

Creating a Customer-Centric Insurance Enterprise

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Creating a Customer-Centric Insurance Enterprise

“Capturing and sustaining market advantage in this fiercely competitive industry hinges on the ability to understand and leverage the industry’s most valuable asset – the customers.”

Peppers & Rogers, Creating Customer Focus: The Insurance Industry, March 2002

EXECUTIVE SUMMARY

The insurance industry is undergoing significant change, and today’s playing field is both complex and competitive. Not only are there fewer new customers to pursue and more entities pursuing them, but the industry is also impacted by regulations that vary worldwide and are all in a state of transition. Competition has increased with banks and brokers adding insurance products to their product mix, and insurers are now offering broader financial services products. And the internet has added increased pressure to margins by enabling customers to do their own comparison shopping.

As a result, insurance companies are continually trying to adjust to the new challenges and opportunities this brings. It comes as no surprise, therefore, that the traditionally product-centric insurance industry has turned to a customer-centric approach to achieve its business goals improve customer retention, increase wallet share, reduce operating costs, and grow revenues. This customer-centric approach can only be successful when supported by an enterprise-wide customer relationship management (CRM) strategy.

This white paper explores a practical approach to enterprise CRM strategies for the insurance industry. We will cover how your ability to grow your business hinges on a customer-centric approach, the specific ways that CRM supports this approach, and how to prepare your organization to successfully launch a CRM implementation.

BUILDING CUSTOMER-CENTRIC ENTERPRISES IN THE INSURANCE INDUSTRY

Over the past few years, the insurance industry has become increasingly complicated. Regulatory changes, innovative technologies, and the sluggish economy have all played a part in reshaping its dynamics. These factors have heightened competition, changed customer expectations, and focused insurers’ attention on cost savings. Attracting new accounts and retaining high-value customers is becoming increasingly difficult as banks and brokerages develop innovative ways of integrating insurance products into their distribution channels. Supporting customers with a breadth of products and delivering superior service while still controlling costs offer additional challenges. To address these issues,

leading insurers are transforming their firms from product-centric to customer-centric organizations.

While this transition sounds straightforward, it is a demanding process that requires substantial preparation and careful planning. To develop a comprehensive view of the business and to better manage broker, agent, and customer interactions, insurance leaders are aggressively deploying CRM solutions specifically tailored to meet the needs of the insurance industry. Insurers are seeking CRM solutions that will help them achieve their business goals - improving customer retention, increasing wallet share, reducing operating costs, and growing revenues. They require technologies that are quick to implement and easy to use and that support flexible business processes. These organizations are investing in CRM solutions that can leverage and integrate with today's legacy systems and tomorrow's technologies.

CRM SYSTEMS ENABLE TRUE CUSTOMER-CENTRIC PROCESSES

While most insurers have already automated many of their internal operations such as policy administration, claims management, billing, and rating systems, most of these are geared toward a product-centric orientation, not from a customer-centric perspective. After many years of equating customer management with service delivery and channel management with paying commissions on time, insurers are beginning to realize that this infrastructure is not sufficient to support a true customer-centric organization. Forward-thinking organizations have begun to view CRM projects as catalysts to delivering higher quality service while reducing operating costs. Don Peppers, partner with Peppers & Rodgers Group says, "CRM is a powerful weapon in the battle to satisfy current customers and win new ones. Nothing affects consumer loyalty, or the propensity to consolidate accounts, as much as relationship-building activities. Implementing effective CRM strategies has a distinct and quantifiable effect on an institution's customer satisfaction, customer retention, and likelihood of receiving future customer referrals."¹

CRM solutions can foster more profitable and long-term customer relationships by addressing four key customer-centric areas:

- Unified customer view.
- Integrated, multichannel customer sales and service.
- Targeted marketing for expansion and loyalty campaigns.
- Efficient management of distribution channels.

UNIFIED CUSTOMER VIEW

Either as a result of their own legacy systems or systems inherited through mergers and acquisitions, insurance companies find themselves with a complex ecosystem of fragmented data. They have a wealth of customer data but little coherent, useful

¹ Inside 1to1, Financial Services Institutions Lose Millions Annually in Profit Opportunities, 2001.

information. Customer data is difficult to access and not readily available, which directly impacts quality of service and customer satisfaction.

Because of increasing customer expectations, customer service representatives (CSRs) serve a crucial role on the front lines to deliver top-notch support, but their inability to access customer data impacts their effectiveness. Failure to anticipate and address customer needs risks the future of long-term, profitable relationships. This point was reinforced in an article published by Inside 1to1 where they stated, “Insurance companies that differentiate the customer’s total experience through the entire life cycle will win.”²

CSRs with real-time access to customer information obtained and integrated from a variety of systems can personalize and enhance these interactions. Using the most current information, CSRs can more confidently make cross-sell and up-sell offers as well as provide more personalized service to individual customers. For example, a customer calls a toll-free support number to update their homeowner’s policy. The CSR, while handling the call, has visibility to all of this customer’s policies. They notice that the customer currently does not have an automotive policy with them. The CSR takes the opportunity during the call to talk to the customer about their automotive insurance needs.

It is clear that by unifying customer information obtained from disparate systems your organization can gain customer relationship improvements, but how can you further leverage this information to drive profitable business processes? Existing policy, claims, rating, and billing systems are a valuable part of the enterprise, but you can further enhance them with CRM analytics solutions to integrate enterprisewide information about profitability, customer behavior, and business operations. When you combine and analyze critical customer, product, and financial data in an effective and timely manner, you are able to make business decisions with a complete understanding of the situation. In other types of financial institutions, such as banks and brokerages, over 30 percent of their knowledge workers use business intelligence tools to improve decision-making, as seen in Figure 1. In contrast, less than 25 percent of insurance knowledge workers use intelligence tools.

Relying on dated reports from disconnected legacy systems clouds an already unclear picture. Management, brokers, agents, and customer service representatives can better gauge performance and make more intelligent decisions based on a real-time enterprise view of the business. Insurance executives need these tools to better understand their distribution channels, products, and customers to effectively manage lines of business. Through advanced analytic capabilities like executive dashboards and key performance indicators, insurance employees can access the most relevant and timely information.

² Inside 1to1, A Sound Policy: Insurance Firms Invest in Customer Initiatives, June 2002

Similarly, brokers and agents in the field can manage their relationships more successfully by better understanding each policyholder and each account. By combining CRM analytics and data mining, you can segment your customer base and provide brokers and agents with models that predict customer behavior. Behavior such as a customer's propensity to respond to a particular offer or the probability that the insured will renew their policy or the likelihood that they will switch insurers provides your organization with the information you need to support profitable business decisions.

INTEGRATED MULTICHANNEL CUSTOMER SALES AND SERVICE

Heightened competition from other financial institutions has forced the insurance industry to implement multichannel customer sales and service systems just to hold par. When the Gramm- Leach-Bliley Finance Services Modernization Act was signed into law in 1999, banks and brokerages entered the insurance market. They started selling insurance products in alliance with and in direct competition with traditional insurers with the vision of becoming "one-stop shops" for all financial services needs.

Today, customers have more information and choices than ever before and are willing to comparison-shop on their own. In a survey by Gomez, Inc., 28.9 percent said they had sought information about personal vehicle insurance online.³ Customers will freely switch to products and services from competitors if the price is right. While price is a key driver, customers are also expecting better service as they become better educated about the products and services offered to them. Now, more than ever before, insurers must be easy to do business with and exceed their customers' service expectations.

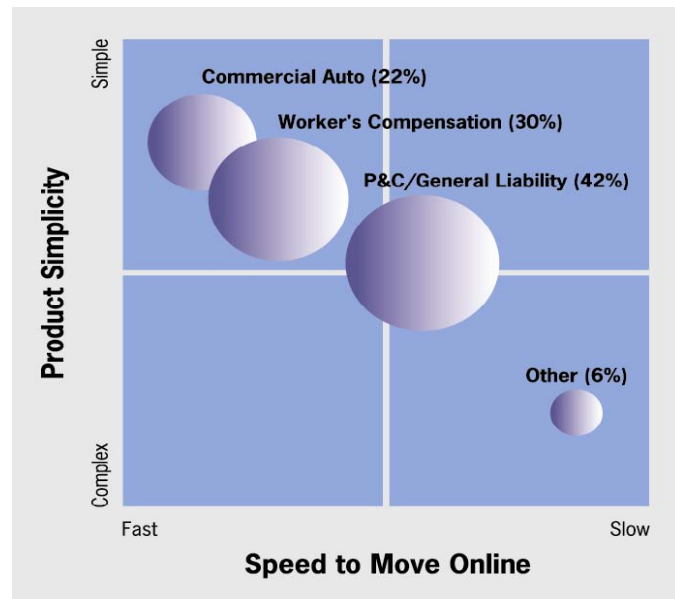
Because banks and brokerages have invested more heavily in automated customer-centric systems, their customer service costs per interaction are typically lower than those of insurance companies. In fact, over one-third of all bank customer inquiries are handled electronically, as seen in Figure 2. In comparison, insurers handle only 20 percent of customer inquiries electronically. To reduce operating expenses related to customer service while at the same time setting a goal to increase customer satisfaction, many insurers are investigating multichannel customer interaction systems.

Because contented policyholders stay loyal and are more profitable, it is imperative that customers receive options on how to interact with insurers. Existing channels such as phone, fax, and interactive voice response (IVR) need to be properly integrated with newer channels such as email, web-based self-service, and live, web-based chat. Traditional insurance service centers need to transform into multichannel customer interaction centers to be able to consistently assess, resolve, track, and measure all customer interactions regardless of the channel.

³ Gomez, Inc. Best's Review, May 2002.

Self-service CRM solutions have quickly become popular with insurers because of their cost effectiveness and their 24x7 availability. Interestingly, the adoption of online services among insurers has varied due to the complexity of their insurance products, as illustrated in Figure 3.

Figure 3: Relative Rates of Adoption, Levels of Simplicity, and Share of Total Premiums (Celent Communications)



A web-based, self-service channel can support a number of customer transactions. Prospective and current customers can research products, access FAQs, get quotes, and submit applications online. Policyholders, beneficiaries, or covered individuals can check claims status, modify account information, submit complaints/issues, and file loss reports through web-based service systems. These self-service systems can also enhance the user experience with personalized content based on customer history and preferences.

Regardless of the channel, insurers need to deliver consistent, personalized products, services, and messaging to ensure maximum customer satisfaction and loyalty.

TARGETED MARKETING FOR EXPANSION AND LOYALTY CAMPAIGNS

In this challenging economy, insurance companies are constantly seeking ways to increase the product portfolios held by existing customers and to prevent customer churn. CRM solutions that support intelligent automated business processes can help insurers identify opportunities to cross-sell and up-sell additional products. CRM solutions can also alert you to customers who are likely to switch to another

insurance carrier or financial institution, enabling you to take proactive steps to implement programs to prevent churn before it happens. Rather than blanketing a customer base with generic messages and offers, an effective CRM solution can improve marketing communications by ensuring that only relevant, personalized messages reach appropriate audiences and by measuring campaign effectiveness.

Some insurers have begun experimenting with life-event marketing campaigns geared towards targeting relevant offers to customers at particular stages in their life - for example, identifying homeowner insurance policyholders who have recently had a child and offering them an attractive life insurance policy. These campaigns require a comprehensive understanding of your customer.

In organizations where disparate, non-integrated systems are relied on to provide customer information, life-event marketing is virtually impossible. To make the most of your customer information, seamless integration among all your customer systems is essential.

Executing expansion, loyalty, or life-event campaigns and measuring their effectiveness requires a comprehensive CRM infrastructure. This infrastructure is necessary to handle all the challenges of outbound marketing via direct mail, telemarketing, and email as well as inbound marketing on the web, and from within the call center. Comprehensive marketing automation lets insurers take advantage of market analysis, campaign management, campaign execution, and performance measurement features in a synchronized manner.

EFFICIENT MANAGEMENT OF DISTRIBUTION CHANNELS

Historically, many insurers focused their online initiatives on selling their auto, term life, and personal disability lines of insurance directly to customers. While the insurer could detail and generate their initial quotes online, customers still had to be contacted by agents to initiate a policy. In spite of these limitations, the first companies to offer insurance online made bold statements about “eliminating the middleman” and “cutting out the agent.” However, most customers were not ready to complete the purchase of insurance online, but instead used the web to compare companies and policies before purchasing insurance through traditional channels such as agents, brokers, and call center agents.

With this realization, online initiatives over the past 24 months have shifted towards complementing rather than displacing the current distribution model, while simultaneously enabling customers to self-serve through the web. Because of the web’s ease of use, convenience, control, and personalization, these recent online initiatives have received wide acceptance from agents, brokers, CSRs, and customers.

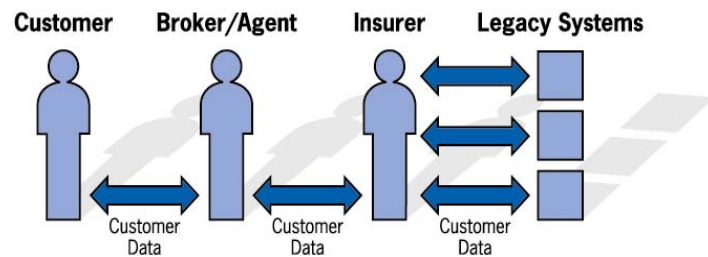
CRM systems geared for sophisticated broker and agent management improve the sales productivity of your captive agents, in addition to your independent brokers and agents. Many insurers are implementing CRM modules like sales force automation and campaign management for their premium lines of business. Besides

gaining the business benefits of CRM, they can foster deeper customers' relationships through their broker and agent channels. In contrast, CRM initiatives targeting commodity lines of business drive direct sales activity through lower cost channels such as call centers and web-based self-service. In this way insurers can drive their customer acquisition costs down by selling to customer segments through the most cost-effective channels. In fact, current insurance industry estimates put traditional sales and administration origination costs at 25 percent of total premiums, while the efficiency of the online channel is predicted to be half that amount. ⁴

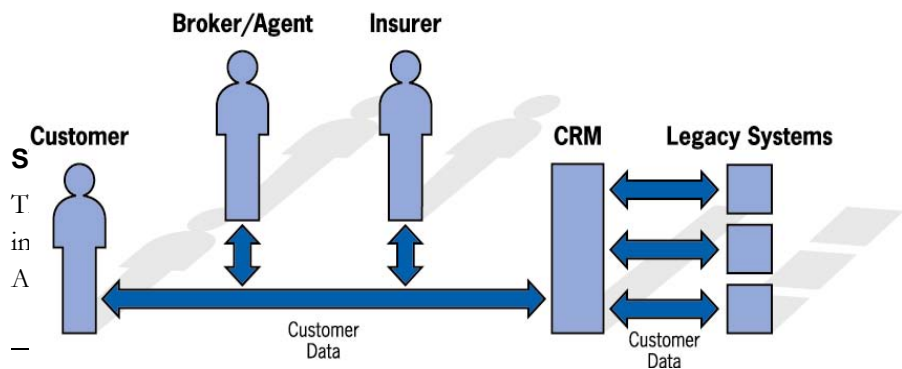
As a direct result of CRM implementations, agents and brokers can spend more time developing, managing, and closing sales opportunities, and advising customers, instead of shuffling papers or performing data entry (See Figure 4). Sharing information between the insurer and its intermediaries is at the heart of successful CRM strategies. CRM agent and broker management improves information sharing by providing transparency and immediacy to each interaction. It also eliminates bottle necks and reduces errors. This win-win relationship helps generate new insight into the customer and fosters a deeper understanding of the problems that both intermediaries and customers face, ultimately improving agent and broker satisfaction and loyalty.

Figure 4: Evolution to More Efficient Channel Management

Traditional



New



⁴ Celent Communications, 2001.

operations by automating business processes which support insurance best practices. According to Stephan Ross, an analyst with Meridien Research, “Insurance providers that get CRM are continuing to invest in initiatives that streamline operations and improve customer service to policyholders.”⁵

Benefits of CRM Deployment

The table below details how CRM applications can improve existing business processes for the insurance industry.

Insurance Process	CRM Application	Benefits
Product Definition	Product configuration tools based on a graphical user interface.	-Reduces the cycle time to add new products or make changes that were traditionally made by the IT department. -Puts more control into the hands of the business users.
Distribution	Web-based agents (live internet chat), emailing policyholder information.	-Enables faster communication with agents and brokers and reduces the cost to distribute and update information on paper and CD-ROM -Improves response times and customer satisfaction.
Underwriting	Web-based forms and electronic links to rating engines.	-Enables online requests for quotes and data gathering, which improves efficiencies and customer satisfaction. -Reduces re-keying and typing errors, which helps to decrease risk.
Issuance	Electronic distribution of policy documents to agent and customer.	-Reduces printing and mailing time and decreases costs.
Servicing	Contact center management systems.	-Enables better servicing by contact center staff. -Enables self-service thereby reducing costs.
Claims	Web-based loss filing and claims status checks.	-Gives the policyholder greater control over the insurance process. -Reduces call volume into the call center.

⁵ inside 1to1, A Sound Policy: Insurance Firms Invest in Customer Initiatives, June 10, 2002.

Marketing	Campaign management and execution, predictive analytics, performance measurements.	-Enables targeted and personalized crosschannel marketing. -Uses marketing budgets more effectively.
Sales	Lead and opportunity management, interactive selling, forecasting, territory management.	-Lowers sales cost and conversion times. -Optimizes selling strategy.

PREPARING YOUR ORGANIZATION TO LAUNCH CRM INITIATIVES

Organizational planning is essential to the successful rollout and acceptance of business process changes, and CRM is no different. Clarence Smith, AVP Conning & Company, a national underwriter, notes, “Unfortunately, some P-C insurers view CRM as nothing more than a technology effort, rather than a fundamental strategy that helps establish and build customer relationships.”

Before any insurance company embarks on an enterprisewide CRM strategy, they should follow the steps below to ensure a successful implementation.

- Make CRM an enterprisewide strategic initiative.
- Take ownership of customer data.
- Identify your primary customer.
- Develop a definitive ROI strategy.
- Create a realistic budget and timeline.
- Seek experienced resources.

Make CRM an Enterprisewide Strategic Initiative

Communicate with your employees and educate the Prioritize your CRM solution development and deployment as a strategic initiative for the company. Senior management needs to provide vision and leadership within the organization for CRM to be adopted and the benefits realized. Many insurers underestimate the need for generating buy-in from the people needed to make it a success.

The insurance sector has traditionally been more conservative (than other sectors of the financial services market) when making changes in business and technology, and this resistance can slow the adoption of CRM within your company. Process and organizational changes surrounding a CRM implementation typically impacts

almost every part of a company at both the technology and business process level. Therefore, teamwork between IT and the business units - such as, sales, marketing, call center - is critical to success. All groups must work together to define and agree upon goals, objectives, timelines, and success measurements.

m on what the business objectives are for implementing CRM. To win overall acceptance, employees must understand why changes are occurring and how these enhancements will benefit their job functions and the business overall.

Take Ownership of Customer Data

In the broker/agent sales model, insurers have had little or no direct contact with the customer except during certain sales and service procedures. When an intermediary is the primary contact, many insurers assume that this person owns the customer relationship. With this confusion about customer ownership, coupled with the industry's transformation from a product-centric model to a customer-centric approach, it is necessary for insurers to take ownership of customer data. Without it, you will find it difficult to migrate to a customer-centric organization. To gain the maximum benefits of a total view of the customer, you need to capture and combine customer information obtained from agent/broker and call center interactions along with customer data from your legacy systems.

Identify Your Primary Customer

Who is your primary customer? Is it the policyholder, the insured, the agent, or the broker? Insurers must first ask themselves this question when developing a CRM strategy, because the answer can have a significant impact on how they design and implement their strategies. The most common industry answer is the policyholder - the individual or company covered by the insurance policy. However, the issue becomes complicated in some areas of insurance. The purchaser of a policy and the insured on the policy may not be the same entity - for example, in the case of employee benefits, which involves administrators, employers, and employees.

Traditional insurance distribution methods further complicate the issue. Rather than interacting with the policyholder, many insurers commonly interact with the distribution channel - for example, the agent or broker - which they consider to be their "customer." A customer-centric insurer must have a clear understanding of each of their customer segments and build an infrastructure and strategy to provide them with products and services that address the needs of each segment.

Develop a Definitive ROI Strategy

You must have ROI measurements in place to monitor effectiveness and to justify future investments in CRM technologies. Instead of just hoping to have better results, you need to develop business-focused ROI criteria that will enable your company to define, measure, and analyze the impact of CRM processes and technologies on the business. For example, if your company is providing independent agents and brokers with access to customer and product information

through a web portal, set a goal to reduce policy origination time or support calls by a targeted percentage. By setting realistic goals that are supported by measurable metrics, you can calculate the return on these initiatives and determine which components of the CRM strategy are producing the greatest impact on your business. Metrics that you can use to measure CRM success include:

- Customer satisfaction ratings.
- Number of customer complaints.
- Mean time to resolve issues.
- Percentage of one contact/call resolutions.
- Response times - for example, email response or length of time in call center queue.
- Customer attrition.
- Number of closed sales/cross-sells.
- Customer profitability.
- Cost to service.

The chart below depicts the results of Gartner research on the most common metrics used by insurance organizations to measure the success of CRM implementations.

Create a Realistic Budget and Timeline

Your CRM budget and timeline should include the resources and time necessary to complete related projects that are key to the success of your CRM project. This may include such line items as updating administration systems, consolidating call centers, integrating customer-facing systems with back-office systems, implementing online and web-based channels, and so on. If you don't consider these items up front, there may be the perception that project costs are spiraling out of control or the project has exceeded implementation deadlines.

Seek Experienced Resources

Ensure that your company and IT vendor have the technical proficiency and experience to develop and implement a CRM solution. Technological challenges, such as integrating existing IT systems with customer-facing solutions may create challenges for insurance deployments. Because of the complexities associated with transforming an existing infrastructure into a customer-centric model, you should consider seeking the assistance of consultants who can provide experience and guidance in developing an enterprise CRM strategy that best fits your unique insurance business requirements. To further reduce project risk, seek out well-established CRM technology vendors who offer industry-specific software solutions, along with experienced service and support resources.

Conclusion

Building customer-centric enterprises is critical for long-term success as the insurance industry faces unprecedented competition and a sluggish economy. Insurance companies can achieve better service, improved operational efficiencies, reduced costs, and drive more profitable customer relationships through strategic implementation of CRM solutions. “Our research indicates that a modest improvement of 10 percent in CRM capabilities can deliver up to \$40 million in additional profits for a business unit with \$1 billion of annual sales. To achieve results like this, however, a company must become customer driven.”⁶

Insurers need to realize that CRM projects should not be taken lightly. These endeavors require real commitment and leadership to reap the rewards of smarter, more robust business processes. By developing detailed budgets and task-based action plans, insurers can realize improvements in business processes and customer-focused activities.

Your company needs to develop a comprehensive CRM strategy that will continue to evolve and address regulatory, industry, and business process changes. By selecting a CRM solution that facilitates integration with existing legacy systems, you will be able to leverage your investment in existing technologies while accelerating the move to a customer-centric company.

⁶ National Underwriter Company, Insurers can Unlock Value via CRM, May 2002.



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