

Life Insurance Operations
Book of Metrics
Executive Summary



Dear Colleague:

Since 1995, Deloitte specialists have conducted extensive research about life insurance back-office operations through a comprehensive study, known in the industry as the Life Insurance Operations Benchmarking Study (LIONS).

This study provides comparative analysis widely for top insurance executives to benchmark expenses for operations, administration and information technology (IT). Our analysis covers a variety of topics, including efficiency, effectiveness, key trends, use of technology and business performance.

This report, summarizing results from our latest Life Insurance Operations Benchmarking Study, provides insight in areas we believe are most critical to insurance executives:

- Marketing, product and distribution
- New business
- Customer service
- Information technology
- Corporate overhead

We hope you find this summary report of interest and value, and invite you to contact our specialists for further information about our research.

Sincerely,



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All study data referenced and presented in this report as well as the representations made and opinions expressed, unless specifically described otherwise, pertain only to the participating organizations and their responses to the Deloitte Global Benchmarking Center study of life insurance performance conducted in 2009.

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Contents

Major findings	1
Marketing, product and distribution.....	3
New business	4
Customer service	5
Information technology	6
Corporate overhead	7
Looking forward	8
Approach and methodology.....	9
Performance measures	11
Participants	12
Global Benchmarking Center.....	12

Major findings

Structured discipline — in all functions — is a critical part of effectively managing costs.

Cost containment, as in prior years, remains paramount for insurers. Coupled with the fact that investment income has dropped significantly due to the economic crisis and robust growth continues to prove elusive, the result is a dire need for insurers to focus on efficiencies. But, according to our study, what has worked in the past isn't necessarily the answer today.

Figure 1: ALOB expense per in-force policy

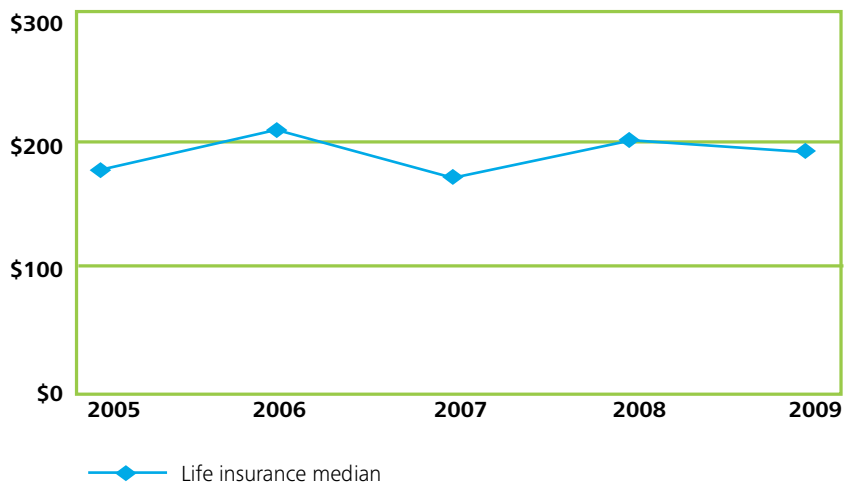
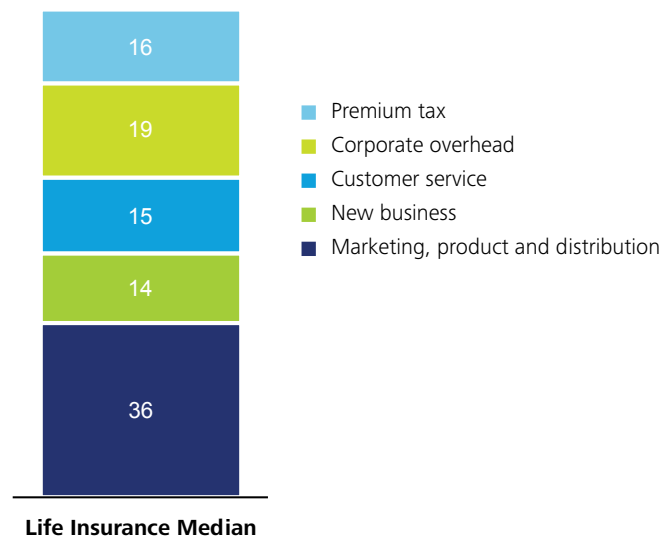


Figure 2: Components of ALOB expense



Over the last five years, the adjusted line of business (ALOB) expense per in-force policy for the median has fluctuated, and our study points to a slightly downward trend for 2009 (Figure 1). The challenge? Managing costs — especially in difficult market conditions — requires a highly disciplined approach. Previously, insurers have focused most of their cost-containment efforts on new business, customer service, and related IT. Yet our study shows that a significant portion of overall spend is aligned with areas that are often overlooked when searching for improvement opportunities, such as marketing, product and distribution, and corporate overhead. The ALOB expense among business functions (Figure 2) underscores the need to manage the entire business and apply structured discipline in all functions, not just new business, customer service and related IT.

Customer service expenses for the median are increasing (Figure 3), likely due to a decrease in older, simpler policies and a rise in complex, high-touch policies. In addition, the industry's inability to implement more e-service capabilities — we believe expected by younger, and more affluent clients — limits cost-reduction opportunities. For life insurance, one of the biggest hurdles to creating such a self-service business model is the relative infrequent, and thus unfamiliar, interactions; life insurance policies average roughly one transaction per year.

When evaluating total IT expense as percentage of ALOB for the median, our study shows a decrease in spending (Figure 4). Most insurers invested heavily in IT improvements during the stronger economy of the previous 2-3 years. With the downturn, capital investments are lower, and we'll likely see cost control in infrastructure and maintenance in coming years.

Figure 3: Total customer service expense per in-force policy

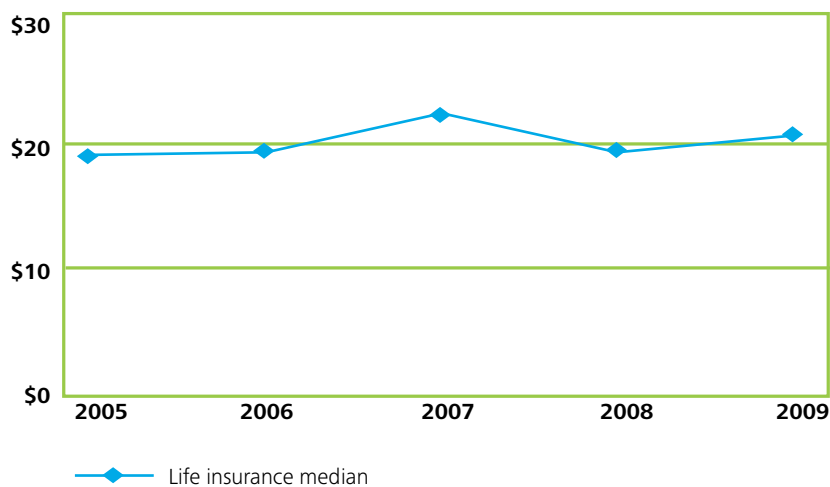
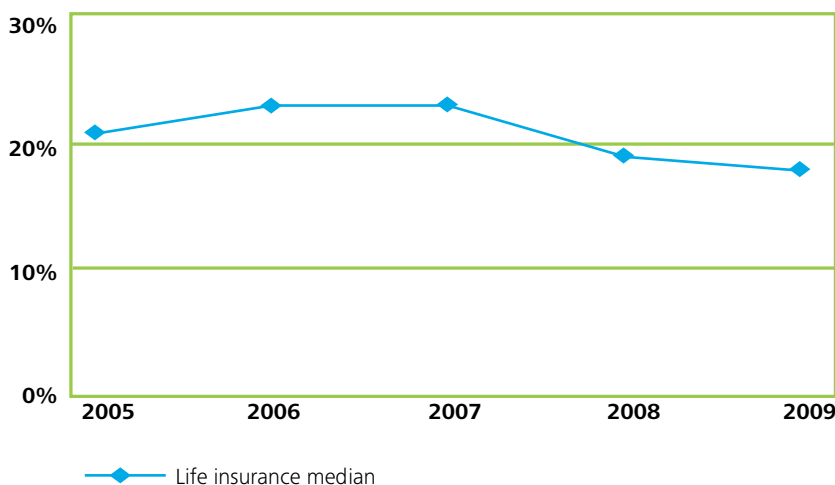


Figure 4: Total IT expense as a percentage of ALOB expense



Marketing, product, and distribution

A more thorough, disciplined analysis of marketing, product and distribution spend has the potential for identifying significant opportunities.

Historically, executives have managed marketing spend, product management and development, and distribution effort (MPD) significantly differently from the way they have managed operations. With the downturn in the economy, we believe executives need to look at MPD in the same structured way they evaluate new business and customer service expense.

According to our study, low-cost performers spend 14% less than the median on MPD processing (Figure 5). Much of that difference is in lights-on IT expenses, with low-cost performers spending 30% less than the median.

In addition, the median spends 49% more on developing/maintaining products than the low-cost performers, yet less on distribution (Figure 6). This is likely because those selling universal/variable products require more costly handling.

All areas of MPD are typically leading expenses and it is not unusual to have higher relative costs in the pursuit of larger future volumes; ultimately, however, the sales results must match spending. In-depth analysis of high-cost areas, clarity of accountabilities (such as ensuring profit/loss statements properly reflect decision implications) and licensing practices that include ongoing reviews and just-in-time licensing are just a few of the actions that can lead to improvement.

Figure 5: Marketing, product & distribution processing expense per \$1,000 first-year annualized premium

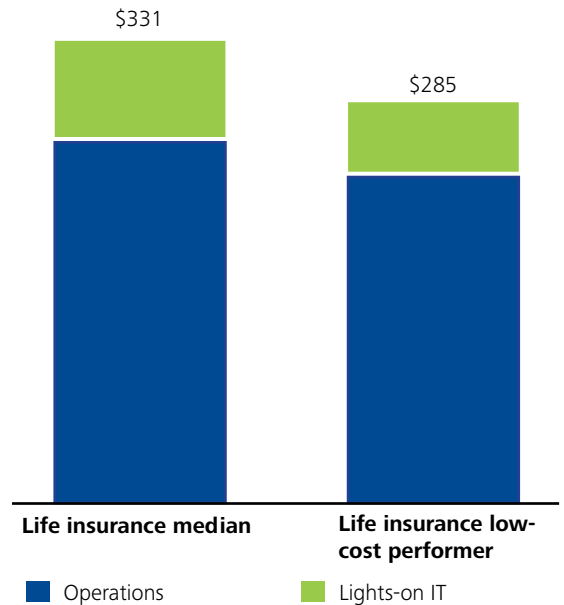
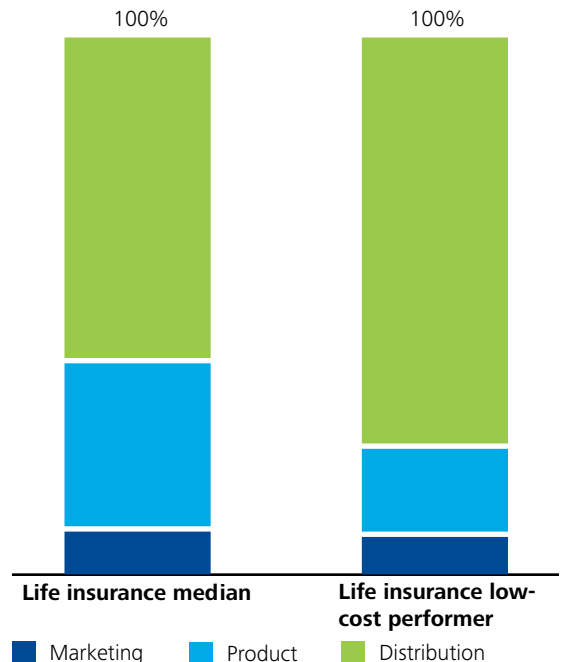


Figure 6: Distribution of marketing, product & distribution processing expense



New business

Requirements costs continue to be a significant portion of life new business expenses and hold opportunities for reductions.

In addition to processing new business more efficiently than the median, low-cost performers in our study have better service-delivery cycle times.

Low-cost performers have a new business processing expense of just \$1.07 per \$1,000 of new business face amount (Figure 7), 10% lower than the median. Requirements costs continue to be a significant portion of life new business expenses and hold opportunities for reductions, as low-cost performers have implemented practices that help control their spend. Insurers that adjust their requirements ordering policies based on an in-depth analysis of their current client profiles often see performance improvements. The most commonly cited practices include the use of predictive modeling based on

non-medical information to triage and guide the medical requirements ordering. Use of such sophisticated modeling has been widely adopted by property and casualty companies and is now spreading to the life insurance industry.

According to our study, new business service-delivery times are also shorter among the low-cost performers across all face amounts (Figure 8). Technology and processing efficiencies likely account for much of the advantage.

Insurers that have adopted innovative practices and leverage technology not only gain cost advantages, but are also better able to handle volume spikes without sub-standard service. Automation opportunities exist throughout the new business process, and many low-cost performers have found improvements by evaluating their integration points with producers.

Figure 7: New business processing expense per \$1,000 new business face amount

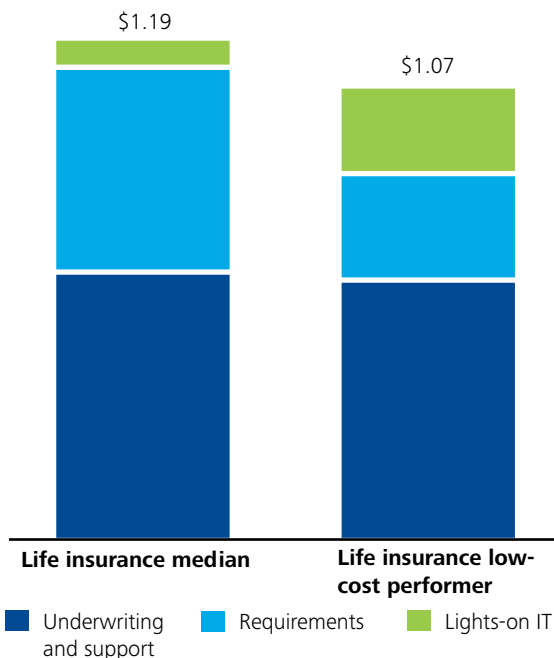
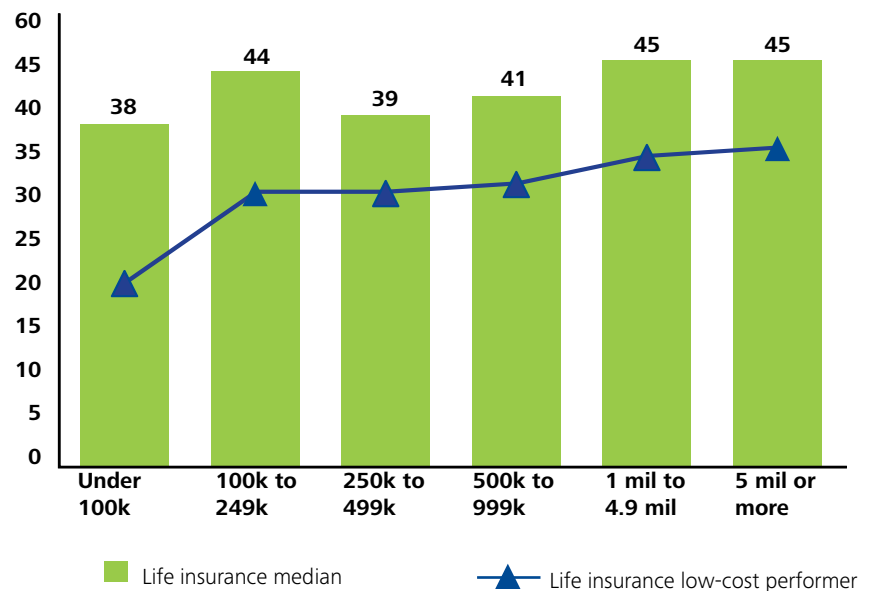


Figure 8: Average service time in calendar days by face amount band



Customer service

Opportunities remain for savings through outsourcing — even in mature areas.

The life insurance industry continues its struggle to shift from its traditional, highly personalized, costly customer service approach to a more efficient model that employs effective technologies including Web-based e-service and interactive voice response (IVR) telephony. As mentioned previously, this is likely due to the infrequency of transactions (the industry averages just one per year). The industry also lags behind others in employing noncustomer facing technologies and practices, such as an integrated, common customer service workbench (for fewer errors and hand offs).

Low-cost performers have an 11% lower in-force administration processing expense per in-force administration transaction versus the median (Figure 9). These low-cost performers are pioneering the use of IVR technologies, processing transactions with fewer hand offs and driving down their customer service costs. These advances are also helping low-cost performers operate with 25% lower expenses than the median (Figure 10).

The challenge facing executives is to balance business objectives with the lower cost options when choosing a service delivery model and including a mix of the following elements (from lowest to highest cost):

- Eliminate the transaction
- Self-service (IVR, Web)
- Call center (once and done vs. repeat calls)
- Service center (transaction, non-referral, auto-index)
- Service center (referral or manual index)
- Expertise area (e.g., underwriters)

While insurers have incorporated outsourcing in some core business functions (where many of the significant opportunities exist), some are willing to pioneer new, extended third-party services for ancillary services; generally, there remain significant opportunities even in the more mature lower risk areas. Equally important is to properly identify, prepare, and manage the integration points between the company and third-party resource to maximize the effectiveness of the relationship.

Figure 9: In-force administration processing expense per in-force administration transaction

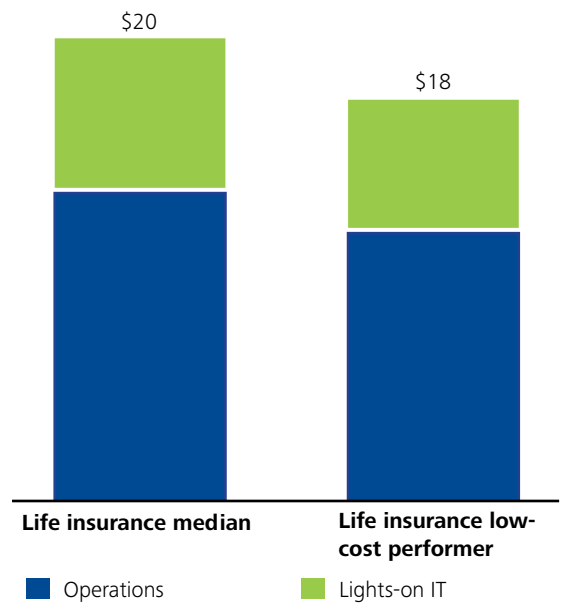
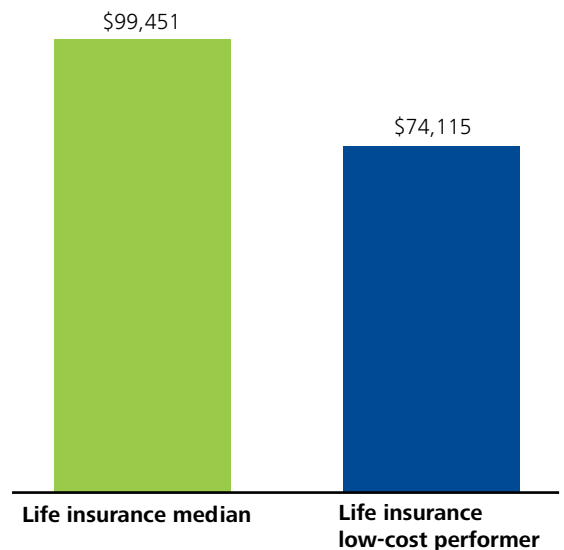


Figure 10: In-force administration operations expense per in-force administration staff



Information technology

Linking total IT spend to strategic objectives can encourage focus.

Technology spending is often difficult to analyze in isolation. Improved quality could justify higher costs, and mature, well-functioning solutions could be dormant (with low costs) or require replacement (driving higher costs) in a given year.

Our study results suggest that both median and low-cost performers are willing to spend relatively more on technology to drive down other costs and potentially improve quality and service (Figures 11-12).

While large discretionary technology spending is often well scrutinized, other expense decisions are often less so. Proper value-based decisions depend on clarity and transparency of spending decisions and allocations (to products, channels, etc.). Within infrastructure and maintenance, numerous detailed value judgments drive costs and focus, and we believe improving decision-making processes (e.g., empowerment with accountability) aids improvement efforts. In addition, linking total IT spend (not just discretionary) to strategic objectives not only helps manage expenses; it also creates focus.

Figure 11: Total IT spend as a percentage of ALOB expense

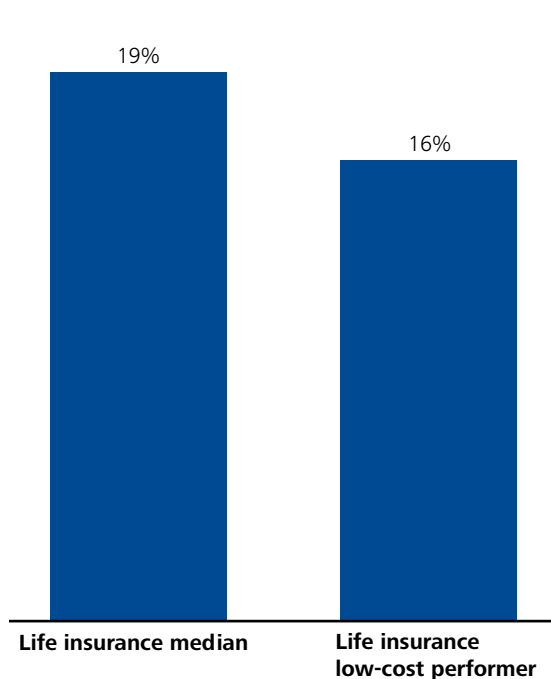
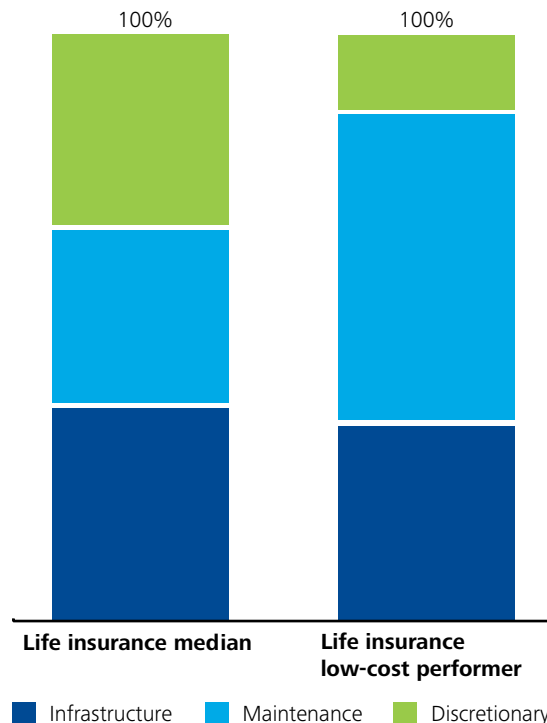


Figure 12: Distribution of total IT spend



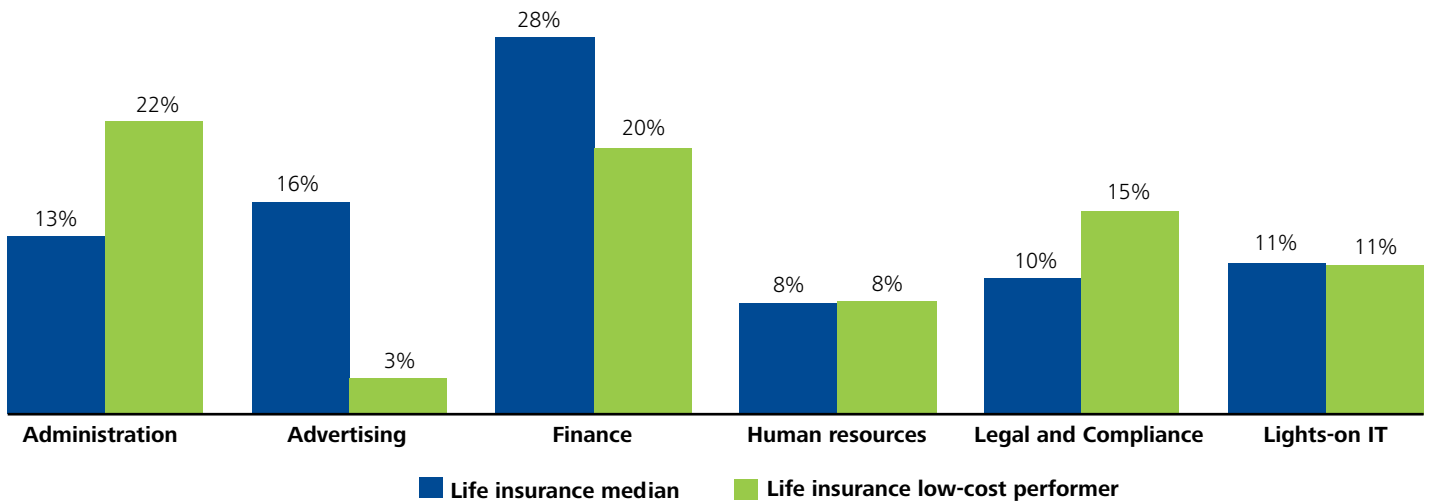
Corporate overhead

Low-cost performers spend 29% less on finance than the median.

It's no surprise that finance, legal, and compliance costs make up a large percentage of corporate overhead (Figure 13). Sarbanes-Oxley requirements, market changes and regulatory issues all contribute to higher spend in these areas. Most insurers find these areas particularly challenging to reduce costs, as the work is largely driven by external requirements as opposed to organization size or volume.

However, low-cost performers spend 29% less on finance than the median. While each organization must evaluate its own risk and expense balances, we believe there is meaningful opportunity in adopting a methodical framework for such trade-off decisions. Absent such structure, it is typical to find continually escalating costs in the pursuit of additional risk mitigation.

Figure 13: Percentage of corporate overhead spend by business function



Looking forward

Life insurance executives are in the midst of a challenging business environment that demands operational efficiency to remain competitive. Fortunately, many opportunities still exist to control costs, improve performance and achieve competitive advantage. Our research suggests that insurers can benefit significantly from adopting effective practices, including the following:

- Determine whether, and to what extent, expense management should be a priority
- Validate expense priorities against internal business judgment
- Ensure accountability and alignment to drive improvement execution
- Pursue operational improvements to reduce costs, provide a variable cost structure, and improve service
- Follow a more methodical in-force service model, including opportunities to reduce volumes
- Selectively pursue third-party services to enable scale, increase capabilities, and avoid capital investments

Executives who are able to contain costs and increase efficiencies will have the greatest opportunity to establish and maintain a leadership position in the marketplace for life insurance products.

Approach and methodology

Insurance benchmarking scope

The scope of the program is governed by a refined taxonomy. The taxonomy provides a standard set of definitions which guides participants in data collection and ensures a true cost comparison to external organizations.

Marketing, product and distribution (MPD)	New business	Customer service	Corporate overhead	Information technology
<ul style="list-style-type: none"> • Marketing <ul style="list-style-type: none"> – Pre-sale prospectuses – Post-sale prospectuses – Marketing materials – Marketing administration • Product <ul style="list-style-type: none"> – Develop new products – Maintain existing products • Distribution <ul style="list-style-type: none"> – Manage distribution channels – Compensation management – Appointments and licensing support 	<ul style="list-style-type: none"> • Operations <ul style="list-style-type: none"> – Underwriting – Case management – Medical – Issue – Support • Requirements <ul style="list-style-type: none"> – Paramed – Blood/Specimen – APS – Medical exam – EKG – MVR – Credit reports 	<ul style="list-style-type: none"> • In-force processing <ul style="list-style-type: none"> – Call center – Back office – Claims – Disbursements – Administration – Policy change • Remittance <ul style="list-style-type: none"> – Print and send billing notices – Update records for premiums remitted – Reconciliation • Policy statement <ul style="list-style-type: none"> – Confirmations – Tax reports – Account balances 	<ul style="list-style-type: none"> • Administration <ul style="list-style-type: none"> – Stock options • Advertising • Finance <ul style="list-style-type: none"> – Accounting – Actuarial – Auditing – Reinsurance – Tax – Treasury • Human resources <ul style="list-style-type: none"> – Communications • Legal and compliance 	<ul style="list-style-type: none"> • Lights-on <ul style="list-style-type: none"> – Maintenance – Infrastructure • Discretionary <ul style="list-style-type: none"> – New development – Enhancements
Operations				Technology

Methodology

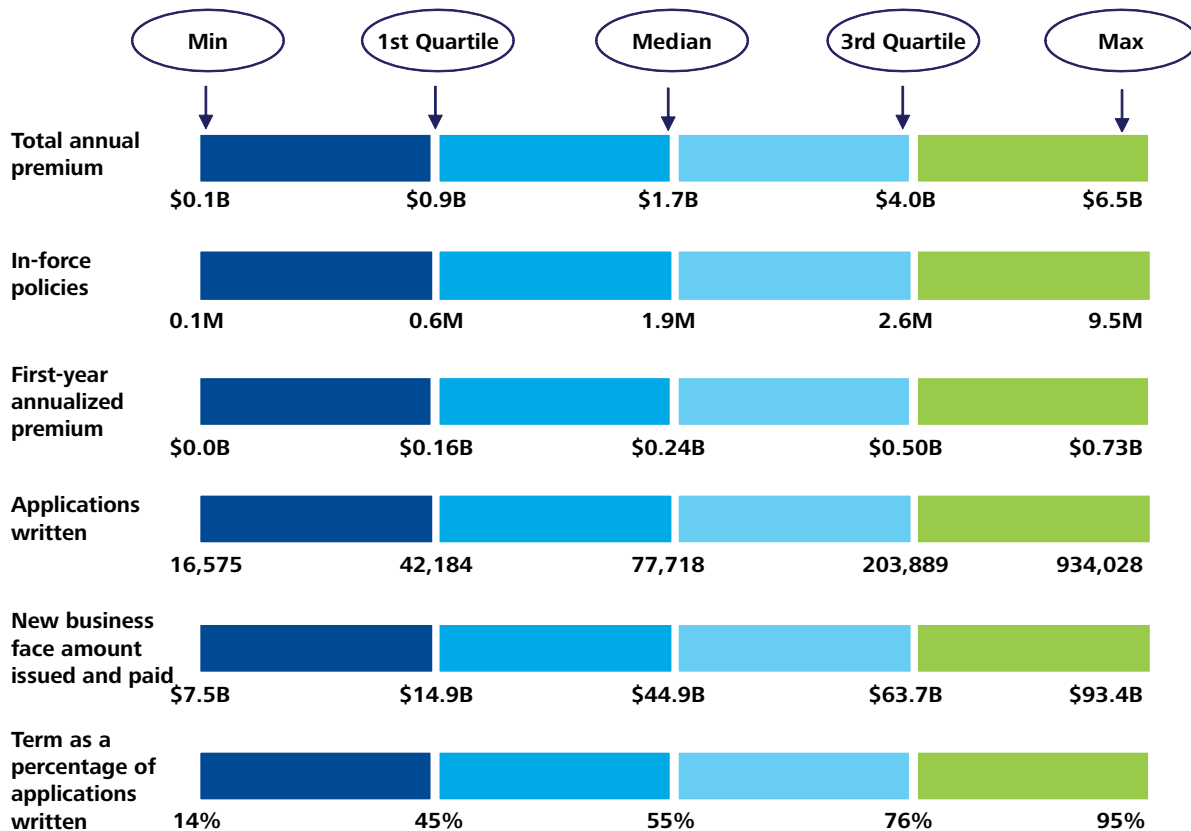
The 2009 Life Insurance Operations Benchmarking Study (LIONS) is based upon year-end and full-year 2008 data from 17 insurance companies.

The study comprises more than 385 questions on all aspects of performance and expenses for insurance back-office processes within new business; customer service; marketing, product and distribution; and corporate overhead. Reports to participating companies include 173 data tables with detailed metrics on unit

costs, service levels, processes, and use of technology.

The study was initiated in February 2009, initial results were provided to participating companies in June 2009. Individual company reports with charts, comparisons to low-cost performer and appropriate peer group, and explanatory narrative were provided in August and September 2009.

Profile of participants



All study data and statistics referenced and presented in this report as well as the representations made and opinions expressed, unless specifically described otherwise, pertain only to the participating process and industrial products organizations and their responses to the Deloitte Global Benchmarking Center study of life insurance performance conducted in 2009.

Performance measures

The list below represents a partial list of performance measures in the life insurance study.

General

- ALOB (adjusted line of business) expense per \$1000 total annual premium
- Component percentages of ALOB expense
- Total IT spend as a percentage of ALOB
- Distribution of total IT spend

Marketing, product, and distribution

- MPD processing expense per \$1000 first-year annualized premium
- Distribution of MPD processing expense
- MPD lights-on IT expense as a percentage of total MPD processing expense
- MPD discretionary IT expense as a percentage of total MPD expense

New business

- First-year annualized premium (one year change)
- Policies issued and paid (one year change)
- First-year annualized premium by product type (permanent, term, universal life, variable life)
- First-year annualized premium by distribution channel (affiliated, independent, other)
- Total applications written
- New business processing expense per \$1000 first year annualized premium
- First year annualized premium per policy issued and paid
- New business processing expense per \$1000 face amount
- Face amount per application issued and paid (000)
- Average age of primary insured per policy issued and paid
- Number of requirements per applications written by face amount band
- Paid as a percentage of applications written by face amount band
- Average time service in calendar days by face amount band
- Lights-on IT expense as a percentage of total new business processing expense
- Discretionary IT expense as a percentage of total new business processing expense

Customer service

- In-force policies (one-year change)
- Total annual premium (one-year change)
- In-force policies (thousands)
- Life in-force policies distribution (permanent, term, universal life, variable life)
- In-force administration processing expense per in-force administration transaction
- In-force administration transactions per in-force policy
- Distribution of in-force administration transactions
- Back-office vs. call-center transactions
- In-force administration processing expense per \$1000 total annual premium
- In-force administration processing expense per in-force policy
- Average speed of answer (in seconds)
- Abandon rate
- First-call resolution
- CSR (customer service representative) turnover rate
- CSR initial training hours
- Percent of CSR's full-time employees
- Average handle time (in seconds)
- Average talk time (in seconds)
- After call work (in seconds)
- Remittance operations expense per remittance transaction
- Remittance payment distribution
- Lights-on IT expense as a percentage of total in-force administration processing expense
- Discretionary IT expense as a percentage of total in-force administration process expense
- Policy statements expense per in-force policy

Corporate overhead

- Corporate overhead expense per \$1000 total annual premium
- Corporate overhead expense as a percentage of adjusted LOB expense
- Components of corporate overhead expense

Participants

Since 1995, more than 50 leading life insurance and annuity companies have participated in Deloitte's benchmarking studies.

Companies in parentheses identify acquiring company.

AEGON Direct Marketing Group	Great West Life & Annuity	PennCorp Financial
AEGON Financial Partners	Hartford Life	Ping An of China
AEGON Financial Services Group	ING	Principal Financial Group
AIG American General Life Cos., LLC	Jackson National Life	Protective
AIG Retirement Services, Inc.	John Hancock Annuities	Prudential Financial, Inc.
Allianz Life	John Hancock Life	Samsung Life
Allmerica Financial	Keyport (Sun Life Financial)	SBLI of Massachusetts
Allstate Financial	Legacy Marketing Group	se2, inc.
Ameriprise Financial	Lincoln Financial	Sun Life Financial
Aviva USA	ManuLife USA (John Hancock)	The New England (MetLife)
AXA Equitable	MassMutual Financial Group	Thrivent Financial
Baltimore Life	MetLife	TIAA-CREF
Chase Life (Protective)	Minnesota Life	Travelers Insurance Co. (MetLife)
CIGNA (Lincoln National)	The MONY Group (AXA)	Western Southern Life
Conseco Services, LLC	Mutual of Omaha	Woodmen of the World Insurance
Fidelity Life Insurance	National Life	Society
General American Life (MetLife)	New York Life	
Genworth Financial	Northwestern Mutual Life	
Great American Financial	Old Mutual Financial Network	
Resources™, Inc.	Pacific Life	

About the Global Benchmarking Center

Deloitte’s Global Benchmarking Center (GBC) was established to provide executives with industry relevant metrics and insight. The GBC delivers this information through ongoing benchmark studies in areas such as sales, general and administrative (SG&A), finance and accounting, supply chain, information technology, human resources, and operations. The GBC has conducted studies with more than 500 global organizations since 2005. These studies are uniquely designed to provide industry- specific insight relevant to multiple sectors.

Industry		Function
<ul style="list-style-type: none"> • Consumer and Industrial Products <ul style="list-style-type: none"> – Aerospace and Defense – Automotive – Consumer Products – Process and Industrial Products – Retail – Tourism, Hospitality and Leisure • Financial Services <ul style="list-style-type: none"> – Banking – Securities – Insurance • Energy and Resources <ul style="list-style-type: none"> – Oil and Gas – Power and Utilities 	<ul style="list-style-type: none"> • Life Sciences and Health Care <ul style="list-style-type: none"> – Health Care Providers – Health Plans – Life Sciences • Government <ul style="list-style-type: none"> – Federal Government – State Government – Local • Technology, Media, and Telecom <ul style="list-style-type: none"> – Media and Entertainment – Technology – Telecommunications 	<ul style="list-style-type: none"> • Finance • Information Technology • Human Resources • Sales and Marketing • Indirect Materials • Corporate Services • Legal • Corporate Real Estate • Supply Chain • Operations • Product Development

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Participation in this ongoing study is open to all life insurance companies.

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