

Americas

Voice of the customer Time for insurers to rethink their relationships

Global Consumer Insurance Survey 2012

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Our survey explores the following myths:

1. Customers have low confidence in the life and annuity industry
 2. Life insurance is sold, not bought
 3. Personal interaction is essential
 4. It's hard to cross-sell to existing customers
 5. Providers can't influence persistency
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Our survey explores the following myths:

1. The future is online
 2. It's only about price
 3. Good claims experience builds loyalty
 4. Customers don't respond to cross-selling
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Global Consumer Insurance Survey 2012 – Americas

Faced with the unprecedented challenges of troubled financial markets, changing regulatory oversight and economic uncertainty, there is a risk that some insurers may not be listening and responding to the most important voice of all – that of their customers. For any insurer hoping to navigate through this difficult time, understanding how customer behaviors and attitudes are changing is critical. Previous assumptions and received wisdom about customers may no longer be reliable, and those insurers who are able to respond best to what customers want now are most likely to succeed.

In light of this, Ernst & Young conducted a groundbreaking survey of insurance customers. Working with the research firm Ipsos, we set out to test the received wisdom by interviewing 5,000 consumers of life and annuities and property and casualty products in the Americas between August and October 2011, as part of a global survey covering 23 countries in seven regions around the world.¹

24,000

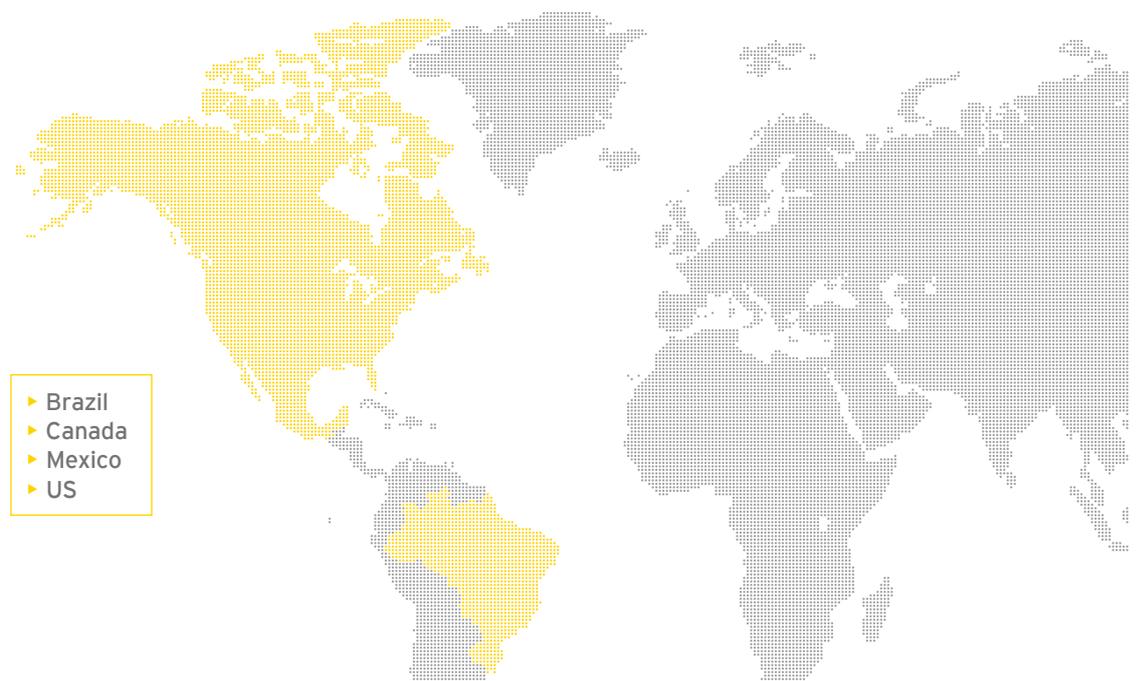
Global customers

7

Global regions

23

Countries



¹ For a full description of the global methodology used to create this report, please see page 35.

Executive summary

In our Americas survey, we interviewed customers in the US, Canada, Brazil and Mexico. While the two mature markets are similar in wealth and demographics, the markets in Mexico and Brazil are very different from each other and, as expected, very different from the US and Canada. Brazil is experiencing tremendous economic growth and has a developing middle class. Insurance, which was once a luxury affordable only for a few, is gradually becoming a necessity to protect the assets of the new middle class. Mexico, on the other hand, is just beginning to experience growth in insurance markets. Coverage is still a luxury, available only to the wealthy and to those who receive coverage through their employer.

Regardless of these differences, however, our research uncovered strong similarities across countries and evidence that customer behaviors in the Americas are changing. Across all countries, customers are demonstrating a desire to be better informed, more involved in purchase decisions, rewarded for their loyalty and to have product choices that meet their changing needs.

As a result, we believe that insurers in these markets will need to think differently if they are to understand where the myths end and reality begins, and to continue to be successful in attracting customers, deepening their understanding and building lifetime customer value.

Americas life and annuities (also known as life and pensions) key findings

- ▶ Consumers generally trust the industry, want to remain loyal and in fact buy more from the same product provider.
- ▶ Consumers understand their insurance needs and know what they want from providers and products.
- ▶ Over two-thirds of consumers in the Americas are currently passive buyers, doing very little research before buying the products they currently hold.
- ▶ In the future, Americas' consumers have indicated that they intend to conduct much more research when purchasing products. Consumers are becoming more independent and using objective sources, particularly online, to research which products to buy. However, the majority of consumers still want personal interaction when actually making a purchase, stating that products are too complicated and they don't know which products meet their needs.
- ▶ A growing minority prefer to buy without any personal interaction. This trend for independence would indicate that consumers will demand greater simplicity and transparency to help them make better-informed decisions and take greater control of the purchasing process.
- ▶ Consumers have become accustomed to having their loyalty rewarded by non-financial consumer services industries and increasingly expect the same from insurers. To increase their share of customers' wallet, insurers must reward loyalty.
- ▶ Consumers are receptive to targeted cross-sell offers if the value proposition is clear and the process is easy and convenient.
- ▶ Insurers need to respond flexibly to customers' changing needs. Product design begins with understanding your customer segments so you can design your brand and products around them.

The combined impact of these findings is simple but profound: insurers need to become as customer-focused as other consumer businesses and deliver a genuinely customer-centric experience. This means:

- ▶ Providing simple and transparent products that customers can buy with confidence
- ▶ Making it easy to access relevant products and information throughout the product life cycle, particularly online
- ▶ Building trust by delivering a great customer experience and responding to customers' changing needs throughout the life cycle
- ▶ Rewarding customer loyalty

Americas property and casualty (also known as non-life insurance) key findings

- ▶ Online research channels are important to all consumer segments, and their popularity is expected to grow.
- ▶ Customers clearly voiced a desire for simultaneously improving online access while continuing with personal contact when it matters, for example during all critical phases of the product life cycle, particularly when extending coverage, making a claim, or dealing with other customer service issues.
- ▶ Insurers need a multichannel strategy that matches customer expectations by combining clear product information to new buyers and a simplified renewal process for returning customers.
- ▶ Insurers have to be able, seamlessly, to integrate online and offline channels to meet changing customer needs over the product life cycle.
- ▶ Price is an important component of value, but as pricing converges through greater information availability, other value factors such as brand and product features become more important. It's not just about price: you have to build your brand and provide world-class customer service too.
- ▶ A good claims experience is expected in Canada and the US. In Brazil and Mexico it can still be a differentiator. However, a bad claims experience will drive down retention and diminish brand value in any territory.
- ▶ If insurers understand customers' needs and offer the right propositions in the right way, they can cross-sell, up-sell and repeat-sell effectively.
- ▶ Having an effective customer retention function that segments the customer base, targets those who are most valuable (and likely to switch) and communicates with them proactively is becoming increasingly important for insurers to boost retention and profitability.
- ▶ Insurers can profitably influence retention in many countries. They need to leverage their data and empower their staff to demonstrate to policyholders that they value their customers. Loyalty matters – customers should feel this value as much as the insurers.

The net impact of these findings is that in a part online, part offline world characterized by complex customer segmentation, delivering value has become more complicated. For property and casualty insurers, meeting this challenge means:

- ▶ Integrating online and offline channels seamlessly to meet changing customer needs over the product life cycle
- ▶ Ensuring technology is integrated across several different communication channels serving both sales and back office functions
- ▶ Understanding the cost-to-serve of each segment and channel as well as the behaviors that characterize each of them
- ▶ Developing and managing the brand in cyberspace to develop customer trust
- ▶ Developing a thoughtful and proactive approach to customer loyalty and servicing

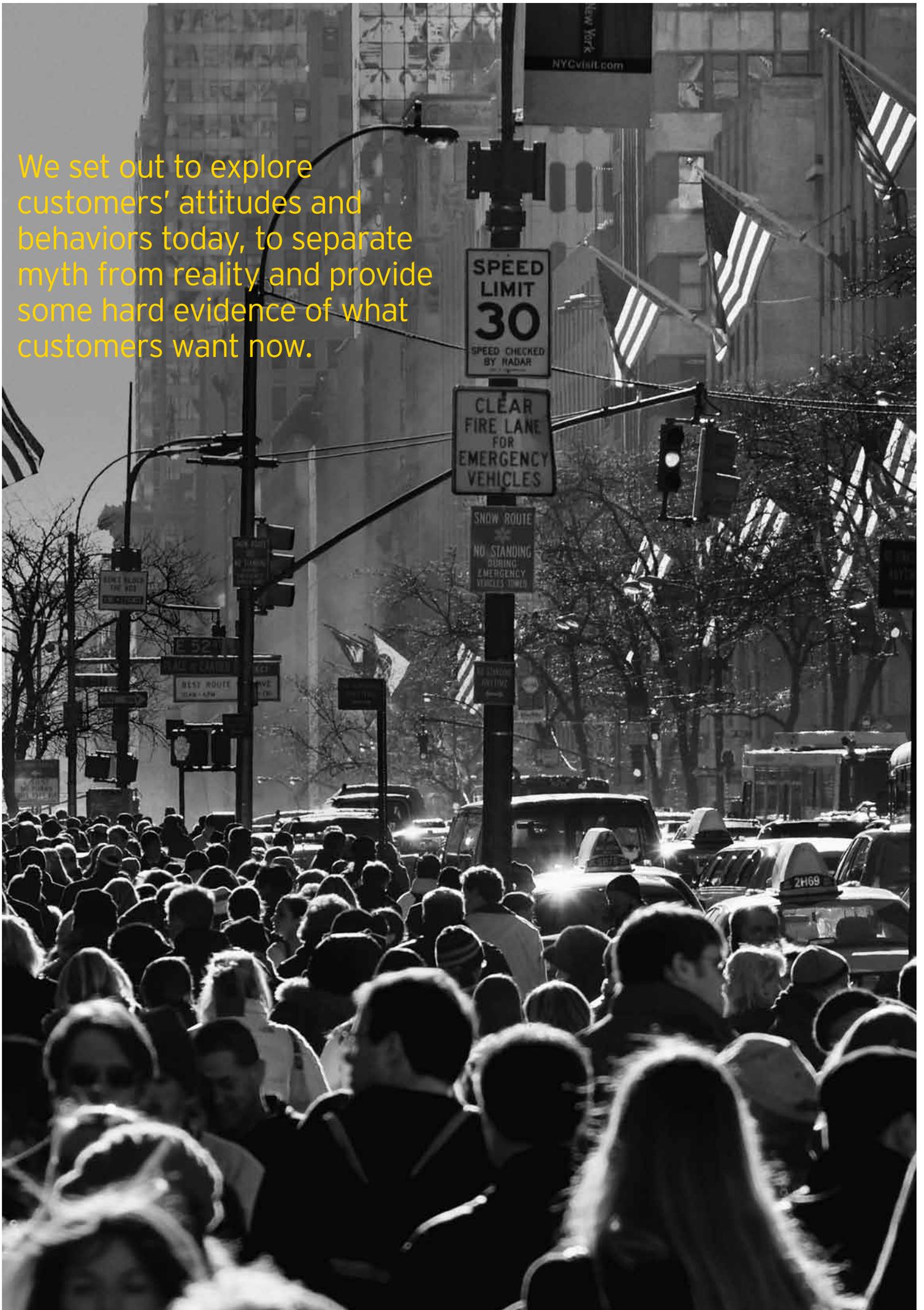
We hope you will find this research useful in considering how you shape your business going forward.

If you would like to learn more or review the detailed findings, please contact your usual client service partner or go to www.ey.com/insurance.



David Hollander
Global Insurance Advisory Leader
Ernst & Young

We set out to explore customers' attitudes and behaviors today, to separate myth from reality and provide some hard evidence of what customers want now.



01

Life and annuity

While there is some truth in the received wisdom around how life and annuity products are bought and sold, the reality is more complex. Understanding customers' current attitudes and behaviors will help insurers determine what they can do better or differently to attract consumers, deepen and retain relationships and unlock greater customer lifetime value.

Our survey explores the following myths:

1. Customers have low confidence in the life and annuity industry
 2. Life insurance is sold, not bought
 3. Personal interaction is essential
 4. It's hard to cross-sell to existing customers
 5. Providers can't influence persistency
-

Customers have **low confidence** in the life and annuity industry

Received wisdom is that the financial crisis has created mistrust of financial services and a perception that all financial services companies are untrustworthy. Our research shows that the insurance industry may not have been as tarnished as other financial services sectors, but it still has room to improve.

35%

of all consumers have a very favorable or strongly favorable view of the insurance industry.

Americas customers are somewhat neutral about the insurance industry

In the Americas, although 35% of all consumers have a very favorable or strongly favorable view of the insurance industry, another 37% remain neutral and 23% have an unfavorable view.

Although our research shows that customers remain somewhat neutral on the industry, most are confident that the product they have meets their needs and, with some variation, they are satisfied with the level of service they are getting from insurers.

In fact, consumers in the Americas have higher satisfaction scores than those in other regions, scoring a 7.5/10 mean customer satisfaction rating for the region overall. This is higher than in Europe, where the average score was 7.0/10, and Asia-Pacific, where it was 6.8/10. Customer satisfaction levels are relatively consistent across the region, ranging from 7.3/10 in Canada to 7.7/10 in the US.

Insurance industry lags behind others

Americas customers, however, feel insurers lag behind other industry sectors in quality of service and in rewarding loyal customers.

A full 39% of Americas customers tend to agree or strongly agree that the insurance industry lags behind other industries in service, and 37% are neutral on the topic, representing 76% of the total respondent population. In addition, 78% tend to agree, strongly agree or are neutral in believing that the industry lags behind other industry sectors in rewarding customer loyalty.

Americas customers are more confident about product choices

In the Americas, 85% of customers are fairly or very confident that they have the right product to meet their needs. Confidence ratings in the Americas are consistently higher than in Europe (79%) and Asia-Pacific (76%).

Customer satisfaction ratings

● Mean score out of 10

Regional average



Country average



Better information would boost understanding

For the minority of customers who aren't confident they have the right product (8%), the main reasons cited are lack of information and lack of understanding. In Brazil, where information about performance and fees is not always transparent, customers showed more dissatisfaction than in other countries. On average across the Americas, the most common reason, cited by 38% of respondents, for this lack of confidence was insufficient information on product performance, while 26% cited a lack of understanding when first buying the product.

Where customers do suggest areas for insurers to improve service, they ask for communication that is easier to understand, a named contact, greater speed and improved access to information online – particularly for younger customers or those who purchased via a bank.

85%

of customers are fairly or very confident that they have the right product to meet their needs.

Implications for insurers

Focus on building trust with the consumer

These findings are somewhat positive for the industry but are not grounds for complacency. Insurers need to build or reinforce the trust consumers have in the industry.

Make brand messaging, education and service delivery more consumer-oriented

Insurers also need to evolve their product and service delivery models to meet customers' changing needs and expectations, focusing particularly on improved information and transparency. This is especially relevant for online access, which has become a given in many other consumer industries.

Consumers who are used to genuinely customer-centric business models, such as those of pure internet businesses, will increasingly demand similar engagement with insurers, namely: access when and where customers demand it, intelligent use of their data to recognize and respond to needs, and access to objective customer-driven information to support purchase decisions and rewards for loyalty.

Seizing the opportunity to deepen relationships should also involve looking for innovative, proactive ways to recognize customer loyalty – either in rewards-type efforts or in service advantages that the customer values.

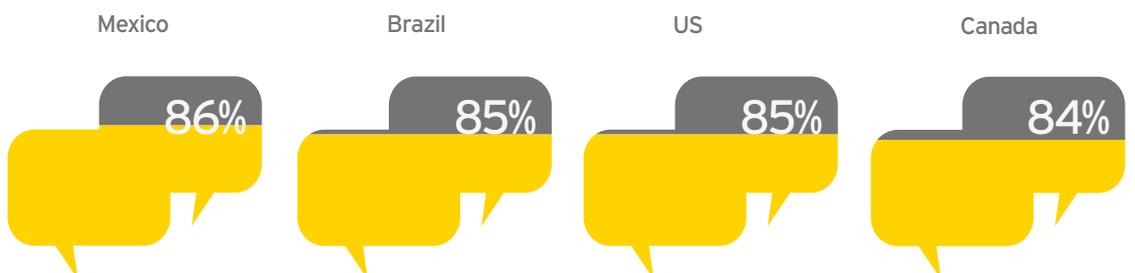
Americas customers are confident they have the right product

● Percentage very + fairly confident

Regional average



Country average



Life insurance is **sold**, not bought

Received wisdom is that because of a lack of customer knowledge and confidence, life insurance products are “sold” to consumers – the purchasing decision is not customer-driven. Our research indicates that although this perception is still valid, it is slowly starting to change.



Customers are becoming less passive

Across the Americas, consumers take a surprisingly passive approach to purchasing life insurance products. They do not actively seek out life insurance products unless they have very specific needs. Less than one-third (27%) do a fair amount or a great deal of proactive research, and in Mexico the percentage falls to 22%. Consumers in the US are the most active researchers in the region – 31% research product choices.

Our research shows that this picture is starting to change. While many customers still feel the products are complex, there is evidence that customers want to take more control when buying a life or investment product. Customers are showing a greater desire to use online and objective sources to inform themselves prior to making a purchase, and they are demonstrating a clear understanding of the factors they are looking for when selecting a product. In the next five years, customers say, they expect to exert greater control over the buying process, with two-thirds (66%) expecting to do more independent research in the future, though often still relying on an advisor to validate and complete the transaction.

Use of online information sources is increasing

Customers want to use sources they can trust – without risk of sales bias. Friends and family remain a trusted reference point, but we believe this point of reference may begin to extend to online sources such as comparison sites, blogs and social media like Facebook – where “friends and family” become part of an extended online group.

As with many other sectors and products, consumers are starting to ask “What can the internet tell me about this insurer and this product, based on sources I can trust?”

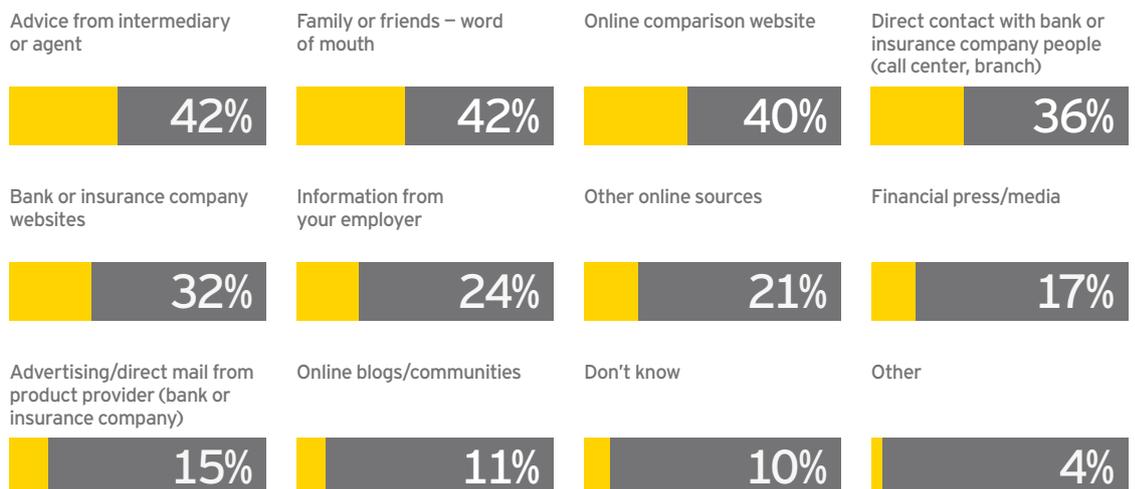
In emerging markets such as Brazil, as the consumption of life products increases, consumers rely heavily on friends and family as a source of information, and word-of-mouth from friends and family remains a strong influencer across the Americas. Accordingly, current customers’ perceptions about product value and services delivered may directly impact new sales purchasing decisions.

As this trend for self-directed behavior develops, a growing number of people will take more control of the buying process, although many may continue to use an intermediary to complete the transaction.

27%

do a fair amount or a great deal of proactive research.

Information sources consumers expect to use for future research



66%

of customers expect to do more independent research in the future.

Customers know what they want from providers and products

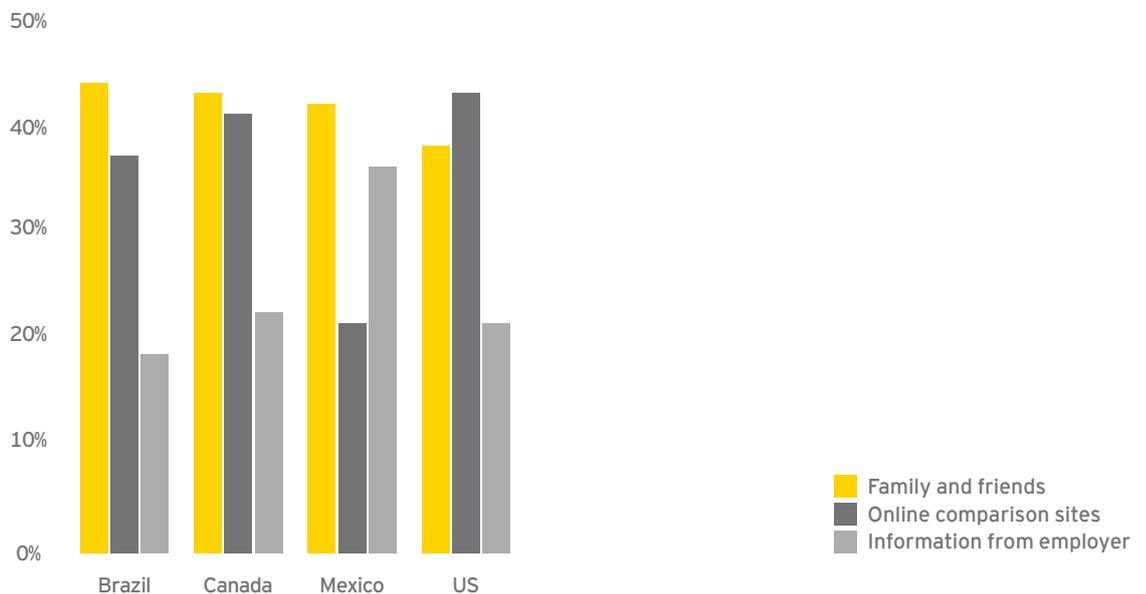
It is clear from the research that in the Americas, customers are buying products that are appropriate to their needs. Saving for retirement and providing for children are top priorities until customers reach the “55-and-over” age segment, at which point protecting health and retirement income becomes the top priority.

Our research also shows that customers know what they are looking for from an insurance provider. In every country except Mexico, customers said that financial stability of the provider was the most important factor when choosing a life or investment product. We believe that this difference

is most likely explained by the fact that most coverage is provided by the employer and the consumer is given little if any opportunity to select the provider in Mexico.

In their research, customers are looking for factual information to confirm they are selecting the right products to meet their needs. Factors such as brand or advisor recommendation – and even recommendations from friends and family – are less important. This shows that customers want objective information to ensure that they make the right choice. Not surprisingly, product features, product performance and the financial stability of the provider rank as the most important features to consider when choosing a product.

Most important sources of information when choosing a life or investment product



31%

of the consumers in the US are active researchers.

Implications for insurers

Communicate more effectively through objective information sources

Traditional marketing and distribution methods are not well suited to the emerging customer trend that use objective and independent sources of research before purchasing. The challenge for insurers is to communicate their propositions so that objective sources represent them fairly, allowing the consumer to make a well-informed choice of company and product.

Insurers will need to project their brand reputation and product messages consistently and broadly, in a variety of media and to a variety of sources, ranging from traditional intermediaries and product sponsors to their websites and ultimately to the new world of social media.

Prioritize social media strategies in developing markets

The requirement to influence objective and independent sources is particularly important in

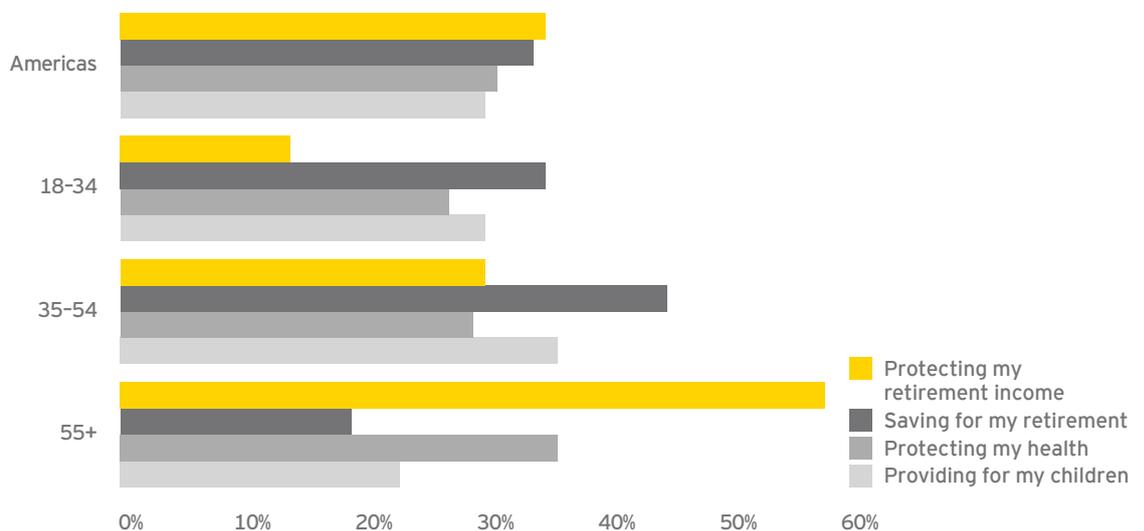
markets like Brazil, where the individual life and annuity market is growing rapidly.

Clearly, this goes far beyond simple advertising and suggests providers will need to develop social media strategies that prepare them to present themselves and their products in a straightforward, easy-to-understand language and terms, tailored to each consumer segment and channel.

Harness technology to learn about consumers and tailor product offerings

Fully utilizing the potential of social media presents additional opportunities. Technology advances may enable insurers to harvest publicly available data about life events and life stage changes and to participate proactively in discussions about changing insurance requirements. This would enable insurers to target customers with the right products at the right times.

Top reasons why consumers purchase life or investment products, by age group



Personal interaction is essential

Received wisdom is that customers require personal interaction in order to understand their financial needs and determine which products to buy. Our research indicates that this largely remains the case, but some customers are becoming more self-directed.



82%

of respondents across the Americas rate personal interaction as either fairly or very important.

Personal interaction remains important for most customers

A relatively high 82% of respondents across the Americas rate personal interaction as either fairly or very important – higher than in Europe (78%) but lower than in Asia-Pacific (89%). Customers of all ages prefer personal interaction when purchasing, suggesting that most customers still lack confidence to buy without assistance.

Interestingly, even while researching a product purchase, there is a strong preference for personal interaction across all age demographics, although younger customers are slightly more willing to research and purchase on their own.

Complexity and lack of transparency impede customer independence

In the Americas, the two most common reasons consumers cite for seeking assistance are that they need expert assistance to make important financial decisions (52% of consumers) and that they do not know which products best meet their needs (41%). In Latin America, the trend is more marked, with a substantial 91% of customers in Mexico saying that personal interaction is essential, very important or fairly important. These figures would suggest that complexity and lack of transparency are frustrating customers' growing desire to become more independent.

In Mexico, unlike in the other countries we surveyed in this region, the next most popular reason for working with intermediaries was to get assistance with paperwork and general administration – cited by 40% of customers.

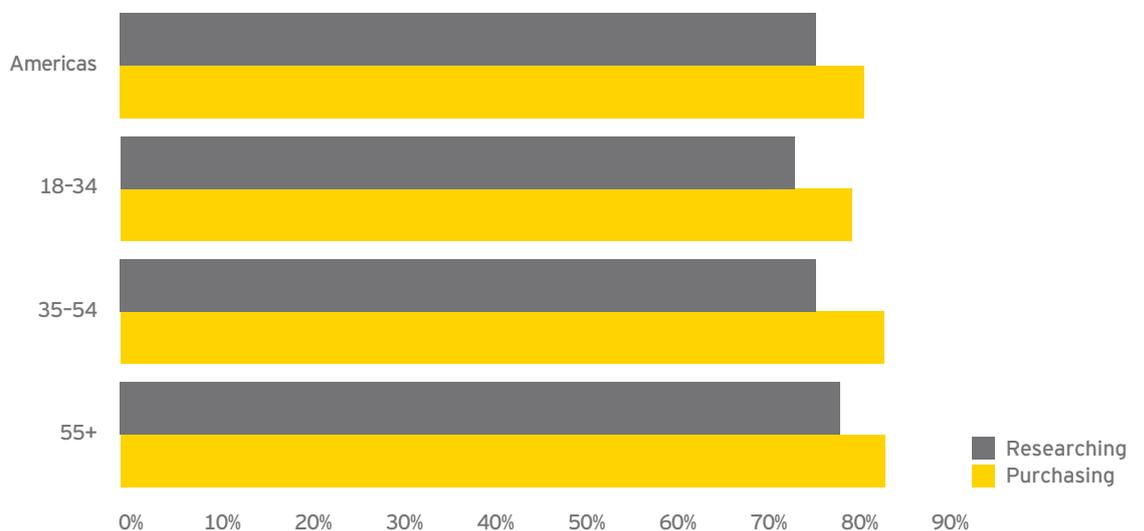
Multi-tied agents are preferred in the Americas

Where customers do use agents, there is a strong preference (49%) for independent (multi-tied) agents over agents tied to a single provider (16%), although a high percentage (31%) express no preference.

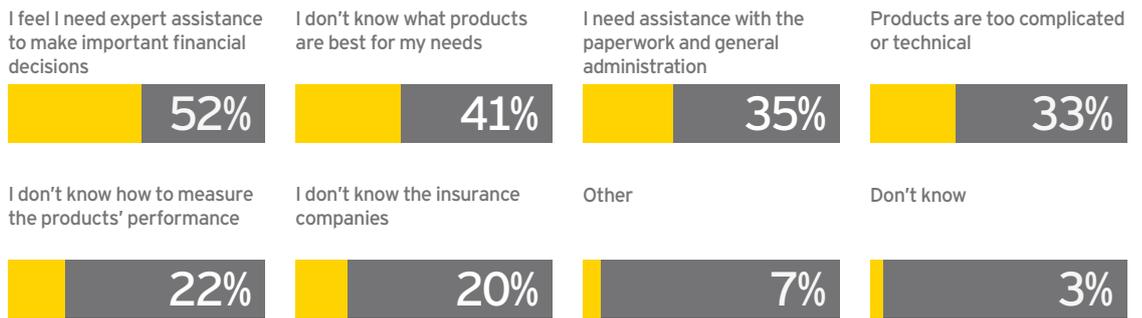
A small minority are confident to go it alone

Perhaps more significantly for the longer term, the data shows that a small minority of customers, 11% on average, no longer consider personal interaction important. People in this category have become more familiar with insurance products and have a good understanding of their needs and how their needs change over time. They are increasingly confident about taking greater control over the buying process. These customers, who prefer not to have any personal interaction, want complete control over the buying process and don't want to be subjected to sales pressure.

Percentage of customers saying personal interaction is important or essential when buying a policy

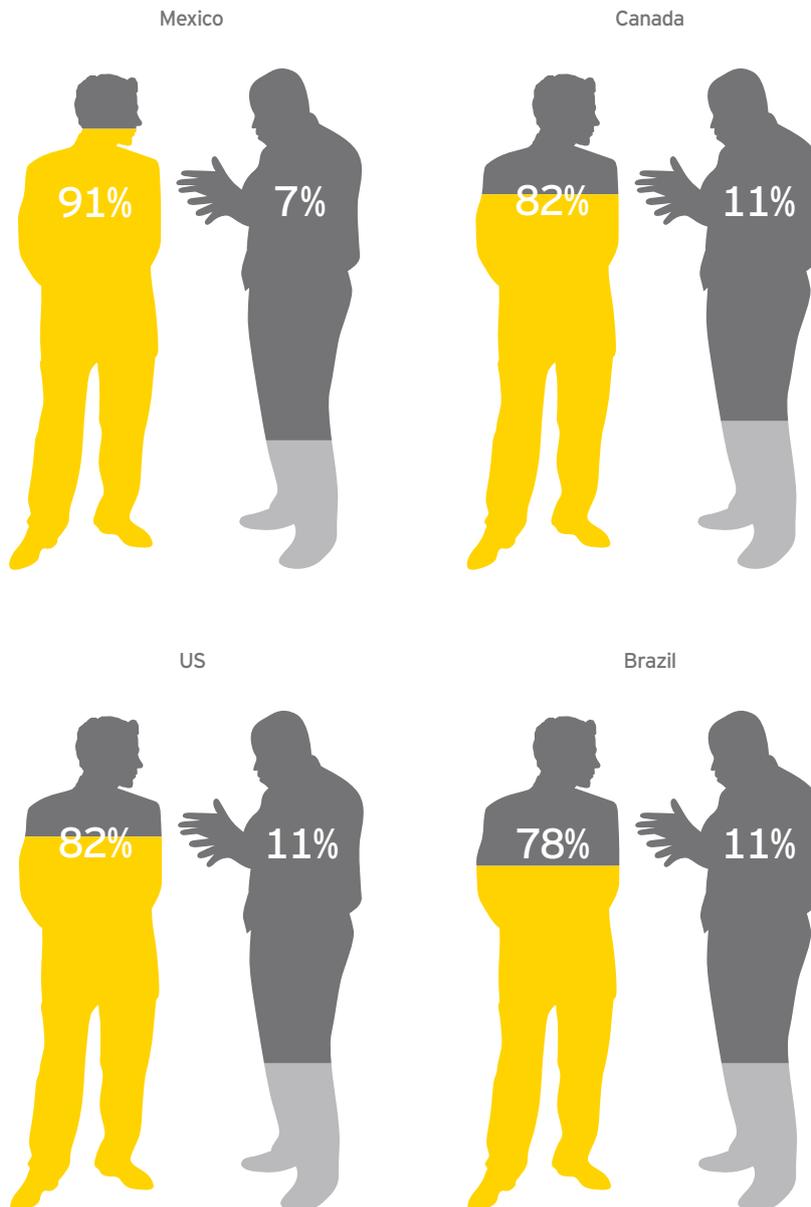


Reasons why personal interaction matters to Americas consumers



Importance of personal interaction to Americas customers

● Important
● Unimportant



In Mexico, the workplace channel remains dominant. We believe this is because most consumers can afford these products only if they're offered as part of a subsidized workplace package. As these products are often seen as coming with the job, or as part of an existing relationship, customers are less likely to have received advice or to have done much research before purchasing. Accordingly, the workplace sponsor, not personal interactions with advisors or insurers, remains the dominant influence on purchasing behavior.

In Brazil, however, a new market is developing. While the workplace channel remains significant, with the rise of the middle class and an increase in income, we expect more consumers will start to view life and annuities products not as luxuries but as needs, protecting what the family has acquired over recent years. Insurers concentrated in the employer or workplace market will have to develop new ways to interact with, educate and attract these new customers.

91%
of customers in Mexico say that personal interaction is essential, very important or fairly important.

Implications for insurers

Stop relying solely on intermediaries

Insurers can no longer rely solely on intermediaries to sell their products for them. Whatever channel they prefer to use, customers want access to information that will help inform decision-making regarding which products are suitable, the level of investment needed and the returns that can be expected.

Leverage publicly available data to tailor the product offering

Insurance providers need to recognize the life events that will make customers open to advice and tailor their servicing strategy and product offerings accordingly. Younger customers in particular will expect insurers to leverage available data and proactively reach out to them, whether through public records, social media environments, or workplace information sources.

Exploit cross-selling and up-selling opportunities in the workplace

The workplace continues to be a trusted source of product endorsement by customers especially

in Latin America. Insurers that are more effective at selling to employers will continue to gain in the marketplace. We believe that in order to drive profitability in the workplace channel, where contracts are often won on price, insurers will need to exploit cross-sell and up-sell opportunities. Gaining access to employee and or member data to identify customers' changing circumstances will be critical.

Exploit affinity groups

We also believe insurers should establish relationships with affinity groups to maximize sales. By providing a level of advice and support to the association, insurers can build a pipeline of future up-sell and cross-sell opportunities. Insurers also must keep in mind the need for portability of products as employees move from job to job.

These trends mean that insurers need to develop a strategy for acquiring, storing and using public and social data that will go well beyond any CRM technology they already have in place.

Top reasons why Americas customers don't want personal interaction

I want to avoid pushy salespeople



I am confident that I sufficiently understand the product that I want to buy without assistance



I think I can get a lower price or a better deal myself by shopping around online



I find it more convenient to research and purchase through the 24-hour web



Other



Don't know



It's hard to **cross-sell** to existing customers

It is widely believed that customers are reluctant to buy more than one product from the same provider. Our research shows that while cross-selling levels are low, customers are willing and, in fact, look to buy more products from the same provider.

16%

of those surveyed had bought more than one product from the same product provider.

Cross-selling is generally low

Our research shows that levels of cross-selling are indeed low. On average across the region only 16% of those surveyed had bought more than one product from the same product provider. The regional average masks a big difference between Latin America and the US and Canada: in Mexico, 26% of customers have bought more than one product, and in Brazil 24% have done so, compared to only 11% in the US and 15% in Canada.

In Brazil and Mexico there are fewer competitors in the marketplace offering a full line of products (compared to the US and Canada). This factor, in conjunction with the ease of buying from a familiar provider could explain the higher levels of cross-selling in these countries.

Customers want to buy more products – especially in the Americas

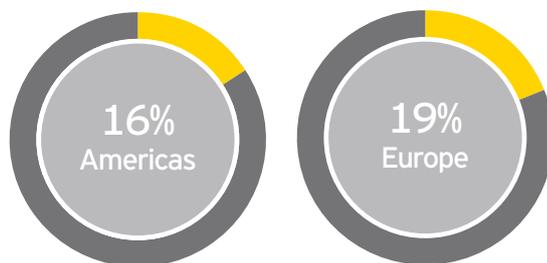
Our research shows that across the region, customers are willing to buy multiple products from existing providers and in fact may prefer to do so.

Trust in the provider and convenience are the main factors driving repeat purchases. In the region on average, when asked why they had purchased additional products, 48% of respondents stated, "I trust the provider," and 44% said, "It was easier to buy from a provider I already know." These scores suggest that insurers in the Americas have a significant market opportunity to cross-sell and up-sell their products.

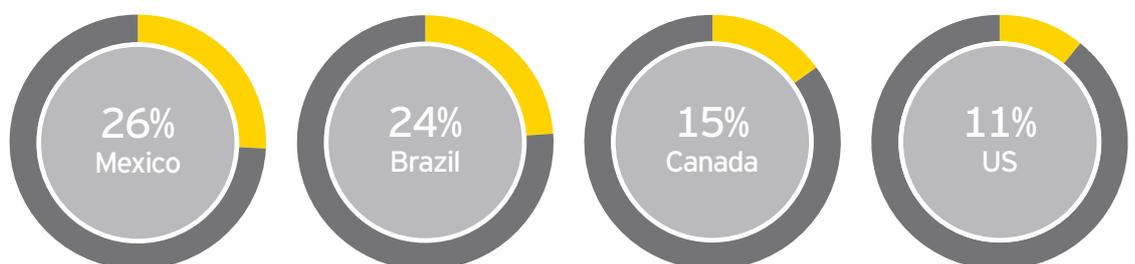
Although customers are willing to buy more, they expect insurers to make it easy for them. The process has to be convenient, providing an opportunity for cross-selling at the time of original purchase and via the channel of their choosing. Product descriptions need to be simple so that it is easy for customers to understand what they are buying. In addition, customers increasingly expect to be given incentives for repeat purchases. Of those surveyed, 27% cite price discounts as the top reason for buying additional products, and a further 25% want additional services at no extra cost.

Customers who have multiple products with the same provider

Regional average



Country average



Hard-selling is counterproductive

The data shows that hard sales tactics do not work and are often counterproductive. Of those respondents who said that contact with their insurer is not meeting their needs, many said they were dissatisfied because the provider was more

focused on selling than on understanding their needs. The trend was particularly marked in Latin America. Excessive sales pressure was cited as the source of dissatisfaction by 47% in Brazil and 51% in Mexico, while in the US and Canada the percentages were 14% and 23% respectively.

Implications for insurers

Invest in technology to promote cross-selling, especially in fast-growth markets

It is clear from our research that customers across the Americas want to buy more products from their existing providers. This suggests that in fast-growth markets there is a huge opportunity for insurers to build the analytics, marketing and contact strategies that facilitate cross-selling from the outset. Brand strength is critical, particularly in markets where products are not commoditized and trust is a key driver of product preference. Pricing is also significant, and companies must be prepared to tailor pricing and product attributes to particular customer segments.

Invest in technology to promote customer retention in mature markets

These findings are equally relevant for the two mature North American markets in the US and Canada. We believe that with high levels of product penetration, in which many “new” sales are simply business churning from one provider to another, the high costs of new customer

acquisition compared to lower product charges mean that profitability is increasingly driven by retaining customers longer and increasing revenue per existing customer: in other words, by increasing customer lifetime value.

Increase needs-based cross-selling efforts across the Americas

In our opinion, the data shows that it is essential for insurers to increase their cross-selling efforts across the region. To do this, insurers need to invest in a new generation of predictive models linked to relationship management servicing tools that enable them to target existing customers with a propensity to buy appropriate products at the right price point. Rather than focus on hard-sell techniques, providers should emphasize needs-based sales techniques that focus on how a customer’s needs are changing and aim to offer an appropriate product addressing those needs. Insurers that build long-term relationships with customers, giving them what they want, when and how they want it, will drive value.

Factors driving repeat purchasing in the Americas

I trust the provider



It was easier to buy from a provider I already know



I received a discount for buying additional products



I received additional services without additional cost



My agent advised me to buy from this provider



The product I already had was outperforming the market



I received other rewards for buying additional products from this provider



Other



Don't know



Providers **can't influence** persistency

Received wisdom is that providers feel they have little ability to make a material difference to persistency. Our research shows that insurers can improve customer retention by better meeting customers' changing needs.



Providers do little to influence persistency

There remains a common perception in the industry that it's hard to influence persistency, particularly with largely intermediated sales in which insurers have limited contact with end customers. Our survey shows that, with the exception of Brazil, customers' perception is that providers make little effort to retain them when they are lapsing. Insurance providers on average across the region only make fair or great efforts to retain customers in 24% of cases.

However, the regional statistics obscure a significant difference. Sixty-four percent of providers in Brazil do make an effort to retain customers. In Brazil, since most first policies are originated through an employer relationship, Brazilian insurers have implemented processes to contact the customer upon termination of employment to ensure retention.

Customers leave because insurers are not responding to their needs

Switching levels in life and investments policies may at first glance appear relatively low – on average across the Americas only 9% of those surveyed have changed their provider in the last five years, compared with 8% in Europe and 10% in Asia-Pacific. For products with a 25-year life, however, this is a significant degree of churn that can't be ignored. Many customers (24%) change providers

because their needs have changed, indicating that insurers are missing a key opportunity to anticipate and address these changing needs through proactive communications and flexible offerings. In addition, there are regional variations: in Mexico, 44% cite poor product performance as the reason for changing, and Brazilian (28%) customers said they switched because their agent changed providers.

Rewarding loyalty would make a difference

The research also shows that customers are increasingly used to having their loyalty rewarded in other industries, through either price discounts or extra value. As discussed on page 6, a number of customers believe the insurance industry lags behind other industries in delivery of loyalty reward programs.

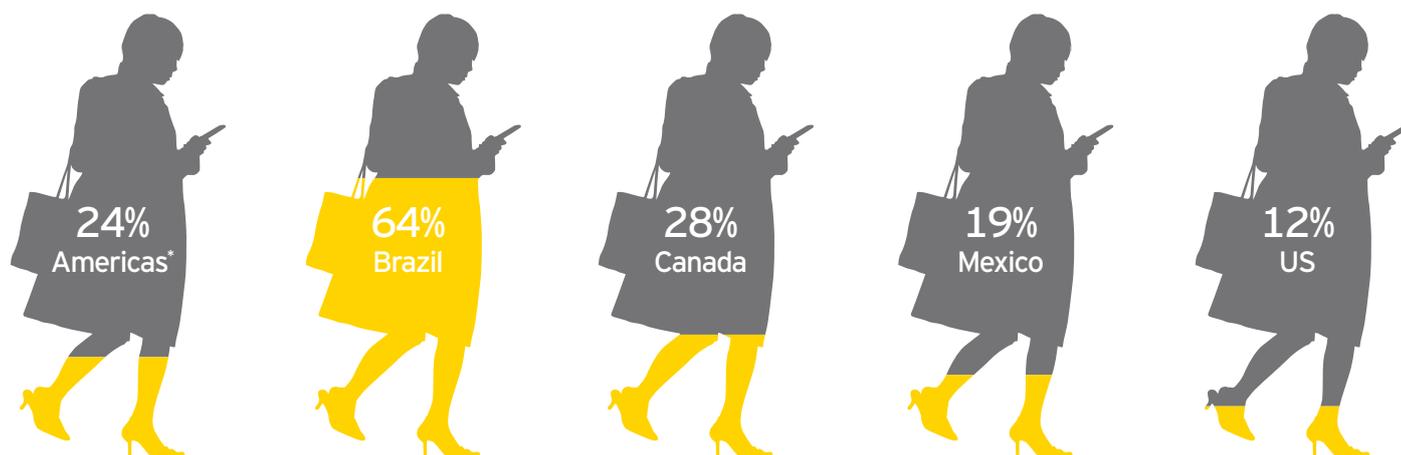
At the point where customers leave, they clearly state that if the provider had given them an incentive to stay they would have considered doing so. On average, 35% said that they would have reconsidered the decision to switch if their provider had offered them better terms on their existing product.

Sadly, if a customer is about to leave, it may be too late to repair the relationship. Building loyalty by meeting customers' needs and expectations over their lifetime will make a difference to persistency.

64%

of providers in Brazil make an effort to retain customers.

Insurers making a great or fair amount of effort to retain customers



* Total percentage for the overall region.

35%

said that they would have reconsidered the decision to switch if their provider had made them a better offer on their existing product.

Implications for insurers

Increase customer contact and responsiveness

It is clear that insurers need to improve the quality of contact with customers both during their life cycle and particularly when they are at risk of lapse. The survey provides evidence that if carriers contact customers and are responsive to their needs, offering greater product flexibility and rewards for loyalty, then they will retain more customers.

Invest in customer retention capabilities in mature and fast-growth markets

Having an effective customer retention function is becoming essential for insurers. If nothing else it helps keep a low level of switching from creeping higher. Retention efforts should be integrated with overall improvements how providers engage with existing customers. In addition to offering increased flexibility and financial rewards for loyalty, providers should invest in building customer insight so they can be more proactive and anticipate customers' changing needs. Needs-based consultation at appropriate intervals is more effective than sales push.

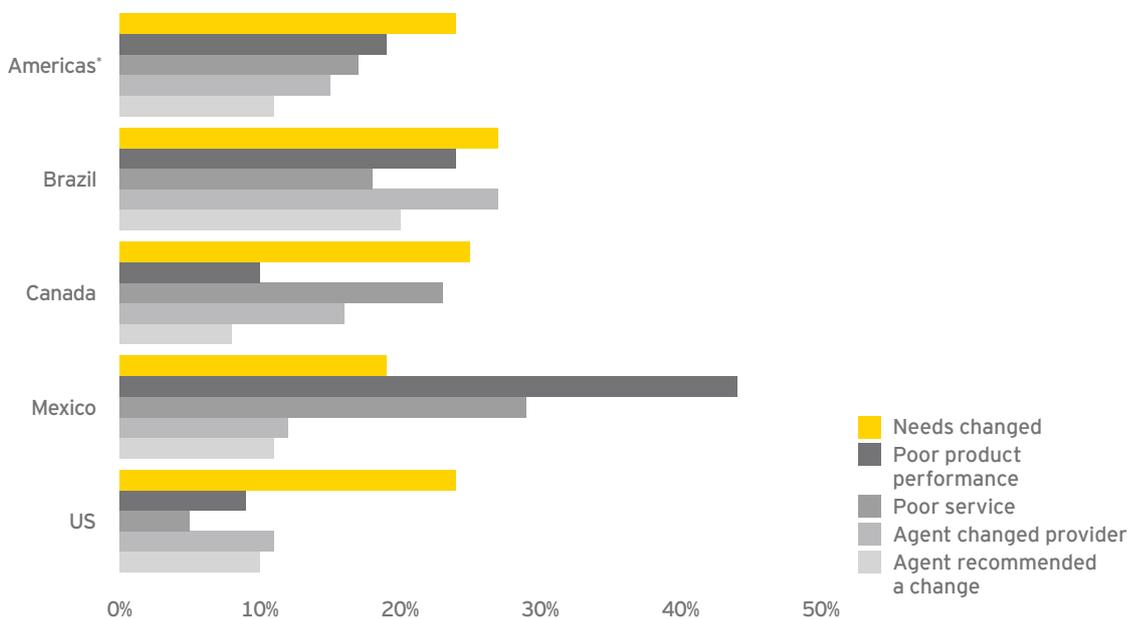
In developing markets, we believe that insurers should be planning for the future by building robust customer analytics and sales and service tools now. Providers in Latin America must also be aware that their pace of market development may far exceed the historical precedent of the mature markets.

Improve management of intermediaries

Finally, insurers can also influence persistency through better management of intermediary channels, whether directly tied to an insurer or independent. Our observations suggest that, some providers are segmenting distributors based on a profitability model that takes into account the persistency of business introduced by intermediaries, enabling the providers to refocus their sales management effort on more profitable intermediaries and withdrawing business from those who do not behave profitably.

Newer capabilities, such as predictive models identify the profile of customers likely to consider switching, will also influence persistency. Granular data insights and tailored relationship management tools will separate winners from also-rans.

Top five reasons consumers switch providers in the Americas



* Total percentage for the overall region.

02

Property and casualty

While there is some truth in the myths around how property and casualty products are bought and sold, the reality is more complex. Understanding the nuances helps insurers understand what they can do better or differently to attract consumers, deepen and retain relationships and unlock greater customer lifetime value.

Our survey explores the following myths:

1. The future is online
 2. It's only about price
 3. Good claims experience builds loyalty
 4. Customers don't respond to cross-selling
 5. Insurers can't influence customer retention
-

The future is online

Received wisdom is that the use of internet resources is growing rapidly and in the future online will be the dominant channel – not only for research, but also for transactions. Our research indicates that while online is an important part of the future, it is just one component of an integrated channel management capability that is critical to growth.

23%

of customers in the Americas are currently using a range of online channels, including independent blogs and providers' own websites.

Across our survey, it is clear that online channels are important for research and that they will continue to grow. The increasing reliance on the internet is not confined to third-party websites, however. Some 23% of customers in the Americas are currently using a range of online channels, including providers' own websites and blogs, to research purchases. However, compared to use in other areas, the use of online channels is relatively low across the region. In Europe 32% of consumers are already using online sources for research, and in Asia-Pacific the comparative percentage is 39%.

Across the Americas, our research shows that 31% of consumers expect to make more use of comparison websites in the future – a significant jump – but one that still leaves the Americas lagging Europe. In this region, 37% of consumers expect to make more use of comparison sites in the future. In Asia-Pacific the percentage rises to 41%. Unsurprisingly, analysis of trends by demographic segment and geography shows that use of online channels is particularly prevalent among younger customers, growing in other age segments, and growing at a faster rate in Latin America than in either the US or Canada.

Sales activity lags behind research activity

The Americas region also lags behind both Europe and Asia-Pacific when it comes to the actual percentage of people who purchase insurance through online channels: 7% in the Americas versus

14% in both Europe and Asia-Pacific. There is also an interesting regional difference here. Consumers in Latin America are on average 20% more likely to consider buying through an online site than are their counterparts in the US and Canada.

One possible reason the US and Canada lag behind the rest of the region in the use of online channels is that such channels are weaker and less mature in these areas than are direct channels, which have substantial resources and momentum behind them. In Latin America, there is less industry infrastructure, so all channels are starting from the same point. The online space may be more popular here than in the US and Canada because it offers the most attractive combination of what consumers want: brands that they trust and sources that are both convenient and effective – corporate websites, comparison sites, and social media such as Facebook.

Personal contact is still essential

Direct personal contact, however, remains important during virtually all critical phases of the product life cycle, particularly when customers are extending coverage, making a claim or dealing with other customer service issues. Customers clearly voiced a desire for both improved online access and continual personal contact when it matters. In our opinion, a true multichannel approach to servicing the customer is essential, not just today, but in the years to come.

Customers who want to make more use of websites



When it comes to submitting a claim, personal contact is by far the desired choice for company communication, with more than 50% of the respondents in the Americas wanting “all personal contact” for the claim submission process. Every country except Brazil showed similar results. In the US, more people are willing to renew their

policies without “all personal contact” with only 38% of consumers require “all personal contact.” This trend is likely to be driven by the technology investment many insurance companies have made in the renewal process. In Mexico, personal contact is even more important than in other countries in this region.

31%
of consumers expect to make more use of comparison websites in the future.

Implications for insurers

Meet customer expectations across channels

The online world is here today, but it is still in its infancy. If experience from across the globe is any indicator, aggregators and competitive websites will gain in prominence. Social media might begin to serve as a proxy for “friends and family.” Multichannel, coordinated data integration will be essential, and consumer desires must dictate its form and timing.

Providers need a multichannel strategy that meets customer expectations by combining clear product information for new buyers and a simplified renewal process for returning customers. This needs to take into account the mix of customer types and their differing information needs. Online take-up, understandably, is slower for more complex products. Making the process easy and reliable is therefore the most important tactic for companies.

Adapt the sales process to the online environment

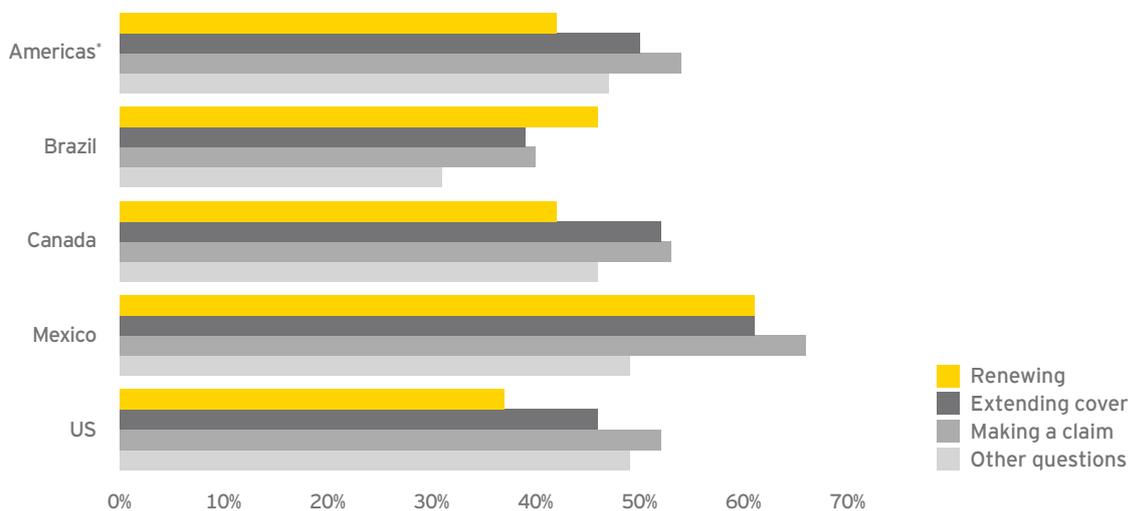
In our experience, many insurers have made great progress in ensuring their sales process is

adapted to the online environment. Customers expect insurers to integrate different methods of communication; they want to be able to choose the communication method that suits them at the time and for a particular purpose, and to switch between channels without repeating part of a transaction.

Integrate communication channels

Insurers have to be able to seamlessly integrate online and offline channels to meet changing customer needs over the product life cycle. Ensuring accurate and easy-to-use record-keeping across three or four different communication methods is a technological challenge for many organizations. Certainly, when consumers decide they want personal interaction, whether face-to-face, by telephone or through web chat, they want their time to be treated as valuable and not squandered on an insurer’s own process inefficiencies or internal requirements. Customer expectations of the sales process are high, and a contact center (phone and internet) will still be needed to support queries.

Customers requiring all personal contact



* Total percentage for the overall region.

It's only about price

Received wisdom is that property and casualty products are often commoditized, and price, therefore, is the only criterion on which they are purchased. Our research indicates that other value factors, such as brand and product features, are surprisingly critical.



Price is an important component of value but it is not the only one. Pricing is particularly sensitive for new business. At renewal, in making their value decision, customers will also consider the service they have received and the confidence they have in the provider. The degree of switching, however, is also influenced by country culture and market structure. For example, in the mature markets of the US and Canada, where many providers compete for business, switching is more common than in less mature markets.

In some ways, property and casualty products are very different from commodity goods, which are characterized by standardized quality and a single price. In contrast, although price comparison websites are starting to drive price convergence in certain segments, particularly in Latin America, property and casualty customers seek to differentiate providers on other components of value, such as brand trustworthiness, previous experience and attractive product features.

A number of drivers affect purchasing behavior

Our research shows that across the Americas, price was the key driver in purchasing decisions for 58% of people, followed by well-known or trustworthy brand (42%), holding another product from the

same insurer (31%), track record or reputation (29%), good customer service (34%) and financial strength and stability (25%). The only market significantly at odds with this picture was that of Brazil, where consumers rated brand strength on a par with price.

Non-price factors are also critical in deepening customer loyalty. Those customers who remained loyal said that service and trust were their main reasons for not switching, with competitive pricing ranked in third place.

Younger consumers will pay a premium for brand

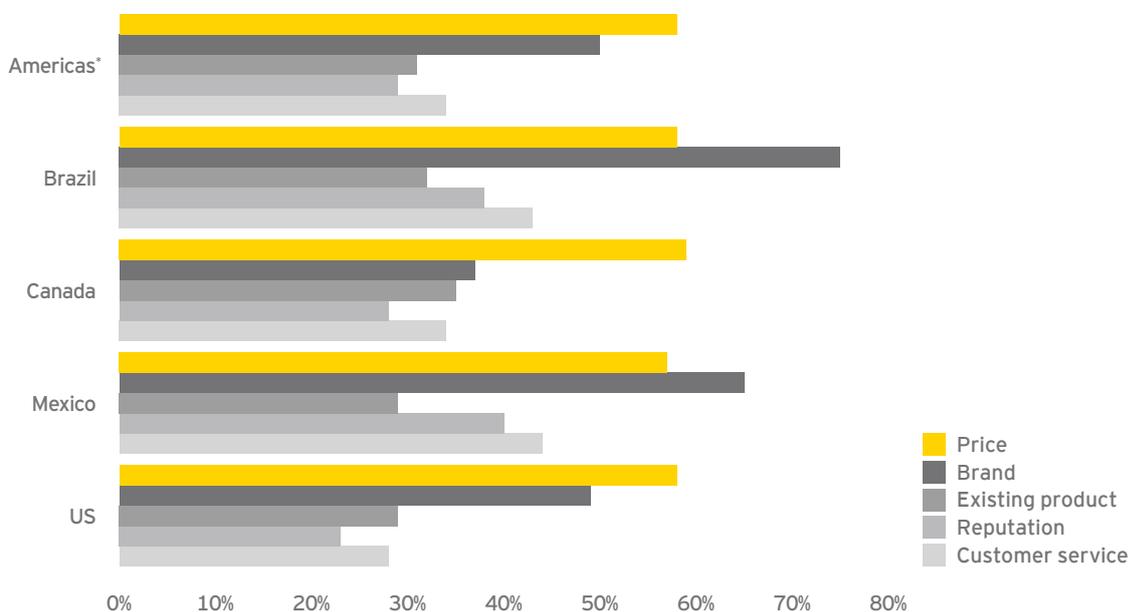
In property and casualty, unlike life and annuities, consumers indicated that they would be willing to pay a premium for certain attributes.

In the US, an interesting demographic quirk also revealed that a relatively high proportion (43%) of consumers ages 18-34 are more willing to pay for a financially stable brand, whereas only 33% of consumers in the 35-54 age bracket shared that preference. Clearly the data shows that effective underwriting and pricing starts with marketing and sales – by product, demographic and other key attributes.

58%

of respondents cited price as the key driver in purchasing decisions.

Key factors affecting choice of insurer



* Total percentage for the overall region.

Key reasons for not changing insurance provider in the Americas

43%

of consumers aged 18-34 are more willing to pay for a financially stable brand.

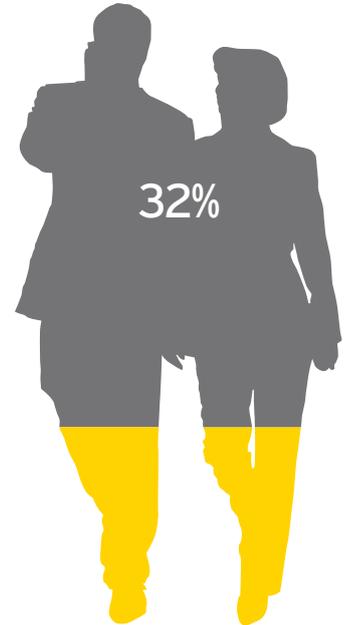
Happy with service



I trust my provider



Price competitive



Easier to stay



Confident they will pay on a claim



Implications for insurers

Build your brand and provide world-class customer service

While being competitive on price remains critical (at least for the desired risk segments), there are additional factors that insurers can address to increase customer retention and win new customers. These include product flexibility, brand positioning, customer segmentation and ease and simplicity of the sales and renewal processes.

Increase pricing sophistication

Somewhat ironically, the fact that non-price factors are nearly as important as price means that companies must increase their pricing sophistication in order to compete successfully in this market. The wide variety of customer segments within the group means that insurers need to understand buyer values and true cost to serve by demographic group and build this information into their pricing models. This is likely to prove more of a challenge for smaller players that are trying to compete with the larger carriers, but lack both the resources to invest in this kind of analysis and the volume of data needed to make it viable.

Customers' vulnerability to other insurers' brands or products must also be included in pricing models that aim to determine how much a provider can charge and still win the business. For example, how much is the consumer willing to pay for the stronger of two brands?

Build customer insight into brand positioning

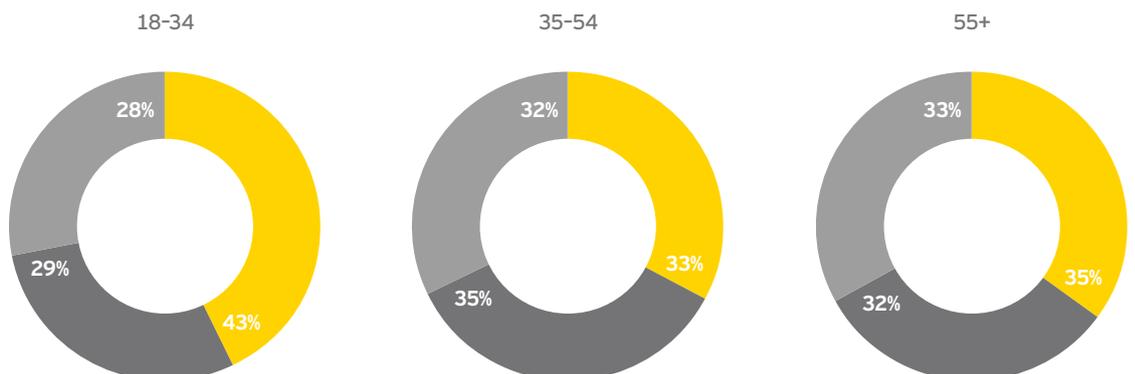
Insurers need to decide how to position their brand – whether to have a multibrand strategy targeting different customer segments, a ubiquitous brand with general appeal, or something in between. Whichever option providers and intermediaries choose, they will need to invest in customer insight techniques and technology, and then build this insight into their customer operational processes and product design to ensure they are agile enough to appeal to a wide set of customer behaviors.

Manage your brand online

Insurers also have to invest in managing their brand online to ensure that blogged and tweeted comments reflect their brand values. Managing their reputation in cyberspace is not something insurers have had to do in the past.

Are you willing to pay a premium for a product if it comes from a strong or financially stable brand?

● Yes ● No ● Don't know



Good claims experience builds loyalty

Received wisdom is that if providers offer a good claims experience, customers will be delighted and this will drive loyalty and help build brand value. Our research shows that a good claims experience is now expected, and that a bad experience diminishes brand value.

51%

of consumers in the Americas who felt they had received poor claims service said they were unlikely to switch providers.

In our research a very clear and consistent picture emerged around claims. Excellent claims service is expected and will not, in itself, drive loyalty or customer retention. Customers expect great service as a matter of course and the fact that they have received it will not stop them from shopping around. Conversely, a poor claims service is likely to drive customers to switch providers.

In our research, 51% of consumers in the Americas who felt they had received poor claims service said they were unlikely to switch providers compared to 67% of those who never filed a claim and 66% of those who had received a good claims experience. This pattern was similar in many of the regions we surveyed.

When asked what their insurer could have done to improve the handling of their claim, the overwhelming response was that insurers could have acted with more speed (33%) and communicated better (32%).

Substantial opportunity to improve claims in Brazil

Regional figures conceal a considerable difference in satisfaction with the claims experience between Brazil and the other countries in the region. In the US, 71% of consumers said they were satisfied, followed closely by consumers in Mexico (68%) and Canada (66%), but in Brazil only 31% were satisfied.

Measures insurers can take to improve the Americas' claims experience

Dealt with my claim more quickly



Provided a better level of communication with me during the claims process



Nothing



Provided a more personal service



Provided more or better quality options for repair or replacement



Provided better practical support following the incident



Used better quality companies/people for the repair or replacement



Were flexible because it was a minor or first claim on this policy



Other



Implications for insurers

The key message from the customer perspective is that a good claims experience is a necessary factor driving renewal but is not the only factor. From the provider's perspective, getting the claims process right will help companies manage claims spend rather than drive improved retention.

Inefficient claims processes are one source of financial leakage for insurers across the region. Improving claims efficiency and effectiveness can therefore have a significant impact on an insurer's bottom line.

Maintain claims service investment across the region

In the North American markets, claims service has a predominantly downside risk. As customer expectations change, it is critical that insurers invest to keep up and to ensure that communication methods and distribution channels integrate seamlessly, otherwise the level of service that would have scored 8/10 today, might only score 6/10 in three years' time – truly damaging company retention. However, in Brazil and Mexico, improving the claims experience could be a source of

competitive advantage for new entrants as standards are not meeting customer expectations as of today.

Differentiate service based on customer needs

To meet customer expectations, insurers need a deep understanding of the varying needs of individual customer groupings. While older customers tend to value personal contact during the claims process, younger consumers are more concerned with speed of settlement. Consumers across all age groupings may rely on a variety of communications channels – phone calls, email or texts to keep them informed as a claim progresses.

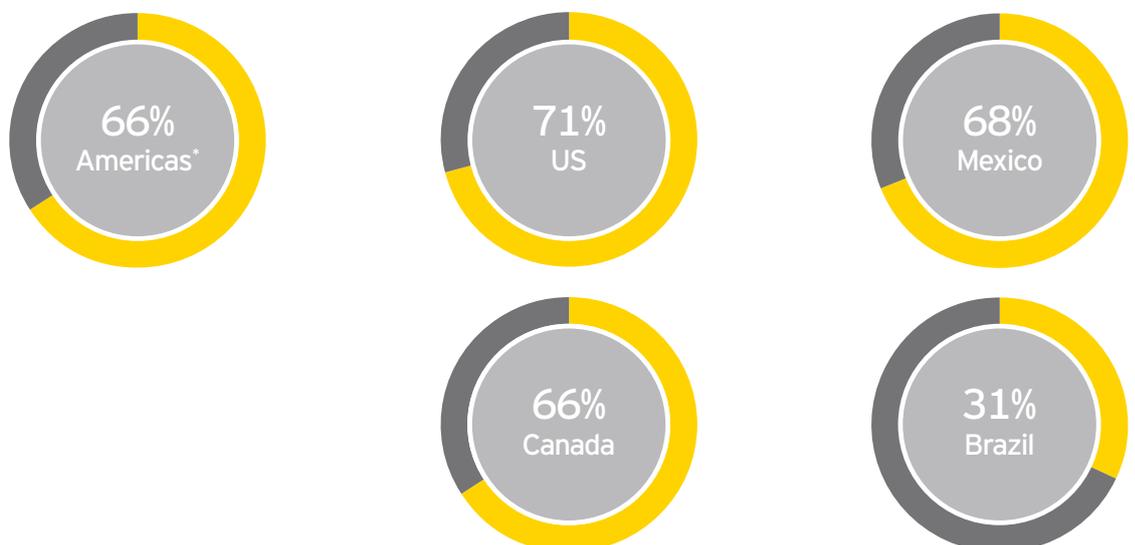
Maintain consistent communication across channels and touchpoints

To meet customers' expectations, companies must be agile enough to respond promptly and appropriately and maintain transparency and consistency, across multiple channels and touchpoints. Investment in claims processes and technology should not be driven by the belief that it will help to improve retention, but by the desire to improve efficiency for both the customer and the insurer.

68%

of consumers in Mexico were satisfied, while in Brazil fewer than one-third (31%) stated that they were satisfied.

Claims satisfaction varies across the Americas



* Total percentage for the overall region.

Customers **don't** **respond** to cross-selling

Received wisdom is that customers don't enjoy the sales process and resent insurers trying to sell them additional products. Our research finds that insurers who understand their customers' needs and offer the right propositions can cross-sell, up-sell and repeat-sell effectively.



52%

of consumers stated they preferred to buy multiple products from the same provider.

Our research shows that while present levels of cross-selling are relatively low, customers are willing to buy multiple products from their existing product providers. In fact, many prefer to do so if it is convenient for them and delivers greater value. Across the region, 52% of consumers stated they preferred to buy multiple products from the same provider, with the lowest level of agreement in Canada (49%) and the highest in Mexico (62%).

Across the Americas, convenience (simplicity) and value (cheaper) are the most often cited drivers for repeat purchasing, with service also featuring in the responses from Brazil and Mexico.

Although customers are willing to buy more, they expect insurers to make it easy for them and to share in the benefit. The process has to be convenient – for example, an opportunity for cross-selling must be provided at the time of original purchase and via the channel of the customer’s choosing.

Implications for insurers

Close the opportunity gap

Whatever channels carriers offer, there is significant competitive advantage to be had in making a step change in the ability to cross-sell as there is an opportunity gap here between what customers want and today’s cross-selling reality. Insurers need to ask how they can demonstrate that another purchase from the same provider is either easier or a better value than going to another insurer.

As the amount and quality of third-party, publicly available data grows, so too does the potential for carriers to service their customers better and cross-sell their products. Consumers want and expect innovation and resourcefulness.

Leverage data insights to align products to customer needs

We believe direct sales channels should seek to leverage their improved customer data to provide a range of products aligned to the customer’s needs. Independent agents (particularly multi-tied) are also in a very good position to provide a range of products and price

comparison points. Online channels will need to offer easy-to-understand, unbundled products with clear up-sell options enabling customers to build into the product the value that meets their needs. In the online environment, the strategy will involve more up-selling than cross-selling.

Across every channel, to make purchasing easy and convenient, sales processes for repeat sales should leverage the insurers’ existing data to shorten the sale time and help tailor the product. Insurers who ask questions to which they already know (or should know) the answer will lose their goodwill advantage very quickly.

Reward customer loyalty

In addition, customers in many countries will expect a discount for holding more than one product, so insurers need to develop a pricing model that allows this. For example, they might share some of the benefits from an improvement in the assumptions on retention for those customers with multiple products.

Key reasons for buying multiple products from the same provider

It just makes it simpler to have it all in one place



My agent/advisor suggested that I do it



It was cheaper to have multiple products with one insurer



Other



I think I will get a better service from one provider



Don't know



Insurers can't influence customer retention

Received wisdom is that providers feel they have little ability to retain customers – it's just not something they can control. Our research finds that insurers can influence retention by showing their customers that they value their loyalty.



Retention rates for property and casualty insurers vary widely across different countries. Part of this variation is explained by different behavioral norms and part by the level of effort insurers put into the pre-renewal effort.

Our research shows that customers, as a general rule, do not wish to switch product providers in the Americas. Some 65% of consumers are either not likely or not at all likely to change insurers in the next five years. Within the region, only Brazil deviates moderately from this picture. Here consumers are less loyal than in other countries, with only 51% of consumers reporting they are unlikely to change insurance provider in the next five years, despite the fact that insurers work harder here than elsewhere to retain them.

In the UK by comparison, only 40% of consumers report that they are unlikely to change provider in the next five years, indicating perhaps that there can be no grounds for complacency in the Americas.

Customers more likely to renew if they are asked

Our research shows that across nearly all countries, most consumers who switched providers felt that their insurers made little or no effort to retain them. This is particularly unfortunate given

that in all but one of the countries we surveyed, more than half of consumers indicated that they would have been more likely to renew had they been contacted by their insurer or agent.

In aggregate across the Americas, 51% of consumers said their insurers made no effort to retain them, and 24% reported only a little effort, although 62% indicated they would be more likely to renew if their provider or agent contacted them.

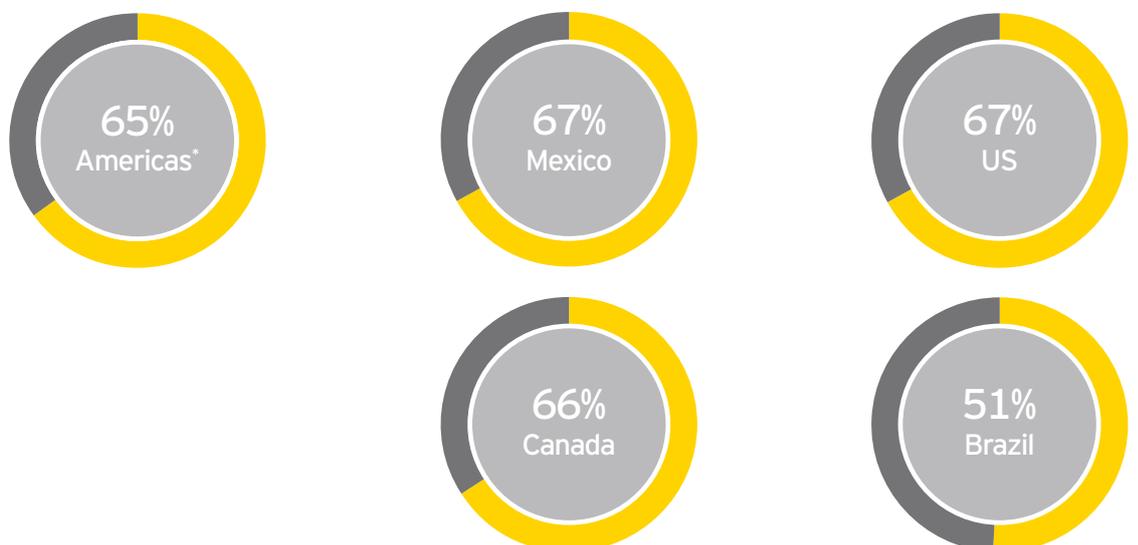
In Canada, 83% of consumers reported they had received little or no contact prior to renewal and the US, at 73%, was little better – perhaps reflecting the higher cost associated with contacting a larger consumer base in highly penetrated markets. These numbers, while high, are not out of line with other mature markets – the comparative figure for the UK, for example, is 84%.

Perhaps drawing on their experience from other industries (for example, credit cards or consumer goods), consumers are quite used to having their loyalty rewarded, either through price discounts or extra value. Thinking about how to build loyalty by meeting customers' needs and expectations over the product lifetime could make a significant difference to retention.

65%

of consumers are either not very likely or not at all likely to change insurers in the next five years.

Americas consumers are relatively unlikely to switch providers in next five years



* Total percentage for the overall region.

83%

of Canadian consumers reported they had received little or no contact prior to renewal.

Implications for insurers

Lock down retention from the outset

Customer inertia favors providers, but it is clear that there is more to gain in some countries from improving retention activity. If the UK is any indication, insurers should move fast to lock down retention while they still can.

Understand cost to serve and target retention efforts accordingly

While retaining their best customers is the goal, unless insurers understand the cost to serve of different customer segments and channels, they cannot develop the predictive models that will enable them to determine whether a customer is worth retaining and, therefore, how much they should invest in retaining the customer. Companies also need to better understand the switching behavior of their clients and how it differs by territory and customer segment. Combining an understanding of cost to serve with switching propensity will inform an insurer's retention strategy.

Having an effective customer retention function that segments the customer base, targets those who are most valuable (and likely to switch) and communicates with them proactively is becoming increasingly important for insurers to boost retention and profitability.

Build retention strategies around an experienced team and flexible products

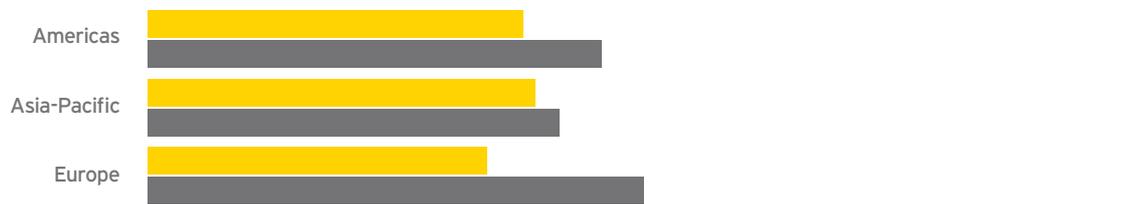
For some insurers, the best retention strategy will be a sophisticated approach using a highly trained specialist retention sales force able to make appropriate recommendations around product and pricing combinations. This requires not only a dedicated staff, but also agile products with flexible pricing models so that the retention team is able to negotiate effectively on price and product coverage to meet customers' needs. Without this level of product flexibility, the retention team ends up only being able to offer blanket discounts, which rarely create long-term profitability.

Invest in models and rewards

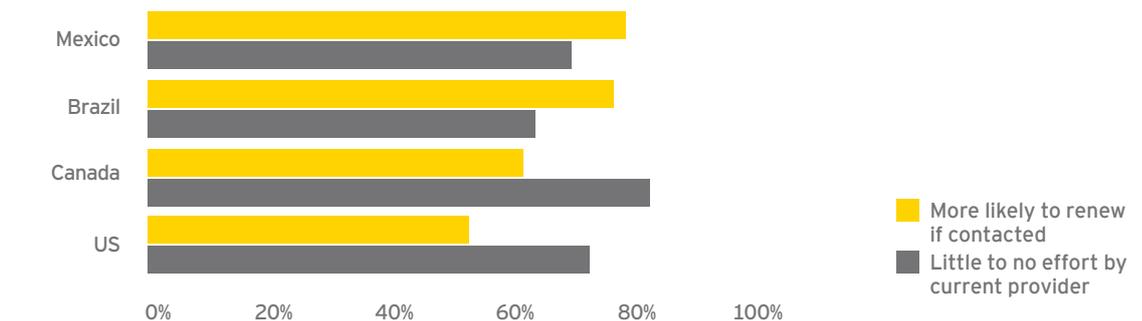
Tools such as predictive models that determine which customers are likely to leave but don't want to do so, will be essential to better harvest CRM (Customer Relationship Management) benefits and drive improved retention. Also, loyalty and rewards programs are sorely lacking at many carriers today – loyalty innovation based on customer demographics is essential to keep pace in an evolving landscape.

Retention effort compared with renewal potential across regions

Regional average



Country average



During August and October 2011, Ernst & Young commissioned a global customer insurance survey. Working with Ipsos, this research focused on better understanding the behaviors and expectations of customers across the globe.

The survey covered **24,000 customers** across **7 regions** and **23 countries**.

The survey was designed to be broadly representative of the insurance-buying population in each country, accessible through online panels. Only people holding at least one insurance policy were eligible to participate. This methodology has been widely used by Ipsos for insurance, consumer products and services clients around the world.

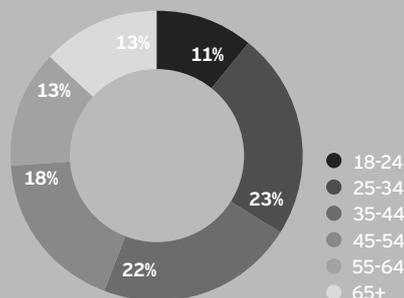
It is important to remember that in developing markets, online panels tend to be more representative of an urban and relatively affluent population than of the population as a whole. However, as this is the group that is more likely to buy insurance (and indeed, consumer goods and services in general), it was felt that an online approach still produced a sample that is broadly representative of the target market for insurance companies. It is also a reasonable assumption that younger people are less likely to own an insurance policy and therefore formed a smaller proportion of responses to the survey than they do of the population as a whole.

The following steps were taken to reach a cross-section of insurance customers via the online panels:

- ▶ Interviews were conducted in each market using online access panels* among members of the adult population.**
- ▶ The outgoing sample, i.e., the group of people initially invited to respond to the survey, was balanced to be representative of the national population by age, gender and region.†
- ▶ A screening question was placed at the beginning of the survey to exclude respondents who did not hold at least one product from a set list of insurance products.
- ▶ Quotas were set on life and pensions and non-life insurance to ensure equal numbers of responses across the two main insurance categories (in order to facilitate analysis within each category).
- ▶ No further quotas were set. The interviews were left to fall out naturally across the online demographic groups on the assumption that the responses should broadly reflect the profile of the insurance market in each country.
- ▶ For the European, American, Asia-Pacific and India regions, the data has been weighted according to the size of each individual country's Gross National Income adjusted for the Purchase Parity Power (GNI PPP). Source: *World Bank website, 2010 data*.
- ▶ Analysis of the survey findings has been conducted jointly by Ipsos and Ernst & Young.

Life and pensions

Age

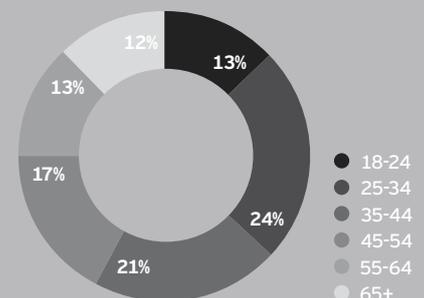


Gender



Non-life insurance

Age



Gender



* South Africa conducted offline and India mixed online/offline.
 ** In some markets this is 18-65 years old, extended to 65+ where feasible.
 † Excludes regions in some developing markets where this is not appropriate.

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