For service industries, understanding the customer and maintaining good contact points are probably the most significant success factors. Especially for the insurance industry, an analytics based approach to gaining customer insight is not the norm. More insight is necessary, though, to reach and interact with customers whose behavioral patterns for such interaction are rapidly changing.

To support this effort, the IBM Institute for Business Value and the Institute for Insurance Economics of the University of St. Gallen researched the interaction patterns of insurance customers globally. Ultimately, a greater understanding of their customer base should lead insurers to a different approach to segmenting their customers – one based on psychographics not demographics. Customer interaction behaviors, the segmentation approach and some fundamental observations to start a business case are detailed in the study «Powerful interaction points – Saying goodbye to the channel», which we will briefly describe in this article. The study is based on a survey conducted in 20 countries. More than 21,000 consumers were asked how they interact with their insurers and the specifics of that interaction. Respondents were randomly chosen from a representative online panel and surveyed in their native language. The sample distribution of the study is presented in Figure 1.

Achieving growth in a declining market

The rules of the financial services markets have changed due to the financial crisis of 2008. Connecting to customers is becoming more difficult for insurers. While thirty years ago, agents, brokers and – to a lesser degree – conventional mail were the only insurance communication channels used to search for and sell insurance, today there are many different interaction points consumers prefer and insurers can offer. Technology has become increasingly important as a driver for speed, convenience and choice – customers are making use of their improved empowerment. Provider loyalty is declining, and trust in the insurance industry is at an alarming low.

In this difficult and dynamically changing environment the main focus of insurance providers has shifted from how to cut cost to how to achieve growth. For 90 percent of insurance CEOs surveyed in IBM’s 2010 Global CEO Study, this means enabling their organization to get closer to their customers. This is something of a paradigm shift for the industry. Historically, insurers saw their (actual and potential) customer base through product-tinted demographic lenses. Their aim was less in understanding customer needs to enable better overall customer experience in search, purchase and service, but more to design products tailored to a particular demographic group.

In mature markets, merely selling products is no longer an effective strategy. Insurers have to understand consumer behavior and their – often unvoiced – needs. The question of how to grow becomes one of how to interact effectively with customers. In emerging markets insurers are challenged with how to even reach these customers and how to do so better than their competitors do. Effectively reaching customers may be the first obstacle, but keeping them is proving to be another challenge. In both cases, analyzing how customers interact with insurers is the key.

The authors

Christian Bieck is Global Insurance Leader for the IBM Institute for Business Value.

Dr. Mareike Bodderas is Research Associate and Project Manager at the Institute of Insurance Economics at the University of St. Gallen (I·VW-HSG).

Prof. Dr. Peter Maass is member of the Executive Board of the Institute of Insurance Economics at the University of St. Gallen (I·VW-HSG) and Professor for Service, Insurance and Risk Management at the University of St. Gallen.

Tobias Schlager is Project Manager at the Institute of Insurance Economics at the University of St. Gallen (I·VW-HSG).
How customers search for insurance

As we stated in 2008 in the first joint IBM / I-VW-HSG study, «Trust, transparency and technology», customers have a broad range of attitudes about insurance and want to be treated as unique individuals. In «Powerful interaction points – Saying goodbye to the channel», we verified whether these findings about attitudes toward insurance in general are also true regarding consumers’ attitudes toward interaction with insurers. The short answer: It is. Almost 80 percent of consumers use more than one point of interaction for searching, while 20 percent of respondents say they use more than four different interaction points simultaneously to search for insurance. Our research shows five predominant channels for information gathering: number one is the insurer’s own website (49.4 percent) followed by interaction with the tied agent (47.9 percent) and peer groups like friends or family (46.4 percent). Following closely, we find independent agents or brokers (39.3 percent) and, finally, the websites of aggregators or independent comparison providers (35.5 percent). While the remaining interaction points are being used less frequently (Figure 2) insurers should consider using them since their totals represent substantial potential communication.

How customers purchase insurance

While searching for insurance seems to be shifting to anonymous interaction,
with Internet options listed twice in the top five, this changes in the purchase phase. Here, personal interaction points are overwhelmingly preferred: 31.5 percent chose the tied agent for purchasing insurance, with the insurer website a far third at 16.8 percent. The type of product being purchased may impact this preference as life products are more complex and may require more personal advice. But even for less complex, non-life insurance, the gap between personal interaction and anonymous web interaction is sizable (29.1 versus 20.6 percent). Personal interaction points have another advantage: they have the highest conversion rate from inquiry to purchase. When consumers receive their information from a person – even if the person was only one of several interaction points – 80 percent of them stick with the person for the actual purchase. Websites only held the searchers 30 to 50 percent of the time, with aggregator sites being the least “sticky” of all (Figure 3).

A customer typology

Demographics – the segmentation criterion commonly used by insurers – offer limited insight for predicting interaction point preference and, in some cases, even contradict popular thinking. For example, the age bracket most likely to purchase via Internet interaction points is not the youngest group, <24, or even the second youngest group, 24-34, but the group aged 35 to 44. So, we searched for a more powerful predictor.

We asked our survey respondents questions regarding their general attitude toward insurance and about specific components such as trust, risk, price and advice. Using these data, we developed a typology of six profile segments (Figure 4) that describes our consumer set better than demographics. Price-oriented minimalists, for example, have a 50 percent higher usage of web-based interaction points and 25 percent lower use of personal interaction. Loyal quality seekers are strongly focused on the tied agent, while demanding support seekers use all personal channels heavily. Informed optimizers behave similar to the minimalists, but also use the bank as an interaction point more and the web-based interaction points less.

If insurers know which psychographic segments best describe their customers, they can adopt an interaction approach that matches their customers’ preferences. This fact is more important than ever: previous research has shown that profitability strongly depends on the selection and the number of interaction points applied. It is up to insurers to determine the psychographic spread of their actual customer set. This should be possible with the information available. The questions we used to profile our respondents were fairly simple and straightforward and could certainly be part of a minimum set of customer information insurers collect.

Actions to be taken

The objective of insurance companies seems to be pretty clear: they need to get closer to their customers. How can they achieve that? Here are two options from the list we show in our study:

---

**Figure 3**: Once consumers interact with a person, they tend to stick with that mode of contact for their purchase

**Figure 4**: Customers can be described by one of six profile types
• Intelligently increase the number of available interaction points. Consumers want to use multiple interaction points. An insurer should make it as easy as possible for customers, both current and prospective, to stay within the insurer’s sphere of influence by offering a selection of touch points. Consistent branding, identical information, and the possibility to switch interaction points without losing information are crucial for success. This requires an open and flexible infrastructure with an architecture that allows the addition of new interaction points quickly and seamlessly.

• Improve interaction quality. We found that the quality of an interaction point will strongly determine customers’ satisfaction with and future use of the particular interaction point. Insurers can best find out how exactly to improve quality by asking its customers. This immediately leads to the need for customer data analytics to determine the quality requirements of each interaction point.

The key to succeeding with the points above is flexibility and the smart use of analytics. The world has never been as complex and full of constant and rapid change as today – and the evolving preferences of tomorrow’s consumer are part of this complexity.

Notes