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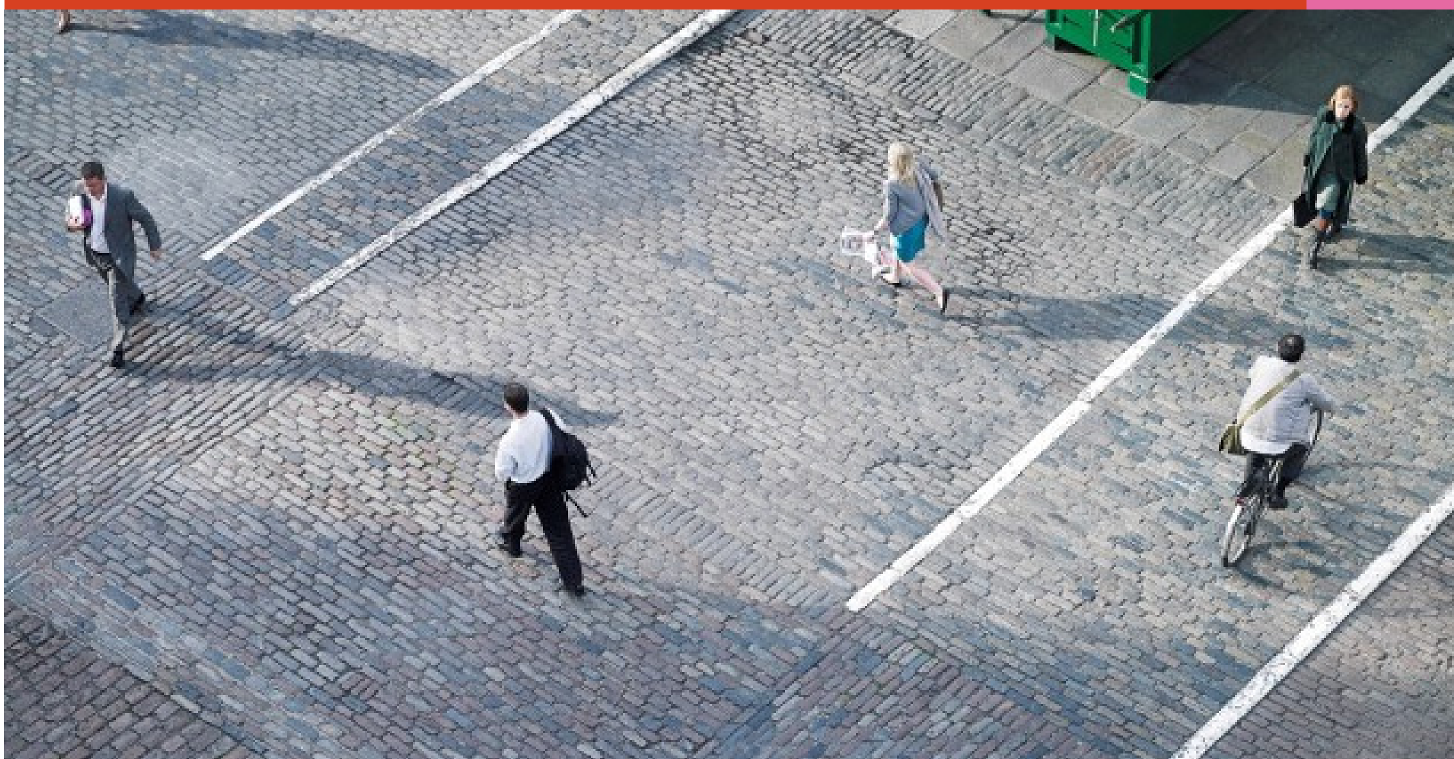
The Sprint for the Global Footprint: How Insurers Can Build a Profitable Growth Strategy Through International Expansion



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Highlights

Projected slower growth in developed economies is creating a mandate for both regional and global carriers to expand internationally, with a focus on higher-growth emerging markets.

However, given capital constraints and the nature of competition specific to each market, no one strategy fits all in terms of where, how, and when to expand.

When expanding internationally, insurers should consider each country's unique profile and their own goals. Leading insurers have learned that uniform approaches fall short, and that they should target market opportunities that are a strategic fit with their organizations, attractive for growth, and feasible.

The breadth and depth of information available to analyze markets may quickly become overwhelming. Management's key to success is making the information actionable. By using a detailed and multi-faceted approach to planning international growth, insurers can implement a well-planned and executable strategy.

Our approach provides clear, objective analysis with a broad global perspective that helps insurers define highly specific client and market strategies.

Read on to learn more.

Point of view

Projected slower growth in developed economies is creating a mandate for insurers to expand internationally with a focus on emerging markets.

The global insurance environment is undergoing a period of unprecedented change. We believe that the industry's best opportunities for growth and product innovation exist in emerging markets.

- Since the financial crisis of 2007-2009, the insurance industry in developed countries has experienced low investment yields, regulatory tightening, and slow overall growth. Established global insurers, meanwhile, are facing increased competitive pressures through industry consolidation, as well as international expansion by regional and global players.
- The increasing wealth of the expanding middle class—especially in the rapidly growing emerging markets of Africa, Asia, Eastern Europe, and Latin America—has created a growing demand for a broad range of property and casualty (P&C) and life insurance products. Each of these regions also includes a segment of consumers who have not yet ascended to the middle class. This is an opportunity for innovative micro-insurance products that can function as entrees into more traditional products.

As insurers pursue growth in emerging markets, it is imperative that they develop coherent global strategies. Such strategies require macroeconomic and industry analysis, as well as careful consideration of a company's specific needs and objectives, and an examination of segments, products, and channels.

- Insurers' common approaches to growth strategy should include:
  1. A systematic approach to analyzing global markets consistently.
  2. The correct depth of insightful qualitative analysis.
  3. The use of scenario analysis that promotes executive agreement on strategy.
- Additionally, insurers should weigh new investment opportunities against the complexities of conducting business that exist in many emerging markets. These include inflationary concerns, prohibitive or uncertain market-entry costs, and frequent regulatory changes, such as the allowed percentage of foreign ownership or market share.

Since 2009, emerging markets have become more attractive because of their higher growth rates relative to those of developed economies.

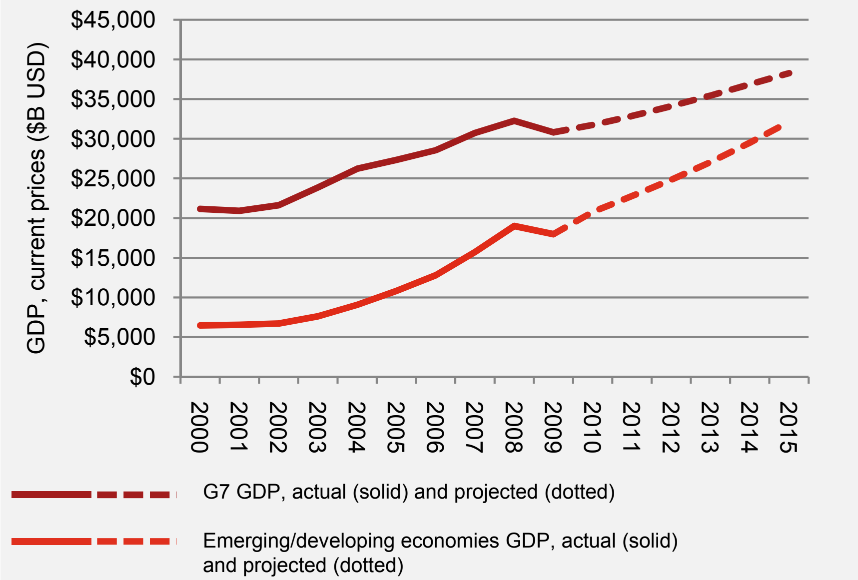
Overview of developing economies:

- Growth of most emerging regions accelerated in 2010 due to vibrant domestic demand and strengthening external trade, with real GDP increases of 8.9% in Asia, 5.4% in the Middle East, and 5% in Latin America.[1]
- The BRICs (Brazil, Russia, India, and China) are the world's largest emerging markets, with a combined GDP that is expected to reach $84.2 trillion in 2050. The BRIC economies accounted for 42% of the world's population in 2009, and the number of households with annual disposable income above $7,500 rose rapidly from 58.2 million in 2004 to 161.2 million in 2009.[2]
- Good governance, such as macro-economic management and regulatory reform, has fueled sustainable economic growth in many developing markets. Several of these countries have acquired investment-grade and even "A" level credit ratings.

Companies are increasingly looking overseas for growth:

- More than 20,000 multinationals are operating in emerging economies; Western multinationals expect to find 70% of their growth here—with 40% of that growth in China and India alone.[3]
- S&P 500 companies are deriving an increasing proportion of their revenues and profits from markets outside of the US: for example, more than 46% of sales came from outside of the US in 2009. This trend was also true for financial services companies in the S&P 500 as non-US revenues increased from 29% in 2003 to 40% in 2009.[4]

Actual and Projected GDP
G7 versus Developing Economies



Source: IMF World Economic Outlook and PwC analysis

Emerging markets are expected to sustain annual growth of 8% to 10% over the next 10 years. With rising disposable household income, low deposit interest rates, and improving investment sentiment, insurance companies could witness an increased demand for life insurance, health insurance, non-life insurance, and investment-linked insurance products.[5]

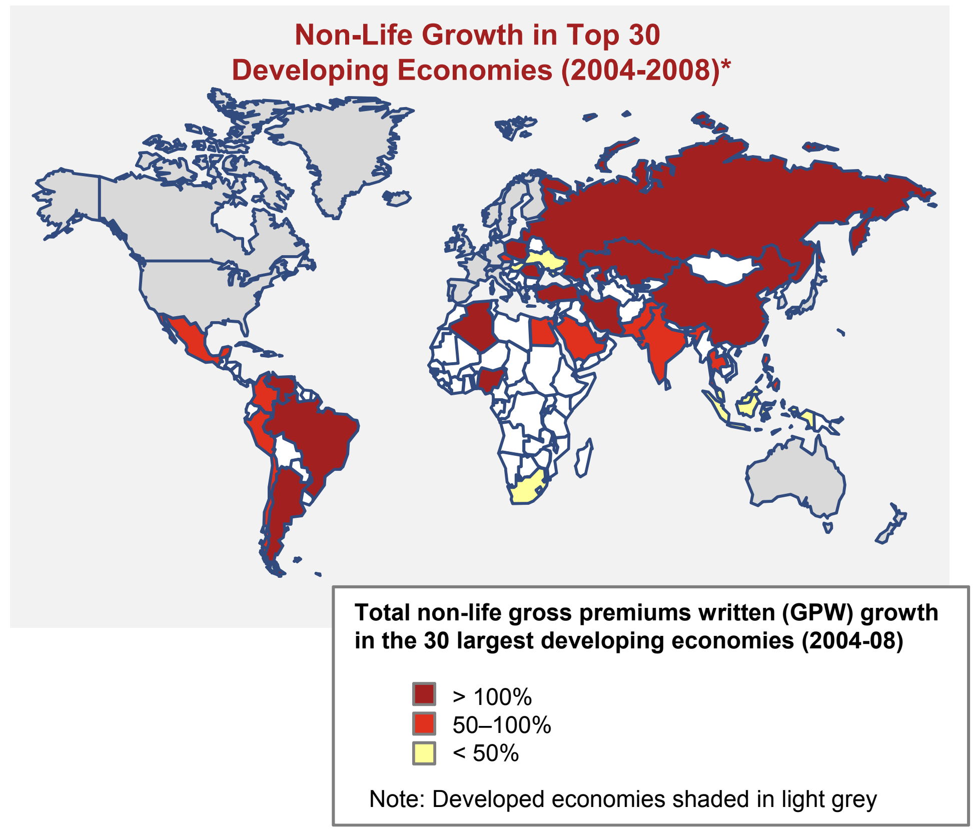
[1] Swiss Re, "Global insurance review 2010 and outlook 2011/12" December 2010.
[2] Middle East Insurance Review, "Review of 2010: Opportunities abound in emerging markets" January 1, 2011.
[3] Eyring, Matthew, Johnson, Mark, Nair, Hari, Harvard Business Review, "New Business Models in Emerging Markets." January-February 2011.
[4] PwC. "What the Future Holds: Insurance 2020." June 2011. www.pwc.com/insurance
[5] Swiss Re, "Global insurance industry led by double-digit growth emerging Asia." January 2011.

Point of view

For the insurance industry, business growth will likely accelerate in emerging markets, with the highest growth predicted in the P&C sector.

Global economics and insurance trends

- 84% of surveyed insurers from industrialized countries and 92% of surveyed insurers from developing countries say that expansion in emerging markets is a priority target.[1]
- Emerging-economy insurance markets boomed from 2004 to 2008. During this five-year period:
  - 12 of the 30 largest developing economies (in GDP) experienced total non-life premium growth of more than 100%, while 13 grew between 50% and 100%. Only five of the 30 experienced total non-life premium growth of less than 50%.
  - Overall, premiums declined 1.9% in developed countries but increased 7.1% in developing economies.
- The recovery in external trade and the sustained public-sector investment in infrastructure have been the main drivers of P&C premium growth in emerging Asia (+17.7%), the Middle East (+7.7%), and Latin America (+4%).[2]
- The global P&C market had an assessed value of $1,297.9 billion in 2010 and is anticipated to be valued at $1,674.1 billion in 2015. This is a 29% total increase with an average CAGR of 5.2%, up from 3.8% CAGR from 2006 to 2010.[3]
- In our view, while the BRICs are obvious choices for growth due to their large populations, opportunities for insurers in these countries will vary depending on each insurer's product portfolio, channel selection, and risk appetite.



Source: Axco, Non-life insurance growth 2004-2008.
*Updated information available for global growth engagements.

[1] Accenture survey via Middle East Insurance Review, "Review of 2010: Opportunities abound in emerging markets," January 1, 2011.
[2] Swiss Re, "Global insurance review 2010 and outlook 2011/12," December 2010.
[3] Datamonitor, "Industry Profile: Global Property & Casualty Insurance," April 2011.

Point of view

PwC's recent CEO survey reveals that insurance CEOs are rethinking their strategies. These CEOs are recognizing the potential challenges inherent in emerging markets.

In the last quarter of 2010, PwC surveyed 1,201 business leaders in 69 countries, including 57 insurance CEOs. Because 2010 proved to be a challenging year, with high unemployment, slow GDP growth, and other negative economic factors, many insurance CEOs are rethinking their strategies.

Our survey found that CEOs in Western Europe and North America are targeting growth primarily in Asia and Latin America, while CEOs from the Asia-Pacific and Latin America are more likely to rely on their own regions for growth:

- More than half (56%) of the insurance CEOs believe that emerging markets will be more important to their company's future than developed markets.
- Only 44% see their home markets as offering high growth potential.
- Of the 25% of insurance CEOs who expect their companies to make a cross-border acquisition over the next 12 months, 43% say that Asia is their primary focus of attention.

CEOs are responding to an increase in middle-class consumers in emerging economies by developing products and services tailored to those high-growth markets, while also looking to serve the changed needs of more mature markets.

- **More than 60% of the insurance CEOs who we surveyed see investment in IT as a key driver of their growth initiatives.** Technology could be invaluable not only in improving efficiency and cutting costs, but also in enabling companies to broaden their distribution, enhance their customer insight, and capitalize on cross-selling opportunities.
- **Nearly 70% of insurance CEOs say they believe that their clients expect product innovation.** Innovation is viewed as a key driver of growth over the coming three years. For example, pay-as-you-go auto insurance may help to promote insurance adoption, just as prepaid phones have stimulated wireless adoption.

But tapping into emerging markets creates significant challenges…

- Forty-seven percent of insurance CEOs fear that protectionist tendencies of national governments could impede their plans for growth.
- Tapping into the limited pool of talent within many emerging markets could be especially problematic. One third of insurance CEOs think that understanding and forecasting the availability of talent in emerging markets is a key challenge.
- China is the most sought-after target for growth (cited by 28% of insurance CEOs surveyed by PwC), followed by the US, Brazil, and India (19% each).

Source: PwC's14th Annual CEO Survey, http://www.pwc.com/ceosurvey

Point of view

When expanding internationally, insurers should consider each country's unique profile as well as their own business goals. Leading insurers have learned that, when compared to targeting prospects' individual needs, one-size-fits-all marketing approaches fall short.

We have observed insurers that struggle with the following challenges and complications as they expand their operations globally:

- While developing economies have been growing rapidly, factors such as the business environment can be unpredictable, thus increasing investment risk and inhibiting the ability to realize the required rate of return.
- Insurers' approaches to emerging-market expansion often lack (1) insightful analysis of unquantifiable intangibles; (2) the use of scenario analysis that promotes executive agreement on strategy; and (3) a systematic approach to analyzing global markets, and a consistent way to understand the relevant risks and benefits.

In our view, the winners will be those insurers who:

- Effectively target their allocation of assets around the world so as to increase their return on investment on a global scale. This may result in decreasing investments in certain parts of the world in order to increase investments in new markets. As most industry leaders now operate on a global scale, determining where to allocate capital is more critical than ever.
- Determine the appropriate timing to move into new markets. In our view, presence alone neither guarantees success, nor the ability to know *when* to enter a market. Performing the right analysis now will allow insurers to "place their bets in the right place at the right time." For example, some markets may already be at a point where it is too expensive or logistically difficult for new entrants to successfully create a profitable business in that market.

Insurers who fail to expand globally, particularly into emerging markets, risk becoming targets for acquisition. For instance, between 2009 and 2010, the insurance M&A market was extremely active:

- Transactions grew from 601 to 721, an increase of 20%.
- Deal values grew from US$52.4 billion to US$79.0 billion, an increase of 51%.[1]

[1] Conning Research & Consulting Strategic Study Series: "Global Insurance Mergers & Acquisitions 2010: Moving from Defense to Offense," 2011 edition

Point of view

The global P&C market is shifting as the adoption of consumer lines is expanding rapidly beyond mandatory auto insurance into other products that are often more profitable.

Sample of global consumer trends	*Implications*
Segments ▪ The rising middle class in emerging markets is changing its buying behavior. While once accounting for less than 10% of the population in most developing countries, the lower-middle and middle classes—people who can buy appliances, mortgaged homes, and inexpensive cars—now make up 40-50% of the population in many countries.	▪ In forming a global strategy, it is increasingly important to consider social media and mobility. Throughout Southeast Asia, the middle class typically stays connected via mobile devices, as opposed to personal computers. For example, Indonesia is one of the largest markets for BlackBerry phones and has the world's second-largest Facebook population.
Products ▪ Certain mass-consumer products, such as auto coverage, often struggle to achieve profitability in emerging markets, as many of the largest players in any one market will accept losses in order to gain market share.	▪ Insurers looking for growth in consumer lines should rethink basic coverages that enable broad growth yet challenge margins. To stay competitive in key growth lines, it is helpful for insurers to bundle low-margin products with higher-margin products, increase the number of pricing options, and offer distribution incentives that reward loyalty.
Channels ▪ Online and mobile channels are becoming more and more relevant in emerging markets. ▪ Many countries are still struggling to get value from their independent insurance agents, which are not as professional in some countries as they are in others.	▪ Insurers should develop creative distribution messages that will reach new consumers. For instance, an insurer might partner with telecom and utility companies that already have billing relationships with uninsured segments of the population.

Point of view

In emerging countries, the recent evolution of commercial lines toward new segments and products requires insurers to rethink how they approach business customers.

Sample of global commercial trends	***Implications***
Segments ▪ In terms of key, large commercial sectors, government-led infrastructure investment is helping to drive significant growth in construction, energy, and transportation.	▪ While developed economies are pulling back public spending, emerging markets are investing huge sums on infrastructure. These massive investments—which include highways, railroads, ports, mines, airports, and seaports—require highly-specialized resources that can serve commercial sectors on both a national and a global level.
Products ▪ New business development, wealth creation, construction, and land development continue to flourish as a result of population growth. ▪ Middle-class entrepreneurs are driving impressive small business growth.	▪ In many regions, while construction is booming, it increasingly encroaches on natural hazard areas. Writing large amounts of construction, engineering, property, and surety risk in these regions requires reconsidering risk appetite versus growth and capacity decision-making. ▪ Small and medium enterprise (SME) segment profitability requires setting strategies across product lines to build scalable bundles that cater to specific sectors.
Channels ▪ Building relationships with insurance agents and brokers remains central to market penetration. Any approach should be market-specific, as each country is at a different level of the distribution maturity curve.	▪ Managing broker relationships is critical to advancing growth in markets with a high commercial presence. For example, Turkey has (1) significant government and private-infrastructure investment, and (2) the second-largest number of international contracting companies in the world. The near doubling of the number of shopping malls between 2008 and 2011 is one indication of that growth.

Point of view

The breadth and depth of information available to analyze markets may quickly become overwhelming. The key to success is making the information actionable for management.

Conceptual diagram of sample strategic decisions

Corporate

Returns on deployed capital
How much capital should be deployed in a country/product?

Regulation
How might changes in global regulations affect corporate growth?

Scenario analyses: "War Games"
What would be the impact of extreme changes to business drivers?

Competitor dynamics
How would market share change if we acquired a competitor?

Market size/growth
Where are the best global opportunities for growth?

Regional

Portfolio investments
Which markets should we invest in and enter?

Risk appetite
How much of certain risks will we take on, given the potential for catastrophe?

Risk capacity
As we expand, how should we distribute our risk across the geographies in a region?

Operations:
How might new technologies change not only our efficiencies but also customer behavior?

Technology
Do our systems allow us to understand the profitability of segments and channels as well as the profitability of our products?

Country-specific

Market
What market segments should we target to obtain the desired profitability and growth?

Distribution
Should we appoint new distributors or incentivize existing ones?

Operations
What process enhancements will improve margins?

Product portfolio
Which product bundles will increase market share for desired segments?

Pricing
What price points will provide an optimum mix of growth and profitability?

Competition
What discounts will attract consumers without increasing competitive pressure?

Product

Portfolio risk/return: What product mix presents the best Return on Equity across different geographies?

Product design: What design changes are needed to successfully enter new markets?

Profitability: Over time, how might price changes affect volume and the customer mix?

Point of view

Regardless of the level at which the decision is being made, insurers should consider the following five areas when assessing global opportunities.

	Sample questions:
Customers	▪ How large is the middle class and how fast is it growing? ▪ What are the attractive customer segments? ▪ What education should customers have to better understand insurance products? ▪ Are there any special cultural or religious considerations?
Products	▪ What is the current mix of products in the market? ▪ Are some products unusually profitable or unprofitable? ▪ Which products are growing faster than others? ▪ Are competitors ignoring some products?
Channels	▪ What are competitors' distribution strategies ? ▪ Does this market feature independent insurance agents? ▪ What are this market's most common, or most rapidly growing, communications technologies? ▪ Are prospective customers willing to use phone or online channels?
Competition	▪ What are the current bases of competition in the market? ▪ Who are our key competitors and what are their strategies? ▪ Which leading global players are active in the market? ▪ What investments have leading competitors made?
Regulation	▪ Is the regulatory environment challenging? ▪ What are the capital requirements? ▪ Is it easy or difficult to repatriate earnings? ▪ How litigious is the society?

Whether or not an insurer will find a given country attractive for purposes of expansion will depend upon certain factors specific to the insurer. For example, consider the insurer's overall global strategy, financial position, and capabilities. Specifically, consider the efficiency of its agent-training processes and the sophistication of the billing system.

A sample insurance company's strategy is to significantly grow its consumer market position by selling motor insurance, which is less profitable than other major product lines. Rather than attempting to expand within a large market, the insurer focuses on expanding into a smaller market with rapidly growing car ownership. Achieving a strong market position in a larger market typically requires too much investment.

Further, customer-acquisition costs may be too high in large markets where the rate of new car purchases is lower than in the smaller market. Recognizing this, the insurer settles on the less-obvious choice as a top strategic market: Kazakhstan, with a population of 15 million and a rate of auto ownership that has doubled in the last few years.

Section 2

Competitive intelligence

Competitive intelligence

What we observe in the industry—Global allocation of investments.

Case studies of global and regional non-life insurance player strategies			
Coordinating allocation of investments: Coordinated global planning can enhance future growth prospects, while also preventing strategic blunders that may result from an ad-hoc expansion strategy.	▪ Targeted M&A across regions that were culturally similar to its home countries. Each deal has a focused strategy in its region, which has led to high growth and profitability.	▪ Invested heavily in emerging markets via M&A. The insurer is selling operations in developed regions to allow it to continue to redeploy capital toward high-growth economies.	▪ Tended to grow internationally through opportunistic acquisitions. Some of the acquisitions did not produce expected returns, leading the company to reassess its strategies in those markets.
Balancing global vs. local authority: Too much centralization of decision-making may cramp local performance, while too much localization may compromise efforts to build a coherent global company.	▪ Set up a global distribution organization to guide strategy across its subsidiaries. The insurer has effectively replicated its home-market strategy for consumer lines in multiple foreign markets.	▪ Set up a global distribution group to provide strategic guidance to distinct operating subsidiaries; however, the group's impact is limited as it lacks the authority to force changes on subsidiaries.	▪ Has a large international presence and tends to give a great deal of autonomy to country subsidiaries. The result is varying strategies and market positions across countries.
Capitalizing on back-office synergies: Maintaining disparate operations and systems infrastructure can raise operating expenses while also challenging senior management's performance objectives.	▪ Put its customer data, platforms, and analytics under global management, so that the insurer can identify trends across regions and provide coherent global service to its customers.	▪ Set up regional underwriting hubs in various parts of the globe, which allows the insurer to improve its knowledge of local business dynamics and have productive broker relationships.	▪ Had a deeply decentralized back-office strategy that has stunted growth. The insurer is rationalizing dozens of different systems built across its global operations over the last 20 years.

Leading On par Lagging

Competitive intelligence

What we observe in the industry—Go-to-market strategies (consumer lines).

Case studies of global and regional non-life insurance player strategies			
Managing the customer experience: Having a consistent global view of the right type of customer experience can allow a company to consistently meet customer service objectives around the globe.	▪ Focused on distribution via retail branches. The insurer created a global group to oversee replication of its strategy in other countries; the result is a strong global control over the customer experience.	▪ Has a global team tasked to create common methodologies, terminology, metrics, and toolkits for the insurer's tied agent network. The team is empowered to ensure company-standard practices across countries.	▪ Tends to rely on independent agents for consumer lines distribution. The insurer has developed training and support programs which it shares across countries to ensure similar levels of professionalism.
Exporting direct-to-consumer (D2C) strategies: Sharing e-commerce and telesales platforms and best practices can facilitate a company's ability to rapidly grow these channels across multiple companies.	▪ In 2010, deployed a global platform to bridge direct and traditional sales channels. The platform helps agents improve prospecting and service by providing them with consumer data from direct channels.	▪ Has a growing e-commerce focus, which is supported by setting up global centers of excellence to share platforms and D2C strategies and best practices.	▪ Has organized specialized account teams to provide high-touch service to high-net-worth customers. The team's purpose is to support claims management and loss prevention goals.
Creating valuable affinity partnerships: Partnering with banks, retailers, car dealers, professional associations, large employers, and other affinity groups can quickly accelerate premium growth and profitability.	▪ Coordinated among its various country operations to develop a range of innovative affinity partnerships, typically to sell Extended Warranty, Personal Accident, and Travel products.	▪ Has used affinity partners as a way to develop microinsurance in emerging markets, piggybacking on existing distribution networks in order to sell low-margin products.	▪ Has a strong bancassurance program developed by the insurer's life business. The insurer increasingly cross-sells non-life products via its numerous bancassurance partner networks.

Leading On par Lagging

Competitive intelligence

What we observe in the industry—Go-to-market strategies (commercial lines).

Case studies of global and regional non-life insurance player strategies			
Managing global broker relationships: Using practices and tools to foster close collaboration with and support to brokers at the local level can facilitate a greater market share in middle-market and large commercial.	▪ Senior management interfaces with an advisory council for broker relationships. The council provides and receives feedback around the firm's approach to all broker relationships.	▪ Has a strong focus on SMEs and, therefore, relies heavily on small brokers. The insurer provides its small broker partners with dedicated advisors who are accessible to address any type of problem.	▪ Has a central global team, which the multinational accounts group uses to coordinate global broker relationships and facilitate the sharing of best practices for local relationships in specific countries.
Servicing multinational corporate accounts: Multinational business can benefit from the ability to present a single face to customers, and provide quick resolution to all categories of questions and issues.	▪ Enhances its multinational client relationships by scheduling recurring events, such as customer councils and advisory boards, workshops, and risk management conferences.	▪ Seeks to collaborate closely with large clients when designing systems to support major policy programs that require client co-administration (such as worker compensation).	▪ Is a decentralized organization, with many semi-autonomous business units. The insurer has deployed a customer relationship management (CRM) portal to support its objective of providing a single point of contact to its multinational customers.
Targeting the right industries: Having a targeted industry focus at the local level can help improve the chance to compete for commercial business in a particular country.	▪ Has a strong focus on marine, energy, and aviation insurance. Focuses on related industries such as aviation, aerospace, and offshore energy, which are key areas of the insurer's current growth strategy.	▪ Has traditionally focused on consumer lines, but has a strong commercial presence in the home market. To grow its commercial business internationally, the insurer is focusing on five industries.	▪ Has an industry focus inspired by its product focus in financial lines. The company targets financial services, energy, and other industries where the demand for financial lines is relatively high.

Leading On par Lagging

Section 3

A framework for response

A framework for response

A detailed and multi-faceted approach to planning international growth enables a clear, objective analysis with a broad global perspective that helps insurers define highly specific client and market strategies.

	Market evaluation	Market validation and investment allocation	Refined roadmap and mobilization
Sample of problems addressed	▪ What are the critical criteria for identifying and scoring opportunities specific to our growth objectives? ▪ What are the most attractive geographic markets and why? ▪ Which countries should we prioritize for further strategic analysis and planning?	▪ How large are the specific opportunities within priority markets? ▪ What are the core value propositions for us and our customers? ▪ What is the go-to-market approach for each market (including segments, products, channels)? ▪ What high-level capabilities are necessary to achieve growth?	▪ What is the critical path to implementing a growth strategy in each market? ▪ What are the refined estimates for implementation costs and timing, including return on investments and return on equity (ROI/ROE)? ▪ In the program for change, how will we structure our alignment and measures of success?
Key outcomes	▪ Detailed country evaluations and scoring along key dimensions. ▪ Prioritization of countries based on attractiveness, opportunity, and risk. ▪ Country-level opportunity potential. ▪ Prioritization framework. ▪ Identification of priority countries. ▪ Customization of the simulation modeling approach for the testing of market scenarios.	▪ Projected growth curve of markets, including segments, products, and industries. ▪ Estimates of insurer-specific opportunities, including revenue, profit, and other metrics. ▪ Detailed country analysis. ▪ Opportunities by line of business determined. ▪ Innovation concepts. ▪ Go-to-market planning. ▪ Investment roadmap. ▪ Financial model and business case.	▪ Market analysis “deep dives” for prioritized countries. ▪ Innovation opportunities. ▪ Go-to-market strategies and financial modeling. ▪ Refined cost/benefit model. ▪ Refined business case. ▪ Program governance structure.

A framework for response

By using a detailed and multi-faceted approach to planning international growth, insurers can implement a well-planned and executable strategy.

Market evaluation

Market validation and investment allocation

Refined roadmap and mobilization

Areas of action	Key considerations
Analyze the global markets	Perform a global market analysis using individual country scorecards. Perform concise macro- and micro-economic analysis with insurance-specific views of opportunities, along with global, regional, and local perspectives.
Tailor the market approach to strategic initiatives	Use a systematic approach to analyzing global markets combining the correct depth of insightful quantitative and qualitative analysis to promote executive agreement on strategy.
Implement dynamic modeling	Use dynamic modeling and perform advanced scenario analysis that is measurable to drive insight-driven decision making and planning.
Take an innovative, differenti ated approach	Consider the needs of different cultures to drive country-specific product and service design and marketing programs. In many fast-developing markets, innovative solutions are leapfrogging conventional products to maturity. Therefore, make insurers that distinctively spark the interest of prospective customers.
Develop a detailed roadmap	Identify priority markets; understand, as much as possible, the necessary capabilities to exploit opportunities without risking the integrity of the business. Draft a detailed action plan, or roadmap, for each new market based on the results of the analysis and modeling.

A framework for response

Step 1 – Perform a multi-dimensional, global growth analysis of the commercial and insurance sectors.

Analyze the global markets

Tailor market approach to strategic initiatives

Implement dynamic modeling

Take an innovative, differentiated approach

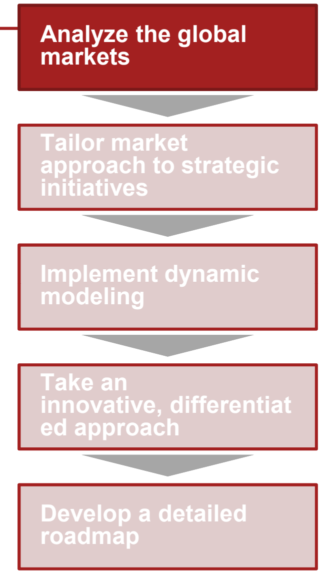
Develop a detailed roadmap

The global growth analysis should be standardized across prospective target countries/ regions to improve decision-making and drive strategic initiatives in the organization.

- Insurers should perform thorough, structured, and objective analyses of potential target countries, along with additional qualitative research on highly attractive countries to facilitate decisions about priority markets. Market assessments should be performed for individual countries, as well as for specific regions where growth is being considered.
- Reports and presentations should not only have succinct summaries, but also include specific details on key findings.
- Quantitative reports should be supplemented with qualitative considerations such as cultural aspects.
- A strategic business-expansion analysis should be created for each country. The analysis should look at the emerging market through multiple views, including :
  - Market environment
  - Economic and political state
  - Local insurance industry
  - Products currently available
  - Customer market segments
  - Geographical market coverage
  - Competition
  - Regulatory environment
  - Distribution channels
  - Natural-hazard risks
  - Demographic groups
  - Marketing/Customer service
- When conducting this analysis, insurers should consider personal and commercial lines, life insurance, and non-life insurance. Among the lines to include are: motor, home, property (other than home and motor), accident and health, worker compensation, construction and engineering, marine and energy, liability and financial, surety, and trade credit.

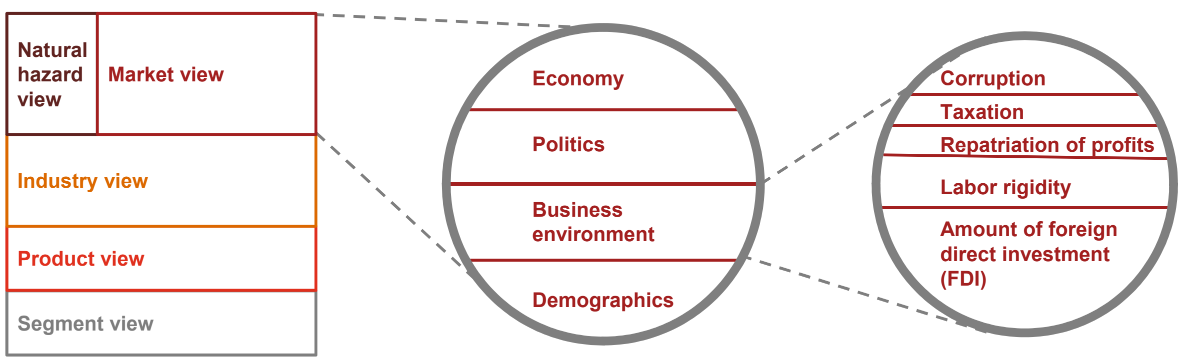
A framework for response

Step 1 – Perform a multi-dimensional, global growth analysis of the commercial and insurance sectors. (continued)



To facilitate the aggregation of data and help ensure communication of the analysis results, insurers should create scorecards for each country. This will allow for the straightforward comparability of key metrics to help drive decision making.

Scoreboard view | **Conceptual details view** | **Customization**



Key questions to consider:

- Are the macroeconomic sketches too broad to be actionable? Are they too localized to enable useful comparisons across markets?
- Has the organization established a thorough, repeatable way to weight and review macro- and micro-economic factors by integrating the internal and external data gathered?
- Does the analysis encompass relevant insurance-specific product, customer segment, and regulatory variables?
- Does the analysis provide structured informational output that is easily understood by end users?
- Does the analysis support organizational goals and objective decision making?

A framework for response

Step 2 – Target market opportunities that fit strategically into the organization, are attractive for growth, and are feasible.

A holistic, tailored, and transferable analysis allows insurers to prioritize markets for investments, and guides decisions on how to allocate funds for go-to-market strategies in each of those countries. The prioritization of markets and the development of entry strategies should be tailored to an institution's unique strengths, weaknesses, and cultural biases.

When reviewing the analysis of global growth opportunities via the client scorecard, insurers should segment emerging markets using a risk-reward strategy based on a number of factors that will help to prioritize the most attractive markets.

These factors include:

- Attractiveness of revenue and market share.
- Current and, more importantly, *incremental* opportunity size (as measured by GDP, GPW insurance penetration, and market share due to investments in new product offerings, channels, and geographies).
- Country complexity based on the weighted scoring applied in the global growth analysis performed.
- Investment timeframe (short, medium, or long-term).
- Number of perceived apparent weaknesses in the market.

By using the prioritization framework outlined above, an insurer can define its entry strategy and market-positioning objectives by line of business in each country.

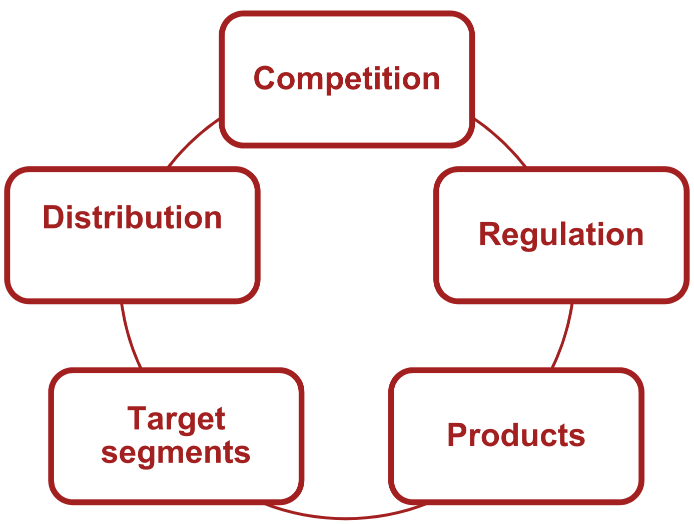
A framework for response

Step 2 – Target market opportunities that fit strategically into the organization, are attractive for growth, and are feasible. (continued)

For each potential target market, an insurer should consider whether it strives to be a top market player, a selective market player, a niche player, or a niche segment player. Based on this, the risk-reward analysis can help to quantify potential opportunities in each new market.

We recommend that the risk-reward analysis be performed in two phases:

- ***A high-level analysis of the current environment.***
- ***A deeper dive into the long-term attractiveness from both the top- and bottom-line business perspectives.***



Phase 1—Current environment

Phase 1 includes potential product offerings, distribution channels, and target segments. The analysis should be forward-thinking and driven by current organizational strategy, anticipated competitive moves, and leading practices of other insurers, particularly local companies or new entrants who have realized success in the market. Both competition and regulation should be considered. Assign weights to specific scorecard components, taking into account quantitative considerations from the prioritization framework.

Phase 2—Projected future environment

Phase 2 focuses heavily on projected growth, profitability, and accessibility measures. The analysis will determine the correct alignment with the insurers' current strategies and capabilities.

A framework for response

Step 3 – Implement an advanced-scenario analysis to facilitate strategic planning and decision-making.

Analyze the global markets

Tailor market approach to strategic initiatives

Implement dynamic modeling

Take an innovative, differentiated approach

Develop a detailed roadmap

Insurers should develop systems that perform dynamic and agent-based modeling. This will allow management to simulate potential market scenarios that are difficult, if not impossible, to do with the spreadsheet, Monte Carlo simulation, or regression analysis that are commonplace in most organizations.

The user interface for the model should help convey the opportunities in an easy-to-understand format. It should have point-and-click functionality with drill-down capabilities so that the user can easily understand model outputs and successfully use the tool to estimate potential growth in new markets.

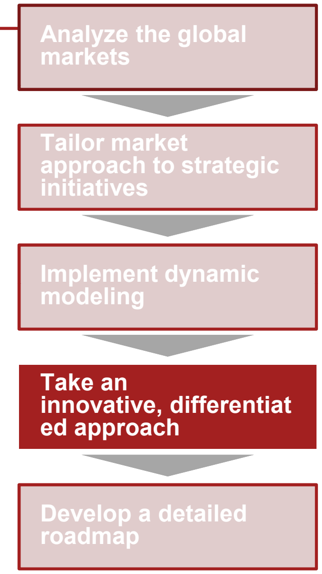
Sample user interface that can produce detailed analysis outputs

Vehicle market parameters	
Income coefficient	1.456
Vehicle network magnitude	0.832
Vehicle marketing effectiveness	0.028
Word-of-mouth effectiveness	0.236
Vehicle age	28.768
Important magnitude	0.432
Coefficient for curve-fitting purposes	-2.64

Auto insurance market parameters	
Company share of newly insured	0.295
Probability consumers switch to others	0.3
Probability consumers switch to company	0.2
Average premium: voluntary policy	550
Average premium: mandatory policy	50
Percentage of total insured that shop	0.3

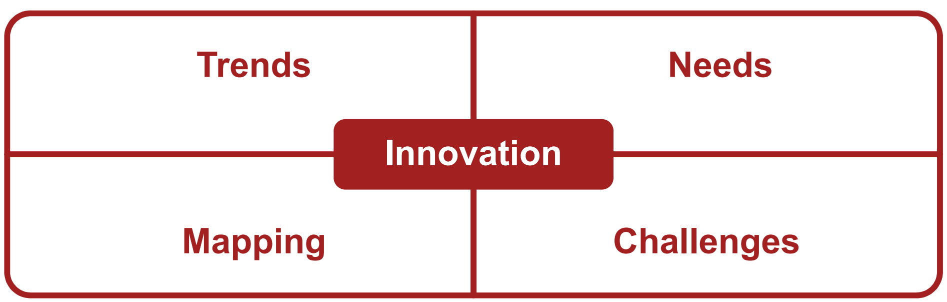
A framework for response

Step 4 – When considering whether to approach new insurance markets, incorporate differentiation and sustainable growth strategies.



In many fast-developing markets, innovative solutions are surpassing conventional products to maturity. Therefore, it is critical that insurers gear their product offerings to the specific needs of the customer.

- Existing business models in place for developed economies are not a one-size-fits-all solution for emerging markets. Rather, new markets require that insurers develop differentiated strategies and plans for sustainable growth. The products must be flexible enough to respond to rapidly changing market conditions.
- Global market analyses and scenario-based modeling can help insurance leaders better understand the need to move from business-as-usual to a new, customer-centric approach. This new approach should be customized for each new market selected.
- To successfully deploy tailored business plans, insurers should develop processes that include market-trend analysis and research on consumer needs. Insurers should also hold workshops to identify challenges, and then perform mapping to generate innovative concepts.
- Innovations should be prioritized according to agreed-upon criteria, implications for future operating models, costs and benefits, and degree of riskiness. Additionally, innovations should be assessed against competitor strategies as potential quick-hit differentiators or game-changers.



A framework for response

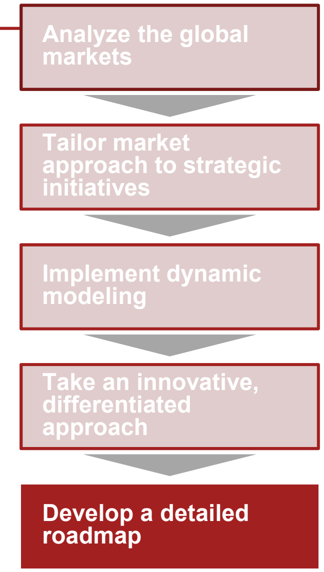
Step 4 – When considering whether to approach new insurance markets, incorporate differentiation and sustainable growth strategies. (continued)

The innovation development process should consist of trend analysis, identification of needs and challenges, and the mapping of innovative concepts to useful frameworks. After defining innovative strategies, insurers should prioritize these for use in a roadmap.

Area	Activity
Trends	Insurers should research market and industry trends in order to lead their thought processes for understanding the needs of consumers, businesses, and partners, and to provide external context for identifying the potential challenges in each market. This can be accomplished through primary research such as innovation workshops and secondary research, such as competitor analysis.
Needs	Needs can be addressed via new ideas for products, sales, and service areas, and can then be characterized as Functional, Financial, or Emotional for categorization in later action plans.
Challenges	To identify challenges and to generate new ideas on how to overcome challenges, insurers should compare observed trends and identified needs against the company's internal positioning and strategy.
Mapping	The completeness of new ideas can be tested through consumer utility maps, which incorporate trends, needs, and challenges as well as the innovations for addressing those issues. Consumer utility maps identify gaps. Mapping should then be performed between innovations and foundational organizational strategies.

A framework for response

Step 5 – Develop a detailed roadmap for prioritizing and sequencing new business capabilities.



Based on analysis results as well as modeling that has been performed, insurers should draft a detailed action plan, or roadmap, for each new market.

In order to create a roadmap for each prospective market, insurers should :

- Leverage the analysis of global markets and innovation mapping to create actionable initiatives for each potential new market.
- Identify current and future desired organizational capabilities and match them with the actionable initiatives developed for each new market. Then, use this information to draft market-specific implementation schedules.
- Prioritize actionable initiatives for each new market. When determining prioritization, create sequential steps *within* and *between* initiatives, so that they flow together in a continuous stream in the implementation schedule.
- When prioritizing, make certain that rationale is provided to justify the size of each initiative and the benefits to be reaped. This will result in achievable, sustainable initiatives.

By creating a tailored and detailed plan for each new market, insurance management can not only gain a clear understanding of the company's growth strategy, but also detect similarities or differences between regions.

A clear capability roadmap and implementation schedule will allow executives to see timing and cost estimates, thereby confirming that the growth strategy is both measurable and "real" on a market-by-market basis.

Section 4

How PwC can help

How PwC can help

We partner with clients to apply a three-phase approach that provides clear, objective analysis with a broad global perspective. We help insurance clients define highly specific customer and market strategies.

	Market evaluation	Market validation and investment allocation	Refined roadmap and mobilization
Timeline	**Phase I: 8-10 weeks**	**Phase II: 8-10 weeks**	**Phase III: 8-12 weeks**
Sample of problems addressed	▪ What are the critical criteria for identifying and scoring opportunities specific to our growth objectives? ▪ What are the most attractive geographic markets and why? ▪ Which countries should we prioritize for further strategic analysis and planning?	▪ How large are the specific opportunities within priority markets? ▪ What are the core value propositions for us and our customers? ▪ What is the go-to-market approach for each market (including segments, products, channels)? ▪ What high-level capabilities are necessary to achieve growth?	▪ What is the critical path to implement a growth strategy in each market? ▪ What are the refined estimates for implementation costs and timing, including ROI/ROE? ▪ In the program for change, how will we structure alignment and measures of success?
Key outcomes	▪ Growth Radar™ country evaluations and scoring. ▪ Country-level opportunity potential. ▪ Prioritization framework. ▪ Identification of priority countries. ▪ Structure for Growth Navigator™ customization.	▪ Customized Growth Navigator analysis conducted. ▪ Detailed country analysis. ▪ Opportunities by line of business determined. ▪ Innovation concepts. ▪ Go-to-market planning. ▪ Investment roadmap. ▪ Financial model and business case.	▪ Growth Pursuits™ refined implementation roadmap. ▪ Refined cost/benefit model. ▪ Refined business case. ▪ Program governance structure.

How PwC can help

Our proprietary frameworks and tools, including Growth Radar™, Growth Navigator™, and Growth Pursuits™ help insurers define and execute their international growth strategies.

Sample of key features

Growth Radar

- Country attractiveness evaluations and scoring.
- Prioritization of countries based on attractiveness, opportunity sizing, and risk evaluation dimensions.
- Catalog of "baseball cards" for all countries.

Growth Navigator

- Projection of current size and future growth curve of markets (defined as segments, products, or entire industries).
- Estimation of firm-specific opportunities, including revenue, profit, and other metrics.
- Industry-specific "cockpit" user interface for scenario planning.

Growth Pursuits

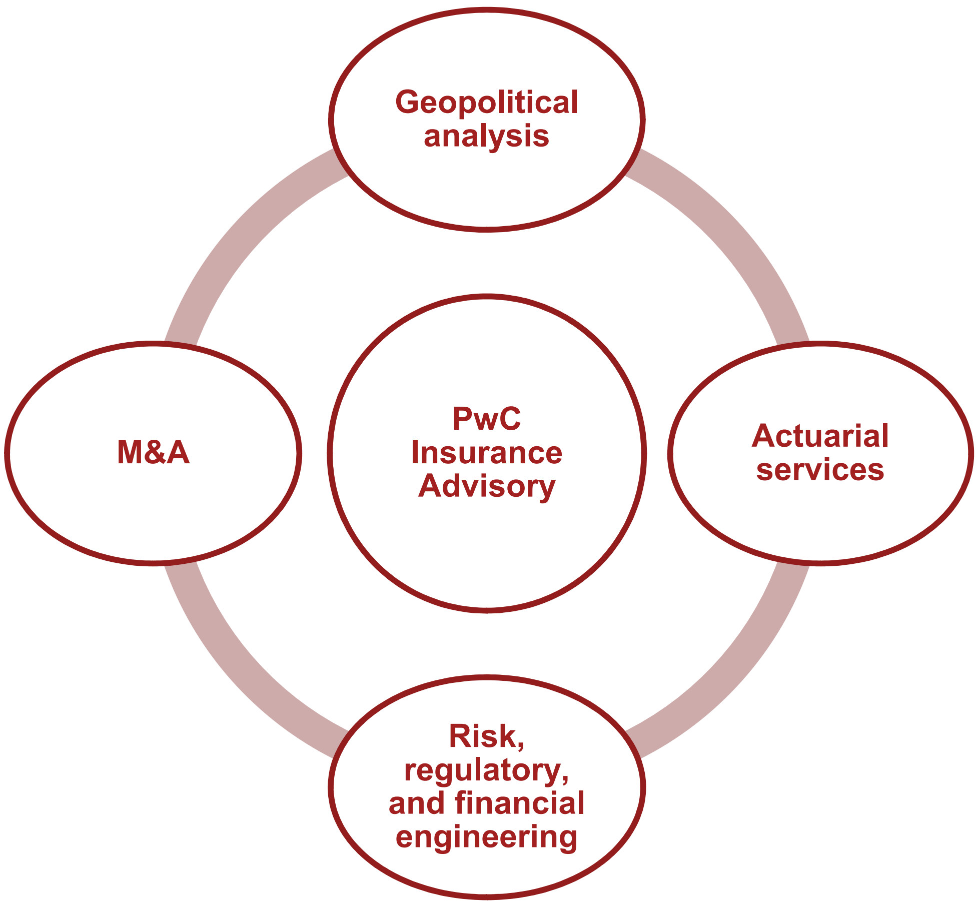
- Market analysis "deep dives" for prioritized countries.
- Profile cards for innovation concepts.
- Detailed strategy for each market (defined at the segment or product level).
- Financial models.

Differentiators

- Multi-dimensional yet flexible methodology that facilitates accelerated decision making.
- Powerful analytical tool to simulate the testing of market scenarios.
- Up-front reflection of business and technology readiness in market entry decision-making.

How PwC can help
PwC Advisory Insurance Services

PwC Advisory Insurance Services employs experienced P&C and life insurance professionals with in-depth business and technology skills in strategy, design, and development.



Area	Rationale
Actuarial services	▪ 125 credentialed life, health, and non-life insurance actuaries. ▪ Domestic and international experience. ▪ Key services include actuarial process improvement, risk and capital management, value analyses, and M&A.
Geopolitical analysis	▪ Exclusive relationship with Ian Bremmer's world-renowned Eurasia Group. ▪ Continually refreshed economic and industry-related data and analysis.
Mergers & acquisitions	▪ M&A strategy advice from due diligence to integration. ▪ Valuations advice pertaining to accounting and financial reporting matters.
Risk, regulatory and financial engineering	▪ Risk measurement, capital allocation, risk-adjusted performance measurement, and financial modeling.

How PwC can help

PwC Financial Services

We look across the entire organization—focusing on strategy, structure, people, process, and technology—to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.

Client needs	Issues that we help clients address
Manage risk and regulation	▪ Building a risk-resilient organization. ▪ Managing ERP investment and project-execution risk. ▪ Safeguarding the currency of business; keeping sensitive data out of the wrong hands. ▪ Ensuring capital-project governance and accountability. ▪ Assessing and mitigating corruption risk in your global business operations.
Build effective organizations	▪ Establishing effective strategic sourcing and procurement. ▪ Realizing competitive advantage through effective sales-operations inventory planning. ▪ Transforming the close and consolidation process to work for you rather than against you.
Reduce costs	▪ Driving efficiency through shared services. ▪ Redesigning finance to realize efficiency and competitive advantage. ▪ Taking control of cost through effective spend management and cash-forecasting practices.
Leverage talent	▪ Defining and implementing an effective HR organization. ▪ Rethinking pivotal talent.
Innovate and grow profitably	▪ Reshaping the IT function into a source of innovation. ▪ Transforming business information to drive insight and fact-based decision making. ▪ Evaluating acquisition and divestiture strategies to position for the future. ▪ Realizing deal synergy and value. ▪ Developing sustainability programs that add value.

How PwC can help

What makes PwC's Financial Services practice distinctive

Integrated global network	PwC's Financial Services practice consists of more than 34,000 industry-dedicated professionals worldwide, including more than 4,500 in the United States. They serve large and multinational banks, insurance companies, investment managers, broker-dealers, hedge funds, and payments organizations. The US Financial Services practice is part of the PwC global network, which has clients in more than 150 countries.
Extensive industry experience and resources	PwC serves more of the biggest and most complex financial services companies than any other firm. We understand from personal experience the wide variety of business issues that affect the industry, and we apply our knowledge to our clients' individual circumstances. Moreover, our large, integrated global network of industry-dedicated resources enables us to apply this knowledge on our clients' behalf whenever and wherever they need it.
Multidisciplinary problem solving	The critical issues financial services companies face today affect their entire business. Addressing these complexities requires both breadth and depth, and PwC service teams include specialists in risk management, compliance, technology, business operations, finance, change and program management, data and business analytics, economics and analysis, internal audit, tax, forensics, and investigations.
Practical insight into critical issues	In addition to working directly with clients, our practice professionals and Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients new intelligence, perspective, and analysis on the trends that affect them.
Focus on relationships	PwC's size, financial stability, and 150-year history all contribute to our long-term view of client relationships. We help clients translate strategy into action by helping them address their challenges in finance, tax, human resources, operations, technology, and risk and compliance.

How PwC can help

For further information, please contact:

Americas

Marie Carr	marie.carr@us.pwc.com +1 312 298 6823
Marik Brockman	stephen.m.brockman@us.pwc.com +1 971 544 4038
Anand S. Rao	anand.s.rao@us.pwc.com +1 617 530 4691
David Gates	david.gates@us.pwc.com +1 512 867 8723
Mark Purowitz	mark.purowitz@us.pwc.com +1 646 471 9983
Jamie Yoder	jamie.yoder@us.pwc.com +1 312 298 3462

Appendix

Select qualifications

Select qualifications

Evaluation framework for emerging markets—Global insurer

Issues	With operations in most of the world's 50 largest economies, a global insurer sought to expand beyond developed countries into promising emerging markets where it currently had little to no business activity. To facilitate this, the insurer sought to develop a uniform and systematic method to rate international markets and define a global growth strategy, particularly in emerging economies.
Approach	The PwC team developed a reusable methodology and framework to help evaluate and rank growth opportunities in emerging markets. We sought to identify opportunities for significant growth both in countries where the company operated and where it did not. We created a catalog of emerging market snapshots to provide a consistent view of operations that would allow for comparability between potential expansion countries. Based on the initial snapshots, we were able to help prioritize countries for further analysis. For the prioritized countries, we created a heuristic evaluation framework to assess opportunity and risk in 60 higher-opportunity developing markets along seven dimensions: market conditions, insurance industry, product offerings, sectors, competition, distribution channels, and natural hazards. After helping to identify the best expansion opportunities, we worked with the client to create a detailed and consistent internal view of its operational position across 31 priority markets. This formed the basis of a formal global growth strategy and investment plan.
Benefits	The client was able to assess the internal position and capabilities of 31 countries based on financial and operating data and more than 30 interviews with insurance managers in those countries. The assessment resulted in the recommendation of 13 high-priority markets based on the overlay of heuristic model score, a high-level estimate of opportunity size, and country risk score for each potential expansion market.

Select qualifications
Evaluation framework for emerging markets—Global insurer

Issues	A global insurer wanted to make a major investment in emerging markets and needed to assess which countries offered the greatest opportunity given its limited investment budget.
Approach	The PwC team helped the client prioritize 10 countries for investment, using a heuristic evaluation methodology that incorporated dozens of quantitative and qualitative considerations. We performed a deep-dive analysis for each of the prioritized countries and produced preliminary recommendations on segments, products, and channels, as well as in-depth descriptions of the competitive, regulatory, and legal environments. We used system dynamics and agent-based modeling to project the addressable market sizes at country, sector, and product levels. Along with the perspectives gained from the client executives and country managers, we leveraged market analysis and modeling outputs as inputs to define new go-to-market strategies for every product category in each of the 10 countries. We then helped develop five-year economic projections (revenue, profit, and costs) for each country. Costs were estimated through the development of roadmaps, which identified activities required to execute the go-to-market strategies.
Benefits	The go-to-market strategies translated into a US$2.0 billion incremental opportunity over five years for the global insurer. Recommendations received buy-in from multiple levels, including global, regional, and country-level leadership. The client has already begun to move forward with execution on the strategy for the three highest-priority countries, using PwC's roadmap as a guide for the execution strategy. We continue to consult and provide guidance.

Select qualifications

Roadmap development to execute growth strategy—Global insurer

Issues	With a physical presence in over 50 countries, a global insurer sought to more clearly define and penetrate key markets for its recently established Personal and Business Insurance (PBI) unit. To enable the growth strategy, the client required an aggressive five-year growth plan to expand the $300 million business unit profitably across nearly 30 countries.
Approach	The PwC team developed a roadmap by working in conjunction with PBI, operations, and technology leadership. We held interviews, workshops, and systems demonstrations, and also conducted considerable external research and analysis to help develop recommendations. We implemented four 10-week phases to define operational and technology strategies supporting the growth plan in the following functional areas: products and pricing, marketing and strategy, sales and distribution, underwriting, commissions, policy administration and billing, and claims. **Phase I:** Conducted current-state analysis across regions and lines of business to develop a high-level roadmap based on cost-benefit analysis and identified necessary capabilities for a five-year growth plan. Conducted vision alignment sessions with business, operational, and technology leaders to help define needed management positions. Generated data to make informed budget requests. **Phase II:** Conducted system analysis to identify costs and the pros and cons of building an improved fact base for decision-making. Identified proof-of-concept (PoC) opportunities for key personal and business functional areas. Performed initial due diligence for vendors. Began developing specialty product line (SPL) solutions for certain markets. **Phase III:** Helped define and establish PoCs to roll out via pilot programs across functional areas for expansion opportunities. Updated cost planning for alternative approaches and developed roadmaps for SPLs. **Phase IV:** Helped launch and execute pilot programs across functional areas to build out operational and technology capabilities. Continued developing solutions for other identified SPL opportunities.
Benefits	By working closely with leadership, we identified key obstacles to growth as well as their implications, and helped determine how to best manage them. Our assessment and analysis resulted in a detailed and action-oriented roadmap by functional area, empowering the respective business leaders to execute strategies across the organization.

www.pwc.com

“The Sprint for the Global Footprint: How Insurers Can Build a Profitable Growth Strategy through International Expansion,” PwC FS Viewpoint, November 2011. www.pwc.com/fsi