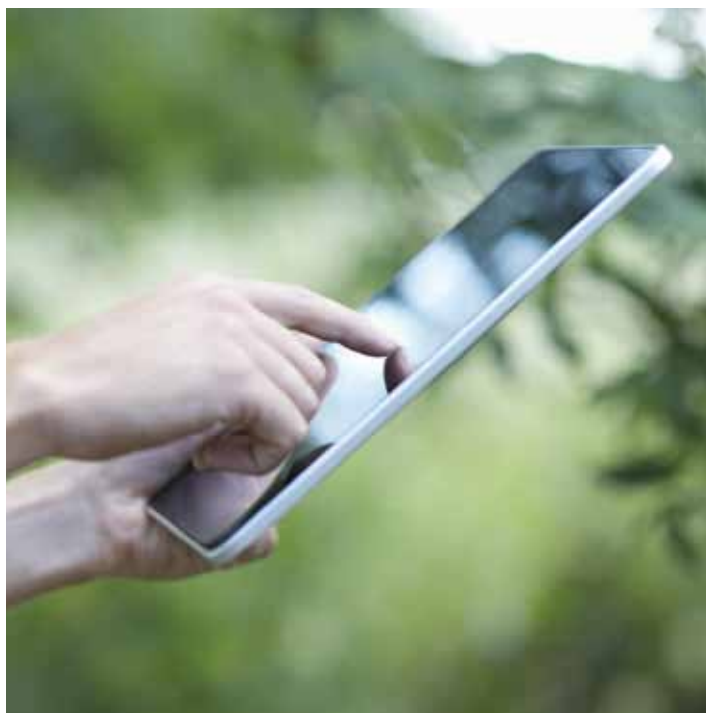


Is the insurance industry ready for social media?



Let's face it: there is a lot of hype right now about social media. Some would have you believe that it will forever change the insurance industry now and for all time. Others argue that it brings unacceptable levels of risk and could ultimately contribute to further challenges in an industry that has recently struggled to grow profitably.

There is probably a modicum of truth to each point of view. Social media probably will revolutionize the industry; in particular, the customer relationship. It will undoubtedly bring new levels of risk and regulation. The challenge facing the industry is how to balance the two to achieve competitive advantage.

A bit of background

Insurance companies actively utilizing social media as a business technique, as well as those not pursuing active use, may both be asking a similar question: "Who is internally responsible for social media use?" The ever-changing social media environment and the uses for this relatively new medium fueled by universally accessible and scalable communication techniques have transformed the way in which individuals, organizations, and communities interact.

As more insurance-specific social media campaigns are delivering the desired business impact (e.g. new client identification, existing client retention, information dissemination), the majority of players across the insurance industry have embraced or are earnestly contemplating social media adoption.

The implementation strategies are as diverse as they are detailed and previously unforeseen risks continue to be identified as customers and the general public evolves with expectations and ways in which to manipulate. The interaction includes regulators, insurance companies and their producers, company employees, existing and potential customers, suppliers and competitors.

What is social media?

KPMG LLP defines social media as "a collection of online media tools and channels that foster communication and conversation, not only delivering content but also allowing interaction and participation in the development of the content being discussed." Among the many definitions and descriptions, the common characteristics are the ability to interactively exchange ideas, request information, and provide real-time feedback that rivals the traditional means of reaching out to peers and associates as well as customers and stakeholders.

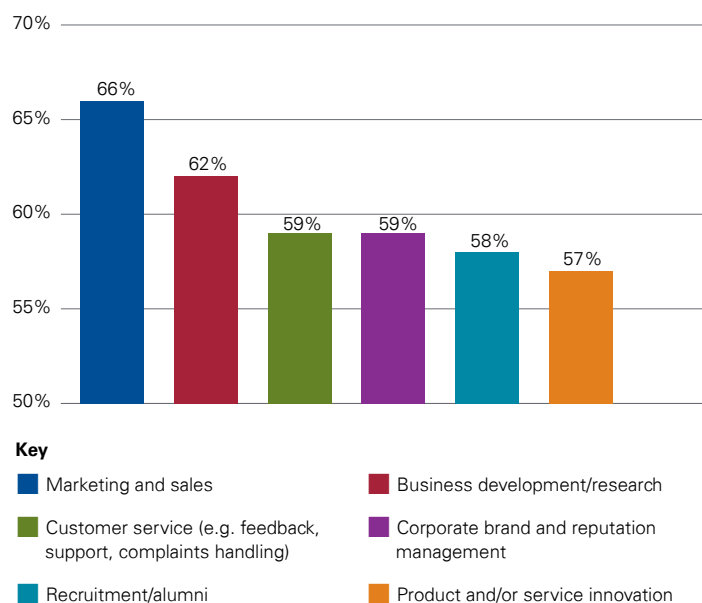
It is the real-time interaction and participation that is driving social media into an everyday communication mechanism. In an article written by the Insurance Information Institute in December 2011 titled, "Social Media, Liability and Insurance," it was noted that 65 percent of adult Internet users say they use social networking sites (most common are Facebook, Twitter and LinkedIn). The number of Internet users who utilize social media in the U.S. has grown significantly:

Number of Users	Ages 18 – 29	Ages 30 – 49	Ages 50 – 64	Ages 65+
September 2005	16%	12%	7%	5%
May 2010	86%	61%	47%	26%

Source: Pew Research Center's Internet & American Life Project Surveys, September 2005–May 2010

We are now beyond the “will-social-catch-on?” phase, with so many industries – regardless of industry or market size – actively adopting social media as tool to support business strategy.

Use of Social Media by Business Purpose



Key

- Marketing and sales
- Business development/research
- Customer service (e.g. feedback, support, complaints handling)
- Corporate brand and reputation management
- Recruitment/alumni
- Product and/or service innovation

Source: “Going Social. How businesses are making the most of social media.” KPMG International 2011

In order to capture the opportunity this online social market creates, insurance organizations are identifying emerging ways to utilize this new communication vehicle and are directing substantial effort to promote everything from social causes to free online financial education to marketing paraphernalia. As insurance entities actively using or planning to embark on leveraging social media to enable business functions, they should be aware of the risks associated with its use, as well as its non-use. The implications are far more pervasive than reaching out to customers, building brand loyalty, and shaping business processes.

How Does Regulation Fit into All of This?

The National Association of Insurance Commissioner formed a social media working group that released a white paper entitled “The use of social media in insurance” which was adopted on December 20, 2011. The white paper primarily addresses three topics:

- Insurance company and producer uses of social media

- Regulatory and compliance uses associated with social media
- Guidance for addressing identified regulatory and compliance issues

State insurance departments vary in how they are addressing the use of social media. Some have incorporated procedures as part of their market conduct examinations and others have considered its use as part of the consumer compliance process. New York State went further, issuing an opinion related to the use of social media and the applicability of regulations related to advertising.

One of the more interesting aspects of this paper was the distinction between static and interactive social media. Static content is that which is posted by an author or authorized user and only those who are authorized can change the content, so it is effectively one-way communication. Depending on the nature of the communication, it could be considered an advertisement or solicitation and therefore be subject to applicable regulations. Interactive content is much more difficult to characterize. One point that was highlighted was that “regulators must be confident that insurance consumers are protected from false or misleading information and that the well-established principles of market regulation, including record retention, are recognized and respected.”

The risks must be considered with appropriate mitigation strategies

The adoption of a social media campaign should not compromise the true nature of information, as communicated to customers, investors, and the principles of market regulation. Social media risks inherently range from proprietary information leakage to full-blown inappropriate responses to negative publicity from the customer base. Though information sources can be tracked down subsequent to information propagating through social media sites, the damage occurs quickly and resources must be inopportunately expended to address and contain the impact. Therefore, insurance organizations should proactively consider the risks of using social media to deliver value-added activities across the enterprise and in the general public.

The varied and distinct applications of social media ultimately generate additional risks to insurance organizations that either directly use or are impacted by them. Some of the risks already known to the public include:

- Personally identifiable information (PII) being disseminated in public chat rooms by employees
- Social media sites masquerading as an organization they are not
- Accidental virus downloads onto corporate networks
- Posts to sites from internal employees about their organization not approved for public dissemination
- Sharing of social media site credentials



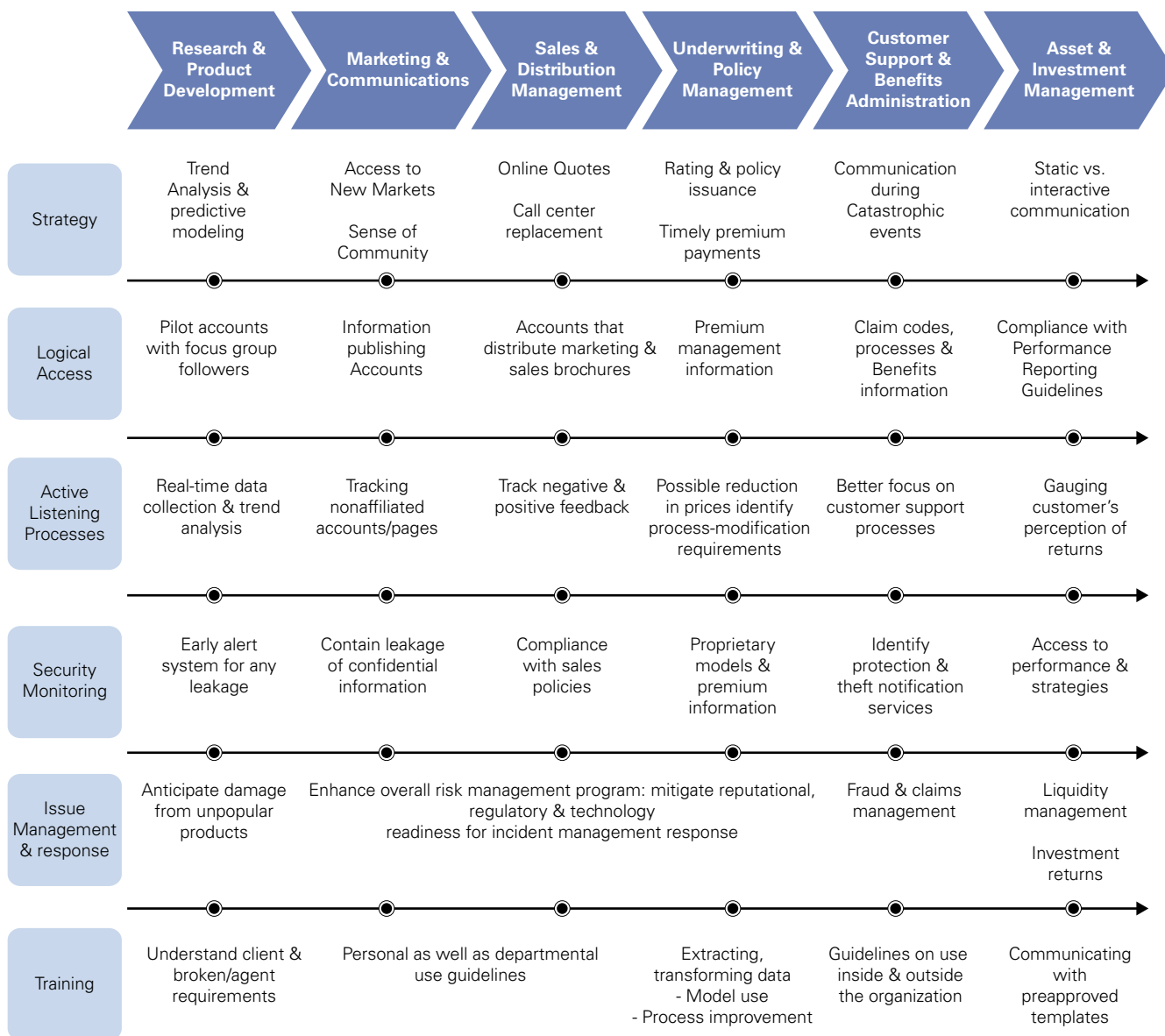
On the other hand, the amount of data available is vast and cannot be ignored. Data mining allows the insurer to gain a better understanding of the customer's likes and dislikes and then potentially develop products or provide a multitude of solutions to respond to the changing or under-served customer needs. It also allows the insurer to track trends on a real-time basis and reflect those trends in product development or customer service, for example. But given the interactive two-way nature of this data, it is fairly uncontrolled by its very nature. What this means is that over-reliance on this data poses some risks to the company. Any such data mining would need to incorporate an appropriate level of skepticism as to the accuracy or long-term nature of trends that are perceived.

Many other risks also exist; however, KPMG recommends insurers become proactive with their internal social media strategy and create a defined framework to ensure ongoing

measurability is possible as the best way to manage these risks. To begin this journey, insurers must be able to ask and answer the original question, "Who is internally responsible for social media use?" Although a simple question, the answer can be tricky. Is it information technology? How about marketing? Could it be part of the organization's risk function? Once an appropriate and responsible owner has been identified, the next part is understanding your organization's goals for using social media along with an aligned strategy to both achieve those results and manage your risks.

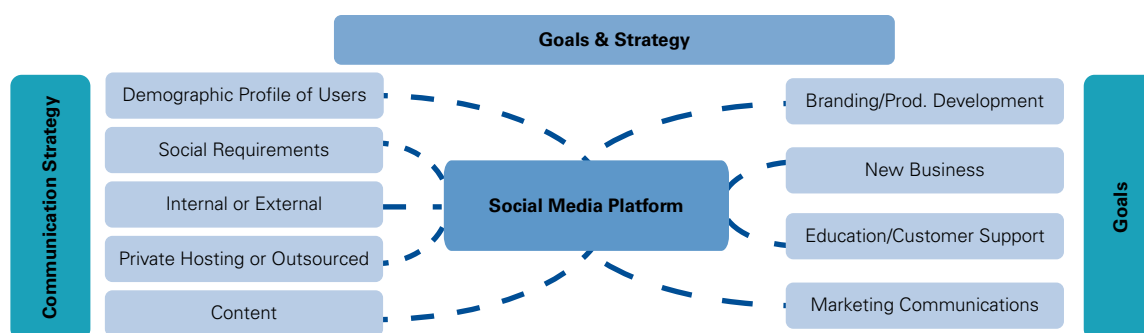
Techniques to Gain that Competitive Advantage

The ways in which the industry is leveraging the communication channel is both interesting and thought provoking. KPMG is observing many uses are tied to specific functional components of insurance processes and can be categorized into one of six topical areas.



In addition to the above, another area where social media is being utilized is with employee retention and recruiting. For example, allowing and motivating employees to maintain a social media presence that acts as a true window into their jobs and responsibilities can greatly increase existing employee's community association with the company. Company specific social media platforms where current

employees are frequently updating posts and sharing day-to-day activities may act as recruiting platform for potential candidates allowing them to get a peek into normal business operations and how the potential candidate's career aspirations may align. In these scenarios, social media may act as a morale boost for the workforce as well as allow for ongoing recruitment by existing employees.



Effectively using social media

Do you want to use social media to interact with customers or employees in case of a disaster? Would you want to provide new product information via external site? How about access to a claims specialist? The demographic profile of users, their social requirements and the content that will be made available should be researched and studied to align with the larger goals of the organization. By contemplating the potential uses of social media, an insurance organization can effectively understand its goals and create a robust strategy to address the risks, such as training, security monitoring and policy creation.

It's clear that social media presents the insurance industry great opportunities to address client relationships. Insurance organizations cannot ignore this rapidly changing medium as a platform to enable and enhance certain business processes and the same time recognizes that the evolutionary pace requires controlled and continuously refreshed processes that are both scalable and adaptable. Those scalable and adaptable processes must embrace policies around risk management to effectively focus on the strategic advantages of using social media to create new opportunities for the business

while preserving the retention of current policy holders and company reputation. Therefore, it is critical for companies to adopt comprehensive social media governance programs that support:

- Documented and corporate-supported **social media policies** that define purpose, accountability, and monitoring process
- **Visibility** of the company's policy on social media engagement that informs each audience of the purpose of the channel and the company's responsibilities
- A documented end-to-end process that maps **response protocols**, taking into account crisis procedures that address time-critical issues
- Active monitoring of the **functional development** plans for those social media channels chosen for company messaging
- A comprehensive **social data monitoring** process that remains in step with the organization's strategic use of social media

Lastly, on the question regarding social media responsibility, consider assigning a C-level executive – some companies are – it's that important.

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