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David has 20 years of experience in business and IT transformation and is an experienced practitioner and thought leader in enterprise planning and architecture management with a focus in the Insurance and Banking industries. David oversees tools and methodology development for WeiserMazars’ Financial Services Consulting group, consolidating the best practices and templates from the Firm’s broad range of Financial Services clients and developing efficient and impactful approaches to delivering client value.

In addition to his focus in enterprise architecture and planning, David has hands-on, ‘in the trenches’ experience in process redesign, software selection and implementation, business intelligence deployment, and project and change management. This experience gives him the perspective to understand the importance not only of designing and planning good solutions, but of successfully implementing them. Prior to joining the Firm, David was a Senior Manager at Arthur Andersen and Smart and Associates, and was the Founder and CEO of Cogniscape, a software company focused on process and architecture visualization.

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FOREWORD

In today’s quickly-changing insurance marketplace, information technology is both a central element in day-to-day operations and an increasingly important source of competitive advantage. Insurance CIOs must perform a difficult balancing act of supporting operations, minimizing risk, reacting to changes in the business environment, and evaluating emerging technologies to ensure that their organizations remain competitive.

Successfully navigating these challenges requires ensuring that technology investments are clearly tied to business strategy and are effectively managed to achieve their objectives.

The WeiserMazars 2013 Insurance Information Technology Leadership Study explores the ways in which today’s Insurance CIOs are dealing with these challenges. It addresses the competing priorities of operational stability and innovation, identifies which business areas and technologies are in need of the greatest investment, and asks CIOs to evaluate how well their IT function is aligned with the business and to what extent it helps achieve an organization’s strategic objectives.

WeiserMazars works with some of the most successful insurance companies in the world to improve operational efficiency, reduce business risk, and implement programs to increase competitiveness and agility. This study gives us the opportunity to share the lessons from these leading companies and provide insight into how the industry is dealing with the rapid rate of technology and business change in today’s marketplace.

WeiserMazars would like to extend its gratitude to our Advisory Board of current and former Insurance CIOs, with whom we collaborated to formulate relevant topics and interpret results. We thank them for their time and valuable insights.

We hope you find the results useful and instructive. If you are interested in having your results reviewed against the benchmarked data, please contact David Hurst at 267-532-4327 or David.Hurst@WeiserMazars.com, or reach out to any of the additional contacts listed at the end of this report.
EXECUTIVE SUMMARY

In this inaugural study, WeiserMazars surveyed CIOs at leading insurance companies to assess their plans and priorities with regard to technology strategy, governance, investments, and innovation. We focused on identifying challenges related to current technology infrastructure and areas of future focus and investment. Study participants discussed these topics along both business functional lines and also with regard to specific emerging technologies.

High Performers are High Investors
The study segments responding companies based on Return on Capital (ROC), distinguishing between companies with an ROC of less than 10% (Low Performers) and those with greater than 10% (High Performers). The study found that only 17% of Low Performers plan to increase their technology investments by 5% in 2014 while 67% of High Performers plan to increase their technology budget by 5%. This difference has consequences throughout the study. High Performers state that they are investing in nearly all of the new technologies discussed in the study except social media (including workflow automation, predictive analysis, cloud computing, big data analytics and master data management) over a much shorter timeframe – within 18 months – than Low Performers who are stretching investments in new technology over 24 to 36 months.

Innovation is Focused on Social, Mobile and Workflow
The top three investment priorities across all respondents are Social Media, Mobile Computing and Workflow in an effort to improve efficiency and tap into the potential of non-traditional business models. These findings correlate with those of the WeiserMazars 2012 Insurance Finance Leadership Study, wherein Insurance CFOs identified similar priorities, particularly in the area of workflow. Predictive Analytics was a distant fourth priority for CIOs.

Risk Management is Top of Mind
Given the increased focus on regulatory standards for insurers and other financial institutions, it is no surprise that the most significant investment is in technology to support business unit functions that deal with Risk Management. 93% of CIOs indicated that their companies would be making significant investments in this area in the next 12 months, with a large number also stating that they would be investing in Underwriting and Rating functions.

Risk was also seen as one of the driving factors in making technology investment decisions, with almost 60% of respondents indicating that risk mitigation was a very important factor in determining where to invest in technology innovation.

Agility is the Biggest Concern
What’s keeping CIOs up at night is agility. The ability to react quickly to changing business needs is a major concern for 85% of the respondent CIOs. This indicates an underlying need for insurance companies to build flexible technology infrastructures and institute iterative and responsive system deployment processes. It also demands close communication and coordination between IT and the business units they serve, a point on which both CIOs and CFOs seem to agree.

SECTION I – IT STRATEGY AND GOVERNANCE

Technology Budget
The average 2013 technology budget is 3.2% of each respondent company’s net written premium. No company had a budget greater than 7% of net written premium for technology. (Figure 1)

The majority of respondents, 85%, are planning to increase their technology budgets by 5% or less, with close to 40% expecting an increase of only 1%. 27% percent of respondents expect a budgetary increase of 5%, and 8% expect a decrease of between 5-10%. (Figure 2)

67% of High Performers plan to increase their technology budget by 5% in 2014 while only 17% of Low Performers plan to increase their investments by the same amount.
Figure 1. Technology Budget as Percent of Net Written Premium

What percentage of your company’s net written premium is your current year (2013) technology budget?

![Chart showing technology budget as a percentage of net written premium.]

Figure 2. Anticipated Change in Technology Investment

Do you expect the technology investment to increase or decrease in 2014? If so, by how much?

![Pie chart showing anticipated changes in technology investment.]

- Increase 1%: 30.8%
- Increase 2%: 15.4%
- Increase 3%: 23.1%
- Increase 5%: 7.7%
- Decrease 5%: 7.7%
- Decrease 10%: 15.4%
Technology Investment

Risk management is the area receiving the most significant financial investment, with 93% of CIOs indicating that they agree or strongly agree with this focus. Underwriting is also seen as a priority for technology investment by 85% of respondents and finance and actuarial functions are also important investments for 70%. (Figure 3)

Figure 3. Planned Technology Investment by Business Area

My company is making significant financial investments in technology to support the following business functions:

High Performers’ investment strategies align with this prioritization, while Low Performers are investing in risk management, with additional resources spread across all functions except human resources.

Figure 4. Planned Technology Investment by Business Area – High Performers
Technology Upgrade and Maintenance

Most respondents indicated that less than $1 million is needed to bring their current technological infrastructure to where it should be for each function. (Figure 5) 46% estimate that risk management needs $1 to 5 million to bring the systems in line, while less than 8% indicated a need of greater than $25 million to fix this function. Another business unit requiring substantial investment by approximately 8% of respondents is claims management. As the majority of companies responding are over $1 billion in NWP, the total investment needed across business units is substantial, but not so large as to be unobtainable.

Figure 5. Required Technology Investment by Business Area

How much investment would you estimate is required for the following business units' current technological infrastructure to get it to where it should be?

![Bar chart showing investment needs by business area.]

When deciding whether to upgrade or change a business unit’s systems, maintaining regulatory compliance is key – reducing risk and improving controls are also important criteria. (Figure 6) Other important issues include enabling faster decision making and increasing the potential for efficiency.

Figure 6. Factors Determining Systems Upgrades

Please indicate to what extent these factors help you to determine if a business unit’s systems need to be upgraded or changed.

![Bar chart showing factors and their importance.]

[WeiserMazars logo]
When looking at system upgrades and changes from the perspective of High Performers, 75% of High Performers believe it is very important to lower costs by shifting from capital expense to operating expense, far more than the 39% of total respondents who agreed with that assessment.

**Technology Innovation**

When deciding where to invest in technology innovation, reducing risk and improving controls, followed by potential efficiency gains and time saving, take precedence over regulatory compliance, which comes in third. (Figure 7) Enabling better and faster decision making, the need to gain access to real time information, and gaining a competitive advantage are considered to be Important or Very important factors in technology investment decision-making by 100% of respondents.

**Figure 7. Determining Factors for Investment in Innovation**

To what extent are these factors used to determine where to invest in technology innovation?

100% of High Performers (Figure 8) consider potential efficiency gains and time savings to be Very Important in determining the areas to invest in for technology innovation. 75% also consider reducing risk and improving controls to be Very Important. In contrast, 100% of Low Performers see gaining a competitive advantage and maintaining regulatory compliance as more important factors in allocating technology innovation investment.

**Figure 8. Determining Factors for Systems Investment – High Performers**
72% of High Performers are Neutral or think it is Not Important to lower costs or shift from capital expense to operating expense using technology innovation. In contrast, 57% of Low Performers are interested in using technology innovation for this purpose.

Not surprisingly, High Performers are interested in using technology innovation to collaborate more easily and gain better access to real-time information. Larger institutions are slightly less likely to use innovation to reduce risk, improve controls and maintain regulatory compliance than smaller companies.

**Figure 9. Investments in New Technologies**

*Please indicate where your company plans to make investments in new technologies over the next 3 years.*

The top three investment priorities across all respondents are social media, mobile computing and workflow. In the next 12 months over 70% of the participants will be investing in social media and workflow automation. Mobile computing is next on their list of new technologies to deploy followed by the use of predictive analysis. There is less interest in master data management and big data analytics in the near term. Other than in workflow automation and predictive analysis, certain companies have already moved to invest, while others do not see the technology as applying to them.

High Performers (Figure 10) are investing in new technologies within 18 months. The trend for Low Performers is stretching investments in new technology over 24 to 36 months.

**Figure 10. Investment in New Technology – High Performers**
Comparing CIOs’ investment in new technology to the *WeizerMazars 2012 Insurance Finance Leadership Study*, we see two small differences. 100% of CFOs in the 2012 study strongly agreed that workflow automation tools are where investment in new technologies should be focused. The largest area of disagreement surrounded investment in mobile computing and social media. Conversely, both of these areas for new technology investment appear to be embraced by insurance CIOs, as over 70% are planning to invest in them within the next 12 months. It is not surprising to note that 100% of High Performers are investing in workflow automation and mobile computing.

**Business / IT Alignment**

The partnership between IT and the business units is critical for an organization’s success. 92% of respondents believe that their technology and business units work well together when understanding and developing a strategic blueprint for business unit infrastructure. (Figure 11) However, 31% of CIOs do not believe that technology and the business units typically share the leadership of joint projects.

**Figure 11. Relationship Between Business Units and Technology**

*Please rate the following with respect to the relationship between the business units and technology*

75% of High Performers strongly disagree that leadership is shared on joint projects versus 57% of Low Performers who feel that leadership is shared. A small proportion of Low Performers, 14%, do not think that the infrastructure is well positioned to support stakeholders or that technology and business units work well together to develop a strategic blueprint.
SECTION II – OPERATIONS

Agility (the ability to act quickly to changing business needs) is a major concern of 85% of respondents, followed by Security (risks of unauthorized access, cyber-attacks, ensuring data integrity and protection) at close to 55%. (Figure 12) At the opposite end of the spectrum flexibility (ability to choose operating systems, databases, applications, etc.) was not a concern of close to 40% of respondents. Making the business case for IT investments (measuring ROI, articulating the business benefits, etc.) is somewhat of a worry to 45%. Not surprisingly, when differentiating the responses into High and Low Performers, we see a much higher level of concern and anxiety by the Low Performers on compliance, control, flexibility and vendor relationships than we see from High Performers.

Figure 12. IT Operations Concerns

When you think of your IT operations as a whole and where any gaps might lie, how concerned are you about the following areas on a day-to-day basis?

<table>
<thead>
<tr>
<th>Area</th>
<th>Not at all Concerned</th>
<th>Neutral</th>
<th>Very Concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agility (the ability to react quickly to changing business needs)</td>
<td>15%</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>Security (risks of unauthorized access, cyber-attacks, ensuring data integrity and protection)</td>
<td>8%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Compliance (meeting industry and government requirements/being prepared for audits)</td>
<td>15%</td>
<td>23%</td>
<td>8%</td>
</tr>
<tr>
<td>Control (having the tools to provision services, manage service levels, control costs, etc.)</td>
<td>23%</td>
<td>31%</td>
<td>8%</td>
</tr>
<tr>
<td>People (ensuring that you have the right staff levels and skill sets, training, productivity issues)</td>
<td>15%</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>Vendor relationships (forming the right partnerships, obtaining a clear strategy or help from key vendors and cloud service providers)</td>
<td>23%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Making the business case for IT investments (measuring ROI, articulating the business benefits, etc.)</td>
<td>8%</td>
<td>46%</td>
<td>23%</td>
</tr>
<tr>
<td>Flexibility (ability to choose operating systems, databases, applications, etc.)</td>
<td>38%</td>
<td>38%</td>
<td>15%</td>
</tr>
</tbody>
</table>
In contrast to our 2012 Insurance Finance Leadership Study, CIOs are much less concerned about the effect of legacy systems as a part of their technology infrastructure. In the Finance Study, over 50% of respondents indicated that poor data quality and reliance on legacy systems are the greatest challenges to achieving consistency and standardization across all reporting platforms. They also acknowledge that too much reliance on legacy system personnel can be a risk. However, only 23% of CIOs are concerned about reliance on legacy systems and only 15% are concerned about reliance on legacy personnel.

This may be because CIOs have more control, knowledge and faith in their ability to manage the infrastructure, while CFOs feel more removed from the mechanics of the system but have to rely on system outputs. It may also be that the quality of middleware integration has improved since the 2012 Insurance Finance Leadership Study.

On the positive side, neither CIOs nor CFOs see legacy systems as risks for late financial reporting, missing a regulatory deadline, poor data quality or batch processing slowing down all processes.
Issues emerge when examining the data by High Performers versus Low Performers. A very high 71% of Low Performers see a High or Somewhat High risk from reliance on legacy systems to limit new technologies due to the difficulty of integration, while only 50% of High Performers feel the same. High Performers do, however, see legacy systems as posing a higher risk of limiting management access to information on a timely basis than do Low Performers.

**Figure 14. Plans for Outsourcing**

*Are you currently, or are you considering, outsourcing any of the following business processes?*

![Image showing outsourcing plans](image)

The majority of companies are not using outsourcing for any of their main processes. 8% currently outsource actuarial and accounts receivable functions. Some CIOs are also exploring outsourcing information technology, statutory and regulatory accounting duties.

Low Performers are doing no outsourcing, but may be investigating IT service outsourcing within the next 12 months while High Performers are already outsourcing accounts receivable and IT services. 25% of High Performers will also be investigating outsourcing statutory and regulatory accounting and IT services within the next 12 months. The 2012 Insurance Finance Leadership Study found that High Performers sought to outsource only when a defined future state was clear, enabling them to measure the gains and maximize the benefits from any outsourcing opportunity.
SECTION III – DEMOGRAPHICS

Please indicate your organizational form:
- Public: 76.9%
- Private: 15.4%
- Mutual: 7.7%

Your company footprint is:
- US Regional: 25.0%
- US National: 25.0%
- Global: 50.0%

Which of the following best describes your title within your organization:
- CIO, CTO, Chief Information or Technology Officer: 38.3%
- CEO, Chief Executive Officer: 10.7%
- EVP, Senior VP, General Manager: 8.3%
- VP: 8.3%
- Other Business Manager: 8.3%

Respondent Perspective:
- Ultimate Parent or Holding company: 76.9%
- Group or Division company: 23.1%

Change in business size:
- Grown: 69.2%
- Stayed approximately the same: 23.1%
- Declined: 7.7%

Your company's Return on Capital is:
- 0% - 10%: 36.4%
- 10% - 15%: 63.6%
The pool of study participants represented a cross-section of the insurance industry. Admitted P&C (both commercial and personal lines), Excess & Surplus, Reinsurance, and Life and Health companies were all respondents.

77% of respondents were public companies, with close to 60% having GWP in excess of $1 billion. Companies representing global, regional and domestic businesses were also all well represented. 100% of High Performers are public global companies while 71% of Low Performers are public, comprised of US regional, national and global firms.

Nearly 80% of our respondents were either group or division company executives and close to 70% had the title of Chief Information Officer, Chief Technology Officer or Chief Services Officer.

70% of all respondent companies are growing, with 75% of High Performers showing growth versus 57% of Low Performers.

Study respondents spanned a range of business lines, with a particular focus on the Property and Casualty market.

*Which of the following lines of business do you write?*
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CONTACTS
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