Shifting customer needs are mandating significant changes in the ways insurers manage their businesses. They must align people, processes, and technology in new ways to better understand their customers, address customer needs, and profitably manage the customer. Those carriers who are beginning to tackle this challenge are laying the foundation for future success, while those who cling to the traditional line of business and agency structure, adhering to the philosophy of “business as usual,” will face a growing struggle to survive. In today’s dynamic and increasingly competitive marketplace, change is a necessity, not an option.

EMERGING TRENDS
The insurance industry has not dramatically changed its thinking in how it operates due, in part, to an upward trend in earnings over the past several years. This trend, however, was being driven partly by strong equity and real estate markets, which are driving company investment income to record levels. Although this earnings trend may seem impressive for the industry, a number of underlying trends portray a much bleaker picture for the future and illustrate why radical change is necessary.

Today, all insurance companies are facing increasing competition—and not just from similar firms. Direct response companies are increasing market share by offering discounted premiums as a result of much leaner cost structures. With significantly higher expense ratios, companies with traditional distribution channels and customer service methodologies are finding it increasingly difficult to compete. And, as the volume of business increases for direct writers, so does their competitive advantage—expense ratios fall much faster.

According to A.M. Best’s Aggregates and Averages, there has been little “real” premium growth in most property and casualty product lines when factored for inflation. In the life insurance product line, the popularity of traditional products such as term and whole life is declining as customers are attracted by the potential of significantly higher returns from investment-type products such as variable and indexed annuities and...
provide the vast majority of profits. Today, most insurance companies are operating on a foundation of patchwork information systems dating from the ‘70s and ‘80s with business values that are difficult, if not impossible, to quantify.

Historically, technology has been brought in to address specific short-term processing challenges with little regard to the company’s overall long-term business strategy and objectives. As a result, the majority of companies possess outdated, inefficient legacy systems that provide virtually no insight into their insureds’ behavior, profitability, and product preferences. Furthermore, maintaining old file structures and outdated hardware, not to mention addressing the Year 2000 software problem, is placing a huge drain on staff and budgets—resources that are desperately needed to take on new customer-focused initiatives.

Not surprisingly, outdated technology is supporting outdated operating procedures that are based on product lines and/or geography. To prosper, it is imperative for firms to have information systems in place that provide a “holistic” view of customers and insight into their particular wants and needs.

With flexible, leading-edge computer systems providing instant access to up-to-date, detailed information—sometimes at the point of sale—cross-selling opportunities and profitability can be maximized. However, this requires much more than implementing a data warehouse or an electronic commerce application. Only through the fundamental realignment of people, processes, and technology can firms gain the capabilities necessary to accurately determine customer profitability, product ownership, and delivery channel preference, as well as product usage.

**INTRODUCING CUSTOMER MANAGEMENT**

To provide these capabilities, KPMG developed a comprehensive, enterprisewide solution, called Customer Management (CM), that links disparate elements of strategy, technology,
processes, and retraining to build an entire customer-centric organization. In short, CM provides the strategy and the implementation support needed to deliver the right products with the necessary service levels to meet the expectations of your most profitable customers. CM links existing firmwide capabilities and fills in the missing elements to move organizations from a line of business-dominated state to a truly customer-centered environment.

By adopting a CM-based strategy, firms can better understand and influence customer behavior and profitability. This insight enables firms to tailor products, access (through an agent, an 800 number, or the Internet), and service levels to customer needs. In addition, firms can maximize profits by identifying profitable and unprofitable customer segments and taking appropriate action. What’s more, customer retention is likely to increase due to value-based pricing, convenience, and the interrelationship of products, even though individual products may not be best of breed. As a result, this can provide a viable solution to eroding market share and the customer’s perception of insurance products being commodities.

Through CM, insurers can also begin to address the challenge of realigning business processes and technology in order to build and retain profitable customer relationships. The transition from a product, business unit, or geographic-oriented organization to a customer-centric organization requires rethinking customer and product strategy; reengineering the supporting customer, processing, and financial management systems; and developing entirely new “business scorecards” to measure and reward performance. For example, customer contact staff must be evaluated and rewarded financially to encourage them to help retain the most profitable customer segments rather than simply meet processing metrics.

CONCLUSION
The world is changing exceedingly fast for all financial services companies. To maintain competitiveness and help ensure long-term survival, insurers need to completely understand their customers like never before—their behavior, actions, lifestyles, and preferences.

The CM process analyzes, links, and implements these changes. Once implemented, CM can enable insurers to:

- Understand customer needs
- Build valued, long-term relationships
- Manage profitability at the customer level
- Contain delivery costs
- Improve branding and customer allegiance
- Implement cost-effective and efficient management and operational processes
- Collect and effectively use information to achieve a more holistic view of the customer

“Business as usual” can create a no-win scenario defined by declining service, eroding market share, inflexibility, and expensive overhead. Unless insurance companies transition to a more customer relationship-oriented strategy and begin to leverage new distribution and customer management methods, they face a continuous decline in market share to more nimble competitors.
ABOUT OUR PRACTICE

KPMG’s Financial Services Consulting practice is devoted to serving financial services businesses across a wide range of industry lines. We have more than 1,000 professionals in the United States who provide strategic and tactical consulting to organizations in all segments of the financial services industry, as well as to nonfinancial companies with operations in the following markets: banking, insurance, real estate, and hospitality. Our market-focused structure enables us to create integrated delivery teams that seek to provide responsive, comprehensive solutions that link strategy with practical results. Our industry-focused teams address strategy, operations, risk, and technology issues in formulating end-to-end solutions that are tailored to a client’s specific situation and requirements.

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.