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The Life Insurance Challenge

Battling Customer Indifference while Increasing Customer Satisfaction

• Consulting • Technology • Outsourcing

New strategies and technologies hold the key to customer acquisition and retention

Life insurers around the world face a difficult challenge. A new Accenture survey (see alongside) reveals that although the majority of customers are reasonably content with the service they receive, satisfaction levels have declined. What is more, customers are more able and willing than ever to switch providers.

To differentiate themselves and attract those customers who do not feel bound by ties of loyalty, carriers would have to offer keener pricing, better products and enhanced service—in short, more value for money. However most insurers have been striving for years to reduce their costs, so it is not easy for them now to offer their customers more for less—and certainly not if they try do so using current practices.

Fortunately, new technologies and strategies have made it possible for insurers to transform their cost structures, improve their understanding of their customers' needs, and deliver more customized and competitively priced life insurance products and services. These should go a long way toward addressing high customer attrition rates, and attracting new customers who are predisposed to switch carriers.

Tracking consumer attitudes and buying behavior

The Accenture Global Consumer Survey, conducted toward the end of 2010, was the latest in a series of surveys which have been tracking consumer attitudes and behavior since 2007. More than 5,800 respondents in 17 countries completed the online questionnaire, which gave them the opportunity of providing their input on any four of 10 different industry sectors. Just under 1,300 completed the life insurance section.

Among the most important findings are:

- When it comes to life insurance, consumers' knowledge and involvement are limited
- While 85 percent are satisfied with the service they receive, not quite as many—only 74 percent—say they feel loyal to their insurance providers
- The intention to "buy more" is low (18 percent), and 26 percent consider shopping around for better deals
- 28 percent believe there is no great barrier to switching
- 31 percent changed their provider mix in the past year—19 percent added a new provider, 12 percent dropped a provider
- The most important reasons for switching are recommendations, value and tailored service
- Consumer satisfaction, loyalty, advocacy and intention to purchase are generally lower for insurance than other services

Customers are disinterested and disengaged

Accenture's latest Global Consumer Survey paints an interesting picture for life insurers, as Figure 1 shows. While the overall level of satisfaction, at 85 percent, is quite high, only 27 percent agree strongly with this sentiment—significantly lower than the 34 percent recorded in the 2009 study, and the lowest among the 10 industry sectors surveyed. No more than 11 percent say they have a real interest in the industry, and only 18 percent claim to know much about the providers who are competing for their business.

Loyalty too is low—only 21 percent feel very loyal toward their insurance providers, compared with 30 percent who stand by their bank.

Given the nature of the product, it is not surprising that few insurers have managed to establish a secure, committed customer base (Figure 2). While most have done nothing to offend their customers, they have also not won their support—only 23 percent of consumers would definitely recommend their insurers to others, no more than 17 percent intend to purchase more insurance from their existing providers, and 26 percent would definitely consider shopping around for better deals before taking out another life policy. Nor are insurers protected by "the hassle of switching"—only 28 percent of consumers would stay with a provider that fails to meet their needs, rather than put up with the inconvenience of finding and engaging a new provider.

This lack of commitment is borne out by recent buying patterns (Figure 3). Almost one in three respondents changed their life insurance provider mix in the past year—12 percent

Figure 1. Consumers' attitudes to, and involvement in, life insurance and its providers.

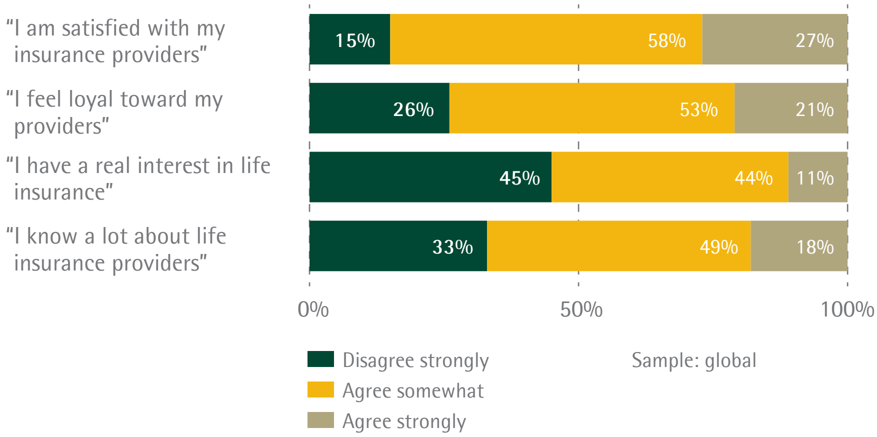


Figure 2. Consumers' intentions with regard to life insurance.

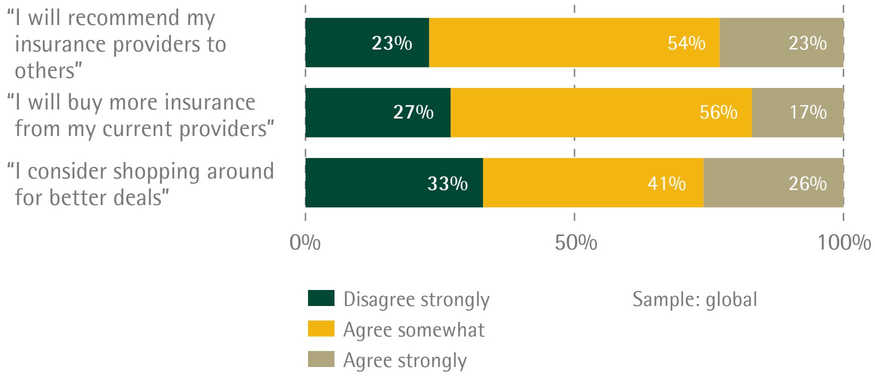
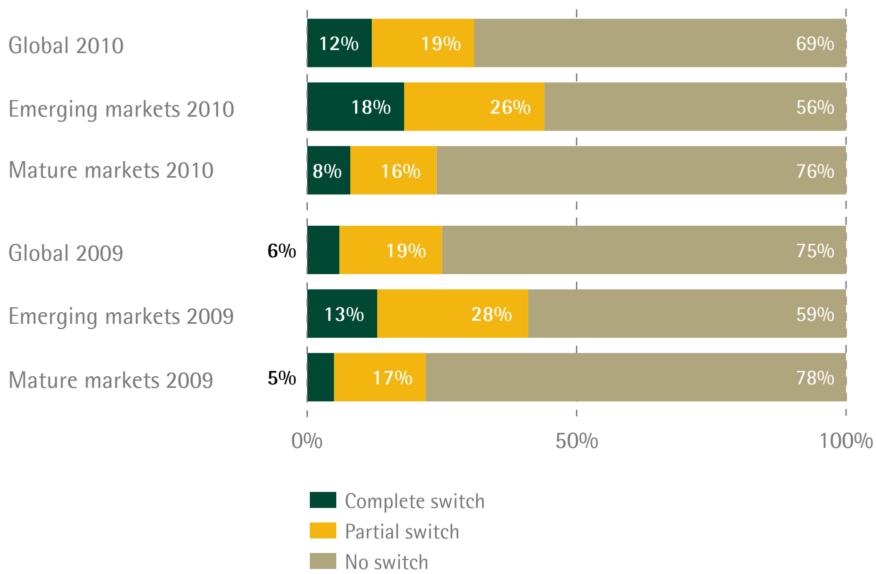


Figure 3. Consumers who switched providers "in the past 6 to 12 months".



Complete Switch: Stopped doing business with a provider and switched to another.
Partial Switch: Continued doing business with a provider but added another provider.

terminated their relationship with an insurer (complete switch), while 19 percent found a new insurer to buy from (partial switch). Taken together, the incidence of switching rose from 25 percent in 2009 to 31 percent a year later.

In this highly fluid marketplace, the most important factors likely to cause an insurance customer to switch providers are the recommendations of others, value for money, and a tailored customer experience (Figure 4).

The importance of factors not directly related to price should not be under-estimated. Consumers say they are not willing to sacrifice product quality (67 percent), customer service (54 percent), or product options (47 percent) in exchange for lower prices.

Survey respondents, to a greater degree than in 2009, said that technology plays an important role in building their awareness of products and services, as well as improving their experience in dealing with customer service issues (Figure 5). While word of mouth, at 76 percent, remains the most common means of gaining information—and is considered most important when deciding whether or not to do business with a service provider—the concept now includes social networking. Across all industries, one in four consumers say they trust the comments about companies and brands posted by people they know.

Figure 4. Why life insurance customers switch providers.

Sample: global

Figure 5. The increased use of technology has improved consumers' awareness of products and services, as well as the quality of the service they receive.

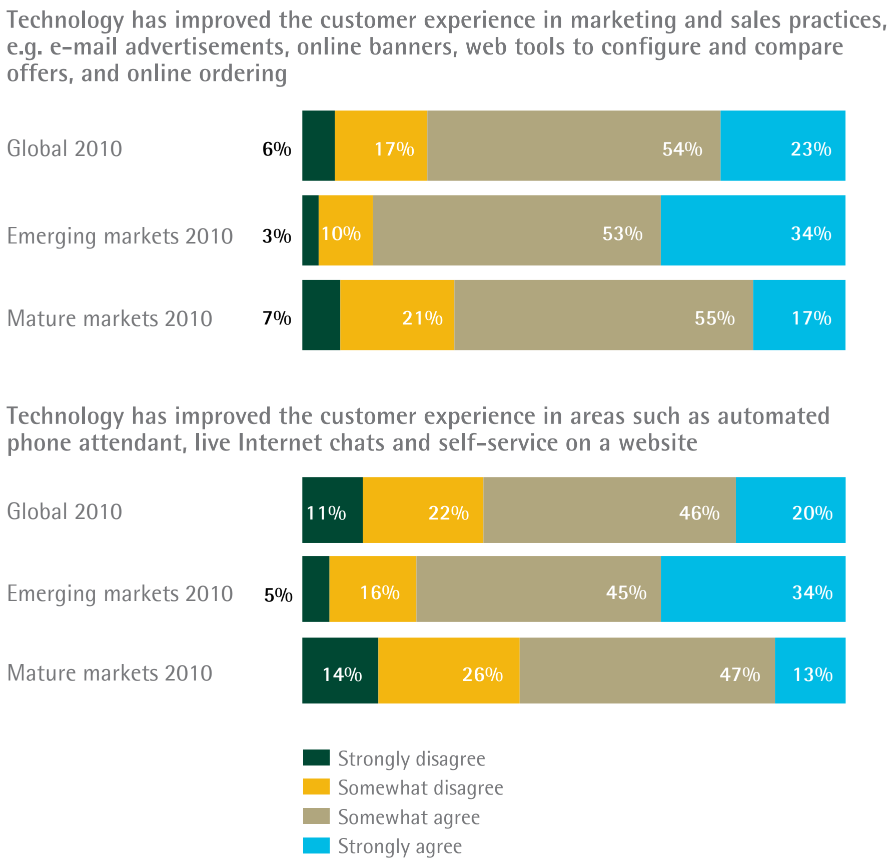


Figure 6. How consumers feel about life insurance, compared to other services.

	Satisfaction with Providers: Not at all	Satisfaction with Providers: Very much	Loyalty to Providers: Not at all	Loyalty to Providers: Very much	Will Buy More from Existing Providers: Not at all	Will Buy More from Existing Providers: Very much	Will Recommend Providers to Others: Not at all	Will Recommend Providers to Others: Very much
Travel and Tourism	9%	31%	24%	20%	14%	24%	12%	33%
Life Insurance Providers	15%	27%	26%	21%	27%	17%	23%	23%
Consumer Goods Retailers	7%	32%	22%	20%	10%	28%	11%	30%
Consumer Electronics Manufacturers	7%	28%	23%	18%	11%	24%	12%	29%
Retail Banking Providers	13%	36%	22%	30%	21%	24%	20%	32%
Internet Service Providers	14%	31%	23%	22%	25%	18%	19%	29%
Cable/Satellite Service Providers	15%	31%	27%	23%	28%	17%	22%	27%
Landline Phone Service Providers	16%	28%	25%	21%	29%	13%	24%	22%
Wireless Phone Service Providers	14%	35%	26%	24%	25%	20%	21%	29%
Gas and Electric Utility Providers	16%	29%	31%	21%	33%	14%	29%	21%
Global average	12%	32%	25%	23%	22%	21%	19%	28%

Sample: global

Service providers in most industries have suffered from comparisons with online pure-play vendors such as the iconic Amazon and Apple's iTunes Store, which have raised consumer expectations of prompt, efficient and customized service. This may, to some degree, explain the low levels of engagement with insurance providers—when it comes to customer satisfaction, loyalty, willingness to recommend their provider and intention to purchase, the industry scores at the low end of the range for the 10 industry sectors surveyed (Figure 6).

While satisfaction levels vary considerably from country to country, with no clear distinction between mature and emerging markets, customers' intention to purchase additional insurance from their current providers is markedly higher in emerging than in mature markets.

Different markets, different priorities

The Accenture consumer survey was carried out in 17 countries worldwide. It is hardly surprising that the findings from mature markets are different from those coming out of the emerging markets. What is unexpected is the degree to which individual countries vary.

For example, when it comes to life insurance customers adding a new provider to their portfolio (partial switch), an average of 16 percent from mature markets said they had done so "in the past six to 12 months", compared to 26 percent from emerging markets. The difference is even more marked with regard to customers who had terminated a life policy with one provider and replaced it with another from a different provider (complete switch): 8 percent in mature markets and 18 percent in emerging markets.

The reasons for switching also differ widely. With regard to partial switching, the two most important motivators, across all geographies, are recommendations from others (38 percent) and greater value for money (33 percent). However, in the UK, Australia and Japan, not a single respondent mentioned recommendations as a reason to switch—price is the most important factor in the UK, 64 percent of Australians rank a tailored customer experience as the main cause of partial switching, as do 20 percent of Japanese customers.

The two most important reasons for making a complete switch, across all countries, are competitive pricing (46 percent) and value for money (39 percent). Endorsement of these two closely related factors ranged from the highs of Japan (100 percent for pricing and 100 percent for value) to much lower levels in other mature markets (Canada 40 percent and 20 percent; Australia 43 percent and 14 percent) as well as in emerging markets (Brazil 42 percent and 25 percent; India 39 percent and 50 percent; Mexico 25 percent and 30 percent).

Increasing consumer involvement and building loyalty

On one level, the Accenture Global Consumer Survey results point to continuing difficulties for life insurers. Consumers have little involvement with their life insurance providers, their interest levels are low and they are unlikely to recommend their provider to others.

This, however, also represents a major opportunity for life insurance providers to "get it right". According to the Trends in Life Insurance Ownership study by LIMRA, life insurance ownership in the U.S. has hit a 50-year low—three in ten U.S. households carry no life insurance at all, and half now believe they are underinsured. In addition to traditional markets, there is vast potential among the large numbers of prospective new customers who are emerging due to the economic growth of markets such as India and China.

Accenture believes that life insurance providers can build customer involvement and loyalty; establish competitive differentiation; and increase referrals by undertaking the following initiatives:

Listening to the Customer

Other industry sectors such as retail are investing considerable sums in analytics and other innovative technologies designed to provide penetrating insights into customer buying patterns, shopping habits and preferences. Insurers have under-invested in such technologies at a time when customer expectations regarding service and delivery are higher than ever. Online retailers such as Amazon have "trained" consumers to expect broad choice, aggressive pricing, and rapid shipping, with personalized service across the full range of distribution channels.

There are numerous opportunities for insurers to collect and analyze customer information to improve the range and quality of products offered; to refine pricing strategies; and to develop an effective array of distribution channels. Technologies including business intelligence, descriptive and predictive analytics, and data mining can help life insurers improve both their decisions regarding new products and their levels of customer service. At the next level, analytics can help life insurers identify customers who are in danger of making a full or partial switch to another insurer, and can identify appropriate actions to head off such decisions.

The widespread use of social media provides another opportunity for life insurers to increase their understanding of what customers want. Through billions of online conversations, postings and inquiries, customers leave what social media experts call "narrative bits" or, more familiarly, "narbs." Carriers need to establish effective listening posts to understand these and to understand the behavior of the many interest-specific communities fostered by social media. Ultimately, life insurance providers must develop social media strategies and policies that coordinate brand positioning, product offerings and distribution channels to capitalize on social media's power to reach and engage both existing and prospective customers.

Retailers and other industry sectors have achieved much broader acceptance of loyalty programs among consumers than have life insurers. Accenture's research suggests that, although life insurance loyalty programs are as persuasive as programs in other industries, adoption of such programs is lower in life insurance than in any other sector. There is a simple reason for this: Few life insurers offer such programs. The high uptake of loyalty programs in industries such as retailing, wireless phones, Internet service providers, retail banks and airlines, however, indicates that loyalty programs may be a worthwhile area for life insurance providers to explore. Property and casualty insurers often offer discounts to customers who buy automobile and home insurance from the same carrier; life insurers could provide discounts for a customer who buys long-term care, an annuity and a life insurance policy from the same company. Brokerage firms and mutual fund companies provide other types of volume discounts.

Creating (and Delivering) the Right Product Mix

Life insurers have not perfected their ability to approach the right customer with the right product offering. For instance, younger customers (say in the 35 to 45 age bracket) are often interested in single-premium insurance products that build cash value quickly if the principal is not touched for 10 to 20 years. Other customers may want to purchase only the simplest and cheapest of term life policies. Older customers with substantial assets may have complex needs involving estate planning or the provision of long-term care. Pressures on state-supported pension systems have caused many people to re-examine life insurance and annuity products as a way to build wealth and diversify their primary retirement portfolios.

Changing global demographics and income patterns have created significant opportunities for life insurers. Rapid growth is fuelling rising employment and incomes in emerging economies, creating a large group of potential new customers. The global middle class is expected to grow from 1.7 billion to 3.6 billion people between 2010 and 2030. While the middle class in countries such as China and India is growing, the population in developed countries is aging rapidly, with life expectancies lengthening. Life insurers can benefit from these trends, but they must have the operational agility required to identify specific opportunities and to act upon them quickly.

Many insurers, however, lack the customer profiling capabilities necessary to quickly match such products with high-potential customers. Agents and customers both waste time because the first face-to-face meeting is devoted to establishing the customer's needs, when a simple interactive "app" designed for a tablet computer or smart phone could ask the same 20 or so questions that the agent might otherwise ask in the first meeting. With this information already on file, the first crucial meeting can be devoted to addressing the customer's real needs. Of course, innovative screening tools will match the customer to the appropriate channel, which, depending on the customer's requirements, may be a web-based purchase, a visit to a local office, a telephone consultation via a call center, or a meeting with an agent with specific experience in a complex area.

The "flip side" to such distribution technology can be found in the customer's ability to compare product offerings online or, increasingly, through mobile applications. Life insurance has become an extraordinarily complicated product and even sophisticated consumers can become confused during the sale/purchase cycle. The availability of online information makes it easier for consumers to compare offerings, but it also puts pressure on agents and brokers to know their own products as well as what their competitors are offering.

Getting the Right Systems in Place

Life insurers are highly reliant upon their product development and policy administration systems, but many of these are unable to support the demands of an aggressive program of product segmentation, new product development and upgraded distribution channels. Annuity and investment products require significant additional support.

Accenture research* conducted in 2010 indicates that insurers need to spend approximately $84 million on their distribution and customer-facing technology infrastructure over the next three years to at least be on par with the average investment in the industry. Carriers have invested in point solutions to explore the potential of innovative technologies such as mobile, social media and digital marketing, but rarely have they linked front- and back-office capabilities to provide a comprehensive, strategic whole. The lack of coordination drives up the cost of technology ownership and slows down the insurer's ability to develop and deliver new products.

It is becoming increasingly clear that, in terms of systems, few life insurers have in place what they will need to build customer loyalty and grow sales. They need an integrated architecture that encompasses policy administration and claims, but that also supports multi-channel distribution through social media monitoring, customer relationship management, data collection and advanced analytics.

*Accenture Global Multi-Channel Insurance Distribution survey, 2010

Adapting to a changing environment

One of the long-standing maxims about the life insurance business is that life insurance was a product that was sold, not bought. The key moment for the insurer and the customer alike came when the agent sat down with the prospective customer to make the sale. Once the sale was made, however, the ongoing relationship between insurer and customer became episodic at best. In many cases, customers have no contact with their life insurance provider unless there is a death in the family.

This scenario is changing, and quickly. In addition to a broader and more suitable range of products, customers want more interaction with their life insurance providers at regular intervals. The question is whether life insurers can adapt rapidly enough to higher customer expectations.

Those that provide a tailored experience with the right levels of customer contact—through channels of the customer's choosing—will see sales growth and, over time, higher levels of customer engagement and loyalty. Those that do not will lose business, not only to established competitors, but to new players that are taking advantage of innovative technologies to exploit the opportunities presented by global changes in demographics and household economics.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 215,000 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$21.6 billion for the fiscal year ended Aug. 31, 2010. Its home page is www.accenture.com.