# WHO IS THE CUSTOMER?

## A simple question for a complex insurance world
By Karl Deutschle

**The customer is king. That's the simple truth that is reshaping the insurance industry. Established insurers now have to ask themselves some simple questions about who their customers actually are, what they want from their insurer and whether or not their needs are being met.**

There's no one trend that is causing this, instead a number of different developments are reshaping the market. However, all of these changes come down to the customer. Success and failure comes down to how well you know what the customer wants and how well you deliver it.

### AN INDUSTRY READY FOR DISRUPTION

We're certainly seeing a lot of concern within the industry about how vulnerable established players are to disruption. In our recent Annual Global CEO Survey, insurance CEOs were the second-most likely to describe their industry as facing major risks to growth, behind only entertainment and media and ahead of a range of industries like banking and capital markets, healthcare and asset management.

What is really interesting here is that entertainment and media has already been through a period of incredible instability – it was one of the first to feel the influence of new digital distribution models that have dislodged many industry heavyweights. In insurance, this hasn't happened yet, but CEOs are clearly aware of this possibility and are preparing for an uncertain future.

So where are these risks going to come from? According to our findings, the speed of technological change, shifts in consumer spending and new market entrants were all high-ranking risks to growth that CEOs are concerned about. In New Zealand, each of these risks will continue to play out in the market and are areas where insurers will have to respond accordingly.

### THE GENERATIONAL SEA CHANGE

Thanks to the growing availability of connected technology, the younger generation of insurance buyers are more selective, more comfortable researching products for themselves and making their own decisions about the level of cover they require.

Of course, these same tools are available to every generation with an internet connection, they aren't unique to younger people. What's different with younger customers is that they don't have an established relationship with a major provider or broker who has provided them with cover in the past. This lack of loyalty, coupled with the easy access to information on different insurance products, presents a significant challenge to existing business models.

It isn't just this new generation of insurance customers that companies have to manage in coming years, they will also have to manage a new generation of technologies that consumers are enthusiastically investing in. Driverless cars, for example, for example, are the subject of widespread public interest, but they will also have important insurance implications that could easily challenge the industry's existing business models.

### TECHNOLOGY WITH A HUMAN FACE

One of the trickiest developments for insurers to navigate is meeting the need customers have for more personalised service, at a time when insurers are putting more resources into automating their processes and relationships with clients.

There's a paradox here: insurers have to become both more digital and more human. Resolving this means putting more resources into customer-facing technology and a greater investment into services that are engaging, personalised and exceed customer expectations.

The good news is that CEOs are already aware of what they need to do to deliver a better experience for their customers. When we asked what technologies CEOs are investing in to engage with stakeholders, the two most popular responses were data and analytics and customer relationship management (CRM) systems, both of which are necessary to deliver a more personalised experience to clients.

At the same time, talent has come to the fore as a major area of investment. The "war for talent" is certainly something on the minds of insurers, with 53% focussing on their leadership pipeline and 50% investing in their internal culture and behaviours in order to become more competitive. These very human investments are necessary to complement the increasingly data-driven reality for modern insurers and build a compelling value proposition that truly resonates with customers.

### INSURING IN THE AGE OF THE CONNECTED CUSTOMER

If we look past the current state of the market and towards the future, one of the key trends we are seeing is that insurance customers will be producing more information than ever. This presents a very clear opportunity for insurers to provide a truly personalised experience that harnesses this new wealth of consumer data. To capitalise on these emerging trends, insurers will have to invest now in areas like analytics and CRM systems that can handle this volume of data and convert them into improvements in customer service. In the coming years, products like wearables and connected cars will also increase the amount of data that is relevant for insurers and can be used to develop more personalised cover.

It isn't enough to simply gather data though, and the next step for insurers will be to apply this knowledge to the policies they offer and the way they develop the risk profiles of their customers. In 2016, many insurers will already be collecting more data than they know what to do with, so while the future holds a lot of promise, it also requires a major investment in new capabilities.

Insurers will also face a range of privacy issues that come with using personalised information – concerns that the industry hasn't had to deal with to the same extent in previous years.

Clearly the notion of the connected customer will dominate over the coming years and will demand a significant investment in infrastructure. However, companies that don't make these investments will run a much greater risk: disruption from new FinTech companies.

### THE FINTECHS ARE COMING

Within financial services, insurance is currently not as exposed to the FinTech revolution as other areas such as banking and capital markets. In fact, our recent Global FinTech Report found that only 26% of our respondents feel property and casualty insurance/life insurance will be disrupted by 2020, compared to 80% in consumer banking. However, this doesn't mean there aren't hungry smaller companies within the sector who will position themselves to offer a better customer experience than current market leaders. Even if this disruption doesn't occur by 2020, new FinTechs still pose a major challenge to established insurers, especially those that don't invest in understanding their customers.

When we look at where this disruption comes in, it's no surprise that we return to the customer. The two areas where FinTechs are making the biggest difference in insurance will be around self-directed services and granular risk and/or loss quantification. In other words, the customer will be in control, and they will be receiving services that are carefully tailored to their needs. FinTechs will be looking to exploit these weaknesses in the current market, which is why they also have to be a point of focus for established players in the market.

### BECOMING A CUSTOMER-CENTRIC INSURER

Clearly the insurance sector is facing a period of significant change, driven by evolving customer demands, new technologies and the threat of the disruption from new FinTechs.

We've also started to see how insurers are responding, as insurance CEOs place even more importance on data and analytics, CRM systems and social media.

However, the change that the industry demands is more than just becoming more technologically driven, it also requires a more fundamental shift in the culture of the insurer to put the customer at the centre of the business. New technologies have great potential to help achieve this shift, but they are just one part of the equation.

The leaders of New Zealand's insurance companies have to start with a strategy that is truly customer-centric. From there, they can begin to implement the technology and develop the internal expertise that is required to turn this strategy into a market-leading position.

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