

Accenture Research

Customer-centricity—the key
to differentiation and growth
in the life insurance industry

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Customer-centricity: more than a mindset

The hope that an economic rebound is around the corner now seems like wishful thinking. Demand for insurance is likely to remain soft for the foreseeable future, and pressure on premiums is unlikely to ease. While cost management is as crucial as ever, profitable growth has become a priority for most carriers. But achieving growth won't be easy—with consumers more fickle than ever, more demanding, and more able to compare what is being offered, it will take something special to retain and sell to existing customers and to attract new ones.

The findings of a recent Accenture consumer survey¹ neatly sum up the growth challenge facing insurers:

- 26 percent of customers say they have no loyalty to their insurance providers.
- Up to 32 percent say they are likely to stop doing business with at least one of their insurance providers "in the next 12 months".
- 26 percent would definitely shop around for better deals.
- 75 percent believe there is no significant difference in the products and services offered by insurance companies.

Weak loyalty, a lack of differentiation and a growing reluctance to accept indifferent service are driving customers into the market. Once there they are, to an increasing degree, buying on price—a trend accelerated by the proliferation of simpler, more commoditized products

which vie to be the cheapest on the market. While this might attract new customers and generate new revenue, it does so at the cost of the carrier's operating margins, its combined operating ratio and its return on equity. And it only works until the competition follows suit.

Clearly, an alternative approach is needed, one that meets the growing demands of customers, positions the carrier prominently within a poorly differentiated marketplace, and allows it to command a premium for its products. This approach is characterized by a move from conventional product-centricity toward customer-centricity. It entails much more than a change in mindset, though, and the majority of insurers are constrained from adopting it because their operating model, technology, infrastructure and people are aligned with their product portfolio rather than with their customers.

A carefully crafted strategy is needed to provide the differentiated, tailored experience which is the defining feature of customer-centricity. The first step in this process is to decide what this special experience should consist of. To gain a better understanding of how customer attitudes, expectations and behavior with regard to insurance have changed—the kinds of experience they are seeking today—Accenture recently commissioned an extensive worldwide survey². And to learn how insurers are responding to these changes, we undertook a separate survey of more than 100 C-level insurance executives³. Together, the findings reveal an industry in the process of reinventing itself.

Survey finds opportunities exist, but customer focus is vital

The 2011 Accenture Consumer-Driven Innovation Insurance Survey comprised two separate but complementary research studies, targeting consumers and insurance executives respectively.

The consumer study was based on responses from 7,010 insurance policyholders in 13 countries: eight in mature markets and five in emerging markets. The aim was to determine how customers feel about their insurance providers, and what their expectations are regarding the products and services they provide. In particular, we wanted to know their views on innovation with regard to distribution channels and personalization.

The executives study consisted of telephonic interviews with 119 C-level executives at insurance companies in 28 countries. The purpose of the research was to ascertain the importance that

insurers place on shifts in consumer attitudes and behavior, the actions they are taking to respond to them, and the challenges they face in providing an innovative, exceptional customer experience.

Among the most important implications of the findings of the two surveys are:

- Profitable growth will be more challenging than before as customers become increasingly demanding and self-sufficient.
- However, there are clear opportunities for insurers that become more customer-centric and use consumer-driven innovation to deliver a distinctively more tailored customer experience.
- To deliver this experience, carriers need to review their operating model, technology and infrastructure,

and align their sales and service people with their different customer segments.

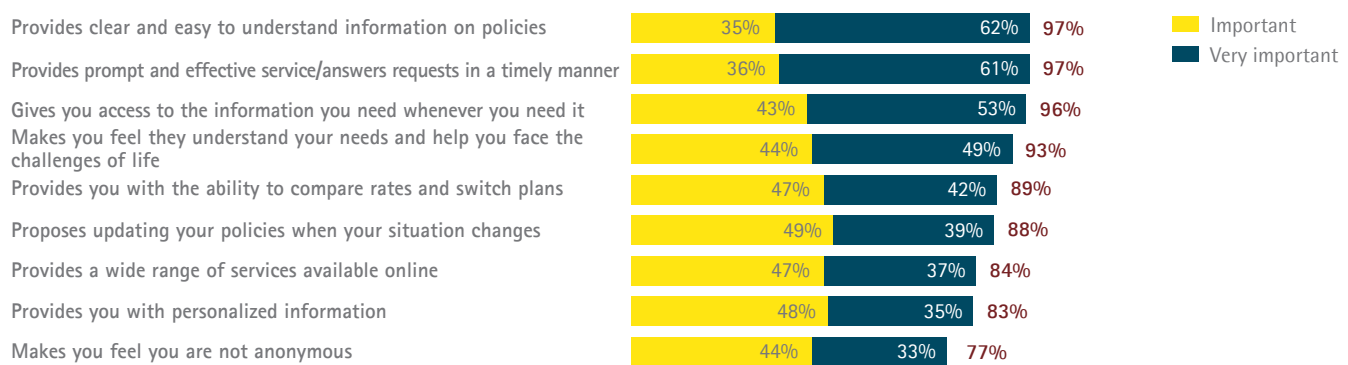
- A strong analytics capability will be invaluable in gaining a deeper understanding of customers' various needs and addressing them in targeted ways.
- Innovative mobile and other next-generation channels will be essential to attracting and retaining especially younger customers.
- The ability to rapidly create, modify and launch products and services that meet—or anticipate—customers' evolving needs will be a decisive competitive advantage.
- Effective, pioneering digital marketing and distribution will be hallmarks of the market leaders.

Consumers in a state of flux

Our latest insurance consumer survey², supported by other recent research¹, confirms what many life insurers are experiencing: loyalty has weakened, expectations have risen, and growing numbers of customers expect to change their provider to find what they are looking for.

Figure 1. Customers have high expectations of their insurance providers.

Q: How important is it that your insurance provider ... ?



The disaffection of life insurance customers is starkly illustrated in Figures 1 and 2. The first contains a daunting list of demands, while the second shows the extent to which insurers are failing to satisfy them. This alone explains why so many customers regard themselves as being "in the market" and on the look-out for a carrier that can meet their expectations. Figure 2 also serves as a "playbook" for innovative carriers that are evaluating the areas of investment likely to provide the greatest differentiation and customer satisfaction.

An indication of the strength of customers' convictions is to be found in Figure 3. Between one and two thirds (depending on age) say they would be willing to pay a premium for insurance products that are more relevant to their needs. On average, they would be prepared to pay 11 percent more than they currently do.

This finding appears to be at odds with the rise in price-sensitivity and the trend, among insurers, to separate advice from many of their products. The apparent conflict is resolved by recognizing that the market is dividing into simple low-cost products and more customized, advice-led products which can command higher premiums. Customers may prefer the former for, perhaps, their fixed-term life insurance but the latter for their investments.

Added to these trends are powerful and permanent shifts in the ways consumers prefer to manage their affairs and interact with individuals and organizations that matter to them. New tools and channels have rapidly become influential, giving rise to entirely new forms of interaction. In insurance, the trend is not so much a transition from traditional to new channels such as the Internet and mobile, but rather a growing reliance

on a diversity of channels—different channels for different purposes. There is every indication that this shift will continue: Figure 4 shows that the use of mobile devices to engage with insurance companies is likely to increase by roughly 25 percent over the next two years. Adding impetus to the trend is the emergence of mobile "ecosystems", comprising various related service providers, which are likely to be potent drivers of cross-selling.

There is no disputing that the insurance marketplace has changed forever. The uncertain future poses grave challenges for life carriers that lack the agility to respond appropriately, but also significant opportunities for those that can make the transition from product-centricity to customer-centricity, and can differentiate themselves by providing a uniquely tailored customer experience.

Figure 2. There is a gap between what customers expect of insurers and what they believe they receive.

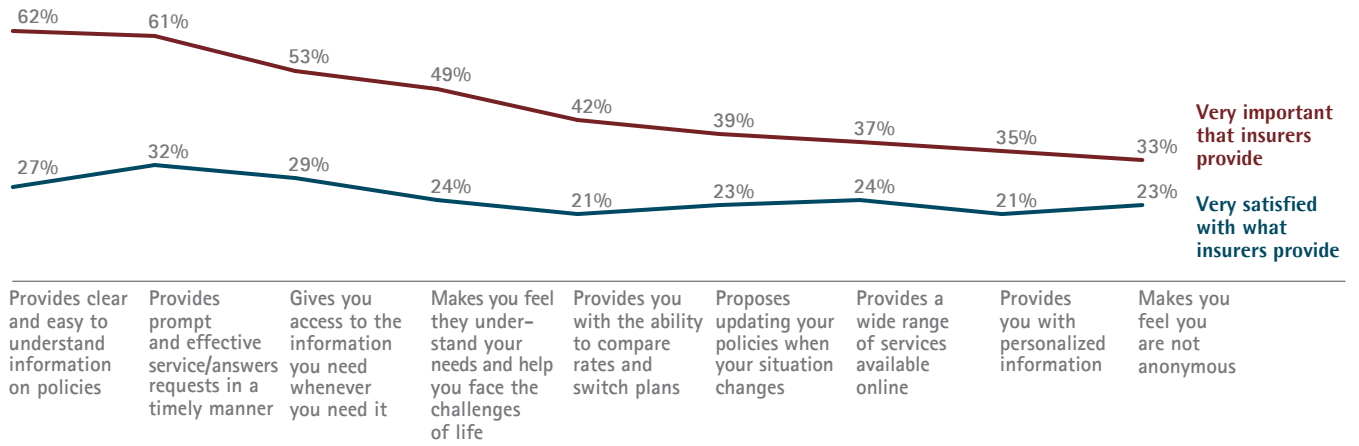


Figure 3. Many insurance customers are willing to pay—and to pay more—to get more relevant products.

Q: How much more would you be willing to pay for insurance that is more relevant to your needs than your current policies?

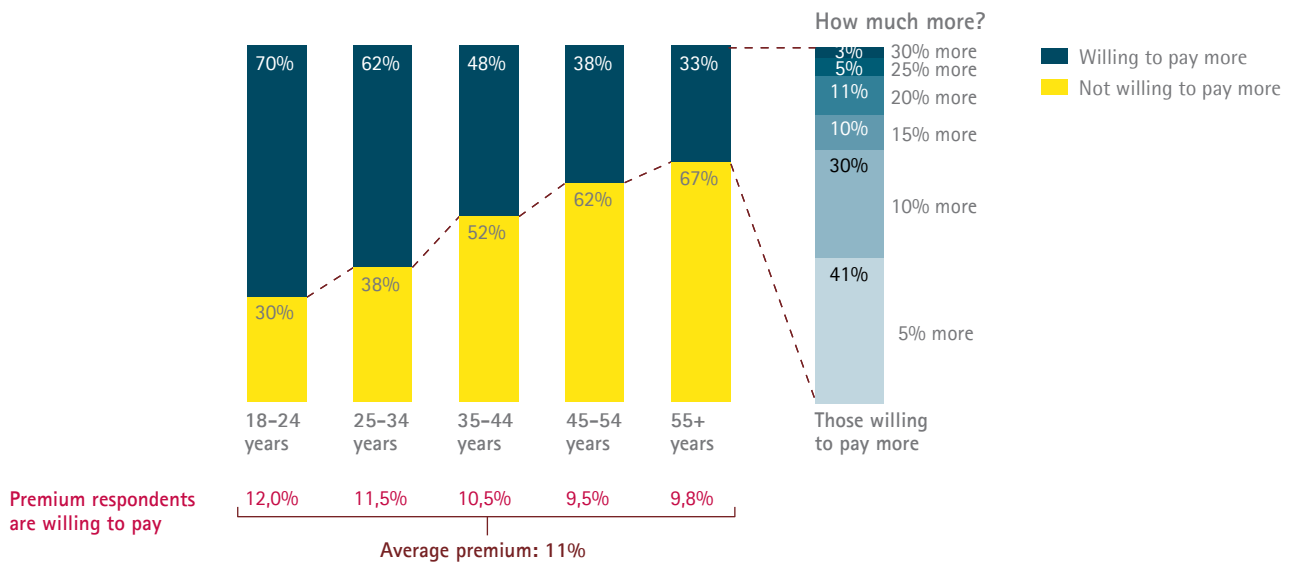


Figure 4. Customers' use of mobile devices to engage with their insurance providers is likely to increase.

Q: Have you used mobile devices to deal with your insurance provider over the past two years, and how do you think your use of these devices will change in the next two years?



Insurers need to give customers a tailored experience

In their pursuit of organic growth, life insurers face a quandary. Competing on price can be costly and short-lived. Similarly, the competitive advantage gained from product innovation is usually fleeting. Personalized advice is expensive and not always effective—only 16 percent of consumers regard their insurer as their preferred provider of financial advice, and 34 percent believe insurers are only interested in selling as much as possible⁴.

An approach is needed which addresses customers' clearly stated preference for more relevant, convenient and innovative products, services and channels. By taking a leaf out of Apple's book and focusing on the overall customer experience, carriers will succeed in creating a more durable competitive advantage, one that allows them to charge a premium while building customer loyalty.

Most insurers recognize the need to provide a more meaningful customer experience—more than 80 percent regard rising customer expectations as an important or critical challenge as they strive for organic growth (Figure 5). Other priorities include making information more readily available via preferred channels, managing customer diversity more effectively, and implementing innovative technologies to enhance customer service. In addition life insurers—more than their non-life counterparts and

certainly more than banks—need to create many more touch points with their policyholders over the lifetime of the contract, to build differentiated relationships and provide meaningful customer experiences.

At a time when customers are clamoring for something special, only a small minority of insurers rate themselves as front-runners in the provision of a differentiated, tailored customer experience. This despite the fact that 87 percent believe growth will be elusive if they fail to provide a special experience (Figure 6).

More than a numbers game

Of course, the first step in treating customers as if they are special is knowing what would make them feel special. Life insurers have always had large amounts of demographic and transactional data about their customers, as well as the analytics to make sense

of it. However, most of this was used to answer the question: "what happened?" Access to new sources of data, both internal and external, and improvements in data consistency and distribution, allow for much richer insights. These, together with advances in predictive analytics, help answer the question: "so what?" For insurers, this translates into "how will my customer behave, what are his or her interests, and what will happen?"

Predictive analytics also allows carriers to segment their customers into homogeneous groups sharing similar traits, needs and expectations. This in turn enables them to develop different strategies, or "treatments", optimized for specific customer needs, attitudes and intentions. Predictive analytics is particularly valuable in determining which customer characteristics are most significant and represent the best opportunities for differentiated treatment.

Figure 5. Rising customer expectations pose a serious challenge for life insurers.

Q: What are the key challenges that your company will face in attracting and retaining customers in the next 3 years?

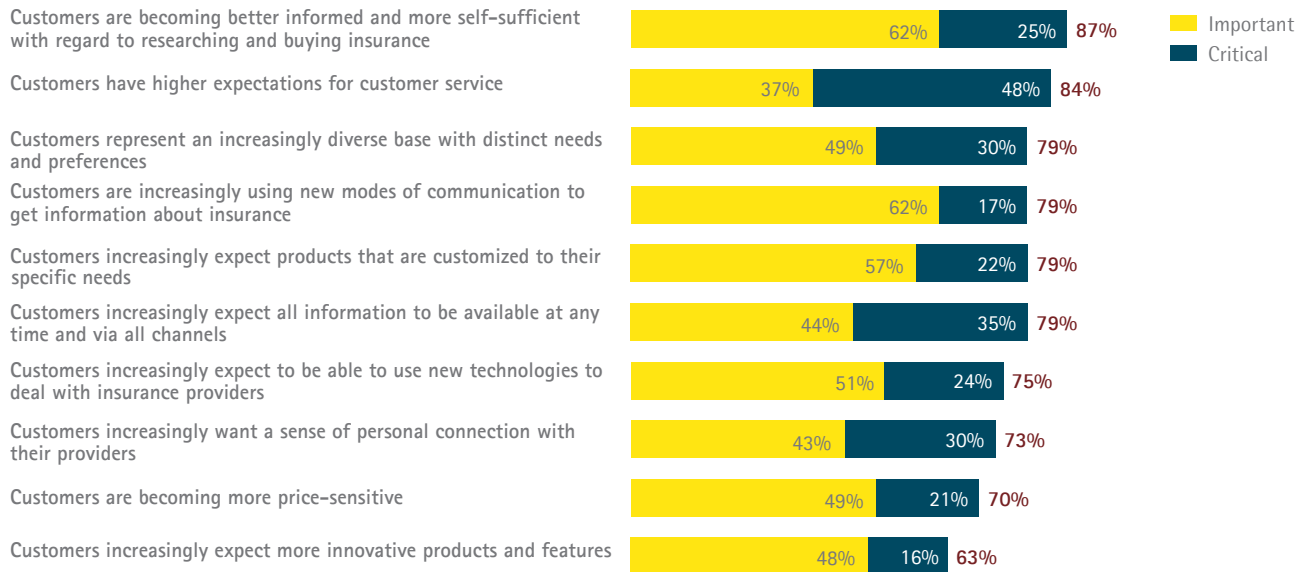
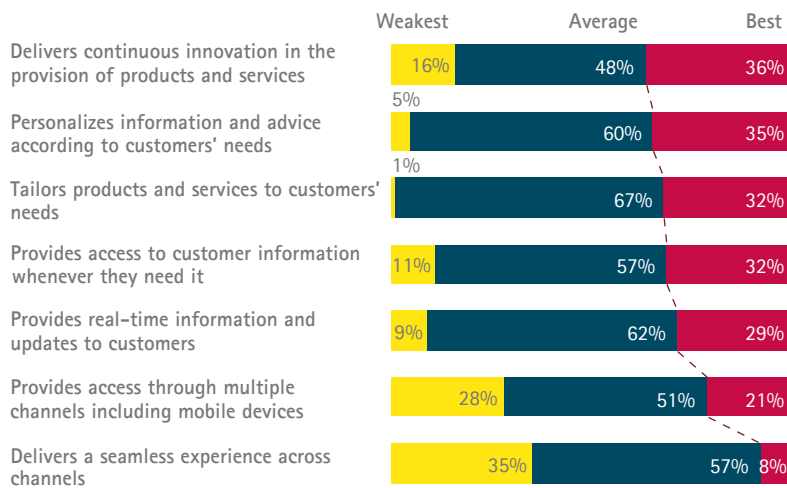
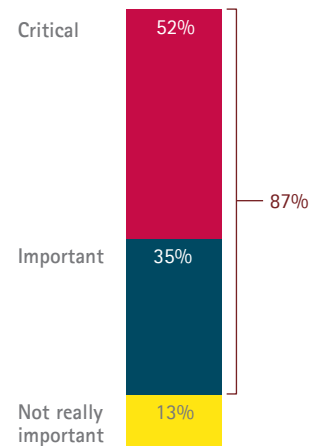


Figure 6. Most life insurers struggle to achieve the differentiation which is crucial to growth.

Q: How does your company perform compared to your competitors?



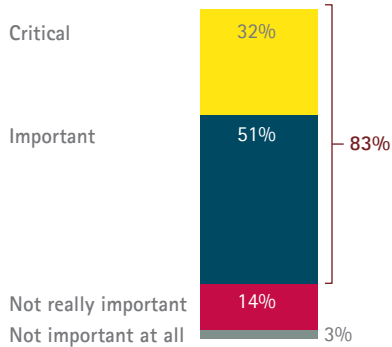
Q: For insurers seeking organic growth, how important is it to give customers a differentiated and exceptional experience?



- Among the best in the industry: you are advanced or leading edge
- Average: you are in line with the performance of the majority of your peers
- Among the weakest in the industry

Figure 7. The average life insurer has invested \$30m in analytics, and plans to increase this amount.

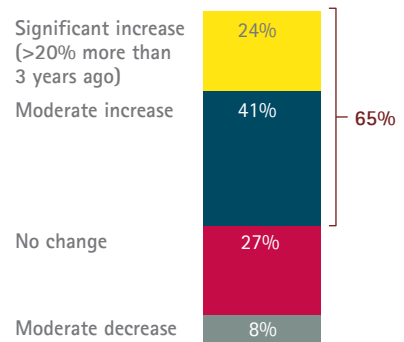
Q: How important is it for your company to invest in analytics in order to be a top performer in your industry in the next 3 years?



Q: How much has your company invested in analytics at the global level (including internal resources) in the last 3 years?



Q: How will your company change its investment in the next 3 years to improve its analytics capabilities?



Thirty-two percent of life insurance executives believe it is critical that their organization improve its analytics capability in the next three years (Figure 7). They have, on average, invested less than \$30 million over the past three years—although 65 percent say this figure needs to be increased. This is consistent with Accenture's ongoing research into the characteristics of high performance businesses. Our surveys⁴ have revealed that robust analytical capabilities are essential to success, and that top-performing companies are five times more likely than lower-performing companies to have identified analytical capabilities as a key element of their strategy. They also show that companies that invest heavily in advanced analytical capabilities outperform the S&P 500 on average by 64 percent, and recover more quickly from economic downturns.

Joining the move to mobile

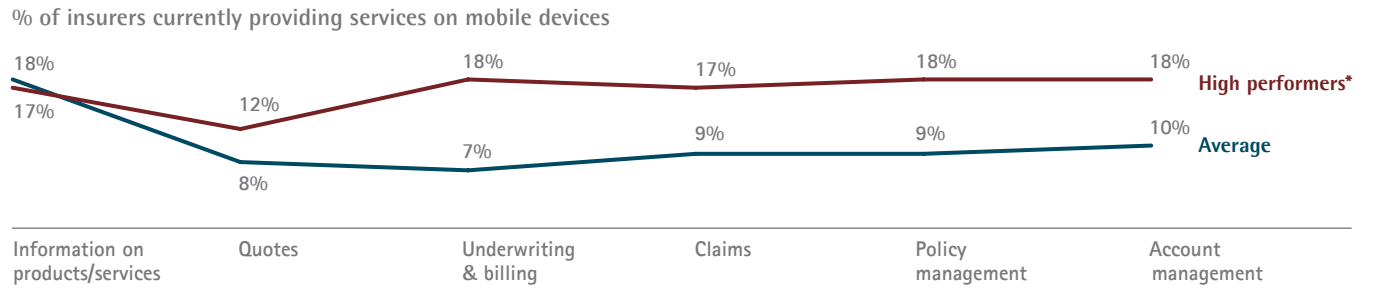
The extent to which consumers, almost overnight, have changed the ways in which they interact with friends, acquaintances and suppliers has been well documented. Life insurers have little choice but to adapt their channels and processes, failing which they will simply be ignored. Accenture research shows that well over half of all customers have used their mobile devices for insurance purposes in the past two years, and more than 70 percent expect to do so in the next two years (Figure 4). In spite of this overwhelming trend, Accenture's multi-channel distribution survey⁵ found that less than one in five insurers provide services geared for mobile devices (Figure 8).

This is not due to ignorance of the wave of change confronting them. No less than 76 percent of insurers recognize it is important or critical that they invest in mobile capabilities all along

the value chain. The average investment over the past three years was only \$9 million, a figure which eight out of ten executives believe needs to increase (Figure 9).

But it won't be easy—the obstacles to becoming a leader in mobile access and service provision are many and daunting (Figure 10). In addition to those listed is simply the challenge of deciding which of the bewildering array of mobile devices, channels, applications and services that are transforming the industry are likely to meet customers' needs and deliver a return on investment—and then committing to the strategy. However, given the growing importance of mobile media to customers of all ages and backgrounds—in emerging and developed markets alike—this is a challenge which any successful life carrier must overcome, and an opportunity it must convert to growth.

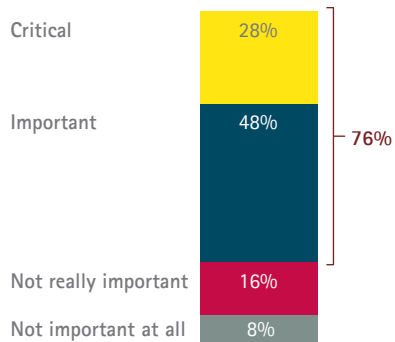
Figure 8. Most insurers—even the high performers—have been fairly slow to adopt mobile technologies.



*High performers: the 20% of the sample with the highest growth rate over the past 3 years

Figure 9. The majority of life insurers believe it is important to increase their investment in mobile capabilities.

Q: How important is it for your company to invest in mobile capabilities along the value chain to be a top performer in your industry in the next 3 years?



Q: How much has your company invested in mobile capabilities at the global level (including internal resources) in the last 3 years?



Q: How will your company change its investment in the next 3 years to improve its mobile capabilities?

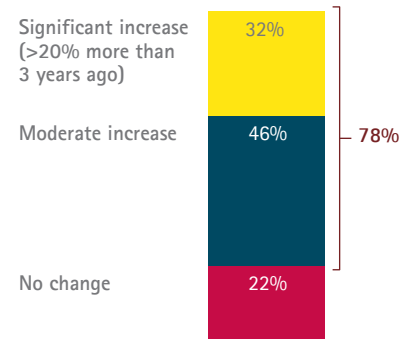
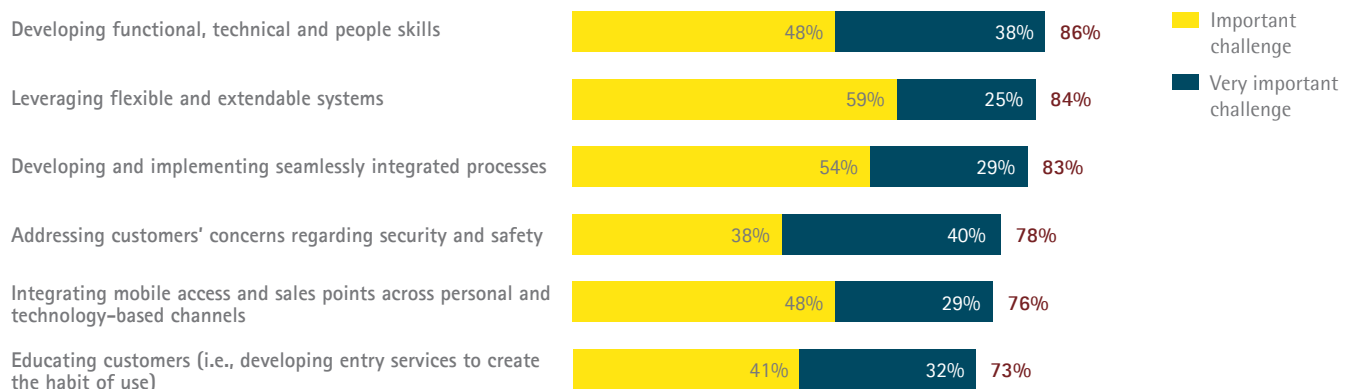


Figure 10. To develop a sophisticated mobile capability, insurers need to improve their skills, systems and processes.

Q: What are the key challenges facing your company as it strives to develop superior mobile capabilities in the next 3 years?





Taking a leaf out of the mobile playbook

When assessing how to approach the mobile opportunity, a natural place to start is to look at the strategies others have followed to capture market share. Life insurers should look beyond what their competitors are doing, and evaluate the innovations of other leading players—such as banks, mobile operating system vendors and start-ups that are reshaping entire industries through mobile computing. They should also look beyond what they can achieve on their own, exploring the possibilities that a mobile ecosystem offers. By partnering with other key players, such as a bank or online payment service like PayPal, a retailer, a telco operator etc., the insurer becomes part of a mobile initiative that gains wide adoption more quickly, offers greater functionality, and opens doors to large numbers of new customers.

To sustain a mobile program over the long run requires the vision to nurture the channel, commitment from both the business and technology sides of the organization, a solid technology platform, and an innovation mindset that drives new features and functionality. Accenture's research⁶ into financial institutions that have successfully launched mobile programs found remarkable similarities in their paths to success. Some of the key elements they have in common are:

- Educate customers—make sure they understand your mobile offering and feel it is easy to take advantage of it. Use your other channels to inform customers about it, focusing initially on adoption rather than cross-selling.
- Keep it relevant and convenient—with a growing number of options to choose from, customers have little tolerance for slow or ill-conceived applications.
- Enable growth with a flexible architecture—adopt an approach that allows you to enter the market and adapt as you grow, achieving a significant market position over time. Innovate incrementally, increasing functionality and service complexity over time.
- Generate revenue through customer engagement—focus initially on driving adoption and customer engagement, then leverage these to reach new customers and to up- and cross-sell to existing ones.
- Execute with the right partner—be wary of point solutions which may become obsolete, which aren't tightly integrated with other technologies within a holistic channel strategy, and which require costly and time-consuming multi-vendor management.



Innovation—accelerating the journey to customer-centricity

So what is the insurance customer looking for? There is no single answer, because customer needs cannot be homogenized into convenient categories that correspond to particular channels. Certainly, price-sensitivity is increasing—70 percent of insurers rate this as an important or critical challenge (Figure 5). At the same time as wanting to pay less, most customers are calling for more innovation and more choice. Some may wish to conduct transactions without having to speak to another human being, while others may require personal service and advice. Many insurers are responding to these diverse and changing demands through innovation, which is transforming the industry in a multitude of ways:

- To meet the conflicting need to keep the price of mass-market products as low as possible while simultaneously providing more meaningful advice, a number of insurers are exploring assisted decision-making of the kind Amazon.com uses extensively. Prospective customers who research products online would provide some personal information, allowing the insurer to advise them that “people like you tend to buy the following products” or “they tend to make the following financial decisions”.
- Insurance being one of those products which may seem unnecessary until the danger looms, carriers have developed location-based systems which synchronize the right offer at the right time, place and price. Examples include short-duration life cover sent to travelers’ mobile phones as they arrive at the airport, or to recreational scuba divers as they reach their resort.
- Mobility is no longer confined to communication. The development of devices such as the iPad, netbooks

and other forms of tablet, has reinforced expectations of ubiquitous service availability. This is just as relevant for agents as it is for customers—Accenture has developed an iPad application which equips agents on the move with everything they need to improve their efficiency and their close rate, from time management tools to product literature, sales documentation, investment illustrations and real-time contact with the home office.

- Insurers—especially life insurers—are recognizing that in a world increasingly dominated by personal networks they need to raise the frequency of their customer touch points and adopt a more human face. Social media help them achieve both. Carriers that appear on their customers’ social networks, in their e-mail, and in their searches by virtue of search-engine optimization and pay-per-click campaigns, are creating an extended network of touch points that can significantly improve both reputation and sales. Having a presence on social networks also helps humanize the brand, and does not necessarily require an intense campaign—insurers have found that occasionally deploying a personal tweet or answering a query on Facebook shows their customers that they are open to communication and actively building a community.
- Low-income consumers in India can buy life insurance for an initial premium as low as US\$20. Subsequent micro-premiums can be paid by buying scratchcards from local retailers and then phoning in the concealed code. For larger premiums, the retailer transmits notice of the transaction to the insurer via a mobile terminal, which also issues a receipt for the customer.

- Virtualization is changing the way contact centers operate. Rather than locating hundreds or even thousands of dedicated call center personnel under one roof, customer inquiries can be routed via IP telephony and converged communications to available resources in branches or other locations according to demand. By ensuring customers, wherever they may be, can be directed to the appropriate resources, the contact center can be transformed from being primarily a source of simple advice to a much more potent life insurance sales channel.
- This can be taken further by using interactive video conferencing to connect customers with product specialists who can be located anywhere yet still provide face-to-face personal advice. An integrated document sharing function allows the customer, in an agency office, and the remote agent to view relevant literature together. When the customer accepts the proposal, the adviser is able to send the appropriate forms directly to a networked printer in the agency for the customer to sign. The documents can then be scanned and sent back to the adviser to complete the transaction.

Rapidly evolving technology is creating possibilities for rich and interactive customer experiences across all channels, with customer preferences driving the individual channel mix to suit their lifestyle and circumstances. But making channels more engaging and personalized requires a new approach to architecture that enables the single view of the customer, personalization and seamlessly integrated channel experiences.

Essential steps to achieving true customer-centricity

Notwithstanding difficult business conditions, life insurers recognize that to achieve growth they have to act decisively. Customer bases have become less dependable than ever, while new technologies are giving early adopters a big competitive advantage. The net result is major shifts in market share for those which act decisively, along with other benefits such as increased distribution efficiency.



We at Accenture believe the keys to high performance include the provision of a clearly differentiated, more meaningful customer experience. Most carriers would acknowledge that their products can no longer provide sustainable differentiation. Many would also concede that the advice that accompanies their mass-market products is so standardized as to offer little personal value, while their affluent customers are moving away from commission-bearing advice-intensive products, preferring to retain independent advisors on a flat fee.

Which is why the focus must shift to a tailored, branded, scalable multi-channel experience—but this will not be easy. Most organizations are structured with an alignment of budgets, profit and loss, and influence within product silos. This product-centricity is reinforced by their operating models, processes, governance and infrastructure.

Segmentation

To acquire customer-centricity many firms begin with analytics and segmentation, which allow them to concentrate on go-to-market strategies based on insight-driven, actionable customer segments and business priorities. Accenture's Consumer-Driven Innovation Survey

confirms that the majority of insurers are currently investing in analytics, and in the ability to improve segmentation and provide customers with a tailored experience—and they intend to continue doing so.

Creating the experience

The next step along the journey to customer-centricity is the creation of offers and experiences that evoke positive responses from the respective customer segments. This can be more challenging than it sounds, as most organizations lack the operating models, the technology, the infrastructure and the people to maintain a consistent, personalized experience across all of their channels. An independent survey by ClearAction⁷, among business-to-business firms, found that half of top executives believe customer experience management is a competitive differentiator and influences major decision-making. However, only 20 percent of these firms have implemented customer experience management as a formal business process and only 28 percent of their executives base their strategic decisions on customer experience or customer lifetime value.

Operating model & technology

One of the first challenges in changing the operating model is the need to separate product manufacturing and distribution, as the former is measured in terms of optimized unit costs while distribution seeks to maximize the value of the relationship for both the customer and the company. Technology also needs to be reviewed because many insurers, overly reliant on face-to-face distribution, have allowed their front-office and end-user delivery capabilities to lag those of innovators in their own and other service industries.

Talent

Sales agents will continue to play a central role in the new customer-centric insurance model, but the management of this talent must change. Sales and service personnel should be aligned to specific customer segments, using demographic and personality traits (among others) to ensure an effective match. "Ownership" of the customer must transfer from the respective product groups to the segment owner. And technological advances must be harnessed to change the nature of collaboration, so that expertise can be organized and utilized in new ways.

Measurement

The final step in the creation of a differentiated customer experience capability—and the first in continually enhancing this capability—is keeping score. Measuring and analyzing customer responses not only make it possible to understand how tailored experiences are driving business results; they also enable segment managers to identify trends and shape new offer and experience hypotheses. In this way they can progressively refine their offers and experiences, and take the organization closer to industrializing its ability to deliver meaningfully tailored experiences.

These measures, taken together, will significantly raise the effectiveness of the carrier's sales operation, improve its distribution efficiency, and create a sound platform for innovation that meets its customers' needs. It will shift the insurer, in the eyes of its customers, from being a self-interested vendor of a grudge product to a trusted advisor that offers to protect their well-being and their future.

To find out more about Accenture's Consumer-Driven Innovation Surveys, and other information on the role of technology in insurance distribution, visit our website at www.accenture.com/insurance.

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Accenture is a global management consulting, technology services and outsourcing company, with approximately 236,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

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