The Next Insurance Revolution: Customer centricity and the single view of the customer

Researched and written by Matt Scott award winning journalist and insurance guru

INTRODUCTION

In the increasingly competitive world of insurance, staying one step ahead of the competition is vital if an insurance company is to grow profitably and improve the underlying performance of its books of business.

Direct Line famously showed the power of this when it introduced the direct business model to insurance and, more recently, the price comparison websites have once again shook up the market, leaving those slow to adapt trailing in the wake of their more agile competitors.

Now, the next big insurance revolution is on the horizon and insurers and brokers alike need to be ready for the inevitable changes that will follow as the market adapts to the new norm.

Consumers are becoming more particular with their demands and, armed with improved knowledge of the industry and a set of expectations being honed in the retail sector, are beginning to expect a more tailored and personal approach to insurance than the industry can currently offer.

But technological developments and the continued rise of digital distribution channels is giving insurance companies the opportunity to rise to this challenge and mould a customer-centric strategy with the customer at the heart of the business.

It is not just technology, however, that holds the answer and, as this report reveals, company culture will play just as big a role, if not bigger, in the insurance industry being able to meet these growing demands.

So while the obstacles in the way may be difficult to overcome, the rewards found at the end of this particular journey are great.

But, as you will find out from this research, the risks of standing still are even greater.

THREE INSURANCE REVOLUTIONS

Insurance has traditionally been a conservative business, with the mantra 'if it ain't broke, don't fix it' the go-to position for many industry leaders – sometimes even when the failings of a creaking ship are clear for all to see.

But that doesn't mean the insurance industry is afraid of reinventing itself when the opportunity presents itself. And this reinvention is often done in quite a dramatic fashion.

Direct Line famously ushered in the era of the direct insurer all the way back in 1985, with its fresh approach to distributing motor insurance cutting out the broker and opening insurers up to interacting with customers directly for the first time.

Since then, direct-to-market insurers have become a common sight in the industry, and Direct Line has now grown a book of business supporting over ten million customers across a number of business lines.

But the introduction of the direct insurer did not spell the end of the intermediated market, and that particular distribution channel was subjected to its own reinvention in 2002 with the dawning of the age of the price comparison website.

The aggregator market shook up the established players, driving down prices and increasing churn as customers leaped at the chance to easily compare premiums across a range of different insurers at the click of a button.

But now the insurance industry is ready for its next cultural revolution.

Advancements in technology and the evolving needs of an increasingly demanding consumer base are forcing insurers to move away from a focus on product specifications and risk profiles to a focus on consumer needs and a holistic approach to servicing customers across multiple business lines and different distribution channels simultaneously.

This move to a more customer-centric business model means that insurance providers will have to reinvent both their culture and their technology, to develop a single view of the customer that holds the keys to the latest insurance revolution.

THE STATUS-QUO IN UK GENERAL INSURANCE

The UK insurance market is a £35bn industry. It is the largest in Europe and the fourth largest globally, employing more than 300,000 people and paying out £44m every day for private motor and property claims alone.

But while the numbers are impressive, the industry itself can sometimes create headaches for those at the helm tasked with steering their business through often treacherous waters.

The private motor market, for example, seems to be a perennially loss-making sector, hindered by rising claims and a commoditisation of the market spurred on by the rise of the price comparison websites.

This particular business line also serves to act as an example of the wider problems in the UK general insurance market, with the decision for many insurers to follow the market down in a race to the bottom symptomatic of the short-termism inherent to the wider insurance industry.

Martin Oliver, managing director of personal lines at Arthur J Gallagher, says this short-termism is driven by a necessity for business leaders to satisfy the need of shareholders to achieve improved financials, and increased regulation that has taken control away from the frontline.

“The short-term nature of business is a problem,” he says. “Having to make your numbers each month, each quarter means you don’t keep going and think long-term and you do some stuff in the short-term that doesn’t go with the culture you are trying to establish.

”You have to measure the right things, like the customer outcome, and then understand the drivers as to what is making it go up and go down. Boards are now controlling this more than they ever did and the regulator has driven that in our industry.”

“If the board is making the decisions, then the data they see is critical as to whether they are doing the right things,” he adds.

Daryl Henwood ,CRM industry lead for financial services at Hitachi Solutions says this enduring culture of short-termism has created modern-day problems for insurers looking to diversify business lines or cross-sell to existing policyholders.

“Insurers have built their technology systems around what lines of business they are selling, and they’ve bought policy admin systems for those specific requirements,” he says. “If they then decide to move into a new business line, they may decide to use a different system, and that has its own database. It has the same information, such as name and address, [but on a different system with different access points].

“What they have never done is gone and looked at their existing client base and see if they are already selling other products to customers in the new market they are entering. Instead, to get new customers, they go out and do a load of marketing, whereas one of the things they could be doing is cross-selling and up-selling [to existing customers].”

This cross-selling would not only reduce distribution costs and allow for more accurate pricing, but it would also provide policyholders with a more streamlined and efficient service.

"Having a single view of the customer results in a reduction in costs," Henwood says, "because you don't have to deal with all these legacy systems, the speed of resolution will increase, and it will just be a better experience for the customer.

"It also allows you to see all of the holdings and activities of that customer, and every time a customer does something you will be able to see what policies they have, what activities they do and what claims they've had – it will plug into all these legacy systems and surface that data for you into a single pane."

Standing still is not an option

But without a further push towards a customer-centric business model, Henwood argues, the insurance industry is opening itself up to the threat of disruption.

"Insurers are aware of the threat of disruption, but a chief executive probably only has two years [in charge]," he says. "Is it easier in that time to offshore and drive down costs, or are they going to take the big risk and do something different? Putting a new Customer Relationship Management (CRM) system in is a good thing, but it's a big project and requires investment.

"You need senior leaders and chief executives who have a vision and really believe in customer service, and know how to do things differently."

But it is not all bad news, and insurers are starting to up their game when it comes to customer service.

The Institute of Customer Service's 2016 UK Customer Satisfaction Index (UKCSI) revealed that the insurance industry scored an overall customer satisfaction score of 79.4 out of 100 – two points above the UK average and 1.5 points higher than the industry's score for 2015.

This means that the insurance industry has reported an improved customer satisfaction score in each of the last five years.

The research also found that a higher proportion of sector customers now prioritise excellent service at a higher price over no frills service at lower prices compared to two years ago - 26% of customers expressed a preference for excellent service in 2016, even if it costs them more, compared to just 22% in 2014.

The survey of 10,000 consumers also found a clear link between organisations getting customer experiences right first time and achieving high scores for satisfaction.

On average, the UKCSI score was 82.7 for those organisations where customers said they had issues resolved immediately, but when this did not happen the score dropped to an average of 59.

In insurance, 80% of companies were found to get it right first time, which would have gone a long way to contributing to the industry's high customer satisfaction score.

Commenting at the launch of the research, Jo Causon, CEO of The Institute of Customer Service, said: "Getting it right first time has to be a prerequisite for any organisation. Customers expect to be dealt with quickly and competently – as soon as they start to feel let down or ignored, their trust is lost. It's encouraging to see the insurance sector is making progress, but prevention is always better than cure, so the industry should take note of the areas which need to be focused on.

"Efficiency, effectiveness and empathy are key, and organisations should always follow up with customers to ensure that the problem is resolved."

Despite the strides being taken in this area, the risks of standing still could not be greater for insurance providers.

"[MoneySavingExpert co-founder] Martin Lewis has exposed a lot of financial services companies for penalising loyalty and has raised awareness levels around a lack of trust," Oliver says. "Insurance is in a place where there is a gap for people who can genuinely demonstrate they are looking after their customers, and there is a huge dividend for getting that right.

"It is important because as that lack of trust is exposed, customers have more choice than ever before about where to place their business. As they become educated and have more choice, you will lose your existing customers if you don't modernise and give the customer what they want. So ultimately you will slowly wither and die because there are more of your competitors who are adapting that strategy who will steal your customers."

"The risks are too big to ignore," he adds. "You simply don't have a business in 10 years' time if you aren't careful."

But emerging technology is starting to alter that status quo, with changing customer needs opening up an opportunity for insurance companies to create new ways to engage with their customer base, and improve on the service levels they can already offer.

One senior marketing strategy manager at a leading insurer says: "The UK insurance market is seeing an unprecedented change in customer expectations and requirement for richer engagement enabled by technological innovations, such as telematics, wearables, the shared economy, usage-based models, the internet-of-things and autonomous vehicles. Digital capabilities mean that customers expect a seamless service at all times. It will not be long before they expect insurance companies to offer them a similar type of experience as the one they enjoy with Amazon.

"Unfortunately, the financial services industry (including insurance companies) is currently lagging behind many industries in its adoption of digital and new technologies, which results in poor customer engagement and satisfaction. Yet, there are significant opportunities insurance companies could seize, such as delivering new, more personalised propositions."

THE BARRIERS TO CHANGE

Despite the opportunities that exist, the path to a more customer-centric business path is not easy to navigate, with a number of barriers blocking the way.

Jason Campbell, programme manager at Hitachi Solutions, says that even the insurers who have the appetite for being more customer-centric are often unsure as to the best path for making the transition.

"What we are finding across a lot of the different insurers we are speaking to is there's clearly a real drive towards going much more customer-centric," he says. "Everybody is saying that, but when trying to make the leap from where they are now to that customer-centric business model, they don't really understand how they are going to do that and how they are going to manage it.

"If you take a look at banking, those guys have been talking about customer centricity and omnichannel engagement for a number of years now, whereas a lot of the insurers are still thinking about how they can define and understand how many individual clients they have and who owns the client [within the business]."

Henwood says that the key to finding that right path is receiving clear leadership and direction from the executive team.

"You have to have leadership from the top," he says. "Every successful project is driven by the chief executive, or the person who owns the budget. That's because you have to have IT and the business working hand in glove, and you have to have clear objectives, and a road map with stepping stones, so you clearly understand where you are going and how you are getting there."

Despite the challenges, there is an increasing desire from the industry to move the customer to the heart of their business, and Towergate client services director Ray Potter says insurance companies are now starting to sit up and take notice of the benefits of true customer centricity.

"For a long time, our industry, particularly broking, has paid lip service to customer centricity from the point of view of saying: "Of course we do this. Of course the customer is at the centre of everything we do," but I don't think it has been," he says. "But as the market has evolved, and competition has increased, we've realised that if you don't [focus on the customer] you are going to lose out.

"People are now taking customer centricity more seriously than they did. We got caught up with ourselves a bit in the 90s and through to the mid-2000s, particularly in broking where we thought we called all the shots, but the truth is we don't. Against that realisation, we've woken up to the fact that rather than just talking about good customer service, we've got to deliver it and therefore the customer has to be at the base of everything that we do."

Vicki Heslop, senior claims manager at Covea, says that the changing nature of the customer has helped change the way insurers focus on their policyholders, and that insurance now needs to look to other sectors to help make the leap to being more customer-centric.

"Customer centricity is getting more important in insurance because of the changing nature of the customer and their increased demands," she says. "Insurance has to keep pace with other industries that may be more customer-facing or have evolved quicker with things like self-service and technology, because this is now what customers expect, or certainly will in the near future."

Heslop points to the likes of Amazon and its highly targeted marketing of consumers as one example of how industries outside of insurance are engaging better with their customers, and warns that insurers need to be ready for such a high level of tailored interaction to make its way into insurance.

"That level of engagement is starting to become a customer's expectation," she says. "That might not be the case in financial services yet, but it is coming. When you look at the surveys and what we are asking our customers, you can see they are moving more and more towards that [way of interacting with insurers].

"You used to compare yourself just to other insurers, but actually that is no longer good enough. You have to compare yourselves to other industries if you want to stay in the game as they are often more innovative and more market-leading."

Cultural challenges

Among the insurance professionals spoken to for this research, the biggest barrier cited as an inhibitor to being more customer-centric was company culture.

And despite some insurance companies starting to make the move towards customer-centricity, many within the industry are still suffering from a stagnation that threatens to undermine their position on the market.

"Inertia is endemic in certain areas of insurance, says one operations director at a leading broker. "Certain people think we've done it like this for so many years [and it doesn't need to change].

"It all comes down to being challenged by senior management, which has a huge influence on the culture. It helps drive down the message to the people that don't want change [that it is needed]. It sets the vision of the company and ensures everyone is singing from the same hymn sheet, because if we are not then we are not going to be here anymore."

Arthur J Gallagher's Oliver says that this position is made worse by boards not understanding the benefits of being customer-centric, and being reluctant to grant the investment needed to make the transition a success.

"If the board does not get the fact you have to change your culture to make your people customer-centric so your conversion rates go up and your cross-sell rates go up because your customers are happier with what you are trying to sell [then you will struggle]," he says. "Some boards just don't understand there is a link between customer satisfaction and profitability; they don't understand your staff are the key link to customer satisfaction.

"You can't be world class in customer service unless you have well-trained, well-educated and well-rewarded and recognised staff. A lot of boards don't get that link to customer satisfaction."

Citgroup EMEA product lead Simona Pigulea says that it is vital, therefore, that boards are made aware of the long-term benefits of investing in customer centricity, especially because the short-term finances of an organisation will often take a hit early on in the transition period.

"Because of the hard changes you sometimes need to make, you need to be able to justify a short-term decrease in revenues in order to get a better customer experience and customer proposition," she says. "Without that buy-in from senior stakeholders the necessary changes are not as easy to implement.

"Over the long-term, having that increased value for customers and improved sales processes will definitely lead to increasing revenues, increased brand awareness, more positive feedback from customers and a decrease in complaints."

Daryl Henwood, CRM industry lead at Hitachi Solutions, agrees with the need for winning support from executive teams, and says that without that direction and buy-in from senior leadership, any change project is doomed to fail.

"I've seen it on CRM projects where you can tell if it is going to succeed or not just by the clarity of vision and strength of focus from the leadership team," he says. "If there's really clear, strong and purposeful direction, then the probability is that that CRM project will succeed.

"If they don't have strong direction, then it just ends up being wasted money."

The silo mentality

Another key cultural barrier to achieving true customer centricity is the silo mentality that is prevalent in so many insurance companies.

Campbell says this has resulted in insurance companies putting up 'Chinese walls' between departments / functions / business lines that prevent collaboration and make it impossible for the company to achieve a single view of the customer and maximise customer satisfaction and profitability.

"A lot of the problem is that many insurers have books of business that have been acquired or organically grown through acquisition, and that tends to generate Chinese walls within the organisation," he says. "Getting them to understand the need to 'open up the kimono' to be much more customer-centric is vital, and that means the business is going to have to change its internal operating procedures, but it is also going to have to change its mind-set.

"That mind-set change and that organisational change is most of the time seen as being too hard and too big. What insurers tend to do is look at a technical solution to provide a level of openness. They tend to shy away from the difficult question of culture, and then find technical solutions they think will fit and fix that problem [but are then limited by an unsupportive culture]."

"That cultural change is a real inhibitor to making that true customer centricity happen," he adds.

But that does not mean change cannot take place. One operations director from a leading broker says his company has already achieved success by breaking down these barriers and opening up channels for collaboration.

"[If siloes aren't broken down] people just end up being centred on their own part of the organisation and promote self-interest rather than customer interest," he says. "That stifles business performance. One of the many successes we've had this year is where we've had collaboration from other parts of the group.

"That collaboration and common interest and alignment of end goals is absolutely crucial to winning and retaining clients."

And if you can successfully change that mind-set, Campbell says the rewards for customer engagement and satisfaction are great: "It gives you one view of the world, and allows the customer to have that one-touch, multi-access engagement right into any policy they have."

Technological Challenges

If company culture is the foundation on which to build a customer centric-business, then technology is the factory that helps build efficiencies and deliver improved customer satisfaction and better business results, but many insurers are suffering from ineffective legacy systems that are not fit for purpose.

Campbell says that from a technical perspective, legacy systems are the single biggest problem preventing the insurance industry from being customer-centric.

"All these legacy systems are account-based, they are not customer centric," he says. "That whole account centricity piece is not thinking about the customer.

"Trying to get access in the first place is difficult and costly, and once you do get hold of the data, nine times out of 10 the data is dirty, and trying to use that data in any meaningful way from a customer perspective is very expensive as everything has to look back into the legacy mainframe."

One leading broker who took part in this research agrees, and says legacy systems are a common problem for all insurance companies, but one that can be overcome.

"Everyone struggles with legacy systems," he says. "They are usually designed to do one thing, but the world moves on. Every broker, from the biggest to the smallest, suffers a bit with legacy systems, but it's about how you manage that data and incorporate it into the wider data universe that is important.

"We have grown exponentially in the last five or six years and we have a lot of legacy systems, but we have a very proactive team that work on that, so it is not too much of a problem for us."

And Campbell says that getting those internal systems and processes right, so that you can access data and achieve a single view of the customer, can really help an insurer's business performance.

"From an insurer's perspective, if they overcome some of those internal challenges the management of the customer becomes much easier, becomes much more fluid and it enables them to help generate better marketing," he says. "They can then have one single, consistent view of the customer, and that allows them to generate a lot more cross-selling and up-selling opportunities.

"Insurers live and die on repeat business and renewals, and having that level of seamlessness and openness between multiple policies makes it much easier. You can start to generate better offers and better capabilities for the customer if you know they have three polices with you and two of them are coming up for renewal in three months."

But Henwood says it is important that technology is not seen as the key that unlocks the door to customer centricity, as technology on its own cannot make the difference.

"Technology doesn't really change how people go about doing things, all it does is make them more effective at what they are doing," he says. "If they are not at all customer-centric, then it doesn't matter how much technology you have, it won't make being customer centric easier – if it is not in their mind, they won't do it.

"That is particularly apparent in insurance because, historically, the industry has not been customer-centric. In areas like retail there has been the recognition that customer is king forever, so actually you don't need to change people's minds about it, all you need to do is make things easier – and technology can do that."

"That doesn't mean technology doesn't play a role, but the organisation has to decide first whether it is willing to go through the cultural change or not," he adds.

Towergate's Potter agrees, and says that it is vital that insurance keeps hold of its human element.

"Technology is important, but it's not the crucial factor," he says. "Our business is all about relationships and how we know and deal with our clients. Technology can help with that, but without the basic relationship nothing can happen.

"It is a lot easier to be very customer-centric when you have the relationship with them."

CUSTOMER CENTRICY: THE FUTURE OF INSURANCE

Customer centricity is much more than offering products that meet customer needs and are available across a number of different distribution channels. That should be a given in modern-day insurance.

A customer-centric insurer will have its ear constantly to the ground, listening for the emerging wants and needs of its customer base. And when it hears something it acts.

Customer-centricity is all about being adaptable and flexible to these emerging trends, leveraging technology to make the most of digital developments to better service customers across all business lines and all walks of life.

As Covea's Heslop puts it: "A customer centric insurer is a company that considers customers and its impact on them and their expectations in everything that it does. We want to put customers at the heart of our decision making processes and services, from the design of new products to building systems and communication tools that allow customers to contact us in whatever method they would like."

A single view of the customer

One of the fundamental features of a customer-centric insurer is the ability to have a single view of the customer, which draws on all available datasets and provides a 360-degree picture of the customer's needs, preferences and policy details.

And with improving technology systems and a growing number of data sources becoming available, the single view of the customer is starting to become a reality.

"We have significantly invested in new digital capabilities with a view to better leveraging internal and external data," one senior marketing strategy manager at a leading insurer says. "The objective is to increase our understanding and improve customer outcomes from a pricing, claims and servicing point of view.

"Smart data and having a single view of the customer are the enablers that will allow future initiatives to be delivered, by making available new analytics tools to predict customers' behaviours and answer customers' needs with relevant specific offerings."

Arthur J Gallagher's Oliver says it is essential that the insurance industry invests in the right types of data to build on that single view of the customer, and not just continue down the same path of trying to find out everything possible about an individual in order to better price a risk.

"Insurers are bending over backwards to get hold of that data to price more accurately the type of customer they've got," he says. "But those are not customer-centric measures, they are ways to pitch to you as a customer and predict their behaviours.

"[Customer centric] data is not the type of stuff we've been investing in to-date. It needs to be data focused around convenience, and that is what is going to be more important for insurers going forward."

One leading broker, however, says having a single view of the customer is not all about sales and increased retention; it is also about proving your worth to your clients and differentiating yourself from competitors in an increasingly commoditised market.

"The single view of the customer is not just about cross-selling and up-selling," he says. "That might be true in micro-insurance and the S in SME, as well as personal lines insurance, but above that threshold it is about saying: "Look, we know what we are talking about and that's why you are working with us and not one of our competitors."

"For brokers, customer centricity is all we have left. The advent of online is commoditising and eating into what brokers were originally about – connecting a buyer to a seller. With the growth in technology, more and more business is being conducted electronically and the need for a broker other than on the really high-end stuff is being diminished all the time, so really all we have left is our risk expertise and our risk management expertise and analytics."

Henwood says that this customer-centric approach to business allows an insurance provider to be flexible in its service offerings and tailor its products and services to a customer's individual needs, ensuring the customer remains king in every situation.

"Customer centricity is about being able to shape the service offering to the customer; it isn't about knowing the customer's name and the fact they have three policies with you," he says. "That isn't customer centric – that's just knowing that the customer is a human being.

"Customer centric means recognising your customer is a unique human being looking for a specific type of service, and being able to tailor that service to that individual. It's about recognising the human-ness of people, not the data reference-ness of people."

Ultimately, this could result in insurance products that encapsulate all of a consumer's needs in one simple policy.

"In the future, a customer may only want to buy one insurance policy every year, which covers them for home, motor and pet insurance," Heslop says. "If that happens, they are going to want to buy it from a trusted insurer with a trusted brand and a trusted name.

"You can only do that as an insurer if you've got a good single view of that customer and understand their full buying habits."

An empowered workforce

If the customer is king in a customer-centric business model, then an insurance company's staff is the queen in a relationship that dictates the fortunes and levels of success obtainable.

Heslop says the only way to properly engage your customers is to have a workforce that is empowered and fully engaged with the customer-centric business you are trying to build.

"Staff buy-in to customer centricity is very important," she says. "We have got strategic priorities that are focused on the customer and our values, and they resonate through the business all the way from senior leadership down.

"We want this to be a place of work our staff are happy to come to. It helps with recruitment strategies, reduces turnover and sickness and you end up with more efficiencies in your staff base, and if your staff can see and believe they are providing an exceptional service, and it is one of your key values, then that comes out in everything they live and breathe."

To help every member of staff understand the need for customer-centricity, Covea ensures every new joiner goes through an induction process that includes a focus on the customer experience, even for non-customer-facing staff, and every executive director has a reference to the customer in their annual targets.

Better service, better results

Not only does a customer-centric insurance provider have better engagement with their customers for improved cross-selling and retention, it also results in increased customer satisfaction.

This means customers are happier, which builds loyalty and helps an insurer achieve sustainable growth without having to chase the market price all the way to the bottom.

Ultimately, all of this feeds into an insurance company that is best-in-class and dominates the market in terms of customer engagement and satisfaction.

Potter says: "A customer centric insurance company would have new business and retention figures at the top of the industry, because they become the go-to company as people recognise they are the best at what they do."

Now that's not a bad target to aim for.

Click here for more information about Hitachi Solutions: uk.hitachi-solutions.com

Matt Scott is an award-winning journalist and editor with an MSc in Actuarial Finance who specialises in data-led journalism and research for the insurance and financial services industries. He has previously worked as an editor for *Insurance Times* and as a contributor for the Chartered Insurance Institute.

www.mattscottjourno.com

With contributions from...

Daryl Henwood – CRM industry lead for financial services, Hitachi Solutions

Jason Campbell – CRM programme manager, Hitachi Solutions

Martin Oliver – Managing director of personal lines, Arthur J Gallagher

Ray Potter – Client services director, Towergate

Vicki Heslop – Senior claims manager, Covea

Simona Pigulea – EMEA product lead, Citigroup