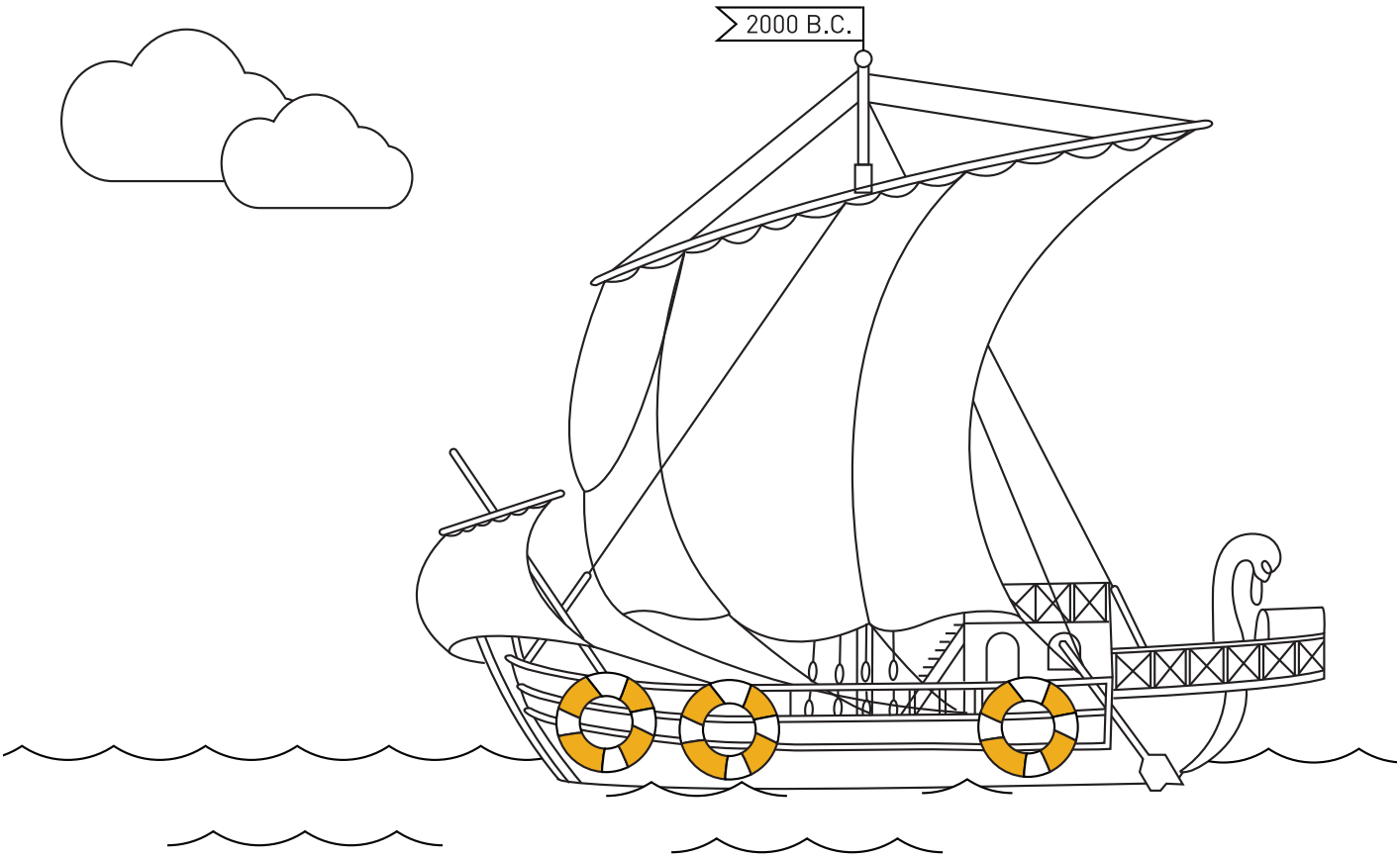
SAP Hybris

Insurance – Coming of Age in a Digital Future



Risk has been a part of the human experience from the beginning, and the urge to control and mitigate risk through insurance goes back thousands of years. The first known insurance policy was written circa 2000 B.C. and protected shipping merchants from their creditors. If the voyage was successful, the merchant paid the lender with interest. If the ship was lost, the loan was forgiven.

Likewise, life insurance is nothing new and is thought to have been with us since 100 B.C., when Caius Marius a Roman military leader established a "Burial Club" for his men. In the not so unlikely event that a club member was killed, club dues would pay for funeral expenses and a proper burial.

By comparison, home insurance is "new" having originated only after the Great Fire of London in 1666 that burned 90% of the city's homes to the ground.

We could go on further but the point is this: wars have been fought, empires have risen and fallen, and technology has advanced from wooden ships that sailed across the seas to spacecraft that have sailed beyond the solar system. But until quite recently, insurance has always been a business of people.

A business relying on insurance agents with years of experience working with customers they really knew: not just policy holders, but people. People who lived in the same towns and shared the same experiences as the insurance agents themselves. They might have gone to the same school, or maybe their children played on the same sports team. More often than not, the insurance agent was recommended by family or friends. When discussing insurance needs, the agent knew the customer well enough that with just a few questions, the agent could recommend and offer precisely the right insurance for that client.

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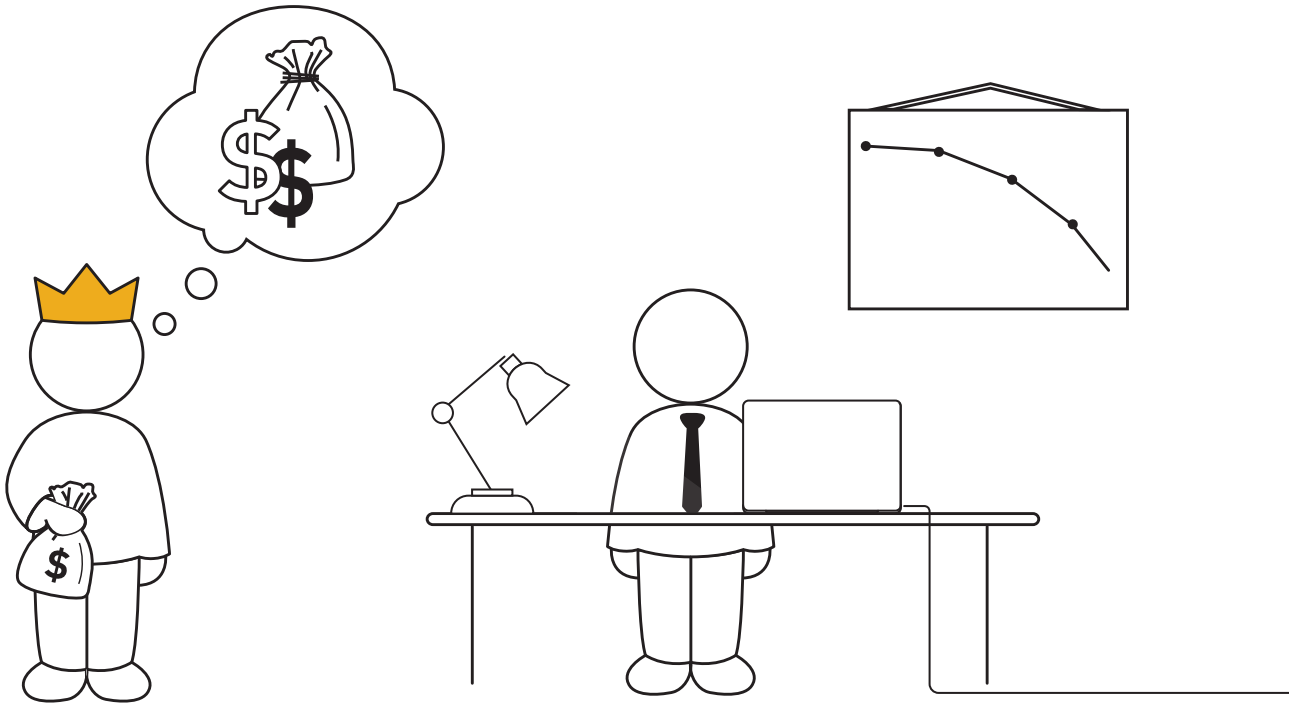


That agent was the customer's single point of contact and their "Jungle Guide" should anything go wrong. Every interaction contributed to customer understanding and every discussion was personal and in the context of the moment. The experience was engaging and real-time. No one ever thought much about it in those terms of course. That's the just the way it was.

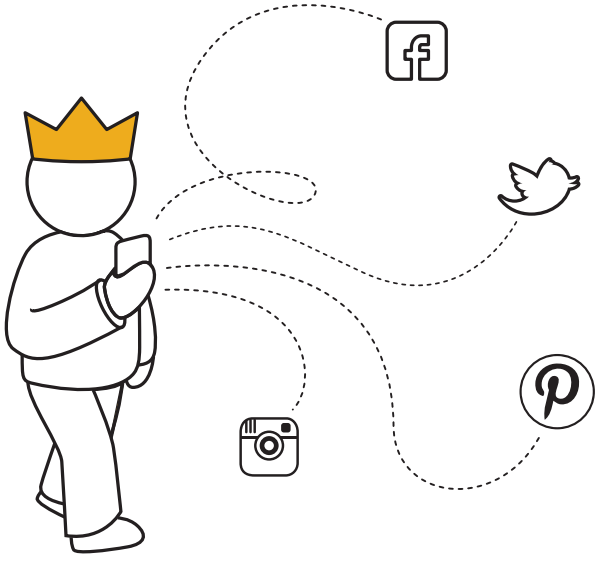
For both the agent and the customer "life was good" and the processes simple, but then technology changed everything. Using technology, insurers found they could gain competitive advantage by optimizing processes and creating efficiencies of scale. Through this strategy, insurers did indeed become more efficient, but they also became less personal. This new model, with efficiency at its core, shifted the balance of power towards the insurer and began a growing customer disconnect and an erosion in understanding and trust that had lasted 4,000 years.

Without the personal ties to their trusted insurers, customers quickly sought their own economies. Armed with the internet, customers with just a few keystrokes could quickly compare competitor rates, ask their friends for recommendations, or read online comparisons and reviews. What's more, they could do it through multiple devices at any time of day or night. The balance of power had shifted again but this time towards the customer, and the customer - not the insurer - now holds the power.

Challenges

Reimagine Business Models

New entrants, customer demand – especially the attitudes and expectations of the "millennial" generation and the huge opportunities out of new technologies disrupt the established insurance insutry business. We see insurers redefining their business models and restructuring the value chain.



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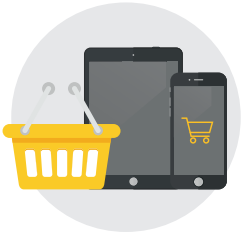
TO TAKE BACK THE INITIATIVE AND TO SUCCEED AND WIN IN THE DIGITAL ERA, THERE ARE FORMIDABLE CHALLENGES:

The New Customer Journey - In the digital world, customers travel their own road, at their own pace, on their way to a buying decision. Each customer journey is different, each is unique and each is unscripted. Linearity in these journeys is a rarity, invalidating traditional "AIDA" models. Insurers struggle to understand these journeys and add value to them.



Smarter and more Informed Customers – Driven by experiences with other retail sites, customers now educate themselves through the web and routinely comparison shop for insurance online. They read the insurance experiences of others and write reviews of their own. They can and do ask for recommendations on social media sites. With so much information available from so many sources, customers are simply smarter and more informed than they were before, and they are less likely to accept higher premiums without a clear and commensurate increase in value.

Engaging, Personalized Experiences – With agents no longer the sole or even primary customer interaction channel, the ability to personally engage with customers is limited. Dated technologies are unable to understand the client across information silos let alone augment that picture with external data. Batch analytics prevent a real-time personalized experience at point of contact.

Pressure on Margins – Margins are pressured from both internal and external forces. External factors include market commoditization and comparison sites which keep premiums at rock bottom. Returns on premiums suffer due to low fixed income returns.

Internal factors include breakdowns in end-to-end processes, most typically across application silos and channels.

Changing Business Model – Incumbent insurers are threatened by innovative insurance companies that are able to expand their business model through partnerships with goods and services providers. These providers deliver added customer value to policy holders while successfully monetizing the customer base.

It seems clear from these challenges that a transformation is needed to provide a better customer experience that is more centered on adding customer value. It also seems clear that with the diminished role insurance agents now play, customer understanding and insight must come from data and the ability to leverage it in order to provide a real-time contextual and personalized customer experience.

Will that change to technology fully replicate the personalized experience that agents once provided? Probably not, but in a hyper competitive digital marketplace, perhaps that isn't really the point. Perhaps the point is to be better than the competition.

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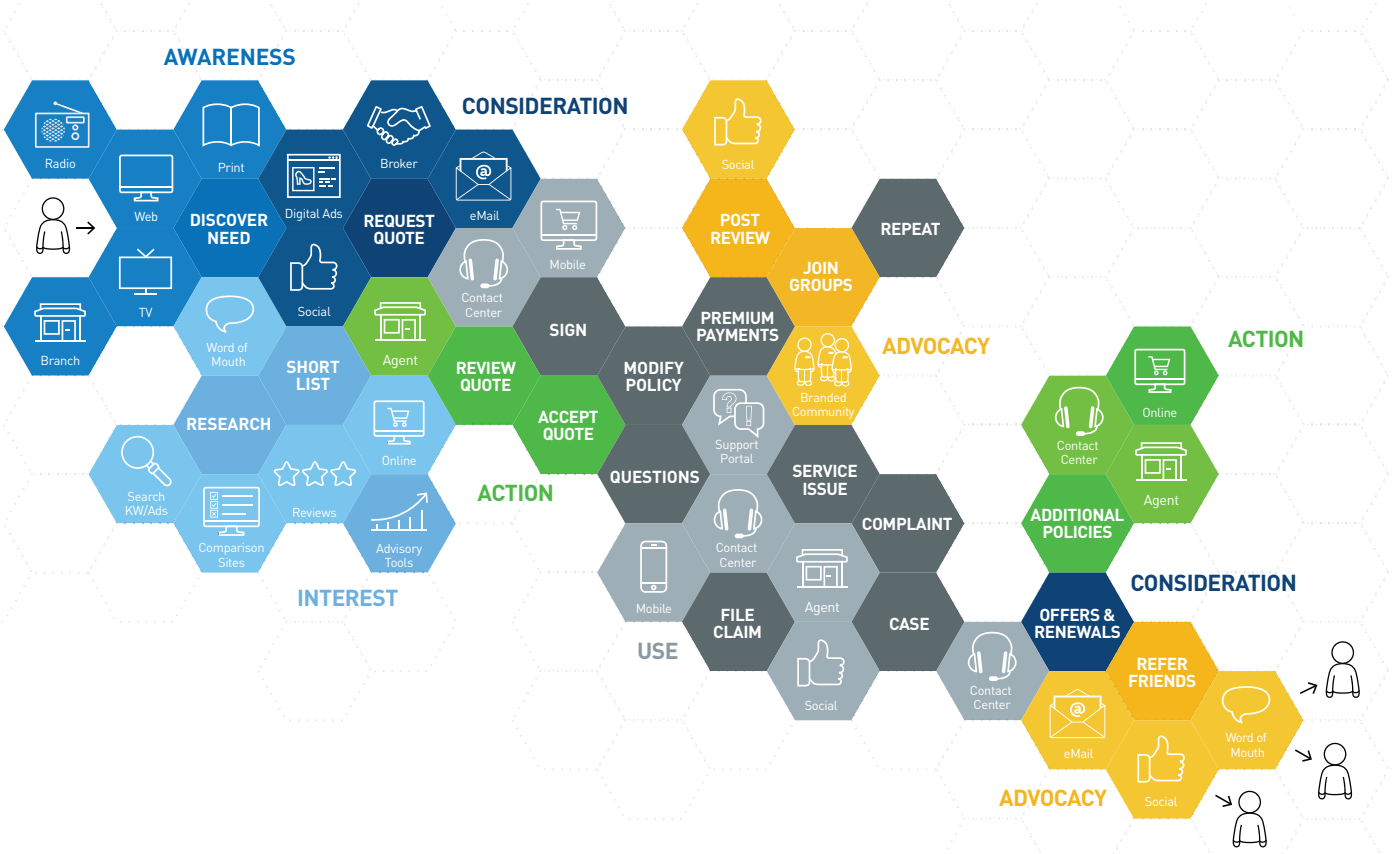
It reminds us of the joke about two gentlemen on safari. When they see a lion running towards them, one frantically starts to put on his running shoes, while the other quite astonished, says, "What are you thinking, you can't outrun a lion!" To which the first replies, "I don't have to outrun the lion, I just have to outrun you!"

The New Customer Journey

So what might the new customer journey look like? Let's imagine a young millennial named Meagan on her auto insurance buying journey.

It's been a good year for Meagan. With a promotion, pay raise, big bonus and all, life is good and she's in a mood to "upgrade". First on her list is trading in that old beater of a car she's been driving for something that's a little more fun. She's seen what her college friends are driving on Facebook and she's liking the looks of the new German sports cars. After researching different automobiles online, she decides to make the plunge. Her new car will be ready and delivered in two weeks.

Meagan knows her auto insurance is going to cost more, but before she worries too much about that she logs onto Facebook to share the news about her new car. While she's there, she decides to ask for their advice on car insurance. It's no surprise her friends have opinions, and she makes a mental note to have a look at their recommendations later.



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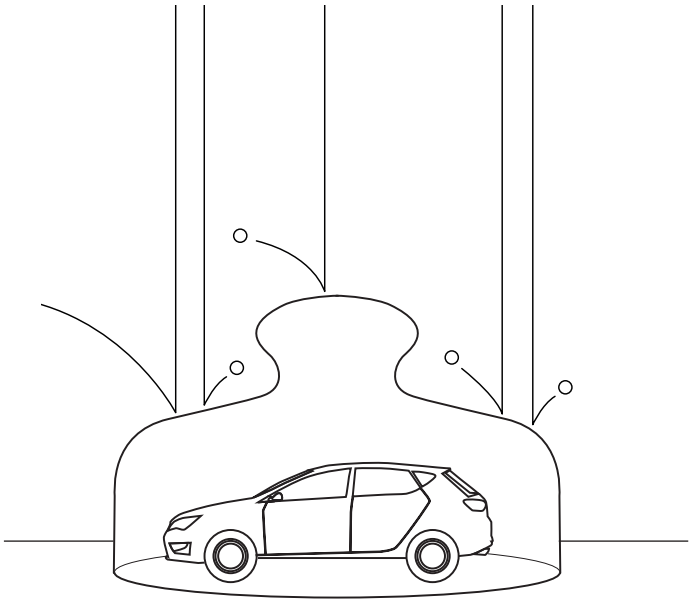
On her train ride into work, Meagan decides to investigate what her current auto insurance company, Auldway Insurance, would charge and navigates to their website using her tablet. The site seems a bit hard to navigate, but she finally finds the right page and begins to enter the information needed for the quote. Before she can finish however, her train ride ends and she has to abandon the process. Later on, she decides to complete the task on her notebook. It looks different than the tablet, and the navigation doesn't work the same way. When she does get to the page, she has to start the quote process again from scratch. She's annoyed at this, but goes ahead and re-enters the information and submits the quote.

The following day she receives an email quote on her smart phone. It's way more expensive than she thought, so she decides to do some research on line. Smartphones are not the best for online browsing, so she goes back to her tablet. She Googles "insurance comparison sites" and is presented with several choices. She picks one where she can check the rates of multiple insurers at once. Meagan likes the simplicity of the site, and that she is not required to give out her personal information.

She enters the information requested and reviews the different premiums insurers are charging for her new car. Auldway is on the high end of scale, and Meagan wonders if maybe she has been overcharged on her current auto policy all these years. Any loyalty she had to Auldway is rapidly disappearing. Getting back to the web site, she skips over the insurer with the lowest quote due to poor customer reviews. She doesn't want the aggravation.

Next, she notices a cluster of insurers with similar rates and finds her home insurer, NewFuture Insurance, in that cluster. Although she has never filed a claim with NewFuture, she's always liked them. Besides insuring her home, she likes the fact their website offers advice on not only insurance, but on home repairs, even going so far as to suggest local contractors and offering discounts at nearby hardware stores.



From the comparison site, she clicks on NewFuture link, and is presented with a simple clean interface that reminds her more of her favorite online shopping site than what she would expect from an insurer. The site recognizes Meagan as an existing customer and asks her to login to confirm. When she does, the site greets her and reminds her of how much they value her home insurance business, and that they would love to have her insure her new car as well. Meagan likes that tone and starts to complete the information for a formal quote. She's pleased to discover that a lot of the information needed has already been filled in for her. When she's done, she immediately sees gets a quote on how much the insurance would cost. She's pleasantly surprised to learn that the NewFuture quote is now less than what the comparison site showed as long as she continues her home policy with NewFuture. Although she is happy with the quote, she wonders if she can get a better deal and leaves before accepting.

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NewFuture immediately notices the abandoned quote and sends Meagan an email to see if they can answer any questions or help in some way, but Meagan doesn't notice it. She's busy looking at the other quotes and researching the insurance companies her Facebook friends recommended. She sees a couple of her friends have recommended NewFuture.

Taking a break from her research, Meagan notices the email from New Future and opens it. Besides the offer to help, the email has a picture of her new car along with links to articles on proper maintenance and auto accessories she might want. Meagan likes the personalized attention from NewFuture, but as a final check she goes back to the internet to read the reviews of NewFuture Auto Insurance. Most of the reviews she sees are good, but "uh oh" here's a bad one. Meagan clicks on the bad review about a delay in processing a claim and reads it. She also notes that NewFuture responded the same day with a possible solution and an offer to help. At that moment, Meagan makes the decision to use NewFuture.

She goes back to the email and decides to call NewFuture directly to get her new policy issued in time for her new car delivery. When the agent picks up the call, he quickly pulls up the quote that Meagan filled out earlier and, in short order, the deal is done. Meagan's new car will be insured by NewFuture.

The next day she receives confirmation of her new policy and a welcome package which contains coupons to a local car detailer. Meagan is thrilled with her experience at New Future and says so to all her friends on Facebook.

Although Meagan's customer journey was hers alone, NewFuture was able understand that journey and add value through a simple, personalized and seamless experience that made her life better. As a result NewFuture was able to expand their business with Meagan. In comparison, her old carrier made the customer journey more difficult as Meagan crossed channels and had to re-enter information that Auldway already had at their disposal.

While this journey was exclusive to Meagan, the elements that made it possible were not, and these elements are what we see as best practices in the industry today.

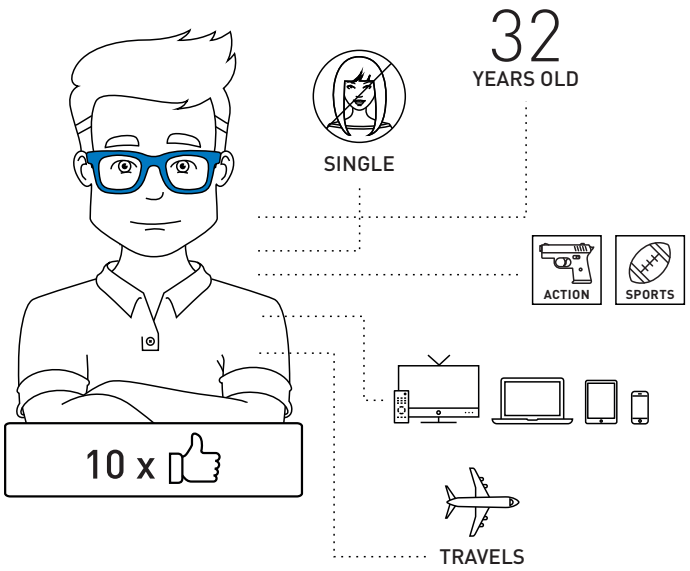
Best Practices

LEVERAGE INTERNAL AND EXTERNAL, STRUCTURED AND UNSTRUCTURED DATA

While the traditional focus has been on internal structured data (coverage, risk, premiums, etc.), it's hard to understand customer intentions and their context from that data alone.

Other types of data, including unstructured data, must be considered in order to understand:

- → What insurance ads and web pages were visited and by whom? Did you know the same anonymous customer looked at home insurance premiums three times?
- → What the customer did on your website before logging in?
- → Customer sentiment. What do your customers say about you? Did you know your customer is an advocate for you on social media?
- → Ten "likes" on Facebook creates a customer profile equivalent to all historic data out of core insurance and CRM systems
- → Your customer's interests and lifestyle. Is your customer interested in antiques, art, high fashion, or world travel?



LIVE OMNI-CHANNEL

Your customer's journey is an Omni-channel/multi-device journey decided by the customer. In Meagan's journey, she used a notebook, smartphone app, tablet and telephone. NewFuture was able to follow Meagan across channels and devices, adding value, while delivering a consistent message and seamless experience.

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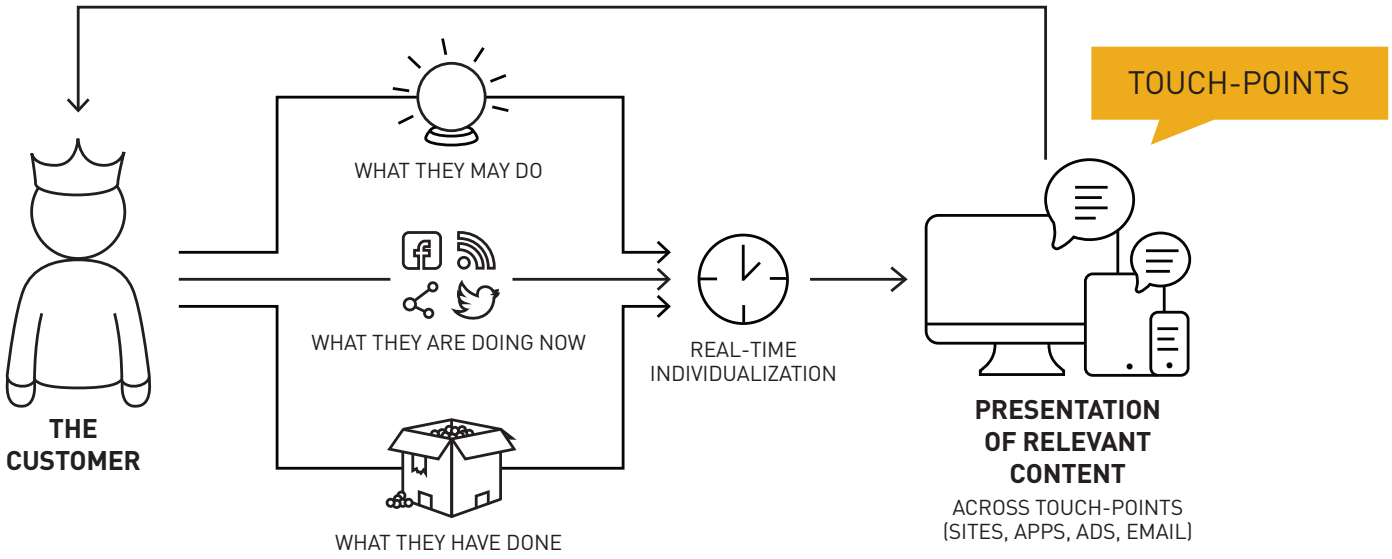

ESTABLISH A REAL-TIME EXPERIENCE.

Personal experiences are immediate. In the digital world, analytics has only an instant to propose the next step and deliver the best content to help make an optimal decision. Real-time is critical and context is essential to deliver the best experience possible. Last week's data or even yesterday's data and insights just won't do.

SIMPLIFY THE CUSTOMER EXPERIENCE THROUGH END-TO-END PROCESSES.

Filling in forms, repetitively entering data and contacting the call center multiple times about a single issue all lead to a poor customer experience. End-to-end digital processes must leverage existing information, avoid integration gaps and eliminate barriers. In Meagan's example NewFuture did most of the work for her, and she was able to proceed at the speed of her convenience.

Reimagine Business Models

Digitization will impact every aspect of the entire insurance value chain from customer interaction through underwriting to claims management. The digital imperatives are highly automated and standardized business processes within and across the company, providing a personalized customer experience.

ADVANCE TO ADVISORY STATUS

We are constantly amazed by insurers who cannot understand why they are viewed by customers as trusted advisors when they only sell. Personalized offers are certainly important, but they don't necessarily qualify as advisory. We see best practice as providing not just personalized offers, but also personalized information and advice. Besides making the experience more about the customer, it offers insurers the opportunity to engage with customers beyond renewals and claims. Examples might include advice on "winterizing your home" or safety related information such as "automobile manufacturer recalls". The costs are low and the returns are high as customers begin to see their insurers as being more advisory which in turn increases their loyalty and advocacy. Finally, we feel customers are much more receptive to personalized offers if that's not the only thing the insurer provides them.

Reimagine Business Models

New entrants, customer demand – especially the attitudes and expectations of the "millenial" generation and the huge opportunities out of new technologies disrupt the established insurance industry business. We see insurers redefining their business models and restructuring the value chain.

EXPAND THE BUSINESS MODEL

To provide additional customer value and foster more continuous customer engagement, innovative insurers are combining forces with external goods and service providers. This expanded model focuses on both the customer and their insured assets and is illustrated in the customer journey vision above. In that example, NewFuture had expanded their business model by partnering with auto suppliers for their auto insurance business, and local contractors and hardware stores for their home insurance business. Besides the added value such partnerships bring to customers, it offers insurers the ability to monetize the customer base.

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Summary and Steps Forward

In an industry nearly as old as civilization itself, the digital marketplace is changing existing business workflows, value chains, and entire business models. Nowhere are these changes more apparent than the way in which insurers and customers now interact.

Digitalization has diminished the agent's role as the primary source of customer understanding and point of contact. In the digital world, the agent is often the last place customers travel to on their individual journeys that start and stop, cross channels, and are increasingly influenced by sources outside the insurer's control. The result? Smarter customers, rising expectations and a seismic shift in power towards the customer, leaving insurers struggling to compete on anything but price, so readily found online.

To level the playing field, insurers must rely on data to recapture the differentiated customer experience once provided by the agent: a personal and advisory relationship centered on the individual customer.

To recreate this experience in the digital world isn't simple. It requires both technology and importantly the will to change. It need not all be done at once, but a step by step pragmatic approach must be developed and must begin now. Innovative insurers have pointed the way using the best practices discussed above.

Best practices that help insurers:

- → Understand customers using data sources both inside and outside the company
- → Anticipate customer needs through predictive analytics
- → Add value beyond traditional insurance through expansion of business models
- → Create understanding and added value in real-time
- → Provide a consistent experience across channels and devices

Maybe there's more time for insurers than for our two men in the joke about being chased by the lion, or maybe not. One thing is for certain though, standing still isn't an option.

For more information, please reach out to the SAP Hybris team at sales@hybris.com

About SAP Hybris

SAP Hybris enables businesses to transform how they engage with customers, innovate how they do business, and simplify their technology landscape. With a comprehensive approach to customer engagement and commerce, our solutions unlock opportunities to optimize your customers' experience and transform your business. We help you drive relevant, contextual experiences across all of your customer touch-points in real-time, so that you can create strong differentiation and build competitive advantage in the Digital Economy.
SAP Hybris has helped some of the world's leading organizations transform themselves in response to changing market conditions and customer expectations – delivering exceptional experiences, adding new channels, evolving their business models, and entering new markets. How can we help you?
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