Balancing the Scales toward a Stable and Dynamic Insurance Future

Moderator: Wyatt Urmey  
July 27, 2009

Wyatt Urmey: Hello and thanks for taking the time to listen to this Institute for Business Value Insurance podcast. My name is Wyatt Urmey. I’m the Global Insurance Industry Marketing Manager. And we are fortunate to be joined by Christian Bieck the Insurance Leader for the IBM Institute for Business Value as well as David Notestein who leads overall Financial Services sector for the same IBV.

Christian and David are the authors of the latest IBV insurance study called Balancing the Scales toward a Stable and Dynamic Insurance Future. So Christian and David welcome.

Christian Bieck: Hi Wyatt.

David Notestein: Hello Wyatt thanks for inviting us.

Wyatt Urmey: So gentlemen let’s get right down to the study. As I mentioned the title is Balancing the Scales toward a Stable and Dynamic Insurance Future. Now in the market place like this aren’t stable and dynamic contradictions Christian?

Christian Bieck: At first glance Wyatt it might seem so. We are talking about stable and dynamic now stability is the fundamental of insurance and that means thinking about the long term and acting with prudence. The insurance industry carries risks for whole economies and that’s why stability is so important.

When we look into the current financial crisis most insurers were stable and did operate quite well. In insurance we saw little of the excessive risk taking that we had in other parts of the financial services industry. Of course not all insurers acted prudently.

But our study shows that insurance customers do very well distinguish between real insurance activities and between the outliers that caused a lot of damage to the financial market. Now stable and dynamic the second part is dynamic.

To be dynamic will be important for insurers going forward right now many companies are in panic mode. They’re reducing operations, cutting costs, and generally hoping that they can ride out the storm. Historically though in times of crisis the good companies are innovators.

Those that invest in new ideas, improve their flexibility, and think about new business models those are the carriers that will have a competitive advantage when times return to normal.
David Notestein: And it’s important to understand that it comes to balance. Stable and dynamic are the two sides of the variable we call change. Insurers have to decide really how to best approach it. In our study we examine several of these variables and how insurers are going about balancing them.

For example we took a deep look at the variable called customer and how empowered they feel and what they’re willing to pay for. We find that insurers are investing a lot in client analytics but are not always succeeding in understanding what their customers really want.

Wyatt Urmey: Thanks David and Christian. I remember that the last IBV insurance study Trust, Transparency, and Technology also focused on the insurance customer. The trust you talk about is the key point for insurers to address when meeting their customers correct. Do you guys have any comments additionally on the customer?

David Notestein: You’re absolutely correct Wyatt. Trust continues to be an important factor in insurance dealings. Unfortunately consumer trust in the insurance industry is low both globally and in the regional markets. There’s a bright side however though.

Our data show that the global financial crisis did not really change that trust level for insurers. We compare that to the banking industry that started out much higher than insurance but then took a massive hit due to the consumers realizing just how big of a financial challenge we are in today.

By the way a recent Harvard Business Review article confirms our view of trust is one of the major factors in insurance. They list trust decline as one of the top trends and show similar numbers to ours.

Christian Bieck: By the way the same Harvard Business Review article confirms another of our findings and that’s that the focus and globalization is lessening. Insurance is a quiet local business as we’ve found and that is it is likely to stay that way. Now that doesn’t mean that international or even global expansion doesn’t make sense for insurers.

But if they do they have to integrate smartly. Insurers should always remember that insurance markets are local and that one size does not fit all and that goes for product, strategy, pretty much everything. Insurers especially have to remember that customer segments are different in every market.

Wyatt Urmey: Interesting. Maybe you can expand a little bit more on this customer segment and the findings behind it Christian.

Christian Bieck: Sure Wyatt. Usually insurers use some kind of demographic measurement to segment the customer base things like age, income, marital status, etc. That’s fine when you want to sell for example life cycle products like annuities or young family products.

But it does not tell you why people behave the way they do. Now in our studies we base our customer segmentation on a series of questions about insurance attitudes and values. That way we get a so called psychographic segmentation which gives us a lot more background on consumer behavior.
For example if we know that an insurance customer is male, 46 years old and lives in Manchester that information alone will not tell us how to approach him. But if we know that he is the customer type, traditional service expectant as we call it that helps us a lot more because that type describes his motivation and why he behaves towards insurance the way he does.

Understanding those segmentations helps us get away from the perpetual price discussion. And many people assume everything hinges on the price of a good or service but price is important and has to be right. But all our data show that the majority of customers value things other than price.

Wyatt Urmey: That's very insightful on the client side and their needs. Now David earlier you mentioned that balancing the scales looks at how empowered customers are currently. What do you mean by that?

David Notestein: Well Wyatt what we know from our prior IBV study called Insurance 2020 is that the customer of the future in insurance is both active and informed. In balancing the scales we asked how can we measure how active and informed are they?

To do that we really developed the concept of the Empowerment Index to do that our initial definition of empowerment is simple. Customers are empowered if they take charge of the relationship with the companies they do business with.

Then we divided that into customers who have to be willing to take charge and then they have to be able to take charge. When you measure that you get a two dimension empowerment index with empowerment ability on the one side and empowerment willingness on the other. Finally we can measure how actual customers are distributed along the two dimensions and correlate this to other behavior or even segmentation.

Christian Bieck: The exciting thing about empowerment is that it gives us another segmentation scheme which insurers could use to analyze their customer. For example our data show that the most empowered customers those that are able and willing to take charge are also the customers that are willing to pay the most.

And we call those the assertive customers. Then there are customers that are willing to take charge but they are lacking the ability. We call those the demanding customers. And the demanding customers pay less or are willing to pay less than they assertive ones.

Now insurers could actually do something about that after all what prevents people from being able to be empowered is some kind of outside barrier and most of the time insurers are just not that easy to do business with and that's where the barrier comes from.

Wyatt Urmey: Thanks guys that's very helpful. Now a final question for the two of you. Can you give our audience three take aways from the study? Let's start with you Christian.

Christian Bieck: Sure Wyatt. Number 1, understand your customer. Some insurers are very good at client analytics but many simply generalize from prior experiences which perpetuates a lot of myths about the insurance customer.
Number 2, insurance is the local business so when we talk about the globally integrated enterprise the key word here is integrated. Integration will benefit you no matter how widespread your operations are. You take Number 3 David.

**David Notestein:** Thank you Christian. Yes Number 3 keep your brand and message distinctive and be real for your customers. Customers will buy from you if they feel you know what you are doing and package according to their needs not to yours.

**Wyatt Urmey:** This has been a good summary thanks. This concludes today’s podcast. This is Wyatt Urmey. I’m IBM’s Insurance Industry Marketing Manager globally and our guests Christian Bieck and David Notestein of the IBV thank you.

Our listeners for your interest in Balancing the Scales toward a Stable and Dynamic Insurance Future, the new insurance study by the IBM Institute for Business Value. To download the full study report from IBM visit www.ibm.com/gbs/insurancebalance. Thanks for listening and make it a great day.