

ANALYTICS IN INSURANCE:

transforming customer relationships

A survey of insurance industry strategies and objectives for getting closer to the customer



about this study...

Few information technologies have captivated the insurance industry more than business analytics — the practice of probing customer and operating data in pursuit of knowledge that can be used to improve the way insurers manage their businesses. Once viewed as a distant Holy Grail, business analytics are now considered a necessity to compete in the evolving insurance marketplace.

But how embedded are analytics tools and techniques among insurance companies? And to what extent have insurers succeeded in applying analytics to make meaningful improvements in the way they operate?

Summit Custom Media set out to answer these questions and others in an attempt to quantify the presence and impact of business analytics in today's insurance industry. The findings present current thinking about the most pressing challenges insurance executives face, including a pronounced focus on customer retention and acquisition, as well as a self-reported “scorecard” of insurance company performance on these fronts.

Methodology

Findings for this report are based on an online survey of insurance industry executives and professionals conducted by the research firm ConStat on behalf of Summit Business Media and IBM. The survey of 670 industry respondents was fielded in December, 2010, with qualified respondents identified through subscriber lists maintained by Summit Business Media. Respondents are categorized as follows by sector, company size and seniority level:

SURVEY RESPONDENTS BY TYPE	NO. OF RESPONDENTS	% OF TOTAL
TOTAL	670	100%
COMPANY SIZE		
Company revenue \$250M or less	461	69%
Company revenue over \$250M	94	14%
MANAGEMENT LEVEL		
C-level/senior management	380	57%
Mid-management	84	13%
Staff/consultant	185	28%
COMPANY TYPE		
Insurance carrier	77	11%
Agency/broker	569	85%

Note: Throughout this report, the respondent base used for percentage calculations does not include non-respondents.

Strategic focus: getting closer to customers

A strategic focus on ways to identify profitable customers, measure satisfaction and loyalty and drive additional visibility into the effectiveness of business operations is prevalent in the insurance industry.

In fact, the survey indicates that the voice of the customer has risen to the top of the industry's present-day concerns. Nearly 9 out of every 10 respondents describe measuring and monitoring customer satisfaction and loyalty as somewhat or very important.

The prevalent focus on customer satisfaction speaks to dynamic change in the insurance industry. Influences including deregulation and the rise of e-commerce have contributed to an astonishing rise in the number of insurance options now available to insurance customers.

Driving market share

In some countries many non-traditional insurers like banks and supermarkets provide insurance offerings and compete for market share. State regulations in the U.S. notwithstanding, there is a clear movement toward consumer choice that is provoking an unprecedented focus on the customer. At the same time, macro-economic influences have caused insurers to shift their focus from deriving investment returns on assets under management and to devote more attention to making money from policies and underwriting — a change that demands skilled management of customer relationships.

Reflecting this focus, our survey found that the five most important business initiatives all deal directly with customer-facing issues, including identifying profitable customers (85%) and identifying customers likely to leave (73%).

Business initiatives ranked by importance

% of respondents ranking as “somewhat” or “extremely” important...



As the survey results reflect, insurers and agents feel it's imperative to be able to identify which customers are most valuable — and to work harder to keep them. Retention efforts may take a variety of forms, including special discounts or offers, personalized customer service and fast-tracked claims processing. In addition to increasing revenue from current customers, a key growth factor is the ability to intelligently identify those prospects with the potential to become high-profit contributors deserving elevated service or sales investment.

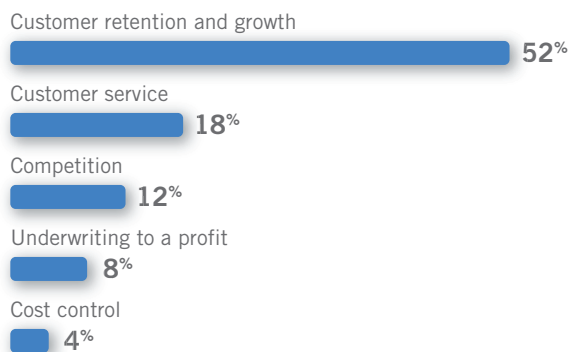
Identifying needs: customers are priority No. 1

The industry's customer-centric focus is further underscored by looking at insurers' priorities. When asked to rank their most pressing concerns, insurance executives and managers named customer retention and growth as the most urgent business need they face. This finding dovetails with a changing insurance industry environment characterized by intensifying competition, more fickle customers and heightened economic sensitivities.

Here again, the emphasis on customers is striking. Seven of 10 respondents named either customer retention/growth or customer service as their No. 1 priority, far overshadowing other agenda items.

Most urgent matters faced by companies

% of respondents ranking identified issue as No. 1 need



Competitive environment

We believe this emphasis on customer retention and growth has been elevated with the recognition that a customer-centric view of the business is paramount to success in the current competitive environment — an environment in which customer loyalty has been challenged by steadily increasing competition and easy access to information about insurers, rates and practices. At the same time, insurers recognize the economic advantage of keeping current customers. There is widespread understanding that the costs of retaining existing customers are substantially lower than the costs associated with acquiring new customers. Also, loyal customers present strong competitive advantages because of their recurring revenue potential. What's more, satisfied customers can be among the most powerful marketing vehicles insurance companies possess, because of the value of social-circle influence.

Obstacles and challenges in meeting goals

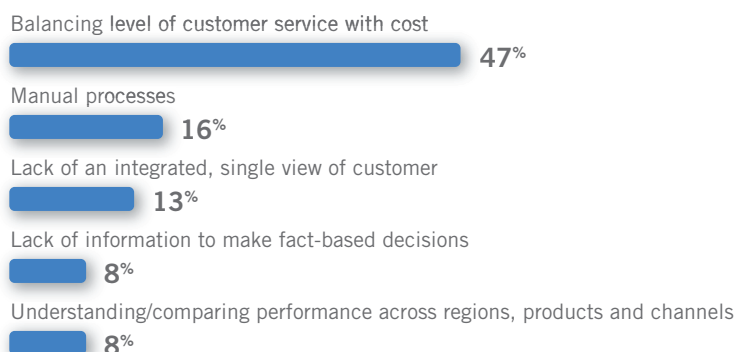
Although insurers are deeply concerned about customer retention and growth, they must reconcile their goals with the realities of the business today.

Among these realities, balancing the level of customer service with the cost to provide it stands out as the most critical business need for the industry. Challenges relating to manual business process and the absence of an integrated view of customers also emerged as significant concerns.

The emphasis on service/cost balance reflects a widespread industry concern about applying resources in the most profitable way, in part by better aligning service costs and investments with categories of customers. Obviously, the most profitable customers merit special attention when it comes to delivering service and managing claims. But identifying exactly which customers produce the highest profit levels has been challenging for many insurers, particularly those that lack financial or customer analytics tools.

Challenges in meeting work goals/objectives

% of respondents ranking identified issue as No. 1 need



Other challenges

Many insurance companies are now outfitted with CRM systems that capture vast amounts of data. The information these systems produce is often housed in isolated departmental or business-line databases, making it difficult to get a complete view of customers or performance. And with 16% of respondents identifying “manual processes” as a top business challenge, there’s substantial room for improvement on this front. Many insurers still rely on legacy spreadsheet-based processes or financial reporting approaches that are prone to error, hard to share and don’t easily allow multi-dimensional analysis. Frustration over these uneven reporting processes is manifested in the survey results.

In the same vein, a significant percentage of respondents cited the lack of an integrated customer view as a top challenge, suggesting that many are unsatisfied with current systems that have departmental or product-specific views of customers. The absence of visibility into customers across multiple dimensions like geography, policies, demographics — and between multiple departments like sales, finance and marketing — prevents organizations from understanding motivations of customers — what drives their behavior and ultimately their profitability.

Business drivers...and impediments

As we consider the rising profile of a customer-centric view within the industry, there are equal parts good news and bad news. The good news: Roughly half of insurance executives and managers say they have the ability and the tools they need to attain visibility and insight into customer and business information. The flipside: Nearly the same number of respondents lack a similar confidence.

A similar finding is true for a related business driver. Fewer than half of those surveyed believe their companies have the tools they need to analyze and report on customer data.

Ability to accomplish key initiatives

% of insurance industry executives and managers who agree that...

Our staff can quickly and efficiently access integrated information about customers (policies, claims, service interactions, etc.)

53% AGREE

47% DO NOT AGREE

Gaining better insight into customer behavior and needs is a strategic focus within our company

53% AGREE

47% DO NOT AGREE

Our staff has the tools they need to analyze and report on customer data to guide timely, effective decisions

47% AGREE

53% DO NOT AGREE

Limited presence

The findings suggest effective business analytics tools, and the mastery of those tools, have yet to penetrate most insurance organizations.

At the same time, there is divided sentiment surrounding the level of strategic focus on visibility and insight, with roughly half of industry participants agreeing their organizations maintain a strong strategic focus around improved insight into customer behavior.

These findings illuminate an irony of today's insurance industry. Executives and other decision-makers attach importance to measuring customer satisfaction, identifying profitable customers and knowing which customers are most likely to leave. But roughly half do not believe they have the tools to carry out foundational initiatives in this area.

This dichotomy becomes more pronounced when we consider actual gaps between desired business attributes and perceptions of the current reality.

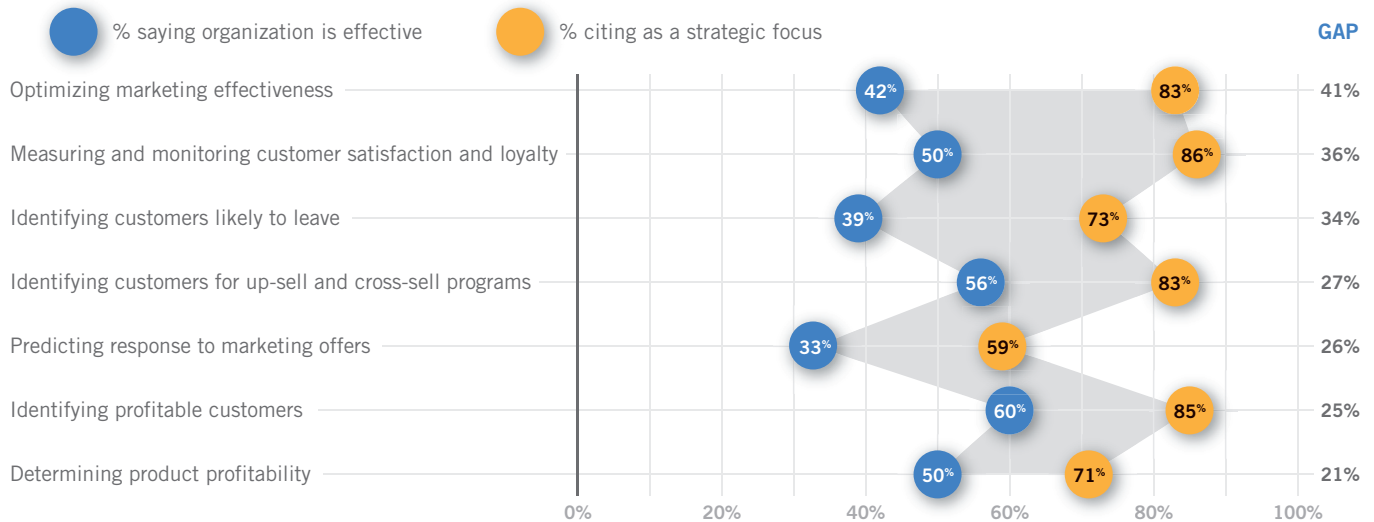
Reality check: identifying gaps

As we've seen, there's broad agreement in the insurance industry about areas of importance. Optimizing marketing effectiveness, measuring satisfaction and loyalty, and finding ways to understand the likelihood of certain customer behaviors are among the objectives cited as most important by insurers. More than 80% of respondents said they maintain a strategic focus on these areas — again underscoring the industry's intense focus on getting closer to customers in a highly competitive era.

Yet despite this pronounced focus on attaining visibility into key metrics and the effectiveness of business initiatives, the percentage of executives and managers who believe their companies perform effectively in these areas is substantially lower.

The gap between strategic importance and the ability to execute is most pronounced — at 41% — in the area of marketing optimization, or the relationship between the number and quality of responses or sales leads and the investment expended to attain them. Significant gaps also appear in the areas of measuring/monitoring customer satisfaction and loyalty; and in identifying customers who are likely to leave, or those who may be candidates for increased spending.

Strategy vs. capability scorecard



Confidence factor

Here again, we see evidence that insurers and agents are not confident that they have the ability or the tools to master some of their own critical success factors.

The imbalance between strategic focus and operational acumen may be partly explained by an absence of tools and systems that provide integrated and easily accessible intelligence across the organization. This is particularly notable in areas such as “identifying profitable customers” and “determining product profitability,” each of which stands out as a strategic goal that can be readily addressed with reporting and predictive analytics tools

conclusions

Results from the survey *Analytics in Insurance: Transforming Customer Relationships* illuminate an insurance industry that is undergoing, and occasionally struggling with, a transformation toward a more customer-centric view of its business.

Hastening this transformation are the influences of technology (social media, mobile devices, Internet) and the recent economic challenges that have made insurance consumers more price-conscious, informed and fickle than ever before in the industry's history.

This behavioral change has forced insurers and agents to work harder to attract and keep customers, while bringing strategic focus to a broad range of customer issues. In particular, insurers are devoting significant attention to achieving a better understanding of the contributions of customers (and customer segments) to profitability.

Significant gaps

The transformation to a more customer-centric business model, however, is challenging, with significant gaps between strategy and execution. A central ingredient in reducing these gaps is the ability to gain a richer and more telling understanding of the myriad relationships between business operations, customer types and behaviors, product lines, customer service approaches and other essential business drivers.

Forward-thinking insurers are applying business analytics to help resolve issues around customer identification, business line profitability, cost versus return on investment relationships, and a host of other initiatives. As well, sophisticated statistical and predictive analyses are providing insurers with new ways to improve and differentiate themselves as the industry undergoes what may be a dramatic transformation. By applying analytics to the vast amount of customer data, insurance companies can better understand customer behavior and needs — enabling transformation of relationships into longer lasting, mutually beneficial and more profitable ones, even in an environment of tremendous change.



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