

RE THINK REINSURANCE



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Outsourcing Industry Trends

- Supply side consolidation:
 - HP/EDS, Tech Mahindra/Satyam, iGate/Patni
 - Indian vendors cannot meet growth projections organically
 - Excess capacity
- Reality of globalization: Multinationals and global delivery model.
- Off shoring will continue to grow, with many new locations operating as an alternative to India
- The range of business functions and services under consideration for sourcing will expand...beyond ITO, BPO, FAO and HRO, to engineering & design, legal & tax services, R&D, product development, and research
- Commoditization of services continues as more and more services mature: ITO, BPO, KPO
 - Standardization: CMMI, ITIL, IFRS



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Outsourcing Industry Trends

- Outsourcing is here to stay... and will expand in various forms across all industries worldwide. Global sourcing business case is well established, focus will be on execution, managing risk, and speed of benefits realization
- Deals will get smaller, with more options available to buyers and more service demanded of providers
- Engagement cycles ('doing the deal') will shorten as buyers become increasingly savvy and more sophisticated in their understanding of capability within the provider community
- Multiple sourcing arrangements and increased complexity will increase business risk and drive the need for sound performance management and benefits tracking. COE for Sourcing management will be created internally.
- Organizations will be saddled with second-wave outsourcing requirements as \$250billion in expiring contracts come up for renegotiation or termination over the next two years.



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Direct Insurance Market

- Successful companies are aligning with partners to provide a broader range services beyond traditional TPA services:
 - Product development
 - Specialized Training
 - Add-ons for revenue enhancement
 - Retention
 - Marketing
- Central admin model relies on maximizing customer opportunity



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Direct Insurance Market

- Speed to market and ability to scale
- Nimbleness in adjusting to market and client needs
- Continuously strive for operational efficiencies
- Increasing focus on brand value and desired customer experience
- More domestic outsourcing with strict attention to security and less off-shoring



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Reinsurance Market

- Ceding Companies and Reinsurers are considering outsourced solutions beyond just Administration
 - IT (Application Development)
 - Underwriting
 - Claims
 - Data Mapping



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Reinsurance Market

- Maturing market
- Companies are looking beyond simple expense drivers to outsource
 - Access to expertise and capabilities
 - Achieve economies of scale
 - Leveraging trusted strategic partnerships



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PWC Global Sourcing Survey



Q2a Which products or services does your company currently source from external suppliers?

IT services, core products/services and logistics and distribution are the top three outsourced services

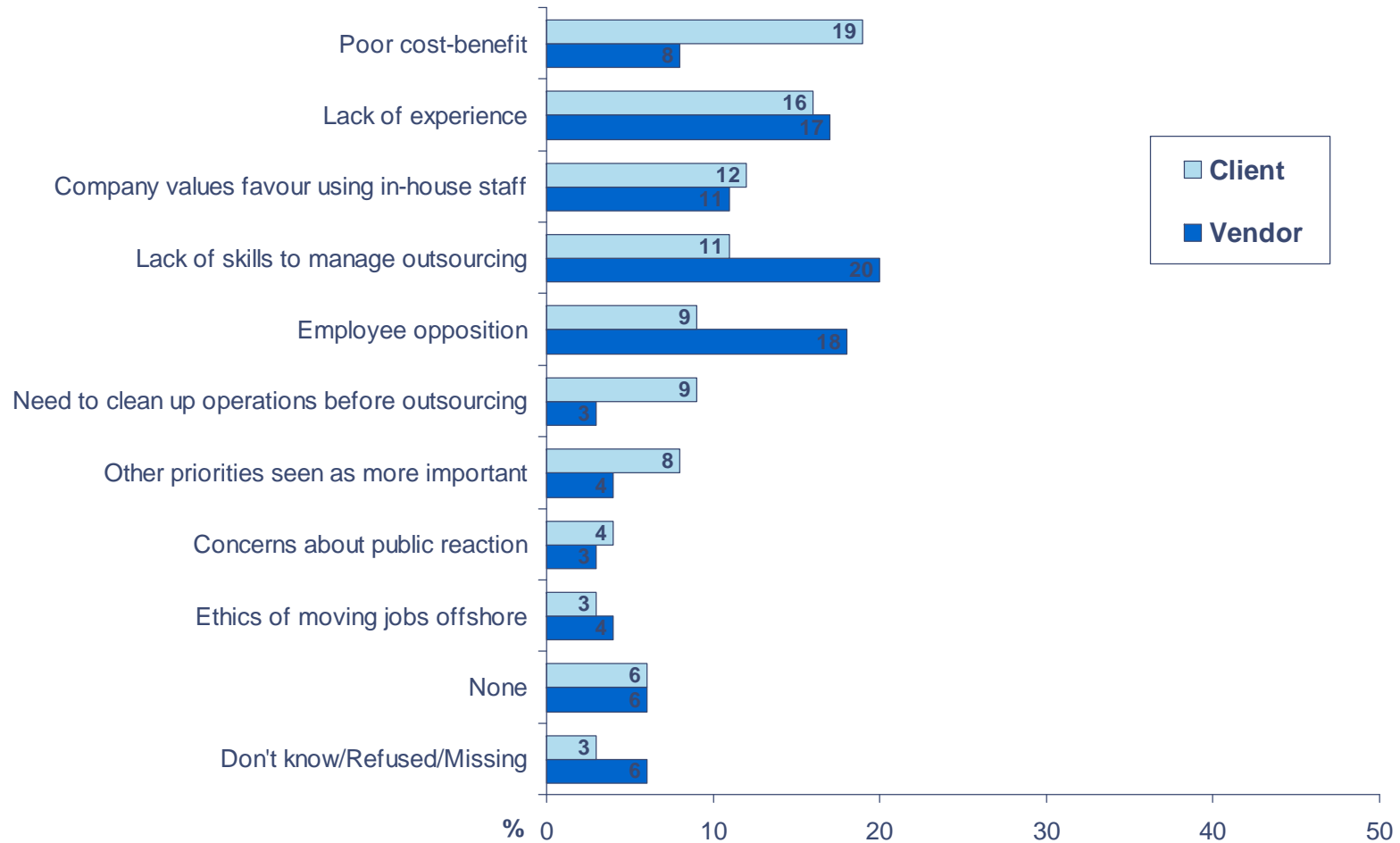


Base: All respondents (226)

Q5(a) Which of these issues do you consider to be the **biggest barrier** to outsourcing?)

Clients cited poor cost-benefit and lack of experience are the two biggest barriers overall

Vendors cited these, along with employee opposition



Base: All respondents –Client (226) Vendor (66)

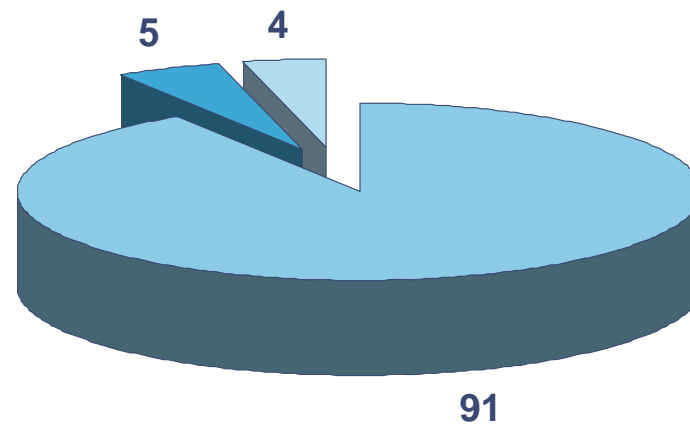
Q7 Would you outsource any activity again?

The majority of users are prepared to outsource again, based on their previous experience

* No vendor equivalent

Client

■ Yes ■ No ■ Don't know/Refused/Missing

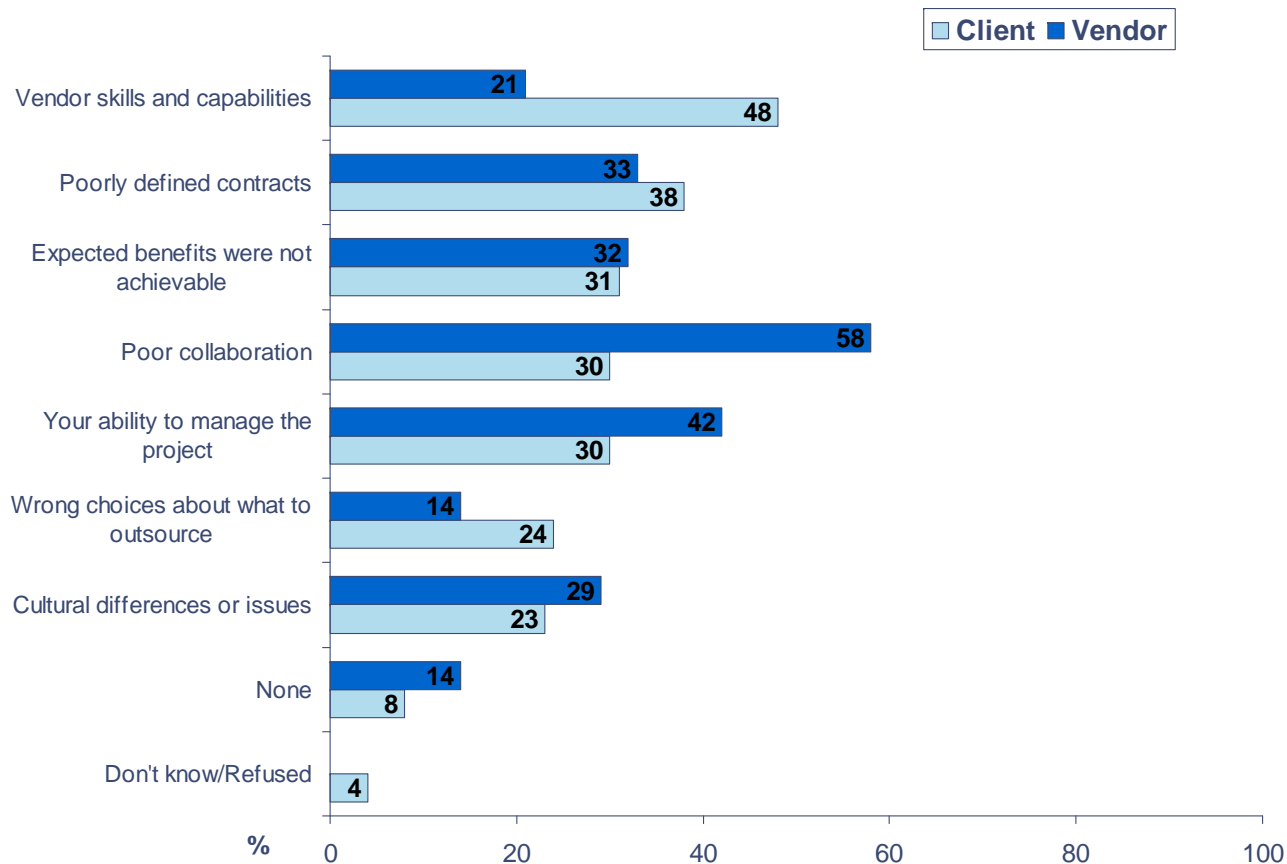


Base: All respondents (226)

Q8 What are the main reasons why outsourcing projects have been less than satisfactory?

Clients believe vendor skills are the main reason why projects fail, followed by contract definition

Vendors believe that poor collaboration is the main reason why outsourcing has been unsatisfactory



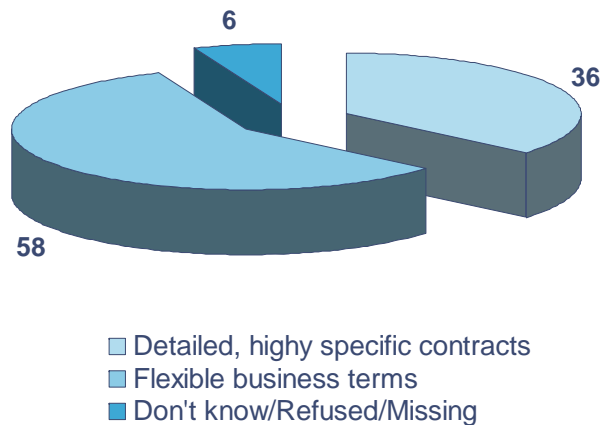
Base: All respondents - Client (226) Vendor (66)

Q9a Which one of the following pairs worked best in real life outsourcing?

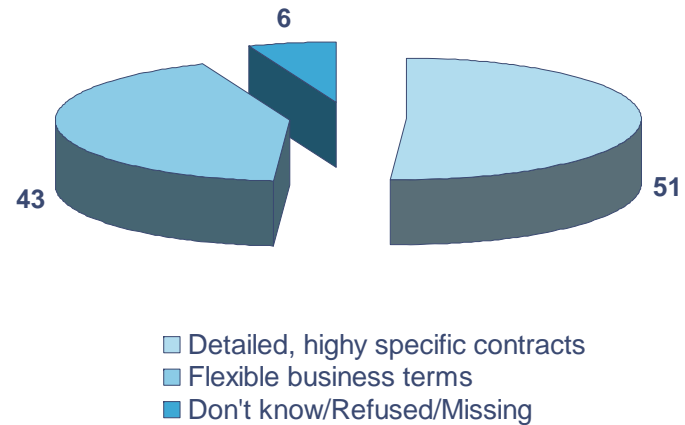
While half of users prefer detailed, highly specific contract terms, the other half favour flexible terms

Overall, vendors tend to favour flexible business terms over detailed, highly specific contracts, however these still have a role

Client



Vendor



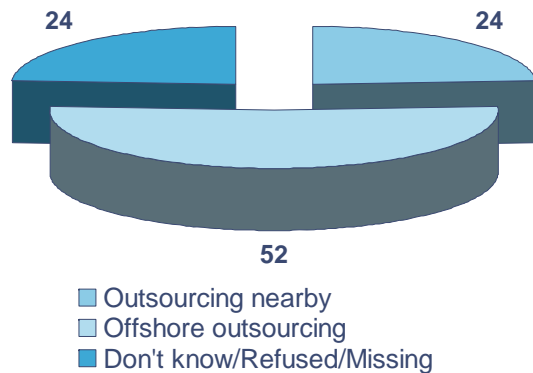
Base: All respondents – Client (226) Vendor (66)

Q9d Which one of the following pairs worked best in real life outsourcing?

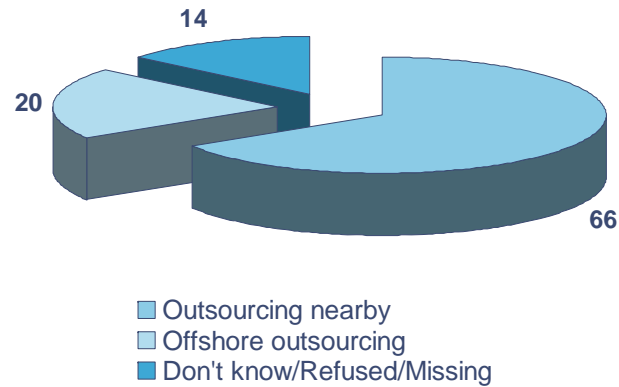
There is still a preference amongst users for near-shoring versus offshoring

Vendors are also more likely than users to consider offshoring as a solution

Client



Vendor



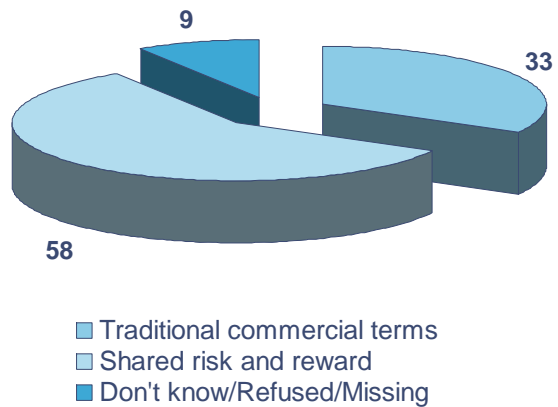
Base: All respondents (226)

Q9e Which one of the following pairs worked best in real life outsourcing?

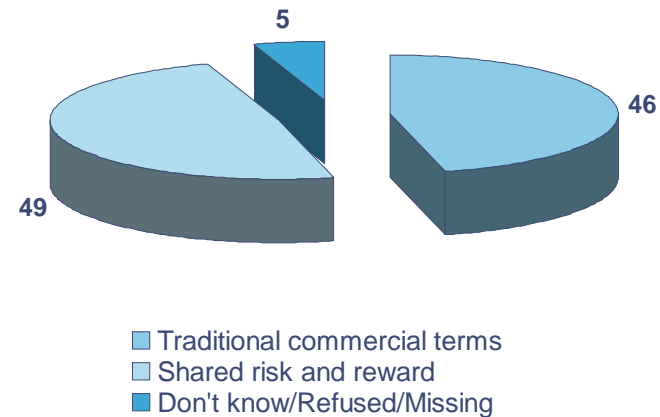
Clients' opinions on traditional versus shared risk/reward contract terms are divided

Vendors also favour shared risk/reward relationships over more traditional commercial terms

Client



Vendor



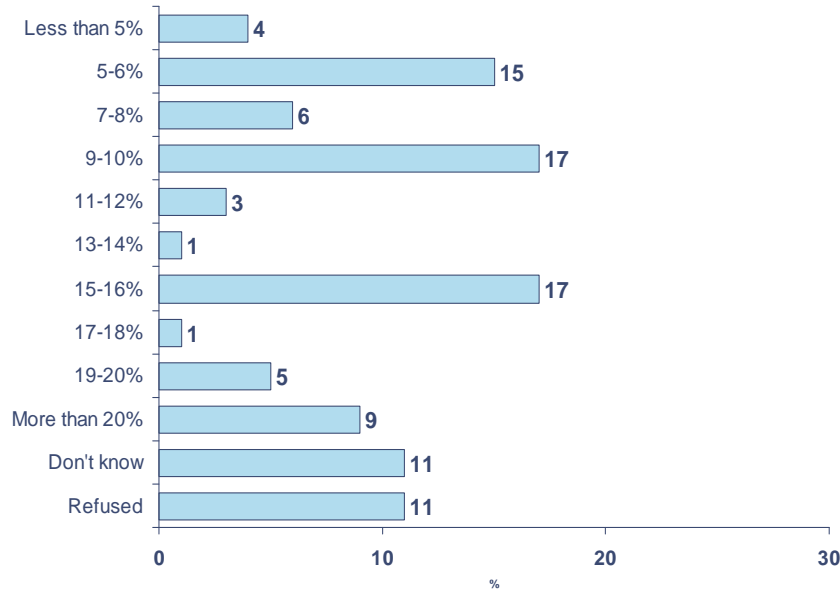
Base: All respondents – Client (226) Vendor (66)

Q10 What is a reasonable after-tax margin for a supplier in an outsourcing arrangement?

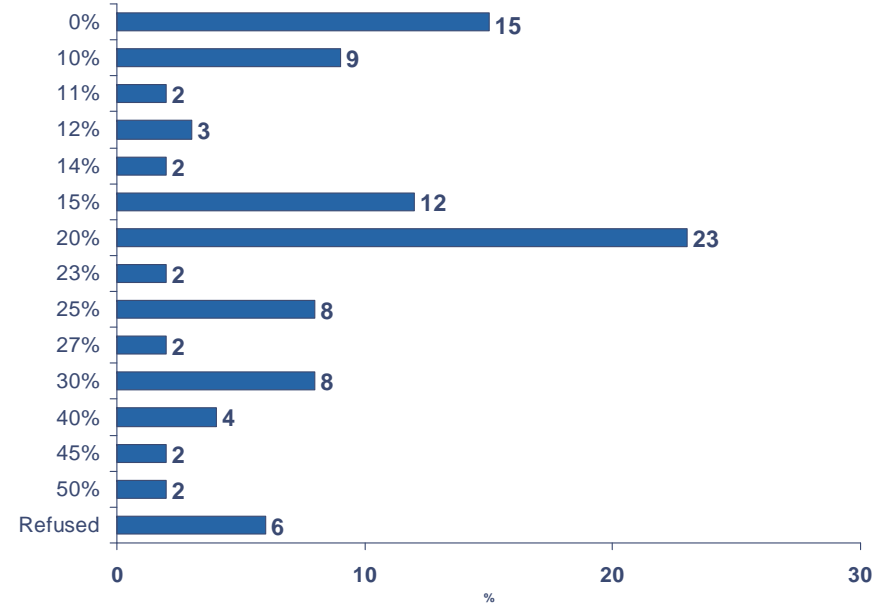
Two in five of users consider 10% or less to be an appropriate after tax margin for suppliers

Almost two thirds of vendors consider that a reasonable after tax margin is 15% and more

Client



Vendor

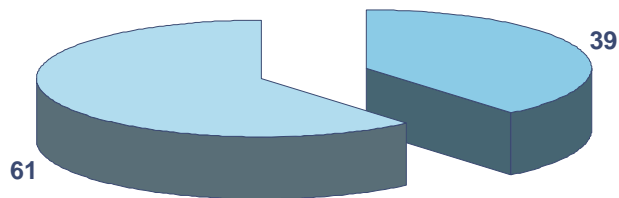


Base: All respondents – Client (226) Vendor (66)

Q11a Have you ever had sight of vendor margins when negotiating an outsourcing agreement?

Only half of users have had sight of vendor margins during contract negotiation

Client

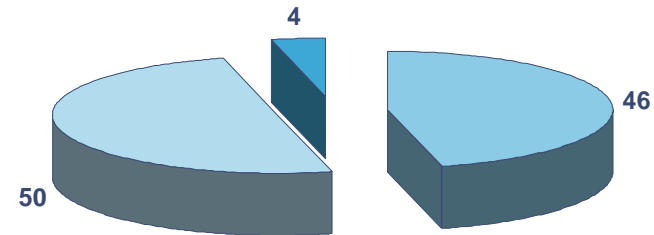


- Yes - have provided details of margins
- No - have never provided details of margins

Have you ever provided details of your margins when negotiating an outsourcing agreement?

Two in five of vendors have provided details of their margins to clients

Vendor

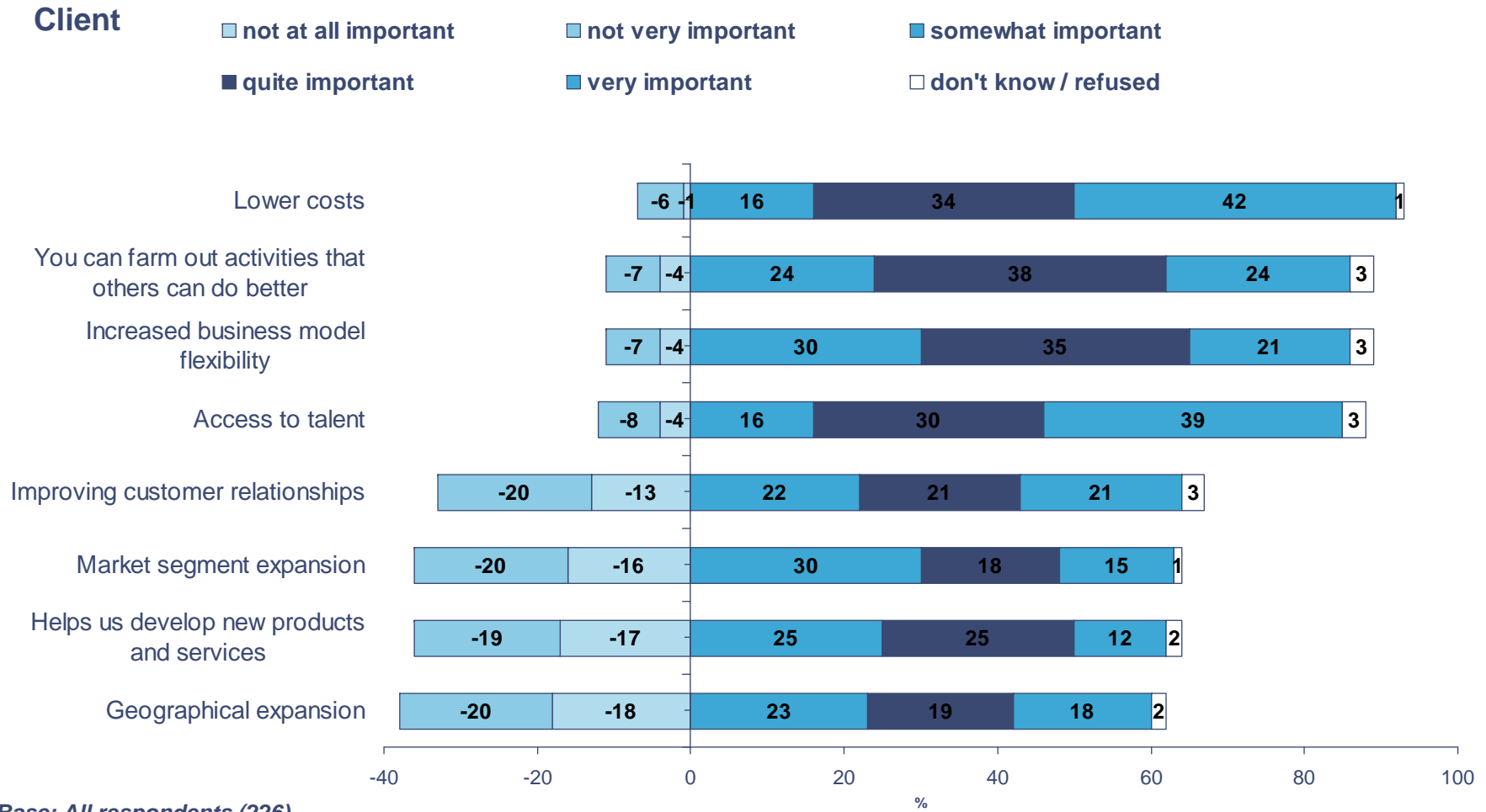


- Yes - have seen margins
- No - never seen margins
- Don't know/Refused/Missing

Base: All respondents - Clients (226)

Q13 How important are each of these for using outside suppliers to perform work?

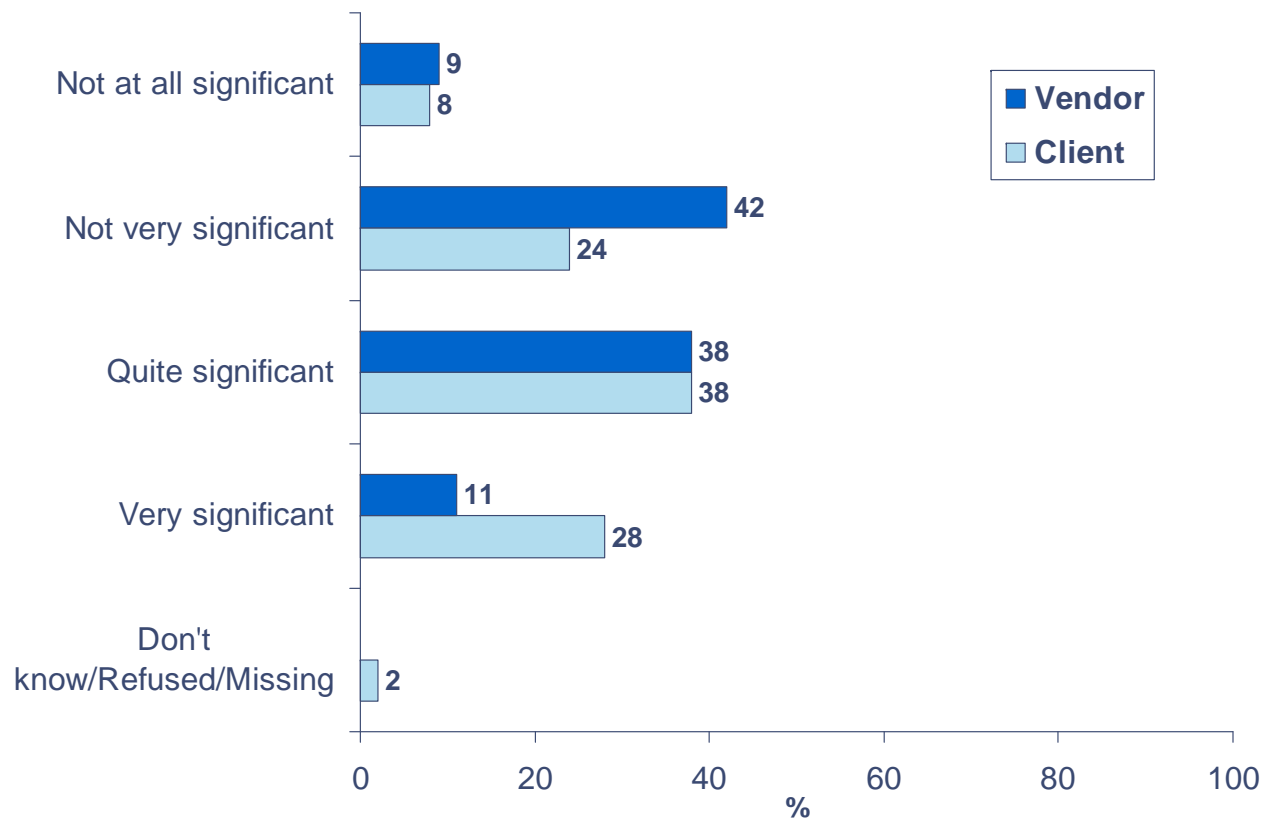
Cost savings and access to talent are still the two greatest drivers for outsourcing



Q14 How significant an impact will social or environmental issues have on outsourcing decisions?

Two thirds of users consider that social/environmental issues will have an impact on outsourcing decisions

Vendors consider that social and environmental issues will not have a major impact on outsourcing decisions

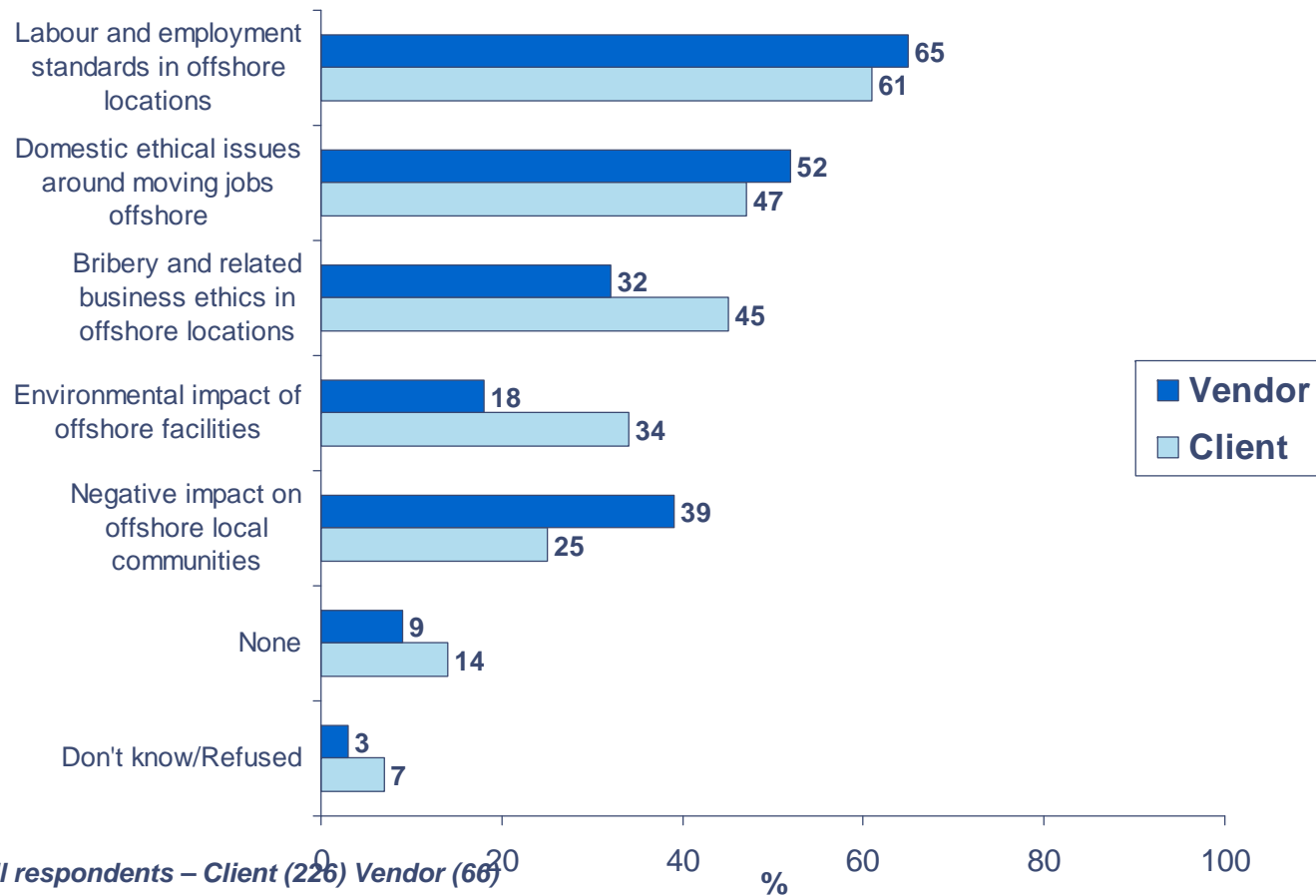


Base: All respondents – Clients (226) Vendors (66)

Q15 Which of these do you expect to have greatest impact on your (client's) future outsourcing decisions?

Labour and employment standards in offshore locations is believed to have the biggest impact on decisions

Like clients, vendors believe that labour and employment standards will have the greatest impact on outsourcing

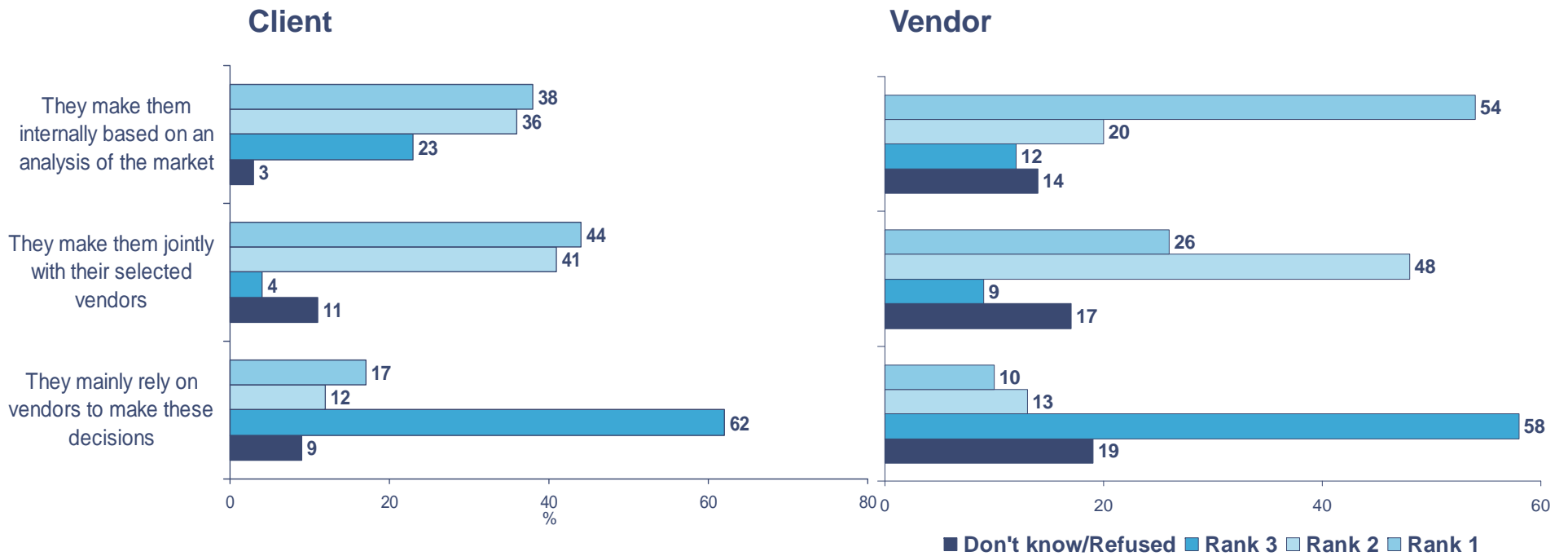


Q16a In the past, how have you made location decisions for outsourcing?

How do you think clients make location decisions for outsourcing?

Outsourcing decisions were traditionally based on user's analysis of the market

Vendors believe that clients mainly make location decisions jointly with selected vendors

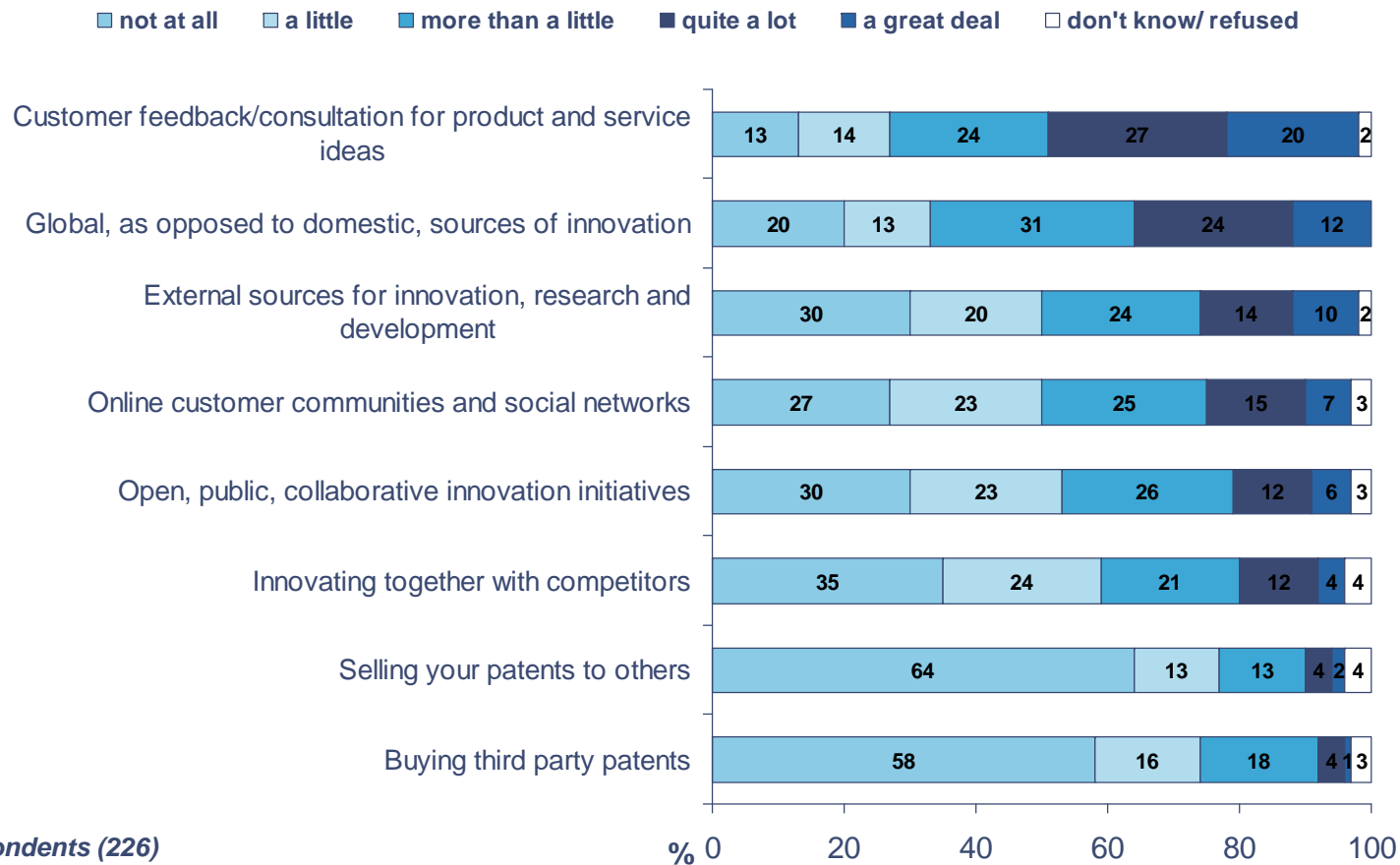


Base: All respondents – Client (226) Vendor (66)

Q19 Regarding product and service **innovation**, to what extent is your organization **expanding** your use of each of these?

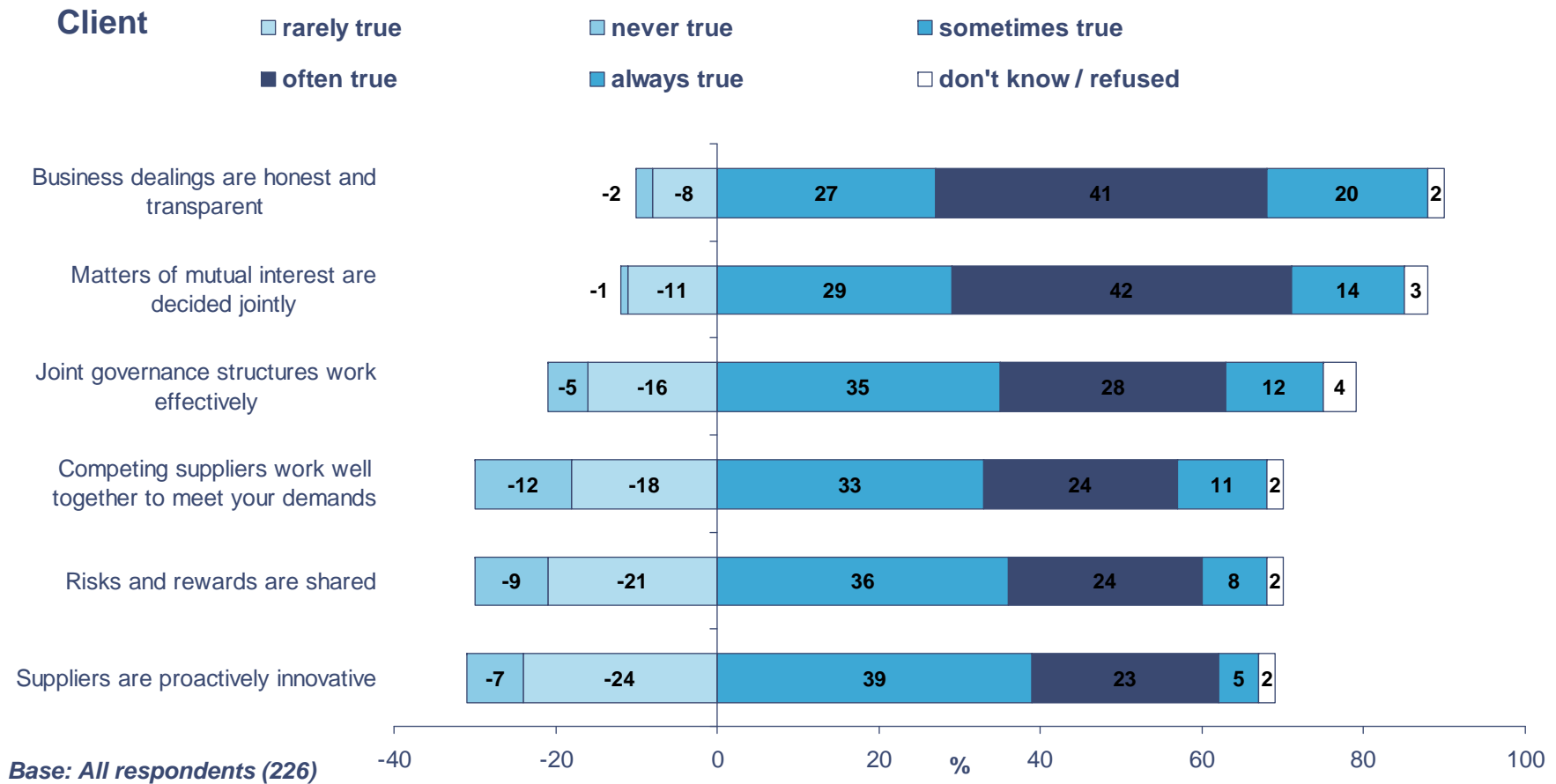
Customer feedback/consultation appears to be growing

Client



Q21 How would you rate your company's experience of dealing with outsourcing services suppliers on each of the following statements?

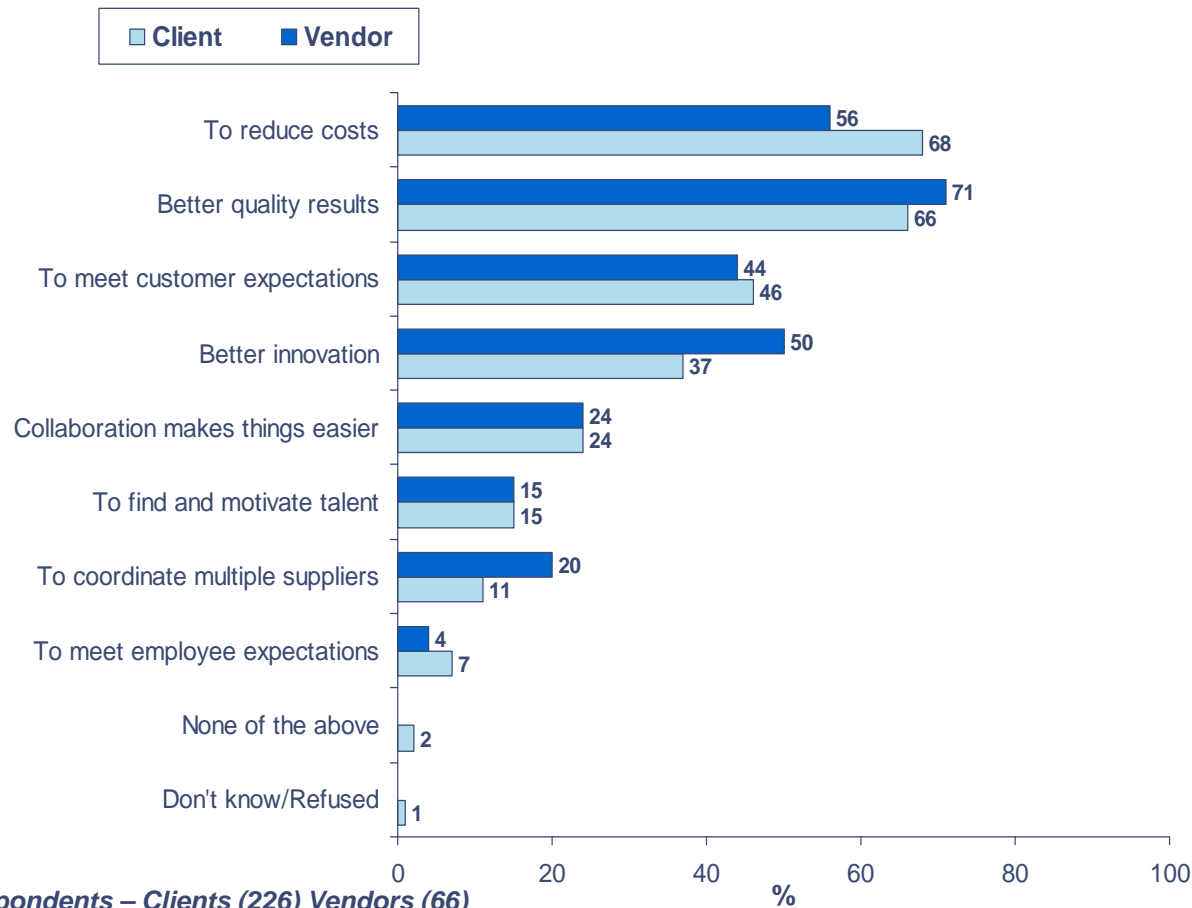
Users generally believe that relationships are built on trust and decisions are made jointly



Q29 What, in your opinion, are the main reasons to use open, collaborative sourcing approaches

Cost reduction is still a key consideration for outsourcers and could drive collaborative models

Vendors consider the main advantages of these models to be quality and innovation, coupled with cost savings



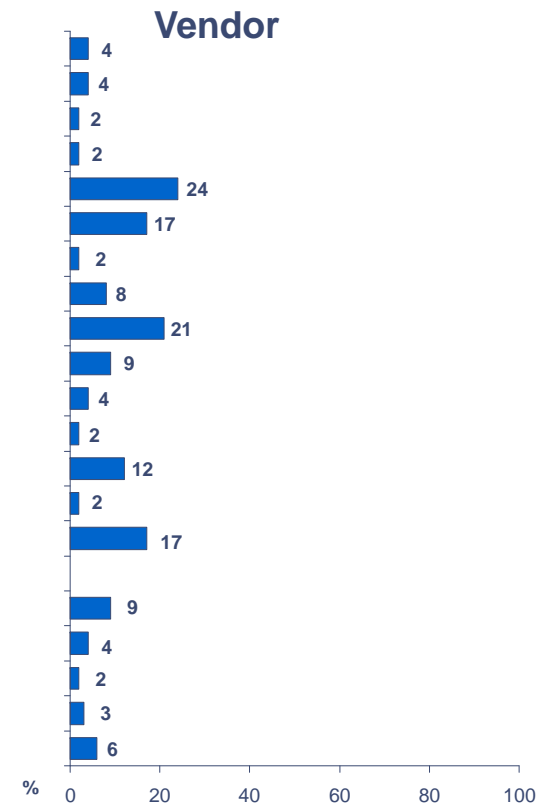
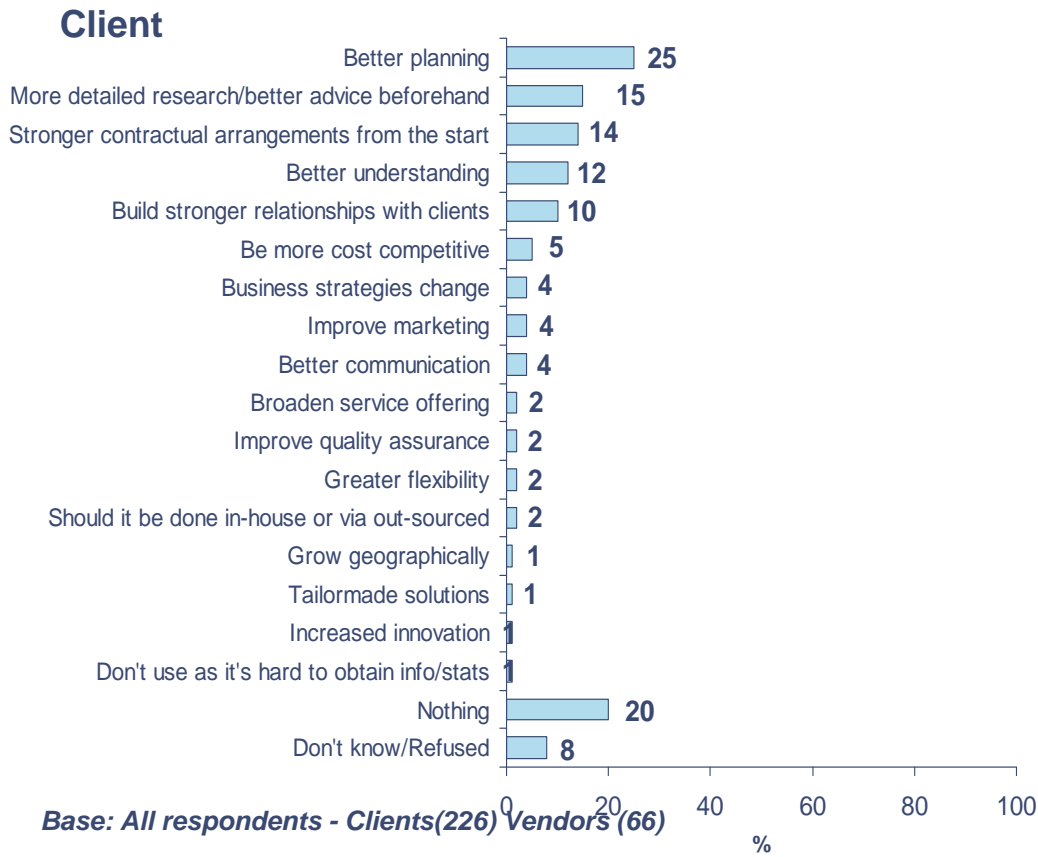
Base: All respondents – Clients (226) Vendors (66)

Q32 Is there anything that you would do differently the next time you outsource provision of any products or services?

Planning is considered to be key aspect of ensuring outsourcing is a success

What does your company plan to do differently as its outsourcing services evolve in the future?

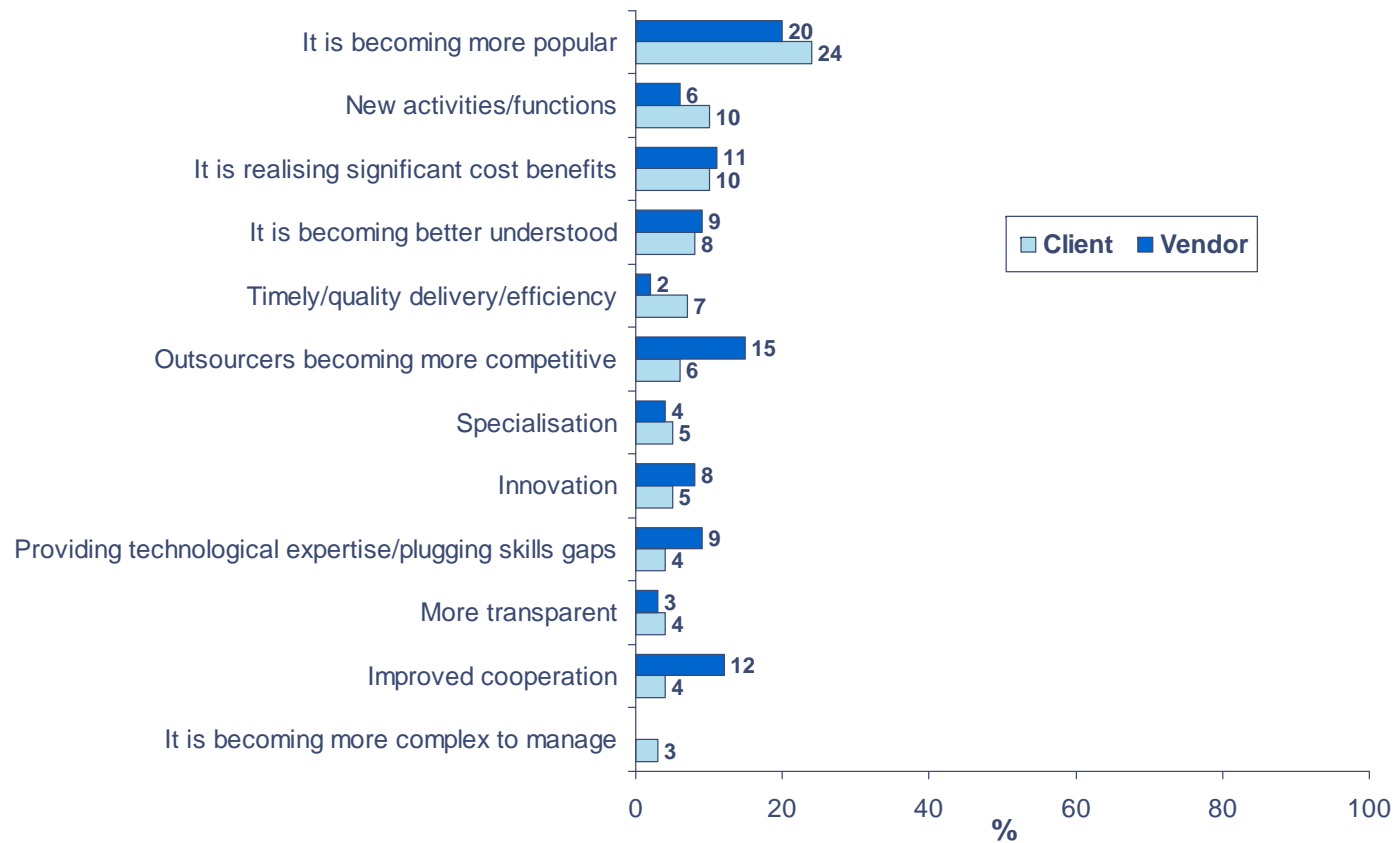
Vendors are focusing on building relationships with clients going forward, along with broadening their service



Q33 What do you think is going on at the leading edge of outsourcing?

A range of opinions were given by Clients, but overall it is believed that outsourcing will continue to gain popularity

Vendors believe outsourcing is continuing to grow and skills are expanding



Base: All respondents – Clients (226) Vendors (66)

Ten steps to outsourcing success

1. It is heavy lifting at best of times: manage, manage and manage
2. Be a prepared buyer
 - Informed decision
 - Confirm why are you doing it
 - Know what you want
 - Have understanding of current baseline to measure success against
 - Stakeholder alignment
 - Must have ability to execute and ability to manage
 - Define benefits early and constantly monitor
3. Transformational program not procurement exercise

Ten steps to outsourcing success (cont'd)

4. Executive oversight during start up and ongoing management is critical
5. Anticipate and plan for change through the life of the agreement
6. Have an exit strategy in place:
 - Termination for convenience
 - Clearly defined transition assistance
7. Life cycle view: Have stay back/governance team involved very early in the cycle
8. Do not underestimate resistance: Change management is critical
9. Champions are required
10. If there are doubts: Do not do it