WHITE PAPER

INSIDE INSURANCE: WHY THE INDUSTRY NEEDS A MAKEOVER

While much of the financial industry is focused on transforming its services to improve customer experiences, the insurance industry remains mostly unchanged.

Thankfully, insurance companies have an opportunity to make innovative changes and separate themselves from the competition.

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The insurance industry is built to react to change, so it's ironic that many companies within it remain resistant to making such changes themselves.

Even the big players in insurance have remained relatively stagnant compared to those in financial services, many of whom are improving customer experiences through mobile banking, advisory services, credit scoring, savings and a global investment in FinTech space reaching **$3 billion** last year.

Up to now many insurers have survived through legacy offerings. But consumer demand is now such that maintaining that steadfast approach ensures only one thing — they will be left behind.

"Because consumers today have different priorities and perceptions, relying on traditional models and business practices is no longer an option for insurers," explains Heather Zimmerman, Magenic's financial service practice leader. "Consumers now lack the patience for slow, complex and difficult-to-understand processes, so smart insurers are differentiating themselves by making everything smoother, easier and often less costly."

Huge industry, huge issues

While the U.S. insurance industry is the largest in the world in terms of revenue, that can't be interpreted as proof of customer satisfaction. In fact, though industry premiums surpassed **$1.2 trillion** last year, top insurers' net promoter scores (which measure the willingness of customers to recommend products or services to others) remain among the lowest in any industry. Many consumers are hesitant to turn to insurance companies at all because of deteriorating trust and what they perceive as meager insurer efforts to inspire satisfaction or advocacy.

The dwindling numbers of Americans who carry life and home insurance tell part of that tale. Only **57 percent** of middle market consumers ages 25–64 have permanent individual life insurance coverage, for example, and **64 percent** of American homes are reportedly underinsured. **Studies** of millennials show they're less threatened by the possibility of negative events in their lives, making them far less likely to carry auto, life, homeowners, renters and disability coverage.

A PricewaterhouseCoopers **study** this year points to other factors such as the shared economy in which many consumers rent rather than buy; usage-based models allowing for highly personalized insurance policies based on individual circumstances; devices that help monitor and control risk such as drones, autonomous cars and wearables; and the usefulness of the IoT in providing comprehensive consumer information.

Many insurers are struggling to make all that progress in favor of their bottom lines. **Research** last year revealed the top-most concern for 48 percent of mid-market P&C carriers is putting profitable business on the books in a market that's been softening for years.

"But the evolution of the industry doesn't have to be a burden for providers — it can represent a golden opportunity to gain market share and customer loyalty," Zimmerman notes. "Now is a good time for insurers to innovate and experiment with methods for meeting the specific needs of consumers in different segments."

Pain relief needed in claims and underwriting

Customer pain points in the claims and underwriting process are well known to both customers and insurers. Traditional methodology is slow, complex, lacks transparency and requires a morass of unnecessary back and forth among customers and personnel. Insurers also struggle with high costs attached to the process, which the **Financial Times** attributes partly to aftereffects of Brexit and the 2008 financial crisis.

Then, of course, there's the large divide between the front-end experience and the process required to underwrite or pay out a claim. Customer-facing employees and those behind the scenes are often not in sync, prompting 33 percent of insurance execs to rank their greatest underwriting challenge as "improving the ease of doing business with agents" in a **Firstbest study** last year.

Other industry challenges include the general dependency on the paper-heavy, agent-driven processes perceived as old fashioned and cumbersome by today's consumer.

The problem, however, is that many insurers don't know how to fix these problems without completely overhauling the systems and processes on which they've been dependent for years.

"While executives recognize their underwriting processes are inefficient and weighing down their organizations, they are not willing to 'rip and replace' their home-grown legacy systems, because they believe much of their organizations' intellectual capital resides in those existing systems," Firstbest reports. "They have made significant investments in these systems, and they intend to safeguard the competitive advantage they believe has been built into the proprietary analytics and rules they use to operate and build the business."

One step at a time: Rolling with the changes

For years insurers have looked at the challenges associated with claims and underwriting as simply "part of doing business" instead of opportunities to separate themselves from the competition. But the widespread changes are now pressing the issue.

To get started with the necessary changes, Magenic recommends that insurers focus on the following steps:

1. **Understand the customer journey.** Instead of following old assumptions, insurers must study what actually takes place in customers' end-to-end insurance experiences, analyzing everything from the motivator to the purchase to the implementation. The goal should be to address the real-life behaviors, emotions, motivators and needs of present-day consumers. Fortunately, today's analytical tools make that easier than ever to achieve.

2. **Remove friction from all processes.** That requires a process-wide focus on transparency, speed and efficiency. Health insurers in a McKinsey survey recorded a 73 percent increase in customer satisfaction when they were pleased with the entire customer journey, not just specific touch points. "That means insurers have to stand on everything they do and can't simply rely on a couple of positive interactions to transcend everything else," notes Zimmerman. That said, one **study** reveals almost 39 percent of customer complaints involve unfair settlements and delays over claims, while another notes that customer satisfaction is reduced incrementally by the number of people he must speak to in resolving his claim.

3. **Improve back office and agent efficiency.** Transparency and quality of service must cross silos beyond customer-facing roles to everything done behind the scenes. One area for improvement is the claims process, which often requires multiple steps and hand-offs to multiple employees, increasing the likelihood of errors and raising both indemnity and claim costs. Streamlining that process may involve recognizing and aligning the multiple interests involved with such processes; consolidating steps; re-evaluating whether all claims need adjuster; working closely with service partners that produce positive outcomes; re-evaluating the need for estimates or bids; and reviewing measurements of success across the board. "Agents and back office staffers must take on proactive rather than reactive roles," Zimmerman adds. "They must focus on the needs of the customer, provide better service, handle exceptions and become empathetic advisors rather than painful parts of the customer process."

4. **Maximize data and business insights.** Thanks to the IoT and other major advancements in data-gathering technology, insurers have access to far more consumer information than in the past. Savvy companies are optimizing that to learn everything they can about their audiences in order to offer highly personalized products, manage risk, speed up processing and provide meaningful direction to clientele.

5. **Modernize technology.** Enabling today's cutting-edge technology tools won't necessarily require wholesale core replacement. But legacy insurers can benefit from a comprehensive evaluation and cost quote of what's needed the most to compete over the next several years.

The high cost of doing nothing

Overall, the slow pace at which insurers are adopting such changes means the potential for financial disruption is huge, according to Deloitte.

Savvy marketers that get on board quickly will likely be able to win over cost-conscious customers looking for a price break. As an example of the scope of the current industry, in 2014 property and casualty insurance carriers paid out $52.5 billion in net commissions and brokerage fees, accounting for 10 percent of the industry's net written premiums. On the life, annuity and health insurance side, about 8 percent of premiums are spent on commissions, totaling some $52 billion. "Those frictional costs represent quite a large opportunity for less human capital-intensive players," Deloitte advises.

Looking ahead, making such changes happen may not be easy for out-of-date insurers. But analysts believe such disruption will make for a much healthier industry in the long run.

Magenic offers digital solutions for insurance companies designed to increase efficiencies, optimize the gathering of valuable business data and pave the way for smoother customer transactions. Contact us at **877.277.1044** or **info@magenic.com** for a consultation.

About Magenic

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