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CAPGEMINI AND EFMA ANNUAL WORLD INSURANCE REPORT FINDS THAT EMERGING CUSTOMER VOLATILITY OFFERS NEW GROWTH OPPORTUNITIES FOR INSURERS

Paris, New York, January 29, 2008 –Shifts in customer behavior, distribution patterns and preferences could provide significant growth opportunities for insurers prepared to embrace and leverage these emerging changes, are highlights of the World Insurance Report 2008¹, an international study of more than 11,000 insurance customers and industry executives released today by Capgemini, and the European Financial Management & Marketing Association (EFMA).

The report finds that customer inertia has long been a characteristic of mature markets such as North America and Western Europe and that the core insurance needs of these customers have largely been met. On average the report shows a mature-market customer holds 5.2 policies—1.5 life policies, and 3.7 non-life and they hold onto the same policy for 9.2 years.

New Signs of Volatility Emerge with Insurance Customers

However, fueled by increased competition, easy access to more information (via the Internet), facilitated customer mobility (i.e. due to changes in regulation such as France's Chatel law that makes it easier to switch contracts), and innovative product choices from insurers (such as pay-as-you-drive auto insurance), traditionally passive insurance customers are becoming more volatile in their buying and loyalty patterns. The World Insurance Report reveals that contract turnover is already on the rise in many mature markets, including Italy, Spain and the United States. The turnover increase is especially intense in the United Kingdom, where the average insurance customer holds auto insurance for just three years and household and property insurance for only

five years. The report indicates insurers should expect trends like those emerging in the U.K. to spread to other mature markets, where customer volatility is already clearly evident.

“While customer volatility poses a threat to some insurers, others may find it offers growth opportunities by understanding, capturing and even creating volatile customer clusters in their markets,” says Bertrand Lavayssière, Managing Director, Capgemini Global Financial Services

Increasing volatility among customers threatens traditional business models

Although demographic information, such as age and income, is typically used to segment insurance customers, the report explores redefining those segments based on customer behaviors and perceptions and reveals four distinct customer segments in mature markets: Traditionalists, Opportunists, Indifferent and Average users. By profiling this behavior to understand customer volatility, insurers can more accurately align their distribution strategies with the prospective value of each customer cluster. The report also notes the level of volatility in the customer segments plays a pivotal role in the value equation and identified four value/volatility clusters of customers, which offers insurers additional insights on customer strategy: Dependable-income (high-value/average volatility), At Risk (average value/high-volatility), Stagnant (low-value/low-volatility), and Other (average-value/average volatility). For the Dependable-income cluster for example, the key may be to preserve the level of loyalty, while using cost-effective service and acquisition strategies, while the at-risk segment requires Insurers to remain innovative to this cluster, which may be tough to please, or to exploit the efficiency of the Internet as a distribution network to appeal it.

Adopting a structured multi-distribution strategy is critical

Another key finding of the World Insurance Report shows that more changes are ahead for distribution, and the most startling shift is in Internet usage. According to the World Insurance Report, in the mature markets studied, 28% of customers said they intended to buy their life-insurance policies online in three years, and 34% said they would buy non-life policies online. The rise of the internet clearly put some existing distribution networks at risk.

The report also cites a clear trend toward specialization by networks – which realize they need to meet specific customers, products or needs to thrive. This specialization is forcing insurers to multi-distribute to better address volatile customer clusters, to retain access to all major segments of the existing and potential customer base, and to increase wallet share.

IT eases Insurers' challenges

The report concludes that IT is both a requirement of the insurance industry and a lever to overcoming its challenges. *“The World Insurance Report proposes that three main IT focus areas can help insurers overcome these challenges. First, enterprise data warehouses, analytics, and customer intelligence can enhance customer knowledge, and hone behavioral-driven customer segmentation. Second, technology integration and service-oriented architectures can help insurers to adapt and change their distribution capabilities to meet market dynamics. And last, next-generation customer relationship management tools can help insurers and networks to manage customers under a global, enterprise-wide umbrella,”* says Scott Mampre, Vice President, Insurance, Capgemini Financial Services.

1. The 2008 WIR bases its findings on a survey of more than 11,000 insurance customers in ten countries, as well as interviews with industry executives in thirteen countries. The mature markets surveyed are France, Germany, Italy, the Netherlands, Spain, Switzerland, the U.K. and U.S. (The 2008 WIR reports separately on the two developing markets surveyed: China and India.)

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About EFMA

The European Financial Management and Marketing association (EFMA) is the leading association of banks, insurance companies and financial institutions throughout Europe. On a non-for-profit basis, EFMA promotes innovation and best practices in retail finance by fostering debate and discussion among peers supported by a robust array of information services and numerous opportunities for direct encounters. EFMA was formed in 1971 and gathers today more than 2,000 different brands in financial services worldwide, including 80 percent of the largest European banking groups. For more information, visit www.efma.com.