Servicing the Customer

Retention in the UK & German Life Markets.

Reference Code: CYFS5532

Publication Date: May 2007

EXECUTIVE SUMMARY

Key issues surrounding customer retention in the UK

Consumers in the UK have little direct contact with life insurance providers and therefore the influence that financial advisors have is key to retention decisions. Providers admit that customers can take second place and they are in early stages of working out how and to what extent they can best target and retain customers directly without damaging their relationships with IFAs.

Advisors' main complaint is the inefficiency of service they receive from providers and the length of time it takes to process policies. For them, key areas of improvement that they would like to see would be; improved speed of processing; more efficient tools, for both them and the broker consultants; and having a variety of effective contact points. In addition, switching products within a provider's portfolio needs to be far simpler than it is currently. According to IFAs it is sometimes easier to cancel a policy and switch it to a totally new provider than it is to move within a providers' product range.

Providers are becoming more retention-centric in their strategies. Detailed case-by-case assessments are being carried out by some providers in an effort to identify those advisors who are prone to churning business. Providers are having success in introducing a "reactive" approach to client relationships – starting dialogue with those customers that contact them rather than allowing them to surrender their policy without a discussion. The UK life market still lags behind other countries and industries in its cross-selling efforts.

Strategic aims for improving customer retention in the UK market

Customers appear to have a positive opinion of the service they receive from life companies, although the evidence that most customers are unsure of whether they would take out another policy with that provider, suggests there is no particular rapport between customers and life companies. However a lack of service in this area does not appear to be having an impact on retention rates, thus should not be the primary strategic focus.

Advisors, on the other hand, have strong concerns regarding the quality of service they receive from providers. Sales through the workplace as well as those directly through advisors are important therefore providers must provide adequate support for group as well as individual product sales.

Key areas of improvement that advisors identify are:

- Knowledgeable and efficient broker consultants;
- Efficient call centers – without calls being dropped;
- Ability to submit documentation online or even by fax;
- Fast turnaround of documentation;
- Availability of website tools.

Nevertheless there is a proportion of advisors who will churn business for financial gain, whatever strategy is in place. It is therefore vital that providers have the best available tools to identify these advisors and pick up on those who are churning a large amount of business.

The key strategic target should be to build a series of “reactive” tools, which allow providers to give their incoming customer service teams as much customer and product information as possible at their fingertips. A large proportion of lapses are preventable through offering premium holidays or making customers aware of other such product features. Therefore advisors simply need to be aware of what they can offer the customers.

Employing systems that make it easier to switch quickly between products in a provider’s portfolio would also have a considerable impact on provider retention rates. These systems would also be useful in facilitating cross-selling, which is currently a significant missed opportunity for providers in the UK.

Key issues surrounding customer retention in Germany

Overall German consumers appear happy with the service they receive from their life policy providers. A large proportion of life and pension policies are purchased directly from the provider, and recommendations from family and friends play an important role. This automatically creates a greater sense of loyalty amongst German consumers than is found among UK consumers.

Advisors are less satisfied than consumers with their relationship with providers. However, different types of advisors have different views on the service they are receiving and currently successful initiatives are in place such as cross-selling. Key improvement challenges remaining include developing a single point of contact and building up the human aspect of the relationship between providers and advisors.

Providers in Germany are turning their focus to customer retention, developing company philosophy to meet these retention needs. This means not just one team is dealing with customer retention issues, but all employees who are in direct or indirect contact with customers. Life companies believe that service has a key role to play in improving retention rates and are prepared to take significant steps to implement changes.

Strategic aims for improving customer retention in the German market

It appears that German consumers, once they have bought a pension or life insurance policy, remain loyal to their insurance provider. Less than 17% of surveyed consumers stated that they have switched their policy. However, what should cause some concern among insurers is the fact that around 18% of those who switched did so because they had experienced a poor service. Similar as in the UK, customers in Germany are somewhat reluctant to buy again from the same provider, although this is not affected by the level of service they receive.

Despite the high opinion of life companies that German consumers have, reflected in a high rate of loyalty, German advisors perceive the overall quality to be poor. One of the reasons for this is the lack of transparency in the life insurance sector, where products are far more complex than general insurance or health insurance products and therefore it is difficult to experience the true quality of such a product. Thus, in order to improve relations with advisors, life insurers should seek to articulate the features of their products more concisely and clearly in order to make the industry more understandable and accessible.

Key areas of importance that advisors identify are:

- Providing concise and clear information
- Making service 'experienceable' to younger customers
- Technology is crucial but the human aspect should not be ignored
- Single point of contact – with one call all problems should be solved
- Advisors appreciate when providers listen to their ideas and suggestions

German providers confirmed that suggestions and ideas of distribution partners, in particular large financial advisor networks, are being taken into account when it comes to developing and improving their service offering. Insurer's opinions on the main service features also reflect the views of financial advisors, in particular with regards to offering both intermediaries and customers a single point of contact where they can get qualified information and support. However, while the importance of IT is highlighted by most industry experts, not all insurers manage to get a "single view" of their customers, suggesting that there is room for significant improvement.

The technology of customer service and retention

This white paper highlights many of the pains which businesses (not just in the insurance sector) suffer from when interacting with their customers. Growing volumes of customer contact, increasing demands for better quality customer service and a broad array of customer contact channels (voice, web, email, etc.) only makes these pains more intense.

Findings from this paper include:

- A need for improved efficiency in processing;
- A requirement for a variety of effective contact points;
- Improving customer retention strategies;
- Making organisations more responsive to their clients' needs;
- Increasing the quality of customer service;
- Document and channel management issues;
- Poor service a key reason for customer churn;
- Creating a single point of contact but over multiple channels.

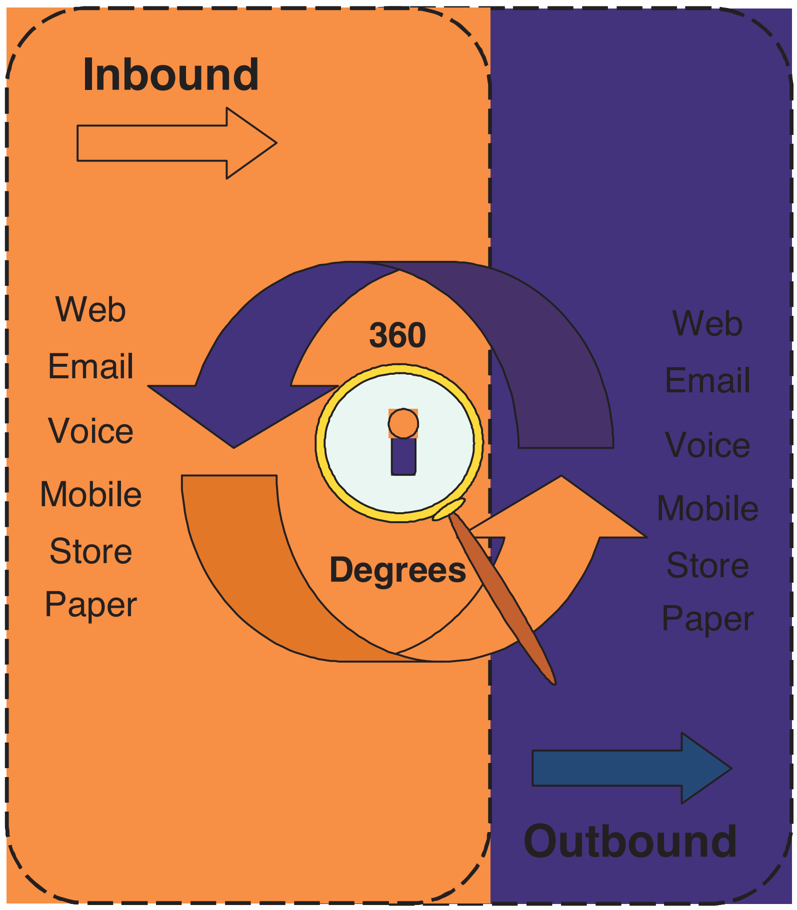
Datamonitor believes all these issues fall into a much broader category and wider industry trend: the creation of the customer centric enterprise. While this concept naturally means different things to different organisations, the common benefits include better customer service, lower customer attrition and competitive differentiation. These benefits all directly address the issues highlighted by this white paper.

DATAMONITOR

Building a customer centric business requires a single view of the customer and the processes employed to serve them

The idea of a single view of the customer (or 360 degree view) is not new to most enterprises. It's a well-accepted part of the CRM concept, but in Datamonitor's opinion, rarely achieved. The question is, why is this the case?

Figure 1: The 360 degree view is rarely achieved by organisations



Source: Datamonitor DATAMONITOR

Figure 1 above highlights the core problem inhibiting the 360 degree view of the customer: multiple, un-integrated, channels of communication. In recent years businesses have thrown open many new channels, including email, web-based interactions (via online forms, or web chat) and mobile communications (SMS, WAP and 3G technologies). Often, though, they have failed to integrate these channels either physically (to create a single view of customer interaction histories) or in terms of consistent levels of service and branding (a very common customer complaint).

- **Datamonitor believes it's time to return to basics** – Businesses need to get the foundation of the 360 degree view of the customer right. This means a unified channel strategy with consistent service irrespective of channel used;

- **Electronic channels are not the only ones that matter** – It's far too easy to over-look the importance of written (letters, faxes, etc.) communications. Very often some of the most important communications a company has are initiated by paper-based communications (complaints being a great example) and many organisations struggle to incorporate these into their view of customers' interactions. This is doubly important for this paper for two reasons:

    - The insurance industry is a heavier than average user of paper-based communications;

    - Germany has been highlighted in past research as a market which still places strong emphasis on contact with business through letter writing.

Business process represents the other key challenge to building the customer centric enterprise and single customer view. Customer centric processes are amongst some of the most complex in organisations today, relying on multiple contact points, across different channels and often passing through several departments before successful completion is achieved. Most businesses struggle to properly manage these processes which are the foundation for delivering superior customer service. There are two reasons for this:

- **They lack a central view of customer centric processes** – This means understanding the operation and inter-dependence of these processes is near impossible. It also makes monitoring, management and innovation extremely difficult;

- **Processes are often not subject to close monitoring** – A process, on paper, may look good. It may meet service criteria, passing tests (e.g. credit checks) and be subject to the right inputs and control; however, there's often little or no monitoring of the process' progress.

Datamonitor sees two types of process employed to serve the customer:

- **Reactive business processes** – A reactive process can be perfectly adequate, they are the core of businesses globally. Events drive the process to completion, with good processes subject to SLA-like timing to ensure smooth and timely operation;

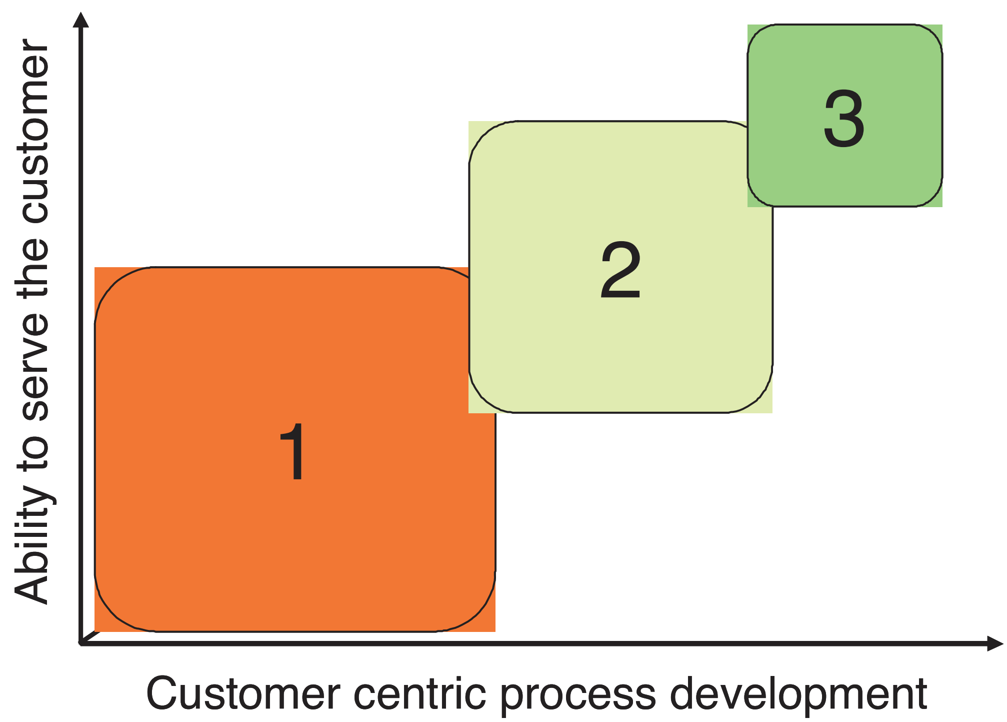
- **Proactive business processes** – A proactive process is the next stage of development. Businesses are always seeking new ways to both satisfy growing customer demands while at the same time cutting costs: a difficult task. Proactive customer touch processes can achieve this goal by providing the customer with relevant, timely information in a cost-effective way. This could be achieved through alerting a customer via SMS (pennies) that their claim is successful therefore potentially saving an expensive call to the contact centre (pounds) from a frustrated customer questioning the status of their claim.

Using technology to enable the 360 degree customer view with a common process platform directly feeds back to the issues highlighted earlier. Better information about the customer, their interactions and the processes utilised to serve them help build a foundation for delivering better customer service, an important factor in helping differentiate businesses from their competition. It can also create significant benefits in cost efficiencies (through reduced customer churn, saved calls, etc.) and drive sales by more appropriately targeting cross- and up-sell activities.

Customer frustration is your business pain. How can technology help?

There is no lack of technology solutions available which are designed to alleviate some of the issues already discussed. Datamonitor views the development of customer service in businesses as a development path, with most still struggling to move from intra day 'firefighting' and truly start to realise the competitive and financial benefits of proactive customer service.

Figure 2: The three stages of customer development



Source: Datamonitor DATAMONITOR

Figure 2 above highlights the three stages of customer development Datamonitor has seen in different types of business (for a full description of the development path, please see Datamonitor's recent white paper for IBM FileNet, *'Customer Information Management: The missing piece of the customer puzzle'*). They are:

- **Stage 1: 'Customer frustration'** – The business is locked into manual processes with paper pushed from person to department. This is inefficient, inhibits the 360 degree view and alienates customers through poor service delivery;

- **Stage 2: 'Development'** – Some organisations are making their way to Stage 2. It involves attempts to remove the inefficiency of paper-based process and realise the benefits of a more unified channel contact strategy. Processes are likely to be reactive at this stage;

- **Stage 3: 'Proactive customer service'** – Rarely achieved at the moment. Stage 3 is identified by an entrenched commitment to superior customer service based on the 360 degree view, better information and closely monitored, proactive customer centric processes.

Technology solutions exist to enable a business to move through these stages. Datamonitor has identified a variety of different business pains which can be addressed with appropriate solutions (please see the '*Customer Information Management: The missing piece of the customer puzzle'* white paper for a full list):

Building the 360 degree view as a foundation for better customer service

Problem

The importance of the 360 degree customer view has already been discussed. Datamonitor believes that at the most fundamental level organisations which can't take account of the full range of customer interaction types are generating customer frustration and damaging their own business prospects.

Solution

Enterprise content management (ECM) connected with business process management (BPM) in a single platform needs to be an integral part of the business' technology platform, connected across the open channels of communication and feeding the CRM solution which empowers customer service staff.

Reducing customer frustration through quicker time to resolution

Problem

Automating a process will make it quicker. Unless the process is monitored, however, it is just as likely to be delayed as its manual equivalent. This is also an issue of customer empowerment, exposing process 'milestones' (e.g. successful application for mortgage), enables low-cost self-service (or proactive customer service) yet is rarely achieved.

Solution

Internal SLAs for processes should be a standard feature. This is especially true of customer touch processes as they directly affect the customer service. Internal SLAs should be agreed between departments with a strict system of monitoring and alerts to ensure smooth and timely operation. An automated process operated in this fashion also lends itself directly to granting customers more insight into their dealings with the organisation.

In summary

Each one of the customer frustrations identified by this white paper's research should be considered a business pain by readers. Concerns over service in a market which suffers from a high degree of substitutability (and therefore customer churn) should be at the forefront of customer service executives. Other issues, including the operational efficiency of the customer contact organization and its ability to effectively act as a profit centre need attention as well.

Technology should not drive the business, it should enable the business to address each of the pains highlighted in this paper. A common process platform which is channel conscious will help build the foundations of a customer centric enterprise, through better information, channel management/awareness and coordinating/monitoring customer centric processes.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

This project has been conducted with the aim of confirming the importance and urgency of customer retention, its key drivers and challenges, with the aim of positioning FileNet's clients as thought leaders on customer retention and the importance of customer service. The output will help these clients position Enterprise Content Management and Business Process Management for addressing customer service and retention needs.

This report focuses on ways that providers can change their service to both consumers and distributors to improve retention

This report focuses on the ways in which providers can adjust their service and treatment of customers and distributors in order to improve customer retention. Other retention tools that providers have at their disposal, including product design and remuneration structure are not focused on in this report.

Failure to retain customers is either driven by customers letting their policy lapse altogether or switching provider

The two key drivers of poor customer retention in the life and pensions market are customers relinquishing their policy altogether or customers deciding to move their policy to a different provider.

Providers face slightly different issues in trying to combat each of these. For many customers who let their policy lapse altogether, affordability is the main issue and some level of policy lapse is seen as an organic feature of the market. There is less that can be done by providers to minimize this and it is rarely an advice driven issue. Advisors will always tend to recommend a product switch rather than lapse as it is in advisors' interests to keep a client's assets on their books whatever the product.

Policy switches driven by an advisor will occur simply through the process of doing their job; as new products are launched IFAs are obligated to keep scanning the market for products that might be more appropriate for the client's needs. However, some switches could certainly be avoided as advisors informed Datamonitor they will select against providers that supply a poor level of service. The fact that some advisors will churn clients to earn higher commission cannot be avoided, although this is not as prolific as some providers would assume.

VIEWS OF RETENTION IN THE UK MARKET

Introduction to the UK Market

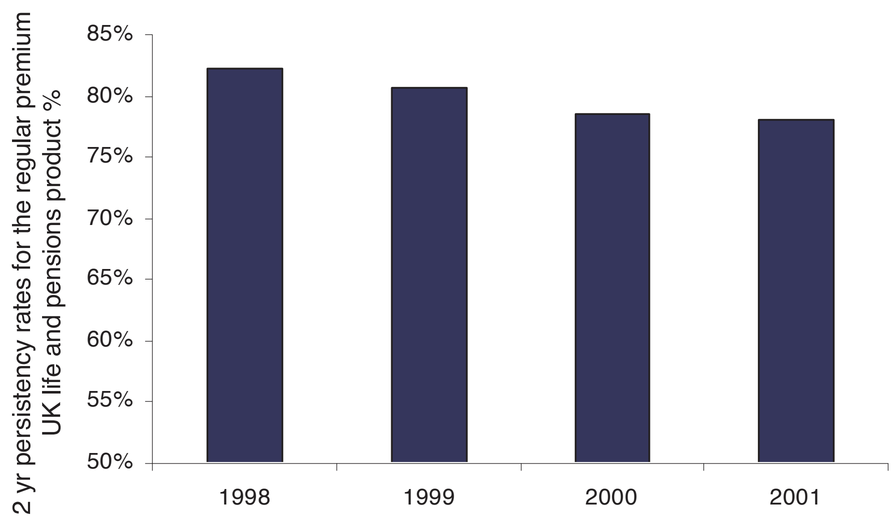
The UK market is highly intermediated with products being “sold rather than bought”. Over 70% of distribution in the UK is through the Financial Advisor channel, which since depolarization in 2005, has been segmented into Independent Financial Advisors, Multi-tie Advisors and Whole-of-Market Advisors. Each of these channels is regulated in a slightly different manner with the key difference being the level of choice and advice offered to consumers.

Therefore, the views of distributors are key to assessment of customer retention. This chapter looks at the opinions of the end consumer, the provider and the distributor; however the focus of the analyses is on financial advisors since they drive the product swap decision in the market.

Retention levels, measured through persistency rates have been falling

The FSA’s measures of persistency rates in the market quantify the extent to which lapsed policies are damaging the market. Between 1998 and 2003 persistency rates for both single premium and regular premium life and pensions products fell. (The 2 year persistency rate is the percentage of regular premium policies still being paid into after 2 years). The level of persistency in these regular premium policies fell from 82% of policies taken out in 1998 still being in force after 2 years to just 78% of policies by 2001.

Figure 3: 2 year persistency rates in the UK regular premium life and pensions markets have fallen



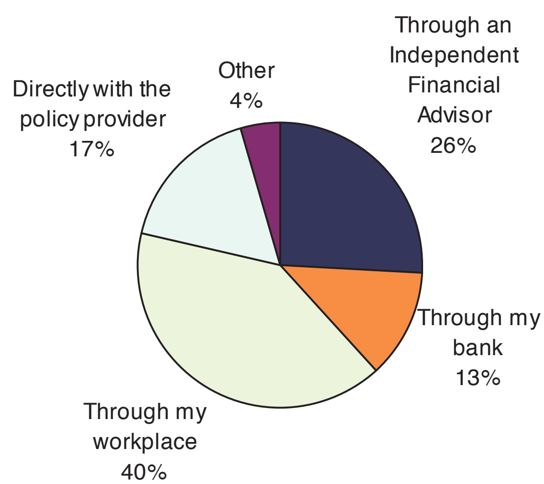
Source: Datamonitor, FSA DATAMONITOR

A similar trend is seen in single premium products, although product features and the slightly different way of measuring persistency (the policy has to be surrendered to count as lapsed on the single premium side of the market) means that levels of persistency are always a great deal higher for single premium products. Nevertheless, 2 year persistency rates for single premium life and pensions products declined from 96.6% to 96.4% between 1998 and 2001.

Few consumers in the UK have a direct relationship with their product provider

Financial advice both through the work place and directly through an advisor is crucial

Figure 4: Only 17% of consumers think that they arranged their policy directly through the provider



Question: How did you go about purchasing that policy?

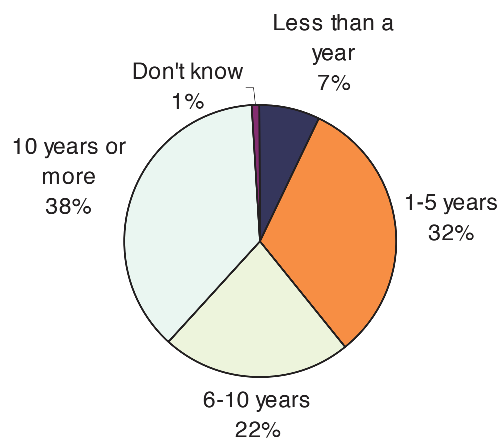
Source: Datamonitor DATAMONITOR

Although just 26% of customers say that they purchased their policies through an independent financial advisor, those who have purchased products through their workplace will also indirectly have used this advice channel. Businesses will normally use financial advisors or employee benefit consultants (who are regulated in the same way as financial advisors) when choosing the best company to recommend to their employees.

Only 17% of consumers purchase a policy directly from the provider which has implications on the weight that providers place on their customer-focused retention strategy versus their distributor-focused strategy. Providers admit that customers can take second place and they are in early stages of working out how and to what extent they can best target customers directly without damaging their relationships with IFAs.

Those surveyed represented a mixture of long-standing and relatively recent life and pensions customers

Figure 5: There is a significant variation in the time that consumers hold their policy



Question: How long have you held that policy for?

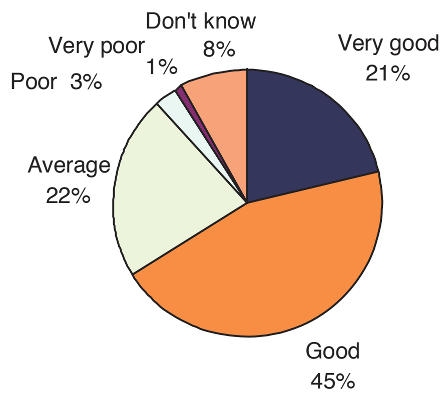
DATAMONITOR

Source: Datamonitor

The variation of time that customers in this sample hold their policy has implications for likely retention rates across the customer base. Policy lapses are most likely in the first 5 years in which a policy is held therefore the 39% who fall into this category are the highest risk group for providers to target.

Overall, consumers have a positive view of the service they receive

Figure 6: Consumers have a positive view of the service they receive from providers



Question: How do you rate the service that your life policy or pension policy provider offers?

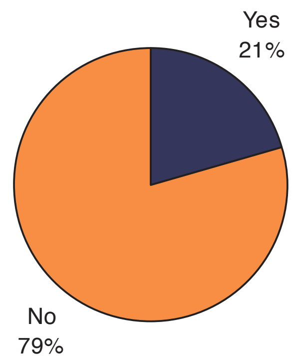
Source: Datamonitor DATAMONITOR

Consumers are positive about the service they receive from providers, with 21% of respondents rating their provider's service as "very good" and 45% rating it as "good". This is a positive sign for the industry; however as discussed, contact that consumers have with their provider is usually limited to basic communication and it would be hard for providers to make major errors.

The problem in the industry is more from policy lapses than customers switching providers

The vast majority of consumers have never switched their life and pensions policy

Figure 7: 79% of consumers have never switched their life and pensions provider



Question: Have you ever switched company that provides you with a pension or a life insurance policy?

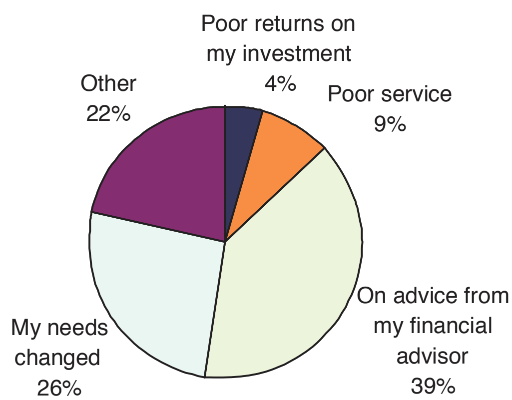
Source: Datamonitor

DATAMONITOR

In the UK, 79% of consumers have never switched their provider of life and pensions policies. This is a good sign for the industry particularly in an environment where consumers are becoming increasingly well versed in products and their advantages and disadvantages. However due to the lack of knowledge that consumers have of what they are purchasing, this figure is thought to be inflated. When asked if they thought this was an accurate perception of what is going on in the market IFAs reported that they thought this was an inflated figure.

The majority that have switched do so on the advice of their financial advisor

Figure 8: Switching of providers is driven by the financial advisor



Question: Have you ever switched company that provides you with a pension or a life insurance policy? If so, why?

Source: Datamonitor DATAMONITOR

The significant proportion of consumers who say that they switched company on advice from their advisor demonstrates the significance of advisors to the market and the necessity for providers to keep advisors on side if they are to reduce switching rates.

Consumers are often not very aware of the service that they are provided with by their life company. Unless a policy is bought directly there is little contact between the end consumer and the provider; particularly on the investment side of the market. Contact will generally be limited to monthly statements, so apart from the set up and surrender of policies there is little that can go wrong in the relationship. Poor service from the provider was indicated as a reason for switching by just 9% of respondents.

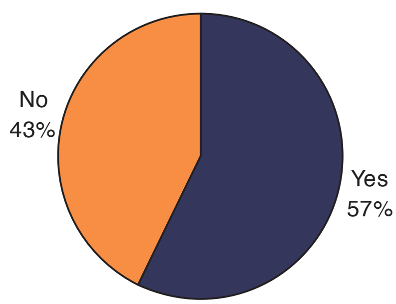
The 26% of consumers who blame changing needs on their change of policy are those that fall into the category of natural churn. It is inescapable for providers that consumers will have changing needs; however there are two key ways for providers to minimize this issue;

- Firstly, a provider's product range needs to be designed so that there are products available to meet these needs. Not only does this mean that there needs to be an appropriate breadth of product in the range, but providers need to improve their communication with customers so that they are aware of what is out there. In addition, switching products within a provider's portfolio needs to be far simpler than it is currently. According to IFAs it is sometimes easier to cancel a policy and switch it to a totally new provider than it is to move within a providers' product range.

- Secondly, providers need to work to understand these changing needs and to target customers with appropriate products before they reach the point of switching. This is common practice in other industries, and even banks are showing improvements in this area. However life companies and other more providers of more complex financial services products are still lagging behind.

This compares to 57% of people who have changed their bank

Figure 9: 57% of consumers have switched their banking services provider



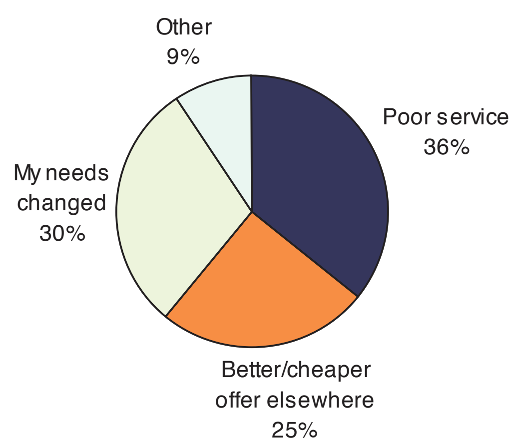
Question: Have you ever changed the bank with which you hold your current account?
Source: Datamonitor

DATAMONITOR

It is not simply a lack of willingness to change providers that is holding customers back from switching life and pensions companies. In the retail banking market, over half of consumers say that they have switched bank. Products and services are far more transparent in this market and it is easier for customers to compare the offerings of different banks. However over time, as life and pensions products are predicted to become more commoditized and consumer knowledge of them grows the more complex end of the financial services market will become more prone to switching.

Service is far more important to consumers in their choice of bank than in their choice of life provider

Figure 10: Service is very important to consumers in their choice of bank



Question: Have you ever changed the bank with which you hold your current account? If so, why?

Source: Datamonitor DATAMONITOR

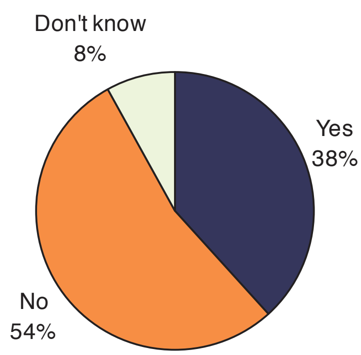
Over a third of consumers insist that poor service was their primary motivation behind switching banks, demonstrating that consumers are motivated by service elsewhere in the market despite it not being a primary factor in life and pensions.

Cross-selling as a retention strategy is not having impact on consumers

Cross-selling is often seen as a key tool in retaining customers by "increasing share of wallet", however this strategy does not seem to be impacting life and pensions customers.

The majority of consumers do not think that they have ever been offered another product by their current provider

Figure 11: Most consumers have never been offered another product by their life company

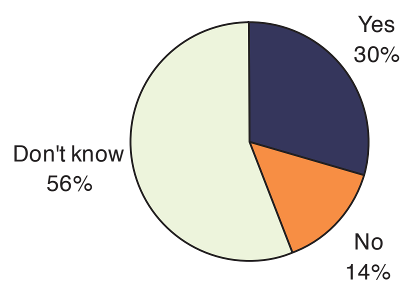


Question: Has your pension or life policy provider ever offered you another product?

Source: Datamonitor DATAMONITOR

If they were offered another product only a third would take out another policy with the same provider

Figure 12: Over half of respondents "don't know" whether they would take out another policy with the same provider



Question: If you were to take out another, similar policy, would you use the same provider?

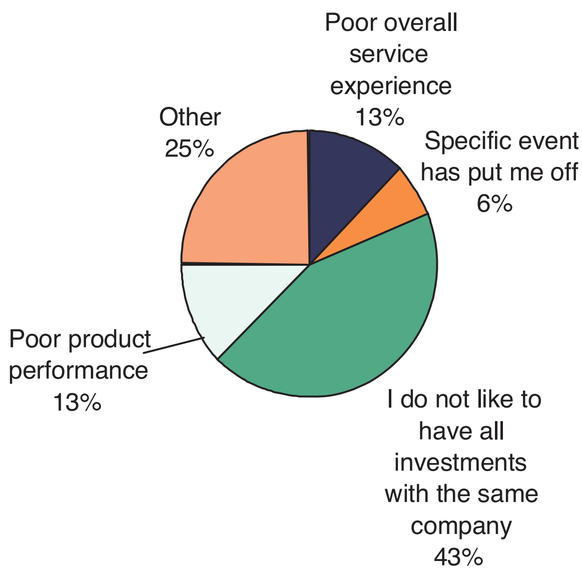
DATAMONITOR

Source: Datamonitor

The significant 56% of customers who "don't know" whether they would buy another product from the same provider are symptomatic of the lack of involvement between providers and the end consumer in this area of the market. Obviously the decision depends on the product and the customer's circumstances but these answers do not indicate any particular rapport between the provider and the end customer.

Previous service experience is a significant factor in the decision of whether to purchase additional products

Figure 13: Most consumers shy away from buying additional products because they do not like having all investments with the same company



Question: If you were to take out another, similar policy, would you use the same provider? If not, why not?

Source: Datamonitor DATAMONITOR

A poor overall service is twice as important to consumers when making a purchasing decision as a specific negative experience with the company. This reinforces the view held by IFAs that it takes an ongoing period of negative treatment to actually make them select away from that provider. In fact, however, this also demonstrates how customers overall are not impacted by the service. From the 14% of the survey sample who stated that they would not buy from the same provider only 19% blamed this on anything to do with the service with which they were provided, less than 3% of the sample as a whole.

The majority of consumers surveyed, 43%, shy away from purchasing products from their existing provider because they do not like to have all investments with the same company. According to IFAs this is usually a misplaced view, as in their opinion the products are usually invested in similar underlying assets and over a long period of time these assets will, on average, perform to a similar level. Spreading financial assets across providers is a sensible strategy when the financial stability of those institutions is in question, however in the current market environment there is little danger of another Equitable Life debacle occurring.

The view of consumers contrasts heavily with the opinion of advisors

Without exception, the advisors spoken to by Datamonitor had far more negative opinions of the service they received by providers and considered it a major contributing factor in customer retention.

Advisors are defensive of their obligation to switch clients

The regulatory requirement to seek out a product fulfilling the “better than best” rule automatically creates switching in the market. Some advisors are more diligent in this process than others, and will still actively search for a better product even after the original sale.

As one IFA told Datamonitor “churn in the first place will always occur while providers are launching new products”. However, product switching will occur outside of this process and this is where providers can have an impact on retention levels. Providers who do not give an adequate level of service will find that advisors become restless and look to compare other products when otherwise they would have been satisfied to remain with that provider.

All things being equal, poor service will make an advisor select away from a provider

The independent and whole-of-market advisors assured Datamonitor that their primary consideration when choosing a provider was the product features, performance and charging structures. However, when choosing between products with comparable features, a poor level of service will make them select away from that provider; “service is the second driving factor if the charging structure is equal”.

The difference in service that is received on new business versus existing business can also be key. For example as one IFA told Datamonitor “Legal & General’s service is bad on existing business, but their new products have a great charging structure so we tend not to move existing customers away in case we damage the relationship.”

Advisors identify key areas of improvement that would most impact retention levels

Key features of the service providers’ offer must be correct in order to prevent advisors becoming dissatisfied and restless.

The most important considerations in this are:

- Knowledgeable and efficient broker consultants

- Efficient call centers – without calls being dropped

- Ability to submit documentation online or even by fax
- Fast turnaround of documentation
- Availability of website tools

Broker consultants and their tools are vital

Broker consultants are employed by life companies to visit financial advisors and discuss and promote the products offered by that company.

The technical skill and knowledge as well as the rapport that is built with a broker consultant are vital to maintaining a functional relationship between the provider and distributor. All the advisors that Datamonitor spoke to placed this as key to the service they receive from providers, stating that; “it is still a people industry so the relationship with broker consultants is crucial.”

However it is not just the personal relationship between the two that is significant. There is much that providers can do to support the broker consultants and thereby improve the quality of this relationship. Firstly, the information and documentation they have needs to be clear and concise and explain to the advisor exactly what the product features and advantages are. A full understanding of this at the beginning will prevent mistakes being made and distributors needing to make product switches.

Secondly the online tools that the broker consultant has available should be efficient and preferably available to the advisor as well so that they can familiarize themselves with the product range available and have all the necessary information at their fingertips.

Variety of efficient contact points

There is a massive variation within the IFA market in confidence and willingness to use more modern methods of information gathering and application submission. Therefore it is essential that providers offer advisors an efficient service across a range of different contact points.

The use of online contacts and applications are not viewed as crucial at this stage in the market, as many advisors still lack confidence in these systems. What was universally called for was for telephone systems to be improved, and in many cases the closure of offshore call centers was cited as a key issue. Distributors gave examples of calls being dropped 4 times during one enquiry and listening to “robots at the end of the phone” which seemed to particularly exacerbate them.

Advisors complain that the turn around of policy applications is avoidably slow, although this appears to be symptomatic across the industry as a whole and would not be a factor that would necessarily drive switching of policies. However this may increasingly become a problem as more providers move to a panel based advice structure. One large regional IFA told Datamonitor that service and administration are of equal consideration to product features when deciding whether to include a provider on their panel, and is constantly reviewed – this means that if advisors have a consistently poor experience with a particular provider, they may be removed from the panel, having a significant impact on retention rates.

Getting the support tools set up in the early stages of product development

Advisors complain that the appropriate tools are not available at the early stages of a product launch. The most important tools identified were those that allow effective product comparisons and those that help advisors communicate the benefits of a product to their clients. The trend in the market is for products to be launched then the tools that allow these products to be compared to others in the market to be launched at a later date. This means that advisors find themselves recommending or wasting time assessing a product without full knowledge of the product features, which often leads to mistaken recommendations and results in higher switching levels.

Providers benefit from offering generic tools to advisors

Advisors report that some providers supply them with tools that are specific to their product offering while others will provide modeling tools that allow them to look across the market. One example of this is the "Stochastic modeling tool" provided by Standard Life as part of its Portfolio Planning Tool. Amongst other things this allows advisors to use stochastic modeling to forecast the range of possible returns from a with-profits investment and compare with alternative strategies from across the market. The use of these tools, that offer total cross-market comparisons benefit business despite the apparent fear from some providers that by effectively "advertising" competitive products they will push business away from themselves. As one IFA told Datamonitor "providers that offer tools that are more general and do not just require the purchase of their products will tend to win because IFAs will use these tools and bring brand awareness."

Large national IFAs and networks operate their own online tools but more support could be given

According to national and network IFAs spoken to by Datamonitor, the tools supplied by providers are less important to them as they have resources to develop their own internal tools. However, one IFA commented that their relations with providers could be improved by being given more support in the development of these firm specific tools. The overall message from advisors is that the more contact that is had with a provider, whether it is specific to their product set or not, the greater the preference that will be given to that provider.

Providers must take the issue more seriously and stop passing the blame

The issue of falling customer retention levels has only become a major issue for providers over the last 12-18 months. Prior to that, providers as well as distributors placed their primary focus on new business without any particular concern about how much of this business was "leaking". This focus is now changing and many providers are implementing a company wide strategy looking at improving retention rates.

Successful strategies are focused on three key areas;

- Product structure;
- Distribution management;
- Customer service.

Strategies can not be one sided and it takes a combination of these three to have a significant impact on retention levels: "it's all about a provider's profitability expectations, making sure commission terms are correct and that both the customer and the distributor are motivated to stay".

The primary tool that providers have for retaining customers is the product structure. However the changes to the product have more to do with adjusting commission levels, making sure that rates of commission clawback are in line with the rest of the market and investment returns are satisfactory. This seems to be central to retention in the eyes of providers; "if you want loyalty, buy a dog; most customers will follow the best terms, rates and charges."

Outside of the product development aspect, providers' internal systems play a crucial role in both distribution management and customer service.

Distribution management goes further than simply setting commission rates

According to providers their distribution management strategies have developed beyond simply setting favourable commission rates. It is important for providers to identify those advisors that are prone to churning business. Therefore some sophisticated systems have been developed. One provider in particular told Datamonitor that on a case-by-case basis they would look at a book of business and assess the levels of business "coming in and then going out again". If high levels of business was flowing out from this advisor then a strategy was implemented whereby "conversations are had, commission levels are adjusted". In the worst cases this provider was prepared to actually cease trading with that advisor.

IFAs talk of the importance of having effective broker consultants with the appropriate tools but broker consultants can also play a vital role in identifying those distributors who have a high tendency to churn products. Therefore correct training of broker consultants is vital, not only so they can communicate with clients but also so they can spot problem areas and "rogue advisors" before they become too much of a problem.

Proactive targeting of customers leads to accusations of providers "stealing" IFA customers

Some providers have adopted the strategy of identifying and targeting those customers who have not been contacted by their IFA for a few years. Providers maintain records of the communications IFAs have with customers, although it is questionable how accurate these records are. It is then possible for them to approach these customers directly and either suggest that they contact their IFA or even to remind them of certain aspects or features of their contact. Although this proactive approach can be effective, it can also be damaging for providers' relationships with the IFA. Advisors reported that they feel that providers who adopt this strategy are "stealing" their customers or "treading on our toes".

A more effective strategy appears to be building a "reactive" relationship with customers

Other providers have adopted a more "reactive" approach to managing the customer relationship. These providers place a greater weight on providing tools, managing and improving their relationships with their distributors, while having systems in place to deal with customers if they contact them directly. One provider who has this strategy in place told that their aim was to "engage (with customers) and provide other options. (We are) mindful that customers have been introduced – but if they make the contact they will enter into a customer service dialogue but NOT an advice dialogue".

Premium holidays are a useful tool in retaining customers

Offering a premium holiday to customers who ring in to cancel their policy is a straightforward and relatively easy-to-implement strategy. Providers can have teams in place who can advise on moving to a minimum payment or stopping payments altogether while setting a re-start date. Many customers are not aware that this is an option therefore will ring in with the intention of surrendering their policy. This is particularly pertinent to regular premium investment products and pension products.

A key advantage to this is that it boosts retention amongst those customers who surrender policies because of a change in personal circumstance. For these people, who perhaps can not afford to keep on paying premiums because of a new baby for example, they can opt to temporarily stop contributing but set a date in the future where contributions can re-start.

In terms of the technology needed, this process is very simple although reinstating contributions without the customer specifying that they want to restart can be complicated. The aim of providers is to have in place a reactivation program, where a letter is automatically generated and sent to the customer allowing them to restart payments at the agreed date.

The stickiness in the market actually keeps retention levels higher than they would otherwise be

Providers are often criticized for making it too difficult to switch products and the systems that are in place are not conducive to customers moving their assets smoothly into a more appropriate investment. This "stickiness" as it is known actually keeps retention levels at a higher level than they would otherwise be, because of the time and efforts involved in switching. Therefore it is actually not in providers' best interests, in terms of retention rates, to make these processes simpler and more uniform across the market.

However, advisors complain that in many cases, it is just as time-consuming to switch products within a single provider's range as it is to switch provider. Therefore providers need to focus on improving the ease of moving assets within their own product portfolio so that even if the product is lapsed, the provider is more likely to retain the business.

VIEWS OF RETENTION IN THE GERMAN LIFE AND PENSIONS MARKET

Introduction to the German market

Germany has one of the most diversified financial services distribution landscapes in Europe, with a wide range of distribution channels holding a significant part of the market. In particular the bancassurance channel is not as dominant in Germany as it is in other major continental European markets. As well as the largest number of individual financial intermediaries, Germany also has the largest number of financial intermediary firms in the continental European market. While the market appears to be highly fragmented, a large volume of sales goes through the largest competitors such as DVAG, OVB, AWD and MLP (so-called “Strukturvertriebe”). Overall, competitors in the German intermediary market fall into the following categories:

- Insurance brokers (“Versicherungsmakler”): selling insurance products from a variety of sources, usually independent
- Tied agents (“Ausschließlichkeitsvermittler”): brokers that have an exclusive agreement with a product provider to sell their products
- Multi-tie agents (“Mehrfachagenten”): intermediaries who are independent, at least in theory, but work with a defined number of providers

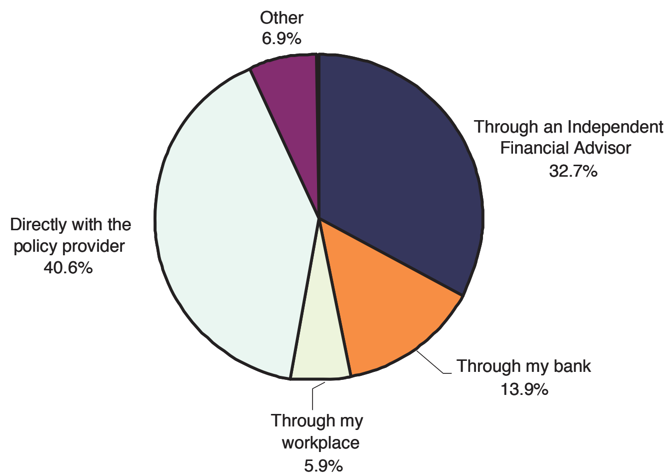
Buying directly from the provider is key for German consumers

Around a third of consumers surveyed by Datamonitor arranged their policy through independent financial advisors while around 14% did so through their banks. Customer preferences in Germany are skewed towards arranging the policy themselves, either directly or through the life company, as opposed to the workplace which is preferred by 40% of UK consumers. The effect of this on retention rates is uncertain, as although there is less of an impact from advisors churning business, customers are more aware of products in the market and are better equipped to switch products from their own knowledge.

The preferred method of arranging life policies in Germany is directly through the provider. Many of the large insurers in Germany continue to have large sales forces or groups of tied agents. This is also reflected in the following graph, which indicates that more than 40% of German consumers arranged their life and/or pension policy directly with the provider. However, increasing costs and tighter margins are making distribution through a direct sales force less and less economically viable. As a result, providers are increasingly closing their in-house sales forces and agents, instead using large financial advisor networks.

A recent example is Aachen Münchener Versicherung, part of Italian AMB Generali Group, which announced in November 2006 that its products will be distributed exclusively through Deutsche Vermögensberatungs-AG (DVAG) in the future. This increasing move to a more intermediated market sees the German market following the lead set by the UK, where direct sales force and tied agents have declined rapidly in recent years.

Figure 14: More than 40% of German consumers arranged their policy directly through their provider



Q: How did you go about purchasing your pension or life insurance policy?

Source: Datamonitor

DATAMONITOR

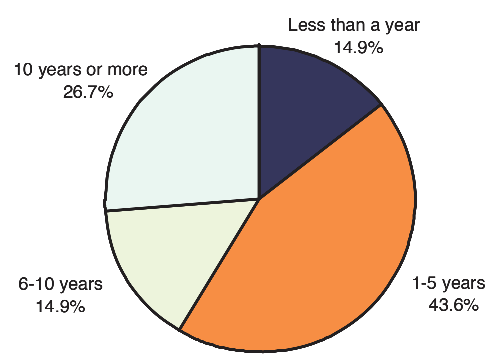
For German consumers service is important but not crucial in provider choice

The majority of consumers surveyed have been holding their policies for less than 5 years

When Datamonitor asked German consumers for how long they have held their pension or life insurance policy, around 60% stated between 0 and 5 years. Another 15% of respondents stated that they have held their policy between 6-10 years while less than 27% stated that they have held their policy for 10 years or more.

According to statistics of the German Federal Financial Supervisory Authority (BaFin), a significant number of cancellations of life insurance policies are early cancellations ("Frühstorno"), meaning that policy holders cancel their policies within the first years. In 2005, the cancellation rate for early cancellations was 16.8% of total new business. In contrast, late cancellations ("Spätstorno") accounted for 3.5% of existing business. This includes surrenders and conversions into premium-free insurance. In comparison, the 'early cancellation' rate in 2004 was 9.3% while 'late cancellation' was slightly higher than 2005 at a rate of 3.9%. This means the majority of the surveyed sample sits in the highest risk group.

Figure 15: A significant portion of consumers took out their policy within the last five years



Q: How long have you held that policy for?

Source: Datamonitor

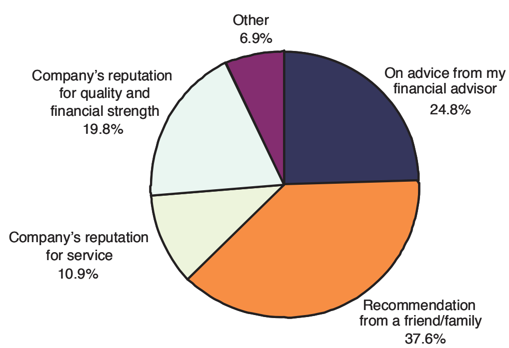
DATAMONITOR

In Germany, friends and family play an important role when it comes to choice of pension and life insurance provider

More than one third (37.6%) of German consumers surveyed by Datamonitor stated that they chose a particular life and pensions provider based on recommendation from friends or family. While this appears to be surprisingly high at first sight, it makes sense when looking at the German distribution model in more detail. In comparison to other countries such as the UK, the German market has been lightly regulated. The result is that there is a large body of sales people who do not conform to the common definition of 'financial advisor', having limited training and focusing on the sale of particular financial products rather than holistic financial advice. Many of these people are part-time, often acting as part-time insurance brokers, selling as little as a few products a year in order to supplement their income. Obviously, in many cases their main target groups are family and friends. Having in mind that trust plays a key role in customer retention, customers who bought a product through a friend or family or were recommended a certain provider, are less likely to switch or cancel a policy.

Another reason for the selection of a particular provider is advice from a financial advisor (24.8% of respondents) and a company's reputation for quality and financial strength (19.8%). Around 11% of respondents see the company's reputation for service as the key criterion for their choice.

Figure 16: Friends and family play an important role when it comes to choice of pension and life insurance provider



Q: Why did you choose this particular provider when you took out the policy?

Source: Datamonitor

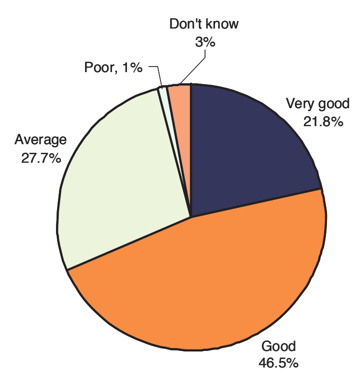
DATAMONITOR

In general, German consumers are satisfied with the service they receive from their insurance provider

Overall, German consumers are satisfied with the service they receive from their life policy or pension policy provider. More than two thirds of consumers surveyed by Datamonitor stated that the service they receive is either ‘good’ (46.5%) or “very good” (21.8%). However, 27.7% of respondents stated that the service provided by insurers is only ‘average’ while only 1% stated that it is ‘poor’. This is a positive indication for life companies in Germany, as they would appear to be keeping their customers happy; on the service aspect at least.

According to ratings agency Assekurata, the service aspect is important for consumers when it comes to the choice of a pension or life insurance provider, although to a lesser extent than other criteria, which is in line with Datamonitor’s findings. Almost 95% of respondents stated that a comprehensive service offer is either ‘extremely important’ (22%), ‘very important’ (43.9%) or ‘important’ (29%). In contrast, only 5.1% of respondents stated that a comprehensive service offer is not important at all. The latter group is likely to include those consumers who are only interested in the cheapest offer or those who are not in direct contact with their insurer because they fully rely on the services of their financial advisor who acts as an interface.

Figure 17: A clear majority of German consumers are satisfied with the service they receive from their life company



Q: How do you rate the service that your life policy or pension policy provider offers?

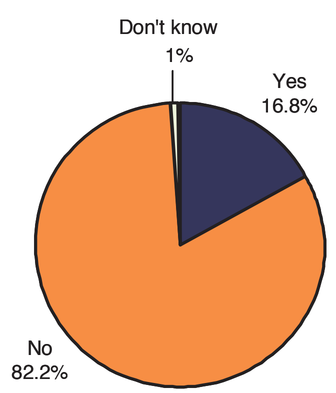
Source: Datamonitor　　DATAMONITOR

More than 80% of consumers have never switched their life or pensions provider

While the majority of the German consumers surveyed have been holding their policies for less than 5 years and fall within the category of policy holders where the cancellation rate is relatively high, more than 80% of them have never switched their policy. However, it appears that German consumers, once they have bought a pension or life insurance policy, remain loyal to their insurance provider. Less than 17% of surveyed consumers stated that they have switched their policy.

The loyalty and trust of consumers in their insurance provider is also underlined by a survey conducted by German rating agency Assekurata in 2006. More than 70% of surveyed consumers have a 'general trust' in insurance companies while more than 84% have trust in 'their' insurance provider, i.e. the one they hold their policy with. According to Assekurata, trust is also the most important criteria when it comes to the choice of a pension or life insurance provider. Almost 82% of surveyed consumers stated that trust in the insurer is either 'extremely important' (40.2%) or 'very important' (41.7%) when buying an insurance product. Other important criteria are 'fast processing provided by the insurer', 'expert knowledge of contact person' and 'competent advice provided by agent or advisor'.

Figure 18: A vast majority of consumers have never switched their policy



Q: Have you ever switched company that provides you with a pension or a life insurance policy?

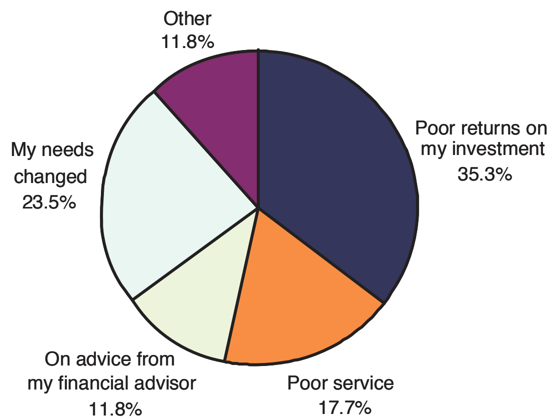
Source: Datamonitor DATAMONITOR

Those that do switch do so mostly because of poor returns on investments

Those 17% of surveyed consumers who have previously switched their policy did so mostly because of poor returns on their investments. More than one third (35.3%) of respondents stated that this was the main reason, while changing needs (23.5%) and poor service (17.7%) also played a role in the decision to switch the insurer.

As the major reason behind switching products, poor investment returns presents a problem for life companies in Germany. Life companies can try to address this problem by adjusting their asset management strategy, however it is more likely to be caused by overall market performance. Strategies such as outsourcing their asset management could be adopted however the majority of the time life companies are in the hands of market performance.

Figure 19: Poor returns on investment, changing needs and poor service are the most common causes for switching



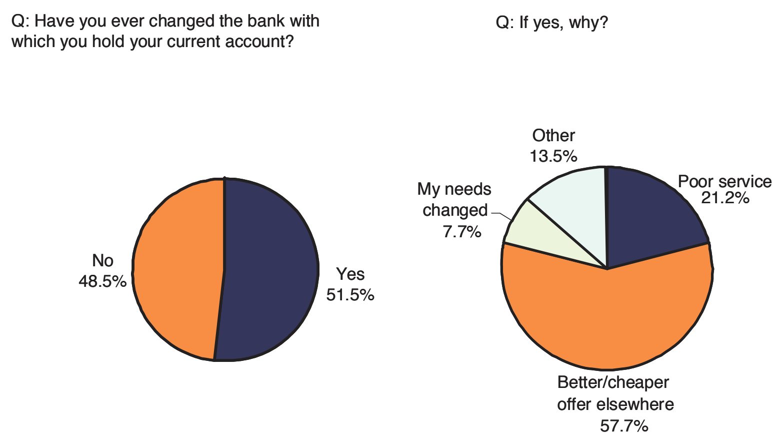
Q: Why did you switch?

Source: Datamonitor DATAMONITOR

Whereas more than 50% of German consumers have changed their bank

While German consumers are quite reluctant to switch their pension or life insurance policy, more than 50% of respondents stated that they have changed the bank with which they hold their current account.

Figure 20: The majority of consumers switched their bank accounts because they found a better/cheaper offer elsewhere



Source: Datamonitor DATAMONITOR

German consumers are extremely price-conscious when it comes to banking

The majority of those consumers who said they switched their bank accounts did so because they found a better and/or cheaper offer elsewhere. This leads to the conclusion that German consumers are more willing to switch their financial services provider when the products and services they receive are easily comparable, which is the case with current accounts, where distinct criteria such as higher interest rates or lower account fees can tempt a consumer to switch.

Another important aspect is service; more than 21% of surveyed consumers switched their current account because they were not satisfied with the service they received from their bank. In addition, 7.7% of consumers stated that they switched because their 'needs changed'.

Most respondents who opted for 'other' (13.5%) stated that they switched because they relocated. (One of the characteristics of the German banking sector is a large number of smaller regional banks which only operate in that respective area, i.e. if one moves from rural Bavaria to Berlin he will most likely have to switch his bank.)

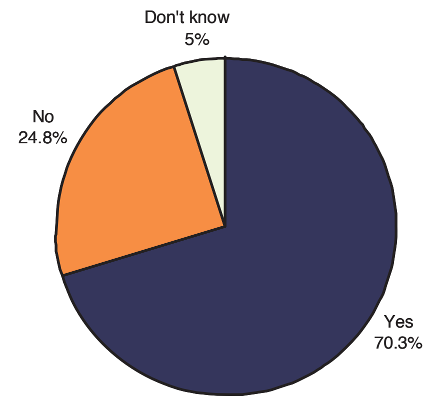
German insurers put a strong emphasis on cross-selling products

When asked if their pension or life policy provider ever offered them another product, more than 70% of surveyed consumers stated that this was indeed the case. This indicates that German insurers are keen on cross-selling additional products to their customers, for example by sending mail shots in the form of leaflets or e-mails. This is one of the key retention strategies in the life and pensions industry.

Around a quarter of respondents stated that they have never been offered additional products by their life company while 5% were not sure if this was the case. Therefore there is still significant scope in the market for improving cross-selling and marketing to their existing customers.

One of the difficulties of direct marketing to customers is the fact that this might upset intermediaries as they are bypassed in this process. Obviously, this is also depending on the distribution model of an insurer. If the insurer has a partnership with a large financial advisor network, direct customer contact, if any, will normally only be made upon full consent of the partner. In such a case, the intermediary usually initiates the cross-selling process, possibly based on data provided by the insurer.

Figure 21: More than two thirds of consumers have been offered another product by their life company



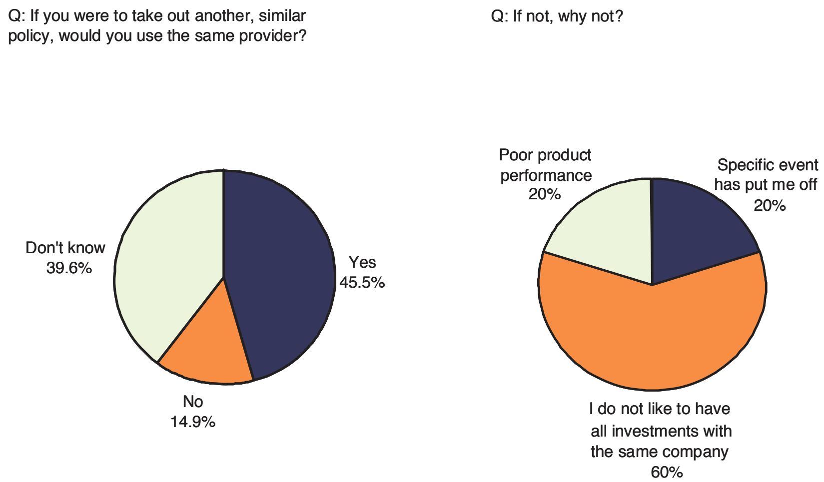
Q: Has your pension or life policy provider ever offered you another product?

Source: Datamonitor DATAMONITOR

Fewer than 50% of consumers would take out another policy with the same provider

While German insurers are keen to cross-sell additional products, their customers are somewhat reluctant to buy again from the same provider. Around 45% of consumers questioned by Datamonitor stated that they would use the same provider if they were to take out another, similar policy but almost 40% were unsure. Furthermore, around 15% of respondents stated that would not use the same provider.

Figure 22: Around 45% of consumers would take out another policy with the same provider



Source: Datamonitor DATAMONITOR

The majority of those that do not want to take out another policy with the same provider seek to spread the risk

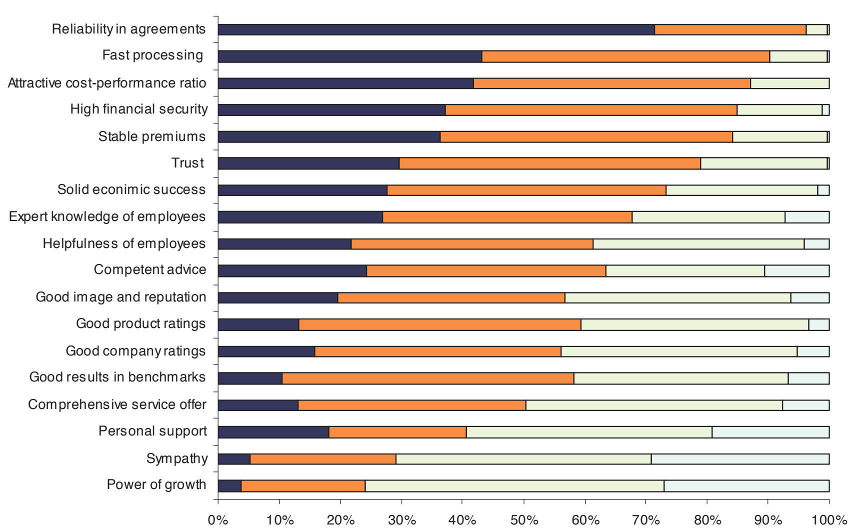
The majority (60%) of consumers who do not want to buy again from the same provider stated that they do not like to have all investments with the same company. Other criteria that prevent them from buying a policy from the same provider are poor product performance (20%) and a specific event that has put them off (20%). Specific events are often service-related, for example if an important letter or e-mail sent by the customer remains unanswered or if a phone call gets forwarded five times without anyone being able to help. For some customers this can be reason enough to cease their relationship with their pension or life insurance provider and they might turn to a competitor instead.

When German financial advisors recommend an insurer, the service aspect is not among the top selection criteria

Financial advisors represent the interface between insurers and end consumers and therefore the service aspect is divided into two categories. On the one hand, financial advisors have to rely on the service they receive from insurers; on the other hand, they themselves are providers of service – to their clients or the end consumer respectively.

When ratings agency Assekurata asked German financial advisors about the key criteria for the recommendation of an insurer, a ‘comprehensive service offer’ was among the least important aspects. However, it also depends on the definition of the term service, as aspects such as ‘fast processing’ or ‘helpfulness of employees’, which ranked higher, are part of the overall service that advisors expect. Therefore relationships between providers and advisors will be impacted by these elements. Poor provision in these areas will prompt advisors to select away from a particular provider. Therefore speed and reliability are vital elements to a German providers’ proposition.

Figure 23: Reliability in agreements is the most important criterion for German financial advisors when they recommend an insurer



Please note: this refers to both life and non-life insurers

Source: Datamonitor, Assekurata

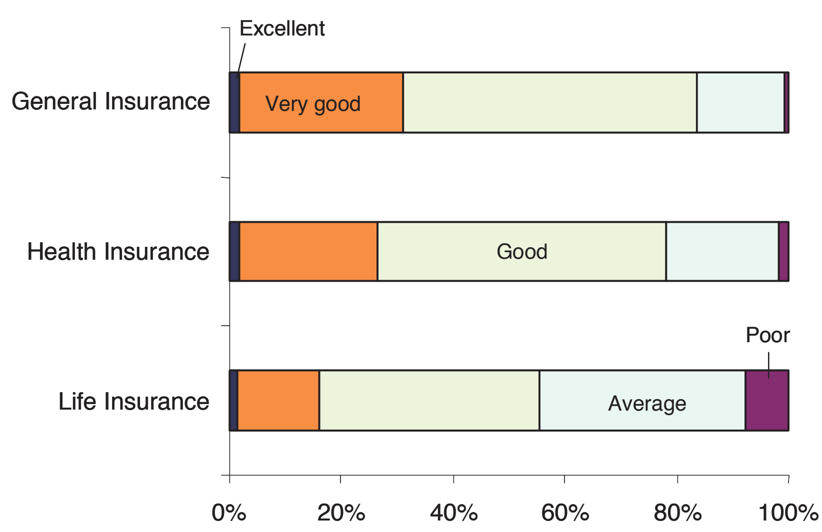
DATAMONITOR

German financial advisors identify life insurance companies as poorest in terms of overall quality

Despite the high opinion of life companies that German consumers have, German advisors perceive the quality to be poor. One reason for this negative perception is the financial markets crisis in recent years, which affected the life insurance business more than other insurance sectors, in particular due to a lowering of profit sharing rates. Another reason given is the lack of transparency in the life insurance sector. Life and pensions products are far more complex than general insurance or health insurance products and therefore it is difficult to experience the true quality of such a product. Thus, in order to improve relations with advisors life insurers should seek to articulate the features of their products more concise and clearly in order to make the industry more understandable and accessible.

In comparison to other insurance companies, life insurers are seen as poorest in terms of overall quality. While 55% of financial advisors believe that the quality of life insurers operating in the German market is either excellent (1.5%), very good (14.5%) or good (39.3%), a substantial amount of respondents stated that the quality is only average (37%). Furthermore, 7.6% of surveyed financial advisors stated that the quality of German life insurers is 'poor'.

Figure 24: German financial advisors identify the life insurance sector as poorest in terms of overall quality



Source: Datamonitor, Assekurata

DATAMONITOR

Cross-selling is seen as industry standard by large financial advisor networks

Cross-selling is widely recognized as an effective way to boost retention through an increased “share of wallet”. German providers are efficient at this and customer segmentation is a far more developed area in the German market than it is in the UK.

Executives of large financial advisor networks interviewed by Datamonitor stated that cross-selling based on data-mining is seen as standard in the industry. In addition, they emphasized that the responsibility to initiate the cross-selling process lies with the advisor, not the provider. Large financial advisor networks usually have their own data warehouses, which allow them to apply customer value measurement to identify the potential of individual customers or customer groups. This means customers can be segmented in different categories, for example A, B and C depending on number of existing contracts, size of contract, personal circumstances etc. and then specifically targeted with product marketing that suits their individual needs. This is one of the key customer retention strategies as the more policies a client holds the deeper is his relationship to the provider.

One executive of a large German financial advisor network stated that his company tries to initiate the cross-selling process based on several steps. First, providers are urged to send mail shots to clients. In addition, the advisor sends mailings to the client based on customer value measurement, i.e. a high potential client receives a different mailing to a low potential client. Furthermore, the financial advisor network issues a client magazine but most importantly, the client is contacted by his financial advisor – either by telephone or in person – on a regular basis, 1.5 times a year on average.

Financial advisors have different views on ‘service’, depending on their business model

In interviews with financial advisors it became evident that there are varying views on how service plays a role in customer retention. This is also largely dependent on the business model adapted by financial advisors. One of Germany’s largest financial advisor networks, for example, distributes exclusively life insurance products from one provider but offers products from various providers on the investment side, although there is also a focus on one particular partner. According to a company executive interviewed by Datamonitor, service and efficiency are important aspects; however, due to the nature of their business model, service is less significant when it come to choice of providers. “We don’t have a beauty contest, let’s say every three months, where we choose a new partner and another one gets kicked out because the service was poor”, the executive commented. “It is not only the service aspect, we have strategic partnerships which are based on long-term relationships”, he added. In addition, he believes that the most important aspect is the personality of the advisor so that the customer feels comfortable. “It’s not possible to say this provider is better because it takes only 2 hours to respond to an e-mail – this is too academic. In the end all that counts is that the customer has a good feeling.”

One of the competitors, another large financial advisor network, emphasizes that the service aspect is divided into two directions: first the service for the customer but also the service financial advisors receive from providers. In both cases service is seen as very important factor.

According to a company executive, in particular with regards to customers the factor 'service' has become increasingly important in recent years. The customer is more interested in the pricing of a product, he tends to compare different products and competitors but at the same time he is willing to pay more if the provider offers a good service. However, he also concedes that young customers in particular are more price-conscious. For them, service plays a less significant role as they are only interested in the price, at least in the first instance. "For these younger customers we have to make service experienceable." Therefore, providers should seek to formulate specific strategies aimed at younger customers in order to convince them that price is not everything and that it is worth paying more if the service is right. For example, this could take the form of an enhanced Internet platform that distinguishes itself from the competition and offers young and Internet-savvy customers value-added service.

Providing access to information is one of the key service aspects of a provider

When asked to name an example for a particularly good and important service, one financial advisor interviewed by Datamonitor stated that providing information is one of the key service aspects. He argued that it is not good enough to send an account statement twice a year. "The customer always needs to get access to information, not only provided by the insurer but also on self-initiative, for example via the Internet."

Even if customers do not use these features all the time, for many it is just important to know that they have access to information whenever they want. Another financial advisor argues that it is also important that providers deliver information about new products on time. While providers need to be quick in developing new products, for example after relevant legislation enters into force, communicating this to financial advisors in a speedy and efficient way helps them gain advantage over competitors. In addition, a provider needs to make sure that the financial advisor understands the product because if he doesn't understand the product he will be reluctant to sell it to his client.

The relevance of this for retention levels in Germany is that this forms a minimum required standard for providers. Therefore offering this level of information is no longer considered an indication of exceptional service but is merely the norm. Providers who want to use information services as tools to build customer relationships must look further than this if they are to have an impact on retention levels.

Financial advisors welcome trend towards 'single-point of contact'

One service aspect that has been particularly highlighted in interviews with financial advisors is attainability. While a couple of years ago many insurance providers were available only from 9 am to 5 pm and calls often ended up in call center queues, there is a new trend that is setting the standard in customer and client relationship. German insurance providers increasingly offer single-points of contact for both distributors and also customers. These are qualified, skilled and experienced people, often available from 8 am to 8 or 9 pm. One representative of a large financial advisor network stated that this was a service they urged providers to introduce, not least because more and more clients complained about being dropped several times during calls or ending up with the wrong person. He added: “Our motto is – “with one call all your problems should be solved.”

According to financial advisors technology is crucial but the human aspect should not be ignored

All financial advisors interviewed by Datamonitor agreed that technology has helped to improve processing times and work flows; however, opinions are divided about the future of the insurance business. While one respondent stated that he is convinced that one day all transactions will be completely paper free and transacted online, one of the other respondents disagreed. He argued that technology has definitely helped to facilitate internal processes but overall his company is not very keen on the Internet and will continue to put a strong emphasis on hard copies and personal relationships. He added: “It is difficult enough to sell a client a financial product, something you cannot smell, which is invisible, which you cannot feel. If paper free processing becomes the standard then financial services is going to become even more invisible than it is now.” He concluded: “The financial services industry will continue to build on face-to-face relationships, more than other business areas; therefore we stick to our motto “people need people”.

Distributors appreciate that providers listen to their ideas and suggestions when developing their service offer

Financial advisors interviewed by Datamonitor also believe that providers listen to them and take their ideas and suggestions into consideration when developing and improving their service offer. This is in particular the case for large financial advisor networks which have a significant influence as insurance providers rely on their strong distribution capability. This influence is not only restricted on the development of the service offer but also includes product design or cost-cutting measures. For one of Germany’s largest financial advisor networks, “it is logical that this process is closely interlinked as we are the only distributor of the insurer.” He added: “Our advisors have between 300,000 – 400,000 client meetings per month, so this can be seen as our own market research institute and the resulting information is bundled and forwarded to the product partner.” According to representatives of large financial advisor networks interviewed by Datamonitor, this feedback to providers does not just happen on an occasional basis but is an ongoing process.

German providers are looking to focus more on customer retention

According to a survey commissioned by German consulting firm Steria Mummert, in cooperation with insurance magazine “Versicherungsmagazin”, German insurers were much more optimistic in 2006 than they were a year earlier. The respondents in particular regained confidence in the life insurance market. Based on this optimism, German insurers primarily seek to focus on measures to increase customer retention, in particular by developing and improving customer segmentation and target group marketing. This includes techniques such as customer value measurement in order to identify customer potential.

In order to improve the quality of advice, around 70% of respondents stated that they intend to focus on distributors such as financial advisors and multi-tie agents. This applies in particular to products which need a higher level of advice, such as private pensions, where 73% of respondents see financial advisors and multi-tie agents as preferred distribution channel.

Customer retention is seen as an integral part of the company philosophy

The importance of customer retention strategies was further reiterated by executives of German insurance companies, interviewed by Datamonitor. They all emphasized that customer retention is seen as an integral part of the company philosophy, i.e. not just one team is dealing with customer retention issues but all employees who are in direct or indirect contact with customers.

One executive interviewed by Datamonitor stated that his company applies both a pre-emptive as well as reactive retention strategy. “There is one customer who doesn’t yet know that he’s going to lapse his policy. In this case we try to apply retention measures such as extension offers where we offer the customer certain advantages.” In this context, up-selling and cross-selling are seen as key strategies in order to build a closer tie between the insurer and the customer. “Then, there is the customer who already knows that he’s going to leave, the one who sent a cancellation or asks about information regarding surrender charges. In this case we try to suggest alternatives, for example in times of financial shortage, how the customer can modify the payment of contributions or by offering him a premium holiday.” Furthermore, customers are informed about the consequences of their decision, which can be particularly significant with regards to life insurance. “If you cancel a life insurance policy in Germany, you don’t get the guaranteed interest rate of 4% anymore; in addition, you don’t get the same tax advantage as you had before.” Apart from these pre-emptive and reactive measures, a good service offering is seen as very important factor in customer retention. “If you provide excellent service then you automatically have a closer tie to your customer; that prevents him from lapsing or canceling his policy. Besides, our customers are not interested in the cheapest offer on the market, they value service and they are willing to pay for it.”

Distribution partners are involved in developing and improving the service offering

Executives of German life insurance companies confirmed that suggestions and ideas of distribution partners, in particular large financial advisor networks, are being taken into account when it comes to developing and improving the service offering. In most cases this is a continuous gathering of relevant data and information that could help to improve the service rather than a standardized process. One executive stated that intermediaries play an important and constructive role in two ways: on the one hand, they themselves benefit from an improved service from insurers; on the other hand, they also help to improve the service for the end customer.

One of the main service features is access to qualified information

Datamonitor found that insurers' opinions on the main service features also reflect the views of financial advisors. Executives of German life companies emphasized that it is important to offer both intermediaries and customers a single point of contact. In addition, they highlighted that it is not just important to offer contact points but also to make sure that intermediaries and customers get qualified information from a skilled customer care team member. Apart from information via telephone, insurers also put an emphasis on information they provide via Internet, which is seen as a very useful carrier for information. In this context, one respondent also referred to the importance of e-mail as an important means of communication.

Improved service has a significant effect on customer retention, according to insurers

German insurers believe that an improved service offering has a significant effect on customer retention. One respondent stated that if a customer gets the impression that there is always someone there to answer his questions, he is less likely to turn his back on the company, which is also in line with views from financial advisors. However, one respondent questioned by Datamonitor stated that it is important to differentiate by looking at different customer typologies. "It's dependent on the customer. You need a customer who values service." He believes that around 10% of customers in the German insurance market are rational customers, i.e. people who are only interested in the cheapest offer, who see service as unimportant as they are confident to manage everything on their own. The good news is that the remaining 90% attach great importance to service because these are customers who want that someone who takes responsibility for them or provides them with knowledge, according to the industry expert. He believes that this figure of 10% rational customers is relatively stable for the life insurance sector; however, in the non-life sector the number of rational customers is rising. What some observers see is a trend to a hybrid customer who buys complex insurance products through his advisor but takes care of his own when it comes to simple products such as car insurance, for example, by searching for the cheapest offer on the web. While many German customers value the service aspect, it is important to make this visible and recognizable. One executive highlights that his company does not just talk about service, but that the quality of the service is certified by an independent body, e.g. ISO 9001 and TÜV.

In terms of IT, achieving a single view of their customers is the main goal for providers

IT, in its broadest meaning, is seen as one of the key issues for life insurance and pension providers, not just in terms of customer retention but as a general means of improving both internal and external processes and work flow. IT in particular plays an important role, according to one executive, because it enables connecting the agent or sales force representative to connect with the head office and gives them access to customer data and information. However, while the importance of IT is highlighted by several industry experts, one respondent interviewed by Datamonitor stated that not everyone manages to get a single view of their customers, which should be one of the main concerns for competitors when building IT systems. He said: "In our company we have a unified and integrated customer care system where we get this single view of the client, have information about all his contracts and the history of all customer contacts."

Other competitors have still some way to go in terms of IT service for customers. One respondent concedes that their customers do not yet have access to a self-service portal via the Internet: "This is in consideration but not yet realized." Having in mind the increasing importance of the Internet, this specific customer service feature should be introduced sooner rather than later.

APPENDIX

Supplementary data

Table 1:	How long have you held your pension or a life insurance policy?
UK respondents	
Less than a year	7.1%
1-5 years	32.1%
6-10 years	22.3%
10 years or more	37.5%
Don't know	0.9%
Source: Datamonitor	DATAMONITOR

Table 2:	How did you go about purchasing that policy?
UK respondents	
Through an Independent Financial Advisor	25.9%
Through my bank	12.5%
Through my workplace	40.2%
Directly with the policy provider	17.0%
Other	4.5%
Source: Datamonitor	DATAMONITOR

DATAMONITOR

Table 3: Why did you choose this particular provider when you took out the policy?

UK respondents	
On advice from my financial advisor	33.0%
Recommendation from a friend/family	9.8%
Company's reputation for service	17.9%
Company's reputation for quality and financial strength	19.6%
Other	19.6%

Source: Datamonitor DATAMONITOR

Table 4: Have you ever switched company that provides you with a pension or a life insurance policy?

UK respondents	
Yes	20.5%
No	79.5%
Don't know	0%

Source: Datamonitor DATAMONITOR

Table 5: Why did you switch your provider?

UK respondents	
Poor returns on my investment	4.4%
Poor service	8.7%
On advice from my financial advisor	39.1%
My needs changed	26.1%
Other	21.7%

Source: Datamonitor DATAMONITOR

Table 6: Have you ever changed the bank with which you hold your current account?

UK respondents

Yes	57.1%
No	42.9%
Don't know	0%

Source: Datamonitor DATAMONITOR

Table 7: Why did you change your bank?

UK respondents

Poor service	35.9%
Better/cheaper offer elsewhere	25.0%
My needs changed	29.7%
Other	9.4%

Source: Datamonitor DATAMONITOR

Table 8: How do you rate the service that your life policy or pension policy provider offers?

UK respondents

Very good	21.4%
Good	44.6%
Average	22.3%
Poor	2.7%
Very poor	0.9%
Don't know	8.0%

Source: Datamonitor DATAMONITOR

Table 9:	Has your pension or life policy provider ever offered you another product?
UK respondents	
Yes	38.0%
No	54.0%
Don't know	8.0%
Source: Datamonitor	DATAMONITOR

Table 10:	If you were to take out another, similar policy, would you use the same provider?
UK respondents	
Yes	29.7%
No	14.4%
Don't know	55.9%
Source: Datamonitor	DATAMONITOR

Table 11:	If you wouldn't take out another, similar policy, would you use the same provider? Why not?
UK respondents	
Poor overall service experience	12.5%
Specific event has put me off	6.3%
I do not like to have all investments with the same company	43.8%
Poor product performance	12.5%
I've heard that others have had negative experiences	0%
Other	25.0%
Source: Datamonitor	DATAMONITOR

.

Table 12:	How did you go about purchasing your pension or life insurance policy?
German respondents	
Through an Independent Financial Advisor	32.7%
Through my bank	13.9%
Through my workplace	5.9%
Directly with the policy provider	40.6%
Other	6.9%

Source: Datamonitor DATAMONITOR

Table 13:	How long have you held that policy for?
German respondents	
Less than a year	14.9%
1-5 years	43.6%
6-10 years	14.9%
10 years or more	26.7%
Don't know	0.0%

Source: Datamonitor DATAMONITOR

Table 14:	Why did you choose this particular provider when you took out the policy?
German respondents	
On advice from my financial advisor	24.8%
Recommendation from a friend/family	37.6%
Company's reputation for service	10.9%
Company's reputation for quality and financial strength	19.8%
Other	6.9%

Source: Datamonitor DATAMONITOR

Table 15:	How do you rate the service that your life policy or pension policy provider offers?
German respondents	
Very good	21.8%
Good	46.5%
Average	27.7%
Poor	1.0%
Very poor	0.0%
Don't know	3.0%

Source: Datamonitor DATAMONITOR

Table 16:	Have you ever switched company that provides you with a pension or life insurance policy?
German respondents	
Yes	16.8%
No	82.2%
Don't know	1.0%

Source: Datamonitor DATAMONITOR

Table 17:	Why did you switch?
German respondents	
Poor returns on my investment	35.3%
Poor service	17.7%
On advice from my financial advisor	11.8%
My needs changed	23.5%
Other	11.8%

Source: Datamonitor DATAMONITOR

Table 18:	Have you ever changed the bank with which you hold your current account?
German respondents	
Yes	51.5%
No	48.5%
Don't know	0.0%

Source: Datamonitor DATAMONITOR

Table 19:	Why did you change your bank account?
German respondents	
Poor service	21.2%
Better/cheaper offer elsewhere	57.7%
My needs changed	7.7%
Other	13.5%
Source: Datamonitor	DATAMONITOR

Table 20:	Has your pension or life policy provider ever offered you another product?
German respondents	
Yes	70.3%
No	24.8%
Don't know	5.0%
Source: Datamonitor	DATAMONITOR

Table 21:	If you were to take out another, similar policy, would you use the same provider?
German respondents	
Yes	45.5%
No	14.9%
Don't know	39.6%
Source: Datamonitor	DATAMONITOR

Table 22:	Why would you not use the same provider?
German respondents	
Poor overall service experience	0.0%
Specific event has put me off	20.0%
I do not like to have all investments with the same company	60.0%
Poor product performance	20.0%
I've heard that others have had negative experiences	0.0%
Other	0.0%
Source: Datamonitor	DATAMONITOR

Table 23: Criteria selected by financial advisors for the recommendation of insurance providers to end customers	extremely important	very important	important	un-important
Reliability in agreements	71.4%	24.8%	3.4%	0.4%
Fast processing	43.1%	47.2%	9.4%	0.3%
Attractive cost-performance ratio	41.7%	45.5%	12.8%	0.0%
High financial security	37.2%	47.7%	13.9%	1.2%
Stable insurance premiums	36.4%	47.7%	15.5%	0.4%
Trust	29.7%	49.2%	20.7%	0.4%
Solid economic success	27.7%	45.7%	24.7%	1.9%
Expert knowledge of employees	26.9%	40.9%	25.0%	7.2%
Helpfulness of employees	21.8%	39.5%	34.6%	4.1%
Competent advice	24.2%	39.2%	26.0%	10.6%
Good image and reputation	19.5%	37.2%	36.8%	6.4%
Good product ratings	13.2%	46.2%	37.2%	3.4%
Good company ratings	15.9%	40.2%	38.6%	5.3%
Good results in benchmarks	10.5%	47.7%	35.0%	6.8%
Comprehensive service offer	13.0%	37.4%	42.0%	7.6%
Personal support	18.1%	22.6%	40.0%	19.2%
Sympathy	5.3%	23.8%	41.9%	29.1%
Power of growth	3.8%	20.3%	48.9%	27.1%

N.B. results based on an online survey among 267 German financial advisors

Source: Datamonitor, Assekurata DATAMONITOR

Table 24: Quality rating of insurance companies operating in the German market	excellent	very good	good	average	poor
General Insurance	1.9%	29.2%	52.5%	15.6%	0.8%
Health Insurance	1.9%	24.6%	51.5%	20.1%	1.9%
Life Insurance	1.5%	14.5%	39.3%	37.0%	7.6%

Source: Datamonitor, Assekurata DATAMONITOR

Table 25: Key figures of Top 10 German life insurance companies 2005

	Gross premiums earned	Existing business (EOY)	New business	Early cancel[1]	Late cancel[2]
	EURm	EURm	EURm	%	%
Allianz Leben	11,825	246,156	11,112	13.0%	2.7%
AachenMünchener Leben	3,472	119,283	12,028	17.1%	4.9%
R+V Lebensversicherung	3,293	90,562	9,643	10.0%	2.7%
Hamburg Mannheimer LV	3,070	78,130	5,369	29.7%	4.2%
Zurich Deutscher Herold	2,887	72,671	6,257	14.1%	4.3%
Debeka Leben	2,452	87,152	4,190	16.5%	2.0%
Volksfürsorge LV	2,378	65,764	4,541	13.3%	5.2%
Victoria Leben	2,181	58,331	3,716	16.8%	4.6%
AXA Leben	2,061	63,193	5,661	17.0%	4.5%
Bayern-Versicherung	1,881	41,388	2,137	10.1%	3.1%
Total Top 10	**35,500**	**922,630**	**64,654**	**15.8%**	**3.8%**
Total	**72,808**	**2,328,796**	**199,761**	**16.8%**	**3.5%**

[1] Early cancellation: 'other early cancellation' in % of new business

[2] Late cancellation: surrender and conversion into premium-free insurance

Source: Datamonitor, BaFin

DATAMONITOR

Definitions

Single premium policy

A long-term insurance policy where the premium is paid in a single lump sum.

Regular premium

A recurring premium paid over the term of the policy, at intervals specified in the policy, usually monthly.

New business

Ordinary branch long term insurance business written during the course of the year. The premiums reported to the ABI are the new premiums received by the life office. All monetary amounts are direct business shown gross of reinsurance ceded, include tax relief and are rounded to the nearest thousand pounds.

Wrap accounts

A wrap account is an online account that enables investors or their advisors to view all their financial assets on one platform. The 'full wrap' incorporates five key elements:

- all available tax regimes;
- full depth of allowable assets;
- a full suite of financial tools;
- online availability;
- a single transparent price.

Life based savings products

The following products are included under the Datamonitor definition of life based savings products: *unit-linked bonds, with-profits bonds, income & growth bonds, distribution bonds, other insurance bonds, broker bonds, purchased life annuities, other single premium policies, maxi and mini insurance ISAs, unit-linked endowments, with-profits endowments.*

Life Product Definitions

Life Assurance

Life assurance pays out upon the death of the policyholder, or at the end of a specified period depending on the type of life policy. There are two basic types of policy:

- Protection policies - the policyholder pays a premium to provide cover in the case of their death. Protection policies can be further segmented between term life and whole life assurance. Term life is the simplest form of life assurance in which the policy is taken out for a set period of time. In contrast whole life, as its title implies, has no time limit placed upon it. In the event of the assured's death the insurance company pays out a specified sum.

- Investment policies - these are savings-based products that break down into endowments and investment bonds. An endowment requires payment of regular premiums and on maturity of the contract will pay out a lump sum to the policyholder. In addition, endowments also provide an element of life cover. An investment bond is a single premium contract.

Single Premium Life

Single Life is made as a one-off payment, and is highly investment-driven. Annual life consists of ongoing payments, either on a term basis, to pay in the event of death, or as a form of long-term savings.

Datamonitor uses the ABI's definition of single premium life products, these products being:

- With-profits bonds
- Unit-linked bonds
- Income and Growth bonds
- Guaranteed Equity bonds
- Distribution bonds
- Purchased Life Annuities
- Other bonds
- Collective life
- Rest – mainly Long Term Care and Insurance ISAs

With-profit bond

Single premium investment policy where a lump sum is paid into a life office's with-profit fund comprising a variety of investments, including equities, gilts, property and money.

Unit-linked bond

A single premium investment where the value goes up or down in line with the price of units in a fund.

Income and growth bonds

Investment bonds, which include guaranteed income other than with-profit bonds or guaranteed equity bonds.

Guaranteed Equity bonds

Investment bonds, which include guarantees and pay a percentage of the movement of one or more index.

Distribution bonds

Investment bonds, which aim to distribute investment income on a regular basis.

Purchased Life Annuities

Life related annuity products, which include deferred and immediate annuities plus Home Income Plans.

Other bonds

Any other Single Premium Investment Bond not included in another category and making up less than 10% of a providers' total bond sales.

Annual Premium Life

A recurring premium paid over the term of the policy, at intervals specified in the policy. Most annual premium policies are classified as protection rather than investment products.

Datamonitor uses the ABI's definition of annual premium life products, these products being:

- Endowment savings
- Endowment Mortgage Related
- Whole of Life Insurance
- Term Mortgage Related
- Term Non-Mortgage Related
- Income Protection
- Critical Illness
- Collective Life
- Insurance ISA

Endowment Policy

A life insurance policy which pays a sum of money after an agreed period of time, or on the death of the life insured, whichever happens first.

Endowment policies are often in conjunction with an interest only mortgage and calculated so that the value of the endowment policy will cover the outstanding mortgage.

Whole of Life Insurance

A life insurance policy providing payment on death, whenever this occurs. Premiums may be payable throughout life, or for a shorter period.

Term Assurance

Life cover provided for a specified number of years. The insurer only pays out if the policyholder dies within this time.

Term assurance is often bought when a mortgage is taken out so that the value of the mortgage is covered if the mortgage holder dies within the term of the mortgage.

Income Protection

A policy that pays an income for as long as the policyholder is unable to work as a result of accident or illness. The cover usually lasts until retirement.

Critical Illness

A policy where the insurer pays the sum insured in the form of a lump sum to the policyholder in the event of diagnosis of a life threatening disease e.g. certain cancers or heart disease.

Collective Life

A group life policy that does not relate to a scheme established by an employer for the benefits of employees. Commonly used by credit companies to cover loans.

ISAs

ISAs are free from all UK income tax and capital gains tax and currently have three different components:

Cash ISAs - saving money in a deposit account;

Equity ISAs - stock & shares, an option similar to PEPs;

Life assurance ISAs - saving money in a life assurance product.

Customers can choose one, two or all three of these components. More than 120 companies are currently offering equity ISAs and close to 100 have launched cash ISAs. However, the number offering life assurance ISAs is no more than a dozen

Pension product definitions

Personal Pensions

Pensions are a means for individuals to make provision for their retirement. Payment can be made in a lump sum or in regular installments, which are then invested until retirement. At the end of their working life the individual uses the pension fund accumulated to purchase an annuity, which will provide them with a regular source of income until death.

Stakeholder Pensions

A type of personal pension introduced by the government in 2001 in order to make it easier for people to save for their retirement. Stakeholder pensions are designed to be simple, cheap and flexible.

Group personal pensions

GPPs are an arrangement made on behalf of employees by an employer to participate in a personal pension scheme on a collective basis. It is a collecting arrangement rather than a separate pension scheme.

DSS Rebates

A contribution paid into a Personal Pension scheme (or a Free-standing AVC scheme) by the DSS, consisting of a partial rebate of National Insurance contributions by employers and employees, together with tax relief on the employees' portion.

Employer Sponsored Stakeholder pension (ESS)

An arrangement made by the employer for its employees to participate in individual Stakeholder pension schemes on a group basis. An ESS pension provider must get approval from the Inland Revenue, and register the scheme with OPRA.

SIPPs (Self Invested Personal Pensions)

SIPPs are a subsection of personal pensions and adhere to the same tax rules governing third pillar products. SIPPs were formed in order to cater for individuals with more complex financial needs and who wanted greater freedom in their investment decisions.

FSAVC (Free-Standing Additional Voluntary Contributions)

Additional contributions paid voluntarily into policies similar to personal pensions by employees in occupational schemes, who wish to top up their pensions, but keep the money separate from the occupational scheme.

ABI definitions of distribution channels pre-2005

Independent Financial Advisors (IFAs)

IFAs vary in size, regulatory arrangements and specialist areas. Their key feature, however, is the fact that they are authorized to sell products from any provider company. In theory at least, they can scan the whole market to present their client with the best product for them. As such they are categorized as independent, not tied to any one product provider.

As the forecasts show, in the post-depolarization world the IFA channel will split into independent and multi-tied advisors.

Direct sales forces

Any sales person who works for a life office either on an employed basis or self-employed basis (e.g. financial consultant) and who may only sell the products of that provider company. Sales forces do provide advice to an extent, but it is advice on only that provider company's products.

Tied agents

These are institutions or representatives thereof, such as solicitors and estate agents, which sell life and pensions products to their customers on behalf of a life office. This can also include non-bank third parties such as brandassurers and retailers who distribute the insurance products of a financial services organization under their own brand.

Multi-tied agents

These are institutions which sell life and pensions products from more than one provider. This category includes IFAs and bancassurers/brandassurers who will be allowed to do this under proposals set out in CP166.

Bancassurance

Any business that is sold by employees of the life office or bank whether sold within or outside the bank's premises

Direct marketing

Direct mail and direct response where the sale is completed without a face-to-face meeting and not included under telesales.

Telesales

In or outbound calls where the transaction is closed over the telephone. This includes 'direct response' adverts where the response mechanism is an in-bound call with the call completed over the telephone.

Other

Any business not actively marketed e.g. for group schemes, business sold direct by head office staff. Also included are over the counter sales, staff sales and flotation proceeds.

Definitions for Datamonitor Life and Pensions Distribution model - 2006 onwards

IFA/whole-of market

This channel is comparable to the former IFA channel definition used in reports prior to 2006. The channel now includes the two segments of the market that advise on an unrestricted range of products. The IFA part segment of this channel refers to those advisors who give advice on an unrestricted range, while offering their clients a option to pay fees rather than commission for their service.

Whole-of-market advisors must also offer their customers advice on an unrestricted range of products but they are free to only serve their customers on a commission basis.

Multi-tie financial advisor

Advisors who offer products from a limited range of institutions. An advisor will form a panel of providers based on various considerations and will then only advise it's clients on products supplied by that provider.

Single tie (other than bancassurance)

An advisor who is working for one provider, who is not based within a bank branch

Single tie bancassurance

Long-term business sold through a bank branch which has a deal to sell those products of just one provider.

Multi-tie bancassurace

Long-term business sold through a bank branch which has a deal to sell those products from a limited range or panel of providers.

Non-intermediated

Non-intermediated sales are pure direct business – sold directly by the manufacturer to the customer, with no intermediary intervention.

Matrix Definitions

- **Networks** – appointed representative of a network of 20 or more firms.
- **Network members** – all network members.
- **Nationals** – any firm with a turnover of £5 million or more per annum, or 10 or more outlets.
- **Big IFAs** – a firm with a single outlet and a turnover of £1-5 million per annum.
- **Regional** – a firm with branches in 2 or more regions.
- **Single outlet –** a firm with a single outlet and a turnover of less than £1 million per annum.