

Insurance insights

The changing face of the insurance customer

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Summary

In 1999 the world was under threat from ... the Millennium Bug.

Likewise, futurists were predicting the traditional customer-supplier relationship would also be under threat.

The year of 2000 came; we partied like it was 1999 (to quote Prince) and the world didn't come to an end – at least not from the Bug.

But the world of the customer certainly changed. And it is continuing to alter dramatically, with the customer firmly in the driving seat when it comes to their choice and purchase of goods and services.

The commercial insurance industry in Australia and globally is no exception, facing considerable challenges in how customers interact with insurers and buy their insurance.

We are no longer in an analogue world; it is a digital one that has exploded with endless information and communication in milliseconds. And, customers in the digital world are not waiting for the insurance industry to catch up.

The growth of the internet and the access to vast amounts of information has resulted in a more educated insurance customer.

Consequently, they expect their insurance to be tailored to their needs; demand better service and better experience; expect solutions rapidly delivered; and make many more demands.

This is dramatically impacting on how customers want to interact with the insurance industry.

The 2013 “Vero SME Insurance Index,”¹ which surveyed more than 800 owners of small to medium enterprises (SMEs) across the country clearly showed the “new generation” is more hands on about their insurance needs and will often carry out extensive research rather than the traditional approach using an intermediary, such as a broker or authorised representative (AR).

This white paper looks at how customers are changing and the resulting challenges commercial insurers and intermediaries face to keep pace with these rapidly changing needs.

The white paper focuses on commercial insurance customers (particularly SMEs) rather than customers in the wider, product-crowded personal insurance market which has its own specific challenges.

So who is today's commercial insurance customer? What do they want from their insurer? What must insurers do to respond to the changing face of the customer?

¹“Vero SME Insurance Index 2013”, Commercial Insurance, Suncorp

Background

Little more than a decade ago, small business owners simply looked in the yellow pages for a local insurance intermediary (brokers or agents) and rang them to ask for help to get their insurance cover.

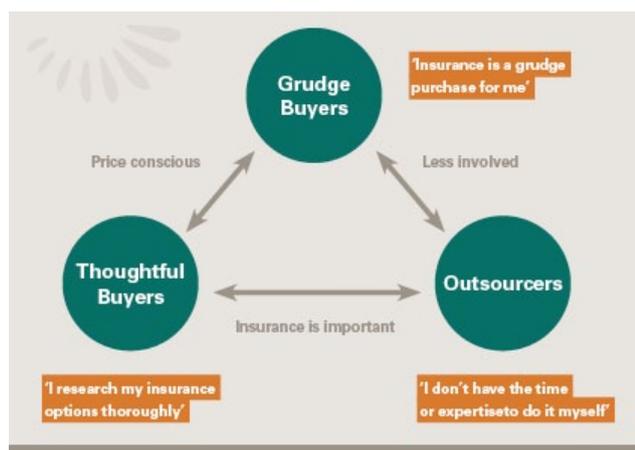
The covers were often complex and came with extensive “small print”, which the small business owner didn’t understand or have the time to try.

The intermediary handled it all. The owner knew they had to have some insurance and knew the intermediary could deliver it.

Times have changed. The digital world has seen the whole approach by ALL customers seeking goods and services turned on its head – no matter if it is from retail shops or insurers.

Customers are becoming more educated and sophisticated in how they daily choose a range of products and services, including their insurance needs.

The Vero SME Index gave some valuable insights into SMEs and the business owners feelings on insurance, the main take-out being – perhaps not surprisingly – **not all SMEs feel the same about insurance.**



It showed there were three clear and simple customer segments

They are:

- “Grudge Buyers” (“Insurance is a grudge purchase for me”)
- “Thoughtful Buyers” (“I research my insurance options thoroughly”)
- “Outsourcers” (“I don’t have the time or expertise to do it myself”).

The largest category is “Grudge Buyers”, who tend to be younger; have micro businesses and are highly price driven.

“Outsourcers” are primarily users of brokers; mostly over 40 and happy to pay for good advice.

“Thoughtful Buyers” are highly involved in doing their own research (primarily on the internet); quite wary; micro business owners; and interestingly, more likely to be female. The latter point is liable to be a challenge – or possibly an opportunity – for the male-dominated intermediary industry.

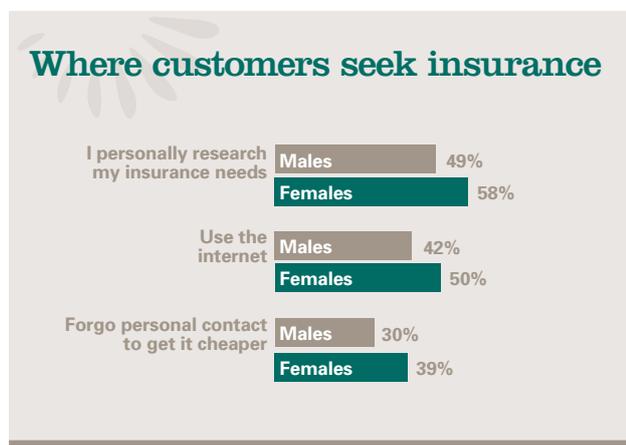
However, the fast-moving, evolving, digital age customer may not even be that clear cut.

According to global researcher Forrester Research², customers rarely rely on one channel when buying financial products, instead using multiple touchpoints in a single customer journey. They might search the internet, phone a call centre to ask questions, start filling out an online application and, ultimately, talk to an intermediary.

Forrester noted that a quarter of European customers who researched a financial product in direct channels ended up buying face to face.

² Best Practices in Multichannel Financial Services Sales,” by Vanessa Niemeyer, Forrester Research, Inc., 2011.

The insurance industry cannot ignore customers who use the internet or the direct channel, such as call centres.



The Vero Index shows a substantial and slowly growing portion of the SME market is purchasing insurance by internet or on the phone (35% in 2011 and 39% last year).

However, this is primarily at the micro end of the SME market. In other words, a tradie with a ute and his dog generally has simple insurance needs and seeks convenience in obtaining cover

The micro business owners often work long and irregular hours. They find themselves catching up on invoices, paying wages, and doing internet banking – and insurance – whenever they get a spare moment, often late into the evening.

So insurers need to cater for this new type of customer, making it simple and easy for them to feel they have adequate cover.

For example, the AAMI online business site allows business owners to buy a policy anytime of the day or night, any day of the week.

(Perhaps some insurers are taking the digital world to the extreme. A Chinese insurer teamed up with a computer developer to offer real insurance for virtual property owned in Second Life, a 3D virtual world.)

The use of social media (twitter, Facebook, etc.) is still to make a major impression on the commercial insurance market but it is growing.

Certainly, the younger generation is rapidly using its social media networks to praise – or more likely condemn – their personal insurance cover to their friends.

From a service aspect, both insurers and intermediaries may find social media a valuable way to communicate to their customers on a regular basis.

Ultimately, the insurance industry has to embrace social media; customers will demand it.

But whatever the medium, it is very clear that with the customers so fragmented the insurers need to genuinely understand who they are and what they want.

Two clear strategies are emerging to deal with the changing customer:

- The customer must be front of mind to everything an insurer does; and
- To cater for the changing customer, multi distribution channels and brands are the future for insurers.

Traditionally, insurers have seen themselves as product manufacturers.

But with the growing demands of a more sophisticated customer who can carry out their own product search with a click of the mouse, it is service and their experience that will attract and retain them with an insurer.

A recent paper by Ernst & Young concludes that for insurers to succeed in the fast moving digital world requires them 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.”³

³ “The journey toward greater customer centricity” by Shona Burns; Christine Delaney; Paul Clark; and David Sterner, Ernst & Young, 2013

The latest Capgemini and Efma “World Insurance Report”⁴, which surveyed 16,500 customers worldwide, noted that insurers had to have a more holistic approach to the various touchpoints they have with their customers.

The report concluded that to differentiate themselves from their competitors, insurers need to offer an outstanding experience in the areas deemed important to the customer.

That is, they must look beyond basing customer satisfaction on competitive pricing or even product innovation (which can quickly be replicated by competitors).

It is probably less complex than that - insurance is built on trust. Even in or, perhaps, because of, the digital world, trust is still built on people, which translates into the personal touch.

It is here where insurers and intermediaries can join together as one to counter digital “attacks”.

An IBM Institute survey of nearly 1000 customers and more than 1300 intermediaries from 17 countries showed that insurers had to see their intermediaries (including independent) as partners and not just sellers.⁵

The study also showed that insurers had to view intermediaries as their advocates to help maintain trust levels, in particular personal trust.

Customers see insurance companies as exactly that – companies – not a group of people.

Brokers and other intermediaries have the personal touch and build trust, which creates the halo effect for insurers.

The 2013 “World Insurance Report” noted: “Customers still have a strong preference for physical networks when it comes to gaining trust in their insurer.”

But insurers cannot rely solely on one or two channels, even if intermediaries remain the most attractive.

The customer dictates how they want to do business.

Insurers who are inflexible in meeting the changing needs and variety of customers will simply cease to grow.

A multi-channel distribution (and correspondingly multi-brand) strategy gives an insurer the competitive edge to meet the customer’s challenge. At the same time, the insurer has to be flexible to adapt its distribution to the relentless advancements in technology.

Research by the “World Insurance Report” found that multi-distribution initiatives were a critical part of insurers’ strategies to retain customers – and grow revenue.

The report argues that there not only needs to be numerous distribution channels – from direct/online to face to face advice –but the channels have to be integrated.

Just as the new digital age customer uses a variety of means to come to a decision on buying their insurance, from researching online to talking to an intermediary, an insurer with various channels needs to ensure they integrate those channels.

At the same time, insurers need to look to centralising the information used by individual channels.

For example, a fledgling one-person business may have very simple insurance requirements which they can possibly obtain online. But as their business grows and staff and offerings increase, the business becomes more complex and may require equally complex insurance solutions.

The business is likely to move from an insurer’s online brand to its intermediary-aligned brand, providing the customer experience with the insurer was good in the first place.

4 “World Insurance Report 2013”, Capgemini and Efma.

5 “Insurers, intermediaries and interactions” by Christine Bieck, Dr Peter Maas, and Dr Tobia Schlager, IBM Institute for Business Values, 2013

Not only does an insurer of today need to have a multi-distribution strategy, they also have to differentiate their channels by clearly defined (and different) brands.

This white paper has not the space to delve into the multi-brand strategy as it is a wide ranging topic in its own right, but it is also a critical feature in the insurance industry of today.

Certainly, the customer of today – and even more so in the near future - expects an insurer to provide them with what they want (product, service); when they want (24/7); and how they want (various distribution channels).

The digital age customer is also challenging intermediaries.

The internet has made it easier to find out about insurance but, ironically, it seems to be giving customers TOO MUCH information at the same time.

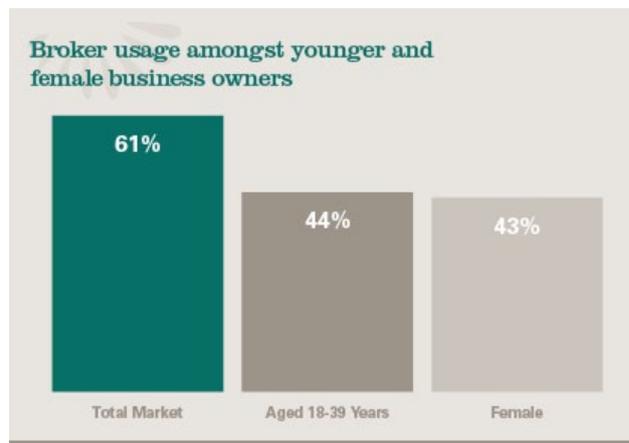
SME owners realise it is not easy to decide on what cover they need.

Consequently, many continue to turn to the experts – intermediaries – to help.

However, intermediaries cannot be complacent.

The 2013 Vero SME Insurance Index clearly shows intermediaries are facing a number of challengers from the “new generation” of business owners.

While intermediaries continue to be the dominant go-to segment for SMEs, young business owners and the growing number of female business owners are less likely to use an intermediary than their older counterparts.



The internet has become the default medium to research and, more than likely, transact their business.

A key question for intermediaries is how to convey their value proposition and remain relevant to younger business owners as this next generation of SMEs take over.

However, it is not only the “young and the restless” who are looking to the internet. The more traditional customers of brokers seem to be casting their net further.

According to Roy Morgan Research, the construction and professional services industries are turning to greater use of online placement channels.⁶

However, in industries that are much less inclined to purchase online, particularly agriculture, intermediaries are by far the preferred method for obtaining new insurance products, Roy Morgan reports.

There is an interesting parallel between customers of insurance intermediaries and travel agents.

A growing number of holidaymakers are planning their holidays by looking on the internet or using social media to get opinions of the best hotels and holiday spots.

⁶ Roy Morgan Research's Business Single Source, March 2013

Sites like “Expedia”, for example, can instantly source a range (mainly through price) of hotels and resorts.

People are also able to choose from a host of airlines, primarily based on price, with a couple of clicks on the internet.

Travel agents, like insurance intermediaries, were listed as an endangered species a few years ago.

They have had to re-invent themselves – many call themselves travel advisers now – and, following some major online awareness campaigns, are now seen by their customers as able to go beyond just getting the right price for accommodation or travel.

Some British research (admittedly by the travel agents’ own association) showed that the percentage of customers booking a foreign holiday through a high street travel agent grew from 17% in 2010 to 25% in 2011 and 27% in 2012.⁷

Surprisingly 45% of those aged under 25 – dedicated digital users – said they valued the services of the travel agents.

Just as the internet is providing insurance customers with too much information, holidaymakers found they were getting too much information for their planned holiday.

Research suggested they felt the travel agent was able to not only give them a number of options (some of which the customer would have gleaned themselves from the internet) but actually provide them with one that fitted their needs.

The study showed that if holidaymakers were planning a complicated, multi-stop trip they immediately turned to a travel agent. The would-be travelers also saw travel agents as a safety blanket if anything went wrong with their booking.

The parallel between travel agent (or travel advisers as they prefer to be called now) with insurance intermediaries is obvious. Arguably you could substitute insurance intermediaries with stock brokers, who face the threat of online share trading.

Insurance intermediaries also need to see the internet and changing customer demands as opportunities rather than threats.

National Insurance Brokers Association (NIBA) CEO Dallas Booth said in an interview: “There is a generational change in business-owners and they buy insurance differently.”⁸

“But this is an opportunity rather than a threat. I am more convinced than ever that there is a strong future role for brokers,” Mr Booth said

A key task for NIBA, he said, was raising community awareness of the benefits of brokers.

SME insurance guru Ross Cameron of Cameron Research Group also argues that the business that is being conducted online is at the smaller end of the market – not necessarily an area brokers are seeking.

He is reported by ‘insuranceNEWS’ as saying: “The businesses targeted by brokers are likely to stay with brokers,” adding that the industry can accommodate both.⁹

Some intermediaries have embraced the new world of the internet. If you can’t beat ‘em, join ‘em.

After taking its offering online, broker Gallagher Australia has nearly tripled the number of policies it sells to SMEs in the real estate industry.

Gallagher Australia Chief Commercial Officer Glenn Hanna was quoted in the “Australian Financial Review” as saying it was impossible to ignore shifting buying habits of increasingly time-poor and internet-savvy customers, particularly in the SME sector.¹⁰

⁸ ‘insuranceNEWS.com.au’ 29 April 2013

⁹ insuranceNEWS.com.au” 17 June 2013

¹⁰ Article by Ruth Liew, “Australian Financial Review”, 14 August 2012

⁷ 2012 Consumer Travel Trends Survey, Association of British Travel Agents.

Gallagher launched a web platform for real estate agency Harcourts Australia, with insurance products for the property industry.

“On average, we were selling 1.2 policies per customer before we went online, now we would sell 3.5 policies per customer,” Mr Hanna said.

Gallagher’s ongoing strategy is to channel more SME sales online to free up staff to concentrate on customer service and networking.

In the new world of offering customers a wide range of distribution choices channel conflict can become an issue for insurers and intermediaries.

The IBM Institute for Business Value’s study argues insurers and insurance intermediaries are good partners.

“They help their intermediaries more in their daily business, enabling them to work better, advise their clients more effectively and, ultimately, sell more. These partner benefits range from access to training and customer information; all the way the insurer adapting processes and working with intermediaries on product creation.”

Israel’s oldest insurance company Migdal found its highly successful sales channel of agents saw the internet as competition for their business.¹¹

The insurance company also had a direct online business for car and travel insurance and the agents felt the company had set up conflicting channels.

So, last year Migdal built a data warehouse – including data from the call centre and claims management - that gave it a comprehensive multichannel view of its customers, looking at the interaction they had with the company rather than from a product perspective.

From there Migdal built digital tools that make it easier for customers to understand and choose insurance products and, at the same time, tools, such as iPhone applications, that helped agents use the internet to support sales and service.

The tools gave agents easy access to product information, but, equally importantly, information about customers.

Migdal went even further: it developed a number of services to help agents market themselves on the web and win new customers online.

Extensive training was carried out as many agents were reluctant to use new technology as they lacked digital knowledge. The company also went to great lengths to emphasise they were not ignoring the agents’ relationship and insurance knowledge skills but complementing them with new (digital) tools.

Within a year sales increased markedly, which the company puts down to the growing number of agents who had climbed aboard the digital train. Interestingly, the digital strategy attracted new agents to Migdal.

Suncorp’s Resilium brand, which provides insurance products through authorised representatives (ARs), has embarked on a similar path, primarily through social media.

Resilium has set up entries on LinkedIn and Facebook directing potential customers to seek advice from ARs.

In turn, Resilium is also providing templates and tips to help ARs set up their own Facebook and LinkedIn entries, as well as websites.

¹¹ Case Study: Digital Solutions Help Migdal’s Agents to Master A Multi-Touchpoint World” by Benjamin Ensor and Sabine Poltermann, Forester Research Inc., January 5 2012

Conclusion

The commercial insurance customer is not only king (or queen) but also complex in their needs.

They are much better informed about insurance than their predecessors and more demanding.

No longer can commercial insurers and other industry players, such as intermediaries believe they can “build it and they will come.”

No longer can they look inwardly at their business but need to view it from their customer’s perspective.

The customer has to be front of mind in everything an insurer does, from the underwriting to the claims experience.

SMEs, in particular, post the Global Financial Crisis, are looking at the costs of running their business and the service offered when they purchase.

They know their own customers are becoming more discerning and liable to use the internet to see they are getting what they want and value for money.

Likewise, the SME owners will use the internet for insurer price comparison; check for information on the cover; and even use social media to “review” the insurer.

However, carrying out their own research may, ironically, make them realise buying insurance isn’t as easy as buying other products.

At the moment, customers seem to be using the internet for their research and then returning to traditional means of obtaining their insurance: through an intermediary.

But with the shifting preferences of the customer, no commercial insurer can afford to have blinkered vision about their distribution strategy.

The commercial insurer needs to have the broadest distribution strategy it can sustain. At the same time the strategy needs to be flexible in adopting technology, which is in itself evolving rapidly.

While social media is, perhaps rightly, being approached cautiously by the insurer, tomorrow’s customer is likely to use the latest social media outlet just as yesterday’s customer expected a letter in the post from their insurer with a extensive product disclosure statement attached.

It will simply be another form of communication as part of the customer experience,

Demographics, changing lifestyles and buying preferences will see an even more splintered range of customers. The insurer who does not try to respond to this variety of customers will simply become irrelevant.

Local in-depth research into commercial customer needs by insurers and intermediaries is still in a relatively embryonic stage.

But it is very clear that insurance customers of today want – expect – their insurance needs to be met in the manner they dictate.

There is a real threat to the viability of insurance players, both for the insurer and insurance intermediaries.

Insurers, in particular, can no longer be one-trick ponies, i.e. relying on one or two distribution channels to provide the new digital customers with their insurance needs.

In fact, insurers can no longer see themselves as product manufacturers. They are service providers.

This is also crucial for intermediaries. DIY customers do not see the value in intermediaries.

Insurance intermediaries need to adapt to the challenges of the digital world and demonstrate how the service they provide is vital to the operations of businesses customers.

The insurance industry, both insurers and intermediaries, have no choice but to embrace and adapt to the evolving needs of customers in the digital world.

Otherwise, they will be left behind.

The Suncorp Group

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Suncorp Commercial Insurance (CI) provides a wide range of business insurance products to small and medium sized businesses as well as corporate customers. These products are distributed nationally both directly and indirectly through intermediaries. CI provides workers compensation insurance in Western Australia, Northern Territory, the ACT and Tasmania, and operates in the managed fund scheme in New South Wales. CTP insurance is provided in New South Wales and Queensland.

CI offers a wide range of insurance products and distributes them under the Suncorp, Vero, GIO and AAMI brands.

