WORLD INSURANCE REPORT 2008

Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

EFMA

TABLE OF CONTENTS

Preface

Capgemini and the European Financial Management & Marketing Association (EFMA) are proud to present the second edition of the *World Insurance Report (WIR)*.

Mature insurance markets are showing clear signs of saturation, requiring insurers to be innovative in their approach to achieving sustainable growth. Against that backdrop, the *2008 World Insurance Report* explores underlying trends in customer behavior and attitudes, the current and future use of distribution networks, and the implications for insurers.

Our research is based primarily on a survey of more than 11,000 insurance customers, though we also interviewed industry executives in thirteen countries to round out our understanding of the results. We surveyed customers on actual purchasing habits, expected future purchasing patterns, and their insurance-buying attitudes, preferences and perceptions. We surveyed customers in eight mature markets: seven are the same as in the *2007 WIR* (France, Germany, Italy, the Netherlands, Spain, the U.K. and U.S.), and this year we surveyed Switzerland as well. The report focuses on these eight mature markets, plus, for the first time, two developing markets (China and India).

In studying the aggregate data, and in distinguishing between different country markets, we were able to identify some distinct behavioral-based customer segments, and compare how different customer segments use and favor different distribution networks[1].

Insurance customers' use of distribution networks is on the verge of significant change, and some existing distribution models are at risk. The *2008 WIR* sheds light on the strategic choices insurance companies must make to sustain growth in mature markets.

The report also offers a spotlight on the two fast-growing developing markets of India and China, which present fundamentally different issues—evolving around pressure for customer acquisition—for insurance companies to overcome.

This report adds to Capgemini's portfolio of annual industry leading World Reports (*The World Wealth Report, The World Retail Banking Report, and The World Payments Report*). These reports have provided financial services institutions with valuable insights into the current and future state of their respective markets for the past 10 years.

Bertrand Lavayssière
Managing Director
Global Financial Services
Capgemini

Patrick Desmarès
Secretary General
European Financial Management & Marketing Association

---

[1] See methodology for a definition of networks.

Summary of Key Findings

For the *2008 World Insurance Report*, we surveyed more than 11,000 customers about their actual and potential purchasing behavior, preferences, and perceptions of insurance, and asked them about their current and potential future use of distribution networks.

The following are among our key findings on the emerging customer and distribution trends, and the potential impact on insurers in mature markets[2].

1. **The insurance sector in mature countries is slowly moving from a very static state, to a more fluid one. Insurance companies can find growth opportunities by understanding, capturing and even creating volatile customer clusters in their markets.**
   - Many mature insurance markets have become saturated, and the basic, existing insurance needs of most customers have largely been met, thereby limiting aggregate growth potential. On average, a mature-market customer holds 5.2 policies—1.5 life policies, and 3.7 non-life and they hold the same policy for 9.2 years. However, new signs of customer volatility (switch of distributors or insurance providers) are emerging, and contract turnover is already increasing in some countries, such as the U.K., Italy and Spain. In the U.K., customers are switching products far more frequently—automotive insurance every 3 years on average, and household and property insurance every 5 years, for instance.
2. **Insurers that effectively employ behavioral-based profiling and customer-volatility analysis can more accurately gauge the value of each customer cluster, and align their distribution strategies accordingly.**
   - Behavioral profiling shows four clear segments of customers in mature markets: Traditionalists, Opportunists, Indifferent and Average users. The segmentation reflects important and often distinct customer perceptions and attitudes toward insurance, its value and potential, and different buying patterns. Each segment also displays different network-usage patterns and preferences. In countries where Internet usage for insurance is highly developed, customer behaviors seem to be more segmented, and it is more likely that "average" network users are—or soon will be—extinct.
   - Each customer segment has a different value, but it is critical to take account of the potential for customer volatility in trying to assess that value. For example, Traditionalists are potentially the most valuable group, given their financial means, and their tendency toward loyalty (i.e., lack of volatility). Opportunists could also be high-value, but tend to be more volatile—making them more complex to serve.

[2] We specifically studied eight mature markets: France, Germany, Italy, the Netherlands, Spain, Switzerland, the U.K. and U.S.

3. **Distribution-network[3] usage varies greatly by country, and tends to be heavily specialized. Insurers can better address volatile customer clusters, retain full market access, and increase wallet share by adopting a structured multi-distribution strategy.**
   - The use of distribution networks varies greatly by country, driven by country-specific customer needs, product usage, regulations, and competitive dynamics. Overall, though, customers expect to change their distribution-network preferences significantly in the next 3 years. The ascent of the Internet is undeniable, and clearly puts some existing distribution networks at risk, as insurance customers perceive the Internet as a superior means of delivering on key factors that influence their buying decisions.
   - Each distribution network specializes heavily in certain customers, products, or needs, so insurers have to use multiple distributors ("multi-distribute") to retain market access, and increase wallet share. However, while multi-distribution is clearly a prerequisite for growth, insurers can leverage their multi-distribution model even more effectively if they understand when to switch their focus to increasing the number of policies a customer holds with a single distributor ("multi-equipment").

4. **Bancassurance has become a successful distribution model, catering to a specific type of customer and a specific set of needs, but its enviable position could still be shaken by market forces.**
   - Bancassurers have effectively leveraged point-of-sale intimacy and network advantages to ply insurance products to certain customers; Insurers that utilize bancassurance as a network are reaching customers they might otherwise forfeit. Convenience—even more than price—is a differentiating factor for customers who buy insurance through a bank.
   - Bancassurance has relied on a degree of opacity in certain types of products, but it is not immune from shifts in market and customer norms, and may yet be forced to change some of its selling practices. This could undermine the strong position and profitability of today's successful bancassurers.

5. **As the insurance landscape shifts, three key challenges for insurers emerge: 1) Managing the business impact of changing market dynamics; 2) Taking a more assertive role in the interplay with customers and networks; 3) Dealing with IT as both a prerequisite and a lever for overcoming the challenges.**
   - Insurers need to understand when to drive market evolution, and even encourage certain volatile behaviors. Those insurers that properly gauge the value/volatility stakes can define strategy more clearly.
   - Insurers will need to be more proactive than they have traditionally been in managing their interactions with and among networks and customers, and work to differentiate their brand and reputation. Optimizing customer profitability will mean optimizing network use by segment, and properly monitoring customer and network value.
   - Three main IT focus areas can help insurers to overcome these challenges. Enterprise data warehouses, analytics, and customer intelligence can enhance customer knowledge, and hone behavioral-driven customer segmentation. Technology integration and service-oriented architectures (SOAs) could allow insurers to adapt and change their distribution capabilities according to market dynamics. Next-generation customer relationship management (CRM) tools can help insurers and networks to manage customers under a global, enterprise-wide umbrella.

6. **India and China are fundamentally different from mature markets. They represent an attractive opportunity for the global insurer, but present a complex set of country-specific challenges.**
   - In India, reforms have helped to foster growth, but the insurance sector still remains mostly under-penetrated. Since the ranks of India's middle class are growing, and per capita income is rising, the Indian insurance market could double in size in the next 5 to 6 years. Insurance companies are increasingly adopting a strategy of deploying multiple distribution networks to increase market penetration, and reach the masses not currently served.
   - China's insurance sector is restructuring, and growing fast, but the market is still highly regulated, and consolidated in the hands of a few large players. Insurers still have much to do to gain customer awareness and trust; spending on insurance is minute, and few customers are yet aware of, or see merit in, insurance products. Large insurers are likely to pursue an integrated financial services strategy to leverage scale and capabilities, bolster brand, expand the breadth of service, and enhance network strategy.

[3] When we refer to "networks", we mean the intermediaries that distribute insurance products, as opposed to "channels" which are the means of interaction used by networks – also see methodology.

Insurance Business Models are Poised for

Change

CHAPTER 1

HIGHLIGHTS

- Insurers constantly struggle to achieve growth in mature markets, where penetration rates are already high in most lines, and underlying demand has tended to level off.
- Diversification is a good option for insurers, assuming customers are willing to embrace insurers in a role beyond risk protection.
- Insurers can capture business from competitors, if customers can shake their traditional apathy about switching providers. New signs of volatility are emerging in the customer base, due to increased competition, easy customer access to more information, and innovative product choices from insurers.
- Customer volatility undermines once-secure revenues from long-time customers, so business models must adapt, and focus on capturing revenues from newly volatile customer segments.

INSURERS FACE THE USUAL CHALLENGE TO GROW IN MATURE MARKETS

The insurance sector is showing signs of saturation in many Western European countries, and in North America. In these mature markets, major insurance products have been available for a long time, and the needs of most customers have already been met. Our survey shows a mature-market customer holds 5.2 policies on average—1.5 life policies, and 3.7 non-life (see Figure 1.1).

The degree of market penetration is also high, especially in basic property & casualty (P&C) products, such as motor, household, and property insurance, which are often required by regulation. So, while usage levels obviously vary by country, and by insurance sub-segment, insurers will generally find it very difficult to penetrate further into non-life. Furthermore, it is unlikely that underlying demand will increase. The growth in auto insurance, for example, has already leveled out in many mature countries.

The use of life products is less pervasive than non-life, on aggregate, and tends to be driven heavily by the customer's age, or life-stage, and their level of financial sophistication. As a result, the life sector does not face quite the same constraints as non-life, but the products are still highly fungible, given the large number of potential substitutes available from savings and investments players.

The challenge, then, is an old-age one: Finding a form of product that is both under-utilized, and under-insured, but is feasibly underwritten, and will be quickly embraced by a large segment of the population—whether pulled into the market by demand from customers, or pushed into the market by insurers.

The bottom line is that leading insurers cannot rely on additional market penetration to achieve significant growth in mature markets. Nor can they expect the underlying markets to expand dramatically. Clusters of innovative products and niche markets will always exist, but in general, leading insurers will need a new strategy for achieving superior growth in mature markets.

DIVERSIFICATION IS A GOOD OPTION—IF CUSTOMERS ARE WILLING

Diversification is an alluring—and seemingly logical—option for insurers. It would seem like a natural progression for insurers to sell banking products, and offer investment advice, and many are actively pursuing this type of diversification strategy in hopes of taking market share from other financial services players.

The strategy is attractive, because it theoretically allows insurers to grow and leverage cross-selling opportunities in the broad financial services arena, and allows them to interact more often with customers—an advantage more usually held by banks. However, customers may not be open to using their insurers to meet other financial services needs.

Customers largely perceive insurance as a means of protection. In fact, the vast majority of customers surveyed, or 79%, said they see insurance as a vital way to protect their possessions (see Figure 1.2), or their family (77%).

Only 11%, on average, primarily perceive insurance as a means of improving their finances, and even that number is inflated by the higher-than-average responses from Germany and Italy (where 17% and 19%, respectively, see insurance as a means of wealth accumulation). Notably, age has no significant effect on customer perceptions, either.

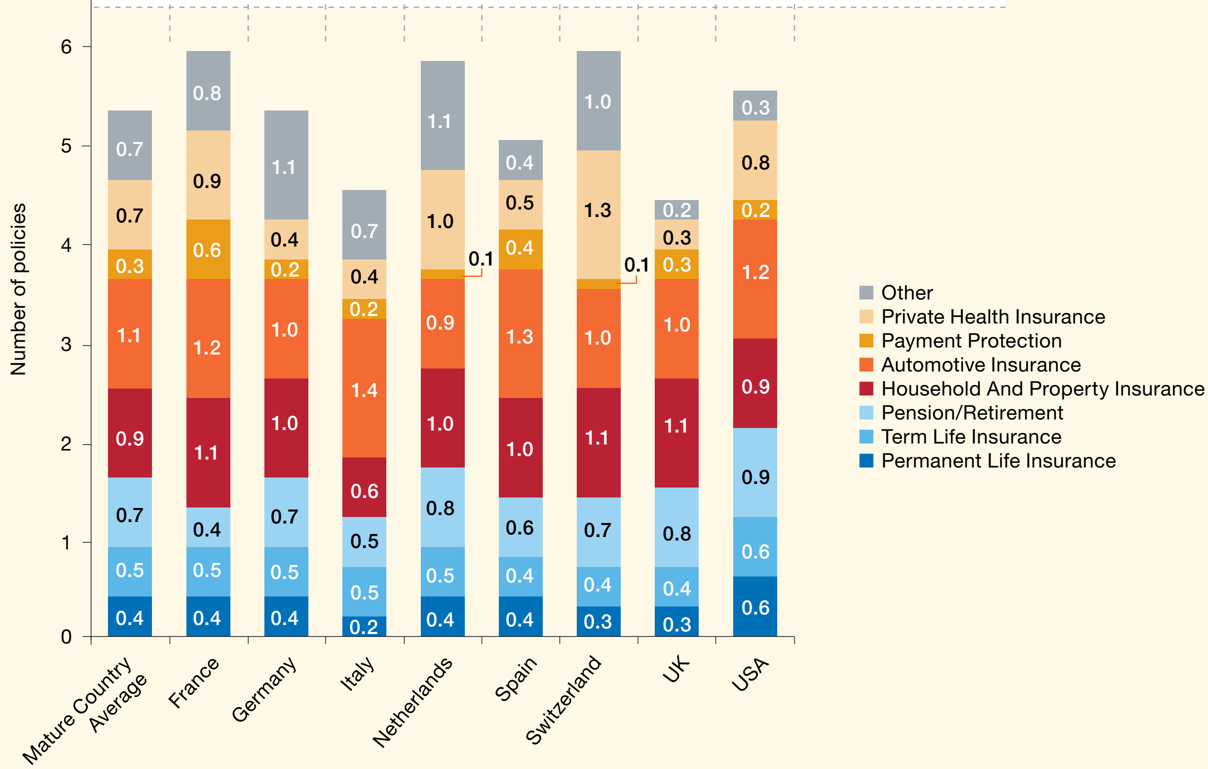
In short, customer perceptions about insurance present a significant challenge for insurers seeking to implement assurbanking, in which they sell their own branded bank products. Given current customer mindsets, insurers that want to diversify into assurbanking have to make a real strategic effort to develop their banking offering. This effort should aim to address several key challenges and questions, including:

- Whether to create a distinct bank (with its own brand and image).
- How to combine the banking and insurance products. The further away the banking offering is from the insurer's original value proposition, the more difficult it will be to get buy-in from customers.
- How to manage the assurbanking business during the significant time it will take for the business to become lucrative. After all, since assurbanking is a new and relative immature business, it will take a long time for a provider to become established.

Customers also seem unlikely to embrace life insurers as advisors. Again, it seems like a natural progression for insurers to diversify into investment advice. After all, there is a strong overlap between insurance and investment in the life segment, where

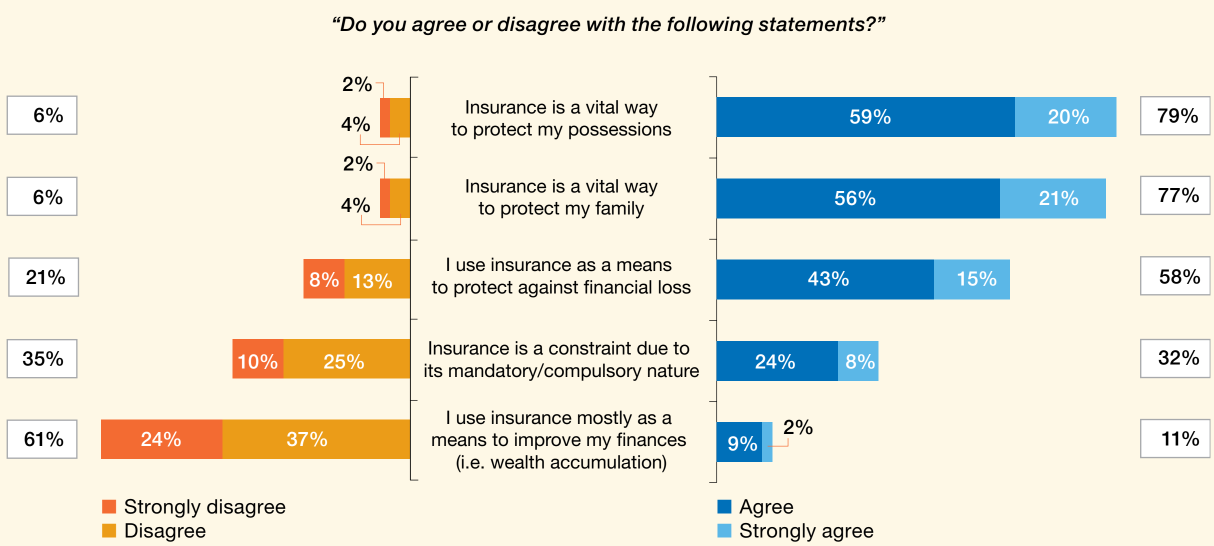
Figure 1.1 Average Number of Policies per Customer (by Country)

	Mature Country Average	France	Germany	Italy	Netherlands	Spain	Switzerland	UK	USA
Life Insurance	1.5	1.3	1.6	1.2	1.7	1.4	1.4	1.5	2.0
Non-Life Insurance	3.7	4.6	3.7	3.2	4.0	3.5	4.4	2.9	3.5
All Policies	**5.2**	**5.9**	**5.3**	**4.4**	**5.7**	**4.9**	**5.8**	**4.4**	**5.5**



Source: Capgemini analysis, 2007.

Figure 1.2 Customer Perception of Insurance (%)



Source: Capgemini analysis, 2007.

providers already sell investment-type products, and cater to the high-net-worth, mass affluent, and other customer segments already in need of investment management services.

Still, few mature-market customers (8%) said they are willing to pay extra for advice on an insurance policy. In fact, the only instance in which more than 10% said they would pay for advice was in the case of pension/retirement-product purchases (13%). As one might expect, customer attitudes varied slightly with age, and more higher-income customers (just over 10%) said they were willing to pay for advice on an insurance policy.

Furthermore, as we said, customers simply do not perceive insurance as a vehicle for wealth accumulation—undermining the credibility of insurance players as providers of those services.

In short, insurers cannot expect a move into investment advice to deliver significant growth in the short term. Here again, some effort will be required to change customer perceptions about the credibility of insurers. Even if insurers adopt a push position, the effort would be counter to the prevailing reality, and would take time to have any effect.

INSURERS CAN CAPTURE BUSINESS FROM COMPETITORS, BUT NEED CUSTOMERS TO BE LESS APATHETIC

If the aggregate insurance market is not expanding fast enough to promise strong growth to leading insurers, and if diversification is also a questionable near-term route to growth, insurers will need to find other ways to capture significant market share from existing competitors. That strategy, however, presents its own challenges.

First, insurers can only steal significant market share from competitors if a sizable number of customers are actually switching providers. Otherwise, the growth will only be marginal. Our survey suggests that mature-market customers actually switch providers very infrequently.

The average customer holds the same policy for 9.2 years. Customers tend to hold life contracts longer than non-life products, but even highly commoditized P&C products are usually held for several years. For example, customers hold the same automotive insurance for an average of 8.4 years (Figure 1.3).

Figure 1.3 Average Contract Longevity (weighted averages, number of years)

	Total	France	Germany	Italy	Neth.	Spain	Switz.	UK	US
Permanent Life Insurance	11.0	10.2	11.0	8.0	12.0	6.4	9.6	11.0	17.1
Term Life Insurance	10.0	10.1	11.3	9.5	12.0	6.2	11.2	10.0	10.5
Pension/ Retirement	9.4	10.8	6.4	8.7	10.9	7.3	10.8	11.1	9.8
Household And Property	9.5	11.5	11.5	7.7	11.4	6.6	11.8	5.2	10.1
Automotive Insurance	8.4	11.3	8.5	7.8	8.8	6.6	10.7	3.4	10.5
Payment Protection	4.4	4.8	3.5	4.1	5.6	3.7	4.1	4.8	5.1
Private Health Insurance	9.9	11.1	13.5	7.8	8.7	8.1	12.6	7.1	7.0
Other (Liability...)	9.8	11.9	10.2	7.1	11.5	6.5	11.2	4.3	8.7

Source: Capgemini Analysis, 2007.

Furthermore, longevity is a clear manifestation of the underlying apathy on behalf of customers—most of whom (71%) even conceded a bad claims experience was not enough to prompt them to switch insurers.

For now, then, many markets remain quite static—including France, Germany, the Netherlands and Switzerland—and the potential for greater volatility in the customer base is not yet significant enough to drive major growth opportunities for leading insurance companies. However, the market is on the verge of change.

INDEED, THERE ARE NEW SIGNS OF VOLATILITY IN THE CUSTOMER BASE

Contract turnover is already increasing in some countries, such as Italy, Spain, and the U.S. In the U.K., where the non-life market is very mature, customers are switching policies far more frequently. For instance, customers hold automotive insurance for just 3 years, and household and property insurance for just 5 years.

Insurers can expect trends like those seen in the U.K. to become the norm in other mature markets in the medium-to-long term. Volatility in the customer base is being fueled by a variety of factors, including:

- The rising number of competitors—which are increasingly bombarding customers with solicitations, through every mode of distribution. Alternative networks, such as supermarkets, are especially disruptive, since they provide an opportunity for customers to buy on impulse, and to buy product bundles for convenience.
- The ready availability of information—which is increasing transparency in both life and non-life insurance, and enabling customers to compare prices and other options more easily.
- Regulations that are facilitating customer mobility. For example, France's Chatel law has made it easier for customers to switch contracts.
- Last but not least, innovation by insurers themselves is a driver of market volatility. Today, it has become a critical objective for insurers to challenge competitors on their home turf by presenting innovative products, such as pay-as-you-drive automotive coverage. These innovations can deliver a windfall to "first movers", which use their innovations to create volatility in an otherwise stable segment.

These forces are contributing to the evolution in customer behavior, which—as we noted in our *2007 World Insurance Report*—has helped to make customers more self-sufficient, price-sensitive, and less loyal—and means insurers can no longer assume that a satisfied customer will remain loyal.

CUSTOMER VOLATILITY UNDERMINES ONCE-SECURE REVENUES

The increase in contract turnover effectively endangers the way insurers have traditionally conducted business—and spells the end to key assumptions on which insurance business models have generally been built.

Traditionally, insurers acquired customers, and could then rely on contract renewals to generate a continuous and steady flow of revenues in ensuing years. Furthermore, repeat customers typically advanced through various life stages, acquiring additional insurance policies—and generating additional premium income for insurers.

In short, the critical mass of the customer base was highly stable—and contract turnover was marginal, posing little threat to aggregate revenue streams.

Now, however, many insurers could find that their stable stock of long-term customers is in jeopardy—and cannot be readily replenished. Customer demographics will only amplify the phenomenon, with long-time, lucrative customers like baby boomers being gradually succeeded by young, demanding, highly mobile customers.

TARGETING REVENUES FROM VOLATILE CUSTOMER SEGMENTS BECOMES A REAL OPPORTUNITY

Insurers can meet important growth opportunities by reviewing their assumptions about secure revenues, and seeking to generate revenues from a newly volatile customer base. It will be critical, though, for insurers to identify clusters of customers that can potentially be enticed from competitors—and adopt strategies appropriate for capturing and retaining those clusters.

Customers Are Falling into Very Distinct Behavioral/Attitudinal

Segments

CHAPTER 2 **HIGHLIGHTS**

- Behavioral profiling shows four clear segments of customers in mature markets: Traditionalists, Opportunists, Indifferent and Average users. The segmentation reflects important customer perceptions and attitudes toward insurance, its value, and potential, as well as actual buying patterns.
- The Traditionalist, Opportunistic, and Indifferent segments each reflects distinct behavioral/attitudinal profiles, and each has two clear sub-sets of different distribution-network users.
- Network-usage patterns and preferences show many customers have embraced non-physical networks, and will continue to use them even more in the future.
- It is fair to say many countries still have a group of "Average users", but in countries where Internet usage for insurance is highly developed, such as the U.K. and U.S., it is more likely that different customers will use different networks for distinct purposes, and "average" network users will become extinct.
- Each customer segment has a different value, but it is critical to take account of the potential for customer volatility in making value assessments. For example, Traditionalists are potentially the most valuable segment, given their financial means, and their tendency toward loyalty (i.e., lack of volatility), Opportunists could also be high-value, but tend to be more volatile—making them more complex to serve.

INTRODUCTION

Our approach for this chapter was to conduct a customer segmentation, based on the survey results–(see methodology for statistical approach)– then define the value and volatility of the various identified segments, and characterize the stakes for insurers with regard to each value/volatility cluster.

BEHAVIORAL PROFILES SHOW FOUR CLEAR SEGMENTS OF CUSTOMERS IN MATURE MARKETS

Most insurers typically segment their customers based on demographics, such as age and income, but we wanted to explore whether customer behaviors and perceptions would delineate customers differently.

We analyzed survey data on actual and potential purchasing behavior, customer preferences, and perceptions, and found four distinct segments of customers in mature insurance markets: Traditionalists, Opportunists, Indifferent and Average users.

The Average users are pedestrian—they have a classic perception of insurance as a means of risk-protection, and tend to be averagely equipped with coverage (i.e., they have about the average number of policies in a given country). Most countries exhibit a block of Average users, except for the U.S. and the U.K. (see the "Average Users" section on page 18).

The other three segments have behavioral/attitudinal profiles that are quite distinct from each other, and from the average.

Traditionalists:

- Tend to be more mature in age, from middle-to-higher income brackets, and are more likely to be multi-equipped (i.e., they have several types of policies).
- Have a classic view of insurance as a means of guaranteeing against risk (especially property and family), but recognize the financial potential of insurance, as they have savings.
- Like to be reassured when purchasing (e.g., by advice and/or brand).
- Are typically loyal, and rarely self-motivated to switch insurers.

Opportunists:

- Tend to be middle class, and carry an above-average number of policies.
- Have a classic view of insurance as a means of guaranteeing against risk.
- Continually scan the market for more suitable products.
- Are pragmatic and technical when purchasing, and thus attentive to price and/or product specifics.
- Want independent data and research, and often use the Internet to gather basic knowledge, before developing their own opinions on insurance.
- Are a potentially volatile group, ripe for switching insurers if the transition is easy, and acknowledge they would defect after a bad claims experience.

Indifferent users:

- Tend to have minimal coverage.
- Income may be insufficient to build a comprehensive insurance portfolio, especially on life products.
- Are dubious, at best, about the value of insurance, and tend to perceive insurance as no more than a compulsory requirement.
- Are generally too indifferent to shop around for the best products, or do their own research.
- Are mainly too apathetic to be volatile.

BEHAVIORAL-BASED CUSTOMER SEGMENTS ALSO DISPLAY DIFFERENT NETWORK-USAGE PATTERNS

We also analyzed how the different segments use different types of distribution networks[4], drawing a distinction between physical networks (e.g., agents) and non-physical networks (e.g., Internet), and assessed the propensity of different customer segments to use more than one type of network.

Our research revealed that the Traditionalist, Opportunistic, and Indifferent segments each have two sub-sets of network users. While those sub-segments vary by country (see Figure 2.1), it is clear that in some countries—specifically the U.K., the U.S., and the Netherlands—all customer segments have diversified beyond physical networks. Some countries even have customer segments that exclusively use the Internet. The question is: 'When will the clusters of non-physical network users eclipse those that use physical networks?'

[4] See methodology for a definition of networks.

Some of our key findings about network usage, by segment, include:

Traditionalists
In general, Traditionalists use as many different types of networks as other segments of users in their country, but primarily rely on physical networks (especially tied agents, brokers and direct writing companies).

Traditionalist physical-network users:

- Are happy with their networks, especially for the easy access to information.
- Show little interest in Internet use.
- Account for 15% to 25% of insurance purchasers, on average, in most studied countries. However this segment is much larger in Italy (37%), and smaller in the U.K. (less than 10%).

Multi-network Traditionalists:

- Have diversified into using non-physical networks in countries that have an above-average level of Internet usage for insurance products. For example, they represent 10% to 15 % of customers in the U.K., the Netherlands and the U.S.—where they may even be more plentiful than Traditionalists who use physical networks.
- Expect to be using the Internet even more in 3 years' time.

Opportunists
Most Opportunists are multi-network users, and use more networks than the average.

Multi-network Opportunists:

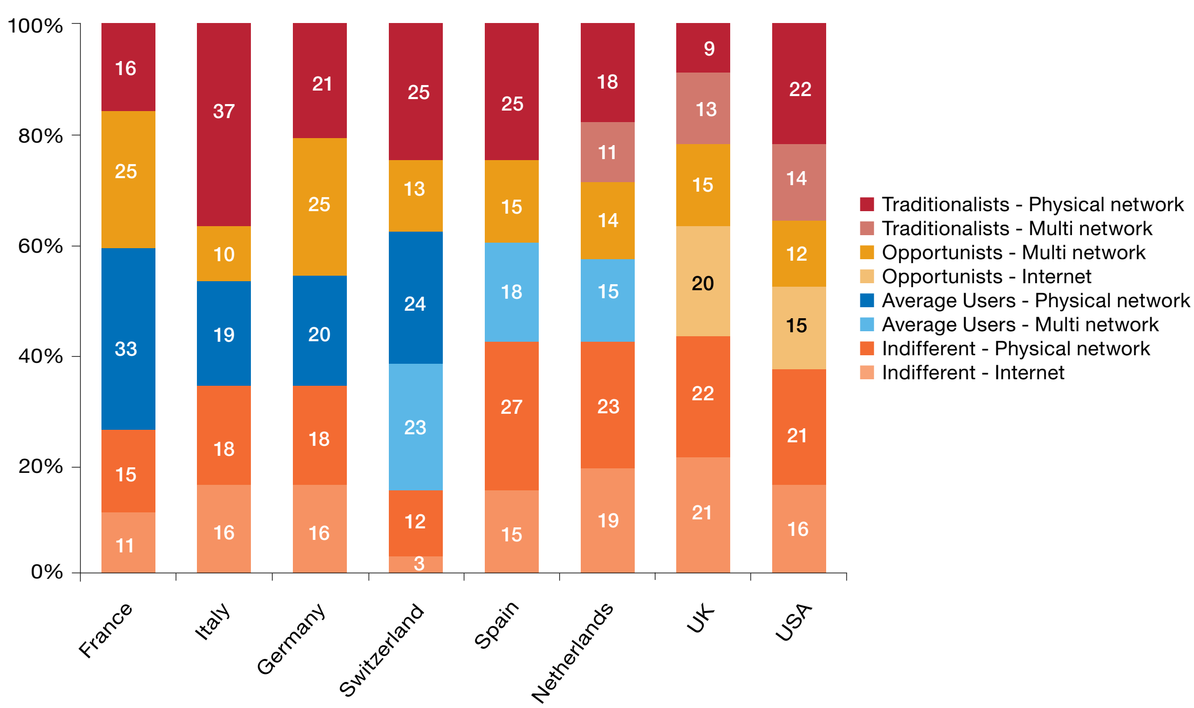
- Tend to use the Internet heavily, including for purchases.
- Will use the Internet increasingly in coming years.
- On average, represent 10% to 15% of the population in the studied countries, except in France and Germany, where they are more numerous (25%).

Internet Opportunists:

- Have opted to migrate completely from physical networks, and use the Internet exclusively.
- Are, so far, evident only in the U.S. and U.K., where they represent 15% to 20% of insurance customers, respectively.

Indifferent Users
In general, Indifferent users utilize fewer channels than average, and opt either for physical networks (especially tied agents), or the Internet.

Figure 2.1 Network Usage by Behavioral-Based Customer Segments (by mature market, %)



Source: Capgemini analysis, 2007.

Indifferent physical-network users:

- Represent about 20% of the population in most countries, except for Switzerland (12%), France (15%) and Spain (27%).

Indifferent Internet users:

- Rely exclusively on the Internet, even when subscribing to new products.
- Rarely switch from the Internet once they have adopted it as their distribution network.
- Account for about 15% to 20% of customers on average, but less than 5% in Switzerland.

Average Users

As we said, there is a segment of "Average users" in most countries. For instance:

- In Italy, France and Germany, the Average users represent 20% to 30% of the population. They rely on physical networks, and have little interest in using the Internet.
- In Spain and in the Netherlands, Average users utilize both physical and non-physical networks, and represent 15% to 20% of the population. They intend to increase their Internet usage in the future.
- In Switzerland, multi-network and physical-network Average users are equally evident, and together they represent more than 45% of the entire population.

Notably, however, our analysis shows that in countries where Internet usage in insurance is highly developed, such as the U.K. and U.S., there is no longer an "Average user" of physical or multiple networks. In fact, the customer behavior behind the use of multiple networks (physical or non-physical) is very complex—a reality that suggests it might be highly misleading for insurers to gather and analyze data on market and customer averages.

In fact, the ascent of the Internet, and the development of multi-network usage, is a direct reflection of segmented customer behavior—and, in turn, drives each segment to become more distinct. As a result, insurers will need to meet the precise needs of each behavioral segment effectively—and any attempt to cater to an "average" customer could be misguided.

EACH CUSTOMER SEGMENT HAS A DIFFERENT VALUE

Having developed clusters of behavioral / attitudinal profiles, and established patterns of network usage, we wanted to explore the resulting value potential of each cluster.

We mapped each segment along two dimensions (see Figure 2.2). The value for a network is shown on the x-axis. We assumed value to be a combination of both a high number of policies owned by a customer, and the share of wallet of the network.

- The number of policies is indicative of the value of the segment to a network, since the level of income generated by a customer is generally correlated to the number of policies held (i.e., the level of equipment).
- The share of wallet shows the current number of products a given network could effectively own in a segment divided by its total number of products.

The second dimension is the perceived value of insurance by each cluster (y-axis), which is indicative of the value to the customer (e.g., whether insurance is seen as an obligation or a value-added means of wealth accumulation).

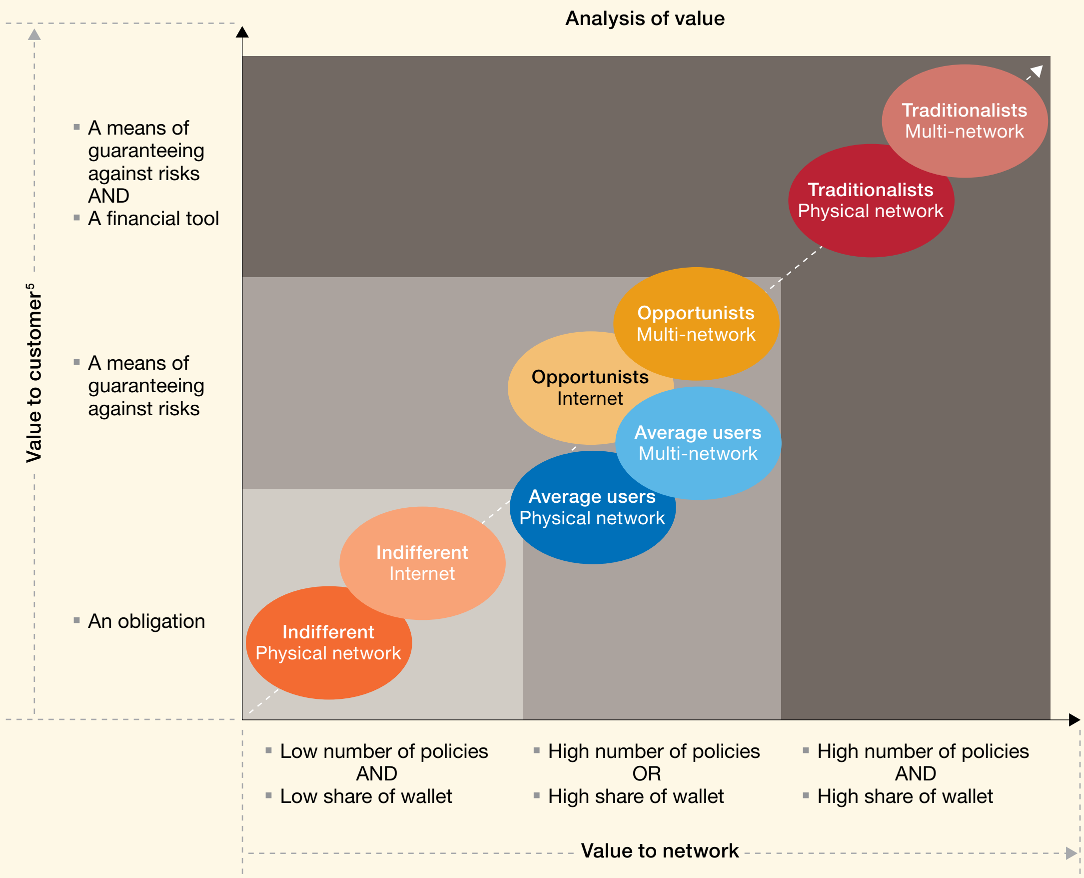
Not surprisingly, Traditionalists represent the highest value (dark brown areas on Figure 2.2). They are more highly equipped—20% above national averages for Switzerland, Germany and the U.S., and between 35% and 45% above national averages for the other countries surveyed. Proportionately, they also share their wallet with fewer networks than other segments. Customers from this segment also recognize the value of insurance.

The Opportunistic and Average segments have an intermediate value (brown). The value of insurance to Opportunists can be higher than the level of value they generate for insurers, because they tend to seek the best value proposition, and try to optimize their portfolios (and thus pay lower premiums). By contrast, Average customers can perceive less value in their products than their actual level of equipment would suggest. In short, Opportunists are more likely than the Average customer to be favorably disposed to buying insurance.

Indifferent customers (light brown), ironically, may not be dissatisfied with the value they receive from insurance, but this is because their expectations are so low. Nevertheless, they actually hold 30% to 40% fewer policies than the national averages.

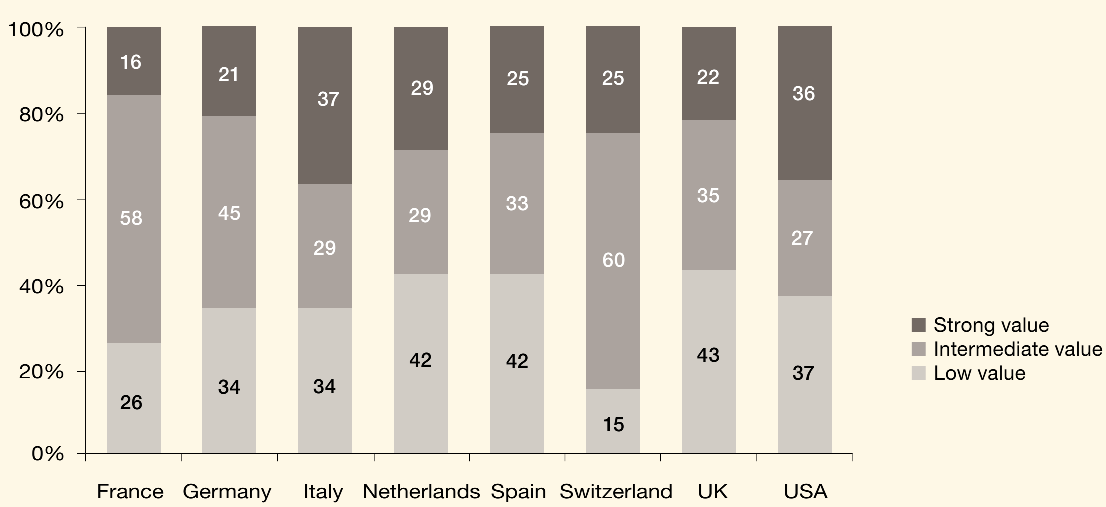
The value breakdown by country (Figure 2.3) shows that Spain, the U.K. and the Netherlands have the greatest share of low-value customers, while Italy, the U.S. and the Netherlands have the biggest proportion of high-value customers.

Figure 2.2 Value Matrix by Behavioral-Based Customer Segment



Source: Capgemini analysis, 2007.
[5] Customer perception of insurance.

Figure 2.3 Value of Behavioral-Based Customer Segments (by mature market, %)



Source: Capgemini analysis, 2007.

Overall, our value analysis clearly demonstrates that if insurers adopt behavioral segmentation, they will also have to make sure their value proposition, and pricing policies, are aligned with the segment-specific perceptions and needs.

VOLATILITY RISK IS A CRITICAL ADDED DIMENSION IN CUSTOMER-VALUE ASSESSMENTS

However, there is an additional, more dynamic factor in the value equation: The level of volatility in the customer segment.

We analyzed several facets of customer volatility: 1) The willingness of customers to switch insurers if a switch were easy, 2) their willingness to switch to another distribution network in 3 years' time, 3) their sensitivity to the quality of service, and 4) their usage of multiple distribution networks and multiple channels (i.e., means of interaction within networks). We then mapped the outcomes for different segments on a volatility matrix.

The results (Figure 2.4) show Opportunistic and Average users are the most volatile customer segments, which is consistent with their profile: They tend to use multiple networks and channels, and have expressed an inclination toward volatility. Paradoxically, the Indifferent segments show few signs of volatility, either in terms of voiced intentions, or actual usage of networks—despite the fact that a significant portion of customers use the Internet, which usually leads to higher volatility.

Again, volatility breakdowns differ by country (see Figure 2.5), but it generally holds true that countries with large Average and Opportunistic segments, such as France and Switzerland, are likely to see high volatility in a large share of their insurance population.

The volatility dimension clearly provides insurers with additional, important insights on customer strategy—especially when the volatility and value dimensions are combined.

IDENTIFYING WHAT IS AT STAKE FOR EACH VALUE/VOLATILITY CLUSTER

We analyzed the interplay of value and volatility, and identified four different clusters of customer segments. The profile of each cluster is as follows:

- The **Dependable-income** cluster comprises high-value/average-volatility customers—i.e., Traditionalists.
- **At Risk** customers are from average-value/high-volatility segments, i.e., Opportunists, and multi-network Average users.
- Customers in the **Stagnant** cluster are from low-value/low-volatility segments, i.e., the Indifferent segments.
- The remaining **Other** customers are from average-value/average-volatility segments i.e., Average users using physical networks.

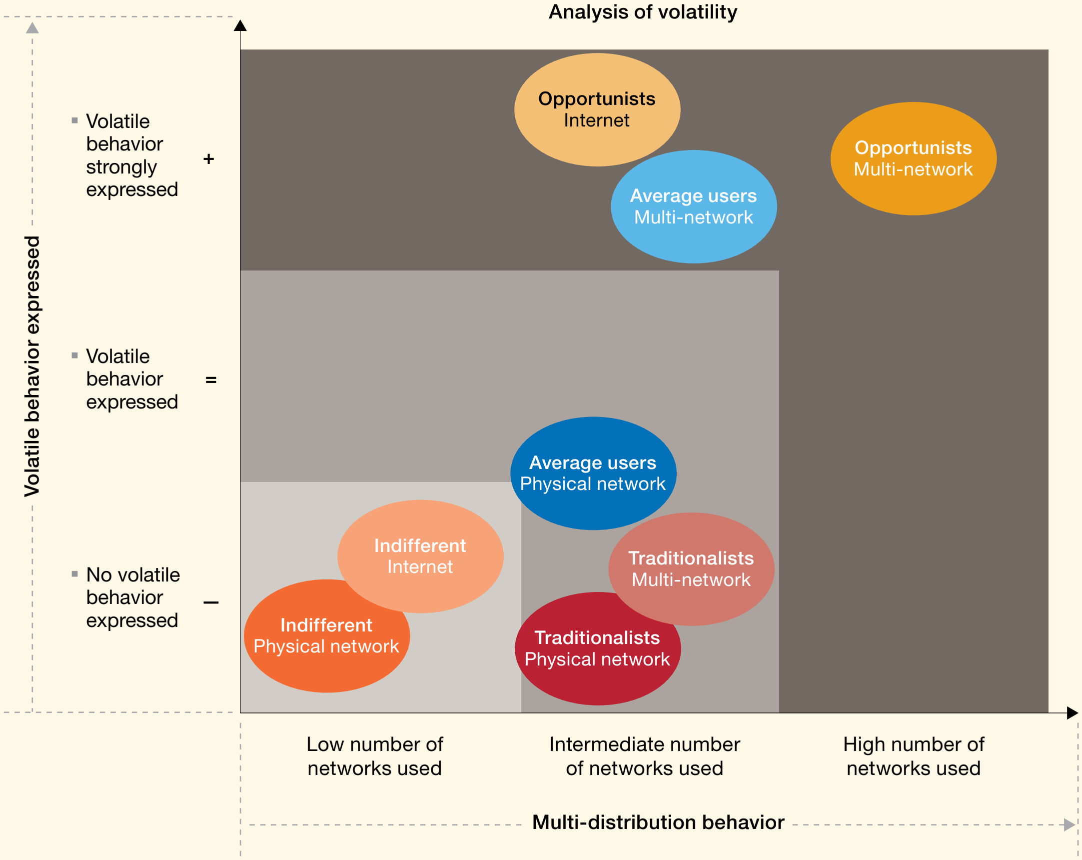
The position, and underlying behavioral profile, of each cluster reveals what is at stake for insurers (see Figure 2.6).

TRADITIONALISTS ARE THE MAINSTAY OF DEPENDABLE INCOME AND ASSETS

Since Traditionalists are highly equipped, and tend to be more loyal than other segments, the main goal for insurers is to preserve that level of loyalty, particularly by developing regular interaction with these customers. Since this segment is already well-equipped, incremental new revenue tends to be lower than in other customer segments, so insurers will need to think carefully about cost-effective service and acquisition strategies. For example, there is potential for insurers to leverage the evolution in network usage, and nudge Traditionalists toward Internet and multi-network usage—and reserve more costly physical networks for value-added activities, such as advice and business development.

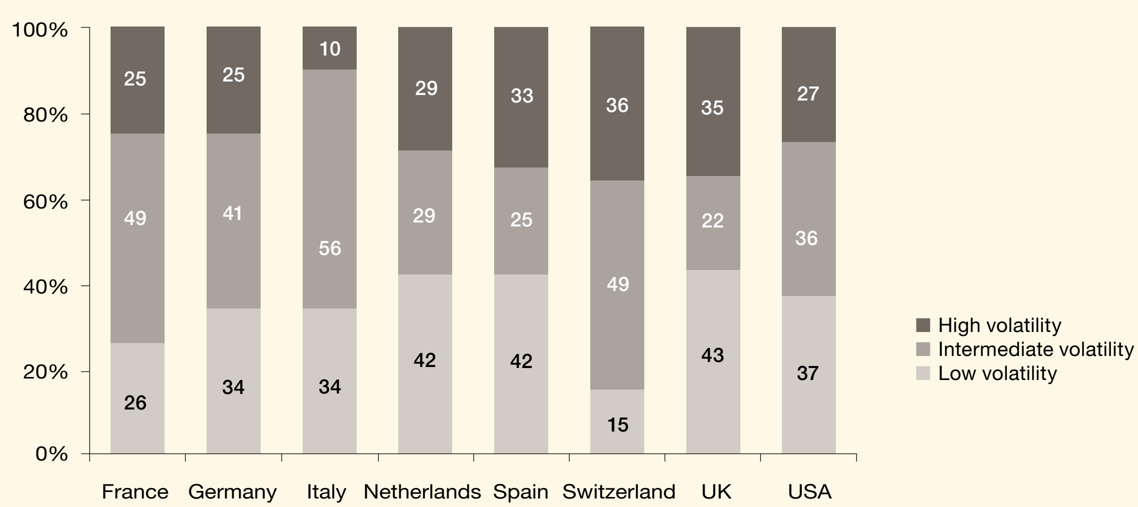
Insurers can also leverage this segment to generate business from other customer segments. For example, insurers could develop a cross-generational value proposition that aims to equip the children and grandchildren of current Traditionalist customers. In this way, insurers could potentially clinch a deeper relationship with second- and third-generation customers, who may already use the same physical networks as their parents, but are currently Indifferent users themselves.

Figure 2.4 Volatility of Behavioral-Based Customer Segments in Mature Markets



Source: Capgemini analysis, 2007.

Figure 2.5 Spread of Volatile Behavioral-Based Customer Segments (by mature market, %)



Source: Capgemini analysis, 2007.

AT-RISK CUSTOMERS ARE POTENTIALLY VALUABLE, BUT MAY BE TOUGH TO PLEASE

Customer segments in the "At Risk" cluster are clearly valuable, and offer the highest potential, but they require a high-value proposition from insurers. As a result, the reward for insurers is uncertain. The key is whether an insurer can leverage the Opportunist's propensity to switch, and capture them from the competition. Even then, it will require innovation to retain those potentially volatile customers. One option for insurers is to shift from a "push" model to a "pull" approach—ensuring it is the customers themselves who perceive value in their proposition, and therefore choose to migrate to capture that value.

Notably, insurers may also be able to exploit the efficiency of the Internet as a distribution network to appeal to this segment, since its customers have already shown themselves to be keen users of the Internet when searching independently for insurance information.

THE STAGNANT CLUSTER PRESENTS A DILEMMA

The Stagnant cluster is populated by Indifferent customers, who are—by definition—largely unknown to insurers. Their value is low, but so is their volatility, so insurers may not need to do more than establish an apparatus for monitoring the cluster, and identifying signs of a potential change in behavior (e.g., pending life-stage changes that may prompt a change in insurance needs).

In short, the goal for insurers is to find the optimal balance between the push and pull approaches for these customers. Insurers could also try to optimize costs to maximize segment value. For example, they could seek to direct some customers from physical networks and channels to non-physical networks and channels. Overall, though, a simple, clear, low-cost value proposition may be the most effective way to attract and serve low-profit customers.

REMAINING CUSTOMERS—AVERAGE USERS OF PHYSICAL NETWORKS—ARE CLEARLY AT RISK

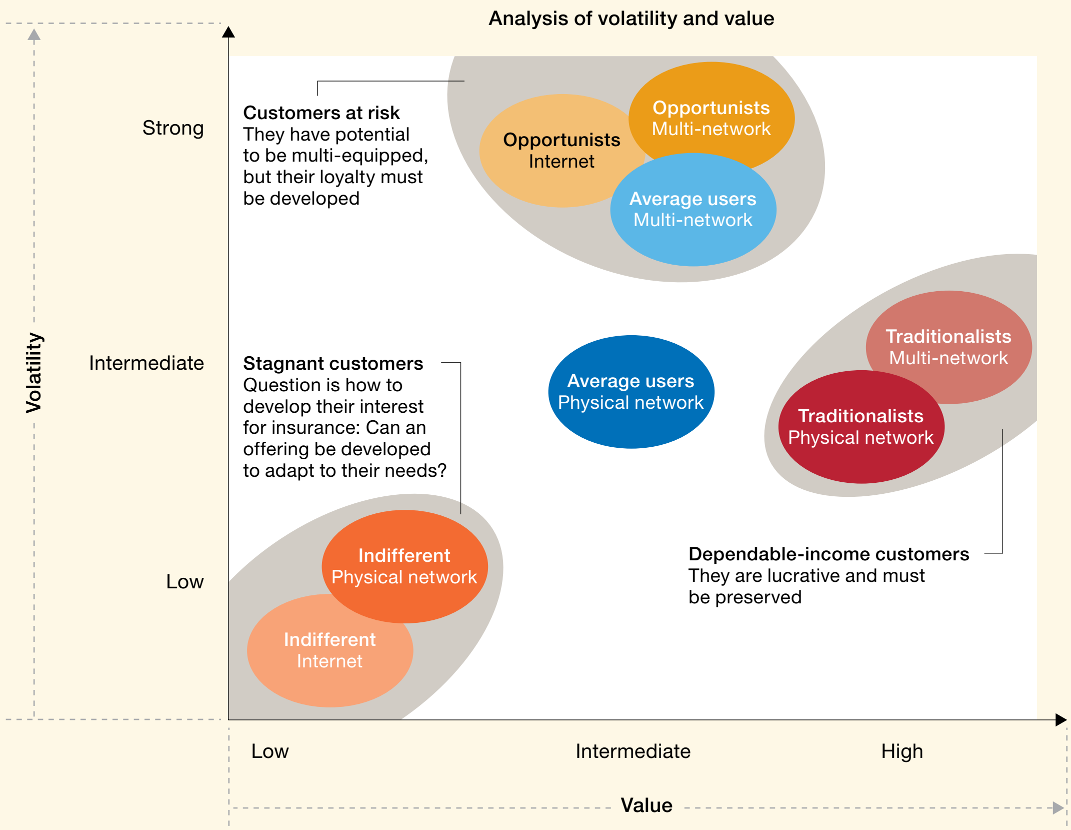
The "Other" cluster is made up of the remaining customers—the Average users of physical networks. These customers are characterized by an average volatility level, but—as we have seen in the case of the U.K. and U.S.—this cluster is likely to become extinct, as customers and insurance markets become more sophisticated.

In terms of strategy, then, insurers will have to decide whether to try and speed up the evolution of their market, and seek to transform these customers into Opportunists that can be captured, or preserve the status quo.

Notably, the value/volatility stakes for insurers already vary quite distinctly by country (see Figure 2.7). For example:

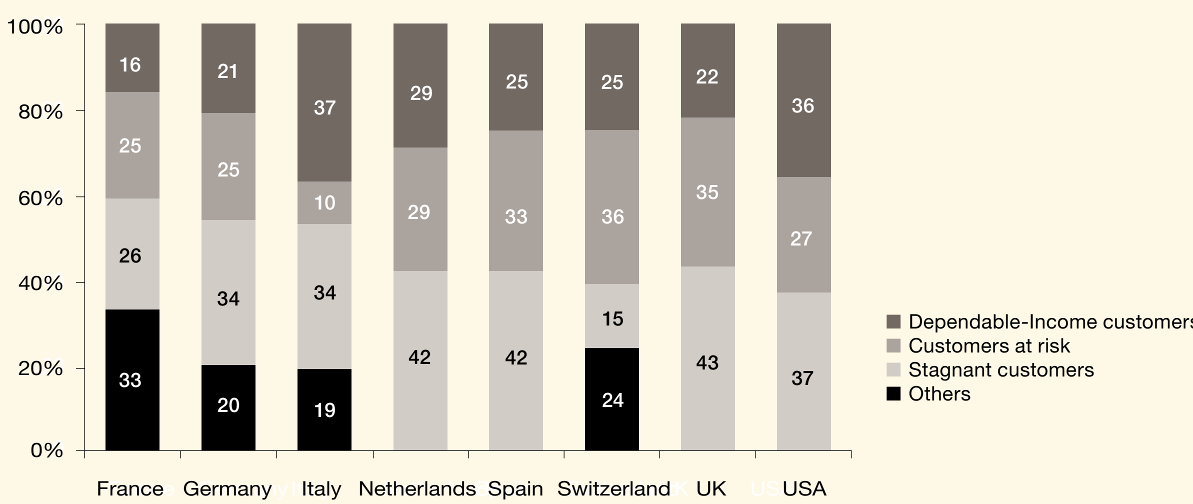
- More than 35% of the customer base in Italy and the U.S. qualifies as a dependable-income source—the most among our studied mature markets.
- France and Germany, however, have the fewest sources of dependable income.
- The Netherlands, Spain and the U.K. share much the same structure in terms of what is at stake, and—like the U.S.—have already lost their "Average" users.
- Switzerland, France and Germany have a very high proportion of at risk customers (those that are outright at risk combined with "others"). This could presage significant movement in these markets, where Average customers who currently use physical networks could soon increase their use of Internet/multiple networks, and become more volatile.

Figure 2.6 Value/Volatility Clusters of Behavioral-Based Customer Segments



Source: Capgemini analysis, 2007.

Figure 2.7 Prevalence of Value/Volatility Customer Clusters (by mature market, %)



Source: Capgemini analysis, 2007.

Multi-Distribution Is on the Rise as Networks Specialize and

Evolve

CHAPTER 3

HIGHLIGHTS

- The use of distribution networks varies greatly by country, driven by country-specific customer needs, product usage, regulations, and competitive dynamics.
- Customers expect to change their distribution-network preferences significantly in the next 3 years.
- The ascent of the Internet is undeniable, and some existing distribution networks are clearly at risk.
- Each distribution network specializes heavily in certain customers, products, or needs.
- Insurers are being forced to multi-distribute to retain market access, and increase wallet share, but could benefit too from focusing on multi-equipping certain customers.

USE OF DISTRIBUTION NETWORKS VARIES GREATLY BY COUNTRY

Our survey shows the use of distribution networks varies greatly by country in mature markets. Notably, the occurrence and mix of different types of networks is not necessarily an indicator of the level of sophistication in insurance distribution. Rather, networks have developed to meet country-specific customer needs, product usage, regulations, and competitive dynamics.

Certainly our data reveals some striking trends that are distinct to individual countries. For example:

- In the U.K., a significant portion of non-life policies are now distributed through the Internet, so the total distributed through all types of non-physical networks now exceeds the number sold through physical networks. This signals the marginalization of the once-dominant physical distributor networks.
- The U.K. and the U.S. stand out from the crowd in distributing a much higher share of their policies via Internet, telephone and alternative networks. At the same time, the U.S. also distributes a higher share than average through tied agents.
- Spain has a highly developed bancassurance model for life insurance. In fact, the model has become the norm in the distribution of life products, with almost every insurance company having established a partnership with a bank.
- While several types of distributors hold a high share of the insurance market in Switzerland and Germany, these two countries uniquely distribute a higher share of policies than others through mobile sales forces.
- In the Netherlands, life policies are most often distributed through multi-tied agents/broker/IFAs. This type of distribution network offers the most comprehensive range of products, making it a trusted source of impartial advice for customers—and constraining growth in the competing bancassurance model.
- France still relies heavily on its traditional, physical distribution networks. In non-life, for example, tied agents still sell more policies than any other type of distributor, followed by direct writing companies. The situation raises doubts about the penetration of other networks into non-life distribution in France (and in Italy, where the current situation is much the same). However, the bancassurance distribution network has proven to be highly successful in the life segment, where banks today sell the vast majority of all life policies in France.

CUSTOMERS INTEND TO USE DIFFERENT NETWORKS IN THE FUTURE; INTERNET WILL CONTINUE GAINING SHARE

Changes in customer buying behavior and demand have clearly been a factor in the evolving distribution landscape, and our survey suggests more changes lie ahead. We asked customers which networks they are most likely to use when buying policies in 3 years' time. The most startling shift is in Internet usage.

In the mature markets we studied, 28% of customers said they intended to buy their life-insurance policies online in 3 years, and 34% said they would buy non-life policies online. On aggregate, this marks a highly significant shift from the picture today.

The move to Internet distribution networks is not unexpected for the non-life segment, but the size of that shift is impressive nonetheless. In life, meanwhile, it is striking that so many customers expect to be buying online in the future.

Ultimately, of course, actual network usage will depend on many factors, including contract requirements, regulatory constraints—and the ability of customers to overcome their own inertia. In reality, then, a substantive shift to the Internet is likely to take longer than the three-year timeframe we studied.

Nevertheless, the survey proves that the rise of Internet distribution networks is a trend that leading insurance companies cannot ignore.

MOST EXISTING DISTRIBUTION NETWORKS ARE AT RISK

The question, of course, is which distribution networks will lose out as Internet usage broadens. We asked customers what factors influenced their insurance buying decisions, and then mapped networks in terms of their relative ability to deliver against the top influences—which were price/return, product quality, and brand/trust.

The results (Figure 3.1) show the relative strength of each network in terms of those purchasing influences, and the likely resulting change in market share. Among our findings:

- Internet distribution is not just an attractive delivery vehicle, offering online-purchase capabilities. Rather, Internet distribution is perceived as a superior means of delivering those three key factors that sway purchasers. In fact, the Internet scores so high in terms of price/delivery and product that it can overcome any lingering concerns customers may have about brand/trust issues.

- Multi-tied agents/brokers/IFA networks are the only other winners of market share as the Internet takes hold. Their relative weakness on purchase influencers is probably due to their relative weakness on brand.
- The biggest losers seem to be telephone-sales networks, and alternative channels. However, these results may be skewed by the fact that customers tend to use these networks more for impulse and convenience buying—purchases they cannot envision in advance when surveyed.
- Mobile sales forces, tied agents, and direct insurers will clearly lose market share to the Internet. Mobile sales forces rate especially poorly in terms of their ability to deliver what matters most to customers when purchasing insurance.

Figure 3.1 Distribution Networks in Mature Markets: Mapping of 3-year Change in Market Share vs. Relative Strength of Top 3 Purchase Influencers (%)

Source: Capgemini analysis, 2007.

[6] Relative Strength is the average rating that customers gave to the top 3 purchase influencers in a given network. The % is expressed by calculating the deviation of one distribution network to the mean of all distribution networks. The purchase influencers are the top 3 chosen by customers: price/return, product quality, brand/trust.

[7] 3-Year Change in Market Share is based on customer perceptions of where they will buy their insurance policies in 3 years time. It is expressed in terms of the growth in share of all insurance policies purchased.

HALF OF CUSTOMERS WHO USE THE INTERNET TO GATHER INFORMATION FOR THEIR PURCHASE DECISIONS ULTIMATELY BUY INSURANCE VIA THE INTERNET

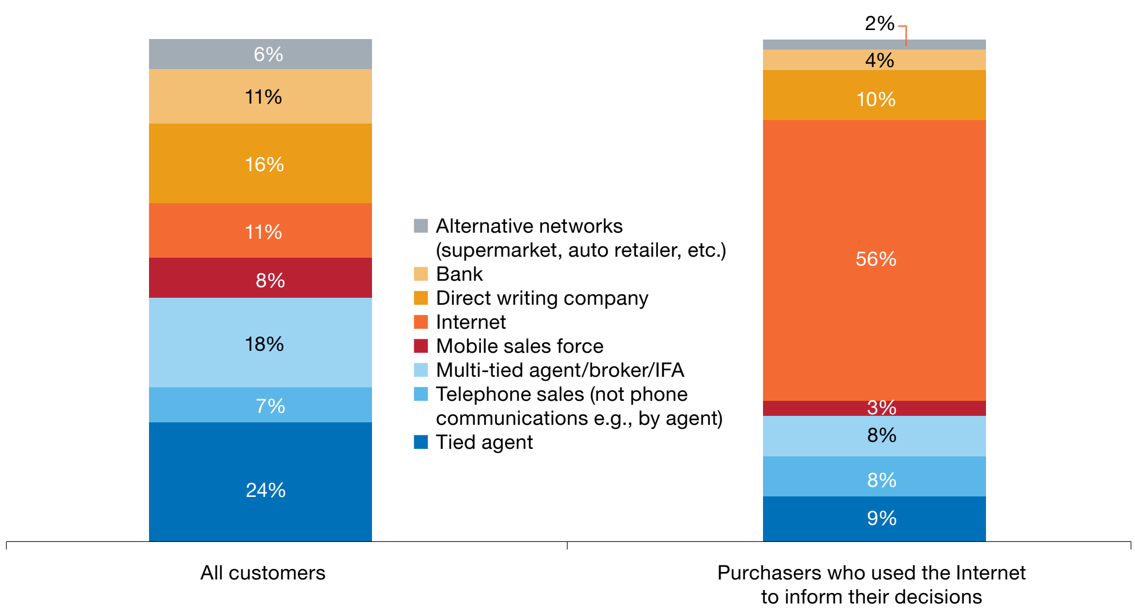
The ascent of the Internet makes it critical for insurers to understand exactly why customers want to buy online, and what drives their behavior.

We asked customers which factors would most likely prompt them to buy insurance over the Internet. Customers from mature markets said access to less expensive products would be the most important factor, followed by the ease with which they can access information, and the quantity of available information. These results were much the same for both life and non-life.

It is no surprise that price tops the list, as no customer wants to say price is not an issue. More notable is that the survey reveals just how important the informative stage is to purchasing.

Our analysis of purchasing behavior shows that, on aggregate, across life and non-life, 11% of policies are purchased online today. By contrast, 56% of policies are bought online by the segment of the population that uses the Internet (not necessarily exclusively) to inform their insurance purchasing decisions (Figure 3.2).

Figure 3.2 Distribution Network Usage in Mature Markets (% of policies bought through different distribution networks) All Customers vs. Purchasers who Used the Internet to Inform their Decisions



Source: Capgemini analysis, 2007.

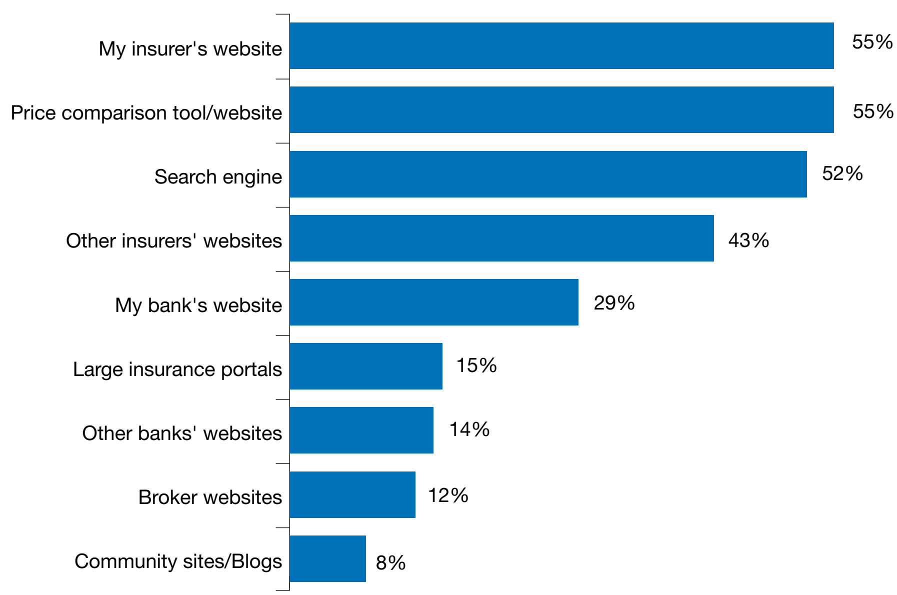
Our data shows 17% of customers in mature countries use the Internet for insurance-information purposes, compared to the 59% who use face-to-face interactions. Clearly, then, the Internet is a significant and growing information channel—and a potentially powerful driver of actual purchasing. If insurers want to introduce themselves into buying decisions, they will need to understand exactly how customers inform themselves online.

Our survey shows most customers (55%) use their own insurer's website (Figure 3.3). This is heartening news for insurers, and should encourage them to leverage that touch-point, providing customers with all the information they might need, so they do not need to stray to other sources. For instance, insurers can provide their own integrated price-comparison tool for simple products. In doing so, they are providing an Internet resource that is much desired by customers, can help to keep customers on their own websites, and can potentially help insurers to position their prices in the best possible light.

Many customers also use price comparison websites (online aggregators) and search engines. Insurers have to make sure they participate fully in such ventures to ensure they appear prominently among the results that customers receive when searching for information that will drive their purchases.

Figure 3.3 Customer Preferences among Internet Information Sources in Mature Markets (%)

"If you gathered information on the Internet prior to purchasing your insurance policy, where did you look?"



Source: Capgemini analysis, 2007.

NETWORKS ARE NOW SPECIALIZING, FURTHER COMPLICATING DISTRIBUTION STRATEGIES

Once upon a time, most insurance companies used a simple distribution model: They had one distribution network, which was usually generalist, or perhaps multi-specialist, and the agent (whether the distribution was intermediated or not) was the single point of contact for all customer needs.

Today, there are many different types of distributors competing for customers, and each is trying to differentiate itself to gain a competitive edge. As a result, distribution networks are walking a fine line: They seek to remain generalist enough to cast a wide net for customers, and specialist enough to serve specific product segments well.

This paradox has created a challenge for insurers as they seek to identify the optimal distribution strategy, and manage and maneuver multiple distribution networks, to approach customers effectively, and grow wallet share.

It is important, then, to understand the strengths and weaknesses of different networks. We used data on customer demographics, usage and attitudes to analyze the networks. The results (Figure 3.4) reveal many important differences in network profiles. For example:

- Direct writing companies:
  - Tend to have customers that are much older than other distributors.
  - Have fewer of the high-income customers.
  - Retain customer contracts for much longer.
  - Predominantly sell non-life products.
  - Are perceived by purchasers to be strong on brand/trust.
  - Are perceived to be less capable in giving professional advice.
- Banks:
  - Tend to be strong on product and professional advice, but weaker in after-sales service.
  - Have a strong specialty in life insurance products.
  - Tend to keep contracts for a shorter period of time.
  - Have more customers in the "active population" in terms of age.
  - Have customers covered by slightly more types of insurance (i.e., customers are more likely to be multi-equipped).
  - Have customers who are more prone to switch providers.

Figure 3.4 Distribution Networks in Mature Markets: Profile and Attributes

	Customer Demographics	Customer Profile	Network Characteristics	Product Speciality (by premium)	Network Strengths/Weaknesses
Tied agents	Older customers (11% more of 41-to-55-year olds; 16% more of 71+ year-olds)	Customers slightly more equipped Fewer users of multiple distributors	Longer contract longevity (+17%) Customers less likely to switch after a poor claims experience More customers who perceive insurance as a means to improve finances	58% Non-Life	**Strengths:** Professional advice, especially in Non-Life (+11%) **Weaknesses:** Ease of purchase, especially in Non-Life (-13%)
Multi-tied agents / Brokers / IFAs	More high-income customers (+18%)	Customers much more equipped (higher number of policies owned)	More customers who perceive insurance as a means to protect against financial loss	53% Life	**Strengths:** Professional advice (+27% in Non-Life and +20% in Life) **Weaknesses:** Brand/Trust (-14% in Non-Life and -12% in Life)
Direct writing companies	Older customers (20% more of the 56-to-70-year-olds; 32% more of 71+ year-olds) Fewer high-income customers (-23%)	Customers slightly less equipped, but with a higher concentration of policies with a smaller number of distributors	Longer contract longevity (+29%)	61% Non-Life	**Strengths:** Brand/Trust (+10% in Non-Life and +11% in Life) **Weaknesses:** Professional advice (-10% in Non-Life and -11% in Life)
Banks	More middle-aged customers (14% more of 26-to-40-year-olds)	Customers more equipped More users of multiple distributors	Shorter contract longevity (-30%) Customers more likely to switch after a poor claims experience	68% Life	**Strengths:** Professional advice (+14% in Non-Life and +6% in Life.) Product, especially in Non-Life (+8%) **Weaknesses:** After-sales service (-19% in Non-Life and -27% in Life)
Mobile sales forces	More low-income customers (+11%)	Customers with average equipment, but a higher concentration of policies with a smaller number of distributors	Much longer contract longevity (+31%) Customers less likely to switch after a poor claims experience More customers who perceive insurance as a means to protect family and improve finances	65% Non-Life	**Strengths:** After-sales service (+46% in Non-Life and +48% in Life) Professional advice, especially in Non-Life (+37%) Fees/Returns (only in Life) **Weaknesses:** Ease of purchase (-20% in Non-Life and -18% in Life.) Product (-27% in Non-Life and -23% in Life.) Price, only in Non-Life (-13%)
Internet	Younger customers (65% more of 18-to-25-year-olds) More high-income customers (+41%)	Customers with much lower equipment On average, customers tend to use slightly more distributors	Shorter contract longevity (-60%) More customers who perceive insurance as a means to protect against financial loss	80% Non-Life	**Strengths:** Ease of purchase (+51% in Non-Life and +32% in Life.) Price Product, but to a lower extent **Weaknesses:** Professional advice (-49% in Non-Life and -25% in Life.) Brand/Trust, especially in Non-Life
Telephone sales (not phone communications e.g., by agent)	More of both younger and older customers (25% more of the 18-to-25- year-olds; 43% more of 71+ year-olds) More low-income customers (+24%)	Higher number of distributors used	Shorter contract longevity (-14%)	81% Non-Life	**Strengths:** Ease of purchase (+22% in Non-Life and +20% in Life.) **Weaknesses:** Professional advice (-27% in Non-Life and -10% in Life.)
Alternative networks	More of both younger and older customers (21% more of 18-to-25-year-olds; 15% more of 71+ year-olds) More high-income customers (+11%)	Higher number of distributors used		51% Non-Life	**Strengths:** Ease of purchase (+13% in Non-Life and +24% in Life.) **Weaknesses:** Professional advice (-25% in Non-Life and -22% in Life.)

Source: Capgemini analysis, 2007.

Note: This is a comparison among distribution networks. Value differences (+/- %) for each network are relative to the mean of all distribution networks. Product-specialty percentages are the network's concentration of life or non-life premiums, on aggregate across mature markets.

Also notable is the fact that distribution networks have, in fact, become quite specialized. Figure 3.5 offers a simple illustration of the level of specialization today. The dispersion on this matrix shows how each type of distribution network is used, and perceived, by customers. Each has a specialty in terms of the products sold, the way products are sold, their appeal to customers, and the type of customers served.

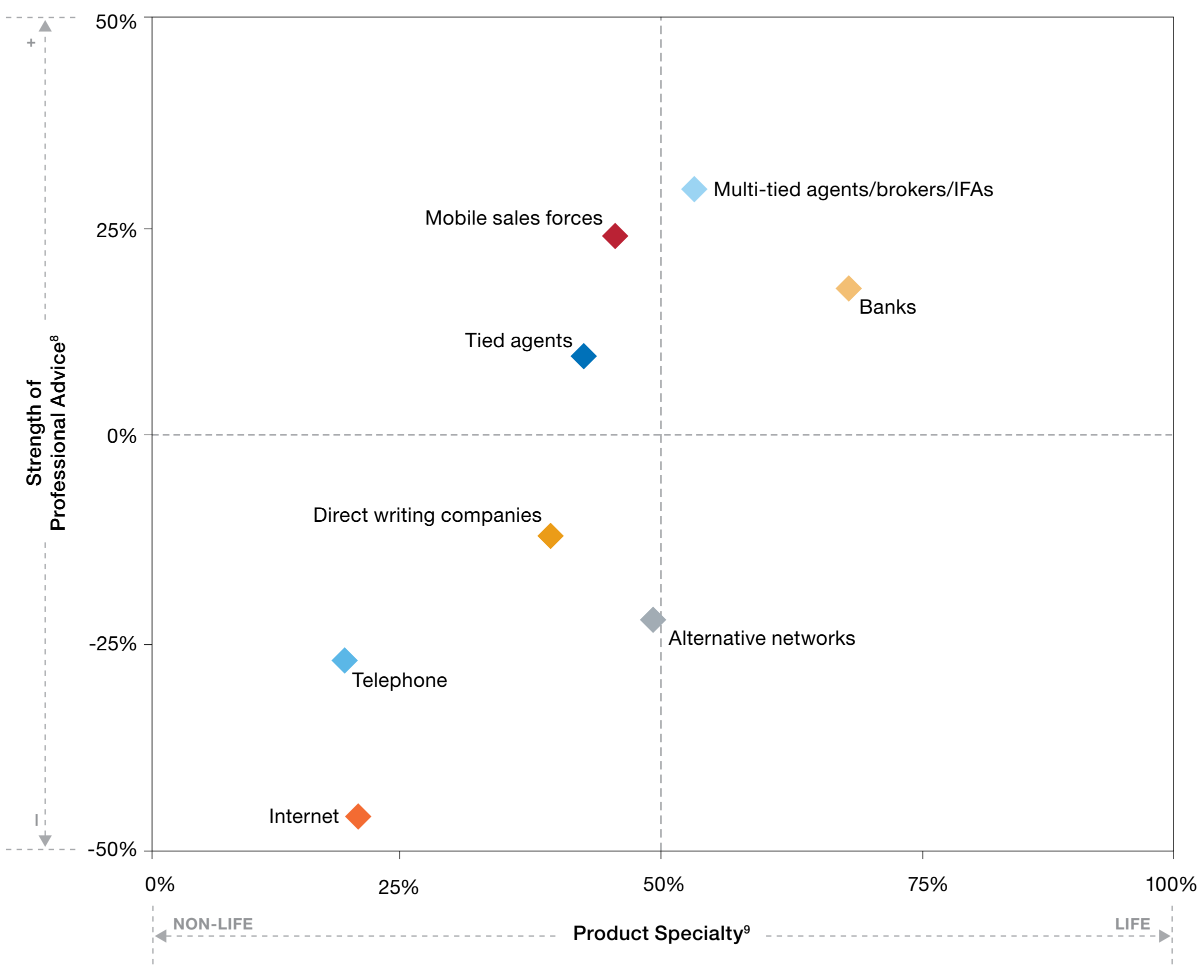
The matrix demonstrates that distribution networks are highly specialized today, or at least they are perceived by customers to be specialized—suggesting that insurers in mature countries have had to veer far from their traditional models. Each distribution network addresses a specific segment of the population, for a specific need.

MULTI-DISTRIBUTION IS CRITICAL, BUT IS NOT THE ONLY WAY TO MULTI-EQUIP CUSTOMERS

The evolution of distribution networks toward specialization is clearly forcing insurers to multi-distribute in order to retain access to all major segments of the population—and the entirety of their existing client base—and to increase wallet share.

We analyzed network-usage patterns among the customers from surveyed mature markets to study the link between multi-distribution and multi-equipment. The results (Figure 3.6) show the correlation between the number of policies customers own and the number of distributor networks they use. Among our findings:

Figure 3.5 Distribution Networks in Mature Markets Mapping of Product Specialty vs. Strength of Professional Advice (%)



Source: Capgemini analysis, 2007.

[8] Professional advice is the rating that customers gave to professional advice as a purchase influencer in a given distribution network. The percentage is derived by calculating the deviation of one distributor to the mean of all distributors.

[9] Product specialty is expressed as the share of total premiums generated by life policies.

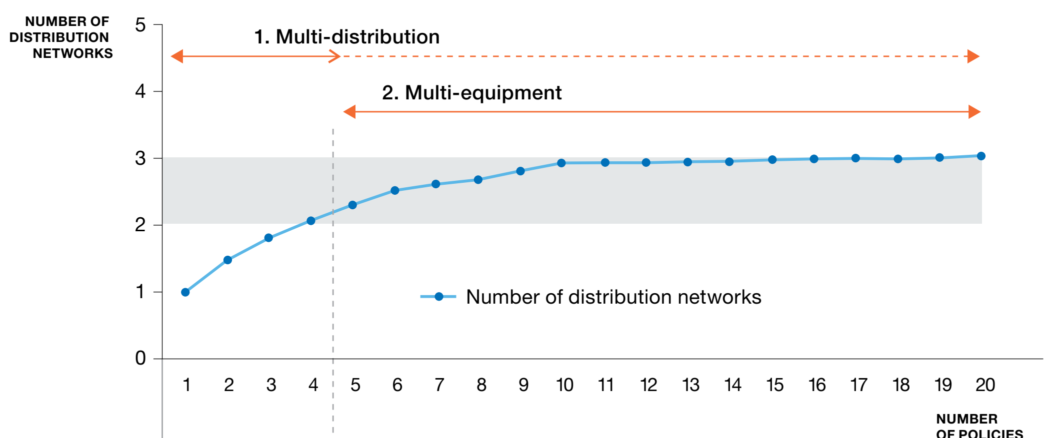
- The number of distribution networks used by customers begins to plateau after a certain number of policies are owned. Indeed, on average, customers never use more than three networks, and most use 2 or 3.
- The number of distribution networks does, however, increase progressively (at an almost linear rate) for the first few policies owned. In other words, on average, customers acquire each of their first four policies from a separate specialist network. (Each policy is usually of a different type, so the customer is, for example, buying automotive coverage via one network, property via another, and so on).
- Customers generally continue to spread their purchases across networks until they own 6 or 7 policies—though they become slightly more likely to return to an existing provider for their fifth, sixth and seventh policies than for their initial purchases (policies 1 to 4).

Notably, we also found there is a clear threshold at which customers move from multi-distribution usage to multi-equipment by a single distributor. In other words, customers initially buy multiple types of policies, and are likely to buy each from a different distributor. After a certain point, however, customers start to double up on existing or similar types of coverage. To do so, they return to prior distributors, as they perceive those distributors to be specialists.

This finding raises some important questions for insurers—which often assume they can multi-equip their customers by using one distributor to sell a range of product types. In fact, our data suggest distributors may not be able to perform this function effectively, as customers favor the use of multiple specialist distributors—not the use of a single distributor as a multi-specialist.

In short, insurers certainly need to optimize the multi-distribution strategy for a given customer segment, but they also need to know when to switch their efforts to pushing for multi-equipment by distributor—an approach that requires them to know about existing policy coverage, and to have insight on the type of multi-equipment the customer might perceive as valuable. Our analysis shows that pushing for multi-equipment by distributor for those with few policies does not make sense—the push has to begin as the customer reaches a certain, more mature, level of insurance usage.

Figure 3.6 Correlation between Number of Policies and Number of Distributors in Mature Markets



	From 1 to 4 policies	5 or more policies
Number of customers	44%	56%
Number of policies	47%	53%
Total annual premium	21%	79%

Source: Capgemini analysis, 2007.

Bancassurance: A Successful Network Leverages its

Competitive Edge

CHAPTER 4

HIGHLIGHTS

- Convenience—even more than price—is a differentiating factor for customers who purchase insurance through a bank.
- Banks have effectively leveraged point-of-sale intimacy and network advantages to ply insurance products to certain customers; Insurers that utilize bancassurers are reaching customers they might otherwise forfeit.
- It is an oversimplification to compare the rationale for bancassurance and assurbanking; the logic behind assurbanking is far more subtle, making it important for insurers to consider the pros and cons carefully.
- Even Bancassurance is not safe from market forces that can unexpectedly shake their enviable position.

As we have observed in previous chapters, banks have been able to enter the insurance market with great success, and have now become a leading distribution network—especially for life insurance—in mature markets such as Spain and France. We decided to explore why this bancassurance model has worked so well, why customers purchase insurance from a bank, and what might threaten their enviable position in the future.

CONVENIENCE DRIVES CUSTOMERS TO PURCHASE INSURANCE FROM A BANK

Our survey shows that price is most often the first concern for customers when they consider buying insurance through a bank. That finding is not unexpected, as the data (this year, and in the *2007 World Insurance Report*) shows price is always a key driver of purchasing behavior for insurance customers. What is striking when it comes to bancassurance is that convenience/ease of use is the biggest influence on customers overall (Figure 4.1).

Among all customers surveyed, a large number (37% for life coverage, and 62% for non-life) cited convenience/ease of use among the three factors that would make them more likely to buy insurance through a bank in the next 3 years. These findings suggest that while banks obviously need to be competitive on price, it is convenience that will really differentiate them.

BANKS HAVE A STRONG COMPETITIVE EDGE OVER INSURERS

The value customers place on convenience/ease of use supports the theory that banks have been able to capture market share in certain insurance products because they have established a competitive advantage on key factors of customer acquisition, such as the level of customer interaction.

On average, banks interact with their customers at least once a week on regular banking needs. They have been able to capitalize on that connection to cross-sell other financial products, and grow their wallet share across the financial services spectrum.

Banks also have another weapon in their arsenal: They are perceived by customers to be credible providers of certain types of financial products. In our survey, 53% of customers said they would purchase insurance products through a bank, while only 26% said they would buy banking products from an insurer (Figure 4.2).

These results not only show the extent of the competitive advantage held by banks, they reveal that there is a limit to the convergence of customers' financial services needs. If financial services providers are mindful of this limit, it will help them to define how to structure their diversification strategy. In chapter 1, we demonstrated some of the constraints on diversification opportunities for an insurance company. Banks have apparently faced fewer such constraints when seeking to enter the insurance market.

Notably, while some insurers see bancassurance primarily as a competitive threat, others tell us they see bancassurance as an opportunity. These insurers recognize that bancassurers respond to specific customer segments and needs, so they have utilized banks as an additional distribution network for those segments. Some of these insurers have been able to generate significant revenue from the "white label" sale of their products, and have managed to reach customers they might otherwise have had to forfeit.

Banks also enjoy another key strength as distributors: They have highly developed and efficient multi-channel models—and tend to be far more advanced than insurers. As a result, insurers that distribute through a bank can increase their customer reach exponentially, because of the number of channels utilized in the banking sector.

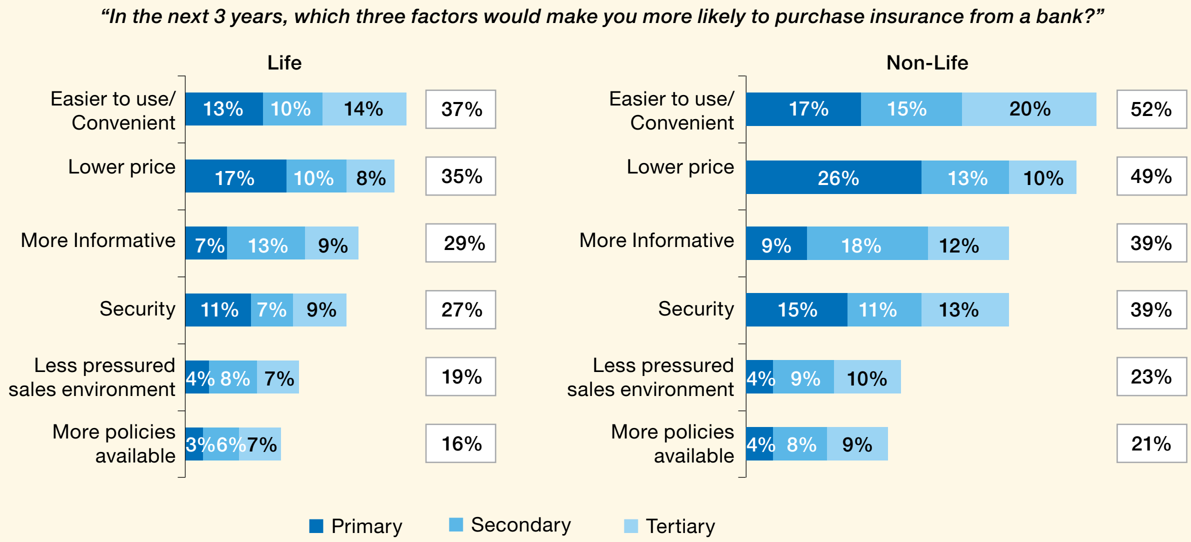
The bottom line is that banks have many competitive advantages when competing in the insurance arena, and some insurers have managed to use them as a lever, rather than seeing them as a roadblock. In fact, given that some segments of customers have already proven themselves to be committed bancassurance users, insurers that fail to leverage the bancassurance route risk losing access to certain segments and revenues altogether.

BANCASSURANCE AND ASSURBANKING HAVE DIFFERENT BUSINESS PURPOSES

It is worth noting that bancassurance has succeeded, in part, because it is based on a rational business case. What motivates banks to sell insurance?

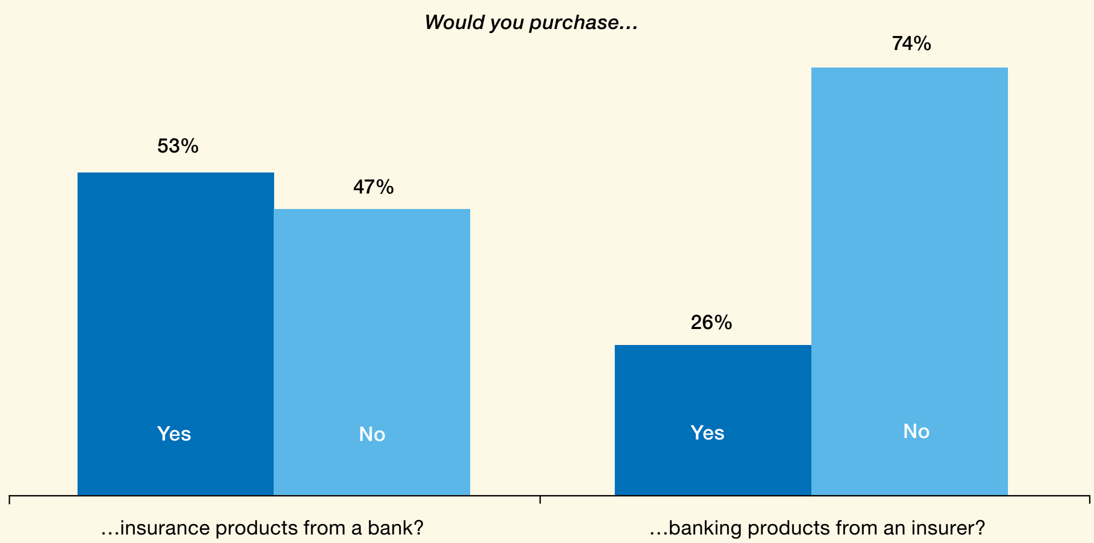
- First, banks want to sell insurance to multi-equip their customers, and grow their wallet share, by cross-selling and bundling products with higher margins then mainstream banking products (e.g., deposit accounts).

Figure 4.1 Factors Influencing Future Decision to Purchase From a Bank in Mature Countries (%)



Source: Capgemini analysis, 2007.

Figure 4.2 Customer Willingness to Buy Insurance from a Bank vs. Purchasing Banking Products from an Insurer in Mature Markets (%)



Source: Capgemini analysis, 2007.

- Second, selling additional products also allows banks to increase the utilization of their existing distribution networks—a constant challenge for bankers.

The objective is simple and coherent: Banks use bancassurance to sell more, and make more money. The motivation for insurers that participate in assurbanking is far more subtle.

Admittedly, some insurance companies may feel compelled to enter assurbanking largely to strike back when they feel attacked in their core domain. "Banks are trying to enter my market, why not trying to enter theirs?" Beyond that knee-jerk response, however, insurance companies have similar objectives to banks.

- One, insurers may want to sell banking products to multi-equip their customers and grow their wallet share. However, the economics of that move are questionable, because basic banking products (e.g., deposit accounts) have a much lower margin than the typical insurance product. Furthermore, since insurers are entering the banking market as secondary players, they often capture only a customer's second or third account—which generates little value.
- Two, insurers can also increase the utilization of existing distribution networks to optimize the economics. More importantly, they can also leverage those networks to increase the frequency of their contact with customers—a potentially more valuable rationale. Selling banking products—even if they are not particularly lucrative—can quickly create benefits for the insurer if the approach delivers greater access to customers. The move is then tantamount to a marketing strategy, and is a totally rational one. Even then, however, insurers will have to question whether the costs—incurred over the considerable time it takes for the banking business itself to pay off—eclipse any likely dividends for the insurance business.

In short, the rationale for assurbanking is more complex than the motivation for bancassurance, and it has to be evaluated carefully.

Furthermore, the model developed by banks hinges on a persistent "provider-push" approach, which means continually leveraging customer relationships to sell additional products—an approach that can test customers. Is this a strategy that insurers want to employ? We explore this question further in our Conclusion.

MARKET FORCES CAN SHAKE THE FAVORABLE POSITION HELD BY BANCASSURERS

The dominant position that banks have managed to reach in specific products has allowed them to leverage their cross-selling capabilities and develop integrated offerings for their customers. Today, banks are generating significant revenues and margins on such offers, but preserve a degree of opacity—both in terms of price and product.

In fact, banks somewhat rely on that opacity to limit the exposure of customers to substitute products, and alternative distributors. But can they rely on that situation to continue? We believe some fundamental market dynamics could potentially threaten the position—and profitability—of banks in several product areas.

The U.K. case of creditor insurance, typically sold as part of a bank bundle, offers a good illustration of what can happen when an unanticipated disruptive force—in this case, regulation—upsets the market status quo, and prompts changes in customer behavior (see "Case Study: Lessons Learned from the U.K. Creditor Insurance Market).

The U.K. creditor insurance market endured a basic market transformation after regulation changed selling practices. Many other mature markets (including Germany, Switzerland, and the U.S.) have undergone transformations of their own, driven by other factors. But all these transformations share a common outcome: The diversification of distribution models in those countries.

One could argue that bancassurance is also on shaky ground, and may be forced to change some of its selling practices—whether the change is prompted by customers, regulators, or some other force. Certainly, some banks already recognize they may not be able to rely forever on the dominant position they have achieved in certain insurance products. Frontrunners have already started to anticipate change, and are setting up distribution partnerships to hedge their bets, in hopes of retaining the revenue from these products.

CASE STUDY

Lessons Learned from the U.K. Creditor Insurance Market

Banks in the U.K. actively and effectively exploited their point-of-sale advantage to generate revenues and margins from creditor insurance[10]. Payment protection insurance lends itself very well to being bundled with other lending products. In the U.K., in fact, only 4.1% of all policy sales in 2006[11] were not part of a bundle. However, the market for this prime bancassurance product was upended when regulation changed the status quo.

For some time, creditor insurance paid two main dividends for bancassurers in the U.K. First, it was a high-margin product that added profitability into the product mix. Second, it helped to fuel top-line growth in key lending products. In some countries, banks even offer low introductory rates on competitive products, such as loans, mortgages and credit cards, and use revenues from bundled creditor-insurance sales to offset the cost of the credit offers.

In the U.K., however, creditor-insurance practices came under scrutiny from consumer groups, prompting an intensive 'Industry Review'. Ultimately, reviewers concluded that many customers had been misled (e.g., policies were sold to customers who already had sufficient protection), and fees had been excessive—particularly compared to claims paid.

Thereafter, the UK's governing Financial Services Authority (FSA) levied hefty fines on several banks, and encouraged new sales practices, including the unbundling of products. Other providers and distributors entered the market, and a price war ensued, as products were unbundled—undermining market growth in the short term.

The market is now stabilizing: Consumers are more aware, the market is significantly more transparent and competitive, particularly on price, and several providers are using different distribution networks to vie for customers. However, the upshot is that bancassurers are likely to see significant competition from other distributors, such as tied agents, multi-tied agents and brokers—and insurance underwriters will need to partner more effectively with a range of distribution networks to maintain market share.

---

[10] Creditor insurance, or payment protection insurance, is defined here as insurance that covers necessary payments on loans, mortgages and credit products when a borrower is unable to pay, due to factors such as work absence, sickness, unemployment or death.

[11] U.K. Competition Commission, 'Emerging Thinking', November 2007

Spotlight on Developing Markets: India and China

INTRODUCTION

We receive many requests for perspective on the insurance sector in developing markets, so we decided to include China and India in the *2008 World Insurance Report*. However, these markets are fundamentally different in many respects from mature markets, so we have addressed them separately.

In this section, we summarize some of our key findings on each market. In analyzing customer behavior, we found certain similarities between the two markets: Both are very under-penetrated compared to mature markets, both are growing fast, and will continue to do so, and each country has a huge insurable base.

Beyond these general conditions, however, the markets are completely different—from their legal frameworks and market structures to the needs of their customers. The competitive landscapes are also dissimilar, presenting insurance companies with different issues as they look to establish or grow a presence in either market. Finally, the customers in each market display quite different perceptions of insurance, and behave quite differently when buying it—a reality that is critical for insurers to understand.

INDIA HIGHLIGHTS

- **Insurance reforms earlier this decade paved the way for private participation, fostering strong growth. However, the insurance sector still remains mostly under-penetrated.**
- **Life insurance is largely used as a means to improve finances, while non-life coverage is not considered a necessity.**
- **Since the ranks of the middle class are growing, and per capita income is rising, the insurance market could double in size in the next 5-to-6 years.**
- **Insurance companies are increasingly adopting a strategy of deploying multiple distribution networks to increase market penetration, and reach the masses not currently served.**
- **Customers fit into distinct segments: Up-market or modern, traditional, and rural and un-/semi-educated. These segments present an opportunity for insurers that can tailor their approach.**

REFORMS FUEL RAPID GROWTH IN THE INSURANCE SECTOR

India's Insurance Regulatory and Development Authority (IRDA) Act of 1999 ended the monopoly power previously held by the state-owned insurers—Life Insurance Corporation and General Insurance Corporation—and opened the life and non-life sectors to private competition. Since then, the industry has seen an increase in the number of new entrants, both domestic and foreign. Life insurance products are the most ubiquitous, with customers keen to tap the tax and income benefits they provide.

By any measure, India's insurance sector has been growing fast. For example:

- IRDA has so far issued 29 licenses (both life and non-life) to new private Indian insurance companies, most of which have global insurance companies as partners[12]. Foreign direct investment (FDI) in domestic insurers is currently capped at 26%, but the sector has still attracted more than $540 million of FDI in the last six years[13].
- Insurance penetration, measured as a ratio of gross premiums to the country's gross domestic product (GDP), rose from 2.3% in 2000 to 4.8% in 2006[14].
- Insurance density, which measures gross premiums per capita, shot up from $9.90, in 2000 to $38.40 in 2006[15].
- Gross written premiums (GWPs) reached $38.3 billion in 2006, after growing at a compound annual growth rate (CAGR) of 25.1% for 2002-06[16].
- GWPs in life insurance were $32.5 billion, equivalent to 84.9% of the market's overall value in 2006, while non-life GWPs totaled $5.8 billion. (P&C accounted for 91.9% of GWPs in 2006, while the accident and health segment generated the remainder[17]).

---

[12] Insurance Regulatory and Development Authority, India

[13] 'Insurance sector attracted USD 543 mn FDI: Bansal', PTI, Sept. 21, 2007

[14 - 15] 'Insurance penetration has doubled in 6 yrs', The Hindu Business Line, Nov. 2, 2007

[16 - 17] 'India - Insurance - Market Overview', Datamonitor, Oct. 2007

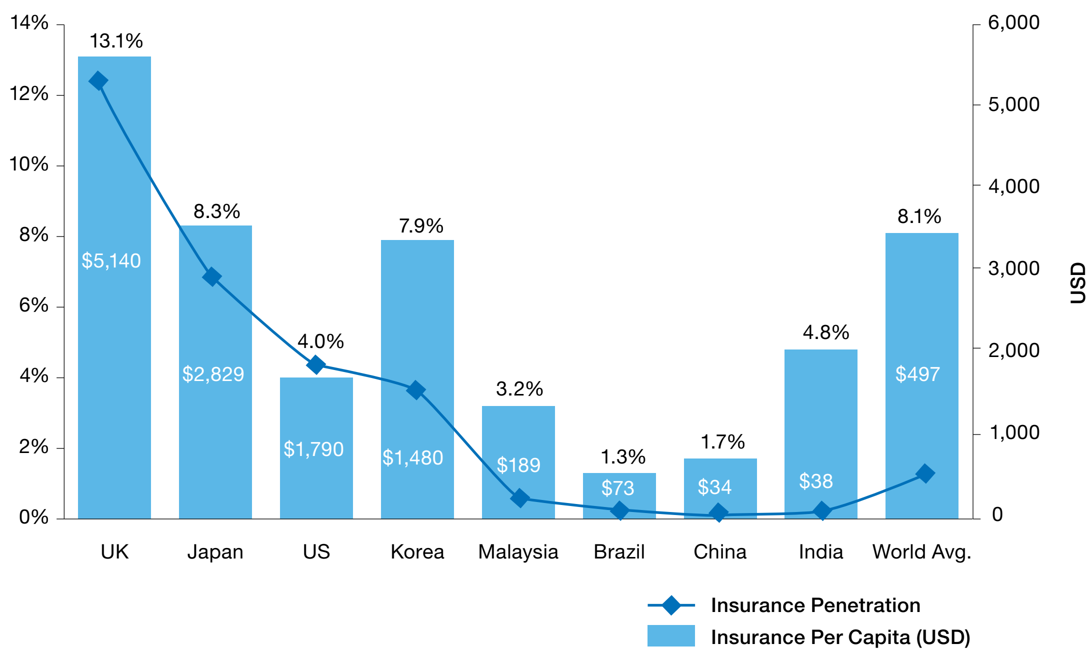
PENETRATION IS STILL WOEFULLY LOW

Despite recent growth, there is still tremendous untapped potential in the Indian insurance sector. India accounts for 16% of the world population, but accounted for only 1.68% of the world life insurance market in 2006[18]. India is also far behind world averages in terms of insurance penetration, and insurance density (see Figure S.1). A mere 20% of the insurable population aged 20 to 60 years is currently covered by life insurance[19].

Likewise, India's non-life GWPs account for just 3% of the Asia-Pacific market's total. By contrast, Japan generates as much as 50% of the region's non-life gross premiums written, while South Korea and China account for 14.5% and 13.1%, respectively[20].

Our survey also demonstrated India's low penetration levels: The average number of policies (life and non-life) held by an Indian consumer is just 1.33, compared with the average of 5.2 polices per client for mature markets.

Figure S.1 Life Insurance Penetration & Density in 2006 (by country)



Source: Life Insurance Council, India, 2006

[18 - 19] 'Life Insurance Industry – Present & Future', Life Insurance Council, Sep. 18, 2007

[20] 'India - Non-Life Insurance - Market Segmentation', Datamonitor, Sept. 2007

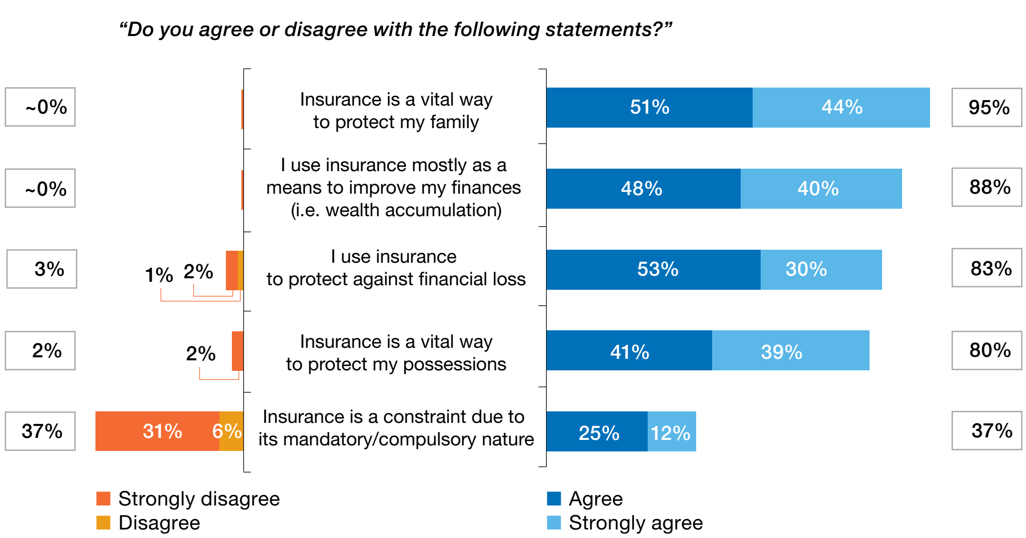
LIFE INSURANCE IS SEEN AS A WAY TO IMPROVE FINANCES; NON-LIFE COVERAGE IS NOT DEEMED NECESSARY

Life products are seen in India primarily as a means of improving financial health. India lacks any system of social security, and life insurance products offer tax benefits, and income protection. Endowment or whole-life policies provide good saving options, and are more popular in India than simple term-life plans that offer pure risk protection. More recently, soaring Indian equity markets have also fueled interest in unit-linked insurance plans (ULIPS), which combine insurance coverage and equity investments in a single policy. These hot products have even eclipsed interest in more traditional endowment, term and whole-life policies, and accounted for more than 80% of the premiums collected by the insurance industry in fiscal 2007[21]—further demonstrating the attitude among customers that life products are a means of accumulating wealth.

Our survey confirms customer perceptions about life products. Among respondents to our customer survey in India, 88% said they use insurance primarily as a means to improve personal finances, compared with 11% of respondents from mature markets, where insurance is seen first and foremost as a way to protect possessions and family.

Our survey also demonstrated the relative indifference that customers in India have toward non-life coverage. Notably, there are no real substitutes for non-life insurance products, but many consumers choose not to get coverage, anyway, doubting it is necessary. (The exception is motor insurance, which is required by law.) Customers, in describing their perceptions about insurance, focused first on its value in protecting family and finances, and accumulating wealth, and only then on the role of insurance in protecting possessions (see Figure S.2).

Figure S.2 Customer Perception of Insurance in India (%)



Source: Capgemini analysis, 2007.

[21] Business Standard, Oct. 22, 2007

GROWING INCOMES AND AFFLUENCE WILL FUEL THE DEMAND FOR INSURANCE

The insurance industry is likely to continue its growth streak, thanks to rising per capita incomes among the strong middle class, and spreading affluence. The burgeoning middle class currently forms 22% of the total population, and is estimated to reach 32% by 2010[22]. With the country's GDP growing at an average rate of 9-10% per annum, the disposable income of the booming middle class is expected to grow by 8.5% annually until 2015[23]. As a result, the appetite for insurance products is expected to increase, boosting overall penetration levels to around 6% of GDP by 2012 from the current 4.8%. This could drive GWPs in the Indian insurance industry up by a CAGR of around 13% to more than $80 billion in the next 5 years[24].

STRATEGY OF MULTIPLE DISTRIBUTION NETWORKS HELPS TO TARGET THE MASSES

Currently, the top priority for insurance companies is to acquire as many customers as possible in order to gain a leadership position as the market becomes even more competitive. Consequently, the issues that insurers in India face are very different from those in mature markets, where insurers are juggling multiple types of distribution networks to retain access to key customers, and to increase wallet share. More than integrating existing distribution networks, insurers in India are investing heavily in additional networks—from banking to telemarketing, the Internet, and direct sales—in order to reach underserved markets, and potentially reduce costs.

Tied agents will remain the dominant channel for most insurance companies in the next few years, largely because customers often need face-to-face interaction to help them buy complex insurance products. However, the banking channel is likely to grow in the future, at the cost of tied agents and independent financial advisors (IFAs), since—unlike mature markets—consumers in India want to purchase more of their insurance products through banks.

With the rise of convenience banking in India, most insurance companies have successfully tapped both commercial and cooperative banks to reach greater customer bases, and capitalize on higher cross-sell opportunities. Convenience banking bundles mundane retail financial products, such as credit cards, with convenience services that range from bill-paying to concierge services (e.g., arranging theater reservations). Convenience banking has, therefore, created high service levels and one-stop shopping options that customers have come to expect. To deliver on the convenience-banking proposition, and to exploit the opportunity, banks have for some time offered a wide range of financial products, including insurance.

---

[22] 'Retail in India: Getting Organized to Drive Growth', CII, November 2006

[23] 'The Great Indian Retail Story', Ernst & Young, 2006

[24] As per Capgemini Analysis based on estimated GDP growth and penetration levels over the next five years

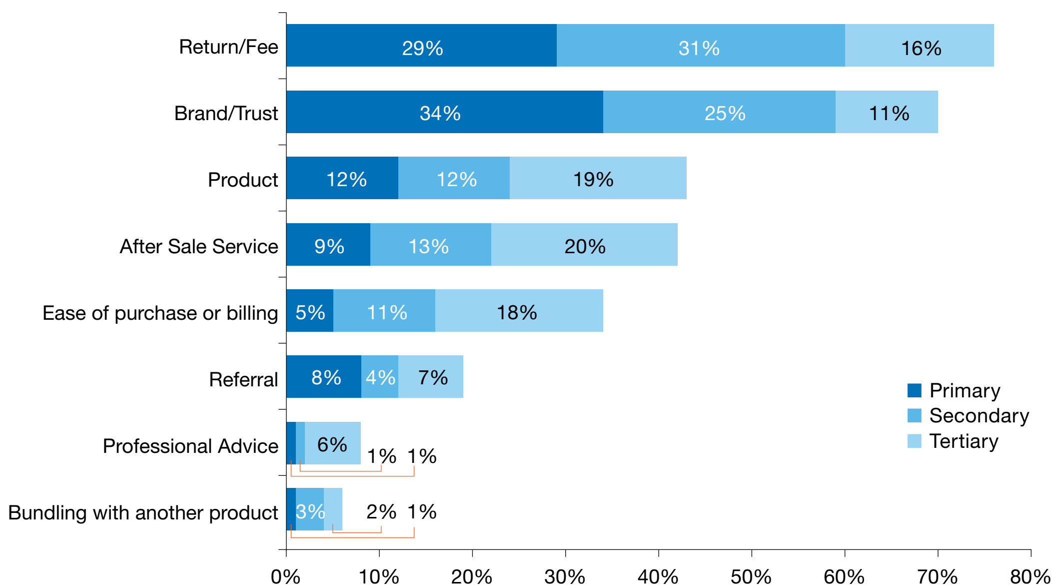
CUSTOMER SEGMENTATION IS KEY IN THE ACQUISITION RACE

Insurers can implement a successful distribution strategy by understanding the preferences and needs of existing target customer segments, and catering to the new segments that will emerge from the growing base of affluence and shifting demographics. In short, insurance companies will need to understand how to respond effectively to each segment's needs, and deliver more than price and products.

In general, customers in India value the brand name and trustworthiness of the service provider more than any other factor when purchasing an insurance product (see Figure S.3). This attitude has helped incumbent life insurer LIC protect much of its market share (it still accounts for 80% of premiums written[25]) even after 6 years of liberalization.

After brand, the most influential factor for customers in India is returns/fees—consistent with the perceptions of life insurance as a means of wealth accumulation, and non-life as an unnecessary expense. This peculiar way in which customers perceive insurance in India has led many private insurers to penetrate the market by offering innovative life products with higher returns (or lower prices in the case of non-life) along with protection cover.

Figure S.3 Factors Influencing Customers Purchasing Decisions in India (%)



Source: Capgemini analysis, 2007.

[25] 'Under-capitalisation ails insurance: S & P', Daily News & Analysis, Oct. 5, 2007

Notably, our survey shows there are some preferences and behavior that vary significantly by customer segment. We identified three broad customer types, roughly demarcated on the basis of economic and socio-cultural differences, which display distinct purchase behavior and distribution-network usage. Insurers can most effectively cater to these segments by tailoring their approach, and adopting distinct distribution strategies for each segment (see Figure S.4).

Figure S.4 Strategic Imperatives for Insurers in India (per customer segment)

Customer segment	Customer Profile	What Do Customers Value?	Customer Needs and Goals	Potential Value for Insurers	Preferred Distribution Networks	Strategic Imperative for Insurers
Up-market or "Modern"	▪ Affluent ▪ Knowledgeable ▪ Progressive ▪ High awareness levels	▪ Choice ▪ Convenience	▪ Wealth management and accumulation	▪ High – given the rising number of high-net-worth individuals (HNWIs) in the country, and their diverse financial needs	▪ Face-to-face (complex products) ▪ Internet, telemarketing, direct mail (simple products)	▪ Develop a separate distribution network for high-net-worth individuals and mass affluent ▪ Maybe partner with wealth managers/ financial planners (One of the major private life insurance companies is reportedly contemplating this approach, and may set up a separate network to serve this segment with a tailored product offering) ▪ Make sure to provide self-service options
Traditional	▪ Long-time customers ▪ Middle class ▪ May be retired/ retiring	▪ Brand ▪ Value	▪ Tax benefits ▪ Income protection ▪ Retirement planning	▪ High – given the growing affluence of the burgeoning middle class in India	▪ Tied sales agents ▪ Direct sales	▪ Employ integrated multi-distribution model with distinct brand value propositions, e.g., retirement planning specialist network ▪ Use other networks for simple products ▪ Provide training on advisory capabilities to direct sales force, and tied agents ▪ Consolidate customer information for holistic view across networks
Rural and Un-/ Semi-educated Customers	▪ Low income ▪ Little exposure to insurance	▪ Indifferent to insurance	▪ Long-term savings (but income too low to require tax benefits or income protection)	▪ Low – segment is huge, and under-served, but incomes low, so costly to serve small-ticket coverage	▪ Regional Rural Banks (RRBs) ▪ Rural branches of commercial and co-operative banks ▪ Village panchayats (administrative bodies) ▪ Rural non-governmental organizations (NGOs)	▪ Partnerships with RRBs, commercial and cooperative banks with rural branches, Micro-Finance Institutions (MFIs), rural NGOs ▪ Develop separate product offerings, such as micro-insurance, and bundle those products with other similar savings products

Source: Capgemini analysis, 2007.

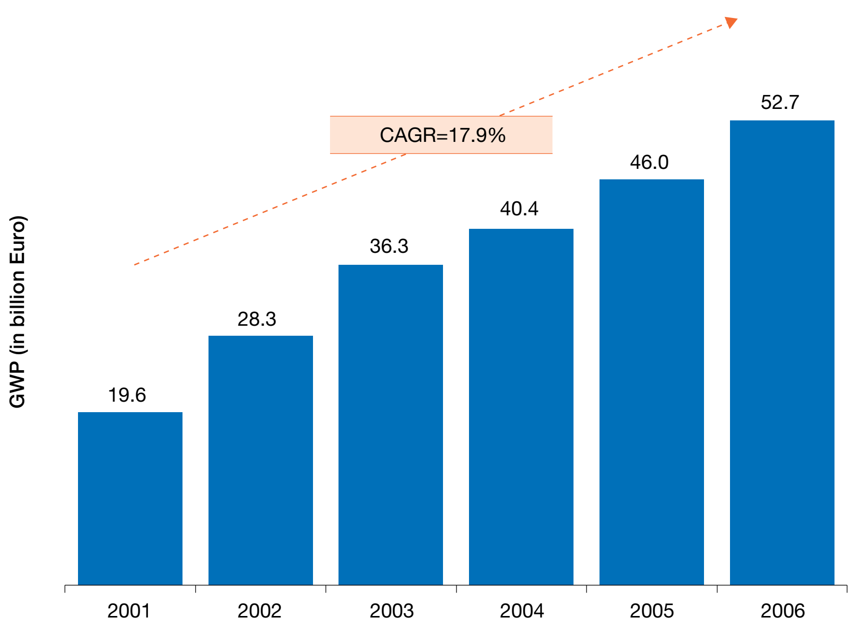
CHINA HIGHLIGHTS

- **China's insurance sector is restructuring, and growing fast, but the market is still consolidated in the hands of a few large players.**
- **Insurers still have much to do to gain customer awareness and trust; spending on insurance is minute, and few customers are aware of, or see merit in, insurance products.**
- **Physical distribution networks still dominate, and it may be efficient for foreign insurers to opt for a bancassurance model to leverage local bank branches, sales people, and call centers.**
- **Large insurers are likely to pursue an integrated financial services strategy to leverage scale and capabilities. Size will also be critical to improving brand recognition, expanding the breadth of service, and enhancing networking strategy.**

CHINA'S INSURANCE SECTOR IS RESTRUCTURING, AND GROWING FAST

China's insurance market enjoyed compound annual growth of 17.9% in 2001-06. In 2006, gross written premiums totaled €52.7 billion—€38.6 billion for life and €14.1 billion for non-life (see Figure S.5). However, the overall penetration rate is still far below the average of mature markets. Our survey shows that customer own an average of 1.4 policies—both life and non-life.

Figure S.5 Gross Written Premiums in China, 2001 to 2006



Source: CIRC statistics

China's insurance market was reopened in 1980 as part of financial reform efforts, and the People's Insurance Company of China (PICC) resumed its role as the state-owned insurance company after a break of nearly 50 years. Since then, the insurance sector has undergone a drastic transformation.

The 1995 Insurance Law split PICC into three business lines (life, property, and reinsurance)—a restructuring that was formalized in 1998, when the three lines became independent business entities. The Law, and the end of the PICC's monopoly, paved the way for greater market competition.

MARKET IS STILL CONSOLIDATED IN A FEW HANDS

Nevertheless, the top three players still hold more than 70% of the total market in both life and non-life insurance today. In life insurance, the top three are China Life Insurance (created from PICC), Ping An Insurance, and China Pacific Insurance Company (CPIC). Non-life features the same names, led by PICC, and followed by CPIC and Ping An[26]. The rest of the market is highly fragmented, shared among myriad smaller players, and the ranks are growing all the time.

In 1999, the China Insurance Regulatory Commission (CIRC) was established as the supervisory successor to the central People's Bank of China. According to the CIRC, which now issues insurance licenses, there were 98 insurance companies, and 2,110 licensed agencies, operating in China in 2006.

The CIRC has introduced numerous regulations aimed at opening up investment channels for insurers, and encouraging innovation in insurance sales and service. CIRC is also responsible for introducing regulations, such as compulsory third-party liability coverage for drivers, which have helped to stimulate non-life insurance sales. The regulatory body is also working on new legislation, but the new Insurance Law is not likely to pass before the end of 2007.

CIRC now grants insurance licenses to applicants that meet its capitalization and personnel requirements, and large Chinese enterprises are keen to set up their own insurance subsidiaries. For example, China Post and some of the major commercial banks have said they intend to set up insurance businesses, largely to pursue cross-selling opportunities. CIRC issued 50 new licenses from September to November 2007[27] to new players that are targeting less developed cities in mid- and western China, where there is less competition—and possibly greater market potential.

---

[26] CIRC statistics, Capgemini analysis

[27] 'Small and medium insurers speed up expansion and CIRC issued 12 licenses in 2 days': Guangzhou Daily, Nov. 21, 2007

CIRC is also responsible for licensing and supervising foreign insurers. As of the end of September 2007, 42 foreign companies[28] were participating in insurance joint ventures (JVs), including many large international insurers, such as Allianz, AXA and Generali.

These leading global players found the JV opportunity attractive, even though their share was capped at 50% by Chinese regulators. In many cases, foreign partners bring capabilities to these ventures, while the Chinese partners—which need not be from the financial services sector—bring the required assets and liquidity.

There is one only wholly foreign owned insurance operation in China: AIG's life business (American International Assurance), which was granted a full license in the 1990s. Thereafter, China capped foreign participation, but has pledged as part of its World Trade Organization commitments to open the sector further to direct foreign investment.

For now though, other foreign insurance companies are keeping a watchful eye on China, lured by the tremendous potential, but mindful that early entry could be extremely costly.

INSURERS HAVE MUCH TO DO TO GAIN CUSTOMER AWARENESS AND TRUST

Overall, spending on insurance is paltry in China, because of low incomes, and limited ownership of underlying assets (e.g., motor vehicles), or limited coverage of owned assets (e.g., property). In general, customers in China hold insurance because regulation requires it (including the social security and health insurance required for all employees), and customers are more likely to have life insurance than non-life coverage.

Notably, there is a huge gap between the number of policies sold in booming regions and in under-developed areas. Awareness of the need for risk protection and investment management is also far stronger in richer, well-developed urban centers, such as Beijing in the north, Shanghai in the east, and Guangzhou in the south.

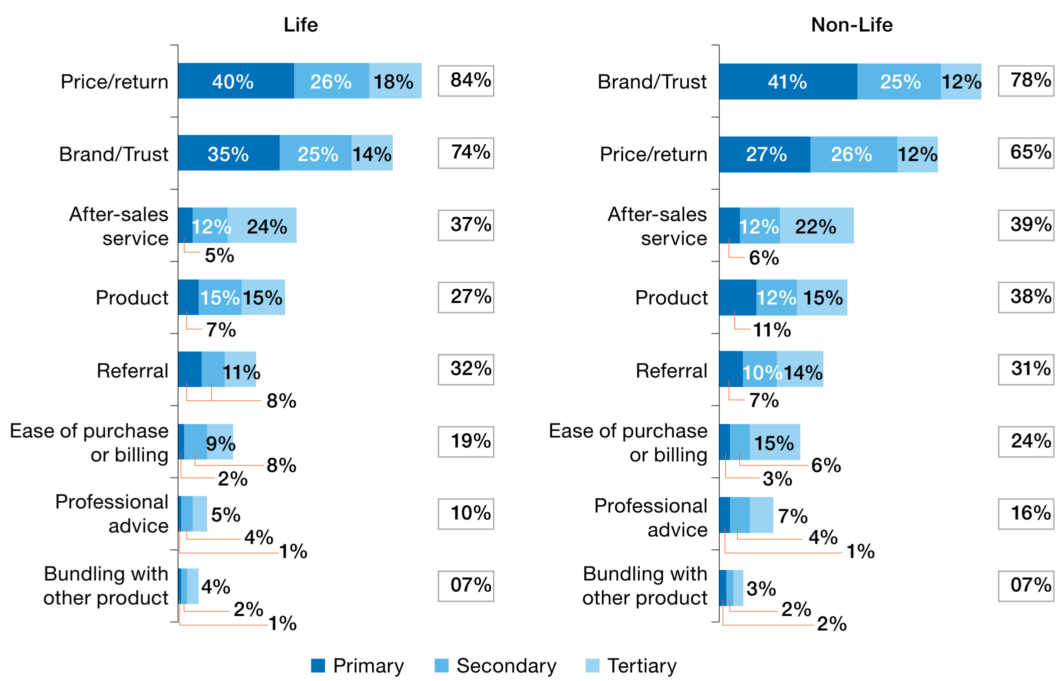
Our survey also shows that few customers have much awareness of insurance in general, or the benefits it can bring. Some firms are using considerable resources to promote certain products, and this provider "push" approach is helping to drive the market. Customer awareness about individual insurance companies is also generally low, although the major insurers are obviously better-known. Among the insurers, the top 4 insurers enjoy the best customer awareness, but our survey shows the vast majority of customers recognize only one insurer—typically their own insurer, or the most active player in the region.

---

[28] CIRC Media release, Nov. 8, 2007

Nevertheless, brand and trust is the top purchase influence for non-life insurance, and the second most important influence for life insurance (See Figure S.6).

Figure S.6 Purchase Influencers for Life and Non-Life Customers in China (%)



Source: Capgemini analysis, 2007.

To service customers effectively, and win new customers, insurers can seek to establish trust with customers, make the benefits of insurance clear to them, and work to retain customer relationships.

Establishing trust is particularly important, because the most attractive customer segments are increasingly solicited by insurance providers, but as yet remain dubious of the value that these providers can deliver. Making the benefits of products clear will require insurers to educate customers, since few have yet had much exposure to products. Retaining and deepening customer relationships will be a long-term effort.

PHYSICAL DISTRIBUTION NETWORKS STILL DOMINATE

Our survey shows physical distribution networks are, by far, the most commonly used vehicle for insurance information-gathering. The vast majority of insurance customers use face-to-face communication to collect information before buying insurance. Few use the telephone or Internet.

According to our survey, physical networks (agents, brokers, direct insurers) also account for the lion's share of policy sales—and will continue to in the future, though the rankings will change slightly. Customers expect to acquire most of their life and non-life policies via tied agents in 3 years' time, but sales through multi-tied agents, direct writing companies and bancassurance are expected to increase. There is also likely to be a sharp drop in sales through the mobile salaried sales force.

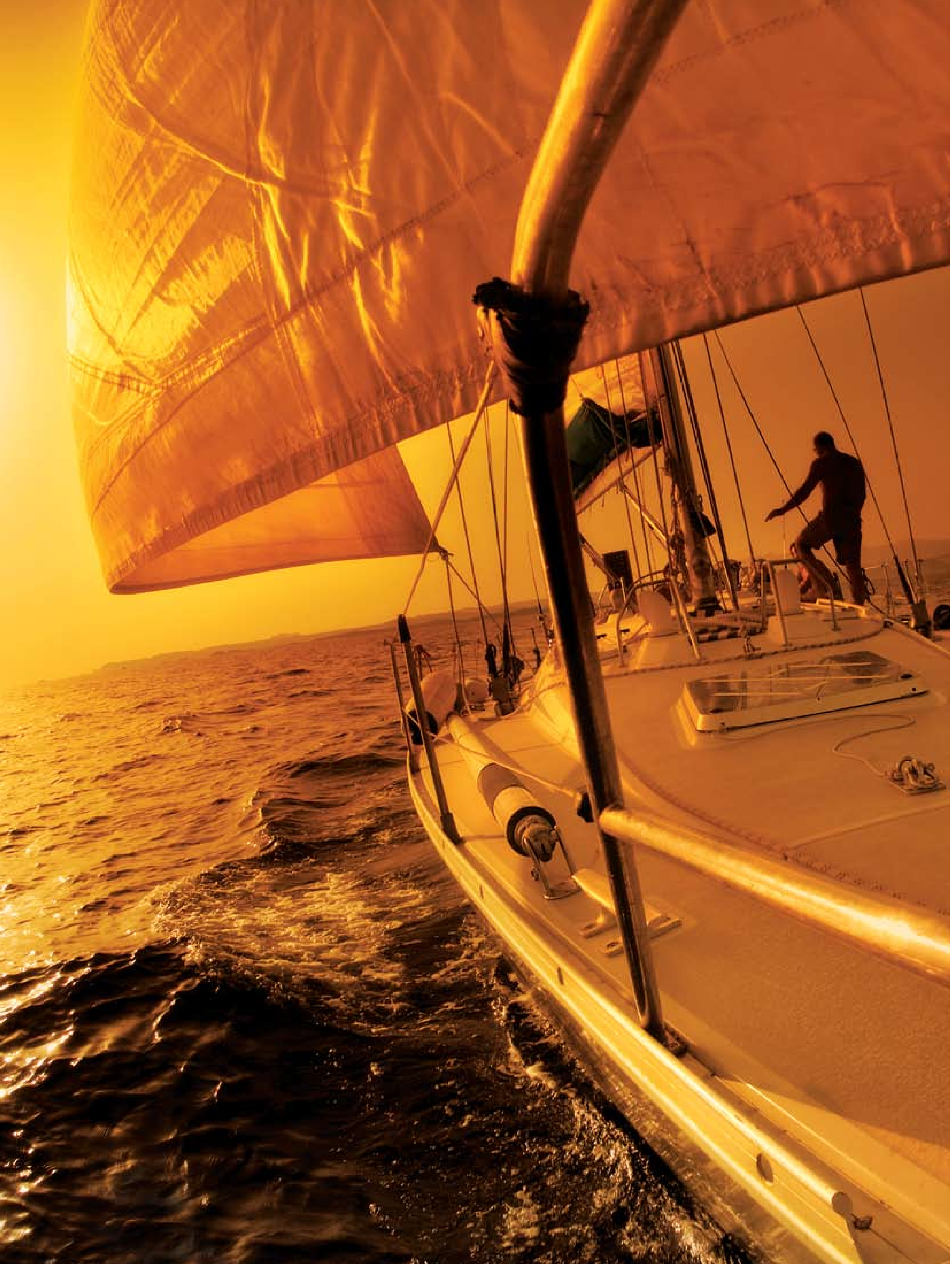
Clearly, then, insurers need to continue promoting physical distribution networks. Late entrants, such as foreign insurers, may find it most efficient to enter bancassaurance ventures to leverage local bank branches, sales people, and call centers. Banks can also help to legitimize insurance as a wealth management product. (CIRC is actively promoting bancassurance, and has issued several regulations aimed at promoting bancassurance as a distribution network.)

LARGE PLAYERS ARE LIKELY TO PLY INTEGRATED FINANCIAL SERVICES

Large insurers are likely to pursue an integrated financial services strategy, aiming to provide a comprehensive service to customers, and leverage scale and capabilities in customer relationship management, IT, and other key areas of operation. Size will also be critical to improving brand recognition, expanding the breadth of service, and enhancing networking strategy. A good example of that strategy is the case of Ping An, which has established a strong presence as an integrated financial services provider after the successful acquisition and integration of Shenzhen Commercial Bank.

Small insurers, meanwhile, can be most effective by pursuing niche business, and being innovative in products, pricing and customer experience. Small players can also gain an edge by investing wisely in alternative infrastructure (e.g., client contact centers), which can utilize new modes of interaction (e.g., telephone) to offset their lack of branch and sales-force scale, and to help differentiate their customer experience.

Not surprisingly, foreign insurers—which can leverage capabilities built in sophisticated mature markets—are already proving they can be first to market with innovative products and product-mixes, built on their analyses of market trends and customer preferences. However, they still account for less than 5% of actual premiums, so foreign insurers will have to focus on building stronger brand awareness, and convincing customers to become buyers.



Conclusion

Innovating to Achieve Growth in Mature Markets

CHAPTER 5 **HIGHLIGHTS**

We have established a comprehensive and compelling picture in previous chapters of the realities facing insurers in mature markets today. To recap:

- Mature markets offer relatively low growth opportunities, but are increasingly volatile—a dynamic that represents both a threat and an opportunity for insurers, and will eventually require business models to change.
- Multi-distribution and Internet usage will drive customers toward more segmented behaviors. The value, volatility, and stakes for insurers differ in scope and scale for each segment, so insurers will have to decide, accordingly, how best to adapt and apply their strategy, business model and investments.
- Distribution networks specialize in specific customer segments, products or needs, so the number of networks that customers use initially increases proportionally to the number of different policy types they hold. However, once a customer has acquired a comprehensive set of insurance products, their next logical step is to buy additional policies within an existing family of products. In the process, they become far more likely to return to existing networks than to use additional ones.
- As a result, insurers seeking to increase market share, and share of wallet, will probably need to employ both multi-distribution and multi-equipment tactics, and be sensitive to portfolio saturation among customers.

As the insurance landscape shifts, three key challenges for insurers emerge:

1. **Managing the business impact of changing market dynamics.**
2. **Taking a more assertive role in the interplay with customers and networks.**
3. **Dealing with IT as both a prerequisite and a lever for overcoming the challenges.**

Being proactive in dealing with these issues can help insurers to establish a competitive advantage, and grow market share. However, insurers will need to take a pragmatic approach to optimizing their interactions with networks and customers, adapting to evolving market perceptions and behaviors, and effectively monetizing their network relationships.

1. Managing the Business Impact of Changing Market Dynamics

The emergence of distinct behavioral / attitudinal customer segments raises an important question for insurers about whether, and when, to try and drive market evolution, and even encourage certain volatile behaviors.

Greater honing of insurance value propositions is inevitable. Our behavioral segmentation (Chapter 2) clearly shows that each customer segment has its own vision of what defines an insurance value proposition. Insurers will therefore have to continue honing the definition and content of their propositions to make sure they align with a given segment's needs. This will mean integrating key elements of the product and service offering, from the pricing and service level agreements to networks and channels.

Insurers that properly gauge the value/volatility stakes can define strategy more clearly. Our analysis shows that between 30% and 50% of customers in the mature markets we studied are at risk of becoming volatile, creating a potentially high impact on customer value to the insurer. If insurers can assess the value/volatility equation accurately, they will be in a better position to gauge the rewards—and decide whether, and when, to instigate the very volatility that can be a threat if unknown, and unmanaged. The greatest danger for insurers arguably lies in ignoring the emerging volatility, and failing to act in anticipation.

Insurers could benefit by adding a behavioral slant to their demographic segmentation. The trends we have revealed suggest insurers can benefit by adding a behavioral dimension to their demographic segmentation. The behavioral approach requires an accurate assessment of an insurer's accessible market, and is a prerequisite to understanding precise customer needs and being able to separate sets of needs consistently into separate universes. This approach enables insurers to avoid some of the usual difficulty they have accessing information (especially about customer behavior) from networks. In fact, it enables insurers to create and deliver valuable insights to networks about who their customers are, what they do, and what they need.

2. Taking a More Proactive and Assertive Role in the Interplay with Customers and Networks

Insurers will need to raise their profile, as customers become more exacting in their demands, and networks become even more specialist. To make themselves more visible—and more likely to be selected as the chosen provider—insurers will need to be less passive than they have traditionally been in managing their interactions with and among networks and customers.

Brand and credibility is important to customers and networks. Customers perceive different networks as being more credible than others for specific needs (Chapter 3)—suggesting insurers will need to leverage a multi-network approach to grow, and cater to the entirety of customers' insurance needs. This multi-distribution strategy requires insurers to work on building brand legitimacy—validating their credibility in all direct communication with customers, building a reputation for a comprehensive offering that can serve a wide range of value propositions and customer segments, and increasing their visibility among networks.

Collaborative network approach is likely to pay dividends, but can be tough to manage. The multi-distribution approach can be challenging for insurers to implement in practice, because networks are not always willing to collaborate—largely fearing they will cannibalize each other. If insurers can demonstrate to networks that multi-distribution can be a win-win proposition—for insurers, networks and customers—they are more likely to get buy-in from network partners, and create value. Within this context, multi-network operators will need to decide how best to weave physical, non-physical, and specialized networks together. Mono-network operators face the unique challenge of determining how to bypass any existing limitations on the network's ability to become a multi-specialist or a generalist. The main levers available might be, for example, to develop or acquire new specialist networks, develop distribution partnerships with other specialized networks, or position the company in a niche market where it could establish a reputation as a "category killer".

Optimizing customer profitability will mean optimizing network use by segment and properly monitoring customer and network value. In order to optimize customer profitability in a highly segmented environment, insurers will need a precise view of revenues and costs by segment and network, along the entire customer lifecycle. This picture will enable insurers to manage their customer base and networks in a more cost-efficient manner. For example, an unprofitable set of physical-network users could become profitable if migrated to lower-cost direct networks, and serviced with a value proposition that is lower-cost to the insurer, but higher-value to the customer.

3. Dealing with IT as both a prerequisite and a lever for overcoming the challenges

We have identified three main IT opportunity levers:

Enterprise data warehouses, analytics, and customer intelligence together form the basis of an insurer's Business Intelligence (BI) systems. If managed properly, they can enhance customer knowledge, and hone behavioral-driven customer segmentation, as well as driving and supporting corporate performance management, real-time business decision-making, and helping to address compliance requirements (e.g., Solvency II).

Technology integration and service-oriented architectures (SOAs). Implementing a multi-network strategy will require seamless integration of disparate systems across these networks. Collaboration and the real-time flow of information between the insurer and its networks will be critical, so an open architecture will be more effective in allowing insurers to adapt and change their distribution capabilities according to market dynamics. To create a transparent, agile and competition-ready organization, insurers may need to transform toward a more "Service-Oriented Insurance Enterprise".

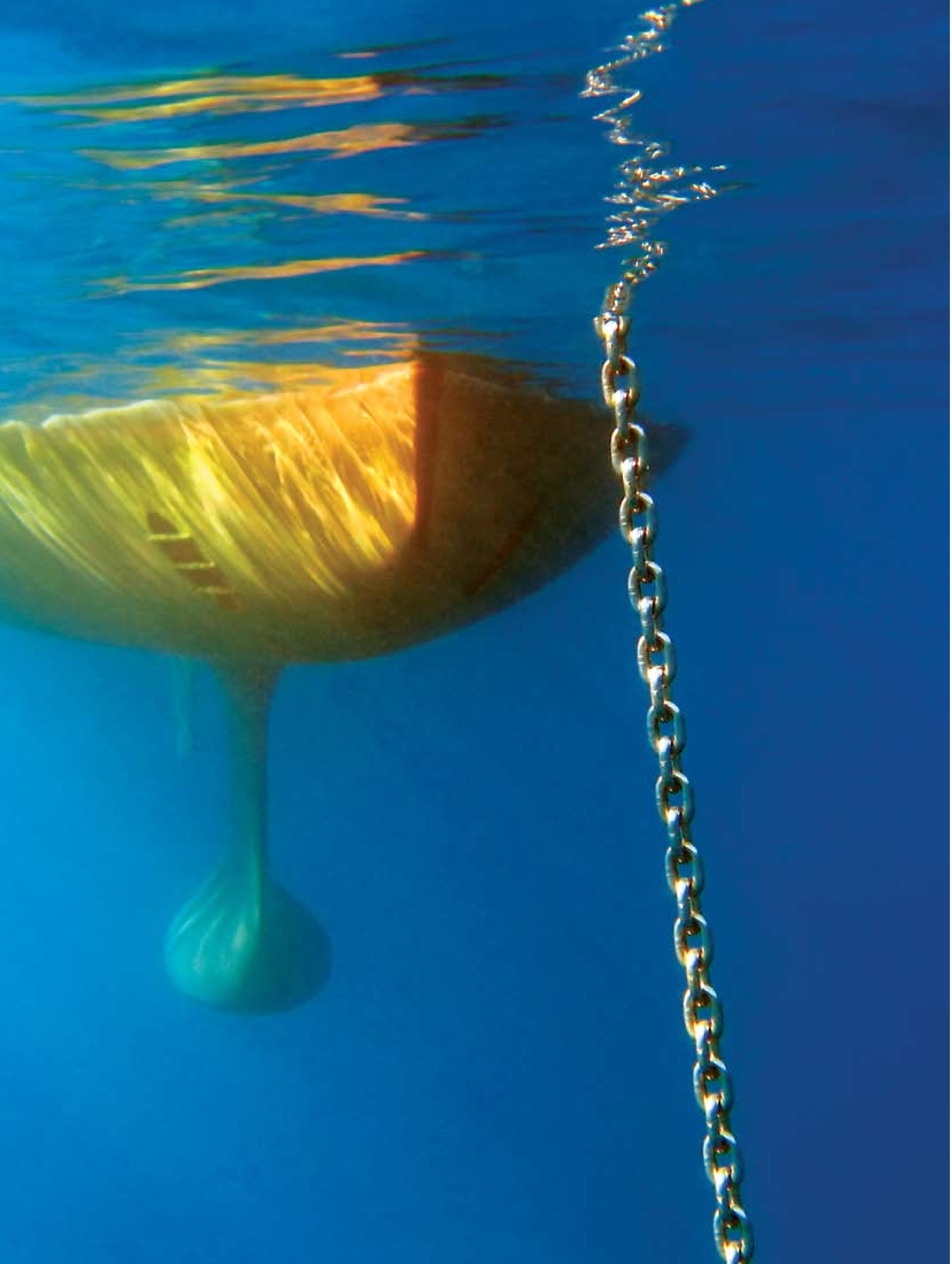
Next-generation customer relationship management (CRM) tools can help insurers and networks to be credible, competent, full-service players. A collaborative-network approach can only be truly achieved when distribution networks can operate effectively in their own areas of strength—and allow others to do the same. Next-generation CRM tools can enable distributors to manage customers under a global, enterprise-wide umbrella (providing opportunity for efficient cross-selling and up-selling), and help each network to develop a more honed value proposition. For example, if a physical distribution network intends to add value by offering advice and expertise, best-of-breed advisor workstations will help agents to focus on client development. These workstations can include CRM functionalities, as well as financial management applications, integrated customer profiles, customized views of customer holdings and activities, real-time alerts on trigger points for cross-selling opportunities, market intelligence, and so on.

CLOSING REMARK

Insurance companies face a variety of challenges in their management of everyday business, and have overcome many of them, including in key activities like underwriting and product development. However, one critical aspect of the insurance business has yet to be optimized: The interplay among the triad of insurers, customers and networks.

Certainly, this interplay is complex, and—as usual—there is no one-size-fits-all solution. However, we have sought in the *2008 World Insurance Report* to show how the customer and distribution elements of the triad are changing—and necessarily require a shift on the behalf of insurers.

Insurers must decide for themselves the optimal approach to managing this critical interplay of stakeholders. We argue the only wrong action is to take no action at all. We hope our findings have helped to shed light on some of the key issues insurers will have to consider as they seek to address this challenge, and that our insights will prove to be valuable in supporting their decision-making.



Methodology

SCOPE AND METHOD

The *2008 World Insurance Report* (WIR) is based on a comprehensive body of research that includes surveys of more than 11,000 insurance customers. We also interviewed insurance executives and industry experts.

The report focuses on ten countries (China, France, Germany, India, Italy, the Netherlands, Spain, Switzerland, the U.K. and U.S.). The report covers the retail insurance market, including both life and non-life segments. (Health insurance is included in this report under non-life.)

When needed, the translation to Euros was made using yearly average exchange rates.

When we refer to "networks", we mean the intermediaries that distribute insurance products, as opposed to "channels", which are the means of interaction used by networks. For example, tied agents together form a distribution network that can use multiple channels to reach customers (such as point-of-sale, telephone, Internet). The Internet can be a distinct network, or a channel used by networks, but we primarily refer to the Internet as a network.

Analysis of the survey results was conducted using standard statistical tools. Findings from Chapter 2 were compiled using advanced statistical analysis. The method chosen was the canonical correlation analysis, which aims to define common behaviors within homogeneous populations of clients. This methodology is focused on customer behavior as described by the customers themselves, rather than assigning customers to predefined segments based largely on their demographic profile (which is the common type of criteria used by insurers to segment clients). A simple way to describe this approach would be: a customer typology based on what the customer does, rather than customer segmentation based on what the customer is.

HOW THE SURVEYS WERE CONDUCTED

Customers were surveyed online, with the exception of customers from India and China, which we also surveyed, but in person. The results are weighted accordingly. Questionnaires and overall approach for online and in-person surveys were identical.

Executive interviews were conducted in person by local Capgemini account executives and subject matter experts. Interview subjects were selected for their insight into the strategic operations of their insurance company.

Breakdown of Customer and Distributor Surveys/Interviews

China	France	Germany	India	Italy	Netherlands	Spain	Switzerland	U.K.	U.S.
703	1259	1083	723	1520	1170	1382	1113	1083	1036

Source: Capgemini Analysis, 2007

About Us

CAPGEMINI

Capgemini provides deep industry experience, enhanced service offerings and next generation global delivery to serve the financial services industry. With a network of 15,000 professionals serving over 900 clients worldwide, we move businesses forward with leading services and best practices in Banking, Insurance, Capital Markets and Investments.

Our Global Insurance Centre of Excellence consistently delivers leading services that provide strategic value for the Insurance community. Our Centers of Excellence capture industry insights, best practices and the latest trends in techniques, tools and technology to continually upgrade solutions, help service new and existing clients and provide visionary, yet practical thought leadership.

As one of the world's foremost providers of Consulting, Technology and Outsourcing services, Capgemini enables its clients to transform and perform through technologies by providing its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working called the Collaborative Business Experience. Capgemini reported 2006 global revenues of EUR 7.7 billion and employs more than 80,000 people worldwide.

For more information, or to download our reports,
visit **www.capgemini.com/financialservices**

THE EUROPEAN FINANCIAL MANAGEMENT & MARKETING ASSOCIATION

The European financial management and marketing association (EFMA) is the leading association of banks, insurance companies and financial institutions throughout Europe. On a non-for-profit basis, Efma promotes innovation and best practices in retail finance by fostering debate and discussion among peers supported by a robust array of information services and numerous opportunities for direct encounters.

Efma was formed in 1971 and gathers today more than 2,000 different brands in financial services worldwide, including 80% of the largest European banking groups.

Visit **www.efma.com**

We thank the following people for collaborating to produce this report:

Capgemini's Financial Services team for analyzing, writing, and compiling the findings of the report: Benjamin Beauvalot, Jack Cai, Bertrand Dimont, Emma Gowland, Carl Levert, Tarun Sharma, Claire Tribouillois, and Jackie Wiles.

The World Insurance Report Executive Committee for providing their insights, industry expertise, and overall guidance:
Ilario Cadringher, Francesco Capotorto, Xavier Cangardel, Dirk Chanmueller, Karen Cohen, Carlalberto Crippa, David Giblas, Lucia Gonzalez-Sanchez, Raffaele Guerra, Malcolm Harrington, Michele Inglese, Karen Kenney, Marco La Bella, Marion Lecorbeiller, Scott Mampre, Jean Luc Méry, Girish Misra, John Mullen, Henning Munkvold, Arianne Rauschek, Edwin Steenvoorden, Albrecht Strube, Jan Verlinden, and Lena Waller.

We would like to extend a special thanks to all of the individuals who participated in our Insurance Executive interviews and Customer Surveys.

For more information, please contact:

Capgemini
insurance@capgemini.com

EFMA
patrick@efma.com

For press inquiries, please contact:

Europe and Rest of World
Brook Clarke at bclarke@gciuk.com or +44 (0) 20 7072 4054
Marion Lecorbeiller at marion.lecorbeiller@capgemini.com or +33 6 12 73 03 44

North America
Rachel Alkon at ralkon@gcigroup.com or +1 212 537 8021
Karen Cohen at karen.cohen@capgemini.com or +1 516 607 9652