



# Through the looking glass

Understanding customers –  
easier to say than do.

A report by ReMark International  
October 2015

Last year we challenged  
the industry not to write off  
growth opportunities  
in developed markets.

This year we challenge the  
industry to see products  
and services through the  
eyes of its customers.

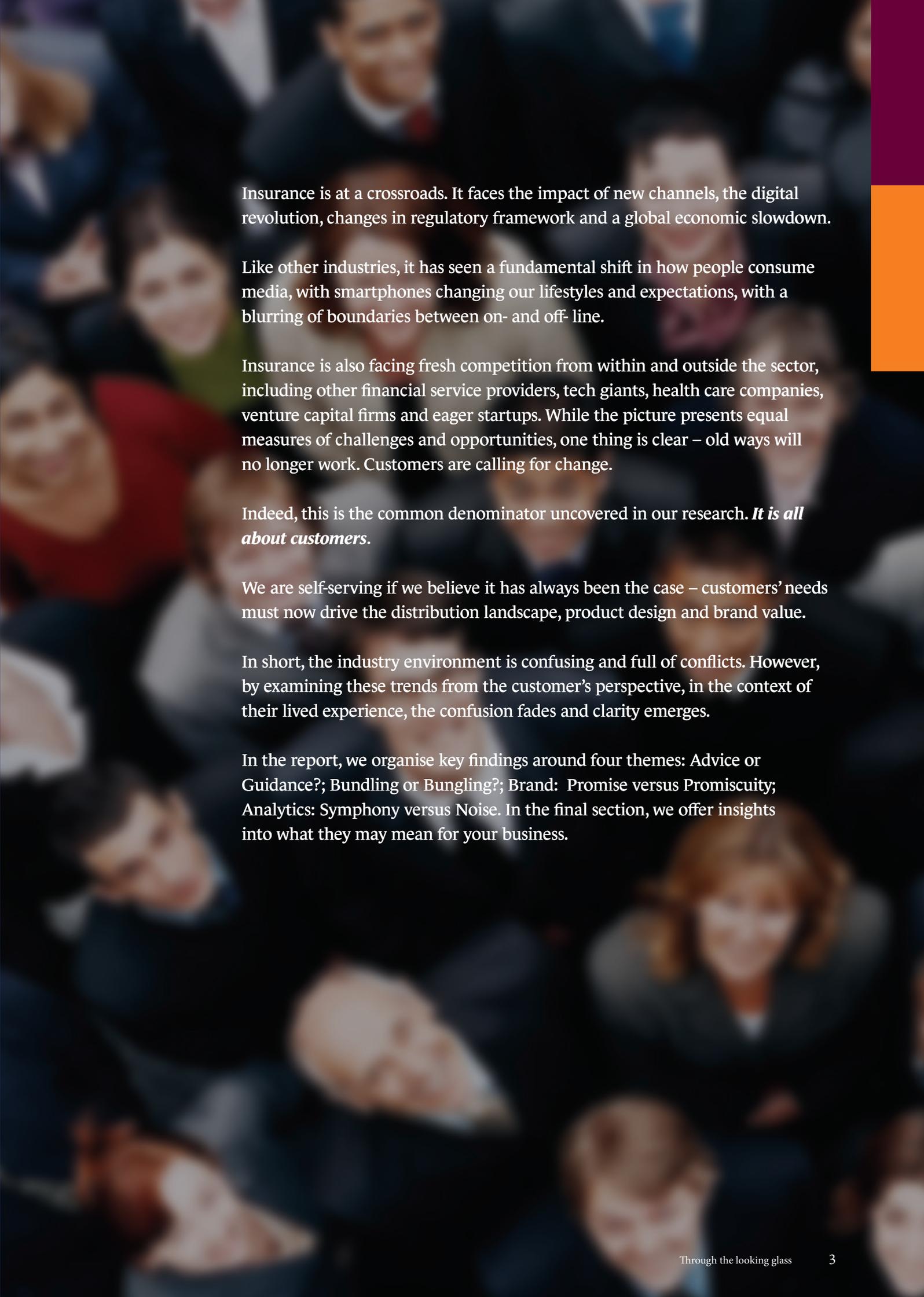


# ReMark

Maximum Value Creation

# Contents

Executive Summary	5
About this research	6
<b>KEY THEMES</b>	
<b>Theme One:</b> Advice or Guidance?	7
<b>Theme Two:</b> Bundling or Bungling? Products and Customer Value	10
<b>Theme Three:</b> Brand – Promise versus Promiscuity	13
<b>Theme Four:</b> Analytics – Symphony versus Noise	17
What do you need to do?	20



Insurance is at a crossroads. It faces the impact of new channels, the digital revolution, changes in regulatory framework and a global economic slowdown.

Like other industries, it has seen a fundamental shift in how people consume media, with smartphones changing our lifestyles and expectations, with a blurring of boundaries between on- and off- line.

Insurance is also facing fresh competition from within and outside the sector, including other financial service providers, tech giants, health care companies, venture capital firms and eager startups. While the picture presents equal measures of challenges and opportunities, one thing is clear – old ways will no longer work. Customers are calling for change.

Indeed, this is the common denominator uncovered in our research. ***It is all about customers.***

We are self-serving if we believe it has always been the case – customers' needs must now drive the distribution landscape, product design and brand value.

In short, the industry environment is confusing and full of conflicts. However, by examining these trends from the customer's perspective, in the context of their lived experience, the confusion fades and clarity emerges.

In the report, we organise key findings around four themes: Advice or Guidance?; Bundling or Bungling?; Brand: Promise versus Promiscuity; Analytics: Symphony versus Noise. In the final section, we offer insights into what they may mean for your business.



# Executive Summary



**Stephen Collins**  
Chief Executive Officer  
ReMark International

Welcome to ReMark's second annual Global Consumer Study (GCS) which once again is based upon the responses of a consistent sample of insurance consumers in 14 major markets. The purpose of this research is to focus on the consumer and their behaviour specifically as it relates to insurance: why and how they purchase – and experience – insurance. This year's research is grouped into four key themes.

## **Advice or Guidance?**

It is clear that consumers place great importance on advice, however there is a disconnect between how the industry perceives the need for (and value of) advice and how those issues are seen by the consumer. In essence, the dynamics of price, product, service and brand hold sway at different levels within different segments. It is only by understanding these dynamics – and delivering advice in a fashion that consumers find compelling – that the industry will continue to grow. Regardless of industry perceptions, it is clear that advice remains a powerful and necessary part of the proposition as far as consumers are concerned.

The need for insurers is to accept primary responsibility for engaging directly with customers when designing propositions for the advice channel. This represents a distinct move away from the historical practice of using the advisor as an interlocutor between the customer and the insurer.

## **Bundling or Bungling?**

Customers continue to buy bundled products. While there is an industry perception that cost factors underpin the sometimes startling lapsation numbers, we believe the problem lies in consumers' perception of value as a result of poor engagement around these products. By educating customers, improving their experience and adapting to changing needs, bundled products are likely to retain their place in insurers' product portfolio.

## **Brand: Promise versus Promiscuity**

Our third theme focuses on issues confronting all industries – disruptive change driven by digital technology, especially the rise of social media and mobile. These trends are reshaping how insurance is sold and how brands work. We counsel the industry not to see this trend as playing out universally across all markets. Our research also suggests the 'solution' to this issue is one that has been discussed by marketers for decades – insurers need to 'share' their brand with their customers.

## **Analytics: Symphony versus Noise**

In our final theme, we recognise the industry's obsession with Big Data. The industry now needs to move from Big Data to smart, relevant data – data that examines and improves the customer experience rather than focusing purely on underwriting efficiency and cost-out activity.

The comprehensive research in this report indicates that the challenge for the industry is to see the issues of the day through the eyes of its customers. This is a key path to growth for the industry.

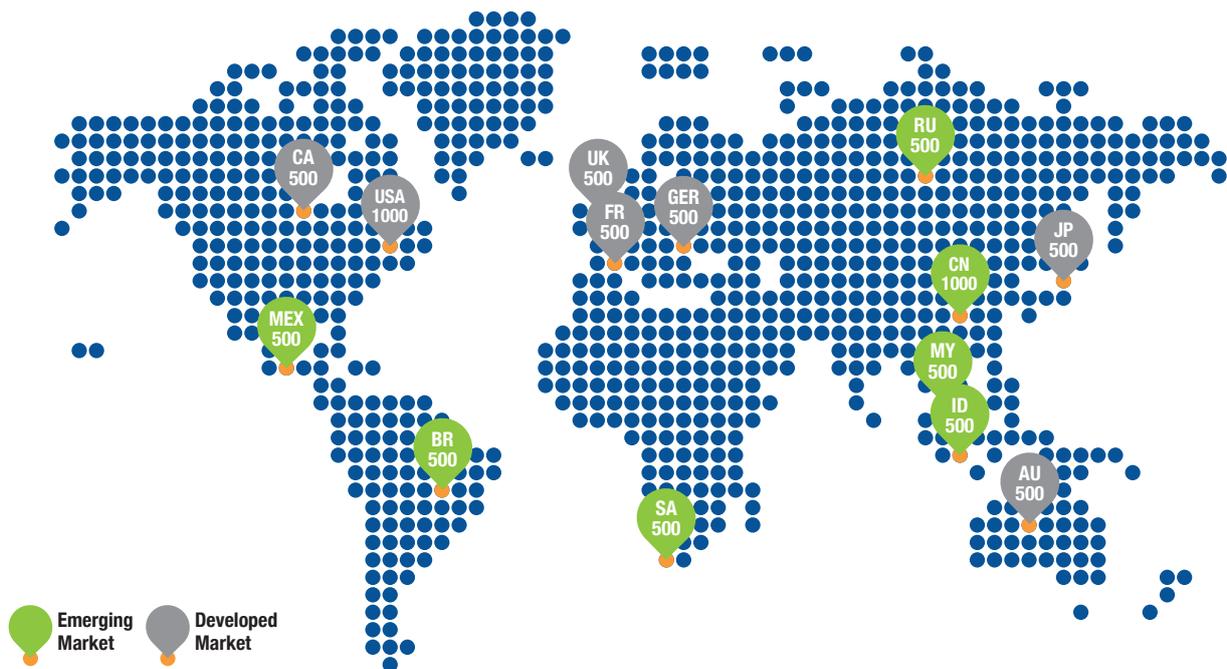
## **Join the conversation**

Thank you to our readership for the comments and contributions generated by last year's report. Your ideas have informed this year's report to help ensure that it offers relevant and actionable insight for the critical task of reshaping the industry for the customer. We welcome your feedback once again this year.

# About this research

This research is based on online interviews with 8,000 insurance consumers across 14 key life markets with fieldwork conducted in 2015. The sample and methodology complies with best practice for each market based on a nationally representative set of demographic and economic parameters.

Figure 1: Breakdown of customer study sample by region



**Truly global coverage:** The 14 markets in this research account for around 85% of global life insurance risk premiums and approximately 80% of global GDP.

# Key Themes

## Theme One: Advice or Guidance?

### Customers place a great deal of importance on advice, just not in the way we think

To an extent, an insurance purchase is just like any other. In **Say No to Maturity**, our 2014 Global Consumer Study (GCS 2014), we reiterated the four phases of a purchase decision:

- Customer research
- Industry-led lead generation
- Individual trigger point
- Transaction

However, our research suggests that the complexity and intangibility of insurance products means customers are placing greater emphasis on how they receive advice (channel), the nature of advice and the credibility of that advice.

As a result, we see the emergence of four broad categories of customers:

- **Professional Advice buyers:** customers selecting an advisor based on their qualifications, independence or fees (50% of customers – up from 38% last year)
- **Traditional Advice buyers:** customers selecting an advisor based on a personal recommendation or referral (30% of customers – significantly down from 43% last year)
- **Guided Direct buyers:** customers buying direct but needing significant support during

the buying process (13% of customers – marginally up from 12% last year)

- **Execution Only buyers:** customers buying direct and with enough confidence to complete the process without support (7% of customers – marginally down from 8% last year)

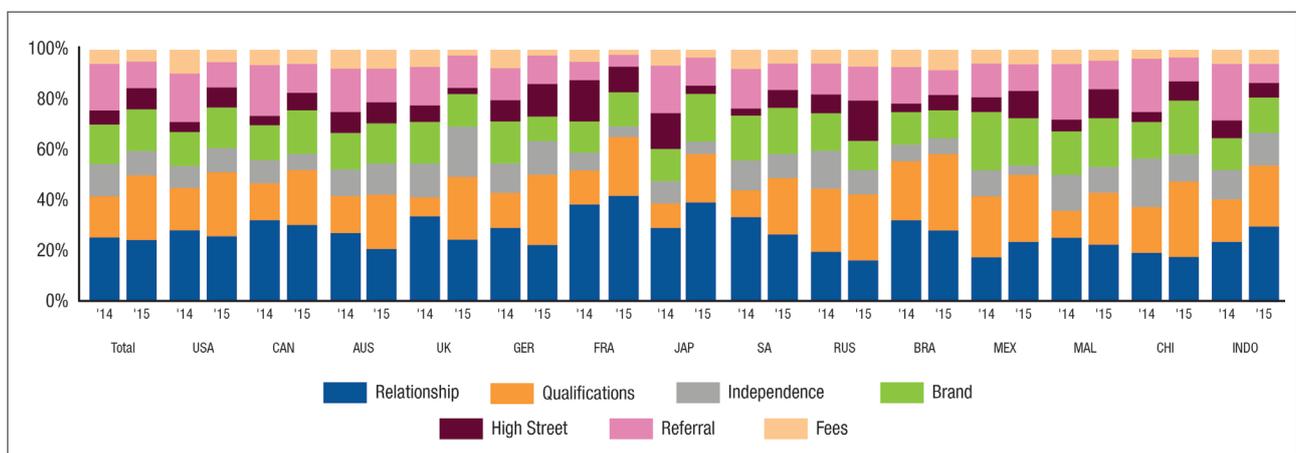
In short, customers value the quality of advice, hence the emphasis on advisors' qualifications. Our research suggests customers want to make an informed decision but still prefer someone helping them with the (at times, tedious) process of insurance application. Consistently, the following two trends are observed:

- More customers are seeking professional advisors
- Fewer customers choose to complete the purchase process without support – this is at odds with many of the industry's previous predictions and investments in the growth of direct distribution

### More customers seek professional advisors

The segmentation below illustrates that the advisor selection process is changing rapidly as regulation puts pressure on relationship-based advice models which do not deliver for the customer. Globally, the percentage of consumers selecting an advisor based on 'relationship' has remained steady at 25%, while those selecting

Figure 2: Most important selection factor for a financial advisor



Note: % ranked first for each factor by region.  
 What are the reasons for choosing your existing advisor? You can select more than one.

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*‘Guided Direct’ offers a growth channel as it is supported by regulation and online uptake. It is also the channel where the existing industry struggles to deliver.*

on ‘qualifications’ has risen from 17% to 26% (Figure 2). Qualifications are now the most frequently cited factor for advisor selection with – tellingly – significant increases in markets with a strong consumer protection focus such as the UK, US, Canada and South Africa.

For example, the US has seen growth in the independent Registered Investment Advisor channel. RIAs take fiduciary responsibility for clients and typically operate on a fee rather than commission basis (albeit with a skew toward investment products). Interestingly, other channels such as broker dealers are now reviewing their models and responding to client demand.

Across markets, the interaction between factors such as independence and qualifications are becoming more important. In particular, the link between investments and insurance products is critical with respect to advisor choice. Customers frequently select an advisor primarily for investment advice and consequentially use the same advisor for life insurance.

**Few customers choose to complete the purchase process without support**

Most customers who want to buy direct still want help during the buying process. Figure 3 validates this point with *Execution Only* in decline and the aggregate of *Professional Advice*, *Traditional Advice* and *Guided Direct* buyers broadly flat year-on-year. Curiously, the lack of propensity to buy direct is seemingly

at odds with regulatory attempts to reduce the number of advisors (see GCS 2014) and the weight of industry investment which is focusing on direct-to-consumer propositions.

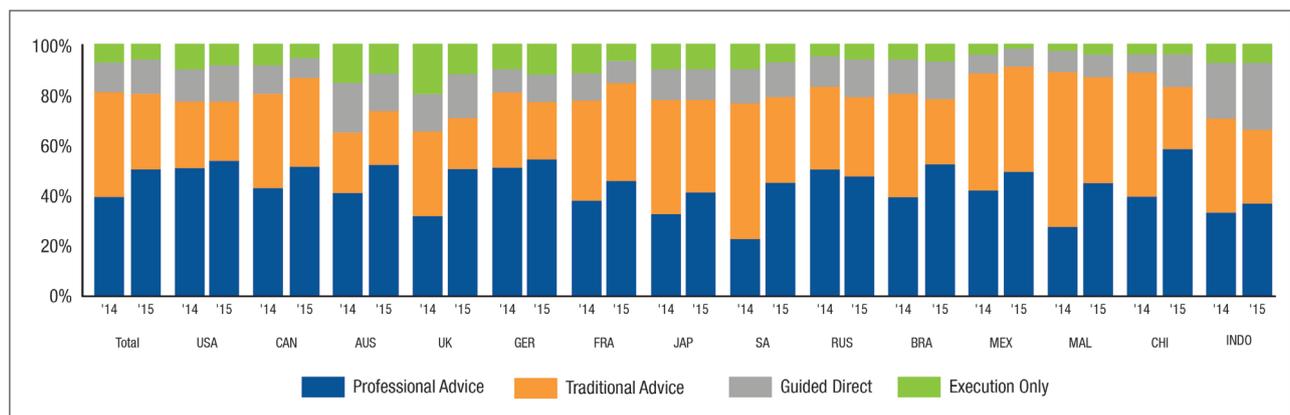
Principally, of the four, *Guided Direct* offers a growth channel as it is supported by regulation and online uptake. It is also the channel where the existing industry struggles to deliver. This is largely because agency insurers face internal conflict while intermediated insurers are blocked by external channel conflict.

Meanwhile, direct insurers need to build more complex products and incorporate underwriting into the customer journey. Due to these factors, it is increasingly evident that new entrants and new value chain configurations may be better placed to deliver within this channel.

Notably, the dynamics between price, product, service and brand vary significantly by segment:

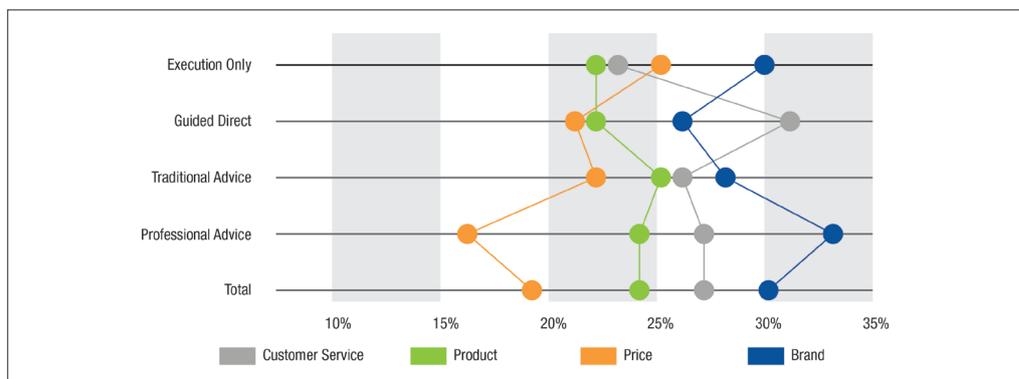
- For *Execution Only* customers, there is a willingness to sacrifice service to gain a better price – even if this means a product solution that may not be the most appropriate
- Alternatively, the *Guided Direct* segment privileges service over price. However, in line with *Execution Only*, these customers do not seek the support of a face-to-face advisor
- For *Professional Advice* and *Traditional Advice* customers, we see the emergence of brand playing a critical role for buyers in both developing and emerging markets, with less price-sensitivity (Figure 4)

Figure 3: Customer channel sub-segmentation framework



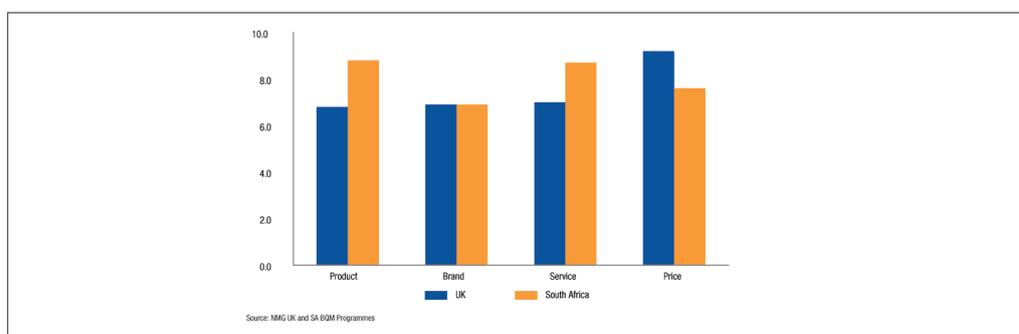
Note: % of customers in each customer buying channel segmentation. What are the reasons for choosing your existing advisor? You can select more than one. What prompted you to purchase in this way?

**Figure 4: Provider selection factors and information sources by customer sub-segment**



Note: % ranked first for each factor for developed (Dev) and emerging (EM) markets by customer channel segmentation. Please rank the following factors in terms of their importance to you when selecting a life insurance provider, where 1 is most important and 4 is least important. Again, even if you have never taken out life insurance, please consider what would be of importance to you if you were to look into it.

**Figure 5: Advisor selection factors for life insurance (UK and South Africa)**



Evaluate each attribute on its importance when recommending a protection provider to a client, where 1 is least important and 10 is most important.

These findings conflict strongly with intermediary research in major life insurance markets which shows that intermediaries lean towards a focus on product or price (Figure 5). Indeed, this critical gap between the customer and advisor view may be widening.

**The implications: a clearer view of the advisory role**

Our research suggests that the role of the advisory channel could benefit from a rethink. The following table summarises the picture

from an Industry versus Customer Perspective. To us, the mismatch is apparent.

At this point the industry is expecting the advisor to drive provider selection. The problem with this strategy is that advisors struggle to identify new propositions for customers.

For companies that want to grow or disrupt the market, the focus should be on what customers need and want. Ultimately, if insurers get this right, advisors will sell their products.

Purchase Decision Process	Industry Perspective	Customer Perspective
Customer research	Emphasis on intermediary rather than end customers	Decisions are customer-led, but professional advice is valued
Lead Generation	Driven by advisor	Innovation in channels & propositions
Lifestyle Trigger	Driven by advisor	Smarter use of data
Purchase	Heavy investment in fulfilment via direct	Would like process to be guided by "advice"

## Theme Two: Bundling or Bungling? Products and Customer Value

### Customers buy bundled products – but remain less than convinced that bundled products provide optimal value

In our GCS 2014 report, we identified the role of bundled products (a savings plan with life insurance) in supporting high levels of life insurance penetration, especially in emerging markets. In this theme, we replay customer perceptions of bundled products to the industry to encourage a customer-led approach to developing new life insurance propositions. To do this, we focus on the customer’s understanding of product and proposition and their perceptions of value based on stated propensity to lapse.

In this study, it is clear to us that a significant proportion of customers understand they are purchasing life insurance with investment elements, though it appears they are not convinced they are getting a ‘great deal’. This in turn leads to greater vulnerability to lapsation – a trend exacerbated by regulatory changes that are customer-value driven. The low-yield investment environment is also having a substantial effect from both a customer and insurer perspective.

In the absence of a change in the investment environment, the key for the industry is how to reshape customers’ perceptions of the product value and, once again, to improve the customer experience.

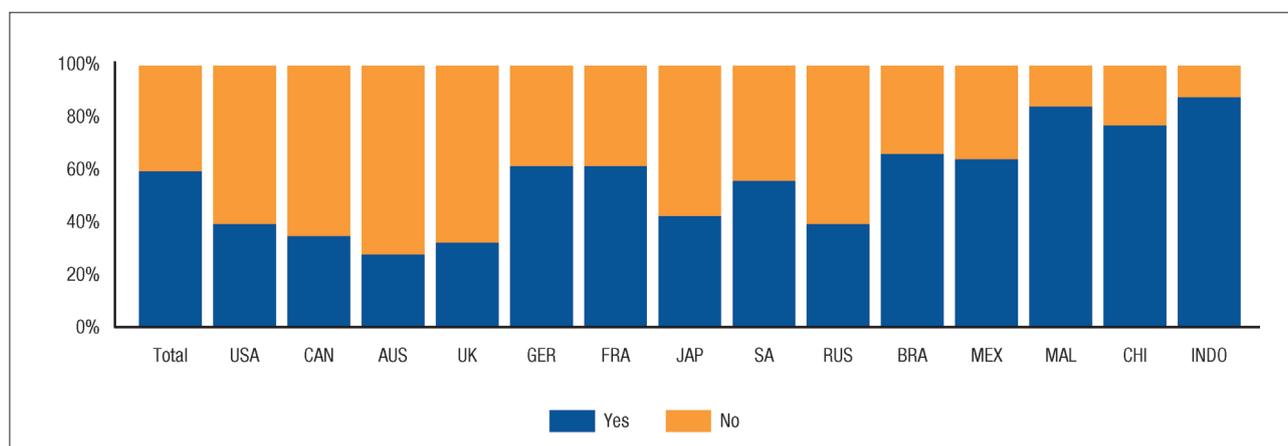
### Bundled products are a global concept, not restricted to emerging markets

Globally around 60% of customers who own a life insurance policy say they have an in-force policy which includes a savings or investment component (Figure 6). From a new business perspective, bundled products are most common in Asia, continental Europe, and a range of emerging markets, but they remain relevant as a legacy product (e.g. with-profits in the UK).

### Most customers understand the basics – and value the life insurance element

More customers say that the primary purpose of the policy is life insurance while also recognising that less than 50% of their contributions are allocated to life insurance (Figure 7). This indicates an interesting dynamic: most customers (ex-China) are buying policies for life insurance but paying more for investments. The driver of the product purchase is life insurance but the additional ‘investment’ premium is funding (via commissions) most of the distribution costs.

Figure 6: Penetration of bundled products

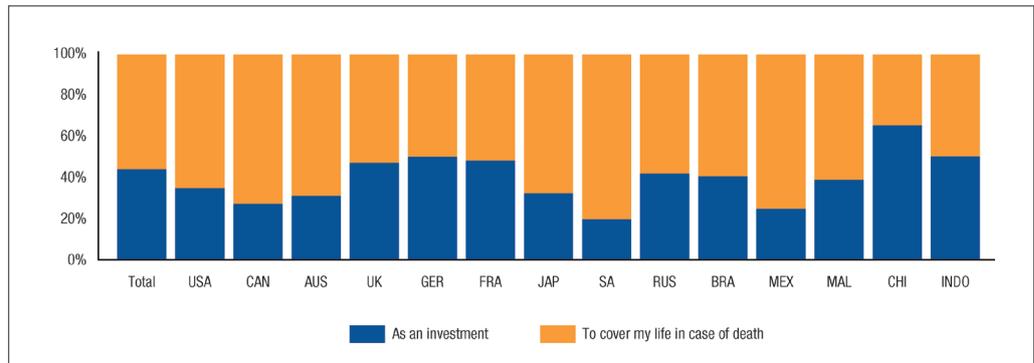


Note: % of life insurance customers with product type.  
Do any of your life insurance policies also contain a savings or investment plan?

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... many customers do not fully understand the value of the product. Indeed, some customers never understood the full extent of the proposition – many understood the offer but perceived that value decreases over time.

Figure 7: Primary driver of buying a bundled product



Note: % ranked first for product type. What is your main motivation for taking out a life insurance policy?

None of these observations indicate an issue with bundled products or propositions. In fact, responses on average allocations to life insurance could be seen as a positive indicator of customer awareness.

The numbers are very high: 33% of customers in Indonesia, 40% of customers in Brazil and 41% of customers in China are ‘quite likely’ or ‘very likely’ to cancel products in the next five years (even after adjusting for any policy maturities during this period).

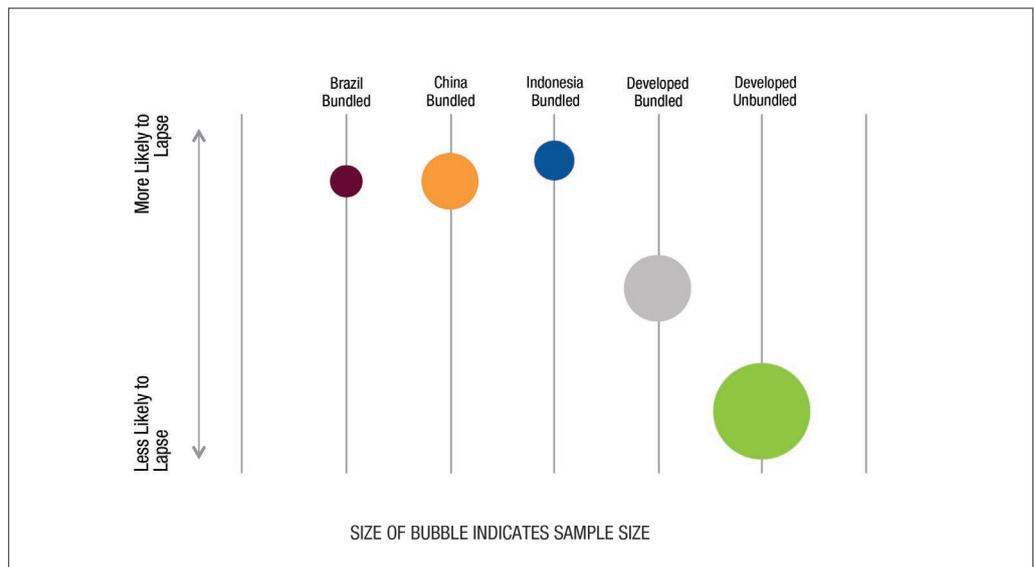
**The issue is customer perceptions of value – not product costs and margin**

Just because bundled products are expensive relative to unbundled products does not mean they are bad value from a customer perspective. Customer value is based on their perception of their needs and, in most cases, price is not the primary driver. The issue is high propensity to lapse (Figure 8).

**The issue is proposition not product**

In emerging markets, unbundled products (such as AD and PA sold direct via banks) have equally high lapse rates. So the issue is not product but proposition. In the case of advised agency sales and bank list direct mail and telemarketing, many customers do not fully understand the value of the product. Indeed,

Figure 8: Net responder propensity to lapse by region and product type



Note: % respondents for each response by country, region and product type (bundled versus unbundled). Do any of your life insurance policies also contain a savings or investment plan? Which of the following features are included in this life insurance policy? For each policy please state how likely you are to cancel it within the next five years.

some customers never understood the full extent of the proposition – many understood the offer but perceived that value decreases over time.

Perhaps the salient point in this type of business is that there is limited basis for ongoing customer engagement within these propositions – and almost no scope to respond to changing customer needs. This is particularly the case with bundled products typically sold via bancassurance channels which see high propensity to lapse.

**The implications: a solution focused on the customer**

We can already see key drivers of change emerging from within and without the life insurance industry. In particular:

- More customer-focused regulation e.g. MiFID 2 in Europe
- Macroeconomic challenges to status quo propositions e.g. the low return environment or Solvency 2 changes to capital rules
- Growing customer activity online
- Improving financial literacy

To manage the bundling trends we have identified, providers need to make a genuine effort to convince customers of the value of their purchase and improve their experience. This requires insurers to:

- Focus or measure customer perceptions on value and effectively link these customer insights to proposition innovation
- Effectively collect and use management information on their customers, especially for intermediated sales
- Establish a systematic customer engagement strategy which considers lifetime value and changing customer needs

## Theme Three: Brand – Promise versus Promiscuity

### Within the guise of social media and smart technology, we need to adopt disruptive strategies for managing insurance brands

At its core, insurance promises a customer that a future liability will be met should the pre-specified need arise. For obvious reasons, brand investment is important to:

- Reinforce customer confidence
- Drive advisor perceptions
- Drive awareness so brand is front-of-mind

Whilst that necessity still remains highly relevant, traditional brand advertising relegated to one-way broadcasting is no longer valid:

- Audiences are active co-creators of the brand, thanks to the prevalence and interactivity of social media – a brand owner’s adaptability in this environment to have sole control and shape brand image has been significantly reduced
- Customer protection regulation, especially in developed countries (post-GFC), provides customers with a potentially calamitous perception that big brands are ‘too big to fail’ – in such an environment, it is tempting to believe that the implied security and stability of a solid brand is less relevant and customers are, therefore, more focused on price and proposition
- However, the reality for customers participating in developed Western and

other economies should be a more cautious approach to the long term trust and faith they put in the institutions – life insurance is a long commitment for both parties with all the difficulties long term relationships imply

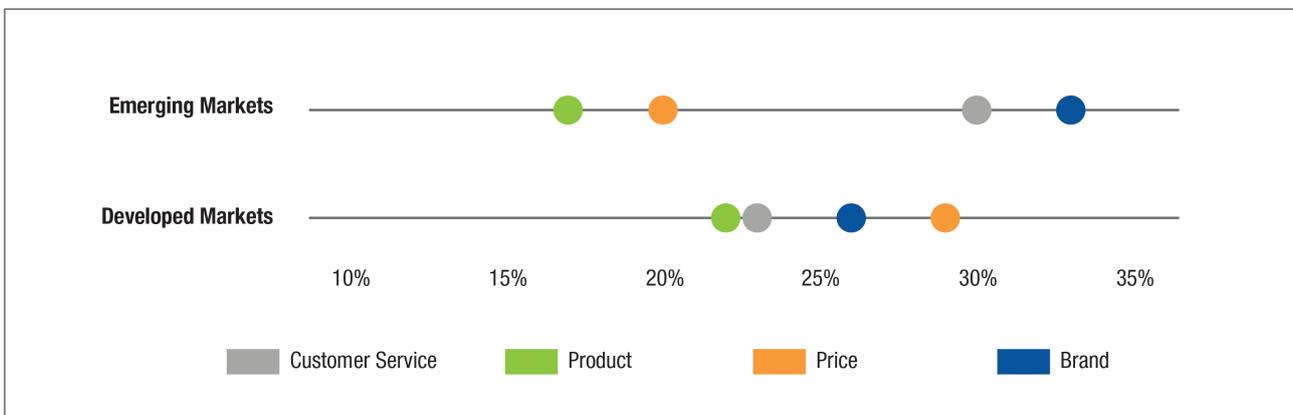
- While the rise of aggregators and price comparison sites actively promote commoditisation and reduce the relative importance of brand, it is too soon to definitively determine whether this is fad, fashion or an ongoing trend

However, these changes in customers’ brand ‘use’ coincide with some fundamental changes in consumers’ approach to media. Taking the UK as an example<sup>1</sup>:

- Two-thirds of people now own a smartphone – and spend almost twice as long online with smartphones than on laptops and personal computers
- A third of internet users see their smartphone as their most important device for going online
- The rise in smartphone surfing marks a clear shift since 2014, when just 22% turned to their phone first, while 40% preferred their laptop

<sup>1</sup>Ofcom: 2015 Communications Market Report <http://bit.ly/1W4j3WM>

Figure 9: Factors driving life insurer selection



Note: % ranked first for each factor by region.

Please rank the following factors in terms of their importance to you when selecting a life insurance provider, where 1 is most important and 4 is least important. Again, even if you have never taken out life insurance, please consider what would be of importance to you if you were to look into it.

- The surge is being driven by the increasing take-up of 4G mobile broadband, providing faster online access – during 2014, 4G subscriptions leapt from 2.7 million to 23.6 million

The figures for China are even higher, and the advent of 5G looks certain to maintain the trend. Yet the most cursory engagement with the majority of life insurers demonstrates the inadequacy of their response to this increasingly important channel. For insurers to remain relevant, they need an approach that corresponds with modern customers' perceptions of brands – and the media used to access them.

### Brands matter to customers

The results of our study highlight the power of brand and marketing. While this is intuitive to the consideration of life insurance as a long term promise, there are significant variations in the perception of brand between markets.

For instance, in Brazil and China, more than 40% of customers rate brand as the most important factor driving provider selection, significantly higher than product, price or service. By contrast, most developed markets rate product and price as key factors – however, brand still remains the most significant factor to 25% of customers.

### Brand matters more in emerging markets

One of the key derivatives driving the demand

for brands in emerging markets is the lack of trust in the regulatory environment and the corresponding importance of trust with respect to insurance brands (Figure 9).

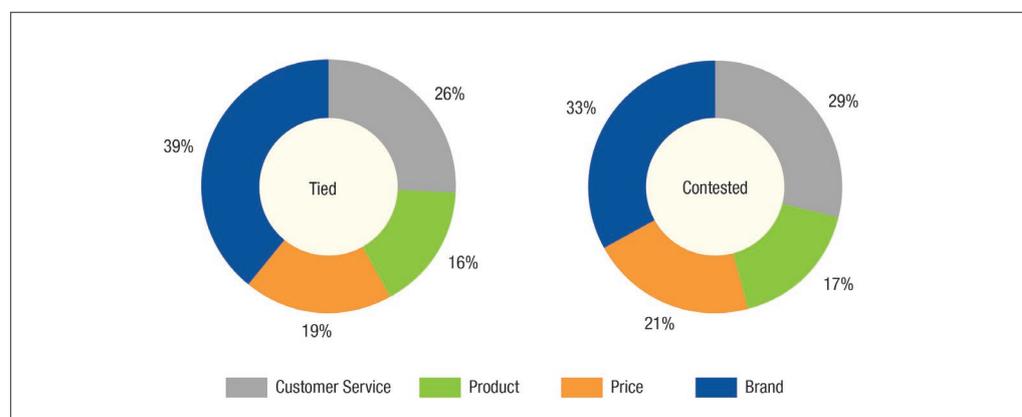
Conversely, the relative high degree of trust placed in the regulatory environment of developed markets in particular, leads to an assumption that all brands can be trusted. As a result, customers in developed markets can move to the next level of detail and focus on product benefits and price.

The supply side is also important. Customers in emerging markets buy from life insurance agents who promote the brand of their company over independence, product and price. Analysis of selection factors confirms that the importance of brand increases for tied agency forces relative to 'contested' distribution channels (Figure 10).

In last year's GCS 2014, we explained that an incremental shift from advised to direct was obscuring fundamental changes in how customers buy life insurance. The key trend is not a shift to direct but an increasingly complex customer journey in the lead up to a life insurance purchase.

This theme builds on last year's findings and highlights how brands can shape the customer journey which increasingly involves online search and social media.

Figure 10: Factors driving life insurance selection for emerging markets



Note: % ranked first of tied agency and contested / IFA channels for each factor for emerging markets. Please rank the following factors in terms of their importance to you when selecting a life insurance provider, where 1 is most important and 4 is least important. Again, even if you have never taken out life insurance, please consider what would be of importance to you if you were to look into it. Which one of the following channels did you mainly use to actually arrange this product? (Tied and contested channels only).

“

Asia and emerging markets will lead the next phase of digital marketing innovation in life insurance.

### Customers in developed markets search for products and price

A key enabler for customer information is search engine activity. Over 40% of consumers globally will search for ‘life insurance’, about 20% will search for specific providers and a slightly smaller number will search for price comparison websites (Figure 11).

As we observed in *Theme One: Advice or Guidance*, market structures and customer priorities vary and averages can be misleading. In developed markets, more customers search for ‘life insurance’ or comparison sites rather than a specific insurer.

This trend has played a role in the rapid increase in the supplementary acquisition costs of direct response TV (DRTV) for life insurers. In the past, most customers watching TV adverts called the insurer’s call centre. But now many customers go online and life insurers re-pay to acquire them via search engine optimisation (SEO) or pay-per-click (PPC). Multi-channel campaigns (DRTV plus digital) often deliver better marketing results than single channel campaigns in isolation but compromise the profitability of programmes because of the difficulty of controlling acquisition ratios. Hence the importance of a genuine omnichannel strategy.

### Customers in emerging markets search for brands

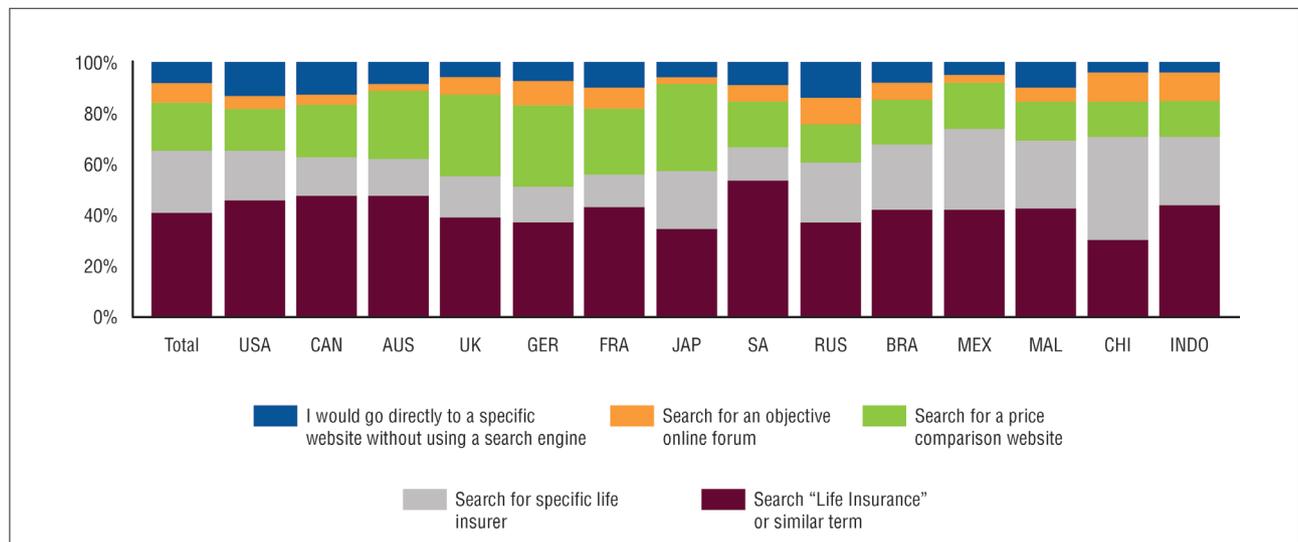
By contrast, in emerging markets more customers search for specific brands. The scale of the difference is material. In China, more than 40% of customers say they search for specific life insurer brands compared to less than 20% in Australia. Demand and supply drive these differences: brand is valued more highly in China and there are fewer price comparison sites.

There are barriers to digital marketing in emerging markets but most relate to the acquisition process (e.g. confidence in online transactions) rather than the role of digital in the pre-sale journey. The use of digital marketing to generate leads and support the professionalisation of agency forces is one of many key themes in emerging markets.

### Innovation has started to travel from East to West

Countering a long-run trend, we find evidence that Asia and emerging markets will lead the next phase of digital marketing innovation in life insurance (Figure 12). Nearly 20% of online customers in emerging markets are using social media as a source of information for life insurance. This figure is more than double the number for developed markets.

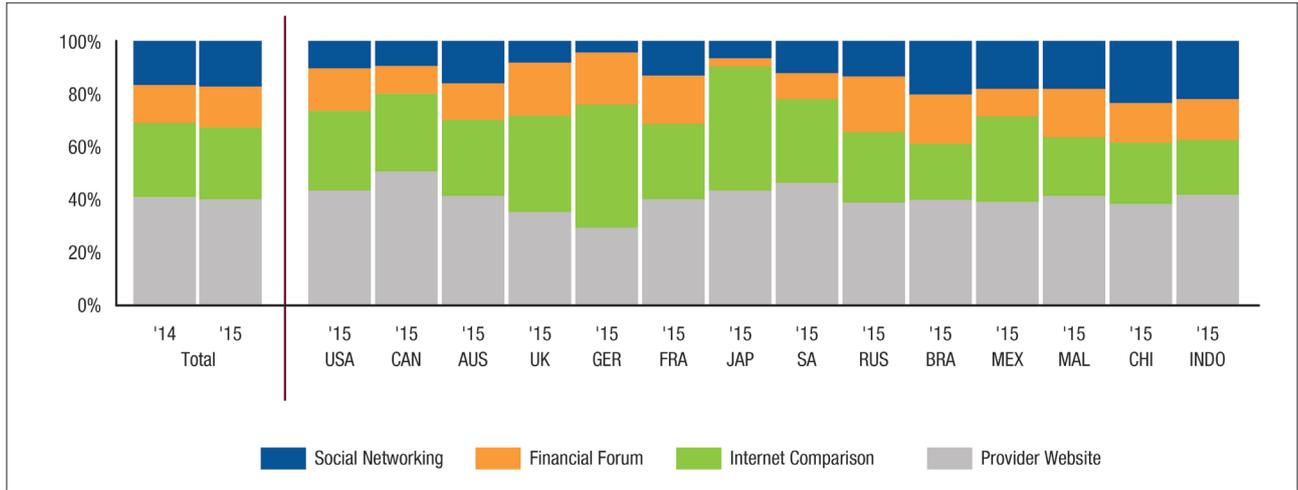
Figure 11: Search engine activity for researching life insurance



Note: % ranked first for each factor by region.

When researching life insurance online, if you were to use an online search engine, which of the following would be your most likely approach?

Figure 12: Sources of information before buying life insurance direct



Note: % ranked first for each factor by region, year on year.  
 What sources of information, if any, did you use before you took out this product?

Again, China leads other major international markets. We also note that a study of 50 leading life insurers revealed that insurers in emerging markets place greater relative priority on email and websites than life insurers in developed markets (Figure 13).

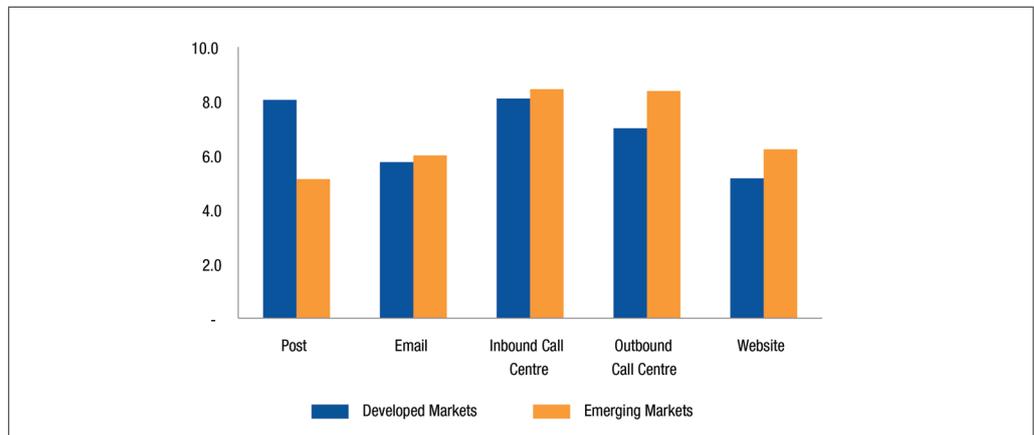
Taking a contrarian view, we argue that the role of price comparison websites is actually suppressing digital marketing innovation by life insurers in developed markets. If these trends continue, emerging markets will lead the life industry in brand building, digital marketing and social media.

**The implications: brand promotions**

To customers' eyes, the line between brand

promotion and proposition promotion is overlapping. Customers do not think about the type of promotion or communication they are receiving. The opportunity for brand owners is therefore to have a clear well-defined brand executed across all touch points. As such, communications can work harder to reinforce the values a consumer associates with that brand. An effective promotion can create both a positive customer experience whilst also engaging with customers. This is true not only when selling, but throughout the customer journey from sales through to after sales service and at claim. Creating this positive customer experience requires a dynamic data processing ability and a customer engagement strategy. This is the essence of our fourth theme.

Figure 13: Channel importance for customer engagement by international life insurers (NMG Research)



Note: Average importance on a scale of 1-10.  
 Please rate the importance of the following channels for customer engagement, where 1 is least important and 10 is most important.

## Theme Four: Analytics – Symphony versus Noise

To create a superior customer experience we need to move from an obsession with Big Data to the precision of smart, relevant data

The life industry has spent a significant amount of effort building its Big Data capability via huge investments in risk profiling and data warehouses. The outcomes of this investment are:

- A large quantity of data has been collected from the perspective of insurers, which focuses on factors such as risk, medical and claims data
- Whilst valuable insight can be drawn from this data, a significant amount of ‘white noise’ or ‘irrelevant data’ makes the analysis exercise costly and time-consuming
- Less optimal use of insightful data on customers’ behaviour and attitudes has revealed the predictive modelling process to be somewhat ‘un-predictive’ due to its narrow focus on demographic and biometric data

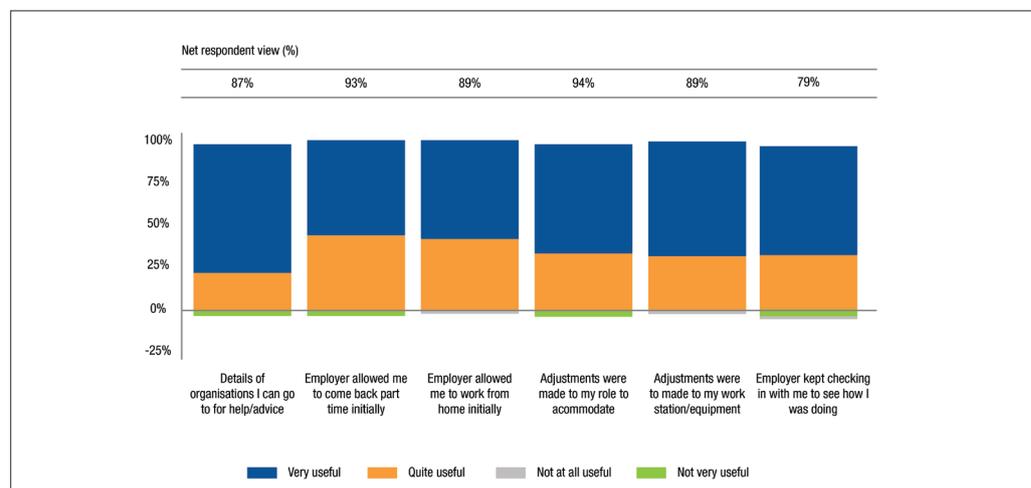
Therefore, we advocate a move from Big Data to Smart Data. The guiding principle should be to place the customer at the centre of data analytics, rather than the risk or product considerations that the industry traditionally adopts. We will know we have succeeded if the customer experiences a joined-up approach when engaging with an insurer.

### The good news is that the journey is underway

There has been significant innovation in underwriting and claims processes over the past decade. Around the world, tele-underwriting and auto-underwriting are enhancing advisor value propositions, improving disclosure, driving down costs and sharpening customer pricing. The latest technology – and the move to cloud based propositions – offers smaller and newer insurers access to affordable first class systems. Furthermore, the ability to append external data in the US (e.g. prescriptions and liquids) is transforming the possibilities for middle market life insurance propositions.

There has also been innovation in claims management. Claims assessment processes are more automated and providers are developing new strategies to prevent or manage claims. Effective wellness strategies can engage customers and reduce claims, while the emergence of new technologies (e.g. wearables) is creating new propositions and delivery channels. Rehabilitation services improve employee satisfaction, employer productivity and industry claims. Employees globally have a positive perception of rehabilitation services, especially where third parties are introduced by the employer (Figure 14).

Figure 14: Positive citations for different rehabilitation services



Note: % respondents for each response by rehabilitation services. How useful were these rehabilitation services in aiding your recovery?

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*The challenge is integrating data on propensity to buy, lapse and claim and then translating these insights into a proposition which works for the customer – not just the industry.*

**Yet applications have not focused on the end-customer**

However, most of these innovations have originated from a focus on underwriting and claims results or on advisor demand e.g. tele-underwriting services which reduce time (and improve service) for the advisor and also reduce non-disclosure risks (Figure 15).

**Broader, better quality customer data is the key change catalyst**

The key change catalysts for customer led innovation are increasing consumer focused regulation, growing financial literacy, new consumer technologies and better customer data.

Historically, reinsurers and insurers lacked comprehensive data on the end-customer; however, with rapid improvements in the quality and accessibility of data, insurers are now capable of focusing on the end customer.

This capability has been heavily influenced by the evolution of third-party data sources allowing the industry to capture quality data on customers and distributor sales, lapses and claims. The influence of regulators, association bodies, reinsurers and consultants is also helping to drive this trend.

Granular demographic, economic and wellness data is now readily available and the cost to collect bespoke nationally representative data on customer behaviours is much lower.

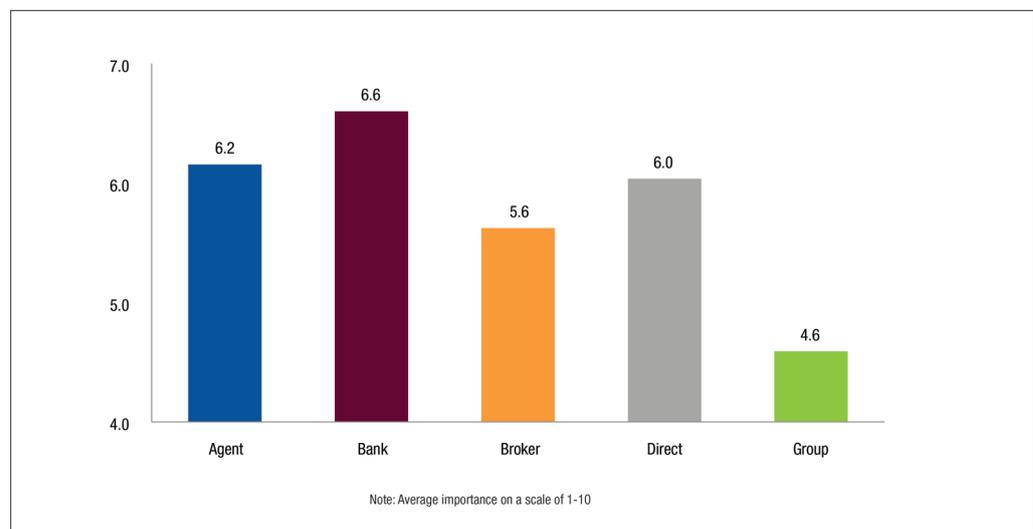
**The implications: change of data approach is required**

Insurers need to imagine the potential of multiple data sets across the customer, distributor, underwriting and claims. The challenge is integrating data on propensity to buy, lapse and claim and then translating these insights into a proposition which works for the customer – not just the industry.

While industry examples of success in achieving this are rare (if not scarce), the innovation in data use in the US for underwriting provides an illustration of the benefit to both customers and insurers of smart applications where the use of structured third-party data is widely permissible.

The underwriting process has long put the needs of the insurer before those of the customer. However, the availability of these third-party data sources combined with sophisticated algorithms and improved processing speeds, has revolutionised the customer journey.

**Figure 15: Preferred channel for tele-underwriting by international life insurers (NMG Research)**



Please rate the successfulness of the channels for tele-underwriting, where 1 is least successful and 10 is most successful.

The lower costs of the automated process mean the potential for better customer value – and more effective use of top underwriting talent. This smart use of multiple data sources maintains insurer risk protocols while increasing market reach.

In addition, the nascent wearables phenomenon promises to transform this space even further. Wellness programmes, underpinned by real-time data from non-intrusive health and prescription compliance monitoring devices, have the potential to improve the mortality experience of existing policyholders. The customer value proposition here is obvious.

For insurers, such smart data propositions hold out the tantalising prospect of future reserve releases (as has been the case as a result of the significant mortality improvement of policyholders with HIV/AIDS).

It is also possible to imagine such regimes providing the platform to offer better rates to new customers with chronic conditions.

Furthermore, this capability could be used to expand the insurable market to include those with a range of well managed chronic conditions that may have been previously considered uninsurable.

Such customer-centric smart data propositions could meaningfully alter the perception of the industry as a whole, with concomitant benefits for more straightforward business.

The opportunity for insurers is clear:

- A data approach centred on customers, with leaner and simpler structures (i.e. with fewer variables and less noise) but broader categories such as behavioural and attitudinal variables
- Investment in dynamic rather than static data
- Decisions enabled by real-time data that promotes dynamic decision-making – combining lifestyle proxies and good product design rather than the medical data traditional approaches require (e.g. using credit history as a customer's risk profile)

## What do you need to do?

### **Theme One: Advice or Guidance?**

**Align the advisory role to the needs of the customer.** Our research suggests that the role of the advisory channel could benefit from a rethink. For companies that want to grow or disrupt the market, the focus should be on what customers want and how advisors fit into that paradigm. Ultimately, if insurers get this right, advisors will sell their products.

### **Theme Two: Bundling or Bungling? Products and Customer Value**

**Think about the customer's experience of your product.** We believe there is an opportunity to make more genuine effort to highlight to customers the value of their purchase and, even more importantly, to improve their experience. This means:

- Measuring customer perceptions of value
- Turning customer insights into proposition innovation
- Establishing a systematic engagement strategy for existing customers which considers lifetime value and changing customer needs

### **Theme Three: Brand – Promise versus Promiscuity**

**Managing a changing brand environment.** It is essential that insurers understand the changing nature of brands and the changes wrought by technologies that affect how consumers engage with those brands. Insurers need to be prepared to 'share' their brand with their customers, exchanging control for engagement and, for the holy grail of social media, the 'sharing' of positive experiences. As ever, insurers need to remember that a brand means different things in different markets, demographics and distribution systems.

### **Theme Four: Analytics – Symphony versus Noise**

**It's not about the number of numbers.** Having flirted with the false promise of Big Data, insurers need to move to:

- Leaner, simpler data structures (i.e. fewer variables and less noise)
- A data approach centred on customers and using broader categories including behavioural and attitudinal variables
- Investment in dynamic data as opposed to static data
- Decision-making informed by real-time data

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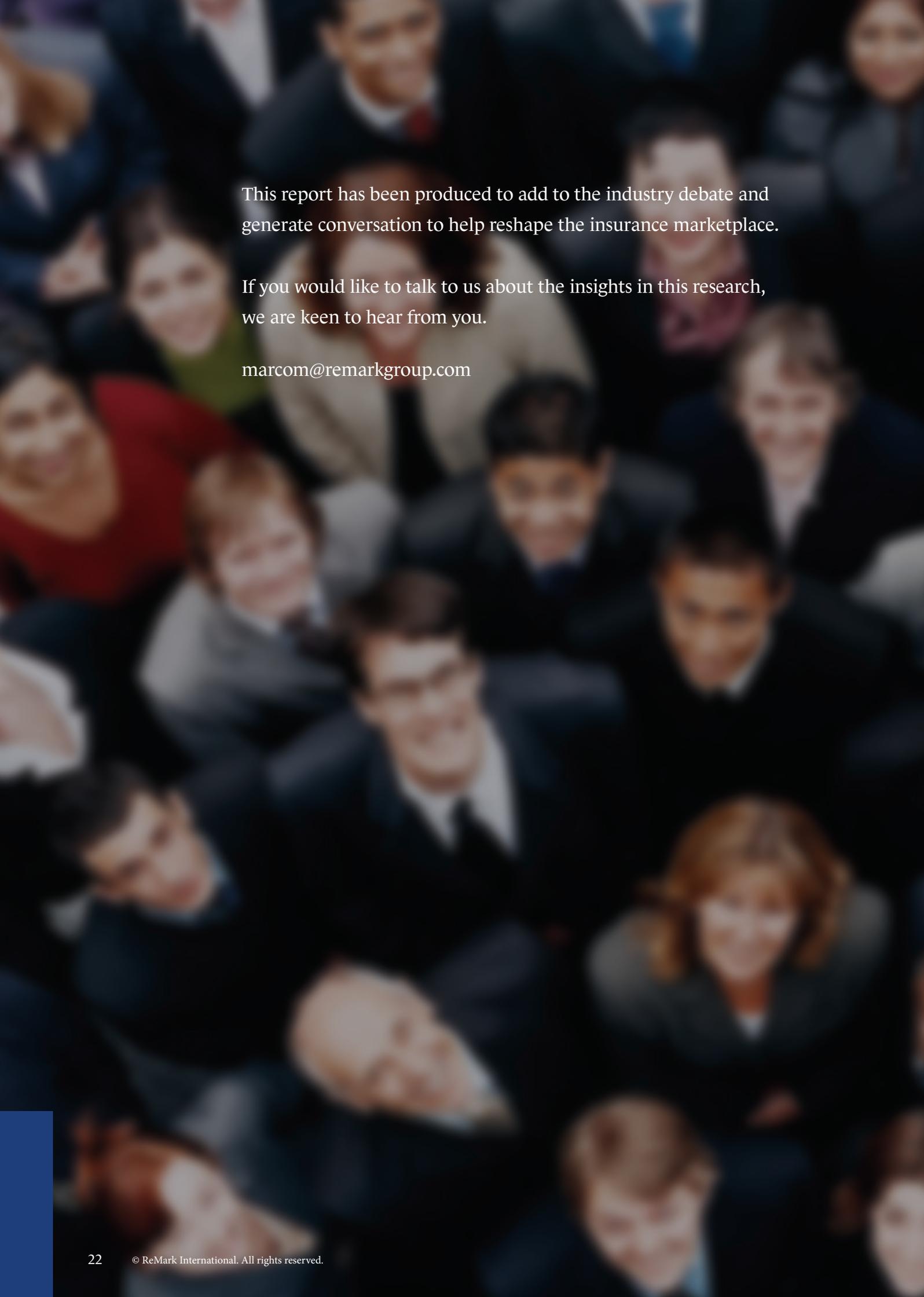
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This report has been produced to add to the industry debate and generate conversation to help reshape the insurance marketplace.

If you would like to talk to us about the insights in this research, we are keen to hear from you.

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