WORLD INSURANCE REPORT

2007

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Preface

Insurance is often portrayed as a cyclical industry—a term that suggests its operating environment, while divergent from year to year, is somehow etched in stone. In reality, the global insurance market is experiencing a prolonged and fundamental shift in customer behavior and market dynamics—a transformation that is creating opportunity for many insurance companies, but threatens to catch many others by surprise.

The 2007 World Insurance Report (WIR) from Capgemini and the European Financial Management & Marketing Association (EFMA) explores the new paradigm for insurers, based on a comprehensive body of research that includes surveys and in-depth interviews involving more than 10,000 insurance customers and 350 distributors, along with over 50 insurance executives. The report focuses on seven countries (France, Germany, Italy, the Netherlands, Spain, the U.K. and U.S.), which together account for more than 60% of all direct insurance premiums written globally.

Our analysis focuses on understanding the relationships between insurers, distributors and their customers, and identifying what steps insurers and distributors can take to optimize these relationships. We recognize the major differences between the life and non-life businesses, but seek within this report to focus on the common themes where they exist.

Our findings reveal a clear set of actions that insurers should consider in order to grow their policy base, and populate that base with valuable customers. In the WIR, we highlight innovative approaches insurers are using to tackle key issues of customer acquisition and retention, and examine how insurers can best leverage their distribution networks to optimize performance.

This inaugural World Insurance Report adds to Capgemini's portfolio of annual industry leading reports (The World Retail Banking Report, The World Wealth Report, and The World Payments Report). These reports have provided financial services institutions with valuable insights into the current and future state of their respective markets for the past 10 years.

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Key Findings

Around the globe, the market share of traditional insurers has been challenged in recent years by a variety of forces—from Internet disintermediation to aggressive marketing by new entrants, financial services deregulation, compliance pressures, competition from other investment vehicles, and, of course, customer empowerment. Our comprehensive study of insurance companies, customers and distributors shows the changing industry dynamics present many opportunities for insurers, but capturing those opportunities requires a well-defined and proactive business response.

Most significantly, our analysis reveals some disconnects in the relationships between, and perceptions held by, insurers, distributors and their customers. These disconnects suggest insurers should re-evaluate their assumptions and approaches to customer and distributor strategy to generate optimal value for all stakeholders. Our findings include the following critical insights for insurers:

1. **Insurers and distributors can benefit from knowing their customers better—a step that will improve their ability to more effectively meet their needs and to attain profitable growth.**
   - Many insurers and distributors do not have a solid understanding of which customers they lose, and why, and many mistake satisfied customers for loyal ones. Very few customers expressed outright dissatisfaction over either the type or quantity of interactions they have with insurers or agents, yet nearly 40% of non-life customers have switched providers in the last 5 years. Insurers that achieve a comprehensive yet discerning view of customers can move to stem the loss of profitable customers, and hone their retention strategy for that segment.
   - Distributors may be underestimating the key criteria customers use to make insurance purchases. The research shows customers insist on competitive pricing, and see product specifications and quality advice as differentiators. However, the research also shows customers place far less value on professional advice than distributors believe is the case.

2. **Insurers who fully partner with their distributors by providing them with easy access to accurate data, up-to-date tools and improved services will be able to generate greater added value for their customers.**
   - Two-thirds of distributors believe they could tangibly increase the insurance spend of their customers if insurers provided them with better data and tools. However, only 27% of distributors believe they are currently well-positioned to tap into the full potential of their existing customer base.
   - Incremental improvements come from focusing on the transaction, but true growth comes from focusing on enabling the end-to-end business model for the distributor through training, support and tools, and a shift to needs-based selling of multiple product types across the entire life cycle needs of the customer.

3. **To drive profitable growth, insurers will need to be more effective in aligning their pricing and product strategies with the needs of their target customers, while enabling their distribution network's capabilities accordingly.**
   - 57% of customers see price as one of the top two criteria when buying insurance, highlighting the imperative for insurers to remain competitive on pricing. However, there is significant potential for insurers to use targeted pricing strategies as profit vehicles.
   - The potential for cross-selling is also far greater than insurers realize or have been able to achieve. Nearly 60% of customers hold multiple insurance products from the same insurer and nearly 40% would like to buy life insurance from the same insurer that provides their home and auto coverage.

CONCLUSION

Our research shows insurers must re-evaluate how they handle customer interactions, align their offering with customer purchasing criteria, hone channel mix, and better understand, and act on, the drivers of customer satisfaction, loyalty and defection. At the same time, they can optimize distributor strategy by proactively seeking to retain and attract quality distributors, enable distributors to function more effectively, integrate distributors more deeply into the enterprise, and build an enterprise view of the customer.

These actions offer the potential for tangible profits and growth, but many insurers will need to make some urgent improvements to take this path: they will need to improve the data they gather about their customers, improve the way they use that data to execute product and price strategy, and improve the flexibility of their extended organization to serve customers and distributors in a way that brings optimal benefit to all stakeholders.

Adapting and Supporting

a Customer-Centric Business Strategy to Drive Profitable Growth

CHAPTER 1

HIGHLIGHTS

- The insurance customer has changed over the last five years, becoming more empowered and less loyal.
- Customers' primary insurance purchasing criteria–price, product specifications, and advice–vary based on region and insurance product type.
- Increased complexity of customer channel usage necessitates multi-channel integration.
- Customer satisfaction does not equal customer loyalty.
- Delivering a consistent, high-quality customer experience is essential to future success.

CUSTOMERS ARE MORE EMPOWERED AND LESS LOYAL

The profile of the typical insurance customer is taking a new and definite shape, and one thing is clear: the customer is increasingly difficult to serve. Rising Internet use is increasing transparency in the industry, providing customers with better access to information on product specifications and pricing—and increased bargaining power. In short, customers have become more self-sufficient, price-sensitive, and less loyal (see Figure 1.1). Moreover, insurers and distributors can no longer assume a satisfied customer will be loyal when the relationship is tested—whether by sub-standard claims handling or simple price-based poaching by competitors.

Our research identifies four key areas of customer strategy on which insurers must focus. They are: purchasing criteria, channel preferences, customer satisfaction, loyalty and defection, and customer interactions. We focused our discussions with distributors on these same areas.

Figure 1.1 Changing Customer Trends (Past 5 Years)

Source: Capgemini Analysis, 2006

INSURANCE PURCHASING CRITERIA VARY BY REGION AND PRODUCT TYPE

Most customers say price is the most important |factor in choosing an insurance product. However, the propensity toward price-based decisions varies by insurance type. For example, non-life customers tend to focus most on price. For those buying investment-type life products, price becomes less of a factor when compared to benefits. The importance of price also varies by country (see Figure 1.2). For instance, it is more crucial in highly competitive markets, such as the U.K., where customers are commonly bombarded with competing offers and there are few barriers to switching.

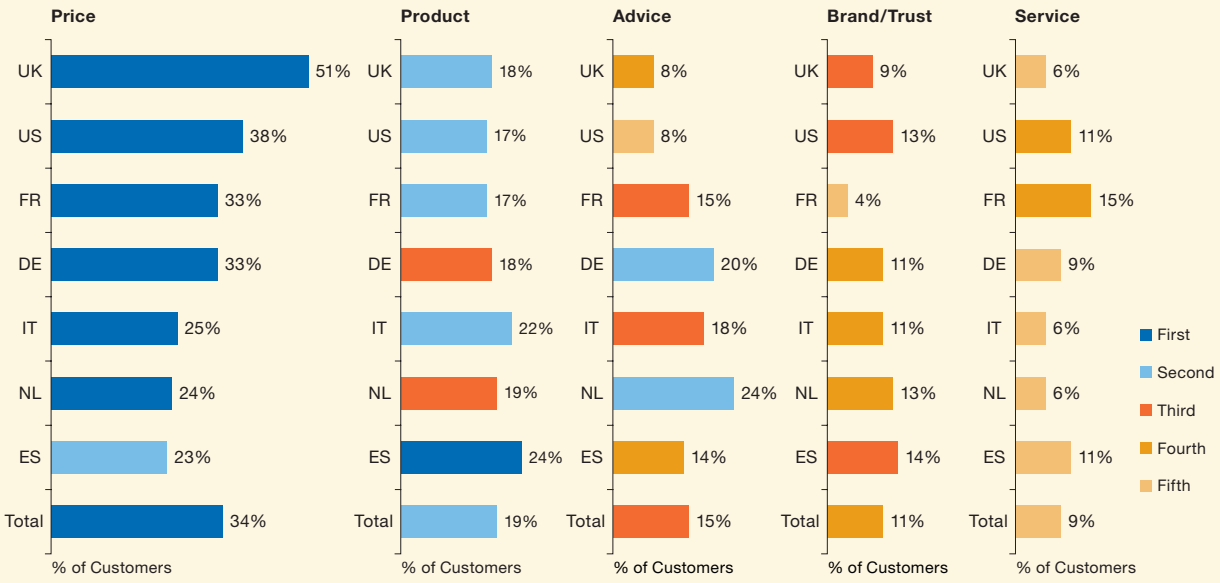
Of course, price is not always the primary or only deciding factor, but insurers must nevertheless make sure they always demonstrate competitive pricing—especially in the transparent Internet age. Insurers can certainly no longer afford to build a cushion into pricing to offset less effective risk assessment capabilities or operational efficiencies. Those insurers that are unable to provide competitive pricing will struggle to attract new customers and to retain existing ones.

Significantly, many distributors seem to misunderstand their customers' purchasing criteria—or, at least, their views seem to be heavily influenced by the segment they already advise, leaving them with a lesser understanding of other customer segments.

Many distributors do not recognize the extent to which customers believe price is the driving force in purchasing (see Figure 1.3). Many also underestimate the importance of other core criteria, such as product specifications. At the same time, distributors often believe customers place far more value on professional advice—their stock in trade—than the research states.

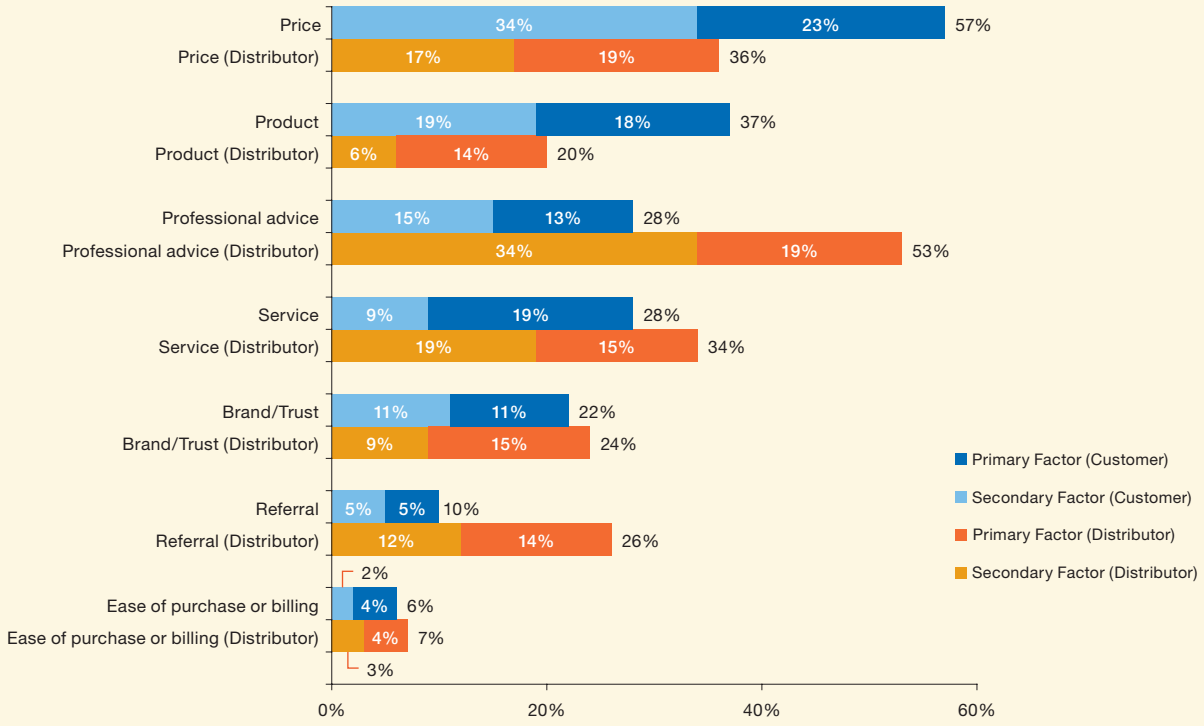
These data suggest distributors must first meet basic customer needs in terms of price and product. Only then can they be effective at differentiating via the quality of their advisory services. Moreover, successful distributors are linking the offering of advice to the needs of the different customer segments, and are differentiating according to the value and needs of the segment they are serving. In short, they are garnering a specific return on the provision of advice.

Figure 1.2 Primary Factors Influencing Customer Purchasing Decisions



Source: Capgemini Analysis, 2006

Figure 1.3 Top Two Factors Influencing Customer Purchasing Decisions



Source: Capgemini Analysis, 2006

Overall, customers lean toward seeking advice before purchasing any kind of insurance (see Figure 1.4). The desire for advice is especially strong in more complex products such as life insurance and pensions—products for which customers need most advice before purchase. The key is for distributors to position themselves as providers of value-added services, such as financial needs analysis and annual coverage check-ups, so that high-value customers will not consider relinquishing those services just for a better price elsewhere and may even be willing to pay extra for them.

ACCURATE CUSTOMER SEGMENTATION IS A REQUISITE FOR EFFECTIVELY MEETING CUSTOMER NEEDS

Most insurance companies already employ some form of customer segmentation—grouping customers by revenue generation, age, and marital status, among others—but to deliver value-added services profitably, they will need to understand better how to respond to each segment beyond price/cost and products.

We identified four broad customer types through an assessment of purchasing behavior seen in the seven countries that are the focus of this report (see Figure 1.5). These categories are roughly divided by customer preferences: how much price advantage they would trade for advice on getting the right coverage at a reasonable price; and what their preferences are for after-sales service vs. getting the product specifics just right.

- *Price Focused/Service Inclined (31%).* Price-focused customers are likely to relinquish advice for a cheaper price. In fact, they will actively pursue a better price, even though they recognize that product specifics might suffer. Beyond price, they are more inclined to focus on service than product, i.e., they would rather improve their after-sales service than attain precise product specifications.
- *Relationship Focused/Service Inclined (30%).* For these customers, advice from a trusted advisor is paramount, and they will use an advisor when purchasing any product, including very basic ones. Beyond the advisory relationship, these customers most appreciate after-sales service, which they are likely to receive through their advisor.
- *Non-Committals (20%).* In this group, there is no overriding focus on price or relationship. Each customer makes each decision based on market circumstances. However, they all value after-sales service more than product specifics.
- *Product Focused/Relationship Inclined (19%).* Customers in this group focus on product first and foremost. Depending on the complexity of the product, they may use an advisor or conduct research themselves before buying.

Significantly, behavior is likely to depend on the type of product being considered and the nature of the customer's immediate need. Even the same individual may behave differently when purchasing different products—requiring more or less advice, for instance, or focusing more or less on price.

Some interesting differences also appear between customer types in different countries. For example:

- In the more commoditized markets of the U.K. and U.S., even the inherently relationship-focused customer is increasingly sacrificing relationships with advisors for a lower price. The number of relationship-focused customers is much lower than in the other countries we studied, indicating that when the market moves toward commoditization, customers switch to a price focus and are less willing to change back.
- Similarly, the non-committals track the relationship-focused group closely in the less commoditized markets—albeit with a greater interest in lower prices. Only in the more commoditized markets does this group clearly move toward a lower price.
- In some countries, such as Spain, Italy and Germany, there is more of a relationship focus, but that focus is not necessarily on after-sales service. Rather, customers are equally focused on service and product, suggesting they expect insurers to deliver precise product specifications and good after-sales support.

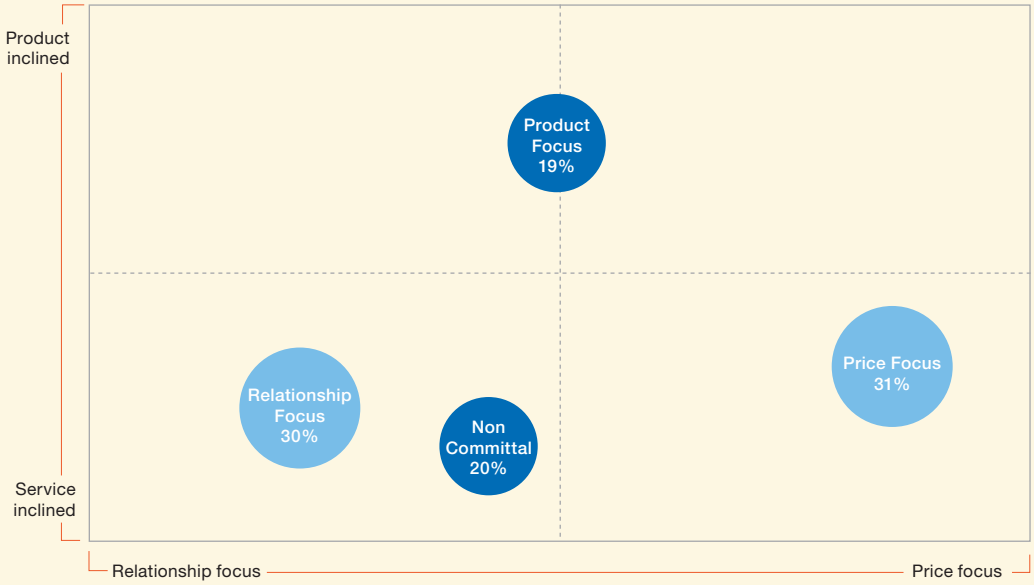
This sampling of customer types only hints at the extent to which insurers with a comprehensive view of the customer can properly target segments based on the products they want, how much they see the product purchase as transactional vs. advisory, what products they might purchase together, and how they purchase (see chapter 3).

Many successful insurers conduct detailed segmentation on a country level, based on specific demographics, including age, gender, socio-economic grouping, and so on. This can be challenging, but quickly pays dividends. For example, one global insurer has seven segments of customers, based on revenue and status (marital status, age, and so on). It has created a separately targeted product, pricing and service portfolio for each segment, and also offers unique portfolios to strategically significant micro-segments.

Figure 1.4 Preference for Receiving Advice before Purchase (by product)

Source: Capgemini Analysis, 2006

Figure 1.5 Global Breakdown of Customer Types



Source: Capgemini Analysis, 2006

Other insurers are using customer segmentation as an engine to fuel product development. For example, one insurer we interviewed is establishing differentiated product levels based on customer lifetime value—and downplaying or over-emphasizing impacts from changes in the customer's risk profile accordingly (for example, ignoring new violation data for "platinum" customers). Some insurers are taking this approach in the belief that these customers generally represent the ideal risk level, and are an important potential source of broader product penetration, so their long-term value should outweigh any short-term profitability issues. Successful insurers have been able to make the transition from selling individual products to providing needs-based solutions.

Importantly, knowing the customer is not a static exercise. Organizations that are flexible enough to gather and share intelligence with distributors about evolving customer needs will be best-positioned to develop targeted and timely offerings that can capture market share in all segments by providing the right product, at the right price, in the right way.

INCREASED COMPLEXITY OF CUSTOMER CHANNEL USAGE NECESSITATES MULTI-CHANNEL INTEGRATION

The Internet Is Changing the Definition of Channels

As recently as ten years ago, insurance channels could easily be classified as either "direct" or "intermediary", but this has changed with the emergence of the Internet, the bancassurance model, and alternative mediums of reaching customers, such as retail stores. These channels are harder to classify into the two classic distribution models. The bancassurance model, for instance, can utilize either the sale of proprietary insurance (direct) or products for a partner (intermediated). The same is true for alternative channels, where the retailers can "white-label" an insurer's product (intermediated) or sell their own (direct).

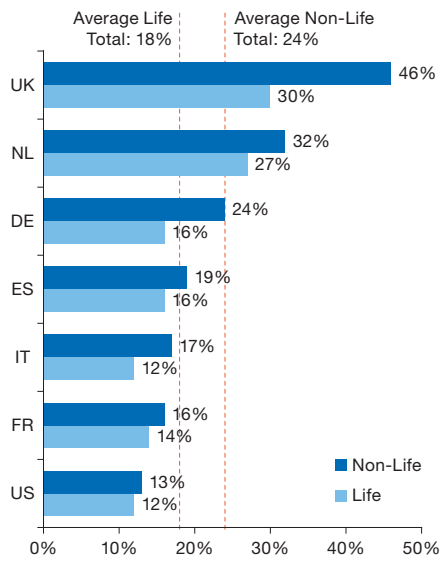
However, the Internet has had the most impact on how customers perceive channels, and how they interact with both intermediaries and insurers. Two facets of the Internet revolution are:

1. The Internet is now a discrete channel by which customers can research information on insurers and insurance products, contact insurance companies and intermediaries (such as distributors), purchase, and manage policies. For some products, the entire life cycle of the product can be initiated and managed online.
2. The Internet has fundamentally transformed how information is transmitted throughout insurance companies and between channels. In providing a link between channels, it permits information to flow freely and allows, for instance, distributors and insurers to interact electronically on a variety of sales and service transactions.

The Internet has transformed how customers view most industries. It has likewise revolutionized how customers view the insurance market, which is now more exposed, with information on everything from customer experience to pricing. Customers have also come to expect a certain degree of transparency and information flow across channels and throughout their product purchasing and service experience—expectations that they now apply to insurance activities, too.

In fact, about 20% of customers surveyed cited the Internet as the primary channel through which they would prefer to purchase all insurance products (see Figure 1.6). However, only 16% of customers made their most recent insurance purchase through the Internet—though the numbers vary enormously by country. For instance, our survey shows 39% of U.K. customers were most recently Internet buyers, while that number was only 10% in the U.S. This disparity reflects fundamental differences in the evolution of those markets.

Figure 1.6 Customer Preference for Purchasing Insurance Online (by country)



Source: Capgemini Analysis, 2006

In the U.K., where customer churn is high, insurers have worked to reduce the cost of customer acquisition by making online applications fast and easy, and customers are already very comfortable with online purchasing. In the U.S., by contrast, regulation once separated banking from insurance, and a long-standing tradition exists of purchasing and servicing through agents/distributors. As a result, Internet purchasing is only just starting to grow in insurance, despite the high level of Internet penetration in general. Furthermore, U.S. customers were generally slow to adopt online banking, so the comparable lag in the insurance segment is not a surprise.

Nonetheless, the number of people who would prefer to buy insurance online exceeds the number actually buying online. This gap could partly be a result of many non-Internet buyers feeling stymied in their attempts to use the Internet by a lack of capabilities and/or security at the insurer or distributor end. Given the strong customer preference for the Internet, insurers must be prepared to invest in building or partnering in superior Internet facilities—but, again, according to the value potential of such investments.

One global life insurer notes, for example, that customer-facing technology may not be best suited to high-value customers. The older population, for example, offers good prospects for a life insurer/pension company, but technology adoption among that group is relatively modest.

In some cases, however, technology is integral to the insurer's offering. For example, some online auto insurers in the U.S. have offered customers the ability to conduct as much business online as they choose—from getting a quote, to applying for coverage, paying premiums, amending policies, and making and managing claims. Those services are a core part of the acquisition/retention strategy for these non-life insurers.

The Internet Is an Enabler Not a Threat

The Internet has clearly become an enabler for insurers and a key business offering for many. Not surprisingly, 74% of distributors see the Internet as one of the main competitive threats to their sales in the future (see Figure 1.7). The reality, however, is far more complex, depending on business segment and region. Moreover, the Internet can also be an enabler for distributors (independent and tied) if used effectively.

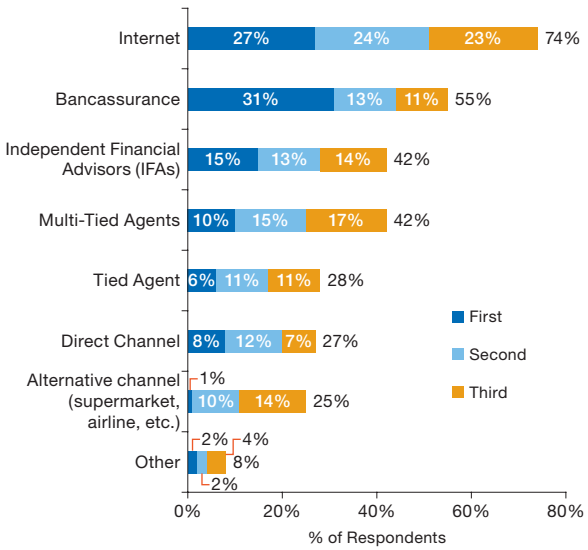
Our data also shows that agents and independent financial advisors are still the preferred route for actual insurance purchases in all countries except the U.K, particularly for life and pensions. Furthermore, the value of distributors in providing advisory services is likely to remain at a premium, especially for those customers who are seeking more multi-product offerings (see chapter 3). Distributors that leverage the Internet, and the Internet capabilities of insurers, will be well-positioned to eliminate transactional activities, and focus on growing high-value, high-touch segments.

Distribution Channels Need to Be Aligned with Customer Preferences and Behavior

In developing the optimal channel strategy, insurers must again pay attention to the needs of a given customer at a given time. Insurers must understand, for example, which customers prefer to buy which products through which channel and how they like to conduct post-sale customer service activities. Furthermore, insurers must understand their own cost-basis for providing these sales and service options in order to align themselves to meet customer demands profitably.

Our survey shows the majority of customers still prefer to use agents/distributors or independent financial advisors both to purchase insurance and to get advice on insurance products—and they prefer that channel over any other. Agents/IFAs are also the

Figure 1.7 Primary Future Market Threats (distributor view)



Source: Capgemini Analysis, 2006

preferred channel for handling complex customer service operations, such as claims processing, while direct channels (Internet or phone) are far more popular for basic customer service (see Figure 1.8).

Accordingly, insurers must provide adequate facilities for customers to conduct basic transactions—updating personal and payment information, renewing non-discretionary policies, filing standardized claims—efficiently and effectively, and without the need for human interaction. By contrast, they must make available high-value personal interaction for customers wanting to conduct more complex customer service, such as non-standard claims, reporting major changes in life circumstances, acquiring new and more complicated policies, and so on.

To create real value from channels for all parties (insurers, customers and distributors), distributors must also focus first and foremost on sales, rather than trying to focus equally on sales and administrative processes as most do now. Distributors should spend more time with customers, and rid themselves of any cumbersome and inefficient processes that eat into that interaction time. As noted in the 2006 World Retail Banking Report[1], retail banks are also wrestling with the similar challenges of developing more effective sales and service channel strategies.

More strategically, channel mix can potentially help drive loyalty and mitigate customer defection, so insurers and distributors must be aligned in their understanding of the value of different types of interactions. Insurers must also optimize the ability of their distributors and customer service representatives to serve the needs of different customer segments appropriately—and according to the value of the customer (see chapter 2).

However, this approach requires insurers to use robust metrics and tools to evaluate, for instance, the lifetime value of a customer or segment by perhaps measuring the present value of future contributions from that customer/segment, rather than just the current contribution to revenues or profits. At this point, insurers must be able to align their processes, sales and support organizations to deliver a specific and consistent promise to a certain customer/segment.

In short, sales and service is typically driven by product, but going forward, insurers must decide when and how to leverage their processes to serve customer segments, not just products. Effective organizations have been able to achieve tremendous success by employing customer segmentation in all aspects of the sales and service experience—including the use of targeted marketing messages, multi-lingual documents and telecommunications experiences and making discounts available to high-valued customers.

Ultimately, savvy channel managers can even leverage their channel strategy to drive certain customers to specific channels, making it more cost-effective to serve that segment. For example, insurers can use existing interactive voice response systems, but upgrade them to ensure high-value customers experience the shortest waiting times.

CUSTOMER SATISFACTION DOES NOT EQUAL CUSTOMER LOYALTY

Our research confirms a disquieting dynamic among insurance customers: even those that are satisfied cannot necessarily be considered loyal, and many remain at risk of defection. It is up to insurers, then, to be proactive in identifying high-value customers, understanding why they leave and why they stay, and defining a robust strategy to attract and retain them accordingly. Many insurers, however, currently lack these capabilities.

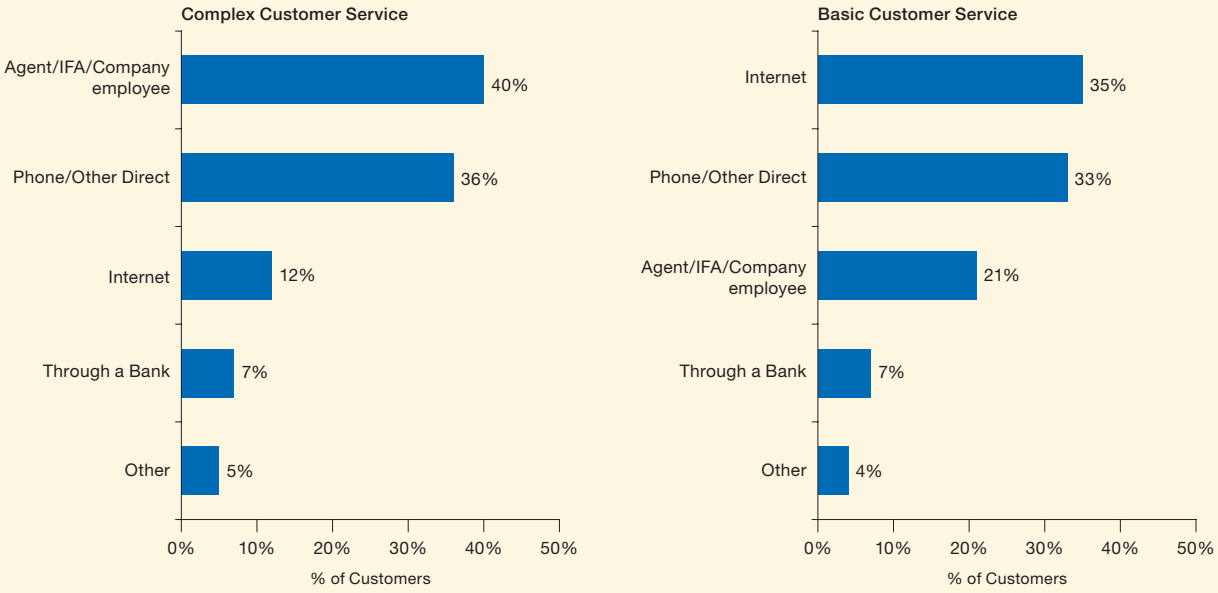
Customers Are Satisfied with Individual Interactions

Generally speaking, customers are satisfied with both the means and the number of interactions with their insurance touch points (see Figure 1.9). This no doubt reflects the effort insurers and distributors are making to optimize each interaction so as to avoid estranging customers. Nevertheless, customers who rarely interact with their distributors/insurers are more prone to see their insurance purchases as pure commodities. These customers are more likely to become quickly and easily dissatisfied, and are more likely to switch insurers.

Successful insurers proactively seek to deflect such customer ambivalence, and all insurers must eschew the traditional one-size-fits all approach to customer interaction. By better understanding what drives customer behavior, insurers/distributors can hone their proposition to deliver differentiated service, focused on specific criteria that are important to their customer base.

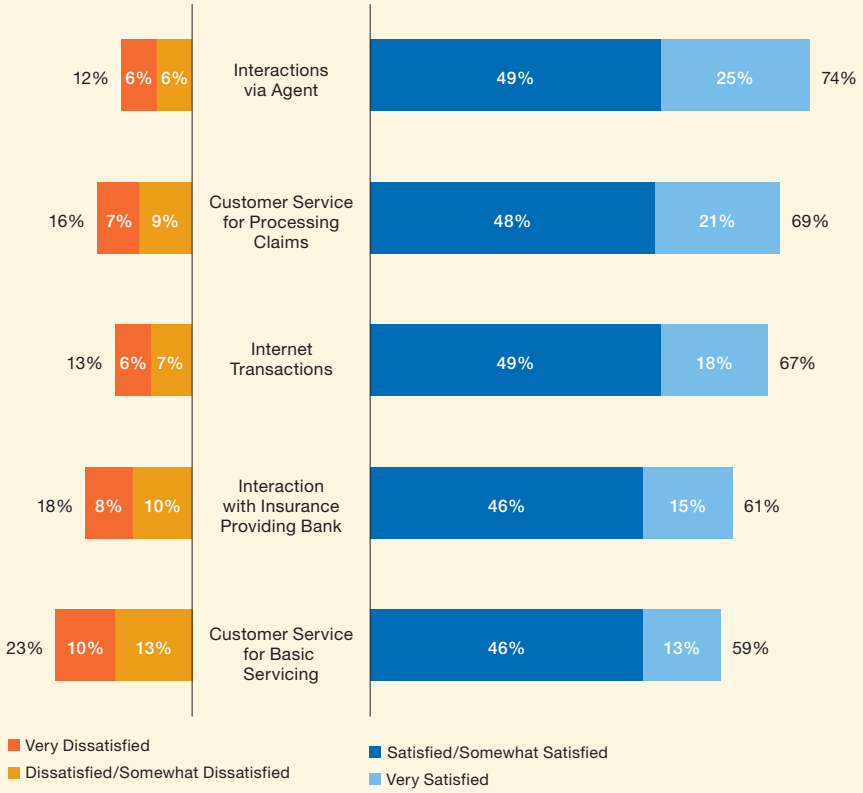
[1] 2006 World Retail Banking Report. March, 2006. Capgemini, ING and EFMA.

Figure 1.8 Customer Channel Preferences for Receiving Customer Service



Source: Capgemini Analysis, 2006

Figure 1.9 Customer Satisfaction Levels (by type of insurer interaction)



Source: Capgemini Analysis, 2006

High Levels of Churn Highlight the Challenge of Creating Customer Loyalty

Customers may be generally satisfied with the means and quantity of their interactions with distributors and insurers, but our research shows that nearly 40% of non-life insurance customers still changed insurers in the past 5 years (see Figure 1.10). In general, churn is much lower in the life market than in non-life, where 10% of life customers had switched insurers in the past 5 years. Nevertheless, life turnover is still significant given that the process of canceling a life policy in favor of another is far more onerous than for non-life coverage.

The churn rates also vary by country, partly due to differences in local regulations. For example, a staggering 63% of non-life customers switched insurers in the last 5 years in the U.K., where policies do not renew automatically. Each year, customers are presented with the choice of renewing existing policies or investigating other options, and they are bombarded with competing offers that provide incentives for them to switch.

By contrast, France's lower churn rates can be partly explained by the tighter regulation. For instance, non-life customers may only switch policies during a two-month span around the renewal date, and life contracts terminated in less than 8 years incur large penalties.

Overall, customers who have not switched insurers in the last 5 years say they would not gain from switching or simply have not considered it. Again, life customers are less likely to even think about switching, because many policies have clauses that prevent or discourage it. For example, policies encourage customers to "lock-in" lower costs based on policyholder age.

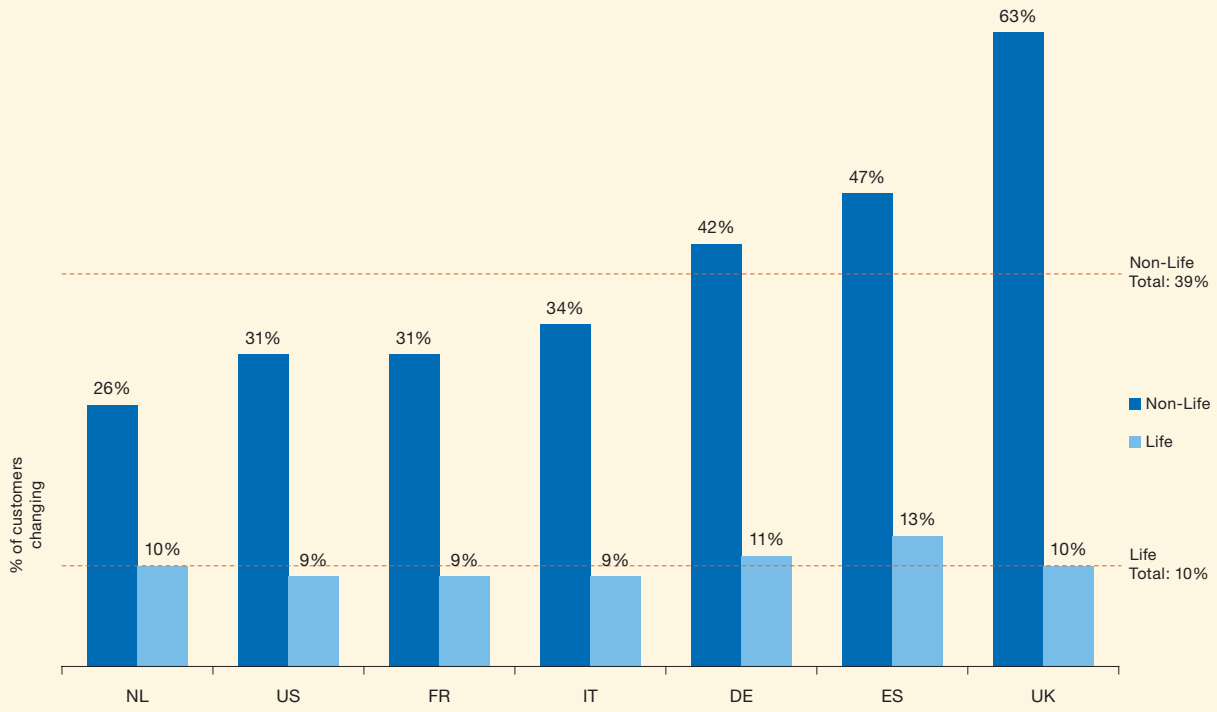
However, insurers should beware: seemingly satisfied customers may be driven more by inertia than loyalty. As a result, particularly for non-life, policies are vulnerable to defection as soon as a reason presents itself, especially if the trigger is a simple one—like a lower price. At the end of the day, satisfaction is worth nothing if it does not lead to retention and revenue. For insurers, the worst kind of customer is a satisfied customer who has been allowed to defect—a common occurrence. Finding and delivering against the levers that create retention by segment is, therefore, critical to unlocking value.

Recently, regulatory changes have begun to provide insurance customers with more flexibility in changing insurance policies, particularly in the life segment. Insurers need look no further than the U.S. mobile phone business to see what happens when market conditions change—and seemingly content customers show their apathy towards carriers. When new regulations suddenly allowed U.S. phone customers to take their mobile phone numbers to another carrier, customers clamored to switch carriers, proving that the hassle of changing their phone number had kept them from defecting, not loyalty to their carrier.

Price Clearly Drives Churn for Non-Life Products

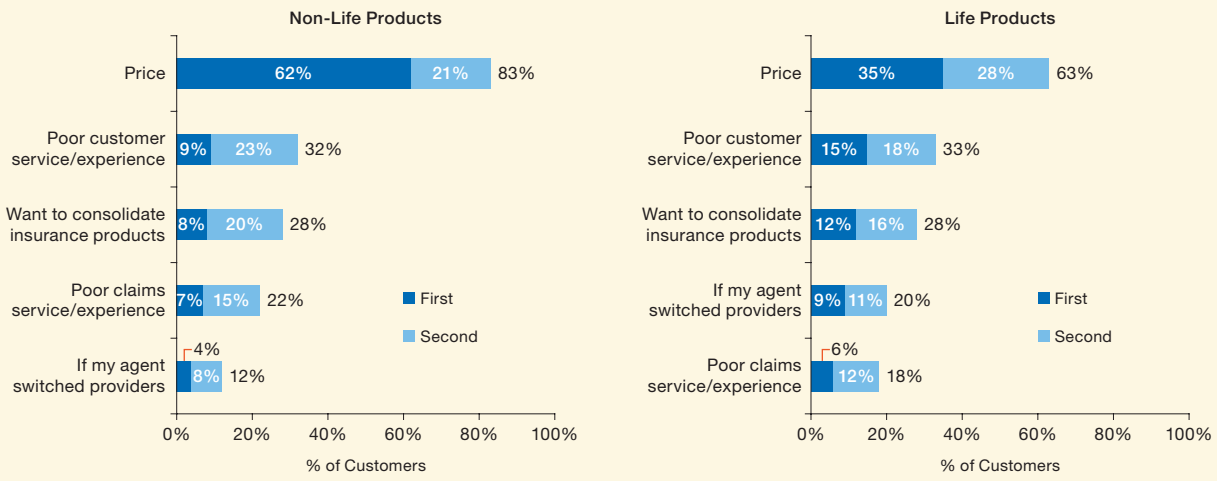
Our research shows price has been, and will be, the single most powerful driver of customer churn for insurers. Price played a role for nearly every (83%) non-life insurance customer and the vast majority (63%) of life insurance customers who switched insurers in the last 5 years (see Figure 1.11). Beyond price, customers say service and claims experiences also played into their decision to switch insurers. While customers rarely remain with an insurer based on satisfaction, they do leave based on dissatisfaction—even if it is tied to a single flawed transaction.

Figure 1.10 Customers Changing Insurance Providers in the Last 5 Years



Source: Capgemini Analysis, 2006

Figure 1.11 Reasons for Customer Turnover in Insurance (Last 5 Years)



Source: Capgemini Analysis, 2006

About one-third of customers cited poor customer service/experience among the top two reasons they switched coverage in the last 5 years, while nearly one-fifth said poor claims service/experience was an important motivator. Customers say these same price and service factors would also play a key part in any decision to switch coverage in the next 5 years.

Clearly, each customer interaction provides insurers with an opportunity to shape customer perceptions about their value, and to position themselves as service providers, not product suppliers—especially in the non-life arena, where many of the interactions are transactional in nature, predisposing some customers to see insurers as faceless providers.

In general, though, as the threat of commoditization grows, and customers focus more on price and switch insurers more often, it is vital that insurers capitalize on moments during the life of the customer relationship when they can differentiate themselves, and crystallize the relationship. These "moments of truth" may not occur often, but they can be as simple as the personal way in which a company handles a claim, or the type and level of advice that is provided for a product.

Quality of Advice Is the Primary Driver of Customer Satisfaction

By assuring customers that prices are competitive and by continuing to ensure quality of service, insurers can help to address the two key drivers of customer attrition—price and service/claims experience. More proactively, though, they can move to bolster their proposition in areas that directly drive satisfaction.

Our research shows that quality of advice is the primary driver of customer satisfaction, although the specifics vary by country (see Figure 1.12). For example, in the U.K. and Spain, customers say the right policy specifications have the greatest impact on satisfaction, while in Italy, simplicity of information, and constant availability of service are almost as important as quality of advice.

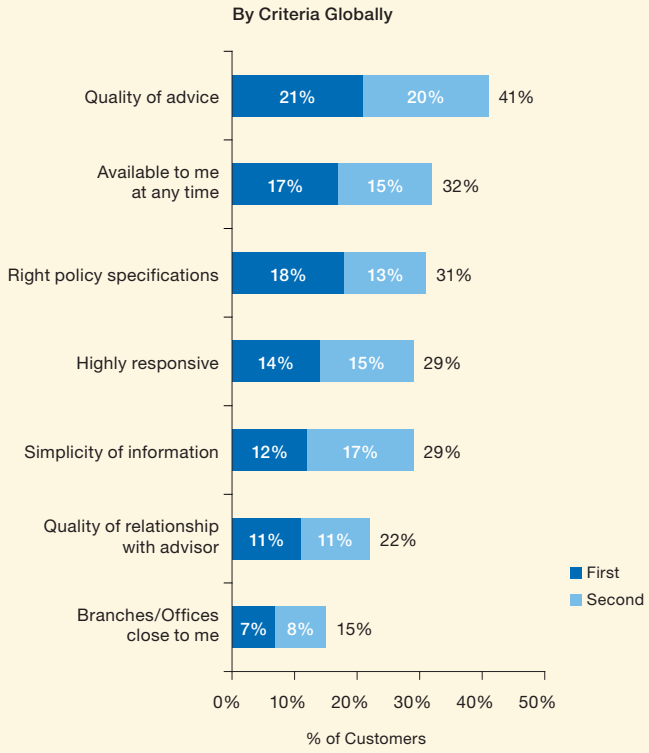
Insurers can also look more holistically at customer behavior to focus on the totality of customer needs. For example, a surprisingly large number of customers (28% in life and non-life, see figure 1.11) said their desire to consolidate products with one insurer played a key part in their decision to switch insurers in the past 5 years. This surely suggests there is opportunity for insurers to combine quality of service and product cross-selling to drive customer acquisition and retention (see chapter 3).

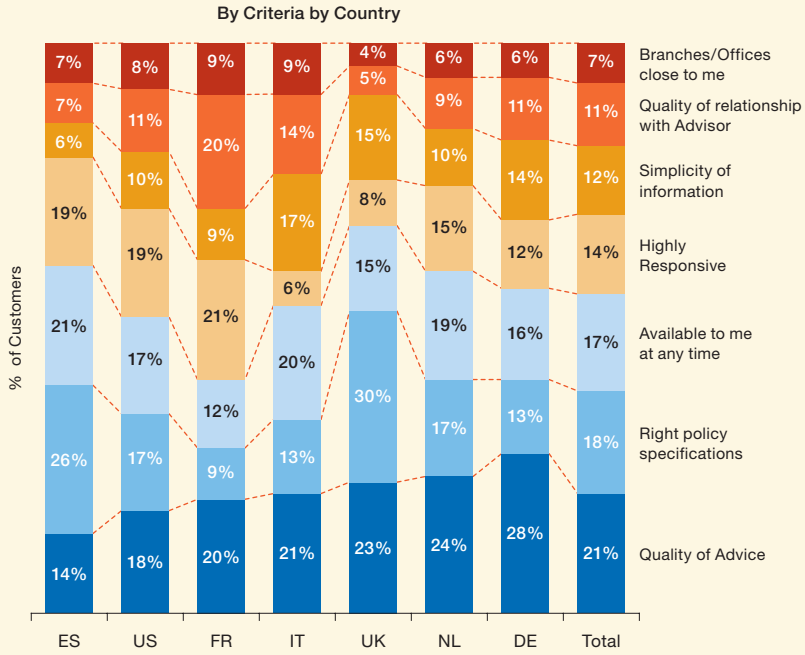
Insurers can also look at what customers do not want. For example, our research shows customers in most countries are not overly concerned about the quality of the relationship they have with their distributor, suggesting the advice they receive is more important than the messenger. Insurers can use this type of insight to hone their own strategies for delivering advice. For example, some insurers may be able to provide high-quality advice/information to some customer segments via multiple and complementary channels, lowering the cost to serve, and freeing up distributor time to conduct higher-value activities, or advise higher-value segments.

The pitfall, of course, is that if insurers allow customers to become too self-reliant, those customers may be more prone to leave if insurers do not proactively provide them with adequate reasons not to switch. Insurers will, therefore, have to consistently reassure these customers that they are receiving the best price and product, and provide them with tools and services that sufficiently address their need for advice.

Accordingly, insurers must ensure their strategy is supported by targeted segmentation—and, ideally, an enterprise view of the customer that takes account of the distributor's insights on customer segments. However, it will be a challenge not only to create that enterprise view, but to execute against it (see chapter 2).

Figure 1.12 Customer Satisfaction Criteria





Source: Capgemini Analysis, 2006

Currently, distributors often view customers through their singular vision as advisors and—as is the case with purchasing criteria—they often underestimate the importance of basics in customer satisfaction, while over-valuing the weight of the relationship (see Figure 1.13). This disconnect may result from the fact that distributors see themselves as the sole advice channel. Our research shows advice can be effectively delivered through other channels, and insurers must work to align the extended organization—including tied and independent distributors—to see and serve customers with a consistent experience, no matter which channel they use (see chapter 2).

DELIVERING A CONSISTENT, HIGH-QUALITY CUSTOMER EXPERIENCE IS ESSENTIAL TO FUTURE SUCCESS

Insurers face an inherent disadvantage in gaining valuable customer insight. Most insurance customers interact very rarely with their principal distributor or insurer. In fact, 26% of the customers we surveyed said they never speak with their insurer and 45% said they speak with them just once a year (see Figure 1.14). Less than 10% reported more than 3 interactions per year.

This degree of interaction is significantly less than in other financial services segments, such as banking, where customers typically interact with their chosen institutions more than 200 times a year. For insurers, this sporadic contact limits their ability to learn more about their customers and makes it even more important that they maximize the value of each customer interaction.

The key is for insurers and distributors to understand the value of each interaction with the customer, and make each interaction relevant for that customer. The insurance industry is becoming more of a service industry, and insurers/distributors need to respond accordingly.

In some cases, the number of interactions may need to be increased, but more important is the imperative to turn existing and new interactions into high-value experiences for all parties.

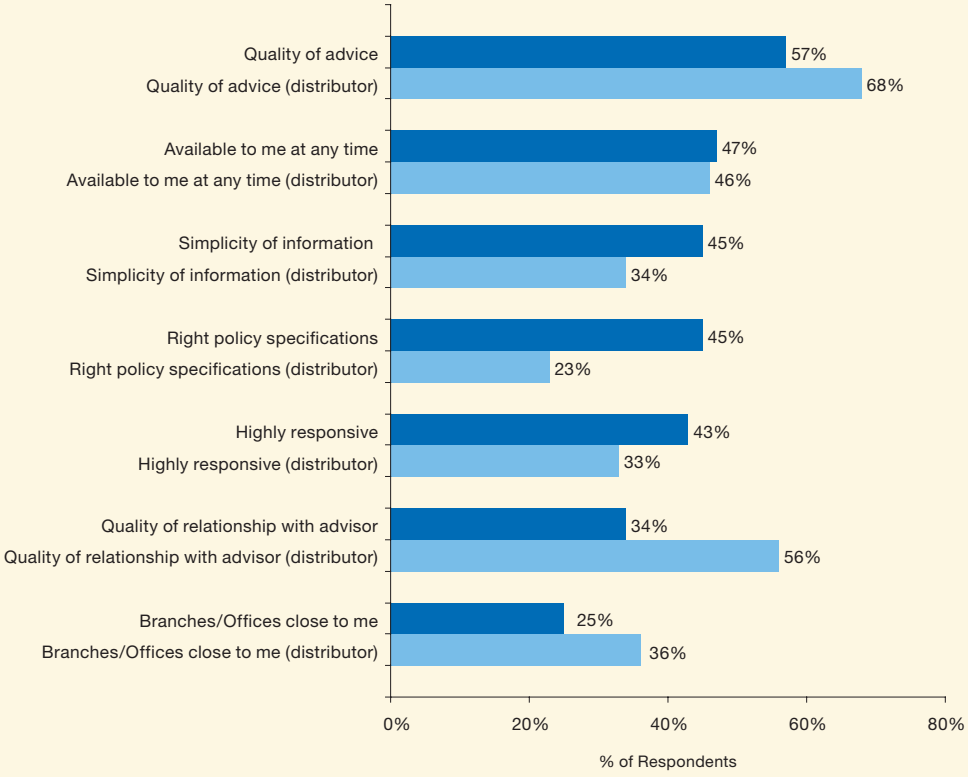
As the data indicates, many customers interact with their insurer/distributor once a year, likely at renewal time. High churn rates related to cheaper pricing alternatives mean that many insurers are missing a valuable chance to renew their value proposition to customers at renewal time. However, some insurers in the U.S. are proactively managing this interaction by promising customers yearly rate caps on policy increases. Others are cycling customer data back into campaign management to engage proactively with customers who are at risk for rate increases. Similarly, some insurers/distributors are using the renewal cycle to schedule coverage reviews—reviews that provide an opportunity to gauge customer satisfaction and make appropriate updates based on needs. The insights gained from these interactions, if fed properly through the organization, can create additional opportunities for cross-sell and up-sell activities.

Separately, some insurers are also trying to build brand awareness and expand sales opportunities by modifying distributor facilities and locations. Some are reinventing physical distribution offices to encourage policyholders to visit. These new offices provide amenities, such as Internet facilities, which customers can use for checking and managing policies. Others are seeking to capitalize on foot traffic generated by other brands—partnering with retailers in physical locations and establishing a proprietary Web presence and links to insurance networks on the Internet.

Insurers and distributors are also beginning to move beyond transaction-oriented customer experience by aiming to provide products that span the full spectrum of needs throughout the customer life cycle and adjust for major life events. This approach allows for increased understanding of individual customers, a more trusting customer/distributor relationship, and an improved ability for insurers not just to generate cross-sales, but to capture the full lifetime value of a customer and create the sense that they are a trusted advisor.

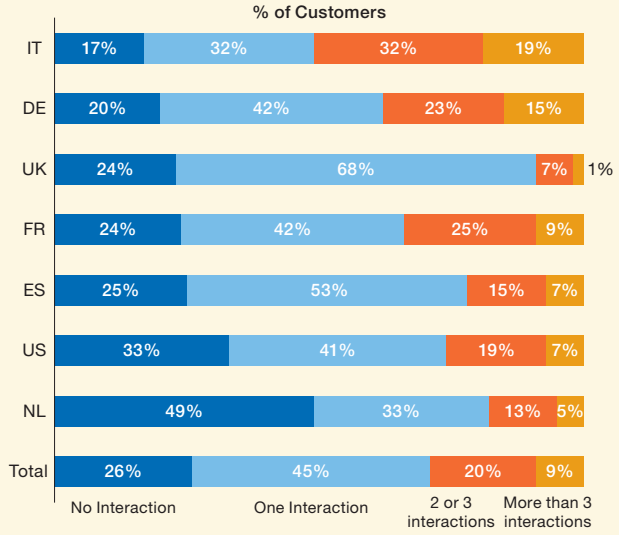
The most important function of customer interaction, though, lies in its ability to validate for the customer the value statement of the insurer. Insurers and distributors must, therefore, understand how to handle customers during “moments of truth”. The same interaction, depending on the context, may have profoundly different significance for two different customers. Consider a billing inquiry from a customer who has lost their job. There should be increased sensitivity around handling the event than would normally be required. If executed well, such interactions can cement a customer relationship; if handled poorly, however, a single interaction could shatter the relationship.

Figure 1.13 Customer Satisfaction Criteria (customer and distributor view)



Source: Capgemini Analysis, 2006

Figure 1.14 No. of Insurer Interactions (per year, per country)



Source: Capgemini Analysis, 2006

Understanding and Enabling

the Distribution Network through a Partnership Approach

CHAPTER 2

HIGHLIGHTS

- Retaining and attracting distributors relies primarily on the quality of products being offered.
- Distributors can better meet customer needs with enhanced access to accurate customer data and high-quality service.
- Insurers can help distributors grow their business by providing improved tools and services to enable advisory selling.
- Insurers and distributors need to view the customer as holistically as the customer views the enterprise.

DISTRIBUTORS ARE OFTEN THE PRIMARY MEDIUM OF CUSTOMER INTERACTION WITH THE INSURER

Distributors are often the primary medium through which insurers interact with their customers, and many customers value the input they receive from distributors in pre-sales advice, purchasing decisions and after-sales service. Nevertheless, many distributors believe they are missing significant opportunities to grow their business, and could more effectively tap into the full potential of their customers if they had access to more complete customer insights, and better tools and services.

Insurers, therefore, can potentially partner more closely with their distribution force to allow distributors to focus on growing their business, while managing transactional activities more effectively. This approach enables the much-desired focus on more complex needs-based selling and service across the entire life cycle needs of the customer. However, it requires some work to improve the partnerships between insurers and distributors (even tied agents).

RETAINING AND ATTRACTING DISTRIBUTORS RELIES PRIMARILY ON THE QUALITY OF PRODUCTS BEING OFFERED

Defection is far less rampant among distributors than it is among customers. In our distributor survey, only 12% of respondents say they are in any way inclined to switch their insurer, and 38% say it is extremely unlikely they will switch. However, as with the customer equation, insurers must still be careful to protect their most valuable relationships.

It is often costly and arduous for distributors to change insurers, since a switch requires them to learn new products, build new relationships with insurers, and adopt new tools and technology. If these barriers to switching were suddenly lowered, however, insurers could potentially lose key distributors quickly—especially if those distributors felt their efforts to grow the business were sub-optimal anyway.

Successfully attracting new distributors is a slightly different proposition than retention. In general, distributors allocate "shelf/mind space" to insurers based first and foremost on the quality of products (see Figure 2.1). Not surprisingly, brand and competitive pricing are also important, but several other factors also influence distributors in choosing an insurer. These factors include personal relationships with insurers, the amount of support offered, and a positive experience in selling products.

Interestingly, respondents overall do not seem very concerned about whether an insurer relationship is easy to establish and manage. However, the ease of the relationship may prove to be more important in cases where a member of the distributor's support team is responsible for selecting the insurer(s), as is the case in many countries in which there are large distributor organizations. We believe this is even more important for individual risk placement decisions.

Significantly, there are tangible differences between the needs and wants of different types of distributors and between regions. For example:

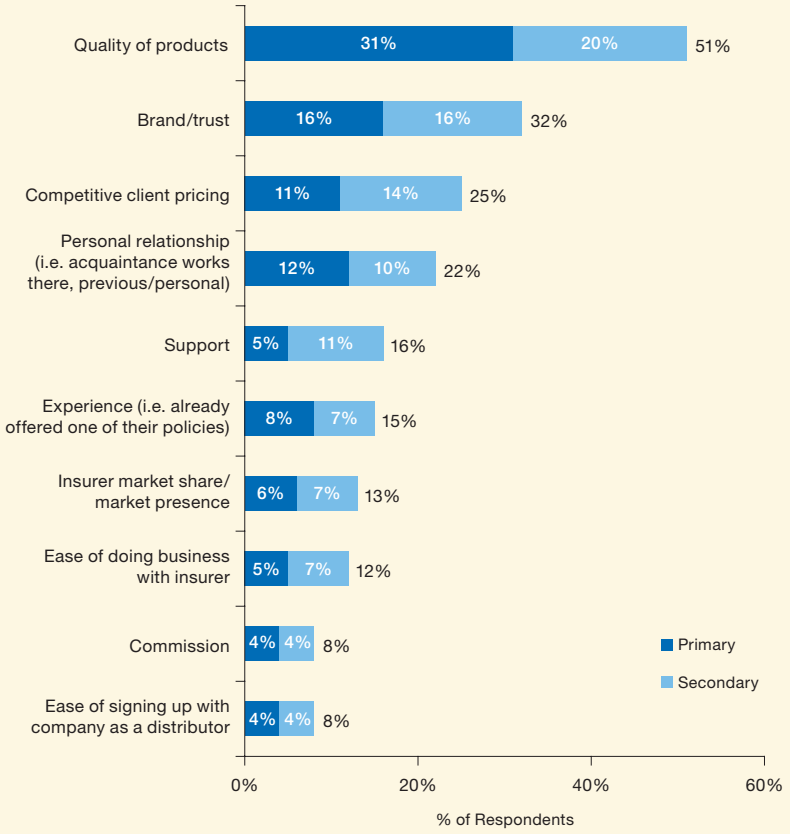
- IFAs/Brokers and traveling employee agents are more focused on the quality of products than any other distributors, no doubt because they position themselves as trusted advisors with access to multiple insurers and products.
- Brand/trust is the key for mobile employee agents since they face the customer directly, but is less of an issue for IFAs, who see their own reputation as being paramount.
- Competitive client pricing is a major factor for multi-tied agents, where insurers are in a head-to-head fight with other insurers for shelf space.

DISTRIBUTORS CAN BETTER MEET CUSTOMER NEEDS WITH ENHANCED ACCESS TO ACCURATE CUSTOMER DATA AND HIGH-QUALITY SERVICE

Very few distributors are highly satisfied with the tools and services provided to them by insurers. However, most find the tools and services to be adequate (see Figure 2.2). For example, 69% of distributors say they are satisfied to some degree with product information—an especially important facility for insurers to provide if they want distributors to recognize the quality of their products, and be able to demonstrate their value to customers. Two-thirds of distributors also say they are happy with online portal technology; though 18% say they are dissatisfied on that count.

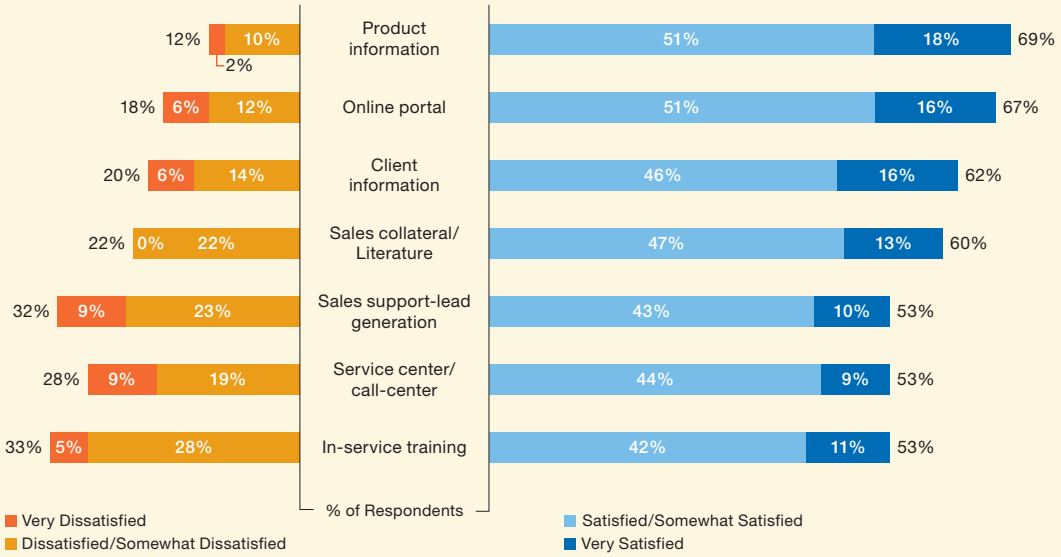
Issues related to direct-sales support are the cause of much dissatisfaction among distributors, with 32% voicing displeasure with lead-generation support and 22% frustrated with sales collateral/literature. Furthermore, 28% of distributors say they are dissatisfied with the effectiveness of call centers. Admittedly, it can be challenging for insurers to optimize service through call centers, since it involves a balancing act between cost-effectiveness and quality, but insurers must improve call center operations to address these negative perceptions in order to provide cost-effective service.

Figure 2.1 Distributor Decision Factors for Selecting an Insurer



Source: Capgemini Analysis, 2006

Figure 2.2 Distributors' Ranking of Support Provided by Insurers



Source: Capgemini Analysis, 2006

One way insurers are effectively managing their call centers is through the use of distributor segmentation. Distributors are divided, and then managed, using a variety of metrics, such as amount of policies under management, degree of tie to the insurer, and type of insurance customers managed.

Significantly, 33% of distributors are not satisfied with in-service training—a finding that insurers should note. If distributors are not properly trained in the complexity of products, they are less likely to demonstrate the value of those products—making the products more vulnerable to competition based primarily on price. Insurers must also train on customer needs, as well as product details, since properly targeted products will sell more effectively.

Web-based training and e-solutions are proving to be cost-effective ways for insurers to provide training to distributors. However, as distributors become less and less process-focused, there is a growing need for insurers to provide ongoing coaching, so distributors can continually improve their ability to sell more complex solutions. For example, "coaches" in France supervise several agencies, and call on agents in person to conduct coaching, often with the customers, to help the process. This model and the partnered agent model have found some success in the U.S., but delivering maximum value from either tactic has proved to be challenging.

If insurers want to enable their distributors to function more effectively, they will also need to cater to the specific needs and concerns of different distributor types. Our research shows various cases in which different types of distributors feel they need more support from insurers. For example:

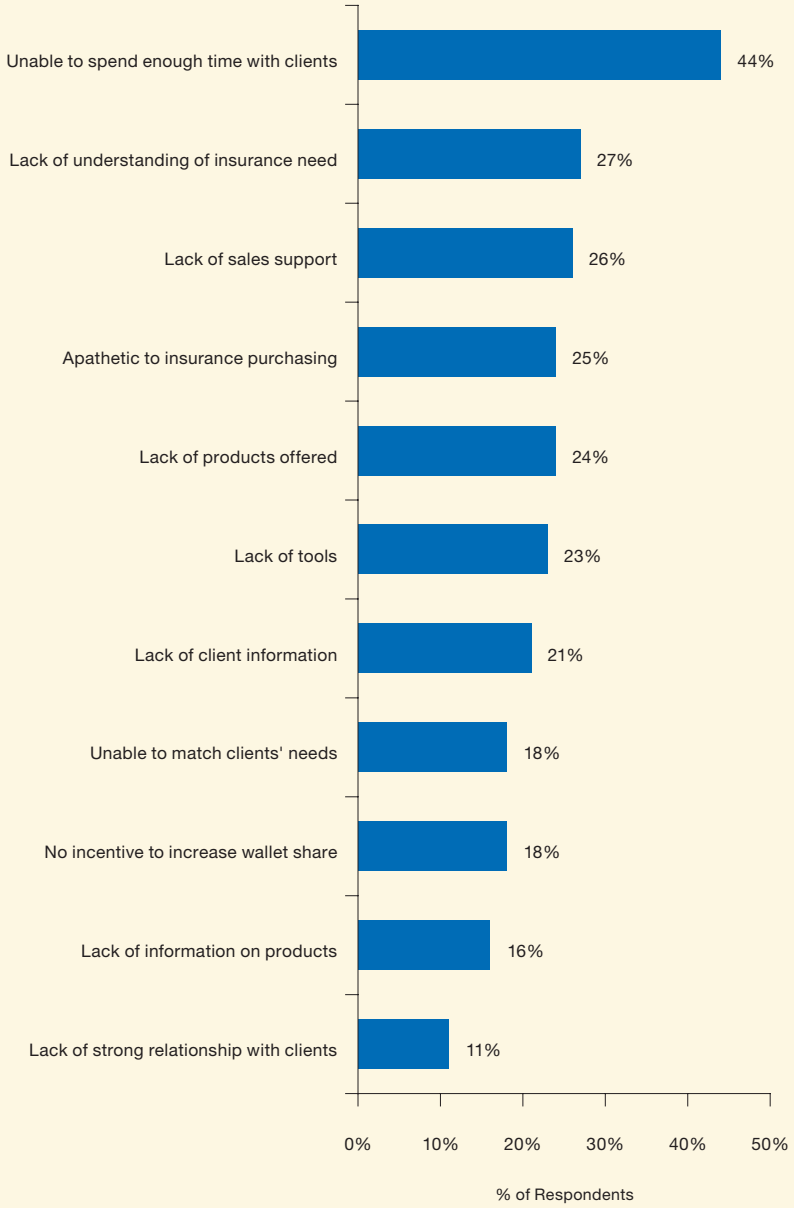
- IFAs/Brokers are markedly less satisfied than average with all tools and services provided by the insurer. For instance, IFAs are far more dissatisfied with lead generation than tied agents (though few tied agents are glowing in their assessment of lead generation, either).
- Tied agents and IFAs, more than any other segment, are least satisfied with the quality of call centers. Not surprisingly, IFAs/tied agents funnel only 11%-17% of their tasks through call centers, compared with 18%-30% among other groups.
- Bank branch employees are the most satisfied on all accounts, possibly because many of them function in a bancassurance organization, where they have (or at least feel) more integrated with their insurer and are more comfortable with mass production environments. Admittedly, bank branch employees intrinsically have fewer issues to manage (employees typically are salaried, have few commission concerns, have access to customer information, etc.), so they are likely to have fewer complaints than agents do. Still, insurers can learn from this segment about the benefits of developing a stronger affinity between distributors and the extended enterprise.
- There are also some tangible differences among distributors in different countries:
  - U.S. and Dutch distributors are generally the most satisfied with the current tools and services, while the Italians and French are the most dissatisfied.
  - Call centers receive the lowest ranking of all tools and services in all countries, but especially among French, British and Italian distributors. Satisfaction is highest in the U.S., where the call-center culture is well established and sophisticated.
  - U.S. distributors are very satisfied with the customer information they receive from their insurers, while their European counterparts are far less satisfied. This is probably a result of the U.S. focus on customer relationship management since the late 1990's, and the substantial investments made in insurer Web sites.
  - Smaller companies are most likely to feel the extremes of (dis)satisfaction, probably because insurers rarely collaborate with them directly when developing tools and services. Most solutions are developed with input from larger distributors, which generally find the outcome acceptable. The end-result for smaller distributors is more likely to be exactly on-target, or completely inappropriate.

INSURERS CAN HELP DISTRIBUTORS GROW THEIR BUSINESS BY PROVIDING IMPROVED TOOLS AND SERVICES TO ENABLE ADVISORY SELLING

While individual tools and services are clearly integral to effectiveness, insurers should also be looking at what distributor needs say about the relationship as a whole. Significantly, many distributor demands in terms of tools and services suggest they want more proximity and integration with their insurers and a greater sense of partnership. Similarly, distributors want more from insurers to help them meet the needs of the end-user.

For example, when asked which factors inhibit them from meeting customers' financial services needs, distributors most often cited the lack of time they spend with their customers, but also focused on the lack of understanding of insurance needs, lack of sales support and products, lack of tools and customer information, as well as the apathy of buyers (see Figure 2.3). In other words, distributors accurately recognize that they feel out of touch with their customers.

Figure 2.3 Factors Inhibiting Distributors' Ability to Meet Clients' Financial Services Needs



Source: Capgemini Analysis, 2006

Insurers can help distributors grow the business by enabling them to focus on the advisory selling model and eliminating/enabling the transactional aspects of the business. This shift is a shared goal for insurers and distributors, and will enable distributors to be the advisors they can and want to be. Distributors are the closest point of contact with customers, but while few have yet realized the full potential of their customer base, many are optimistic that the potential is extremely high (see Figure 2.4).

Nevertheless, most feel they are not as well positioned as they could be, and 73% have doubts about their ability to obtain maximum potential from their customers. Pessimism is highest in highly competitive markets, such as the U.K., where customers (in certain segments at least) increasingly favor direct channels, and churn is high throughout the financial services arena.

Clearly, insurers will need to boost the capabilities of distributors if they want them to capture a greater share of a customer's overall financial services wallet. Customers have shown they are inclined to buy multiple products (see chapter 3), but distributors are struggling to expand beyond their core product portfolios.

More than 70% of distributors currently manage less than 50% of their customers' share of financial services products (see Figure 2.5).

Historically, distribution channels have been aligned to a line of products across specific customer segments. Therefore, it is very difficult to expand their scope to relationship selling, not only in terms of product, but also in terms of customers. Time has reinforced this trend by maintaining distribution channels and underwriters that specialize in "product x customers".

Most insurers, meanwhile, are seeking to build relevant multi-product business models that provide any incentive for distributors to enter the multi-product arena. Some have experimented with "cross-selling bonuses" with little success, but they may also be able to leverage non-monetary incentives. For example, distributors say they want more flexibility to offer deals, and say the lack of flexibility on product pricing is a key factor in any decision to switch insurers. Moving forward, insurers may be able to offer distributors some discretion regarding pricing, as actuarial models and information flows become more exact and allow for better-informed decisions on policy prices to be made—particularly as distributors are enabled to look at the individual as a valued household rather than a carrier of an individual risk.

This and other cross-selling incentives will, however, require insurers to align their products, marketing and customer strategies to ensure cross-selling efforts are profitable (see chapter 3).

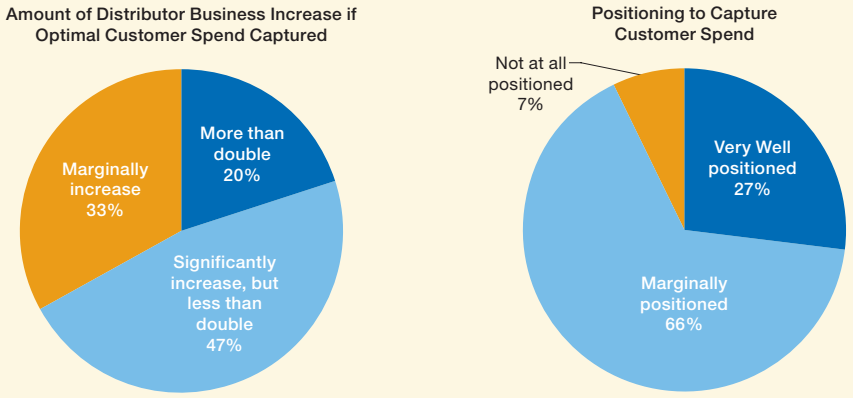
INSURERS AND DISTRIBUTORS NEED TO VIEW THE CUSTOMER AS HOLISTICALLY AS THE CUSTOMER VIEWS THE ENTERPRISE

Ambiguity in the Customer Relationship Often Inhibits the Quality of Information Flow across the Enterprise

While it seems all stakeholders benefit from maximizing the value of each customer interaction, insurers and distributors do not always agree on who is primarily responsible for customer satisfaction. Our research shows that many distributors acknowledge the primary insurer has at least some responsibility for customer satisfaction, but more than 40% say they (the distributor) are entirely or mostly responsible. In practice, this means that distributors are likely to feel ownership for the intelligence they have about the customer, and mechanisms are not built to ensure the sharing of data between the insurer and the distributor.

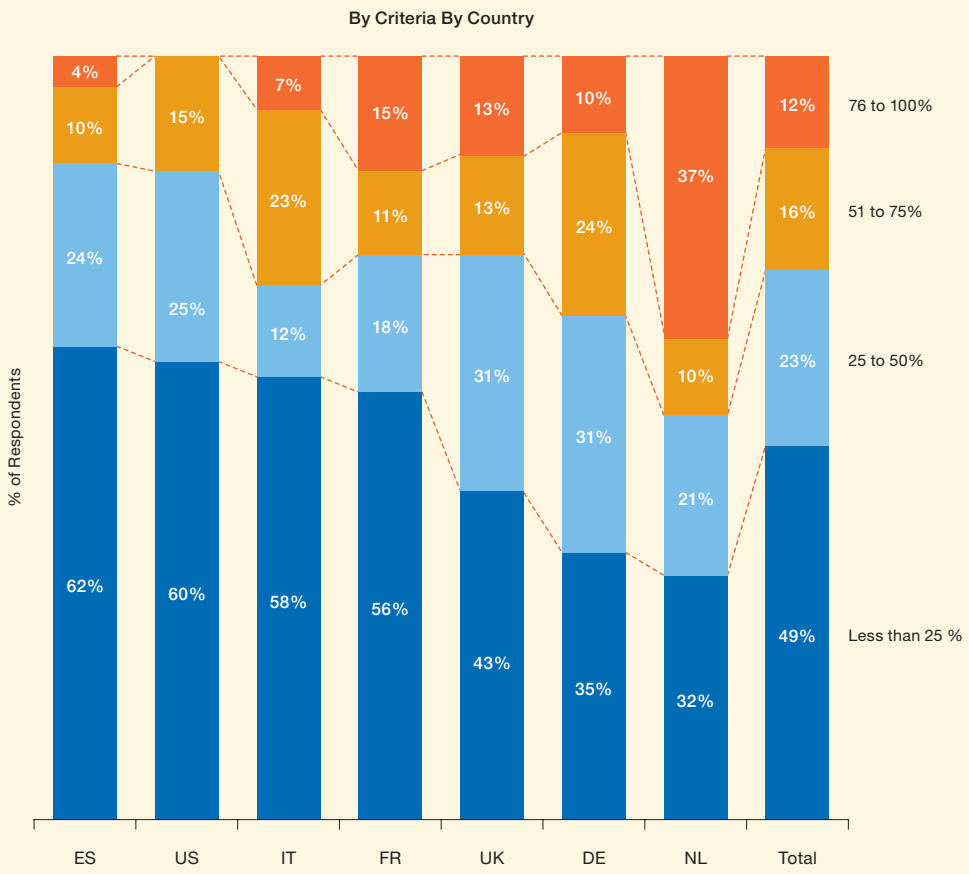
Clearly, many distributors feel somewhat disenfranchised, and insurers that can successfully tighten the relationship with distributors are more likely to elicit superior performance. A major part of solidifying the distributor-insurer relationship relates to sharing information, specifically actionable and profitable insights about customer behavior and emerging needs.

Figure 2.4 Increasing and Maximizing Customer Spend



Source: Capgemini Analysis, 2006

Figure 2.5 Average Distributor Share of Customer Spend on Financial Services Products



Source: Capgemini Analysis, 2006

Significantly, insurers and distributors typically harbor different types of information about the customer, making it all the more important that they assimilate it. Insurers usually have raw data derived from sales and service operations, while distributors often gather more qualitative insights about sales and service interactions. They also have basic information about dates, prospects, and interactions that insurers can leverage in lead and campaign management.

Information flow between distributors and insurers presents a constant challenge—a challenge that is only intensified in situations where distributors and insurers are not "partnered" in achieving mutually meaningful objectives. For instance, distributors are inherently reluctant to share information about customers when they perceive there is little or no return. Moreover, the lack of a meaningful data analysis and delivery mechanism often creates the perception that insurers are "protecting" information.

Indeed, insurers in some southern European countries say they feel distributors deliberately hold back valuable customer data, and in some countries, distributors say it would take added effort for them to provide insurers with customer data, and insurers have not sufficiently explained the benefits of doing so.

Information, Tools and Services Enable Distributors to Tap the Full Potential of Customers

The fact remains, both distributors and insurers can benefit from creating a single view of the customer and capturing a better understanding of customer needs. The required holistic customer view is within reach, but to capture that view, insurers will have to commit technological resources to gather and house enterprise customer data, and will need strategic determination to execute against the findings.

Certainly, insurers will need to compel or provide incentives for distributors to join the process. For example, insurers with tied agents can make data collection part of the core processing by extracting data at the right points in the processing stream. Those with independent distributors will need to provide tools and incentives to encourage effective data-sharing.

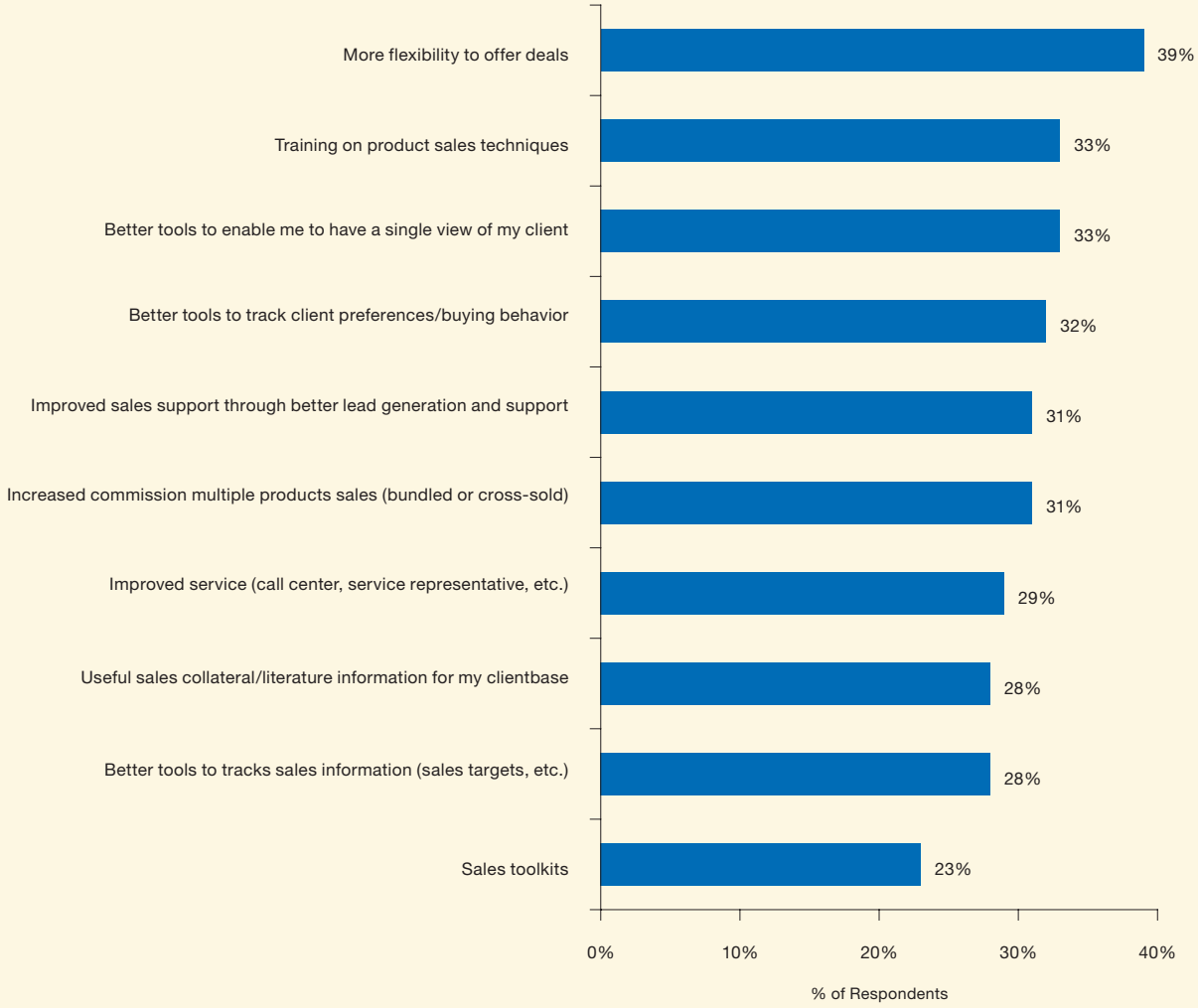
At present, many distributors feel "out of the loop", and 33% say they want better tools, such as agent workstations, to enable them to garner a single view of the customer (see Figure 2.6). Insurers can help by providing tools, such as financial management applications, contact management, customized single-views of customers, and real-time alerts driven by client events.

However, these tools should all be part of a wider enterprise strategy. Indeed, leading insurers are making the necessary investment of time and money to build a single view—a view that, most importantly, can be used to segment customers by value, and drive a targeted strategy of sales and service. That strategy, in turn, helps distributors to more effectively serve their customers, and grow their customer base.

Still, the single customer view will remain a challenge for many insurers: they have to build a unique customer database (across legacy systems), implement tools to cleanse, analyze, and distribute this data in a way that helps the insurer and the distributor to grow the business around a true understanding of customer needs and preferences.

However, the benefits should eventually be self-evident. By leveraging customer data to improve sales and service models, utilizing technologies that link front-office (sales force) and service centers to customer analytics, insurers and distributors can maximize profit from existing customer relationships.

Figure 2.6 Support Needed by Distributors from Insurers to Tap into Full Customer Potential



Source: Capgemini Analysis, 2006

Aligning

Pricing Strategies and Product Portfolio with Customer Needs

CHAPTER 3

HIGHLIGHTS

- Insurers need to align their pricing model with their market strategy.
- Successful roll-out of product portfolios requires innovation, flexibility, and a fully trained distribution network.
- Turning the customer's inclination to buy multiple products into an actual purchase represents a significant growth opportunity.
- New growth opportunities exist in pension and retirement products.

We have shown how important it is for insurers to improve their grasp of the changing customer profile, and to better understand and enable the distribution network. However, to drive profitable growth, insurers must also generate value by innovating on price and product. Moreover, as the industry becomes more commoditized, insurers must be far more effective in aligning their pricing and product strategies with the needs of their target customers.

INSURERS NEED TO ALIGN THEIR PRICING MODEL WITH THEIR MARKET STRATEGY

Insurers should always make sure they are competitive on pricing, but that does not mean they need to offer the same price to every customer. In fact, insurers can adjust prices according to the actual risks involved, the value of the customer, and the demand for the product. Those that manage these variables effectively will be far more successful in generating a profit from their pricing.

At present, there are two distinct approaches to pricing:

a) **Broad-based pricing to mitigate risk.** Some insurers offer minimally tailored prices, but by vetting customers from the outset, they manage to balance the customer pool enough to absorb imperfect risk assessments and unprofitable customers.

b) **Custom/Unique pricing of products.** Some insurers, by leveraging sophisticated actuarial and risk assessment/management models, are tailoring prices for targeted customer segments, such that each customer receives a price based on their unique risk profile.

Both approaches are effective in their own way, and each offers its own benefits and challenges. For example, more customized pricing is costly to implement at the outset, and will only benefit certain customers, but it can be more profitable for the insurer. Broad-based pricing, by contrast, is more appropriate for mutual corporations (owned by policyholders), for which the value proposition to customers goes beyond commercial interests, and the mission of providing affordable coverage may mean pricing is not always profitable.

Broad-Based Pricing to Mitigate Risk

While many insurers are moving toward more customized risk assessment and pricing models, some are abiding by traditional models of underwriting and rating. Many of these organizations are mutual corporations, in which the value proposition centers on a shared risk model in which sub-optimal pricing is traded off against other coverage parameters, such as service excellence, especially around the claims process. Policies are often more comprehensive, such that customers are covered for more contingencies, resulting in fewer surprises. Customer service also centers on the mantra that the customer is always right.

These insurers tend to use traditional underwriting models and perhaps a degree of manual underwriting. In the past few years, we have seen many insurers build in minimal levels of automation to provide decision-support information to underwriters for company placement—a process where the insurer chooses which of many underwriting companies should take in a given customer. The logic is very straightforward, with traditional "knockout rules" applied for initial placement, such as smokers being ineligible for premium life coverage. Simple rate tables are then used to price risk using traditional variables, such as age and gender.

It is easy to suggest all insurers should move from this approach to one using more granular modeling, but there are operational issues to consider. For example, broad-based rate plans are much easier for distributors and service representatives to explain to customers. More granular models may make it challenging for distributors and service representatives to explain renewal rate increases accurately. Targeted pricing models also take years to implement, given that pricing variables can take up to 5 years to collect and a new actuarial model needs to be developed.

Accurate segmentation also requires that data flows precisely all the way from the sales process through the policy administration solution and into the actuarial data marts. If data is not properly captured, edited and verified during acquisition and servicing processes, insurers actually run the risk of putting themselves in a worse position by attempting more granular segmentation.

Custom/Unique Pricing of Products
Insurers that have moved to the forefront of this strategy believe insurance products have become a commodity for which price is the prime customer concern. These companies believe the emergence of direct sales—via the Internet or call center channels, for example—has created an environment in which customers have the time and information to shop for the right price.

Insurers see two major advantages in creating more sophisticated pricing models. Specifically, these models:

- Create more targeted price points, making insurers better equipped to compete for lower-risk customers.
- Create a pricing environment that effectively drives higher-risk customers to competing insurers.

Sophisticated price modeling essentially hinges on four measures: granularity, dispersion, interaction and variables.

Granularity can be defined as the number of pricing cells an insurer can generate based on the number of questions it asks a customer. Each combination of variables (questions) generates a pricing cell to be utilized in the rating algorithm. For instance, in the correlation of credit score with driver age, credit is more important for middle-aged drivers than for young or old ones. The greater the granularity, the greater is an insurer's ability to adjust and adapt pricing as they learn more about the relative importance of variables and the correlations among them. The challenge, however, is collecting the right data. For example, some pay-as-you-go auto insurers once required customers to report their own usage, but this approach was not very accurate. Now, newer technology is enabling these insurers to provide customers with devices that collect and transmit the relevant data automatically.

Still, insurers clearly face additional cost in implementing granularity. They need to ask more questions to obtain the necessary information to price the risk accurately. Some insurers have sought to obtain the requisite information by purchasing the data rather than soliciting it from the customer—an approach that also minimizes the impact on customer experience.

Dispersion allows insurers to price a given risk more accurately, raising prices on higher-risk customers who are being under-charged and reducing prices for lower-risk customers who are being overcharged. Insurers that use the broad-based pricing strategy cannot accomplish this same kind of responsiveness, because their approach typically lumps risks into a series of broad tiers, disproportionately pricing some individual risks.

However dispersion does create a unique challenge in the form of business displacement. In short, during the early stages of implementation, the new rate plan tends to drive away high-risk customers before low-risk customers have been acquired. Insurers need to monitor and manage business displacement to avoid any long-term negative impact.

Interaction between the variables of granularity must be monitored closely. Consider, for example, the interaction of vehicle type and territory. A pick-up truck in a rural area is likely to be a work vehicle; in a wealthy urban area, it is more likely to be used as a leisure vehicle.

Variables provide the key to the entire pricing strategy. Identifying new variables, which in turn lead to more granular price points and more sophisticated interactions, provides the basis for competitive pricing models. This approach can create additional overhead expense, because many insurers are ill-equipped to implement new variables quickly (hence the industry's emphasis on more flexible systems that allow a faster time to market). However, underwriting costs should be lower, as the risk assessment performed in the underwriting phase is completed within the more sophisticated pricing model.

In conclusion, pricing should be more profitable if insurers can use sophisticated modeling effectively, because the approach reduces the overall level of risk in the portfolio by naturally eliminating higher-risk customers from the pool, or attracting higher compensation for those higher risks.

SUCCESSFUL ROLL-OUT OF PRODUCT PORTFOLIOS REQUIRES INNOVATION, FLEXIBILITY, AND A FULLY TRAINED DISTRIBUTION NETWORK

Given the increased transparency and increased flexibility within the industry, it is becoming more and more difficult for insurers to provide a differentiated product. However, those that look past customer and product silos, and evolve into flexible enterprises with needs-based vision, will be well positioned to identify and exploit existing and emerging customer demand.

Turning Customer's Inclination to Buy Multiple Products into an Actual Purchase Represents a Significant Growth Opportunity

With less time on their hands and more complex financial needs, customers increasingly favor one-stop shopping as a way to simplify their lives and finances. Insurance is no exception. Our research shows nearly one half of customers believe consolidating financial services products with one insurer is important, and 59% already hold multiple products with one insurer.

Customers are primed, it seems, to be served by a cross-selling approach—a strategy long touted as key to value creation for financial services companies. However, few insurers have yet to exploit this potential profitably, due mainly to a lack of brand positioning and the operational complexities involved in selling and servicing multiple products seamlessly to a customer. In the U.S., insurers may be especially reticent after the limited success among high-profile first-movers in insurance/banking cross-selling.

In Europe, the insurance landscape is being changed dramatically by the maturing bancassurance model in which banks sell bank-branded insurance products. Convergence is also occurring via assurbanking (in which insurers sell their own branded banking products) and partnerships (where a bank and insurer co-brand products and sell them via both distribution networks).

However, the consolidation of organizations does not guarantee benefits, and even well-established bancassurance companies are challenged to exploit their position and develop a profitable cross-selling and/or bundling strategy. For example, insurance companies and insurance business units still price products discretely, giving distributors little incentive to sell bundles, and customers little incentive to buy them.

For insurers to succeed in cross-selling and/or bundling, they must understand how to turn the customer's inclination to buy multiple products into an actual purchase—and they must look at the bundle itself as a solution, not as simply a co-mingling of individual products.

Effective Bundling and Cross-Selling Comes from Understanding the Customers View of Products

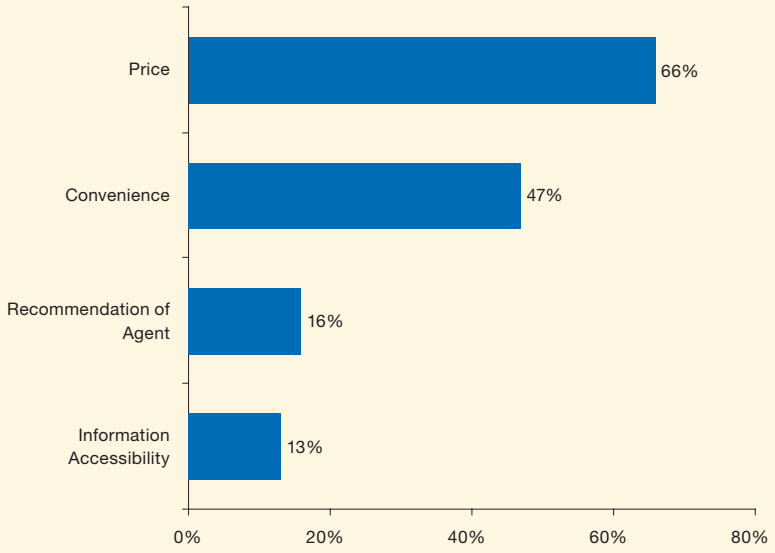
The first imperative is to understand how customers perceive the value of potential product synergies. Price, as with all insurance coverage, is a major driving force for customers. In fact, two-thirds say they would buy multiple products from one provider if it were cheaper than the individually priced products, and nearly half say convenience would encourage them to buy multiple products (see Figure 3.1).

Given these customer preferences, it seems that distributors should have significant opportunity at the point of an initial sale to sell additional products if the price is right and the process is convenient. When cross-selling or bundling products, distributors should certainly focus on price and convenience, rather than issues such as accessibility of information. Furthermore, distributors should be aware that their recommendations are not as critical a part of the customer's decision to purchase multiple products from them as they imagine (as discussed in chapter 2).

Our research shows that customers also see clear links between certain types of coverage, so insurers can benefit by marketing these products as solution sets. For example, customers see home and auto insurance as complementary, since both types of coverage are usually mandatory and thus perceived to be routine and transaction-oriented. Many insurers have managed to create tie-ins between these types of products, but they have been slower to bundle or cross-sell more advisory products.

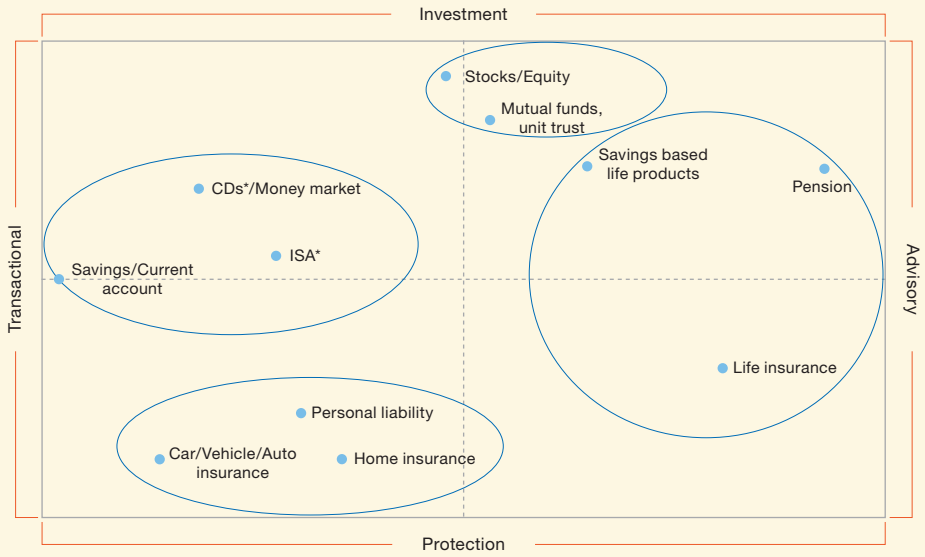
Our research shows there is definite potential for up-selling more complex products. For example, customers perceive there to be an affinity between traditional life insurance/savings-based life products and pensions (see Figure 3.2). Overall, 30% of customers say they would buy a pension from the same insurer from which they buy life products. In addition, 38% of customers surveyed indicated a preference for buying their life insurance with their home and auto insurance, a significant opportunity for insurers—few of which have yet achieved anywhere near that degree of product penetration.

Figure 3.1 Customers' Reasons for Multiple Product Purchase from One Insurer



Source: Capgemini Analysis, 2006

Figure 3.2 Like Products (customer view)



Source: Capgemini Analysis, 2006
Note: Certificate of Deposit (CD): Short- or medium-term, interest-bearing, FDIC-insured debt instrument offered by US banks and savings and loans.
Investment Savings Account (ISA): A tax-favoured savings account in the UK.

However, to develop a strategy of cross-selling complex (or even routine) products, insurers must be able to segment customers by value and needs. Furthermore, for bundles or multiple products to be popular with customers and profitable for insurers, they will often need to provide a solution for a household, not just a single customer. Accordingly, the challenge of gathering relevant data and executing against customer insights is even greater than in building the enterprise customer view we discussed in chapter 2.

Aligning the Enterprise Improves Cross-Selling and Bundling Effectiveness

Identifying the potential for cross-selling and bundling is, of course, only the first step. To capture the opportunity, insurers must align the extended organization (including tied or independent agents) and its processes to execute the cross-selling and bundling strategy. Insurers will need to overcome several hurdles on this count, including the following:

- Traditionally, insurers have encouraged or mandated that certain channels specialize in certain products. Cross-selling and bundling require those channels to develop new capabilities, and may require a re-branding/education effort to convince customers to use channels in a new way.
- Most marketing and pricing strategies are currently built around individual products. Few insurers excel at cross-product marketing efforts, let alone efforts to market a solution built from multiple products. Furthermore, few insurers can accurately evaluate the real risk in a product bundle, and adjust premiums accordingly.
- Many insurers have tried to provide incentives to their distribution networks to cross-sell and bundle products, sometimes at the expense of their core product offering. For example, one traditional property & casualty insurer we interviewed now bases 50% of the bonus plan for its tied agents on the success of those agents in meeting financial services sales targets.
- Additional training is required for distributors to increase cross-selling and sales of bundles, especially combinations of more complex, advisory products. Distributors may also need to train on seemingly unrelated products. One major insurer in France, for example, is selling most of its home insurance policies in tandem with life insurance. Agents who visit customers to handle life-insurance coverage are trained to assess and process a home insurance policy during the visit.
- Even insurers that sell multiple products to one customer often have siloed processes, such as billing, behind the scenes. The offering may or may not appear transparent to the customer, but for bundles to be profitable, the back-end processes must also be seamless.
- Furthermore, many legacy systems are built by line of product and so the organization is often product-based. As a result, any internal alignment around new bundling or cross-selling strategies will involve significant changes.

New Growth

Opportunities Exist in Pension and Retirement Products

The Face of Pensions and Retirement Products Is Changing
In many countries, the population is aging as life expectancy increases and birth rates fall. As a result, the number of working people is declining as a proportion of the overall population. In fact, the United Nations Population Division forecasts a huge jump in coming years in the dependency burden—the number of people under age 15 plus those aged 65 or older per one hundred working-age people aged 15 to 64.

The UN states the old-age dependency ratio will increase on average from 11% in 2000 to 25% in 2050 worldwide, and could increase to 44% during that period in more developed regions—ranging from 33% in the U.S. to 71% in Japan. By 2050, the burden will also be growing in emerging markets, and the dependency ratios in countries such as China and Poland will be comparable to those in the U.K. and Germany.

As dependency ratios increase, many governments are seeking to shift the financial burden of the retirement years from the public sector to private individuals, and they are using a variety of tax and pension reforms to encourage that shift. In the Netherlands, for example, the government is considering a new law that would require insurers to inform customers how much pension they have accumulated—news that could be a shock to many people, since few actually know how much they will receive when they retire. If the law is passed, it could drive similar legislation around Europe. Privatization efforts are likely to extend, too, to other areas of social security and pension provisions.

Changes in social security and government retirement pension provisions are likely to increase demand among individuals for long-term care policies, as well as personal retirement savings products, with or without life insurance. Insurers operating in the European life insurance market are responding to the shifting landscape by developing insurance products to meet this new set of specialized customer needs—and they are especially well-positioned to meet these needs and to tie them into traditional life coverage.

Some insurers are also offering combination products that offer lifetime protection and moderate investment growth. The main challenge in creating combination products lies in the perceived cost versus return for the customer. For example, customers will want to be sure the return on investment of the combination product is not substantially less than they could earn by buying a basic term-life product and investing by themselves the additional amount they would have spent by paying premiums on a combination product. However, many customers tend to dismiss the combination product as sub-optimal without understanding the full benefits of the product. Many products, for example, offer lifetime death benefit, unlike traditional term vehicles.

For insurers to be successful in these combination products, they must find a way to offer them as an alternative to traditional debt and equity investments and, most importantly, to provide high-value advice around a particular product strategy for an individual.

Nevertheless, insurers operating in both Europe and the U.S. clearly recognize there is potential in this segment going forward, and insurers urgently need to develop robust strategies that identify how they plan to tap into the largest growth opportunities in the market.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Competing

in Tomorrow's Insurance Market

CHAPTER 4 | HIGHLIGHTS

In Chapters 1 and 2, we demonstrated why and how insurers must focus on improving their understanding of customers and distributors. In Chapter 3, we explored the growing imperative to align pricing strategies and product portfolios with customer needs. More generally, though, our quantitative and qualitative research also revealed key themes on which insurers are focused:

1. Increasing the emphasis on customer-centricity
2. Enabling the distribution network with improved sales and service tools
3. Implementing integrated multi-channel strategies
4. Replacing legacy technology with more flexible systems
5. Improving operational efficiency

Increasing Emphasis on Customer-Centricity
Insurance customers are far from homogeneous, and customers are changing as fast as the technology used to service them. As a result, insurers that want to capture multiple customer segments must align their pricing, product, channel and market strategies to meet the unique needs of customer segments. Indeed, customer-centricity requires the strategic transformation of the organization to capture and retain market share through the alignment of customer needs with the product, pricing and channel capabilities of insurers. Successful insurers are enhancing their enterprise data stores (using a comprehensive "store, analyze, distribute, decide, implement" approach) to increase their view and understanding of the customer, and they are improving their interactions with customers through more automated, straight-through workflow or more personalized Web sites.

Enabling Distribution Network with Improved Sales and Service Tools
Distributors can hold the key to an insurer's ability to be more customer-centric. By implementing systems that allow distributors to view customers across their life time and across their channel interactions, insurers and distributors can serve and sell to customers more effectively. These systems offer distributors myriad functionality, including customized single views of the customer, real-time alerts that provide messages driven by client events, and advisory capabilities more typically associated with wealth management brokers. However, executives recognize that this investment should be selectively deployed in working with intermediaries.

Implementing Integrated Multi-Channel Strategies
The lack of channel integration throughout the insurance industry threatens to undermine efforts by insurers to be customer-centric and to enable the distribution network through integrated sales and service tools. Often, product and sales channels (tied agents, banks, and so on) are siloed, creating redundancies when, for example, customers and distributors enter the same information into several systems multiple times. These technologies must be streamlined and integrated, so insurers can avoid the manual effort required in appearing integrated. For instance, insurers may currently conduct a number of behind-the-scenes activities to appear integrated. Actual integration, however, will ensure far better service, and more accurate reporting on multi-product initiatives and associated sales, product and pricing strategies.

Replacing Legacy Technology with More Flexible Systems
To integrate systems and enable the free flow of information throughout the insurance enterprise, insurers need to upgrade or replace policy administration systems. For many insurers, this has become a high priority, as inflexible policy administration systems are stunting growth and are increasingly costly to maintain. Revamping policy administration systems results in significant reductions in operating costs, improved time to market for new products, reduced systems development costs and reduced maintenance costs. Ultimately, these improvements can reduce expense ratios dramatically.

Insurers that are replacing their systems are migrating to a service-oriented enterprise where there is increased flexibility, enabling them to reduce the time to market for new products and providing them with technology that supports an integrated multi-channel strategy. The corresponding straight-through processing increases transparency and uniformity toward the sales force, the distributors and the policyholders, while decreasing response time and associated costs. This move is the final step in a process by which insurers are linking their systems to achieve a fully paperless environment, where data flows freely throughout the system, and across channels and markets. For insurers to increase their offshore and multi-channeling capabilities, they must be able to make this adjustment to an environment in which information is digitized.

Improving Operational Efficiency
As is the case in other industries, a company's ability to compete better in the market goes beyond improved customer and intermediary relations and system implementation. Insurers are also exploring sourcing alternatives to reduce costs and improve operational efficiency.

- *Globalization of the Value Chain.* Large insurers are using the "globalization of the value chain" as a means of reducing operating costs and improving the quality of their sales and service capabilities. Many large insurers are building offshore factories (customer services centers, policy administration centers, claims factories, and so on) for various subsidiaries around the world. This move is the next step after country-based shared service centers, and its success relies on volume and cost labor optimization. For instance, one insurer has built a claims factory in India for English-speaking countries and plans to build another in Morocco for French-speaking countries. This strategy will make it even harder for local insurers to keep pace with global competitors without entering partnerships.
- *Outsourcing.* Some insurers are outsourcing IT and certain support functions (such as human resources, finance & accounting, and so on). Outsourcing is a key arena in which global insurers are utilizing their scale to move from outsourced/offshore processes and services for multiple subsidiaries in one country to creating factories to serve the needs of customers from many countries. However, few global insurers have yet to move beyond outsourcing basic processes to delve into claims outsourcing. Claims management is a key differentiator, and many insurers are hesitant to outsource what they see as the heart of their proposition. However, as market competition intensifies, and similar outsourcing arrangements developed by banks prove themselves, insurers are likely to begin outsourcing some or all of their claims and customer service processes.

TOP QUESTIONS FOR INSURERS

The 2007 World Insurance Report covers a lot of ground in demonstrating how the industry is changing and interpreting how to achieve success in the market. After reading the report, one might reasonably ask, "Okay. What do I do now?" Clearly, each company in each market is different, and each insurer must consider what our insights mean and signify for their own company. Nevertheless, we believe there are several questions insurers should ask themselves upon reading the 2007 World Insurance Report. The answers to these questions will help to focus the direction(s) for further inquiry and eventual change. Those questions are:

1. What needs to be done to improve our understanding of our customers, and to attain a single view of our customers across their entire life cycle of needs? Do we have a clear strategy for customer segmentation, and are we positioned to win in those segments?
2. Do we want to be a multi-channel insurer? How well are our current channel strategies aligned to our customers' preferences and behaviors? Are we missing opportunities to further leverage the Internet?
3. How collaborative is the current relationship we have with our distributors? Do we sufficiently understand the challenges that will face our distributors over the next 5 years? Are we providing them with the tools and training they need to succeed?
4. How effective and seamlessly integrated are our current organizational processes, actuarial models and technology? Are we missing significant opportunities to improve operational efficiency through implementation of Service Oriented Enterprise technology or alternative sourcing options?

The questions above are ones all insurers should be asking themselves. While each insurer has answers to many of the questions, most lack a comprehensive answer to them all. Stepping back and reviewing these questions offers the opportunity to reflect on how to approach the insurance market going forward. Finding gaps in the answers to these questions is an initial step to determining what to do next so as to be prepared to compete in tomorrow's insurance market.

Methodology

SCOPE

The 2007 World Insurance Report (WIR) is based on a comprehensive body of research that includes surveys and in-depth interviews involving more than 10,000 insurance customers and 350 distributors (see Figure 5.1). We also interviewed over 50 insurance executives.

The report focuses on seven countries (France, Germany, Italy, the Netherlands, Spain, the U.K. and U.S.), which together account for more than 60% of all direct insurance premiums written globally.

The report covers the retail insurance market, including both life and non-life segments. (Health insurance is not within the scope of this report.) Life and non-life markets, although inherently different, are assumed to generate the same buying behavior by customers.

HOW THE SURVEYS WERE CONDUCTED

Customers were surveyed online and the results are weighted accordingly. Distributor surveys were conducted by telephone. Insurer interviews were conducted in person by local Capgemini account executives and subject matter experts. Interview subjects were selected for their insight into the strategic operations of their insurance company.

Our findings have been verified by local insurance industry experts to account for both regional differences and the complexity of the industry.

Figure 5.1 Breakdown of Customer and Distributor Surveys/Interviews

	UK	FR	DE	ES	IT	NL	US	Total
Customer Interviews	1504	1651	1652	1106	1508	1041	1696	10,158
Distributor Interviews	51	50	50	51	51	50	51	354

Source: Capgemini Analysis, 2006

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