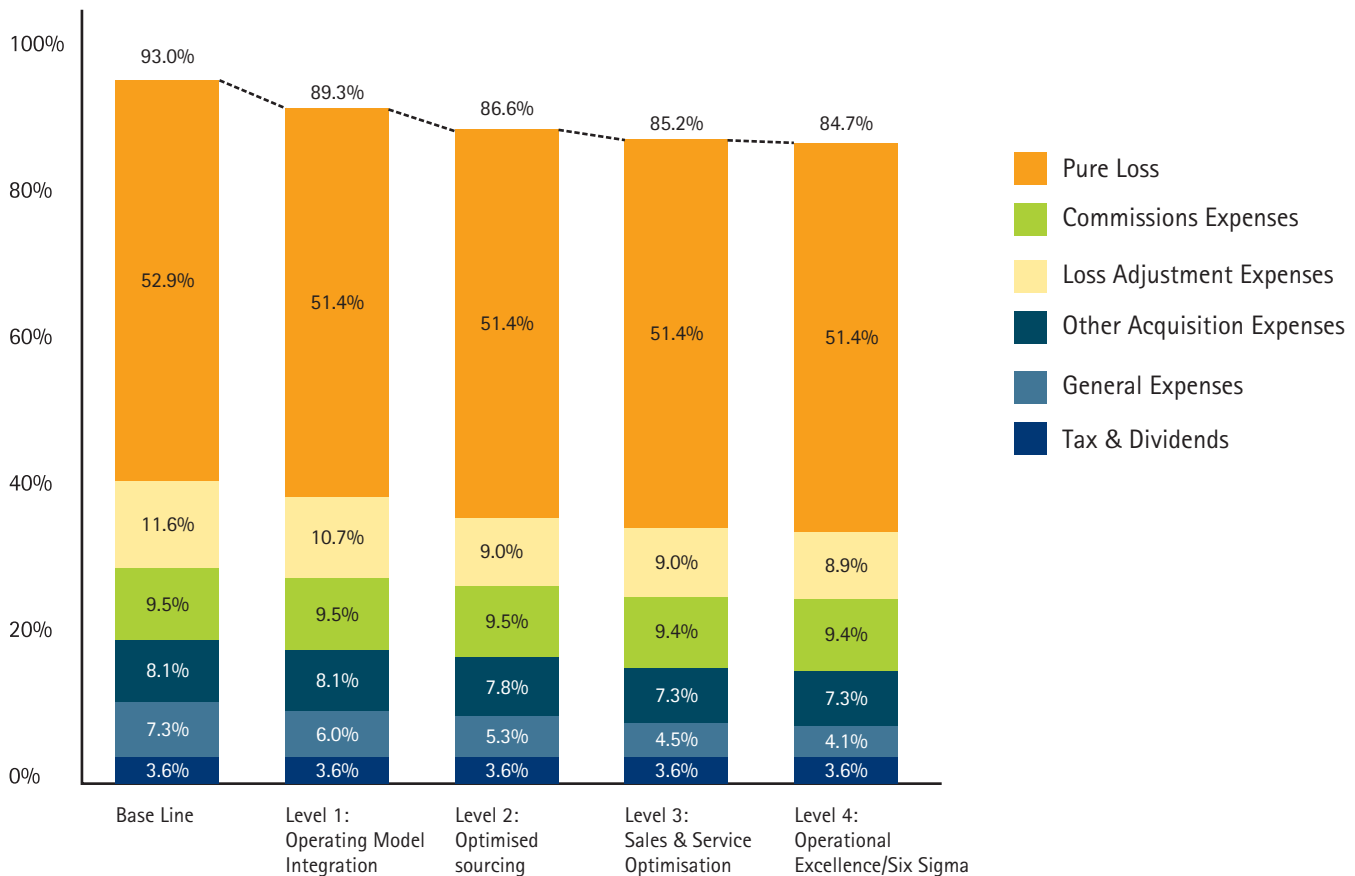
The magnitude of savings achieved by Strategic Cost Reduction is attributable to its comprehensive approach and its reliance on four powerful inter-related levers that shape the cost structure of the enterprise, affecting the way the insurer conducts every aspect of its business (see Figure 2).

The levers are:

- Operating model integration
- Optimised sourcing
- Sales and service optimisation
- Operational excellence

Figure 2 – Potential Impact by Levers (Illustrative)

Each of the four levers of strategic cost reduction contributes to an improved combined ratio



# Shifting the levers that drive down cost.

## Lever 1: Operating Model Integration

Many insurance companies have significant opportunity to improve their cost structure by integrating their operating models, thereby gaining economies of scale and scope. This opportunity lies within un-integrated acquisitions, autonomous operating structures, line-of-business silos, and independent distribution channels—all of which are characterised by inconsistent processes, measures, structures, technologies and business performance.

This opportunity arises in particular at insurance companies in India that are on a rapid growth trajectory which may not facilitate the parallel integration of their operating structures. One such life insurer on a high growth trajectory was assessed to be lagging behind its key competitors on critical cost parameters. Accenture conducted a diagnostic study over three weeks and identified potential

cost savings of 5 to 8 percent of operating expenses estimated at amounting to Rs. 78 – 138 crores, from the integration of its sales and distribution, marketing, customer service and enterprise functions.

Integration such as this lowers the cost structure—expenses as well as loss cost— through economies of scale and scope and by raising effectiveness across the value chain. Between 30 and 50 percent of the total cost savings potential maybe achieved through operating model integration, with typical results including:

- Consolidated and centralised structures and activities, such as a single Finance function supporting all lines of business
- Flatter organisational structures and increased spans of control
- Standardised, simplified, integrated and automated processes across the value chain, especially for underwriting, claims and policyowner functions

- The elimination of activities that add little or no value, and better alignment of resources with those that do
- Better use of business intelligence solutions to enhance decision making
- Better management of procurement budgets

## Lever 2: Optimised Sourcing

With increased globalisation has come an ever-expanding range of sourcing alternatives, which today allow the insurer to select the strategy, the location, the skill sets and the prices—as well as the level of sensitivity—that best suit its needs. Strategic Cost Reduction entails a clear definition of the activities that lend themselves to alternative sourcing, the careful evaluation of the options, followed by the aggressive pursuit of business arrangements that offer advantageous, variable cost structures. Just three of the more popular sourcing alternatives are:

- Business Process Outsourcing (BPO), which enhances process effectiveness and efficiency by engaging with service providers that offer greater scope, scale and expertise than can usually be achieved in-house
- Application Outsourcing (AO), which is used both for portfolio rationalisation and process improvement
- Infrastructure Outsourcing (IO), which enables the insurer to consolidate and rationalise its infrastructure and server environments
- The switch from a fixed to a more variable cost structure, which keeps costs more in line with transaction volumes and policy numbers
- The opportunity of sharing risk and reward with a strategic partner

**In addition to these benefits, the typical results of optimised sourcing include:**

- Simpler, standardised processes and platforms
- Improved efficiency and quality as a result of greater scale and expertise
- The reduction of labor costs by moving operations to less expensive locations
- The focus of resources on assets and activities that differentiate the insurer

### Lever 3: Sales & Service Optimisation

The sales and service capabilities of an insurance company are obviously vital to its competitive differentiation. Cost reduction in these areas has to be undertaken carefully to avoid damaging the growth engine of the business or inadvertently driving up customer attrition. It is because of this complexity that this lever is often overlooked or under-addressed. However, significant cost structure improvements can be achieved, not only reducing expenses but— even more importantly— sharpening the focus of the organisation and improving the return on its acquisition and service spend. Insight from customer, channel, product and other data can be leveraged to inform strategies such as customer / agent segmentation and tiered service levels. This not only can positively shape the customer / agent experience, but also can ensure that the improvements are cost effectively sustained.

To illustrate, total operating expense at a mid-sized life insurer in India was comparable to the average of the peer group but cost diagnostics revealed the structure fell short on key parameters. Accenture could identify potential savings estimated at 4 to 6 percent of the total cost base by enhancing productivity. Optimisation across its product portfolio, sales force structure, and distribution structure was realised in phases – with select quick-win opportunities achieved in less than 6 weeks and others over the course of the year.

Such results typically achieved through sales and service optimisation are:

- Greater reliance on fixed or lower cost channels as sales and service transactions increase, reducing unit costs
- The optimal alignment of marketing spend with distribution and sales goals

- More effective sales management and execution, and a better-focused sales force
- An increase in cross- and up-selling
- Improved alignment with the desired agent service model through, for example, tiered levels of focus and service. This is achieved by gaining a better understanding of agent segmentation
- Reduced call volumes and other transactions through intuitive sales and service processes on self-service channels like the Web
- An increase in first-call resolution and a lower cost-per-call
- Greater customer retention through better, more relevantly segmented service

## Lever 4: Operational Excellence

Operational excellence is indispensable to establishing a business capability that delivers long-term differentiation. It provides the discipline that allows insurers to realise benefits, and also to systematically evaluate their business and make improvements on a continuous basis. Companies that have this capability tend to be better positioned going into a downturn, as well as better equipped to deal with it.

This lever plays a key role in Strategic Cost Reduction, as it provides the infrastructure, methods and capability to monitor and sustain the cost reduction benefits. Most importantly, it infuses a discipline that views cost management as a way of doing business—not an event.

The results typically achieved through operational excellence are:

- Trained internal resources who have the tools and experience to continuously improve performance and reduce costs
- The discipline to rationalise projects on the basis of their contribution to overall economic value
- The precise measurement of benefits, and the rigorous evaluation and prioritisation of opportunities
- The infrastructure needed to perpetuate operational excellence— for example deployment leaders, master black belts, kaizen practitioners, etc.
- Ongoing identification of opportunities, and an increase in activities that reduce costs across the business

# Cost Reduction Diagnostic at a Life Insurance Company in India.

## Business Challenge

A private life insurance company, ranking among the top five in India, embarked on an aggressive growth path by re-defining its operating and distribution strategies. With rapid growth in premium income the company also experienced an overall high cost of operations.

Along with an aggressive growth rate it recognised that to be profitable, it needed to operate more efficiently at a lower cost base and decided to look for cost reduction opportunities.

## How Accenture Helped

Accenture was invited to undertake a cost and efficiency diagnosis across the company's value chain. The diagnostic program began in August 2008. Within four weeks, a high level analysis of cost and process structures was performed across acquisition, retention, servicing and enterprise functions,

with detailed design and implementation planned over a period of 18 months. Accenture initially conducted a 'root cause analysis' to identify waste on each of the critical cost heads. Revenue and cost gains along stated assumptions to achieve the company's ambitious targets for 2009-10 were found to be at a gap estimated at 42 percent from the best in class productivity. Some of the recommendations made were:

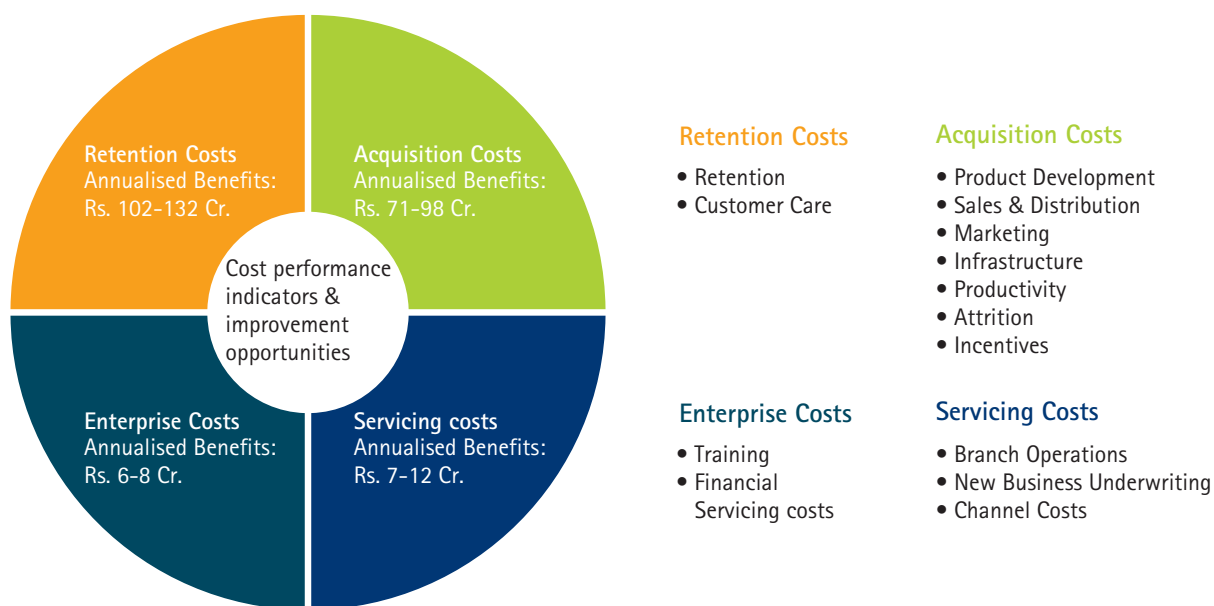
- Consolidating and rationalising the number of branches
- Consolidating vendors and employees activity to enhance utilisation
- Increasing persistency ratio for better retention cost management

## High Performance Delivered

Accenture through its initial diagnostic identified high level savings potential of 5 percent - 9 percent of the total operating expenses estimated at approximately Rs 190 - 250 crore (see Figure 3). Benefits identified during the diagnostic stage may help the client realise their ambitious cost target. At the same time, productivity enhancement measures may ensure that the client's 75 percent business growth objective is met.

One key on the path to meet its aggressive growth targets is its ongoing performance improvement program and its partnership with Accenture. For both companies the partnership is about more than reducing costs. It is about getting the insurance company ahead of the pack and enabling it to stay there through continued, sustained performance.

Figure 3 – Expected Benefits (Illustrative: India life insurer)



# Why team with Accenture?

## Disciplined planning and an unmatched implementation capability

Accenture's Strategic Cost Reduction offering is based on our deep understanding of how an insurance organisation functions, and its key value levers. Our large and experienced team of management consultants are familiar with the stages of optimisation and all their components, and have at their disposal a suite of proven methods, tools and software assets that can be deployed wherever they are required. Within this team, overseeing the process, is an expert group of cost reduction, functional and insurance specialists who can help implement the agreed changes and, where necessary, provide alternative sourcing solutions. Accenture's Strategic Cost Reduction offering owes its effectiveness to a number of key attributes in the planning and— more importantly—the implementation stages:

### Disciplined and Thoughtful Planning

#### Comprehensive perspective

Strategic Cost Reduction is based on a thorough review of the insurer's business, considering all key processes and functions in the value chain and utilising a multi-disciplinary assessment. This is informed by our High Performance Insurance Capability Model and our insurance research. Our approach will identify a comprehensive portfolio of cost reduction opportunities.

#### Proven planning tools and methods

Accenture has a large portfolio of proven tools and methods that are used within all of the planning stages of Strategic Cost Reduction to ensure rigorous application of best practices and swift delivery of value. They include, among many others, operating model frameworks and architectures, analysis tools,

assessment and activity toolkits, and change and program management delivery methodologies.

#### Strategically aligned

Accenture's cost reduction strategies are consistent with our clients' business strategies, which ensures that they support rather than undermine the longer-term focus of the business. In fact, our approach uses the business strategy as the point of departure from which cost reduction opportunities are evaluated.

#### Pragmatic and results-oriented

Our consultants create a pragmatic design for the future state of the business. It defines specific targets, initiatives and solutions that can be effectively implemented to achieve results. There is a built-in bias toward proactive risk identification and mitigation, transition planning and implementation. It all adds up to a clear roadmap for transition and implementation, with the necessary discipline to realise the projected benefits.

#### Unmatched Implementation Capability

Accenture has many years' experience in converting ambitious optimisation plans into measurable business benefits. Successful implementation depends on close coordination between our management consulting, systems integration, outsourcing and IT teams. Whether the design for the improved operating model is implemented on the insurer's premises, or at near-shore or off-shore locations—or a combination of all three—our experts ensure a smooth transition with minimal disruption and quick turnaround.

We have an extensive Global Delivery Network staffed by 75,000 application outsourcing, business process outsourcing, infrastructure outsourcing and other implementation professionals. They are complemented by our experienced business consulting and systems integration teams.

While our expertise reaches across all sectors, we have unsurpassed proficiency in the insurance industry. We currently serve more than 85 percent of the world's top 40 insurance companies, and more than half of all North American carriers—including the ten largest in the US. We have an international network of insurance BPO delivery centers which offer shared, optimised processing platforms— including the Accenture Life Insurance Platform (formerly NaviSys), rated by Celent as one of the leading platforms on the market. Our Insurance Data Migration Factory has, over the past six years, successfully converted more than 30 million policies.

Accenture is regarded by many industry analysts, third-party advisors and insurers themselves as the world's leading insurance BPO provider. In 2008 we were ranked the number one outsourcing service provider by the International Association of Outsourcing Professionals, and also by the publication InformationWeek.

Our track record of contributing to high performance—helping reduce costs, improve service, and enhance flexibility through process optimisation—is testimony to an offering that works. It is also what gives us the confidence to commit to targeted outcomes by offering to link our fees to the benefits our clients receive.

Because of our particular set of capabilities—in particular, the strength and experience of our consulting, systems integration, outsourcing and IT teams—we can assist insurers from the development of a Strategic Cost Reduction plan through to execution of the critical initiatives, as required. We team with our clients to achieve results—not merely to generate ideas.

## Disclaimer

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## Find out more

Accenture's Strategic Cost Reduction offering can help you navigate the storms that are buffeting the insurance market. Just as importantly, it can help you re-equip and reposition your organisation so that, when conditions stabilize, you will emerge stronger and better placed to capitalize on the opportunities that will undoubtedly abound.

If you would like to learn more about Accenture's Strategic Cost Reduction offering, you can visit our website at [www.accenture.com/insurance](http://www.accenture.com/insurance).

## About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 187,000 people serving clients in over 120 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is [www.accenture.com](http://www.accenture.com).