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WIR 2008

New opportunities emerge for insurers

On the surface, mature markets offer insurers few opportunities for growth, but emerging shifts in customer and distribution patterns and preferences could provide significant opportunity for insurers, if they can recognize, embrace and exploit those shifts, says the 2008 World Insurance Report[1] (WIR) from Capgemini and Efma.

By Scott Mampre *Vice-president, Insurance practice* **David Giblas** *Partner, Financial services* **Capgemini consulting**

On the surface, customer behavior and network usage seem to be well-established and stable in mature insurance markets. However, emerging signs of change offer insurers new opportunities for growth. Among the report's key findings:

Scott Mampre

1. The insurance sector in mature countries is slowly moving from a very static state, to a more fluid one. Insurance companies can find opportunity in this shift by understanding, capturing and even creating volatile customer clusters in their markets.
2. Behavioral profiling allows insurers to better identify and understand the distinct attributes of different customer clusters. Insurers can more accurately gauge the value of each cluster by taking account of customer volatility, too.
3. Distribution-network[2] usage varies greatly by country, and tends to be heavily specialized. Insurers can better address volatile customer clusters, retain full market access, and increase wallet share by adopting a structured multi-distribution strategy.

The WIR survey asked customers about their actual purchasing habits, expected future purchasing patterns, and their insurance-buying attitudes, preferences and perceptions. The results reveal

David Giblas

Customer inertia has long been an earmark of mature markets. The WIR notes that many mature insurance markets have become saturated, and the basic, existing insurance needs of most customers have largely been met. On average, its survey results show, a mature-market customer holds 5.2 policies,1.5 life policies, and 3.7 non-life. Customers from these markets also show clear signs of inertia. On average, they hold the same policy for 9.2 years. Customers tend to hold life contracts longer than non-life products, but even highly commoditized P&C products are usually held for several years. For example, customers hold the same motor insurance for an average of 8.4 years.

Longevity is also a manifestation of the underlying apathy on behalf of customers, most of whom (71%) even conceded a bad claims experience was not enough to prompt them to switch insurers. Clearly, then, leading insurers cannot rely on additional market penetration to achieve significant growth. Nor can they expect the underlying markets to expand dramatically.

New signs of volatility are emerging in the customer base. However, new signs of customer volatility are emerging, driven by increased competition, wider access to customers through a variety of distributors, growth in information resources, changes in regulation, and market innovation. Contract turnover is already increasing in some countries, such as Italy, Spain, and the US. For instance, in the UK, customers are switching products far more frequently than average, holding

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medium-to-long term, potentially leaving insurers with a smaller stable stock of long-term customers, and no easy way to replenish that secure-income segment.

Targeting revenues from volatile segments become a real opportunity. While increased customer volatility is clearly a potential threat to some insurers, it can be an opportunity for others if they can position themselves to capture and retain those high-value volatile segments. However, this approach requires insurers to be able to identify and assess the risks of volatility, and evaluate the potential rewards from enticing newly volatile customers to defect from competitors.

The WIR research reveals there are currently four segments of customers in mature markets: Traditionalists, Opportunists, Indifferent and Average users. The segments display important and often distinct customer perceptions and attitudes toward insurance, its value, and potential, as well as actual buying patterns. They also have clearly distinguishable patterns and preferences when it comes to usage of and preference for different types of distribution networks.

Each segment has a different value, but volatility risk is a key dimension. Furthermore, each of these segments rates differently on the value scale. For example, and perhaps not surprisingly, Traditionalists represent the highest value. They are more highly equipped, 20% above national averages for Switzerland, Germany and the US, and between 35% and 45% above national averages for the other countries surveyed. Proportionately, they also share their wallet with fewer networks than other segments. Importantly, customers from this segment also recognize the value of insurance. Opportunists, by contrast, may actually derive more value from insurance than they deliver, because they tend to seek the best value proposition, and try to optimize their portfolios (and thus seek out lower premiums). The value breakdown by country shows that Spain, the UK and the Netherlands have the greatest share of low-value customers, while Italy, the US and the Netherlands have the biggest proportion of high-value customers. However, the WIR notes there is an additional, more dynamic factor

breakdowns differ by country, but it generally holds true that countries with large Average and Opportunistic segments, such as France and Switzerland, are likely to see high volatility in a large share of their insurance population.

Identifying what is at stake for each value/volatility cluster. The value/volatility equation offers insurers additional, important insights on customer strategy. WIR researchers were able to identify four value/volatility clusters of customers. The position and underlying behavioral profile of each cluster reveals what is at stake for insurers (see Figure). In short:

- The dependable-income cluster comprises high-value/average-volatility customers, i.e., Traditionalists. These customers form the mainstay of dependable income and assets, as they are highly equipped, and tend to be more loyal than other segments. For insurers, the key is to preserve that level of loyalty, while using cost-effective service and acquisition strategies.

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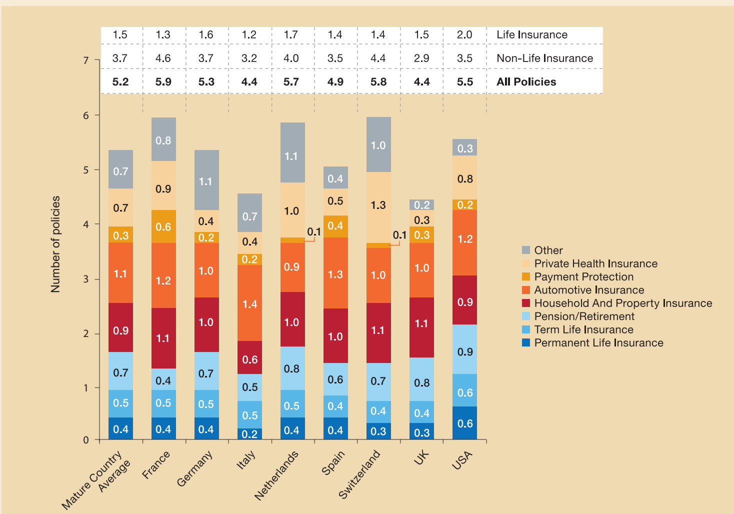
Average number of policies per customer (by country)



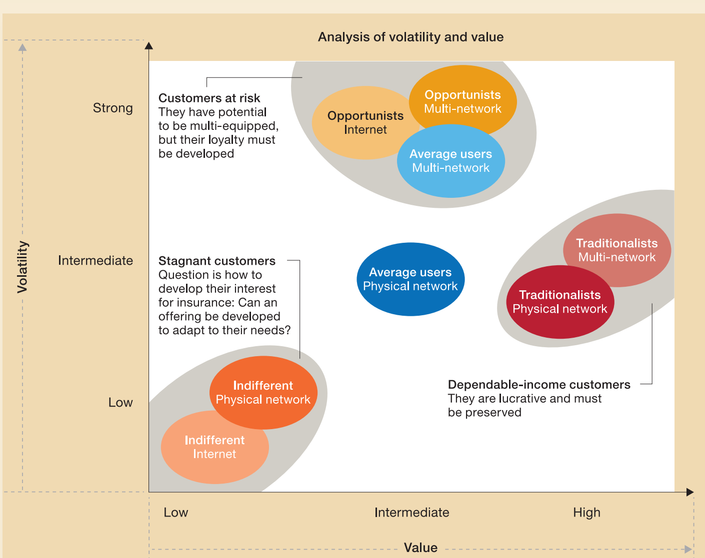
Study

>>> • "At risk" customers are from average-value/high-volatility segments, i.e., Opportunists, and multi-network Average users. While clearly valuable, and of high potential, customers in this cluster may be tough to please, and will require insurers to remain innovative to retain them. Insurers may also be able to exploit the efficiency of the Internet as a distribution network to appeal to this segment.

• Customers in the "Stagnant" cluster are from low-value/low-volatility segments, i.e., the Indifferent segments. This cluster presents a dilemma, as customer value is low, but so is volatility. Overall, a simple, clear, low-cost value proposition may be the most effective way to attract and serve low-profit customers, but insurers will also need to optimize costs, and find the right balance between the push and pull approaches to service this cluster effectively.

• The remaining "Other" customers are from average-value/average-volatility segments i.e., Average users using physical networks. These customers are characterized by an average volatility level, but the experience of the U.K. and U.S. suggests this cluster is likely to become extinct. Insurers will have to decide whether to try and speed up the evolution of their market, and seek to transform these customers into Opportunists they can capture, or preserve the status quo.

Value/Volatility clusters of behavioral-based customer segments



Distribution models are also evolving. The mix and usage of networks varies greatly by country, driven by country-specific customer needs, product usage, regulations, and competitive dynamics. Customers in some countries, such as the US or UK, have a greater propensity to use non-physical networks (e.g., Internet, phone). In other countries, such as France and Italy, customers rely heavily on traditional, physical networks (e.g., agents).
Bancassurance has a strong foothold in Spain and France, and multi-tied agents/brokers/IFAs are a major network in the Netherlands.

Internet is a clear winner going forward. Clearly, though, the WIR survey results suggest more changes lie ahead for distribution, and the most startling shift is in Internet usage. Internet distribution is perceived as a superior means of delivering the key factors that sway purchasers: price/return, product quality, and brand/trust. In the mature markets studied, 28% of customers said they intended to buy their life-insurance policies online in three years, and 34% said they would buy non-life policies online.

Multi-distribution is critical, but is not the only way to multi-equip customers. The rise of the Internet clearly puts some existing distribution networks at risk. To evaluate the fallout, WIR researchers used data on customer demographics, usage and attitudes to analyze networks. They found many important differences in network profiles, and identified clearly definable strengths and weaknesses. Notably, they also demonstrated there is a clear trend toward specialization by networks, which realize they need to meet specific customers, products, or needs to thrive. This

The WIR researchers went on to analyze network-usage patterns to study the link between multi-distribution[3] and multi-equipment[4]. They found that the number of networks that customers use initially increases proportionally to the number of different policy types they hold. However, once a customer has acquired a comprehensive set of insurance products, their next logical step is to buy additional policies within an existing family of products. In the process, they become far more likely to return to existing networks than to use additional ones.

This finding raises some important questions for insurers, which often assume they can multi-equip their customers by using one distributor to sell a range of product types. In fact, our data suggest distributors face a major obstacle in that customers favor the use of multiple specialist distributors, not the use of a single distributor as a multi-specialist.

In short, insurers certainly need to optimize the multi-distribution strategy for a given customer segment, but they also need to know when to switch their efforts to pushing for multi-equipment by distributor, and that push has to begin when the customer reaches a certain, more mature, level of insurance usage.

Conclusion. The insurance landscape is clearly shifting, and three imperatives for insurers are emerging:

1. Managing the business impact of the changing market dynamics. In particular, insurers need to understand when to drive market evolution, and even encourage certain volatile behaviors. Those insurers that properly gauge the value/volatility stakes can define strategy more clearly.
2. Taking a more assertive role in the interplay with and among customers and networks. Insurers will need to be more proactive than they have traditionally been in managing their interactions with and among networks and customers, and work to differentiate their brand and reputation. Optimizing customer profitability will mean optimizing network use by segment, and properly monitoring customer and network value.
3. Embracing IT as both a prerequisite and a lever for overcoming the challenges. Three main IT focus areas can help insurers to overcome these challenges. Enterprise data warehouses, analytics, and customer intelligence can enhance customer knowledge, and hone behavioral-driven customer segmentation. Technology integration and service-oriented architectures (SOAs) could allow insurers to adapt and change their distribution capabilities according to market dynamics. Next-generation customer relationship management (CRM) tools can help insurers and networks to manage customers under a global, enterprise-wide umbrella

Of these, the WIR argues, it is most critical for insurers to seek to optimize the complex interplay among the triad of insurers, customers and networks. This, the report says, is an area in which insurers are still struggling to plot a strategy that can maximize value—and it is the one area in which the only wrong action for insurers is to take no action at all.

The “2008 World Insurance Report” explores underlying trends in customer behavior and attitudes, the current and future use of distribution networks, and the implications for insurers in eight mature markets. It also dedicates a chapter to Bancassurance, which has become an established and successful distribution model, catering to a specific type of customer and a specific set of needs. The report ends with a detailed spotlight on emerging trends in the key developing markets of China and India.

Methodology

The 2008 WIR bases its findings on a survey of more than 11,000 insurance customers in ten countries, as well as interviews with industry executives in thirteen countries. The mature markets surveyed are France, Germany, Italy, the

1. The 2008 World Insurance Report (WIR) focuses on the retail insurance market. It covers both life and non-life segments (Health is included in non-life).
2. When we refer to “networks”, we mean the intermediaries that distribute insurance products, as opposed to “channels” which are the means of interaction used by networks. For example, tied agents together form a distribution network that can use multiple channels