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Multiline Insurance Market

Transforming through customer intimacy

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The key to steady growth is decisively aligning your organization's resources towards differentiating itself from competitors. During times of positive market growth, organizations can often survive and maintain market positions with imperfect strategy and execution, but limitations and flaws can become greatly magnified during an economic downturn. It is then that organizations can set themselves apart, if they are properly prepared. CMOs and other senior level marketing executives will tell you this is easier said than done, and while we wouldn't argue that it isn't simple, it is possible.

The insurance industry is one where true marketing differentiation has been particularly difficult to achieve, despite the fact that advertising spend from 2004 to 2007 doubled to reach $4.1B.[1] Today multiline insurance companies are finding themselves going head-to-head with a growing number of players including diversified financial services firms such as Bank of America and Wells Fargo as well as value-focused insurance companies like GEICO and Progressive.

Category of Companies	Examples
Single line value players	GEICO, Progressive
Multiline players	Allstate, Liberty Mutual, Met Life, Nationwide, Prudential, State Farm
Non-core players (includes resellers)	Bank of America, Wells Fargo, etc

As one multiline insurance CMO stated during a recent interview for our CMO Agenda study, "right now nobody can articulate the difference between [us and our competitors]." Lack of differentiation coupled with the growth of value driven companies like GEICO and Progressive makes for a very competitive market.

Private Passenger Auto Insurance Market Share 1998-2007[2]

Insurer	1998	2007	% Change
State Farm	19.7%	17.5%	-11%
Allstate	12.4%	11.3%	-9%
Farmers	5.9%	5.5%	-7%
Nationwide	4.3%	4.7%	9%
Progressive	4.2%	7.3%	74%
GEICO	3.5%	7.2%	106%

[1] Insurance Information Institute 2009
[2] Allstate Annual Reports (1998, 2008)

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This lack of differentiation has led to stagnation in growth for multiline insurers, a trend that is only being compounded by current economic conditions. Net written premiums for P/C insurers fell by 1% in 2007 and 0.4% in 2008, the first back-to-back decline since the period of 1930-1933.[3] Through our client experience and industry analysis we concluded the primary reason no one company in the multiline sector has managed to stand out in the crowd is that it would require not only a new way of marketing, but also a redefinition of strategy.

In this white paper, we explore the optimal strategy for multiline insurance companies, the reasons behind it and what it would take to implement this strategy.

[3] Insurance Information Institute 2009

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Strategy Framework

"The worst error in strategy is to compete with rivals on the same dimensions"
– Michael Porter, Harvard Business School

In developing marketing strategy, the underlying objective should be to create an unfair advantage over competitors rather than to combat them head-on. Resources should be invested in strategies that cannot be easily duplicated but sustained over time. In considering the situation facing multiline insurance companies we have chosen to use a framework that outlines three basic "value disciplines" that can create customer value and provide a competitive advantage.[4] They are operational excellence, product leadership, and customer intimacy:

1. **Operational Excellence**
   - Provide products and services at a lower price through superior operations and execution
   - Organization improves operations through increased efficiency

2. **Product Leadership**
   - Optimize research and development to gain a performance advantage
   - Organization emphasizes product development, innovation

3. **Customer Intimacy**
   - Create a differentiated customer experience to gain a customer loyalty advantage
   - Organization excels in customer attention and customer service through customer relationship management

By assessing the insurance industry's competitive landscape against these value disciplines, we can get a sense for which of these strategies are being employed in the industry today and determine where the strongest opportunity for multiline insurers exists.

Theory for Transformation: Customer Intimacy Strategy

"[As a company] we are too focused on competitive response. I try to keep customer focus versus competitive focus. We win if we win the customer. If we focus on the competition, it doesn't help."
– VP of Marketing Strategy at Multiline Insurance Company

Of the three "value disciplines", GEICO and Progressive have clearly camped on operational excellence by focusing on value and convenience. Multiline insurers cannot compete in this area due to cost of operations, nor should they as Porter points out. Product leadership seems

[4] Michael Treacy and Fred Wiersema (1993)

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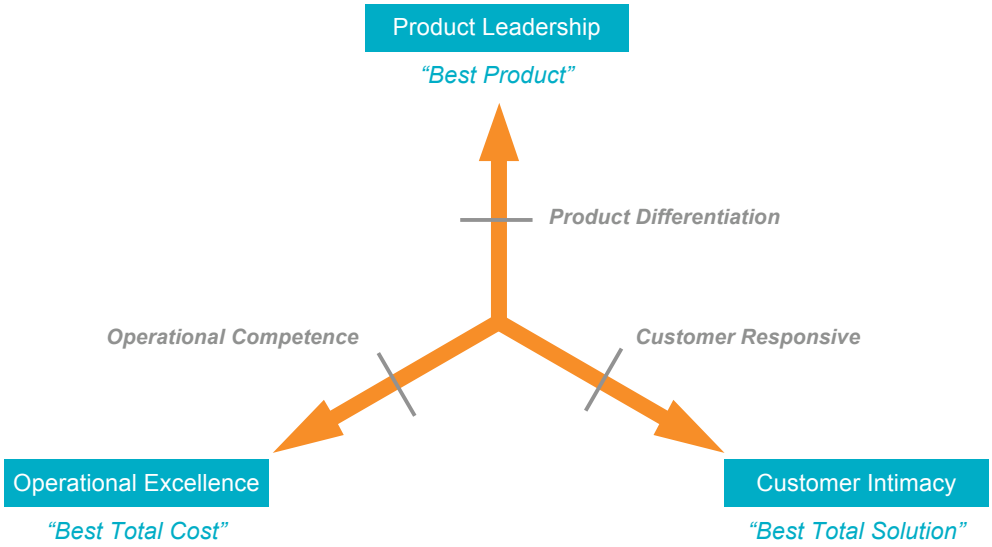
an unreasonable position when you consider two facts: the basic product of insurance is not rapidly changing and there are an overwhelming number of product lines. Typically, a product leadership strategy is best suited for areas like hedge fund models and technical derivatives, where science and technology is constantly changing. In light of the above challenges, we recommend further examination of the customer intimacy strategy.



Consumer sentiment and several attributes of multiline insurers make a customer intimacy discipline the most attractive option. Insurance consumers want more personalized service. In a recent survey, more than 55 percent said insurance policies were not tailored to meet their needs.[5] Multiline insurance companies have the scale, reach, and resources to enact this strategy. More importantly, the large existing customer bases provide a good foundation for developing customer intimacy. But these points can also make it more difficult to enact a new strategy, as it requires extreme dedication to implement changes on a large scale.

The discipline focuses on tailoring and shaping products and services to fit an increasingly fine definition of the customer. Customizing products and services is achieved through customer insight and managing close customer relationships. This can be challenging when competing for customer attention with institutions like banks, which often have more frequent customer contact. But overcoming this challenge and successfully achieving this strategy can result in long-term customer loyalty, long-term customer profitability and increased share of wallet. Loyalty and retention will be critical as net written premiums are forecasted to grow by less than 1% in 2009.[6]

Achieving this strategy discipline will require attention in four main areas: messaging, pricing, organizational focus and the customer experience. The following section details each of these elements with further definition and includes examples, challenges and suggested tactics.

[5] The Store of YOU, US News & World Report, October 27, 2008
[6] A.M. Best 2008

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Part II: Achieving the customer intimacy transformation

For a multiline insurer to successfully pursue the customer intimacy strategy and achieve a defensible position in the market, its marketing will need to excel in the four following areas:

1. Focus on holistic customer-centric messaging
2. Find a defensible pricing strategy
3. Shift focus and power from product lines to customer relationships
4. Build a seamless and differentiated customer experience across channels and touchpoints

While these four elements are critical to achieving transformation, how a company implements this change should differ based on each organization's unique characteristics.

1. Focus on holistic customer-centric messaging

Customers and prospects get to know companies first through their messaging, which makes it an important starting point for the customer intimacy strategy. In general, customers should be front and center in the messaging that is developed. One execution of this is a life-stage approach that focuses on the changing needs of customers for insurance and financial products over their lifetime. A life-stage message allows for a natural conversation and relationship approach and ultimately allows a company to better understand a unique customer's needs and develop the right solution for them.

Customer-centric messaging changes should include the sales channel messages delivered by agents and channel partners. Consistency of message and delivery is vital across all mechanisms and channels to achieve a new position in the minds of new or existing customers.

Example

I was recently in the market for term-life insurance and went to my insurance agent for a quote. The process was fairly cold: how much, what term, health questions. During the process, the agent never asked me one question about why I felt the need for insurance or whether I was choosing the right options for my specific circumstance. In the end, my agent didn't get my business and I purchased a plan over the phone through my bank who engaged me more on my current and future needs.

Challenges

- Insurance is said to be sold, not purchased, which places greater emphasis on the sales process rather than building customer relationships, which makes it easy for customers to be tempted to shop around
- It will take significant time and training to change the mentality of sales channel(s) to focus on marketing to customers based on their needs and not just selling for selling sake is
- Incentives are not typically focused on rewarding customer centricity and loyalty

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- Advertising agency reviews are potentially needed with such a radical shift in messaging
- Adjusting the planning process to be customer focused by requiring marketing campaigns to be justified by actionable customer insight as well as past performance
- Incentives need to be revised to change behavior inside the company and in channels once messaging has been developed
- TRAINING, TRAINING and more training for the agent channel to reinforce the new way of business and sales

2. Find a defensible pricing strategy

In a marketplace where anyone can save you hundreds on your auto insurance, finding a defensible pricing strategy that matches the multiline insurance company cost structure is of utmost importance. An attractive option could be bundling across many products. But bundling several products to offer consumer discounts is not new. In fact, discounts for multiple product purchases have become such standard practice among multiline insurance companies that it has resulted in commoditized offerings, making the customer decision based primarily on price.

To reverse this trend, we recommend that insurance companies offer bundled packages targeted to life-stage customer segments. For example, one bundle could be a "new family package" that includes auto, home, term-life and a college savings plan. This package offers a holistic solution for a customer at the right stage in their life. Through the bundled package customers should save more than on any single product from a single offering provider. This creates a different definition of value, moves beyond just "price" and achieves the desired result of attracting more lucrative multiline, relationship-oriented customers.

Pricing strategies will need to be brought in line with this bundling approach, and more latitude will need to be given to customize packages and savings for an individual customer. This requires new methods that build off of the actuary pricing approaches used today. One example is using the actuary models to identify the "floor" price to not go below for prudent risk management and then layering on top a cross product line revenue/profit optimization solution that is market driven ideally to a finite customer or micro-market level. New sophisticated techniques in econometrics coupled with new computer processing advances make this possible. This pricing strategy can be a competitive advantage for the insurer that successfully introduces this first into market.

Challenges

- Insurance pricing is a well established practice with experts in actuary science that may be adverse to thinking outside of the norm
- Organizational structure and P&L ownership is usually oriented around number of policies metrics versus enterprise customer value

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- This requires cross business unit collaboration or at least a corporate-wide group that drives discounting policy and strategy

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- Analysis of actuary models to understand how a “floor” price can be set at the customer level
- Investigate how products can be deconstructed to achieved for more customization
- Outside partner investigation for revenue/profit optimization tools and methods
- Understand and research customer lifetime value in context of your current customer base

3. Shift focus and power from product lines to customer relationships

From the companies we have spoken to and worked with it is clear that product groups still hold the power inside many multiline insurance companies. They can force marketing groups to adjust how “products” are to be promoted since oftentimes product groups fund marketing campaigns. Unfortunately, product groups drive or influence many of the major decisions that companies make without any customer feedback or research, one of the most common pitfalls of product failure[7]. To achieve customer intimacy, power has to be shifted away from product: this creates the opportunity to ensure the company can offer customers the “best” products for their needs – not just the ones they created.

Many multiline insurers today have adopted, with varying degrees of success, the strategy of creating and offering their customers financial products (e.g. banking, mutual funds) as well as other insurance products. What is lost in the “we build better products” mentality of product development managers is in many cases these products are simply copies of existing offerings in the market. These in-house products add significant costs to an organization with negligible strategic advantage. Take for example banking savings accounts; it is not clear why a consumer would choose an insurance company offering over a retail financial institution like their traditional bank or even CapitalOne or ING Direct.

Following a customer intimacy strategy, product leadership is traded for owning a more intimate customer relationship. The relationship is the currency of value as you “architect” the best solutions for each customer. Through the customer insight gained you can determine the best next product or solution to offer.

Challenges

- Organizational structure and historic product line power dynamics are deeply rooted
- Sales channels are historically seen as a source of tactical execution versus enterprise strategy
- Potential for limited customer feedback mechanisms in the product development cycle

Getting Started

- Competitive review of similar financial products that broadens your competitive set to look at non-traditional threats
- Customer research to understand what needs or hurdles exist for new or replacement products/services

[7] R.G. Cooper and E.J. Kleinschmidt, "Winning business in product development: Critical success factors". Research-Technology Management 39, 4 (July-August 1996)

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- Development of a framework for assessing your product development decisions
- Identify were your company can provide innovative or disruptive products/services to meet customer needs

4. Seamless customer experience

Focusing on customer intimacy and ultimately customer loyalty requires the customer experience to support this relationship. Everywhere a customer looks the company needs to be accessible, easy, knowledgeable and seamless. This will likely be the area of greatest pain for many multiline insurers due to the legacy of their operations, business constructs, and various technology hurdles that exist.

Take the seemingly simple task of writing an insurance policy for a customer. Ignoring the product complexities of auto versus home, many complications still exist in the channel – was it requested online or at an agents office? Was the agent independent or exclusive? Literally hundreds of business rules exist for selling a new policy, which causes delay or hardship to customers as the complex process tracks through to completion. Only USAA was ranked as having a "good" customer experience index in a recent Forrester study that included insurance companies.[8]

In addition to operational issues with doing business, multiline insurers will need to create unique surprise and delight moments throughout the customer experience on which to differentiate.

Example

Recently, I opened a college savings/investment account for my newborn daughter. I picked Scottrade because I had previously opened a brokerage account and was satisfied. Within 4 hours of applying for an account online, the local branch office, one mile away, called to make sure everything went as planned and to see that any questions I may have had were answered. It was a simple yet effective point of differentiation, and I loved it.

I did have one question regarding how to transfer money into the account. When I called the local branch the representative was more than helpful to explain very clearly how I could transfer or deposit funds – she apologized that it was not as easy as the brokerage account I opened and explained that new features were in the works, but explain very clearly how I could transfer or deposit funds. The takeaway is that Scottrade has modified their business practices to improve the customer experience; they understand and acknowledge when they have flaws and give clear steps to resolve the question. This ultimately builds trust and a bond with customers.

Challenges

[8] Forrester Research, Customer Experience Index 2008 which included USAA, AAA, Progressive, State Farm, GEICO, Liberty Mutual Insurance, Nationwide Mutual Insurance, Allstate Insurance and Farmers Insurance Group

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- Agents often control many of the touchpoints, making it difficult to ensure the experience is as consistent as a brand would like it to be
- Developing customer experience requires aligning cross-functional areas like sales, customer support, claims and marketing to focus primarily on resolving issues and serving customers not response times, conversions, and ROI
- Hodgepodge of legacy systems makes integration difficult and keeps different groups from truly sharing information and getting on the same page

Getting Started

- Map the customer experience (touchpoints) and understand the areas of greatest need for improvement; this involves understanding the behind-the-scenes business processes invisible to the customer's eye
- Investigate channels to understand conflicts and look to streamline systems and processes
- Assess backend systems for the level of integration and ability to present a single customer view

Achieving Transformation

Successful execution of a customer intimacy discipline will yield increased customer loyalty and retention, critical objectives for multiline insurers facing declining premiums and a crowded marketplace. Mapping current players in the insurance industry to the three strategy value disciplines of product leadership, operational excellence and customer intimacy reveals a major opportunity: the industry player who can make the move toward a customer intimacy strategy will form a competitive advantage and finally differentiate from the rest of the field in the minds of consumers.

Seizing this opportunity to focus on building long-term relationships with customers requires exceptional leadership to drive sharp focus and execution over a fairly long time horizon. The most important elements for insurers will be in messaging, pricing, organizational focus and the customer experience. Strategy is about trade-offs, and by choosing the customer intimacy strategy you are choosing to re-orient the business from products to customers, which creates a power shift internally that should not be trivialized. While the changes needed to execute this strategy may not be easy, they will be profitable. The multiline insurer who can master the customer intimacy strategy will be positioned to rise above the fray and assume a leadership position in the industry that will pay off for years to come.

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About CMG Partners

Since 1998, CMG Partners has helped clients capitalize on market opportunities and improve business results through the development and implementation of innovative go-to-market, brand, and communications strategies. We work with organizations along the complete continuum of company, product, and customer life cycles, from helping identify, evaluate, and exploit new market opportunities to refining and re-energizing existing businesses, brands, and strategies.

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