Attracting and Retaining Customers for Life

Creating the right mix of "bricks and clicks" for high performance in Insurance

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Meet “Jenny Y”.

Jenny Y,* a recent college graduate, is planning to travel the world for a year. Sitting on a park bench, she reads about travel destinations from friends on her Facebook page and in online chat forums with other globetrotters. While still sitting there, she books her flights, reserves hostels and makes her first insurance purchase, a five-year term life insurance policy—all via her iPhone. Later, during her travels, with easy access to her policy online, she makes premium payments from different Internet cafés around the world just as she does with her frequent flyer account and her credit cards. Why not? It's just another transaction in today's always connected, socially networked world.

Chalk up victory #1 for the insurer: for winning a new client by interacting with Jenny Y on the terms that she values—and demands—from all of her service providers.

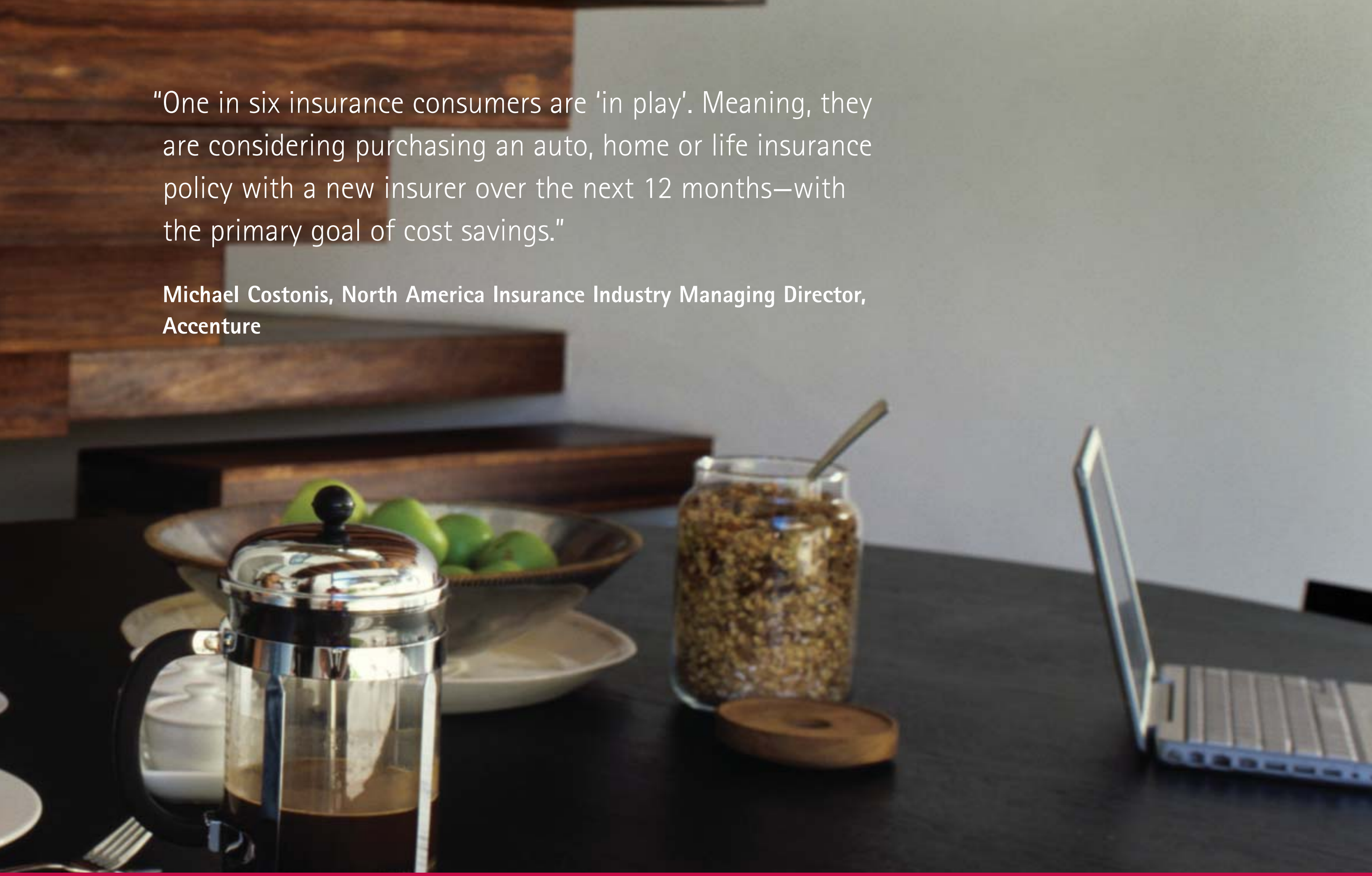
When our globetrotter returns a year later, she begins working as a research assistant in a biotech lab. Now she faces the reality of long work hours, school loans and those nagging high credit card bills—the aftermath of her trip. She begins to think that the insurance policy that seemed like a good idea while traveling may now be an unaffordable luxury—especially with the economy in such a downturn.

Her policy payments start to slow, but the insurer responds with a payment relief program when it spots the slow pay trend—all done online. This approach helps Jenny Y decide to keep her policy.

Chalk up victory #2 for the insurer, who not only retained a customer, but opened the door for a new level of interaction and a path to higher profitability.

As time goes on, Jenny Y marries her fiancé and begins to consider long-term financial goals, such as saving for a house, their children's education and retirement. Jenny Y determines she needs to speak with a professional, so she logs on to her insurer's website (which she knows well from managing her term life insurance policy). But this time, realizing her financial needs are now more complex, she clicks on the “Find an Agent” link. She finds an agent near her and sends a message to the agent's Facebook page requesting an in-person meeting.

Chalk up victory #3 for the insurer for having a good handle on how to blend agent and Internet interactions (“bricks and clicks”) into a cohesive and consistent customer experience.



"One in six insurance consumers are 'in play'. Meaning, they are considering purchasing an auto, home or life insurance policy with a new insurer over the next 12 months—with the primary goal of cost savings."

Michael Costonis, North America Insurance Industry Managing Director, Accenture

The insurer recognized that the ability to not just retain but grow its relationship with the customer requires it to find the right mix of "information" and "relationships" that meets the ever-changing needs of the buyer.

The ability to attract new buyers on the buyers' terms, interacting with them as the buyers prefer and balancing the buyers' dynamic needs for information and relationships over a lifetime are key findings of Accenture's Insurance Consumer Survey[1].

Accenture has three recommendations for insurers (that we outline on the following pages):

- Segment customers based on their buyer values and ever-changing needs. Build enduring relationships that move your customers to continually higher-value propositions.
- Deliver superior customer service—in traditional and new ways.
- Capture the opportunity inherent in the recession.

*This consumer profile is hypothetical and used for illustrative purposes only.

Recommendation No. 1

Segment customers based on their values and ever-changing needs. Use this knowledge to migrate customers to higher-value products over time.

The key to increasing sales and retaining clients in a crowded, price-sensitive market is: understand the relationship between your company and your customer, and understand the role that information delivery plays in maintaining and growing that relationship.

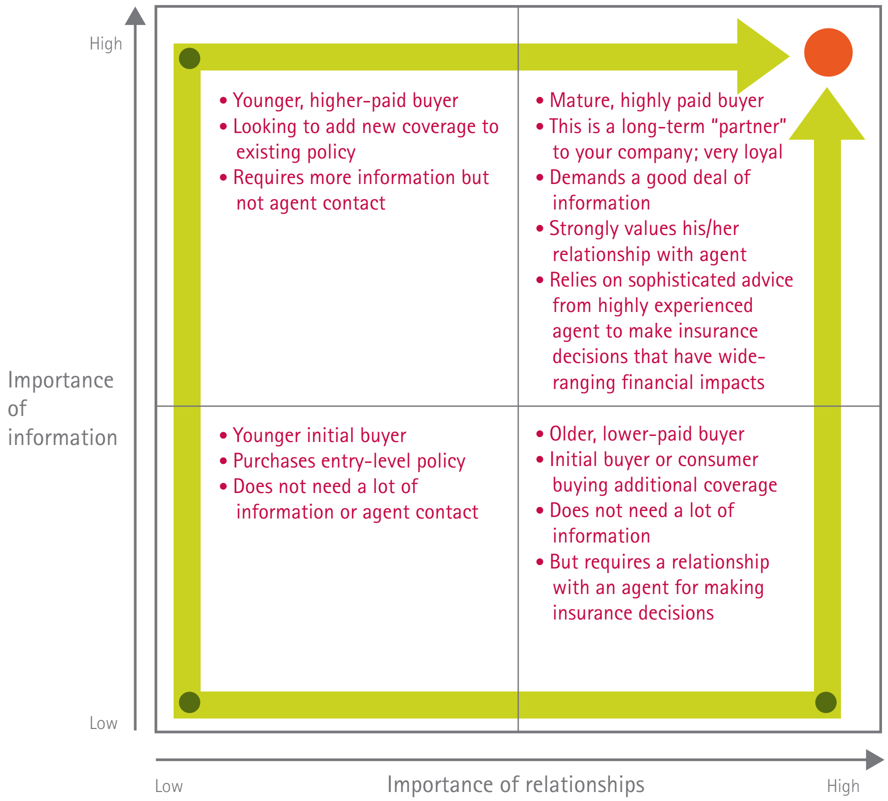
The Accenture Insurance Consumer Survey reveals that life insurance buyers (as a group) continue to exhibit traditional buyer values. This means they tend to purchase life insurance to protect families and estates, and as a long-term investment vehicle. These buyers tend to have a high propensity to retain their policies because they address long-term financial planning and protection needs. Our Insurance Consumer Survey also brings to light that a significant portion of consumers will buy additional policies as their needs change over time. Here is the opportunity for insurers: those buyers will make these purchases from the companies they trust, not just the ones they do business with currently.

Based on our research and deep insurance industry experience, we recommend that insurers segment their customers along the lines of their buyer values. Figure 1 (shown on the next page) is just one version of a potential segmentation that we have included as a point of discussion. Strong analytics should always be used to develop any customer segmentation strategy.

The lower left of the quadrant represents a buyer who has a low need for information and does not value contact with an agent. In many ways this is a "vending machine" purchase. This buyer will likely make a simple purchase of term insurance online. The carrier's challenge is to make the purchasing experience simple and fast—ideally concluding the purchase while the buyer is still online with the company.

The upper left represents a buyer who requires more information—perhaps one who is looking to add new coverage to an existing policy. Nonetheless, this buyer still does not value agent contact. This purchase is in many ways similar to those transacted by online brokerage firms in the investment

Figure 1. Illustration of a potential customer segmentation



Our research clearly reveals that by understanding the buyer values and continually varying the mix of information and relationship based on the needs expressed by each segment, carriers can proactively manage the migration of customers to higher-value policies and relationships. These deep, trust-based relationships must be supported by broad product sets and deep, trusted interactions between the buyers and their advisors.

Note: This potential representation is only included as a point of discussion. Strong analytics should always be used to develop any customer segmentation strategy.

industry. The carrier's challenge is to make adequate information easily accessible through an online experience conducted via a number of access methods, e.g., smart phones, etc.

The lower right segment represents a wide spectrum of buyers. Our research indicates that they could be initial buyers, existing customers looking to add coverage, and/or long-time customers who want to upgrade their policies. These buyers prefer to rely on agents for advice. Much like traditional stockbrokers—the carrier's challenge is to place trained agents who can generate trust into personal interactions with the buyer.

The upper right quadrant represents buyers who have the most intense needs, both for information and a strong relationship with a financial planner—not just an insurance agent. As customers, they are involved, demanding and highly valued. They probably already interact with estate planners and investment advisors for their broader financial planning needs. These educated and affluent clients purchase insurance policies to address complex financial and estate planning needs. The carrier's challenge is to place highly trained advisors equipped with current product, investment and market data into these high trust relationships.

A renewed spotlight on the value of insurance agents

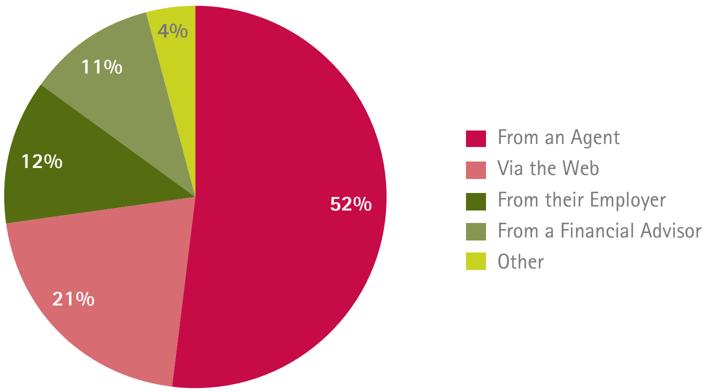
In turbulent times, many customers want to connect with another human being. Despite the increase in online insurance research (by potential customers), in-person visits generate higher conversion.

Source: "Trends 2009: Insurance eBusiness and Channel Strategy," by Forrester Research, Inc., January 2009

Recommendation No. 2

Deliver superior customer service—in traditional and new ways.

Figure 2. Different consumers prefer to use different channels when purchasing insurance products



Source: Accenture's Insurance Consumer Survey, April 2009

Segmenting your customers around their buyer values is essential to enabling carriers to deliver the individualized customer service experience that they demand. To deliver such a service successfully, our survey indicates that insurers need to revisit their distribution strategy for the right mix of "bricks and clicks."

For example, some insurers have excelled at creating a customer experience online. We have seen more traditional players follow suit. For example, one company has developed a unique and customized Web experience for motorcycle insurance buyers. A "clicks" strategy like this is critical on two fronts.

First, our Insurance Consumer Survey shows that 21 percent of insurers prefer to buy online (see Figure 2). While many buyers go online simply to conduct research and compare pricing, others expect to be able to conclude the purchase transaction. If you do not have an easy and appealing Web experience, accessible via a multitude of devices, that rapidly satisfies "self-service" customers, you will lose them. With a click of the mouse, they will easily go elsewhere.

Second, the demographics of the population are changing. Around the world, the influence of younger consumers (collectively known as "Generation Y") is gaining traction. Their preference for newer and more immediate communication media (such as text messaging, instant messaging and social networking sites) is not a passing fad.

Accenture believes that insurers must continually look at the mix of these factors to attract new initial buyers. To retain customers and increase profitability, your company must have specific strategies to migrate existing customers to higher-value policies and higher-value relationships. Retaining a "customer for life" is critical for long-term retention and profitability.

Remember "Jenny Y" from the introduction to this paper?

Jenny Y will go through many changes in her life and as such, her insurance needs will evolve. The challenge for insurers is: the industry cannot accurately predict which channel a customer will choose to use at each juncture. To attract and retain customers for life, insurers need to employ a strong multi-channel service and distribution strategy.

> "Most carriers have failed to fully exploit the promise of the Internet. Of those consumers buying online, 39 percent expressed some level of dissatisfaction with their online experience. There is an opportunity to teach agents how to use the online channel for servicing clients' needs more efficiently."
>
> **Tom Kraack, Managing Partner, Financial Services Talent Management, Accenture**

Delivering superior customer service is about creating capacity (through ease of doing business) for the agent to perform more value-added activities. It includes targeting more of the right demand to the agent, becoming more effective at selling (of which product training would be one lever), and continuously measuring and improving.

Agents continue to dominate the insurance distribution model.

Despite numerous changes in channel delivery, our survey shows that 75 percent of consumers prefer to buy from agents and trusted sources (including employers or financial advisors). This finding represents an opportunity for insurers to differentiate themselves with superior customer service and delivery—but two factors hamper this effort: product complexity and insufficiently trained agents.

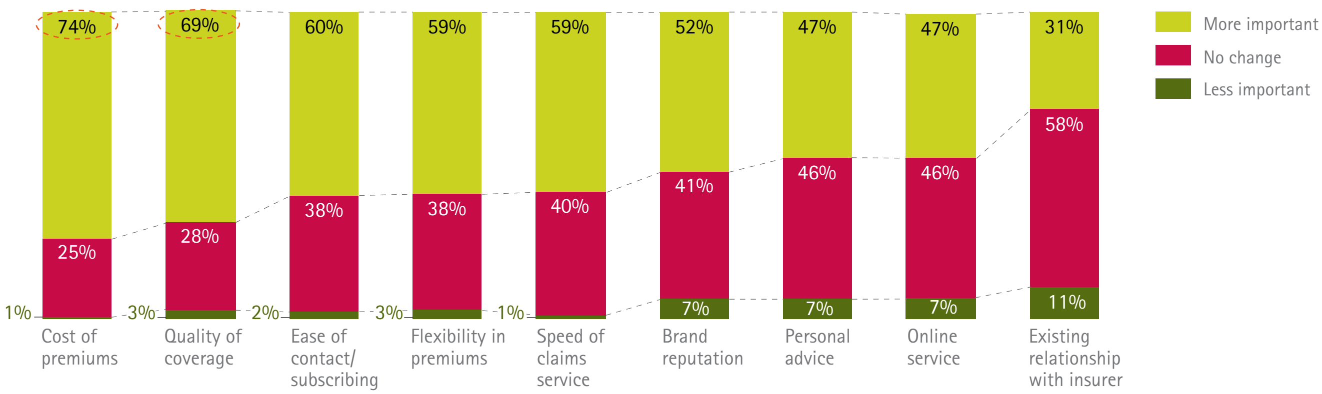
With consumers on the verge of terminating policies (or switching to new providers), insurers need to improve agent training to ensure adequate explanation of the coverage, benefits and value of their products. We see this need to improve the management of talent resources on a global basis. For example, insurance managers in Europe expect the increasing need for advice (64 percent) to almost equal the increasing need for protection (67 percent) over the next 10 years.[2]

Agents need to be more skilled at simplifying the explanation and sale of insurance policies to consumers—to alleviate their fears and overcome any other obstacles to buying. It's more important than ever that consumers understand their coverage and the value they are receiving.

Recommendation No. 3

The recession presents significant opportunities to attract new customers and retain your current ones—and it presents an imminent threat.

Figure 3. Price and quality have become the most important selection criteria for consumers looking to take out a new auto/home insurance policy in the next 12 months



Source: Accenture's Insurance Consumer Survey, April 2009

Short-term impacts. Long-term opportunities.

The Accenture Insurance Consumer Survey leaves no doubt that across policyholder segments, the current economic crisis has had an impact on consumers. Our survey reveals that 18 percent of U.S. consumers are considering delaying payment, reducing coverage or eliminating coverage altogether. In Europe, we learned that insurance managers are dealing with similar customer sensitivity over price.[3]

With financial hardship as the basis for a customer's short-term decision-making, what opportunities are there for insurers? Based on our proprietary research and our deep experience in the insurance industry, Accenture believes high-performance insurers can gain valuable customer loyalty over the long term by providing superior coverage at the right price, and a purchase and service experience that is built from the customer's point of view.

The battle for profitability is fought one customer at a time.

The challenge: our survey showed that consumers largely view auto and home insurance products as commodities, and life products as either too complex or a luxury item. Seventy-four percent of respondents said that as a result of the recession over the past 12 months, price had become the most important factor in selecting an insurance provider—69 percent cited quality of coverage, and 60 percent cited ease of contact. Consumers ranked an existing relationship with an insurer as the **least important** purchasing factor (see Figure 3).

But how can an insurer not only convince a customer to stay but to grow their relationship? In the short term, most consumers are unaware of options that insurers may offer to help manage the cost of insurance. Insurers should proactively reach out to consumers to advise them of reduced coverage options or flexible payment terms.

Since cash-strapped consumers may also consider life insurance a luxury they can ill afford (unlike home and auto coverage, which are typically mandated), insurers must find ways to improve the perceived value of owning life insurance or the market will continue to contract. With regard to current policyholders, if insurers fail to identify ways to help consumers maintain their existing coverage, they will see an increase in policy lapses due to non-payment and cancellations.

The journey to high performance begins with keeping the customer at the center of your insurance business.

Accenture High Performance Business research has shown that the ability to deliver a customer experience consistently aligned with customer needs has a significant impact on a company's ability to create customer loyalty. In turn, loyal customers have a demonstrable impact on the top line, by buying more and referring other customers to the company. In a time of economic uncertainty—when customer confidence is low and customer behavior increasingly difficult to predict—mastering "customer centricity" is more important than ever.

Customers are changing. A new breed of customer will drive successful insurers to change as well. Insurers who are on the journey to high performance will seize this period as an opportunity to change, too.

"Consumers aged 18 to 34 have become the main buyers of new life insurance policies. Insurers should be leveraging both traditional and online channels—to appeal to their current clientele and attract younger prospects. Over time, the combination of both channels can help move consumers through the product-buying life cycle to retain their loyalty and business."

John McHugh, Managing Partner, Financial Services, Customer Acquisition and Retention, Accenture

It is imperative for carriers to understand the segmentation of their customers and tailor their interaction strategies to address each segment's needs.

To this end, insurers should:

Manage the talent of their agents to better focus on customers.

- Agents need to be given the tools and resources to stay on top of their existing clientele to ensure that their business is retained. For example, an agent should be trained to assist temporarily unemployed clients with flexible payment schedules.
- Support agents with lead generation from social networking sites (such as LinkedIn and Facebook) and by executing smarter digital marketing.
- Continue recruiting and developing new agents, as experienced agents retire from the market.

Attract and retain new customers and increase efficiency.

- Consider developing more online self-service options to lower costs.
- Invest to improve Web and multi-channel customer experiences including capitalizing on the continuing trend to social networking.
- Experiment with emerging technologies (such as mobile phones).

Endnotes

1 Accenture's Insurance Consumer Survey (April 2009) of 1,005 U.S. citizens at least 18 years of age who own at least one insurance product. Respondents were representative of the U.S. population in gender, age, income and region.

2 Accenture survey: "Insurance 2015 – Retail Markets in the Midst of Radical Change." The study was co-performed by the Institute of Insurance Economics at the University of St. Gallen. Questionnaires were sent to 1,816 insurance company managers in Germany, Austria and Switzerland. The response rate was about 21 percent.

3 Ibid.

For more information

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