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WILL THE SURGE OF MILLENNIALS challenge traditional insurance?

A customer insights piece

Introduction

Millennials grew up in a digital media saturated world thus they are often characterised as being technologically savvy, resourceful with information and captivated by instant gratification. Most Millennials are between 22 and 36 years of age and they constitute 33 percent of the population within South Africa. In 2013, the spending power for this generation was approximately R2 billion. It can be assumed that this will increase as these individuals mature. Their early experiences with technology, having copious amounts of real-time information available to them and being shaped by convenience has influenced their behaviours, opinions and choices on which products and services to use.

This, in itself, should coerce businesses of today to prioritise customer experience on the business agenda, enhance their product solutions, improve service levels and enable various channels of interaction with their consumers. The fourth industrial revolution is here, being driven by the rapid introduction of diverse and disruptive technologies, creating enormous opportunities for both new and existing businesses. The South African insurance industry landscape is well developed and competitive, which places more pressure on insurers to find innovative methods to differentiate themselves in order to maintain or grow market share. Insurance organisations are therefore faced with the conundrum of how to better adapt their service offerings to support an optimal go-to-market strategy for this particular customer segment in order to reduce churn and gain a competitive advantage.

Millennials and Customer Behavioural Patterns

The big four disruptive technologies known as SMAC (social media, mobile analytics, data and cloud) are maturing and being joined by newer ones like the Internet of Things (IoT) and advancements in artificial intelligence (which has enabled breakthroughs in cognitive automation (CA) and robotic process automation (RPA) – which is a necessity in the insurance industry due to the amount of back-office work when customers submit a claim).What this means is that business is now able to listen to and understand their customers in ways that were not previously possible. They can now engage with those customers on a breadth, scale, and level of detail that will allow them to become more responsive to their customer needs and to deliver more compelling customer experiences.

Millennials increasingly **expect** all of this as a standard offering. They expect that insurers will respond quickly to understand their demands, values, preferred channels, and circumstances. They assume that information shared with one part of an organisation will be broadly available to employees in other parts. With this mind-set, consumers are more susceptible to conclude that, if an organisation does not make an effort to understand their unique individual needs, the organisation simply does not care about them as an individual. Needless to say, the reputational damage that can be made by an unsatisfied customer in this day and age has a critical effect on an organisation's brand image. We believe that opportunities exist for insurance organisations to be forward thinking and proactive in the development and provision of a differentiated and customised customer experience for the Millennial segment.

Customer Experience in Insurance

As insurance products and services do not require customers to constantly engage with the insurance organisation, insurers have to deliver service excellence at key moments of truth throughout the insurance value chain – from customer acquisition, customer retention and claim registration to policy lapse or cancelation.

Insurance organisations are therefore required to create an engaging customer experience in order to clearly differentiate themselves and create an image of “the only choice” within their market. The sector has become more homogeneous in the eyes of the Millennial which ultimately means that adaptability is key in order to provide value to this customer segment. As innovative customer experience advancements today are the standards and best practice for tomorrow. Organisations that get this right have progressed positively at these crucial, memorable and emotive journey touch points and are reaping the rewards before their competitors do.

A key challenge is in the understanding of how to build emotional connections with customers to enable a powerful ‘anticipated memory’ of future positive experiences. The KPMG Customer Experience Excellence Centre’s research demonstrates that there is a universal set of emotional qualities that define an outstanding customer experience, this encompasses the “Six Pillars” that are essential to master, in order to create a leading positive customer experience.

Organisations that deliver across these six pillars in the **insurance value chain** demonstrate enhanced commercial outcomes that are achievable, as they link loyalty and advocacy, which ultimately affects an organisation's net promoter score.

Figure 1: Illustration of the insurance value chain

Figure 2: "Six Pillars" of Customer Experience with Millennial focus

Products and Services

According to BMI Industry view, the South African insurance market is broadly positive supported by stronger economic growth. The market is home to large and well-capitalised domestic providers and major multinationals which ensure that the product offering, particularly in the larger life sector, is diverse and comprehensive, while the non-life sector remains dominated by basic motor and property lines.

The benefits of product innovation and personalisation are widespread and allow a firm to be more flexible and respond to changing customer needs. A critical step in the journey of being better able to serve your customer is to gain insights on them. Product development involves a needs analysis and the ability to do this effectively will define the future of insurance companies. Understanding what needs the potential product should be able to satisfy, is crucial and what better way to do this than to explore the traits of the customer in question.

Millennials grew up with the internet from a relatively young age and tend to embrace the disposable consumerism that is inextricably linked to this age. This generation seeks immediate gratification and insurance is not synonymous with this, due to the lengthy back office processes and lack of a “single view” of their customers. Insurance companies need to equip themselves to better cater for Millennials and their need to obtain immediate benefit through product innovation and personalisation. An excellent way other industries are catering to this segment is by providing rewards programmes.

Rewards programmes that work best are those that allow organisations to gather and use customer purchasing data to attract, retain and grow their customers. Millennials are profiled to being open to try new experiences that prove convenient and that meet their demands. As a result insurance companies have leeway to tap into these uncharted waters. Short-term insurance makes up less than 20 percent of premiums written. Although motor and property insurance will continue to dominate over the long term, health and personal accident insurance is growing rapidly. This is bolstered by increases in private healthcare costs and the number of first-time buyers of personal accident insurance. Insurance companies can therefore gain insights on their Millennial customers' characteristics and buying preferences, and tailor their product offering to their needs.

The Discovery Vitality Programme is an excellent example of this. This programme capitalised on the fact that there is an inclination to health and wellness in today’s society. There is a rise in the quantified self-centred Millennials and Discovery is leveraging off this by using wearable devices that monitor activity. This has been highly successful in engaging those with a low level of physical activity.

The data from these devices can be used to gain even more insights and propel them forward.

Another example is Swiftcover. They are a short term insurer based in the UK and have realised their customers often have a lack of supporting evidence when making motor accident related claims. The company believes that the use of dash cams could solve this problem and relieve the stress customers encounter when in an accident. This specifically appeals to the empathy pillar and making a stressful situation as convenient and seamless as possible. However, there are concerns around privacy.

Privacy is an issue for Millennials as they are not always abiding by the rules of the road and don’t want their insurers to have views of this. Swiftcover has created an incentive for customers to buy dash cams by offering a 10 percent reduction in insurance premiums.
This especially speaks to the need for Millennials to be at the forefront of new technology and to their need to have immediate benefit.

Long vs. Short Term Insurance: A Millennial View

Where Millennials currently fall in their life span, as well as their life styles, are telling factors when considering what this segment typically opts for when it comes to short and long term insurance. KPMG conducted a short survey to gauge the traction of Millennials in the insurance industry. This survey was conducted on a sample basis. Respondents were asked 10 questions about their current insurance usage, preferred insurance channels and experience with insurers.

When it came to long-term insurance our survey results show that 89.47 percent of Millennials have life cover and about 50 percent of Millennials have disability cover and funeral cover. Lower on the scale in terms of long-term insurance was dread disease cover, followed by credit card cover which had the lowest penetration of 10.53 percent.

When it comes to short-term insurance over 80 percent of Millennials surveyed had car insurance, while a third had household content and phone insurance. Travel, home and legal insurance were less popular among respondents at 16 percent.

This data is concurrent when looking at the current age group of Millennials. Most of these individuals are finishing off university or well into their first jobs. Insurance is therefore not an easy sell to Millennials as it is often lacks in the element of instant gratification and in reality adds to their financial responsibilities. Phone insurance is also shown to be quite popular among Millennials as the second highest percentage of short term insurance offerings. This demonstrates the value Millennials place on their mobile devices. This reliance on technology is not only important when considering the types of short-term insurance to offer this customer segment, but also when considering channels of communication and interaction with them.

Life cover is provided by most companies to their employees. This becomes a realisation for individuals who wish to buy a home and also becomes a more evident option for individuals who have children. The Life cover penetration rate amongst Millennials is quite high.
A smaller proportion of Millennials have home insurance or home content insurance. This proportion is expected to grow as these Millennials mature to become new home owners.

Channels

Insurance channels refer to the different interaction platforms insurers use to target their customers and the different mediums they use to interact with their insurers. Insurers typically use a mix of channels such as websites, applications, sales agents, brokers and other aggregator platforms. Given that Millennials are always "on-the-go" and highly engaged on technological platforms, insurers need to relook at how they position their current channels towards this customer segment. They can achieve this by making use of more direct channels, utilising technology and digitalisation more effectively and optimising the customer experience over these channels.

Currently insurance companies have diversified their channel usage, the traditional B2B2C model still takes precedence in the sector. The majority of Millennials surveyed still use the agent and broker model as their primary channel when obtaining insurance.

Research around this customer segment highlights their willingness to adopt to new technologies and how easily influenced (or sensitive) they are to other consumer views, when it comes to choosing an insurer. Given the advancement in technology and increased insight into customers, insurers can now use available data to offer competitive rates to customers that are tailored to who that customer is and what they require. Furthermore technology could help foster more self-help interface channels for the technology savvy Millennial, who knows what they are looking for and who prefers "cutting to the chase".

This increased use of technology will enable insurers to engage more directly with the customer, allowing them the opportunity to better control their own narrative around their brand and the customer's brand experience and as a result the net promoter score of the insurer. As an example social media can be leveraged in order to gain reviews on customer experiences to gather feedback from customers in order to respond to customer complaints and queries. We have expanded on how technology can be useful in a client engagement space, but how about claims? Some insurers in South Africa make use of mobile apps as a channel to collect data on their customers; for example, where drivers are monitored on-the-go which has a direct link to their premiums, or where customers can take pictures of an incident directly on their insurance mobile application. This is an example of how a channel is strengthened and made better not only for the insurer to gather more data at the point of contention, but for the customer's peace of mind that the insurer has first-hand data of the encounter, building in more trust and personalisation.

When it comes to interacting with customers insurers should be making multiple, relevant channels available, particularly new innovative channels that can be leveraged effectively. Furthermore, insurers should strive towards ensuring customers have a consistent experience across all channels. This is easily achieved by taking a connected customer approach where all points of interaction with the customer are seamless and customer data can be integrated across multiple channels.

Conclusion

So will the presence of the Millennial in the customer base influence the traditional insurance industry?
The short answer is yes. Millennials are the new age customer across all industries that surely challenge organisations to rethink their 'business as usual.' Although this segment may be satisfied with the overall customer experience, they are not necessarily loyal. For this reason, it is imperative that insurance organisations ensure that they understand their customers so well that they can anticipate their needs and exceed their expectations.

Millennials require personalised products and services, instant gratification, value for money as well as convenience in terms of the channels available that can better cater to their technology savvy traits. If insurers want to increase their market share in this segment they must understand Millennials current experience, their feelings and emotions hence they need to continually analyse the data they hold on this customer for valuable insights. Forward thinking businesses realise how imperative it is to be customer centric. If the insurance sector wants to thrive it must recognise segments whose buying power is on the rise and the surge of the Millennial cannot be ignored.

In addition, tracking and predicting the buying habits and lifestyle preferences of customers is becoming crucial. Predictive models are used from previous customer interactions to predict future events whilst segmentation techniques are used to place customers with similar behaviours and attributes into distinct groups.

This together with tracking individual customers brings a greater level of personalisation to the customer's experience. Both techniques should be used to foster fact-based decision making by leadership in order to quickly translate those decisions into actions to create value.