WORLD INSURANCE REPORT 2013

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TABLE OF CONTENTS


SMS
SMS
SMS

Preface

Capgemini and Efma are pleased to present the sixth edition of the *World Insurance Report* (WIR). Insurance companies around the globe have worked diligently since the global financial crisis to reduce operational costs, and improve effectiveness. Those initiatives are now paying dividends, but market conditions remain tough, with few insurers able to raise rates as much as they would like, if at all, and investment income is still lagging. Insurers are nevertheless turning their attention to boosting revenues, and reducing acquisition costs—an expense that has remained stubbornly high.

Revenue growth depends heavily on keeping existing customers and attracting new ones, preferably by utilizing low-cost direct-sales channels (Internet and mobile), which reduce the need for costly intermediaries. But direct distribution networks and channels (access points) are not just a boon for insurers; they are increasingly on the must-have list for insurance customers—who expect the same anytime/anywhere/any device service to which they are accustomed in other areas of their lives.

This report looks at the channel and other preferences of insurance customers by analyzing data from Capgemini's Customer Experience Index (CEI), which was developed to provide a granular view of how customers perceive the quality of their service interactions across three dimensions: products, networks/channels, and customer lifecycle. The CEI is built from data captured through Capgemini's Voice of the Customer Survey, which queried more than 16,500 customers in 2012 on their general satisfaction with their insurer, and also inquired more specifically about the importance of specific channels for executing different types of transactions, and for different types of products.

The CEI showed that channel strategy is a critical part of the customer proposition, and the report examines in more detail how mobile in particular is requiring insurers to take a step back and re-engineer their integrated multi-distribution strategies. The report looks at channel strategies through the prism of Capgemini's Multi-distribution Model, first introduced in the *WIR 2009*.

More generally, the findings of the *WIR 2013* draw on research insights from 41 countries: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Lebanon, Malaysia, Mexico, Morocco, the Netherlands, New Zealand, Nigeria, Norway, Philippines, Poland, Portugal, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Turkey, UAE, U.K., U.S., and Vietnam. Included in the research were 114 interviews with senior insurance executives.

We are pleased to present you with this year's *World Insurance Report*, and hope our findings offer insight into the evolving landscape in which insurers now operate.

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Many Non-Life Insurers Continue to See Improvements in Core Underwriting Performance

CHAPTER 1

INTRODUCTION

Catastrophic losses were high in 2011, and the nature of events highlighted the imperative for non-life insurers to model more accurately the potential for inter-related risks, such as the tsunami triggered by an earthquake in Japan. Among the fourteen studied countries—Australia, Belgium, Brazil, Canada, France, Germany, India, Italy, Japan, Netherlands, Spain, Switzerland, the U.K., and the U.S.—economic losses tied to natural disasters totaled US$370 billion in 2011, mostly in Australia, Japan, and the U.S.[1] Of that total, US$116 billion was insured.[2]

In everyday operations, however, non-life insurers have continued to focus on improving the core drivers of underwriting performance, and many have captured benefits from enhancing productivity and reducing distribution costs. The result was better underwriting ratios for some in 2011, especially in countries that largely avoided major catastrophes.

Italy was the only country in which non-life insurers managed to improve all three components of underwriting performance—the claims, operational, and acquisition ratios—but numerous countries saw at least some improvement in certain components (see Figure 1.1). Better claims ratios in Canada, France, Spain, and the U.K. helped those countries to improve their underwriting ratios despite some deterioration in operational and acquisition ratios.

Figure 1.1 Non-Life Insurance Performance in Key Ratios, (percentage-point change), 2010-2011

Change in Ratio, 2010-11 (percentage points)	France	U.K.	Canada	Italy	Spain	Switzer-land	Belgium	Nether-lands	Germany	Brazil	U.S.	Japan	Australia	India
Claims Ratio	-9.5	-7.2	-4.9	-2.0	-2.3	-0.6	0.3	2.5	1.2	1.8	5.1	10.5	27.1	NA
Operational Ratio	0.5	0.2	0	-0.2	0.5	0.3	0.1	-0.1	0.2	0.2	0.1	-0.9	-0.7	NA
Acquisition Ratio	0.5	0.0	0.8	-0.1	0.2	0.0	-0.1	-0.3	1.1	0.6	-0.6	-0.3	-0.1	NA
Underwriting Ratio	-8.5	-7.0	-4.1	-2.3	-1.6	-0.3	0.3	2.1	2.4	2.6	4.6	9.2	26.2	NA

High Deterioration | Medium Deterioration | Low Change | Medium Improvement | High Improvement

Note: At the time of analysis, no 2011 data was available for India, where the financial year ends March 31st. Ratios for Belgium, Brazil and U.K. have been updated for prior yeas as some companies have restated their results. Japan has been included in the ratio analysis for first time.
Source: Capgemini analysis, 2012

[1] Based on data from "Natural Catastrophes and Man-made Disasters in 2011," Swiss Re Sigma Report, 2012
[2] Ibid

EFFICIENCY-RATIO MODEL SHOWS SOME COUNTRIES IMPROVED NON-LIFE CLAIMS RATIOS IN 2011, BUT SOME WERE HIT HARD BY CATASTROPHE CLAIMS

To analyze the specifics of performance, we used an Efficiency Ratio Model to calculate efficiency ratios (expense and profit metrics against gross written premiums (GWP)) for major players in each market, and to analyze broad industry performance trends by market accordingly.[3] Country-specific findings are detailed later in this chapter, but the following general trends were evident in 2011:[4]

- **Underwriting performance improved in many countries in 2011** (see Figure 1.2), but especially in France and the U.K., where the underwriting ratio (claims ratio + acquisition ratio + operational ratio) declined significantly, due largely to a significant drop in the claims ratios ((total claims and benefits disbursed) / (GWP)). The underwriting ratio also declined in Canada as the claims ratio dropped, but the operational ratio remained stable amid a sizeable gain in the acquisition ratio (total commission and fees paid) / (GWP)).

  Australia, Japan, and the U.S. all suffered significant catastrophic losses, which sent claims ratios up sharply. Underwriting ratios rose as a result, even though operational ratios improved moderately in those countries, and acquisition ratios were little changed.

- **The claims ratio declined in 2011 in many analyzed mature markets**, but unfavorable weather conditions and unprecedented losses related to natural disasters pushed the claims ratio up significantly in Australia, Japan and the U.S. In Australia, nearly 98% of GWP was paid out in claims and benefits in 2011 amid a series of weather disasters. Japan's non-life insurers processed record claims in 2011 because of the devastating effects of the Tohoku earthquake and subsequent tsunami. In the U.S., extreme weather conditions, including Hurricane Irene and spring tornados, resulted in catastrophe-related losses of US$35.9 billion.[5]

  Italy continues to have one of the highest claims ratios in the world, but the country did achieve a two-percentage-point improvement in 2011, due primarily to increased tariffs for third-party motor insurance, and a significant fall in the number of motor insurance claims. This trend emerged as car usage declined amid weak economic conditions and rising fuel prices.

  Highly favorable weather conditions in Canada, France, and the U.K. led to a significant improvement in the claims ratio in those countries.

- **The operational ratio improved, albeit very slightly, in nearly half the analyzed countries** as insurers continued to invest in productivity improvements, many of which are designed to preserve or improve profitability in highly competitive market conditions. Japan's non-life insurers reaped the benefits in 2011 of the massive industry consolidation of the prior two years, cutting the operational ratio quite significantly, but Japan's ratio remains one of the highest among the analyzed countries. The operational ratios in the U.S. and U.K. are higher than in many countries, though U.S. insurers kept operational expenses stable in 2011, despite rising claim levels, and are starting to see the benefits of productivity investments. Insurers in the U.K. had been slow to make such investments in the last decade as they faced significant competitive pressure and very low profits. However, investment became necessary as existing systems were aging, and needed to be overhauled or replaced. System upgrades have led to efficiencies, but the industry is still only part of the way through the updating process.

- **Acquisition ratios are changing very little in most countries with only a fraction of customers using direct distribution networks.** However, insurers are undertaking widespread efforts to increase the use of direct distribution networks, and customers are beginning to opt for new and alternative channels, such as Internet and mobile. This is helping insurers to increase their reach, and enhance customer satisfaction, but distribution costs often remain high. The U.K., for example, has the highest studied acquisition ratio in the world, despite widespread promotion of direct channels, because the market is very well developed and highly competitive. As a result, the cost of acquiring new business is high, since commissions still represent a large, integral distribution expense, and the cost of competing for business through advertising and aggregation websites is high. The acquisition ratio rose tangibly in some countries in 2011. In Germany, for instance, the ratio deteriorated primarily due to the continuing dominance of intermediaries (agents and brokers) in non-life distribution. Nevertheless, direct distribution is generally increasing, and insurers can expect to realize benefits from their investments in direct channels as usage expands.

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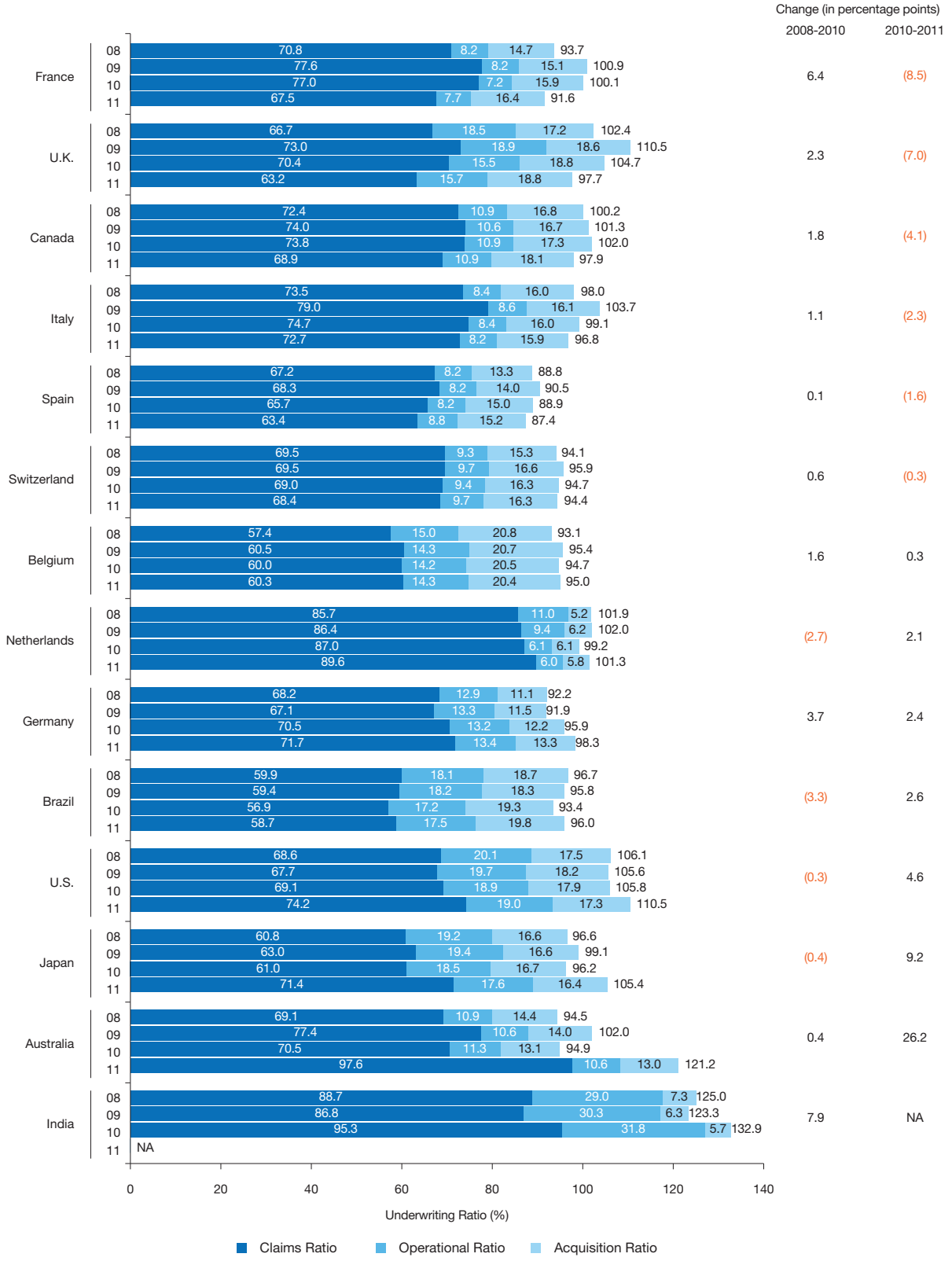
[3] Since efficiency ratios depend on a variety of external factors, including general economic conditions, government regulation, business type, consumer preferences, etc., it is rarely relevant to compare ratios directly across regions. It is more germane to compare trends over time within regions, and perhaps within business types or insurance segments. Also see Methodology.

[4] Data for India refers to fiscal 2010-11, which ended March 31st, 2011

[5] Based on data from "Overview and Outlook for P&C Insurance Markets," Insurance Information Institute, June 2012

Figure 1.2 Non-Life Insurance Underwriting Ratios (Combined Expenses as a Percentage of GWP) %, 2008-2011



Note: The ratios are valid only for non-life insurance. The ratios reflect non-life data as reported by the countries themselves, and hence includes health insurance for Belgium, India, Italy, the Netherlands, Spain, and Switzerland. At the time of analysis, no 2011 data was available for India, where the financial year ends March 31st. The ratios for Belgium, Brazil and U.K. have been updated for prior yeas as some companies have restated their results. Japan has been included in the ratio analysis for first time.
Source: Capgemini analysis, 2012

- **Investment ratios—the return on insurers' investment portfolios—mostly declined in 2011**. Since the financial crisis, insurers have been more conservative in their investments amid ongoing uncertainty in world markets and weakness in macroeconomic conditions. In 2011, the European debt crisis injected further volatility into financial markets. As a result of market and economic uncertainty, insurers have generally become more heavily invested in fixed-income securities and bonds, despite the prevailing low interest yields, and have far less exposure to equities than before the crisis. This approach keeps returns low, and limits insurers' exposure to the upside of equities gains, but it is likely to remain the favored stance for some time.

  In the U.K., exposure to equities (domestic and international) remains significant (27% in 2011 for overall life and non-life investments[6]), but those investments generated losses anyway in 2011, pushing down the investment ratio. In Australia, investment income declined noticeably in 2011 due mainly to lower yields on government bonds—yields that are expected to decline further over the next few years. The investment income of Japan's non-life insurers increased marginally in 2011, because investments are linked heavily to domestic bonds, which performed relatively well.

- **Profit margins for non-life insurers declined broadly in 2011**, despite efforts to improve operational efficiency, because gains in underwriting performance were not sufficient to offset declining investment returns. Non-life insurance players in Australia, Japan, and the U.S. saw profits slump amid exceptionally high catastrophe-related expenses, which overwhelmed any improvement in operational ratios. Canada's non-life industry posted better results in 2011 as claims expenses fell and investment income held relatively steady. Profitability improved significantly in the U.K. where premiums increased while the claims environment remained favorable. The highly mature Dutch market experienced a decline in profits as price competition in the market intensified amid the increased use of aggregator websites by customers.

MANY INSURERS FIND ACQUISITION COSTS ARE STUBBORNLY HIGH

In studying the non-life industries in fourteen countries (presented here alphabetically), we looked specifically at how insurers are performing with respect to the different components of underwriting performance. The study shows all non-life insurers are focused on reducing operational costs and raising effectiveness, but market-specific conditions continue to be the single most important factor. With investment income likely to be limited for the foreseeable future, and many insurers already trying to make routine activities as efficient as possible, acquisition costs are likely to be the next target for non-life insurers seeking to improve their profitability. Agents and brokers remain endemic in most markets, so any significant reduction in acquisition costs is likely to emerge only as the use of direct channels becomes more prevalent.

AUSTRALIA

Australia is one of the world's more developed non-life insurance markets, and is among the top 15 largest in terms of GWP. In 2011, the claims ratio for the industry deteriorated sharply, rising by 27 percentage points to 97.6%, due to exceptionally high losses related to natural calamities across the country. Devastating floods caused heavy losses in northeastern Australia in January 2011, and Tropical Cyclone Yassi followed in February, triggering further claims. A severe hailstorm in Melbourne in December also caused significant damage. Claims related to natural disasters totaled US$4.4 billion in 2011, but a significant portion was covered by reinsurance, which limited the impact on profitability.[7]

Australia's insurers have also been raising premiums since 2008 to try to improve profitability, and the increase was nearly 5% in 2011 on personal lines, including homeowners and compulsory third-party (CTP) motor insurance.[8] In the commercial segment, property experienced a sharp increase in premium rates though other segments remained soft. These premium increases were insufficient to offset the rise in claims in 2011, but could improve industry underwriting performance significantly in 2012, assuming claims hold steady or decline, as expected. And the profitability ratio, while down in 2011, was still higher than in most European countries.

[6] Based on data from "UK Insurance – Key Facts," Association of British Insurers, September 2012

[7] Based on data from "Natural Catastrophes and Man-made Disasters in 2011," Swiss Re Sigma Report, 2012

[8] Based on results from "2011 General Insurance Industry Survey," J.P. Morgan and Deloitte, January 2012

The operational ratio of Australia's non-life industry improved slightly in 2011 to 10.6%, despite the increased pressure of processing a high number of claims, as insurers successfully leveraged the benefits of economies of scale. The 2011 ratio was consistent with the range generally prevailing since 2007, but the ratio had peaked in 2010 at 11.3%, so when the operational ratio dropped back to 10.6% in 2011, it represented a significant 0.7 percentage point year-on-year reduction.

The acquisition ratio was little changed in 2011, though it had improved slightly in the couple of years prior. Commission and fee expenses increased by 3.7% in 2011, and non-life insurers have not experimented heavily with distribution channels, though about 10% of personal insurance sales are now transacted via the Internet.

BELGIUM

The non-life insurance market in Belgium has higher levels of per capita premiums than some of the larger markets in Europe, including Germany and Spain.

In 2011, the claims ratio for the Belgian non-life insurance industry deteriorated by 0.3 percentage points to reach 60.3%, primarily driven by damage (costing nearly €76 million) caused by storms with gusty winds and hail in August.[9] The claims ratio for the Belgian non-life industry has remained around 60% (since a 3-percentage-point increase in 2009), as one of the largest segments—auto insurance—remains under strong competitive pressure amid the rising cost of repairs and medical care.

Belgium's operational and acquisition ratios have held steady for the last three years or so, but are among the highest of the analyzed countries, highlighting the need to improve operational efficiency and develop low-cost alternative channels for insurance distribution.

The acquisition ratio has remained high at around 20% for last five years, as intermediaries continue to dominate non-life insurance distribution in the country. Brokers and agents account for nearly 70% of the gross non-life insurance premiums in Belgium, while the share of bancassurance is less than 10%.[10]

Further, commission costs have been high, as have incentives for direct sales, as insurers try to expand the customer base and increase market share.

Increases in premium rates across various business lines helped the non-life insurance industry in Belgium to increase profits significantly in 2011, despite relatively poor underwriting performance and lower investment returns. The increase in premium rates in most non-life insurance classes in 2011 also resulted in an overall increase of 3.3% in gross non-life premium collections in Belgium.[11]

BRAZIL

The Brazilian non-life insurance market grew strongly in 2011, and remained the largest market in Latin America, although insurance penetration remains lower than in many of the region's smaller markets. The non-life market in Brazil is expected to continue its strong growth in coming years, as the country is hosting the 2014 FIFA World Cup (soccer) and 2016 Olympic Games. These events will lead to increased investments in infrastructure (e.g., ports, roads), providing an opportunity for insurers in the non-life segment to grow their business. As a result of rising demand, the industry's profit ratio is likely to improve in coming years, after declining marginally in 2011 due mostly to increased provisions and a weakening of underwriting performance.

The claims ratio for Brazil is comparatively lower than other countries as the country has relatively limited exposure to natural catastrophes, such as earthquakes and hurricanes, though landslides, floods and rainstorms pose an enduring challenge. In fact, the non-life industry's claims ratio deteriorated by 1.8 percentage points in 2011, mostly after floods resulted in economic losses of approximately US$1 billion.[12] In 2011, non-life premium volumes increased by 14.3%,[13] primarily driven by growth in car insurance and the homeowner segment. Rising income levels have resulted in increased auto ownership, and lower interest rates have encouraged customers to borrow to purchase homes, leading to broad growth in key property & casualty (P&C) segments. The robust growth in the Brazilian insurance industry is attracting foreign players, which could increase competition in the local market.

[9] Based on data from "Financial Stability Review 2012," National Bank of Belgium, 2012

[10] Based on non-life insurance GWP collected through different distribution channels, and data from "European Insurance – Key Facts August 2012," Insurance Europe Report, 2012

[11] Based on non-life premium volume for 2010 and 2011 in local currency (Euros), and data from "World Insurance in 2011," Swiss Re Sigma Report, 2012

[12] Based on data from "Natural catastrophes and man-made disasters in 2011," Swiss Re Sigma Report, 2012

[13] Based on non-life premium volume for 2010 and 2011 in local currency (Brazilian Real), and data from "World Insurance in 2011," Swiss Re Sigma Report, 2012

The operational ratio for the industry has remained stable for last four years as insurers continued to invest in automated claims-management systems to increase the efficiency and precision of internal processes, reduce operational costs, and provide more responsive service to clients. Brazil's non-life industry has also witnessed consolidation in last few years, which has increased the size of individual players, allowing them to capture scale economies and reduce certain operational costs.

The acquisition ratio for the Brazilian non-life industry continued to deteriorate for the third year in a row, to reach 19.8% in 2011, as the legal system in Brazil favors brokers, resulting in hefty reliance on brokers for the distribution of insurance products in the country. Insurers are therefore working to strengthen their relationships with brokers, while senior insurance management invests in the training and education of brokers. However, the significant political influence of brokers continues to restrain insurers from launching any big direct-sales initiatives. To reduce acquisition costs in the future, insurers will need to leverage innovative low-cost alternative channels (comprising various outlets such as garages, petrol stations, and pharmacies) along with the Internet and bancassurance.

CANADA

Canada is one of the world's top ten non-life insurance markets in terms of GWP, but the market is highly fragmented, and widely populated by both global and local players.

The claims ratio for Canadian non-life improved by 4.9 percentage points in 2011, driven by favorable weather conditions and a strong gain in auto insurance results, mainly due to Ontario reforms that helped insurers to reduce the pay-out for accident benefits by nearly 50%. Overall, personal claims (including accident benefits) sank to 69.9% from 119.9% in 2010.[14]

In 2011, Canadian non-life insurers posted positive underwriting results for the first time since 2007 due to the improved claims ratio, and a stable operational ratio. However, the acquisition ratio deteriorated by 0.8 percentage points, reaching a 5-year high of 18.1%, as the industry continued to invest in developing multi-distribution capabilities aimed at reducing insurers' dependence on intermediaries. Insurers also continue to focus on developing new digital channels to control distribution costs and provide better and faster service to customers throughout the value chain—across sales, service, and claims processing.

The industry's profit ratio rose overall in 2011, as the claims ratio declined, but while personal lines insurers saw a significant improvement in profits, commercial insurers experienced a decline.

FRANCE

With 4% growth in non-life premium volumes in 2011,[15] France remained the third largest non-life insurance market in Europe and the fifth largest in the world. The growth in the industry was driven by an increase in premium collections across different segments. Individual non-life segments such as home and motor insurance grew by 5%, for example, while commercial lines grew by 7% in 2011.[16]

The claims ratio for the French non-life industry improved significantly in 2011, as weather conditions turned more favorable, reducing property claims after two years of high losses tied to natural catastrophes. Also, initiatives on road safety and driving limits have helped to reduce the number of fatal accidents. Aggressive and ongoing negotiations on parts and manpower costs have also reduced claims costs. Safety measures, such as establishing the National Observatory, have also helped insurers to estimate more accurately their risk exposure from natural events.

The operational ratio for the industry deteriorated by 0.5 percentage points in 2011, despite the rise in premium volumes, but it is still better than in most of the analyzed countries as France's insurance players continue to leverage economies of scale and benefits from ongoing cost-saving programs.

The acquisition ratio for the industry deteriorated marginally in 2011, as intermediaries (agents and brokers) continued to dominate insurance distribution, resulting in higher spend on commissions and fees. However, direct selling and bancassurance are relatively strong in France, compared with other European countries analyzed, and insurers are expected to increase the use of direct channels (Internet and mobile) for insurance distribution and claims servicing to provide an enhanced experience for customers, and potentially reduce acquisition costs.

[14] Based on data from Canada's federal solvency regulator 'Office of the Superintendent of Financial Institutions (OSFI)' for property and casualty (P&C) insurance industry, released March 20th, 2012

[15] Based on non-life premium volume for 2010 and 2011 in local currency (Euro), and data from "World Insurance in 2011," Swiss Re Sigma Report, 2012

[16] Based on numbers released by Fédération Française des Societés d'Assurance (FFSA), released in February 2012

The investment ratio improved in 2011, reflecting the soundness of portfolios, and favorable rates of return. A significant share of non-life investments is allocated to stocks, bonds and real estate. At the end of 2011, insurance companies had invested nearly 54% of their portfolios in national companies and 16% in equities. French insurers also hold nearly €206.5 billion worth of French sovereign bonds, accounting for about 46% of debt held by French residents.[17] The increased investment income and marginal improvement in underwriting performance helped to hold the profit ratio steady in 2011 after it rose tangibly in 2010.

GERMANY

Germany, the largest non-life insurance market in Europe and the second largest in the world, grew by 3.5% in 2011.[18] The claims ratio for the industry deteriorated by 1.2 percentage points, mainly due to the increase in claims expenditure across motor, general liability and property lines of the business. Unfavorable weather conditions (including Tropical Storm Bert) and an extended period of frost at the start of year resulted in a higher number of claims in personal liability and motor insurance.

The operational ratio for the industry overall deteriorated very slightly in 2011 but large players were able to reduce operational costs by leveraging economies of scale and improving efficiency, while smaller players lacked the scale to profitably cover expenses related to research, innovation and advertising. Smaller players are likely to be especially focused on improving productivity going forward.

German insurance players started to increase premium rates in 2011 after a long period in which there was little or no change due to the fear of customer defections. The acquisition ratio for the German non-life industry deteriorated by 1.1 percentage points in 2011 amid high expenses for agents and brokers, which account for more than 80% of distribution.[19] Going forward, the German non-life insurance industry has an opportunity to reduce acquisition costs by developing and utilizing low-cost direct-sales channels (Internet and mobile). This should reduce the reliance and cost of intermediaries for distribution and increase the amount of direct sales (currently less than 5%).[20]

German insurers have highly conservative investment portfolios, with more than three-quarters of investments in bonds, and less than 4% allocation to equities.[21] German insurers experienced a decline in investment income in 2011, but it was less than for many global counterparts because a high percentage of investments is held in high-yielding securities with long remaining terms to maturity. Thus, current low interest rates affect only new investments.

The profitability of the industry also deteriorated in 2011, primarily driven by the increasing claims ratio and pressure on pricing due to intense competition in the industry. That pressure restrained any rise in premium rates.

INDIA

India's non-life insurance industry is nascent compared to the other analyzed countries. Insurance penetration and per capita premiums are very low, except for compulsory third-party motor insurance. However, privately held insurers are increasingly looking to penetrate health insurance.

The claims ratio of the Indian non-life industry increased by 8.5 percentage points in fiscal 2010-11—the last fiscal year for which complete data is available—primarily driven by increased provisioning requirements in the third-party liability segment. The claims ratios for motor and health insurance were more than 100% in fiscal 2010-11, mainly due to inflation-related increases in claims expenses, such as the rising cost of spare parts. The inefficient underwriting practices in the industry also contribute to the high claims rates. For example, only 2.6% of claims were rejected by non-life industry in fiscal 2010-11.[22]

The operational expense ratio of the Indian non-life industry deteriorated further in fiscal 2010-11 despite already being the highest globally. This deterioration was evident among both public and private insurers. Operational expenses increased as insurance players continued to invest in the expansion of their business and to compete with incoming international players. India's Insurance Regulatory and Development Authority (IRDA) is contemplating an increase in the limit on foreign direct investment in insurers to 49% from 26%. If global players acquire larger stakes in

[17] Ibid

[18] Based on non-life premium volume for 2010 and 2011 in local currency (Euro), and data from "World Insurance in 2011," Swiss Re Sigma Report, 2012

[19] Based on non-life insurance gross written premiums collected through different distribution channels, and data from "European Insurance – Key Facts August 2012," Insurance Europe Report, 2012

[20] Ibid

[21] Based on investment portfolio data from "Yearbook 2011: The German Insurance Industry," GDV, 2012

[22] Based on data from "IRDA Annual Report 2010-2011," IRDA 2012, and "India Market - Non-life Insurance Update," Tower Watson Group, September 2012

domestic operations, it could lead to more widespread adoption of best practices, and resultant operational efficiencies in the long run.

The acquisition ratio of India's non-life insurers declined in fiscal 2010-11 as new and low-cost distribution channels emerged, especially among private-sector providers, where acquisition costs are lower than among public insurers. As a result, total commission expenses rose by only 9.7% despite GWP growth of 19.8%.

Investment income for India's non-life industry remained stable in fiscal 2010-11, primarily due to the strong performance by local equity markets during the year. The industry's high investment ratio continued to help the Indian non-life industry compensate for poor underwriting results.

ITALY

Italy is the fifth largest non-life insurance market in Europe in terms of non-life premium collections in 2011, but market penetration is low compared to even smaller markets such as Austria, Belgium, Denmark, and Switzerland.

Italy continues to have one of the highest claims ratios among the analyzed countries, but the country did achieve a small improvement in 2011, due to an increase in tariffs for third-party motor insurance and a significant decline in the number of motor insurance claims. This occurred as auto usage declined amid rising fuel prices and weakness in the broad economy. Car theft also declined, due to the adoption of more, highly sophisticated anti-theft systems, which also helped insurers to crack down on fraudulent claims. A new law aimed at tackling claims fraud was also passed in Italy in March 2012, and that is expected to further improve the claims ratio for the insurance business, ultimately leading to reduced prices for customers and increased profitability for insurers.

The operational ratio for the Italian non-life insurance industry is already low among the analyzed countries, and continued to improve in 2011. The Italian market has seen significant acquisition and consolidation activity in recent years, which has helped players to gain scale, and control operational expenses. However, operating expenses increased slightly in dollar terms in 2011, so Italian non-life insurers are expected to increase investments in technology so as to pursue further operational improvements.

The acquisition ratio for the industry improved slightly in 2011 as the share of brokers and direct sales increased marginally, but agents still account for 81.8% of gross premium collections, and Italy's acquisition ratio is still among the highest in Europe. To cut acquisition costs, the industry will need to aggressively develop low-cost channels such as Internet and mobile. Direct channels have so far grown very slowly—from 2.8% of GWP in 2007 to 4.1% in 2011.[23]

The Italian non-life insurance industry is still struggling with abysmal profit margins as the dominant auto sector remains under pressure from increased competition in distribution and pricing, and the consistently high levels of fraudulent bodily injury claims. Currently, the industry has an opportunity to improve profitability by diversifying in non-motor insurance segments as new regulations and reforms have made certain types of non-life insurance (such as professional liability) mandatory. Further, due to spending cuts planned by the government, individuals are likely to buy insurance rather than relying on the government as an insurer of last resort. This could offer the non-life industry an opportunity to expand and meet Italy's new protection needs.

JAPAN

Japan's non-life insurance market is the third largest in the world, and the largest in Asia. There are nearly 50 general insurance companies (28 domestic and 22 foreign) operating in Japan, but more than two-thirds of all premiums are collected by three companies—Tokio Marine Holdings, NKSJ and MS&AD Insurance Group Holding Inc.

In 2011, the claims ratio for the Japanese non-life insurance industry deteriorated by 10.4 percentage points to 71.4%, due to that year's exceptionally high catastrophic losses. The Tohoku 2011 earthquake had a devastating impact on Japan, and resulted in record non-life claims of ¥1,134.3 billion—the most ever paid out on earthquake insurance in a year in Japan. The tsunami that followed the earthquake separately resulted in fire-related losses, which rose 350% from the average in previous years, and accounted for nearly 30% of net claims paid during the year.[24] These catastrophic events also highlighted the need for the non-life industry in Japan and elsewhere to revisit risk models to make sure related losses, such as those from a quake-driven tsunami, are better priced into insurance products.

[23] Based on non-life insurance distribution by channel, and data from "Italian Insurance in 2011/2012," Associazione Nazionale fra le Imprese Assicuratrici (ANIA), 2012

[24] Based on data from "10 Largest Claims Paid for Earthquake Insurance on Dwelling Risks," General Insurance Association of Japan, 2012

Japan's insurance industry has seen massive consolidation since 2008 as insurers seek to tackle high operational and acquisition costs. Insurers had started to realize the benefits of that consolidation in 2010, when the operational ratio improved in line with savings from consolidation. In 2011, insurers improved the operational ratio further, despite the high claims activity, as they captured additional benefits from post-consolidation reductions in systems-related expenses. The small gains in the operational ratio were far less than the underwriting losses, however, so the profitability of Japan's non-life industry declined sharply in 2011.

Japan's non-life insurance acquisition ratio is also among the highest among analyzed countries as insurance is sold mostly through intermediaries. In 2010, 92.1% of premiums were collected through agents, and only 7.5% through direct distribution. Insurers are solely dependent on agents for segments such as compulsory automobile liability (in which 99.7% of premiums came via agents in 2010).[25] Japanese players are also trying to leverage their sales networks to promote cross-selling through an integrated approach to life and non-life sales.

The investment ratio for the Japanese non-life insurance industry has not fluctuated much in the last five years due to the conservative nature of insurers' investment portfolios, which are highly skewed toward fixed return instruments such as government/municipal bonds and loans (comprising about two-thirds of all investments).

NETHERLANDS

In 2011, the Netherlands was the seventh largest market in the world in terms of non-life insurance premiums collected. There were 174 non-life insurance companies in 2012, highlighting the market's highly mature and competitive nature. Still, the claims ratio in the Dutch market is among the highest globally, and worsened by 2.6 percentage points in 2011 to reach 89.6%, as accident and health-related claims increased significantly during the year. In future, the industry will need to adopt a more disciplined approach to underwriting, and increasingly use customer data to design accident and health insurance products, to control the claims ratio and improve profitability.

The operational ratio continued to improve from a high of 11.0% in 2008 to 6.0% in 2011, making it the lowest of all analyzed countries. The improvement has been driven by proactive efforts from insurers to cut operational expenses and increase efficiency through workforce rationalization. The industry has also witnessed massive consolidation since 2007, after compulsory healthcare coverage was introduced in 2006, increasing competition. The number of non-life insurance companies has dropped from 247 in 2007 to 174 in 2012, and the remaining players have been able to leverage scale economies successfully.

The acquisition ratio for the industry improved marginally in 2011 to reach 5.8%, the lowest among the analyzed countries, as a result of the ongoing use of direct channels for insurance distribution. Direct marketing now accounts for more than one-third of all non-life distribution. Tech-savvy customers in the Netherlands are moving toward aggregator websites to compare and buy policies, especially car insurance. This has led to intense price competition in the market, as customers are buying insurance products primarily based on cost rather than brand, making it difficult for insurers to retain customers and grow business. The profitability of the industry is under pressure as a result, and the profit margin dipped again in 2011, to 2.8%. That is down from 5.3% in 2007, and insurers will need to gain a competitive edge through innovative products and differentiated services, and continue to improve their operational efficiency, to increase their profitability going forward.

SPAIN

Spain is among the top ten non-life insurance markets in Europe, and is ranked 13th in the world. However, insurance penetration and density in Spain are low compared to other major European markets (such as Germany, France, the Netherlands, Switzerland, and the U.K.), suggesting Spain's market still has significant growth potential. Still, all of the business lines in non-life insurance are facing significant competition in Spain as a result of the high degree of maturity reached by the market.

The claims ratio for Spain's industry improved by 2.3 percentage points to 63.4% in 2011 and is now among the lowest across the world, and back around levels prevailing before the global financial crisis. Overall premium volumes for the industry decreased marginally in 2011 primarily due to a decline in consumption and purchasing power. Motor insurance premiums dropped 1.7% in 2011, due to a drop in vehicle sales, the increased preference for lower coverage, and continued price competition in the industry. On the other hand, premiums for health

[25] Based on data from "Fact Book 2010-11 General Insurance in Japan," General Insurance Association of Japan, 2012

insurance, the second largest non-life segment in Spain, grew 3.4% in 2011. Multi-peril insurance premiums also grew again in 2011, by 4.2%.[26]

The highly competitive nature of the non-life industry in Spain has pushed insurers to achieve one of the best operational ratios among European peers (8.8% in 2011). Over the last few years, insurers have made significant investments in efficiency-improvement initiatives, but are likely to curb those outlays in coming few years, given the challenging economic environment prevailing in Europe.

On the distribution front, brokers and agents together account for the majority of non-life insurance premiums in Spain, although the agent share has fallen steadily from 45.0% in 2001 to 35.3% in 2010, while the broker share has grown from 23.0% to 25.0%. Bancassurance is growing rapidly in Spain as it is in many other European markets. Further, to expand their business and reach out to new customers, while reducing their distribution costs, Spain's insurers have started to explore new channels such as Internet portals (whose market share rose to 1.1% in 2010 from 0.9% in 2009).[27] Over the next few years, the use of such channels is expected to increase, presenting an opportunity for professional services players to develop solutions to cater to the needs of insurers.

With the underwriting ratio well below 100%, Spain's non-life industry continues to derive sizeable profits from core activities, but the competitive environment and weak economy will make it challenging to increase profit ratios significantly.

SWITZERLAND

The Swiss non-life insurance industry is among the top ten markets in Europe, and it has the second-highest per capita premium collections in any non-life segment in the world after the Netherlands.

The industry claims ratio has held steady for the last five years, and registered a marginal improvement in 2011 to 68.4%, mainly driven by increased premium rates for motor insurance, and a decline in claims across segments such as motor, health, fire and accidents. Favorable weather conditions (with the exception of damage in some areas due to hailstorms and flooding) led to a decline in claims expenditures.

The operational ratio has also been stable, though the acquisition ratio of 16.3% is at the higher end among global peers, despite the dominance of direct writing in Switzerland's non-life market. Intense competition has been driving up acquisition expenses, and the adoption of new alternative distribution networks, such as bancassurance and the Internet, have not gained traction in the market.

Although the sector enjoys consistent profitability because of its strong underwriting performance, it continues to face challenges from increased competition, and 2011 saw smaller releases from prior-year reserves. Still, the strong underwriting performance enabled Switzerland's non-life insurance players to post positive pre-tax profit margins in 2011 (albeit down slightly from 2010), despite a decline in investment income.

U.K.

U.K. non-life premium collections[28] grew 5.9% in 2011, helping the market to retain its position as the second-largest in Europe and fourth-largest in the world. The non-life market in the U.K. is very mature and highly competitive.

The non-life claims ratio dropped markedly to 63.2% in 2011, mainly due to higher premium volumes and lower claims expenditures, amid more benign weather conditions than in prior years. The adoption of more sophisticated underwriting approaches for risk pricing also helped the claims ratio, as did the speedier settlement of claims, which reduced litigation expenses. Increased premium rates in personal motor insurance also contributed to a significant reduction in the loss ratio. However, the increase in tariffs for commercial lines was not sufficient for insurers to bring down the high accident loss ratio in the segment.

The U.K. non-life industry has the highest operational ratio among analyzed countries. Some are starting to invest in business and technology improvements, but after under-investing for the prior decade or so, the impact is so far marginal.

The acquisition ratio for U.K. non-life insurance industry has stabilized around 18%-20% over the last few years, but that ratio is very high. The competition in the market has led to high distribution costs tied to the rise in commissions and fees paid to intermediaries, and increases in advertising and aggregator/website fees. However, the distribution pattern for non-life insurance

[26] Based on data from "Seguros y Fondos de Pensiones, DGSFP, Informe 2011," Ministerio De Economia y Competitividad, 2012

[27] Ibid

[28] Based on non-life premium volume for 2010 and 2011 in local currency (GBP), and data from "World Insurance in 2011," Swiss Re Sigma Report, 2012

products is changing with the emergence of new and lower-cost channels such as Internet and mobile. Both of these channels are growing at a fast rate for direct selling, and nearly half of new business in private motor insurance is estimated to come via the Internet.[29] Nevertheless, brokers still account for around 56% of U.K. non-life distribution, followed by direct writing (nearly 22%) and bancassurance (nearly 9%),[30] so the expansion of new direct distribution channels could be a key driver of profitability.

The profitability of U.K. non-life insurers increased 5.1 percentage points to 9.1% in 2011, helped by rising premium rates in both personal and commercial lines, and lower claims. These factors helped to offset the decline in investment returns and marginal increase in operational and acquisition ratios.

U.S.

The U.S. is the world's largest non-life insurance market. Non-life premiums increased by 1.8% in 2011, but the per capita level is still lower than many of the smaller European markets such as Demark, Finland, Ireland, the Netherlands, and Switzerland.

The claims ratio for the U.S. non-life insurance industry deteriorated in 2011, rising 5.1 percentage points to 74.2%, as extreme weather conditions including Hurricane Irene and spring tornados resulted in insured losses of US$35.9 billion during the year.[31] Commercial lines undermined the underwriting performance of the overall industry with the 2011 loss-expense ratio above 75%—its highest level since 2001. The workers' compensation segment also posted its worst losses in the last ten years, with a statutory combined ratio of 115%-120%. The claims scenario has worsened noticeably due to increasing medical costs, and a decline in premium rates due to competitive pressure.

The operational expense ratio of U.S. non-life insurers remained stable in 2011, as insurers were able to reap the benefits of technology investments made over the last few years to improve claims processing and policy administration. Insurers leveraged new channels such as Internet and mobile applications to respond to customer requests quickly and in a cost-effective manner, resulting in enhanced customer experience and lower operational expense. Nevertheless, the use of new channels had little impact on the acquisition ratio, which improved slightly in 2011 but remains among the highest in the world.

Investment income continued to decline in 2011, making it ever more important for non-life insurers to improve underwriting performance. The higher underwriting ratio in 2011 helped to push profitability down to 5.5% from 11.8% in 2010, but since premium growth accelerated in 2011, profits could recover going forward.

CONCLUSION

Non-life insurers have generally been vigilant in recent years in managing their routine operations. While some have faced very high but unavoidable catastrophic losses, others have made good progress in containing and even reducing operational costs. Not all insurers have invested as much as in improvements as they might have—often because they operate either in highly competitive non-life markets in which price competition reduces margins or in nascent markets like India and Brazil, where the focus is on growing market share and revenues.

It also tends to be more costly to acquire new business in highly competitive or fast-growing new markets, but in almost every market, acquisition costs are one piece of the expense ledger that is especially difficult to reduce.

The acquisition ratio is a proxy for the effectiveness with which distribution networks are being managed, but when the bulk of distribution is weighted heavily toward high-cost intermediaries (agents and brokers), insurers will need to transform the nature of the business itself to reduce these costs.

Strong customer acquisition and retention rates will be critical for sustainable growth for most insurers, especially with ongoing pressure on premiums. Insurers will therefore need to understand exactly what resonates with customers, what encourages them to stay, and what could encourage them to defect. Moreover, insurers will need to look beyond customers' satisfaction with individual products and services, and make sure they are vigilant about the entire customer experience. This will mean making sure customers' specific needs are being met, in the way and at the time they prefer, across the lifecycle of the insurance relationship (see Chapter 2 on customer experience).

[29] Based on "UK Insurance – Key Facts, Association of British Insurers," September 2011

[30] Based on non-life insurance gross written premiums collected through different distribution channels and data from "European Insurance – Key Facts August 2012," Insurance Europe Report, 2012

[31] Based on data from "Overview and Outlook for P&C Insurance Markets," Insurance Information Institute, 2012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Insurers Globally Have Substantial Room to Deliver More Positive Customer Experience

CHAPTER 2

INTRODUCTION

Customer experience is a critical factor in performance for many insurance companies, given the challenges of current operating conditions. Today, pricing is highly competitive, many products are quickly commoditized, and innovations are quickly replicated, so it is difficult for insurers to differentiate their products in any sustained way. As a result, insurers will need to strive for superior customer experience—managing the entirety of their insurer relationships, across touch-points, and depending on customers' personal needs—and not just try to make customers satisfied with products and services.

Our research confirms satisfaction alone may be a deceptive gauge. For example, the level of customer satisfaction with products/services varies considerably between countries, and is not necessarily higher in mature markets with extensive offerings.[32] This suggests the availability of products/services is not the only driver of satisfaction. Moreover, even in markets where satisfaction is high, customers are not necessarily pleased with the entirety of their insurer relationships.

Since customers are clearly focused on more than just products and services, insurers will need to understand and address customer experience in a more comprehensive way in order to keep customers loyal, and drive top-line results. That will involve extensive enhancements in sales and service, based on a complete view of customers, and their perceptions, expectations, and values.

In other words, insurers will need to be sure what product/service dimensions are important to customers before they can design and implement a well-defined strategy that will deliver memorable customer experience.

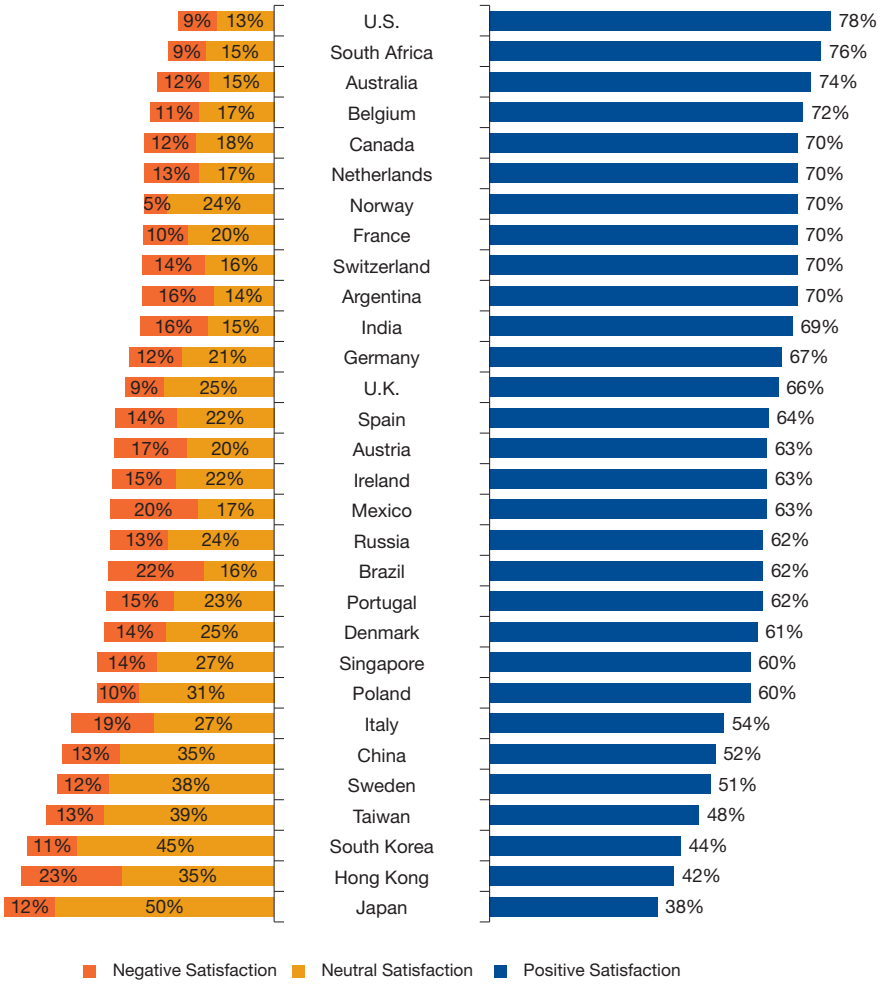
[32] As measured by Capgemini's 2012 Insurance Voice of the Customer Survey, a large, in-depth study of the opinions of insurance customers in 30 countries. Also see Methodology.

DATA ON CUSTOMER 'SATISFACTION' FAILS TO GAUGE HOW WELL INSURERS ARE REALLY ADDRESSING KEY CUSTOMER NEEDS

Our data shows levels of satisfaction among insurance customers varied widely across countries in 2012 (see Figure 2.1), and many mature markets registered relatively low levels of positive satisfaction. If customers were looking only for choice and availability in insurance products and services, these ratings would be higher—and satisfaction levels would be more similar between markets of the same maturity.

Customers' perceptions about the value of insurance products and services also varied widely. For instance, 64% of customers in North America see insurance as a vital way to protect their possessions, but only 46% of customers in Europe say the same. In Developing Asia-Pacific, more than one in three customers see insurance as a constraint due to its mandatory/compulsory nature, while that number is about one in five in Europe and North America. In Europe, 52% of customers see insurance as a vital way to protect their family, but 69% say the same in North America. In general, customers are also more likely to see insurance as a way to protect against financial losses than as a means to improve their finances. These differences confirm that insurers are dealing with very different perceptions between regions about the value of insurance, and these perceptions ultimately drive differing customer expectations—which insurers must meet.

Figure 2.1 Customer Satisfaction with Insurers (%), by Country, 2012



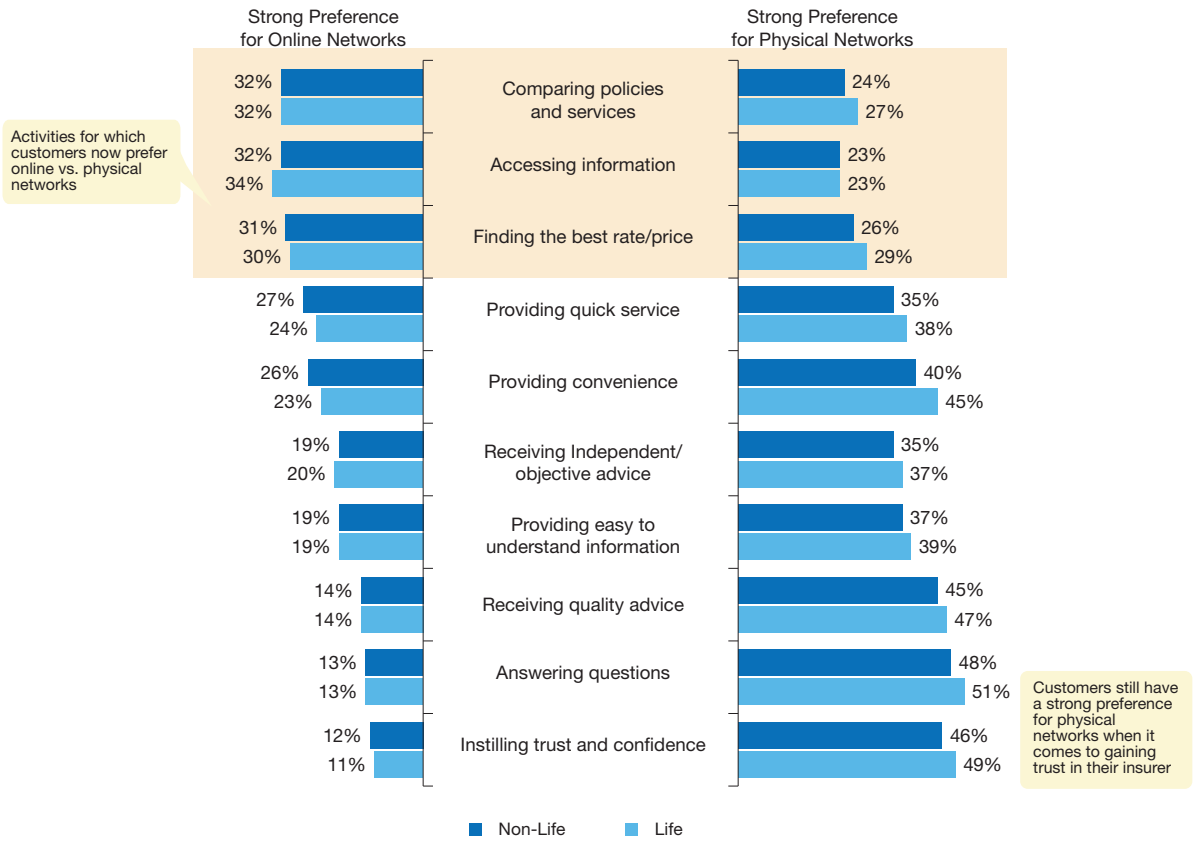
Note: Chart percentages may not add up to 100% due to rounding.
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

There are also tangible differences in the way customers prefer to interact with their insurers, depending on the type of activity they want to perform. For example, online networks (Internet via Mobile or PC) are now preferred for activities such as finding the best rate/price, comparing policies and services, and accessing information, but customers still have a strong preference for physical distribution networks (e.g., agents and brokers) when it comes to gaining trust in their insurer (see Figure 2.2).

This suggests insurers need to invest across various distribution networks and channels (access points through which customers access the networks), considering the utility value that each provides to their customers. This is consistent with the broader concept of customer experience, which seeks to deliver products and services in which customers perceive value, in the way they prefer.

If insurers cannot address the specific preferences and experiences in which customers perceive value, they could have trouble retaining and building a loyal customer base.

Figure 2.2 Customers' Insurance Network Preferences for Different Activities, (%), 2012



Note: Question asked was "Based on your past experience when purchasing life (and non-life) insurance, which of the following two, a physical network (agents/brokers/banks) or online network (internet/Mobile), is more effective at providing the following benefits".
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

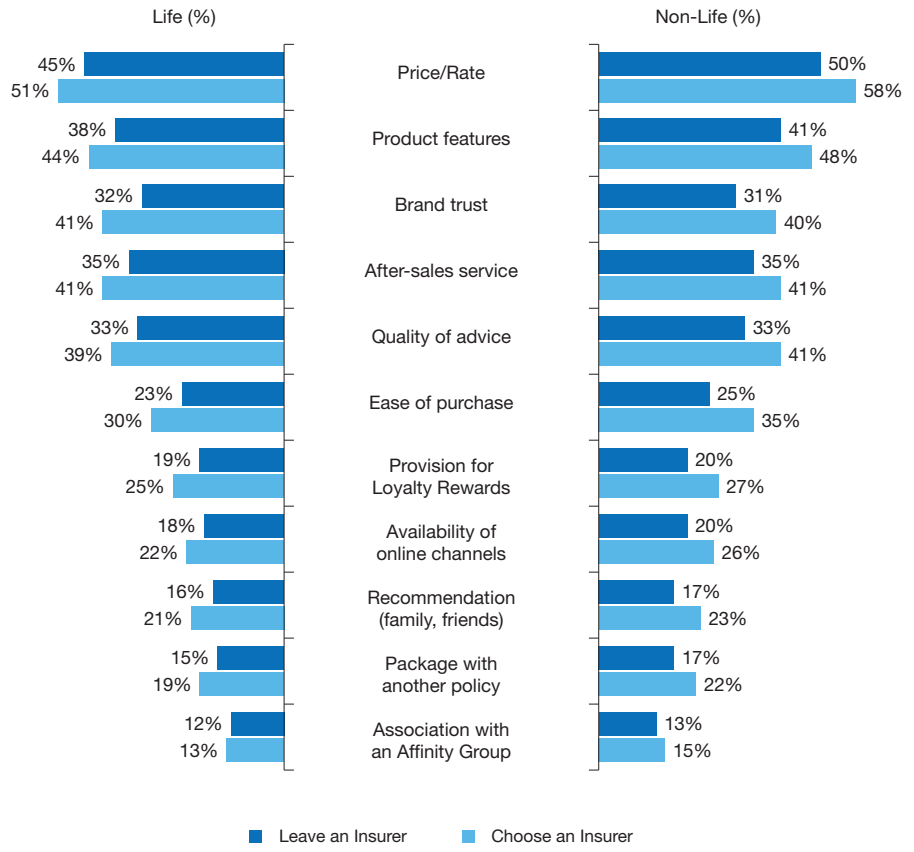
Numerous factors, from price/rates to product features and quality of advice influence insurance customers, and these factors are all cited more often as reasons to choose a provider than to leave one (see Figure 2.3). Notably, and consistent with the experience of most insurers today, price/rates are the most often cited reason to select and to leave a provider, followed by product features. But about 40% of both life and non-life customers also say they would consider choosing an insurer because of brand trust and after-sales service, and those same factors could prompt one in three to leave a provider. This shows the importance of providing a favorable customer experience in order to build a loyal customer base.

CAPGEMINI'S CUSTOMER EXPERIENCE INDEX (CEI) HIGHLIGHTS GAPS BETWEEN WHAT CUSTOMERS EXPECT, AND WHAT INSURERS DELIVER

To deliver a resonant customer experience proposition, then, insurers will first need to know how customers perceive the quality of their insurance interactions, taking into account the customer's specific values and standards. Insurers will also need to track the entirety of a customer's journey along the customer lifecycle (from an initial quote to a claim), across product categories, and across channels.

Capgemini developed the Customer Experience Index (CEI) specifically to provide a granular view of how customers perceive the quality of their service interactions across three dimensions: products, networks/channels, and customer lifecycle.

Figure 2.3 Factors Influencing Customers' Decisions to Choose and Leave an Insurer (%), Life and Non-Life, 2012



Note: Question asked was "For life and non-life insurance products, how much do the following factors influence your decision to choose an insurer, to stay with an insurer and to leave an insurer? (Please rate each criterion on a scale of 1-7, 1 being Very low Influence and 7 being Very high Influence)".
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

The CEI is built from data captured through Capgemini's Voice of the Customer Survey, conducted in 2012. The survey queried more than 16,500 customers on their general satisfaction with their insurer, and also inquired more specifically about the importance of specific channels for executing different types of transactions, and for different types of products. Lastly, it questioned customers about their satisfaction with all those interactions. The survey produced 96 data points, and is thus a much more in-depth investigation of customer attitudes than typical customer satisfaction surveys.

The insurance customers were located across 30 countries in six major geographic regions (see Methodology). The resulting data can be segmented by a wide range of customer variables, including the region, country, or the size of the city in which customers live, and by other customer characteristics, including age, sex, investable assets, employment, and education.

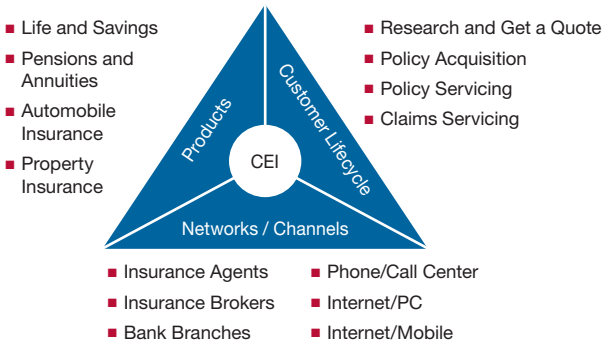
For insurance, the dimensions of the CEI consist of the following (see Figure 2.4): products (non-life and life, including auto and property insurance, pensions and annuities, and life and savings); networks/channels (including agents and brokers, branches, Internet, mobile, phone/call centers); and lifecycle stage (from researching and getting a quote, to policy acquisition and servicing, and claims servicing).

By using the CEI to identify gaps between what customers expect and what they do and can receive, insurers can align product, lifecycle, and network/channel capabilities more closely with the values and needs of their customers.

For insurers to turn their CEI insights into actions, however, they first need to understand what is important to their customers. Only then can they develop segmented customer strategies accordingly.

They will also need to make sure the sales-and-service experience remains consistent across networks and channels, but they can reasonably expect to earn a greater share of customer wallet if they execute customer-experience strategies effectively.

Figure 2.4 Dimensions of Capgemini's Insurance Customer Experience Index (CEI)



Note: Networks range from direct networks and agents to brokers, bancassurance, and alternatives such as supermarkets and car dealers. Channels are the access points that facilitate interaction, and include Internet/PC and Internet/Mobile.
Source: Capgemini analysis, 2012

CEI OFFERS MORE THAN A THUMBS UP/DOWN ON INSURER PRODUCTS & SERVICES

Since the CEI aggregates satisfaction scores only for those elements that customers rate 'highly important,' CEI scores are essentially an indicator of how well insurers are perceived to deliver on issues that really matter to the customer. Accordingly, even when insurers seem to be faring well, they can register a low CEI score if they are failing to meet the priorities of customers.

For this reason, CEI ratings can be higher in countries with fairly immature insurance markets than in more sophisticated markets, because offerings—while limited—are still aligned with customer expectations. By contrast, customers in highly sophisticated markets may have very high expectations, and so insurers might be perceived to be under-delivering.

This dynamic helps to explain how the global average insurance CEI score was 67.5, but South Africa, Mexico, Argentina, and India all had CEI scores that were higher than those for Germany and France (see Figure 2.5). In those emerging markets, customer expectations are probably lower than in more developed markets, but insurers there also seem to be successful in identifying what factors and channels are important to customers, and delivering service accordingly.

Notable too is the large percentage of customers whose overall customer experience is no better than neutral. In fact, on average only 30% of customers described their experience as positive (see Figure 2.6). The remaining large pool of customers with neutral or negative experience presents a huge group of potential defectors, who could be easily prompted to switch providers for some additional benefit.

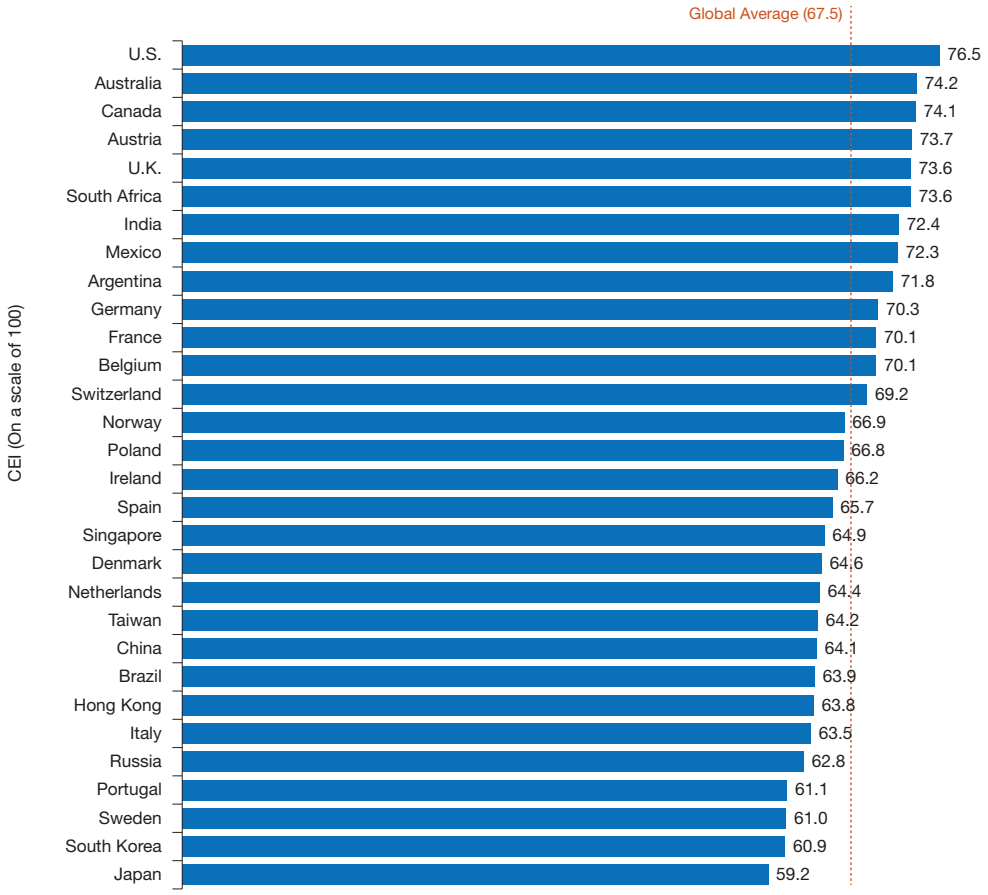
Customer Experience Lags Satisfaction

Our research also confirms that insurers should not be deceived by high customer satisfaction levels, as overall satisfaction with products and services apparently does not translate into high positive customer experience ratings.

On average, only 30% of customers across the 30 countries studied had positive customer experience, while 62% registered positive satisfaction levels. Moreover, in every country studied, customers had higher levels of overall positive satisfaction than positive experience, and no country appears close to achieving a level of positive experience that equals satisfaction in insurance.

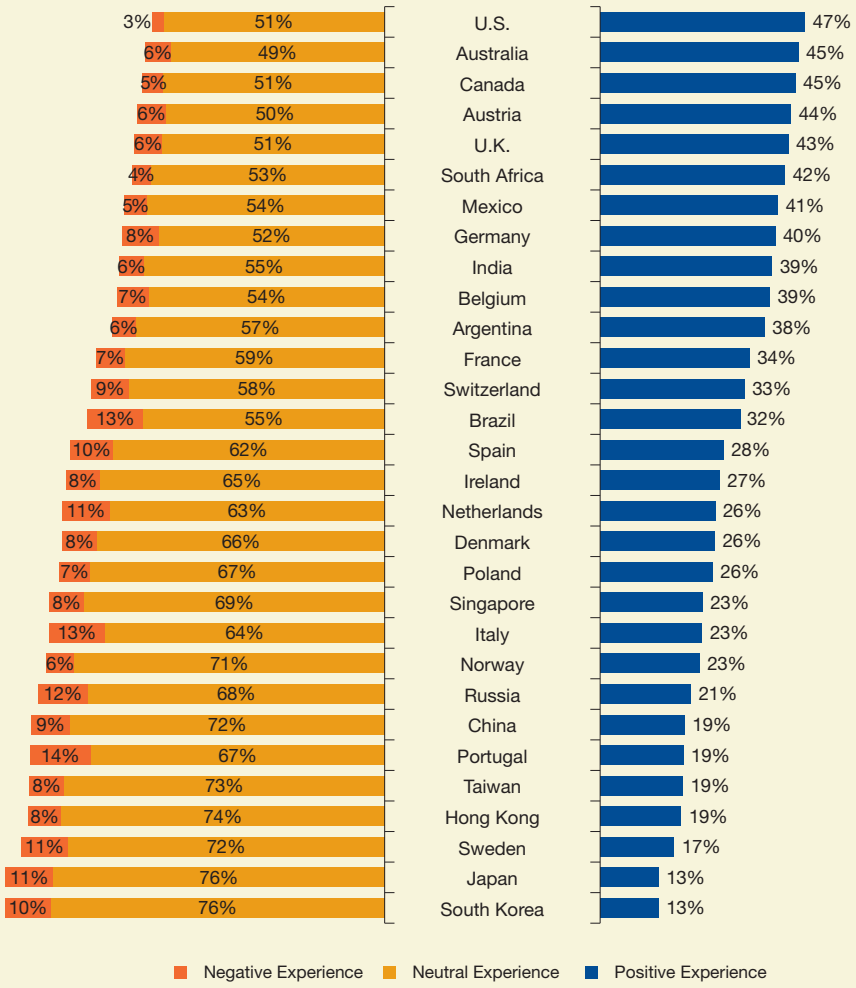
The proportion of customers with positive experience was highest in the U.S., but that level still lagged much behind the proportion of customers with positive satisfaction. In the U.S., 78% of customers say they are satisfied, but only 47% are having positive experiences (see Figure 2.7). In Japan, meanwhile, higher expectations coupled with a

Figure 2.5 Customer Experience Index (CEI) by Country, 2012



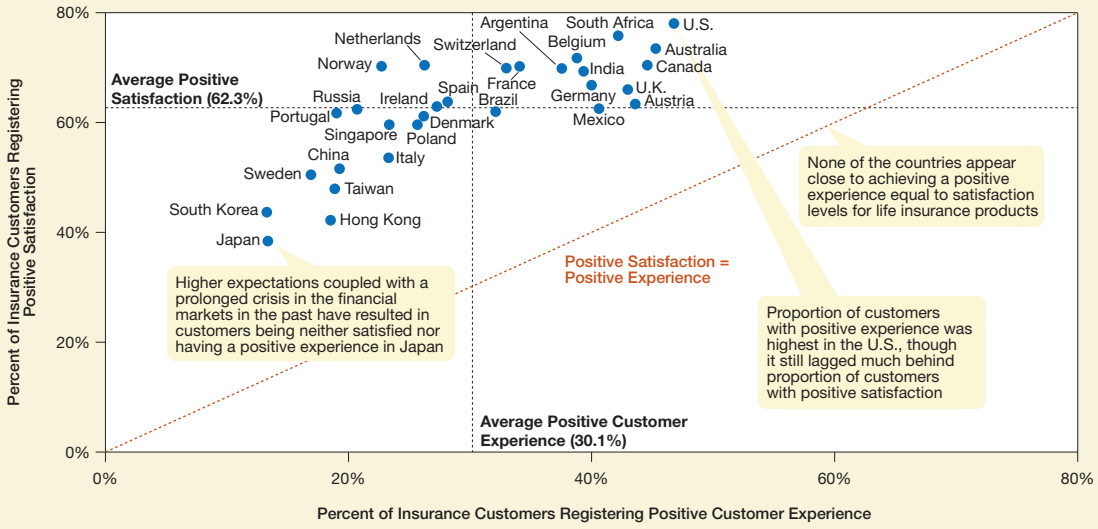
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

Figure 2.6 Customers with Positive/Negative Experience by Country (%), 2012



Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

Figure 2.7 Positive Customer Satisfaction vs. Positive Customer Experience in Insurance, 2012



Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

prolonged crisis in the financial markets have created a situation in which insurance customers are neither satisfied nor having a positive experience.

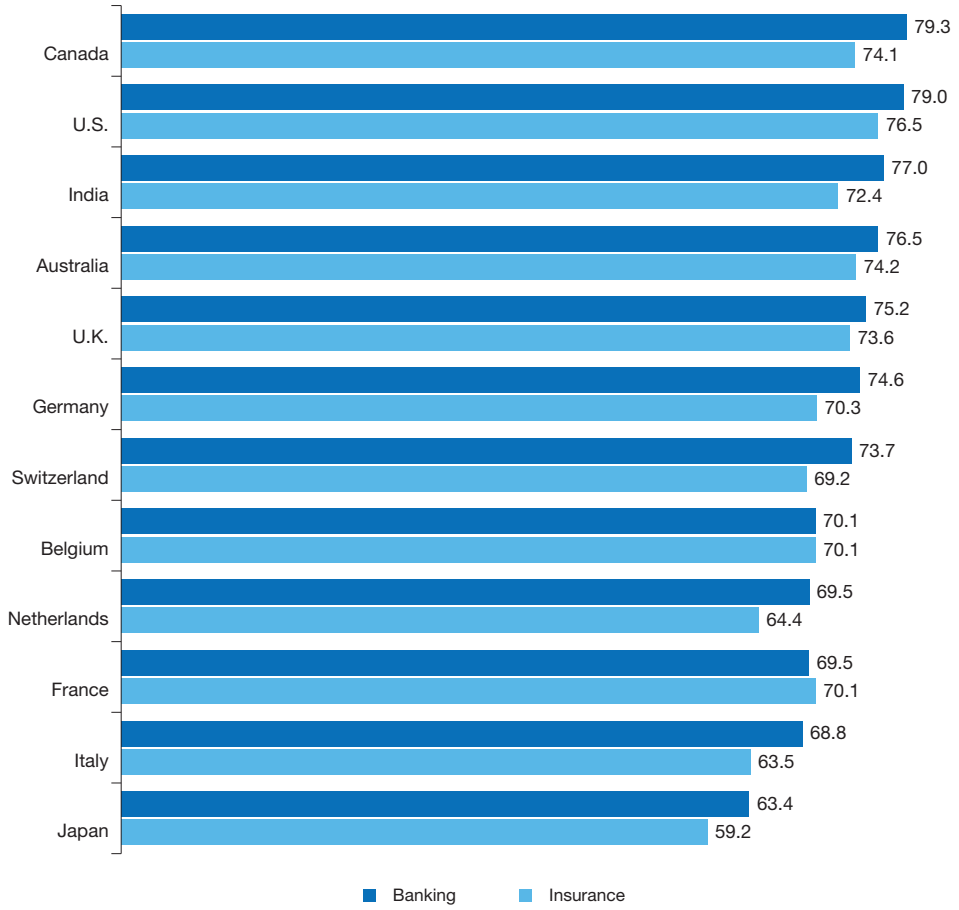
There is also, in general, a correlation between the ability of insurers to provide relevant products and services and their CEI performance. For example, among those customers who strongly agree that their insurer is providing them with relevant products and services, the CEI score averages 84. Among those who strongly disagree, the CEI score is only 55. The correlation is similar among customers who strongly agree/disagree that their insurer is able to proactively recommend relevant products and services corresponding to changes in their lifestyle.

This correlation suggests products and services are a key component of customer experience, but are not the only consideration, so insurers need to look beyond simple satisfaction with products and services if they are going to deliver more favorable experience to customers, and create a *differentiating* proposition. Notably, insurers may be able to learn lessons about customer experience from other financial services sectors, including banking—in which the CEI is higher than in insurance.

CUSTOMER EXPERIENCE IN BANKING EXCEEDS THAT OF INSURANCE ACROSS THE GLOBE

In general, the proportion of customers enjoying positive experiences is generally less in insurance than in banking (see Figure 2.9). In the U.S., for example, the percentage of customers having a positive experience is 55.7% for banking and only 46.8% for insurance—nearly a 9 percentage points differential. In some European countries, the gap was smaller. The gap in U.K. was 2.3 percentage points and in Italy it was 2.0 percentage points.

Figure 2.8 CEI Score of Banking and Insurance in Key Countries, 2012



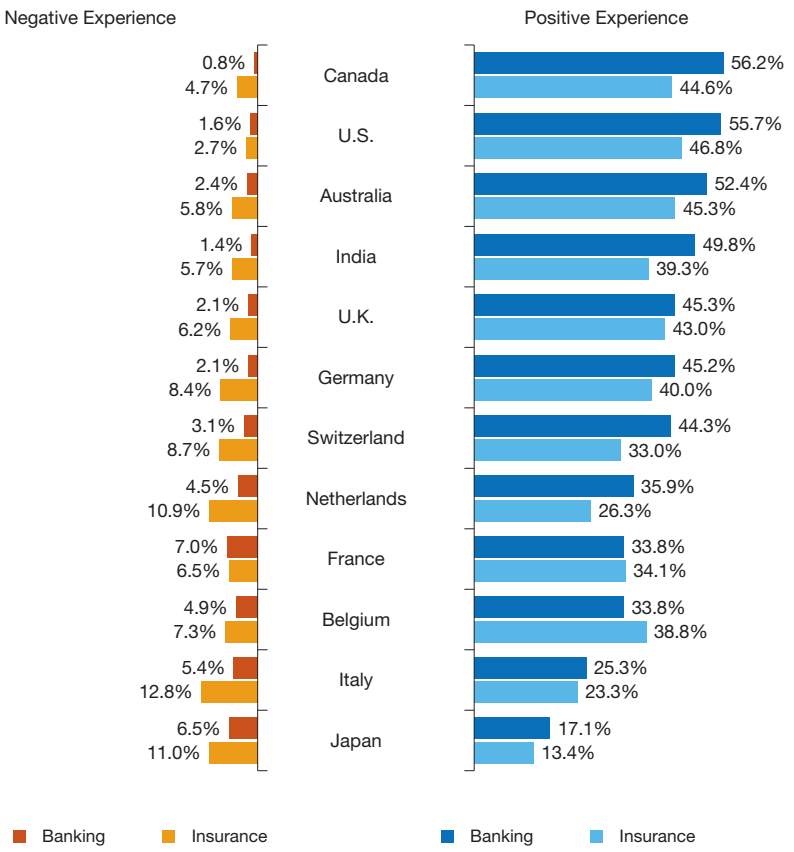
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

However, in a few instances, the percentage of insurance customers reporting a positive experience was greater than banking customers. In Belgium 38.8% of insurance customers reported a positive experience compared to 33.8% in banking. Similarly, 34.1% of insurance customers in France reported a positive experience compared to 33.8% in banking.

The gap in CEI scores most likely reflects some broad realities about the differences between banking and insurance. For example, banking generally involves more regular interactions than does insurance, which often relates to specific coverage that is renewed regularly but infrequently. Banking, by contrast, is practically an everyday activity. Moreover, interim insurance interactions often relate to negative experiences, such as death, accident, ill health, and other losses. It can be difficult for insurers to wow customers at such times, and negative perceptions may be linked to the circumstances in general, as much as to the insurance experience itself.

Insurance companies may nevertheless be able to adopt lessons learned from their banking peers to help in developing and implementing successful customer experience strategies. Banks have often been forced to make investments in CRM already, because banking customers are relatively mobile. Most banks therefore have a thorough understanding of the dynamics and impact of negative customer experience, and many have started to reap the rewards of CRM investments in mitigating those effects.

Figure 2.9 Customers with a Positive/Negative Experience of Banking and Insurance in Key Countries (%), 2012



Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

Notably, though, the negative perceptions among insurance customers could suggest providers believe current customers are loyal, when in fact they are simply retaining coverage because it is not easy or practical to switch. These customers may not defect immediately, or in droves, but they are certainly in danger, so insurers could adopt lessons learned in banking to be more proactive in making sure retained customers actually become loyal.

CUSTOMERS WANT A MIX OF TRADITIONAL AND NEW NETWORKS AND CHANNELS

For insurers to succeed, in fact, they will need to deliver on a variety of parameters that are especially important to customers. The data shows network/channel preferences are certainly critical to customers, so insurers will need to understand them properly in order to deliver highly positive customer experiences.

The Voice of the Customer survey found that customers in every region perceive agents to be the most important network, but a lot of customers also perceive the Internet/PC channel to be important. There are tangible enough differences by region, however, to mean insurers must certainly remain cognizant of the specific needs of a given market.

While customer preferences are clear, insurers in most regions are apparently struggling to provide highly positive customer experience whatever the network or channel (see Figure 2.10). Agents consistently garner the highest positive customer experience ratings, but even then, those positive ratings come from relatively few customers—ranging from 56% of customers in North America to just 33% in Developed Asia-Pacific. In rating other networks and channels, customers were even less glowing, with approximately only one in three or four generally giving a positive customer experience rating in any given market to any network or channel.

Notably, CEI ratings are highest among older demographics, and lowest among the young, probably reflecting the higher expectations among the younger demographic. Older customers (except for those in Developing Asia-Pacific) specifically have a more positive Internet customer experience than do younger customers. Relatively higher positive experience across age groups for the PC and mobile channels reflects the acceptance and growing popularity of these new channels among insurance buyers.

Agents Are Perceived to be the Most Important Network throughout the Customer Lifecycle

At all stages of the customer lifecycle, however, it is agents that dominate as the preferred network (see Figure 2.11). Mobile (Internet) is perceived to be less important than other channels, probably because customers are not yet sure what to expect from insurers via this medium. Satisfaction with mobile also varies considerably, probably reflecting the uneven rates of mobile adoption. Mobile is still emerging as a channel, but seeing as customers now prefer online access points for many types of insurance activities, and they are increasingly embracing mobile applications in all walks of life, it is only a matter of time before customers expect Internet/Mobile capabilities that match those available via Internet/PC.

CONCLUSION

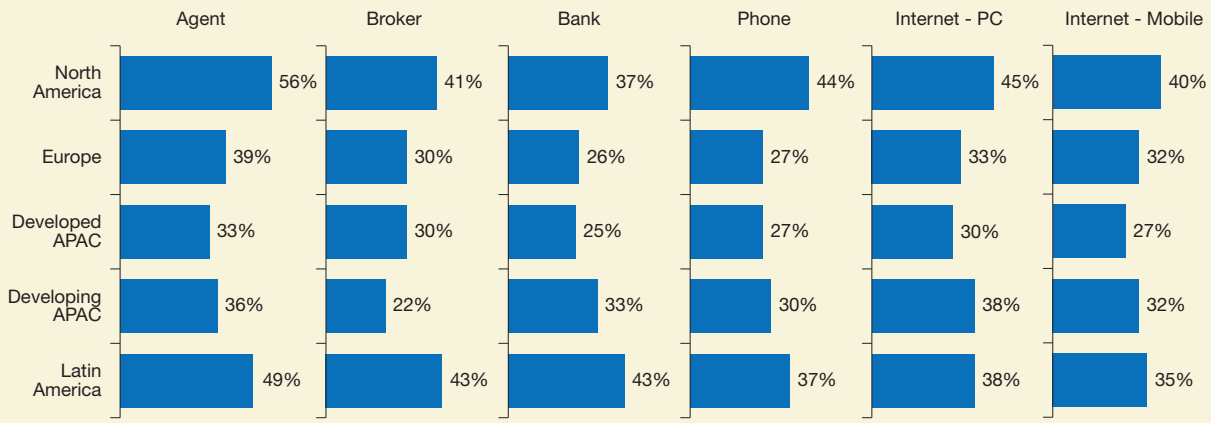
Customer experience is a holistic gauge of how customers feel about the entirety of their insurer relationships, across touch-points, and depending on their personal needs. Focusing on customer experience will require insurers to look beyond simple 'satisfaction' around whether products and services are meeting or surpassing customer expectations.

There is clearly a gap at present between positive satisfaction and positive experience, and that gap presents both a challenge and an opportunity for insurers. The gap creates a risk of defection, but also creates a significant opportunity for insurers that can pinpoint the key elements of customer experience, and deliver a resonant proposition to drive customer loyalty and retention.

To differentiate themselves from the competition, insurers will certainly need to offer an outstanding experience in the areas deemed most important by customers—now and in the future.

Channel strategy offers a prime example of a key piece of the experience puzzle. New channels such as mobile and social media provide convenience and ease of use to customers, and will continue to grow in importance. Right now, though, customers still value traditional networks very highly, especially for building trust. Insurers will therefore need to design distribution strategies that can cater to today's demands, but position them to serve tomorrow's needs—making multi-distribution strategy critical for insurers going forward (also see Chapter 3).

Figure 2.10 Customers with a Positive Experience by Network/Channel and Region, (%), 2012



Note: Networks range from direct networks and agents to brokers, bancassurance, and alternatives such as supermarkets and car dealers. Channels are the access points that facilitate interaction, and include Internet/PC and Internet/Mobile.
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

Figure 2.11 Importance vs. Satisfaction for Customers of Networks and Channels, across Insurance Lifecycle, 2012

Note: Networks range from direct networks and agents to brokers, bancassurance, and alternatives such as supermarkets and car dealers. Channels are the access points that facilitate interaction, and include Internet/PC and Internet/Mobile.
Source: 2012 Insurance Voice of the Customer Survey, Capgemini, 2012

To Leverage Integrated Multi-Distribution Strategies, Insurers Need to Invest in Mobile as a Channel

CHAPTER 3

INTRODUCTION

With financial markets stabilizing, and premium growth slowly returning to healthier levels in most markets, insurers are shifting their focus from cost-cutting initiatives to revenue growth. However, pressure on premiums remains, and insurers need to maintain strong customer acquisition and retention rates to ensure sustained organic growth. Our research shows multi-distribution initiatives are a critical part of insurers' strategies to retain customers and keep them loyal—and ultimately to grow revenues.

Multi-distribution refers to the distribution of insurance products through multiple distribution networks—ranging from direct networks and agents to brokers, bancassurance, and alternatives such as supermarkets and car dealers. Multi-distribution enables insurers to expand their pool of potential customers by appealing to a greater number of segments, and catering to a wider range of needs. But to be truly effective, those multiple networks also need to be integrated with channels (access points) and centralized intelligence to enable insurers to address changing customer needs.

Channel capabilities are an especially crucial part of integrated multi-distribution initiatives, as insurers need to be able to provide customers with different ways to interact with their distribution networks—whether they want to research, purchase, or manage their insurance policies. As discussed in Chapter 2, channel strategy is a key part of customer experience, as it enables customers to interact with insurers how and when they prefer, depending on their personal needs.

Channels facilitate all four forms of interaction—Face-to-face (at branches or physical points of sale), Phone, Internet/PC, and Internet/Mobile—but our research shows insurers pursuing integrated multi-distribution strategies are now placing a high priority on creating mobile capabilities.

While face-to-face remains the primary form of interaction for most insurance customers, mobile has become vital in the drive to meet customer needs in terms of access, with a growing number of customers using their mobile phones to engage with insurers. In fact, mobile is becoming the channel of choice for a number of customer interactions, especially on the research and servicing side, so insurance executives are exploring different ways in which mobile can play a role throughout the insurance value chain.

Social media also provides insurers with new ways to reach their customers. Social media usage is growing worldwide, and while it is not being used to conduct insurance transactions as yet, social media is being integrated into traditional customer relationship management (CRM) initiatives. The results are paving the way for new 'social CRM,' which offers insurers another way to enhance their customer experience and branding propositions.

INTEGRATED MULTI-DISTRIBUTION APPROACH IS KEY TO CUSTOMER ACQUISITION AND RETENTION

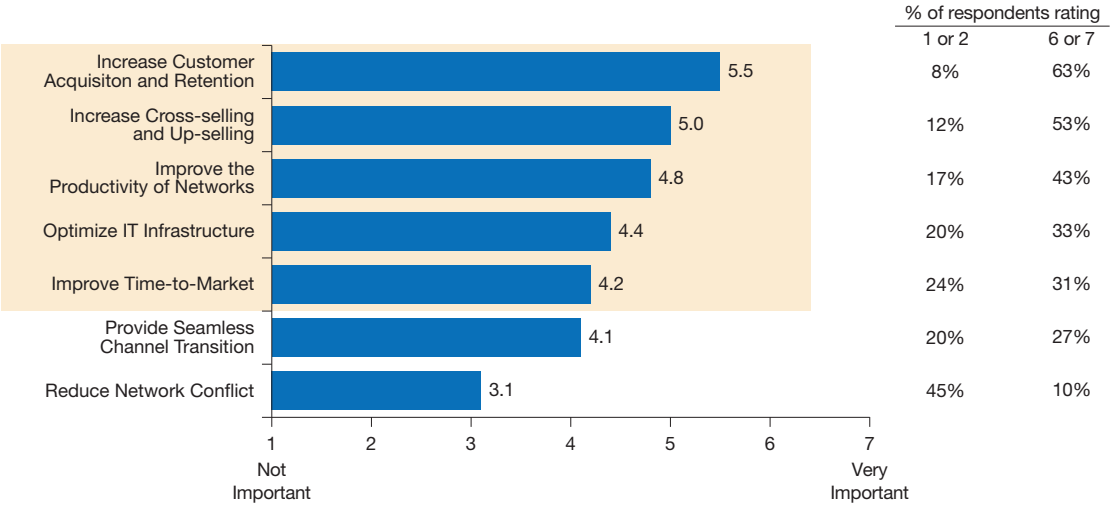
Our survey shows insurers are investing in integrated multi-distribution primarily to boost customer acquisition and retention rates, but also to improve customer experience, and operational performance (see Figure 3.1)—and ultimately to grow revenues and customer profitability. Most insurers have one or more dominant networks and channels for distribution, but many are developing more diverse multi-distribution approaches, mostly to address evolving customer needs, and ultimately to retain and increase market share.

In life insurance today, traditional distribution networks are still heavily favored, with bancassurance and agents together accounting for an estimated 68% of business, according to our survey of insurance executives. Going forward, however, direct/other networks are expected to show compelling growth, accounting for 18% of all distribution in five years' time. This growth will occur as life insurers face an ongoing decline in both the number of affiliated agents and the profitability of affiliated networks. Direct distribution is an attractive proposition, because it promises compelling cost advantages to customers, as agents' commissions are eliminated.

At the same time, more life insurance customers are expected to use the Internet (via PC and mobile) in the future, especially for research but also across the customer lifecycle. Internet/Mobile is expected to become a channel in its own right, accounting for 4% of all distribution in the next five years, from negligible amounts today. Moreover, the combined use of Internet/PC, Phone, and Internet/Mobile, channels is expected to grow 16 percentage points in the next five years, entirely at the expense of face-to-face distribution. Still, face-to-face will still account for 72% of distribution in five years' time, largely because life and pension products can be very complex, and require multiple interactions.

In the non-life space, especially in simpler personal lines, consumers are already becoming more comfortable with direct purchasing using either insurers' websites or call centers, and direct networks already account for around the same proportion of distribution as agents (about 22%). Direct and other networks will take more market share from agents going forward, however. (Tied agents, independent agents, and brokers will still dominate commercial lines due to the complexity of the products.)

Figure 3.1 Key Objectives for Investing in Integrated Multi-Distribution Initiative, 2012



Note: Question asked: "Please rate the importance of the following factors in driving your decision to invest in integrated multi-distribution initiative (in order to attain a mature distribution model)?" (Rate the importance of each area on a scale of 1 to 7, with 1 being 'Not Important' and 7 being 'Very Important').
Source: Capgemini analysis, 2012; Executive interviews conducted for World Insurance Report 2013

At the same time, the use of face-to-face interactions is expected to decline further as the use of Internet/PC, Phone and Internet/Mobile all increase. Our survey shows insurance executives expect the Internet/PC share of non-life distribution to rise to 18% in five years' time from 11% now, and the Internet/Mobile share to jump to 7% from 1%. This trend is in line with customers' increasing preference for buying non-life personal insurance through the Internet (both via PC and mobile), which offers transparent pricing and the ability to compare multiple products and quotes. In the process, the amount of business coming from face-to-face interactions is expected to drop to 61% from 75%.

Multi-Distribution Strategy Needs to Integrate Networks, Channels, and Intelligence

To maximize the impact for insurers, multi-distribution strategy needs to integrate accessible channels and centralized intelligence. This type of integrated multi-distribution not only helps insurers to address changing customer needs, it helps them address a range of technical issues that are having a profound effect on both the life and non-life markets. Those issues include slow time to market, duplication of data and functions, non-optimal IT infrastructure, increasing demands for anytime/anywhere/any device service, and the need for greater information security.

Integrated multi-distribution addresses business and technical issues in a number of ways. For instance, it increases cross-selling and up-selling opportunities by providing insurers with a 360-degree view of the customer. It also improves the productivity of networks, and optimizes IT infrastructure by eliminating IT processes operating in silos, and speeds time to market through standardized distribution processes. Integrated multi-distribution will also provide seamless channel transition, which is critical for insurers seeking to service their increasingly cross-channel customers effectively.

The specific focus of multi-distribution initiatives, however, tends to depend on the maturity of the insurers, and the markets in which they operate. The first three stages of an insurer's maturity in terms of insurance distribution involve developing multi-network and multiple-channel capabilities, and mutualizing functions (i.e., centralizing and sharing distribution-related operational functions such as IT across networks).[33] Many insurers have already achieved progress in these initial stages, especially in North America and Europe, where the markets and players are relatively mature.

Insurers in these markets are often targeting initiatives that can advance them to the next, most mature stages of integrated multi-distribution, involving centralized intelligence and multi-network cooperation. Insurers in Asia-Pacific may not see multi-distribution as quite such a high priority as those in more developed markets. However, they still see multi-distribution as an opportunity to increase cross-selling and up-selling, boost customer acquisition and retention rates by providing better customer experience, improve time to market through enhanced product development, and capture competitive advantage through benchmarking.

[33] Capgemini's Multi-Distribution Maturity Assessment Model lays out five distribution maturity stages; see Methodology for more detail

MOBILE IS FORCING MANY INSURERS TO RETRACE STEPS ON PATH TO INTEGRATED MULTI-DISTRIBUTION

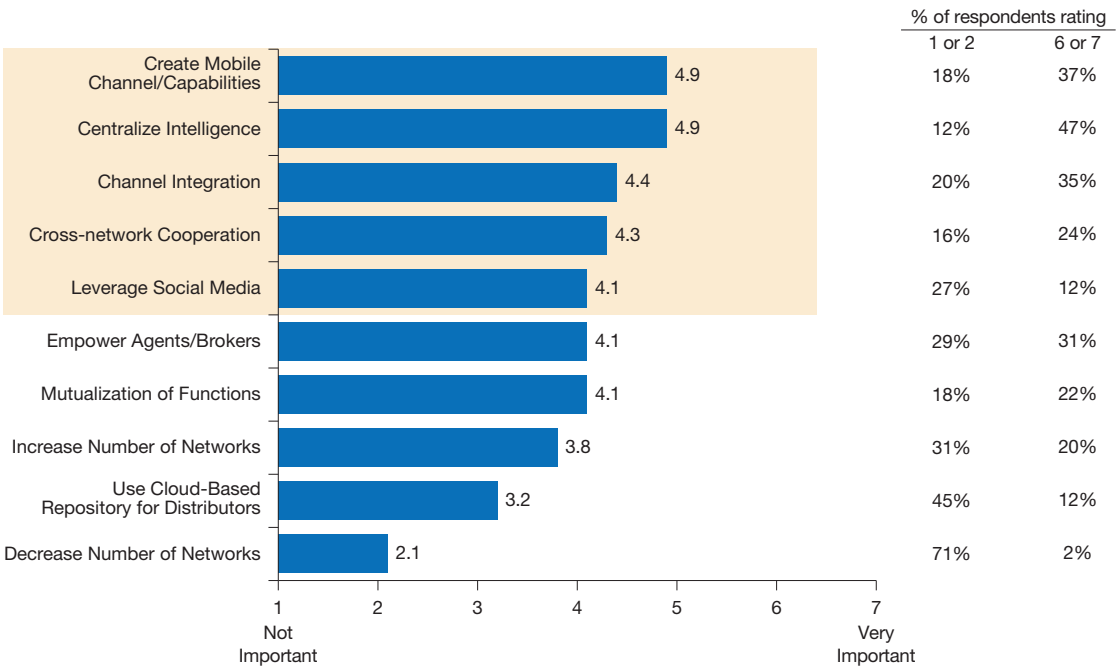
Notably, even for those that are fairly far along the maturity spectrum for multi-distribution, much of their progress was made before mobile began to emerge as a disruptive force. As a result, many insurers are having to revisit their channel capabilities to incorporate mobile initiatives, and are now focused on adding mobile channels, leveraging social media, and integrating all existing channels (see Figure 3.2)—even though those capabilities are only in the second stage of multi-distribution maturity.

For more than half of all those that do not have a mobile channel at all, it is a priority to create one in the next two years. This is a direct response to customer preferences. Smartphone adoption among U.S. and European insurance customers is growing, for instance, and customers are beginning to engage with insurers through their mobile devices to seek information on products and services, compare rates, buy, and otherwise interact regarding service. Customers will also want to transact through tablets and smartphones, and the Internet/Mobile route makes it easier for buyers as well as sellers.

In terms of sales, mobile is likely to be far more successful in non-life personal lines (pet, travel, auto, property, etc.), and is not likely to become the channel of choice for sales of more complex life and pensions products, which invariably require an advisory component. Mobile in life insurance is most likely to focus on service, such as providing a way for policyholders to view policies, calculate values, update their personal details, and so on. Advice-based solutions for protection and commercial lines will also still require face-to-face contact.

As insurers retrace their steps on the multi-distribution path to accommodate mobile, they will also need to make sure they are fully integrating mobile into overall channel strategy. The good news is that these efforts will also offer insurers an unforeseen opportunity to review channel strategy, identify currently siloed channels, and integrate them as well. These efforts should improve customer experience and operational efficiency, providing a seamless transition for customers between channels for research, sales, and service. Our survey shows only one in three global insurers considers its channels to be fully integrated currently, but more than two-thirds of insurers who have not achieved full integration indicated it would be a priority in the next two years.

Figure 3.2 Focus Areas for Implementing Integrated Multi-Distribution Initiative, 2012



Note: Question asked: "Please rate the importance of the following initiatives in implementing a successful integrated multi-distribution initiative (in order to attain a mature distribution model)?" (Rate the importance of each area on a scale of 1 to 7, with 1 being 'Not Important' and 7 being 'Very Important').
Source: Capgemini analysis, 2012; Executive interviews conducted for World Insurance Report 2013

There Are Many Reasons for Insurers to Invest in Mobile Distribution Channels

Overall, though, insurance executives see mobile as an important access point for supporting overall customer experience, rather than just viewing it as another sales channel.

The most often cited reasons for investing in mobile are customer demands for anytime/anywhere/any device service, keeping up with the competition, the need to reduce customer service costs, the increasing use of mobile devices in general, and the desire to boost cross-selling/up-selling (see Figure 3.3). There are various drivers of change in each of those areas. For example:

- **Anytime/anywhere/any device service.** Customers today are seeking high-quality anytime (24X7), anywhere (face-to-face, voice, Internet), and any device (PC, smartphone, tablet) access for their research, purchase, and service interactions.
- **Keeping up with the competition.** To maintain and increase market share in an intensely competitive market, insurers need to provide the mobile options increasingly being demanded by their existing and prospective customers. Mobile functionality is beginning to influence insurance shopping decisions, and an increasing number of new shoppers are asking for it.
- **Reducing customer service costs.** Compared with face-to-face, phone, and Internet/PC channels, Internet/Mobile is a cheaper way to reach customers. Insurance companies can also reduce their customer-service costs by increasing the use of self-service options among mobile consumers, thereby deflecting customer service interactions from branches or call centers.
- **Increasing mobile usage.** Mobile phones are expected to outnumber PCs by 4 to 1 worldwide by 2013, according to a forecast by Wireless Expertise. Today, 87% of the world has access to mobile networks, and the smartphone share of the total mobile audience is growing rapidly, especially in North American and Western European countries.
- **Boosting cross-selling/up-selling.** Consumers are more likely to check cross-sell recommendations, pre-approved online discounts, and integrated product offerings on their mobile phones than via any other channel, due to the speed, convenience and ease of access. Cross-selling rates can be improved with innovative mobile apps, such as one app that allows shoppers to get a quote simply by taking a picture of a car's license plate.

Figure 3.3 Top Five Key Drivers for Investing in Mobile Channel for Insurance Distribution

Source: Capgemini analysis, 2012

The priorities and drivers for mobile-channel strategies vary by region, but appear most urgent in North America, where insurers see mobile as necessary to meet customer expectations. Mobile is not yet a highly disruptive force in North America, but insurers there see mobile as an opportunity to gain competitive advantage, increase cross-selling and up-selling, and reduce customer service costs.

In Europe, insurers are less focused on mobile at this point, as they concentrate on managing the effects of the ongoing economic crisis, which has made the operating environment very tough. Minimal investment is expected in the next two years, but interest and spending is likely to pick up as economic conditions improve. For now, though, most European insurers are taking a 'wait and watch' approach with regards to mobile. Customers—especially in P&C personal lines—are nevertheless increasingly demanding anytime/anywhere/any device service, and expect mobile as an additional access point. The main impact on the insurance lifecycle is in providing quotes and claims (through mobile applications).

In Asia-Pacific, mobile is a high priority, but the approach varies widely, with some of the large global firms adopting a more radical overhaul than the phased approach typically being taken by local players. Multinationals in Asia tend to have younger agents, who embrace new technologies and mobile apps, while local firms often have older, less tech-savvy agents. Insurers in the region view mobile as a way to enable distributors and empower agents/brokers, improve customer service and experience, increase cross-selling and up-selling, gain competitive edge, and optimize the distribution cost structure.

One provider in South Asia, for instance, plans to introduce mobile technology into its enrollment and claims processing for livestock insurance. The insurer expects the use of mobile technology to reduce transaction costs, processing time, and improve service to clients. In the new enrollment process, details and photographs of the enrolled animals, and information on beneficiaries, will be captured on a mobile phone and relayed directly to a central server for "instant" enrollment and policy issuance (a process that currently takes 10-15 days). Similarly, for claims settlement, photographs of the animal's ear tag containing the relevant details will be transmitted via mobile instead of the current transfer of physical documents. This process change is expected to reduce claims settlement time, costs and fraud, and significantly improve the transparency of customer data, thereby enabling the insurer to analyze customer behavior patterns more thoroughly, and respond accordingly.

INVESTING IN MOBILE CAN HELP INSURERS GROW REVENUE, ENHANCE CUSTOMER EXPERIENCE, CUT COSTS, AND IMPROVE EFFICIENCY

The mobile channel offers a new opportunity for insurers to increase the top line in various ways, including increasing new sales and cross-selling opportunities, shortening sales cycle times, boosting the number of policy renewals and referrals, enhancing customer experience and satisfaction, and reducing attrition. Bottom-line benefits center on reducing costs by speeding processing and cutting overall distribution costs, improving operational efficiency, enhancing self-service options (and thus lowering the number of customer-service calls), and using anytime/anywhere/any device capabilities to make service more effective and efficient.

Mobile strategies will essentially fall into three categories: marketing & sales and customer relationship management (CRM) initiatives to drive the top line, and self-service options to feed the bottom line. Nevertheless, the approach to mobile is most likely to be a phased one, rather than a 'Big Bang' overnight transformation, so insurers will need to prioritize their initiatives by weighing both the cost of development and the business value/return on investment (ROI).

The cost/ROI of each initiative may vary according to the insurer's target market segment, product portfolio, strategic alignment, and business risk, as well as organizational-specific issues, such as the extent of stakeholder buy-in required to proceed successfully.

In general, though, insurers should be able to categorize initiatives in one of four ways:

- **Early winners** are inexpensive to develop but have high ROI potential, so insurers should start with these initiatives. Possible examples include information on products and services, quotes, and policy alerts/updates.
- **Must-haves** are the next-highest priority, as while the development cost is high, so is the ROI. Examples include claims services, straight-through processing (STP, including legal e-signature), and renewal lists.
- **Nice-to-have** initiatives, for which the cost and ROI are low, can be tackled at a later stage. Examples include billing alerts, integrated product offers, and account management.
- **Wait-and-watch** items include comparison shopping and innovations such as telematics. Such enhancements are costly to develop and the ROI is unclear, so must be assumed to be low.

These categories essentially mark milestones on the roadmap for creating mobile capabilities (see Figure 3.4), ranging from relatively basic near-term steps to more visionary, longer-term initiatives—spanning the evolving maturity of mobile itself, from simple SMS/text messaging to more complex mobile browser services.

Marketing & Sales Initiatives Should Focus on Mobile as an Innovative Alternative for Reaching Customers

On the marketing & sales front, mobile can succeed in growing the top line and capturing market share by offering innovative ways to reach customers. Insurance customers have been increasingly shopping around for insurance and switching coverage both to address changing needs and to save money. Much of this churn has been driven by aggressive marketing and advertising initiatives, and insurers need to catch prospective customers at the right time to capture their business.

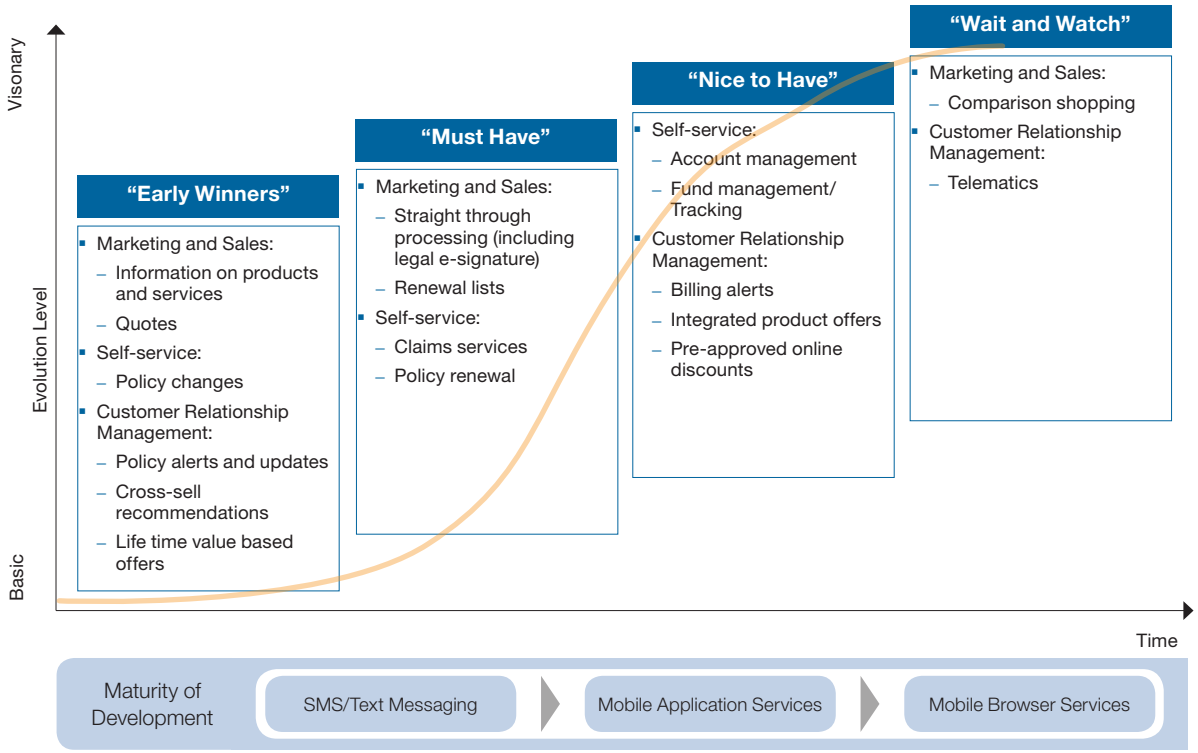
The Internet (both PC and Mobile) has become a critical tool for customers in the early stages of their researching quotes and coverage details, but mobile has become a particular priority for insurers, as rising smartphone adoption has turned mobile into a dominant lead-generation channel, especially for simple to low-value products. In this environment, our data shows, the provision of various services on mobile will increase markedly in the next two years.

- **Providing information on products and services** is a good example of an early win for insurers. Among surveyed insurers, 43% said they provide information on products/services through mobile now, and another 48% said they would do so in the next two years, taking the total percentage of insurers providing this service on mobile to 91%.
- **Offering quotes via mobile** is an associated 'early win' for insurers. Since people tend to check their mobile devices very quickly, they are likely to retrieve quotes via mobile promptly—potentially converting a quote into a sale faster than via another channel or medium. As a result, quoting via mobile is likely to become a critical differentiator for insurers. While only 23% of surveyed insurers offer quotes on mobile now, that number will rise to 70% in two years' time.
- **STP (including legal e-signature)** allows insurers to complete sales quickly and efficiently, and falls into the 'must-have' category. Only 9% currently offer STP via mobile, but 55% will in two years' time, as insurers seek to convert mobile into a fully fledged channel. STP can also help to drive cost out of the business, and e-signatures are a critical component of this initiative, as they can allow entire transactions to be electronic rather than paper-based.
- **Renewal lists** via mobile are another 'must-have' as they help insurers to retain and increase market share by contacting both existing and prospective customers before their policy-renewal dates. With this feature, insurers can proactively retain existing customers while trying to lure prospective customers from competitors. The number of insurers using mobile in renewal strategy is expected to rise from 16% to 45%.
- **Comparison shopping** via mobile is also expected to expand (from 14% of insurers to 39%) as part of strategies to attract and retain customers. For now, though, such initiatives are in the 'wait-and-watch' category, as insurers offering this service may not have the lowest price when compared to other competitors, so will need to evaluate the impact before committing.

Mobile Self-Service Could Soon Become a Key Differentiator

As insurers look to cut costs, promoting self-service usage through mobile is gaining momentum. In mature markets, where top-line growth is fairly flat, insurers' best bet to improve margins could be to decrease their customer service costs by increasing self-service adoption—thereby deflecting customer-service interactions from branches or call centers.

Figure 3.4 Roadmap for Creating Mobile Capabilities



Source: Capgemini analysis, 2012

- **Claims services** are the most widely available mobile self-service feature, and usage will increase sharply according to surveyed insurers—to 73% of providers in two years' time from 16% now. Claims services are critical to customer satisfaction as claims are essentially the moment of truth in the relationship, and customers are more likely to switch insurers immediately after an unsatisfactory claims experience. Claims services on mobile should ultimately generate substantial ROI, but must be considered by insurers to be a 'must-have' rather than a 'quick win' since the development time is somewhat protracted (as well as the cost being high). Investment is most likely initially in innovative and easy-to-use 'apps' that help customers to file and track claims (e.g., customers can upload pictures of an accident, follow a detailed accident checklist, connect with local agents, and call roadside assistance).

  DSW, a small health insurer in the Netherlands, has similarly developed an app to assist its customers in the case of an accident or health emergency. The app uses location-based services to help customers find nearby caregivers, doctors, pharmacist, etc., based on the emergency treatment required. One U.S. insurer has launched a mobile app that allows registered users to record details of claim situations (including details of the parties involved, pictures from accident sites, etc.), file a claim, and check their claim status. The app also enables them to locate agents, and other service providers (e.g., towing companies) in nearby zip codes.
- The number of insurers offering the **ability to make policy changes** via mobile will also rise sharply, from 9% now to 52% in two years' time. This ability is potentially a differentiator for insurers, and another way for them to lower service costs (vs. using call centers and branches), helping make this a 'quick winner' for insurers.
- **Policy renewals** are a 'must have' on the self-service front for mobile. They can help increase the wallet share from existing customers, and stop competitors from poaching existing customers before their renewal is completed, so the potential ROI is substantial, but there is some development time involved, so mobile renewals cannot be considered a 'quick win.' Nevertheless, it is very important for insurers to reach customers through their preferred channel to make sure the renewal process is simple and hassle-free. In the case of simple to low-value products, mobile is increasingly the preferred channel. Accordingly, the number of insurers offering renewals via mobile is expected to rise to 39% in two years' time from 9% now.
- **Account management** and **fund management tracking** are other mobile capabilities that will be used more widely in the future. About one in three surveyed insurers expect to offer these mobile options in two years' time, compared with only about one in ten now.

Cross-selling and Up-selling Are Key CRM Planks in Mobile-Capabilities Platform

CRM has become even more critical for insurers amid ongoing economic weakness, and given the growing tendency of customers to consider defecting for price or other coverage-driven reasons. Mobile can be an especially important CRM tool as mobile communications are quick and easy to access, so are popular with customers.

Some insurers are already using mobile capabilities to enhance customer experience. One mid-size multiline P&C insurer in the U.S., has deployed an iPad and cloud-based CRM tool to provide detailed, interactive reports on agency performance to try and make sure all agent interactions are productive. The interactive reports help turn unstructured information gathered in the field into quantitative information that can be analyzed by the insurer to drive decisions about how to organize and distribute agencies, territories, products, and marketing reps. The iPad application and management portal are connected to a cloud service, and a separate web portal allows the insurer to push messages and other information to field reps, including 'early warning' information on components of an agent's book of business, such as large losses, renewals, and new business/renewal ratios. Success metrics include account retention, revenue growth, and cost savings on collecting/presenting key data.

Our survey shows various elements of CRM on mobile will be used more extensively in two years' time than they are now:

- **Policy alerts/updates** will be offered by 55%, up from just 18% now. For many types of insurance, renewals and billing are the only points of customer engagement. Mobile alerts (e.g., payment reminders and confirmations) provide insurers with other, more frequent opportunities to make contact with customers, leading to higher retention rates. These benefits make policy alerts/updates an 'early winner' element of CRM on mobile.
- **Cross-selling recommendations** are also an 'early winner' on the mobile CRM front, and 48% of insurers expect to offer them in the future, up from 16% now. By using the mobile channel to reach customers with offers that could drive cross-selling (e.g., personalized offers, preapproved online discounts), insurers can potentially attract new customers, and increase the wallet share from existing customers.

- **Lifetime value-based offers** provide similar benefits, and 43% of insurers expect to deliver them via mobile in the future, up from only 4% now. For most insurers, customers do not become profitable until the relationships have lasted more than five years, so insurers can actively seek to retain customers with offers based on their lifetime value, making this another early win on the mobile roadmap.
- **Integrated product offers** (e.g., auto with property, or term life with disability) can similarly appeal to customers, and encourage them not to defect, but such offers take time to develop so are in the 'nice to have' category for now. Still, of surveyed insurers, 39% expect to make integrated offers via mobile in the future, up from 5% now. Other CRM self-service features are likely to be used more broadly going forward, but are only 'nice to have,' because the return on investment is relatively low. These include **mobile billing alerts** (offered by 43% in the future, up from 14% now), and **pre-approved online discounts** (32% vs. 5%).

USE OF SOCIAL MEDIA IS ALREADY WIDESPREAD IN INSURANCE MARKETING, AND WILL GROW MORE EXTENSIVE OVER TIME

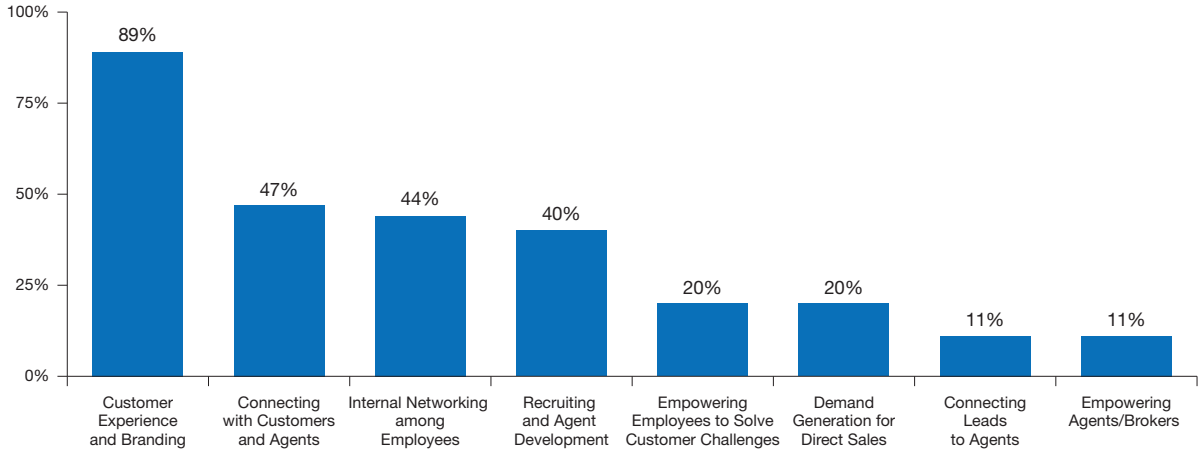
Social media continues to see staggering customer adoption rates worldwide, and is offering new ways for insurers and customers to interact. For example, customers are sharing their premium information to gauge if they are spending more or less than peers (premium benchmarking), and insurers are being rated by customers on key preference parameters, garnering insight on what need to be improved. Social media also allows consumers to share and discuss their past buying, claims, and customer service experiences with a vast network of people, and helps customers identify preferred providers.

Of surveyed insurers, 59% are already leveraging social media, and most of the remainder plan to leverage it in the next two years. In addition to marketing, social media also has a place in other areas such as fraud detection, customer service, agent empowerment, and claims handling.

Today, however, social media is most often used to boost customer experience and branding (according to 89% of survey respondents, see Figure 3.5), but is also widely used to connect with customers and agents (47%), facilitate internal networking among employees (44%), and recruit and develop agents (40%). For example, firms are continuing to build their own Twitter and Facebook pages to support direct sales, while also using social networks such as LinkedIn to recruit agents.

Ultimately, social media offers new ways for insurers to increase their market penetration, and increase the effectiveness of their customer acquisition/retention strategies. But so far, very few insurers have fully integrated social media into their overall enterprise-wide CRM strategies (across marketing, sales, and service). Rather, they are taking a piecemeal approach to the use of social-media technologies to solve specific customer or business issues. This can create challenges, though. For instance, data housed in siloed social media applications is not available to other

Figure 3.5 Focus Areas of Social Media in Insurance



Note: Questions asked: "Currently, do you leverage social media at your firm? Yes or No? If yes, social media is leveraged for the following purposes?" Chart numbers and quoted percentages may not add up due to rounding.
Source: Capgemini analysis, 2012; Executive interviews conducted for World Insurance Report 2013

applications across the enterprise, so opportunities are lost. From a compliance perspective, the failure to integrate information can also expose an insurer to the risk of heavy fines and penalties if customer information is treated improperly. Fraudsters are also targeting social technologies as a way to circumvent corporate firewalls, and even isolated security breaches expose the entire enterprise.

Social CRM Integrates Social Media Strategies with Traditional CRM to Boost Customer Satisfaction

To transform customer experience, social media needs to be fully integrated into existing CRM strategies and internal CRM applications. The resulting Social CRM creates an interactive environment between firm and customer, leading to better dialogue and identification of new opportunities and areas of improvement. At the same time, interactions are consistent across offline and online channels, predictive elements are leveraged, and the system is based on logic and proactive 'pull' marketing in which customer needs are identified, and used to drive sales and service.

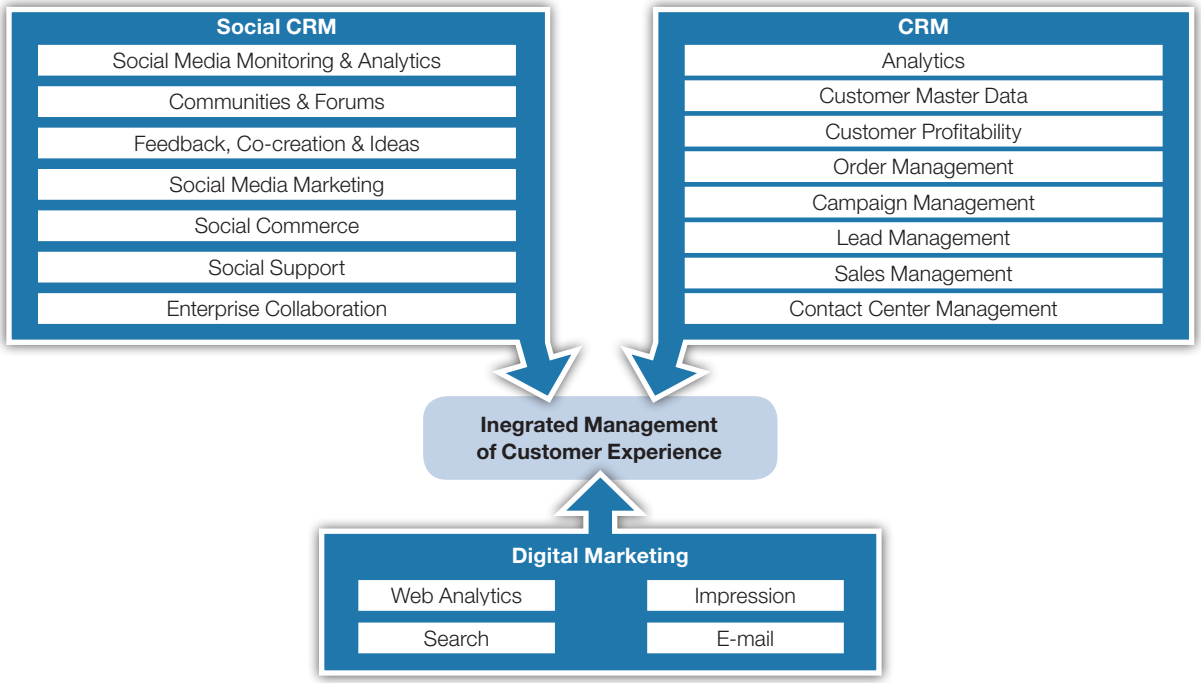
This dynamic environment (see Figure 3.6) is markedly different from traditional CRM in which there is no direct access to CRM applications, CRM is designed to automate internal processes, the processes are designed from the point of view of the company, and the system is based on offerings being designed to 'push' to customers.

Social Media Strategies Will Start with a Presence, and Evolve to Participation and then Integration

For insurers, the first stage of social media strategies involves simply establishing a presence, such as institutional pages, through which there is little customer interaction. This basic marketing phase, is followed by more active participation, where there is a significant level of interaction with customers and prospects, greater responsiveness to users, more active management of social media, and marketing & sales campaigns designed specifically for social media. This stage is earmarked by collaboration, and spawns the next phase, which is innovation–in which the objective is to locate, organize, and prioritize ideas. For instance, crowdsourcing can leverage the knowledge of customers and experts to generate innovative ideas.

The aim is to integrate social media in a comprehensive way into all kinds of customer interactions. Allstate, for instance, has developed a mix of multiple channels through which it communicates directly with customers and prospects, including communities, blogs, and pages on social media sites dedicated to particular target customer segments (e.g., teenagers, car insurance). Barclays has developed an online game (http://www.56sagestreet.co.uk/) to educate young people about financial management. The game is integrated with Facebook and Twitter, and users can invite friends, and share their ideas and tips on the game.

Figure 3.6 Integration of Social CRM with Traditional CRM Across the Enterprise



Source: Capgemini analysis, 2012

At the integrated stage, communication also becomes more personalized. Progressive has developed a character named Flo, for example, who is used as the consistent face in all communications and dialogue with customers.

The speed of evolution in social media insurance will depend in part on the maturity of the market. Insurers in North America, for instance, are in the advanced 'participation' stage, and many are using social media to actually influence purchasing decisions, generate leads, and drive sales, as well as to promote and protect the brand, and monitor negative and reactive behavior.

Mass Mutual launched "Financial Curveballs" during the U.S. baseball season—an interactive survey that enabled the company to offer fun facts on the sport and on financial services, and gain valuable insights into customer behavior and preferences. USAA is also among those using social media to improve branding, and ultimately connect with customers by providing enhanced experience. It created a "My USAA" tab to give its customers an application bookmark on their own Facebook page with quick links to usaa.com, enabling members to perform insurance related self-service activities.

Others are using social media to interact with agents to solicit and generate ideas, and mine data to monetize and translate customer insurance into action—see Customer Insight Into Action Case Study, page 43.

In Europe, insurers are somewhat lagging as they are still struggling with the challenging economics of their business and markets, so few are investing heavily in social media. Those that have a presence, tend to be most focused on empowering employees to solve customer issues (e.g., fraud detection), boosting customer experience and brand, and providing quotes to new direct-sales leads.

Insurers in Asia-Pacific are planning initiatives focused on establishing a social media presence, or perhaps to participate more actively, but mostly to connect with customers and agents, boost customer experience and branding, and empower agents/brokers (e.g., supporting them with real-time information, or connecting them to sales leads).

In the long run, however, social media is expected to evolve very dynamically, and will be used across the spectrum of marketing & sales, from simple event planning to highly sophisticated insight-driven sales strategies.

CONCLUSION

Operating conditions have been challenging for most insurers for some time, so many focused on reducing costs and becoming more efficient, while revenues and premiums languished. Business conditions are slowly starting to improve, but margins remain slim in many markets, so many insurers are focusing now on how to boost revenues and attain sustainable growth. Customer retention and acquisition are key components of any growth strategy, and an array of distribution options is vital to customers—who increasingly expect anytime/anywhere/any device research, purchase, and service options.

To deliver superior customer experience, while reducing the expense of customer acquisition (currently inflated in most markets by the high cost of predominant traditional networks), insurers will need sophisticated multi-distribution strategies that integrate channels and information. If successful, however, the potential internal and external benefits are considerable, and include the following:

- **Operational Benefits.** Cost reductions can be achieved through the use of technology to reduce operational costs in supply chain processes, such as procurement. Productivity improvements come from the use of technology to, for example, conduct virtual meetings around the world and improve collaboration.
- **Customer Benefits.** New customer experiences can be created, including multichannel and integrated customer experiences across mobile, social, and online platforms. Customer insights can also be gleaned through the use of tracking or analytical tools to analyze customer behavior patterns.
- **Product Benefits.** New products and services can be developed, such as mobile claims, remote mobile/video service, online policy management, social benchmarking. Technology-enabled platforms such as online and mobile also provide a means to extend service offerings to new technology environments.

To actually leverage the benefits of integrated multi-distribution, however, insurers will need to act quickly to address emerging preferences like the mobile channel at the same time that they continue to distribute via whatever traditional networks and channels customers currently prefer. If providers can be innovative and proactive in their of use emerging channels and touchpoints like mobile and social media, they will be better positioned to generate leads and boost revenues from their initiatives, as well as engaging more effectively with customers and prospects.

CASE STUDY

Genialloyd Leverages Social Media to Boost Reputation, Brand, and Sales

Genialloyd, the Italian direct insurance arm of Allianz Group, was founded in 1996, and had become a first mover in e-commerce in Italy by 1998. Today, Genialloyd is the third largest Italian direct insurer and it is an integral part of Allianz's multi-access strategy. By 2011, Genialloyd had concluded that social media would be critical to reinforcing its reputation for innovation, competitiveness, and best-in-class service. The strategic objective was to serve customers through whatever network/channel they preferred, adapting the service model to the specifics of each network/channel.

After a 2-year phased entry into social media, Genialloyd now uses a variety of platforms (including Facebook, Twitter, Google plus and YouTube) to leverage social media primarily for customer service, fast rate quotes and information-sharing. The strategy helped Genialloyd to grow its premium collections by a sustained 24.2% a year in 2009-11, slightly higher than the average increase among other direct companies (22.7%) and with a Combined Operating Ratio consistently superior to that of other direct insurers. Genialloyd's use of social media in customer service hinges on a rapid response to customers (normally within minutes but always within 4 hours), authentic postings (no deleting of negative messages or false testimonials), and coherent and comprehensive service and compliant cases resolution (including a disaster-recovery plans for major issues).

To ensure transparency in its social media transactions, Genialloyd's first response to any request or complaint is always public. It can then suggest a protected/one-on-one channel (call center or e-mail) if issues are sensitive, but the customer determines whether the interactions will be public or private. The system also enables satisfied customers to post a spontaneous and public thank you for superior service.

Genialloyd ultimately expects to integrate these social media initiatives into broader customer relationship strategy, such that an integrated platform can collect all questions and requests from any communication channel including e-mails and social media, manage answers, and publish them through various channels. Integrated data and social media activity will be available immediately on one operative dashboard, visible to the traditional structures (e.g., call center) responsible for the management of the service and complaint cases. Social media will also be used to optimize the effectiveness of commercial processes and back-office processes (e.g. antifraud initiatives).

Genialloyd is also using social media to drive an innovative fast-quote service for motor insurance, completely integrated into Facebook. The "Super Fast Quote" service allows customers to obtain a personalized quote just by providing their auto number plate and birthday. Facebook enables customers to "Like" the price if they want to accept it, and follow a link to finalize the purchase via a secure payment system. Customers are incentivized by an additional 4% discount for quotes provided via Facebook, and via special campaigns and prizes used to stimulate social media word-of-mouth.

The initiative required relatively little investment as Genialloyd leveraged its existing fast-quote engine (originally developed to support web distribution), but the channel is fully integrated (both for data entry and for output display) with the website.

The quick-quote facility generates only a small portion of overall premiums collected, but helps significantly in boosting Genialloyd's reputation and brand awareness.

CASE STUDY

Customer Insight Into Action (CiiA), a Social Media Analytics Solution

Social media is already being used by many insurers to connect with current and prospective customers, but to respond properly to customer insights from social media, insurers need a systematic process for monitoring, and analyzing data, and then turning that data into action. Capgemini's CiiA approach enables insurers to monitor positive and negative messages emanating from online communities, and identify an appropriate follow-up plan.

The follow-up might trigger, for example, a specific resolution to an individual's negative message or a discount or other offer to combat dissatisfaction. Insurers can also look for signs of dissatisfaction (negative messages) about competitors, and then approach dissatisfied customers with attractive offers. Insurers can also offer discounts or rewards to a loyal customer in response to their positive messages.

The triggers for different actions are generated by the system, however, and flagged to the appropriate case management or customer service representatives for action.

Ultimately, this type of social CRM can create insights that benefit the bottom line directly—insights that enable the insurer to use the needs of customers themselves to drive marketing, sales, and service.

Methodology

SCOPE AND RESEARCH SOURCES

The 2013 *World Insurance Report* (WIR) covers both life and non-life (including health) segments (with a focus on non-life in Chapter 1). This year's report draws on research insights from 41 countries: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, France, Germany, Greece, Hong Kong, India, Ireland, Italy, Japan, Lebanon, Malaysia, Mexico, Morocco, the Netherlands, New Zealand, Nigeria, Norway, Philippines, Poland, Portugal, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Turkey, UAE, U.K., U.S., and Vietnam. We estimate these countries together account for more than 95% of the global insurance market, based on data from our own analysis and from the "World Insurance in 2011" Swiss Re Sigma Report.

The 2013 WIR is based on a comprehensive body of research that includes 114 interviews with senior insurance executives. Of the firms interviewed, 50% sell both life and non-life insurance, 16% focus solely on life, and 34% are dedicated to non-life.

EFFICIENCY RATIO ANALYSIS

For each of fourteen studied countries, we analyzed country-level financials for enough companies to ensure coverage of more than 50% of each market's total non-life premiums. For each of the analyzed companies, we obtained the country-level breakdown of financials (Gross written premiums, Claims, Commission and Expenses, Operational Expenses, Investment Income, Profit before Tax) through extensive secondary research sources, and from local Capgemini insurance subject matter experts.

Where no country-level breakdown was available, we took the premium income of the parent company and estimated the cost data for the analyzed country, using the percentage of individual country premiums to global premiums. The few companies that did not provide verifiable data on either a country or global level were omitted from the analysis. (China was omitted for this reason.)

Our Efficiency Model, valid only for non-life insurance companies, indicates the cost and financial-performance ratios of each country based on core and non-core insurance business. The efficiency ratios are calculated using various expense and profit metrics against GWP. The ratios are consistent with industry-defined ratios for individual insurers, but provide a better comparison for industry performance in different regions.

More specifically in our model:

- **Underwriting ratio**—Like the 'combined ratio' industry benchmark, it measures the percentage of gross written premiums an insurer pays out in claims and expenses. The lower the ratio, the less premium revenues are being eroded by expenses.
- **Claims ratio**—(total claims and benefits disbursed) / (GWP)—offers a proxy for underwriting efficiency. In general, a lower claims ratio produces higher returns.
- **Acquisition ratio**—(total commission and fees paid) / (GWP)—reflects the effectiveness with which distribution networks are being managed. While it is beneficial to financial results to keep the acquisition ratio low, these costs are inherently higher in some business models, so it may be more relevant for a firm to focus on the trends in its own acquisition ratios than to benchmark directly against other businesses or regions.
- **Operational ratio**—(total operating expenses) / (GWP)—helps to explain the maturity with which insurers are managing routine expenses. In general, the lower the operational ratio the better.
- **Investment ratio**—(net investment income + capital gains (losses)) / (GWP)—shows returns on insurers' investment portfolios. In general, the higher the investment ratio the better.
- **Profit margin**—(profit before tax)/ (GWP)—measures profits from the overall insurance business.

In all cases, ratios depend on a variety of external factors, including general economic conditions, government regulation, business type, consumer preferences, etc. As a result, it is rarely relevant to compare ratios directly across regions or markets. It is typically more germane to compare trends over time within regions or markets, and perhaps within business types or insurance segments.

CAPGEMINI'S CUSTOMER EXPERIENCE INDEX

Capgemini's Customer Experience Index (CEI) is a new approach to gauging how customers perceive the quality of their service interactions across three dimensions: products, channels/mediums, and customer lifecycle. Initially developed for use in retail banking (see World Retail Banking Report 2011), the CEI was adapted to insurance by customizing the components of those three dimensions (see Figure 2.4 on page 23).

The CEI is built from data captured through Capgemini's Voice of the Customer Survey, conducted in 2012. The survey queried more than 16,500 customers on their general satisfaction with their insurer, and also inquired more specifically about the importance of specific channels for executing different types of transactions, and for different types of products. Lastly, it questioned customers about their satisfaction with all those interactions. The survey produced 96 data points, and is thus a much more in-depth investigation of customer attitudes than typical customer satisfaction surveys.

The insurance customers were located across 30 countries in six major geographic regions (see Figure M1). The resulting data can be segmented by a wide range of customer variables, including the region, country, or the size of the city in which customers live, and by other customer characteristics, including age, sex, investable assets, employment, and education.

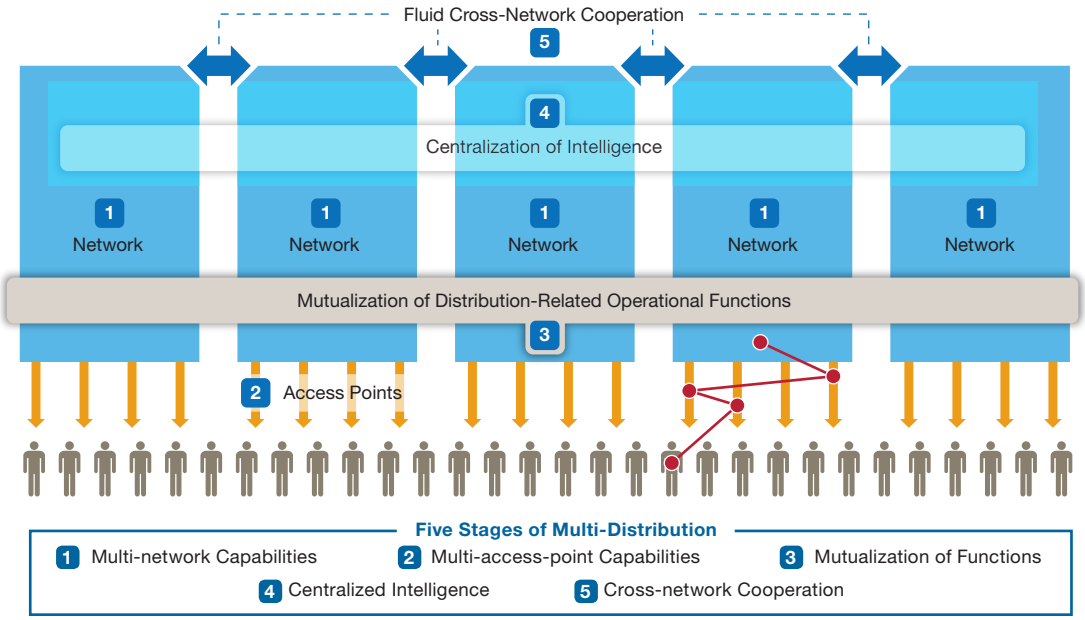
CAPGEMINI'S MULTI-DISTRIBUTION MATURITY ASSESSMENT MODEL

Capgemini's Multi-Distribution Maturity Assessment Model was designed to research distribution approaches for the 2009 World Insurance Report. The model is based around five distribution maturity stages: multi-network capabilities, multi-access point capabilities, mutualization of functions, centralized intelligence, and cross-network cooperation (see Figure M2). The model employs a scoring system out of a total of 100 points, weighting each stage differently. A variety of parameters were used for each stage, allowing us to generate a score for each separate stage, and calculate an overall maturity score for multi-distribution.

Figure M1 Geographic Scope of Customer Experience Index, 2012

Source: Capgemini analysis, 2012

Figure M2 Capgemini Multi-Distribution Maturity Assessment Framework



Source: Capgemini analysis, 2012; World Insurance Report 2009

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With more than 120,000 people in 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2011 global revenues of EUR 9.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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