

Market
Analysis
Program
(MAP)

Industry Sector
 Markets
 1991-1996

Insurance Sector

Forecast Update

 **INPUT**[®]

1280 Villa Street, Mountain View, CA 94041, (415) 961-3300



F E B R U A R Y 1 9 9 2

**INDUSTRY SECTOR MARKETS
1991-1996**

INSURANCE SECTOR

FORECAST UPDATE



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1280 Villa Street
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Market Analysis Program (MAP)

***Industry Sector Markets, 1991-1996
Insurance Sector
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the 1990s, the number of people in the world who are under 15 years of age has increased from 1.1 billion to 1.3 billion. The number of people aged 65 and over has increased from 200 million to 350 million. The number of people aged 15-64 years has increased from 2.5 billion to 3.5 billion.

There are a number of reasons for this increase in the number of people in the world. One of the main reasons is the increase in life expectancy. In 1990, the average life expectancy at birth was 47 years. In 2000, it was 52 years. This increase in life expectancy is due to a number of factors, including improvements in medical care, better nutrition, and a decline in infant mortality.

Another reason for the increase in the number of people in the world is the increase in the number of people who are surviving to old age. In 1990, only 10% of people aged 65 and over were surviving. In 2000, 15% of people aged 65 and over were surviving. This increase in the number of people surviving to old age is due to a number of factors, including improvements in medical care, better nutrition, and a decline in infant mortality.

The increase in the number of people in the world is a result of a combination of factors. The increase in life expectancy, the increase in the number of people surviving to old age, and the increase in the number of people who are surviving to old age are all contributing to the increase in the number of people in the world.

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Purpose and Organization

A

Purpose

The purpose of this forecast update is to provide the 1991 INPUT forecasts for the insurance sector together with a discussion of recent market issues and competitive factors that are influencing the use of information services in this industry. In the 1990 report, a more comprehensive analysis of the components of the insurance sector was presented and should be used as a reference if necessary.

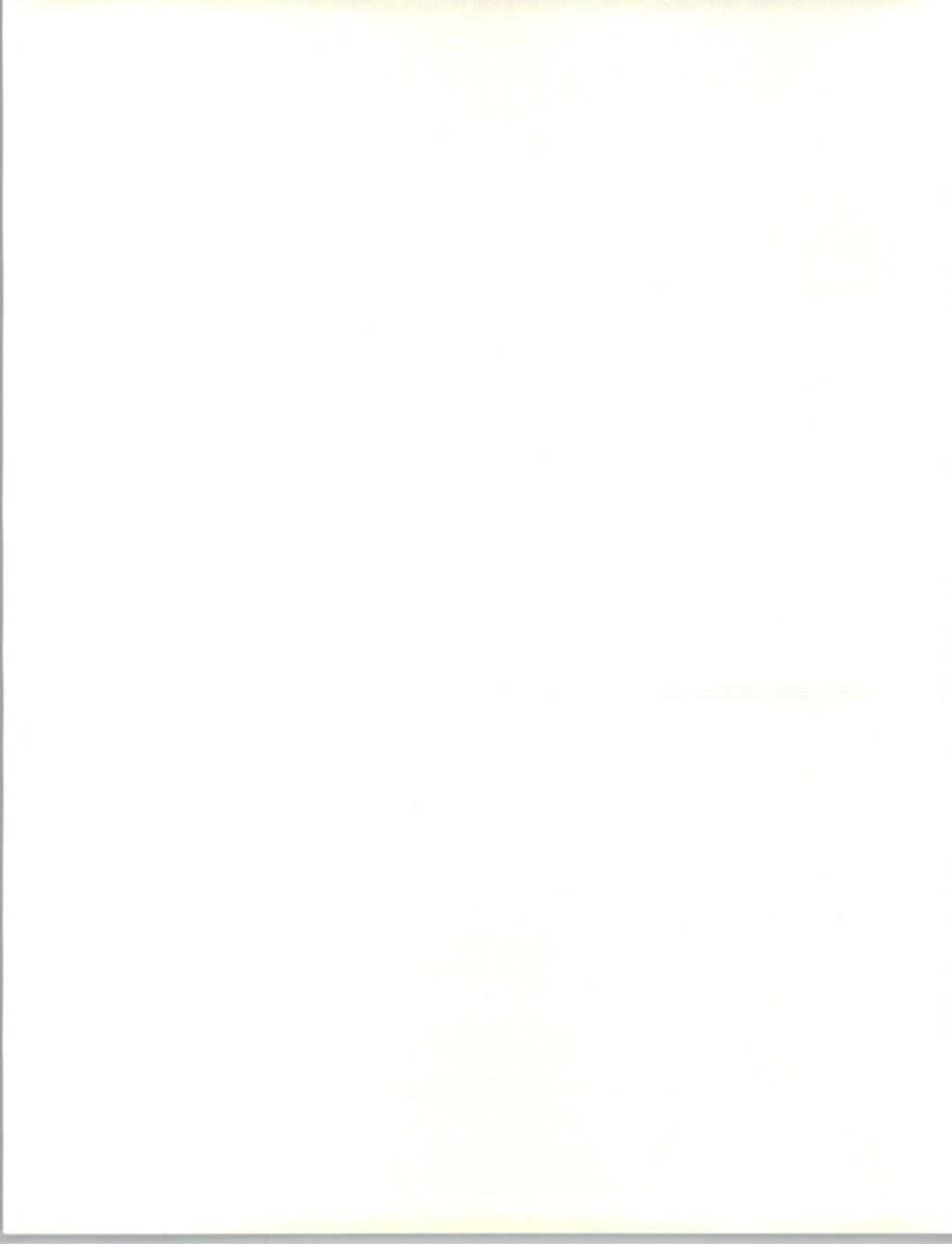
The insurance sector is grouped into three major segments, as shown in Exhibit I-1. The industry is composed of several thousand companies. However, the major carriers account for the majority of premium income, as shown in Exhibit I-2. (*Premium income* is analogous to revenues for an industrial firm.)

B

Organization

This chapter describes the report's purpose and organization. The other chapters of the report are organized as follows:

- Chapter II—Trends, Events, and Issues—describes the insurance industry and factors that can have an impact on its use of information services.
- Chapter III—Information Services Market Forecast—presents information services expenditures by delivery mode for the insurance sector.
- Chapter IV—Competitive Environment—provides a review of recent competitive events and vendor analyses.
- The appendix—Forecast Data Base—is a detailed forecast by delivery mode for the transportation industry, and contains a reconciliation to 1990's forecast.



Related to this sector report are two additional sector reports:

- Banking and Finance
- Medical

A collection of 15 market sector or industry reports and 7 cross-industry reports constitutes INPUT's 1991 Market Analysis Program. Together, the reports provide a complete overview of the U.S. information services industry.

EXHIBIT I-1

Major Insurance Sector Segments

Segment	SIC Codes	Approximate Number of Employees
Property and Casualty (P&C) Companies	633X	500,000
Life/Health Companies	631x, 632x	750,000
Independent Agents & Brokers	641x	600,000

EXHIBIT I-2

Insurance Company Concentration (Percent of Premium)

Company Ranking	Life/Health	P & C
Top 20	53	55
21-100	44	31
Others	3	14
Total	100	100



II

Trends, Events, and Issues

Until recently, the insurance industry was a very stable sector.

- Growth was relatively low, but returns were reasonably high and generally consistent.
- However, in the last year—as shown by the debacle at Executive Life and Mutual Benefit Life—the insurance industry has often been bracketed with the banking industry as far as risk is concerned.

There are potential positive, as well as negative, impacts for the information services business. This chapter examines:

- Environmental and market changes within the insurance industry.
- The impact of these changes on the information services industry.

A

Environmental and Market Changes

There are two major interlinked problems facing the insurance industry:

- Financial stability
- Insurance profitability

These problems are discussed in the subsections below.

1. Financial Stability

Within the last year, the primary focus—within industry and from interested external parties—has become financial stability (where it is not financial survival). The precise issues are somewhat different for the life/health and the property and casualty (P&C) companies.



a. Life/Health Companies

In the 1980s, many life insurance companies drew further away from being traditional insurance companies and went toward being financial services companies.

- Traditional straight life insurance became harder to sell as buyers became more informed. Less-profitable term insurance became more prevalent. Insurers adapted to the new environment by selling a combination of term insurance and a savings product (universal life), which still maintained some of the tax advantages of conventional insurance.
- Parallel to this, insurance companies began to offer more pure investment vehicles. However, these vehicles had to be competitive with mutual funds and the deregulated banks.
- Consequently, insurers offered long-term guaranteed returns (guaranteed investment contracts) and other innovative products. These new products called for extremely high forecasts of long-term interest rates as well as new sources of high-yield investments for the insurers.
- What tended to be overlooked was that high-yield investments are often high-risk investments as well. Investments like the following have considerable risk:
 - Office building mortgages
 - Shopping center loans
 - Direct, equity investment in property development
 - Non-investment-grade (junk) bonds
- This process is shown graphically in Exhibit II-1. The unanswered—and so far, unanswerable—question is whether the life insurance industry will go the way of the S&Ls and banks and become a partial ward of the government, as Exhibit II-2 shows.



EXHIBIT II-1

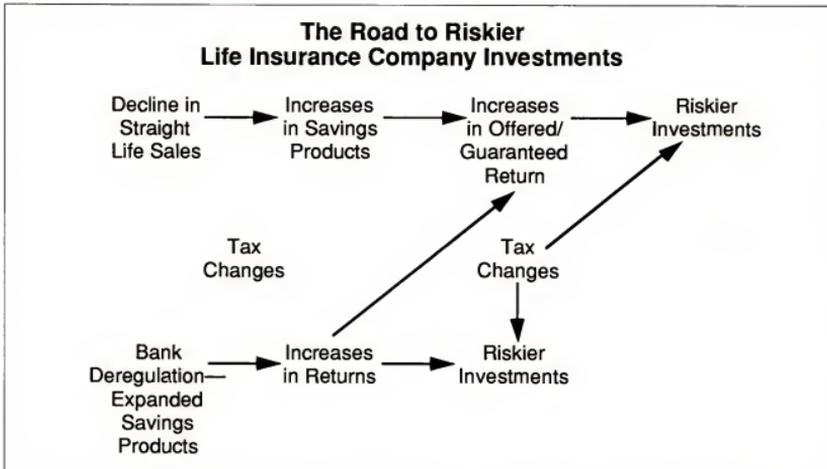
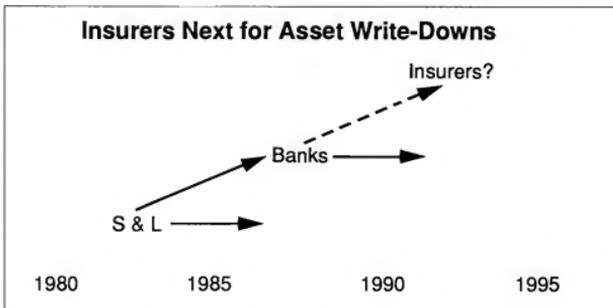


EXHIBIT II-2



b. Property and Casualty Companies

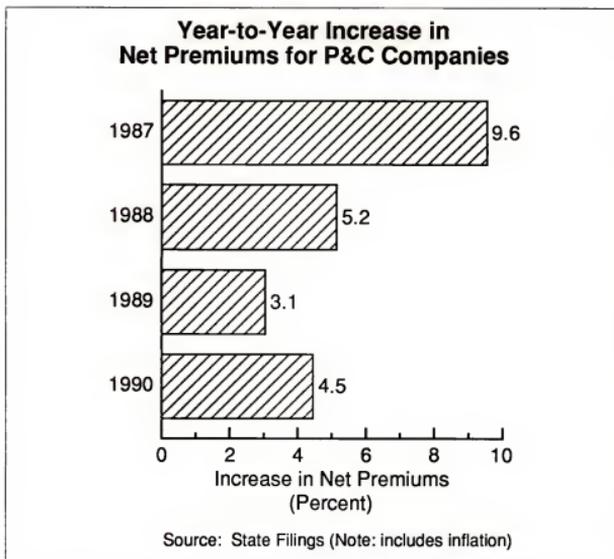
The situation of the P&C segment is different in that there have been no large-scale failures based on ill-judged investment policies. However, the problems on the life insurance side of the industry have seeped over to the P&C side because both are “insurance” companies and, more importantly, the P&C companies have made a significant number of their own high-risk investments.



However, the P&C segment has its own set of long-term financial problems:

- The increase in net premiums—the measure that is most equivalent to revenue for an industrial company—has been 5% or less for the past three years, as shown in Exhibit II-3. These figures make no allowance for inflation, so the real growth in the industry has been close to zero.

EXHIBIT II-3

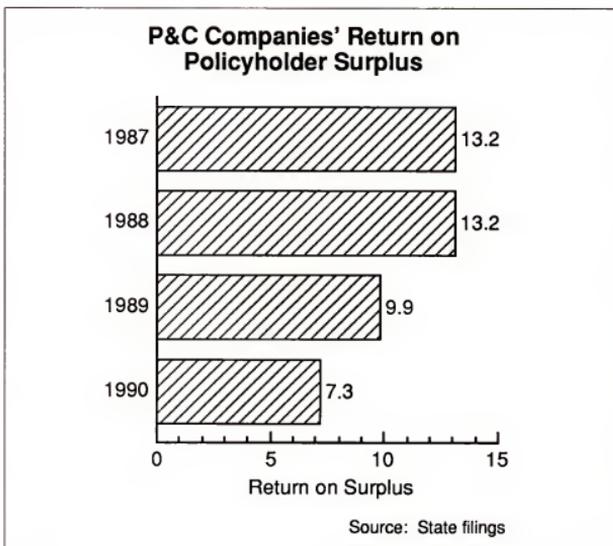


- Return on policyholders' surplus (roughly equivalent to ROA) has fallen by almost half in the last three years, as shown in Exhibit II-4.
- There is little reason for believing that either of these key financial ratios will improve in the medium term.

These underlying problems in the growth and profitability of the insurance business accentuate the importance of safety in the underlying investment base.



EXHIBIT II-4



2. Insurance Profitability

It should be a truism that unless the underlying underwriting of insurance is profitable, then the industry's health overall is at risk. This was lost sight of during the 1980s by many consumer and government groups as well as by much of the industry itself:

- The life insurance industry repositioned itself as a supplier of broad financial services: Prudential, for example, made large acquisitions to do so.
- Much of the P&C segment focused on cash flow underwriting. Insurers paid less attention to the profitability of the actual insurance written and focused more on the investment potential of the funds that remained in their control until claims were paid.

The problems with investments will force insurers to look to the writing of insurance itself for profitability. However, profits will not merely be a question of raising prices, since the industry overall is highly price competitive.



There are other significant problems in the segment that have differing impacts on different lines of insurance:

Disasters: On the P&C side, natural or man-made disasters can have a significant impact on any one year's business results. However, disasters should have no significant impact on the long-term business if business has been priced realistically. A larger, associated problem is the lack of disasters, which encourages companies to cut prices to increase market share (and support cash-flow underwriting).

Cost Inflation: This is a special problem where insurance is expected to make a claimant whole, rather than to repay a specific amount of money. The largest problem area is health-related claims, although deductibles can be eaten away in, for example, auto insurance by the increasing cost of labor and replacement parts.

Fraud: Fraud is sometimes given a lower priority by companies that rationalize that the cost of identifying and prosecuting fraud is higher than absorbing it. This attitude appears to be changing in some areas, such as workers' compensation.

Laws and Regulations: Laws and regulations can make insurance less profitable by either legislating that certain classes of insured cannot be refused or charged more for coverage—e.g., AIDS cases or urban drivers—or by retroactively extending coverage to events not contemplated in the original policy—e.g., toxic waste.

Jury Awards: Jury awards receive a high amount of attention. However, this problem is limited to certain types of liability-related cases in particular regions of the country.

Coverage Increased by the Courts: The action of the courts has become an important source of cost increases. Over the last twenty years, the courts have steadily expanded the definition of liability in terms of acts covered and, more importantly, extended current standards of liability to earlier events before applicable threats and remedies were understood or specified—e.g., asbestos liability, malpractice definition.

Exhibit II-5 summarizes these problems by type of insurance.



EXHIBIT II-5

Insurance-Related Problem Areas

Insurance Type	Price Competition	Disasters	Cost Inflation	Fraud	Laws & Regulations	Jury Awards	Coverage Increased by Courts
Life	X				X		X
Health	X		XX		X		
Homeowners'	X	XX					
Automobile	X		XX	X	XX	X	
Workers' Compensation	X		XX	XX			
Liability					X	X	XX
Other Commercial	XX	XX		X			

X = Problem

XX = Serious Problem

B**Impact of Industry Changes on Information Services**

The significant changes that are occurring in the insurance industry have changed the underlying objectives of the industry as well as opening and closing areas of opportunity for the information services industry.

1. Changed Objectives and Their Relation to Information Systems and Services

Some of the insurance industry's current problems present opportunities for the information services industry. Most of these opportunities will be in products and services that improve the financial condition of individual companies and the industry.

For example, some objectives of insurance companies are much less important than formerly:

- The insurance sector paid considerable attention in the past to technology as an end in itself. Mutual Benefit Life Insurance, for example,



attracted laudatory articles in the business and trade press on its management and systems practices. These practices, even if valid, turned out to have no positive impact on the firm's financial health.

- Many systems initiatives (and vendor products and services) have been directed toward increasing sales and seeking differentiation through improved customer service. These have turned out to be of secondary importance or—in the case of increasing sales—counterproductive.

There is some future for systems efforts that reduce administrative costs. However, even here the scope is relatively limited:

- Since 1987, the P&C industry has been able to reduce its overall administrative expenses by over 10%. There is a limit on how many more reductions can be obtained. More importantly, this decrease was occurring at a time when returns were rapidly declining (see Exhibit II-2). Obviously, the P&C industry cannot get out of trouble by expense reduction.
- In the past, insurance companies tended to look at IS costs as being somehow different from other administrative costs. Now even the largest companies make significant cuts in IS staffs and budgets.

On the other hand, information systems or information-service-based products and services that increase profitability or investment safety will be highly attractive.

This situation is summarized in Exhibit II-6.

EXHIBIT II-6

Importance of Current Insurance Company Objectives

Objective	P & C	Life/Health
Reduce Administrative Costs	Medium	Medium
Increase Insurance Profitability	Medium/High	Medium/High
Increase Investment Safety	Medium	High
Increase Revenues	Medium/Low	Medium/Low
Improve Service	Medium/Low	Medium/Low
Advance Technology	Low	Low

2. Areas of Information Services Opportunity

a. Systems Operations

To the extent that the financial health of the insurance industry mirrors that of the banking industry, there should be considerable opportunities in financially driven outsourcing aimed at reducing headcount and administrative costs. In addition, many SO contracts are structured so that there is a welcome cash infusion as existing facilities and equipment are purchased by the SO vendor. Depending on how much this property has been depreciated, the payment can produce a sizable profit as well.

b. Software Products (Operations Oriented)

To the extent that a company still has real opportunities to reduce its operating costs, then additional investment in software products will make sense. A more widespread opportunity is in products that enable risks to be selected more accurately. Expert systems could play a considerable role.

c. Analytic Products/Electronic Data Bases

Risk selection is important. Setting specific rates is even more important because rates bear directly on the longer term opportunities to increase

the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million, and the number of people aged 75 and over has increased from 4.5 million to 6.5 million (Office for National Statistics 2000).

There is a growing awareness of the need to address the needs of older people, and the need to ensure that the health care system is able to meet the needs of older people. The Department of Health (2000) has identified the need to address the needs of older people as a key priority for the health care system. The Department of Health (2000) has identified the need to address the needs of older people as a key priority for the health care system.

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profits. In addition, similar tools can be used to identify and prosecute fraud. If tools and data can be used to improve investment strategies, then these will also be welcome. However, it is not clear whether information systems-related initiatives could have had any significant impact on the excesses of the 1980s.

d. Systems Integration/Professional Services

Business-as-usual systems development has been reduced. However, at least two areas represent opportunities for information service vendors:

- Some cuts in staff will have been too large or adopted mainly to meet headcount reduction targets. In these cases, an ongoing need for IS resources will often be most easily met by hiring outside contractors.
- A larger and more-stable opportunity is in working with functional, non-IS units to identify areas where costs can be reduced or profitability increased. Even where budgets of IS departments have been reduced, the operating units of an insurer will often have the resources to pursue projects with considerable returns.

Exhibit II-7 summarizes these opportunities.

EXHIBIT II-7

New Impact of Information Service Offerings on Insurers

Information Service	Impact
Systems Operations	<ul style="list-style-type: none"> • Reduce operating costs • Reduce headcount • Raise cash from locked-in assets
Software Products (Operations)	<ul style="list-style-type: none"> • Reduce operating costs • Select risks more accurately
Analytic Software Products/ Electronic Data Bases	<ul style="list-style-type: none"> • Set rates to increase profit • Identify and reduce fraud • Improve investment strategies
Systems Integration/ Professional Services	<ul style="list-style-type: none"> • Reduce costs • Supplement/replace full-time employees • Bypass IS department



Information Services Market Forecast

A

Total Market Forecast, 1990-1996

Information services expenditures in the insurance industry grew at a rate of 10% in the U.S. between 1990 and 1991, which was the average level of growth for the industry sectors tracked by INPUT.

- Growth was not as rapid as in manufacturing, telecommunications or distribution, but it exceeded growth in business services and matched the growth level in banking and financial services.
- Insurance was affected adversely by the impact of the recession on investment portfolios and on the sales of new business.

The growth rate (CAGR) will increase to 12% for the period from 1991 to 1996, as shown in Exhibit III-1, which again will be at the midrange of the industries being tracked.

Expenditures will increase from \$4 billion in 1990 to \$4.4 billion in 1991, then increase at a CAGR of 12% to \$7.8 billion in 1996.

Although the growth rates for expenditures for information services in insurance are at the average of all industries, growth rates for the use of SI and SO are at high ranges, providing opportunities for vendors of information services.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial statements. This includes not only sales and purchases but also expenses, income, and any other financial activity.

The second part of the document provides a detailed explanation of the accounting cycle. It outlines the ten steps involved in the process, from identifying the accounting entity to preparing financial statements. Each step is described in detail, with examples provided to illustrate the concepts. The cycle is presented as a continuous loop that repeats every accounting period.

The third part of the document focuses on the classification of accounts. It explains how different types of accounts are used to record and summarize financial transactions. Assets, liabilities, equity, revenue, and expense accounts are discussed, along with their respective normal balances and how they are affected by debits and credits.

The fourth part of the document discusses the importance of the accounting equation. It states that the total assets of a company must always equal the total liabilities and equity. This equation is the foundation of the double-entry accounting system and is used to verify the accuracy of the accounting records.

The fifth part of the document provides a comprehensive overview of the financial statements. It explains the purpose and components of the balance sheet, income statement, statement of retained earnings, and statement of cash flows. Each statement is described in detail, and the relationships between them are explained.

The sixth part of the document discusses the importance of internal controls. It explains how a system of internal controls can help prevent errors and fraud, and ensure the accuracy and reliability of the financial statements. Key elements of internal controls, such as segregation of duties and authorization, are discussed.

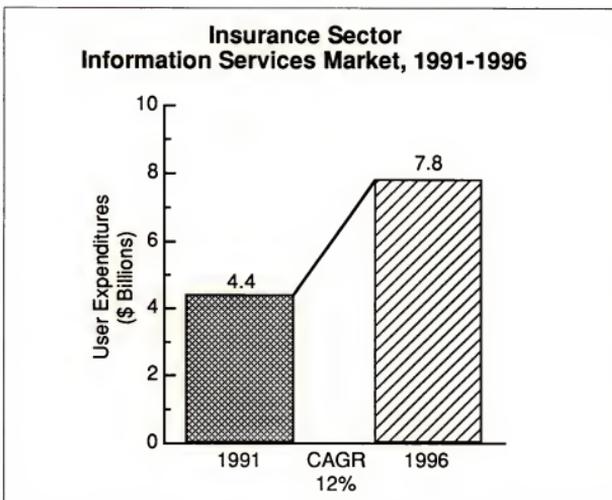
The seventh part of the document discusses the importance of the closing process. It explains how the temporary accounts (revenue, expense, and dividend) are closed to the permanent accounts (assets, liabilities, and equity) at the end of each accounting period. This process is essential for preparing the financial statements for the next period.

The eighth part of the document discusses the importance of the accounting cycle in the overall accounting process. It explains how the cycle provides a systematic and organized way to record, summarize, and report financial transactions. The cycle is presented as a key component of the accounting system.

The ninth part of the document discusses the importance of the accounting cycle in the overall business operations. It explains how the cycle provides valuable information to management and other stakeholders, such as investors and creditors. The cycle is presented as a key tool for financial analysis and decision-making.

The tenth part of the document discusses the importance of the accounting cycle in the overall financial reporting process. It explains how the cycle provides the data needed to prepare the financial statements, which are used to report the company's financial performance to the public. The cycle is presented as a key component of the financial reporting process.

EXHIBIT III-1

**B****Forecast by Delivery Mode****1. Processing Services**

Processing services had a 7% increase in expenditures in the insurance industry between 1990 and 1991, growing from \$351 million to \$375 million.

- Expenditures continued to grow at a CAGR of 7% through 1996 to increase to \$530 million.
- A continuing increase in processing work is being handled by established vendors such as Policy Management Systems and ADP (collision estimating), but there does not seem to be significant new sources of business to increase the growth rate of processing services.

The steady rate of growth of processing services suggests that there is not a significant trend to replace these services with turnkey systems or software products that will save costs through workstation/PC solutions.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial data. This includes not only sales and purchases but also expenses and income. The document provides a detailed list of items that should be tracked, such as inventory levels, accounts payable, and accounts receivable. It also outlines the procedures for recording these transactions, including the use of double-entry bookkeeping to ensure that the books are balanced.

The second part of the document focuses on the analysis of the financial data. It explains how to calculate key financial ratios and metrics, such as the gross profit margin, operating profit margin, and return on investment. These calculations are essential for understanding the company's financial performance and identifying areas for improvement. The document also discusses the importance of comparing the company's performance to industry benchmarks and providing a clear explanation of the reasons for any variances.

The final part of the document covers the preparation of financial statements. It provides a step-by-step guide to creating the income statement, balance sheet, and cash flow statement. It also discusses the importance of auditing the financial statements to ensure their accuracy and reliability. The document concludes by emphasizing the role of financial reporting in decision-making and the overall success of the business.

2. Turnkey Systems

User expenditures for turnkey systems grew at 7% between 1990 and 1991 and are forecast to grow at a CAGR of 5% between 1991 and 1996.

- This rate of growth—slower than that of processing services—is the slowest rate of growth for any mode of information services in the insurance industry.
- The increase in expenditures from \$292 million in 1990 to \$311 million in 1991 and then to a forecast level of \$397 million in 1996 is also the smallest absolute increase among service modes.

Insurance and health are the two industries with the lowest level of growth for turnkey systems between 1991 and 1996. This low growth is caused, to a large extent, by the growth of applications software products for workstations/PCs.

3. Applications Software Products

Expenditures will grow at a rate of 11% between 1990 and 1991 for applications software products while expenditures climb from \$768 million to \$852 million. The growth rate or CAGR will rise to 15% between 1991 and 1996, and expenditures will grow to \$1.8 billion in 1996.

- The growth of expenditures is forecast to be higher—24%—for workstation/PC software products.
- The growth rates for mainframe and minicomputer applications software products will be 6% and 3%, respectively, between 1991 and 1996.
- Forecast expenditures will be highest—\$1.2 billion—for workstation/PC applications software products in 1996. Expenditures will be almost twice as much as the sum of the software product expenditures for minicomputers (\$145 million) and mainframes (\$438 million).

The high forecast for the use of applications software products for workstations/PCs is due to the anticipated use of many workstations in client/server applications where users can have access to mainframe data in order to prepare analyses and reports.

4. Systems Operations

In 1991, systems operations was the fastest-growing delivery mode at 16%, and from 1991 to 1996, it will be the second-fastest growing delivery mode in insurance, with a CAGR of 16%.



- Systems operations is forecast to have over three times the user expenditures of the fastest-growing delivery mode between 1991 and 1996, SI.
 - SO has the added benefit to users of reducing the investment that a company has to make to upgrade its IS technology. This benefit will continue to be important in the insurance industry due to the financial condition of many insurance companies.

Although expenditures for SO are less than those for professional services, SO will generate a greater amount of incremental user expenditures in the insurance industry between 1990 and 1996 than professional services will. In that period, SO expenditures will rise from \$778 million in 1990 to \$902 million in 1991 and \$1.9 billion in 1996.

5. Systems Integration

In 1991, expenditures for systems integration will grow at a rate of 13% and increase from \$186 million in 1990 to \$210 million in 1991.

- The growth rate dropped during 1990 when contracts were delayed due to the initial impact of the recession and the financial condition of insurance companies.
- Expenditures will grow at a higher rate, a CAGR of 18%, between 1991 and 1996 and reach \$481 million in 1996. This growth rate will be the highest among delivery modes during the planning period.

The rapid growth of systems integration and systems operations indicates the high level of interest of users in information services vendors that have experience in the insurance industry and the capability to support complex systems.

6. Professional Services

Professional services grew at a rate of 7% in 1991 as user expenditures increased from a level of \$1.4 billion to \$1.5 billion. The CAGR is forecast to rise to 9% between 1991 and 1996 while user expenditures grow to \$2.3 billion.

- The rise in the CAGR to 9% will be driven by increasing use of consulting services rather than the use of professional services to develop systems.
- The CAGR for the systems development submode of professional services will fall to 5% by 1996 while the CAGR for the consulting services submode will rise to 13%.

Effect of a Self-Management Program on the Performance of a Complex Task

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This study examined the effects of a self-management program on the performance of a complex task.

Participants were assigned to either a self-management program or a control group.

The self-management program included goal setting, self-monitoring, and self-reinforcement.

Results showed that the self-management program significantly improved performance on the complex task.

These findings suggest that self-management programs can be effective in improving performance on complex tasks.

Keywords: self-management, complex task, performance, goal setting, self-monitoring, self-reinforcement

The present study was designed to evaluate the effectiveness of a self-management program in improving performance on a complex task.

Self-management programs have been shown to be effective in a variety of settings, including the workplace, the classroom, and the home.

One of the most common applications of self-management programs is in the workplace, where they are used to improve productivity and reduce errors.

Self-management programs have also been used in the classroom to improve student performance and behavior.

Finally, self-management programs have been used in the home to help individuals manage their daily lives more effectively.

The present study focused on the use of self-management programs to improve performance on a complex task.

The results of this study suggest that self-management programs can be an effective way to improve performance on complex tasks.

Since consulting services will often be provided by Big 6 firms and other systems integrators, and professional services will be provided to modify turnkey and software product solutions by SI, SO, turnkey, and software product vendors, there could be an actual drop in the professional services revenues of vendors or vendor offices that develop systems for insurance companies.

7. Network Services

Network services will grow from a level of \$208 million in user expenditures in 1990 to \$228 million in 1991, increasing at a rate of 10%. Between 1991 and 1996, expenditures are forecast to increase at a CAGR of 12% to reach \$402 million in 1996.

The use of the electronic information services submode will increase at a rate of 13% between 1991 and 1996 due to the use of on-line data bases for underwriting new business and adjusting claims.

Network applications will grow at a rate of only 8% between 1991 and 1996, which is low compared to other industries. This low rate is partially due to the fact that many systems were implemented to transfer information and collect payments automatically in the insurance industry during the 1970s, before the current drive to substitute electronic information for paper was initiated.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial data. This includes not only sales and purchases but also expenses and income. The document provides a detailed list of items that should be tracked, such as inventory levels, accounts payable, and accounts receivable. It also outlines the procedures for recording these transactions, including the use of double-entry bookkeeping to ensure that the books are balanced.

The second part of the document focuses on the analysis of the financial data. It explains how to calculate key financial ratios and metrics, such as the gross profit margin, operating profit margin, and return on investment. These metrics are used to evaluate the company's performance and identify areas for improvement. The document also discusses the importance of comparing the company's performance to industry benchmarks and competitors. This helps to provide context and identify trends in the market.

The final part of the document covers the preparation of financial statements. It provides a step-by-step guide to creating the income statement, balance sheet, and cash flow statement. It also discusses the importance of auditing the financial statements to ensure their accuracy and reliability. The document concludes by emphasizing the role of financial reporting in decision-making and the overall success of the business.



Competitive Environment

A

Competitive Overview

The overall competitive structure has not changed significantly in terms of relative revenues.

- The largest vendors, as shown in Exhibit IV-1, have retained their relative positions.
- The larger vendors have aimed to offer products/services to the major insurance company segments, as shown in Exhibit IV-2. Companies strong in one segment—e.g., Policy Management in P&C or Continuum in life—have entered new segments by acquisition; see Exhibit IV-3.
- The largest vendors have given lower priority to agents as a separate market. The agency automation systems market has changed considerably during the 1980s:
 - Classic turnkey systems have been greatly impacted by PC-based software. Some general-purpose PC software—e.g., word processing, sales tracking, and accounting—has proven to be viable as a foundation for tailoring for insurance agents.
 - Individual insurance companies have offered more information service-based support to their agents. At one time, company-independent offerings were expected to be more competitive than has proven to be the case.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry, no matter how small, should be recorded to ensure the integrity of the financial data. This includes not only sales and purchases but also expenses and income. The document provides a detailed list of items that should be tracked, such as inventory levels, accounts payable, and accounts receivable. It also outlines the procedures for recording these transactions, including the use of double-entry bookkeeping and the importance of regular reconciliations. The second part of the document focuses on the analysis of the recorded data. It explains how to calculate key financial ratios and metrics, such as the gross profit margin and the current ratio, to assess the company's financial health. It also discusses the importance of comparing these metrics to industry benchmarks and historical data to identify trends and areas for improvement. The document concludes with a summary of the key findings and recommendations for future actions.

EXHIBIT IV-1

Leading Vendors to Insurance

Vendor	1990 Revenues (\$ Millions)
Electronic Data Systems	550
Policy Management Systems	346
Equifax	300
Andersen Consulting	130
Continuum	100
ADP	80
ISI Systems (Div. of Teleglobe)	50
Dateq	45
Warner Computer Systems	40
IBM	30
CYBERTEK	27

Source: Company reports, INPUT estimates; data calendarized

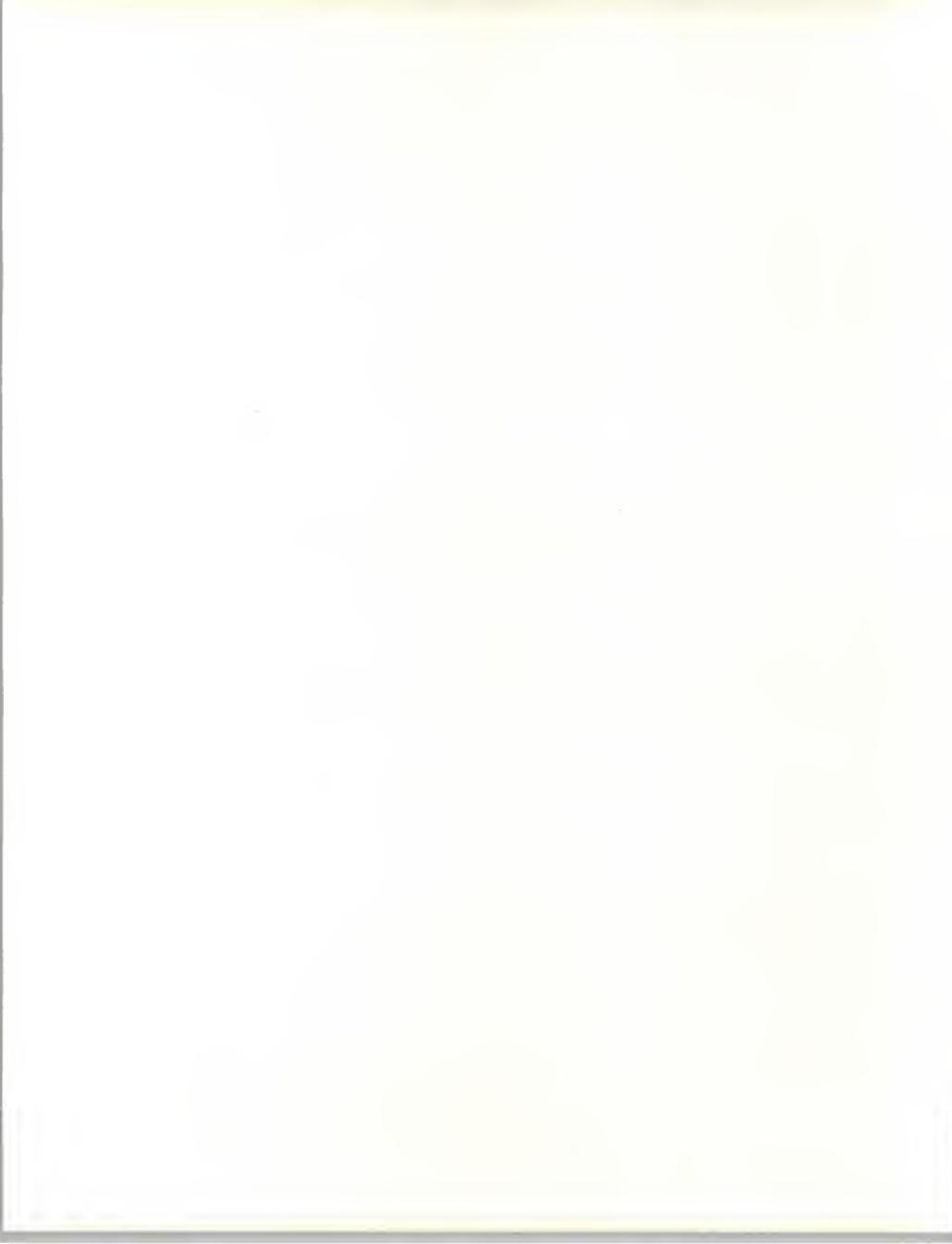


EXHIBIT IV-2

**Leading Vendors
Major Segment Focus**

Company	Life	Health	Property/ Casualty	Agents
EDS	X	X	X	
Policy Management Systems	X	X	X	
Equifax	X	X	X	
Andersen Consulting	X	X	X	
Continuum	X	X	X	
ADP			X	
ISI			X	X
Dateq			X	
Warner Computer Systems			X	
IBM			X	X
CYBERTEK	X			X

Source: INPUT analysis



EXHIBIT IV-3

**Recent Acquisitions by
Selected Insurance-Focused Information Service Vendors**

Acquirer	Company Acquired/Business	Date
Allied Information Services	Freedom Group/PC-based annual statement processing	1/91
Cedar Rapids Software Services	ISI divestiture/V4 P&C software product	2/91
Continuum	Syntelligence/Expert system software	4/91
Continuum	Computations/P&C software	6/91
CPS	Swiss Reinsurance divestiture/ CAPSCO PALLM P&C software	2/91
CYBERTEK	CONGENSYS/Expert system software	3/91
Policy Management Systems	PMS Inc./Physician insurance data	11/90
Policy Management Systems	Management Data Communications/ Group health software and processing	1/91

On the whole, vendors have been cautious about moving out of their established delivery modes, as shown in Exhibit IV-4.

- PMS, the only vendor to have major offerings in all delivery modes, has been established in all modes for almost ten years—and was in all modes except network services since its founding.
- Note that in the acquisitions reported in Exhibit IV-3 there were no acquisitions that moved a vendor into a new delivery mode.

the 1990s, the number of people aged 65 and over in the United States is projected to increase from 20 million to 35 million.

As the number of people aged 65 and over increases, the number of people aged 75 and over is also expected to increase. The number of people aged 75 and over is projected to increase from 10 million in 1990 to 15 million in 2010.

As the number of people aged 75 and over increases, the number of people aged 85 and over is also expected to increase. The number of people aged 85 and over is projected to increase from 3 million in 1990 to 5 million in 2010.

As the number of people aged 85 and over increases, the number of people aged 95 and over is also expected to increase. The number of people aged 95 and over is projected to increase from 1 million in 1990 to 2 million in 2010.

As the number of people aged 95 and over increases, the number of people aged 100 and over is also expected to increase. The number of people aged 100 and over is projected to increase from 0.5 million in 1990 to 1 million in 2010.

As the number of people aged 100 and over increases, the number of people aged 105 and over is also expected to increase. The number of people aged 105 and over is projected to increase from 0.2 million in 1990 to 0.5 million in 2010.

As the number of people aged 105 and over increases, the number of people aged 110 and over is also expected to increase. The number of people aged 110 and over is projected to increase from 0.1 million in 1990 to 0.2 million in 2010.

As the number of people aged 110 and over increases, the number of people aged 115 and over is also expected to increase. The number of people aged 115 and over is projected to increase from 0.05 million in 1990 to 0.1 million in 2010.

As the number of people aged 115 and over increases, the number of people aged 120 and over is also expected to increase. The number of people aged 120 and over is projected to increase from 0.02 million in 1990 to 0.05 million in 2010.

As the number of people aged 120 and over increases, the number of people aged 125 and over is also expected to increase. The number of people aged 125 and over is projected to increase from 0.01 million in 1990 to 0.02 million in 2010.

As the number of people aged 125 and over increases, the number of people aged 130 and over is also expected to increase. The number of people aged 130 and over is projected to increase from 0.005 million in 1990 to 0.01 million in 2010.

As the number of people aged 130 and over increases, the number of people aged 135 and over is also expected to increase. The number of people aged 135 and over is projected to increase from 0.002 million in 1990 to 0.005 million in 2010.

As the number of people aged 135 and over increases, the number of people aged 140 and over is also expected to increase. The number of people aged 140 and over is projected to increase from 0.001 million in 1990 to 0.002 million in 2010.

As the number of people aged 140 and over increases, the number of people aged 145 and over is also expected to increase. The number of people aged 145 and over is projected to increase from 0.0005 million in 1990 to 0.001 million in 2010.

As the number of people aged 145 and over increases, the number of people aged 150 and over is also expected to increase. The number of people aged 150 and over is projected to increase from 0.0002 million in 1990 to 0.0005 million in 2010.

As the number of people aged 150 and over increases, the number of people aged 155 and over is also expected to increase. The number of people aged 155 and over is projected to increase from 0.0001 million in 1990 to 0.0002 million in 2010.

As the number of people aged 155 and over increases, the number of people aged 160 and over is also expected to increase. The number of people aged 160 and over is projected to increase from 0.00005 million in 1990 to 0.0001 million in 2010.

EXHIBIT IV-4

Leading Insurance Vendors Major Offerings by Delivery Mode

Company	Turnkey/ Software Products	Processing	Professional Services/SI	Systems Operations	Network Services
EDS			X	X	
Policy Management Systems	X	X	X	X	X
Equifax					X
Andersen Consulting			X		
Continuum	X	X	X		
ADP					X
ISI	X	X			
Dateq					X
Warner		X		X	
IBM				X	X
CYBERTEK	X	X			

Source: INPUT analysis

B**Vendor Profiles**

This section contains profiles of representative information service whose primary focus is the insurance industry. Companies profiled include:

- Continuum Company, Inc.
- CYBERTEK Corporation
- Warner Computer Systems, Inc.
- Policy Management Systems Corporation



1. Continuum Company, Inc., 9500 Arboretum Boulevard, Austin, TX 78759-6399 (512) 345-5700

The Continuum Company provides applications software products, processing services, and professional services to the insurance industry. The company's principal product, the CLIENT/CONTRACT ADMINISTRATION™ (CCA) system, supports the administration and marketing of individual life, health, and annuity insurance policies.

INPUT estimates over 85% of Continuum's fiscal 1991 revenue was derived from its various professional services, 6% was derived from software licenses, and 9% from processing services.

In October 1990, Continuum acquired Computations Holdings Limited of Australia for approximately \$11 million. Computations provides applications software products and professional services to both life and property and casualty insurance companies.

- The acquisition extended Continuum's market to include property and casualty insurance companies. It also provided Continuum with new offices in Australia, Denmark, and Norway, and substantially increased its presence in Europe.
- Computations had approximately 300 employees at the time of the acquisition and annual revenue of about \$32.5 million. Its operations have been merged into Continuum.

In April 1991, Continuum announced the Enterprise Solutions by Continuum™ (ES/C). The ES/C strategy includes developing standardized interfaces to the various modules of CCA and Continuum's other products to permit the integration of Continuum products with each other and in-house and third-party systems.

2. CYBERTEK Corporation, Suite 600, 7800 North Stemmons Freeway, Dallas, TX 75247-4217 (214) 637-1540

CYBERTEK Corporation, founded in 1969, specializes in products and services for the life insurance industry. The company provides applications software products and associated support services, processing and systems operations services, and professional services. CYBERTEK's revenues are divided almost equally between software products and related services and processing services. The current customer base includes approximately 100 life insurance companies.



In March 1991, CYBERTEK acquired COGENSYS Corporation of San Diego, CA. COGENSYS is the developer of the COGENSYS Judgment Software™ expert system. The software will be used by CYBERTEK customers to aid in underwriting and other decision-making processes. COGENSYS had approximately 25 employees at the time of the acquisition and annual revenue of approximately \$2 million.

CYBERTEK's product strategy, Enterprise Vision™, foresees the integration of the methods, systems, and functionality necessary to expedite the information-gathering and data processing functions of the four major "constituencies" that make up the insurance "enterprise"—the insurance customer, the field force, the home office, and the information providers (inspection services, clinical laboratories, doctors, etc.).

The strategy incorporates expert workstation software, a central repository of data, a seamless communications network, and system design and maintenance.

3. Warner Computer Systems, Inc., 17-01 Pollitt Drive, Fair Lawn, NJ 07410 (201) 794-4800

Warner Computer Systems, Inc., founded in 1971, currently provides back-office systems operations processing services to the insurance industry, principally in the assigned-risk automobile insurance category as a third-party administrator of automobile insurance policies for the State of New Jersey.

The company also provides access to a range of financial data bases to the financial brokerage community, banks, and private investors. This service represents under 10% of Warner's total business.

Through December 1990, Warner also provided microcomputer sales and hardware maintenance services to users of its financial data bases and to the general business community through its Microcorp subsidiary. These operations were discontinued by the company due to sales and margin problems. Microcorp had generated revenue of approximately \$10 million in fiscal 1990.

4. Policy Management Systems Corporation (PMSC), P.O. Box Ten, Columbia, SC 29202 (803) 735-4000

Policy Management Systems Corporation (PMSC) provides processing, electronic information services, applications software products, and associated support services to the insurance industry. PMSC was formed in 1974 as the PMS Division of the insurer, Seibels, Bruce and Company.



Prior to 1989, PMSC and IBM had worked together under various agreements. In 1989, this relationship was strengthened through IBM's acquisition of a 19.8% minority equity interest in PMSC for \$116.8 million. As part of this transaction, IBM and PMSC agreed to work closely together to develop and market automated solutions for the insurance industry.

Recent acquisitions made by PMSC include:

- In January 1991, PMSC acquired Management Data Communications Corporation (MDC) for \$5.9 million. MDC provides applications software and processing services to the group health insurance industry.
- In November 1990, PMSC acquired PMS, Inc. of Waco (TX) for \$9.1 million. PMS provides attending physician statements and personal history interviews to the life and health insurance industry throughout the U.S.
- In November 1989, PMSC acquired Advanced System Applications, Inc. (ASA) of Bloomingdale (IL), which provides software and processing services to the group health insurance industry. ASA had approximately 700 employees at the time of the acquisition and 1988 revenue of \$48.7 million.

PMSC is organized into five groups:

- The Industry Markets Group, responsible for marketing the company's property and casualty and life products and services
- The Technology Solutions Group, responsible for all Canadian operations
- The Financial Markets Group, responsible for all Asian and Pacific operations and provides the development and implementation of life and health systems and services in addition to sales and marketing of the company's health products
- The Insurance Services Group, responsible for property services, automobile services, and third-party administration marketing and services
- The Operations Group, responsible for the day-to-day operation of PMSC, its headquarters and data center, financial and legal services, physical facilities, and personnel and employee development



Definitions

No industry-specific definitions have been used in this report.

See the separate volume, INPUT's *Definition of Terms*, for general definitions of industry structure and delivery modes used throughout INPUT reports.



B

Forecast Data Base and Reconciliation

Exhibit B-1 presents the detailed 1990-1996 forecast for the insurance sector.

The forecast for network services shows no change from the previous forecast. The continuing recession should have no effect on the growing use of electronic information and network applications.

The 1990 forecast reconciliation is shown in Exhibit B-2.

User expenditures for 1990 are slightly below the previous forecast due to the impact that the recession had on earnings of insurance companies. Expenditures were reduced or delayed when sales fell and the value and earnings of portfolios dropped. As a result, expenditures for applications software products, systems integration, systems operations, and professional services were all \$10 to \$12 million below previous forecasts.

By 1995, the continuing recession will have more of an impact on forecast expenditures.

- Total expenditures will be 15% below the level of the previous forecast for 1995.
- The delivery modes that show the greatest drop from previous forecasts are systems integration and professional services.

Systems integration expenditures will be 36% below previous expenditures due to continuing delays in initiating projects and the increasing use of SO.

- SO provides a means for insurance companies to implement large new systems or use new technology while limiting up-front investment, which will be necessary for insurance companies in view of continuing financial difficulties.
- As a result, the use of SO will be 20% higher than the previous level forecast for 1995.



The forecast for the use of professional services is substantially (37%) below the previous forecast as well.

- Users are much more reluctant to initiate full development of new systems that require use of vendor professional services.
- Users are more inclined to consider the use of SO and SI alternatives to obtain a solution.

Although the forecast for the use of applications software products is down by 3% over the previous forecast, its growth rate will be above that of professional services, which suggests that applications software products will be a more desirable development alternative. This will particularly be true for applications software products that use workstation/PC equipment.

The use of processing services is forecast to be down about 13% from the previous forecast, due a decrease in the growth rate for this mode.

- Although some processing services work is being moved to in-house equipment with the aid of software products, there is not a significant trend to eliminate processing work.
- The decrease in the forecast rate of growth for processing services is principally related to the impact of the recession on insurance business.

Expenditures for turnkey systems are forecast to grow at the same CAGR of 5% between 1990 and 1995 as the rate originally forecast. This rate is the lowest growth rate for a delivery mode, but—in view of its unchanging forecast—turnkey systems does not seem to be under attack from another delivery mode.



EXHIBIT B-1

Insurance Sector
User Expenditure Forecast by Delivery Mode, 1990-1996
(\$ Millions)

Delivery Modes	1990 (\$M)	Growth 90-91 (%)	1991 (\$M)	1992 (\$M)	1993 (\$M)	1994 (\$M)	1995 (M)	1996 (\$M)	CAGR 91-96 (%)
Sector Total	4,017	10	4,410	4,878	5,462	6,104	6,879	7,750	12
Processing Services	351	7	375	402	431	462	495	530	7
- Transaction Processing	351	7	375	402	431	462	495	530	7
Turnkey Systems	292	7	311	331	349	366	380	397	5
- Equipment	140	7	149	159	168	176	182	191	5
- Software Products	105	7	112	119	126	132	137	143	5
- Applications	91	7	96	103	108	113	118	123	5
- Systems	15	7	16	17	17	18	19	20	5
- Professional Services	47	7	50	53	56	59	61	64	5
Applications Software Products	768	11	852	955	1,093	1,266	1,496	1,750	15
- Mainframe	311	5	327	344	367	388	413	438	6
- Minicomputer	116	6	123	128	132	136	140	145	3
- Workstation/PC	341	18	402	483	594	742	943	1,167	24
Systems Operations	778	16	902	1,037	1,227	1,416	1,632	1,885	16
- Platform Sys. Ops.	359	16	416	479	551	611	666	726	12
- Applications Sys. Ops.	419	16	486	558	676	805	966	1,159	19
Systems Integration	186	13	210	239	277	320	392	481	18
- Equipment	33	13	38	43	50	58	71	87	18
- Software Products	17	13	19	22	25	29	35	43	18
- Applications	13	13	15	17	19	22	27	34	18
- Systems	4	13	4	5	6	6	8	10	18
- Professional Services	132	13	149	170	197	227	278	342	18
- Other	4	13	4	5	6	6	8	10	18
Professional Services	1,434	7	1,532	1,662	1,804	1,957	2,123	2,305	9
- Consulting	334	9	363	416	470	531	598	673	13
- Software Development	906	6	959	1,009	1,064	1,123	1,179	1,240	5
- Education & Training	194	8	210	237	270	303	346	392	13
Network Services	208	10	228	252	281	317	361	402	12
- Electronic Info. Svcs.	155	10	171	191	215	245	281	317	13
- Network Applications	53	8	57	61	66	72	80	85	8



EXHIBIT B-2

Insurance Sector
1991 MAP Data Base Reconciliation
(\$ Millions)

Delivery Modes	1990 Market				1995 Market				90-95 CAGR per data 90 Rpt (%)	90-95 CAGR per data 91 Rpt (%)
	1990 Report (Fcst) (\$M)	1991 Report (Actual) (\$M)	Variance from 1990 Report		1990 Report (Fcst) (\$M)	1991 Report (Fcst) (\$M)	Variance from 1990 Report			
			(\$M)	(%)			(\$M)	(%)		
Total Insurance Sector	4,062	4,017	-45	-1	8,106	6,879	-1,227	-15	15	11
<u>Processing Services</u>	351	351	0	—	566	495	-71	-13	9	7
- Transaction Processing	351	351	0	—	566	495	-71	-13	9	7
<u>Turnkey Systems</u>	291	292	1	0	379	380	1	0	5	5
<u>Applications Software</u>	778	768	-10	-1	1,538	1,496	-42	-3	15	14
<u>Systems Operations</u>	790	778	-12	-2	1,300	1,632	332	20	10	16
<u>Systems Integration</u>	198	186	-12	-6	615	392	-223	-36	25	16
<u>Professional Services</u>	1,446	1,434	-12	-1	3,348	2,123	-1,225	-37	18	8
<u>Network Services</u>	208	208	0	—	360	361	1	0	12	12



About INPUT

INPUT provides planning information, analysis, and recommendations for the information technology industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions.

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