

How augmenting internal teams can better optimize P&C insurer operations.



A note from CXIS

The “CX” in CX Insurance Services stands for “Customer Experience.”

CXIS has turned the page in supporting P&C carriers with a smarter, more blended approach to operational support, agent/policyholder experience and top line growth.

CXIS provides 100% U.S. based operations support to P&C insurance carriers, on their existing platforms. Mitigate operations gaps, talent issues, & capacity constraints with P&C carrier expertise. Free up resources to focus on higher-value work, move faster, & achieve expense relief in a variable cost model.

While P&C Carriers continue to innovate through data strategy, customer engagement, and specialization—service providers generally remain stagnant with “turn-the-crank” support and no skin in the game, usually defining “customer insight” as an IT product.

Read the whole guide, or just jump to the section that most interests you.

Thank you,
CXIS

Contents

00. Introduction	04
01. P&C Talent Gap	05
02. Efficient Growth	08
03. A Profitable Outlook?	10
04. Backwards compatibility	12
05. Game Plan for Insurers	14
06. Do's & Don'ts	15
What's next	17

00. Introduction

While the need for efficient & flexible P&C insurance operations isn't new, a convergence of evolving P&C trends is causing Carrier Management to re-think traditionally defined lines between concepts like insourcing & outsourcing.

A more thoughtful, blended approach enables insurers to fortify & enhance their existing teams vs. replacing them.

01. P&C Talent Gap

Perhaps you haven't heard; there's a deepening talent shortage in our business. If you work at a P&C insurer you're likely experiencing it either directly or indirectly now.

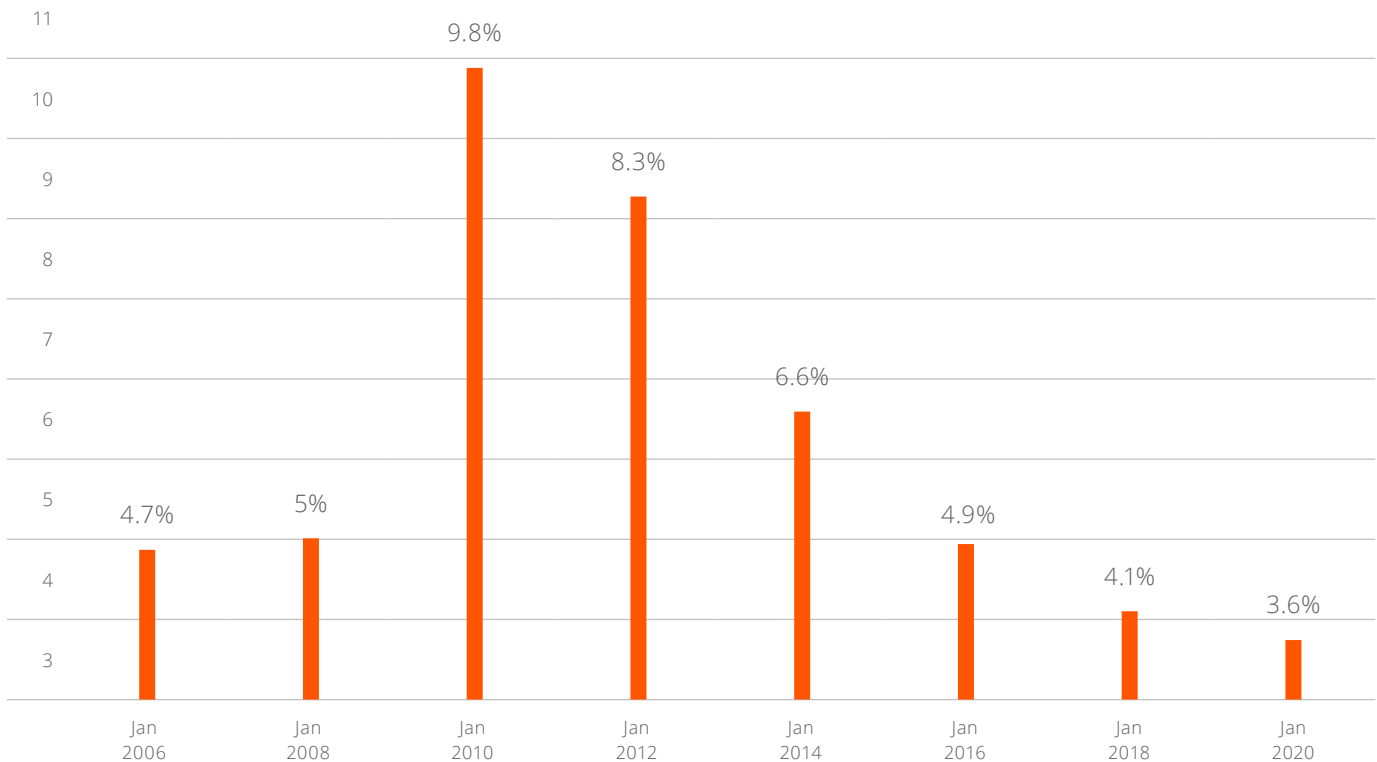
Conceptually it makes sense: Baby Boomers are retiring, Millennials generally aren't attracted to insurance, mix in low unemployment rates, and voilà – the situation is deteriorating. We won't allocate too much real estate here because the problem is so well-known, but the numbers do underscore what's unfolding:

Unemployment Rates

Since U.S. unemployment peaked at around 10% following the 2008–09 financial crisis, recovery in the job market dragged the unemployment rate to its lowest level, at 3.9%, since 2000.

The unemployment rate has now dropped even lower to 3.7% as of June 2019. Tight labor market = more difficult and expensive to attract (& retain) the right talent.

Civilian unemployment rate



Note: Shaded area represents recession, as determined by the National Bureau of Economic Research. Source: U.S. Bureau of Labor Statistics.

01. P&C Talent Gap (Continuation)

The U.S. Bureau of Labor Statistics reports current insurance industry employment stands at 2.5 million workers. The number of insurance professionals age 55 and older has increased 74 percent in the past 10 years.

P&C Talent Conditions

With 25 percent of industry employees having expected to retire by the end of 2018, it's projected that 400,000 insurance jobs will need to be filled by 2020.

Currently, approximately 27 percent of insurance professionals are under the age of 35. The industry's future lies with the millennial generation – but current statistics show our industry is lagging in attracting them.

80%

According to the Insurance Information Institute, 80% of Millennials are unfamiliar with insurance industry career opportunities.

“Growth is never by mere chance; it is the result of forces working together.”

James Cash Penney
Founder, JC Penney



02. Efficient Growth

12.7%

US premiums written jumped by 12.7% in the first half of 2018.

In the P&C sector, US premiums written grew 4.6% in 2017, the highest percentage in the past decade, before jumping by 12.7% in the first half of 2018.

US P&C carriers have seen their insurable exposure base continuing to expand across both personal & commercial lines, due in part to faster GDP gains, shrinking unemployment, & higher consumer spending (source: Deloitte Research).

All told Net Written Premiums grew 10.8% in 2018 on account of organic premium growth and changes some insurers implemented on reinsurance arrangements (source: ISO).

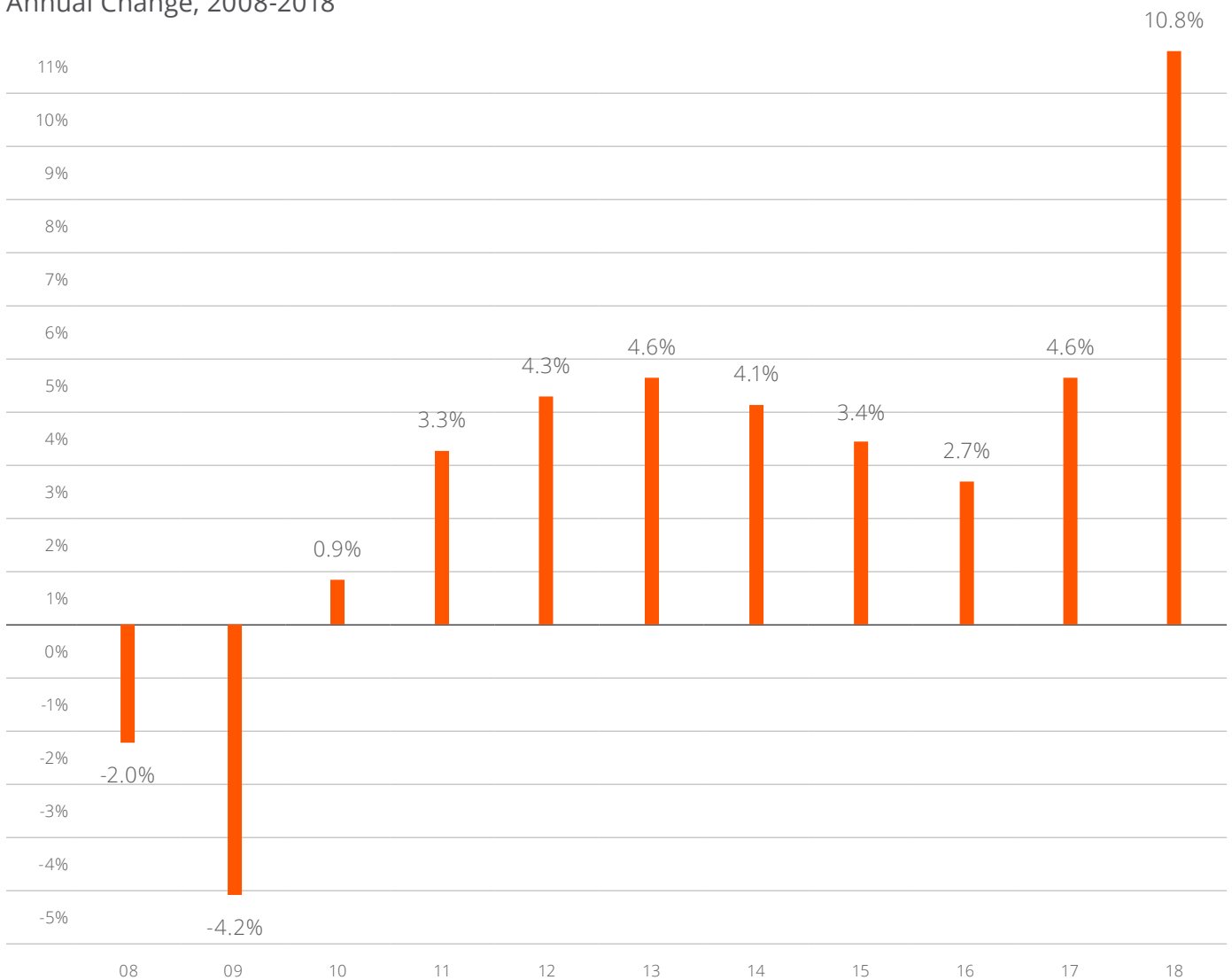
Admittedly, profitability can be old-fashioned and outdated thinking these days. But unless you're Jeff Bezos what's the point of growth if it's not reasonably cost-efficient? What's the best way to support said growth?

02. Efficient Growth (Continuation)

P/C insurers measure premium income in three ways, and each of which gives a different insight into the industry's activity. Direct written premiums capture money collected for insurance; it is similar to gross retail sales. Net written premiums are calculated by subtracting the amounts

insurers pay for reinsurance from direct premiums; they are therefore a simple gauge of the net amount of risk that insurers planned to assume. Net earned premiums are derived by adjusting net written premiums to reflect the insurance actually provided.

Net Written Premium Growth (All P/C Lines): Annual Change, 2008-2018



Source: A.M. Best (2007-2013), ISO (2014-18).

03. A Profitable Outlook?

104.6%

The 2018 fourth-quarter U.S. combined ratio spiked to 104.6 percent.

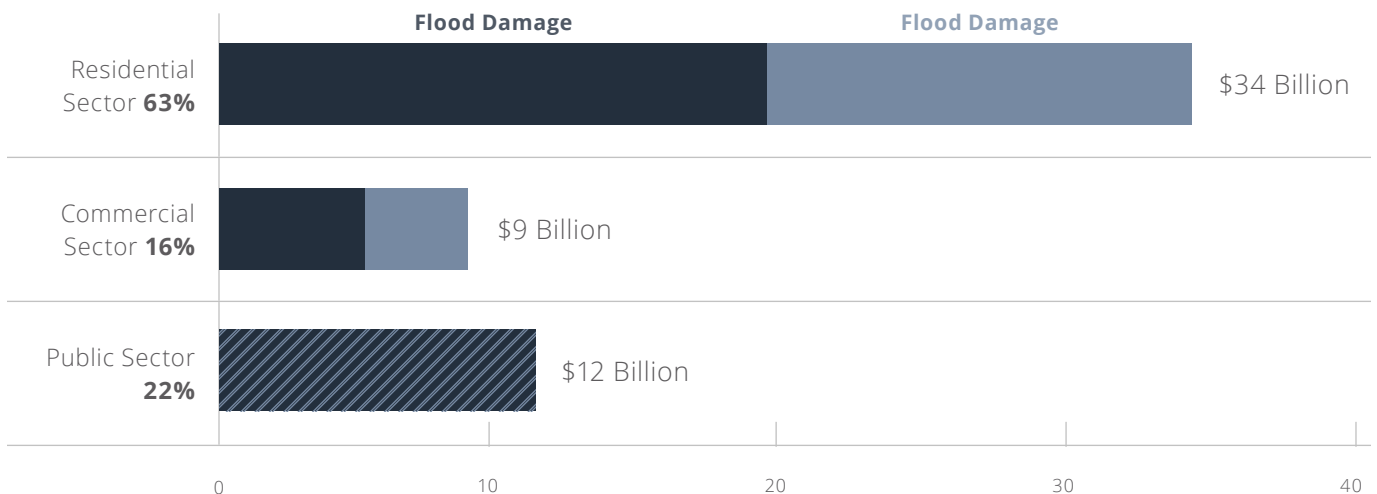
U.S. P&C carriers had a marginally profitable year in 2018, roughly breaking even on underwriting and slightly increasing investment returns.

While 2018 U.S. catastrophe losses declined from 2017, insurers remain guarded because global insured catastrophe losses continued at a record pace and the fourth-quarter U.S. combined ratio spiked to 104.6 percent (source: APCIA). Consider the following:

Total U.S. economic losses from hurricanes

In 2017 were nearly five times the average of the preceding 16 years, losses from wildfire were four times higher, and losses from other severe storms were 60 percent higher (source: Aon Benfield).

Expected Annual Economic Losses From Hurricane Winds and Storm-Related Flooding Under Current Conditions



Source: Congressional Budget Office (April 2019)

03. A Profitable Outlook? (Continuation)

Total global economic losses

From natural disasters between 2005 and 2015 were more than 1.3 trillion, with total direct losses in the range of \$2.5 trillion since 2000.

This series of major hurricanes and other natural disasters in 2017 made the year of highest insured losses ever at \$138 billion.

Overall economic losses from natural disasters in 2017 amounted to \$340 billion, the second highest annual figure ever (source: MunichRe).

Analysis by MunichRe

Identified a long-term trend in an increase in the number of natural catastrophes around the globe, predominantly attributable to weather-related events like storms and floods.

As there has been no relevant increase in geophysical events such as earthquakes, tsunamis, and volcanic eruptions, there is some justification in assuming that changes in the atmosphere, and global warming in particular, play a relevant role (source: MunichRe).

\$340 B

Overall economic losses from natural disasters in 2017.

Beyond buoying cost pressures with operations efficiency, given the above trends flexible scale (up & down) might not be a bad idea either.

04. Backwards Compatibility

While 2019 and 2020 are shaping up to be strong years for insurers overall, concerns are beginning to be raised about some economic slowdown in the early 2020s.

Some pundits worry about the potential for ongoing disputes between the United States and China as well as other nations over tariffs and trade rules. Meanwhile, others project the economic stimulus from federal tax cuts and additional government spending to ramp down in 2020.

One warning sign cited by economists has been a flattening yield curve between short and long term interest rates - a development that has historically indicated a recession in the years ahead (source: Deloitte research).

Thoughtfully blended variable cost support can buffer some pain in the inevitable down cycles, too.

CXIS Believes in: Innovative Customer Experience
Models that are Data-driven & “Actuarial”

Sophisticated Quality Control through Statistical
Software & Platforms

Client-specific Culture & Branding

Joe Serrano
CXIS President



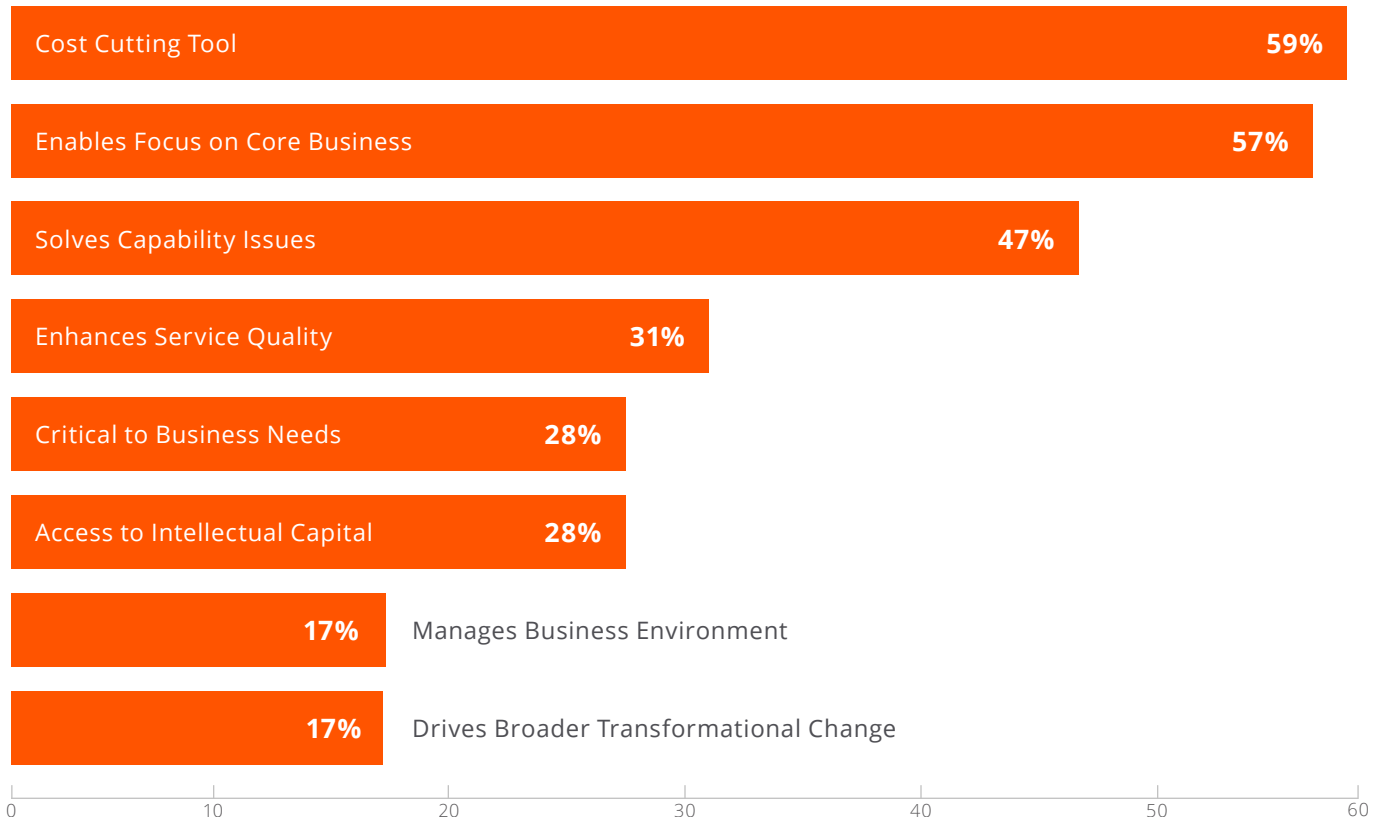
05. Game Plan for Insurers

As opposed to a broad brush / “Lift n’ Shift” / All-or-Nothing strategy, supplementing internal teams with pockets of external support can help carriers optimize their operating model.

It should be custom; one size need not fit all. To be clear: this isn’t to describe simple staff augmentation, which isn’t cost effective at scale (and lacks management, reporting / insights, quality programs etc.). But rather, a blend of traditionally defined staff augmentation & traditionally defined outsourcing.

According to Deloitte’s 2016 Global Outsourcing Survey outsourcing is more than just a money-saving exercise. If we look at all of the responses they suggest outsourcing improves business performance and, therefore, results in better user experience.

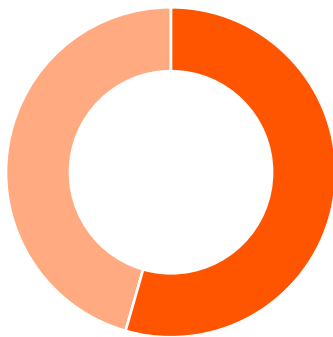
Reasons For Outsourcing



Source: Deloitte's 2016 Global Outsourcing Survey

06. Do's & Don'ts

P&C Carriers often need to drive various Customer, Operations, & Technology initiatives in parallel but simply don't have the bandwidth or expertise to do so. And simply hiring (then firing) people with the requisite skill sets isn't practical (nor the right thing to do, right?)



Personal lines	54.6%	\$305.0
Commercial lines	45.4	\$253.2
Total	100.0%	\$558.2

Source: NAIC data, sourced from S&P Global Market Intelligence, Insurance Information Institute.



DON'T

- Necessarily cede control of entire functions
- Drift too far from controlling the customer experience & potential brand impacts
- Be forced into using an outsourcing vendor's sub-standard systems
- Risk communication, quality, and timing impacts by shifting key activities offshore
- Become "operational hostage" to an outsourcing company



DO

- Mitigate talent gaps; free up existing resources to focus on higher value work
- Stem capacity constraints, diversify operational risk, and achieve flexible scale (up & down)
- Achieve cost efficiency by migrating portions of an operation to variable cost models
- Enhance operations with external "value-add" capabilities
- Move faster

3-4%

P&C Carriers are averaging a 3-4% increase in policy retention through CXIS's proprietary retention suite.

HOW?

Consider supplementing or re-aligning operations by:

Volumes: Offload calls or transactions in excess of defined volume thresholds.

Components Within a Function: Obtain support for certain transaction types (i.e. endorsements, renewal processing etc.), certain call types (i.e. payments / billing), underwriting support subsets (i.e. inspection reviews), etc.

Major Initiatives: Backfill current staff that's being pulled into large-scale platform & related projects.

Staff Counts: Internal headcounts are capped at x; capacity overages are handled externally.

Technology Platform: Operations support tied to specific systems are performed by a partner.

Portions of the Book: External support is engaged for specific products, states, runoff programs, etc.

Talent Types: E.g. if licensed producers are required for sales support activities, service center models, etc.

Strategic Acquisitions: Realize deal synergies faster by migrating acquired operations to a more efficient operating entity.

Automation Outliers: Offload the "messy remainders" that automation doesn't fully accommodate.

"InsurTech" Value Proposition: If technology innovation is the core competency, engage a partner for operational aspects that do require some forms of staffing.

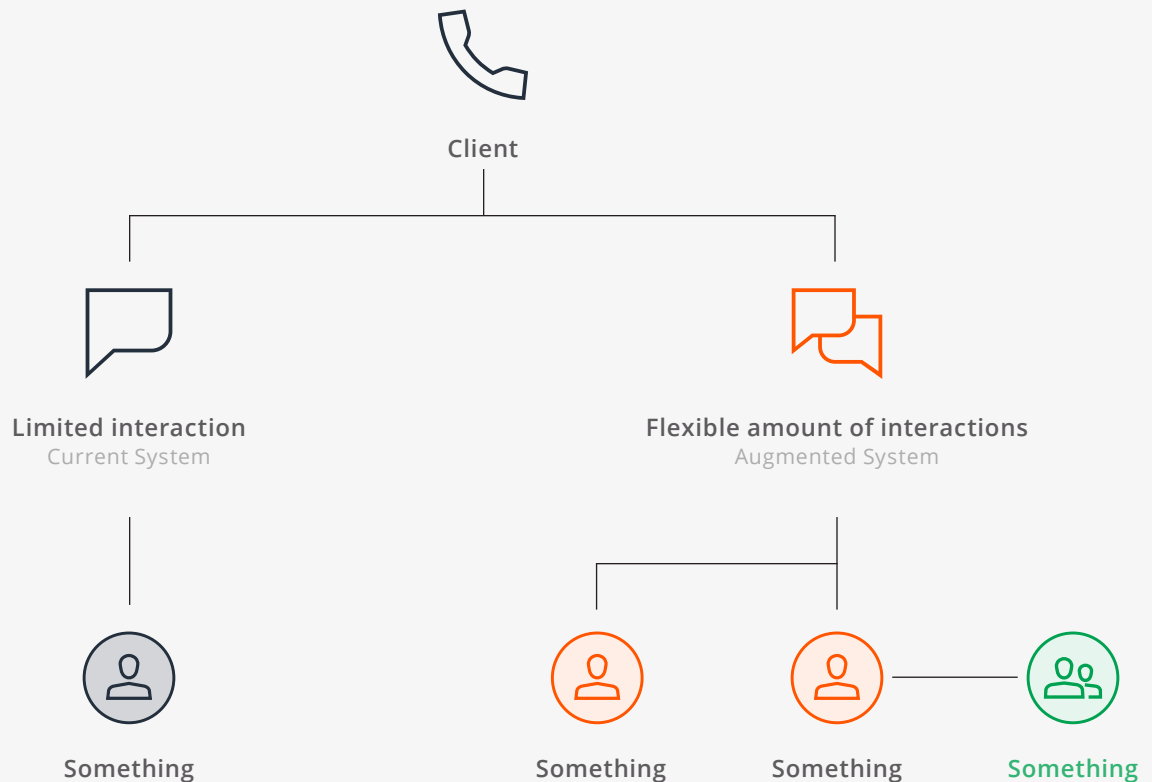
07. What's Next

Is a blended staffing approach a better way to optimize P&C insurer operations?

Contrary to what many believe, your outsourcing strategy doesn't have to be all or nothing. Consider supplementing internal teams with external support through a blended strategy. To start thinking more holistically.

As proven experts at mitigating the talent gap, reducing expenses, and providing flexible scaling, we want to share some insights into current market trends and the value of a customized, supplementary strategy.

How can CXIS work with you to augment your team.



*...Think Consulting,
Except Things Actually
Get Done.*

Unique Blend of Technology & Service

Our unique blend of technology and licensed P&C insurance personnel enables P&C Carriers to combine real-time data aggregation from 4 data sources, web-based automation, and P&C operational support.

While P&C Carriers continue to innovate through data strategy, customer engagement, and specialization—service providers generally remain stagnant with “turn-the-crank” support and no skin in the game, usually defining “customer insight” as an IT product.

**Data on its own is somewhat useless.
It helps to actually do something
with it.**

Today's insurers are wise to think holistically

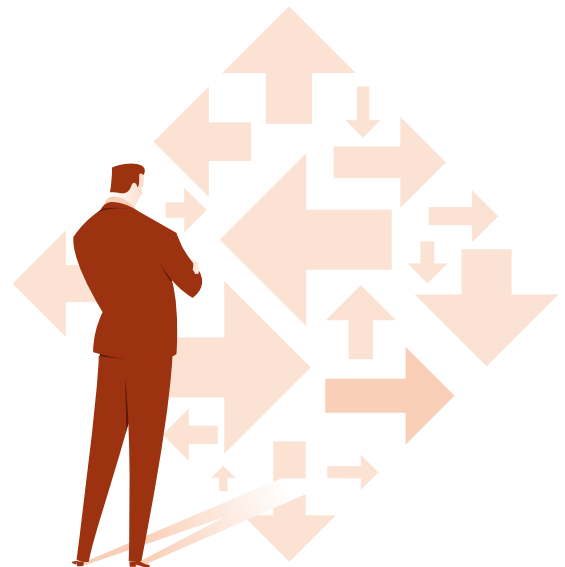
Without blended, optimized, and custom operating models to both safeguard and drive competitive positioning. Avoid fixed costs and scale up (and down) efficiently. Deploy your capital and focus where it's most valuable.

CXIS can help with:

- Policy Administration
- Underwriting
- Contact Center
- Licensed Sales
- Claims
- A-la-carte & Supplementary

We'd love to talk to you about what this document means for you and your business.

[Get In Touch](#)



ABOUT CXIS

CXIS provides 100% U.S. based operations support to P&C insurance carriers, on their existing platforms. Mitigate operations gaps, talent issues, & capacity constraints with P&C carrier expertise. Free up resources to focus on higher-value work, move faster, & achieve expense relief in a variable cost model.

ADDRESS

St Petersburg, FL

360 Central Avenue
St. Petersburg, FL 33701

Columbus, OH

1 Easton Oval Columbus,
OH 43219

Phone: [1.855.676.CXIS](tel:1.855.676.CXIS)

E-mail: info@cxis.com



www.CXIS.com