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The customers have spoken, are the insurance companies listening? A survey of the global insurance market

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The challenge of responding effectively to rapidly changing consumer needs and behaviors is recognized as one of the top strategic agenda items. We set out to obtain hard evidence of customer attitudes and behaviors. We undertook a worldwide insurance customer survey – unprecedented in both its scope and scale – to explore what drives consumer behavior across the whole customer life cycle and to test some of the received wisdom held in the industry today; to separate myth from reality, if you will. Our research reveals that while, of course, there are significant variations in customer attitudes and behaviors around the globe, there are some underlying themes that are remarkably consistent. Our findings also clearly show that insurers are far behind other sectors in meeting consumers' expectations. So how should insurers respond? They undoubtedly need to rethink their approach to customers and seek to implement a tailored, yet lower-cost "customer-centric" operating model to support it better. Insurers will need to define what it means to be customer-centric and develop critical new competencies, aligning their operating models accordingly. Significantly, although the above activities may be considered transformational to many in the industry, we believe they will only provide insurers with the ability to catch up and otherwise "protect the core." To leapfrog competitors and generate significant growth requires true customer-centric innovation and a significant change in approach to strategic decision-making. Implementing these strategies will future-proof the core business, while allowing insurers to redefine customer relationships and become a different insurer – the insurer of the future.

Introduction

The financial services industry continues to operate in a challenging, volatile, and uncertain economic environment. Global Insurers, in particular, face significant headwinds as competitive forces, increasing regulation, disintermediation, and new technologies impact their business models and put immense pressure on the cost of doing business. Although the demand for insurance, savings, and investment products remains relatively strong across the world, increasingly diverse customer needs, buying behaviors, and expectations, combined with rapidly evolving consumer protection initiatives, make navigation through this difficult time more challenging. The ever-increasing integration of technology and life, through the use of smart devices, mobile connectivity, and social media, are blurring the boundaries of online and offline worlds, giving greater power and choice to consumers and driving a fundamental shift in customer expectations in terms of how products are marketed, priced, sold, and serviced, and, of course, how companies are perceived.

Learning from previous recession experiences, the winners in the insurance market will be those that equip themselves with a clear understanding of customer needs and behaviors in all relevant geographies, sectors, and channels, to help them drive profitable growth strategies and provide the confidence to invest in growth opportunities, at a time when securing budget is extremely difficult.

The discussions we have had with global insurance executives, non-executive directors, regulators, and supervisors corroborate this view and demonstrate, without exception, that the challenge of responding effectively to rapidly changing customer needs and behaviors is one of their top strategic priorities, alongside regulatory change and talent management.

In response to this, we set out to obtain real data and evidence around customer attitudes and behaviors, and, specifically, to answer the following two critical questions: how do consumers view and interact with the insurance industry today, and more importantly, what are their future intentions and expectations? We believe that insurers can no longer rely on long-held assumptions and received wisdom about what consumers think and how they behave. Our objective was to truly listen to “the voice of the customer” and thereby understand how companies need to evolve if they are to capture the growth opportunities

now and after the global economic crisis settles. Working with the independent firm Ipsos, we canvassed the opinions of 24,000 consumers across 7 regions¹ and 24 countries around the world, covering both life and non-life (personal lines) sectors. In this research, we set out to explore what drives consumer behavior across the whole customer life cycle, from initial research through purchase, servicing, repeat purchases, claims, and termination. We also set out to test some of the received wisdom held in the industry today, to separate myth from reality, and provide hard evidence of what customers really demand. The overwhelmingly positive response and huge level of interest we have received since publication, is yet another indication of how unprecedented this kind of fact-based research is in the insurance industry.

The world is changing: it will be reshaped, driven by changes in the global economy, technology, and customers

The current macroeconomic environment presents a considerable challenge for insurers operating in mature, developed economies. High unemployment rates, downward pressure on household income, continued housing market issues, and other factors, continue to exert pressure on the demand for insurance products. Worldwide, real growth of non-life premiums totaled just 1.9% in 2011, while life premiums declined by 2.7% from their 2010 levels.² Given this context, insurance companies need to up their game in order to maintain their “share of wallet,” let alone grow it.

Even within emerging markets that have experienced strong growth over the past decade, where insurers have battled hard to win the first product from the customer, the growth curves have now started to flatten. Insurers in southeast Asia are reflecting on the longer-term issues that have plagued the more mature markets and anticipate that similar regulations flowing through to their markets will challenge the traditional distribution models in this region. We are already seeing many multinational companies in this region preemptively placing more focus on customer satisfaction indices and persistency rates as part of senior management performance scorecards, and introducing customer-centric initiatives such as welcome calls. Notably, domestic companies appear to be further behind.

1 For the purpose of this article, we have separated the results for the Americas region between North and South America to reflect the differences between the developed and emerging markets within the region.

2 Swiss Re, sigma No 3/2012.

Industry profitability also continues to be pressured by weak investment returns, driven by the current low interest rate environment and equity market volatility. This, combined with uncertainties surrounding the impact of new regulations and the ongoing Eurozone debt crisis, has raised the bar for business case development for investments in new or expanded capabilities. As a result, the historical cycle of spending on cost cutting during difficult times and spending on growth initiatives during prosperous times has been replaced with the “new normal” of managing investments with the dual purpose of growing the business while maintaining cost competitiveness.

At the same time, a new global economy is emerging that presents opportunities as well as challenges for insurers. A shift from West to East, with developed economies contributing less to the global GDP in future (two-thirds of new middle-class entrants will come from China and India), is introducing new players to the economic scene. Increasing urbanization, as populations shift to economic hubs, is creating megacities. Yet, at the same time, a global village emerges as communities form, based on common interests, unrestricted by geographic boundaries.

Technology is moving faster than anyone ever imagined and adoption is growing at an exponential rate. The integration of technology and life is a fact. We are never offline, we are increasingly connected. The use of smart devices, mobile connectivity, and social media are blurring the boundaries of online and offline worlds. By 2020, 80% of the global population will have access to mobile telephony and more than 60% to smart phones or low-cost tablet computers.³ It is anticipated there will be over 50 billion connected devices globally,⁴ with mobile devices being the primary internet device for most individuals. As a result, real time decision-making will increase and the phone will become the main purchasing and payment tool for many.

Social media and unprecedented access to information, such as peer-to-peer product and service reviews, are giving greater power and choice to consumers, creating more informed and more demanding customers. Insurers are dealing with a very different customer.

What does this mean for insurers? Well, it is a different world. Disintermediation has changed, and continues to change, the customer relationship. By losing touch with customers, insurers risk becoming viewed as only administrators, managing the lowest margin in the value chain. In some non-life markets, this is further exacerbated by the fact that there are two parties involved in the customer relationship, the broker and a comparison website. In mature markets, one of the biggest challenges life insurers with largely intermediated distribution models have encountered is how to introduce and integrate fledgling direct operations effectively, and how to manage the ensuing customer ownership issues with existing agents and intermediaries. This will similarly become a significant issue in emerging markets like Asia, as direct channels emerge to complement traditional agent channels, to service more demanding and tech-savvy consumers.

Evolving consumer protection in most mature markets is also posing a challenge, forcing insurers to shift operating models and undertake significant investments in new capabilities. Regulators across the globe have responded to the financial crisis by tightening regulations to improve outcomes and reduce risk for customers, such as the E.U.'s PRIPs and MiFID regulations,⁵ the Dodd-Frank bill⁶ in the U.S., the introduction of RDR⁷ in the U.K. (abolishing commission and professionalizing advice), and the Australian FOFA⁸ reforms, which promise to “go further than RDR.” Even in advanced developing markets we can see signs of a rapidly changing regulatory landscape. Hong Kong and India are introducing remuneration disclosures and moving away from commissions. Singapore is initiating the FAIR review,⁹ which will make significant increases in advisor qualifications quite likely and raise questions about future remuneration models. South Africa is considering RDR/TCF¹⁰-like initiatives to improve the professionalism of advice, and other emerging markets are looking to the U.K.'s Financial Services Authority (FSA) as a

3 Institute for the Future and Rockefeller Foundation, 2011, “2020 forecast: the future of cities, information and inclusion,” January.

4 Hans Vestberg, President & CEO of Ericsson, GSMA Mobile World Congress 2010.

5 Both the Markets in Financial Instruments Directive (MiFID), introduced in November 2007, and the proposed Packaged Retail Investment Products (PRIPs) regulations aim to improve investor protection in the investments market.

6 Dodd-Frank Wall Street Reform and Consumer Protection Act 2010.

7 Retail Distribution Review (RDR) is a key part of U.K. Financial Services Authority (FSA) consumer protection strategy.

8 Future of Financial Advice (FOFA) package of legislation designed to improve quality of financial advice.

9 Financial Advisory Industry Review (FAIR) by the Monetary Authority of Singapore (MAS).

10 TCF – “treating customers fairly,” a U.K. FSA initiative central to the delivery of their retail regulatory agenda.

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model upon which to base their regulatory regimes. All this is placing significant pressure on advice and distribution, to improve customer outcomes while maintaining cost-efficiency.

In response, both insurers and intermediaries need to focus on improving productivity, getting a better understanding of client value by channel and other segments, and reducing the “cost-to-serve,” for example, by passing parts of the process back to the customer in the form of self-service. Distributors who cannot afford to manage their entire client portfolio proactively are looking to product providers to help them reduce costs through advisor technologies, using a B2B2C approach.

The competitor landscape will inevitably look different in the future. Pressure is already building as new entrants, operating models, and technologies become a real threat to the ownership of the customer relationship. Unless insurers adapt quickly and respond to these changes with innovative solutions, they risk becoming irrelevant.

Listening to the voice of the customer

We believe that, faced with these unprecedented challenges in the market, there is a risk that some insurers may not be listening and responding to the most important voice of all – that of their customers. For any insurers hoping to navigate their way through this difficult time, understanding how customer behavior and attitudes are changing is critical. Previous assumptions and received wisdom about customers may no longer be reliable and those insurers who are able to respond best to what customers want now are most likely to succeed. The challenge is to really understand what drives customer behavior today and tomorrow, not yesterday, in all geographies, sectors, and channels where they operate.

Our Ernst & Young 2012 *Global Insurance Consumer Survey* (published February 2012) found that while, of course, there are significant variations in customer attitudes and behaviors around the globe, there are many underlying themes that are remarkably consistent.

Theme 1: customers want to be able to buy with confidence

In both life and non-life sectors, customers want products, and the purchasing process, to be simple and transparent so that they can understand what they are buying. They want to build long-

	How satisfied are you with the overall service from your provider (mean score out of 10 – where 10 is extremely satisfied)? – life sector	Are you confident that the product you have bought is the right one for your needs (% saying yes)? – life sector
India	7.9	93%
South Africa	7.9	92%
North America	7.5	84%
South America	7.6	85%
Europe	7.2	79%
Asia Pacific	6.6	76%
Japan	6.6	51%
UAE	6.7	80%

Table 1 - Customers are generally happy with the insurance companies

	% not very or not at all confident	% fairly or very confident
Europe		
Turkey	30%	63%
Poland	22%	74%
Italy	19%	75%
Netherlands	15%	76%
Spain	14%	82%
Germany	14%	82%
France	11%	82%
U.K.	11%	84%
Asia Pacific		
South Korea	38%	59%
China	28%	70%
Hong Kong	27%	71%
Singapore	15%	81%
Indonesia	14%	85%
Australia	12%	83%
Malaysia	6%	93%

Table 2: How confident are you that the product you have bought is right for your needs? – life sector

term relationships with insurance providers based on trust, and to have confidence that the products they are buying are right for them and meet their needs.

In the life sector, one of the most striking and positive findings from our research is that the reputation of the industry has not been tarnished by the global financial crisis. Received wisdom is that the financial crisis has created a perception that all financial services companies are untrustworthy. However, our research indicates this is not the case in the insurance sector, where most customers have a surprisingly positive view of the industry. The

majority of customers still have reasonably high satisfaction levels and are confident that the products meet their needs (Table 1). However, as shown in Table 1 and in more detail in Table 2, there is no room for complacency. For a significant minority of customers in Japan, and in some developing markets in Asia Pacific (China, Hong Kong, South Korea) and Europe (Poland and Turkey), insufficient product understanding and information about product suitability is creating a lack of confidence that their product is right for their needs.

Of course, many of the products that exist in today's more developed life markets have historically been driven by the needs of regulators and intermediaries or agents. This is now changing, as providers recognize they need to simplify both products and product information, to meet the customers' need to understand clearly what they are buying. Global insurers' focus should now be on increasing levels of customer confidence in regions such as Asia, Japan, and some of the emerging markets in Europe, where respondents said the reasons they were not satisfied or confident that their policy met their needs were lack of information on how their products were performing, they did not fully understand the terms when they first bought the policy, or the fact that their needs had since changed (and had not been addressed). This implies considerable future challenges for emerging markets with traditional agency models, around agent training and agent attrition (orphan levels are already high and rising in these markets) as regulations tighten and customers become more demanding and sophisticated.

Our survey found a clear correlation between those customers who conduct higher levels of research and their confidence levels in a number of countries, including Singapore, China, Poland, Turkey, the Netherlands, and UAE. Those who conducted a high amount of research are 10% to 17% more confident than the average customer that the product they have purchased is right for their needs. Results from those customers surveyed in Japan reflected a more than 30% increase in confidence as a consequence. Interestingly, Indian and South African customers who appear to conduct significantly more research than any other country also have the highest levels of confidence overall.

Overall, customers are looking for value to be clearly demonstrated, reflecting a balance of price, product features, and service tailored to their needs. They also expect the buying

	Do you think that the non-life industry is behind other sectors in terms of service quality (% agree versus disagree)?		Do you think that the life industry is behind other sectors in terms of rewarding loyalty (% agree versus disagree)?	
	Non-life		Life	
	Disagree	Agree	Disagree	Agree
Japan	13%	26%	7%	30%
Asia Pacific	16%	41%	13%	47%
Europe	16%	38%	10%	53%
UAE	17%	49%	12%	55%
North America	16%	37%	13%	45%
South America	21%	48%	23%	42%
South Africa	12%	64%	15%	58%
India	30%	49%	28%	50%

Table 3

process to be convenient and transparent, allowing them to buy with confidence. Once they have made their choice and have an established relationship with an insurance provider, customers expect the product and service to deliver against their expectations. This may sound obvious, but the survey shows that customers' perceptions are that the industry is failing to deliver this in some key areas, as will be described later.

There is significant room for improvement compared with other industries. Despite the general level of satisfaction, customers believe the industry performs less well compared with others in terms of providing customer service and rewarding their loyalty. Across all regions and in both life and non-life sectors a significant number of consumers agree with the statement that the industry is trailing behind other sectors in both quality of service and how it rewards loyalty. These perceived shortcomings are most prevalent in India, South Africa, and UAE (Table 3).

Customers clearly want the industry to serve them better. Notably, many of the service improvements sought by customers in the life sector are centered around how they interact with insurers, whether it be improving the effectiveness of call centers, simpler and more transparent communications, or enhanced online services and information. There appears to be a shift away from the traditional "service issues" of billing and general administration, with the exception of India, where claims processing is highlighted as being particularly problematic (Figure 1). These findings show that the industry could do a lot more to bring itself into the 21st century.

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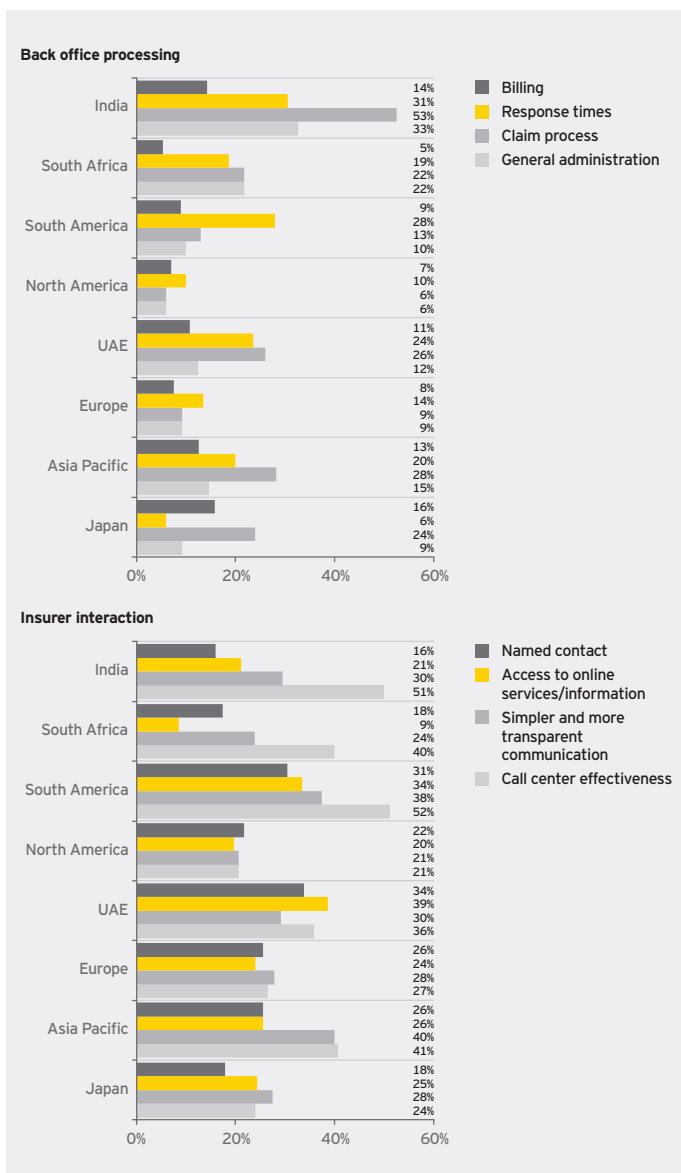


Figure 1: Which two or three of the following elements, if any, of the service you receive from your product provider would you like to see improved?¹ – life sector
¹Multiple answer question. Customers were asked to select all answers that apply, therefore total may add up to more than 100%.

In non-life insurance in particular, price is often the main measure of value since products are more comparable and the frequency of purchase drives greater customer familiarity and confidence. Price is, of course, important but increasingly, other factors such as brand and reputation are playing a bigger role, perhaps more than insurers either realize or care to acknowledge. This may be a reflection of market structure (such as a recent history of price tariffs) or it may be a more fundamental desire from consumers to find a measure of quality they trust. In highly competitive markets characterized by price transparency, there is a tendency for prices to converge. This leads to non-price factors such as brand becoming more important as customers search for a way to differentiate between providers – financial stability and brand, for example, can become a “kite mark” for quality. In contrast to the life sector, much of the improvements sought in non-life insurance are centered around product fundamentals, including discounts and coverage levels, as well as transparency of terms and conditions (Figure 2).

So what does this mean for insurers? Well, most significantly of all, we found that customers judge insurers against other consumer industries: they expect comparable standards of service and rewards for loyalty, similar to those they already receive from non-financial services companies. In our experience, insurers typically benchmark themselves against their peers in the industry, obviously a massive disconnect. Insurers need to evolve customer propositions continually to meet changing needs and expectations, particularly around improved information and transparency – and they need to look outside the industry to do this effectively.

Of course, the need for clarity and transparency is not driven purely by customer preferences. As mentioned earlier, as a result of the financial crisis, regulators around the globe are focusing on protecting consumer interests more than ever before, with major new regulations being introduced in the E.U. and many other countries around the world. Insurers that align themselves to a customer-centric model of operation will find the transition to the new regulatory environment less painful, and may gain competitive advantage compared to those that continue to rely on outdated models that fail to satisfy customers or regulators.

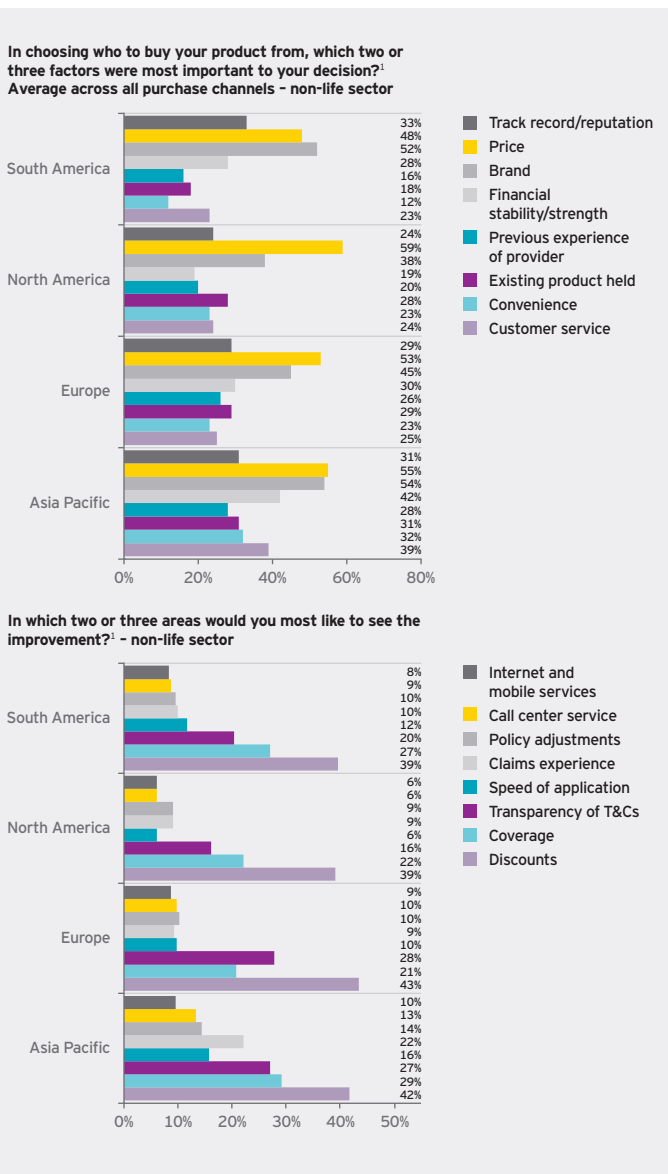


Figure 2: Factors that matter to clients
¹Multiple answer question. Customers were asked to select all answers that apply, therefore total may add up to more than 100%.

Theme 2: the internet and technology are changing the way customers engage with insurers, but traditional channels remain important

There is strong evidence in our findings that the way customers want to interact with insurers is changing. As noted previously, the internet is transforming consumer offerings in other retail industries and setting a new benchmark for how businesses interact with consumers. The customer-centric nature of pure internet businesses, such as Amazon or ebay, is influencing customers' expectations. These businesses are built on customer data, recognize each customer as a unique individual, and are able to offer product and service suggestions based on customers' past behavior and known preferences. Many also build in independent data as part of the offering, inviting customers to review what others thought of their purchases and making it easy for consumers to compare pricing and offerings.

Other industries, ranging from consumer goods to airlines and hotels, have to respond to the widespread availability of internet price comparisons¹¹ and independent quality ratings, often compiled by their own customers. These developments help customers buy with more confidence – and set an expectation that all sectors, including insurance, have to meet. This transparent, information-rich environment has fed an expectation among consumers that they will be able to do more independent research when buying insurance. While the level of actual insurance purchase over the internet remains low in many countries, its use varies considerably between countries in the survey. In every case we found that customers intend to do more research using the internet, even if they ultimately rely on conventional channels for purchase (Figure 3).

Many insurers are active in developing digital tools across several areas of the value chain. These have focused primarily on the provision of information, modeling personal requirements, and the generation of quotations. Non-life insurance lends itself more to internet purchase than life and pensions, given the higher customer familiarity and comparability of the products. Market innovations, such as mobile phone insurance quotation, policy maintenance, and insurance claims submission apps, signal the beginning of the mobile channel becoming a new medium for competing for customers.

¹¹ Price comparison websites allows people to see different prices offered by different insurance companies for an insurance product. Some of these also allow customers to buy insurance on their website, while others do not.

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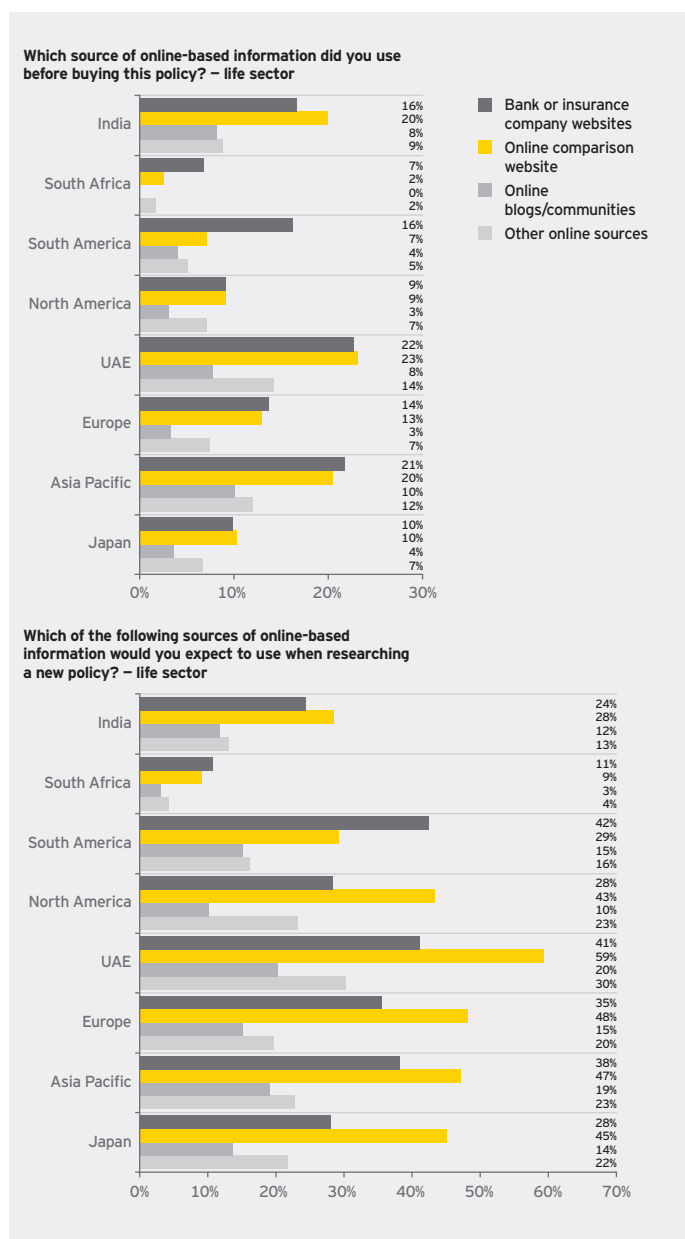


Figure 3: Customers are increasingly turning to the internet when making purchase decisions

The big question for the industry is what is holding customers back from transacting online? Is it pure preference, the limitations of digital capability currently on offer, data security, or the complexity of products for certain customer segments? Could the currently low levels of online transactions shift exponentially if these root causes were addressed?

In life and pensions in particular, the old adage that “life insurance is sold, not bought” is not the case for a growing minority of consumers. Received wisdom is that, because of a lack of customer knowledge and confidence, life insurance products must be sold to consumers, i.e., the purchasing decision is not customer-driven. Despite this very persistent belief in the industry, we found strong evidence that customers want to take more control when buying life, pensions, and investment products. The survey reveals that they are increasingly seeking information themselves, rather than simply relying on being “sold to.” As stated in Theme 1, research levels are already high in South Africa and India where 67% and 74% of respondents, respectively, say they conducted a great deal or a fair amount of research, in comparison with only 18% in Japan, 24% in South America and 27% across Europe. For future preferences, this is expected to increase by 35%–40%, with the greatest increases anticipated in South America and Japan (Table 4).

	Previous	Future
Japan	18%	57%
Asia Pacific	39%	73%
Europe	27%	65%
UAE	49%	83%
North America	28%	66%
South America	24%	69%
South Africa	67%	69%
India	74%	80%

Table 4: Customers who undertake a fair amount or great deal of research before buying – life sector

The internet is enabling this trend. Use of online information sources is increasing. Customers want to use sources they can trust, without risk of sales bias. In the past, customers often used friends and family as their trusted reference points. Although this is still important, our findings show increasing willingness to use online sources, which they perceive to be objective, for future research. These include comparison sites, blogs, and social media. Advice from an agent is still mentioned as a frequently consulted source, but it is only one of a wide range of sources consulted.

We found that customers understand their needs and what products should do. They have a clear understanding of the financial needs they want their products to meet, and this shows a logical variance by life stage. In their research, customers are looking for factual information to confirm they are selecting the right product to meet their needs. The top three factors customers identified across all regions were: financial stability, product features, and product performance track record. Factors such as brand or advisor recommendation are less important, with the exception of India where customers placed the brand of the insurance provider in their top three. This shows that customers are less influenced by providers' own claims or the recommendation of a salesperson, which could be biased. They want objective information to ensure that they make the right choice.

The implication of all this for insurers is that influencing objective sources of information is critical. Traditional marketing and distribution methods are not well-suited to the emerging customer trend of researching before purchasing, using objective and independent sources. The challenge for insurers is how to communicate their propositions so that objective sources represent them fairly, allowing the customer to make a well-informed choice. Actions speak louder than words. This goes beyond simple advertising. Getting the right message across to customers on internet-based information sources is a new challenge, to which other consumer industries are already responding. In essence, the internet offers huge opportunities for organizations that can harness the digital consumers to their advantage – nothing less than a massive new marketing department that is not even on the payroll. Additionally, billions of dollars are spent annually by insurers on publishing sales literature that consumers are telling us they no longer want – much of this could be saved by investing in brand and product positioning within social media, as this is where consumers today are increasingly building their brand respect. Insurers need to consider how they can simplify and demystify products and ensure they consistently deliver the service customers expect, so that independent commentators (including their own customers) comment positively about the company and its products through the independent sources. Simply telling customers how good you are cannot do this: you need to prove it by what you do and how you do it.

	Important	Essential	Not very/not at all important
Japan	19%	17%	18%
Asia Pacific	38%	26%	8%
Europe	31%	23%	14%
UAE	31%	38%	9%
North America	33%	32%	11%
South America	34%	38%	8%
South Africa	46%	41%	2%
India	50%	27%	5%

Table 5: How important is personal interaction to you when actually buying the policy? – life sector

Despite these trends, personal interaction remains important for most customers. The received wisdom is that personal interaction is essential to the purchasing process and our research indicates that this largely remains the case for life sector customers (Table 5).

Most customers still lack the confidence needed to buy without assistance. The two most common reasons cited for the continuing need for personal interaction are that products are too technical and complicated and that customers feel they need expert advice when making important financial decisions. Despite the need for expert assistance, it is important to note, however, that although consumers rely heavily on personal interaction to complete a purchase, our research across Europe reveals that 46% of customers say they would not pay for advice from agents or intermediaries, while 18% are happy to pay commission, 10% an up-front fee, and 11% say they would pay a combination of fee and commission. More worrying, is that a reasonably high percentage of consumers in some countries believe that advice is provided free of charge. This suggests that many customers do not really understand the cost, or appreciate the value, of advice.

	Respondents who considered using a comparison site	Respondents who actually bought through a comparison site
India	20%	11%
South Africa	4%	3%
South America	48%	11%
North America	28%	5%
UAE	40%	16%
Europe	38%	15%
Asia Pacific	49%	15%
Japan	17%	7%

Table 6: Importance of the internet in researching and purchasing – non-life sector

This problem may be exacerbated as regulators around the globe move to increase transparency of advisor remuneration and even, in some cases, ban commissions altogether. This is already observed in the U.K., where insurers are no longer able to pay commissions to advisors for the sale of investment products.

Customers would actually prefer products to be simpler and more transparent, making it easier for them to make an informed choice. A not-insignificant minority of the customers, mainly in developed countries (e.g., U.K., Germany, Netherlands, Japan) would prefer to take complete control over the buying process and do not want to be subjected to sales pressure. They also feel it is more convenient and they will get a better deal buying this way.

This has implications for the role of insurance intermediaries or agents – if customers are doing more research themselves and taking more responsibility for the product choice, what is the value-add of the intermediaries and what should they be remunerated for? In an industry where margins are coming under increasing pressure, insurers need to choose where they invest across the value chain, to avoid adding extra costs, while still paying intermediaries for services customers may prefer to access themselves.

We found a growing trend in all countries to using the internet to research non-life products (with nearly half of all respondents in South America and Asia Pacific considering using a comparison website), although levels of actual purchase vary considerably between countries. The highly developed U.K. internet aggregator channel is an outlier in this area (more than two-thirds of new business motor sales now go through this channel). We found that most other countries have a continued preference for more conventional channels to complete the purchase, including agents or brokers and direct channels. But, given the increasing use of the internet as a research channel, purchasing may follow if distributors make it easy for customers to compare prices and buy with confidence (Table 6).

Finally, the degree of use of online by non-life customers also varies by type of transaction: some are happy to use the internet to make a purchase but not to deal with a claim. In all locations, we found an emerging group of customers who had a preference for a wholly online experience, but most respondents still wanted

a mix of online and personal contact. This is explored in detail within Figure 4, reflecting the results from customers surveyed in the U.K., a country where online has grown rapidly over the past decade.

As we have seen in other industries, the emergence of new technology does not mean that existing channels become obsolete; just as eBooks have not fully replaced books, magazines, and newspapers and Skype has not replaced face-to-face communication. Digital is a complementary communication tool – and one that needs to be integrated within the business to drive sustained success in the market.

For insurers, this is forcing dramatic change on the operating model. Our research shows that, regardless of purchase channel, customers across both life and non-life sectors show a strong preference for a mixture of online and offline interaction. The challenge for insurers is that undertaking the necessary integration to ensure that customers can contact them by any channel, and get a seamless and consistent response, will require a significant change effort for many. Insurers need to ensure their sales channels focus on where they really add value to the end customer – in particular, providing the right expertise to help people make well-informed financial decisions. This will be helped by greater transparency in the sales process and in product design.

Of course, personal interaction does not necessarily mean face-to-face contact. This can be delivered remotely at lower cost. Telephone contact can be appropriate for some transactions, provided it builds the necessary customer confidence. Increasingly, web-based chat or video interaction is becoming acceptable, leading to much richer opportunities for remotely delivered personal interaction. Insurers may be able to develop new, lower-cost ways of interacting with customers that meet the need for personalized contact without the requirement for expensive face-to-face channels. This could be important, as the cost of sale, including advice fees and commissions, becomes more transparent to customers due to disclosure rules.

Lastly, insurers cannot afford to ignore the new breed of independent consumer, and need to recognize the importance of customers who are confident to buy on their own, and respond to this segment's needs. These customers are looking for good

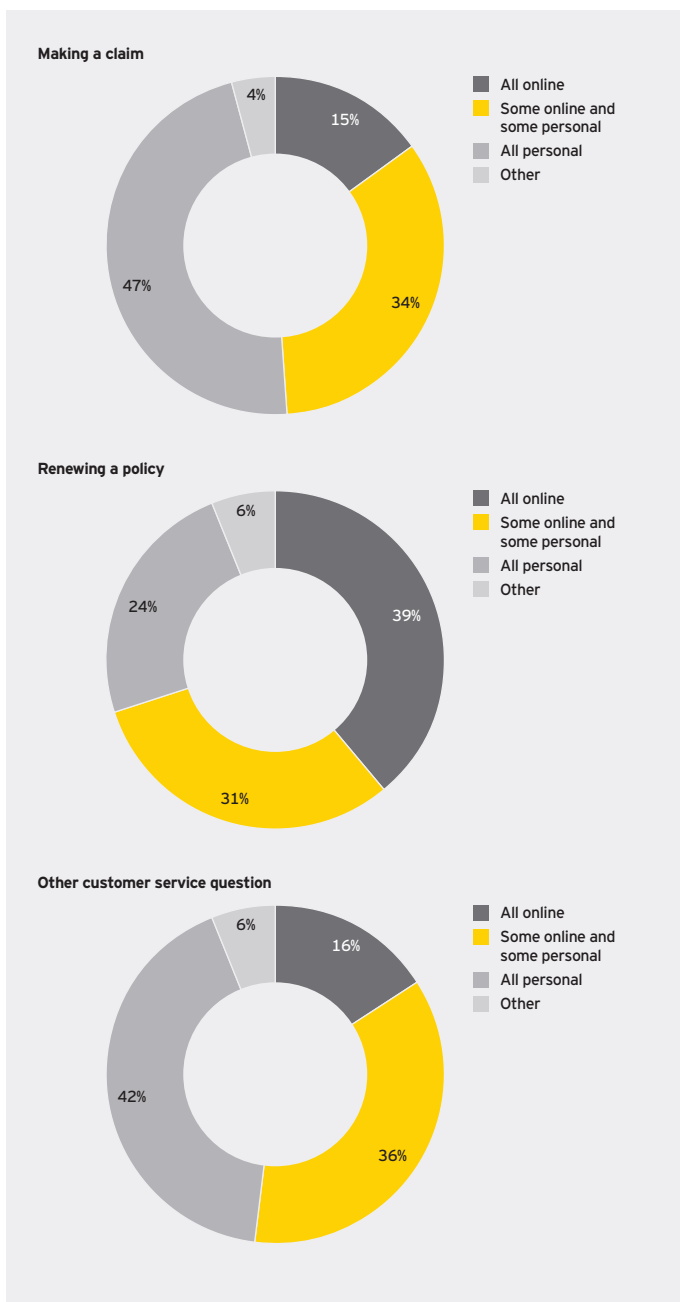


Figure 4: Percentage of respondents who want online and personal contact at different stages of the insurance cycle – non-life sector – U.K. example

value products that they can buy directly, preferably over the internet. New, mainly online, products are emerging to target this segment – particularly in the wealth management space and for buying simple life-protection products – using approaches similar to non-life insurance comparison sites. This sales route may take an increasing share of the market in future, particularly in mature markets, so insurers need to respond to this trend if they want to maintain market share.

Theme 3: building long-term customer relationships

Traditionally, this has been left to the agent or intermediary, which is why insurers now lag behind many other industries, including banks, in customer management and engagement. However, it is clear that consumers in the majority of markets perceive their main point of contact for dealing with their policy to be their insurer (potentially due to the lack of interest from their agent beyond the sale). Despite this, almost a third of life sector customers, on average, claim they receive no contact from their insurer each year and a similar proportion are contacted only once.

It is clear from our survey results that improving the level and quality of contact can have a positive impact on customer loyalty and retention. A positive pattern exists when comparing levels of satisfaction with provider contact and future switching level across many countries, including Mexico, U.K., U.S., and India. In the U.K., 3% of satisfied customers said they were certain to, or likely to, switch in the next five years, compared with 17% of dissatisfied customers.

Similarly, there is a strong correlation between comparing quality and levels of contact with cross-sell levels, particularly in Mexico, South Korea, the U.K., and Japan. In Mexico, 38% of satisfied customers said they had bought another product or service, compared with 15% of dissatisfied customers.

Received wisdom in the insurance industry has been that customers are reluctant to buy more products from the same provider – and indeed many insurers with poor cross-sales rates console themselves in the knowledge that their peers have equally dismal results. Our research shows that across both life and non-life sectors, consumers are willing, and indeed prefer, to buy more products from companies that they trust and who can make the purchase experience easy and convenient for them (Table 7).

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	Strongly/tend to agree	Strongly/tend to disagree
Japan	37%	18%
Asia Pacific	46%	21%
Europe	48%	20%
UAE	48%	24%
North America	50%	16%
South America	58%	20%
South Africa	71%	14%
India	69%	13%

Table 7: If possible, I prefer to buy different types of insurance from one insurance provider rather than several different providers – non-life sector

Customers expect companies to contact them at product renewal or maturity, and as their needs change over their life cycle. By doing so, insurers will demonstrate an interest in retaining their business and can make suggestions about other products that would be appropriate to their needs.

In the life and pensions sector, the inherently more complex nature of the products and the dependence on intermediated distribution makes it harder for providers to move to a customer-centric model. However, our research shows that insurers are failing to capture potential customer lifetime value through repeat sales and improved customer retention. Customers want to build relationships with their provider as their main point of contact for their policy. Insurers must accept this challenge and adjust to live up to this expectation.

A common perception in the life industry is also that it is hard to influence persistency, particularly with largely intermediated sales in which insurers have limited contact with end customers. However, our survey highlights a significantly contrasting view. With the exception of a few outlier countries (e.g., India), customers' perception is that providers do very little to contact

India	77%
North America	19%
South America	34%
Asia Pacific	46%
Europe	30%

Table 8: Effort made by existing provider to retain customer – respondents who felt insurers made a great deal of effort or a fair amount of effort – life sector

them at the point where they are lapsing. Insurance providers across the world make only a "fair or great effort" to retain customers in a minority of cases – 30% in Europe and only 19% in North America, the lowest region (Table 8). These are striking statistics, given that persistency is an increasingly important driver of value for the industry. Other Ernst & Young analysis of European insurers indicates that a 10% improvement in persistency can deliver a 2%-4% improvement in embedded value and as much as a 10% improvement in new business value.

So, in reality, providers can influence persistency. The survey finds that the top two reasons customers cite for switching providers are inability to meet changed needs and poor service – factors that providers can influence directly. Agent recommendation was also cited as a top three reason for customers switching providers. In certain instances, some commentators suspect "agent recommended" switching may be driven by the opportunity for the agent to generate additional commission rather than the need of the customer. However, improved consumer protection regulations in many markets are expected to result in a decline in this behavior.

In the non-life insurance sector, our survey shows that consumers are more likely to renew if insurers make more effort to retain their business, but that in many territories, customers' perception is that insurers fail to make this effort. 82% of respondents in Europe stated that little or no effort was made, compared with 78% in North America, 68% in South America, and 68% in Asia Pacific. This is particularly astonishing, given the relative product simplicity and ease of renewal process in the non-life sector – and the critical need to retain customers to make profits, given the price dynamics.

Conversely, we found that one area where many insurers believe they can differentiate themselves is claims service, but this does not actually make much of a difference in building loyalty. Poor claims service is definitely linked to low renewal rates, but good claims service is largely regarded as a given – "that's what I paid for" – rather than a reason to renew (Table 9).

Another key area where insurers can encourage longer-term relationships is through rewarding loyalty. As discussed in Theme 1, in most territories consumers perceive the life and non-life insurance industry as lagging behind other consumer industries

	Good claim	Bad claim	No claim
Europe	67%	46%	60%
Americas	66%	51%	67%
Asia Pacific	63%	52%	60%

Table 9: Percentage of respondents who said they were unlikely to change insurer, categorized by good claim, bad claim, or no claim – non-life sector

on this measure. There is a strong sense among consumers that insurers could do more to earn their trust and loyalty and to reward them for participating in long-term relationships. Consumers are used to many other industries rewarding their loyalty, such as supermarkets, airlines, or hotels, and they expect the same from insurers. Interestingly, we have observed many leading insurance loyalty propositions within the emerging markets of South Africa and eastern Asia, more so than in the more established European and North American markets.

So, what are the implications of these findings for insurers? Cross-selling is a key lever to boosting profitability. In mature markets where there are high levels of product penetration, so many “new” sales are simply businesses switching from one provider to another. Given the high costs of new customer acquisition, this means profitability is increasingly driven by retaining customers for longer and increasing revenue per existing customer – in other words, increasing customer lifetime value. This makes it essential for insurers to increase their cross-selling efforts and they need to work in partnership with distribution channels to achieve this. In some cases, a perceived lack of ownership of the customer relationship is the underlying issue. Providers must agree protocols for customer access and align economic incentives to obtain the best outcome for all parties – for example, by incentivizing multiple product sales – so that insurers and intermediaries cooperate to act in the best interests of the customer. In recent years, intermediaries have seized control of the customer relationship. Experience from other industries, such as automotive, shows us that a deep understanding of customer need by both manufacturer and distributor is critical to long-term product quality and customer service, for mutual benefit. Providers who make their contact, their products, and their reward structures right are winning repeat business.

Recognizing the value of the customer relationship is vital, both at the point of initial sale and over the customer lifetime. Some insurers are developing effective “sales-through-service” operations, which use routine servicing contacts to understand customers’ changing needs and offer carefully selected, relevant products where a need is identified. These operations are based on customer segmentation models, which identify customers who have the highest propensity to purchase. Such operations can be highly effective and improve customer satisfaction, compared to traditional unfocused “product push” cross-sell efforts.

There is a real opportunity for insurers to influence persistency and providers should consider an effective customer retention function essential. Retention activity should be supported by improved engagement with existing customers. The quality of customer contact across the life cycle has a material influence on retention. This needs to be backed by flexibly designed products that can respond to changing customer needs and financial incentives to reward customer loyalty – over the customer life cycle rather than just at the point of lapse. But the key to improving persistency is removing the reasons why customers consider leaving in the first place. Use of predictive models can be helpful to target customers, based on likelihood of lapse and the value of retaining them, but “test and learn” approaches are essential to work out which interventions are most effective. It is also important to manage the impact intermediaries have on persistency, through better management of intermediary channels, whether tied or independent. Some providers are segmenting distributors, based on a profitability model that takes into account the persistency of business introduced by intermediaries, refocusing their sales management effort on more profitable intermediaries.

Learning from the voice of the customer – how should insurers respond?

Our research suggests that there is a lot that insurance companies can do to improve their businesses by listening to the voice of the customer. We believe that by getting the customer interaction right, there is an opportunity in every market to do a better job of attracting customers and strengthening relationships in order to drive growth (both revenue and profit).

In essence, in the life sector this means improving customer trust and confidence by putting the customer, rather than the

intermediary, at the center of the business model – a “customer-centric operating model” – and using customer data to develop deep insight into their needs, to offer the right product, at the right time, to the right customer, and to follow through with service that responds to their changing needs. This will require a balance between working with intermediary channels to ensure they focus on (and are remunerated for) where they really add value to the customer, and building stronger direct relationships with customers throughout the life cycle. Essential to delivering this will be providing a suite of simple, transparent products tailored to life stage, and making it easy to access relevant products and information, particularly online, but supported by trusted personal interaction where necessary.

In the non-life sector, this means delivering convenience and value by integrating online and offline channels seamlessly to meet changing customers’ needs over the product life cycle; in particular, making renewal simple and convenient for customers across whichever medium they choose, understanding how to personalize service and show customers they are valued, analyzing the cost-to-serve of the many customer micro-segments to understand how service expectations and profitability differ (particularly for managing risk selection and retention effort), and developing and managing insurance brand(s) to ensure they support the key value messages and communicate these effectively in the digital world.

These are clearly not easy actions to implement, particularly in mature economies where insurers have extensive legacy operations. The challenge is how to transition from existing product and traditional distribution models to one that delivers what customers are saying they really want today and in the future, and developing the critical new capabilities to enable this transformation.

Becoming more customer focused: developing a customer-centric operating model

So what does it mean to be customer-centric? A customer-centric organization is one with a deep understanding of who their customers are, what they value, and the contribution each customer makes to the profitability of the company – and that builds an operating model around this understanding. This includes designing business processes that recognize different customer segment needs, delivering a positive and seamless customer

experience at every touchpoint across the whole customer life cycle, maintaining an active dialogue with customers (including obtaining and acting on feedback), and fostering a culture that places the customer at the heart of all decision-making.

For insurers seeking to improve their level of customer centricity, the first step of any transformation is to understand where you are today and where you want to be in the future, and by when. Assessing your organization against a customer-centric maturity model can help you understand the relative maturity of key capabilities such as segmentation, distributor management, service delivery, people, and product development. Defining and understanding what it really means to be “emerging” versus “advanced” or “leading” can be an enlightening exercise in itself, even before mapping your own company against these.

Indeed, understanding and communicating the scale and nature of the challenge ahead is the first step of any journey. Not all insurers will aspire to be market leaders. It is important to be realistic about what is achievable – leading customer centricity (the far right of the maturity model) is an aspiration, you may never realistically get there. However, the process of considering how to balance customer-centric principles with financial considerations is critical. For some, the trade-offs between the level of investment required and the benefits realized will determine how far they progress – and are often far harder to establish in mature, high market-share incumbents (where the scale of change to legacy operations is larger and perhaps the fear of disruption to existing business more acute).

The end objective is to transition away from traditional product- or channel-organizational structures to a more customer-focused operating model. Every organization’s target operating model (TOM) will be unique. However, they will have some common characteristics and design principles, such as using value-based advisor and customer segmentation, developing and utilizing customer insight, managing the end-to-end customer experience, providing multi-channel access, and integration and maintaining continuous conversations (interaction history) with advisors and customers. These “design principles” need to become the new “mantra” within the organization and rigorous adherence to them across all business units and functions is an essential component to driving a new enterprise-wide customer-focused culture, and will be a critical success factor of the customer transformation.

Typically, most insurers will encounter a number of challenges or barriers inherent in their current operating models. Organizational silos create the inability or unwillingness to share customer data, or cooperate across business units and functions (in effect, internal customer ownership wrangling). In our experience, this is particularly common in businesses that have traditionally been segmented along distribution channels, i.e., intermediary and direct. The traditional insurance customer engagement model presents significant barriers. In many cases, initial customer contact and, indeed, ongoing advice is controlled by an intermediary or agent – often provider engagement at this stage is purely administrative – not an ideal start to any relationship. Legacy systems and processes, not to mention poor quality or insufficient end-customer data, constrain many organizations in managing the end-to-end customer relationship – they are unable to monitor where they lose customers or why dissatisfaction occurs. Typically, a reactive stance to customer interaction (e.g., change of circumstances) is taken, but minimal insight around customer needs and preferences is captured and acted upon, beyond the initial transaction, with limited attempts to intervene proactively in the journey to add value. Even when customers are “orphans” (no longer have an active agent or intermediary), many organizations do not (or rather cannot) seize this opportunity to re-establish a relationship directly, with advice and service offerings. Perhaps surprisingly, many of these challenges also exist within insurers who have large direct businesses, where pre-conceived assumptions around customer behaviors, needs, and actions often prevent much-needed change.

Insurers will need a focused approach to overcome these challenges and barriers. Executive management ownership and commitment to driving customer centricity is imperative, supported by clearly defined customer-centric objectives and metrics across all business units and functions, with performance management and compensation aligned with customer-focused behaviors.

Using data as a source of competitive advantage: advanced segmentation and data analytics

Many insurers have grasped the concept of the need to segment and tailor their service proposition to different segments. In our experience, however, these are often based on socioeconomic factors (e.g., postcode, age, or other demographic information) and product holdings, for example, to determine a customer’s current and potential value.

Customer lifetime value is, of course, an important determinant of how to treat a customer. However, leading insurers are thinking differently about segmentation by grouping customers based on behaviors and values. Making sense of your customers in this way, by creating a micro-segmentation model that tries to understand what customers are really about – what kind of person they are, what they value most, and how they want to interact – and aligning this with a modular distribution model that allows customers to access your organization through multiple channels, when and how they prefer, will optimize customers’ experiences.

Data analytics have become critical to designing an effective customer experience. Insurers need to understand, for every segment what the true drivers of customer satisfaction are. What attributes of their experience (e.g., price, personal attention, response time, service calls, and language) will have the biggest impact on delivering a positive experience? In other words, what is the “unexpected” that delights the customer, versus the expected service that is only a “hygiene” factor (although, notably with claims, appreciating that those hygiene factors must be delivered, otherwise a disproportionately negative impact can occur). Equally, you need to understand what is not driving value – as these are opportunities to reduce cost.

Ultimately, the aim of this exercise is to reshape strategic decision-making by prioritizing investment in service factors that really deliver value for each segment, channel, and product combination. Without such analysis, it is almost impossible to mount a sensible business case.

Enhanced data analytics and predictive modeling capabilities can be applied in a number of other ways within an organization, to enhance customer focus: using behavioral engineering models to unpack the existing risk culture and its implications, as part of a transition to a more customer-centric and innovative culture; customer retention – why, where, and when you are losing customers; customer leads analysis to support development of a fully integrated distribution model; financial well-being modeling (of staff or customer base) to inform customer experience and advisor conversations on how to improve financial well-being of clients; and of course, claims management and leakage.

The customers have spoken, are the insurance companies listening? A survey of the global insurance market

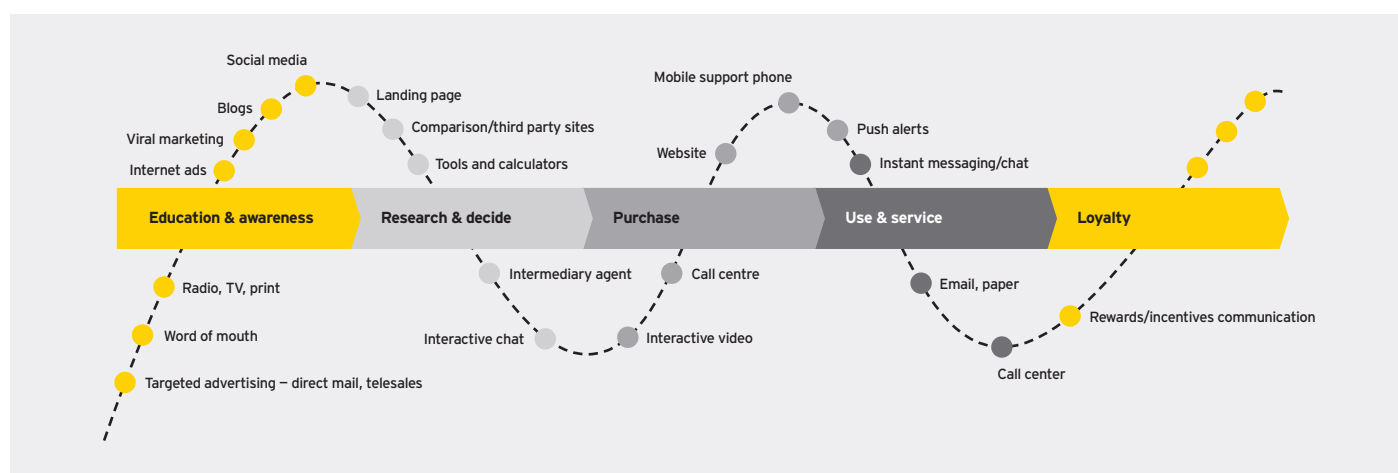


Figure 5: Overview of direct and indirect interaction flow

Source: Ernst & Young.

Harnessing digital as part of an integrated channel strategy to engage better with customers and lower costs

Our survey has clearly shown that, across both life and non-life sectors, most consumers want access to a mix of online and personal contact, throughout the product life cycle. Digital is not the panacea, but it is a critical enabler to delivering the experience customers want. The key challenge for insurers is how to harness the power of digital to engage directly with customers better and, of course, lower costs. Digital technology will simply complicate the process and frustrate customers if it is not joined up seamlessly with other channels, recognizing that existing channels and access points will also need to adapt and, in some cases, play an alternative role within the business.

The overall customer experience is influenced by customers' direct and indirect interactions with an organization – both physical and digital touchpoints. Both need to be managed effectively in order to maximize the experience (Figure 5).

Call centers are a prime example of an existing channel that will continue to play a critical role through the life cycle, in spite of the increasing influence of online channels, but will need to adapt its role within the business to respond to evolving trends and also drive greater value at lower cost. Currently, however, they are largely designed to operate in a telephone-dominated world with little data integration between other channels and are viewed as an expensive

mechanism to service basic customer queries. Additionally, call handlers are not always equipped with the right skillset and tools to support a multichannel offering.

Of course, launching digital channels for many insurers with a heavily agency-based or intermediated distribution model is an enormous challenge, requiring knock-on changes to agent or intermediary segmentation, customer management and communication protocols, training, incentives, and rewards. There are massive implications in this new model for agents in particular. They will need to acquire new skills to integrate with the digital world – becoming more technologically savvy and connected themselves, and also playing a completely new role in terms of capturing data about individual customers and feeding this into the insurer's analytics engine. They will be uniquely positioned on the front line to supply the kind of unstructured, but rich, customer data required.

An agency force with the "listening" capabilities and agility to play this role can become a key strategic asset. Customer satisfaction and engagement, and the value of the in-force book will become just as important as new business targets. Where once, agents were primarily in the business of producing sales volumes, they may soon be more focused on information collection and relationship management. They will both produce leads to the digital channels and in turn receive them from online browsers who decide they would like to speak with an agent.

Finally, from our experience, investment in digital is often driven by a fear of being left behind rather than a solid business case based on key performance indicators and recognized metrics. Without a solid business case, digital propositions will constantly face challenge and re-evaluation.

Customer-centric innovation and disruptive growth models

Although the above activities can be considered transformational to many in the industry, we believe they will only provide insurers with the ability to “catch up” and otherwise “protect the core.” To leapfrog competitors and generate significant growth, a new framework for innovation within the organization and a significant change in approach to strategic decision-making is required.

The three stages of innovation are depicted in Figure 6, across the dimensions of business models and competencies. Protecting the core is about getting the basics right, becoming more customer-centric and, where appropriate, adopting the leading practices that competitors or other industry sectors have demonstrated. However, it relies on largely existing competencies and business models and one could argue it will only ever be a catch-up strategy. Only genuine customer-centric innovation will produce significant growth and deliver competitive advantage. This will require the adoption of new approaches to embed innovation into the culture of your organization – in essence, moving from “innovate” to “becoming an innovative organization.” Furthermore, working through partnerships and alliances to develop completely new business models can generate “disruptive growth.”

In order to achieve customer-centric innovation, new cultural norms will need to be developed. Embedding a culture of innovation throughout the organization is essential. This will involve tapping into external discovery centers, labs, and industry “observatories” to gain insights from other sectors on a regular basis, as well as introducing internal “test and learn” processes that allow the business to generate ideas, test their feasibility, and pilot initiatives in a rapid and agile manner. Importantly, the new organizational culture needs to embrace the concept of failure as an acceptable by-product of experimentation (i.e., if you haven’t failed, you haven’t tried hard enough) that is often at odds with a typical insurance company approach to risk. Collaboration and empowerment of employees to spot customer improvements and act upon them must be the new norm, as well as physical spaces

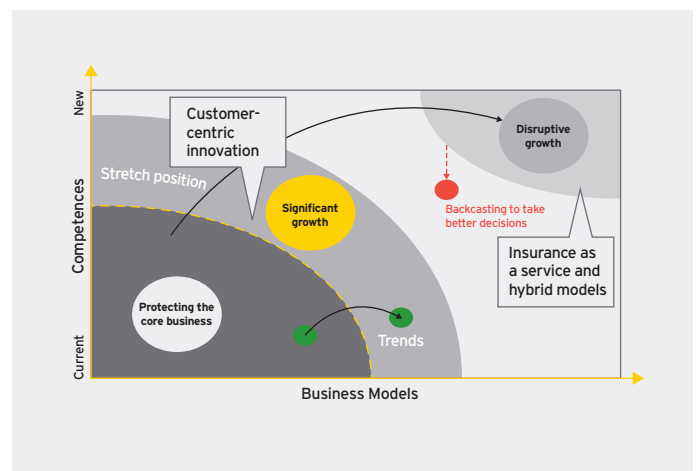


Figure 6: The three stages of innovation

such as “innovation centers” to help develop and incubate ideas. One of the most significant cultural changes will be a shift from short-term to long-term strategic decision-making. The traditional focus in the industry (and one that is embedded in most performance management and compensation systems) has been around new business and market share rather than deriving value from the in-force book. This often means it is difficult for customer proponents within an organization to secure investment in enabling capabilities such as data analytics and customer MI, or long-term customer relationship-building activities, as these may not present the most compelling revenue-generating business cases in the short term. A change in mindset as to how to approach strategic business case development is required. Rather than the traditional “what will I get?”, organizations need to consider “what is the opportunity cost of not doing this?” in terms of financials, competitive positioning, and customer experience.

Above and beyond customer-centric innovation, some players are thinking even further outside the box to consider “disruptive growth” ideas – developing radical new customer value propositions, beyond the traditional confines of insurance, to meet the demands of customers in other industries. This requires new business models and new competencies, but can generate significant revenue streams by tapping into new profit pools.

Financial services is not the only industry under pressure – trends and megatrends are affecting business as usual across many other industries. This creates unique opportunities to enter other industries, establishing alliances and collaborating with new partners. Innovation will be the driver to identify and create these opportunities – such as “hybrid models.” Hybrid models take customer centricity to the extreme – considering what your customers may need on a more holistic basis, without being limited to traditional definitions of insurance provision. Examples include a Japanese insurer that offers home security audits as part of its home insurance policy, Progressive Insurance in the U.S. with its “concierge claims” offering, and a large Asian insurer focusing on consumer longevity and well-being, developing products that are priced according to loyalty scheme take-up (i.e., use of gyms, regular medicals, health product usage and balanced diet).

Conclusion

There is clearly a lot that insurance companies in all regions of the world can do to improve their businesses by listening to the voice of the customer. The combined impact of our findings is simple, but profound: insurers need to become as customer focused as other consumer businesses and deliver a genuinely customer-centric experience.

In a part online, part offline world, characterized by complex customer segmentation, even getting the basics right has become more complicated – but insurers must rise to this challenge. Customers want to have a trusted relationship and be rewarded for loyalty but insurers are manifestly missing a revenue opportunity here, not only from customer retention but also cross-sell and up-sell. Digital has the potential to make even insurance more interesting and engaging, however, it must be harnessed effectively as part of an integrated distribution strategy.

It could be argued that much of this is not ground-breaking. Customer-centric operating model, customer value management, multi-channel distribution, are all very easy to say but extremely hard to do in practice. Although we depict these as simply keeping pace, in our experience many insurers are far from being able to do these things well today. The inability to execute has been a key issue for the industry and, given the changing dynamics discussed in this paper, this is now a “strategic must,” not a “nice to have.”

Moreover, introducing a culture of innovation and customer-focused strategic decision-making will future-proof the core business while allowing insurers to redefine customer relationships and become a different insurer. In essence, listen to the voice of the customer and become the insurer of the future.

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