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WHAT YOU NEED TO KNOW
NON-LIFE INSURANCE

Global Trends in Non-Life Insurance: The Front Office

Key front office trends and the implications for the non-life insurance industry

People matter, results count.

Contents

1 Highlights

As the economy has improved across most of the world, the global non-life insurance industry has participated in the recovery with written premium growing 4.4% in 2010. This was especially true in Asia where written premiums grew by 16.8% the same year. The growth trend is likely to continue in 2011, although the underwriting margins continue to be under pressure due to the impact of catastrophic and other major claims across the world, such as the devastating earthquakes in Japan and New Zealand. In addition, the uncertainty over economic issues lingers on, and could also affect the future growth of the industry.

The non-life insurance industry is witnessing shifting trends across the front office, policy administration, and claims—the three core functions of the insurance value chain. This paper looks at key emerging trends in the front office function of non-life insurance firms.

The continued rise in competitive pressures within the non-life insurance industry has led to an increase in customers' buying power and related changes in customer preferences. These environmental changes are driving innovation within the non-life industry and are forcing insurers to focus on customer-centric strategies.

The needs of the personal line insurance customers are continuously evolving, with a slow but marked change in consumer preferences around distribution channels. In recent years, the adoption and usage of internet and social networking sites as alternative distribution channels have been gradually increasing among personal lines insurance customers.

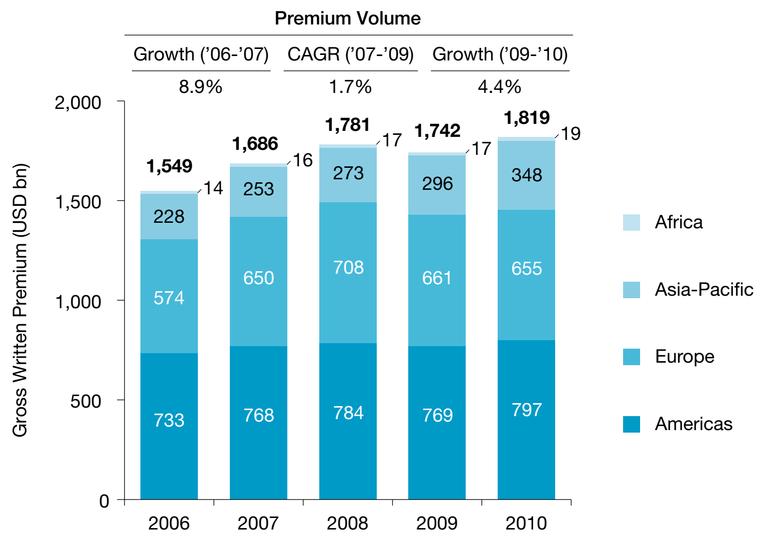
2 Introduction

2.1. Global Non-Life Insurance Performance

The global insurance industry witnessed a positive growth of 2.7% of premium volumes during 2010[1] in real terms, after experiencing a decline during both 2008 and 2009—the worst years of the financial crisis. The return to growth in 2010 was largely a result of the increased demand for insurance due to initial economic recovery across the globe. Looking to 2011 and 2012, the insurance industry is expected to witness a further growth in volumes, though the uncertain outlook for further economic recovery will be a key determinant.

After posting a decline in 2009, global non-life insurance premiums grew by 4.4% in nominal terms (2.1% in real terms) to reach $1.8 trillion in 2010. This increase was mainly driven by the robust economic rebound in Asian countries which helped to boost premium growth in emerging Asian markets and the newly industrialized countries[2] in Asia.

Exhibit 1: Global Non-Life Insurance Premiums (in USD bn), 2006-2010



Source: Sigma Reports 2007-11, Swiss Re

Fuelled by the economic recovery, non-life premiums for the Asian region grew by 17.4% in 2010. The increase was primarily boosted by a 33.0% and 27.7% rise in non-life premiums in the emerging markets of China and India respectively in 2010. The newly industrialized Asian countries, particularly South Korea (24.3%) and Singapore (18.5%), also witnessed a robust growth in premiums.

[1] Sigma Reports 2007-11, Swiss Re
[2] Newly industrialized countries in Asia include Hong Kong, Singapore, South Korea, Taiwan

However, almost flat premiums growth of 2.4% in the mature insurance markets continued to drag down the growth in the global premiums. The continued softening of premium rates as well as intense price competition and a slowdown in non-life insurance demand in the U.S. and Western Europe hampered non-life premiums growth in these markets.

Nonetheless, non-life premiums growth in emerging markets is expected to remain strong. Although the premiums growth in mature markets is forecasted to improve, the improvement is likely to be restricted by continued rate declines in commercial lines of business and ongoing economic concerns.

While the actual cost of the devastating earthquakes in Japan and New Zealand in the first quarter of 2011 remained unclear for insurers, the size of the property damage and expected rise in insured loss indicates that the underwriting result for non-life insurers may deteriorate in 2011.

2.2. Insurance Value Chain

Insurance firms' operations can be broadly divided into three core elements that represent the insurance value chain:

- Front Office
- Policy Administration
- Claims Processing and Payout

Along with these three core elements, a range of support functions are also required to ensure smooth operations of insurance firms, such as finance and accounting, human resources, legal, infrastructure, and asset management.

This paper focuses on the front-office function of the insurance value chain for non-life insurers. It identifies the key trends in the front office function for non-life insurers and their potential implications.

3 Emerging Trends in Non-Life Insurance: Front Office

Non-life insurers are experiencing slow but noticeable changes in customer behavior and preferences around products, distribution channels, and processes.

Cost savings and customer retention are critical in the intensely competitive non-life insurance industry. Most insurers across regions are transforming their business models to be better aligned with changing consumer preferences. Moreover, alternative distribution channels such as on-line channels and social media are gradually gaining prominence driven by a generational shift in the customer profile.

These environmental, operational, and technological changes have led to the emergence of the following key trends related to the front office for non-life insurance companies across the globe[3]:

- Increased focus on innovation driven by increasing emphasis on customer centricity.
- Gradual change in consumer preferences resulting in slow but steady growth in the internet channel (online distribution channel).
- Emergence of social media as a new alternative channel that is rapidly gaining prominence among personal lines insurance customers.

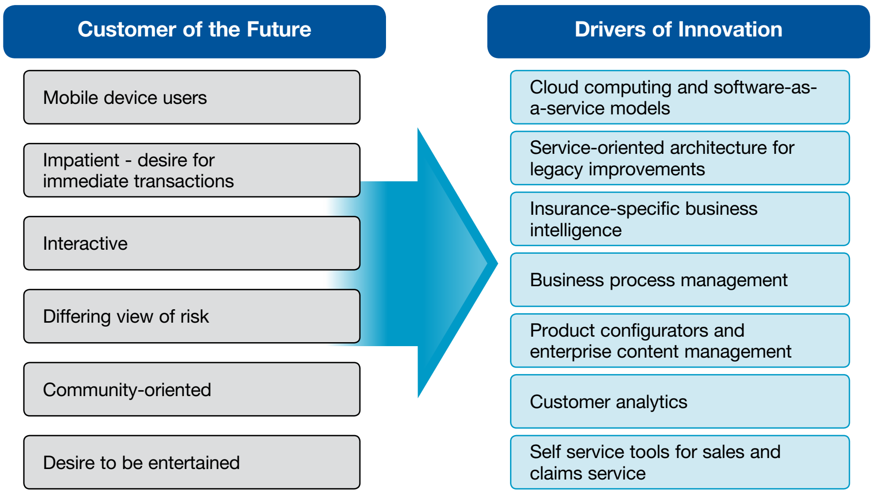
[3] Trends shown are not necessarily comprehensive, but have been highlighted due to their relevance and potential impact on the industry

4 Trend 1: Customer Centricity Is Driving a Focus on Innovation

4.1. Background and Key Drivers

Innovation in the insurance industry has increased over the years, driven by the behavioral shifts and preferences of insurance buyers. The change in consumer behavior is largely due to the overall increased usage of internet, rising levels of social networking, and behavioral changes around greater use of mobile and handheld technologies.

Exhibit 2: Future Customers' Preferences Drives Innovation



Source: Consumerization Drives Forced Innovation in P&C Insurance, Gartner Research, June 2010

The ever intensifying competition in the non-life insurance marketplace is driving the growing power of individual customers and drastic changes in customer preference. The outcome of these changes is the creation of new business models that are based on innovation, with the goal of being better aligned with customers' evolving needs.

The key factors driving non-life insurers to focus on innovation are:

- To better meet evolving consumer preferences and demand and to provide enhanced client service.
- To differentiate themselves from their competition and gain competitive advantage by using technology.
- To improve market positioning, increase customer acquisition and retention, and seize new market opportunities.

4.2. Analysis

Recent changes in social-network interfaces and information transparency and availability has resulted in consumers becoming increasingly informed, which in turn is driving a change in their needs and preferences. As insurers develop future channel and product strategies, they need to keep in mind these changing consumer demographics and preferences. The upcoming, younger customers have different attitudes and preferences that must be seriously considered while formulating long-term IT and business plans. These customers are more tech-savvy and usually have access to advanced handheld devices. They demand prompt and personalized interactions.

To meet the evolving needs of younger customers, insurers must focus on innovation. To match consumer needs, non-life insurers may need to look at Web 2.0 technologies, leverage an integrated multi-channel approach, bundle products for the needs of each customer segment, and increase their speed to market with products and services. Insurers need customer intelligence strategies to ensure that they are prepared for demographic shifts in the customer base. Insurers must understand the growing power of the consumer and its impact on insurance buying and service interactions. The lack of customer intelligence will negatively impact product development, customer service delivery, and sales effectiveness, and will eventually to reduce the customer base for the insurer.

Furthermore, insurers must assess the value of their products to different demographic groups and customer segments. Product features must be aligned with customers' risk profiles and preferences, or customers are likely to migrate to competitor products that are more suitable to their needs. Product innovation based on in-depth customer intelligence and insight is critical for insurers. Relying on the traditional product portfolio is risky due to the dynamic nature of the industry, especially for personal lines of property and casualty products.

Analysts believe that consumer demand and negotiation power is on the rise in most mature insurance markets in North America and Europe, as well as in emerging markets in the Asia/Pacific region. This trend is driving a need for a customer-centric culture and a business model that is built around innovation.

4.3. Implications

Non-life insurance companies need to evolve their strategies to be better aligned with changing consumer preferences. To drive organizational change, non-life insurers should:

- Ensure that their customer intelligence initiatives are based on future consumer needs—not just current ones—and that intelligence is structured to create a single view of the customer.
- Align products, distribution channels, and processes to match consumer preference and needs, and plan investments in new products or channels that address changes in consumer preferences.
- Transform front office and other core functions and enhance technological capabilities to support the needs and preferences of future customers.

4.4. Leading Practices and Innovation

One of the top personal lines property and casualty insurance groups in the U.S. developed a model to analyze customer lifetime loyalty and profitability, and to determine marketing strategies. The group's traditional business metrics lacked information about the customer relationship, which led to sales and marketing strategies focused primarily on the quantity, rather than the quality, of customer relationships. The insurer wanted to develop a model to determine customer value based on loyalty and profitability and intended to formulate distribution and marketing strategies based on the information provided by the model.

The insurance group developed a model to predict the profitability the company is likely to generate from a customer over his or her lifetime. The model enabled the insurer to make informed decisions at an operational level, and helped formulate a comprehensive strategy by identifying the value of each individual customer and formulating strategies to retain higher-value customers.

The model helped the group increase return on investment for marketing efforts and develop a comprehensive approach to drive sustainable profitable growth. The insurer benefited from an incremental increase in its average profitability from each customer through an improvement in retention rate of high value customers.

5 Trend 2: Leveraging Social Media Channels to Increase Market Penetration

5.1. Background and Key Drivers

Social media has been acknowledged as a growing phenomenon for insurance. The emerging social media channels are likely to increase the level of insurance industry penetration and thus have a long-term impact on the industry.

The acceptance of social media is gradually increasing in the insurance industry, and analysts expect the channel to deliver tangible benefits to insurers as well as to agents and brokers.

Social media represents a significant business opportunity for insurers who usually have a large workforce and a diverse client base. The insurance industry's reliance on interpersonal interaction across various functions and stakeholders acts as a catalyst for insurers to look for ways to leverage social media.

The following key factors are driving the need for non-life insurers to focus on social media channels:

- Globally, the registered membership on social networking sites has risen by 40% between July 2009 and June 2011[4]. The highest growth rate was registered among the 25-34 age group (46%) and among the 45-54 age group (52%)[4].
- Most online customers now expect insurance companies to have a presence on social networking sites.
- Social media sites offer a new alternative for insurance firms to get in touch with their existing and prospective customers, as well as allowing customers to communicate with their insurers.
- An effective social media marketing campaign could significantly decrease the cost of promoting a new insurance product.
- The buying, claims, and customer service experiences posted by insurance customers on social networking sites will help insurance companies make improvements in their products and services portfolio.

5.2. Analysis

Social networking increases the connectivity of insurance consumers with a large network of people and allows them to discuss their insurance buying decisions. These sites also allow customers to share and discuss their past buying, claims, and customer service experiences with a vast network of socially connected people. This helps consumers identify potential companies they might want to do business with.

Many customers on social networking sites are likely to leverage social media to get the opinions of others who have already experienced the insurance policy buying process. Most customers who choose their insurer based on suggestions from people on networking sites are more likely to be satisfied with their choice[5]. Furthermore, customers using social networking sites have higher propensity to link with their insurance agents either through Facebook, Twitter, or LinkedIn.

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[4] *Microblogging, Social Networking Still Growing Worldwide*, MarketingProfs, September 2011
[5] *Social media in insurance – how to interact better with your customers?*, Ernst & Young, July 2011

Insurance companies can leverage the vast, largely untapped potential of social media to increase their market penetration and increase the effectiveness of their customer acquisition and retention strategies. Social media allows non-life insurers to improve customer acquisition by:

- Engaging customers through social networking sites, and allowing them to communicate with both the company and other customers. This will help insurers understand customer perceptions of their products and services and improve product features and service levels to better meet customers' expectations.
- Enabling agents to increase their social networking presence by interacting with existing and prospective customers around topics such as product features, quote and sale, and policy and claims servicing. These interactions can help agents improve their customer-acquisition strategy by allowing them to identify new prospects and to obtain valuable information about them. Agents can leverage these sites to form and deepen customer relationships.

Social media has the potential to change non-life insurers' business models by altering the communication patterns with customers. These networking sites are likely to change the marketing strategy and sales approach of both insurers and agents. Although social media is fast gaining ground in the global non-life insurance industry, the adoption rate in different regions is likely to vary depending upon customer behavior and preference.

5.3. Implications

As social networking continues to gain ground in the non-life insurance industry, it is likely have a significant impact on the industry. Customers have started to seek advice on the stability and trustworthiness of non-life insurance companies from other online members as well as providing recommendations based on their own past experiences with an insurer. To adapt to this new medium for approaching the existing and new customers, non-life insurers need to:

- Broaden their internet-based strategies beyond the website and on-line portal to include social-networking sites.
- Understand how social networking can impact the role of the agent in providing advice to consumers on insurance products and companies.
- Encourage their agents to adopt and start expanding their social network. To speed up the adoption rate, social media should be a part of a multi-channel distribution strategy.

5.4. Leading Practices and Innovation

One of the top property and casualty insurers and a major writer of automobile insurance in the U.S. developed a social media strategy to drive sales as part of its overall plan to expand its customer base. The insurer wanted to give product managers direct access to customers' comments and questions, which could augment focus group discussions, usability testing, and surveys. This direct access would also assist product managers in driving product and service enhancements.

The firm developed its social media strategy around four broad focus areas: listening to the customer, engaging customers, strengthening relationships with customers, and innovation. The insurer also incorporated its social media strategy as part of its corporate marketing strategy.

Within a year, thousands of its customers provided their reviews on the insurer's products, which the insurer used to further refine its product features. Moreover, the web site conversations with customers also increased the firm's interactive marketing effectiveness.

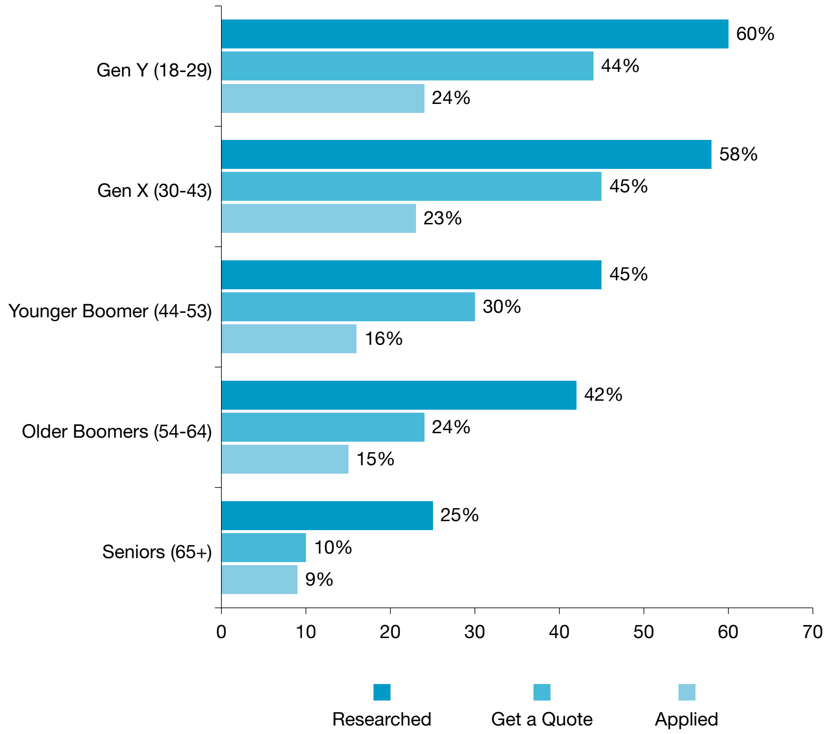
6 Trend 3: Gradual but Steady Increase in Adoption of the Internet Channel

6.1. Background and Key Drivers

Internet and mobile channels continue to influence consumers' research and purchasing behaviors, thus altering the insurance distribution landscape. As a result, agents are now putting pressure on insurance companies to invest in internet and mobile channel functionalities to increase their ease of doing business.

There has been a gradual but continued proliferation of internet usage among insurance buyers. Most non-life insurance customers today are using the internet for gathering insurance information. However, only a handful of insurance buyers are using the internet to apply for insurance policies.

Exhibit 3: Use of the Internet in Personal Lines Non-Life Insurance Shopping in the U.S.[6] by Age (%), 2009



Source: *The US Auto Insurance Buyer's Journey*, Forrester Research, November 2009

[6] The U.S. alone accounts for nearly 33% of the global non-life insurance premiums and serves as a leading indicator for most non-life insurance related trends

As younger consumers gradually become the largest customer segment, analysts expect that there will be a continual increase in customer activities through the online channel. There are several factors driving the gradual but steady increase in the proliferation of the on-line channel:

- Ease of obtaining a policy is one of the most important factors for most personal lines insurance buyers.
- Ability to research and compare prices and product features also has a large bearing on the younger generation's channel preference.
- Direct insurance writers are able to reduce their selling and acquisition cost by offering policies on-line.

6.2. Analysis

There has been a slow but gradual change in the purchasing preferences of personal lines insurance customers, particularly around behavioral and attitudinal shifts towards the distribution channels.

In recent years the adoption and usage of the internet has increased gradually among personal lines insurance customers, including auto, homeowners, and life insurance. For example, internet usage for many insurance activities had witnessed a significant spike between 2007 and 2009, especially the online service for auto which has increased at a faster rate than other product lines[7].

Exhibit 4: Insurance Consumers' Internet Usage in the U.S.[8] (%), 2007 and 2009[7]

	Auto		Home/Renters		Life	
Activities	2007	2009	2007	2009	2007	2009
View Policy	8%	28%	4%	16%	2%	9%
Make policy changes	4%	11%	1%	4%	0%	2%
Submit claims	1%	4%	0%	2%	0%	1%
View or pay insurance bills	9%	31%	4%	19%	2%	8%
Send emails to agent/insurer	3%	7%	1%	5%	0%	4%

[7] *US Insurance Consumers 2010: Social, Complex, Online and Evolving,* Gartner Research, November, 2010

[8] The U.S. alone accounts for nearly 33% of the global non-life insurance premiums and serves as a leading indicator for most non-life insurance related trends

As personal auto insurance policies are sold more on a commodity basis, auto insurance customers' internet usage continues to rise, especially for activities such as viewing and performing research for the policy as well as making bill payments. These two activities reported an increase of 20 percentage points and 22 percentage points, respectively, between 2007 and 2009.

However, other tasks had a much slower growth. For example, although many firms encourage their auto insurance customers to use the internet to submit claims, only 4% of consumers submitted their claims online in 2009, a relatively small increase from 1% in 2007. Auto insurance customers tend to be the most active online users and have the highest rate of internet usage compared to other product lines such as home/renters or life insurance.

Nevertheless, as consumer demographics change, there is likely to be a continued increase in the usage of the internet channel for various insurance-related activities across the insurance value chain and across most personal lines of business. However, this increase in internet usage is likely to be gradual, so insurance companies need to be patient and persistent in encouraging customers to go online.

6.3. Implications

Non-life insurers can offer convenient self-service tools to their customers and agents through their website, leveraging the internet while reducing sales and distribution costs. The internet channel is likely to help non-life insurers to expand their reach, enhance agents' productivity, and reduce customer acquisition cost.

However, to leverage the full potential of the internet channel, non-life insurers need to:

- Understand that customers' behavioral shifts are gradual, and hence insurers are required to set realistic targets around adoption of the internet for new sales and customer services.
- Ensure that customers' personal data obtained through the internet is secure and then effectively communicate this to customers so that customers are comfortable sharing personal data over internet.
- Continuously encourage customers to use online self-service tools for their various insurance needs.

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