DISRUPTIVE BEHAVIOR: POWER TO THE PEOPLE

Emerging technologies shift expectations and create challenges for insurers

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PERCEPTIONS MATTER

For longer than many of us will care to remember, insurance has had an image problem. For an industry that protects the fabric of us all, our possessions, even our very lives and is a significant enabler to economic growth and provides comfort in times of extreme need, buyers have a negative view of the profession – a 'necessary evil' or a grudge purchase.

The relationship between policyholder and insurer requires a restart – in fact this re-definition is already underway and the twin drivers of 'Technology' and 'Behavior' lie at its heart.

Start with the customer, not the sales process – let's roll back the clock.

WE ARE ALL ON A JOURNEY

Only a few years back the industry would think in terms of designing a customer journey. In the 'first wave' of CRM (Customer Relationship Management), journeys were defined and executed centrally by the insurer, control rested with them and consumers were communicated to a rigid plan (often around renewal cycles). The power rested with the insurer who owned the technology to shape the dialogue.

> "Design is a funny word. Some people think design means how it looks. But of course, if you dig deeper, it's really how it works."
>
> **Steve Jobs**

However, the multiplying options that package the Customer Experience (CX) have introduced a range of choice that insurers are having to react to. Research highlights the growing role of online and associated ‘assistance’ - usually a combination of phone or online connectivity to supplement a ‘self-serve’ approach (*The Economist Business Unit, 2015*). At present, agent-based services still rank as the most important component of CX, especially in North America and the Asia Pacific region where, respectively, 47% and 49% of responders ranked face-to-face communication as ‘very important’. However, within three years, online assistance is expected to exceed face-to-face in European markets and attain near equivalence in North America and Asia Pacific on the same measure. This research was conducted across a range of industries and companies and so the specifics as they apply to insurance are masked – but the general trends are clear and more specific research on generational attitudes as they apply to insurance underline this, as we will see shortly.

In some ways, the CX ‘debate’ is a continuation of the trends first encountered during the first cycle of CRM that emerged from de-regulation and multi-channel development in the early 1990s. The differences now relate to the wide-range of communication methods available, the maturing nature of disruptive technologies aligned to the ever-increasing adult population of digital natives, whose social culture has been shaped by the availability of on-demand, customized services.

The days of defining ‘customer journeys’ from a central point with clear inputs and outputs, have gone as consumers use mobile technologies to disrupt and reshape the dialogue. One estimate states that insurance sold through digital channels could reach 25 billion annually in Europe alone as soon as 2016, more than double its 2012 value (research – *Global Futures and Foresight*).

The world has changed, fuelled by mobile technologies and generational changes where consumers are happy using it – as Generational Theorists would say – ‘it’s just stuff they have grown up with’.

Whether technology shapes behavior or is responding to behavioral changes is a bit of a moot point. One certainly affects the other and the two are interwoven as never before. Consider the pace of technological change around the development of tablet based devices. Amazingly, the first US patent for an electronic stylus device for capturing handwriting was issued in November 1914 to H E Goldberg. Forty years later, Tom Dimond demonstrated the Stylator electronic tablet; the first device to use a stylus instead of a keyboard, working with a modern digital computer.

Figure 1 – Tablet development timeline

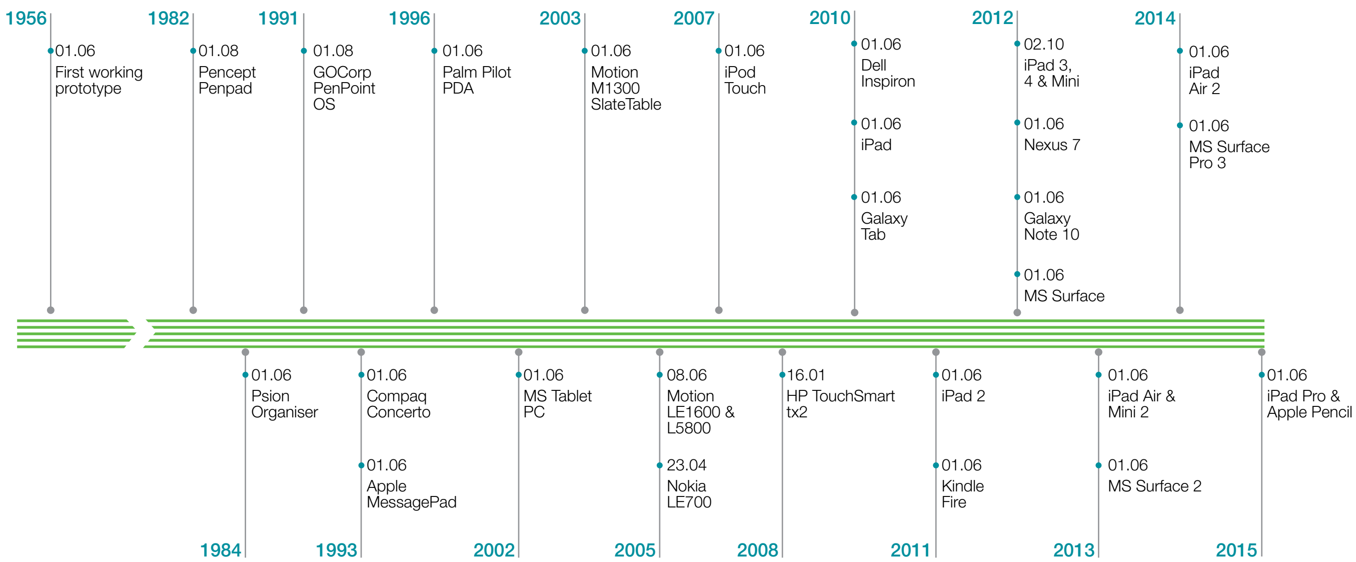


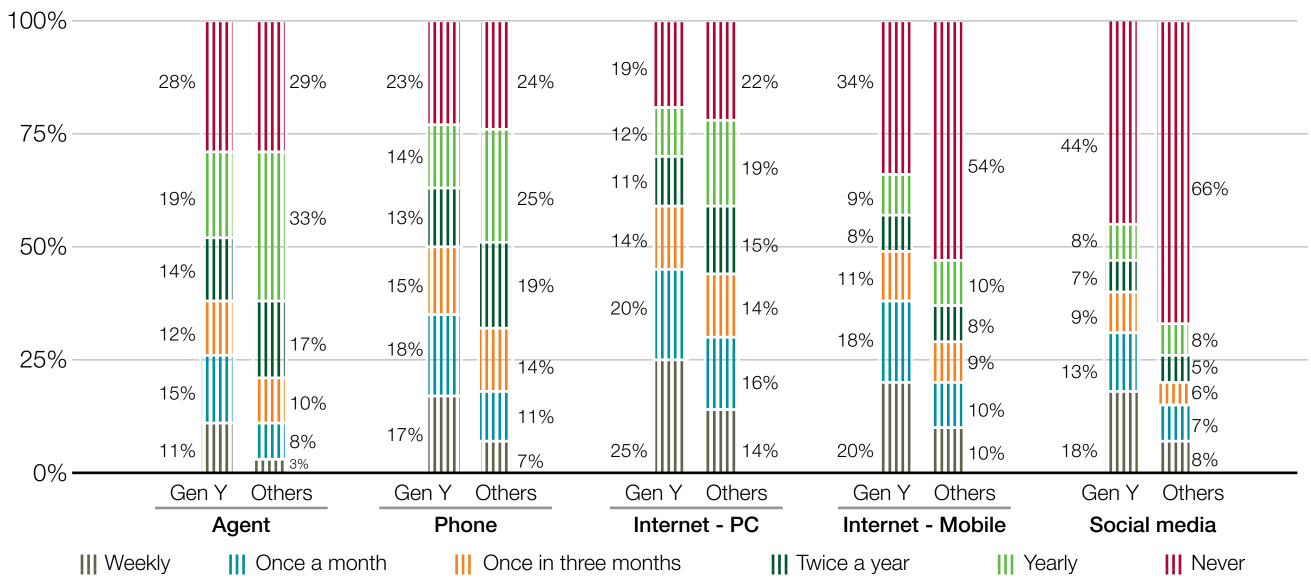
Figure 1 above maps selected milestones for the launch of selected tablet technology since that point. The increasing pace of change from the start of the millennium stands out, as technologies began to mature and converge with wireless telecommunications.

Apple launched its first tablet in 1993 and then took 17 years to evolve this into the iPad. Since then it has launched increasingly sophisticated models on an annual basis alongside its developing iPhone and wearable technologies, as devices expand in capability (through improved software and content), reduce in size (through smaller components) and increase data storage options (through cloud-based services). In parallel a range of Android tablet devices have been developed by rivals (Google's Nexus, Samsung's Galaxy and Amazon's Kindle among others). The pace of change is accelerating and previously unthinkable alliances are emerging. The collaboration between Apple and Microsoft over the iPad Pro (whereby Office software is engineered to work on Apple devices in a push into the lucrative business market) would have been thought impossible a few years ago. Similarly the re-emergence of the stylus as the Apple Pencil is startling and runs against Steve Jobs' well publicized distain for styluses in general. So, the market is adapting, the range of devices expanding and the applications that mobile devices run are multiplying.

The driver for this explosion in technology is tied up in the way consumers now behave. The 'old way' has shifted incrementally over time and the ability to disrupt and pull apart the neatly defined 'customer journey' is very much with us. The power to disrupt has been handed to consumers in the form of a mobile or tablet and they bring expectations from other industries to how they buy from and interact with insurers using them. Generational Theorists have devoted considerable time to unravelling how different generations view the use of technology and the results are intriguing.

Consider the data in *Figure 2* below drawn from UK experience:

Figure 2 - Frequency of channel usage – Gen Y customers versus others (%), 2014



World Insurance Report 2015, Capgemini and Efma - https://www.worldinsurancereport.com

In this the differing attitudes to channels of communication in the purchase/management of insurance are compared. Generation Y (Gen Y) refers to the generation born on or around the start of the century. There are no precise dates when the generation starts and ends. Most researchers and commentators use birth years ranging from the early 1980s to the early 2000s.

Key findings are:

- Gen Y are more comfortable with mobile technologies and social media as means of communication
- Gen Y communicate more frequently across all channels
- Traditional channels are still important to Gen Y

With this last point, separate research by Capgemini indicates that the availability of someone to discuss and talk through issues is still highly valued. Gen Y are happy to complete processes online on a self-serve basis but essentially 'reserve the right' to revert to agent or phone-based communication if this becomes necessary. UK experience is interesting in that the principle of self-serve is more ingrained in this market (where more than 50% of auto insurance is purchased online). As we have seen above, agent-based servicing is more prevalent in other markets, such as North America, but the signs are that self-serve is becoming more established and the UK provides a possible template for how this will unfold.

In the UK, for commoditized product lines, policyholders often have multiple insurance policies from different providers, purchased from aggregation sites who have leveraged technology to simplify processes and remove barriers. Insurers are having to respond with investment in multi-platform capabilities – ease and simplification enabled by appropriate use of the technology to interact in a more agile way. In this way costs are re-shaped to better match the financial structure of Personal Lines business.

Indications are that the era of digital transformation - the realignment of every element of a business towards the way that customers now communicate: through multiple channels, with many and varied expectations of response time – is well and truly here. Insurance buyers can now make full use of all of the communications channels at their disposal to purchase, manage and claim on their policies. Their changing buying habits, lifestyles and expectations have to be taken into consideration.

Gartner research in the US underlines this blurring of consumer attitudes as customers transfer their experiences with online retailing into insurance. Logically consumers are beginning to ask why the insurance sector cannot provide services and products in a similar way. Gartner highlight how the retail sector has had to face and overcome similar challenges; consumer empowerment, online retail evolution, multichannel transaction needs and managing complex customer experience demands.

Consumers are changing the way they shop for and buy all kinds of products – and insurance is no exception. It is worth noting that advances in technology are already connecting cars and household devices to communications networks. Sooner than we perhaps first think, these are likely to have a more significant impact on future buying behavior, fundamentally altering the relationship between consumer, provider and manufacturer – and presenting challenges to insurers in the way they adapt (or possibly replace) systems to both defend their position and leverage benefit from these technological and behavioral changes.

Ominously, Gartner state:

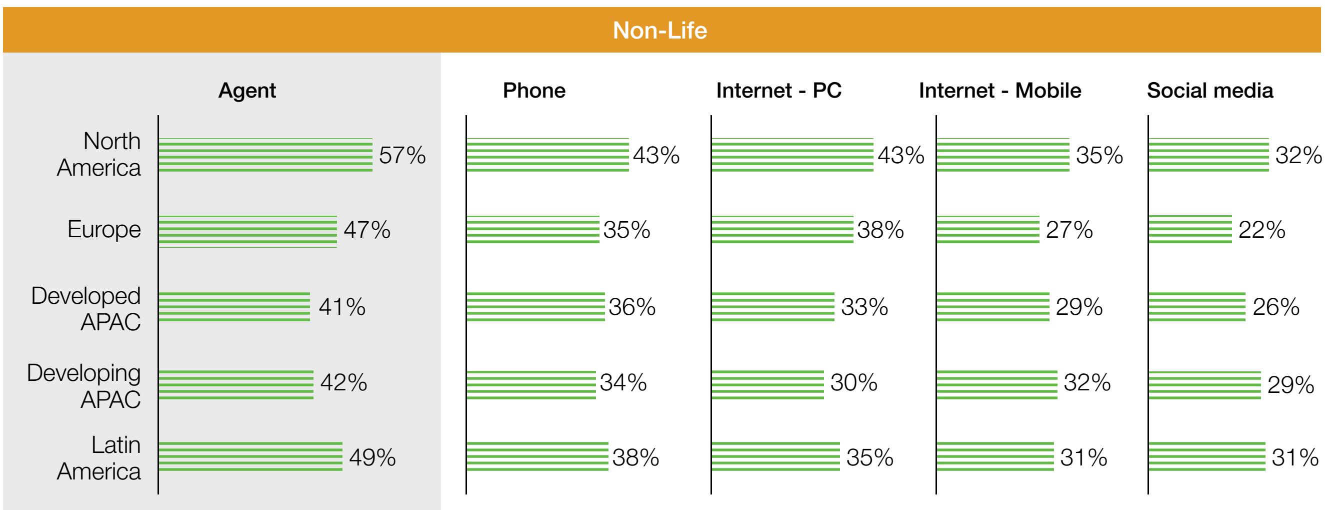
> 'Delivering this type of customer experience will require a level of digital maturity that most insurers do not possess today, and that will be increasingly business-critical for insurers'.

This then raises an 'inconvenient truth' for insurers…

A WORRYING DIGITAL TREND

As we have seen, consumers are increasingly digitally dexterous and expect their insurer to deliver CX that encompasses a seamless, real-time, multi-channel offering. This represents a multifaceted challenge; every customer-facing function of an insurer has to consider and adapt to the latest developments in technology and communications as soon as it reaches reasonable levels of adoption – and that means preparing for such events well in advance. And even then, customer experiences can be significantly more negative than more traditional interactions with agents as *Figure 3* below highlights:

Figure 3 - Positive experience levels by channel and region (%), 2014



World Insurance Report 2015, Capgemini and Efma - https://www.worldinsurancereport.com

Capgemini found that the agent channel delivered positive customer experience levels almost double that of digital channels. For whatever reason, this suggests that, as digital channels are increasingly used, insurers are poorly placed to maintain acceptable levels of satisfaction.

Perhaps just as worryingly, 'Generation Y' customers registered a steeper drop in customer experience levels; not only does this demographic represent an increasingly valuable segment of the market, but their expectations are higher, their experience as customers less positive and their medium of communication with insurers is significantly less positive than more traditional mediums.

Whether this negativity is a function of social media and digital channels, or a demonstration of poor communication or channel management by insurers, is more difficult to establish. In part, it may simply be to do with the explosive growth of new channels, which is hard for organizations of all types, across all sectors, to keep up with. What is significant is that, as of 2020, Generation Y will make up 40% of the working population.

And that's the point really, familiarity with smartphone applications is a huge opportunity. Using these tools to streamline claims, amendments to policies and overall communications is a vital response to the shift in control from a centralized 'push the journey' to a truly interactive and flexible dialogue between insurer and consumer.

WHY IT MATTERS

- Consumers are shaping a 'digital future' – and the new channels they're using tend to be typified by poorer customer experiences.
- The challenge for insurers is to make sure that they maintain strong customer service as customers look to access products and services on demand and with devices that are 'always on'.
- To complicate things even further, customers already expect a 'joined up' approach. A policy bought on a mobile device may have a claim managed through a combination of phone calls, tweets, emails, picture messages and mobile app inputs.
- Insurer systems need to be able to provide this seamlessly.

RESPONSIVE OR RECLUSIVE

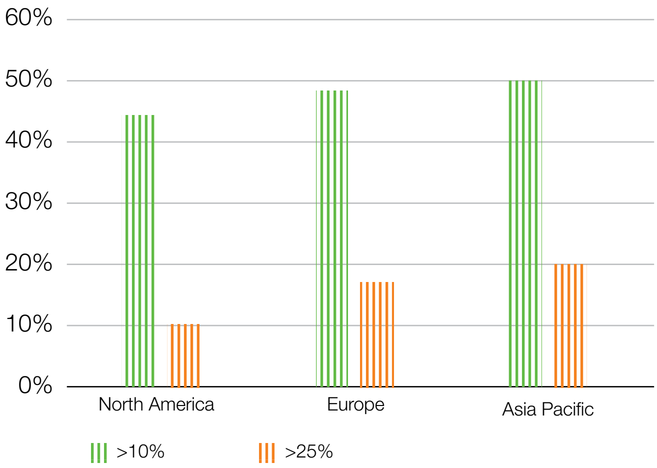
The key question then becomes, 'how are insurers responding to these challenges?'

In a word: 'investment'. Recent research from Econsultancy (March 2015) suggests that 63% of Financial Services companies in the UK will be increasing their digital marketing budgets this year, with the average increase running at 21%. A third of respondents say that customer experience is their major focus. This is supported by similar analysis in other regions and markets.

The *Economist* have 48% of companies in Europe and 45% in North America increasing CX budgets by more than 10% with a sizeable proportion of these (35% and 24% respectively) increasing by 25% or more (see *Figure 4*).

The equivalent figures in Asia Pacific are 50% and 40% reflecting the 'mobile first' nature of the many emerging markets in that region.

Figure 4 – Budget plans 2015 - 2018



Source – Economist Business Unit

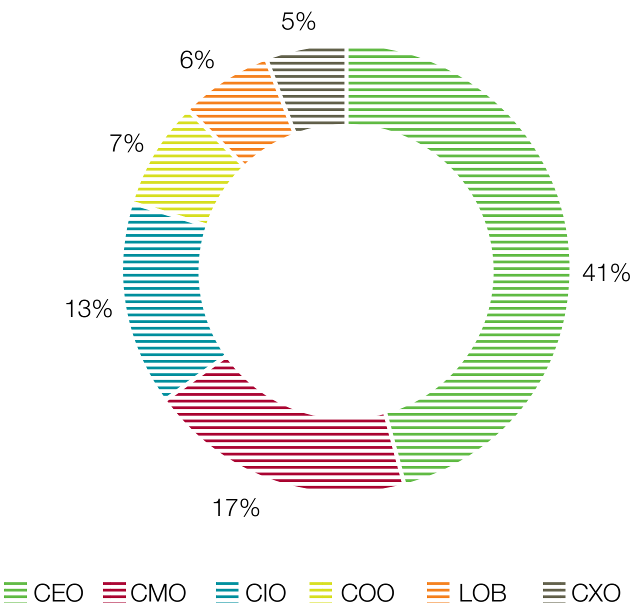
In the US the range of investment projects undertaken by insurers varies considerably by size of carrier (*Gartner, 2015*). The number of projects underway average 5 to 6 per carrier with larger companies (those with 10,000 employees or more) not surprisingly, prioritizing projects that improve the efficiency of handling large numbers of customer interactions (self-service tools, single view of the customer and process optimization across channels). Smaller providers are likely to focus on the quality of personalization with more advanced capabilities around the reconfiguration of customer processes. The use of MI and data to drive the experience features prominently across all sizes of carrier (see other insight papers on the 1insurer web site that deal with data mastery for a view on how this can help add value to such initiatives).

This link to MI and data is reflected in similar research by Novarica. Here, regardless of size, the top two project types are 'Experienced Optimized Products' and 'Analytical Design'. Both are significant parts of a wider CX landscape as they help define, shape and assess how the relationship with customers is managed and developed. This research again highlights that smaller companies are more advanced with a greater proportion having solutions 'deployed widely' in both project types (for example 27% in the case of 'Experienced Optimized Products' compared to 0% with larger carriers – see *Figure 5*)

Figure 5 – Project status

Source – Economist Business Unit

Figure 6 – CX Leadership by role type (%)



Source – Economist Business Unit

Gartner highlights that 'CX leaders' tend to focus on project types they are most comfortable with, which then raises the question of 'who is in charge?'

The Economist believes that projects are overwhelmingly led by the CEO with 36% of North American projects under their direction (40% in Europe and 39% in Asia Pacific). Overall, the next highest leader identified with CX is the Chief Marketing Officer (17%) followed by Chief Information Officer (13%) – (see *Figure 6*).

Whilst initially surprising it makes sense that top executives are bound up in CX initiatives as they essentially define the relationship the company has with its customers and are the most obvious representation of the company's brand to the 'outside world'. So, their importance cannot be under-estimated and has attention at board level.

Note that the low percentage attributed to CXO is more reflective of the low number of companies that have created this role.

Whilst it may seem obvious, it is worth looking at the expected benefits that are currently driving investment. Across the literature, five key benefit types are cited in slightly different forms:

Benefit	Business driver
Improved customer satisfaction	Relationship development
Reduced operating costs / Reduce business costs / Reduce IT costs	Cost reduction
Increased sales / Increasing revenue / Entering new markets	Revenue growth
Improved customer retention	Relationship development / Revenue growth
Lower cost of customer acquisition / Business agility	Cost reduction

Source – Economist Business Unit; Celent

The Economist (where research participants are more business orientated) cite 'Improved Customer Retention' (35%) and 'Increased Sales' (30%) as the two highest expected benefits, whereas Celent (where participants are drawn more from IT departments often wrestling with inflexible legacy platforms) highlight 'Business Agility' and 'Reduce IT Costs'. So, it depends on who you ask, but the twin drivers of cost and revenue lie at the heart of decisions to refresh system designs.

On the flip-side, the barriers to project engagement often revolve around the ability (and drive) to correlate outcomes with the improvements delivered. In Europe and Asia Pacific a relative lack of process automation is the biggest barrier to measuring success (which becomes a 'self-fulfilling prophecy' as continued limited investment re-enforces this barrier) – nearly 40% of responders surveyed cited this as a key concern. In North America the issue is more likely to relate to correlated data, suggesting poor MI or an investment strategy that has poor measurement processes in place – note that around 10% of companies surveyed in the US had no business case or stated 'not sure' against expected benefits; this was actually slightly up from the equivalent measure in 2010 (Celent, 2015) - (for examples on how to build business cases for investment in P&C systems, visit the Insight page on 1insurer's web site.)

Project justification and a clear view on what the key objectives (and how to measure them) are vital to secure organizational buy-in to transformational projects. The most successful organizations have a game-plan that they can articulate, execute and measure.

WHY IT MATTERS

- Technologies are rapidly evolving alongside more demanding customers who bring opinions on what good service looks like, from their experiences in other areas.
- The industry is dealing with a significant number of legacy platforms that are poorly placed to deliver on these measures. Whilst many carriers have embarked (or are planning to embark) on projects to deal with this, key decisions on systems, tools and processes will shape the investment experience and determine success for years to come.
- The industry is at a cross-roads in terms of where it goes next – will an insurer be 'responsive' or 'reclusive' on these challenges?

FUTURE PERFECT?

It's inevitable that our industry will change, and, with a few exceptions, it's likely it will change for the better. Better customer interaction around purchase and renewal, more responsive, adaptable claims processes, better transparency, new business models responding to customer needs and the paradox of the bad / good insurer may finally start to fade. The catalyst is the way that we all use technology. If in doubt, consult Gen Y!

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