

Sustainable cost reduction for Insurers in the downturn – Pursuing savings while protecting value

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If you are interested in PwC hosting a half day Cost Management Workshop **FREE OF CHARGE** for your management team, please contact any of the individuals above.

To sustain their competitive positions and protect shareholder returns, insurers are taking a hard look at their operating expenses and identifying opportunities to reduce costs.



What are the issues?

Insurers are operating under challenging conditions in the current economic environment.

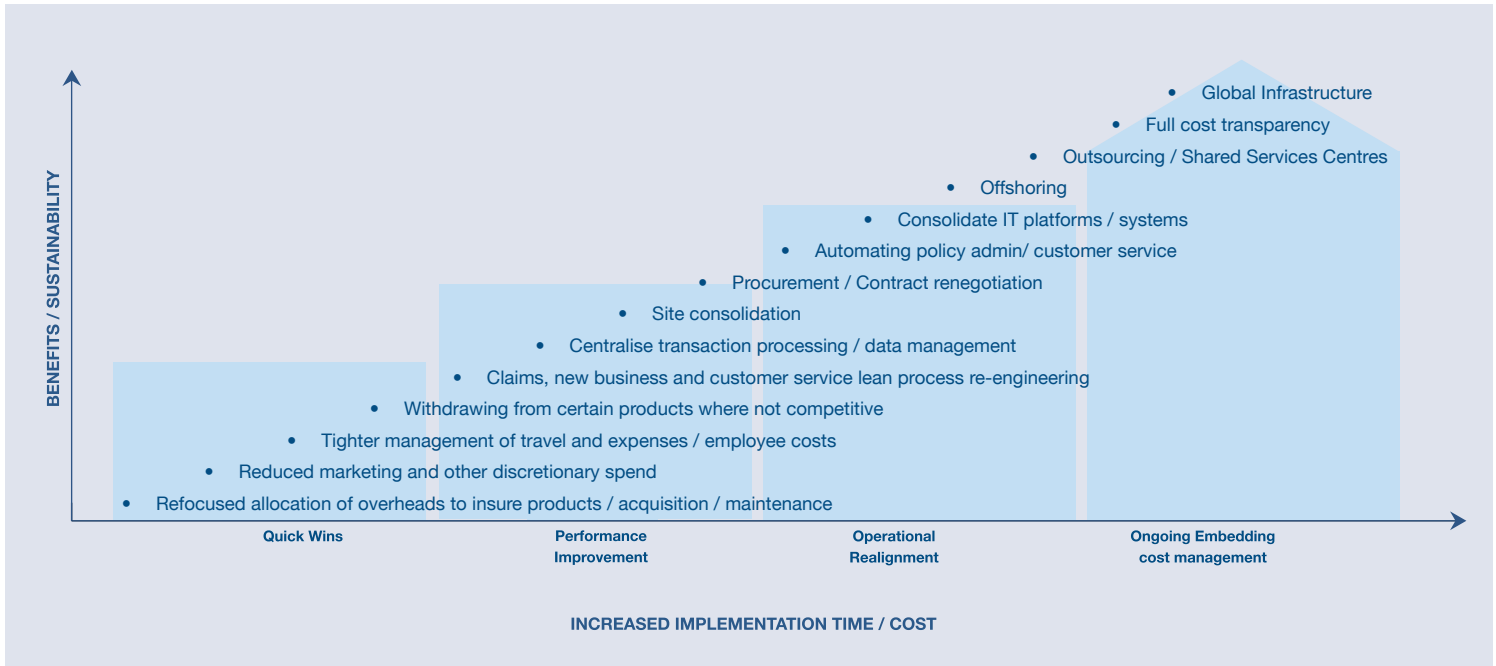
Industry-wide:	Life:	General:
<ul style="list-style-type: none"> • Lower investment returns. • Mark-to-market losses on asset portfolios. • Decreased availability of Capital. 	<ul style="list-style-type: none"> • Fall in the volumes of business and value of new business. • Strain on their balance sheets due to falls in equity values, along with widening credit spreads and increasing longevity. • Liquidity pressures due to increase in surrendered contracts. 	<ul style="list-style-type: none"> • Increasing margin pressure due to economic slowdown and reduced business levels. • Balance sheet impairments due to realised and unrealised investment losses. • Worsening claims experience.

From a strategic perspective, companies need to be wary of poorly targeted reductions. Ill-planned strategies like across-the-board budget cuts, percentage headcount reductions, and recruitment and salary freezes potentially cut the good with the bad and can hinder growth strategies. In addition, these efforts do not address organisational ‘silos’.

Insurers, operating in a highly competitive environment where growth is a key strategic objective, should bolster their long term objectives by protecting growth potential when pursuing savings goals.

Sustainable cost reduction is a discipline rather than a group of “one- off”.

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How are insurers responding?

From our involvement with our clients both in Ireland and internationally, we see that efforts are now focused on the following areas to deliver sustainable benefits:

- **Revenue Optimisation** – focusing on revenue incentivisation; margin analysis; revenue leakage; etc.
- **Operational Efficiency** – standardisation and simplification of policy administration, claims management and customer service processes.
- **Discretionary Spend & Employee Costs** – reduction in marketing spend, expenses and employee costs with or without resorting to redundancies.
- **Contract Renegotiation** – A critical review of third party contracts with an eye to modernising terms, current pricing and value for money.
- **Structures** – leveraging the benefits associated with shared services; local outsourcing; insourcing and off-shoring of IT, Finance and other back office operations.

- **Claims procurement** – Aggregation of existing third party suppliers to drive better pricing. Focus on increasing the use of those preferred suppliers to further reduce costs.
- **Waste in IT spend** – The lack of detailed inventories (e.g. desktops, telephones) can result in overspending on software licenses, maintenance and service provider costs, as well as the retention of unnecessary assets.
- **Proactive vendor management** – Focus on rigorous vendor management programs to improve third party contract compliance, limit overruns, and increase value for money.
- **Finance** – improving the timeliness, accuracy and relevance of information produced.
- **Cost Culture** – driving cost reduction initiatives from the top and being consistent in the application of identified measures.

How can we help?

To assist companies drive through sustainable cost management and revenue optimisation within their organisations, PwC are hosting Cost Management Workshops for our clients.

These workshops have proven very insightful for our clients with many applying new initiatives almost immediately.

If you would like PwC to host a cost management workshop **FREE OF CHARGE** with your senior management team, please contact either Garvan O'Neill on 01 792 6218 or Garrett Cronin on 01 792 8807.