IBM Software Group
Thought Leadership White Paper

It's all about the customer

How today's ECM technologies can enable insurers to make the move to customer-centricity

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Introduction

Insurance markets continue to change, becoming more global and competitive, with narrower margins and increasingly demanding regulation. Advances in communications and information technology are resulting in the emergence of a wider range of distribution channels and a more discerning and fickle customer. The typical customer uses the Internet for retail purchases and is increasingly using mobile phones for shopping, as a wider range of applications and multi-media become available and access through social media grows apace.

Customers have more insurance information at their fingertips and expect quicker, more accurate service from an insurer or broker and in ways that suit their lifestyle. In short, the customer mindset is changing quickly and insurers need to be agile to differentiate. Any company not standing out from the competition or addressing customer needs will struggle in an increasingly demanding marketplace and be more likely to face takeover or a merger, especially as Solvency II and other legislation looms.

In the growing online, virtual world, insurance fraud is also rising. It is therefore equally important that the "prospects" and "suspects" can be identified at underwriting, renewal, and claims stages and through every contact, to identify profitable growth opportunities as well as deciding who to discourage or discard as churn increases.

This white paper fleshes out some of the key business and information technology trends and issues facing insurance markets. It reviews how insurers can respond through processes, distribution and the customer's increasing desire for self-service, but also highlights the need to communicate quickly with friendly, knowledgeable staff. It includes extracts from relevant surveys and reports referenced at the end of this paper[1].

The business challenge – diverse distribution channels but more personal

Customer and insurer views

In today's world of diverse distribution channels, the challenge to insurers is to get closer to the customer and enable them in turn to get closer to staff and receive the relevant information, quickly.

The "customer" can be defined as the "outer office" – not just the policyholder, but also the company staff in the office who are increasingly working from home, as well as others in the process chain, including chain-brokers, adjusters, lawyers and suppliers.

A survey of more than 7,000 life and general insurance policyholders across 13 countries[2] indicated the size of the challenge and the opportunity to differentiate:

- More than three-quarters (78 percent) of respondents think that insurance products and services are not easy to understand.
- Almost the same number of respondents (75 percent) believe that insurers generally offer the same products and services.
- More than three-fifths (61 percent) of respondents said that it was very important for their insurer to provide prompt and effective service and to answer requests in a timely manner, but only 32 percent of respondents were very satisfied with their insurer's ability to deliver such a service.
- While 53 percent of respondents stated that access to the information they need, whenever they need it, is very important to them, only 29 percent felt very satisfied with their insurer's capacity to provide assistance on a 24-hour, seven days per week basis.

A global survey of 119 insurers[3] revealed that more than three-quarters of respondents (79 percent) rated themselves as "average" or "among the weakest in the industry" in their ability to provide their customers with multi-channel access to their services, including through mobile devices. More than two-thirds (70 percent) rated themselves as "average" or "weak" in their ability to tailor products and services to customers' needs, while almost two-thirds (64 percent) gave themselves similar ratings in their ability to provide innovative products and services.

The end customers are changing their communication habits as mobile and online access widens to an increasing number of applications. Different insurance markets are experiencing changing customer mindsets, but the underlying trend is a growing expectation of instant service whether online via a company website, email and social media, or through a call centre. They compare the retail experience of services such as Amazon and quickly tell their friends if the service they receive is not up to scratch.

The paradox is that although many customers would prefer a "self-service" approach, they are also demanding to be treated more personally.

Research of more than 1,000 UK insurance consumers[4] revealed that 91 percent felt insurance providers consistently failed to meet their needs when it came to customer engagement. Almost two thirds (61 percent) felt they were not marketed to as an individual, while more than half (56 percent) believed that, judging from their insurer's communications with them, they did not have any idea of who they were. When asked if they felt their insurance company communicated with them on the provider's terms, rather than the customer's, the majority (59 percent) said it was on the provider's terms.

The study identified that 66 percent of customers felt that their perception of their insurer would improve if it referenced matters relating to their account in its correspondence. Furthermore 36 percent say they would be more likely to recommend their insurance company if it engaged in a dialogue that made them feel they were being treated as an individual.

30 percent of insurance customers stated that they would be interested in receiving fewer communications by post and so do their bit for the environment.

Churn and rising fraud

The experience in the UK personal lines market indicates that the increase in comparison sites (aggregators) has resulted in a larger renewal churn and higher insurance fraud levels as insurers have become more remote from the customer. With online activity increasing in the US the same pattern is also emerging there.

UK insurance fraud generally increases in hard economic times. The latest Association of British Insurers (ABI) figures indicate that it costs UK insurers more than £2 billion per year – five percent of all claims – adding an average of £44 a year to every UK policyholder. The Insurance Fraud Bureau (IFB) has rolled out a web portal service to assist fraud identification and the industry is detecting more claims than ever – more than 2,500 claims worth £18 million are detected every week, according to the ABI – but much more still needs to be done by the market players.

According to a survey of more than 1,000 adults in the US[5], 55 percent of respondents indicated that poor service could result in more fraud. 68 percent said they believed insurance fraud occurs because people believe they can get away with it (up from 49 percent in 2003).

In an ever-more competitive marketplace, the cost-v-service equation is continually relevant for the insurer. The selectivity of a future customer begins at the quotation/underwriting stage to identify what level of service to offer or indeed to decline if thorough fraud checks are applied.

While 56 percent of personal car insurance customers indicated they had used the same insurance provider, policy retention rates vary widely between UK insurance companies ranging from a high of more than 80 percent to a low of 35 percent, according to a quantitative study[6].

A single view of customers is a key foundation

Bringing all the information together

Straight-through processing is becoming a "must have" for organisations, but it needs to be accompanied not only by fraud checking but an assessment of the growth opportunity for the end customer. To this end, it is vital to have an overall customer profile, bringing together all incoming and outgoing information available for instant recall – for instance, previous policies through other channels, claims history, geographic location, favoured communication methods and social media channels – in order to create a selective but more personal approach – matching the right product benefits at the right price for the chosen end customer.

The insurance industry has not been at the forefront of successfully implementing customer relationship solutions, and the combination of a diverse distribution network and a changing customer mindset is making it much more difficult. One survey[7] showed that 40 percent of UK insurer respondents did not have a single view of the customer, compared with around 33 percent of German respondents. Neither has the industry been a leader when it comes to anticipating the impact of social media to provide a new, cost-effective way of achieving a more personal approach or understanding the inherent danger of instant reputational risk if an insurer does not fulfil its promises on service and product.

A survey of 57 insurance leaders highlights what executives think about the strengths of the industry and the impact of regulatory and economic pressures. It was conducted alongside an ABI quarterly consumer survey of more than 2,500 UK adults.

The key findings showed:
- Industry leaders think that the industry's greatest strength is helping customers at their time of need (top answer at 39 percent), closely followed by its contribution to the economy (21 percent).
- The industry's ability to help people when they need it is also the top answer for customers (18 percent).

But executives believe the industry's greatest weakness is its reputation – cited as top by a third of people – ahead of how the industry interacts with customers.

Two thirds of executives recognise that more needs to be done to show customers that it delivers a good service, especially in light of the wider implications of the financial crisis.

"Unprecedented reforms in how we sell to our customers and how people save, present real opportunities to raise our reputation and improve understanding of insurance. We need to grasp these opportunities with both hands, and make sure that we create an environment where our reputation reflects our value to society and the economy."

– ABI Director General, Otto Thoresen

Social media – catching a tiger by the tail

Social media provides a real, growing opportunity to develop a more personal approach with the customer. It is much more than one-way "advertising". It provides a unique and ongoing opportunity to participate in, monitor and predictively analyse conversations globally, to form customer groups and integrate analytics into marketing activities such as business intelligence, campaign management and emails.

A social media strategy needs to be deployed across all distribution channels so it can reveal what an organisation's most valuable customers are saying about it and provide customer (and business partner) sentiment analysis. It needs to enable targeting of preferred customers, hone product and pricing development, uncover fraud and integrate with other information sources to monitor market trends and competition – essentially helping to manage and enhance a company's reputation.

A report[8] at the end of last year indicated that social media growth would not be restricted to personal lines. Of the respondents, 96 percent of commercial lines insurers and 93 percent of London Market players expect some element of customer activity through social media by 2016, compared with 77 percent of personal lines companies. 88 percent of insurers and brokers surveyed foresaw social media channels revolutionising communication during surge events.

The Facebook generation has arrived

A report[9] sheds light on how the UK's young adults engage with insurers. Defined as the 'Facebook Generation', the surveyed group of 18-25 year olds has taken social media and its ideologies into adulthood, influencing how they deal with insurance companies and 60 percent rely on friends and family for financial advice.

A common goal amongst this Facebook Generation is to obtain great value on their insurance facilities and cheap premiums for motor or home insurance. Driven by the 'price-comparison culture' of aggregators and high-profile consumer websites, 42 percent of the Facebook Generation requiring motor insurance changed their provider at their last renewal, compared to 34 percent of all adults.

Data reveals that young adults – those aged 18 to 25 – are the fastest growing segment of society for visits to insurance websites, increasing by 40 percent in the last year alone.

The research also shows that of the 48 percent of young adults with some form of motor insurance, nearly half (46 percent) arranged it directly with the insurer via the Internet (compared with 38 percent of all adults) and a further quarter (26 percent) used a price comparison site (compared with 19 percent of all adults).

This trend is echoed in the figures for buildings and contents insurance with almost a third (31 percent) of young adults arranging it direct with the provider over the Internet and a further 12 percent through an aggregator. The corresponding figures for all adults were 23 percent and nine percent respectively.

A low point in fragmented processing

From this low point of fragmented processing and end customer knowledge, the business challenge is to coordinate an approach of customer selectivity and segmentation, and monitor more closely and frequently a customer's potential, desires and satisfaction across all channels and products. From this, different levels and types of service and cost models will emerge. This approach will result in filtering out the "suspects" and optimising profitable growth with the "prospects". It will also increase the predictive analytics available on customer behaviour and satisfaction, product mix, channel performance and claims trends and projections.

Those insurers that can grow and sustain an ongoing flexible customer focus strategy will be the winners when the introduction of Solvency II in Europe, and similar regulatory requirements elsewhere, differentiates the stronger organisations from the competition.

A starting point is to take a company and its external office-wide view of information in all its guises, including the processing and the people interface. Measurement, monitoring and analytics will result in quicker, wider and better decision-making.

Closer customer focus is an essential strategy for the future in order to impact the service, cost balance, product mix and distribution channels, and all processing from quotation and underwriting to speedy, fair claims settlements.

Underwriting to be more personal

A survey[10] looking at the competitive and unprofitable UK motor insurance sector said that insurers should be spending far more on their people and technology to keep up with the demands of rapidly shifting distribution. Over half of interviewees identified weakness in pricing skills as the greatest human barrier to maintaining and enhancing personal motor profitability.

In terms of making the end customer relationship more personal, the use of telematics is gathering speed.

Over two-thirds of UK drivers aged over 35 would consider having a telematics monitoring device fitted in their car to save money on their insurance and willingness to potentially participate in a pilot scheme was higher still at 77 percent. The research also shows that drivers of other ages, both men and women, are open to the idea.

Installing a telematics device came in second to 'shopping around' as a way of saving money on car insurance. Nearly half (48 percent) selected it as an option and in preference to actions such as reducing the level of cover or increasing the voluntary excess on the policy.

A recent global study[11] predicted that with more than two million customers, the Pay As You Drive (PAYD) market has reached the tipping point and could be multiplied by 50 by the end of the decade, generating €50 billion in premiums.

Claims transformation

Claims are the raison d'être of the insurance business, where streamlined processes between the insurer, the outer office, and the end customer are key to an improved bottom line and increased customer satisfaction and retention.

A global report[12] focused on claims transformation and has five key conclusions regarding what insurers need to do:

- Transform claims to meet customer needs while driving results
- Stabilise reliable claims processing platforms
- Manage indemnity expenses more effectively
- Leverage claims data for enterprise-level decision making
- Ensure critical business agility especially if seeking to thrive long term.

The report emphasises that with a less than satisfactory claims experience prompting one in five customers to switch insurance providers, claims transformation is where many insurers, especially non-life insurers, are finding both operational efficiency improvements and the tangible substantiation of their brand platform necessary to deliver on customer commitments.

Insurers should implement and stabilise a reliable claims platform that leverages technology to enable integrated claims processing, enhance process efficiency and cost effectiveness, reduce cycle times and allow performance measurement. By closing process gaps, insurers should be able to reduce existing loss-adjustment expenses and drive continued improvements. Insurers should optimise fraud management to reduce costs (and ultimately improve combined ratios) by making sure fraud is detected quickly and effectively, without undermining customer satisfaction or unduly raising litigation costs or creating new net costs.

For an insurer, the ideal business information system makes efficient use of enterprise-wide data to support business decisions. Insurers need to leverage the full value of claims data by making sure the right data is captured and used to support business decisions, delivering benefits in terms of profitability, efficiency, strategic planning and regulatory compliance. Ultimately, in an intensely competitive insurance market, differentiation through innovative claims management practices is going to be the most important and effective way to maintain market share and profitability.

Claims transformation not only improves everyday efficiency and effectiveness, it also enables insurers to deliver on their brand promise and enhance brand value for the long term. It can help drive top-line and bottom-line growth by improving client acquisition, client retention, procedural efficiency and effectiveness, and risk management. Without it, insurers will be challenged to differentiate themselves and maintain and evolve their market position.

With insurers seeing continued shifts in regulation, customer preferences and technology, they must also demonstrate agility in adapting to conditions effectively if they are to solidify customer relationships and achieve sustained results.

The impact of upcoming regulation

Changing customer communication trends will influence, and be influenced by, Solvency II and other regulatory changes. With Solvency II, distribution, pricing and product mix, impact operational risk and risk management, whilst reputational risk needs to be monitored closely because of the rapid growth of social media and mobile communications.

Another example of an opportunity to differentiate is the upcoming Retail Distribution Review (RDR) in the UK life and pensions market. This will shake up existing distribution channels, with the likelihood of a reduced IFA channel and increased contact with the customer.

With the trend towards fewer but more highly skilled staff, the winners will be those insurers that can be more personal and selective with their client base and identify when and what to automate throughout the process chain. Self-service by the end customer and the outer office should be encouraged by safely sharing information and promoting better and quicker decision-making.

The Internet, and electronic communication generally, enables metrics to be applied to assess customer satisfaction and desires alongside service and cost levels.

Technology solutions rising to the business challenge

Solutions have moved on apace

In such a volatile business and regulatory environment, information technology has to be quick to install, agile and cost-effective.

Today and tomorrow's distribution challenges require a wider technology solution: one that covers a single view of the customer, shared and coordinated enterprise content management across structured and unstructured information, the ability to process across all channels (including social media), a wide range of analytics and metrics, business rules, predictive modelling and external resources.

The growth of business process management systems has been fragmented with many point solutions over the years and is now in need of coordination and integration with the other key technologies.

Today's technology solutions have moved on apace. It recognises that the old framework divide of front- and back-office now needs to be seamless and, whenever appropriate, shared and updated online by staff and the outer office and with self-service by the end customer to be encouraged.

Enterprise content management systems are at the very heart of the emerging strategic scenario to customer centricity. Sophisticated capture, indexing, knowledge searching and the speedy retrieval of the ever increasing and diverse customer information, are providing an opportunity to reduce costs, improve service and enable higher retention and growth.

What were separate technology solutions are increasingly linking with core enterprise content management. This original home for the measurement of process performance is expanding to include a wider range of customer satisfaction levels, predictive and business analytics, business rules, and links to external resources such as modelling, market intelligence, fraud prevention and geographic information systems to aid underwriting, claims settlement and customer segmentation.

One of the biggest advances is the potential to gain much more knowledge about existing and potential customers from the rapidly increasing mix and availability of “big data”.

The knowledge worker sitting at the sharp end of the more complex iterative processes in underwriting and claims within the company and the outer office will increasingly find that they can retrieve and share much more information. This enables them to not only streamline the process and speed up the service, but also allow quicker, better decisions to be made. The business manager is now in charge of tweaking the system, the business rules and the analytics, and solutions are being installed in a much quicker timeframe than in the past.

Insurers are quickly moving up the food chain of data from information to actionable intelligence.

What has been achieved

Below are some worldwide examples from insurers demonstrating successes and achievements from the deployment of solutions aiming to improve service to customers, enable more effective management, reduce costs, increase profitability and differentiate.

A mid-range US insurer improved business performance to become the largest insurer in its State without having to employ more staff. It reduced image retrieval times by 75 percent to provide a quicker service to customers and agents. Policy information can now be accessed in five seconds or less.

A global insurer and reinsurer operating in 53 countries needed to enable its 10,000 knowledge workers to respond more rapidly to market and competitive changes. Its solution development cycles were reduced from months to weeks and the sales cycle was accelerated.

A worldwide financial services organisation reduced losses and fraud, while maintaining an optimum level of reserves by correlating information from a range of data sources to gain a more complete picture of insured policy risk exposure.

A large US property and casualty provider improved disability claims processing productivity by 53 percent and reduced administration costs per claim by 11 percent. 1.7 million claims were paid automatically with 95 percent of claims being paid within 28 days.

A global property and casualty insurer operating in more than 130 countries created a 360 percent view of the customer. Policy information was aggregated and rationalised, and underwriting decisions and reserving were improved. A foundation was set for the analysis of structured and unstructured content and a Centre of Excellence for analytics was created.

A Dutch health organisation improved claims productivity by 75 percent. $100,000 was saved in reduced printing, distribution and storage costs, with a 60 percent reduction in paper usage and 90 percent greater efficiency in traditional mailings.

A US life insurer streamlined servicing of life and annuity policies by providing more efficient access to more accurate customer information, improving customer wait time and reducing overall operational costs.

Finally, **a division of a global insurer** aimed to standardise and improve processes and procedures across the enterprise and improve its service to independent agents. The insurer improved turnaround from weeks to days, productivity rose by 125 percent and it achieved its first underwriting profit for five years. Additionally, it reduced full-time service employees by 59 percent and full time equivalent (FTE) back-office staff by 25 percent.

The new customer relationship

In summary, with a changing marketplace, increasing regulation and technology offering a wider range of distribution channels, insurers can see this as a mountain to climb or an opportunity to differentiate. Relationships with the end customer and the outer office are at the heart of the business. How risk is identified, priced or rejected, and recognising and realising the customer value potential is the key challenge.

What is required is a single view of the customer across distribution channels, knowing customers' preference for communication, and measuring satisfaction, service and performance cost levels.

In an increasingly competitive marketplace, particularly in the personal lines sector with its high churn at renewal, getting closer to the end customer and enabling them (and the outer office generally) to also get closer to the organisation, will impact pricing and product offering, enabling value assessment or otherwise. The total information on the customer must be managed, be able to be analysed, securely shared and monitored incorporating incoming enquiry from all channels with an automated response where appropriate, and outgoing service and marketing messages to the end customer or outer office participant. Measurement and analytics by channel and customer are vital to identify the service-v-cost equation, customer value potential, and the pricing and product mix.

Finally, a recent worldwide survey[13] stated, "If 2011 was the year of retrenchment, then 2012 is the year of the customer. Leading insurers are keenly focusing on improving the customer experience to differentiate themselves from competitors and expand their global market share.

Technology: Innovation is happening in all aspects of information, from capturing and interpreting to integrating and sharing. Innovation is enabling insurers to make better and smarter use of greater amounts of data. While personal lines carriers are further along in their use of technology, today all insurance sectors have an opportunity to use big data and smart analytics, many for increasingly large and complex risks.

In these instances, big data will be used not only to automate, but also to enhance underwriting processes, reduce cycle time, facilitate better pricing, improve loss control and better inform decision making related to customer acquisition and retention.

One of the largest challenges insurers will face in 2012 and beyond is capturing and interpreting data from a growing number of structured and unstructured sources, including but not limited to social media, policyholder behaviour and telematics. Insurers that apply advanced analytical techniques to harness the power of big data will be better able to understand their customers, tailor products to meet their needs and enhance the overall customer experience.

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Douglas Shillito is a leading insurance business analyst and commentator.

After starting his career with Royal Insurance in a variety of management roles followed by a spell as a business consultant with a company of insurance systems analysts, he formed Shillito Market Intelligence in 1981. Here he pioneered a number of newsletters, other publications and conferences on the strategic application of information technology to the insurance markets. He started Insurance Newslink in 1993 and the global structured Internet database now has more than 40,000 articles.

He acts as chairman, facilitator, speaker and trainer at public and private events worldwide. In a consultancy capacity he has advised more than 100 clients including market players and leading IT suppliers. He regularly writes sponsored white papers for major IT companies on the insurance markets and the business impact of IT.

Douglas is a past vice president of the Chartered Insurance Institute, was a founder and past chairman of the CII Society of Fellows, and has been a judge at the British Insurance Awards, the Insurance Times Awards and the ifs School of Finance Innovation Awards. He is a member of the Geneva Association Communications Advisory Committee.

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