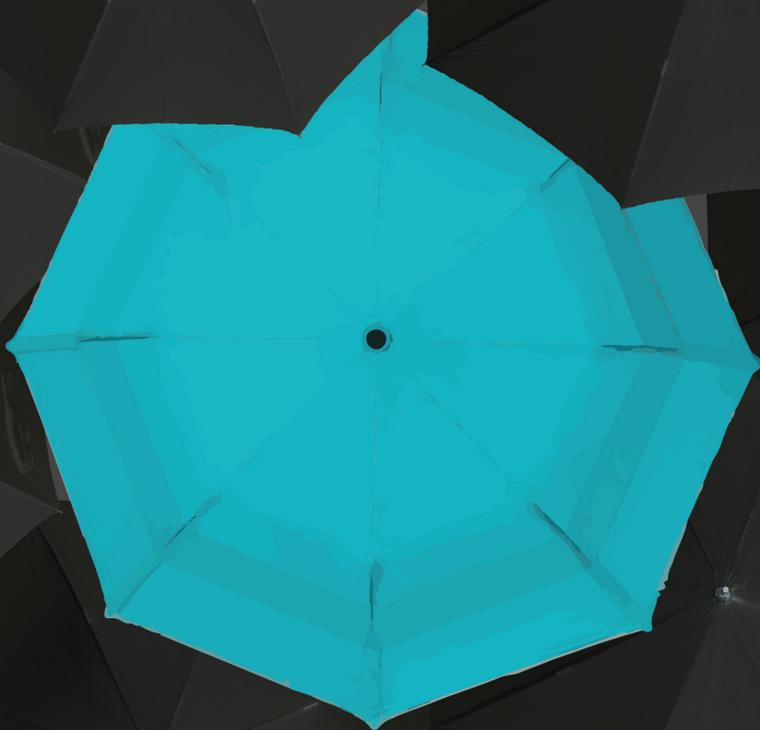


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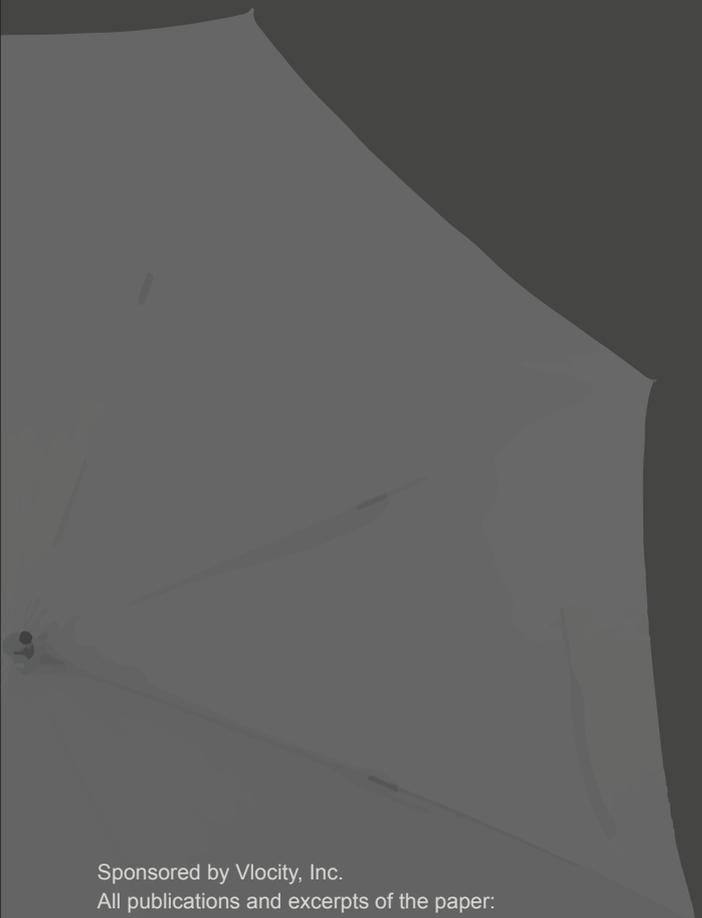
VANTAGE

EMPOWERING CONSUMERS AND AGENTS

THE NEW BASIS OF INSURANCE COMPETITION



Deloitte.
Digital



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EXECUTIVE SUMMARY

There is a great deal of white noise around transformation in the insurance industry. Leaders face the challenge of separating hype from reality. What do customers now expect at a practical level? What do the opportunities and threats presented by new technologies mean for my business? Where should I invest, and how should I equip my workforce? How can I best assist my distribution channels?

To provide guidance, Salesforce, Deloitte, and Vlocity partnered with Newsweek Vantage to survey 300 C-level insurance executives and collect their perspectives. Their views were compared against consumer research regarding buying preferences. This report draws from those results to provide insight into the strategic choices and investment decisions facing insurers. It also presents case studies of firms which are empowering their customers — both consumers and agents/brokers, and suggests actions to create short- and medium-term business value.

The key conclusions are:

- The traditional factors of price, product, and claims service are no longer differentiators. Price, product and superior claims service are necessary, but not sufficient. They are table stakes. Competitive advantage lies in delivering expected levels of customer experience and improving the effectiveness of distribution channels.
- Regarding what buyers deem important when making a purchase, insurance executives are aligned with consumers half the time. Areas of agreement provide a base from which to begin transformation; divergence identifies biases which should be recognized and controlled in the decision-making process.
- Over half of insurers in the study have either replaced their core administration systems or are in the process of doing so. In the next two to three years, these firms will be better positioned to compete based on customer experience.

- Empowering the distribution channel involves more than technology. It requires building capabilities as well. Improving collaboration between insurers and distributors and professional development coaching are examples of techniques which executives identified as necessary and which do not necessarily require automation.

Winning insurers will:

- Empower their consumers and intermediaries in spite of legacy IT systems, compensation practices, and aversion to change;

- Add an analysis of customer experience to their existing competitive intelligence assessments;

- Invest in emerging IT solutions which enable their vision of customer experience – both before and after the sale.

INTRODUCTION

Meeting changing customer expectations is a challenge across industries. The opportunities created by digital technology and threats from innovative companies require firms to increase their capabilities regarding how and when they service prospects, customers and distributors.

Insurance is no exception. However, the risk-adverse culture and legacy infrastructure that exist in most incumbents present special challenges. The “why” they need to change is well known, but the “what” and the “how” are less clear.

To bring some quantitative analysis to these questions, Newsweek Vantage surveyed 300 C-level insurance executives about the current and future state of customer engagement in their firms. An analysis of the results suggests actions that can be taken to create short-term business value, as well as strategies for the medium term.

SURVEY METHODOLOGY

The survey respondents were 300 C-level insurance executives, evenly distributed across Asia, EMEA, and North America. Input was received from all major lines of business, with the majority coming from Life and Annuities (45%) and Health (33%). These leaders represented a broad number of functions within their firms, with the largest groups involved in claims, operations, corporate leadership and business unit leadership. Almost one half of insurers represented write between \$100 million and \$499 million in gross written premiums (GWP) annually; another 25% write between \$500 million and \$999 million. (See the Appendix for detailed demographics on the respondent group.)

This group of survey respondents offers valuable perspectives on how insurance executives view their customers, how their companies are responding to rising expectations, and what their priorities are going forward.

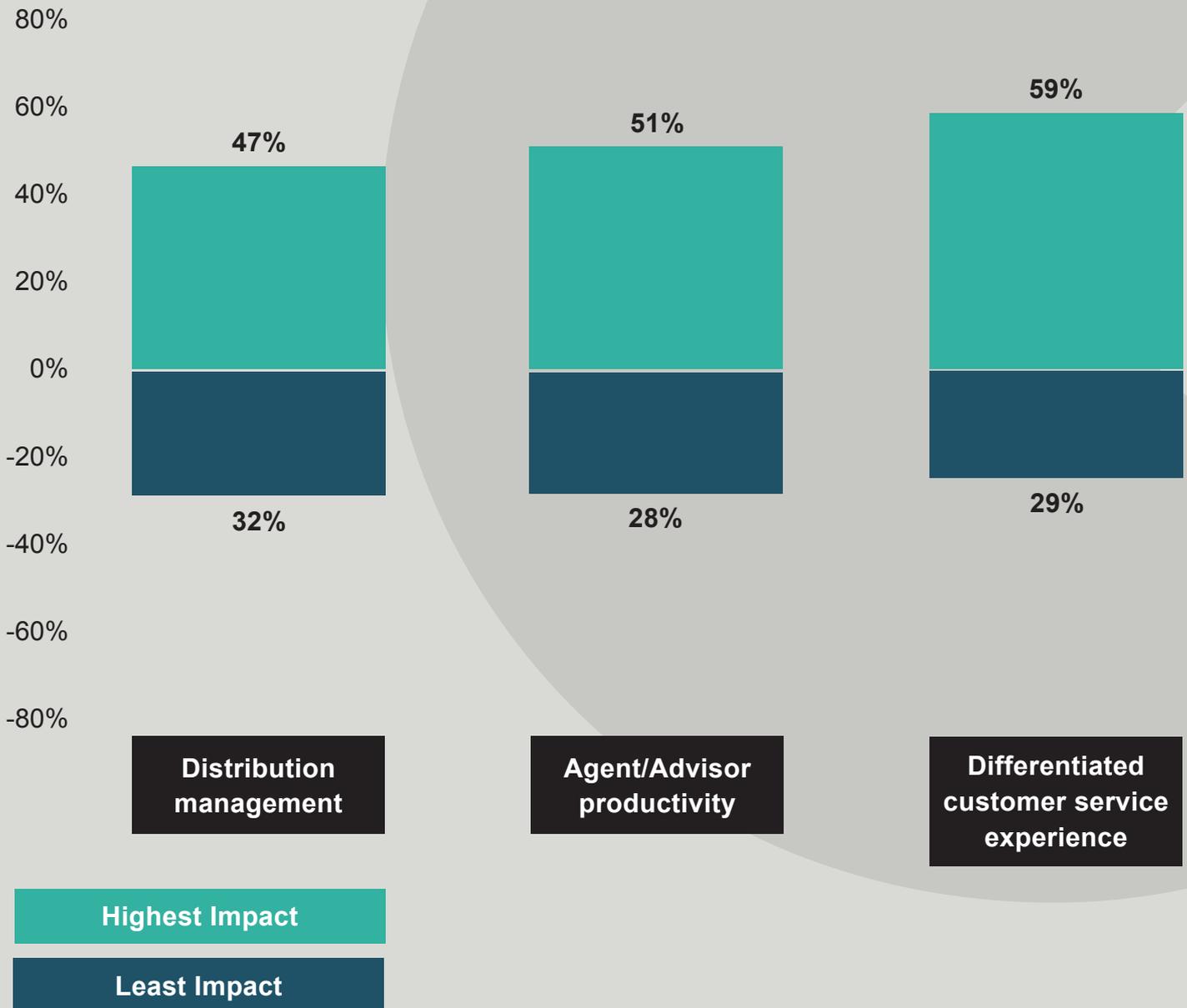
NEW BASIS OF COMPETITION

The survey asked the executives to identify the factors with the highest and the lowest impact on competition. The top-three items were differentiated customer service experience, agent/advisor productivity and distribution management. Those with the least impact were superior claims process, product features and price.

Source: Insurance C-level Survey n=300

Figure 1: Rank the 3 top and 3 bottom options in terms of impact on successful competition.

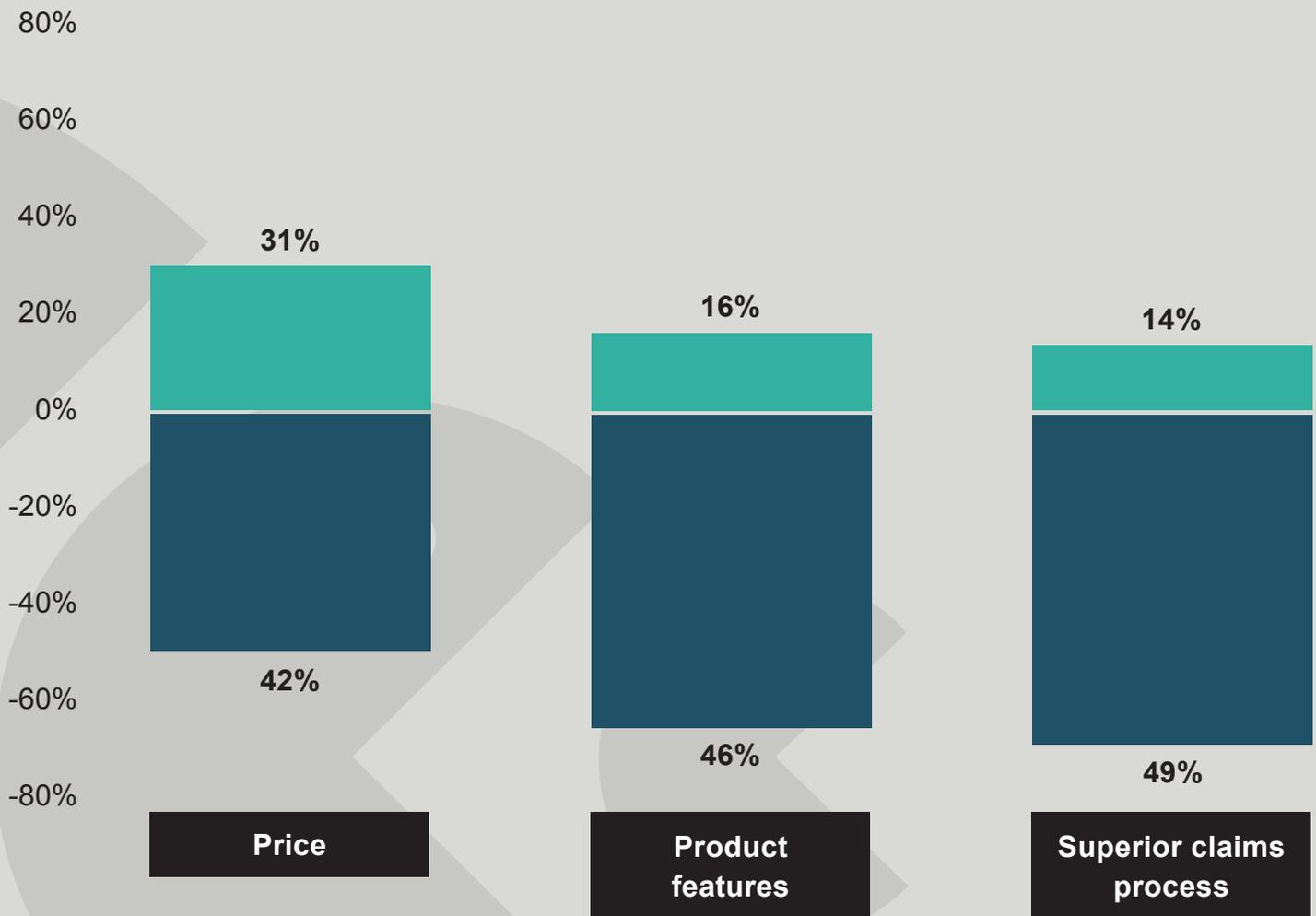
Top 3 - Highest Impact



Top 3 - Least Impact

Highest Impact

Least Impact



According to these leaders, the traditional factors of price, product and claims service are no longer differentiators. They are table stakes. The results signal a new basis of competition that is less about internal factors than outward-facing capabilities that empower both consumers and agents/brokers¹.

This data confirms, empirically, what is generally cited in trade journals and strategy forums. However, the results also provide specific insight into what differentiated customer service experience, agent productivity, and distribution management mean at an actionable level.

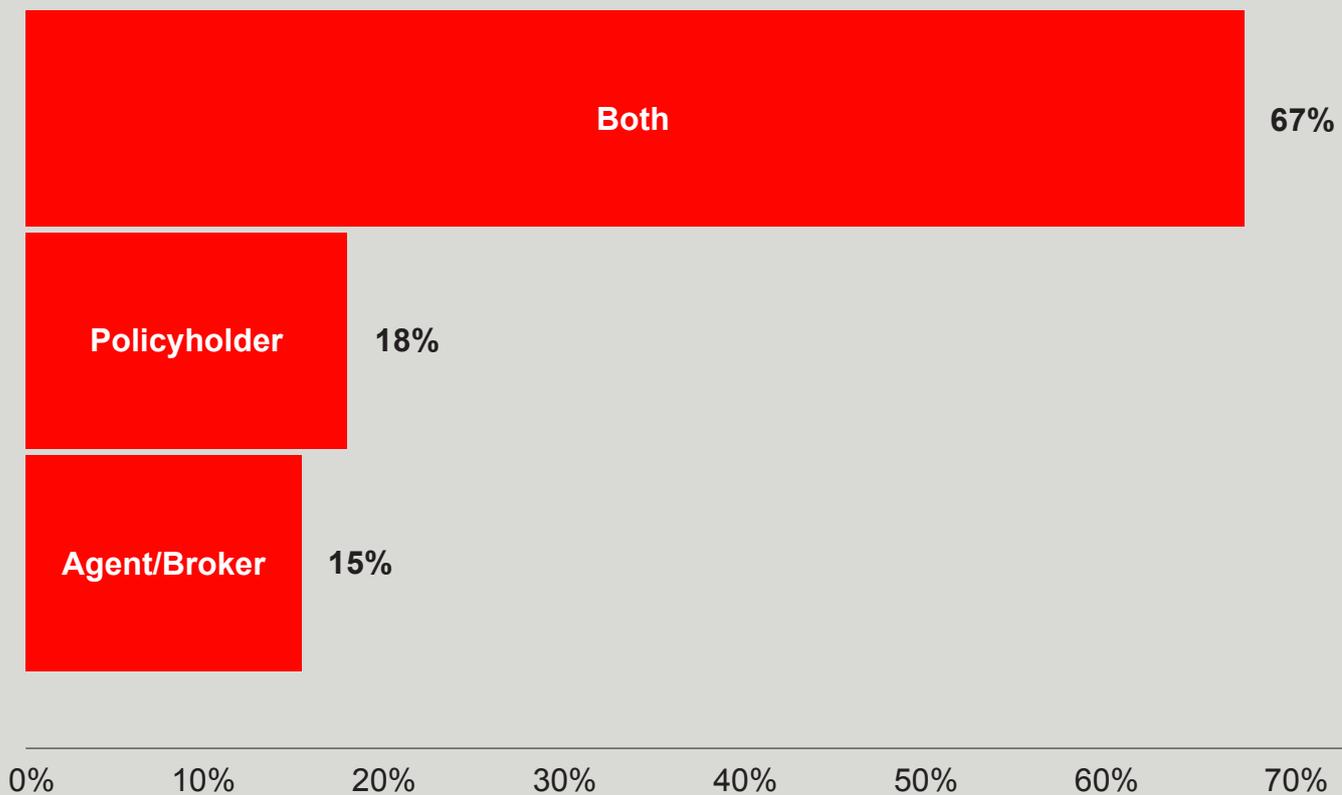
¹This report will use the single term “agents” to refer to insurance intermediaries, recognizing that some markets refer to these groups as “agents” and others call them “brokers.”

ALIGNMENT WITH CUSTOMERS

In insurance, the identification of the end customer is not always as straightforward as in other industries. For insurers that sell directly to the public, the answer is clear -- their customer is the policyholder. Many insurers sell through intermediaries and consider agents to be their primary customers. In the survey, two-thirds of respondents considered both the policyholder and the agent as their customers.

Source: Insurance C-level Survey n=300

Figure 2: Who do you consider your company's primary customer?

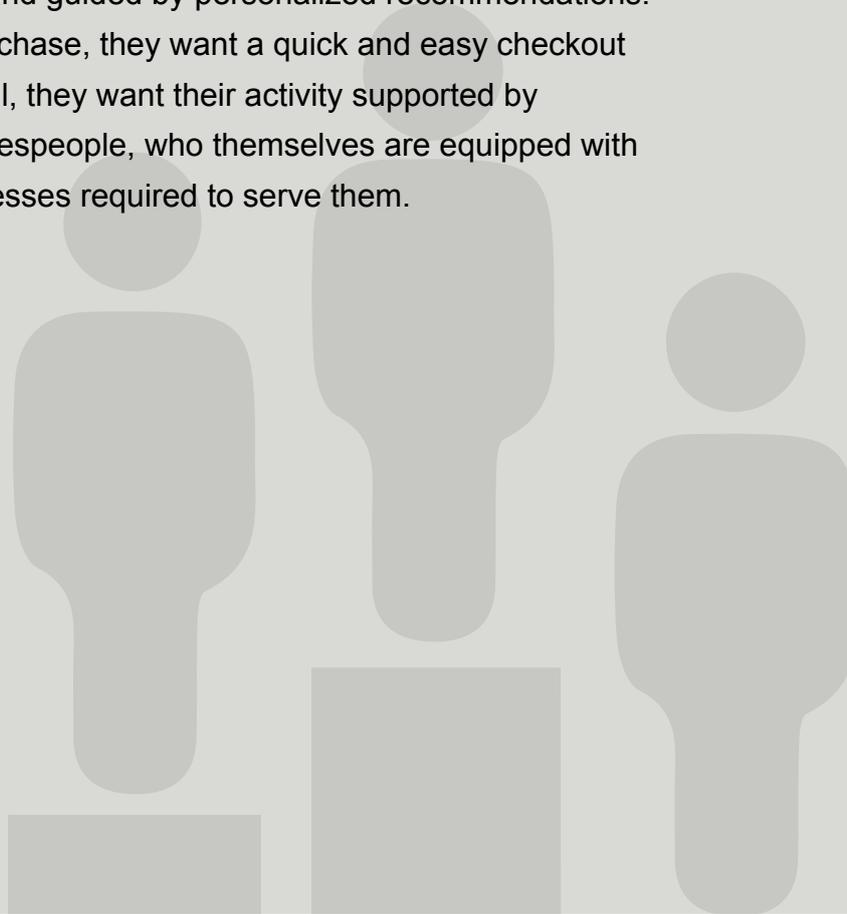


The new basis of competition thus requires most firms to adjust both relationships in order to succeed. Luckily, survey data provides some guidance as to what this means at an actionable level.

Salesforce Research conducted a worldwide study of over 6,700 insurance buyers to discover what was important to them when making purchases.² The results are, in decreasing order of importance:

Knowledgeable salespeople	1
Quick and easy checkout	2
Product comparison tools	3
Seamless transitions between channels	4
Mobile applications	5
Product recommendations (that match buying habits)	5

The theme of empowerment runs throughout these preferences. Buyers want to navigate between channels using product comparison tools and guided by personalized recommendations. When ready to purchase, they want a quick and easy checkout process. Most of all, they want their activity supported by knowledgeable salespeople, who themselves are equipped with the tools and processes required to serve them.

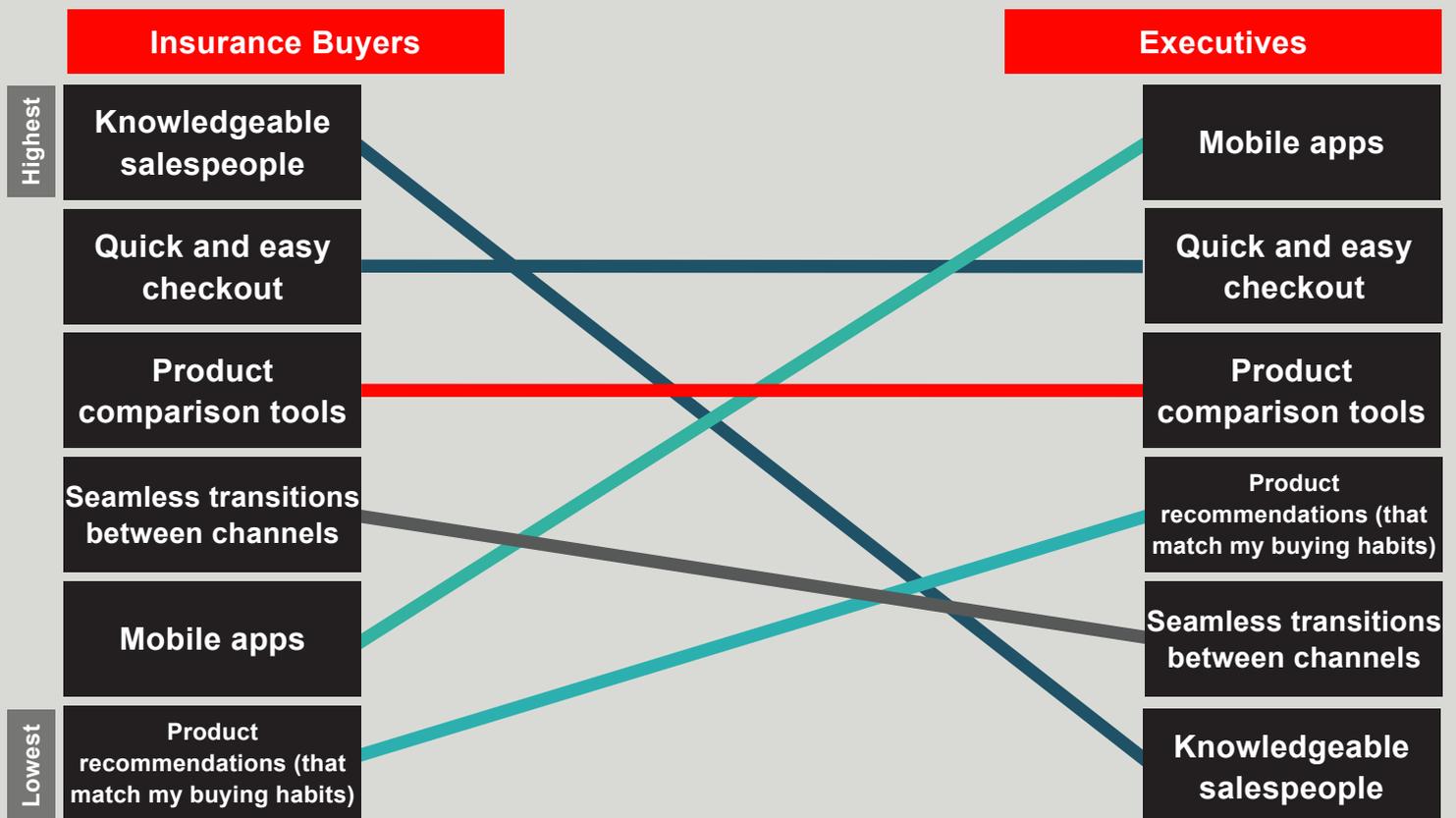


²“State of the Connected Customer”, March-April 2018 <https://www.salesforce.com/search/#q=state%20of%20the%20connected%20customer&sort=relevancy>

The same question was asked in the Insurance C-level survey. Comparing the results from these groups highlights the similarities and differences between what **insurance buyers say** is important and what **insurance executives think** is important to **buyers**. The lines in the graph below link the same items in both lists. Straight lines indicate agreement on priorities; slanted ones identify differences.

Source: Salesforce Research "State of the Connected Customer" Insurance C-level Survey n=300

Figure 3: Rank the following in importance when buying products or services



Three of the items - *quick and easy checkout*, *product comparison tools*, and *seamless transitions between channels* - share the same or very similar levels of priority between the groups.

In three of the six cases – half of the time - what is important to buyers matches what executives think is important to buyers. The differences offer insights to guide alternative investment decisions. The most striking gap involves *knowledgeable salespeople* – ranked first by buyers but last by executives. An optimistic interpretation is that because of the licensing and

training requirements of agents, executives may be expressing confidence in insurance salespeople. However, such a relatively low ranking by executives, relative to the other options, may cause these leaders to underinvest in tools which help the agent appear knowledgeable to a buyer. For example, the use of a chatbot to assist an agent may not receive the funding priority warranted based on consumers' expressed preferences.

Mobile apps is another area of difference; it is at the top of the executive's list, but fifth in the buyer list. The lower ranking by consumers is likely a reflection that mobile is assumed to be an option in the buying process and a recognition by insurers that the industry still has a way to go to deliver mobile capabilities. The high priority placed on mobile apps by insurers may also be attributable to a common source of confusion between mobile and digital enablement. Mobile is not the same as digital. Digital customer experience involves change to the front, middle, and back office.

The last area of difference, *product recommendations (that match my buying habits)*, is related to the need to personalize the buying process. It may be that buyers familiar with the "people like you also bought X, Y, Z" approach at digital retailers assume that this feature is a part of the buying process.

So how can insurers empower salespeople and customers? The survey results also provide insight into what insurers can do to compete successfully, according to the new rules.

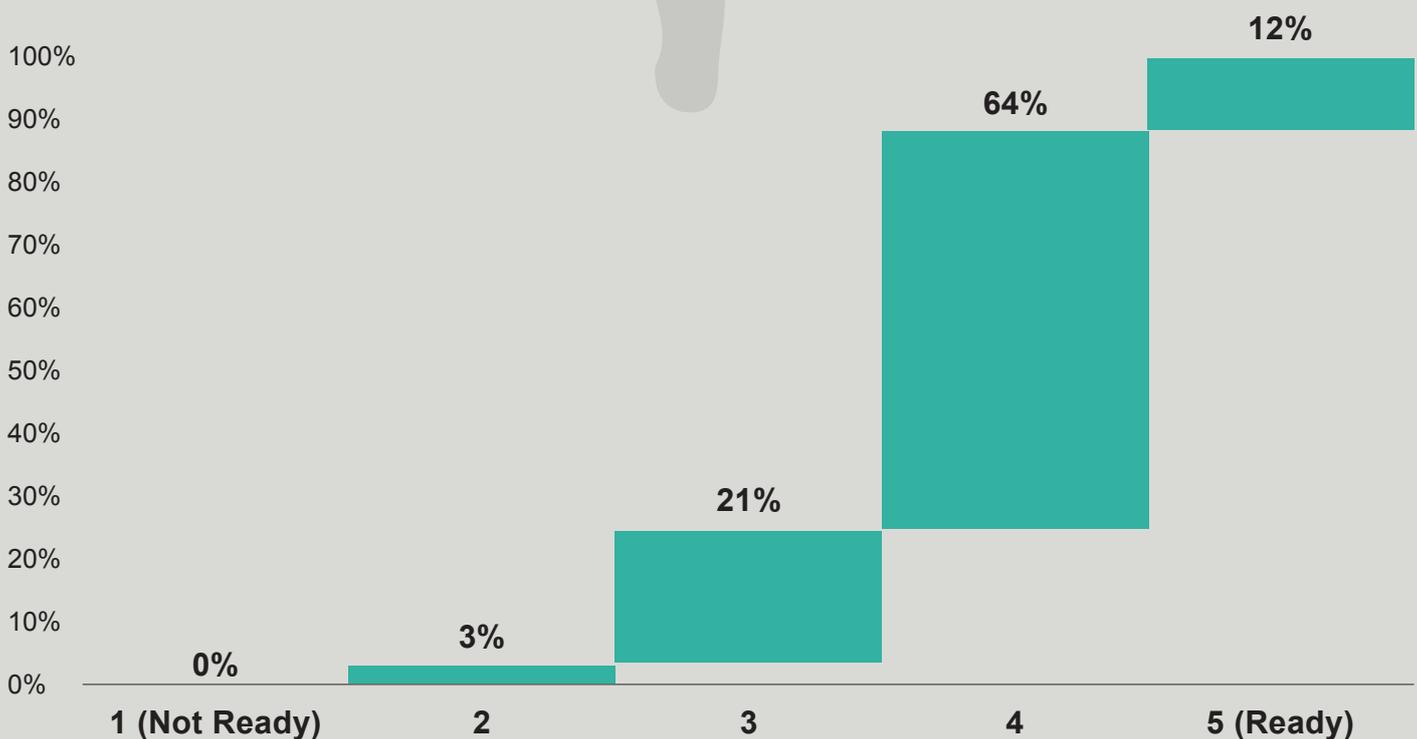
EMPOWERING SALESPEOPLE

Knowledgeable salespeople topped the list of buyer priorities in the Salesforce Research study. How can insurers deliver the tools to their customer-facing representatives, whether captive or independent, sales or support, to deliver the expected levels of service?

The survey asked the executives to rate the readiness of their service representatives and/or agents. The results reflect optimism, with 64% assigning a rating of 4 out of 5. The executives are clearly bullish about the ability of their employees and distribution partners to deliver.

Source: Insurance C-level Survey n=300

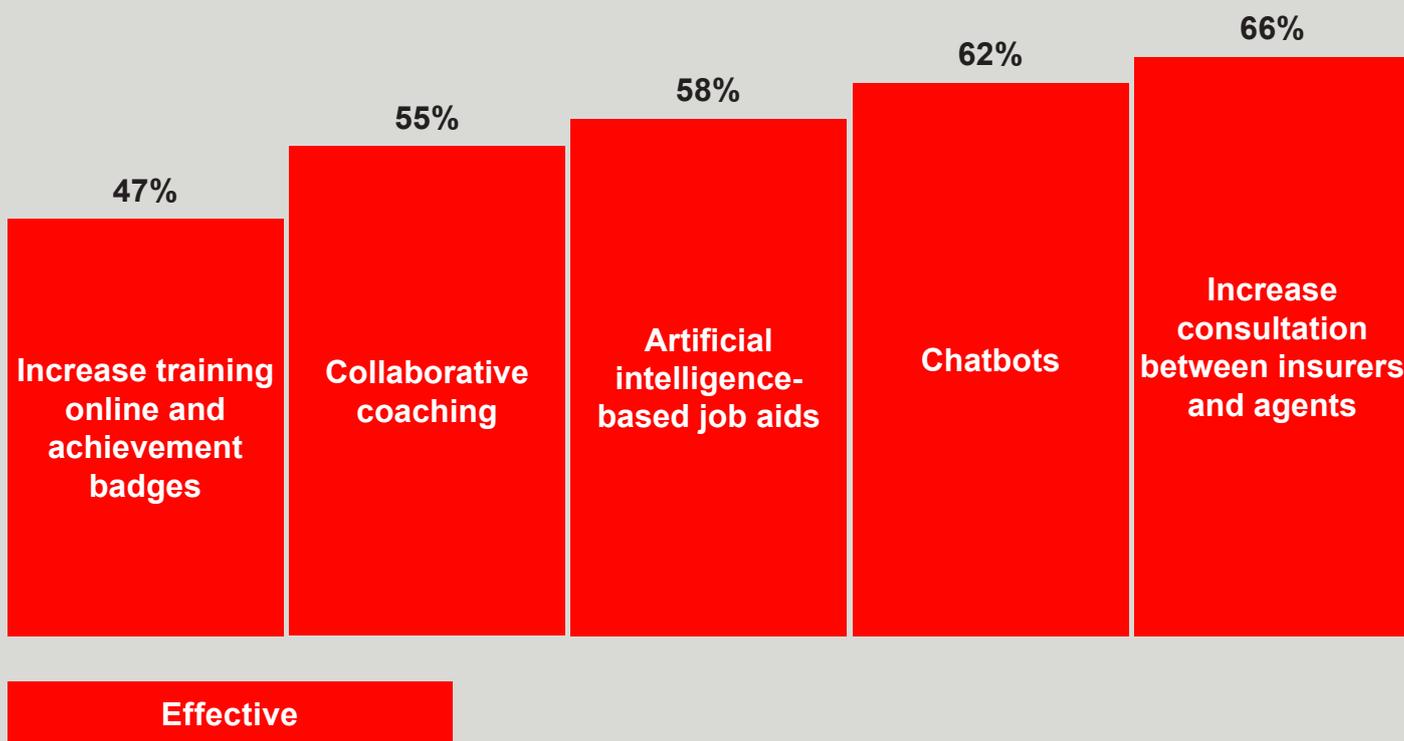
Figure 4: Please rate the readiness of your service reps and/or agents to deliver the expected level of customer service in the future.



What is needed to move the rating to the highest level? When asked to rank the top-five most effective tools/techniques that will better equip service representatives and/or agents, the responses include a mix of technology and training.

Source: Insurance C-level Survey n=300

Figure 5: What are the top 5 most effective tools/techniques to empower your service reps and/or agents?



Increase consultation between insurers & agents was the most effective intervention. Life/annuity insurers were most likely to rate this capability the highest; 71% say it is “most effective,” reflecting the complex nature of their products and the necessity to avoid mis-selling.

Goosehead Insurance, a nationwide personal lines broker, provides an example of using technology to increase the collaboration between insurers and agents.

- **Opportunity:** Goosehead represents over 80 insurance companies and 1,000 agents in the U.S. Each insurer has its own unique risk appetite, workflows, and engagement methods. It is impossible to train agents on all these differences at any point in time, much less keep them current as changes are made.
- **Why:** Providing agents with automation and processes to successfully manage these variations decreases their administration effort. This creates time for them to spend working with insurers to develop optimized risk solutions for their customers. It also allows them to spend more effort in direct client consultation.
- **How:** Goosehead built a new agency management system using Salesforce.com to support a specialist business process -- sales sells and service services. All employees perform their work on a common platform, providing 360 degree visibility for staff into the business.
- **Results:** Increased agent productivity – Goosehead reports that their corporate agents (employee agents) are 3.7 times more productive than industry best practice ; Franchise agents are 1.6 times more productive compared to industry best practice. Net Promotor Score® of 87 achieved as of June 30, 2018. Increased efficiency in back office – Goosehead estimates its service centers cost is ¼ of industry best practice levels.

The enthusiasm for *chatbots* for agents provides an interesting contrast with executives' opinion on chatbot use for buyers. When asked to rank what is important to **buyers** during the purchase process, survey participants rank chatbots **last** in a list of 17 options. However, they have a positive view of its applicability for agents, indicating a belief that bot tools can improve agents' knowledge base.

Another highly ranked technology is the use of *artificial intelligence (AI)-based job aids*. A prime example of this is the use of predictive modeling and machine learning to deliver a personalized experience. This use case matches buyers' preference for *product recommendations (that match my buying habits)*.

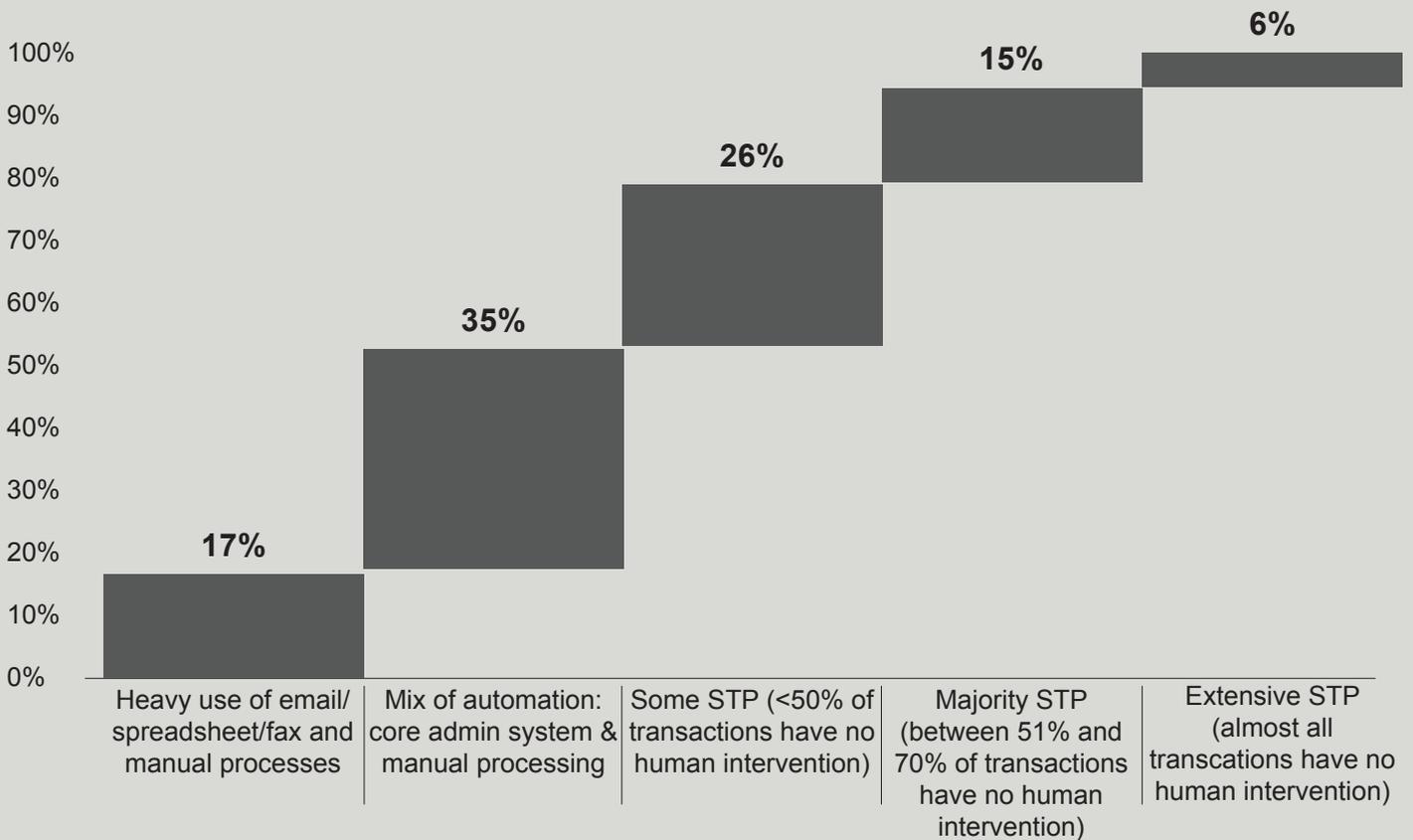
The remaining items in the top five are related to employee development. *Collaborative coaching and increase training online and achievement badges* recognize that increasing agent effectiveness is not solely a technology play.

EMPOWERING CUSTOMERS

How easy or hard is it for consumers and/or agents to buy insurance today? In order to establish current capabilities, the survey asked how the new business quote-to-issue process is currently accomplished.

Source: Insurance C-level Survey n=300

Figure 6: In your major line of business, how would you characterize your current new business quote-to-issue process?



Over half of respondents indicate that their firms are still using manual processes to service customers: 17% say that spreadsheets and manual processes are the primary transaction method, and approximately one-third (35%) say a mix of automation and exception processing is used.

Providing straight-through processing is a particular challenge for small to midsize insurers. Firms generating less than US\$1

billion GWP report that only 4.5% of their new business is “mostly” or “extensively” low-touch.

The data quantifies the extent to which existing new business quote-to-issue processes prevent insurers from delivering the *quick and easy checkout* experience that buyers rated so highly.

John Hancock provides an example of a digital buying experience in life insurance.

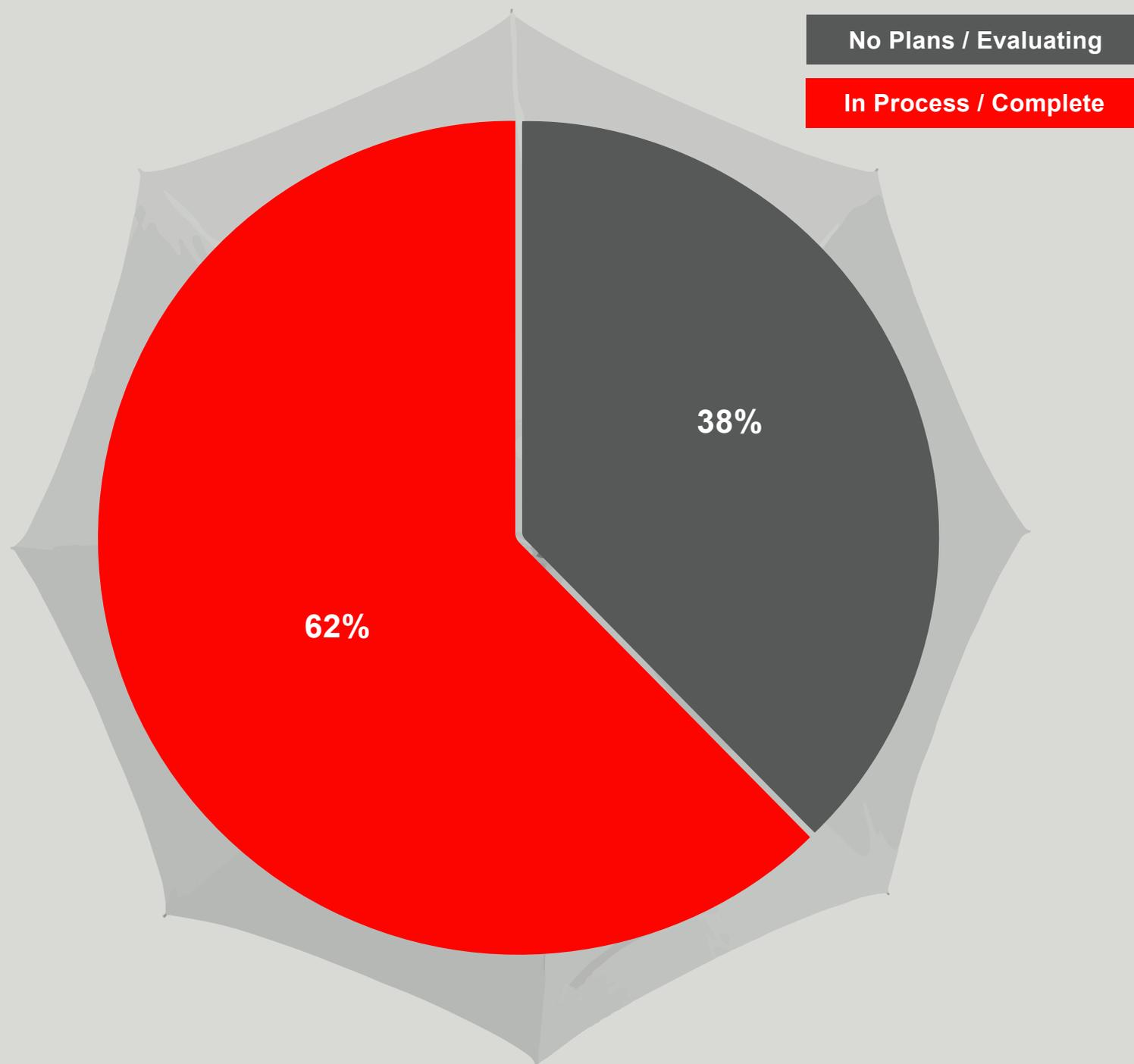
John Hancock – Empowering Customers

- **Opportunity:** Provide a direct-to-consumer term product digital buying experience that emphasizes ease of use and speed.
- **Why:** John Hancock wanted to move away from a time-consuming, cumbersome process and simplify the life insurance purchasing experience for its customers.
- **How:** A new online life insurance application portal allows customers to obtain a life insurance quote and submit an application quickly online. A mobile app helps a user analyze their financial goals by analyzing their overall objectives and making investment decisions to achieve them. These systems integrate with Salesforce’s Sales Cloud and Service Cloud to coordinate consumers’ actions with JH employees.
- **Results:** Saw a 6-fold increase in applications submitted in 5 months following the March 2017 launch. Delivered a completely digital experience for shopping and applying for term insurance products online. Customers can complete an application within seconds using 3rd party data sources. Reduced 120 process steps to 7. Reduced quote turnaround time from several days to minutes, lowering overhead costs associated with quoting by 150%. Improved speed of programming releases – moved from trying to release every four to six weeks to a planned cadence of twice a month. Gained skills in digital marketing and automation which have been transferred to other initiatives.

Improving transaction efficiency, including increasing straight-through processing rates, is a central benefit that is being sought as insurers replace aging core systems. Survey respondents report good progress toward this goal, with over 60% currently undertaking or having completed replacement programs.

Source: Insurance C-level Survey n=300

Figure 7: Indicate the status of core system replacement in your company.



As expected, large insurers report the largest *complete* status. However, small and midsize insurers (GWP under US\$100 million, and between US\$500 million and \$999 million, respectively) are moving as well, showing the largest *in process* percentages (58% and 56%, respectively).

This data indicates that given the timelines associated with such efforts, the majority of insurers, regardless of size, will have new platforms in the next few years. These new investments will position those companies to improve the efficiency of the buying process.

Insurers still *evaluating* their core system, or those which have *no plans*, must find another way to improve the quoting process. Two insurers provide an example of how this was achieved without a core replacement – one the US subsidiary of a global insurer, and the other Farmers Insurance.

Limelight Health: Empowering Agents

- **Opportunity:** Replace legacy, manual processes agents used to provide clients with insurance plans and rates. Improve the proposal process involving multiple lines of business through successive iterations of program plans.
- **Why:** Deliver streamlined, differentiated service, provide quicker turnaround to brokers, and gain a competitive edge. Reduce time required by agents for quoting and modifying proposals, resulting in increased time for consultation and prospecting.
- **How:** The US subsidiary of a global life and group insurer partnered with Limelight Health to create an integrated technology platform built on Salesforce.com technology. Deloitte provided the design expertise which centered the solution on the customer experience.
- **Results:** Reduce quote turnaround time from several days to minutes while improving the quoting experience; give brokers the ability to look at options, price, apply discounts and strategically quote on the spot in consultation with the client; reduce overhead costs associated with quoting by 150%.

Farmers Insurance® – Agent quoting for Business Owner Policies

- **Opportunity:** One of the nation's leading insurers with an iconic brand and a history going back almost a century, Farmers® is proud to deliver industry-leading products and first-rate services to its customers. In the years of technology transformation, Farmers Business Insurance team wanted a system that could help further empower Farmers to quote new business.
- **Why:** Part of Farmers technology transformation vision included a quoting solution that was easy to implement, learn and maintain.
- **How:** Farmers quickly implemented Vlocity's Digital Quote, Rate & Apply solution. Using tracking analytics, Farmers was able to analyze areas of difficulty and then adjust questions and answers to streamline the process.
- **Results:** Quote turnaround time reduced by half and quote flow increased significantly. In addition, the fully mobile solution enabled nearly two product upgrades delivered in the first six months.

ACTION

Analysis of buyer and executive survey data suggests actions in three areas – competitive assessment, technology investment review, and barrier management.

COMPETITIVE ASSESSMENT

To gauge the relative strengths and weaknesses of competition in their chosen markets, insurers have historically tracked dimensions such as financial performance, product features/pricing, and channel management. If insurers wish to understand how competitors are addressing the new competitive lever of empowerment, they should include additional aspects in their analysis of competitors. An example of a framework based on buyer priorities is provided in Table 1.

Table 1: Competitive analysis – Buyer priorities

BUYER PREFERENCE	COMPETITIVE ASSESSMENT
KNOWLEDGEABLE SALESPEOPLE	<p>Are competitors providing to their sales and service staff:</p> <ul style="list-style-type: none">• a comprehensive view of customer data needs, service interactions, etc.• analytics related to the buyer risk profile• continuing development programs
QUICK AND EASY CHECKOUT	<p>What is the level of straight-through processing at competitors?</p> <p>To what extent are they using third-party data in the application/quote process?</p>
PRODUCT COMPARISON TOOLS	<p>Can consumers and agents easily research the company's products?</p> <p>How clearly is the underwriting appetite of the competitor communicated to their distribution partners?</p>
SEAMLESS TRANSACTIONS BETWEEN CHANNELS	<p>To what extent does data move with buyers as they shift channels, for example, between the web, call center and agent interactions?</p>
MOBILE APPS	<p>What mobile functionality do competitors offer?</p> <p>What usage statistics are available (e.g. web analytics)?</p>
PRODUCT RECOMMENDATIONS (THAT MATCH MY BUYING HABITS)	<p>Are competitors using artificial intelligence (A.I.) to drive advice engines which match buyers' risk profiles with coverage options?</p> <p>Are personalized next-best action/next-best purchase suggestions provided to their distribution partners?</p> <p>How are competitors accessing data science resources?</p>

Evaluating these aspects rounds out a competitive assessment to more fully inform technology investment decisions.

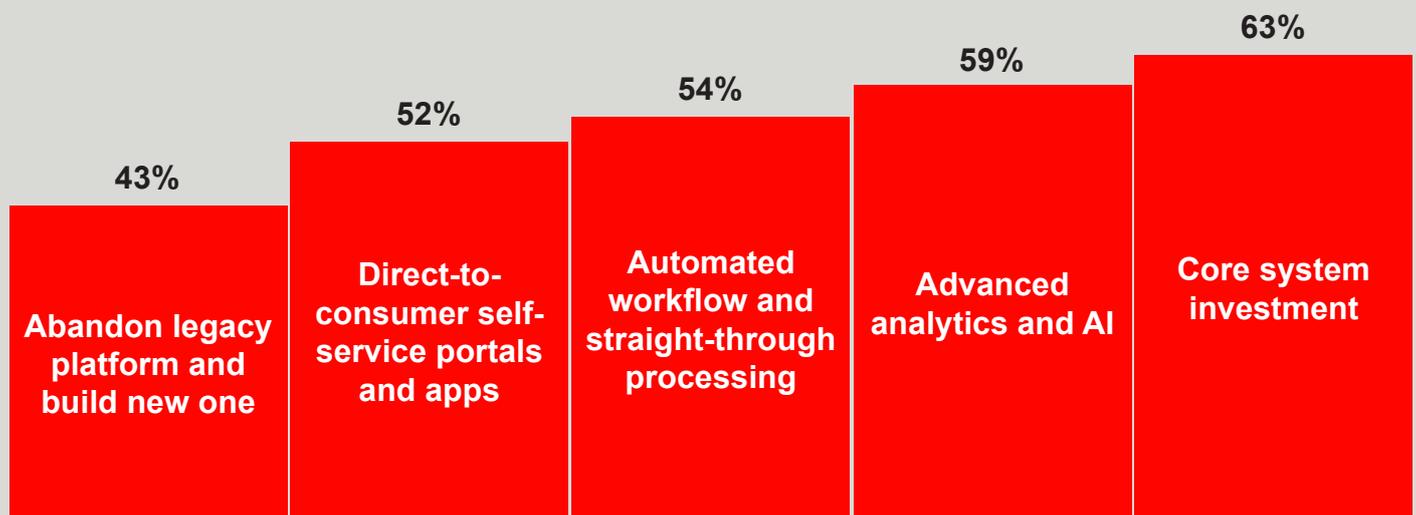
TECHNOLOGY INVESTMENT REVIEW

Traditionally, insurers have invested in technology to address process efficiency and expense reduction. Based on the feedback from the executives, an additional lens should be applied -- what investments will empower the firm's consumers and intermediaries?

The final section of the survey asked the participants to provide their views on the business impact of alternative technology investments. The participants were presented with a list of 10 technologies and asked to rank the top five in terms of impact on business results. The highest-impact items are likely the areas in which insurers are placing or looking to place bets.

Source: Insurance C-level Survey n=300

Figure 8: Rank these technology investments in terms of impact on business results.



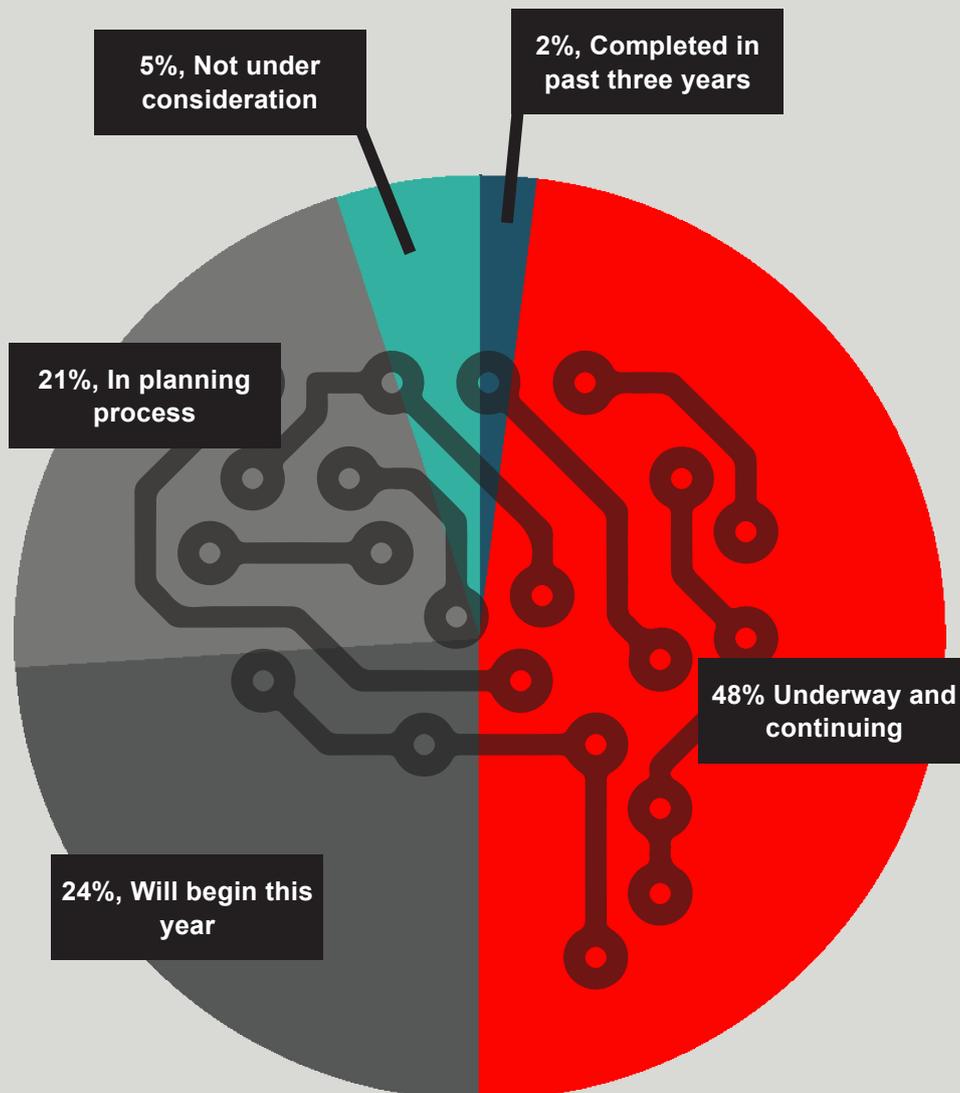
The focus on core systems is evident; three of the five options deal with this area. The fact that *core system investment* is preferred over *abandonment of the current legacy platform* is likely driven by the high proportion of life and health insurers in the study. A preference to invest in existing systems, and avoid a full-scale replacement, reflects the risk involved in data conversion for those lines of business. *Automated workflow* and

straight-through processing are examples of core investments which address the buying simplification objective mentioned earlier.

In addition to core systems, *advanced analytics and AI* investments also made the top impact list. This level of interest matches the result found in a recent study by Celent, a global insurance technology research firm (and editor of this article). Almost half of the 100 Insurance Chief Information Officers surveyed reported that these type of projects are underway, with another 45% of insurers either beginning initiatives this year or actively planning them.³

Source: Celent report: *Global CIO Priorities 2018 Edition* (survey n=100)

Figure 9: Indicate the status of investment in advanced analytics and AI in your company.



³Celent, *Digital Transformation in Insurance*, April 2018

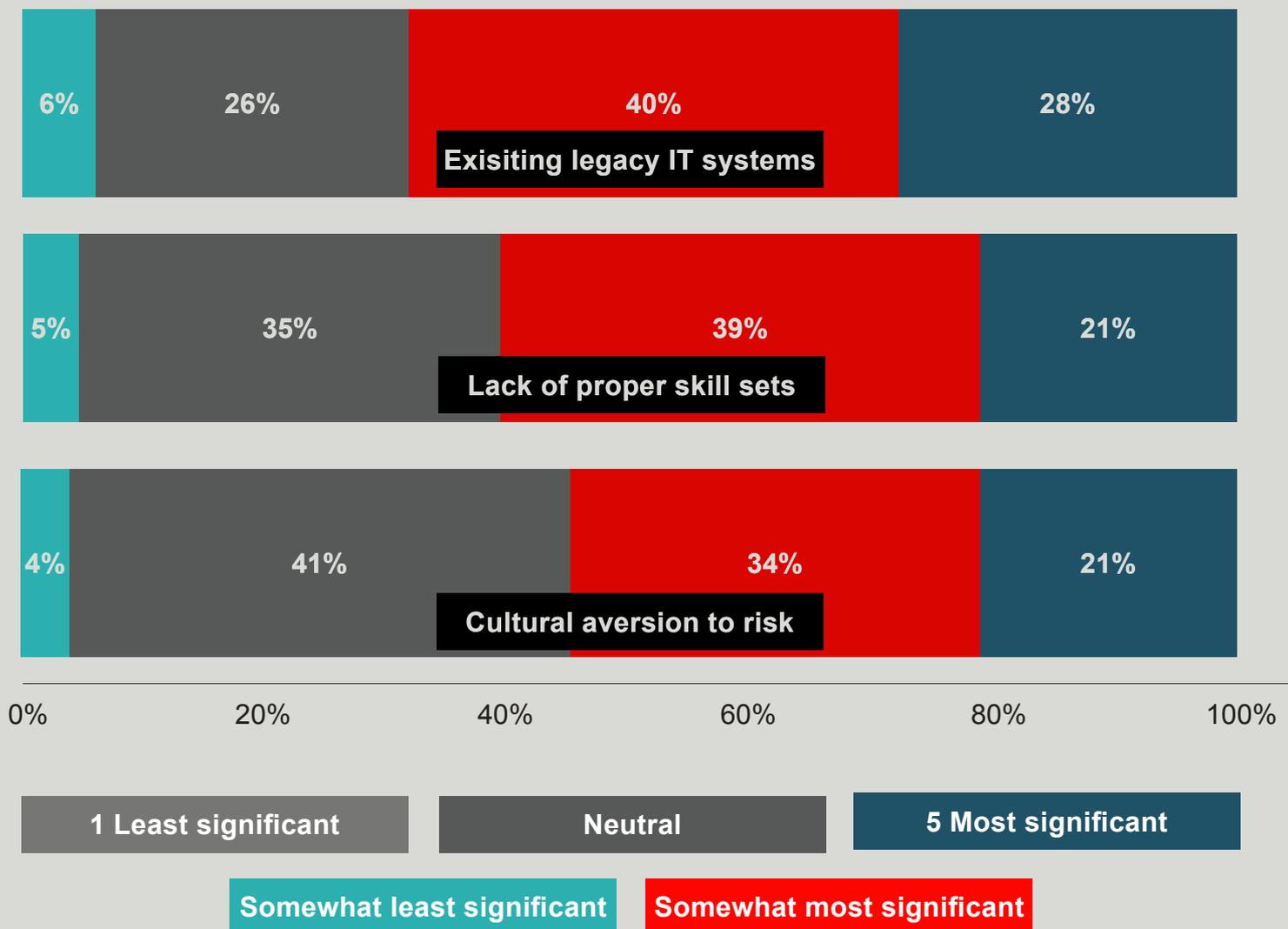
The final top investment area is *direct-to-consumer self-service portals and apps*. This is in line with the executives' interest in mobile apps and in the *quick and easy checkout* that buyers want.

OVERCOMING BARRIERS

Leading the change necessary to adjust to the new competitive priority is not trivial. The executives were asked to identify the major barriers to implementation. The top-three barriers are listed below.

Source: Insurance C-level Survey n=300

Figure 10: Rank the top barriers to change in how your company engages with your customers



Consistent with other research, the legacy IT systems barrier is the most significant. Exchanging data between systems is essential as customers change channels, receive personalized service, and agents seek to have the right answers at the right time. Aging automation was built for transaction efficiency, not real-time data exchange.

To address the legacy issue, insurers face three choices: replace their legacy systems, augment the existing core or establish greenfield operations. The top-level arguments for (pro) and against (con) are listed in Table 2.

Table 2: Three strategies for core system automation

ALTERNATIVE	DESCRIPTION	PRO	CON
REPLACE CORE	Abandon legacy platforms, also referred to as “rip and replace.” This involves wholesale replacement of core administration systems with a completely different (modern) system.	Provides a solution to legacy issues, improves capabilities across large part of the business, and provides opportunity to redesign traditional business processes.	High expense, high cost, and high risk (especially if data conversion is required). Full benefits not realized until legacy systems are fully decommissioned.
AUGMENT CORE	Core system investment, also known as “wrap.” With this option, insurers leave legacy systems in place and surround it with newer technology.	Lower risk and less disruption to operations than replacement. Builds on some existing skill sets.	If not managed effectively, can add complexity to a technical environment, increase risk of future incompatibility, and increase expense.
GREEN-FIELD	Build new technology in a stand-alone business unit, often for a new product.	Increase speed of delivery and flexibility, at lower cost than previous development efforts. Addresses the resistance-to-change barrier (“not the way we do things around here”).	Perceived as high risk, with marginal short-term impact on results. May be difficult to recruit/retain staff with specialist skills. Ability to scale the solution cannot be proven in the short term.

Each insurer will make their choice based on both internal and external considerations. Within a firm, assessments need to be made regarding the leadership team's tolerance for risk and the amount of capital available. Externally, the pace of customer expectations in their market, competitor capabilities, and quality/availability of partners to assist in the transition are considerations.

The second barrier, lack of proper skill sets, is related to the scarcity of talent trained in emerging technologies. Recruiting and retaining employees with these skills is a challenge for insurance companies as they compete with firms which have better name recognition and, likely, more lucrative compensation practices. Modifications to pay and incentive structures are challenging given equity considerations with existing employees. Increasingly, insurers turn to partnering with technology companies as an effective way to access talent.

Addressing the skills challenge can also be addressed through collaboration with established and startup technology organizations. A common model emerging from the work being done in insurtech is one of partnership — where insurers share their subject matter expertise and/or the cost of co-development efforts in order to access specialist technology skills.

Cultural aversion to risk is the third highest barrier. A low tolerance for failure is a widely recognized characteristic of insurers. This is a useful trait in an industry that is charged with fiduciary responsibilities. If someone has promised to pay future claims, risk aversion is a strength.

However, as demonstrated in recent years with the increased pace of change, this lack of willingness to fail is a significant barrier to innovation, where an experimentation mindset is required. Insurers that are succeeding in innovation are adopting agile implementation and using customer-centered design on top of application programming interfaces (APIs) and microservices technologies to rapidly test and learn. As experience accumulates, these insurers learn how to manage risk more appropriately.

CONCLUSION

The explosion of technology provides business with the opportunity to fundamentally change the customer experience to match buyer priorities. New competitive forces make it increasingly important to deploy technology to empower buyers and intermediaries.

Based on the analysis of data from 300 global insurance executives, winning insurers will:

- Empower their consumers and intermediaries in spite of legacy IT systems, compensation practices, and aversion to change barriers;

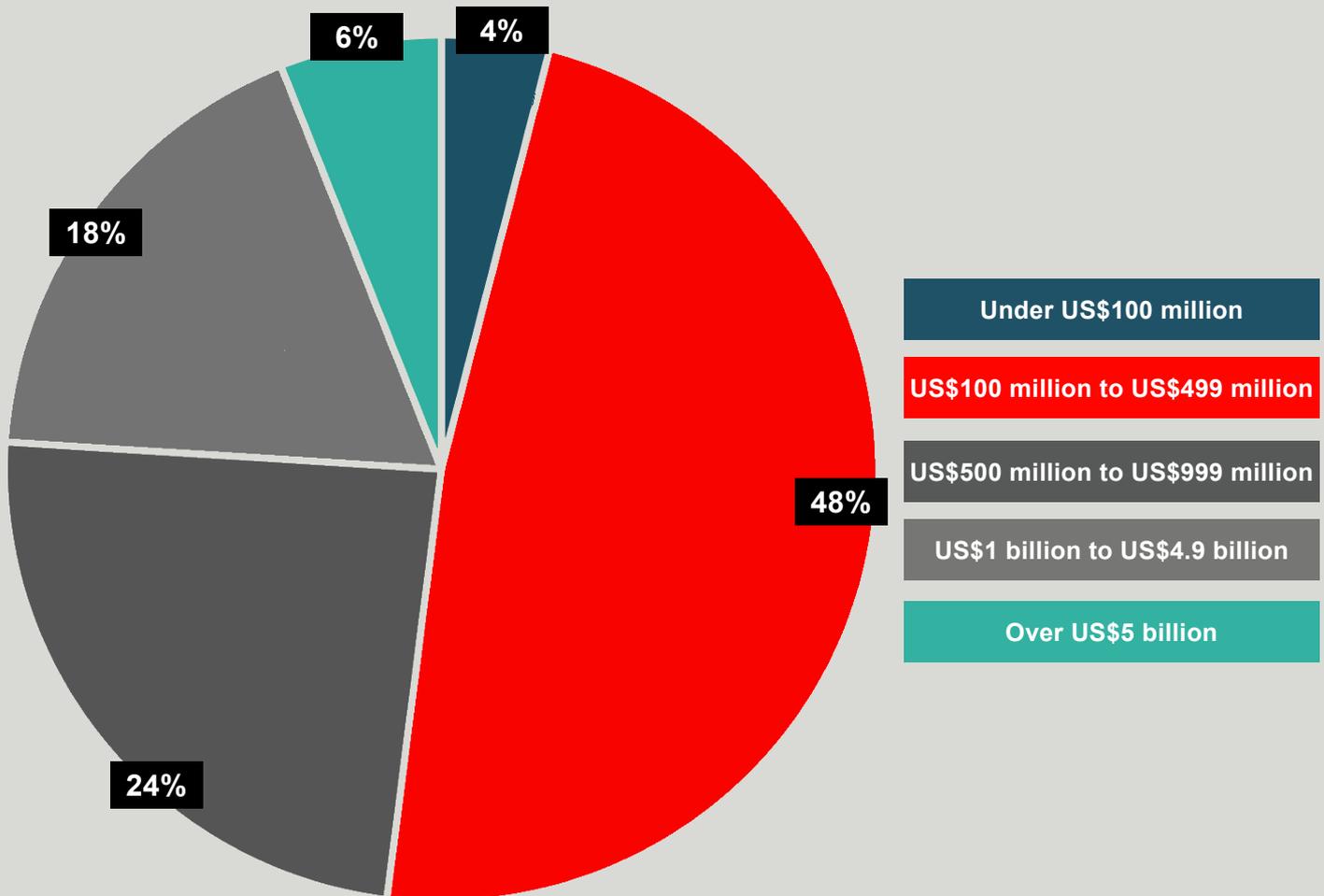
- Add an analysis of customer experience to their competitive intelligence assessments;

- Invest in emerging IT solutions which enable their vision of customer service – both before and after the sale.

Appendix

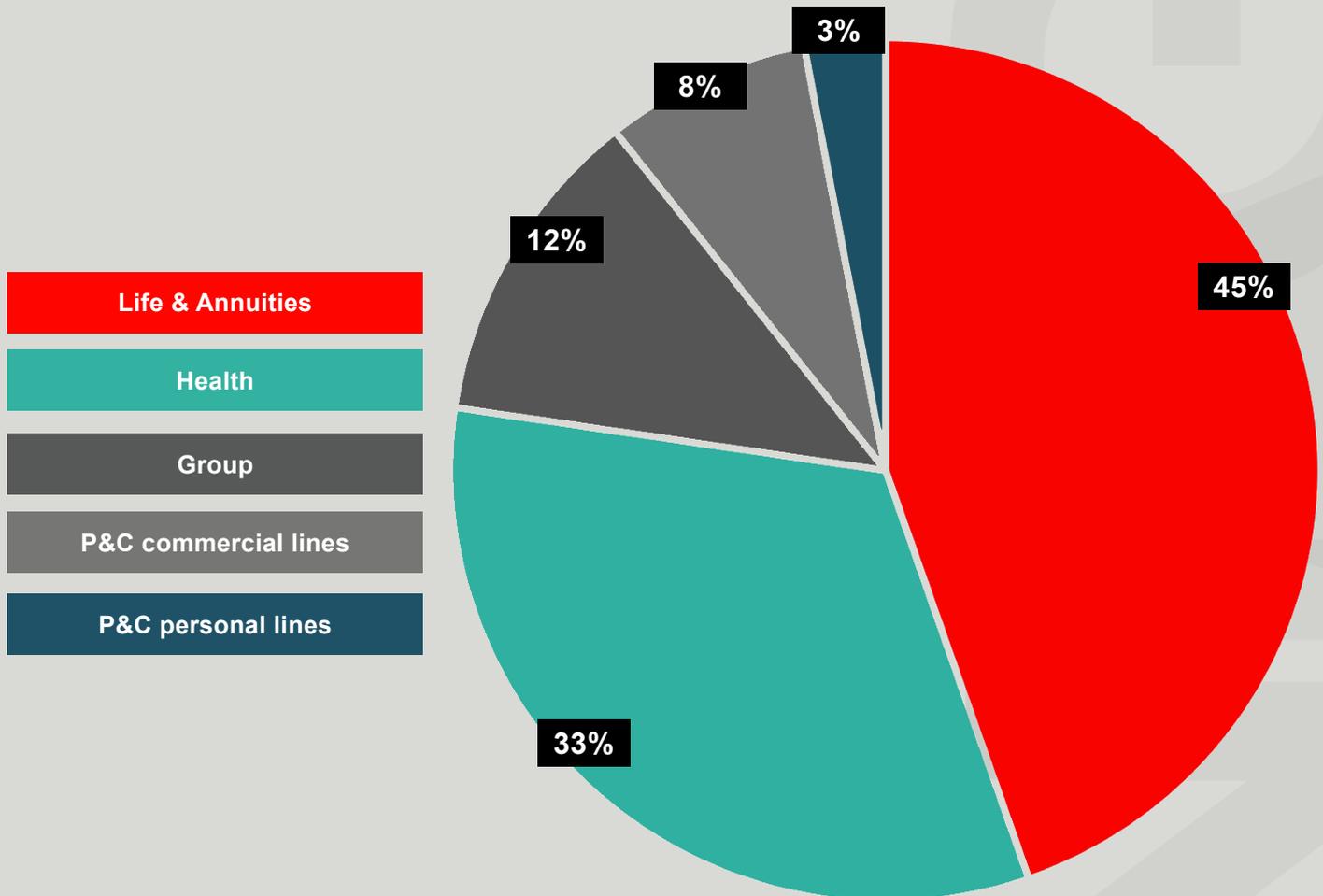
Source: Insurance C-level Survey n=300

Figure 11: What is your company size (in annual gross revenue / GWP)?



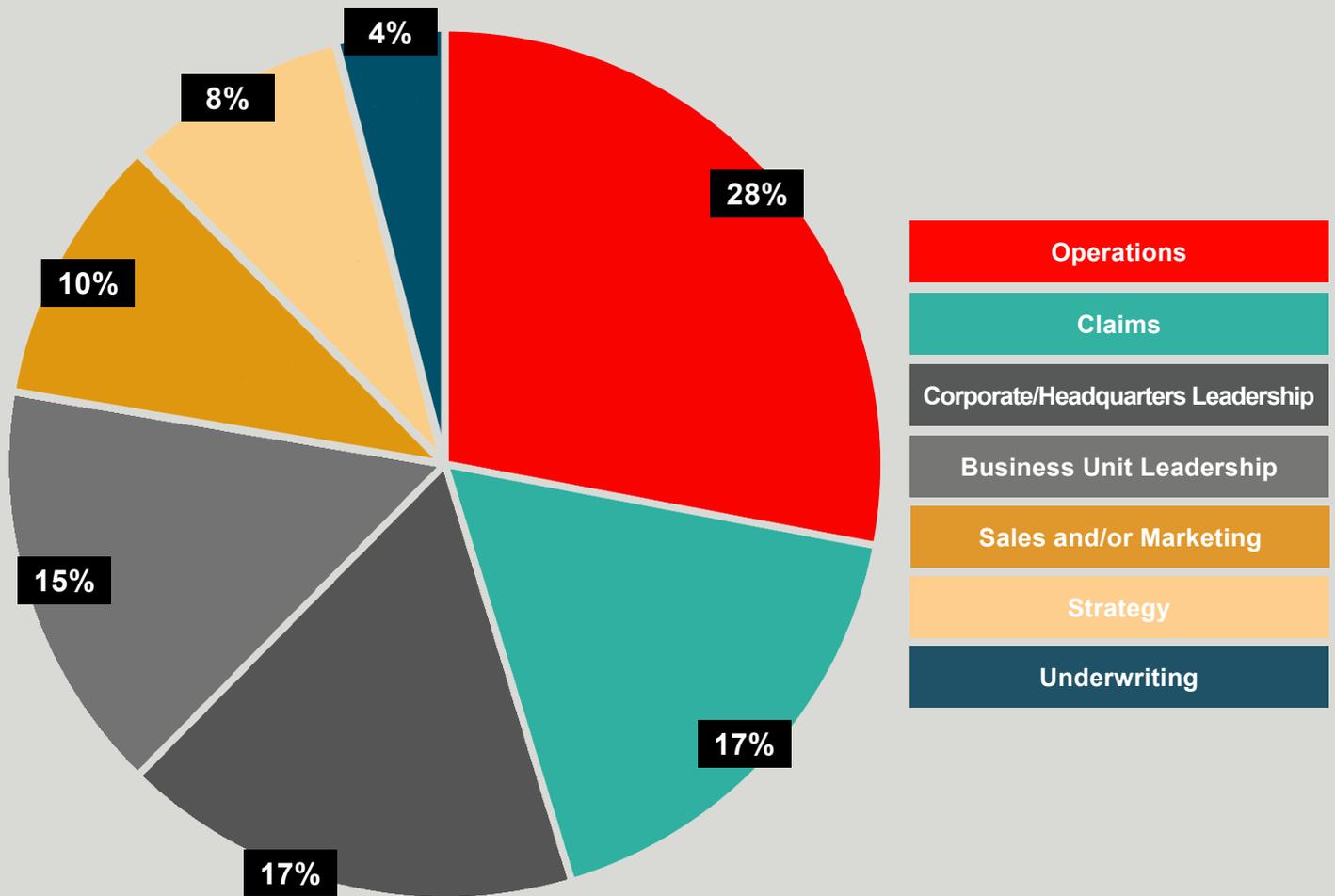
Source: Insurance C-level Survey n=300

Figure 12: What is the major line of business for your company?



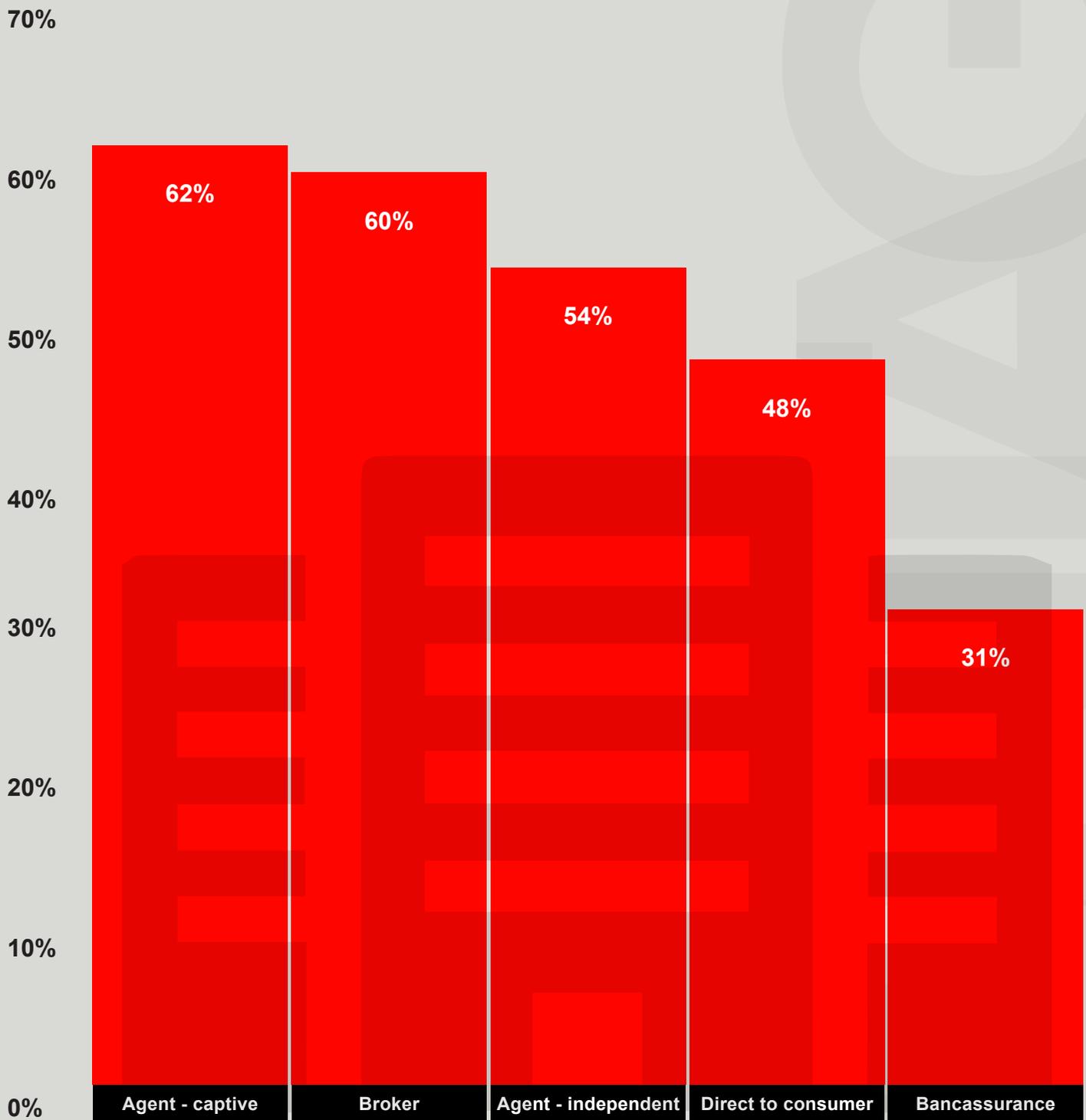
Source: Insurance C-level Survey n=300

Figure 13: What is the primary focus of your current responsibilities?



Source: Insurance C-level Survey n=300

Figure 14: Which distribution methods does your company use? (multiple answers allowed)



Source: Insurance C-level Survey n=300

Figure 15: In what geography does your company primarily operate?

