

The journey toward greater customer centricity



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Advances in **technology** and communication, combined with the **explosive growth** in data and information, have given rise to a more **empowered global consumer**.

Executive summary

Advances in technology and communication, combined with the explosive growth in data and information, have given rise to a more empowered global consumer. Recent economic and political events highlight the need for insurers to understand how consumers view the world and the most important attributes for their purchasing decisions.

Our discussions with global insurance executives, non-executive directors and regulators corroborate this view and demonstrate, without exception, that the challenge of responding effectively to rapidly changing consumer needs is one of the top strategic agenda items, alongside regulatory change and talent management.

In our Ernst & Young Global Consumer Insurance Survey 2012 report, *Voice of the customer*,¹ we learned about the value of customer centricity and why it is so important to an insurer. Our survey probed customer attitudes and behaviors to determine how customers view and interact with the industry, as well as their expectations for the future. Our findings confirmed that those insurers who respond best to what customers want now are most likely to succeed. A clear understanding of customer needs and behaviors across the organization will help drive profitable growth strategies and provide the confidence to invest in opportunities at a time when staying within budget is extremely difficult.

In this paper, we explore how technology is changing consumer dynamics and show how insurers have an opportunity to influence persistency, retention and expectations through improved

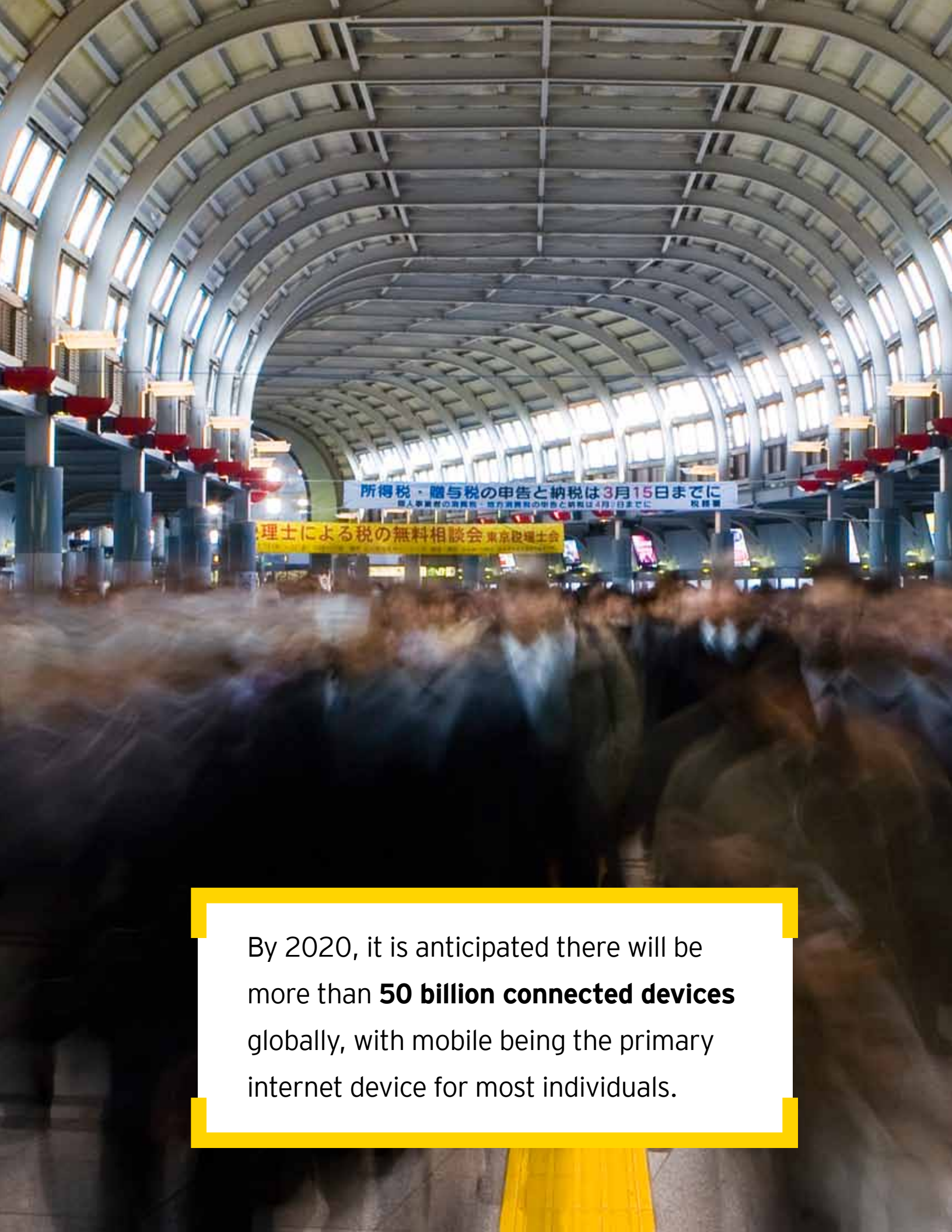
customer engagement. We discuss the strategic paradigm and operational areas where insurers can become more customer-focused: developing customer-centric models, applying advanced segmentation and data analytics to design an effective customer experience, harnessing the power of digital in an integrated channel strategy, and shifting to a new culture of innovation that will drive growth and competitive advantage.

The journey to customer centricity will not be an easy endeavor. In building a strong foundation for the future, insurers will need to focus on a new set of core principles to redefine relationships. There will be many challenges in developing the critical new capabilities that align objectives, targets, rewards and recognition with customer needs.

We offer practical steps for insurers to consider along the way as they build momentum for customer centricity across their organizations. Some of the topics will be presented in greater detail in the months ahead. Look for a discussion of how insurers can harness digital more effectively in an upcoming 2013 report.

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1. *Voice of the customer: time to rethink your relationships*, Ernst & Young. Download at www.ey.com/insurance.



Introduction: evolving consumer dynamics

Technology is growing at an exponential rate, influencing consumer behavior and insurance marketing strategies. By 2020, 80% of the global population will have access to mobile telephony and more than 60% to smartphones or low-cost tablet computers. It is anticipated there will be more than 50 billion connected devices globally, with mobile being the primary internet device for most individuals.

Social media and unprecedented access to information, such as peer-to-peer product and service reviews, are giving greater power to consumers, creating more informed and demanding customers. These experiences are shaping consumer expectations across all sectors, including insurance.

Consumer demands and expectations

Although technology is changing the way customers engage with insurers, our survey indicates that personal interaction is still highly regarded. The complex nature of insurance products and customers' need for advice mean that some level of personal interaction will remain an important component of overall channel strategy.

Customers prefer products to be simpler and more transparent, so it is easier to make informed choices. This has implications for the role of insurance agents. In an industry where margins are coming under increasing pressure, insurers need to choose where they invest across the value chain to avoid adding extra cost while still paying agents for services customers may prefer to do themselves.

These changes are forcing a dramatic change in the business operating model, as insurers need to focus on where their sales channels add value to the end customer. This will be helped by greater transparency in the sales process and in product design.

Overall, customers are looking for value to be clearly demonstrated, reflecting a balance of price, product features and service tailored to their needs. They prefer to buy more products from companies they trust. Once they have made their choice and established a relationship with an insurance provider, they expect the provider's products and services to meet their expectations – and through their channel of choice.

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Influencing persistency and retention

Recognizing the value of the customer relationship is vital – at the point of initial sale and over the customer lifetime. Customer segmentation models, which identify those who have the highest propensity to purchase, can improve customer satisfaction, compared to traditional unfocused “product push” cross-sell efforts.

Insurers also have an opportunity to influence persistency and support retention through improved engagement with existing customers. This must be backed by flexibly designed products that respond to changing customer needs and financial incentives to reward customer loyalty – over the customer life cycle rather than just at the point of lapse.

But the key to improving persistency is removing the reasons why customers consider leaving in the first place. Use of predictive models can target customers based on likelihood of lapse and the value of retention, but “test and learn” approaches are essential to determine which interventions are most effective.

Customers are willing to build long-term relationships with their providers and purchase multiple products. However, insurers must improve the effectiveness of their communications, as well as recognize and reward the value of the relationships.

Insurers are not meeting customers’ expectations

Our *Voice of the customer* survey indicates four dimensions where insurers are failing to meet customers’ expectations: service quality, rewarding loyalty, communication and product transparency.

Consumers have a strong sense that insurers could do more to earn their trust. They tend to judge insurers against other consumer industries, expecting comparable standards of service and rewards for loyalty. Yet, in our client experience, insurers typically benchmark themselves against their peers in the industry. That’s

a big disconnect. Insurers need to continually evolve customer propositions to meet changing needs and expectations, particularly by improving information and transparency, and they need to look outside the industry to do this effectively.

The need for clarity and transparency is also driven by regulators protecting consumer interests more than ever before. Insurers that align themselves to a customer-centric model of operation will find the transition to the new regulatory environment less painful, and they may even gain a competitive advantage.

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Core principles for redefining customer relationships

In this fast-changing environment, insurers need to focus on a new set of core principles to redefine relationships with customers and transform business models. To achieve this new strategic paradigm – and the first step on the journey to customer centricity – insurers need to take the following steps.

Protect business against disintermediation: Insurers unable to understand or deliver against current and future consumer needs and preferences face the prospect of losing the connection with or being pushed further away from the end customer. Insurers need to make sure they retain a strong influence on how customers view their products and services, regardless of overall channel strategy.

Redefine customer relationships: Insurance has traditionally been a product-centric business, focused on developing the best products for a given risk and delivering those in the most cost-effective manner. Now insurers need to better understand the true needs of their customers in order to redefine the products and services they offer and the ways in which they interact and serve them. They need to know their customers better than ever and use the information and knowledge as a source of competitive advantage.

Increase productivity to gain a competitive advantage: Historically, productivity improvements were viewed as a response to adverse market conditions. Insurers typically curtail spending in times of shrinking revenue or increasing cost pressures. However, those insurers who are able to view productivity enhancements with the dual lens of improving the expense position while growing the top line will achieve a competitive advantage. As consumer expectations for better levels of customer service grow, insurers will need to navigate the challenges imposed by large-scale, paper-based legacy systems. Those carriers that are able to increase productivity through streamlined business processes and technology improvements will be able to enhance their expense positions and increase the quality of their customer service.

Diversify sources of revenue: Insurance by nature is cyclical. Non-life insurers face hard and soft pricing cycles, while life and pension sales and profit performance are affected by interest rate movements and equity market volatility. Insurers need to diversify to sustain stable top-line growth and earning fluctuations. This also affects customer centricity, as it recognizes that product performance and consumer needs shift with market conditions and life events.

Collaborate with new partners across the value chain: The shift from pushing products to delivering solutions often requires insurers to develop new capabilities or provide products outside the current portfolio. In addition, the adoption of new technologies (SOA, web services, etc.) is opening opportunities to outsource non-strategic functions to improve the efficiency and effectiveness of business functions across the value chain. Successful insurers will be those that develop capabilities to identify and manage strategic business partnerships.

By focusing on these core principles, insurers can build a strong foundation for the future while improving top-line growth and profitability over the near term. To truly succeed, they must embrace and embed the concept of innovation within their organizations. Future industry winners will be nimble and able to respond quickly and effectively to changing market conditions, new consumer demands and emerging regulations.



The challenge is how to transition from existing product and traditional distribution models to those that deliver **what customers want**.

Protecting the core: becoming more customer-focused

With these core strategies in place, the focus can shift to operational issues that will enable change. Insurance companies can drive growth in revenue and profit by improving their businesses, attracting customers and strengthening relationships. However, implementation is not easy, particularly where insurers have extensive legacy systems and operations. The challenge is how to transition from existing product and traditional distribution models to those that deliver what customers want, as well as how to develop the critical new capabilities to enable this transformation.

We believe there are three essential steps along the journey to customer centricity. Insurers need to focus on customer-centric operating models, advanced segmentation and data analytics, and harnessing digital to better engage with customers at a lower cost.

Customer-centric operating models

A customer-centric organization builds an operating model around a deep understanding of its customers, what they value and the contribution each makes to the profitability of the company. This requires:

- Designing business processes that recognize different customer segment needs
- Delivering a positive and seamless customer experience at every touch point across the customer life cycle
- Maintaining an active dialogue with customers (and acting on feedback)
- Fostering a culture that places the customer at the heart of the decision-making process

Maturity model assessment

Assessing an organization against a customer-centric maturity model may provide a better understanding of the relative maturity of key capabilities such as segmentation or lifetime value management, as well as offer guidance on where to invest. Through our work with clients, we have a clear view of what constitutes different stages of maturity, from undeveloped to leading practice.

Figure 1: Compares how four major global insurers are currently positioned in the five stages of development. Defining and understanding what it means to be “emerging” versus “advanced” can be a process in itself, even before mapping your company against these criteria.

Indeed, understanding and communicating the scale of the challenge ahead is the first step of any journey. It is important to be realistic about expectations – leading customer centricity (the far right of the maturity model) may be unattainable. However, the process of considering how to balance customer-centric principles with financial considerations is critical. For some, the trade-offs between the level of investment required and realized benefits will determine how far they progress.

The journey to deliver a mature operating model may take years. Such a significant organizational transformation must be broken down into a manageable, phased implementation. Focusing on quick wins, key technology decisions and targeted improvements initially can help to prove the case and garner organizational buy-in. Prioritizing “high touch, low tech” changes that improve the customer experience relative to the cost and implementation effort will further generate momentum for more extensive technology-enabled change.

Barriers to successful transformation

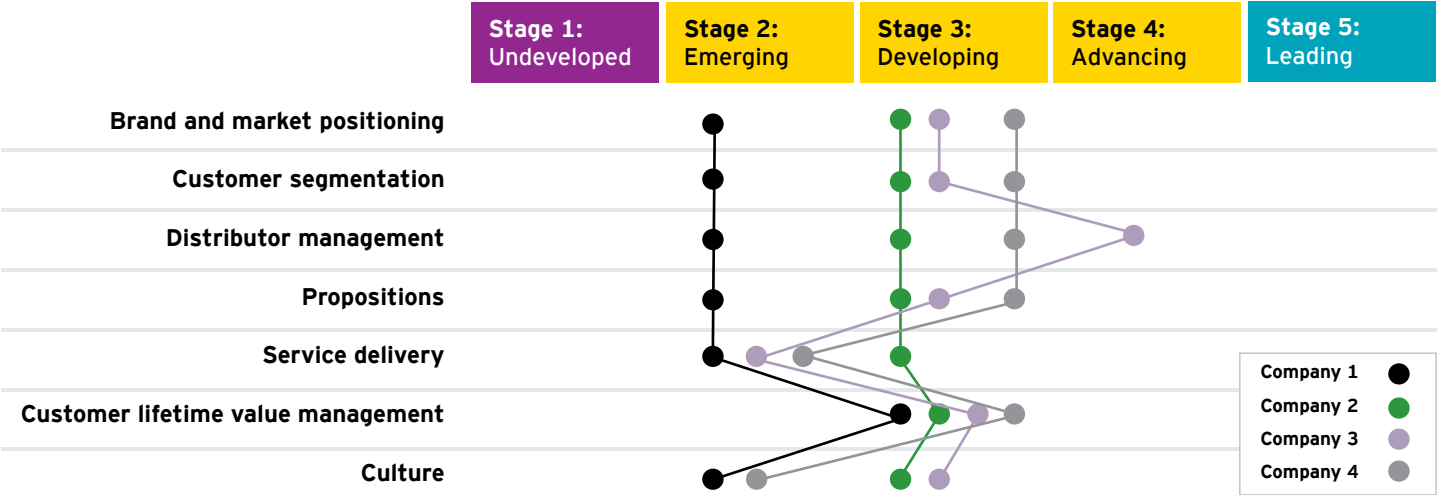
Typically, most insurers will encounter challenges inherent in their current operating models due to technological and operational limitations, as well as cultural constraints. Among the more obvious are strong organizational silos, which create an inability or unwillingness to share customer data or cooperate across business units and functions.

This is particularly common in businesses that historically have been segmented along distribution channels, e.g., intermediary and direct. In fact, the traditional insurance customer engagement model presents significant barriers: in many cases, initial customer contact and ongoing advice are controlled by an intermediary or agent – and often, provider engagement at this stage is purely administrative. Legacy systems and processes, and poor quality or insufficient end-customer data, constrain many organizations

Figure 1: Customer-centric maturity model

	Stage 1: Undeveloped	Stage 5: Leading
Process	Product push approach; little or no customer segmentation; products developed ad hoc; "One size fits all" service footprint	Tailored product offering based on discrete customer segments; real-time customer insight supports personalized interactions; predictive analytics employed to adjust offers and service actions accordingly; multi-channel approach based on behaviors and buying preferences
People	No ownership of the customer within the organization; compensation drives inconsistent behaviors; customer-facing employees not supported by back office functions; lack of authority to resolve customer issues at point of contact	Customer-centric culture pervasive at all levels of the organization; customer insight is a key component of the company's strategic agenda; employees take clear ownership for customer problems and manage issues through to resolution
Technology	Technology strategy not aligned with customer-centric culture; legacy systems limit ability to meet customer requirements; customer data trapped in organizational silos; lack of enterprise-wide data strategy hampers integration	Unified vision for data management across both enterprise and business partners; master data is managed as a corporate asset; proactive measures are in place or ongoing data quality improvements; the organization embraces customer-facing technologies as integral to channel effectiveness
Brand and market positioning	Low brand equity among target customers – known but not valued	High brand recognition and strong positive associations among target customers, based on real evidence and reputation for customer focus
Customer segmentation	Broad, undifferentiated offering, not specific to any distinct customer segments	Clearly defined target segments based on robust understanding of current and potential customer lifetime value
Distributor management	Distributor relationships driven by volume, little or no provider involvement in sale or post-sale customer activity	Highly selective approach to distributors driven by customer and distributor profitability; partnership approach with selected distributors with joined up customers engagement model
Propositions	Broad range of traditional life products: complex, inflexible, opaque, capital-intensive with provider-financed commission	Focused product range based on insight into needs of profitable customer segments; flexible design with transparent pricing, supporting fee-based advise and/or customer self-service
Service delivery	Transactional and admin-driven, reactive to customer and distributor requests; low-touch approach with no proactive contact or value added interaction	Relevant and value-adding customer contact through variety of media including phone and online self-service tools and information
Customer lifetime value management	No attempt to manage customer lifetime value beyond standard service model	Explicit understanding of customer lifetime value with value-adding interventions at key stages including lapse, life-stage changes, maturity, retirement etc., tailored to needs and value of specific customer segments
Culture	New business volume and market share are key metrics; enforce those customers not actively managed or measured	Customer lifetime value management is key metric: clear focus on meeting needs of profitable customer segments across their whole life cycle

Figure 2: Customer centricity maturity assessment of four global insurers



in managing the end-to-end customer relationship. Even when customers are “orphans” (they no longer have an active agent or intermediary), many organizations do not, or cannot, seize this opportunity to re-establish a relationship directly with advice and service offerings.

One of the greatest barriers for insurers is the business case that often requires substantial investment. Culturally, traditional industry focus has been on new business and market share, rather than deriving value from the in-force book. When viewed with a narrow lens and a short-term focus, many investments do not make it past the planning stage. The key for insurers is to shift to a longer-term perspective and to recognize the opportunity to reduce costs while improving customer centricity.

Executive management ownership and commitment to driving customer centricity is imperative. This must be supported by clearly defined customer-centric objectives and metrics across all business units, with performance management and compensation aligned with customer-focused behavior.

In setting goals for customer operating model transformation, insurers need to ask these strategic questions:

- Why do you want to be customer-centric and to what degree?
- Is there a clear strategic imperative from the board of directors?

- How incremental or revolutionary a change is required, and how much change is the organization prepared to undertake?
- What are the main barriers and key strategic imperatives?
- Where and how will you start – by targeting specific functions or business units, or with an enterprise-wide phased approach?

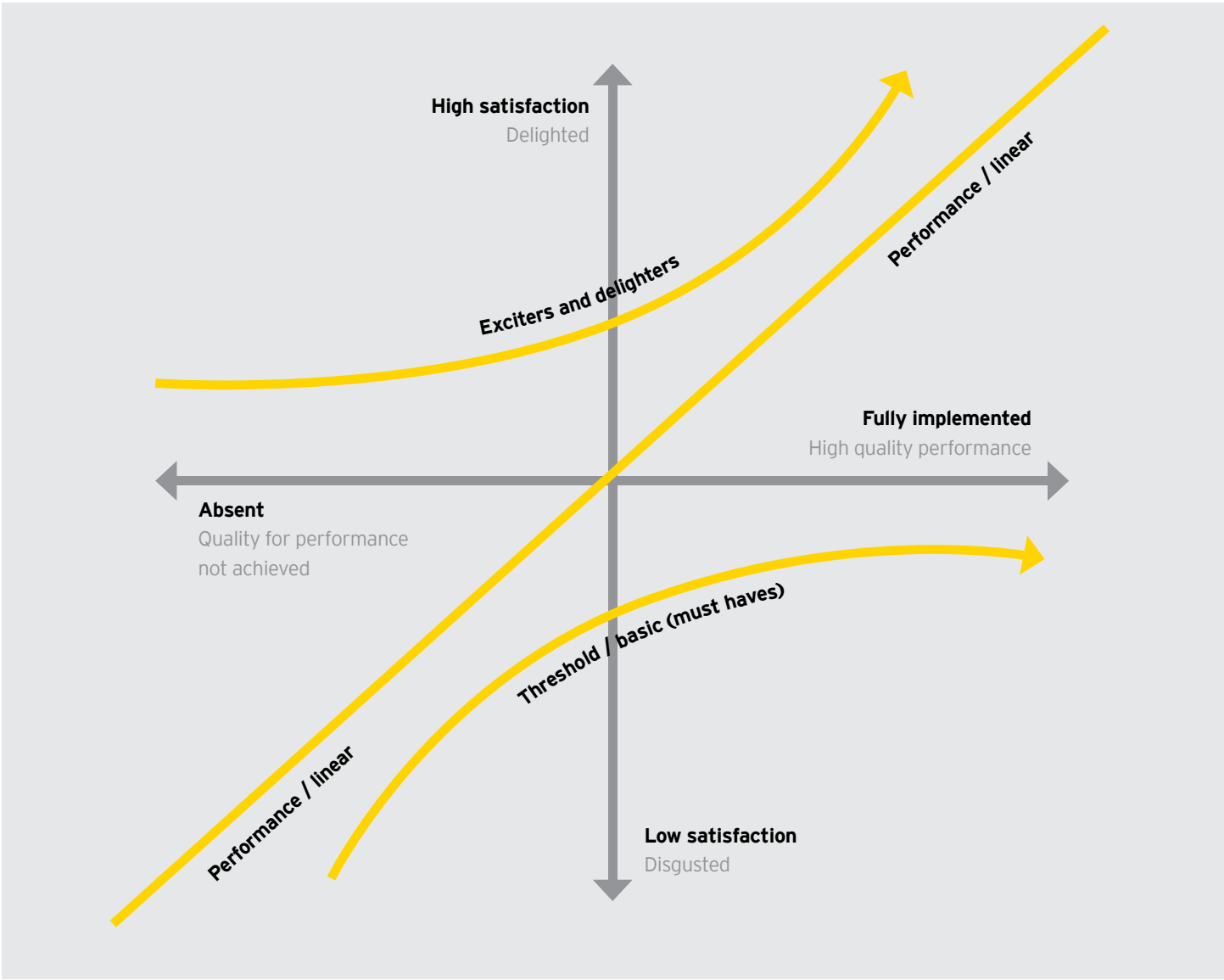
Data for competitive advantage: advanced segmentation and data analytics

Many insurers grasp the concept of segmenting and tailoring their service propositions. This is often done based on socioeconomic factors and product holdings. Leading insurers are grouping customers based on behaviors and values.

Creating a micro-segmentation model to understand customers and aligning this with a modular distribution model that allows customers to access the organization through multiple channels (when and how they prefer) will optimize customers' experience.

Data analytics has become critical to designing an effective customer experience. Insurers need to understand the true drivers of customer satisfaction – for every segment. What attributes of their experience (price, personal attention, response time, service calls, claims, etc.) will have the most impact on delivering a positive experience? Equally, insurers must identify what is not driving value, as this presents an opportunity to reduce costs.

Figure 3: Customer experience analysis and design framework



Source: Kano

Ultimately, the objective is to reshape strategic decision-making by prioritizing investment in service factors that deliver value for each segment, channel and product combination. Without such analysis, it is impossible to mount a sensible business case.

Applying data analytics to the customer service front line can be powerful. Analysis of call center transactions, combined with customer behavioral insight, can help insurers better route customers to the appropriate type of support. Innovative use of

online tools and calculators, combined with customer account information, can enable call center representatives to deliver personalized advice and service.

Data analytics and predictive modeling capabilities can also be applied in other ways within an organization:

- ▶ Behavioral engineering models to unpack the existing risk culture and its implications, as part of a transition to a more customer-centric and innovative culture
- ▶ Customer retention analysis – why, where and when you are losing customers
- ▶ Customer leads analysis to support development of a fully integrated distribution model
- ▶ Financial modeling (of staff and/or customer base) to inform customer experience and advisor conversations on how to improve financial client well-being
- ▶ Claims management and leakage analysis

Harnessing the power of digital as part of an integrated channel strategy

Most consumers want access to a mix of online and personal contact throughout the product life cycle. Digital is not the panacea, but it is a critical enabler to delivering the experience customers want. The key insurance challenge is how to harness the power of digital to better engage directly with customers and lower costs. Digital technology will complicate the process and frustrate customers if it is not joined seamlessly with other channels, recognizing that existing channels or access points will also need to adapt and, in some cases, play an alternative role within the business.

The effective integration of channels across sales and service activities is critical to delivering a positive, brand-reinforcing customer experience at every touch point in the customer

relationship life cycle. As digital channels continue to grow in importance, insurers need to define a strategy for integrating these touch points as part of their overall distribution infrastructure.

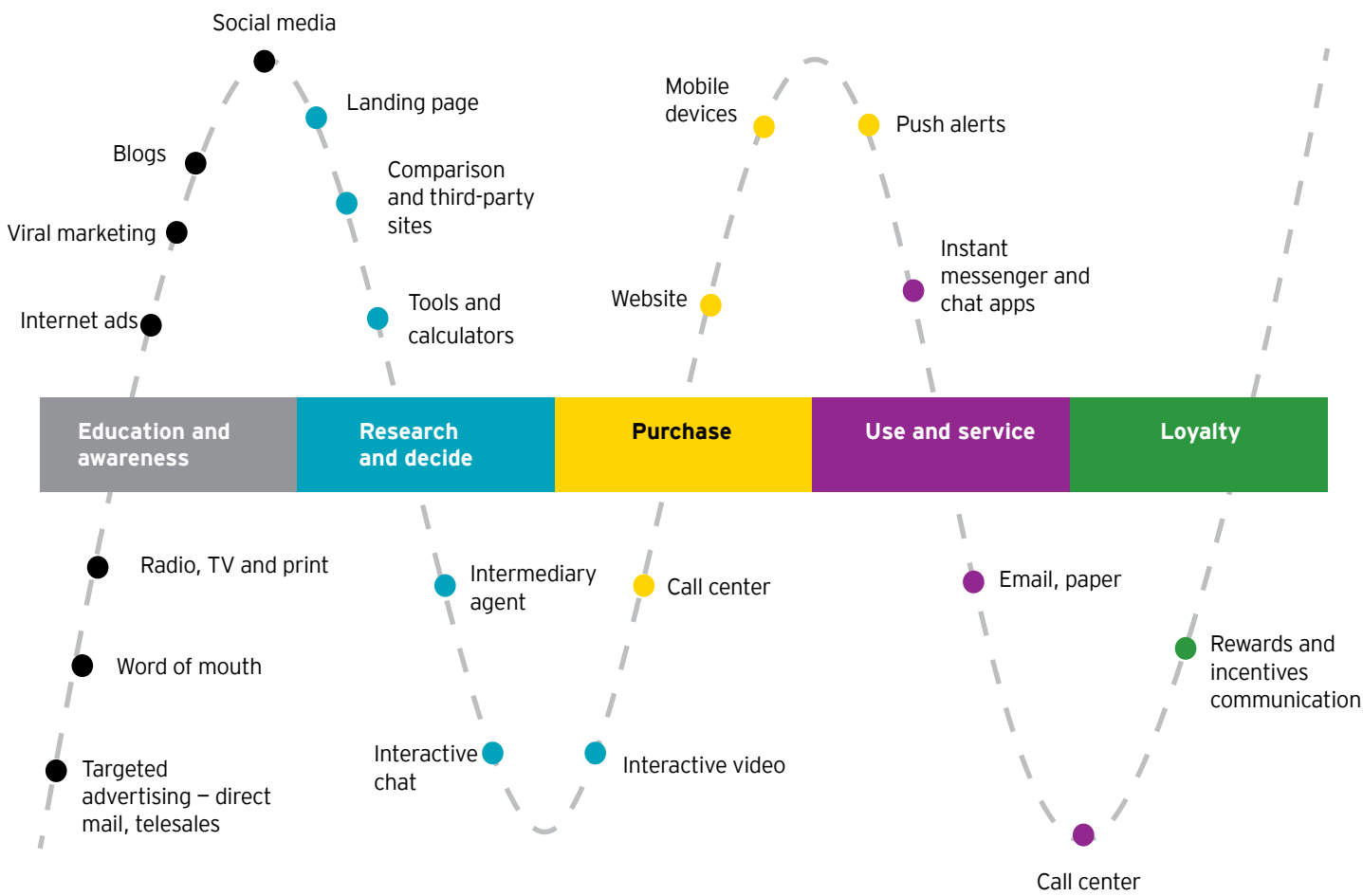
Insurers should focus on two critical enablers. For those utilizing third-party channels, *engaging channel partners early in the process and communicating a clear value proposition* are essential to successful integration. This could be in the form of leads generated through digital channels or time-saving customer service activities handled by the call center. Second, it is *imperative that customer information be handed off between channels with limited consumer effort*. In addition to slowing response times, redundant steps communicate that the needs of the customer are secondary to investments in capabilities required to streamline business processes.

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The overall customer experience is influenced by customers’ direct and indirect interactions with an organization – both physical and digital touch points. Both must be managed effectively in order to maximize the experience, as shown in Figure 4 below:

Figure 4: Overview of direct and indirect interaction flow



Source: Ernst & Young

Call centers will continue to play a critical role through the life cycle and must be adapted within the business to respond to evolving trends and drive greater value at lower cost. Currently, call centers operate in a telephone-dominated world with little data integration between other channels, and they are viewed as an expensive mechanism to service basic customer queries. Additionally, call handlers are not always equipped with the right skill sets and tools to support a multichannel offering.

Launching digital channels for many insurers with an agency-based distribution model is an enormous challenge, requiring changes to agent segmentation, customer management and communication protocols, training, incentives and rewards. Agents will need to become more technologically savvy and connected, as they will be positioned on the front line to supply the unstructured but rich customer data required.

An agency force with the “listening” capabilities and agility to play this role can become a key strategic asset. Agents who were primarily producing sales volume may soon be more focused on information collection and relationship management. They will produce leads to the digital channels and, in turn, receive them from online browsers as customers ask to speak with an agent.

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Embedding innovation throughout the organization will involve tapping into external discovery centers and industry research labs to **regularly gain insights** from other sectors.

Customer-centric innovation

These activities will only provide insurers with the ability to catch up to the leading competitors and to “protect the core.” To genuinely leapfrog the competition and generate significant growth, a new culture of innovation is required, along with a significant change in approach to strategic decision-making.

Embedding innovation throughout the organization will involve tapping into external discovery centers and industry resesarch labs to regularly gain insights from other sectors. It will also require introducing internal test-and-learn processes that generate ideas, test their feasibility and pilot initiatives in a rapid and agile manner.

A significant cultural shift

For many insurers, this represents a substantive and significant cultural shift. The risk-averse nature of most insurers is a key inhibitor to innovative thinking and stifles the experimental launch of new products, processes and other business changes. The required change in culture must be driven from the top down. Senior management must instill and clearly communicate a corporate strategy focused on customer-centric innovation and recognize and reward efforts to deliver this. Collaboration and empowerment of employees to spot customer improvements and act upon them must become the new norm, as well as physical spaces such as innovation centers to help develop and incubate ideas.

One of the most significant cultural changes will be a shift from short-to long-term strategic decision-making. The traditional industry focus (and one that is embedded in most performance management and compensation systems) has been around new business and market share rather than deriving value from the in-force book. This often means it is difficult for customer proponents within an organization to secure investment in enabling capabilities such as data analytics or long-term customer relationship-building activities, as these may not present the most compelling short-term revenue-generating business cases.

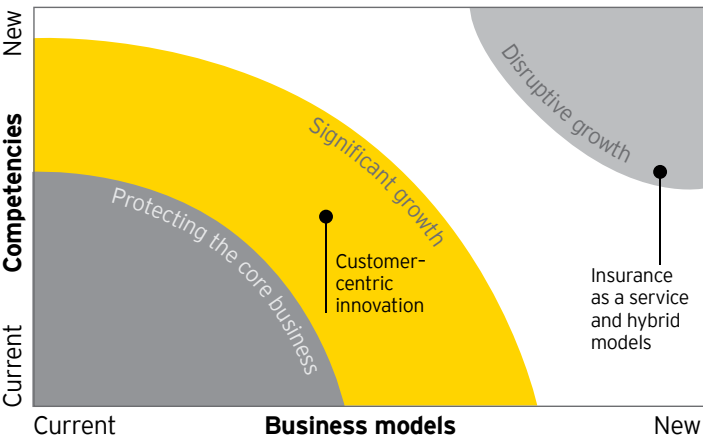
A change in mindset is required. Rather than the traditional “what will I get?” question, organizations need to consider “what is the opportunity cost of not doing this?” in terms of financials, competitive positioning and customer experience.

Above and beyond customer-centric innovation, some players are thinking more disruptively, developing radical new customer value propositions that move beyond the traditional confines of insurance and address customer demands in other industries. This requires new business models and competencies but can generate significant revenue streams by tapping into new profit pools. There are unique opportunities to enter other industries, often by establishing alliances and collaborating with new partners.

Develop a culture of innovation

Three stages of innovation are depicted in Figure 5 across the dimensions of business models and competencies. Protecting the core is about getting the basics right, becoming more customer-centric and, where appropriate, adopting the leading practices that competitors or other industries have demonstrated. However, this relies on largely existing competencies and business models and could be a catch-up strategy. Only genuine customer-centric innovation that is embedded into the organization will produce significant growth and deliver competitive advantage.

Figure 5: The stages of innovation across competencies and business models



Practical steps on the journey

The journey to customer centricity will not be easy. We offer these practical steps to help you understand the process and guide you along the way.

Define

Define your target customers and their needs

Take

Take a realistic look at your propositions (solutions, not products) – what will it take to deliver what customers want at a price they want to pay and still make money?

Involve

Involve distributors and, together, build stronger partnerships

Generate

Generate customer engagement across their life cycle – this is vital to building loyalty

Start

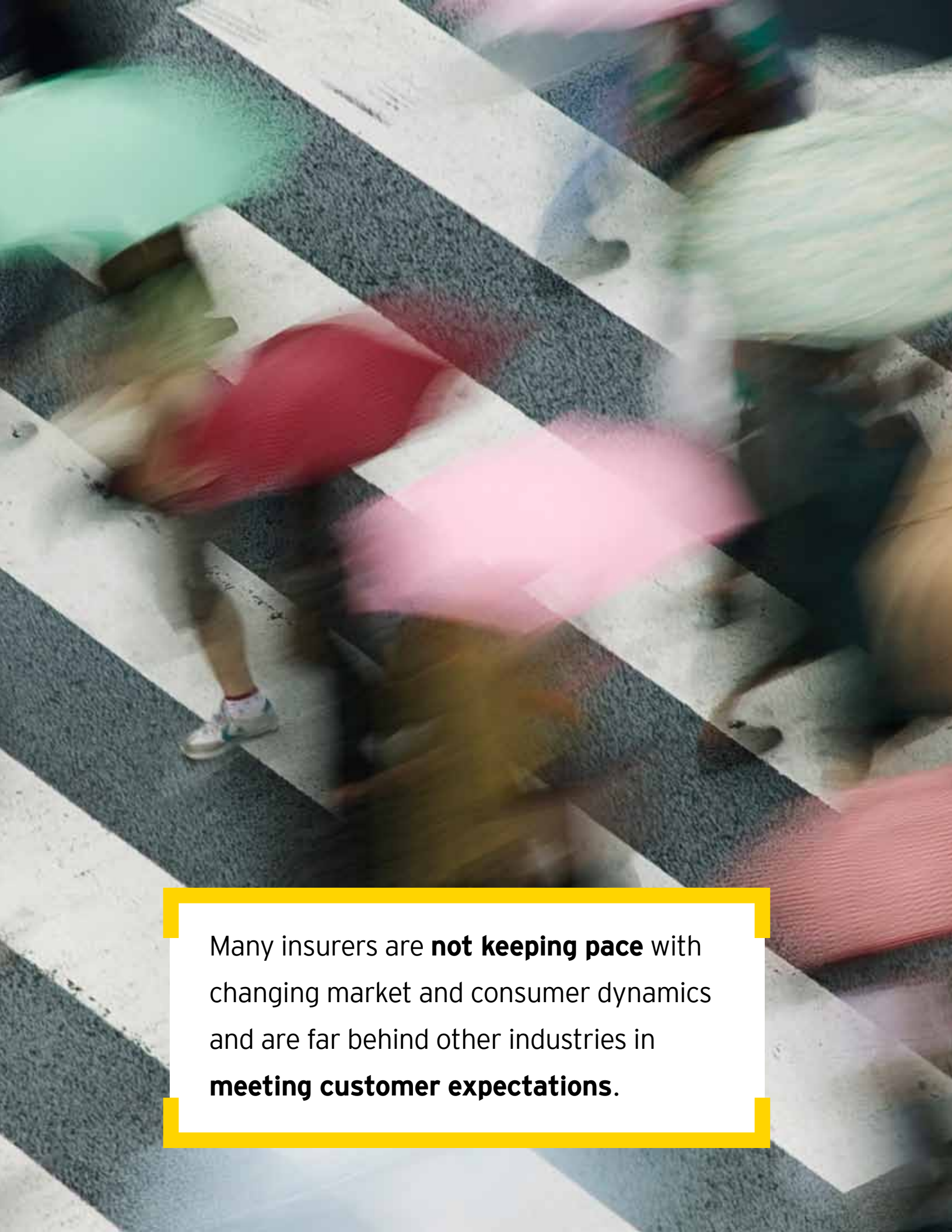
Start to build a culture that puts the customer at the center and aligns objectives, targets, rewards and recognition with customer needs

Learn

Learn to be adaptive – use detailed customer insight to test, learn and act quickly, accelerating the process with prototypes

Focus

Focus on some key levers and build momentum throughout the organization



Many insurers are **not keeping pace** with changing market and consumer dynamics and are far behind other industries in **meeting customer expectations.**

Conclusion

Many insurers are not keeping pace with changing market and consumer dynamics and are far behind other industries in meeting customer expectations. To succeed in this fast-changing environment and achieve sustainable top-line growth, insurers need to focus on redefining customer relationships, transforming business models to embrace data and digital and introducing an innovative culture in support of strategic decision-making.

Achieving customer centricity is less about implementing a grand vision than about building cadence today, next week, next month and next year. But the time has come when the journey is a strategic necessity, and all insurers need to be clear about where they stand and what steps lay ahead for them.

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