Capturing hearts, minds and market share

How connected insurers are improving customer retention

IBM Institute for Business Value

Insurance industry

Maturing markets, tight capital, increasing risk and technologically sophisticated customers: these are just some of the pressures facing the insurance industry today, where insurers will have to work faster, more efficiently and, above all, smarter. Customer strategies of the past – endlessly swapping disloyal and dissatisfied customers by competing over rates alone – will not satisfy these savvy consumers or lead to sustainable retention or significant growth. Insurers need to be more nimble, more innovative and more connected with their customers. The global insurance team provides solutions to help insurers meet these demands. From improved customer service, to more efficiency in the back-office and better risk management, there's a smarter solution for you.

Involve customers rationally and emotionally

With a profusion of information and insurance options available, it seems harder than ever for insurers to reach and keep today's empowered customers. While traditional insurance distribution channels still work, they are not enough to secure trust and lasting relationships. What other instruments do insurers need? Based on a survey of 12,000 consumers in 24 countries, our latest insurance study shows that three ingredients are indispensable in capturing hearts, minds and market share: customer knowledge, customer value and customer engagement.

Executive summary

Insurers currently operate in a challenging environment. On the financial side, premiums are stagnant, interest rates low, and many cost-cutting measures have already been enacted. On the other hand, customer empowerment is growing. Customers are finding the information and offers they need to switch providers more freely than in the past – customers that insurers can ill afford to lose.

For many carriers, the key to preserving customer relationships still lies in personal interaction, executed through traditional distribution and service models with tied agents and brokers. For some customer sets – those who strongly favor personal interaction – this business model works well. Yet a growing segment of customers, especially those 30 years and younger, differ in some key aspects. While they still look for help and advice, they seek personal contact in the context of a holistic, omni-channel experience; they communicate and find information whenever, wherever and however they want. And even traditional customers appreciate if their agents have broader and faster access to the information and specialists they need on a case-by-case basis.

How can insurers keep – and hopefully even expand – these diverse customer sets, old and young alike? What factors drive retention and loyalty? To explore these questions, we surveyed more than 12,000 insurance customers in 24 nations about relationships with their insurers, what they perceive as valuable and in what ways they would like to interact and obtain new services going forward.

We found that while insurers understand well how to cover risks, they often fail to engage their customers on an individual basis. Even though insurance is complex, customers want to be involved, emotionally and rationally. When insurers act on this knowledge, customer share can rise.

The churn challenge

Only
37%
of customers fully trust their own insurer.

Only
42%
of customers think their insurer can be counted on to provide good service.

Almost
20%
of millennials would be willing to buy insurance from Google.

As a general rule of thumb, the cost of acquiring new customers is four times that of retaining existing ones. To grow market share, insurers need new customers. But for the balance sheet, retention has a much larger impact.

For a long time, the insurance industry did not consider this a problem. In the highly asymmetrical pre-Internet world, there was a necessary gatekeeper to information and knowledge about risks and coverages: the insurance intermediary. For insurers, the intermediary's trusted personal customer relationship was a guarantee of fairly reliable renewals and low customer churn – thus, keeping the most profitable customers.

The technological innovations of the digital age have altered this picture. Information asymmetry is diminishing. Although many customers still seek advice on insurance matters, the empowered digital customer does not need to rely solely on the gatekeepers of old for information. With communication being swift and ubiquitous, misinformation is quickly uncovered, leading to a steady erosion of trust, even with the personal advisor and insurer.

We have come to expect that only 43 percent of our survey respondents trust the insurance industry in general – a number that has stayed fairly stable since our first survey in 2007 – but only 37 percent trust their own insurers to a high or very high degree. Most customers are neutral, with 16 percent actually distrusting their providers.

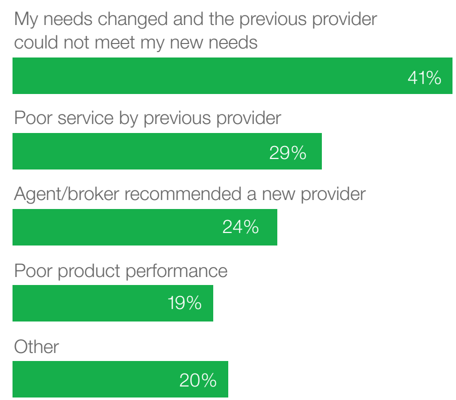
As we have often seen in past studies, trust varies widely by market and culture. For example, only 12 percent of South Korean customers responded that they trust their insurers, compared to 26 percent in France, 43 percent in the U.S. and 51 percent in Mexico.

Low trust translates to high churn. Even though 93 percent of our respondents state that they plan to stay with their current insurers for their recently acquired coverage through 2015, almost a third came to that coverage by switching insurers. Why? Most commonly (for 41 percent of respondents), their old insurers couldn't meet their changing needs (see Figure 1).

The pattern of increasing customer empowerment and decreasing information asymmetry is continuing. New and non-traditional entrants to the insurance market are taking advantage of the opportunities of digital technologies. For example, Google recently launched an insurance comparison site for California and other regions of the U.S. This presents a real threat to both online insurers and traditional providers – not because of the comparison option itself, but because Google has collected a huge amount of information about each individual through his or her surfing habits, thus allowing better personalization and higher value offers.

Figure 1

Why do customers switch insurers?



Q: Why did you switch providers? Please choose all answers that apply.
Source: IBM Institute for Business Value survey data 2014, n=3,989.

The three dimensions of retention

What do insurers need to do to increase trust and customer retention with the intent of improving both the top and bottom lines? The findings of our survey point to three courses of action:

- *Know your customers better.* Customer behavior is affected by experiences and underlying psychographic factors. Insurers need to know and understand customers better, not only as target groups, but as individuals. They also need to get their customers involved, rationally and emotionally.
- *Offer customer value.* As overused as the term is, a strong and individualized value proposition is exactly what insurers need to provide to their customers. Value is more than price; it includes many factors, including quality, brand and transparency.
- *Fully engage your customers across access points.* As millennials become a significant part of the insurance market, speed and breadth of access has begun to matter much more than in the past. Insurers need to engage their customers as widely as possible, from in-person interactions at one extreme, all the way to digital interaction models such as those made possible by the Internet of Things.

Know your customers better

Customer perception and behavior

Ever since the Internet has become a viable way to shop for goods and services, much discussion has centered on the matter of price. In theory, insurance products are easy to compare, so shouldn't the cheapest one win out?

This view assumes that, aside from the price, all else is equal. If that were true, price would indeed be the sole tie-breaker. In reality, though, all else is never equal. Insurance is a product based on trust, for which perception matters. Perception, and thus customer behavior, is shaped by the individual customer's attitudes and experiences. Understanding a customer on an individual basis helps a carrier tailor these experiences by communicating the "right way."

To classify our respondents according to their attitudes, we used the same psychographic segmentation as in previous studies (see Figure 2).[1]

Insurance is a product based on trust, for which perception matters.

Figure 2

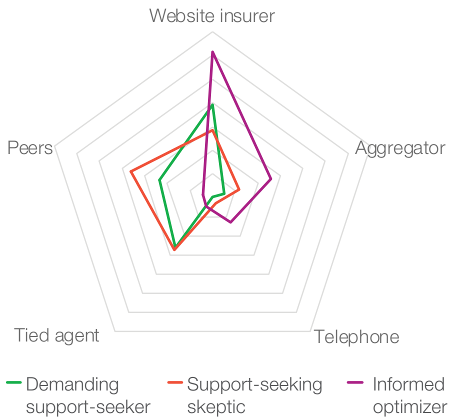
Knowing customers starts by understanding their psychographic types

Attitude cluster	Security-oriented individualist	Demanding support-seeker	Loyal quality-seeker	Price-oriented minimalist	Support-seeking skeptic	Informed optimizer
% of total	15%	16%	19%	16%	19%	16%
Key theme	"I know what I want and organize myself"	"I need personal advice"	"I trust my insurer and remain a loyal customer"	"I do not like insurers – make it cheap and stay away"	"I need advice but prefer to keep my distance from insurers"	"I take time to research to find the best"

Source: IBM Institute for Business Value survey data 2014, n=12,210.

Figure 3

Customer communication preference varies by psychographic segment



Q: Please select the three channels most important to you when searching for INFORMATION about your insurance coverage. Source: IBM Institute for Business Value survey data 2014, n=6,211.

One size seldom fits all

Overall, our respondents stated that the three most important retention factors are price (63 percent), quality of service (61 percent) and past experience (33 percent) – leading back to the price as the main tie-breaker. Yet a closer look across segments paints a more diverse picture: for a demanding support-seeker, quality is by far the most important (74 percent), while a loyal quality-seeker bases his renewal intentions on past experience more strongly than any other group (43 percent).

Assuming an insurer is targeting all these customer segments, it will need a diverse set of customer communication options, as each segment requires approaches tailored to its specific preferences (see Figure 3). This figure shows the five most-used insurance search options in the three segments where we are seeing the biggest shift among millennials, who represent future customers.[2]

The power of emotional involvement

Our data show that appropriate communication with customers sets off a positive chain reaction. First, it increased the use of that type of interaction. Customers perceived the interaction as more positive and ultimately this increased emotional involvement with their providers – the “heart share” of our study title. Finally, emotional involvement is strongly connected to customer loyalty, so increasing involvement from medium to high had a dramatic impact on the loyalty index (see Figure 4).

What is the right way to communicate and increase involvement? As seen in Figure 3, the answer is “It depends,” so there is no one right approach for all customers. But using current technology – specifically, social media analytics – can help insurers improve involvement.

Figure 4

If customers are highly involved, they tend to be more loyal

Source: IBM Institute for Business Value survey data 2014, n=12,210.

With this tool, providers can "listen" to various online sources, understand how they are seen by customers, uncover trends and quickly tie this knowledge to specific actions. They can combine the findings of social media analytics with psychographic segmentation and an individual customer's place within the segmentation; the latter gained via more traditional customer analytics. With this customer view, insurers can even go beyond the personalized knowledge their tied agents tend to have: as customer wants and needs change and they articulate it on social channels, insurers will know and can react in close to real time.

Social media analytics

Social media analytics is a set of tools that allow insurers to analyze topics and ideas that are expressed by their actual or potential customers through social media. This can be on an individual basis, or per customer group. Through social media analytics, insurers can apply predictive capabilities to determine overall or individual attitude and behavior patterns, and identify new opportunities.

Recommendations: Know your customers

Scenario 1

Bill, customer of the fictional firm OpenInsurance has had a car accident. With the cost estimate in hand, he calls OpenInsurance. Their customer analytics has marked Bill as highly trustworthy. Mary, the call-center agent, asks him to send a snapshot of the estimate; she orders him a rental for the repair duration and initiates the payment processing immediately. In the background, further analytics check social media chatter concerning the accident participants and other sources for discrepancies. All is clear.

Understand values and behaviors of your customers. Start with available data sources. Augment structured data from traditional back-end systems with unstructured data like those collected through call centers and written correspondence. With these data, you can deduce meaningful patterns and behavior-based customer segments.

Enter into active dialogues to establish meaningful relationships. Use social media analytics and conversations via social networks to increase customer touch points. Use the gained knowledge about their wants and needs to sustain intermittent conversation about things that are helpful to the customer.

Build an environment where sharing data creates mutual benefits for customer and insurer. Transparency is key. Create and publicize a "customer data policy" which specifies how and when you will use data shared directly or generated through means such as "big data gathering," and how customers will benefit. Use shared data to create extra customer value, as detailed in the next section.

Offer customer value

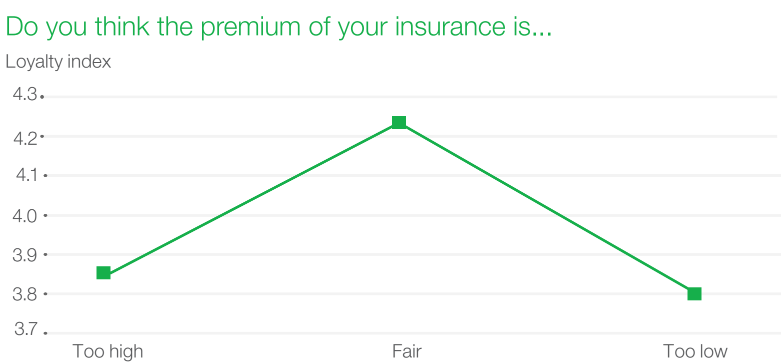
It is no surprise that customer value – that is, the value that a customer derives from the relationship with his or her insurer – drives customer loyalty. In a previous study, we defined customer value as the adequate response to customers' changing needs.[3] How can insurers translate this to understand which value drivers influence retention?

The fairness zone

The first component of customer value we will discuss is – again – price. For most of our respondents, the absolute level of premiums mattered less than individual perception of price fairness – a too-low price has the same negative effect on loyalty as one that is too high (see Figure 5). This means that a customer to whom the price seems right is two to three times less likely to switch in a given year. The fairness of premiums is also an emotional component that insurers need to get right (and tools like social media analytics can support this).

Figure 5

A price that is too low is just as bad for loyalty as a too-high price

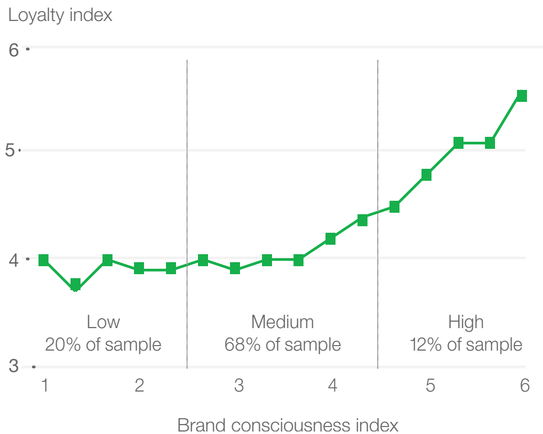


Source: IBM Institute for Business Value survey data 2014, n=12,210.

*A customer who is satisfied with the price he is receiving is **20 times** more likely to have a "high" loyalty index than a customer who is dissatisfied.*

Figure 6

Reputation and brand only matter at the high end



Source: IBM Institute for Business Value survey data 2014, n=12,210.

What is the power of brand?

The second value factor we examine is brand. What is the retention value of a good brand? According to our data, it's less than expected. Only 21 percent of our respondents name "reputation" as one of the factors that cause them to stay with their chosen insurers. Could brand still be an implicit value driver?

Our recent consumer products industry study "Brand enthusiasm: More than loyalty" showed that brand consciousness and brand loyalty are changing, and our data echoes those findings.[4] Only 12 percent of respondents have a high brand consciousness, and that is the only bracket where it has a strong effect on loyalty in the insurance world (see Figure 6).

This suggests that an extra investment in brand creates limited loyalty returns; a great brand only matters if your customers belong to the few that are brand conscious to begin with. Moving customers to the "high" consciousness bracket might prove difficult to achieve.

So how can insurers, many of whom already have a strong brand, make this work to their advantage? We propose adopting the concept of "brand enthusiasm." Brand enthusiasm is influenced by the level of customer engagement, which we will explore in the next section, and again leads to the increased emotional involvement with the insurer that we call "heart share."

Transparency, not complexity

Last but not least, we examined other product-related value drivers. We suspected that the often high complexity of insurance products has a negative effect on loyalty, but our data proved this hypothesis wrong. Although product complexity might be a deterrent to purchase (which was outside the scope of the survey), even those who perceived the product they bought to be highly complex did not show a higher propensity to switch.

In contrast, transparency about the product strongly influences loyalty in a positive way. Transparency leads the customer to understand and be more comfortable with the product (and the insurer) even when it is complex. Seventy percent of respondents who reported that their product understanding was high expressed high loyalty – almost three times as many as those with low product understanding. High transparency leads to rational involvement: the "mind share" in our study title.

What current technology can help insurers promote customer value? To give customers an emotional connection and involvement with a fair price and a transparent product, telematics is ideal. Regarding fairness, customers can see that the rate is based on their personal risk and influenced by their personal actions. Examples include a "pay-how-you drive" auto product or the use of exercise tracking devices in health insurance. Transparency of this sort of auto product is high, and for many telematics offerings, there is an additional fun factor by seeing how well you drove, thus competing against yourself for better driving scores.

Telematics

Telematics is a technology that collects information through sensors and transmits them wirelessly to outside systems. The sensors can be built into anything: cars, home appliances, wearables, clothes, medical devices and even prosthetics. The use of telematics allows insurers to build individualized products, with terms and even premiums based on actual usage and behavior.

Recommendations: Offer value

Scenario 2

Bill's car has built-in telematics including an accident detector. At the time of the crash, a call is triggered automatically via an embedded app; this also starts the claims process. Mary calls Bill in his car right after the accident and lends assistance: a tow-truck is sent and Bill is directed to a garage connected to OpenInsurance's claims network. The claim is handled via compensation in kind; the paperwork for Bill is minimal.

Support your customers in areas they personally value, even if they are not directly related to your core business. Offer information to your customers in useful areas that are widely related to their coverage: for example, traffic or weather information for auto insurers. Create communities of interest – in social networks or directly hosted by you – to share news, tips and enhance exchange among like-minded individuals and your organization.

Add risk mitigation or prevention into your products and services. Commercial insurers have been doing this for years. Start offering these at the outset of the contract relationship. Later, add tracking via telematics, plus assistance services.

Personalize offerings and provide pick-and-choose product options. Product flexibility starts in the back end. Your application architecture must enable a modular approach to products and services. Build a roadmap for flexibility using industry standards such as IAA. From the front end, add in-depth analytics to flexibly balance the offered options with market needs.

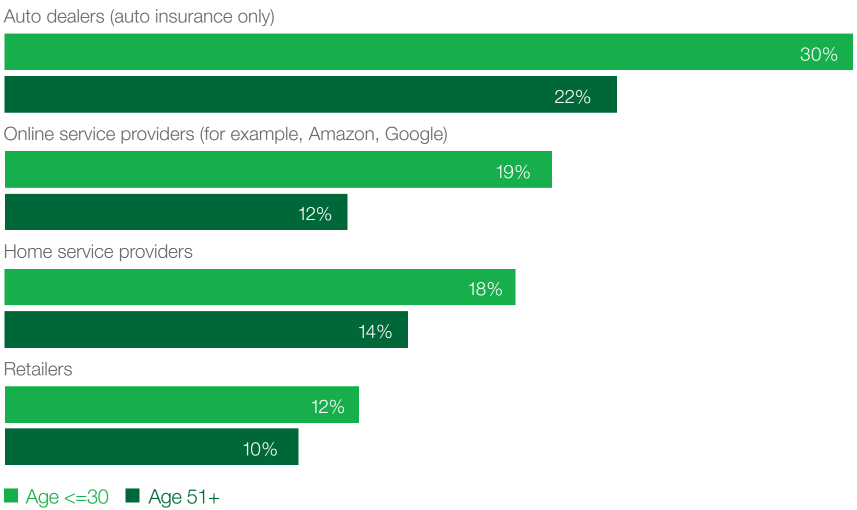
Fully engage your customers across access points

Incumbents at risk

One characteristic of the millennial customer is the desire for omni-channel shopping for their goods and services.[5] For insurance shoppers, this extends well beyond using traditional insurers – many millennials are open to using adjacent providers and new entrants into the market (see Figure 7).

Figure 7

Millennials are open to using non-traditional insurance providers



Q: Would you consider buying insurance from these providers?
Source: IBM Institute for Business Value survey data 2014, n=6,377.

58%

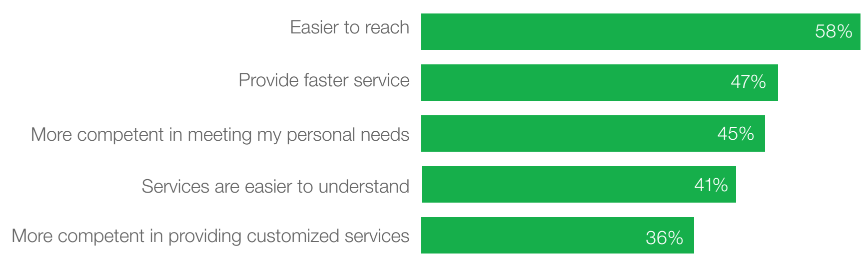
of respondents think non-traditional providers are easier to reach

In the short run, offerings like Google Compare mainly replace existing aggregators; insurers still cover the actual risk. In the long run, online service providers – given their good customer knowledge across many products and services – could start to accept risk themselves. In this case, customers' already-stated willingness to switch would become a real threat to incumbents.

In addition, the reason respondents gave for considering those providers should be troubling to insurers: they describe non-traditional providers as faster, more transparent and easier to reach (see Figure 8). To counter this, carriers need to engage with their customers across a broader range of access points than ever before.

Figure 8

Many customer think non-traditional insurance providers are more accessible



Q: Why would you buy from these [non-traditional] providers?
Source: IBM Institute for Business Value survey data 2014, n=8,492

The age of mobility

One option is to be more accessible on the go. Ninety-six percent of our respondents own some form of mobile device, most often smartphones (owned by 82 percent of respondents) and tablets (owned by 49 percent); they have become commonplace modern accessories throughout the world. Still, only 13 percent of respondents who bought their insurance online, either directly or via an aggregator, used their mobile devices to buy. On the other hand, 29 percent of all respondents stated they would like their insurers to offer an option to buy through a mobile device, and that this would increase their loyalty.

Expanding mobile offerings outside of searching and buying is an instant accessibility increase with potential loyalty gains. The biggest effects would be in submitting claims (42 percent) and in simple communication (43 percent). Many insurers have already invested in apps for claim submission, but again, they seem to be either unknown or too hard to use.

The effect of expanded mobile offerings differs widely by country, with the more empowered customers in developing markets increasing their loyalty more (see Figure 9). Still, given the larger market sizes in mature markets, investment in mobile services are still expected to generate returns.

Connecting everything, everywhere

Looking toward the longer term, insurers will also need to consider investing in the Internet of Things (IoT) to enhance customer engagement. A growing number of consumers either own or can imagine owning an Internet-connected device like a refrigerator or a washing machine (56 percent of millennials, 36 percent of boomers).

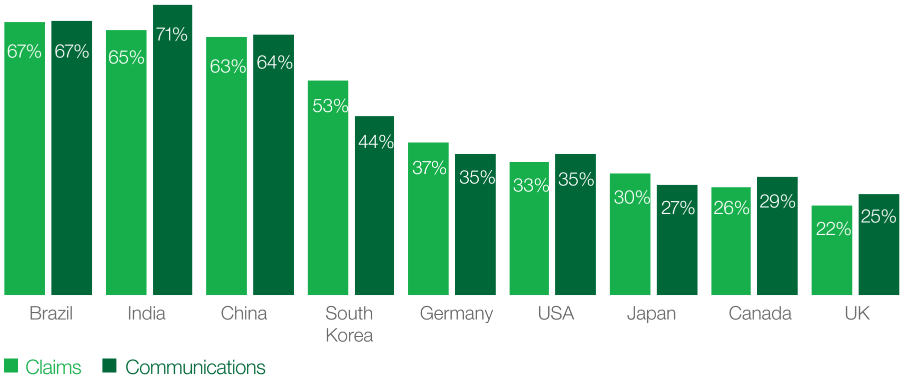
Internet of Things

The Internet of Things (IoT) is the network of physical objects or "things" embedded with electronics, software and sensors that interoperate within the existing Internet infrastructure.[6] It is forecasted to surpass 25 billion devices in 2020.[7] There are several areas of interest for insurers:

- The IoT will include many insurable or insured objects (such as household items)
- Combined with telematics, the IoT will help link other coverages (such as multi-function bathroom scales to life and health insurance)

Figure 9

Customers in developing markets push more strongly for mobile insurance services



Q: If your insurer allowed you to use a mobile device for the following functions, would this increase your loyalty? Agree or strongly agree.
Source: IBM Institute for Business Value survey data 2014, n=4,607.

Currently, only a small percentage of customers told us they would be comfortable with insurers using the data from these devices (21 percent of millennials, 15 percent of boomers.) Still, for those respondents, the greater accessibility and convenience of the IoT would lead to an increase in loyalty. Insurers can make use of the IoT if they sell it right: with high transparency regarding how the data is used (and not used).

Recommendations: Fully engage

Embrace mobile to enable constant access for your customers. For your main set of lines of business, envision "customer journey maps." These maps document the typical steps a customer must take during the provider relationship, from needs discovery through information gathering and purchase, all the way through after-sales services and claims processes. For each step, identify interaction options to generate a complete picture of potential mobile touch points.

Support decision making throughout each step of the sales process at the convenience of your customers. Create one unified front end for the customer, whether they come in through an agent, call center, the Internet or mobile devices. Make customer data and product information equally available at all touch points.

Have information available anytime, anywhere to support instantaneous fulfillment of client requests. Equip tied agents, underwriters, claims adjusters and other fulfillment roles with mobile technology like tablets and other handheld devices. This allows you to abandon a fixed workplace in favor of greater fulfillment flexibility – for example, claims can be adjusted directly on-site.

Scenario 3

Bill's accident now involves several parties, with damages to surrounding property. After the triggered call, OpenInsurance sends out aerial drones for the initial damage assessment, followed by Mia, an OpenInsurance claims adjuster. Mia does her job in the field using a handheld mobile device. With GPS info, she can get to the accident site quickly. Her assessment app integrates the drone input with her own pictures; with additional help from her cognitive expert system, Mia can wrap up assessment on site and in real time.

Ready or not – are you capturing the hearts and minds of your customers?

How are you using your in-house sources of customer knowledge? In what ways are you gathering and adding external information, such as that from social networks? How are you combining internal and external information? How is it used to generate greater customer value and loyalty?

Where and how are you using needs-based or persona-based segmentation approaches? How will you deepen your level of understanding individual customers?

To what degree can your customers pick and choose options from your product portfolio? What is your plan to remove the barriers to further customization?

How do you communicate with your customers? What is your approach to staying abreast of the ways they prefer to communicate, now and in the future?

In what ways are you engaging millennials? And how will you stay updated to address the customers of the future, such as Generation Z and beyond?

For more information

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. Follow @IBMIBV on Twitter and for a full catalog of our research or to subscribe to our monthly newsletter, visit: ibm.com/iibv

Access IBM Institute for Business Value executive reports on your phone or tablet by downloading the free “IBM IBV” app for iOS or Android from your app store.

The right partner for a changing world

At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today’s rapidly changing environment.

IBM Institute for Business Value

The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical public and private sector issues.

About the authors

Christian Bieck is the global insurance leader for the IBM Institute for Business Value. He is an economist by training, and he worked in various roles in the insurance industry in Europe before joining IBM as a process consultant and researcher. Christian is a frequent speaker on thought leadership and innovation at insurance events and workshops. He has authored various papers on insurance trends and implications, both for the IBM Institute for Business Value and international insurance industry publications. Christian can be reached at christian.bieck@de.ibm.com.

Lee-Han Tjioe is Vice President and consulting Partner for IBM Global Business Services. He worked in mature and developing markets for insurance companies on matters like digital transformation and core insurance transformation. Through his work with insurance companies, he has acquired a worldwide perspective on successful innovations in insurance. Lee-Han led the global and growth markets insurance industry consulting practices for IBM and now he is responsible for the European integrated insurance industry practice for IBM Global Business Services. Lee-Han can be reached at lee.han.tjioe@nl.ibm.com.

Contributors

Matthias Ruefenacht, Project Manager, Institute for Insurance Economics at the University St. Gallen, Switzerland

Professor Peter Maas, Vice-Director, Institute for Insurance Economics at the University St. Gallen, Switzerland

Joni McDonald, Content Strategist/Writer, IBM Institute for Business Value

Kristin Biron, Visual Designer, IBM Institute for Business Value

Notes and sources

1 Bieck, Christian, Mareike Bodderas, Peter Maas and Tobias Schlager. "Powerful interaction points: Saying goodbye to the channel." IBM Institute for Business Value. December 2010. http://www.ibm.com/services/us/gbs/thoughtleadership/ibv-gbs-insurance-interaction.html; Bieck, Christian, Peter Maas and Tobias Schlager. "Insurers, intermediaries and interaction: From channels to networks." IBM Institute for Business Value, December 2012. http://www.ibm.com/services/us/gbs/thoughtleadership/ibv-insurance-intermediaries.html; Bieck, Christian, Anthony Marshall and Sandip Patel. "Digital reinvention: Trust, transparency and technology in the insurance world of tomorrow." IBM Institute for Business Value. January 2014. http://www-01.ibm.com/common/ssi/ cgi-bin/ssialias?subtype=XB&infotype=PM&appname=GB SE_GB_TI_USEN&htmlfid=GBE03589USEN&attachment=G BE03589USEN.PDF

2 Bieck, Christian, Anthony Marshall and Sandip Patel. "Digital reinvention: Trust, transparency and technology in the insurance world of tomorrow." IBM Institute for Business Value. January 2014. http://www-01.ibm.com/common/ssi/ cgi-bin/ssialias?subtype=XB&infotype=PM&appname =GB SE_GB_TI_USEN&htmlfid=GBE03589USEN&attachment=G BE03589USEN.PDF

3 Bieck, Christian, Peter Maas and Tobias Schlager. "Insurers, intermediaries and interaction: From channels to networks." IBM Institute for Business Value. December 2012. http://www.ibm.com/services/us/gbs/thoughtleadership/ibv-insurance-intermediaries.html

4 Davidson, Julia Chen, Trevor Davis and Anthony Bigornia. "Brand enthusiasm: More than loyalty." IBM Institute for Business Value. November 2014. www.ibm.com/services/us/gbs/thoughtleadership/brandenthusiasm/

5 Bieck, Christian, Anthony Marshall and Sandip Patel. "Digital reinvention: Trust, transparency and technology in the insurance world of tomorrow." IBM Institute for Business Value. January 2014. http://www-01.ibm.com/common/ssi/ cgi-bin/ssialias?subtype=XB&infotype= PM&appname=GB SE_GB_TI_USEN&htmlfid=GBE03589USEN&attachment=G BE03589USEN.PDF

6 Definition of "Internet of Things." Wikipedia. http://en.wikipedia.org/wiki/Internet_of_Things. Accessed on May 20, 2015.

7 Brody, Paul and Veena Pureswaran, "Device democracy: Saving the Internet of Things." IBM Institute for Business Value. March 2015. http:/ www.ibm.com/services/us/gbs/thoughtleadership/internetofthings/

IBM Global Business Services
Route 100
Somers, NY 10589

Produced in the United States of America
May 2015

GBE03674-USEN-00