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The Digital Insurer

The Customer-centric Insurer in the Digital Era

What it takes to succeed in a connected, always-on world

Accenture's approach to planning and executing a successful customer-centricity journey

Contents

Introduction

The digital era gave birth to the new "connected world", in which people are "always on", and a growing number of devices are linked in the so-called Internet of Things. These developments and their underlying technologies are paving the way to new competitive landscapes, questioning the sustainability of traditional business models, and raising consumers' negotiating power and expectations.

Nowadays, consumers expect friendly, personalized, relevant and enjoyable experiences across multiple channels, selected on the basis of their specific circumstances and points in time. They want to be in control, too. Information asymmetries are fading away, since scrutiny and comparison of offers are only a click or a touch away for almost everyone.

Additionally, consumers tend not to make distinctions among industries (retail, telecommunications, media, travel, insurance, banking, etc.) when it comes to searching, purchasing, or justifying below-standard experiences. They simply expect all industries to match or beat the highest customer experiences they have already had or simply have heard about.

Consumers might appreciate that insurance is a regulated industry, but they cannot accept that it fails to provide them with similar experiences to those they enjoy from other industries. No excuses.

As barriers across industries blur and digital technologies help to unveil individual customers' needs, preferences and locations, so competition intensifies. This is especially true in distribution. Today's mass technologies negate the need for broad segmentation and standardization. Whichever insurer – incumbent or new, composite or niche, domestic or international – manages to fulfil the needs of the individual customer best, that insurer earns the mandate to serve him.

Banks have already entered the insurance space in search of new fee-based business. They currently distribute a significant portion of the life business and are increasing their presence in the general insurance sector too[1]. High customer-touch mobile telecom providers, Web dominators (e.g. Google, Apple, Facebook, Amazon, Alibaba, etc.[2]), retailers and the like are testing the ground.

As such, the competitive pressure on insurers to re-assess their strategies and operating models and to enhance their customer-centricity comes from both inside the industry and from other sectors.

Due to the disruption it brings to the consolidated patterns of the insurance industry, customer-centricity in the digital era represents, at the same time, a must, a challenge and a significant business opportunity for insurers which aim to serve the end customer.

**In today's world,
Digital + Customer Experience =
Customer centricity.**

The consequences of not taking customer-centricity seriously are grave for any insurer that wants to compete in distribution. Studies suggest that failure to deliver a high quality customer experience can result in a staggering erosion of a company's customer base – a loss of as much as 50 percent over a five year period[3].

But what does it take to become customer-centric? The following statement reflects the challenge that most insurers face as they work resolutely towards this goal:

"We are progressing on multi-channel capabilities and we have a view on cloud-based solutions. However, we are nowhere on customer-centricity, using customer data, offering customized products and service levels, and achieving operational simplicity."

Merely adding customer-centricity to an insurer's vision statement is not enough. Knowing the customers below the surface of a name, an age and a zip code – often poor and fragmented data stored in different systems within the company – is the first big task. But this is only a prerequisite.

The real challenge of customer-centricity is to move away from the product-driven push and to develop the corporate ability to truly understand the customer's stated and tacit needs, to generate new ones, and to provide highly personalized solutions and remarkable experiences that are relevant to each individual's preferences, circumstances and point in time.

As we will see, customer-centricity is a journey, an iterative one that may have significant impacts on the entire organization, including its culture and DNA. Achieving customer-centricity requires insurers holistically to rethink the way the business is conducted, starting from its customers. Customer-centricity, at its best, means having each current and prospective customer at the center of the insurer's business and operating models.

One of the risks of such a journey is to depend too much on the possibilities offered by technology, confusing the tools with the end. Customers come first.
In 1997 Steve Jobs, then back at the helm of Apple, warned us:

"You've got to start with the customer experience and work backwards to the technology... As we have tried to come

up with a strategy and a vision for Apple, it started with 'what incredible benefits can we give to the customer? Where can we take the customer?' ... Not 'let's sit down with engineers and figure out what technology we have and how we can market it...'"

What incredible customer experience can you provide to your insurance customers? Where can you take them?

Customer centricity = Value Creation.

In today's insurance environment, where products and prices can be quickly matched by competitors, tailored offers and superior customer experiences are becoming the primary drivers of differentiation and, therefore, value creation. Customer-centricity in the digital era is not a goal per se: it is all about business.

The purpose of this paper is to share our research and experiences to help insurers embark and succeed on their journey to customer-centricity in the digital era.

Section 1 – The New Context – describes the new relationship between consumers and insurers and questions its implications for the competitive landscape and the insurer's strategic options.

Section 2 – Customer-centricity – discusses the foundations of customer-centricity, how it can be enabled by digital, and the implications for value creation.

Section 3 – The Journey – explores the customer-centricity path, highlighting the conceptual and execution challenges it poses, and providing a sound and proven framework for implementation.

Customer-centricity is a journey, an iterative one, that may have significant impacts on the entire organization, including its culture and DNA.

1. The New Context

1.1 What's new in customer-centricity?

Customer-centricity is not a new paradigm. It has always been there. Customers started to matter since the first business activities emerged.

What makes customer-centricity a renewed priority on CEOs', CMOs' and other C-suite agendas is the new way it can and should be interpreted and executed in the digital era.

Nowadays, every business is a digital business[4]. As recently as five to 10 years ago this was not the case. Things like digital penetration among consumers, smartphones, tablets, connectivity across multiple devices, massive real-time data and analytics, cloud computing, social networks and others simply did not exist. Now they do, and they have emerged with all their importance.

Let's look at some telling facts and figures:

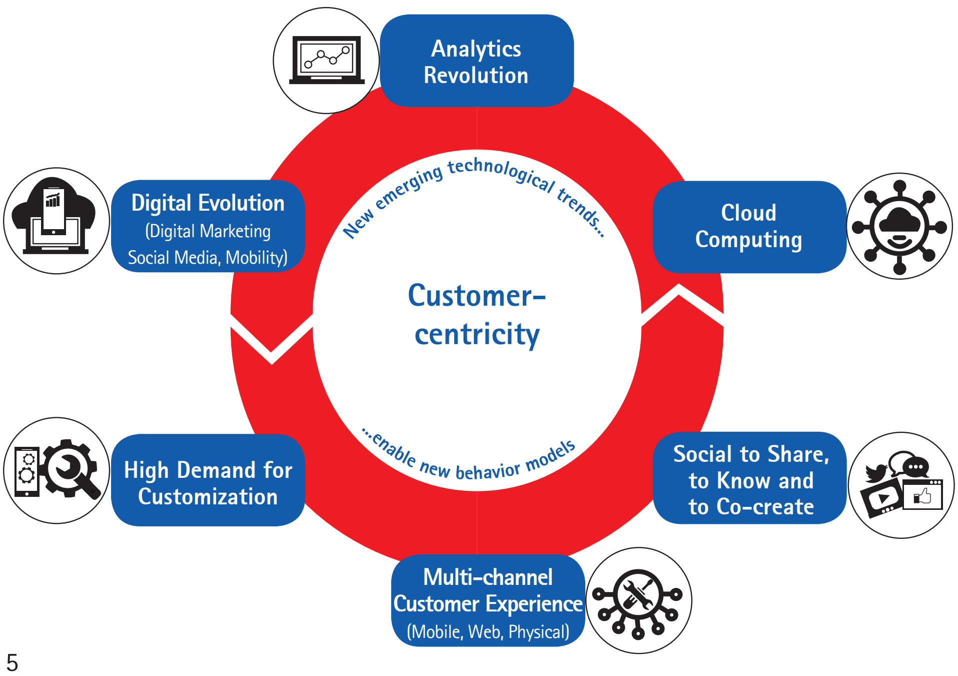
- At the end of 2013, the Internet was accessible to approximately 40 percent of the world's population (8 percent in 2001), with developed economies reaching a penetration of about 77 percent (29 percent in 2001)[5].
- 75 percent of the Internet population is on at least one social network[6]. Globally, the average time spent on the Internet is 4.8 hours a day on laptop / desktop and 2.1 hours a day on mobile devices. The average time spent on social media is 2.1 hours a day[7].
- Smartphone sales surpassed feature mobile phones for the first time ever in 2013, and tablet sales increased 53.5 percent (to 221 million units) in the same year[8].
- They represented 21 percent of the total mobile devices in use in 2013, but accounted for 88 percent of all mobile data traffic[9].
- People check their phones approximately 150 times a day, on average[10]. Global mobile data traffic grew 81 percent year-on-year in 2013 (1.5 exabytes per month by the end of that year), reaching nearly 18 times the size of the entire global Internet in 2000[11].
- Nine-tenths of all of the world's data in 2012 had been generated in the previous two years[12], and according to Gartner, worldwide information volume is predicted to increase by at least 59 percent a year[13].
- By 2017, more than 50 percent of analytics implementations will make use of event-data streams generated by instrumented machines, applications, and/or individuals[14].
- The Internet of Things is forecast to comprise approximately 212 billion "things" by 2020. This will include 30 billion connected (autonomous) things[15].

There is no longer a physical world and a digital world. In most situations, physical and digital components coexist and enrich each other. Mobility and machine-to-machine (M2M) connectivity are providing additional opportunities for real-time tailored services and access to ecosystems – and thus to the borders of new industries. The improvement of infrastructure and computing capabilities, and the availability of scalable pay-per-use services, are creating new options for internal and external competition.

Emerging technology trends are enabling new patterns of behavior (see Figure 1), and are having a significant impact on the relationship between the insurer, its distribution channels and its customers. The polarization of customer-centric and production-driven business models is becoming amplified (see 1.3 below).

Brand new customer-centric value propositions can be launched on all digital channels in less than 12 to 18 months, by new digital players as well as incumbent insurers.

Figure 1. New emerging technology trends are enabling new consumption models.



Time is of the essence[16]. In the early 2000s, incumbent banks could defend themselves against the new Web-based entrants by setting up their own online systems and, thus, largely preserving their customer base and relationships[17]. Since then, a new wave of developments has occurred. Customers, with the Web accessible on mobile devices in their hands, are much more informed and demanding thanks to search engines, relevant content, comparison sites, social networks and more choice. Customers are also closer than ever before to a vast number of players from other industries, and are accessible to almost anyone who has a relevant proposition to reach them. This makes it even more challenging – and urgent – for established financial services companies (insurers being on top of the list) to mount an effective defence and counter-attack.

The pace of change is indeed dramatic. Amazon surprised the market in late 2012 when it announced the introduction of "Lending", a service which provides loans to merchants which operate through the company's platform – and whose creditworthiness is therefore very well known to Amazon. But in fact, it simply copied what the Chinese e-commerce firm Alibaba did three years earlier. The same Alibaba became the world's fourth-largest money-market fund only nine months after it acquired an asset manager and launched the fund on its platform[18].

But much more is going on with incredible speed, both by the known players and the unknown – or to be known in the future. Let's take Apple, for example. Its iTunes has 575 million registered users, growing by half a million daily. It has sold approximately 375 million iPhones over the past five years and 155 million iPads since they were first introduced in 2010. These numbers compare with PayPal's 137 million active accounts and Amazon's 182 million customers.

E-commerce can only continue to grow. With the many features and capabilities needed by Apple to charge for its products, including clients' trust, it is not difficult to understand why many commentators expect the giant from Cupertino, California, to soon become more active in the financial services arena[19].

At the time of writing, Facebook was just weeks away from receiving authorization by Ireland's central bank to become an "e-money" institution[20]. Vodafone has acquired an e-money licence for the phone company to offer financial services in Europe, and has purchased a vehicle tematics software firm. Google has held a banking licence from the Netherlands since 2007. And what about insurance? What if these giants were to direct their advantages in customer-centricity toward the life or P&C industries? Will insurance be their next area of focus? No – but simply because it is already happening, as we will highlight when we assess the insurance competitive landscape (see 2.3).

Brand new customer-centric value propositions can be launched on all digital channels, including mobile and social networks, in less than 12 to 18 months. This is possible by new digital players as well as incumbent insurers. Adding to the threat: customers' propensity to change their insurer in the next 12 months is higher than ever (see below).

Moreover, contrary to what some may think, financial services regulators are not likely to be the anchor that preserves the status quo. On the one hand, they embraced the consumer agenda vigorously and are posing important challenges to the way products are marketed, priced and sold. On the other, they are progressively exploring new ways to promote competition in the industry.

The race to achieve growth through customer-centricity in the digital era is well under way. But most insurers have yet to leave the starting blocks.

1.2 The new insurance customer

A new insurance customer has emerged. The new insurance customer is much better informed and more demanding, may belong to consumer groups, and may have different requirements and expectations, depending on products and circumstances (see Figure 2).

According to recent research studies conducted by Accenture[21], the new insurance customers are:

Connected
- 72 percent use mobile devices while in-store for price comparison (UK and US respondents).
- 2 out of 3 consider it "extremely important" to be able to buy what they want, when they want and how they want (e.g. in the shop or online).
- 71 percent are willing to purchase at least some insurance products via digital channels.
- 67 percent would be interested in being offered insurance services via their mobile devices.

Social
- 47 percent gather information about products and services from social media.
- 48 percent regard the advice they receive from social media, blogs and consumer sites as "important" or "very important".
- 55 percent would be interested in insurance services provided through social media, blogs and consumer sites.

Co-productive and willing to share
- In 2013 there was a 46 percent year-on-year increase in consumers who contributed to online product or service reviews or blogs.
- Consumers rely on "the wisdom of crowds" (social media, blogs, etc.) and want to contribute, share and learn.
- They express significant interest in buying products which they help to design[22].

Informed and self-directed
- It is the norm for consumers to research online (and digital purchasing of small-ticket and commoditized insurance is set to boom).
- Digital channels are the preferred solution for almost every interaction with insurers, ranging from 44 percent for "advice" to 68 percent for "updating personal data".

- If convenient, third-party distributors are welcome (67 percent would consider buying insurance from non-insurance channels such as banks, online service providers, retailers, etc.[23]).
- Consumers expect real-time access to relevant content and are used to instant gratification.

Price-sensitive

- 64 percent are actively searching for value for money rather than brand, and are willing to spend an additional 5 to 10 minutes online, after finding the product they want, to secure a better price.
- 40 percent of insurance customers say they are likely to change their home or motor insurance provider in the next 12 months (51 percent in the 25 to 34-year age band).
- Consumers want to be in control. They know how to search the market and they switch insurers if they are not happy. As a result, the insurance "switching economy" was calculated to be worth as much as US$400 billion in personal-lines P&C and life premiums[24].

Experiential

- 80 percent would switch for more personalized services and 41 percent would be willing to pay an average increase of 7.8 percent for such services.
- Customers would consider providing personal information in exchange for optimized coverage (82 percent), an optimized premium (81 percent) or better service (78 percent). The conditions would be that they know what the benefits are, and that they are assured their data will be used sensibly and can be deleted on request.
- 57 percent of US consumers are likely to abandon an online purchase if an answer is not immediately forthcoming.
- Insurance customers want to be recognized by their insurer, irrespective of the channel they use to contact it.

The traditional insurance customer has been joined by the digitally-oriented, multi-channel and 24/7 connected customer. Sometimes they are two different types of customer; in many instances they are the same person, simply in different spatial and temporal contexts.

The new insurance customers increasingly manifest 10 demands – see alongside.

Figure 2. The new insurance customer.

Self-directed
Looks for what he wants, anytime, anywhere

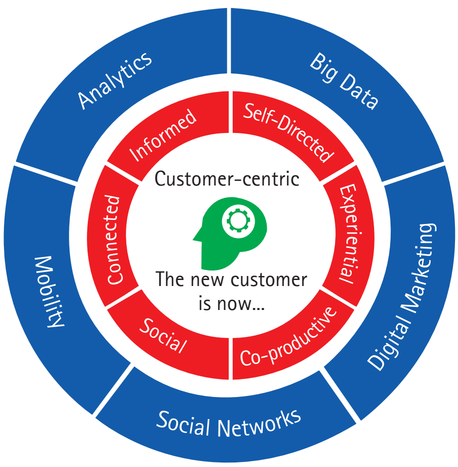
Experiential
Looks for "unique experiences" tailored to his personality & preferences

Co-productive
Engages with service providers in product co-creation

Social
Relies on "wisdom of crowds" (social media blogs) to share

Connected
Switched on to multiple devices & channels

Informed
Gets relevant content with high frequency



Changing customer behavior

71%
of consumers are willing to purchase insurance via digital channels

67%
would be interested in being offered insurance via their mobile devices

48%
regard product advice on social media as "important" or "very important"

67%
would consider buying insurance from non-insurers such as online service providers or retailers

40%
say they are likely to change their home / auto insurer in the next 12 months

80%
would switch for more personalized services

What customers increasingly demand of their insurers

1. Be at least as digital as they are.

2. Recognize them, always and across all channels (and not as mere policy numbers).

3. Listen to them and remember what they say (to take it into account in any subsequent interactions or relationships, as appropriate).

4. Be there to support and help them when they need it, 24/7.

5. Engage with them with the frequency of interaction they consider appropriate, through the channels they prefer, and in ways which are tuned to their personality and the specific situation.

6. Make the interactions easy, consistent, convenient and enjoyable across all channels.

7. Empower them and let them be in control, and be able to satisfy their needs when, where, and how they like.

8. Offer them relevant products and services with transparent and convenient pricing structures.

9. Develop customized solutions which reflect their inputs and requirements, preferences, circumstances and previous interactions, at prices and conditions which are right for them.

10. Recognize and reward their loyalty.

1.3 The insurer at a cross-road

How do the digital revolution and the new customer behavior impact your competitive position and corporate strategy?

Do you really know all your current and target customers and their stated and tacit needs and preferences, and can you address them in real time, across all channels and customer points of contact?

Do you have the right products, people, processes and technologies in place to satisfy their requirements, and to delight them with superior customer experiences, delivered seamlessly across all channels?

Are you able to efficiently and effectively provide them with personalized solutions (e.g. through modular offerings and mass-customization engines), as providers in other industries already do[25]?

Very few insurance players can reply "yes" to the above questions. In fact, contrasted against the new insurance customer we often see traditional insurers that appear too absorbed in dealing with the constraints and costs of their legacy systems to focus attention on what they really need to compete and prosper: making their customers happy and loyal.

It is common within the industry that insurers' attributes make it difficult for them to meet the needs of the new insurance customer. Retail insurers are often:

- Distant, with an average of fewer than two contacts per customer per year, and fewer than 1.5 products per customer.
- Product-driven, with silos that pervade their culture, their organization structure and their distribution platforms.
- Third-party-dependent, with distributors often having an unbalanced negotiating power and enjoying the lion's share of the customer value.
- Old fashioned, with only 7 percent of services provided through digital channels – in spite of customers' expectations being 7 to 10 times higher, depending on the type of interaction.
- Reluctant to change, with 48 percent of P&C insurers and only 23 percent of life insurers acknowledging the pressing need to change[26].

There is a great opportunity for insurers to seize the first-mover advantage, and adjust their strategies and operating models for the new insurance customer. This will allow them to deliver unique propositions and seamless and consistent experiences across both traditional and innovative channels, before others are able to do so.

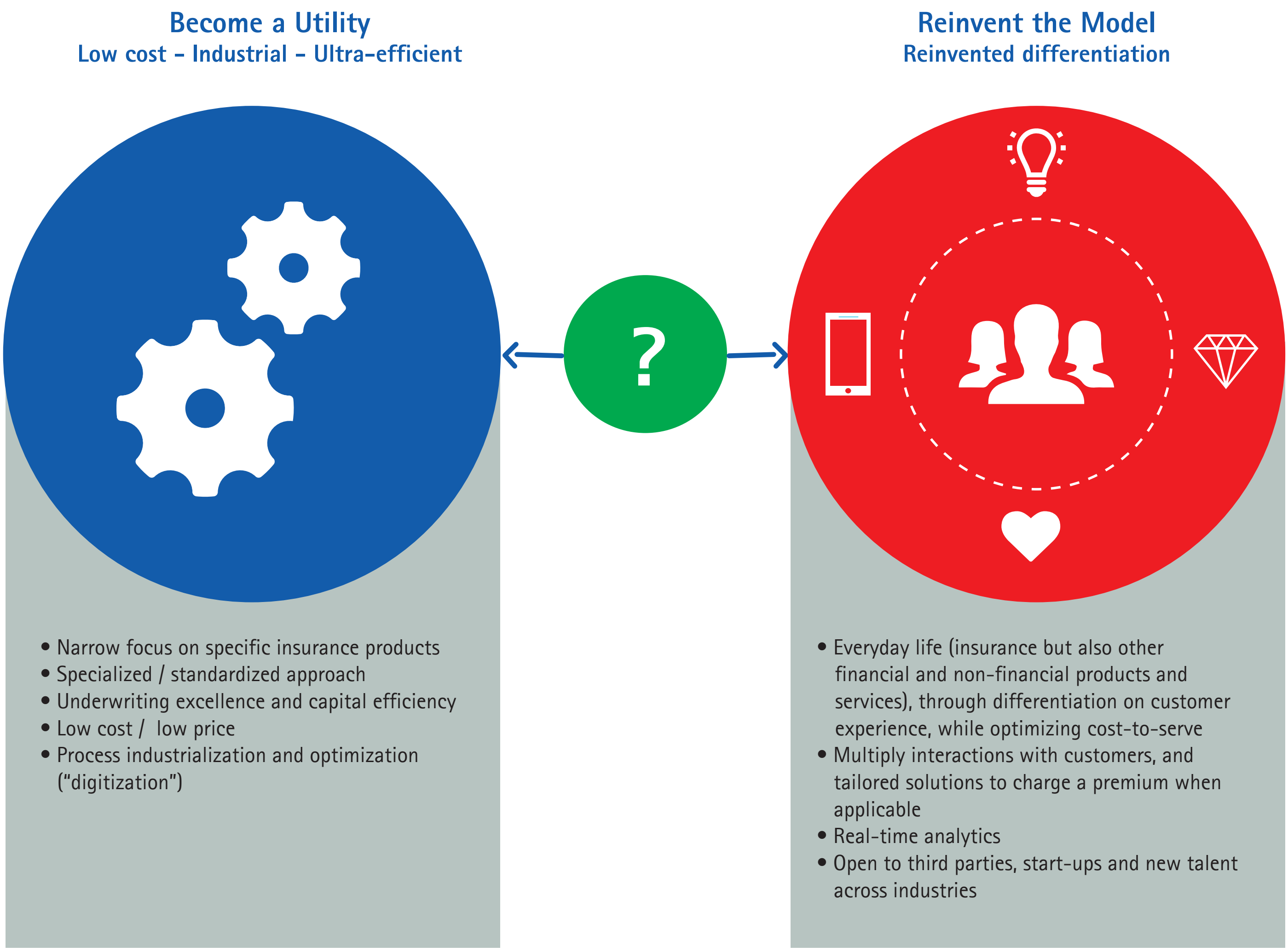
Customer-centric themes should drive insurers' agendas.

Insurers need to learn how to understand and to deal with the customer beyond technicalities and, most likely, beyond current companies' boundaries. They should acquire the ability to engage genuinely with customers and prospects, taking advantage of the multiple possibilities that the digital era offers. They should leverage all of the insights and data available to them to understand the important things about their customers: their likes, social trends, communities and friends. They must take advantage of partnerships and ecosystems to create new value and loyalty for their customers.

Alternatively – an equally legitimate strategic decision – they should opt to move away from customer-centric strategies, primarily focused on B2C distribution models, in favour of production-driven strategies, which are mainly dedicated to B2B and/or B2B2C models. In other words, they should become excellent at underwriting and re-insurance, selling their products through reliable and effective distributors for a fair share of value.

We might say the insurance industry is at a cross-road (see Figure 3). Each and every insurer needs to decide if it wants to reinvent itself to compete in the new distribution arena for the new insurance customer, or if it prefers to specialize as a utility, providing superior underwriting skills and capital to existing and new distributors.

Figure 3. The dilemma facing the insurance C-suite.



This is the C-suite dilemma, although we would argue that the underwriting capabilities needed for the utility option are prerequisites also for those players that aim to compete in the "reinvent the model" arena.

The choice is especially stark for those players that are incumbent, that have significant legacy costs in distribution, production, IT and operations, that are mono-liners with an undifferentiated and limited product suite, and that have an unexceptional reputation for providing meaningful customer experiences. Whatever their strategic choice, they will have to prepare themselves for a significant amount of change, to say the least.

As mentioned, the pace of change demands decisive action. Early innovators are quickly seizing market share from the laggards. The transition from analog to digital may entail a redistribution of market share, the emergence of new value chains and the development of new business models. Large incumbent insurers may also be affected by the scale of the transformation.

In the following sections we will focus on the journey to build a customer-centric insurer.

2. Customer-centricity

What is customer-centricity? While difficult to describe, it is very evident when it is lacking.

Until recently large corporations, especially in regulated and quasi-monopolistic industries, could overlook their customers, who had few choices, little influence on the success of the corporation, and no united voice. Executives tended to devote their attention to internal issues such as production and costs, rather than look outwards at customer needs and preferences.

There is no shortage of anecdotes that typify the bias. A memorable one tells of a large retailer that installed revolving doors at the entrance to its stores to reduce heating costs. When shoppers (many with carts or pushchairs) complained, the solution was to install loudspeakers instructing customers on how to use the revolving doors. The view was that since the engineers and accountants liked the solution, shoppers would just have to accept it.

Needless to say, customer traffic and revenues declined, forcing the retailer to acknowledge its series of mistakes, apologize, and re-install the larger doors which its customers preferred.

This took place prior to the advent of online social networks, which meant the retailer had the leeway to survive, learn from its lesson and recover. Today it might not be so fortunate.

Insurers were among the group of large corporations in regulated industries, together with telecommunication providers, utilities and banks. While most of their peers have adapted to the new reality, the majority of insurers still have a predominantly internal focus.

Why? Among the reasons are their embedded enterprise-centricity, their love-hate relationship with risk[27], the myth that being in a regulated industry protects them from external threats, the argument that insurance is a complex business that customers cannot understand, the notion that customer-related matters pertain to brokers and agents, and the belief that, in any case, customers have few requests, little choice, and no effective voice.

As we have seen in the section above, in the digital era customers do indeed have choices, and they have many different ways to combine their voices and make them heard. This has forced consumer firms in all industries to rethink the role of the customer. Even, eventually, insurers.

But what does it take to become customer-centric?

Digital technologies are a prerequisite, but are not sufficient on their own. The real challenge of customer-centricity is to develop the corporate ability to truly understand the customer's stated and tacit needs, and to address them by providing highly personalized and remarkable experiences that are relevant to each individual's preferences, circumstances and point in time.

In today's world, Digital + Customer Experience = Customer centricity.

A customer-centric insurer should think and build its strategy, products, distribution channels and operations around its customers. It should clearly define its vision and develop new business and operating models capable of delivering these kinds of experiences, and of significantly increasing the value of every targeted customer and of the company as a whole.

At its best, customer-centricity means having each current and prospective customer at the center of the business and operating models.

The real challenge is to develop the corporate ability to truly understand the customer's needs, and to address them with personalized experiences relevant to each individual's preferences, circumstances and point in time.

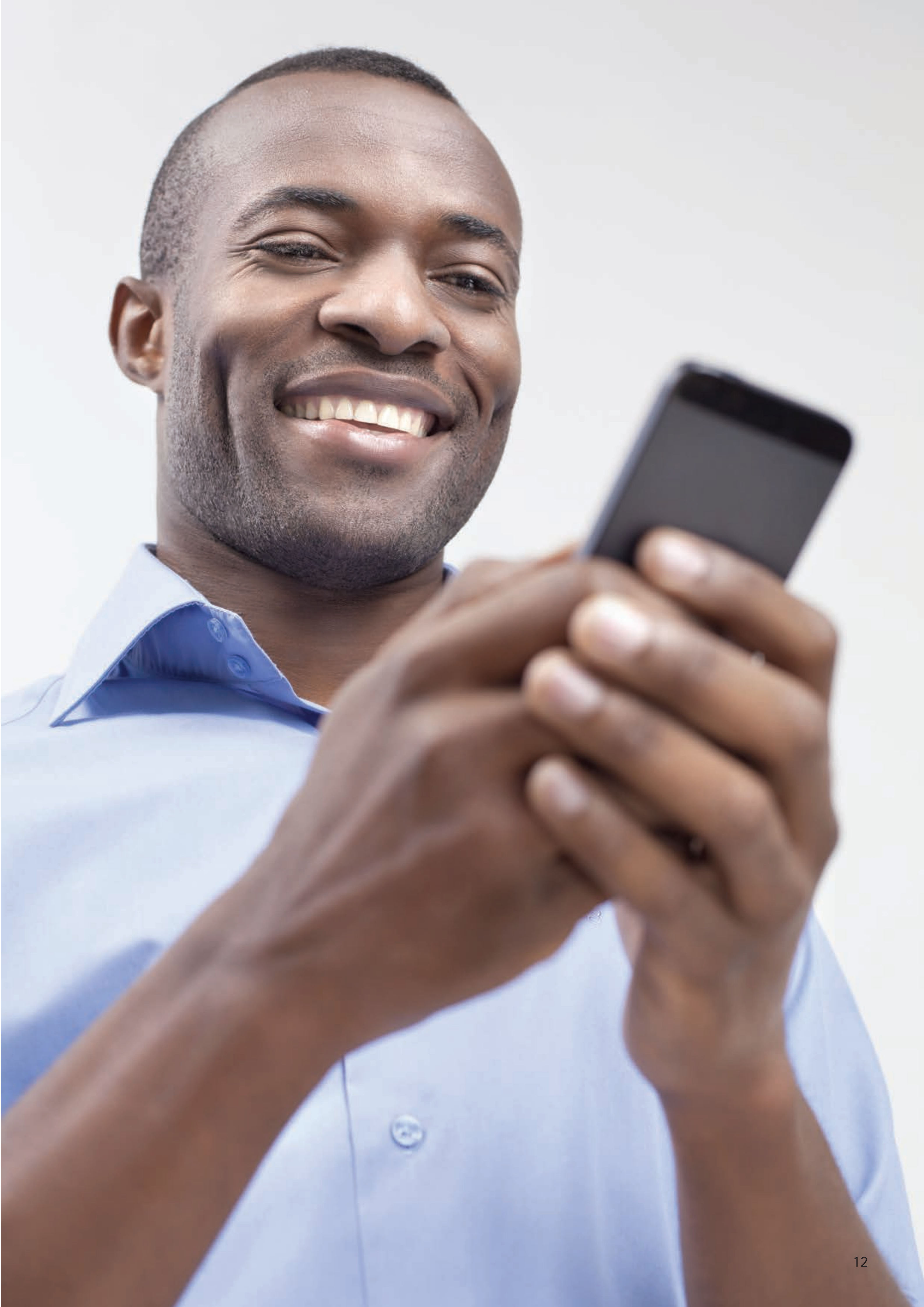
2.1 The foundations of customer-centricity

According to our experience, each customer-centricity journey is grounded on five "pillars" and five "digital enablers". The five pillars (see Figure 4) are:

Customer listening and understanding. This represents the first step and the cornerstone of the journey. It is key to intensifying the relationship with existing and prospective customers, to establishing a dialogue with them, and to responding to their needs and their preferences.

Customer-centric insurers listen to customers. They organize their data by customer and not by product. They detail and enrich their management information systems with customers' metrics and key performance indicators (KPIs). They provide relevant views of the customer based on traditionally held data (e.g. age, address, family status, products, premiums, transactions, contact history, claims, queries, complaints, etc.) as well as new available data (e.g. price elasticity of individual product components, preferences regarding the utilization of distribution channels based on access data, geo-location data, telematics data, family members, friends and professional networks, likes and dislikes as expressed on social networks, etc.).

This data is collected across all distribution channels and across the entire organization. In fact it is acquired from all possible sources, including internal and external databases, customer listening, social networks, connected devices in cars,



homes and workplaces, and even wearable devices associated with an insurance offering.

Big data and advanced analytics are used to extract the greatest value from customer data, to deeply understand and dynamically adjust all relevant dimensions which describe the customer's preferences and expectations over time, and to make every interaction with the insurer a memorable experience. Internal and external data-rich micro-segmentation, built on behavioral factors and customer-specific preferences associated with traditional transactional and socio-demographic dimensions, have proved to be extremely productive in helping to generate an authentic customer understanding as well as the predictive models to best engage with them.

Customer-oriented offering.
Insurers need to devise value propositions which are as tailored as possible to meet each customer's needs and preferences. This includes when (in real-time) they are needed and the way in which they can best be delivered. In the case of unexpressed needs, insurers' offers should reach the customer through the most appropriate channel at the moment in time when acceptance is most likely. These are often emotional moments in the life of the customer, such as a new birth, an anniversary or a wedding. It could also coincide with the purchase of real estate, white goods or travel. It may often entail the development of partnerships and ecosystems.

Customer-oriented offerings can be developed by means of modular elements (e.g. types of protection, payment schedules, contract durations, pricing structures and indemnity levels) which can be combined to shape the solution in whatever way best fits the specific needs and preferences of the customer or his micro-segment. The more freedom and control a customer is given over the purchase, by physically or digitally helping him to shape the coverage which best fits his needs, the more likely he is to buy the solution, to value the insurer, and to stay and grow his account.

Multi-modal interaction management.
The third pillar is about allowing the customer to use traditional and innovative channels according to his preferences. Consumers have no interest in the organization model chosen by the insurer to govern its distribution channels (e.g. full integration, coordination, or competition), nor in the financial arrangements it uses to govern them (e.g. pay-out levels, cost allocation, etc.). They are only interested in transparent pricing and seamless multi-modal interaction experiences, and in being able to choose the channel which best serves their purposes given their circumstances at that point in time. The same applies if it is the insurer that wants to reach the customer: even the best proposition at the wrong time or through the wrong channel is likely to fail.

Multi-modal interaction management may consider different pricing for products and services, depending on the channel used and the micro-segmentation of customers[28]. Whatever the channel mix chosen by the insurer, by now it has to include mobile interaction through smartphones and tablets.

Even the best proposition at the wrong time or through the wrong channel is likely to fail.

Customer-experience management.
This pillar is itself a journey within the customer-centricity journey. The most successful insurers truly know their customers, are sensitive to changes over time in their needs, behavior and preferences, and adjust their offerings and interactions accordingly.

Customer experience entails a ceaseless search for new and better solutions to delight customers. This requires that the insurer develop capabilities and tools to continuously improve value propositions and service levels for each customer and/or micro-segment.

There is never room for complacency. Customers quickly become accustomed to higher standards of service, and so continuous improvement is essential. The higher the levels achieved, the greater the disappointment when it is not sustained, and the more severe the impact on customer experience, loyalty and advocacy.

This is a complex challenge for insurers. In the digital era, in which people and things are more connected than ever, customer-experience management embraces not only all of the points of contact within the extended enterprise, but also the ecosystems to which the insurer belongs.

Organization redesign and change management.
This pillar includes the soft components of the journey towards customer-centricity. The development of a customer-centric business model is likely to require that incumbent players undergo painful organizational changes.

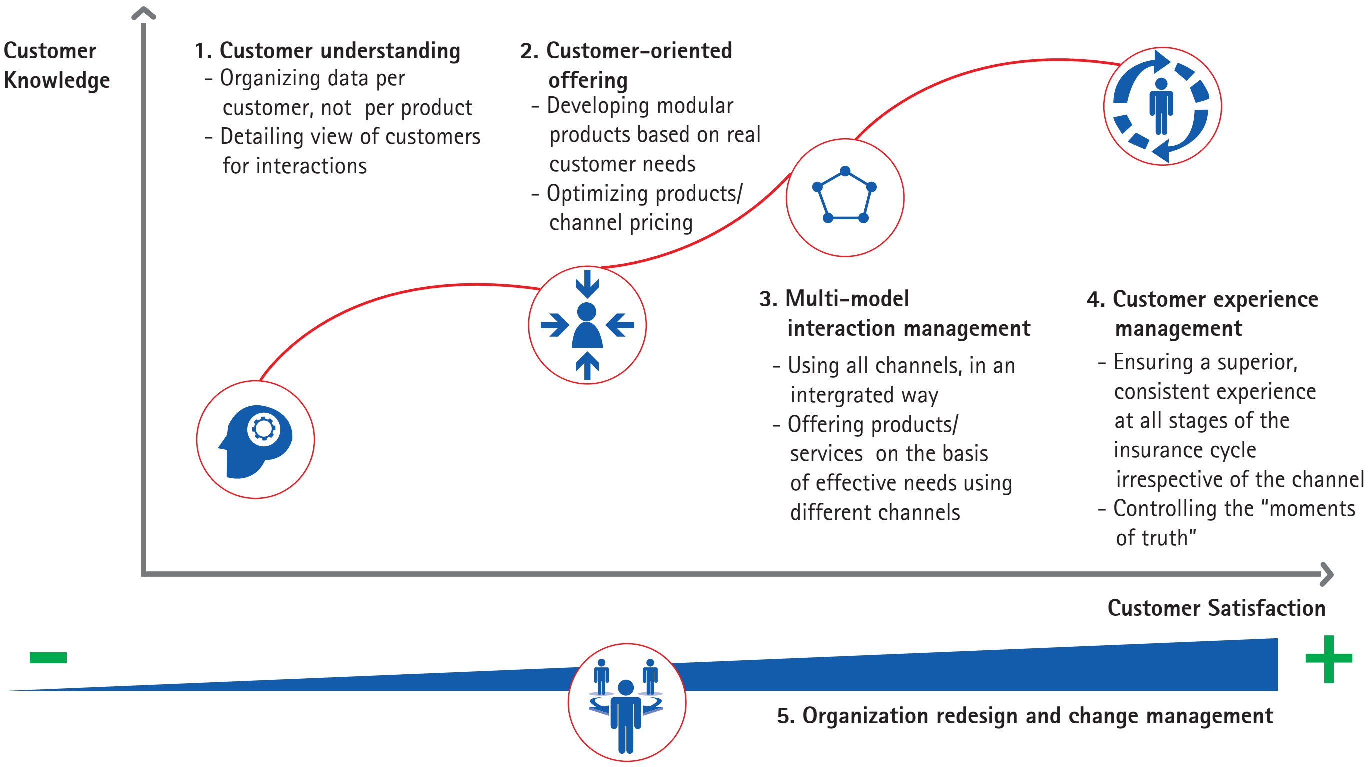
Without losing their core technical and actuarial skills, they will also need to evolve their culture, embracing and sustaining a prioritization of the customer.

In a truly and wholly customer-centric organization, all employees and partners are obsessed with what they can do for their customers. They strive relentlessly to find new or better ways to contribute to this overriding cause.

Customer-centricity is first and foremost a matter of corporate culture, which is why the most important change agents are the board of directors, the CEO, the CMOs and the members of the executive committee. They need to visibly, effectively and continuously support the journey, and they need to inspire, nurture and develop an indispensable customer-service culture throughout the organization.

On an operational level, a successful customer-centricity journey involves all the various functions which face customers or have an impact on them. Each of these must intensify its co-operation within the organization and open itself to external inputs and contributions.

Figure 4. The customer-centricity journey.



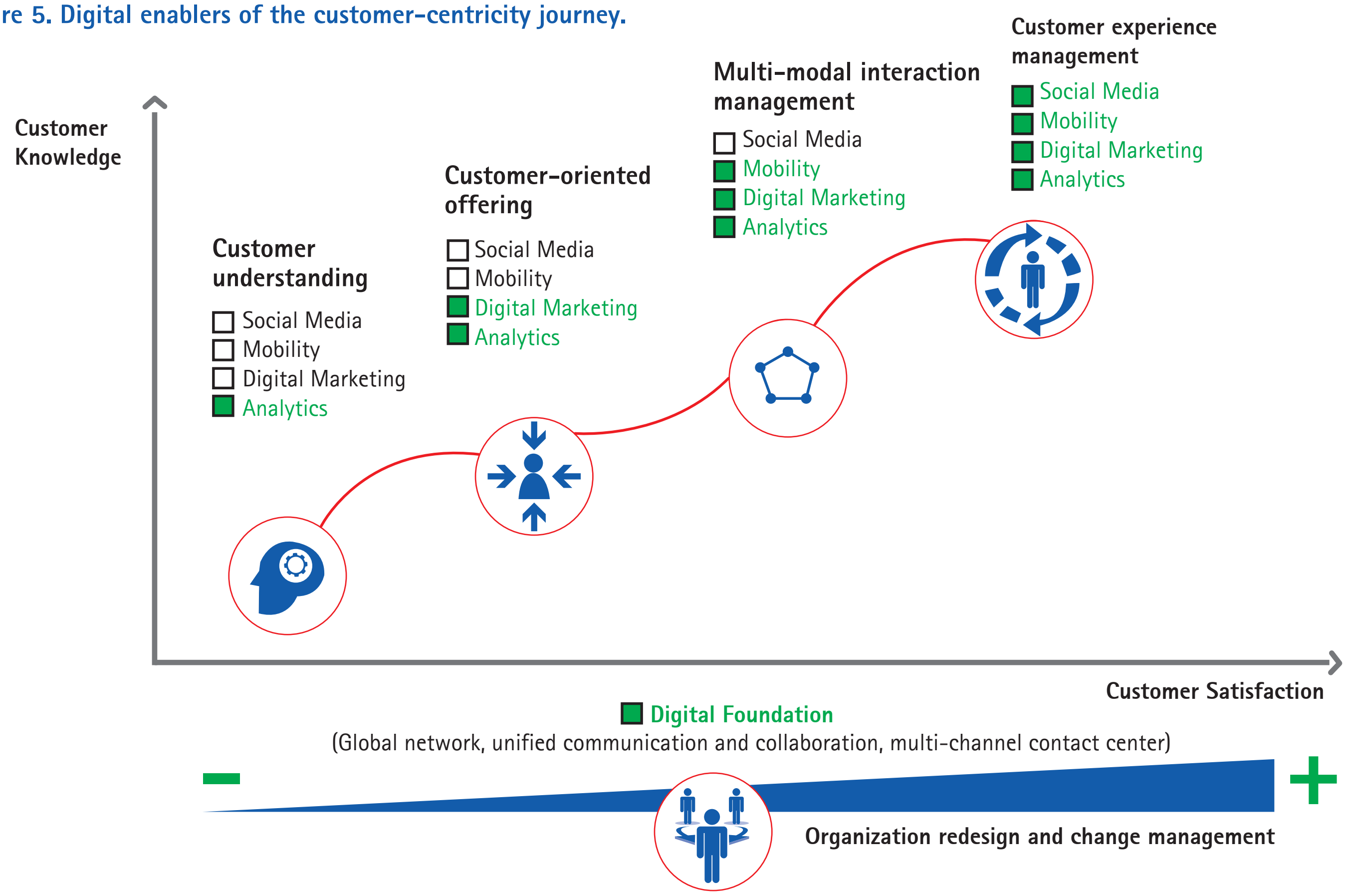
2.2 The digital enablers

Each pillar of the customer-centric journey can be strengthened by new capabilities and the introduction and orchestration of "digital enablers". These are analytics, digital marketing, mobility, social media, and the digital foundations: network, unified communication and collaboration tools, and multi-channel contact centers.

They facilitate both efficiency (e.g. by introducing digital business processes and optimizing business models) and growth (e.g. by allowing a deeper understanding of customers, enabling new ways of interaction, and more customized products and services).

The digital enablers can be exploited at each step of the customer-centric journey, although their relevance varies from step to step (see Figure 5).

Figure 5. Digital enablers of the customer-centricity journey.



The definitions and borders of the digital enablers are subtle, and in most cases they interoperate to a level which makes it difficult to draw clear distinctions between them. Bearing this caveat in mind, here are brief descriptions of the digital enablers:

Analytics.
This refers to business intelligence techniques based on predictive statistical models and self-learning processes. They are at the core of the first pillar of the customer-centric journey, customer understanding, and are essential throughout the customer-centricity journey. Analytics helps provide insights from enormous amounts of diverse data from different sources (combined in big data) and, when deployed effectively, it represents a key digital enabler of customer-centric journeys and business improvements. The power of analytics is immense. Amazon recently announced (and patented) what it calls "anticipatory shipping", which is the capability to ship today what the customer will decide to buy tomorrow.[29]

Insurers have always had good skills for analyzing data. Now they should deploy these skills to the larger pools of available data, exploiting computing power and artificial intelligence to refine their strategies and further drive business results. Their entire value chain (e.g. personalization of marketing and offerings, management of sales forces and other distribution channels, pricing and underwriting, fraud detection and prevention, claims handling, customer service, and client-value-based management) is set to benefit from a more advanced and integrated approach to analytics.

Other industries have paved the way. In banking for instance, by applying advanced analytics, Spain's Bankinter recently developed a personalized recommendation system for personal and commercial banking products and services. It doubled its retail cross-selling ratios and tripled them in the small- and medium-enterprise segment.

Digital Marketing.
The use of digital tools and channels, together with customer insights gained through analytics, can provide tremendous support to commercial offerings. Digital marketing helps to deliver customized offerings across channels, and to reverse the traditional "push" approach of insurers in favor of a more effective "pull" proposition that is tailored to meet customers' needs and preferences. An example is the motor insurance product Name Your Price, launched by US insurer Progressive. By adjusting factors such as duration, coverage options and payment schedules in an easy and intuitive manner, and in a single session, customers can design and buy the policies which fit their needs and budgets.

Insurers should deploy their good analytics skills to the larger pools of available data, exploiting computing power and artificial intelligence to refine their strategies and drive business results.

More broadly, digital marketing is used for the following purposes:

- Web presence and sales optimization: improving the company's Web presence and conversion rate with fact-based technology-driven solutions (including digital advertising).
- Remote advice and selling: increasing sales opportunities by exploiting new digital opportunities (e.g. electronic signatures) and new digital points of contact (e.g. apps and online tutorials, the latter likely in the form of videos).
- Service fulfilment: offering new interactions and customer experiences to current customers and prospects (e.g. virtual processes and gaming).
- Marketing interaction: providing differentiated answers based on customers' needs and segments.

While experiencing sustained double-digit growth, Nespresso in 2012 had to develop new digital marketing capabilities and a scalable, global, multi-channel solution that included e-commerce, point of sale, call centers and back-office functions in order to ensure proper services to its growing digital customer base. A nice issue to have!

Mobility.

This refers to those services that are accessible everywhere through mobile devices such as laptops, smartphones and tablets.

Almost 70 percent of consumers worldwide are interested in mobile-based insurance services. It is therefore expected that many more mobile apps and enhancements to existing services will emerge in the near future[30]. The primary applications of mobility are:

- Interaction on the move: enabling a new way of customer interaction, such as front-end apps, mobile advisory services, and mobile purchases that take advantage of electronic signatures.
- Customer service improvement: enabling 24/7 customer service and remote advice via videoconferencing, messaging tools and e-advisors (i.e. a nicer and more sophisticated version of fully automated call-center solutions).
- Customer oriented services and offerings: real-time offers of insurance coverage based on geo-location (e.g. travel and health insurance offered to customers who arrive at international airports).

Migdal, Israel's leading life and pensions company, was one of the first insurers to introduce a complete online and mobile suite of tools to help its independent agents link more effectively to their customers' multi-channel journeys. Almost all of Migdal's agents now use at least one of the new remote digital tools: the online customer database, the iPhone apps, and the agent website[31].

The importance of mobility in the insurance business is set to grow exponentially, as connected devices become more popular and enable more personalized and convenient insurance solutions (e.g. for motor, home and health insurance coupled with telematics devices).

Social Media.

This set of technology platforms and online tools allow individuals, groups and companies to interact and share text, images, videos and audio files.

More and more people spend the vast majority of their "connected" time on social networks, dialoguing with friends and colleagues and posting their opinions on a wide variety of topics. By using social media, insurers can access an immense amount of customer data which, coupled with data they already possess, can provide rich customer insights and enable the development of superior customer propositions.

For example, the insurance company USAA takes advantage of social networks to interact with its members – and to learn more about them. Through Twitter (http://twitter.com/USAA), USAA provides its members with information and tools for managing their personal spending, surviving storms, becoming better at discussing financial matters, and preparing their children to go to college or university.

On another note, insurers can benefit greatly from listening to the voice of customers on social media, either learning how they can improve their products and services or promptly detecting and addressing issues that can seriously affect their brand and reputation.

The consumer-products giant P&G has developed a social-media system called Consumer Pulse which gathers all comments by all stakeholders and feeds them back to the computer screens of the relevant P&G employees who are able to respond appropriately[32].

Last but not least, insurers can meet customers on social media by providing secure and easy access to their agents or their direct-on-line services. The Australian bank ASB is one of the first financial players to have introduced a virtual branch on Facebook[33]. Aegon, the largest insurer in the Netherlands, has developed a separate brand called Kroodle, which offers its digital-generation customers an online insurance platform with access through social networks[34]. And AXA, which reached 1 million AXA People Protectors on Facebook at the beginning of 2014 - in just 2½ years[35] - went the social networking route and recently announced a strategic partnership with Facebook to "further develop its digital, social and mobile footprint in France and globally"[36].

2.3 Competition, value at stake and value creation

Becoming a customer-centric organization as defined above is a must for insurers that want to compete in distribution in today's digital era. The cost of not doing so may include the decline of business volumes and even exit from the market.

As mentioned earlier, insurers today face increasing competition from both within and outside the industry, involving the distribution as well as the production value components.

It is estimated that traditional multi-liners and multi-channel insurers may lose approximately 35 percent of their economic profit in the next five years due to distribution, production and regulatory threats (see Figure 6). It goes without saying that the profit at stake varies from one insurer to another, depending on its business and channel mixes as well as the competitive and regulatory environments in which they operate. However, few carriers could endure a reversal of this magnitude without questions being asked about their survival. "Wait and see" is not a viable strategy at this time.

Figure 6. Insurance economic profit at risk.

Distribution threats

- First-mover insurers
- Retail banks
- Other large retailers & telcos
- Traditional aggregators and new digital entrants
- Web 'dominators' (eg. Google, Apple, Facebook, Amazon, Alibaba)

-15%

Production threats

- Price comparison portals
- Scale (and capital) economies
- Telematics providers (auto, home & health)
- Auto manufacturers & telcos

-10%

Regulatory threats

- Consumer protection regulations (e.g. CPI sales)
- Product comparability & price/fee disclosure
- Capital adequacy requirements

-10%

Distribution is likely to be crowded. In addition to insurers and aggregators, a diversity of new players have already entered or are considering entering this competitive arena. The numbers are likely to grow.

Banks are back. Needing to increase their fee business, they are offering both life and P&C insurance. They consider insurance as a natural extension of their core financial product range and are giving it high priority. They can compete with insurers by distributing the full range of retail and small-commercial insurance products, manufactured by their own carriers or by third parties (in joint ventures or distribution agreements). And they represent a big challenge to insurers in the development of holistic client-centric financial services propositions.

Then there are the "Web dominators", the Internet giants such as Google, Apple, Facebook, Amazon and Alibaba, and the ones which will come after them. They can leverage their frequent and intimate interactions with customers to detect and satisfy their insurance needs. They are likely to start providing third-party products and to act as aggregators (as Google, which bought an aggregator site in the UK in 2011, and Amazon already do[37]). However, in the medium term, their superior ability to know their customers and deliver personalized solutions at the right times could, in principle, result in them joining forces with insurers or reinsurers to be even more active in the insurance industry.

Web dominators could even apply for full licenses and enter the underwriting business. They could reinvent the industry, too. For example, what are the likely implications for the home and motor insurance businesses of Google earlier this year buying Nest, a manufacturer of smart home systems, and investing in driverless cars? And what of Vodafone buying Cobra, a motor insurance telematics provider? More broadly, what are the implications for the future of insurance in the connected world of the Internet of Things, a market to which Cisco attaches a potential value of $14.4 trillion over the next decade?

Personal lines in motor, home, life and health insurance first, and commercial lines afterwards, seem all to have the potential to be significantly impacted. The key question is not if the Web dominators have the potential to enter and disrupt the insurance market, but if and when insurance will become a top priority on their agendas. Between now and then insurers should better prepare themselves. AXA and Facebook's strategic partnership (see above) is an interesting development worth monitoring closely.

Mobile operators are exploring how they can take advantage of their market position, client base and technical capabilities to develop insurance products and services around mobility and connectivity. The fast growing markets of micro- and small-ticket insurance through mobile phones, and of motor insurance telematics (see Vodafone above), are two illustrative examples.

Large retailers are the natural distributors of specific types of insurance coverage, such as extended warranties and loss of the products they cover, pet insurance and micro-insurance, to name a few. Taking advantage of their customers' fidelity and financial schemes (e.g. loyalty programs and credit cards) they can scale up the insurance product suite by extending it to life, pensions, credit, home and more. Internal production or distribution of third-party products may both be applicable.

Auto manufacturers and dealers are likely to continue their expansion into the distribution of auto insurance, with telematics, usage-based insurance and value-added services linked to mobility being likely developments. To the extent that more cars become safe, self-driven, and leased vs. bought (including car sharing), motor insurance is likely to evolve into something different, still to be fully conceived.

Should any of these potential new insurance distributors own their own carrier, the competition that traditional insurers face will extend to products and pricing – referenced above as production threats. It may also challenge the distinction between insurance and reinsurance.

Data monetization is another issue that challenges insurers. Any entity that can acquire the information that carriers could use to predict and mitigate risks, could potentially usurp a vital link in their value chain. Web portals already do this. In the Internet of Things, where connectivity is king, it is not difficult to imagine a dramatic expansion in the generation of useful data (e.g. through telematics from private and commercial vehicles, buildings and factories, appliances, wearable devices, etc.). This has the potential to impact the profitability of almost all insurers' business lines, from motor, household and commercial insurance to life and health coverage.

The key question is not whether the Web giants have the potential to disrupt the insurance market, but if and when this will become a priority.

The regulation of data privacy is moving from the desks of legal specialists to corporate boardrooms as it becomes a key business issue.

Consumer groups, community insurance and self-insurance (e.g. Friendsurance in Germany and Guevara in the UK), new insurance ventures (e.g. Oscar and CakeHealth in the US and Intrasurance in the Netherlands) and regulators pose additional threats to the industry and to the levels of profit that incumbent insurers enjoyed in the past, and hope to return to when the economic recession is behind us.

But to achieve this, they need to consider the likely competitive landscape under different scenarios. And they need to decide if, where, and how they intend to compete. They need to do all this as a matter of urgency, for the pace of change is accelerating.

If insurers want to retain distribution and prosper they need to address the new digital and customer-centricity imperatives – not as a defensive strategy, but as a growth strategy to gain market share and establish a superior competitive positioning in terms of customer mix, product mix and channel mix.

They should strive to deliver a sustainable performance across all elements of the value chain, working hard on customer acquisition and retention, product innovation, mass-customization or 1:1 marketing, pricing optimization, up-selling, cross-selling, fraud prevention, as well as the re-engineering and digitalization of processes and the related HR agenda such as organizational structures and training.

Since "you get what you measure", it is important to develop a robust, comprehensive and consistent set of customer-related metrics and KPIs, both at a macro enterprise-wide level and at a micro level, involving single processes, products, interactions and services.

There is a vast amount of literature concerning customer-experience measures, and there are a number of metrics and KPIs used by companies. For example, the Customer Effort Score (CES) is usually applied at a micro level and is extremely relevant for the organization that needs to transform its processes and operating models to become more customer-centric. However, it is not much help to those companies that have already achieved effortless customer interaction and want to improve customers' share of wallet, loyalty and advocacy[38]. CES is also considered to have an impact on Customer Satisfaction (CSAT), which is more suitable as a macro-level indicator alongside the Net Promoter Score (NPS) from Satmetrix[39] and Forrester's Customer Experience Index (CXi)[40], which are widely used for comparison across industries.

Insurers need to develop a set of robust, comprehensive and consistent customer metrics and KPIs which are derived from their vision and mission, from their customer value propositions and from their brand promises. Tightly linked to their business strategies, these metrics and KPIs should be an integral part of the management information system, the appraisal system and the rewards system[41], at all levels of the organization from the boardroom to the call center.

Customer-experience processes, metrics & KPIs should be designed & implemented to meet demanding requirements

- Address macro and micro levels: they should measure how customers rate the company in general as well as its products, interactions and services.

- Cover internal and external perspectives: they should drive and monitor internal progress at the micro and macro levels, and enable benchmarking against competitors and firms in other industries.

- Involve existing customers and prospects: they should involve different customer segments and micro-segments at different stages of their relationship with the company (e.g. new and stable customers and those who are likely to leave) as well as prospective customers and those of its competitors.

- Examine reality and perceptions: they should measure the real and perceived evaluation of products, interactions and services by comparing the opinions expressed by customers about their experiences with the insurer, and the "true" experience offered by the industry using objective criteria.

- Consider rational and emotional dimensions: they should detect both the rational and emotional dimensions which determine the customer experience, and they should do so holistically, encompassing every key physical and digital interaction (moment of truth) within the customer journey.

- Be structured and workable: they should ensure that operational customer metrics and KPIs are clearly interconnected and ultimately rooted in the company's processes and operating model, in order to allow detailed analysis of the causes that negatively affect customers' experiences, loyalty and advocacy.

- Ensure business relevance: they should be intimately linked to the set of values that underpin the performance of the insurer. Their business relevance needs to be continuously fine-tuned and back-tested.

- Infuse corporate culture and communication: they should be clearly and consistently used in communications with all stakeholders – and with employees and the financial community in particular – so as to develop a customer-centric culture and to see the real value of the company properly reflected in the stock price and its rating against peers.

Insurers should develop robust, comprehensive and consistent customer metrics and KPIs as an integral part of the management information system, the appraisal system and the rewards system, at all levels of the organization from the boardroom to the call center.

Customer listening, advanced customer analytics, behavioral segmentation and real-time next-best-action marketing engines offer new avenues to further master customer loyalty and advocacy and drive the most efficient and effective cross-sell, up-sell, retention and acquisition strategies. By providing deeper and more comprehensive views of customers' authentic stated and tacit needs and preferences, they also help in advancing the discovery of what makes customer experiences exceptional and memorable.

Customer-centricity = Value Creation.

According to an annual study conducted by Watermark Consulting using the Forrester Customer Experience index (CXi), for the six-year period from 2007 to 2012 the leaders in customer experience (identified as the top 10 of the CXi ranking) outperformed the broader market, generating a total return (43 percent) that was approximately three times higher on average than the S&P 500 Index (14.5 percent). Furthermore, while the leaders handily beat the S&P 500, the laggards (the bottom 10 on the CXi ranking) trailed it by a wide margin (-33.9 percent)[42].

By working on revenues (e.g. through customer retention, acquisition, cross-selling and up-selling), costs (e.g. by changing the mix and increasing the productivity of the different distribution channels, improving the marketing ROI, streamlining and digitalizing processes) and capital (e.g. through product innovation and mix, better customer selection, pricing, and fraud detection and prevention), first-mover customer-centric insurers can generate significant value by posting superior growth and higher ROEs.

Customer-centricity may also imply the transformation of business and operating models, and may create additional value through "real options". For example, the new digital and customer-centric operating model could be exported to other geographies or utilized for other business lines. Each of these aspects must be contemplated when developing the customer-centricity journey and assessing the insurer's potential for value creation. The more ambitious the targets of the customer-centricity journey, and the more solid the strategies and plans to achieve them, the more likely the insurer is to secure sponsorship and support from the top executives, the board and the stakeholders at large.

3. The Journey

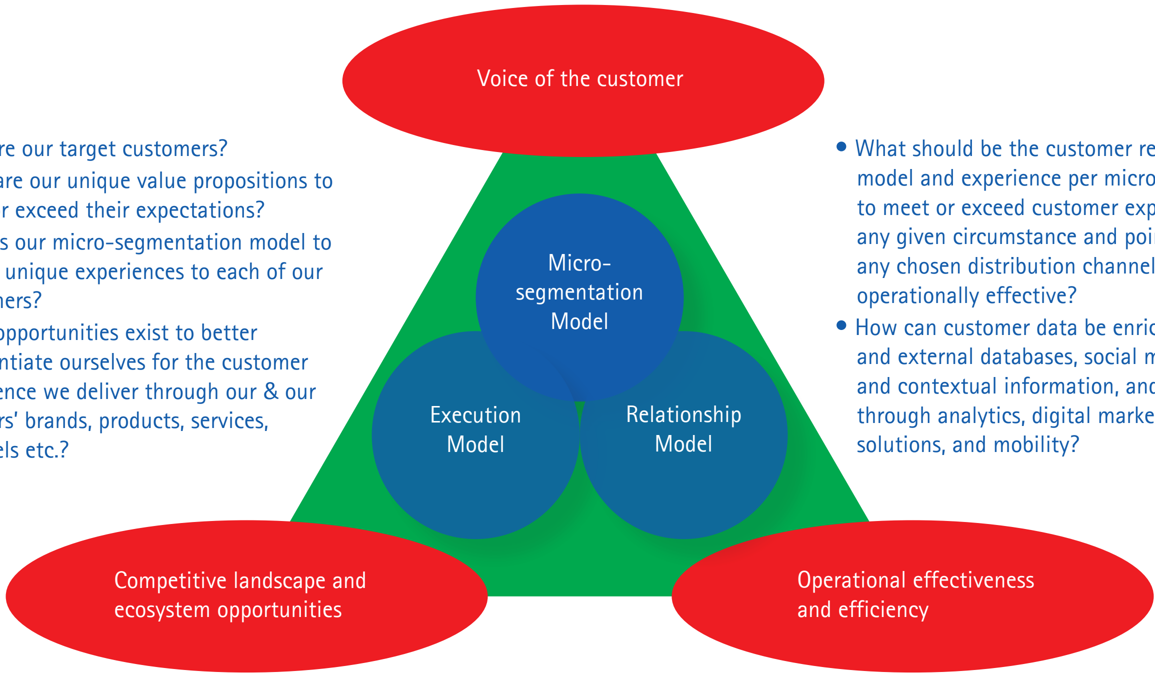
The design and implementation of a customer-centricity journey vary from insurer to insurer, according to its objectives and its starting position. The current position and future strategy should be properly assessed against the new insurance customer in the digital era (see section 1.2 above) and the insurer's competitive landscape.

A micro-segmentation model, a relationship model and an execution model should jointly translate the defined strategy to meet or exceed each target customer's expectations and preferences at any given situation and point in time (see Figure7).

In defining the new customer-centric strategy, and in shaping the journey, insurers should also address a number of conceptual and execution challenges, summarized alongside.

Figure 7. Defining micro-segmentation, relationship and execution models.

- What are voiced and tacit customer needs, preferences and expectations?
  What is driving satisfaction for each customer micro-segment?



- Who are our target customers?
- What are our unique value propositions to meet or exceed their expectations?
- What is our micro-segmentation model to deliver unique experiences to each of our customers?
- What opportunities exist to better differentiate ourselves for the customer experience we deliver through our & our partners' brands, products, services, channels etc.?

- What should be the customer relationship model and experience per micro-segment to meet or exceed customer expectations at any given circumstance and point in time, on any chosen distribution channel, while being operationally effective?
- How can customer data be enriched by internal and external databases, social media, telematics and contextual information, and be exploited through analytics, digital marketing, real-time solutions, and mobility?

- How are others operating and who are they serving?
- What trends will change the competitive landscape?
- What are our responses to new entrants' threats?
- Have we exploited digital and ecosystem opportunities to enhance the customer experience and our value propositions?

- How can the execution model be transformed or enhanced, on a stand-alone basis or via partnerships and ecosystems, to gain a competitive advantage in meeting or exceeding customer expectations?

- How effectively and efficiently are our operations serving our customers across channels for each moment of truth?
- Have we found the right service and pricing models for each customer micro-segment?

Legend:
Understanding current positions
Driving future strategy

3.1 Conceptual challenges

The main conceptual challenges can be grouped as follows:

Distribution model and identification of the customer.
Who is the customer? Customers can be identified as the intermediaries used by carriers – such as banks, brokers and independent agents – and as their end customers.

Distribution models based on B2B (e.g. business with banks and large brokers), B2B2C (e.g. business via agents and networks of independent financial advisors), and B2C (e.g. business through the insurer's own sales forces and direct channels) may coexist. For example, this is the case when an insurer serves its end customers by multiple channels, such as a bancassurance agreement, its own agents, its website and a call center.

Thus, the operational implications of defining and executing customer-centricity may vary significantly according to the business model(s) and the distribution channel(s) of the insurer. Distribution-centric and customer-centric models are intrinsically different, but they may need to coexist and complement each other when distribution is not entirely controlled by the insurer.

Customer ownership and customer data.
Who owns the relationship with the customer and his data?

The doubt arises whenever the insurer has multiple channels, one of which is a distribution partner that operates between the insurer and the customer (the B2B2C model).

Is customer-centricity possible without accessing customer data and determining the relationship with the customer in each and every channel?

The severity of the issue varies according to the type of intermediary, whether the commercial relationship is exclusive or not, and the arrangements for those activities that materially affect customers: things like first notification of loss, claims handling, and communication and commercial activities.

An approach that is too ideological may result in too high a cost for the business. Pros and cons must be carefully evaluated. Building on the brand values of the parties involved, and ensuring smooth interfaces between them with the aim to develop and enhance the customer experience in a wider context, may be a pragmatic way to address the challenge whenever an intermediary is involved.

Above all, it is important that the value that each party gains from the customer insights generated by the aggregation of customer data outweighs the perceived costs and risks associated with sharing the data. For example, if the carrier is to provide contact center support for the customer, then the agent must authentically buy in to the model and share customer data, in order to enable the carrier to provide superior service and to help retain and develop the customers.

> The orchestration of everyone who contributes to customer-centricity can be very complex in a rigid organization characterized by poorly integrated channels.

Channel conflicts, interoperability, optimization and remuneration.
Competition, specialization or integration among distribution channels?

Insurers with large sales forces might consider their tied-agent networks as the cornerstone of their customer-centric strategy, and build the new customer experiences around them. They do so giving the agents the main role in a network of highly interoperable channels. The customer chooses according to his preferences and the agent is constantly informed of, and where applicable remunerated for, the activity of the customer, regardless of the channel employed.

This strategy avoids channel conflicts, enables a seamless customer experience across channels, and addresses the principle that it is always the final customer who chooses the channel that best fits his needs.
But is this model sustainable for all product lines and channels without adjusting the sharing of value between the insurer and its agents?

Additionally, can we simply conclude that a customer-centric insurer cannot own competing channels?

As often happens, the reality is more complex. For example, an insurer can provide unique customer experiences across competing channels under different brands (e.g. see the very successful case of the ten-year-old UK motor insurer Admiral[43]).

The strategic questions then become: which are the target-customer micro-segments, what products and services do they require, what is the best channel mix to serve them, and how should a customer-centric insurer organize itself to maximize value creation, also considering the costs and profit margins associated with different products, channels and target segments?

Defining the level of interoperability across third parties' and insurers' channels is a case in point. A concrete example is that of a customer who wants to instruct one of the insurer's channels (e.g. a remote advisor) to execute a transaction relating to a product bought from a third-party channel (e.g. a partner bank). Cost and benefit analysis by customer micro-segment, and the opportunity to apply (dis)incentive mechanisms (e.g. service fees), may help in addressing the issue.

Accountability for customer-centricity.
Who is accountable for the customer within the insurer's organization structure?
The correct answer is "each and every one", in a seamless process built to serve the customer and all his needs, from enquiring to purchasing, from claiming to renewing, and from complaining to advocating, across all channels and products.

How is this achieved? By a sapient orchestration of all stakeholders (including but not only the CMO, profit and loss (P&L) leaders, the IT and Operations divisions, and distributors) toward common goals measured in terms of a set of customer-centric KPIs (see above) and rewarded with coherent, carefully directed incentives. However, orchestration such as this can be very complex in a rigid organization that is characterized by product-driven structures and P&Ls, and poorly integrated distribution channels. In the absence of well-defined and consistent customer metrics and clearly assigned accountabilities, a customer-centricity journey has little chance of succeeding.

Customer-centricity and ecosystems. In the light of the new opportunities created by the digital era, does customer-centricity push the boundaries of insurers and of their products, services and relationship models[44]?

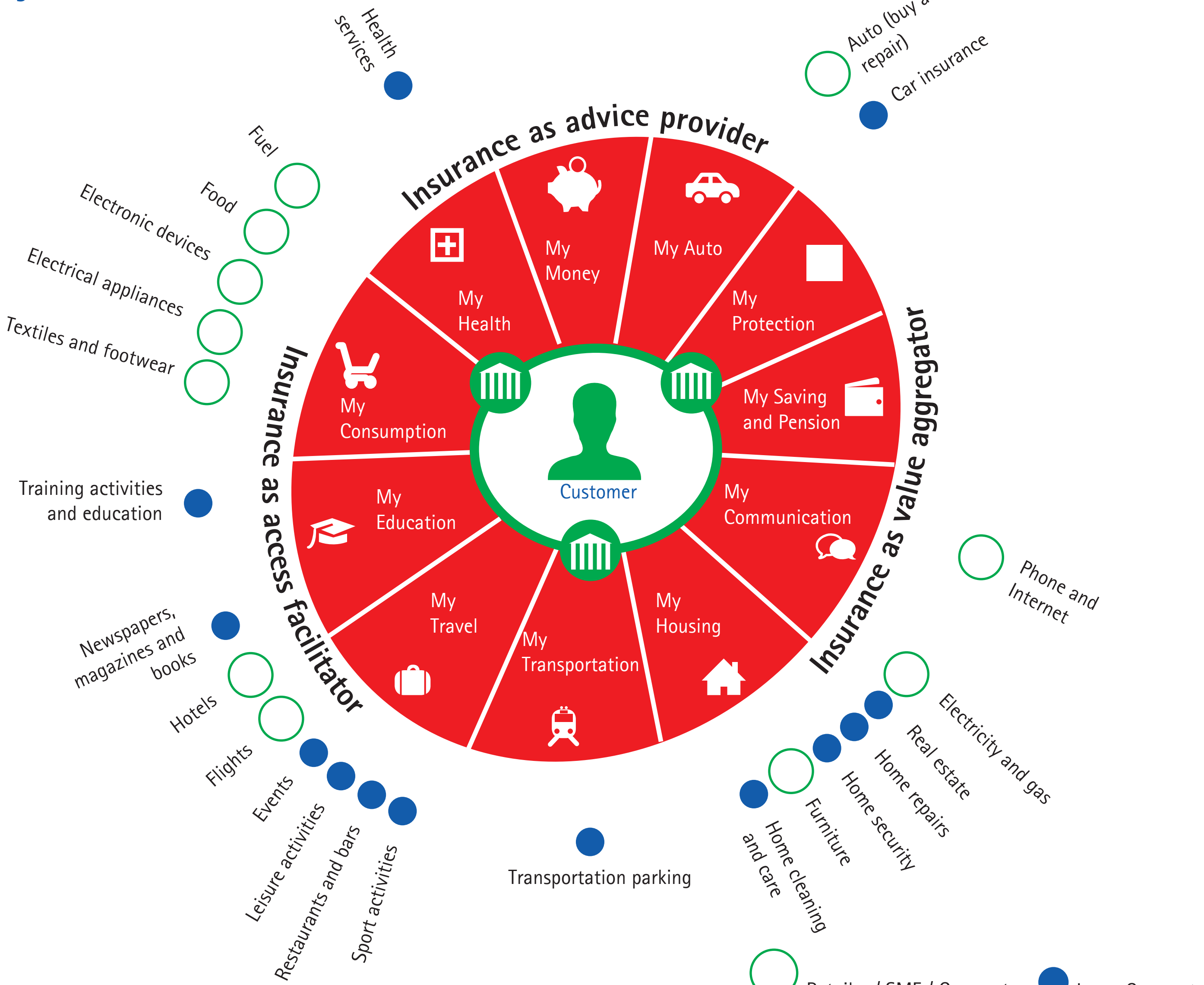
Does customer-centricity facilitate the development of partnerships and ecosystems in which customers can satisfy a broader range of needs more easily, faster and in ways that deliver better value for money? Customer-centricity is rooted in a deep understanding of the customer's situation, needs and preferences, based on the analysis of a very rich set of internal and external data. Mobility enables the accumulation of geo-localized data in real time, as well as an exponential growth in the number of interactions between the insurer and its customers. It also supports the emergence of new business opportunities.

Should an auto insurer develop an ecosystem to offer its customers discount coupons at petrol stations and other related retailers, and even conveniently located parking places? Should a life and health insurer develop an ecosystem of wellness centers and incentivize its customers to wear tracking devices that monitor their healthy lifestyles? Should a household insurer develop an ecosystem to offer home security services, remote control systems and maintenance services? Should a multi-line insurer do all of the above to increase the value it offers its customers, and hence their loyalty and advocacy?

How should the customer-centric insurer define the boundaries of its competitive arena (see Figure 8)?

In response to the growing role of banks in the sale of insurance products and in related ecosystems, is the "holistic insurer" an effective strategic response? Or is a one-stop financial-services shop, involving a bank and an insurance company (and likely others), the collaborative way forward in distribution? What should insurers do in this scenario?

Figure 8. The holistic insurer.



3.2 Execution challenges

The main execution challenges of a customer-centric journey relate to organizational aspects, technology, and the investments required.

Organizational aspects.
From an organizational perspective, a customer-centricity journey implies a holistic transformation of the insurer. This change process is likely to affect most if not all the components of the insurer's business and operating models.

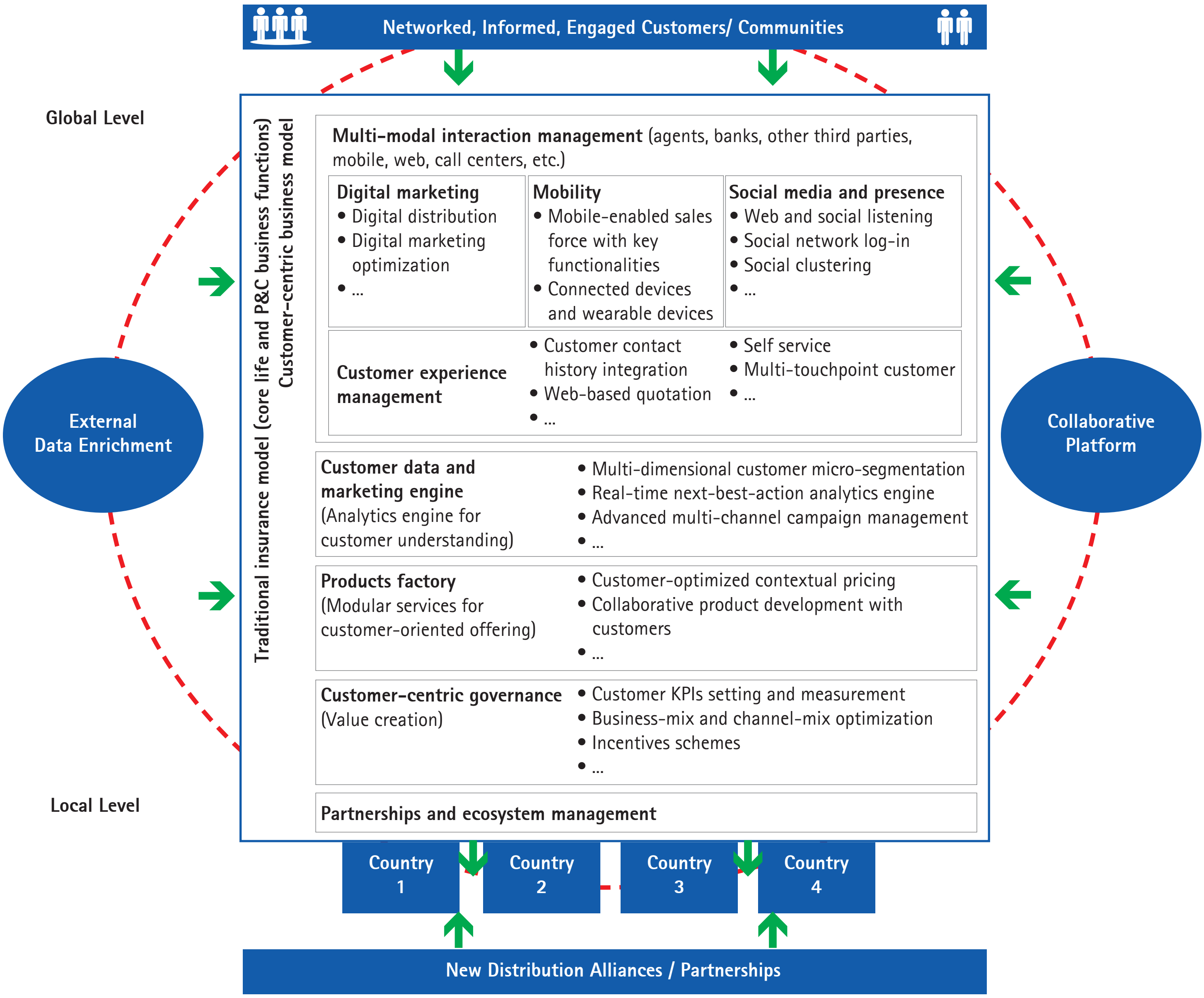
Insurers need to develop a long-term customer-centricity strategy, clearly define their objectives and priorities, and assess the likely impact on their current business and operating models.

In particular, they need to confirm or adapt the business set-ups that relate to six key areas:

- Customer segments.
- Distribution channels: which ones, what relationships between them, in competition or collaboration?
- Product factories: predominantly dedicated to specific distribution channels or across the diversity of channels?
- Geographies.
- Service platforms: again, should these be dedicated to specific distribution channels, business lines, product factories and geographies?
- Partnerships, alliances and ecosystems and their impact on the value chain.

From a situation which is often characterized by poor customer data, disconnected distribution platforms, detached product factories and poorly integrated systems and processes, a customer-centricity journey can take the insurer toward a much more integrated business model, open to contributions by third parties (see Figure 9).

Figure 9. An example of an integrated, high-level business model.



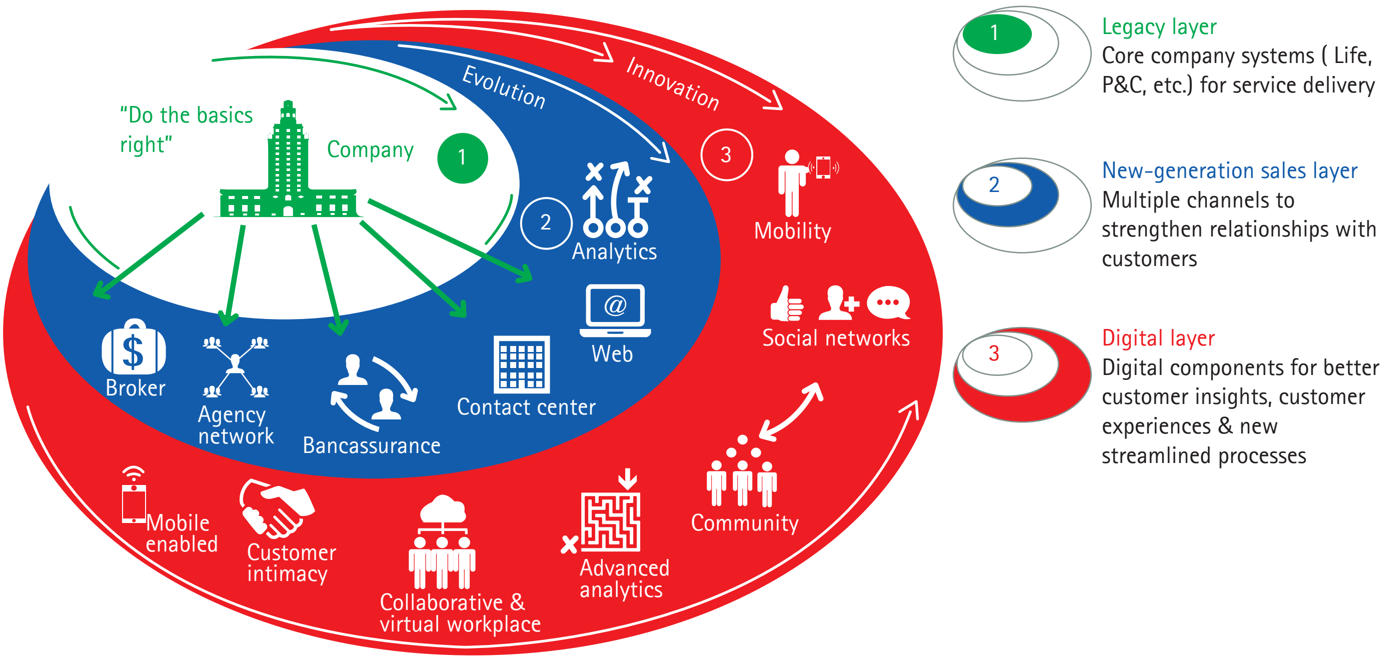
Technology.
"Add another app and the disaster will be complete." This statement by the COO of a large insurer testifies that shortcuts do not work and may conceal severe risks. The last thing that is wanted is the proliferation of ad-hoc peripheral make-ups, in a race towards a "me too" solution that is uncoordinated and not anchored on solid technical foundations.

The customer-centricity journey goes deep into the technical and data architectures of an insurance organization and may result in the replacement and/or integration of consolidated legacy systems with new technology layers, within and outside the enterprise, in order to ensure the richest possible view of the customer. Ideally, the unique customer view should be updated in real time with both internal and external data such as the purchase of a new product, a complaint, or a comment on the insurer or one of its products posted on a social network. This updated view should be immediately spread across the physical and digital distribution channels which form part of the multi-modal interaction management system for the specific customer or micro-segment.

For incumbent insurers, the challenge is to develop the "new generation sales layer", and to build the "digital layer" while ensuring its integration with the old "legacy layer" – while minimizing costs (see Figure 10).

Insurers will need to work toward customer-centricity, proficiency level by proficiency level, addressing the different technology layers. If their execution plans are driven by business requirements – as they should be – there will likely be parallel interventions on all three technology layers.

Figure 10. Innovation waves towards customer-centricity across technology layers.



The "legacy layer" is where the insurer needs to "do the basics right", by filling the gaps in the essential prerequisites: network infrastructures and collaboration tools, and customer data quality, integration and enrichment, to form a single and updated customer view.

The "new generation sales layer" is where the insurer starts its evolution towards visible customer-centricity by working on knowledge-based and action-driven processes. These include digitized workflows; enhanced customer view; modular, proactive and analytics-based customized offerings; mobile-enabled sales-force tools; a brand-consistent and appealing presence at all physical and digital points of contact; extended self-service offerings; and the integration of distribution channels, where appropriate.

The "digital layer" is where the insurer can give full expression to the customer experience and innovation. The efforts and investments in this area are focused on the identification of the moments of truth for each micro-segment and on the development of capabilities to systematically ensure superior customer experience management, innovative and highly personalized products, location-based services and real-time interactions, as well as customized 1:1 relationships at scale.

Investments.
Becoming a customer-centric insurer requires significant investments in people, organizational set-ups, and technology. Given the financial constraints which most insurers have to live with, these investments need to be managed effectively.

The current operating models of many carriers include cost structures which are no longer sustainable in the context of margin compression, limited growth and customers' continued drift to on-line channels.

Thus, the challenge becomes how to address the organizational issues and to revise, develop and integrate the three technology layers to better understand and serve customers, while reducing the overall cost-to-serve.

In the ideal scenario, a well-conceived and executed customer-centricity journey should aim to be self-funded by an increase in revenue from existing and prospective customers, and by a careful transformation of the operating model, enabling new and better operations at a lower cost.

This requires a careful design of the execution plan (see 3.3 below), giving priority to interventions which have a higher profitability impact, other things being equal. The sooner the insurer starts, the more likely it is to smoothly pace its investments and to benefit from the strategy. As we have seen, the marketplace can change very rapidly.

3.3 Approach to the customer-centricity journey

Insurers should think about the customer-centricity journey as a unique opportunity to rethink their vision, mission, value propositions and business model, and to make them more relevant and appealing to the new customer in the digital era.

The earlier discussion on the conceptual and execution challenges covers some of the inputs to this process. Factored into the insurer's strategic thrusts, they can help to set the overall direction and the high level roadmap.

Once the strategic direction toward customer-centricity has been established, the design and execution phases of the different components should be characterized by intense interactions and check points (agile methodology), in order to ensure fast implementation and continuous improvement of customer experiences and value creation. Priorities in execution should be defined, taking account of the most pressing business issues (e.g. retention, acquisition, claims leakage or fraud), IT constraints, and new market opportunities.

As in all transformation programs, certain principles and guidelines are important prerequisites and essential to success.

However, instead of providing rule-book descriptions on how to set up a proper program structure (e.g. involve all relevant stakeholders; identify and assemble the right leadership team; develop the business plan to sustain the vision; design the proper project structure; define objectives, milestones and deliverables; assign resources; monitor progress; ensure continuous communication and support, etc.), we would like to highlight a few endeavors that can make a difference in a successful journey to customer-centricity.

The first thing to do is to "fix the basics" and "fill the prerequisite gaps" in the business and operating models. These will achieve four things: improve the scoping of the customer-centric journey, leverage the assets and capabilities that are in place, identify priorities, and discover key talents. A sound, pragmatic approach to starting would include the following:

Assessment of proficiency level: an evaluation of the insurer's maturity with regard to each of the key building blocks of the customer-centric journey (i.e. the elements underpinning the five pillars and the five digital enablers, as described in 2.1 and 2.2 above).

For example, in assessing the proficiency level of "customer understanding", the main areas to explore are customer data management and customer analytics (Is there a single customer view across channels? Does it leverage all available internal and external data? Does it include data relating to claims and complaints, and from social networks? Is micro-segmentation available? Does it include a behavioral dimension? Is there a built-in history of the customer's interaction with the insurer? Does it also capture the household / clan view? Does it provide indications of different customer propensities relating to products, risk and pricing, channels, frequency of interaction, etc.? Is it updated and available in real time? Is it used, and does it impact the way the customer is approached and served? Is all of the above measured?)

Inventory of existing assets and capabilities: the identification and assessment of the customer-centric and digital assets and capabilities already developed within the company. It often comes as a surprise to insurers to discover how many uncoordinated but relevant initiatives they already have in place.

Furthermore, it often happens that technical assets core to customer-centricity (e.g. single CRM) are available within the IT department, but are simply not fully exploited throughout the insurer's organization. This may be the case when there is a lack of appropriate interfaces or distribution tools (e.g. front-end fed by CRM data) or when the insurer failed to deal properly with the legal aspects of using customer data across channels (e.g. authorization by the customer to use his data across all of the group's legal entities).

Review of touch points and "last metre": the identification of the main and most frequent customer touch-points to ascertain how, if at all, service levels and the resulting customer loyalty and advocacy may be enhanced at no or limited cost.

"Last metre" refers to the physical or virtual places where the customer and the insurer meet. It is where the customer experience manifests. No efforts and investments in customer-centricity translate into tangible value for the customer until they reach the last metre. Insurers should devote much more attention to the last metre in two ways. On the one hand, by identifying and implementing all the simple but relevant changes they can introduce immediately, leveraging existing assets and capabilities. On the other hand, by systematically ensuring all new investments in customer-centricity are exploited in the last metre as soon as possible. Needless to say, a strong and continuous alignment between technology and business is required. Chief marketing officers and chief digital officers have a major role to play if this is to happen.

Assessment of metrics and KPIs: a review of the customer-centric metrics and KPIs, their quality and consistency, and their relevance in setting the objectives and appraising the performance of the different organizational units of the insurer. "You get what you measure", and customer-centricity is no exception.

As soon as is practicable, "no regret moves" should follow. These will be included in the detailed planning as business priorities, irrespective of the shape the plans end up taking. They include:

Enhancement of digital foundations: it is important that network, unified communication and collaboration tools, multi-channel contact centers and real-time features be improved to ensure that all customer-centric endeavors can be fully exploited throughout the organization.

Chief marketing officers and chief digital officers have a major role to play in maintaining a strong and continuous alignment between technology and business.

Investment in data quality and enrichment, and advanced analytics: to provide a sound quantitative basis for any future customer-centric development. While considerations about options, and the merits of setting data and advanced analytics capabilities (centralized vs. decentralized, specialized vs. general, etc.) are important, it is essential they do not paralyze or delay execution.

Modular product innovation: a first review of the offering to seek opportunities for enhancing the customer experience of specific micro-segments. Enhancement may take the form of simple interventions regarding products (e.g. by offering personalized coverage options, bundling products and payments in a clear, transparent and convenient way, loyalty schemes, etc.) or service levels (e.g. service options, or the frequency, style and type of interactions), both on a stand-alone basis and through partnerships and ecosystems.

Campaign management based on advanced analytics and micro-segments: in order to rapidly tackle the insurer's most pressing business issues (e.g. poor cross-selling, retention, etc.) while delivering positive P&L results.

Customer listening: gathering the voices of customers through social-media sites and online research, in order to address dissatisfaction promptly and to effectively and efficiently respond to positive signals.

Integrated mobile solutions: the deployment of mobility tools to sales forces, of integrated and consistent portals for customers to access via their PCs, smartphones and tablets, and of effective, end-to-end digital processes to all parties involved – including third-party distributors and ecosystem partners.

If the above issues are effectively addressed, the journey to customer-centricity can be sustained and will reach new and higher proficiency levels. It should never stop, and it will see incremental improvements alongside significant discontinuities.

Of all the endeavors that make up the journey, the most important one is likely to be the customer experience – the incessant research into how the value propositions and experiences of individual customers or micro-segments can be enhanced, holistically as well as for each and every product and service. The Ten Commandments of the new insurance customer (page 8) are a dependable checklist to help the carrier achieve a steady progression toward customer-centricity. However, it will be the entrepreneurial intuition to intercept customers' stated and tacit needs, and the ability to transform them into compelling value propositions, which will separate the leaders and the followers of tomorrow.

Put in other words, if they are to survive, all insurers will soon need to be digitally enabled. At that point, it is the customer experience that will make the real difference.

Final remarks

Customer-centricity is not a new paradigm. It has always existed, and it has always been important. Customers started to matter when business first emerged. What makes it a renewed priority in the digital era is the way it can be interpreted and executed.

Digital technologies have given birth to the new connected world, in which people are "always on", and a growing number of devices are linked by the Internet of Things. These relatively recent developments are playing a major role in the disruption of conventional business models, in raising consumers' negotiating power and expectations, and in opening the doors to the industry to new entrants.

Regardless of the product or service they are buying, and the industry they are dealing with, customers expect their providers to match the best experiences they have received – or even have simply heard about.

Failure to understand the new paradigms of customer-centricity in the digital era, and promptly to adapt to this new reality, will put the future of the insurer in jeopardy.

The pace of change is dramatic. Clear strategies and resolute action are needed from those insurers that aim to win in the distribution space.

Insurers need to properly shape and execute their customer-centricity journey, and to find new ways to identify and fulfil customers' stated and tacit needs and expectations – across products, services and relationship models. They need to explore and exploit all opportunities for placing the customer at the center of everything they do. This may require them to innovate products, pricing, services, relationships and operating models, and/or to develop other solutions through alliances and partnerships. They may even need to overcome the boundaries of the industry – through the development of ecosystems – if this proves to be of value.

The Internet of Things provides insurers a privileged space and unique opportunity for product innovation and personalization (across auto, health and home insurance lines of business), as well as risk management and pricing[45].

The new battlegrounds of the industry will be customer listening and engagement, digital marketing, analytics, ecosystems, change management, agile methodologies and speed of execution.

Insurance is not the first to experience this upheaval. The telecommunications, media, automotive and travel industries went through similar disruptive journeys and may offer insurers a wealth of useful lessons. Banks, large retailers, Web dominators, telecom operators and auto manufacturers all need to be closely watched, since they can potentially become allies – or new competitors.

The insurer's race to customer-centricity has started. Are you ready to compete and win?

Becoming customer-centric may require insurers to innovate products, pricing, services, relationships and operating models. They may even need to overcome the boundaries of the industry.

References

1. See, for example, European Insurance Association, http://www.insuranceeurope.eu.

2. "Web dominators" with superior customer data and intimacy and the potential to threaten the distribution power of incumbent financial service providers (e.g. in the area of payments and money transfers-remittances by setting up their own payments circuits, in the area of lending by using their significant cash flows to fund merchants and consumers, and in the area of deposits, investments, and insurance by acting as aggregators, but potentially taking larger parts of the value chain in due course).

For example, with regards to insurance, Google acquired BeatThatQuote.com, a UK comparison site, in 2011, and started to rapidly expand the service in new markets and new business lines (e.g. travel insurance). A recent study from Strategy Meets Action (SMA) "Google and Insurance: Far Reaching Implications," highlights how Google continues to ambitiously expand its capabilities in and beyond the digital and mobile realms, creating an environment that presents new opportunities and challenges for insurers, https://strategymeetsaction.com/ google-and-insurance-far-reaching-implications, 31 January 2014.

3. Accenture Customer Distribution Survey, 2013. Additionally, 40 percent of insurance customers indicate they are likely to change their motor/home insurance provider in the next 12 months. This percentage rises to 51 percent for customers in the 25-34 age band (source: Accenture Consumer-Driven Innovation Survey, 2013).

4. Accenture Technology Vision, 2013.

5. http://www.itu.int, and http://www.internetworldstats.com/stats.htm.

6. http://www.dazeinfo.com/2014/01/10/social-network-penetration-75-internet-population-uses-networking-sitesapps-facebook-inc-fb-qq-whatsapp-preferred-report/
Facebook is very close to becoming the largest country in the world with ca. 1,2 billion monthly active users (http://memeburn.com/2013/12/billions-of-users-and-tweets-per-minute-social-media-in-2013-by-the-numbers/).

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9. Cisco, http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/white_paper_c11-520862.html, 5 February 2014.

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11. Ibidem.

12. "Big Data, for better or worse: 90 percent of world's data generated over last two years," ScienceDaily. ScienceDaily, 22 May 2013 (www.sciencedaily.com/releases/2013/05/130522085217.htm).

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14. Gartner, "Predicts 2014: Business Intelligence and Analytics Will Remain CIO's Top Technology Priority," November 25, 2013, in Accenture Technology Vision 2014.

15. IDC, "Worldwide Internet of Things (IoT) 2013–2020 Forecast: Billions of Things, Trillions of Dollars", Doc #243661, October 2013, in Accenture Technology Vision 2014.
According to Gartner, the industries which are likely to see the greatest value added from the IoT will be manufacturing, healthcare, insurance, banking and securities. Source: Gartner, Forecast: The Internet of Things, Worldwide, 2013.

16. The speed of development and adoption of new technologies is increasing dramatically. For example, according to a study by the World Bank, in order to reach 80 percent of the population, telephones took ca. 100 years, radio ca. 65 years, and mobile phones less than 20 years. Not to mention the pace of penetration of smarthones and tablets and diffusion of social networks.

17. In 1995, the virtual bank, which provides banking services completely online, commenced operation. However, in the succeeding dot-com boom years, more than 500 pure-play virtual banks were initiated and 50 virtual banks were in operation by the end of the year 2000. Concurrently, more than 1,200 brick and mortar banks incorporated various degrees of Internet banking capabilities. Amplius, Dandapani, Krishnan; Lassar, Alfried; Sharon, S. Lassar, Virtual Banking: Impetus and Impediments, The International Journal of Finance, 2005.

18. Accenture, The Everyday Bank, a new vision for the digital age, 2014.

19. Jim Marous, How will banks respond if Apple becomes a mobile payments player, 26 January 2014, http://thefinancialbrand.com/37233/apple-payments-mobile-wallet-banking-strategy/.

20. Sally Davies, Duncan Robinson and Hannah Kuchler, Facebook targets financial services, Financial Times, April 13, 2014. According to the authors, the licence would allow Facebook to issue units of stored monetary value that represent a claim against the company. This e-money would be valid throughout Europe via a process known as "passporting".

21. Accenture, "Energizing Global Growth – Understanding the Changing Consumer", 2013; Accenture Consumer-Driven Innovation Survey.

22. E.g. see MyAviva App, a new mobile application to offer products and services via mobile phone, but also to seek to closely engage with customers / prospective customers by taking their feedback and advice on product design and features.

23. Accenture Consumer-Driven Innovation Survey, 2013.

24. Ibidem.

25. E.g. Nike's customized shoes (ca. 65-70 percent of the products sold by Nike since 2001 have been customized), Flipboard magazine, car manufacturers (e.g. Mini), etc.

See also Fabrizio Salvador, Pablo Martin de Holan and Frank Piller, "Cracking the Code of Mass Customization", MIT Sloan Management Review, April 2009.

26. Accenture Consumer-Driven Innovation Survey, 2013.

27. As nicely put by an insurance executive: "At Google, if one option out of 10 works they focus on it. In insurance, if nine options out of 10 work they focus on the risk of the one option".

28. Pricing and servicing differentiation on the basis of the channel used and the micro-segmentation of customers is now the rule in many other industries, like airline companies, hotel chains, banking, etc. Loyalty schemes are becoming the norm as well.

29. Wall Street Journal, http://blogs.wsj.com/digits/2014/01/17/amazon-wants-to-ship-your-package-before-you-buy-it/. This exemplifies a growing trend among technology and consumer firms to anticipate consumers' needs, even before consumers do. Today, there are refrigerators that can tell when it's time to buy more milk, smart televisions that predict which shows to record and Now software, which aims to predict users' daily scheduling needs.

30. Accenture Consumer-Driven Innovation Survey, 2013.

31. Forrester, Case Study: Digital Solutions Help Migdal's Agents To Master A Multi-Touchpoint World, 2012.

32. Accenture, Remaking Customer Markets, Unlocking growth with digital, 2014.

33. ASB Bank, one of the largest New Zealand banks, opened its own page on Facebook allowing customers and non-customers to chat securely and privately in real-time to its staff seven days a week from 8am to 9pm. This launch comes around a year after the bank opened a Twitter account and is expected to complement ASB's existing FastNet Internet banking services. The "Facebook branch" offers the same service that customers experience through other ASB channels, through secure conversations with banking specialists. Data generated by the application is not stored by Facebook or any third party which means that no one besides the customer and the bank can read the conversation.

34. Kroodle is an easy and always accessible platform available for mobile, tablet and PC users that offers policies to students, house holders and travellers. Kroodle's design and products are focused on young people, tech lovers and communicators. For these purposes Kroodle is developed as a social network accessible via Facebook. The visitor/consumer can get in touch with Kroodle 24/7 via his favourite social media channel (Facebook, Twitter, email, phone call). Kroodle rewards the loyalty of its customers by giving them and their friends who join Kroodle a "Kroodle bonus".

35. http://www.axa.com/en/news/2014/one-million-people-protectors.aspx.

36. AXA press release "AXA announces a strategic partnership with Facebook to further develop its digital, social and mobile footprint in France and globally", 11 April 2014.

37. For example, Google in the UK acts as an aggregator and sells car and travel insurance (https://www.google.co.uk/compare/), whereas Amazon – currently – sells "extended warranties" and provides sponsored links to insurance companies.

38. Amplius, see Dixon, M., Freeman, K., and Toman, N. (2010), "Stop trying to delight your customer", Harvard Business Review, July-August 2010 and, for a comparison with other customer experience measures, see Stuart Crawford-Browne, "Customer Effort, How to use Customer Effort as a Customer Experience Measure", GfK.

39. http://www.netpromoter.com/Home.

40. http://www.forrester.com/Customer-Experience-Index.

41. Customer KPIs should be part of the incentive schemes of the CEO and the executive committee members and should be developed and cascaded to all other levels of the organization.

42. The same conclusions were evidenced by Professor Claes Fornell as early as 1994, when he found that the American Customer Satisfaction Index – a monthly economic indicator of the quality of economic output, as experienced by the users of that output – is a predictor of company return on investment, net cash flow, and stock returns. In several articles linking customer satisfaction to stock returns, he demonstrated that a portfolio of firms with high ACSI scores consistently outperform the market. He is known for investing his own money in companies that had rising SAT scores, shorting stocks where SAT was on the decline, and significantly outperforming the market by doing so. Amplius, inter alia, see Fornell, C., S. Mithas, F.V. Morgeson III, and M.S. Krishnan (2006). "Customer Satisfaction and Stock Prices: High Returns, Low Risk," Journal of Marketing, 70(1), 3–14; and Fornell, C., S. Mithas, and F.V. Morgeson III (2009). "The Economic and Statistical Significance of Stock Returns on Customer Satisfaction," Marketing Science, 28(5), 820-825.

43. In the UK market, Admiral group has developed a series of very successful brands focussed on specific customer segments and needs (see http://www.admiralgroup.co.uk/business/our_companies.php).They include:

- Admiral, the group's first brand, set up in 1993, mainly targeting those who traditionally pay higher than average premiums, including drivers under-35 and those living in big cities. www.admiral.com.
- Bell, set up originally as Bell Direct in 1997, its main target market being drivers with zero no-claims bonus. www.bell.co.uk.
- Diamond, created for women in response to a need in the marketplace for insurance specifically for young female drivers which not only offers good value but is as hassle-free as possible. www.diamond.co.uk.

- elephant.co.uk is the UK's first wholly online car insurance service. The brand passes on cost savings generated by being an online brand to customers in the form of lower premiums. www.elephant.co.uk.
- Gladiator Commercial, the group's commercial vehicle insurance broker, was launched in April 1998. The company acts on behalf of several of the largest commercial vehicle insurers in the UK. www.gladiator.co.uk.
- Confused.com is the UK's longest-running insurance comparison website, originally set up in 2002 to provide a car insurance service. Today, Confused.com also offers life, home, van, motorbike, pet and travel insurance, alongside an option to compare utility providers, financial services, travel and more. www.confused.com.

44. This was the case with Nike with its Nike + iPod Sport Kit. Nike partnered with Apple to change the running shoe forever. Anticipating that runners would be eager to adopt technology and online channels to augment their training, Nike developed a sensor for the left shoe which sends workout data wirelessly to an iPod. The sensor tracks distance, time, pace and calories burned, and even tells runners if they've beaten their personal best. Back home, Nike's online portal enables runners to plot goals and compete with others. Adidas is following with a sophisticated solution targetting advanced runners. This exemplifies the strategic forms which the customer-centricity journey may take, and its profound implications within and outside the organization (and likely the industry) through ecosystems.

45. http://www.gsma.com.

About the author

Andrea Moneta recently joined the newly-created Accenture Strategy as a Senior Executive, bringing 25 years of hands-on experience in international financial services. He previously held a variety of executive positions, including CEO EMEA of the insurer Aviva; Group CFO, Group Head of Private Banking and Asset Management, and Group Head of Central and Eastern Europe at UniCredit Group; and Head of Strategic Planning at the European Central Bank. In these roles he helped shape and execute domestic and international organic growth strategies and value-accretive mergers and turnarounds. He has served as Chairman, CEO or NED on more than 35 boards of listed and non-listed companies in both mature and emerging economies. At Accenture, Andrea leads the Insurance Strategy practice across EALA and the Insurance Distribution and Marketing practice globally.

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