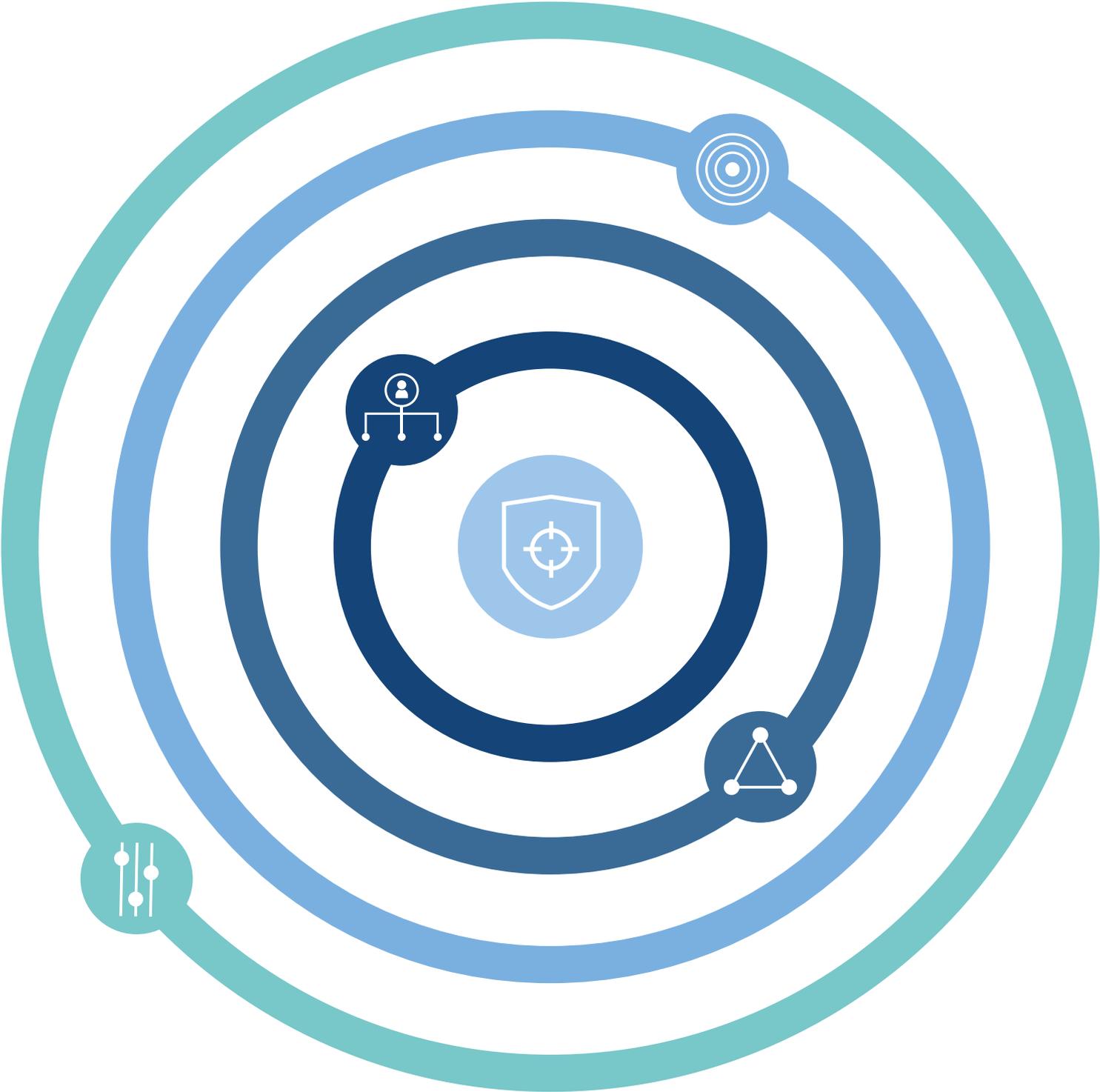


# The Four D's of Insurance



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For an industry focused on what might happen in the future, insurance companies can be slow to adapt.



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Only one in five insurers consistently bring their new products and services to market quickly enough to keep pace with market change.

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# Executive summary

In producing this research whitepaper Target Group asked 100 marketing professionals at middle manager level and above working in the insurance industry (i.e. insurers, underwriters, aggregators and distributors) what their hopes, plans, fears were for the industry in the future. It became clear that most felt that an 'innovation wave' driven by the four D's of dynamic products, distribution patterns, data and disruptive new technology was on its way and that it would have a significant impact on the future direction of insurance when it comes to providers, products and routes to market.

Target's survey shows that while almost all insurers continue to develop new products and services, just one in five (19%) consistently bring them to market quickly enough to keep pace with market change. This is a dangerous position for an industry on the crest of an "innovation wave" that could rival that brought by the adoption of the computer in the 1960s.

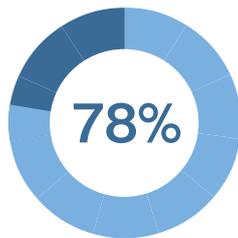
Telematics, wearable devices, big data, car collision sensors, the Internet of things: these developments are fundamentally altering the market's future. The question is whether they will be led by the existing players in the industry, or by industry challengers.

Concentrating on marketing professionals, the survey finds an appreciation of the importance of innovation, but also significant challenges in developing products that are dynamic, harnessing data to secure a competitive advantage and, above all, ensuring effective distribution via channels that are consumer aligned – both the greatest challenge and opportunity for the majority (56%) of those surveyed. Legacy systems, particularly, may prevent existing companies in the sector succeeding. Either way, these factors will determine who wins from the inevitable disruption they bring.

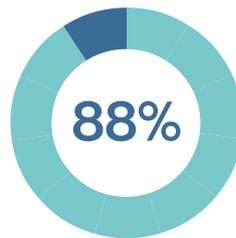
A number of other findings are also striking:



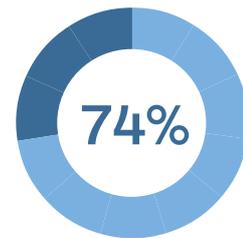
› Agree the insurance industry should look to other industries for ideas and inspiration for innovation.



› Say insurance products should be more dynamic, adapting to reflect the changing behaviour of the insured in real time.



› Say at least some of their company's insurance sales will be distributed digitally online in five years' time, with the internet expected to account for an average of 46% of the total sales.



› Expect big data to drive marketing decision-making over the next 5-10 years, with 65% saying it will play a "transformative" role within just 2-3 years.

The industry faces an uncertain future but also one with great opportunities for those who can develop the products consumers demand and serve them in the way they want. This paper shows many are just at the start of that journey. It hopefully, however, also offers some guidance for successfully navigating the road ahead.

This survey concentrates on those involved in marketing, with all its respondents at managerial level and with marketing as their main role or as part of it.



“Innovation distinguishes between a leader and a follower,” the late Apple founder Steve Jobs once said. In the insurance industry, however, it will increasingly distinguish between those who have a viable long-term business, and those who don’t.

The industry faces an “innovation wave” that will transform the market. For insurers, underwriters and distributors, such as banks and brokers, it brings both threats and opportunities. It offers the potential for new products and growth, far greater customer insight, and the ability to tailor products and pricing, as well as the prospect of transforming interactions between market participants.

However, it also presents challenges to an industry long criticised for its sluggish response to the march of technological progress. The power of disruptive technologies to transform, create or destroy markets has been amply demonstrated in other industries, such as retailing. Already the insurance industry has tasted the potential in the rise of aggregators and, more recently, telematics. Indeed, insurance leaders consider themselves more vulnerable to market entrants than many other industries<sup>1</sup>.

### The Four D's

It was to increase understanding of the changes and challenges that Target Group commissioned this research surveying attitudes and practices in the insurance industry.

Whilst this report cannot cover the full impact and range of transformation we expect this wave to cause in the coming years, the research does identify three key areas where the change is likely to be particularly profound:



#### Dynamic

the growing need for dynamic products that reflect customers' requirements



#### Distribution

changing distribution patterns to reflect customer expectations and engagement



#### Data

increased use of which must be harnessed to competitive advantages

These “Three Ds” will form a large part of the industry’s response to a “fourth D” that is a consistent theme in this report:



#### Disruption

the disruption new technology is bringing to the market

<sup>1</sup>Half of insurance CEOs see new market entrants as a threat to growth prospects: more than in any other financial services sector and among the highest in any industry: page 4 “Leading from the front: Insurance industry summary”, 17th Annual Global CEO Survey, PwC, Feb 2014 <http://www.pwc.com/gx/en/ceo-survey/2014/assets/pwc-17th-annual-global-ceo-survey-insurance-analysis.pdf>

The survey also concentrates on those involved in marketing, with all its respondents at managerial level and with marketing as their main role or as part of it. If businesses are to succeed, the marketers are among those who should be the closest to customers, where innovation must ultimately have an impact.

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“Innovation is only innovation if the customer can feel it, touch it and taste it. It has to add value to the client. If it is just something that goes on behind the scenes it is not categorised as innovation.”<sup>2</sup>

**Chris McGloin**  
Chair of Airmic, the UK's association for risk and insurance management professionals.

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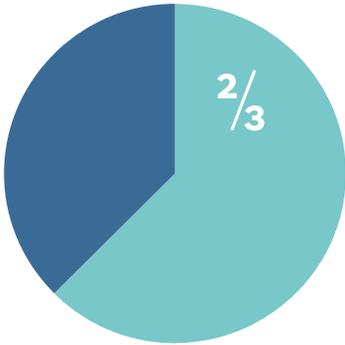


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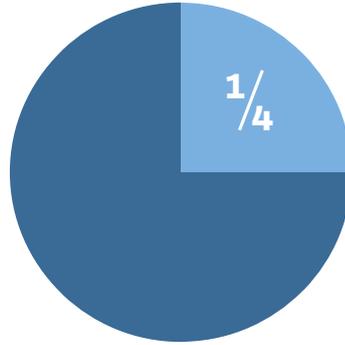
<sup>2</sup>“Data and understanding client needs are key to innovation”, Commercial Risk Europe, 16 June 2014  
<http://www.commercialriskeurope.com/cre/3335/63/Data-and-understanding-client-needs-are-key-to-innovation/>

# Change is coming

The survey shows widespread acceptance of the need for innovation.



> **Two-thirds** of insurance customers are willing to buy cover from organisations other than insurers.



> **A quarter** of insurance customers are willing to buy cover from online providers.



A large majority (**87%**) of all respondents agree the insurance industry needs to innovate to see off external threats and should look to other industries for ideas and inspiration (**80%**). A majority (**53%**) of those whose main role is marketing also say a wave of innovation in products and services is overdue.

These are encouraging findings, particularly the willingness to look beyond the insurance industry for inspiration and ideas. If insurers don't, customers will. A survey earlier this year suggested that two-thirds of insurance customers are willing to buy cover from organisations other than insurers – and almost a quarter from online providers such as Google and Amazon<sup>3</sup>.

Our survey also shows there's little evidence that larger companies are relying on their size to protect them.

In fact, those with over 5,000 employees are more likely (**90%**) than SMEs (**85%**) to see the importance of innovation.

Furthermore, most organisations are willing to pay more than lip service to the idea: **80%** intend to allocate at least some of their marketing budget to innovation in the coming year, with a median proposed spend of **10%** and a maximum of **50%** of the budget. Most (**58%**), though, could not say how much.

***This raises an additional question: Will the budget be enough to ride the impending wave?***

Uncertainty can also be found when it comes to the pace of change outside

of the marketing space. Those mainly focused on marketing were more likely to believe an innovation wave was on the way in the next five years (**60%**) than others (**53%**). Moreover, only **35%** of those for whom marketing is just one of their roles believed innovation was overdue.

Complacency would be dangerous, given the pace of change. Consultant PwC's report earlier this year noted: "Developments that would have taken years to impact the market in the past can now do so in a matter of months. Insurers that are slow to respond could quickly lose business to more agile and innovative competitors, which could potentially be start-ups or companies coming in from outside the sector."

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**“Successful insurers need to be first movers – even fast followers could wind up being marginalised.”<sup>4</sup>**

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<sup>3</sup>Insurance Customers Would Consider Buying Insurance from Internet Giants, According to Accenture's Global Research", Accenture, 06 Feb 2014 <http://newsroom.accenture.com/news/insurance-customers-would-consider-buying-insurance-from-internet-giants-according-to-accentures-global-research.htm>

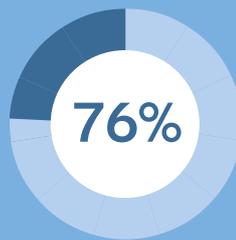
<sup>4</sup> 17th Annual Global CEO Survey, PwC, ibid

## Dynamic delivery challenges

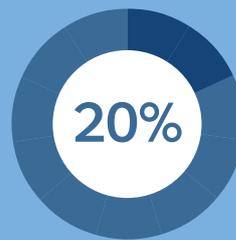
Many existing industry players are probably at a disadvantage in this respect.



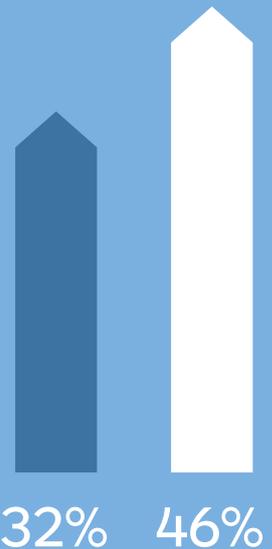
➤ Of Marketing Managers confirmed their companies do take new products to market.



➤ Feel this is not always done quickly enough to keep pace with changing customer demands.



➤ Felt their company never bring new products to market quickly enough.



Many existing industry players are probably at a disadvantage in this respect. While new market entrants can build systems tailored to product requirements and customer demands, the insurance industry is often encumbered by legacy systems that prove inflexible in the face of change<sup>5</sup>.

As a result, while **95%** of marketing managers in our survey confirmed that their companies do take new products or services to market, three quarters (**76%**) feel this is not always done quickly enough to keep pace with changing consumer demands and behaviour. While one in five (**19%**) say their company does consistently manage to do so, just as many (**20%**) say their company never brings new products to market quickly enough.

Perhaps unsurprisingly, large organisations were less likely to reliably get new offerings to market consistently quickly (**13%**) than SMEs (**23%**). This could be due to the fact that larger businesses are more likely to have complex structures, multiple sites and systems reflecting a history of mergers and acquisitions and legacy product lines, as well as more launches.

The survey suggests that insurance industry participants not only need to adapt to customer demands and bring innovations to market more quickly; but also that the products themselves should be more flexible and adaptable to customers' changing circumstances and demands.

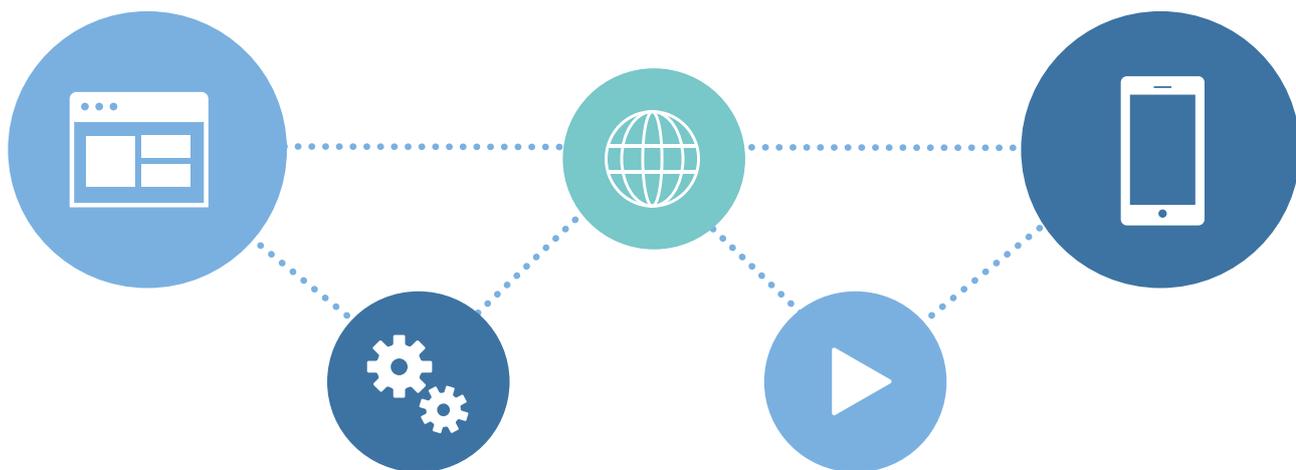


More than three quarters of those asked said insurance products should definitely (**32%**) or probably (**46%**) be more dynamic, adapting to reflect the changing behaviour of the insured in real time.

<sup>5</sup>Winning strategies for insurers, IBM, Jun 2014 <http://www-935.ibm.com/services/us/gbs/thoughtleadership/winningstrategies/>

## Distribution ambitions

Requirements for responsive product launches reflect an increasingly uncompromising customer base. Customers have specific and varied requirements in terms of products and sales channels.



Each will take a unique path through various channels to obtain the cover they desire. This is largely the result of ubiquitous technology that has seen a proliferation of channels, whether websites, aggregators, mobile enabled websites, native apps or social media. As Swiss Re puts it:

***“Today the purchasing journey is fragmented and dispersed across different interaction or touch points between insurance carriers, intermediaries and customers.”***<sup>6</sup>

At the same time customer loyalty seems to be decreasing<sup>7</sup>. IBM’s research has noted that the move has not been to wholesale

disintermediation; customers still value and require advice – even Generation Y or “Millennials” in the US. However, they demand it on their terms, in the way they want, at the time they want, through the channel they want. If their needs are not met, they are quick to switch providers<sup>8</sup>.

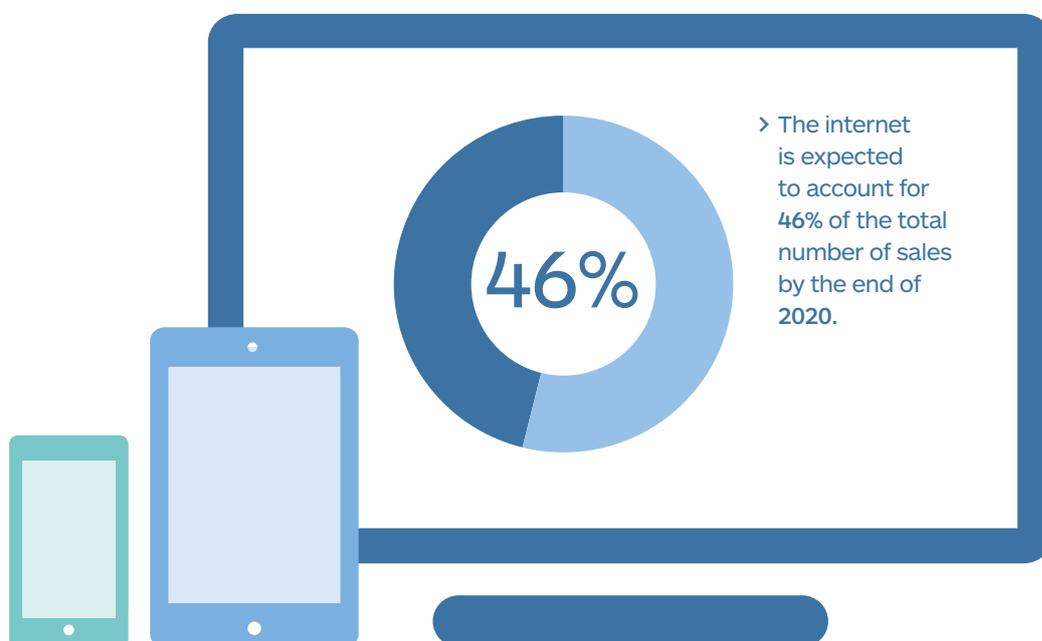
From their move towards direct channels and then to aggregators, customers are increasingly expecting the service and flexibility they are familiar with from the online retail giants outside the industry. Paul Geddes, group CEO of Direct Line Group, which pioneered direct to customer insurance in the UK, puts it well:

“The insurance industry is on the cusp of a third age, a new era when growing customer use of new technologies liberates them to demand a better experience from their insurer.”<sup>9</sup>

<sup>6</sup> Digital distribution in insurance: a quiet revolution, Swiss Re Sigma, Mar 2014 [http://www.the-digital-insurer.com/wp-content/uploads/2014/06/295-sigma2\\_2014\\_en.pdf](http://www.the-digital-insurer.com/wp-content/uploads/2014/06/295-sigma2_2014_en.pdf) <sup>7</sup> The percentage of customers switching insurers at least once in the past two years increased from 32.6 percent in 2012 to 36.9 percent in 2013: Digital reinvention, IBM, Jan 2014 [http://www-935.ibm.com/services/multimedia/reinvention\\_digitale.pdf](http://www-935.ibm.com/services/multimedia/reinvention_digitale.pdf) <sup>8</sup> Digital reinvention, ibid

88%

> Of marketers say at least some of their company's insurance sales will be distributed digitally online in 5 years' time.



## Our survey shows

Marketing managers in the industry are keenly aware of these challenges. More than half (**56%**) say distribution is both the greatest opportunity and biggest challenge they face in the coming year. Distribution channels, alongside product specifications should be a differentiator, according to almost two thirds (**63%**) of those surveyed, and **86%** think a balance between product and channel promotion will be the key to a successful marketing strategy.

To a large extent, marketers believe the future is digital. Almost nine out of ten (**88%**) say at least some of their company's insurance sales will be distributed digitally online in five years' time, against a mere **3%** that say none will. More surprising is the proportion that digital channels are expected to account for. On average, the internet

(whether through smartphones, PCs, tablets or other digital channels) is expected to account for **46%** of the total number of sales by the end of that period, with a median of **50%**. For some, the figure was as high as **95%**.

This looks ambitious considering that, at present, online digital distribution remains limited. Ecommerce sales of insurance trail other industries. In the European Union, Ecommerce represents just **5%** of insurance sales, according to Swiss Re<sup>10</sup>, against **14%** of total sales across all sectors<sup>11</sup>. However, as it points, the UK motor insurance market shows the pace at which markets can change. In little more than a decade direct online motor insurance sales grew to account for **20%** of premiums by 2012, with another **24%** from price comparison websites.

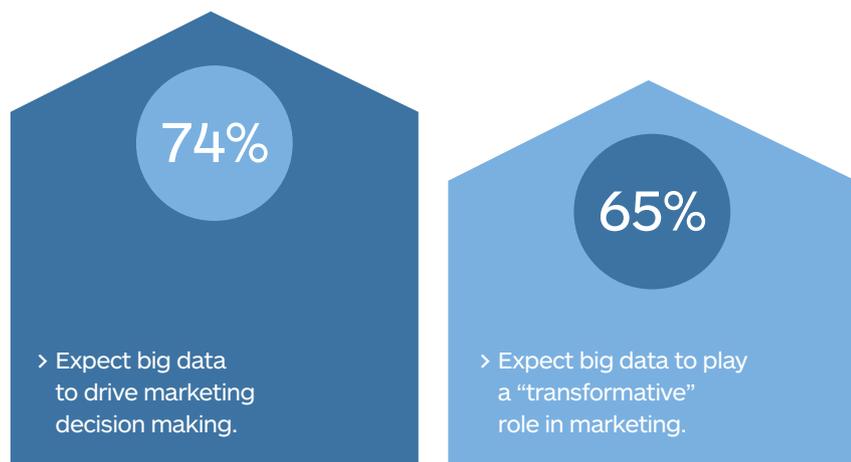
“In all likelihood, new technology will eventually enable customers to arrange almost all of their insurance needs through remote digital channels”<sup>12</sup>

In this context marketing professionals' hopes for digital channels may not be misplaced. However, again, many of the existing insurance businesses are likely to require support to adapt legacy systems not designed with digital distribution in mind if they are to achieve these ambitions.

<sup>9</sup> BIA Countdown: 20 years of general insurance", Post, 10 Jun 2014 <http://www.postonline.co.uk/post/analysis/2348200/bia-countdown-20-years-of-general-insurance> <sup>10</sup> Digital distribution in insurance: a quiet revolution, Swiss Re Sigma, *ibid*, <sup>11</sup> 2013 Community survey on "ICT usage and e-commerce in enterprises", Europa, [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/E-commerce\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/E-commerce_statistics) quoted in Swiss Re Sigma study, *ibid* <sup>12</sup> Digital distribution in insurance, *ibid*

## Making the most of data

Big data is the final piece in this puzzle, helping guide and maximise sales of innovative products through the channels they are developed in.



From tackling fraud and automating underwriting information gathering, to modelling risks and claims prevention, big data has potential to profoundly impact the insurance industry. According to Karen Morris, president of the Insurance Innovation Institute in the US, it is:

*“Potentially the most significant digital-era innovation” for the insurance industry – “Bigger than the internet.”*

Perhaps above all, however, big data offers organisations the opportunity to achieving greater understanding of client behaviours and preferences.

Customer, claims, actuarial, public and social media data, as well as the growing amount of information from the Internet of things, specialist data providers and myriad other sources, offer the potential for unparalleled insight into insurance buyers. Properly harnessed, this can drive development of a truly customer-centric organisation.

This, at least, is the aim of the marketing professionals in our survey. Three quarters (**74%**) expect big data to drive marketing decision making over the next 5-10 years; two-thirds (**65%**) expect it to play a “transformative” role in marketing strategies within just 2-3 years. These figures are consistently high across insurance providers, underwriters and distributors<sup>13</sup>.

Furthermore, the views are not restricted to large groups. The smallest (those with fewer than 100 employees) were less likely to agree, but **81%** of those with 100-249 staff agreed big data would drive marketing decisions, and **59%** that it would have a transformative impact.

Again, however, more support is required to achieve this goal. In total, **70%** of respondents (three quarters of insurance providers and two thirds of underwriters and distributors) called for “significant investment” from the business in technology to drive distribution decision-making. The desire for investment was as strong or stronger in SMEs (**72%**) as in large organisations (**68%**).

<sup>13</sup> 81% of insurance providers, 65% of underwriters and 71% of distributors agreed “Big Data will drive your marketing decision-making over the next 5-10 years”; 69% (insurers), 70% (underwriters) and 57% (distributors) agreed Big Data will play a “transformative” role in your marketing strategy over the next 2-3 years.

## A global challenge

Our research highlighted that the issues raised throughout are global concerns.



3/4

Say a balance between product and channel promotion will be the key to a successful marketing strategy for insurers in **2014/15.**

As a comparison, Target Group also conducted research on a smaller sample set in the Australia and New Zealand insurance industry. The respondents were mostly large businesses (over 10,000 employees) and half were from the C-suite.

If anything these businesses are even more convinced of the need for innovation. Here, three out of four consider the industry overdue a wave of innovation (against **43%** in the UK sample) and the same proportion think the industry must innovate to see off outside competition. None in this sample felt they currently always

brought new products and services to market quickly enough.

Likewise, distribution is seen as the key challenge in the market: three quarters say a balance between product and channel promotion will be the key to a successful marketing strategy for insurers in **2014/15.** Asked what proportion of sales would be distributed online in five years, the answers ranged from **10-20%** to **50-60%.**

## Conclusion

The Four D's presents profound challenges and opportunities to almost every aspect of the insurance business.

Competition from within the market and potential disruption from outside means insurance providers, underwriters and distributors cannot afford to leave these unaddressed.

The innovation wave brings scope and demand for new products, new channels and customer expectations, and the potential for previously unknown levels of insight and analytics regarding insurance buyers. Those that get it right and understand the customers journeys' have the opportunity to tailor products and marketing strategies with far greater accuracy to boost sales and retain valued customers. They will inevitably take market share from those who fail to do so.

This survey shows that marketing professionals are aware of both these opportunities and threats. It also shows ambitious plans. However, it is less clear how well these will be realised in practice. In areas such as digital distribution, new channel configuration models and big data the need for investment is recognised across the business.

Acceptance that the industry faces an innovation wave, however, is stronger among those focused on marketing than those with wider responsibilities. This will need to be addressed.

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The impact of disruptive technologies on the insurance industry requires more than a marketing strategy; it requires a new business model aligned to the needs of the digital consumer and the ability to break free of the restrictions of legacy systems and old ways of working.

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For that to happen, marketing professionals must bring the whole organisation with them. Given the insurance industry's capacity for self-renewal there is good reason to hope they can. Necessity, after all, is the mother of invention. Time, however, is short.

## About Target Group

We deliver software and business process outsourcing solutions to the financial services industry for loans and mortgages, insurance and investments.

Over 50 major financial institutions across the UK, Australia and New Zealand rely on us to manage their lending, investment and insurance portfolios. Over £25bn of assets are serviced on our systems with over 3 million accounts under management.

### Our client base includes companies such as

- Credit Suisse,
- Barclays,
- NFU Mutual,
- LV=
- AA Financial Services.

We employ over 500 staff in offices across the UK, Australia and New Zealand. We have over 35 years' experience in providing software and services that help companies in the financial services and insurance markets achieve innovation, enhance customer service and mitigate risk.

Our industry is constantly evolving – addressing new innovation, bringing new products to market quickly and staying ahead of the competition are all key business challenges, we enable our insurance software clients to operate efficiently with a service that has quality at its core.

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