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Dispelling the "CRM Myth"

Some property & casualty underwriters have questioned client relationship management's (CRM) validity. Others have suggested that the client relationship process has evolved to "commodity status" and therefore CRM offers little competitive advantage. However, new 2003 market research suggests otherwise - understanding customers remains as relevant as ever.

By Robert Angel

It doesn't matter what they say about me as long as they spell my name right," runs the ancient public relations adage. "The Canadian property & casualty insurance industry has certainly received its share of criticism as it seeks to rebuild profits through rate increases, client rationalization, and service reductions - seemingly impervious to the effect on customer relationships.

Can there be a client left with a favorable view of the insurance industry? Possibly. Looking at individual underwriters rather than the industry as a whole suggests a picture of emerging selective attention to client relationship strategies. Gilford Group's research this year into nearly 50 Canadian insurers indicates that several industry leaders are starting to rethink the understanding and servicing of their clients.

Info gain

At present, about 20% of insurers in Canada have adopted multi-faceted relationship strategies. What are these firms doing to gain a new understanding of their clients? The answer includes more targeted client communications, personalizing the claims experience, and collaborating more closely with brokers.

Some firms are starting to integrate underwriting with claims processing into a unified view of the client relationship. "How a claim is dealt with is critical," says Brian Donlevy of the Financial Services Commission of Ontario (FSCO), "because it is an opportunity to get away from competing purely on price". These approaches seem to be paying off with superior results, with above-average client satisfaction, increased marketshare, and better financial strength.

Why p&c?

Our research originated in conversations with clients about CRM's reputation for being very expensive to implement and not delivering adequate results. We were also told that CRM belongs in business-to-consumer industries where there are more products to cross-sell, customers to be cross-sold, and an overall more direct relationship with the end-customer.

With this notion in mind, the Gilford Group studied insurers' client strategies and the extent to which they improve competitive differentiation and financial returns. The study methodology was to analyze publicly available data: satisfaction scores, marketshare, and financial strength. This analysis was augmented by interviews with industry players. We then assessed good customer relationship practice for each firm based on our own best practices work, taking degree of sophistication into account. Criteria included: segmenting brokers and customers, improving claims service, active cross-selling, providing quotes via the Internet, and providing brokers with company website access to client data.

The desired end state was seen as an individualized view of each client and broker to recognize individual needs and priorities. The key finding was that insurer client-centric strategies can work. Anecdotal and hard evidence suggest a linkage between customer relationship sophistication and results.

Two-thirds of financially stronger underwriters segment their clients, but only one-third of the weaker ones do. Most of the firms focusing on claims service have higher client satisfaction, while the weaker firms generally do not. Almost all the firms actively seeking to understand their clients better also have above-average customer satisfaction, revenue growth, and financial results.

Next level

Several seemingly desirable practices appear to lack much of a following, such as accurately identifying the highest needs and most valuable clients, differentiating service levels according to client characteristics, and migrating lower value clients to lower cost channels.

Those firms that actively strive to be more "client-centric" admit to challenges in executing the strategy. Most firms we spoke to found a customer-centric business case difficult to make. We also found several firms closing the book to new business and declining a significant number of renewals - and taking a "reputation knock". The relationship consequences may linger for some time.

A good starting point for a more customer-centric approach might be to organize knowledge around clients rather than policies. "We have recognized that we need a client system not a policy system...to see an enterprise relationship and a single view of customer," says Debbie Green from Royal & SunAlliance Canada.

And, Diane Baxter, a senior vice president at Chubb Insurance Co. of Canada holds a similar view. "Six years ago, Chubb built a client system, not a policy system." Chubb uses a niche strategy with built-in "entry barriers", measuring client acquisition costs and broker profitability to know where every client fits relative to their business parameters. A further step might be to measure client profitability. "We measure profitability by broker, as well as end client, to ensure we track return on equity targets," comments Dave de Kuyper, vice president of distribution management at Zurich, which has shifted its focus to high-end and niche commercial segments of the marketplace.

Constant change

Continuing industry environment/structural changes can be expected in the years to come. These include:

- Smaller players struggling to gain relationships and profitability. Small firms may be more disadvantaged by the rate increases now prevalent, since any losses of clients have to be spread over a smaller customer base;
- The relationship advantage of a local, rural client base is diminishing. The market is continuing its shift from rural (traditionally closer to customers) to large urban areas where personal customer contact is more difficult;
- Widespread Internet transacting is still the future. The p&c insurance industry is only slowly embracing web services;
- The broker-end customer relationship is crucial. The broker is still playing a lead role in the bulk of end-customer relationships, despite predictions of the Internet displacing broker intermediaries;
- A direct writing strategy does not seem to produce a client satisfaction advantage. Direct p&c providers might be expected to have a relationship advantage in being able to talk directly to end clients, but interestingly, they do not appear to be performing as strongly as those that transact face-to-face. Can it be that direct firms lack the filter in assessing client potential profitability that brokers can provide?

In fact, brokers are taking on more customer-facing work including underwriting activities, creating an extended underwriting enterprise. "Brokers are being pushed to do more... client knowledge work," observes Debbie Miller, vice president of brokerage firm Petley Hare.

And, Mike Teixeira of Axion Insurance Services notes that, "we are becoming increasingly self-reliant in obtaining client data, although we still look for underwriter input on what characteristics they are looking for".

Future shocks?

The Canadian p&c insurance industry has not yet fully adjusted to recent business changes, including higher costs, declining investment earnings, blurring of financial services business boundaries, political pressures, and industry consolidation. Competition has intensified even as rate increases and service reductions have lowered client satisfaction.

How will the industry fare over the next year? Our study indicates that a client strategy well executed will make a difference. Success in the future may depend on it.

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