Channel Hopping
Lessons from the UK Market

Automation Solutions
About Paul Donnelly
Paul is responsible for product strategy and marketing at Munich Re’s Automation Solutions division.

He brings more than 20 years experience in the software products industry to Munich Re. In previous roles, he has been responsible for all aspects of product management (including product definition, positioning, promotion and pricing) of a $75m annual run-rate middleware product, leading-edge financial prediction software, and software to standardise the sharing and communication of configuration information in enterprise environments.

Paul has held senior product management and strategy roles at IONA Technologies, Prediction Dynamics and Parallel Graphics. He began his career with eight years at Siemens, initially in London, and then in Munich.

Paul is a member of the Board of Guardians & Directors at the Coombe Women & Infants University Hospital (the largest provider of Women’s healthcare in Ireland), and was formerly Executive Committee Member of the Irish Software Association.

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The UK has long been a leader in the life insurance industry since merchants and underwriters shared coffee at Lloyd’s Coffee house. Looking at the UK industry today however may cause other insurers to pause and reflect on their own market. The move to direct sales through comparison websites has brought fierce competition; causing downward pressure on premiums, a simplification of products and a rethinking of the agent based sales business model. Insurers in other markets, especially those historically tied to the UK Insurance market, are looking on with increasing concern.

What can they learn from this? And what actions can they take today to prepare if some or all of these factors appear in their market?

Focus on Premiums
While the move to the internet has reduced costs for insurers it has led to customers using comparison websites which have clearly exposed the differences in premiums charged, without showing as clearly the differences in product features. Without the advice previously given by agents, customers have become increasingly focused on premium as the differentiator.

It is worth noting that only 1.4% of termed insurance in the UK is bought online however many more customers are going online to get a quote, and then completing the process through another channel. It is the initial online quotation, especially via comparison websites, that is squeezing premiums.

Costs
This focus on premiums means UK insurers must be relentlessly focused on costs. The market leaders have all streamlined their processes, adopting automation or outsourcing to reduce overheads. As medical evidence costs are one of the larger costs on a new business application, insurers have created products where evidence is no longer required (L&G) or have used more focused questions to minimise them (Zurich). Companies have also used the consistency of automated underwriting to negotiate an increase in non medical limits with their reinsurers.

Lack of Advice
With heavy online and offline advertising, comparison websites such as comparethemarket.com have succeeded in transforming how customers purchase insurance. Starting with car and house insurance, where like with like comparisons are generally easier and more transparent than life insurance, UK consumers became accustomed to using these sites to source insurance. Agents have struggled to show customers the value of their independent advice.

Simplified Products
Without specialist advice from agents, customers have not differentiated based on product features. Reacting to this, insurers have brought out more products that offer simplified protection at a lower cost. Whether these products offer customers value for money and adequate protection is cause of some debate.

Multiple Channels
Insurers must now be able to process applications online or over the phone, and many also have agent and bank assurance channels to maintain. Some insurers must also white-label their products and processes. All this must be done while minimising costs and processing times.
What lessons can insurers take?

The major lesson from the UK market is that insurers must have the systems in place to react to market change. Non UK insurers are beginning to upgrade their new business systems to allow for direct sales or to decrease acceptance times. These systems must be flexible enough to handle the competitive forces that may be coming their way.

Direct Sales
Customers are doing more and more of their financial planning and purchasing online. Even in markets where little life insurance is sold online, customers are using comparison websites to purchase other insurance products, this will inevitably lead to an increase direct life insurance sales (26% increase this year in Australia). Customers will not only expect to start the new business process online by obtaining quotations but they will wish to complete it too.

More Complex Products
While it may take time for more complex products to be sold directly over the Internet (LifeSearch and Fortis have started down this path in the UK) there will be a time when the increasing financial sophistication of consumers will make this possible. Insurers considering purchasing new business systems should consider how these systems would cope with complex product rules and underwriting.

Channel Hopping
Used to getting what they want, when they want, “cash rich and time poor”, customers will balk at any barrier to a sale. Such barriers can take the form of not offering a particular product online, not allowing the completion of the application process via telephone, or requiring a customer to post information. Insurers’ systems must be flexible enough to allow the customer to start the new business process via one channel and then switch to another. The following scenarios are fairly well known and many insurers have systems in place to handle them (or have plans to do so).

Direct to Tele-Agent
A customer may fill in an initial application but decide that they would like to speak to someone about their medical history questions. Insurers’ websites should allow a customer click on a link and have a tele-agent, with access to the already entered information, call them back to walk through the rest of the process.

Tele-Agent to Direct
A customer may not wish to answer medical history questions with an agent, instead preferring the privacy of answering on the web. The agent should have the ability to email the customer a link which would allow them to complete the questionnaire online.

However, the following examples are less well known, maybe even less likely, but are worth considering as they give an indication of the flexibility that may be required of new business systems in the future.

Direct to Broker
A customer may at some point in the sales process decide that they would like some financial advice. The insurer should be able to suggest brokers in the customer’s area and pass the case over to that broker via their broker portal. The broker would then contact the customer to complete the case.

What lessons can insurers take?

Maintaining Margins

Bank to Tele-Agent
A customer may start the application in their local bank (or even supermarket) however they may swap over to a tele-agent to complete medical history questions. The tele-agent must not only have access to the case information but must also appear to be from the original bank. Not only will the agent identify themselves differently but they may have to be able offer different riders, or ask different questions based on where the sale originated. Insurers may need to support many such scenarios in the future. They should be careful while specifying any new systems that they take this into account.

With increased customer focus on premiums, insurers can expect their margins to be squeezed. Identifying and reducing costs will become a prime motivation for insurers. However while some costs can be easily identified, others are entangled in complex new business process.

Identifying Hidden Costs
Currently most insurers monitor advertising campaigns by the increase in applications. However there is very little insight as to how many of these applications go on the books and as to how much on average these applicants cost to process. Once companies start to look at these details they may find some advertising campaigns that were seen as successful actually brought in a high number of cases requiring medical evidence that were then declined or not taken up. Many examples of these entangled costs can be found, but only with the right data and business analytics tools.

Medical Evidence
The ability to not only ask targeted questions, but to adapt these questions quickly as lessons are learnt, will allow insurers to reduce the amount of overall medical evidence costs without having to simplify products or lower non-medical limits. By analysing the eventual underwriting outcomes for case that have required evidence, insurers can identify and remove unnecessary testing.

Anti-Selection
With simplified products and online applications comes an increase in the risk of anti-selection. While too complex a topic to be covered here it is worth noting that the best way to identify this risk to have an insight into what type of customers are buying your products and how they are answering your questions.
Identifying Opportunities

Constant Tuning
Maintaining margins will help to maintain profits but not if it is done at the expense of sales. The new business process of the life insurance industry can be said to obey the Law of Conservation of Energy. Positive changes to one aspect always seems to have a negative effect of another, for example additional questions may decrease the risk of anti-selection but they will also increase processing time and decrease sales.

Identifying Sales Opportunities
By using sophisticated business analytics tools, companies can identify customer trends and demographics to maximize their cross-selling opportunities which will enable them to increase revenues and profits from existing customers with minimal expense. After all, it's much more efficient to increase sales from an existing customer than it is to find a new customer.

Insurers will rely more and more on business analytics to identify costs, sales trends, and anti-selection risks and to predict outcomes of changes. By constantly tuning, analysing and tuning again, insurers have the best chance of competing whatever way the market moves.

About Munich Re’s Automation Solutions division

Munich Re is one of the world’s largest reinsurers providing solutions for complex risks to 40 million clients in over 30 countries.

Munich Re’s Automation Solutions are the market leader in providing new business processing and underwriting automation solutions to the life insurance industry. The Automation Solutions division of Munich Re delivers exceptional solution-based expertise that enables straight through processing (STP), increases sales and reduces costs for life insurers worldwide.

Munich Re’s Automation Solutions have enabled STP and “instant issue” for insurers and banks globally, who are now able to auto-assess the majority of new applications at the point of sale for a variety of life insurance products across the full spectrum of distribution channels. This has been accompanied by a significant reduction in new business acquisition costs.

Headquartered in Dublin Ireland, the Automation Solutions division of Munich Re also has offices in Tokyo Japan, Sydney Australia and Chicago USA. The Automation Solutions division of Munich Re stands for outstanding client proximity, and its list of clients proudly includes world leaders such as Zurich, Aegon, Liberty, Unum, ING, HSBC, Prudential, The Hartford and Metropolitan Life.