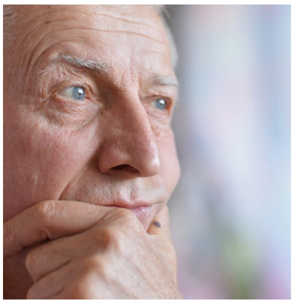
AGEING MARKET



DIGITAL GENERATION

SERVICE EXPECTATIONS

TRUST

Strategic InSights

Changing consumer behaviours

icmif
International Cooperative and Mutual Insurance Federation

During the period April 2013 to May 2014, the members of ICMIF's Intelligence Committee looked at changing consumer behaviours and distribution as topics which they believed to be strategically important for the broader ICMIF membership. The Committee members' findings on these topics have been brought together in this edition of Strategic InSights. It is primarily based upon the research carried out by the Committee members and their discussions on the topic. The scope of this edition is to consider the impact of emerging market dynamics and competitive trends on consumers and ICMIF members' strategies for reaching out to them, which should prove informative for other cooperative/mutual insurers seeking to understand how to understand and respond to changing consumer behaviours.

The members of the Intelligence Committee are thanked for their input to this report.

Executive Summary

Economic and social shifts during the last decade have created a significantly different type of insurance consumer. The global financial crisis has led to falling incomes in real terms and a commercial slow-down in many markets. Consumers' price sensitivity has sharpened, while their service expectations continue to grow.

This report looks at socio-economic shifts; technological advances and regulations which are changing the market; and the evolving expectations of today's insurance consumers. It considers the impact for the insurance industry as a whole, and implications specifically for cooperative/mutual insurers. It describes how ICMIF members are seeking to understand customers' needs and expectations, including a section about the types of research they are conducting.

It also identifies a number of opportunities for cooperative/mutual insurers to leverage their strengths to respond to changing consumer behaviours; to differentiate themselves from their competitors; and to create a sustainable competitive advantage.

Introduction

Economic and social shifts during the last decade have been two important drivers behind the evolution of a significantly different type of insurance consumer. The global financial crisis has led to falling incomes in real terms which has shrunk the market as some consumers have exited the market while others have reduced their coverages. The prolongation of the economic slow-down in many markets has re-emphasized the need for consumers to have access to quality advice and created demands for new types of low-cost coverage. These observations are applicable to consumers of personal lines and commercial insurance, although the rest of this report focuses on the personal lines customer.

We are deemed to be living in the information age in which the "savvy" (informed) customer has full knowledge of what he or she is purchasing prior to buying financial products. Yet in many retail insurance markets that have abandoned brokers and intermediaries in favour of direct distribution, controversial selling practices and a persistent lack of transparency are creating a reaction of demand for quality insurance advice.

The research carried out by ICMIF's Intelligence Committee members clearly identifies the key challenges, both internal and external, associated with changing consumer behaviours, and a number of opportunities for cooperative/mutual insurers to respond to them.

Challenges and opportunities

It is useful to outline the main features of the competitive environment and their impact on insurers, prior to looking at the challenges in more depth and identify the key questions about the way insurers manage their relationships with consumers.

External challenges

A shrinking marketplace: Fighting to maintain or build business, with tougher competition between firms to win and retain customers.

Regulation: Committing more resources in order to comply with more onerous regulation in many jurisdictions in response to the financial/banking crisis, especially in distribution and selling standards.

Price: Responding to economic constraints which have sharpened consumers' price awareness, particularly in personal lines and markets where aggregator (price comparison) websites exist.

Trust: Reassuring a market in which consumer distrust of financial services is notable: some may argue that the insurance industry has been tainted by its association with the banking sector (bancassurance). Consumers fear that companies will misuse or abuse their personal data, a concern which regulation has not yet caught up with.

Internal challenges

Costs: Implementing tighter cost controls, as the recession has continued, while seeking to maintain quality.

Distribution: Maintaining distribution quality in markets where agency forces are ageing and there is a lack of interest among younger workers to become agents, leading to a shrinking agent distribution network. Integrating new and multiple distribution channels.

Culture: Understanding customers' changing expectations and buying behaviours. Encouraging innovation to meet the needs of a changing marketplace. Attracting and developing young talent.

Technology: Keeping up with rapid technological advances to meet consumers' expectations; continuous investment of time and capital; extensive internal (re)training.

Naturally, some challenges also present opportunities. Changes in the marketplace often present a chance to reach out to customers who are affected, either positively or negatively, by those changes. Importantly, some of these opportunities may be viewed as particularly suited to those cooperative/mutual brands that distinguish themselves from their shareholder-owned competitors.

Consumer research – an overview

Customer research and/or market research is a regular activity for many ICMIF members, enabling them to gain a deeper understanding of their existing and potential target customers and the drivers of success, and to monitor performance over time. Typically, members adopt a combination of measures and approaches:

- Qualitative (to understand) and quantitative (to measure);
- Primary research (original research) and secondary research (scanning existing research);
- Individual (research on their own market) and syndicated research (research with other companies to provide a benchmark);
- Research among end-users (policyholders, customers) and other parties (agents, credit unions, cooperatives).

Investment in customer research varies, from representing a small portion (5% or less) of the total marketing budget to larger investments (one firm has recently established a strategic marketing department which invests 20% of its budget in research). A full assessment of the existing level of knowledge within the organization should be undertaken before determining an appropriate level of investment: where are the information gaps? What sort of data could help improve performance? It is important to spend enough to obtain meaningful information, but avoid investing in research that does not deliver any new or useful knowledge to the firm.

For many ICMIF members, customer satisfaction is still an important measure for assessing performance, but they have also recognized that "satisfied" is a less important element than "loyal" in determining long-term business success. Indeed, many firms report that customer satisfaction is dropping even where their practices have not changed, suggesting an increase in expectations. In the last couple of years, the growing importance of measuring customer loyalty has been reflected by a notable increase in the number of ICMIF members using the Net Promoter Score® as a preferred metric, although other metrics are available. There is no consensus on which customer index is the best for a given firm: one size does not fit all.

The widespread adoption of technology is also making its mark on ICMIF members' research methods:

- Scanning online news, social media and consumer reviews helps capture customer conversations about the firm;
- Online surveys are commonplace – and fast and economical, though response rates to (in particular, untargeted) surveys can be low;
- Short surveys sent by SMS, following a customer's interaction with the firm.

More "traditional" methods still have an important role, however, with focus groups a preferred choice for gaining a much deeper understanding of consumers' psychology and telephone surveys for feedback on service levels, in particular when carried out at key moments during the customer cycle, e.g. after the settlement of a claim. The nature of most personal lines insurance – purchase and payment once a year, claims submitted less than once a year – means that the frequency of contact between the firm and its customers is, compared to other industries, generally low and thus random surveys of customers may not be meaningful, as most customers have very little experience of dealing with the firm upon which to base their judgments. It may also risk highlighting a lack of contact where greater contact would have been desirable. It will be interesting to monitor how insurers' use of social media may, or may not, impact upon the frequency of customer contact.

Mystery shoppers are useful for providing insights about the purchase experience, but less suited to other stages of the customer lifecycle.

Finally, for any research to be a worthwhile investment of the firm's resources, it is crucial that the findings be delivered to and usable by the executives, departments and employees that have the power to act upon them and, where required, effect necessary change. Without this in place, any research is ultimately useless.

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Points to consider:

Does your organization have an appropriate balance between understanding through qualitative research and measuring through quantitative research?

Can technology be leveraged to increase your customer research in a cost-effective, efficient and customer-friendly manner?

Where are the information gaps within your organization's market knowledge?

How are your organization's research findings utilized; has the authority been granted to the right people for the research to be acted upon?

The changing consumer and expectations

It is useful to consider both dimensions of the "changing consumer". Firstly, at market level, the overall market profile is shifting, primarily due to short-term economic and long-term demographic changes. The economic changes caused by the financial recession mean the total market has effectively shrunk, with the average customer having less to spend on insurance. In the longer-term, declining birth rates and greater longevity create ageing markets, i.e. a growing proportion of older consumers. These changes imply both opportunities and threats for the insurance industry, as we shall see.

Secondly, at consumer level (be they individuals or definable groups of customers), behaviours are shifting due to social, technological and regulatory reasons.

As many of the underlying changes have an impact at both levels, i.e. on the market as a whole and on consumers as individuals, it is helpful to consider them together in order to understand the most significant issues and expectations that result from them, as identified by ICMIF members.

- Demographics

  - Ageing populations are an emerging reality in many markets. They generate new risks which create demand for certain products: health, long-term care, pensions.
  - The entry of younger customers on the market implies the need for different ways of communicating: less formality, more frequency, choice of channel, use of technology (see below).
  - Younger customers have less disposable income so (free or affordable) advice on how to buy wisely is important to them.

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Points to consider:

Do customers turn to your organization for advice on their coverage/ financial needs? Could this role be emphasized?

- Socio-economics

  - The modern family structure has changed in many markets, with fewer traditional family units and greater geographic mobility (including economic migration).
  - New coverage needs, such as for long-term care, previously the remit of the family, emerge.
  - The financial crisis has restricted incomes and thus available funds for purchasing insurable goods and insurance.
  - The withdrawal of many state benefits creates new groups of customers for healthcare insurance and pensions, who may not understand these products.
  - The appetite for insuring luxury goods (eg high-value mobiles, PDAs, etc.) is tempered by an unwillingness to pay more than base price for "traditional risks" (cars, homes, etc.).
  - Product expectations have evolved: customers want customization of complex products (health and life, in particular) but also cheap, simple and standardized products (motor, home).
  - Rewards, e.g. premium discounts, for customer loyalty or the purchase of multiple products (which many cooperatives/mutuals already do well) are expected.
  - More people around the world are affected by catastrophes (flood, storm, tornado, etc.) which increases awareness of environmental risk. The role of insurance and of insurers becomes more important but consumers may be reluctant to purchase cover in markets where these types of risk have traditionally been covered by the state. State provision, meanwhile, could be reduced due to the rising burden.
  - Greater consumer awareness of social and environmental concerns generate opportunities for insurers to differentiate themselves, in particular to younger generations.

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Points to consider:

Do you nurture a culture of innovation to respond to emerging insurance opportunities such as long-term care or products linked to economic migration?

Do you reward loyal customers for longevity of business, multiple purchases or recommendations?

Are your customers affected (or could they be affected) by disasters; what provisions are in place to provide reassurance in such times?

Do you have a clear message about how you are managing social or environmental risk to share with customers?

- **Regulation**

  - More stringent attempts to protect consumers against "unfair" treatment pass (some) responsibility from consumers to the firm. Caveat emptor (buyer beware) is replaced with market conduct (including fair treatment, transparency and plain language). The impact of mis-selling cases and generous compensation packages on consumers' buying behaviours in the longer term is not yet known.

  - Customer data protection laws, in some jurisdictions, require separate customer information files for each product or type of insurance; in contrast, customers expect all their data to be in one file so that they can talk to the firm about all their products in one single contact (call, email, etc.).

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Points to consider:

How do you ensure customers feel equal to the organization, e.g. through clear, useful information?

- **Technology**

  - The digital generation and consumer uptake across all ages of online resources, especially for researching and, to a lesser extent, buying insurance. ROPO (research online, purchase offline) is predominant but could change as customers become accustomed to secure, automated service, and as insurers adapt their product offerings to become sufficiently simple for online purchase. Online presence, at some level, is already essential.

  - Customers' demand for lower prices has (in addition to economic issues) been fuelled by aggregator (price comparison) websites. Arguably, these websites have led to a lack of understanding about the difference between "best value for money" and "cheapest". Conversely, customers buying complex products want better quality information and advice, delivered through traditional channels.

  - Customers expect firms to have fully integrated traditional and digital channels so that they can switch between online, telephone and face-to-face interactions with the firm at will. They also expect a single point of contact for communication about all their products (e.g. one phone call to talk about multiple products), which would mean one single customer information file. (In some jurisdictions, this may not be legally permissible.)

- Data protection is a concern for consumers; regulation has not caught up sufficiently to reassure them.
- The communication age has increased consumers' appetite for more contact: frequent updates during a claim.
- The development of GPS technology, mobile apps and automation enables, but also stimulates greater demand for, faster service.
- Social media offers an opportunity to replicate the sense of community that consumers seek.

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Points to consider:

Do you offer customers a choice of communication channels that satisfies their needs?

Can customers with multiple products talk to you about all their products in just one telephone call to just one person?

How do your communications with policyholders during the handling of a claim differentiate you from your competitors?

Can your sales staff, agents, etc. articulate to customers why your offering provides value for money?

Considerations for cooperative/mutual insurers

The challenges and issues which we have identified provide insights that help the insurance industry, across all business models, to understand how the market is changing, how customers want to relate to their insurance provider, and their expectations thereof. They also point to some key opportunities for insurers to differentiate, develop new products and services, and build new types of customer relationship.

Certain of these issues warrant further consideration by ICMIF members, given the specific nature of the cooperative/mutual business model and the features which distinguish the sector from the rest of the industry.

It is worth first noting that ICMIF members' research generally indicates that for most (but not all) cooperatives/mutuals in most (but not all) markets, consumer perceptions of cooperatives/mutuals do not provide a significant competitive advantage. In many cases, including markets where the sector has a significant market share, consumers do not have a clear understanding of the cooperative/mutual form, although it has also been found that once it is explained, the cooperative/mutual business concept is strongly liked. This suggests that the sector does not, as a whole, articulate its differences well to consumers. It also suggests a clear business case for the sector to promote the "cooperative/mutual difference".

It has also been found that cooperative/mutual values are not often a selling point in their own right; they can be used as a differentiator to take consumers' appreciation to a higher level, but only after all their other needs and expectations (coverage, price, service offering, payment options, distribution channel, etc.) have been satisfied. There is a clear message that the "basics" need to be addressed first.

The 2013 *Global Reputation Report* by ICMIF indicated clear associations of the cooperative/mutual sector with sustainability (economic, environmental and social); it also revealed high levels of consumer concern regarding natural catastrophes. This suggests that the sector is well placed to carve out a solid reputation as insurers of choice for protecting consumers and their families against environment-related disasters, but a clear message is required to link these risks with the cooperative/mutual label and concepts of sustainability.

Historically, mutuals/cooperatives have been founded by groups of consumers with a common interest: profession, social need, or due to exclusion from the market or geography. Even as they grow and mature, successful cooperative/mutual insurers remain close to their customers. In today's communication age, "closeness" can be understood as nurtured through physical proximity or remote communication. This would give rise to possibilities for modern cooperatives/mutuals to exploit technologies to satisfy consumers' expectations for frequent contact at given times during the customer cycle (in particular, during the handling of a claim) and to leverage social media to appeal to consumers' desire to be part of a community .

Physical proximity and face-to-face contact with customers, which were once crucial for insurance distribution, either through branch offices or home visits by agents, were widely abandoned by the insurance industry following the emergence of direct distribution of insurance from the mid-1980s onwards. Psychologically, however, consumers tend to feel more reassured of quality service when they have face-to-face contact with the representative of a firm, compared to a telephone or digital conversation. When it comes to building strong relationships with customers who need advice, are spending significant premium, and who are buying complex products, having a local presence can give a clear advantage over remote, "faceless" corporates. [NB: It is not clear whether video-calls can replicate to any extent the trust-building aspects of an actual face-to-face encounter for cooperative/mutual insurers.] For cooperative/mutual insurers to maintain or build a workforce or network of representatives (agents, sales staff, even call centre operatives), an ability to nurture relationships with the younger generation of employees will be required, to rejuvenate (ageing) agency forces and to bring in the insights required to transform communications with and distribution to the next generation of customers.

There are also opportunities for cooperative/mutual insurers to offer rewards to customers for loyalty (including duration of custom, multiple purchases and recommendations to others) which could go beyond premium discounts or yearend dividends, by linking up with other cooperatives. A small number of ICMIF members already do this through an association with, for example, a cooperative supermarket and a reciprocal arrangement which rewards consumers for being customers of both. (Such joint ventures may ultimately lead to deeper relationships, such as cross-distribution, although these can entail control issues which must be comprehensively addressed.)

Simple products and plain language advertising and advice (contracts are often subject to legal or regulatory conditions which hamper plain language efforts) are not unique to the sector, but align well to many cooperative/mutual insurers' brand image ("value for money", "on your side", "etc.). In the longer term, as many regulators step up their efforts to promote better market conduct and enhance consumer protection, those insurers that have already developed simple products and plain language initiatives will have a clear advantage over those that have not done so and are required to catch up.

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Points to consider:

Does your organization articulate its unique benefit(s) for consumers? Do members understand the rights and responsibilities that membership entails?

How does your organization achieve proximity to its customers? Can digital channels provide a substitute or enhance your organization's local presence?

How do you reward customers for being "members"? Would partnerships with other types of cooperatives/mutuals be valuable to your members?

Do customers trust you because you can communicate with them clearly?

How are you developing relationships with the next generation, both as customers and employees?

Conclusions

Changing consumer behaviours resulting from technological, social and economic shifts, alongside demographic and regulatory changes, require insurers to think in new ways about their relationships with customers, from marketing and product development, through distribution to service and customer communications. An insurer's ability to manage its relationships with customers differently will be crucial to its capacity to remain competitive in the short-term and sustainable in the long-term.

Consumers expect value-for-money as standard as well as quality service and advice, which on the one hand indicates clear possibilities for standardized insurance products distributed digitally, implying lower development and distribution costs (for non-life/P&C products), and on the other, quality advice (for life and investment products) and more flexible communications, implying higher investment in face-to-face communications and technology to ensure seamless information-sharing across the organization.

The expectations of the next generation, digital-age customers, need to be balanced against those of an overall ageing market, creating a dichotomy for insurers. Modern technologies could be exploited effectively for both young and old customer groups, if harnessed to maximize organizational and operational flexibility and provide real customer choice.

Mutuals and cooperatives have an opportunity to differentiate themselves in the modern context by promoting their traditional values: proximity – both physical and digital – to the customer; offering value for money and simplicity, without compromising on quality advice or trust; and helping customers through times of disaster. They also need to ensure they have the capacity for transformation to respond to the expectations of the digital age and the next generation.

Managing relationships with customers requires ongoing review and development. This paper identifies the current challenges around changing consumer behaviours and key drivers for success; it also demonstrates the need for ICMIF members to understand how cooperative/mutual insurers can differentiate themselves effectively from their competitors and how to build relationships with the next generation, as both customers and employees. Throughout 2015, ICMIF will research and organize associated activities to address these topics, to help its members successfully reach the customers of tomorrow.

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The International Cooperative and Mutual Insurance Federation (ICMIF) is a best practice organisation committed to giving its members from around the world a competitive advantage. ICMIF helps to grow its mutual and cooperative insurance member organisations by sharing strategies and the latest market intelligence. Since 2007 the mutual and cooperative model has been the fastest growing part of the global insurance market; maturing from 23.4% to 26.7% in 2013.

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