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Growing Customer Loyalty in the Age of Disruption

Conclusions from a study on the Swedish P&C Insurance Industry

The rise of new technologies in the digital age has imposed changing customer expectations across sectors. The customer experiences shaped by interactions from industries in the front line of digitalization has cascaded to placing further demands on laggards, such as the Property & Casualty (P&C) insurance industry.

The insurance sector has a historical reputation for being conservative and product focused, and having profound legacy-dependency, possessing cumbersome balance sheets and lacking a clear vision for innovation. However, the competitive landscape is in a flux. New start-ups driven by technological innovation dubbed "InsurTechs" have emerged with potent innovative power. News is now spreading of new threats appearing from cross-sector product line extensions, including web giants (e.g. Google or Amazon), telecom operators and retailers offering insurance products.

This begs the question as to what will happen to the industry in the future. Although the market size in some of the traditional areas may be shrinking all the while competition is increasing, there are constantly new opportunities emerging for innovative insurers e.g. home sharing insurance, Airbnb host insurance or car sharing insurance. According to the investor guru Warren Buffet, policy premium incomes will drastically decrease in the future. [1] On the bright side, Buffet adds that the increased safety technologies bring will instigate reduced claims costs for insurers.

Customer expectations and technology development have led to the fact that services are more accessible than ever, which simplifies the process to cherry pick providers. Two key questions for insurers in the changing climate is how to become the choice of the customer and how to establish long term relationships with them. The nature of customer relationships and to create business value is manifested in the
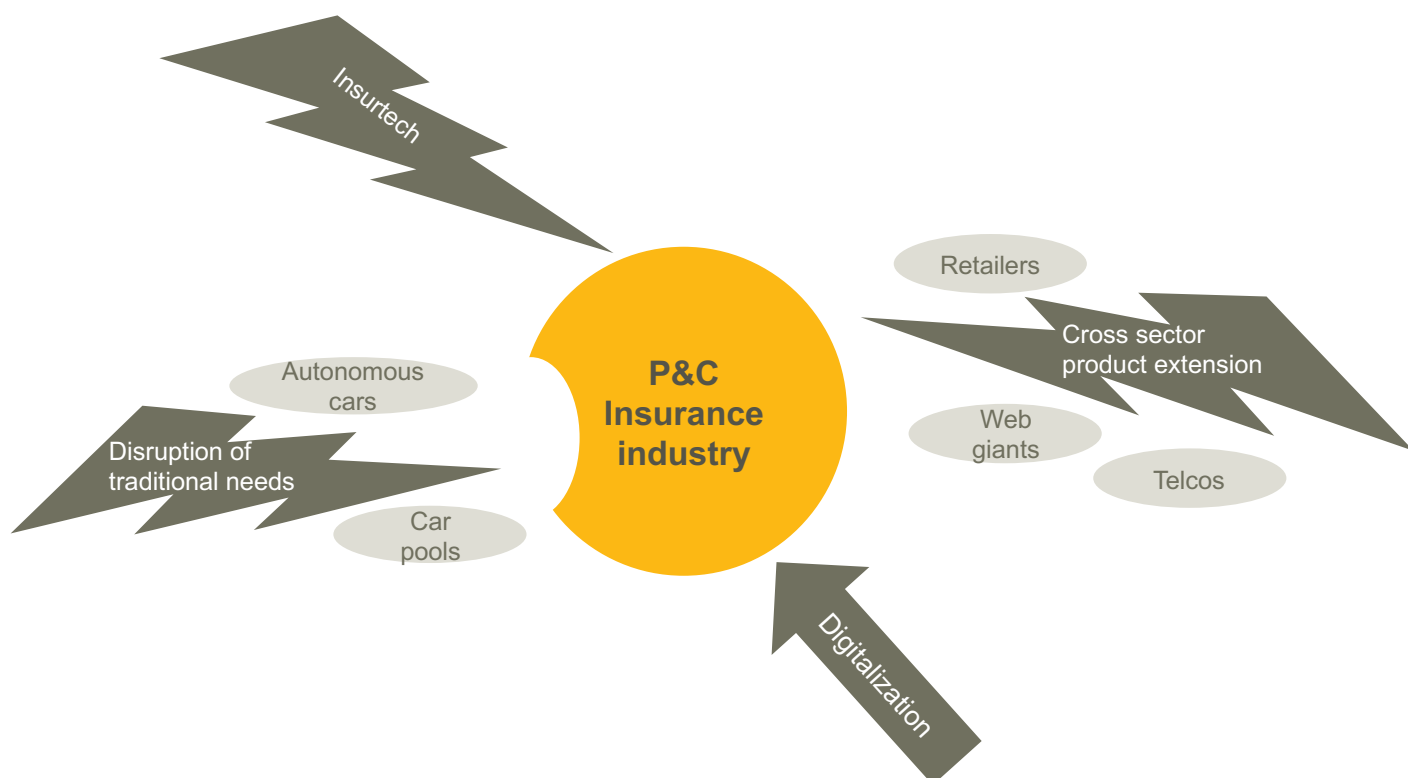
Figure 1 - Threats and opportunities in the traditional Insurance Industry

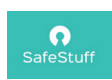|		Enabling technology	InsurTech
Insurance on demand	On-demand insurance provide cover for short periods. For example, during episodic travels or added coverage during a period for their sporting goods. It is enough to send a photo of the item that the customer wishes to insure.	**Big Data/ Machine learning**	tikkr / Hedvíg
Proactive insurance with user-based pricing	A data driven insurance approach where the policy premium is based on the customer's habits and risk profile.	**Telematics**	Paydrive / ENERFY
Policy customization	A digital advisory engine that analyses each customer's individual life situation and makes recommendations on the most suitable insurance terms.	**Big Data/ Machine learning**	INSURANCE SIMPLIFIED
Policy overview	Gathers all the customer's insurances in one place and helps create and manage policies.	**Big Data**	MONO / minatjänster.se / Påmind
Empowering the customer	Helps customers to gather information on their belongings to strengthen their claims against insurers in case of an accident.	**Smartphone**	SafeStuff

Table 1 – A snapshot of InsurTechs in Swedish P&C Insurance

concept of customer loyalty. True customer loyalty is achieved when a customer buys again, buys more and recommends the company.

The longer companies manage to sustain good customer relations, the larger the profit the customer will generate for the company. [2] It is well-known that retaining a customer is less costly than acquiring a new one. [3] Therefore, building relationships to foster loyal customers has never been of higher importance than it is now.

Extracts from the Swedish InsurTech arena

Since 2012, Property & Casualty (P&C) InsurTech start-ups have globally raised over 3 billion US dollars in capital. The US has traditionally been a front-runner in the investment race. However, today the European countries have begun positioning themselves among the P&C startups, with UK and Germany taking the lead. Ranking further down on the global list is Sweden, taking the 15th spot. [4] The InsurTechs are free from cumbersome IT-systems and hierarchical organizational structures, enabling them to take full advantage of the latest technologies as well as having the freedom to design digital processes from scratch.

Looking at P&C insurers with an emphasis on B2C in Sweden, one may identify several different new ways to customize and monitor policies, in addition to shaping new underwriting approaches, as illustrated in Table 1.

Extracts from the Global InsurTech Arena

In the global arena, several new types of players can be identified. One example is EverQuote, an InsurTech in policy customization that matches individual profiles with purchasing patterns from existing customers. Another example is Slice Labs, a start-up within insurance on-demand that sells home insurance providing coverage for theft and vandalism. In the event of customers letting strangers into their home, the policy can be turned on and off by an app.

Additionally, Simplensurance is an add-on insurance solution that enables additional coverage on products purchased on e-commerce websites. Moreover, a new form of underwriting approach that has not yet appeared in the Swedish market is peer-to-peer insurance.

A globally recognizable example of this is Bought-by-many; a firm that uses Big Data to identify niche insurance needs that are difficult to address and consequently builds communities around these needs, such as travel insurances for diabetics. Another example is Lemonade, which donates all profit surplus to the customer's charity of choice. Yet another innovation identified within the value chain is Allstate's claims reporting process, where the customer can register a claim by submitting a smartphone photo of their damaged goods.

No closing of the loop – companies tend to lack the discipline to continuously follow-up on their customer interactions and to feed the results and learnings back into the need to know dimension

Conclusion: many companies miss out on the opportunity to realize the inevitable financial potential of a well functioning Customer Intelligence process.

Challenges in the Swedish P&C Insurance Industry

The industry's experienced challenges to cracking the loyalty code were; creating relevant touchpoints throughout the customer journey, enhancing transparency to gain access to customer data, differentiating, offering lower premiums to disloyal customers, establishing actionable KPIs.

Touchpoint relevance throughout the customer journey

What insurers are asking:
How do we engage our customers?

What insurers should be asking:
What digital technologies can support customers to engage in proactively minimizing risk?

Many insurers emphasize the difficulty to increase the number of customer touchpoints, which is a result of the 'low interest' nature of insurance products. Meanwhile, the industry participants experience that the interaction-heavy segments are the ones with the highest churn rates. This points to the fact that an increased number of touchpoints is not necessarily better, rather the focus should be directed at creating value in the relevant touchpoints that benefit the customer.

Is it worth an insurer's while to spend the extra time to email educational guides on how to switch tires on their cars, or should the customer automatically receive a push notification with the question on when they would like their car picked up for a change of tires? Is it better to send an email to remind the customer of checking for water leaks in the basement, or is it better to have a sensor that notifies the customer when the risk occurs?

Transparency is key to customization

What insurers are asking:
How do we make our customers share their data?

What insurers should be asking:
What interactions need further transparency to build customer trust?

With customer demand for customization constantly increasing, access to customer data has never been more important. Customer data is not only a facilitator of customization; it also facilitates a more precise premium setting. Therefore, data gathering and analysis, ought to be a priority for all insurers. Building trust by being transparent is essential to convincing customers to share their data. According to the Swedish Quality Index (SKI), consumer trust for the insurance industry is increasing [5]. However, one should keep in mind that consumers are likely to forgive companies for making mistakes, but not for being dishonest. For instance, not engaging in price aggregators and other comparison sites can cast doubts on the company's commitment towards being transparent, which is instrumental to trust-building.

The differentiation challenge

What insurers are asking:
How can we differentiate?

What insurers should be asking:
How can we be part of or build an ecosystem that creates new customer value?

Many insurers struggle with conveying the content of their policies to the customers. While incumbents have a hard time getting customers to understand the additional value that their policies contain, InsurTechs struggle with making customers understand how their new, innovative technological solutions works and how

they can add value. The issue of customers not understanding the products reduces insurers' ability to differentiate, creating a market where price is the main competitive point. Several efforts to differentiate have been registered amongst incumbents; yearly dividends from profit surplus, deductible reduction accounts that are supplied if the customer stays free from damages, discounts on products at i.e. DIY-stores or on home alarm systems, free digital veterinarian care for customers holding a dog insurance, free download of a software that measures the consumer's health and from that data provides tips to increase well-being by making small everyday efforts or convenient private car lending and automated driving journal administration. What we see is that incumbents have a tendency to make quite ambiguous efforts that can be irrelevant to the insurance product, whereas the InsurTechs differentiation efforts are highly related.

Stop rewarding disloyalty

What insurers are asking:
How can we make the customers stay?

What insurers should be asking:
What can we do to reward long-term customers and stop rewarding yearly price bargain hunters?

A few insurers highlighted that incumbent insurers rarely make a profit from a customer during the first two years, emphasizing the need for loyal, long-term customers. Meanwhile, it was explained that customers are frequently tempted to change insurance provider through offers with unsustainably cheap starting premiums. This approach of attracting new customers is used by the vast majority of insurers and constitutes a great threat to customer loyalty across the whole industry. This practice creates a setting where customers who frequently change their insurance provider receive lower premiums.

Key Performance Indicators (KPI) to monitor loyalty and identify sales opportunities

What insurers are asking:
How can we sell more to current customers and reduce customer churn?

What insurers should be asking:
What KPIs do we need to develop in order to monitor customer loyalty and sales opportunities?

There is a missing link between how insurers define customer loyalty and how they measure it. The three most expressed KPIs to measure loyalty are churn, retention and customer experience. None of the companies studied separate the customers who actively decide to renew their insurance from the ones that passively continue being customers. Not separating the two groups will provide KPIs misrepresenting loyalty. When it comes to increasing sales and repeat purchases, very few insurers mention share-of-wallet as a KPI that is being used.

Size-of-wallet is a metric to illustrate the total amount a customer can spend on a specific product category (e.g. P&C insurances). Share-of-wallet is a metric that illustrates what percentage of the size-of-wallet is spent at a particular company (e.g. what percentage of the total customer spending on insurances is spent at company X).

The metric can help companies identify specific sales opportunities with existing customers and can also help identify needs with prospect customers through twin analysis. By not using share-of-wallet as a standard KPI, insurers risk missing out on untapped sales opportunities. Insurers who include this measurement could potentially increase their sales at relatively low cost.

Future possibilities

Several opportunities are rising and we see a bright future for both incumbents and InsurTechs. However, there are some essential efforts that the Swedish insurers must safeguard in order to meet their current loyalty challenges.

1. Earn the data

Deserve access to customer data by building trust and being transparent. As personalization and accurate policy premium setting are enabled by customer data, the need for insurers to facilitate customer willingness to share data is continuously increasing in importance. Luckily, there are solutions in the market that can help promote risk-proactivity, enhance customer engagement and automatically gather customer data - for example, application of new technologies, such as Internet of Things, which in turn can yield tailored policy content and premiums. In other words, create a win-win situation for both the customer and the company. ctioning Customer Intelligence process.

2. Measure what you define and act on what you measure

By using the right combination of KPIs, insurers can gain a better holistic view of customers' loyalty and also help insurers differentiate between latent loyalty and active loyalty. This distinction can help facilitate and enhance new value offerings towards the actively loyal customer and additionally enable insurers to identify the real needs to grow loyalty amongst customers with a latent loyalty.

3. Make customer-centric innovation efforts

With new innovative InsurTechs disrupting parts of the industry and gaining foothold

in niche customer segments through new technology and customer approaches, it is time for traditional players to focus on innovation. However, resist to innovate for the sake of it! Ensure that all technology developments add value in one or several touchpoints of the customer journey. Three approaches for incumbents to innovate have been identified:

- Create in-house innovation centers like Länsförsäkringar Skåne's Lfant AB or Folksam's Future Lab.

- Partner up with an InsurTech like Moderna försäkringar and Greater than (Enerfy) or Gjensidige and Paydrive.

- Invest in startups with digital expertise like Länsförsäkringar AB in Aifloo.

With the altered industry climate, with new offerings enabled by innovative technology and customer centric solutions, the need for traditional insurers to treat loyalty like royalty has never been greater.

Customer-centric decision making

There is a big difference between speaking of how important customers are and to strategically putting the customer at the center of the business. There was a consensus throughout the interviews that the industry is in the middle of a paradigm shift, from being product focused to becoming customer centric.

For example, an average claims processing of a common item (e.g. cellphone) can range from 1-7+ days. In this case, company A has installed automated claims processing and manages to handle a claim in less than 2 seconds (after the customer filled out a form). A competitor, company B has removed the administrative work to fill out the claim form by having the customer tell a robot what happened, that in turn can provide the necessary information to automatically process the claim. Looking at the overall customer journey with company A and B, company A facilitates a speedy journey, however, company B makes the overall customer journey of a claims process more effortless. Which will the customers value the highest?

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Whitepaper
Growing customer loyalty
in the age of disruption

This study was conducted by Differ Strategy Consulting AB together with master's students in Management and Economics of Innovation at Chalmers University of Technology. The research aimed to understand the perceived challenges for Swedish Property & Casualty (P&C) insurers to harness customer loyalty in the day and age of disruption.

The research was conducted during the first semester of 2018 and is based on 10 in-depth interviews with CEOs, founders or managers of digitalization or in customer relationships at Swedish insurers. The sample included both traditional incumbents and new technology driven start-ups (so-called InsurTechs). Besides the interviews, extensive desk research has been conducted.

We have had interviews with represent-atives from the following companies: If, Länsförsäkringar, Trygg-Hansa, Folksam, Svedea, Dina Försäkringar, Gjensidige,

Paydrive, Greater Than and Hedvig. Thank you all for sharing valuable insights from the Swedish Insurance Industry.

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Authors

Ellen Broström,
Master thesis
Chalmers Univerity
Gothenburg

Viktor Bengtsson,
Master thesis
Chalmers University
Gothenburg

Frank van Gelder
Partner, Differ

+46 72-584 71 82
frank.van.gelder@differ.se