E&Y offers four keys to success for life insurers

By Editor Test *Wed, Dec 15, 2010*

Life insurers "are expected to increase the ease of doing business through investments in technology and lower their resource costs through shared services, offshore captives and outsourcing," an Ernst & Young whitepaper said.

Despite entering 2011 with a stronger balance sheet, reasonable earnings momentum and slightly rising direct premiums, the U.S. life and annuity insurance industry will be challenged by broad regulatory changes and an uncertain economic environment, according to Ernst & Young's Global Insurance Center 2011 US Outlook for the life insurance industry.

Insurers will need to create new products and services and leverage distribution channels for top line growth, while reducing costs and unprofitable risks for bottom line earnings, according to Doug French, Principal, Financial Services and Insurance and Actuarial Advisory Services Leader at Ernst & Young LLP (US).

“We remain in a challenging environment where it's difficult to attract new customers and retain existing ones,” French said. “Companies that clearly understand these issues and react quickly and prudently in their strategic core businesses will gain a competitive advantage.”

Ernst & Young identified four issues for US life and annuity insurance companies:

1. Responding to the changing regulatory environment: New legislation and regulations, such as the Dodd-Frank Wall Street Reform, Solvency II and ongoing accounting changes driven by the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), will raise the potential of altering the growth trajectory of the life and annuity insurance industry in the US. They might also compel insurers to exit particular lines of business.

2. Establishing capital and risk management solutions post-crisis: As the industry returns to pre-crisis levels of new business and seeks further growth, capital will require careful management to efficiently fund new business needs. A key challenge will be identifying the most cost-effective capital solutions to support strategic growth initiatives. The redundant regulatory reserve requirements will also continue to be an issue for insurers. Similarly, insurers selling annuity products will need to seek solutions that manage the risk and reserves required to support the guaranteed benefits embedded in these products.

3. Improving customer relations and increasing operational efficiencies: Insurers seeking to reach new customers and maintain existing relationships will need to strengthen distributor networks and improve their administration and customer service systems. Insurers must also control costs to achieve adequate profit levels and protect the balance sheet. To do so, companies are expected to increase the ease of doing business through investments in technology and lower their resource costs through shared services, offshore captives and outsourcing.

4. Reinventing products and distribution to generate growth: Although the life and annuity insurance industry will enter 2011 with strengthened capital, questions remain about how best to deploy this capital to achieve long-term growth.

Baby Boomers have become acutely aware of their looming retirement challenges and the risk of market losses, and are beginning to clamor for meaningful guarantees. Meanwhile, Generation Y has reached an age where they should be forming households, yet the weak employment environment has, in part, compelled them to remain single or childless in record numbers. If the economy remains stagnant, it could suppress both their desire for savings and life insurance products and their ability to pay for them.

The complete Life Insurance Industry 2011 Outlook report can be found at www.ey.com/insurance.