

**general
insurance
seminar**

Tides of Change

12-13 November 2012
Sofitel Sydney Wentworth



Inside the minds of insurance customers

**Susan Ley, Merry Tang, Daniel Toohey,
Andrei Stadnik**

*This presentation has been prepared for the Actuaries Institute 2012 General Insurance Seminar.
The Institute Council wishes it to be understood that opinions put forward herein are not necessarily those of the Institute
and the Council is not responsible for those opinions.*



Introduction

- Two market surveys examine the current thinking of insurance customers
 - Ernst & Young Global Consumer Insurance Survey 2012
 - Morgan Stanley Motor Insurance Consumer Survey
- This presentation shows the key learnings from these two surveys

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Ernst & Young Global Consumer Insurance Survey 2012

Susan Ley, Merry Tang

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The consumer agenda

The challenge

Faced with the unprecedented challenges of troubled financial markets, changing regulatory oversight and economic uncertainty there is a risk that some insurers may not be listening and responding to the most important voice of all — their customers'.

Previous assumptions and received wisdom about customers may no longer be reliable, and those insurers who are able to respond best to what customers want now are most likely to succeed.



The findings suggest that insurers can no longer rely on received wisdom about what consumers think and how they behave...Insurers must **listen to the voice of the customer**

The Global Insurance Consumer Survey

Focus on Australia

Ernst & Young has conducted a groundbreaking survey of insurance customers. We set out to test the received wisdom by interviewing 9000 consumers of life and personal lines insurance products in Asia Pacific including 1000 in Australia

24,000

Global customers

7

Global regions

23

Markets



- ▶ The survey interviewed consumers in Australia, Hong Kong, Singapore, Malaysia, China, Indonesia and South Korea during August and October 2011
- ▶ This was as part of a global survey covering 24,000 consumers across 23 markets in seven regions around the world
- ▶ The survey is the most extensive of its kind – the breadth and depth of the research appears to be unprecedented

Exploring the myths in the Insurance sector

Our findings explore the received wisdom of the insurance sector

The Australian data shows some consistent themes, which identify both opportunities and challenges for general insurers. Our results are structured around five commonly held industry beliefs, that we refer to as received wisdom

General Insurance myth

General Insurance reality

Myth 1: the future is online

Online is an increasingly important component but only if integrated with other channels as many customers still want a level of personal interaction

Myth 2: Its all about price

Price is important, however as prices become more transparent, secondary buying factors such as brand or reputation increase in importance

Myth 3: Claims experience builds loyalty

A good claims service is expected and falling beneath this leads to switching, but in Australia today a vast majority of customers who have claimed are satisfied

Myth 4: Customers don't respond to cross selling

A sizeable proportion of customers prefer to buy multiple products from the same provider and many others are happy to if the offer is right

Myth 5: Insurers can't influence retention

Most switching customers felt that their insurers made little or no effort to retain them however many also felt that being contacted prior to renewal would have increased the chances of staying loyal

Myth 1: The future is online

Received wisdom is that the use of internet resources is growing rapidly and in future online will be the dominant channel for research and transactions

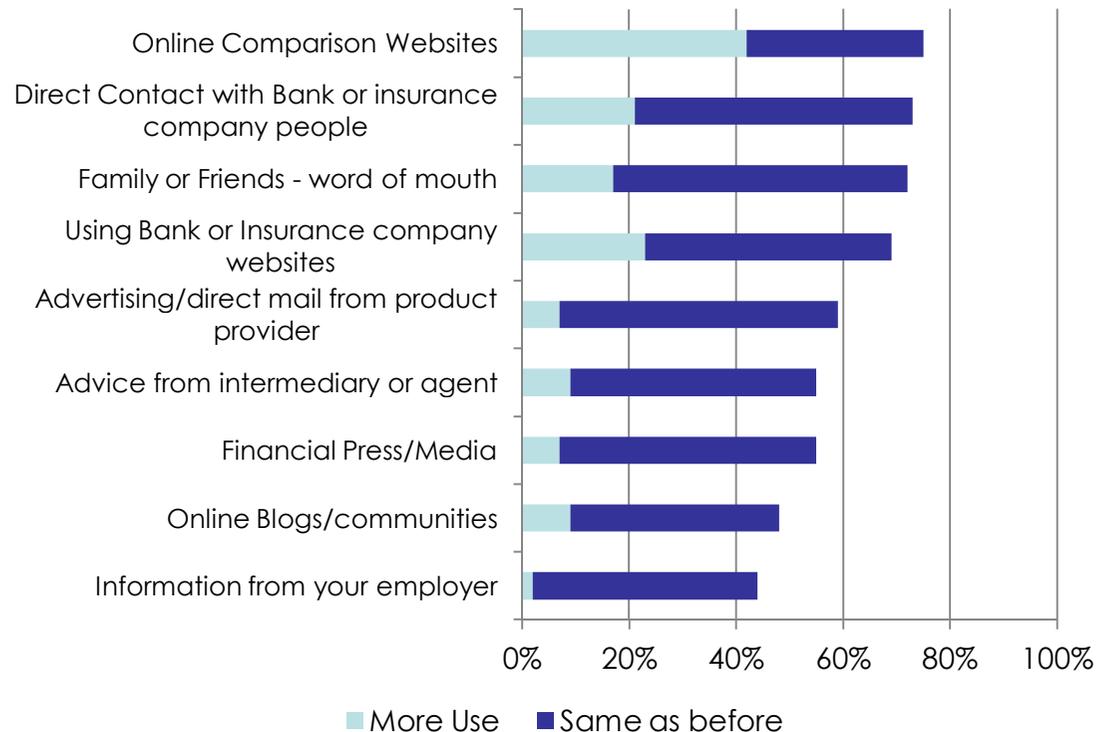
88%

of respondents are more likely or as likely to buy from an insurance company in the future

74%

Of respondents expect to do a great deal, or a fair amount of personal research for their next purchase

Do you think that you will make more use or less use of the following sources of information if you are buying a new product?

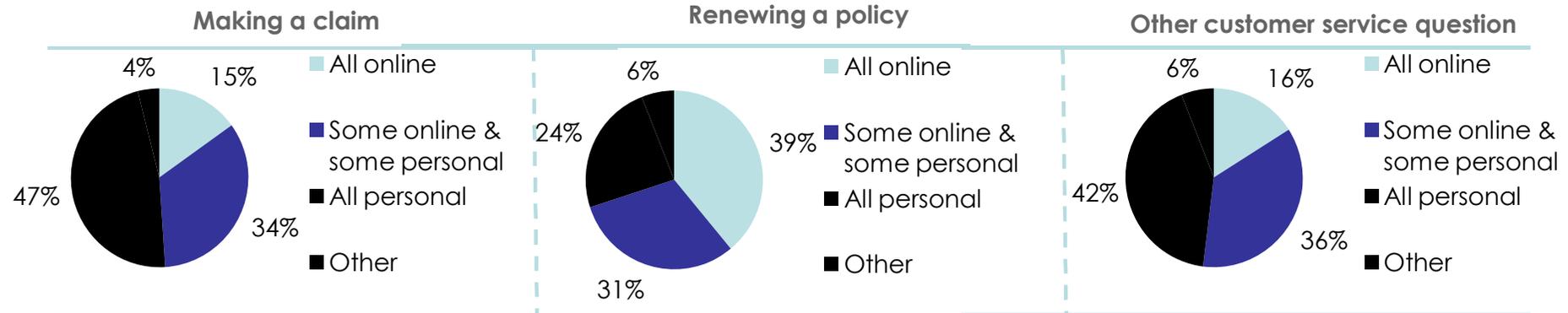


Due to the high concentration of the market and traditional bias toward direct distribution, Australian customers expect to do most of their buying direct from insurance companies. They expect their use of online resources to grow fast

Myth 1: Implications for General Insurers

While online is important, customers want personal contact when it comes to claims and customer service

Percentage of respondents who want online and personal contact at different stages of the insurance cycle



- ▶ The preference for online is stronger amongst the more affluent customer segments*. Mass market customers prefer word of mouth and personal contact with the insurer
- ▶ Customers do not only want to use online services when dealing with their insurance provider. When it involves claims and customer services, customers are more likely to want personal contact

* Affluent customers report incomes of greater than \$100,000 if employed or greater than \$50,000 if retired

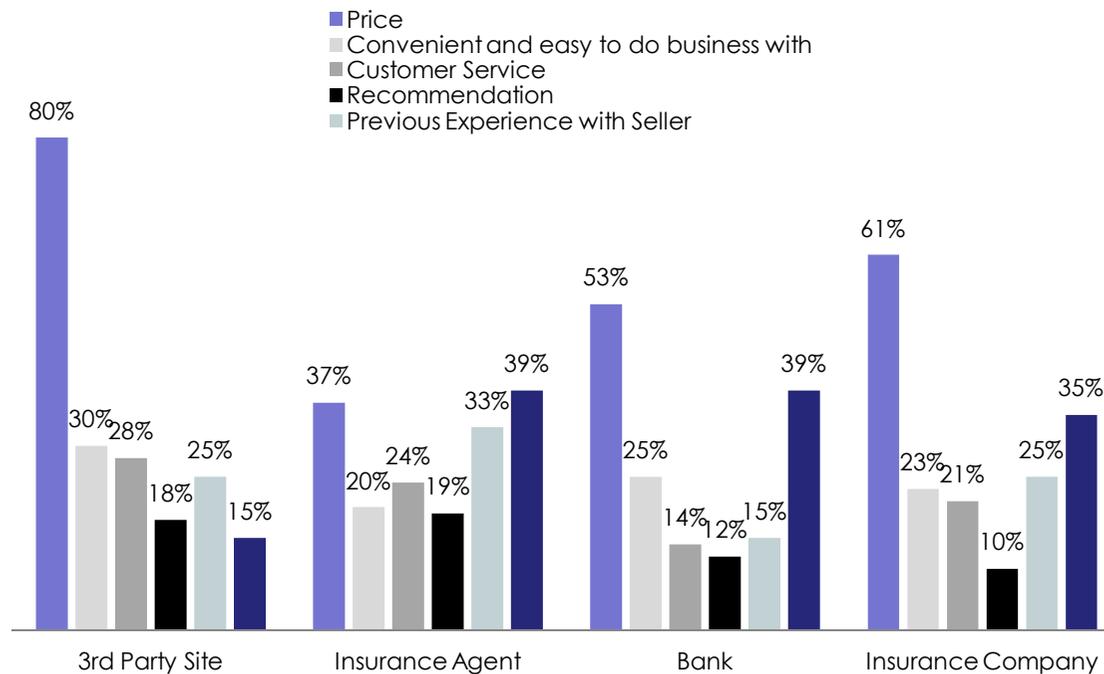
Implications for insurers:

- ▶ Insurers have to integrate online and offline channels seamlessly to meet changing customer needs over the product life cycle.
- ▶ Customers expect insurers to be able to integrate different methods of communication: they want to choose the communication method that suits them and to switch between channels without repeating part of a transaction.
- ▶ Ensuring accurate and easy-to-use record keeping across three or four different communication methods is a technology challenge for many organizations.
- ▶ The speed at which new technology is developing means that insurers need to be more agile in customer interactions, and embrace need mediums of contact

Myth 2: It's only about price

Received wisdom is that General Insurance products are commoditized, and price, therefore, is the only criterion on which they are purchased

In choosing who to buy your product from, which three of the following factors were most important to your decision?



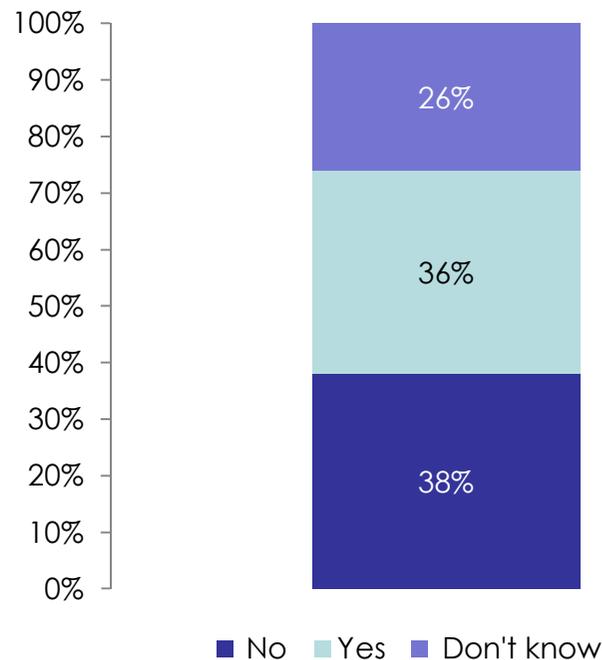
- ▶ Price is an important component of the purchase decision making but it is not the only consideration
- ▶ For all channels except the 3rd party sites, the fact that a customer already has a product with the same provider is a significant factor in the purchase decision.

Our research indicates that price is an important component of value, but that customers also place substantial value on other factors such as convenience, customer service and a pre-existing product holding

Myth 2: The implications for General insurers

Its not just about price, its about brand too

Percentage of respondents willing to pay a premium for well known, trustworthy and financially stable brands



59% of respondents consider a strong and financially stable brand to be important to their purchase decision

36% of Australian respondents who consider brand to be an important factor in their decision are prepared pay a premium

Insurers need to:

- ▶ Manage brand in online media to ensure that comments reflect brand values
- ▶ Have clarity around their service proposition and focus on those areas that are going to provide the most significant returns
- ▶ Optimise pricing and charge a premium based on market position and brand proposition

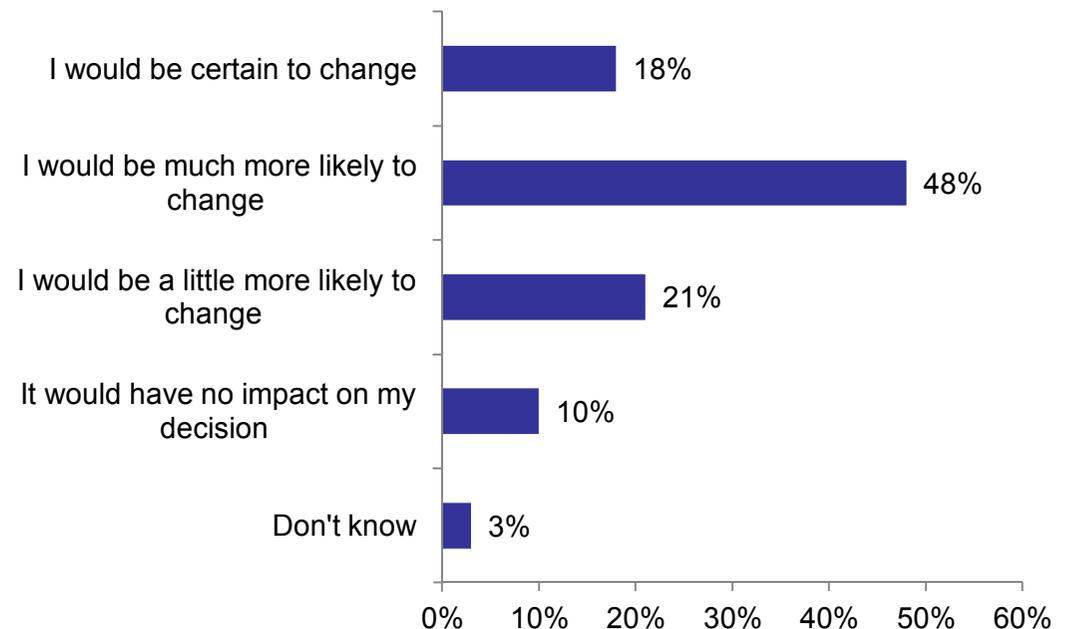
Myth 3: Good claims experience builds loyalty

Received wisdom is that if providers offer a good claims experience, customers will be delighted and this will drive loyalty and help build brand value

87% of respondents would be more likely to change provider after a poor claims experience

88% of respondents who have claimed are either quite satisfied or very satisfied with their claims experience

What would be the impact of a poor claims experience on your decision to stay with the provider or change the provider?



Our research indicates that a bad claims experience will impact retention, but today satisfaction levels in Australia are already very high

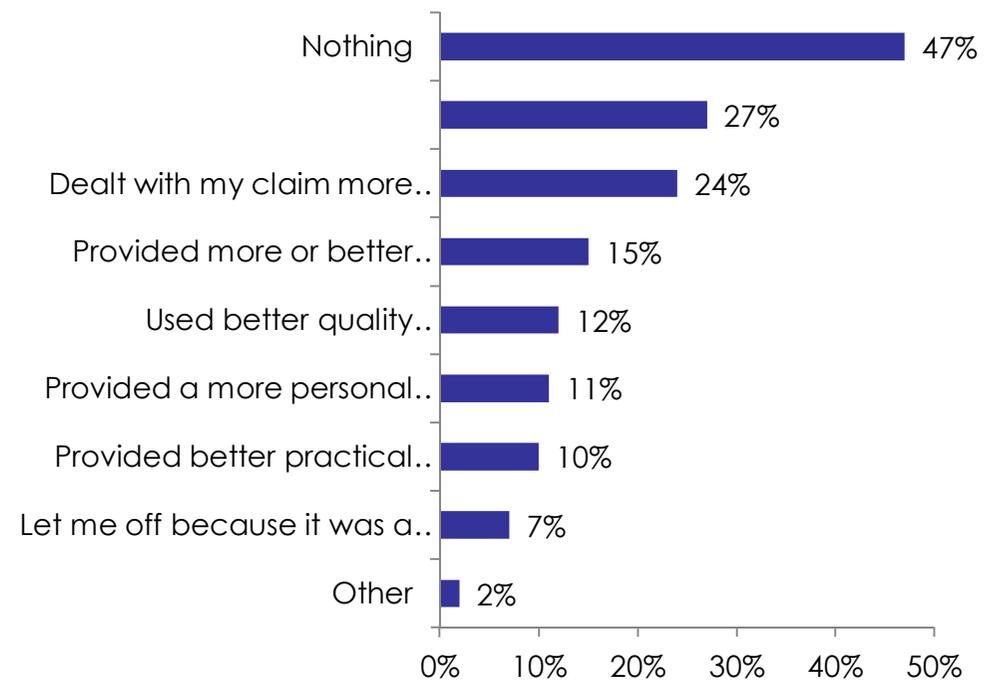
Myth 3: Implications for General Insurers

There are diminishing returns for further improvement. Investment should be focused improving efficiency and reducing leakage

47% of respondents who have claimed think nothing needs to be done to improve their claims experience

27% of respondents who have claimed want a better level of communication

Other than the size of the payment, what could the provider have done to improve the way they handled your claim?

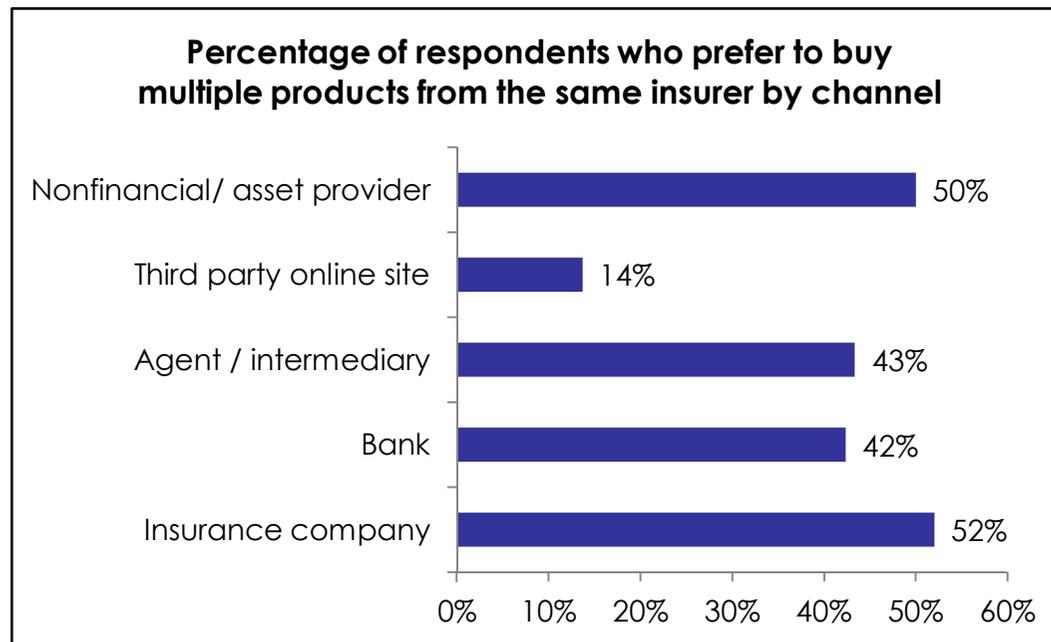


The implications for insurers:

- ▶ Target the bottom line when investing in claims. Investment in claims should not be driven by a belief that it will help improve retention, but only to improve efficiency.
- ▶ Ongoing investment is essential. As customers expectations change, it is critical that insurers invest to keep up

Myth 4: Customers don't respond to cross selling

Received wisdom is that customers don't enjoy the sales process and resent insurers trying to sell them additional products



52% of respondents prefer to buy multiple products from the same provider

- o Australian customers are more willing to buy multiple products from the same provider than their counterparts in Europe

A majority of customers would prefer to buy multiple products from the same provider

Myth 4: Implications for General Insurers

Convenience and value are key drivers for increasing multi-product holdings

52% of respondents would prefer to buy multiple products from a single insurer if it is possible

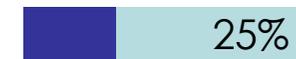
if insurers understand customers' needs and offer the right propositions in the right way, they can cross-sell, upsell and repeat sell effectively

Why do you prefer to buy multiple products from a single provider?

It 's simpler



Anticipate better service



It was cheaper



Implications for insurers:

- ▶ Insurers need to demonstrate that an additional purchase is either easier or better value than going to another insurer.
- ▶ Properly managed, insurers should be able to use existing customer data to better align the product proposition to customers needs.
- ▶ To make it easy and convenient, sales processes need to leverage existing customer data to shorten the sale time and help tailor the product. Customers may expect a discount for this additional loyalty.

Myth 5: Insurers can't influence customer retention

Received wisdom is that providers feel they have little ability to retain customers – it's just not something they can control

62%

think their previous providers did nothing to persuade them to stay

27%

felt that a little effort had been made to retain them

50%

of those who have not changed their providers, said they are either happy with or trust their insurer

Figure 24: Top reasons why consumers switch provider

I found a cheaper price elsewhere



Another provider offered me a better product or cheaper price



I found a better product elsewhere



My needs changed and my previous provider couldn't meet my new needs



Poor service by my previous provider



My agent recommended a new provider



I had a poor experience on a claim I made



Other



None of the above

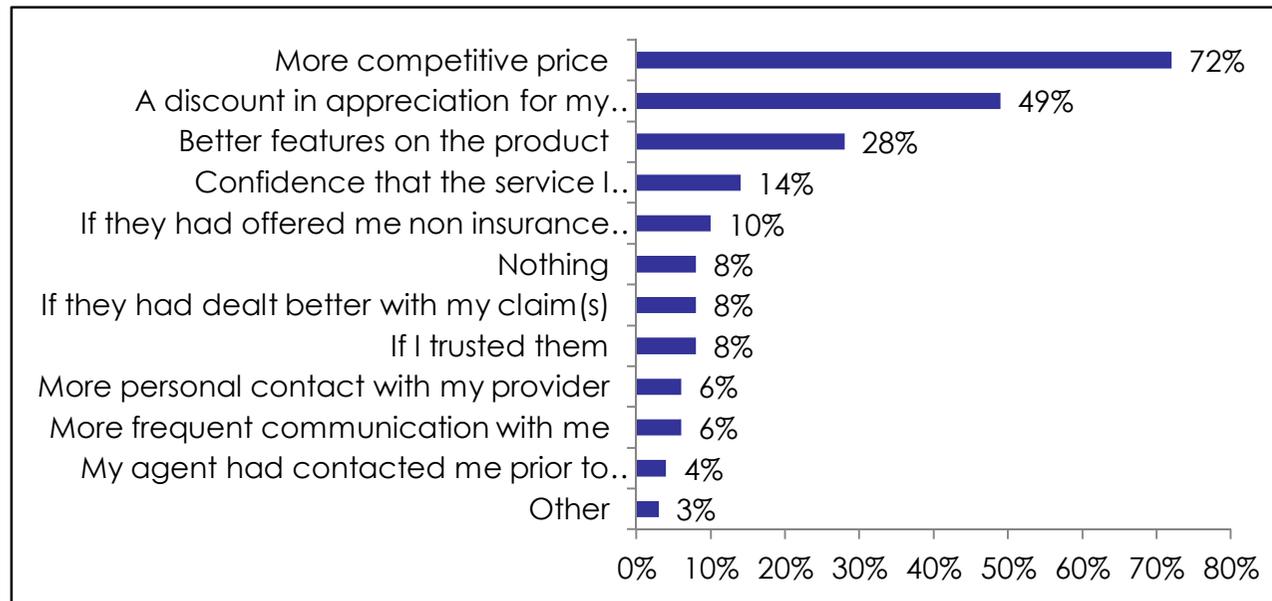


Our research found that the majority of customers who switched providers believed that no effort was made to persuade them to stay

Myth 5: Insurers can't influence customer retention

Insurers have significant opportunities to lift their game on customer retention. This will require dedicated staff, agile products and flexible pricing models

What, if anything, would have made you re-consider switching providers?



31%

of respondents indicate that they have changed provider in the last 5 years

52%

of respondents indicate they would be likely to renew with the same provider if they were contacted prior to renewal

Insurers need to:

- ▶ Avoid relying on inertia and miss the cross sell opportunity. To boost retention, insurers need to improve the quality of proactive contact with their customers
- ▶ Understand the cost to serve different customer segments and channels in order to identify who is worth retaining
- ▶ Invest in proactive and re-active retention activity. Small incremental improvements cascade to major bottom line benefits



Summary

- We have provided the highlights of the survey results
- You can find the full survey results on our website – search for Voice of the Customer
- Contact
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Morgan Stanley Motor Insurance Consumer Survey

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Morgan Stanley Motor Insurance Consumer Survey

- The survey – who, what, and when
- Some key questions we are seeking to answer
- Themes, insights and implications for Insurer Brands

The survey – who, what and when?

- Our March 2012 AlphaWise consumer survey was conducted online
- 1,266 existing motor insurance customers surveyed
- Maximum error margin for conclusions on total sample is +/- 2.67% at 90% confidence level
- All data in the remainder of this presentation is sourced from this survey



Questions we sought to answer

- Awareness of motor insurance brands?
- What drives a purchase decision?
- How loyal are customers and what are the retention levels?
- What influences retention levels?
- Why do consumers switch insurers?
- How do consumers buy motor insurance?



Key insights and themes

- Customer brand awareness
- Factors influencing the purchasing decision
- Customer loyalty and retention
- Channels used to buy insurance



Implications for Insurer Brands

- NRMA brand a winner on customer longevity
- Switchers are riskier
- Duopoly remains strong
- Beware the “tipping point”



Motor insurer brand awareness

Brand	Aware-ness	Brand	Aware-ness	Brand	Aware-ness
AAMI	98%	iSelect	80%	Wesfarmers	52%
Allianz	97%	RACQ	79%	Buzz Insurance	50%
NRMA	91%	RACV	78%	Australia Post	49%
GIO	89%	Real Insurance	75%	RAA	47%
Budget Direct	87%	Shannons	73%	Swann Insurance	45%
APIA	87%	Bingle	67%	SGIC	43%
Suncorp	83%	SGIO	56%	Progressive	41%
QBE	83%	Coles Insurance	54%	Vero	30%
Youi	83%	Virgin	54%		
CGU	80%	Just Car	52%		



Grouping of challenger brands

- Traditional challenger brands: Progressive, Real, and Youi
- Alternative challenger brands: Coles, Virgin, and Australia Post
- We refer to these as Traditional C.B. and Alternative C.B. in remainder of presentation



What drives the purchase?

- Given just 2 options – price and brand – 81% of customers would choose motor insurance based on price

What drives the purchase?

- But given more options, 74% of customers rate price and 69% paying claims as very important

Price	74%
Reputation for paying claims	69%
Reputation for customer service	61%
Flexible & comprehensive cover	54%
Multi-policy discounts	43%
Australian owned insurer	30%
Can buy over the internet	27%
Can buy direct over the phone	26%
Can buy face to face	21%
Brand	20%



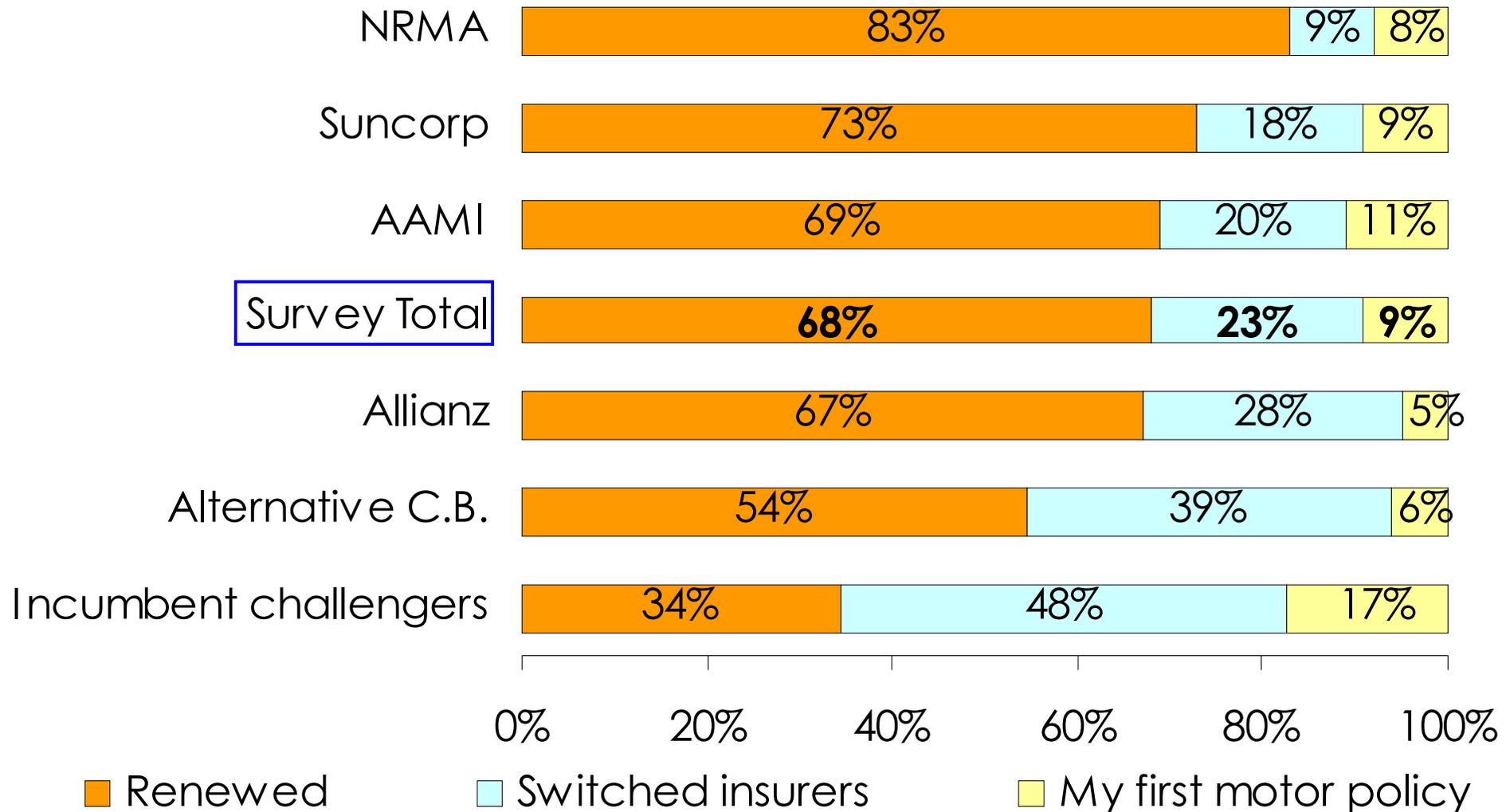
What drives the purchase?

- Actual reasons for choosing current insurer

	Survey Total	AAMI	Allianz	Budget Direct	NRMA	Tradi-tional C.B.	Alter-native C.B.
Price	67%	68%	76%	88%	58%	92%	70%
Customer service	35%	45%	35%	27%	33%	31%	20%
Multi-policy discount	35%	27%	25%	13%	47%	25%	10%
Paying claims	30%	28%	32%	31%	32%	27%	30%
Flexible cover	29%	21%	34%	31%	28%	29%	40%
Habit – I know them	27%	30%	29%	19%	33%	13%	0%
Brand	23%	28%	26%	23%	24%	15%	50%
Can buy via internet	17%	26%	12%	31%	11%	38%	20%
Australian owned	13%	9%	12%	10%	14%	8%	25%

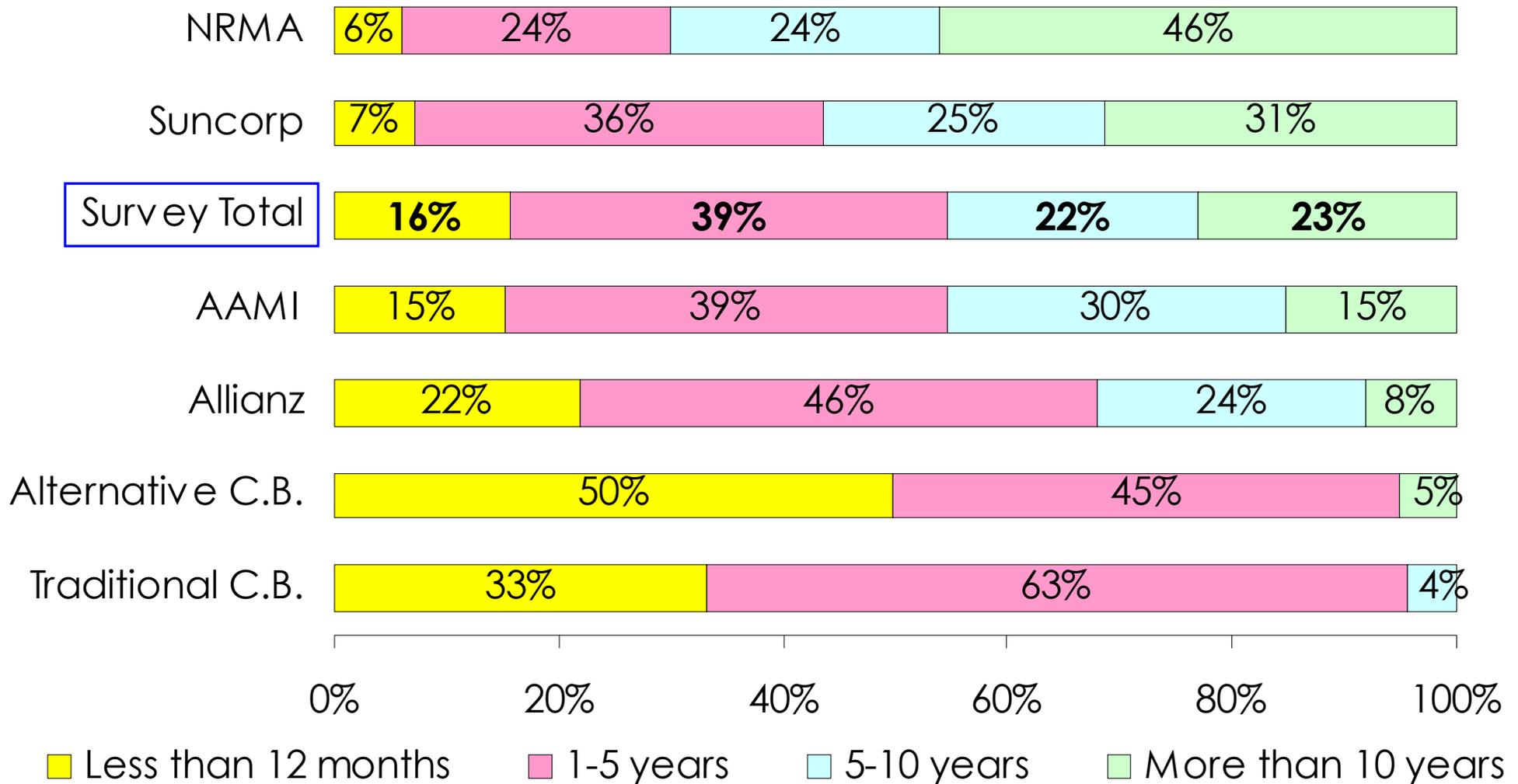
What are the retention levels?

- At last renewal, did you renew or switch?



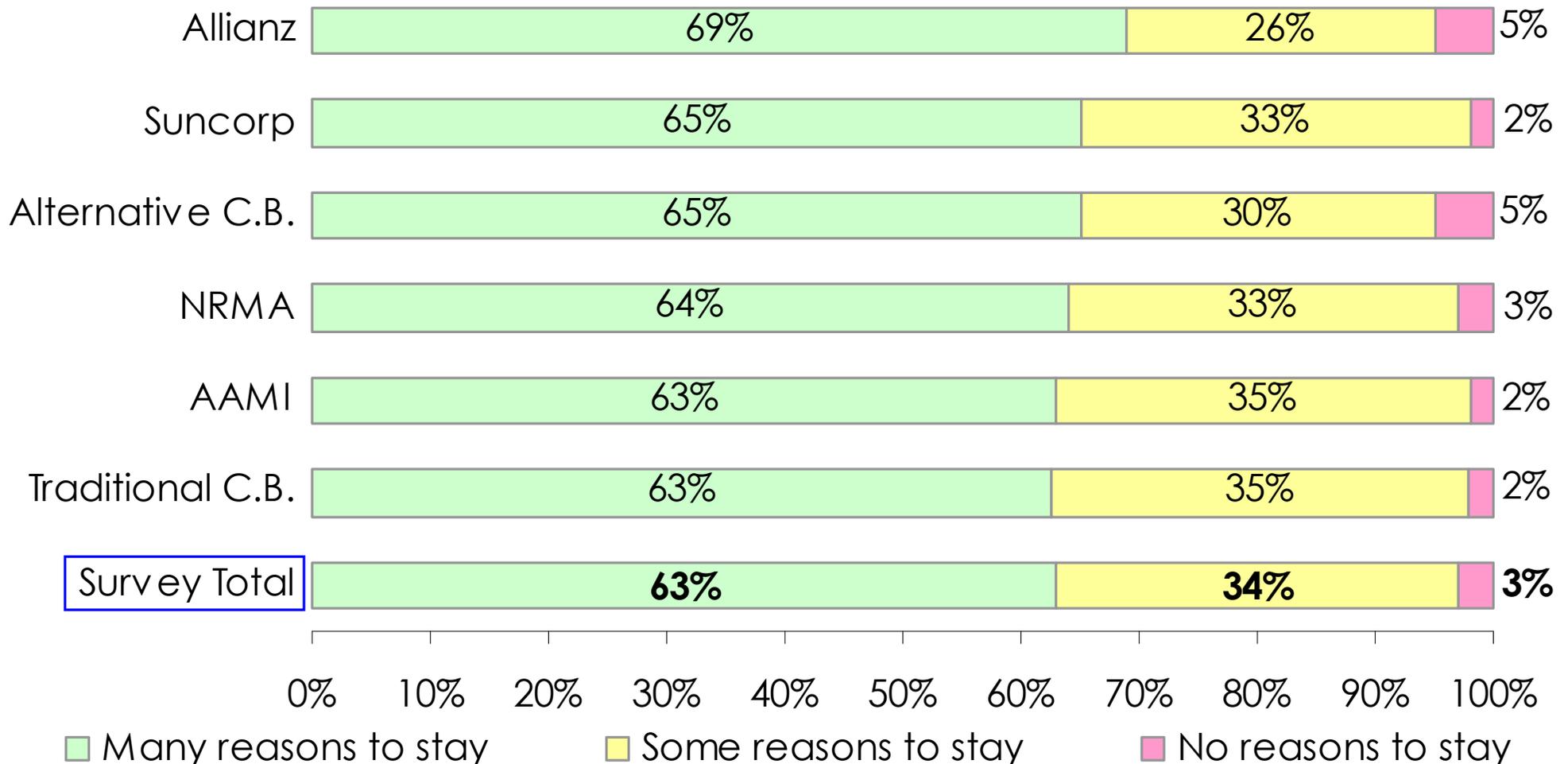
How loyal are customers?

- Time spent with current insurer



Does longevity equal loyalty?

- Are customers thinking of changing insurers?



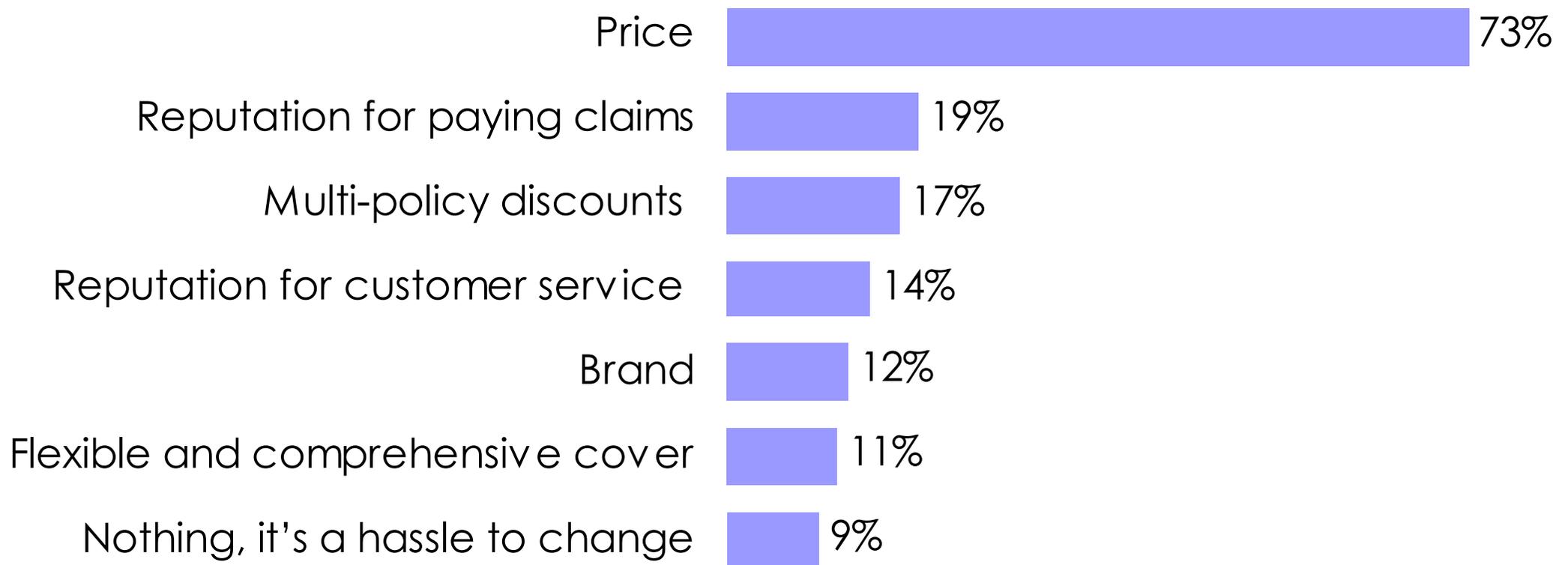
What influences retention levels?

- Why did you not switch insurers in last 5 years?

	Survey Total	AAMI	Allianz	Budget Direct	NRMA	QBE	Suncorp
Price	30%	30%	41%	62%	21%	56%	20%
Habit – I know them	18%	24%	16%	15%	16%	19%	29%
Multi-policy discount	13%	5%	6%	-	19%	-	15%
A hassle to change	7%	6%	6%	8%	6%	6%	10%
Customer service	7%	4%	10%	-	9%	-	10%
No claims bonus	6%	7%	8%	-	9%	-	-
Paying claims	4%	3%	4%	-	5%	6%	2%
Flexible cover	4%	5%	-	8%	5%	-	2%
Brand	3%	6%	2%	-	3%	6%	2%

Why do consumers switch insurers?

- Main reasons customers would switch



- 49% of surveyed would switch for \$100 or less



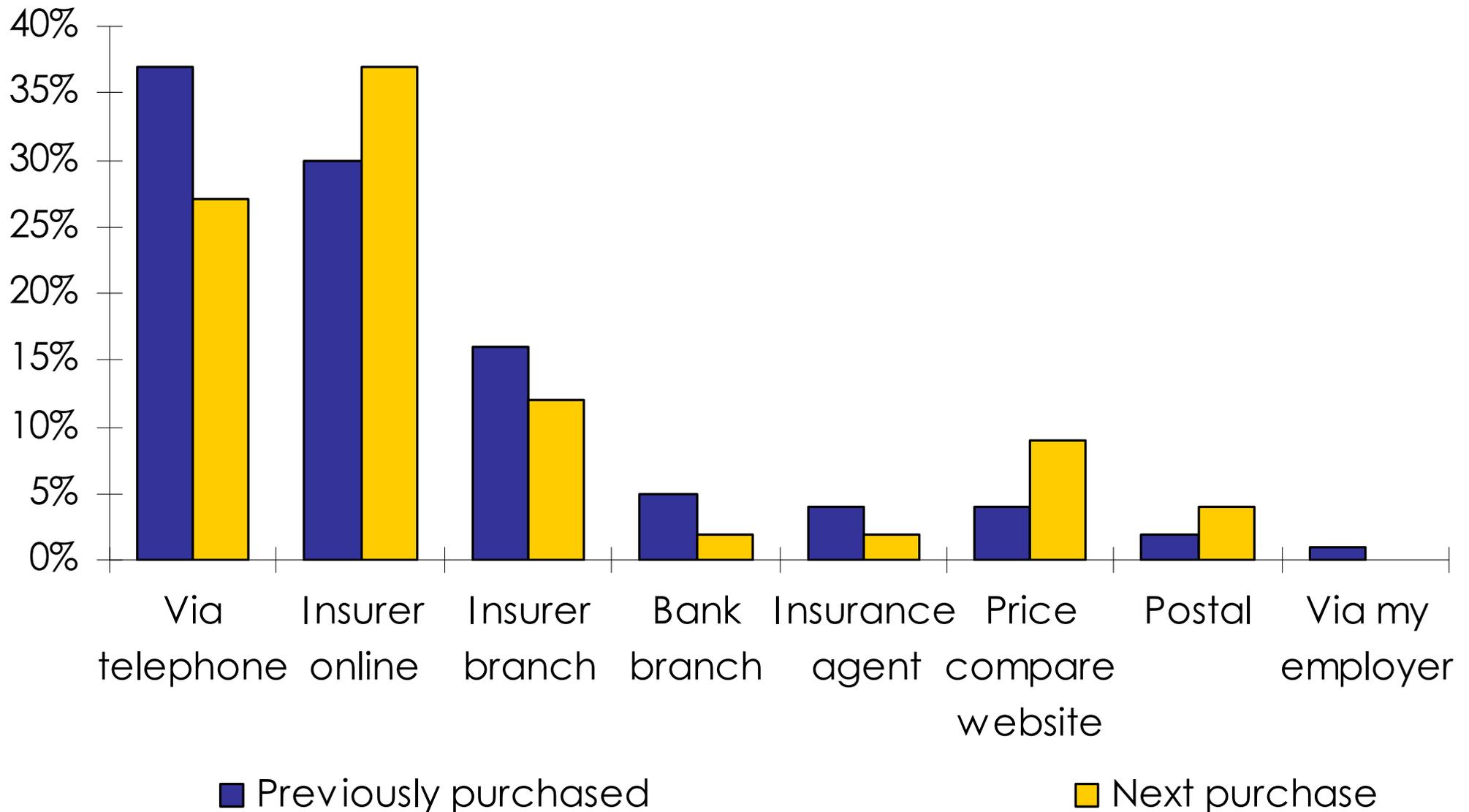
Why do consumers switch insurers?

- Main reasons customers actually switched

	Survey Total	AAMI	Allianz	Budget Direct	NRMA	Tradi- tional C.B.	Alter- native C.B.
Price increased at renewal	45%	46%	45%	61%	42%	58%	22%
Internet searched	18%	24%	16%	10%	21%	15%	28%
Targeted by other insurer	15%	18%	21%	16%	19%	12%	11%
More flexible coverage	14%	15%	24%	6%	9%	18%	11%
Another insurer offered multi-policy discount	13%	11%	5%	6%	16%	6%	16%
Customer service	13%	14%	13%	3%	5%	6%	28%
Other	12%	6%	3%	3%	7%	15%	6%
Cheaper insurance ads	10%	6%	5%	23%	9%	15%	28%
Mate told me about cheaper insurance	10%	11%	8%	6%	9%	9%	22%



How do motorists buy insurance?





How do motorists buy insurance?

- Why buy directly online with insurer?

More convenient than other methods	59%
Cheaper than other methods	18%
Habit	6%
I understand the policy better using this method	6%
Insurer I used only made this method available to me	5%
It is more personal using this method	3%
Other	2%
I didn't realise there were other ways to buy	1%



Revisiting key insights

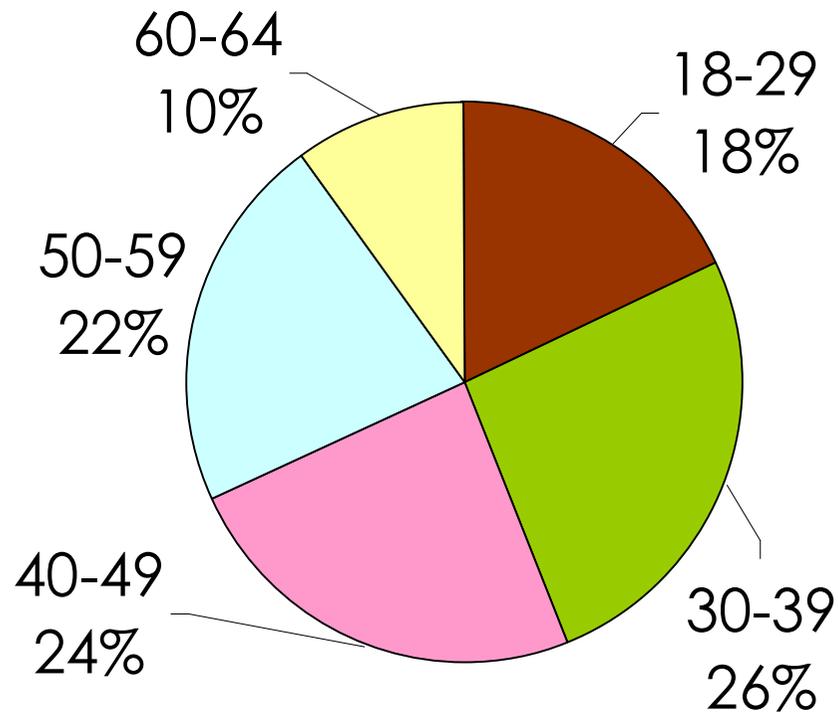
- Incumbent brands have stronger customer longevity, NRMA particularly well-placed
- National brands AAMI & Allianz best known
- Price is the main driver to stay with same insurer – and is the major reason for switching as well
- Reputation for paying claims & customer service are also important
- Online to surpass phone as main way to buy



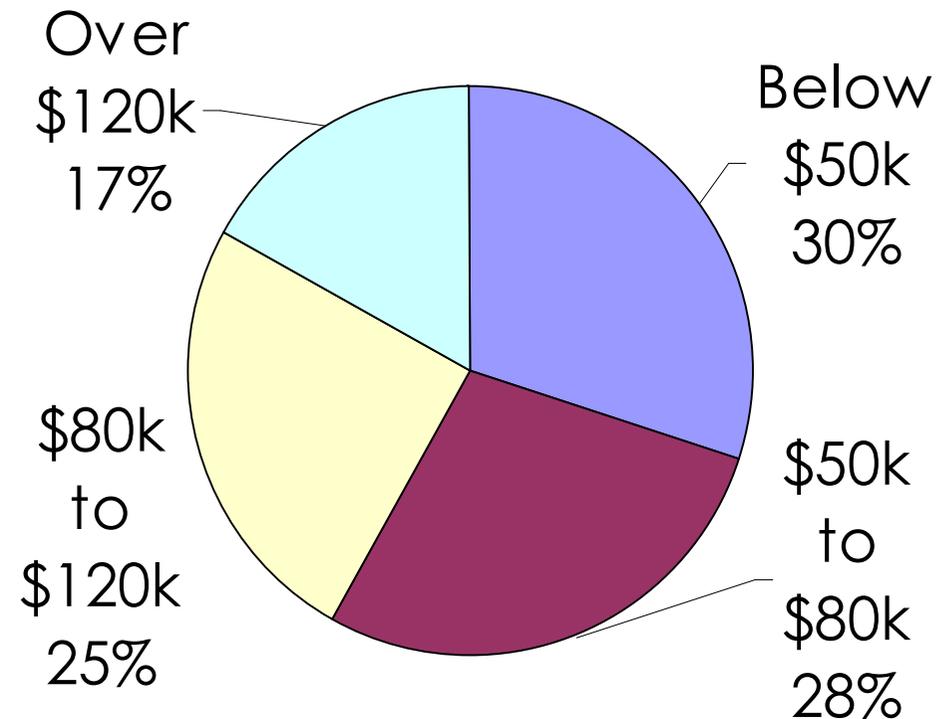
Appendix

Nationally representative survey

Age

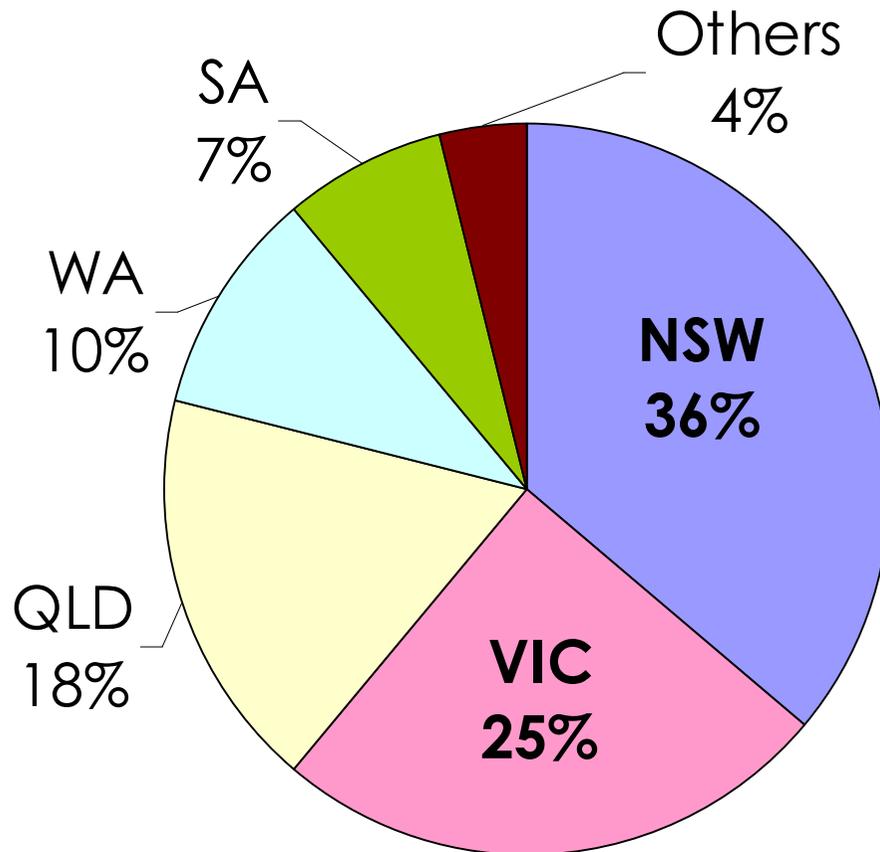


Annual Household Income

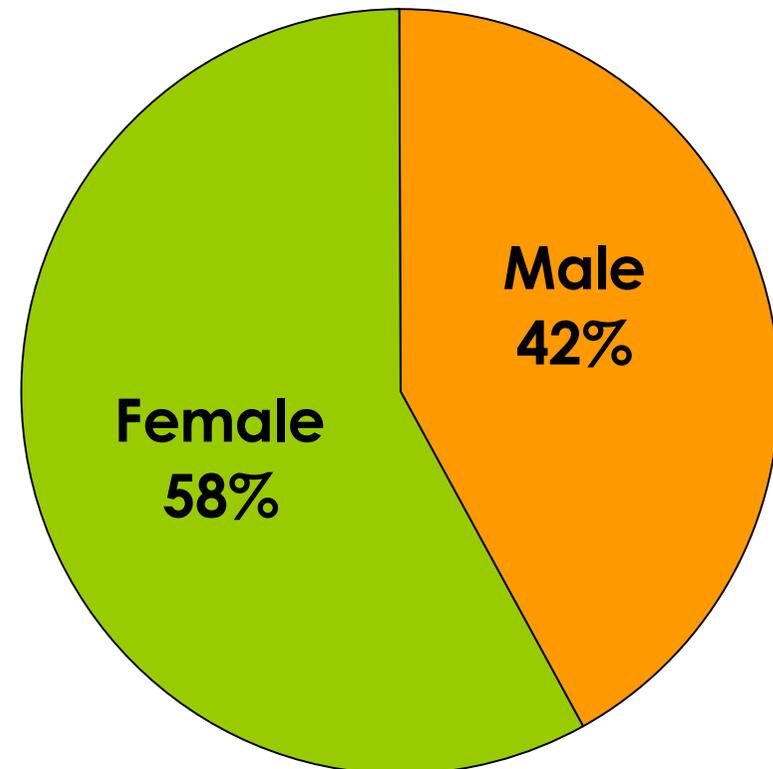


Nationally representative survey

State



Gender





Disclosures



Morgan Stanley AlphaWiseSM

Research for this report was conducted with Morgan Stanley's AlphaWise, which provides proprietary evidence-based investment research.



Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of September 30, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1108	37%	450	41%	41%
Equal-weight/Hold	1273	43%	500	45%	39%
Not-Rated/Hold	106	4%	30	3%	28%
Underweight/Sell	470	16%	122	11%	26%
Total	2,957		1102		

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.



Disclosure section (cont.)

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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