

Reinventing Insurance Distribution – October 29, 2009

Insurance companies can modernize their business practices and producer relationships by developing new products, services and strategies.



Rajesh Desingu



John Underwood

I'm John Weber with the A.M. Best Company. Welcome to our webcast – Reinventing Insurance Distribution. We have an interesting topic and some very experienced guests, so we'll get to it shortly. We would also like to let you know that if you have any questions or comments for our guests today you can send them in to us at news@ambest.com. This webcast is sponsored by WNS Global Services, a leading global business process outsourcing company. We're going to talk about how companies can build on their existing expertise through new business processes and capabilities. That's something that's difficult to do by yourself so we'll look in depth at how one company did it with the help of WNS Global Services.

We believe that we're going to come away with some very valuable insight into the insurance process and how some companies are taking their business to the next level. We have two outside guests with us today – one in the studio and one on the phone. We also have someone from A.M. Best joining us today. Sitting with us is Rajesh Desingu, vice president of the insurance practice at WNS Global Services. Rajesh, can you tell us a little bit about yourself and your company?

DESINGU: Sure, John. Thank you. Good morning and it's a pleasure to be on this webcast. John, WNS is a global business process outsourcing company. We are listed on the New York Stock Exchange. Our ticker symbol is WNS. We have over 200 clients globally. We have a little over 21,000 employees. We deliver over 600 processes across 22 global delivery centers.

We have centers in the U.K., Romania, the Philippines, and Sri Lanka and most recently we opened a center in Costa Rica. WNS has a very heavy focus in terms of our insurance practice. A little over 200 million dollars of our revenue comes from insurance. We have 7,000 of our employees dedicated to serving insurance clients globally. We have about 28 clients across Life and Annuities, P & C, Health and Brokers. And we service across the entire insurance spectrum with all the insurance processes like new business, policy administration, policy servicing and sales. Distribution is definitely a major focus area for us, and claims, of course. And then what we have services like finance, accounting, research and analytics. I work with WNS as vice president of our insurance practice for North America. I've been working with insurance companies for the past eight years in the U.S., doing various projects for them.

WEBER: Now joining us on the phone is John Underwood, he's vice president for strategic transformation at Ameriprise Financial. Welcome, John. Tell us a little bit about yourself and Ameriprise.

UNDERWOOD: Ameriprise is America's leader in financial planning. We have over 10,000 advisers serving our clients. We offer our clients a broad array of products from brokerage services, insurance, annuities and mutual funds. We offer those to help them save, spend, invest and protect the things that are important to them. In my current role as a vice

president in strategic transformation, I'm responsible for identifying and executing transformational initiatives that align with Ameriprise's strategic direction and our overall financial goals. I've been with the company for just over 7 ½ years. I've filled various roles within our operations group, one of which was oversight and management of all of our offshore operations programs.

WEBER: And finally, we would have with us Lee McDonald from the A.M. Best Company. We're going to talk in depth about how Ameriprise was able to extend its capabilities and reach because of some rather interesting collaboration with WNS Global Services. Rajesh, I'm curious to find out when you talk with insurers what do you see as the challenges they face in the sales and distribution function that brings them to a discussion with an organization such as yours?

DESINGU: Obviously we're going through some challenging economic situations. So that has obviously brought a number of challenges for insurance companies. If you look at the LIMRA data, in the first half of the year the sales of life and annuity products has fallen 23% on average. But even more challenging, is the policy count has gone down by 4%. Now, it's understandable that sales are down, but policy count going down? I'm sure it's on the top of the mind of every insurance executive out there. I think that is probably something that is on the top of the minds and I think when I talk to insurance executives, I think they're probably focused on three things. One, obviously they want to cut down on costs. They want to be that much more efficient. But as much as they are focused on cost, I think they are equally focused on a couple of other things. The first one is proactive customer service. That is, the ability to reach out to independent advisers and independent agents, as well as customers. Help in putting their programs in place would bring that much more loyalty from advisers, agents, the distribution community as well as the end customers. And then, the third thing is a focus on sales. They really want to find a way to increase sales – be it launching new products or new channels, alternate channels as to how they are doing today. So, I would say it's a question of reining in costs, but bring it back to customer service by talking to the agents and the end customers and figure out a way to increase sales either through new products or new channels. That's an area that they are figuring out a way to see how an outsourcing company like WNS can help them out and, of course, see if they can take advantage of a global delivery center and get it done much faster as well as get it done at a much cheaper cost.

WEBER: John Underwood, how do you see the environment?

UNDERWOOD: I think Rajesh painted a pretty good picture of the environment from a outsource provider perspective. I think from Ameriprise's standpoint we're constantly challenged to find better, more efficient ways of doing things. Whether it's bringing product to market, whether it's from an operations perspective and obviously the past 12 to 18 months have been very difficult for the financial services industry and I think that's really accelerated a lot of people's interest in trying to reduce costs and maintain margins and

things like that. From our perspective, we're at the upper end of the business process outsourcing curve in many areas, so it's caused us to really sit down with our partners and think more strategically around how we can take what we have, work together and really optimize it to where it benefits both of us. That's been interesting, to say the least.

WEBER: What would be your recommendations to insurance companies considering outsourcing?

UNDERWOOD: Well, if you're considering it, you really need to have alignment of the company that this is the direction you want to go. Because once you jump in, there's expense related to it and you have to be able to recover that expense. So you really need to align the business line owners, your compliance teams, your legal teams and the other stakeholders around what your goals are. I think you really need to know and understand what processes you're considering for outsource. There are a couple of schools of thought where you outsource things that aren't your core competency. Other companies look at outsourcing things that are their core competency because they understand if somebody can do it more effectively than they can, then they recognize the savings. Don't outsource things that are broken, because they will continue to be broken. Whenever we approach an outsourcing opportunity, you need to do the research. You need to do due diligence and you also need to know whom you're going to partner with. There's a fairly detailed due diligence process that we go through. We also invest in the oversight that's necessary to make it successful. You can't outsource something and forget about it. You need some type of oversight. You need interaction. And, I don't refer to our vendors as vendors. We refer to them as partners because we're both in it together. And then finally, you really need to understand the risks because there are risks. And you need to be compensated for those risks from an opportunity standpoint. Those would be some of the key recommendations I would bring forward.

MCDONALD: John, could you fill us in on the types of things that you're now able to do in terms of capabilities, channels of distribution, product or product features because you have developed these types of relationships and apparently they have worked successfully. What are you doing now that formerly you couldn't do?

UNDERWOOD: In the outsource base specifically, we can more effectively react to new products coming to market from an operational perspective. It's much easier for me to scale up an operation – to get people trained with experienced agents offshore – than it is to do it domestically here. I think that's one of the key things. You know, in the environment that we were in a year ago where it was very volatile, we did not have a lot of new business volume. Again, we were able to scale up more effectively. I also think that it helps to have a partner that can look at our processes, compare us to similar clients they're working with and what those clients are doing. It offers a bit of collaboration and a fresh set of eyes on processes that we've been looking at forever, which has really helped us think about how we can drive change and how we can potentially automate much of what we're doing today.

MCDONALD: Are there any specific products or channels

that you've turned on recently in which this process has been heavily involved?

UNDERWOOD: When we look at both our insurance - call it distribution or our supply chain - I think we're more focused on the operational aspects of that from an insurance and an annuity standpoint. So when you look at what we're doing, it's really around the initiation piece of new business through kind of the life of the servicing that new business. From a new distribution channel there are things we're exploring around our contact center from web-based applications or chat applications so there's a lot of things that we've been able to leverage or potentially leverage given what we're doing in that space.

MCDONALD: You have a number of products. Have you seen any shifts in customer preferences among distribution channels regarding those that are involved in interest-sensitive and equity-based products? Is there any sense that the channels that they're choosing are changing in any way?

UNDERWOOD: We had a self-service uptick prior to September 2008 but when the market started crashing I think people wanted to talk to people. We saw an initial shift back to people calling our contact centers and slowly we're getting back to the electronic channels. Obviously, the people who were in interest rate-sensitive products or things that were tied to the market drove most of the volume.

WEBER: I would imagine that there's got to be a lot of skepticism when it comes to this topic and perhaps you may have even been skeptical yourself. What is your advice to insurance companies who are skeptical, especially when it comes to off shoring?

UNDERWOOD: Well, there's obviously skepticism in the industry and I don't know if it's skepticism or it's just that they choose to do business a different way. The one thing I would say is that - specifically to off shoring - it can be successful in the right environment and with the proper oversight. The right environment means that it has to be something that your company is willingly choosing to do and everybody needs to be aligned with that. I'll go back to the 2001, 2002, when we started out with off shoring. It wasn't easy. If you have a company with 110 years of history based in Minneapolis it's difficult. It took several years for everybody to get comfortable with the partner we had chosen, the level of work that was happening and also the quality of the work that was happening. And again, from an oversight perspective - just as an example: My old prior team would have face-to-face meetings on average six to eight times with our vendor partners whether we would be at their site locally or whether it would be at our site. So, there was a high level of interaction. There's a high level of interaction between our people on the floor, leading operations teams with the leaders at our partner. That's really necessary. Also as a firm, you need to understand the benefits that are real, but then again, you also need to weigh the risks against that. Some of the risks we encounter are from a business continuity perspective. We don't have people here in Minneapolis to pick up work if a typhoon floods downtown Manila. Those are serious issues you need to understand and plan for. I just think that for our

firm it is a way we approach the business and we look to see when a new process comes in, first, can we automate it? If we can't, what are those things that we can potentially outsource? And we really want to keep a strong knowledge base here in Minneapolis-people who understand the process end-to-end. The more you can talk to people who do it, the more comfortable you can get with it. But, again, there are a lot of obstacles to overcome internally to actually achieve it.

MCDONALD: Rajesh, when companies are outsourcing to your organization, but to others as well, how do you assure best practices and minimize language barriers, if there are any?

DESINGU: I think the language barrier is probably much easier to tackle because 1) if you look at some of the global delivery centers we use - India, Philippines, U.K., Costa Rica - people speak English and the one thing that needs to be taken care of is the accent portion of it because people need to understand. And, they go through an enormous amount of training, while doing that. There still would be some accent but by and large I think we have seen so much work that gets done out of India for the U.S. as well as the rest of the world, so I think that's handled purely from a training perspective. The other part - best practices - is handled in two ways. One is - our business, an outsourcing company like WNS and others, we have the advantage of working with a number of companies so as we work with them we understand what are the best things that worked really well for us and we create a really good knowledge process within our organization. Importantly, we are Six Sigma certified, we have black belts, we go to Sigma processes. Today, within the insurance practice itself we have brought in Six Sigma for over one hundred processes. We have assigned black belts of Six Sigma to each of the processes that we run. That has helped us to insure that things are delivered on time and we're able to carry forward the best practices we have seen into every other process that we deliver for most of our clients. We really work very closely with the client. There's a lot of transparency in terms of how we work, so that helps.

MCDONALD: John, let's talk some more about best practices. Obviously, you can set specs and you can monitor the work but there's a certain amount that has to be done by the other party. Has that been an issue and how do you handle that?

UNDERWOOD: It really hasn't been an issue. I've been doing this for seven or eight years. We have a pretty good process in place. The biggest issue that we encounter is if we're putting out a brand new process at a third party, you have to understand that there are going to be bumps. Nothing's going to be perfect. It really is just preparing for that and understanding that service levels for six or eight weeks may suffer slightly - or greatly in some cases - and really ride it out and really communicate that, too. The first thing when somebody comes to us asking for advice on whether to move something to a third party, is what should we look out for? In terms of voice at a third party, the language barrier is initially an issue. And, you really do need to overcome it. You know how we overcome it? Agents need to be certified before they can take

calls and what we found is that over time the language barrier becomes less of an issue and the cultural things, nuances, can become issues. So, we do have to spend a fair amount of time cultural training. Overall having a sound oversight process in place, has worked really, really well for us. At Ameriprise we have a vendor management team or relationship management team, actually offshore. They're onsite at our vendor partners several times a quarter. They're responsible for doing risk reviews and things like that. So, it's a structure that works for us.

MCDONALD: John, how do you handle any potential channel conflicts with your field force?

UNDERWOOD: It's a tough one. Over the past two years, we've really had a push to electronic channels. If we're going to invest in building electronic channels we're going to expect the agents to use them and we'll shut down the other channels that have worked for certain things, but not so well for other things.

MCDONALD: Rajesh, when you look at it at a broader level among the various companies, have you seen different approaches to managing channel conflict and what seems to work?

DESINGU: Absolutely, Lee. Companies are approaching it in different ways. I've seen three or four things. One is when they are predominantly selling to agents and now they want to do direct writing of business. That comes up all the time. One way to do it is look at a private label product or a white label product. Second, the product that gets sold itself is little different. Obviously, a lot of times it's not the same product that gets sold to every channel. You have specific product for each of the channels that you think is best suited from terms of a marketing perspective. The third part I've seen a lot of times is when they look at the price optimization and the premium pricing. That's one part that I thought was very interesting. They started doing it through different channels working through outsourcing, even when they outsourced the complete sales operations for different electronic channels. They even started pricing it differently. There's one company that started offering service levels in terms of what kind of services you will get - be it in terms of changes to policy benefits, switching between funds and stuff like that. They started to bring all of these into the product mix to really differentiate these products. Different insurance companies handle it differently on their comfort level. Sometimes the products get focused on specific target markets - certain ethnic groups - That has really worked well for a couple of insurance companies I've interacted with.

MCDONALD: Now I want to ask about regulation and compliance. It's a changing area and there are new and stricter standards that are coming up - particularly in the United States, but in the European environment as well. Have you seen much change in how you have to handle information, process information, things you can't do or have to do in a different way in order to remain compliant?

DESINGU: Absolutely. There are a lot of regulatory things that you need to comply with whether it is U.S. or outside of the U.S. Especially when you do it outside of the U.S., it

becomes that much more relevant because you need to insure that we comply to all U.S. regulations. When you look at most of the world we are bound by the same regulations as if we were working in the U.S. So, our contract stipulates that we need to do that. For example, we have CD6 and CD7 certified agents who are in our facilities because certain things can only be done by them. We had them certified and that's the way they work. For the actuarial process and underwriting we have qualified actuaries who are certified by the Society of Actuaries who do that work. We rely a lot on certifications so that we are able to comply with every regulation to our partners. Insurance companies stipulate that we have regulatory experts who keep track of all the regulations we need to comply with and as part of our quality control we really insure that we comply with all the regulations as part of our process.

MCDONALD: So, John, same topic. Obviously you're putting responsibilities for distribution in different areas. Obviously it's important - regulation, security, certification. How do you pursue that and what have been some of the biggest challenges there?

UNDERWOOD: Any time that we look at outsourcing something we need to have that strong relationship with our compliance teams to get them to understand what it is we're trying to accomplish, how we're planning to go about it and really to get them to weigh in from a peer compliance thing whether we can do this as well as from a risk perspective. Then it's really abiding by whatever regulations are in place and weighing the business risk of doing something. And, you know, several times it's been a risk we don't want to accept. Rajesh mentioned information security, which is a huge concern. We probably go overboard in terms of how we protect that at our third party sites. It's really making sure that everybody is aligned and having this strong relationship and partnership with our compliance teams. It's only been since 2006 when we actually started moving things like that to third parties. And it was a challenge when we initially started to do it, both from a product company perspective as well as an operational and a compliance perspective.

MCDONALD: In terms of distribution and Rajesh mentioned certifications. Is that an aid to you? The fact that your partner companies would have those certifications? In other words, if you kept the business closer to home, you have the same problem getting everyone certified. Does it make it easier to work or would it not be an issue?

UNDERWOOD: It's really not an issue. We have several processes that require registrations with FINRA, which we sponsor. WNS being one partner we would sponsor them and allow them to work on our behalf with certified agents. We started doing it offshore in 2002 with registered agents. It was a challenge initially, but now not so such.

MCDONALD: Okay, a little bit of blue-sky thinking here. Looking out 3, 5, 10 years. John, what's the future of sales and service distribution channels for insurance. If you could forecast at all, where do you see it going?

UNDERWOOD: I don't want to speak for our insurance company but I think that from an Ameriprise standpoint, our

model is around our advisers selling the appropriate products to our clients. I don't really see us having a huge direct model because if you look at our business it's all around the comprehensive financial plan. And, insurance is a key component of that. So, I think that's our major channel and I don't see that changing dramatically over the next two to three years. It's really our core competency as a company. Are there other opportunities for us to open up into an outside distribution model? Absolutely. And I think that those are things that will probably grow. But, from a core company perspective, I still see that one-to-one relationship with the adviser and the client as really being the main driver.

MCDONALD: Rajesh, what are you seeing, based on your work with companies. Where is distribution headed and what might surprise people at this point?

DESINGU: Here is something that I have been asking of insurance companies. Look, probably 90% to 95% of the business gets done through agents. I'm sure selling electronically is bound to happen in some point in time. I wouldn't be surprised if you suddenly see an insurance company that springs up and is able to use technology to launch a few products that people can just go online and configure exactly what they want. They might even slightly change the game a bit. Today you have standard products with riders and stuff like that. What if I go in and use a menu-driven product. I choose whatever the coverage is that I want - OK, I say I need \$100,000 in life insurance coverage, I need so much of living benefits, death benefits. I probably want so much of medical coverage. The concept is no longer about life insurance, being protection, or annuities, being retirement. It's about wealth management, right? If an insurance company uses technology and really gives an option to drive a menu-driven product and they say, come by on online and I'll really give you options, I'll give you unlimited amounts to make changes to your investment portfolio, etc. Will it happen within the next three years? I don't know. I didn't expect Apple to sell five or 10 million iPhones and iPods.

MCDONALD: What you're describing we've seen on the non-life side with the way some of the established companies have been vigorous letting customers choose their own levels of auto coverage and, to a degree, homeowners, but in auto it's been very competitive. I haven't seen the same approach in life.

DESINGU: I think it will change. It's happening outside of the U.S. A little bit in Australia, the U.K. is catching up to it, and it's just a matter of time as we settle down and the global players, the large insurance companies out of Europe, and they catch up because European insurance companies are a lot more focused on wealth management as opposed to just selling protection policies. I think when they start to make real inroads into the U.S. market. There's a whole lot of mergers and acquisitions happening right now. If that changes and if they decide to change the rules of the game, that would bring in a different way of selling. Online banking - probably three or four years back I don't think I was doing online banking. Today you find ING, HSBC, a whole lot of them have just come in and started attacking the banking market in the

U.S. So, I wouldn't be surprised if the same thing happens in the insurance base and you suddenly see policies getting sold online.

MCDONALD: It will get quicker, it will get a little more modular, I guess. Last question, John. Just kind of wrapping up what we've been talking about. What are the benefits that you've gotten from the way that you've handled working with third party companies as far as sales and distributions?

UNDERWOOD: The biggest motivation for us was the financial savings and they're significant and they're real. A couple of other benefits that aren't as pronounced are the ability to scale up an operation. So, for example, for me to scale 50 people here locally would probably take me six months. And that's difficult even in this job market. To do it at one of our third parties, I want to say like three to four months. And, surprisingly, the quality of the work is very, very high - at least in our experience it's been very, very high. Again, it doesn't come without oversight, without collaboration, but those would really be the key benefits.

WEBER: Rajesh, there's a general belief in the industry that outsourcing benefits don't take place until about three to five years down the road. How do you respond to that?

DESINGU: Let me start by saying we do hear a lot of such stories. I use the word stories because I don't know how true it is. In general what I've seen is benefits, especially when it comes to business process outsourcing, accrue within three to six months. Of course, you've got to put in a lot of energy. John talked about the oversight, talked about the collaboration, talked about the security, all of that. So, obviously, you have to put all of that in. But in general, the advantages are a lot of times you can be up and running in eight to 10 weeks' time and you should be able to get benefits within three to six months. Let me give you some examples: The first one is how we helped a North American insurance company launch a private label product. All of their business was through agents and they decided to switch to direct sales. So, what they did was they were tied up with a supermarket chain. They decided to sell insurance products to the affinity card holders of the supermarket chain. We got it up and running in eight weeks. We pilot-launched this program in three provinces in Canada and instead of them having to recruit the team and everything they completely outsourced both sales and servicing to us. So we handled a big part of the sales, 90% in one of the provinces, 50% in the other province and we started servicing almost 100% of all of that. Second, they were able to see the business start growing in less than the first three months. The second example is how we worked with a global insurance carrier. How we brought in almost \$200 million in terms of savings. Then let's look at some of the different things you can do. Here we focused on policies that were going to mature in a three-to six-month time frame. We worked with the agent, looked at the profile of the customer and the life event and we actually created three different proposals, which we sent to the agent and the agent in turn could go and talk to the customers. And so, the policy was converted into an annuity contract. So, you're able to retain customers, you're able to sell more products and we could get this all up and

running in about 12 weeks in terms of training our people to handle all of this and coming up with those proposals and bringing in technology as well. So that's another example of how we could quickly do it. We started seeing results in less than three months. The last one is a very good example. Investment income losses have been really huge in the last 12 to 18 months, so we worked with a very large U.S. insurance company in the investment division. We do a lot of research and analytics so the idea was to work with their analysts in terms of the various company reports that we need to do to bring a lot more vigor into the research and analytics part of the investment arm of the investment division. When we did that we could produce these reports and we could help them quickly recover some of the losses. If you really collaborate with the insurance company, our experience has been we are

able to get results in three to six months. Sometimes the benefits of business process outsourcing are a lot faster and a lot quicker than IT outsourcing, which takes a lot more time. But with the business processes you're transferring your operations immediately and when you do that the results are there for you to see within a three to six months.

WEBER: This has been an absolutely fascinating webcast and I would like to thank our guests who took part today - Rajesh Designu, vice president of Insurance Practice at WNS Global Services and John Underwood at Ameriprise Financial and, of course, Lee McDonald from A.M. Best. We'll have a transcript of this webcast available online at www.ambest.com/distribution09. To learn more about Ameriprise, visit www.ameriprise.com and you can learn more about WNS Global Services at www.wns.com/insurance/life&annuity.



Copyright © 2009 by A.M. Best Company, Inc.
All rights reserved. No part of this report may be reproduced, stored in a retrieval system or transmitted in any form or by any means; electronic, mechanical, photocopying, recording or otherwise.