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Introduction
In order to have a sense of the change that has occurred in the world of General Insurance namely Home and Motor Insurance during the past 25 years we first need to briefly revisit the environment that prevailed. 1985 saw the collapse of Insurance Corporation of Ireland which followed on from the demise earlier in the decade of PMPA. Economically Ireland continued to see high levels of unemployment and the insurance environment was characterised by poor underwriting performance, high levels of uninsured driving, a deteriorating liability environment and very high premium levels for younger and less experienced drivers.

Change in any industry is driven by many elements, some common and some particular to an industry. Factors influencing change in the insurance industry include competition, legal, economic and technology environments, distribution strategies, customer behaviour, amongst others. The sum of these elements, compounded by the impact of cyclicality will, over time, result in transformation that can make an industry look almost unrecognisable after a period of 25 years. In Ireland, as elsewhere, a feature of the past 25 years has been the impact of Outsourcing and Procurement in guises that are both particular to insurance and common to many industries.

Outsourcing and Procurement
The Oxford dictionary definition of ‘Outsource’ is ‘obtain by contract’ or ‘contract(work)out’. It defines ‘Procure’ as ‘obtain’. Outsourcing and Procurement are intrinsically part and parcel of the business of insurance. The use of Agents, Brokers, Loss Adjusters, Solicitors, approved Repairers and many others to do work and provide services on behalf of Insurers is clearly indicative of an industry that for many generations has relied on third parties to deliver services on its behalf or provide flexible capacity to deal with service during times of exceptional workload.

Home Insurance – As It Was
For many years home insurance was impacted by artificial controls which were imposed by financial institutions who obliged mortgage customers to source cover exclusively from them. This cover was provided by underwriters who provided exclusive or co-insured cover which in effect limited competition. Changes in legislation in 1995 meant that the customer was no longer obliged to source cover via the Financial Institution but the inertia factors at play meant that customer buying behaviour remained almost unchanged, particularly during periods when access to mortgage funds was difficult and the home insurance purchase was seen as not central to the transaction. To a more limited extent this situation still prevails.
In many of these schemes the administration of the scheme was largely in the hands of the financial institution as the records were written on a bordereaux basis with a master policy covering the total risk at the insurer’s office. This was a form of outsourcing that was not formally identified as such but transferred much of the workload out of the insurer’s office. From the financial Institutions perspective the schemes allowed them to procure capacity and sell a product at good margins without carrying any of the underwriting risk.

Motor Insurance – As It Was
In the world of motor insurance there were no compulsory ties to any supplier. The market was divided between direct and broker distribution with a small number of brokers attempting to brand in a dominant manner e.g. AA. Brokers provided, and still provide, an amount of effective outsourcing for the Insurer through customer acquisition and servicing. The degree of outsourcing can be a function of the technology applied and technology development has been a major decider in where work now gets done.

Impact of Technology
Over the past 25 years technology has transformed most transaction based industries. In 1985 the UK market was already making strides in creating standards for full cycle EDI (Electronic Data Interchange). EDI afforded the opportunity to greatly increase the efficiency of work transfer between Insurer and Broker. In Ireland the EDI conversation had also begun by the mid 80’s and there followed a well documented saga that meant that the industry here was very slow in delivering full cycle. Lack of speed of delivery meant that the industry or its customers did not benefit from the technology to anything like its full potential.

During the past ten years the Internet has offered endless opportunity for work transfer from insurer to broker or end customer. It has also facilitated the development of what has become known as the outsourcing industry. That industry, often based in lower cost emerging economies, has become another source of transaction processing and customer service available to insurers. It has been most successful in servicing personal lines transactions in the English speaking world and technology and facilities management has allowed the service to overcome many of the time zone and technical barriers that existed in the past. Outsourcing, in this sense is most effective where large volumes of similar transactions are generated and can be facilitated by comprehensive training of agents who can meet the majority of customer needs.

The Insurer – The Role of Brands
We are inclined to think of outsourcing as transfer of work to alternative service providers but, as already stated, the concept of work transfer has been central to the insurance sector since the industry began. Insurers provide capital, underwriting capacity, product design, pricing, claims estimation and settlement skills. During the past 25 years an increasing feature of the insurance landscape is the continuous development of new distribution models. We have seen the emergence of broker networks, direct and broker telesales operations, new branch models, internet sales via direct, broker and aggregator models. Most of these distribution models have relied on improved technology to facilitate access to customers at lower costs or at times more convenient for the customer. The battle continues to be waged in the fight for ultimate control of the customer and it is very clear that, provided service levels are satisfactory, the customer has limited interest in where or how the work actually gets done.

A major impact of this technology flexibility is the opportunity for powerful brands to leverage their position with their customers by extending the reach of their brand through expanding the range of products and services on offer whilst not having to own the supporting infrastructure or indeed provide the required solvency capital to support the
business. So emerges a new role for insurers. That role is the provision of capacity and service to other companies brands. There are many examples of this scenario in the Irish market. Major brands that have fronted insurer’s capacity include Bank of Ireland, AIB, An Post, Ryanair, Ford, Tesco, amongst others. One can interpret these arrangements as outsourcing insurer capacity to other brands or indeed outsourcing brands to insurer capacity. Either way the direction that has clearly emerged over the past 25 years is a distinct preference for the brand owners not to take on any more operational work in the arrangement than is absolutely necessary. Technology provides the platform for simple ‘Chinese walls’ to be established in outsource service providers ensuring delivery of product and service differentiation as agreed between brand owner and insurer.

**Procurement**

Procurement is an integral part of any modern business. What differs from industry to industry is where the procurement focus is directed. Obviously procurement efficiency has greatest potential impact in areas of high cost and situations where improved science can be applied to subjective judgement spend. Procurement programmes can be as diverse as buying global reinsurance covers via internet based tender systems or indeed using the same concept to purchase paper for the photocopier. Procurement programmes are central to most multinational insurers who can use the results generated to optimise global purchasing power while understanding better the real cost of doing business in each market. As with outsourcing the whole concept of procurement programmes is far from alien to the insurance industry where it has been common practice for many decades to pursue competitive tender processes for vehicle repair work, legal and medical work and loss adjusting. Modern trends simply globalise much of what was local and expand the concept to new areas of the industry.

**Where to From Here?**

Customers continue to express preference for choice in accessing insurance services. The advent of self service and internet distribution growth will inevitably absorb significant volumes of work that have had to be serviced in more labour intensive ways in the past. Despite these trends there is still a very substantial volume of customers who rely on service provided directly by an insurer or through an intermediary. Underwriting cycle driven price increases always encourage the customer to shop around creating more demand for service in the sector. These service requirements can be sufficiently large to justify seeking the cost and flexibility efficiencies of outsourcing. Obviously larger insurers are in a better position to provide economic volumes of work to the outsource market and it is likely to be a feature of the sector for some years to come. Insurers, particularly those with sufficient scale, have been considerable users of modern outsourcing and procurement facilities. Little wonder that they have as effectively the industry has been in the outsourcing and procurement business for many generations!