

THE AGE OF INSURANCE PERSONALIZATION



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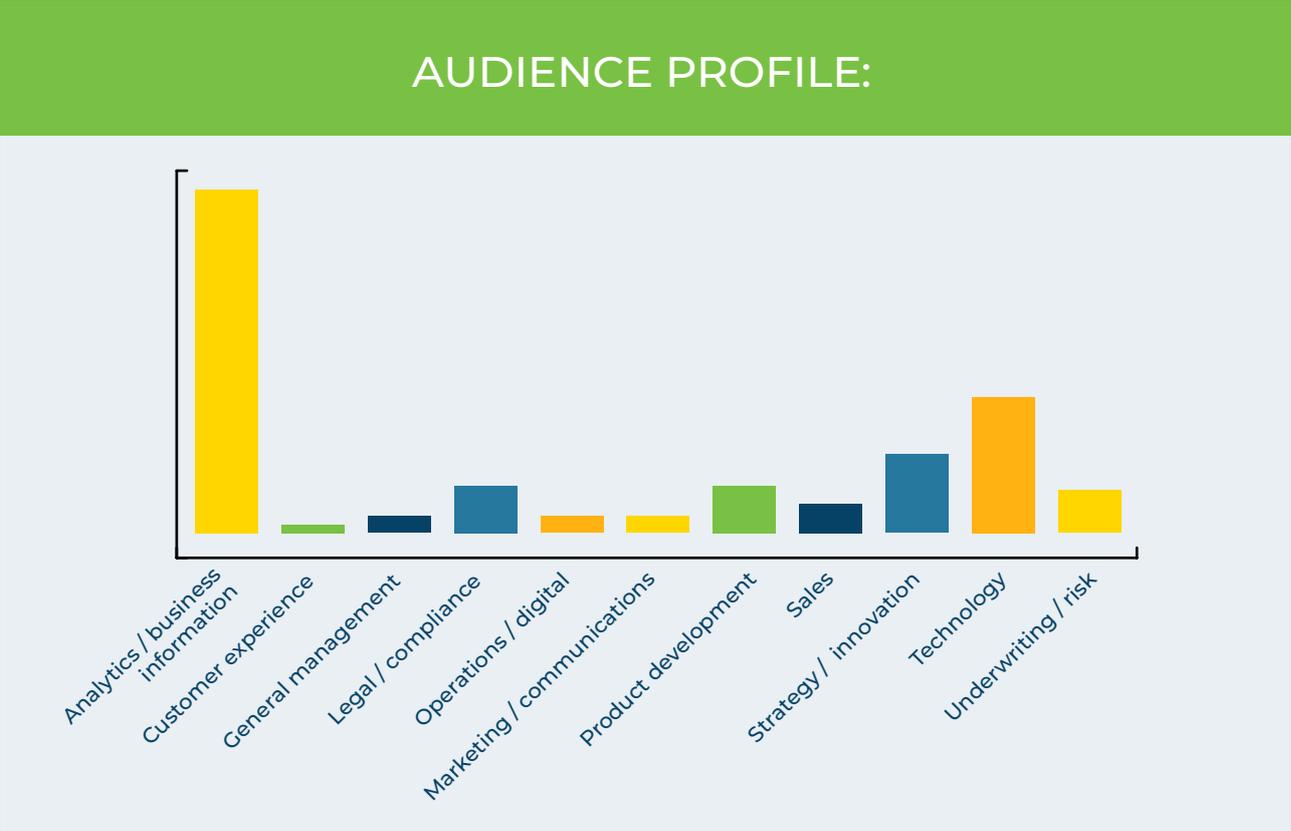


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METHODOLOGY

This report is based on research conducted by Insurance Innovators and Earnix in late 2018. We surveyed over 500 insurance professionals working in a variety of insurance companies of all sizes – including global organizations.



FOREWORD

The age of personalization is upon us and is growing stronger every day, brought on by market leaders leveraging new technology that allows them to deliver breakthrough customer experience and services. This isn't an overnight sensation – the forces of change have been coalescing into a full-on trend for many years. Some in the financial services industry have kept pace, while others are yet to catch-up.

Customer Centric Digital Transformation is the journey to take in order to seize this market opportunity. It has the ability to transform an organization into a market-leading provider, which can go beyond today's boundaries and be able to serve a market-of-one with unique products that offer greater value to both the customer and the provider.

This research, sponsored by Earnix, in partnership with Insurance Innovators, provides clear evidence that those who are currently providing highly-curated products and services are seeing measurable results that are improving their businesses. Across many KPIs, the research findings show that personalization does really work, improving metrics such as revenue per customer, retention and engagement, and the list goes on.

Is there any wonder that the right product, at the right price, delivered at the right time will be of greater value to the customer? According to the survey results, ninety per cent of the executives say that the increase in customer value has the power to change the economics of the business and reduce price competition.

As new kinds of data become available and usable with advanced technologies such as machine learning, the ability to operationalize this level of customer intimacy will become commonplace. The vast majority (77 per cent) of the executives surveyed believe that it will be quality of analytics that will deliver competitive advantage in a world that is awash in data of every kind.

The age of personalization is a mega trend in today's marketplace, and we at Earnix are delighted to sponsor this seminal research. We hope you find it useful in your strategic thinking of the future.



Udi Ziv
CEO @ Earnix

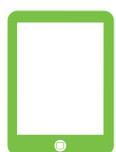
INTRODUCTION

It's been 20 years since Amazon launched the algorithms that generate its online recommendations, setting a new benchmark in customer experience. Today personalized recommendations are ubiquitous online, powering the astonishing growth of companies like Amazon and Netflix and changing customers' expectations in all areas of life – and that includes their financial decisions.

Those expectations continue to evolve as technology refines the art of the possible. Advanced analytics enable companies to finely calibrate their recommendations, offers and services to create compelling product propositions that move beyond just marketing communications and delight individual customers.

The analytics arms race is underway. Those frontrunners that have already achieved individualized personalization (tailoring to an individual rather than a market segment) are reporting increasingly compelling results: more than half say they have already seen a positive impact on profit margins, 60 per cent report increased revenue per customer and 81 per cent report increased customer retention as a result of their personalization activities.

These results are impressive, and they are just the beginning. The early wins have been in the field of marketing and customer experience as insurers scramble to match the immediacy and intimacy of Amazon and Netflix. The next major frontier will be achieving Customer Centric Digital Transformation, so as to deliver personalized bundles that offer the right product to the consumer at the right time, while also being the right deal for the insurer. Our survey found that those who are already realizing this form of transformation are reaping the benefits: 68 per cent of our respondents expect true personalization to be a pre-requisite of success for all insurers within just five years.



14% of our respondents used individualized personalization (tailoring to an individual rather than a market) in their marketing communications

21% deliver individualized personalization within their customer experience



21% can offer individualized personalization of insurance product bundles....

... but only 4% can adjust that individualized personalization of product bundles in real time, based on data from connected devices



With this real-time personalization will come a disruption of the business model itself. Insurers will increasingly define themselves not as payers of compensation when things go wrong but as trusted advisors helping customers anticipate, navigate and eliminate the unique risks they face in a changing world. By adding real value through personalization, 75 per cent of insurers believe they will persuade customers to pay more for insurance products that are tailored to meet all of their personal priorities.

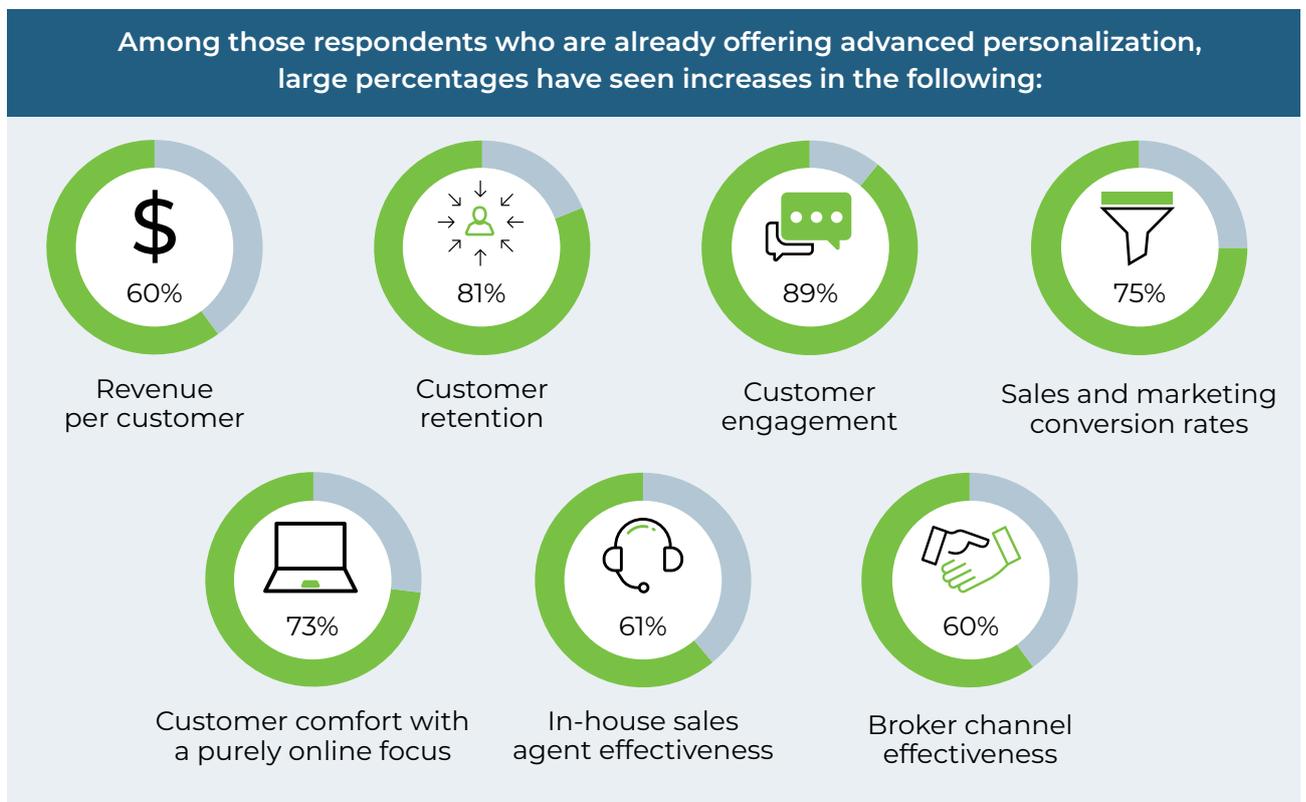
And with regulators leveling the data playing field, the differentiator will no longer be access to data but what a company's algorithms can do with it. Welcome to the age of personalization and analytics.



THE BUSINESS BENEFITS OF PERSONALIZATION

Those insurers that have the analytics capability to deliver individualized personalization will rapidly pull ahead of rivals. Our research shows that this competitive edge comes not just from winning more customers but from each customer generating more revenue and having a lower cost to serve as a result of the personalization they experience. According to our findings, 60 per cent of those insurers already achieving advanced levels of personalization are seeing a significant increase in revenue per customer, and 73 per cent are seeing increased customer comfort with a full digital experience.

Among those respondents who are already offering advanced personalization, large percentages have seen increases in the following:



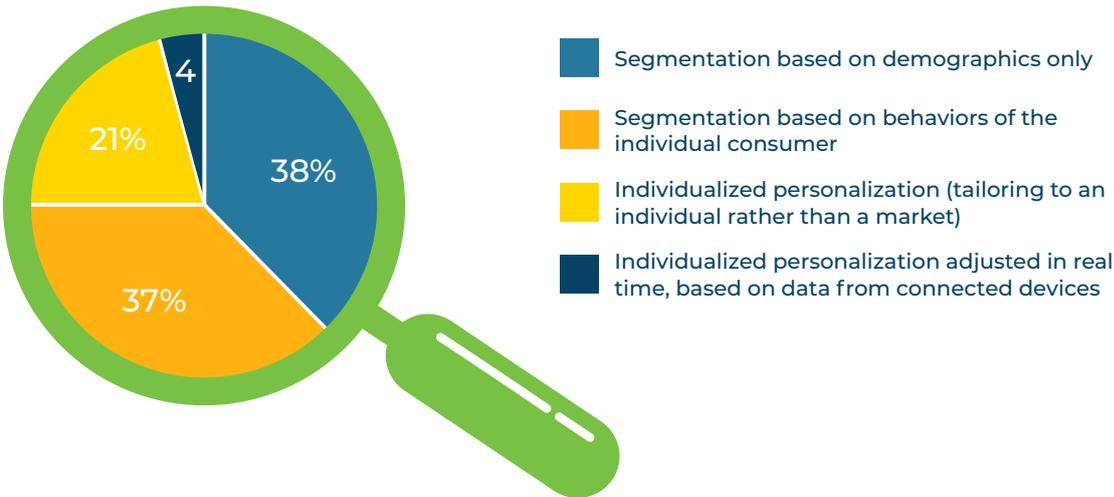
These are the pioneers of advanced personalization and their early wins are already informing mainstream industry thinking. The vast majority of our surveyed insurers expect advanced personalization to have a positive impact across the business, from customer retention to effective distribution, and believe it will increasingly be a determinant of success in the coming decade.

Our survey shows that those insurers who have taken a step further and are offering insurance and risk management services, which are continually adjusted and rewritten in real-time according to changing risk in the consumer's life, are seeing even better business benefits. 69 per cent of these insurers are seeing increases in revenue per customer.

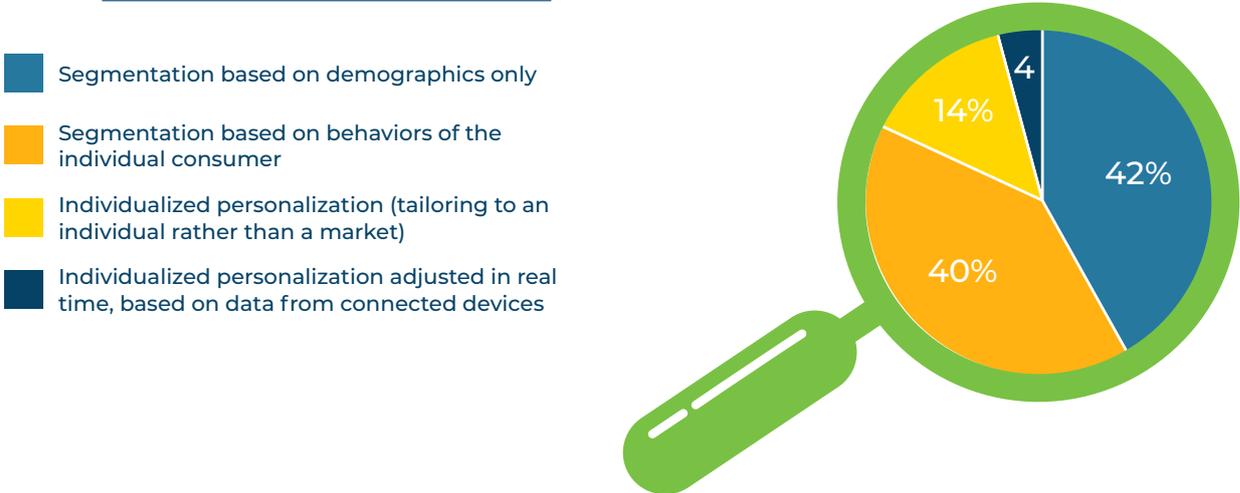
While individualized personalization is a tough challenge, insurers are on the right path

Our research shows that while, at present, there is a gap between the industry's personalization ambitions and its current capabilities, insurers recognize what needs to be done. This recognition is supported by the compelling business benefits that personalization can offer. However, when talking about Customer Centric Digital Transformation it's vital to make the distinction between the personalization of insurance products and personalizing marketing communications. Whilst both are vital and go hand in hand, it is the personalization of products that ultimately delivers the greater value to the customer and, in turn, when done well, to the insurance organization.

The most tailored level of personalization insurance organizations are currently able to deliver in **INSURANCE PRODUCTS**:



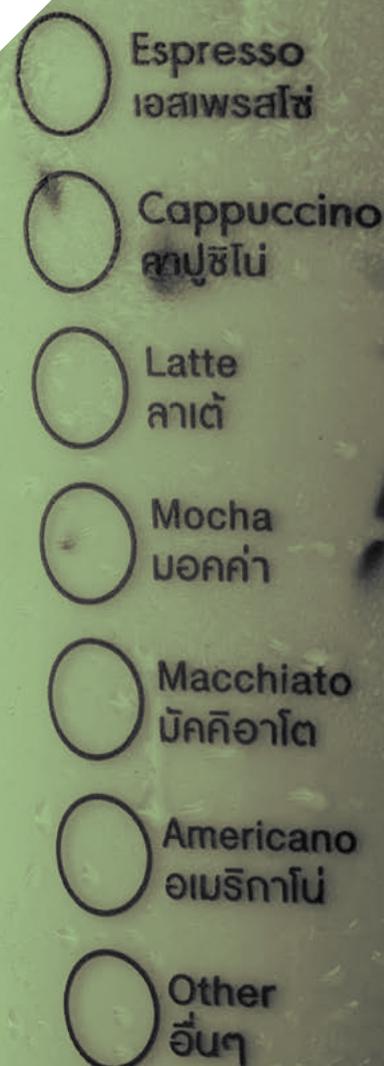
The most tailored level of personalization insurance organizations are currently able to deliver in **MARKETING COMMUNICATIONS**:



Our data shows that insurers' current ability to personalize differs only marginally between products and marketing communications. At present, in tailoring their product bundles, 37 per cent of our surveyed insurers deploy a segmentation approach based on the behaviors of the individual consumer; one in five (21 per cent) can personalize insurance products to the individual rather than a market segment; and 4 per cent are able to tap into data from connected devices to deliver real-time personalization. In comparison, in marketing communications, 40 per cent segment based on behaviours of the consumer, 14 per cent can personalize communications to the individual rather than a market segment and, similarly, only 4 per cent can harness data from connected devices to deliver real-time personalization. In both areas, advanced, individualized personalization is done only by a few.

Of course, truly individualized personalization is no easy task. And, product personalization is particularly complex in financial services, where the need to consider and price for risk adds an additional dimension. Insurance products are already intrinsically personalized in their pricing because they are priced for risk, and pricing sophistication continues to increase. Advanced personalization of product bundles and marketing communications requires data analytics across underwriting and marketing to work together to ensure personalized offers reflect not only the consumer's needs but also the risk and profitability implications for the organisation.

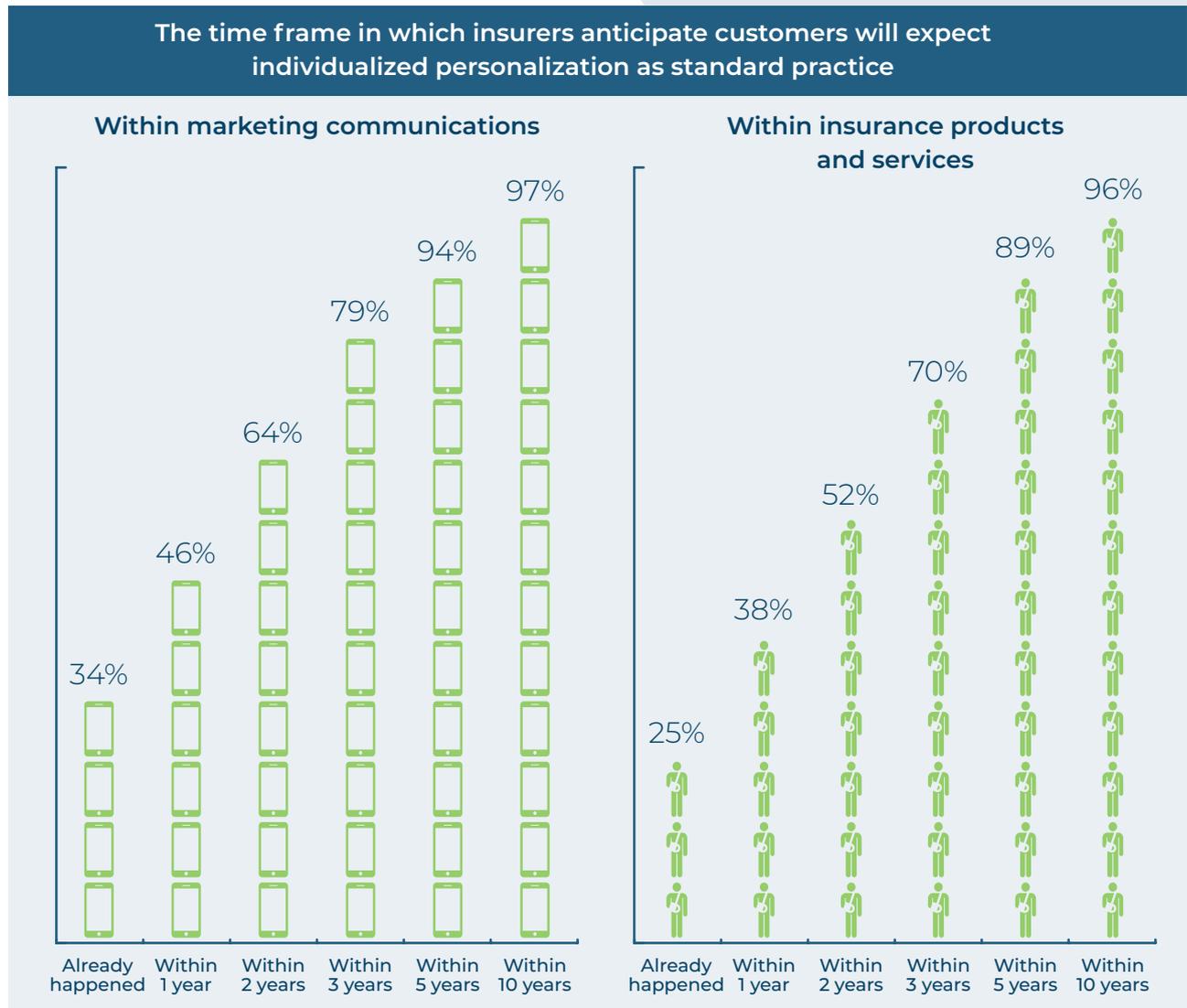
With the right tools and technologies in place, even with these complexities, advanced, individualized personalization in insurance can be achieved across product bundling and marketing communications. Already many customers expect no less.



The expectations of insurance personalization....

As in every aspect of the digital revolution, this reframing of customer expectations is happening at rapid speed. 34 per cent of insurers believe customers already expect marketing communications to be personalized to them as individuals, and 25 per cent believe they similarly expect individualized tailoring of product bundles.

The time frame in which insurers anticipate customers will expect individualized personalization as standard practice



No insurer can afford to ignore customers' mounting personalization expectations: 82 per cent of our respondents believe that, in this age of data-driven convenience, customers will increasingly be turned off if they continue to be offered standard insurance and add-ons rather than product packages personalized to meet their individual needs. This represents a challenge for the industry and augurs a profound shift in how complex risk-based products will be configured and sold in future. Advanced personalization in both marketing communications and product bundles should be the keystones of every insurer's Customer Centric Digital Transformation. They matter because....



89%

expect that, within 5 years, it will be standard market practice for insurers to offer market-of-one personalized insurance product bundles

Most insurers are on the right path, those already achieving advanced levels of personalization are reaping the rewards, and more will follow if they can acquire the right tools and strategies.

Quality of analytics will be the basis of success...

The good news is that the enabling technology for highly individualized personalization of insurance already exists. Advanced analytics – autonomous or semi-autonomous algorithms that use techniques including machine learning, visualization and forecasting to help companies make sense of vast data sets (including real-time flows from the Internet of Things) – are able to make predictions and recommendations and generate previously unimaginable insights about the customer and the business. Harnessing this power allows insurers to create products that are hyper-personal, not just in their configuration but in their timing and pricing, while at the same time boosting underwriting performance, ensuring product suitability and reducing business risk.



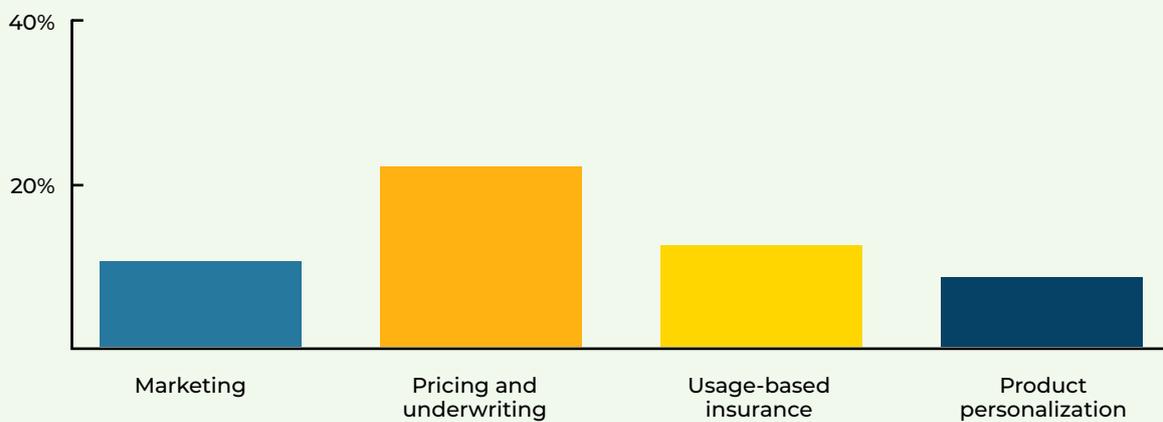
77%

believe that in the future, all insurers will have access to the same data, and therefore the quality of analytics will provide the competitive edge

Advanced analytics is the technology that underpins the personalization of insurance bundles that is the hallmark of true Customer Centric Digital Transformation. Yet it remains under-exploited, with four out of five (80 per cent) insurers barely scratching the surface of the potential of new data sources and analytics for the personalization of product bundles.

Indeed, only nine per cent of our surveyed insurers are using advanced analytics extensively in product personalization. Finely calibrating the risk of an individual's propensity to default, have a car accident or develop a life-limiting illness involves eye-watering numbers of variables – not to mention hugely sophisticated modelling to ensure these personalized policies match the institution's tolerance for risk. Advanced analytics that enable hybrid modelling, combining the precision and speed of machine learning with traditional robust analytical methods, will be key. Given this is the frontier of personalization, it is encouraging to see that more than two-thirds of our respondents (65 per cent) anticipate their organization will be using advanced analytics to achieve individualized personalization to some extent within the next twelve months.

The proportion of organizations using advanced analytics extensively in the following areas:







INSURANCE IN THE NEW DATA ECOSYSTEM

The digital universe is expanding as we, and our connected devices, generate 2.5 quintillion bytes of data per day. And much of this is dark data – unstructured data from social media or sensor data from connected devices – that goes unanalyzed. Indeed, studies suggesting that 85 per cent of data stored by organizations around the world goes unused, either because its value is unknown or it's considered redundant, obsolete or trivial¹.

This data-rich universe creates an unprecedented opportunity for insurers to understand their customers in increasingly intimate ways, be it GPS data from the ubiquitous smartphone to lifestyle and health data collected by wearable devices. Insurers must tread carefully and respectfully to earn access to these valuable data flows in an age when regulators are arming consumers with new privacy rights.

Regardless of whether they're chasing discounts or privacy, industry insiders believe it's likely customers will exert more control over their data. Our surveyed insurers welcome this trend, believing the transparency of the exchange and the quality of the data will help them to deliver personalized products that truly meet the customer's needs.



Indeed, 83% believe that if insurers were able to access a consumers' comprehensive personal data store and tailor the products they offer to the individual accordingly, the problems of inadequate or excessive insurance would greatly reduce, thus helping to improve customer trust and satisfaction.

Such data transparency will also shift the competitive battleground. Almost eight of ten (77 per cent) of our survey respondents expect customers to grant all quoting insurers access to the same personal data set. Quality of analytics, not access to data, will therefore be insurers' source of competitive advantage. But, of course, being *invited* to quote is key and must be considered in the context of the now evident consumer willingness to give access to personal data in return for better – and, by implication, highly personalized – products and services.

¹Global Databerg Report, Veritas Technologies, 2016

Taking data analytics a step further, insurers can also potentially offer real-time insurance personalization at the point of sale. While 77% of our surveyed insurers said their organization did not at present have the technical expertise internally to develop the complex algorithms required, those that already do are very positive about the effects:

Among those respondents already offering individualized personalization of products adjusted in real time based on data from connected devices, large percentages have seen increases in the following:



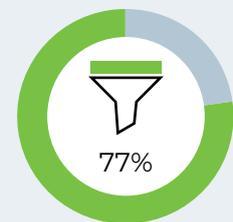
Revenue per customer



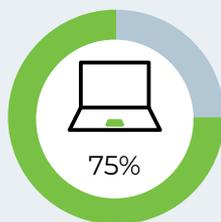
Customer retention



Customer engagement



Sales and marketing conversion rates



Customer comfort with a purely online focus



In-house sales agent effectiveness



Broker channel effectiveness

Becoming a trusted partner will be crucial to maximizing data access...

Consumers are only going to be convinced to share increasingly intimate personal data with insurers when they can see clear wins. Auto insurers have led the way here, offering reduced premiums for those drivers willing to share data from a telematics device. As the Internet of Things gives voice to a wide range of devices, from wearable devices to smart appliances, other lines are expected to roll out usage-based offers: at present just 22 per cent of our surveyed insurers offer usage-based insurance but this is expected to rise to 59 per cent within three years.



77%
believe consumers would be willing to share more data with insurers in return for a more tailored and suitable bundle.

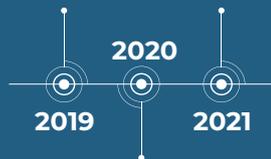
Some insurers have gone a step further still, seeing opportunities to leverage our data-rich world to reshape their entire business model. Rather than acting as a financial backstop, paying out compensation when things go wrong, some insurers are positioning themselves as trusted partners, using advanced analytics to help individual customers anticipate and mitigate the risks they face in life. South African motor insurer Discovery, for example, uses a smartphone's accelerometer and GPS to provide a breakdown of a user's individual driving behaviors, including harsh braking, cornering and speeding, with good drivers enjoying financial rewards and a high ranking on a leader board. Policyholders receive personalized driving tips to help them convert bad habits to good, insight that is valued by customers, while also reducing the insurer's cost of claims. Meanwhile, UBI specialist Metromile uses its smartphone app to diagnose the health of the car to provide maintenance advice and even offer tips to drivers to help with their daily commute and reduce parking tickets. Such value-added services go way above and beyond the traditional insurance offering of compensation.

Of our surveyed insurers...



18% already offer value-added services

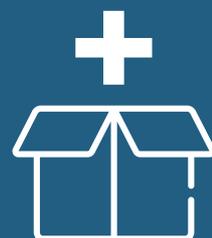
And there's set to be a race to catch-up with these pioneers...



67% expect to offer value-added services within three years

More importantly...

13% are already offering packages that combine these services (e.g. risk mitigation such as driving behaviour and vehicle health data) with traditional compensation-based insurance.

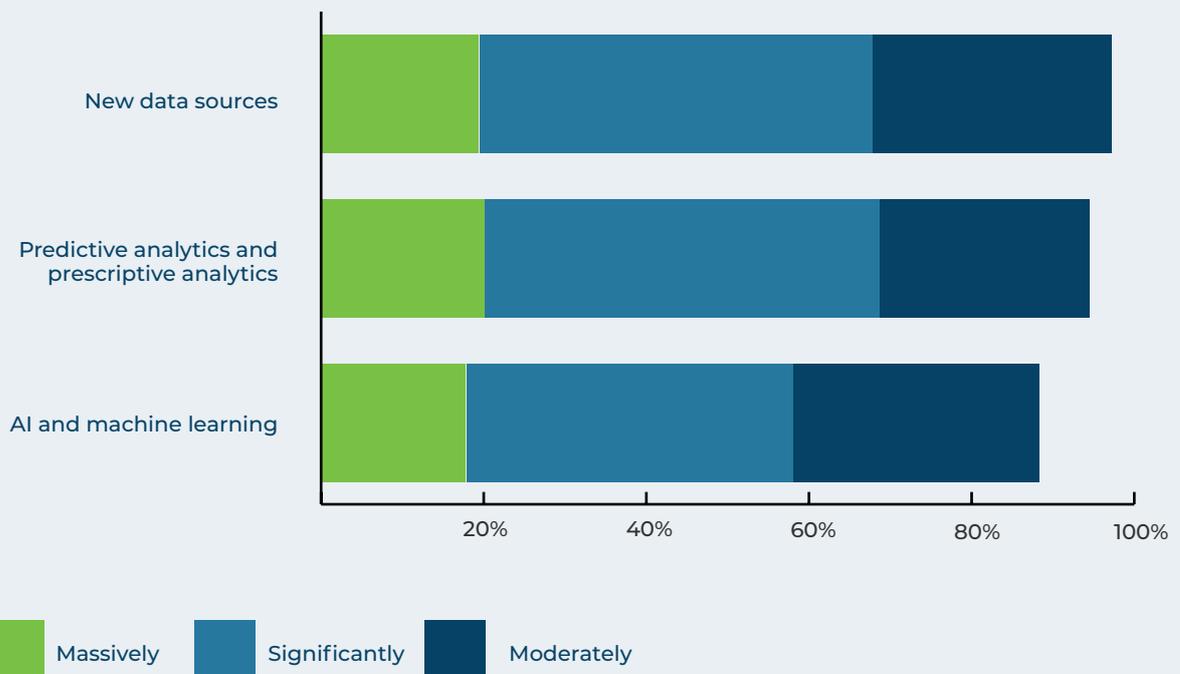


The insurance business model will change...it will be a living, breathing thing

This is just the beginning of the personalization revolution. An overwhelming majority of our respondents, 96 per cent, believe that as customers increasingly experience personalized value-added services from their insurers, they will come to expect a similar level of personalization in core insurance products.

This is the next frontier of personalization, deploying advanced analytics and machine learning to crunch through the vast array of variables that weigh on an individual's risk profile in order to anticipate their needs and configure the perfect product for them at that moment in time, whilst also taking account of the organization's business objectives and risk tolerances. This is a high bar so it's unsurprising that just 21 per cent of our surveyed insurers currently offer individually personalized insurance, in which product features are bespoke to the customer's needs. But this advanced level of personalization is the future and insurers need to invest now – the business benefits are clear.

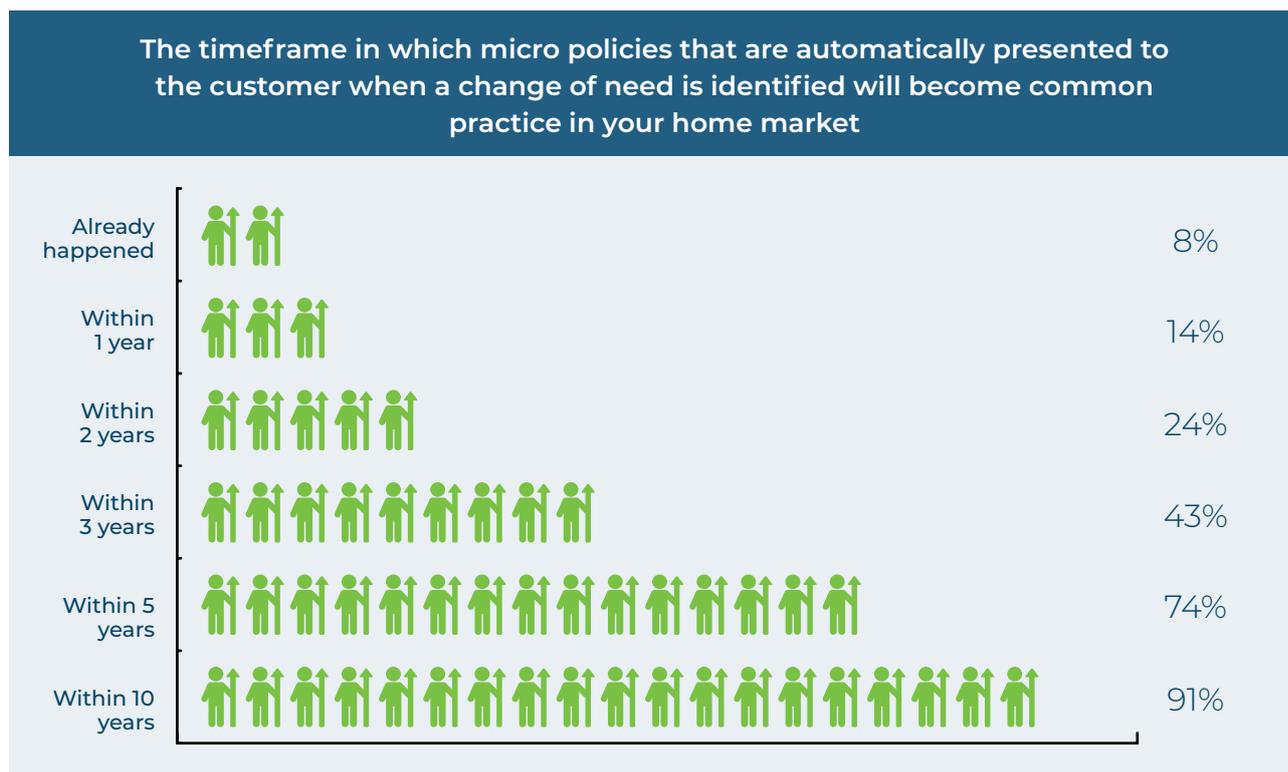
The extent to which insurers are expecting to increase investment in each of the following to improve their personalization in the next 5 years



Insurance on demand

In a hyper-connected world, where connected devices and advanced analytics are continually monitoring and re-assessing risk, the old once-a-year insurance policy looks increasingly static and irrelevant. Increasingly, insurance will be a living, breathing thing, that scales and shrinks minute-by-minute to accommodate the ever-changing risks of our daily lives. Almost nine out of ten (88 per cent) of our respondents predict that the explosion of real-time data from connected devices combined with predictive analytics will fuel a growth in hyper-personalized policies, tailored to even small temporary changes in personal circumstances.

Insurtech innovators are already trialing dynamic pricing. Cuwa users, for example, can buy protection on a car for only as long as they need, even just an hour, while Tröv allows customers to protect the things they want, when they want, and turn the cover on and off as required, all with a few taps of a smartphone.



This is a brave new world – and it will increasingly be managed by smart machines. Already, Insurtech Sherpa is using an AI-driven platform to build a risk profile for the individual. It then informs the insured of changes in risks and establishes the cost of protecting them, providing the requisite bundle of cover across insurance lines at any given moment. Four out of five (82 per cent) of our respondents expect an organization with this business model to become a household name in their country within just five years.

As connected devices and analytics become more and more sophisticated, customers will have increasingly less active input into the selection of their insurance. Three-quarters (74 per cent) of our insurers expect purchasing decisions to be increasingly pre-authorized and automated for convenience. 78 per cent think that in ten years' time, marketing to algorithmically-driven product selectors will form the majority of insurers' marketing budgets.





MEETING THE PERSONALIZATION CHALLENGE – TOWARDS ANALYTICAL ADVANTAGE

The next five years will see unprecedented disruption in the insurance industry as hyper-personalization allows insurers to forge new relationships with customers. Rather than chasing the lowest quote, customers will look for financial providers that improve their safety and well-being on a daily basis. And, as 80 per cent of our respondents agree, customers will be happy to pay more for these life-enhancing personalized services.

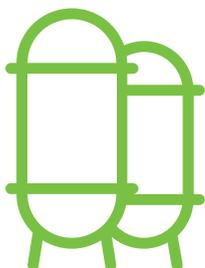
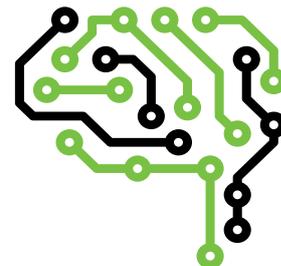
Spending on the advanced analytics required to deliver the personalization agenda is set to increase. Indeed, our research shows that the industry expects the changes to come thick and fast: three out of five (63 per cent) of insurers expect to be ready to personalize products in real-time based on data from connected devices in the next five years.

This is a bold prediction, however, given how many organizations are struggling to make headway due to internal roadblocks such as siloed legacy systems and the difficulties in recruiting the requisite expertise in AI and analytics.



77%
see the issue of legacy systems as a massive or significant barrier

73%
said their organization did not have the technical expertise internally to develop the complex algorithms required



69%
said that siloed underwriting and marketing systems pose a massive or significant barrier

Indeed many insurers timeframes for truly individualized personalization might also be significantly shorter were it not for their internal barriers: lack of understanding among senior management (74 per cent) and the lack of a coherent strategy (75 per cent) and the issue of legacy systems (77 per cent).



The need for a cross-departmental approach

Our research shows that too many insurers are dependent on systems and processes that cannot support Customer Centric Digital Transformation. Notably, almost seven out of ten (69 per cent) report that siloed underwriting and marketing systems pose a massive or significant barrier to personalization.

Indeed, eighty-six per cent of our respondents think that individualized product personalization would work best if customer risk, profitability, propensity to buy and pricing were to be integrated into a single decision.

Insurers that get this right by incorporating the enabling technology will thrive in the age of analytics.





CONCLUSION

Our survey results reveal that insurers are well aware of what their future businesses must look like, and offer, if they are to meet the rapidly growing demand for personalization.

To satisfy consumer expectations, our research indicates insurers need to look beyond personalization of marketing communications and customer service to confront the challenge of individualized personalization of product bundles. Customers increasingly want their insurers to be proactive advisors and risk preventers, and this is where tailored products have a critical role to play. Insurers must focus on advancing their levels of personalization in order to grasp the win-win opportunity of giving customers what they really want and need, while at the same time boosting the organization's business performance. The change required is Customer Centric Digital Transformation – a prerequisite of success for insurance companies in an age of personalization built upon the use of advanced analytics.

Achieving such advanced personalization and digital transformation will be no easy feat. Our report highlights a number of barriers that insurers must either surmount or circumvent. But there is also a common understanding with the industry of the tools and strategies required to do so.

Access to data is, of course, crucial but, as our survey shows, will not be the main challenge. The challenge, and ultimately the key differentiator, will be having the right analytics to make the most of data and, in so doing, to convince customers to make ever greater quantities of their data available.





LEON APPLE

ULTRA CHERRY ICE

11

12

EARNIX

Earnix provides advanced analytics solutions designed for the financial services industry, which deliver significant results by integrating data-driven decision-making into the business process. We enable financial institutions to better compete in a new environment of highly personalized services by using advanced analytics to determine pricing and other offer components. Our integrated technology platform provides users with the most comprehensive set of tools, including machine learning capabilities, and is often connected to real-time production systems. Earnix has extensive experience providing solutions to the most sophisticated insurers and banks around the globe, and has a track record of empowering executives to act quickly and confidently, making a direct and measurable impact on their key performance indicators.

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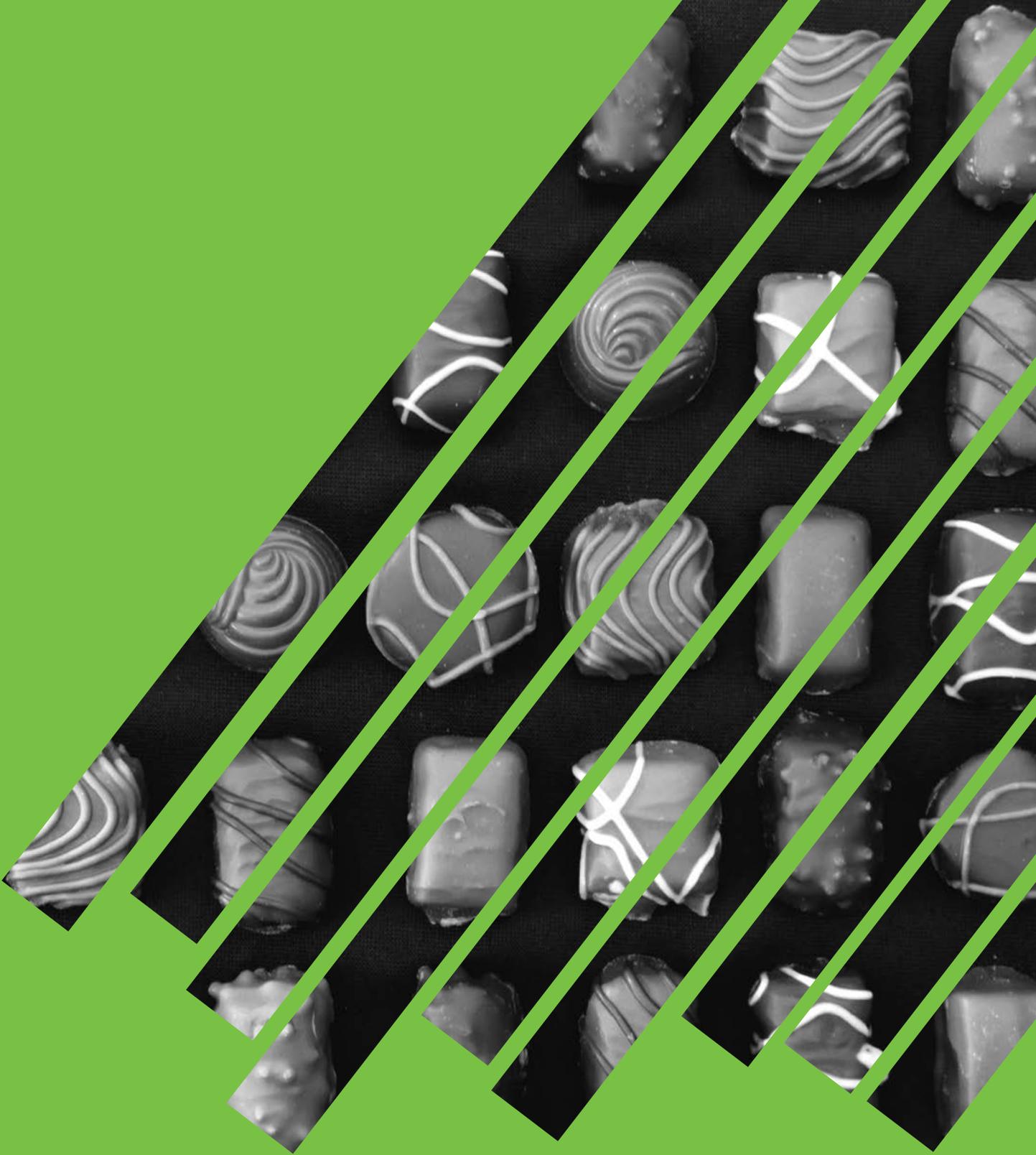
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