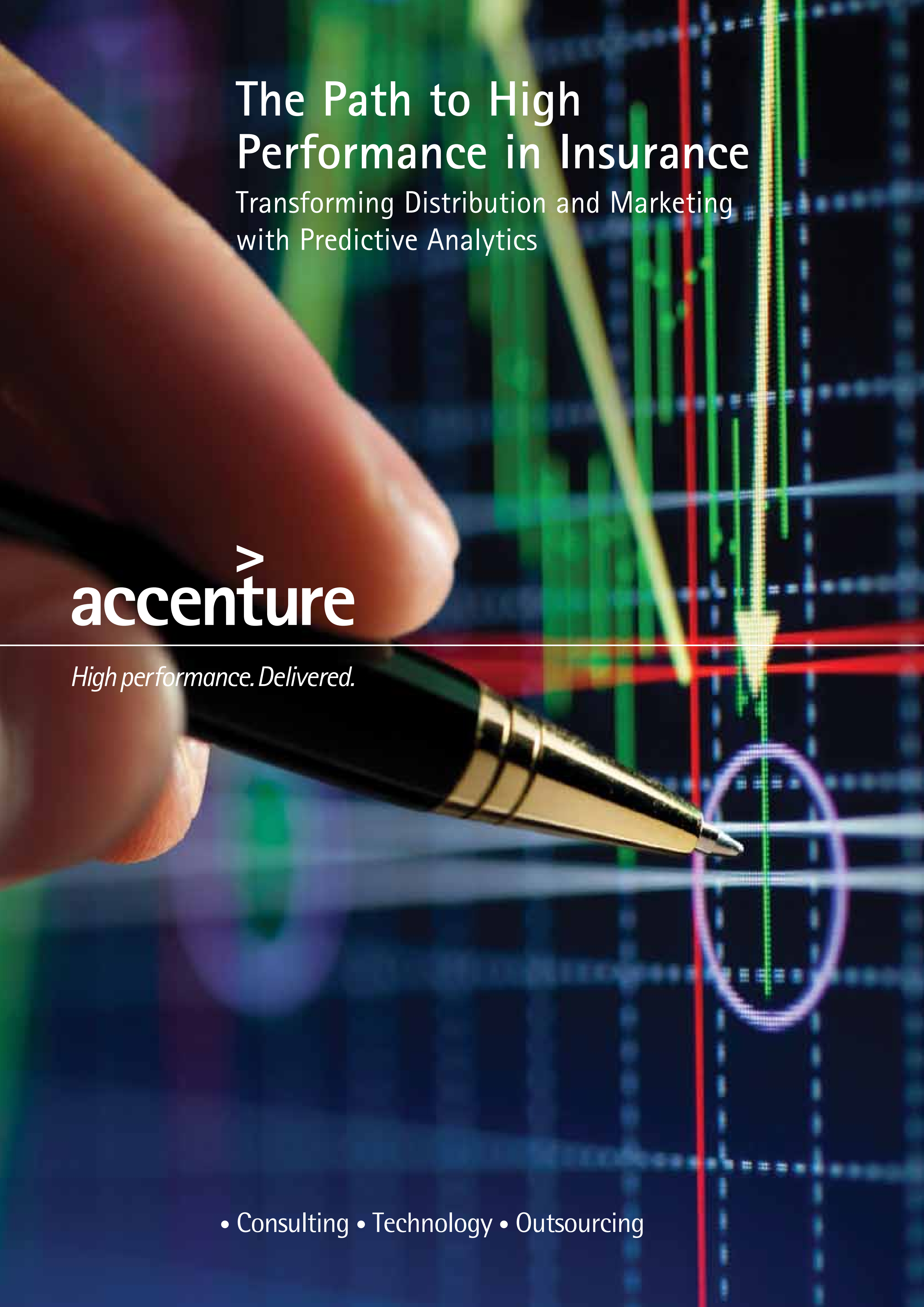
The Path to High Performance in Insurance

Transforming Distribution and Marketing with Predictive Analytics



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Accenture's 2010 Multi-Channel Distribution Executives Survey shows that insurers are relying on customer acquisition and retention, as well as more cross- and up-selling, to drive their growth in years to come. Yet, according to the same research, many insurers believe their existing distribution capabilities prevent them from providing a differentiated customer experience—a critical component of successful customer acquisition and retention strategies. Not surprisingly, then, our research also reveals that more than half of insurance customers are willing to leave their present providers when they buy their next policy.

While the customer experience will be a critical element of insurers' efforts to retain and sell more and different products to their customers in the coming years, insurers face a significant challenge: Consumers are embracing an ever-widening array of channels and technologies, and agents often leave a given insurer before they have generated substantial business value. With channels and agents in flux, optimizing the customer experience becomes significantly more difficult.

For a growing group of leading global insurers, predictive analytics is providing novel solutions to these challenges. Predictive analytics allows insurers to convert data into usable insights on customers, agents and markets, as well as craft effective, fact-based strategies that drive sustainable growth. By mastering predictive analytics, insurers can understand and realize their greatest market opportunities, create a sales force optimized for long-term growth, provide valuable tailored offers to their best customers and, overall, make substantial gains against the competition.

Distribution: A Cornerstone of Growth for Today's Insurers

Insurers in many countries are struggling to determine how to reignite profitable growth in the wake of the financial crisis. For half of insurance executives, growth will come mainly from new customers. According to Accenture's 2010 Multi-Channel Distribution Executives Survey, 50 percent of the C-suite insurance executives interviewed said their primary driver of growth in the next three years will be improved customer acquisition. The remainder are split between the belief that improved retention will generate most of their growth (28 percent) and that growth will result from an increase in cross- and up-selling (22 percent).

Transforming the distribution channel is critical to achieving these growth ambitions. In particular, there is notable agreement among insurers participating in the Accenture study that tomorrow's market leaders will succeed in four key areas:

Building meaningful differentiation

With nearly two-thirds of insurers reporting their current distribution model will not allow them to perform at a higher level than their competitors in most areas, providing differentiated customer experiences will be a formidable challenge.

Focusing on customer responsiveness

Eighty-four percent of insurers told us that changes in customer needs and channel preferences are a key driver of their investment decisions—rated second only to the emergence of new technologies.

Providing customized experiences

According to 89 percent of insurance executives, customer acquisition and retention over the next three years will depend heavily on their ability to deliver customized experiences to their different customer segments.

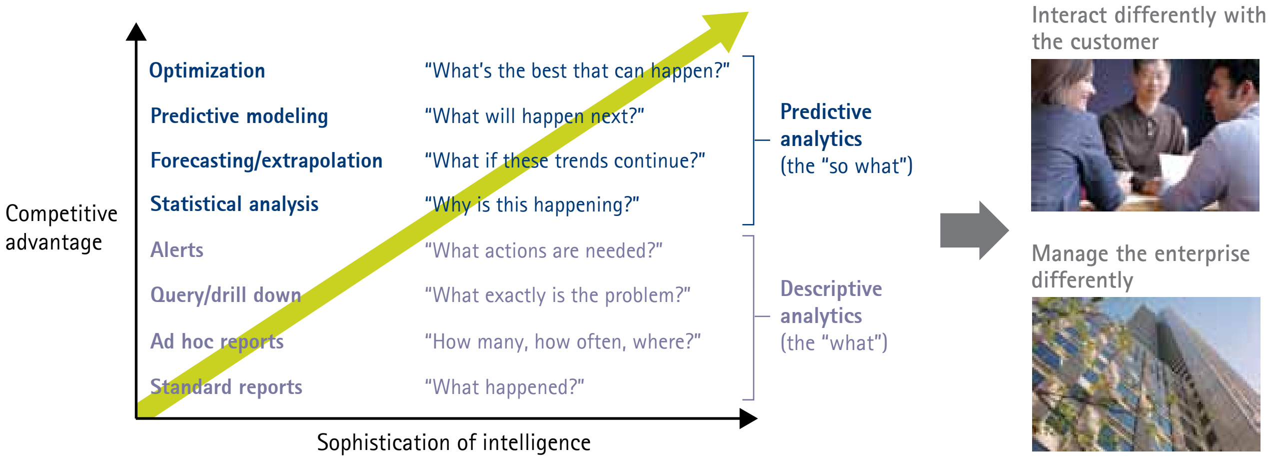
Seizing market share

Demand is expected to remain soft for the foreseeable future, with continuing resistance to premium increases from customers. In this environment, the insurers that grow the fastest will win share from competitors, attracting new customers to their ranks while minimizing attrition.

In other words, to achieve profitable growth today and in the future, insurers must develop multi-channel distribution models that are more versatile, better integrated, and have the inherent flexibility required to adapt easily and quickly to ongoing change—which is the only certainty most insurers face.

Transforming Distribution through Predictive Analytics

Figure 1. How insurance companies can use analytics to drive competitive advantage.



Source: Competing on Analytics: The New Science of Winning (Davenport/Harris)

Advanced analytics can play a key role in these efforts by providing much deeper insights into customers, agents, markets, channels and marketing campaigns, thereby helping insurers plan, execute and sustain distribution transformations that make the most of precious attention and resources.

Indeed, Accenture's ongoing research into the characteristics of high-performance businesses has 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. Accenture research also shows 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.

When it comes to insurance distribution, the use of predictive analytics is still evolving. However, it offers tremendous potential to enable leading carriers to focus on the "so what" of their operations rather than simply the "what" (Figure 1). In other words, while descriptive analytics enables insurers to understand the state of a particular situation, predictive analytics can help insurers determine the impact of that situation on their business and devise appropriate ways to respond. When applied to insurance distribution, analytics helps insurers determine which customers offer the best growth opportunities, which markets they should focus on and, ultimately, which agents they should hire and deploy to unlock their full performance and growth potential.

Understanding customers

Consider first the ways in which analytics can boost customer value. At a high level, predictive analytics empowers insurers to invest in the best growth opportunities by using data from across the enterprise to make accurate predictions about customer behavior. Insurers can, for instance, use predictive analytics to segment their customers into homogeneous groups sharing similar traits, needs and expectations. Such segmentation allows insurers 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.

The top 10 reasons insurers should integrate analytics into their distribution strategy

1. Adjust to the changing behavior and expectations of the new generation of insurance customers.

2. Focus on retaining customers in this difficult market landscape.

3. Elevate your customers from "Silver" to "Platinum" by cross-selling and up-selling.

4. Focus on making agents relevant to your new breed of customers.

5. Ensure agents are focusing on the appropriate market segment.

6. Develop a transition strategy for your aging agent population.

7. Gather insight into target markets.

8. Align customers to the right channels.

9. Align customers to the right products.

10. Align agents to the right customer, in the right market, for the right product.

Predictive analytics also allows insurers to understand which of these customers are likely to generate the largest profits, which are most amenable to up-selling and cross-selling, which will be the most loyal, and which are at the greatest risk of desertion. The end result: The insurer knows with more certainty whether or not a customer is worth keeping, how much investment in that customer is justified, and how to fortify strategies for winning and retaining the most valuable customers. Armed with such information, insurers can make better decisions about marketing campaigns, customer relationship tactics, and customer and product segmentation strategies.

Consider, for example, a customer who calls his auto insurer to cancel his policy. When asked by the insurance company why he is canceling his policy, the customer reveals he recently married and is planning to join his wife's coverage, which he perceives to be superior to his own. Using predictive analytics, the insurer is able to offer the customer a more competitive policy that will cover his wife as well. The insurer also is able to provide scenarios of people in similar demographic brackets and the choices they have made, as well as portfolios of multiple insurance products (auto, home, etc.) that could be used in concert to provide the new couple with better overall coverage. Indeed, predictive analytics is a powerful way of pinpointing such opportunities for cross-selling and up-selling. It may, for instance, uncover an opportunity to sell a larger life insurance policy or additional coverage that matches lifestyle changes—for example, having children and buying a larger home. In other words, predictive analytics not only can help the carrier retain this customer, but boost its share of his wallet as well.

Targeting the right markets

In addition to enabling growth strategies tailored to such specific customers and segments, predictive analytics empowers insurers to optimize their market share, customer mix, and territory development plans. For instance, insurers can utilize predictive analytics to perform what Accenture terms fair market share analysis, which illuminates the size of a given customer pool and the ways in which it can be segmented. Fair market share analysis also helps determine whether the insurer has the right portion of the available customer pool, and how producer resources should be allocated to improve share.

And, once the potential of a given territory is known and broken down by segments, insurers can use predictive analytics to determine the optimal customer mix and drive the development of their marketing strategy. For instance, predictive analytics can

How predictive analytics can transform end-to-end distribution management for a forward-thinking insurance carrier

When Joe Armstrong, a 35-year-old salesman from Atlanta, learned his wife would be having a baby, he knew his life would change in many ways. In particular, Joe became aware of his suddenly greater responsibility to take care of his young and growing family. Aware that life insurance could help him provide long-term support for his family, Joe began an Internet search for coverage.

One carrier stood out from the rest due to its provision of "people like you" scenarios involving people that Joe could relate to in terms of key demographic factors and circumstances. So when the carrier asked him to provide more information about his situation and goals, Joe was pleased to oblige.

Via predictive analytics, the carrier utilized this information to present Joe with a variety of options that were tailored to his specific needs, and informed him that a local agent would soon be in touch.

Indeed, the next day Joe was contacted by Anita Campbell, a representative close to Joe's home who was completely aware of his insurance requirements. Anita was able to send Joe several detailed scenarios that would address his requirements using a variety of insurance products. Impressed by the degree to which Anita understood his needs, Joe arranged an appointment, during which Anita used her tablet device to not only discuss life insurance products, but also 529 plans for the new baby's education and long-term care insurance for Joe's aging parents.

In sum, thanks to predictive analytics Joe received highly customized and relevant service, while the carrier was able to leverage specific, high-probability up-sell and cross-sell opportunities.

help insurers determine which products should be offered to which customer segments within a territory, as well as how marketing resources can be allocated optimally.

Accenture's Fair Share Analyzer is an example of one such analytics-based tool that can help insurers gain insights into which markets are over- and underserved, and on how the insurer can adjust its strategies accordingly. For example, an insurer may discover that while one territory has significant revenue potential for life insurance, the insurer has only a fraction of its competitors' shares in that region. Conversely, an insurer can identify where it is over-represented in territories that have limited revenue growth potential. Such insights allow the insurer to create highly targeted, fact-based market development strategies.

Hiring and deploying the right agents

Perhaps the most powerful impact of predictive analytics is the way leading insurers can use it to transform their approach to hiring, training, and deploying agents. As alluded to earlier, for many insurers high agent turnover compromises returns on HR investments. Furthermore, lacking clear insights into which hiring and staffing strategies will help them make the most of their best opportunities, insurers sometimes are forced to take a haphazard approach to staffing and agent development.

Using predictive analytics, leading insurers can overcome these hurdles. Insurers can use the approach to determine which specific agent characteristics drive revenue growth, and then develop recruitment and training programs to disseminate those qualities throughout the sales force. Predictive analytics also can indicate which agents are successful under what conditions, allowing insurers to place the correct agent in the correct territory (and serve the right customer segment with the right products), and thereby maximize revenue. An additional benefit of such analytics is the way in which it enables an organization to determine which qualities are most important for success in a given territory, and tailor recruiting and onboarding practices accordingly.

One analytics tool that can improve agent performance is Accenture's High-Performance Sales Force Analyzer (HPSFA), which can give insurers a detailed profile of the specific characteristics of their best agents on a territory-specific basis. Insurers then can use this profile to hire and retain high-potential agents who match that profile, as well as institute training and performance management programs that encourage and enable all agents to emulate the behaviors, attitudes, and attributes of high performers within their organization.

Five Steps Toward Stronger Analytics

Unfortunately, most of today's insurers lack the capabilities required to improve their distribution capabilities using predictive analytics. Indeed, while insurance companies pioneered the use of predictive analytics in the areas of pricing, mortality and reserving for risk, they have fallen short of consumer product companies in aggregating customer information and using it to tailor products, prices and channels to specific customers. To begin building a robust analytics capability, insurers should consider following an approach that includes five basic steps.

- First, insurers must understand their data, ensuring high quality levels for internal data and using creative approaches to sourcing external data. In many cases, insurers can benefit from adopting an enterprise-level data sourcing approach, along with a standardized insurance data model.
- Insurers also must cultivate a strong focus on business problems instead of on technology. This means developing a solid business case based on business needs, driving analytics through a transparent modeling environment, incorporating business insights back into business processes, and viewing technology as an enabler for the needs of the business.
- Similarly, when it comes to the third critical step—selecting appropriate technology—it is vital to focus not on "bells and whistles," but rather on which functionalities are essential to achieving business goals. Overall, insurers should use simplicity as a driving principle of their technology strategies.
- Along with simplicity and a strong business focus, insurers should take an enterprise approach to analytics, creating a formal enterprise analytics organization, and hiring professionals with the right skills to staff the organization. This is an important step toward eliminating a "silo" approach to analytics, which can impede an insurer's ability to look across all of its data sources to make better decisions for the enterprise as a whole.
- With these four foundational steps behind them, insurers ultimately should consider the intelligent use of outsourcing. Working with a dedicated analytics specialist can help insurers reduce their costs, gain access to a stable yet scalable pool of seasoned talent, and dramatically shrink the amount of time required to begin benefiting from cutting-edge analytics capabilities and tools. Importantly, analytics outsourcing vendors should be selected based on their alignment with the insurer's business strategy and on their deep insurance business process knowledge—not just their technology talent.

Laying a Foundation for Profitable Growth

Growth will not come easily for many of the world's insurers in the next few years. Accenture research shows that customer loyalty is weak at best. At worst, customers' willingness to switch providers will undermine many insurers' plans to boost customer revenue and loyalty. However, the ways in which insurers distribute their products is an important bulwark against customer attrition, and is a critical foundation of growth. By deploying the right products and agents against their most promising opportunities, insurers can separate themselves from the competition and achieve sustainable growth.

To do so, they will revamp their existing distribution capabilities and gain the ability to provide differentiated value. They also will hire agents on a strategic basis, and not haphazardly, and strive to integrate and utilize the data they possess regarding customers, agents, and markets.

Predictive analytics can help. This powerful approach to transforming data into usable insights can enable insurers to win and retain the best customers, improve the effectiveness of their agents and other channels, optimize their customer and product segmentation strategies, and provide customers with additional products that meet their wants and needs. In sum, by incorporating predictive analytics into their operations, leading insurers can lay a strong foundation for profitable growth and high performance.

About Accenture Analytics

Accenture Analytics delivers the insights that organizations need to make better business decisions, faster. Our extensive capabilities range from accessing and reporting on data to predictive modeling, forecasting and sophisticated statistical analysis. We have more than 20,000 analytics-skilled people with deep functional, industry, business process and technology experience. At the intersection of business and technology, Accenture Analytics enables organizations to achieve the business outcomes that drive high performance. For more information about Accenture Analytics, visit www.accenture.com/analytics.

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.

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