

# DeRisk

*CRISIL's insights and analyses of regulations, macroeconomic factors, guidance and trends affecting the insurance industry*

June 2021

## The personalisation clarion-call for insurers

**The pandemic-driven disruption is a great opportunity for insurers to change their process, digitalisation and consumer experience paradigms**

March 11, 2021, marked the first anniversary of the World Health Organization declaring Covid-19 as a pandemic. The one year since has shaken all notions of normality, disrupted the business of living, and business itself.

Like all other industries, financial services found itself in the throes of a crisis. It has been challenged to find new ways of connecting to consumers and expanding markets.

The insurance industry and large asset managers such as pension trust funds, especially, have since been focusing on identifying new customer touchpoints and maintaining market share.

In this issue of DeRisk, we explore two areas where insurers and pension trust funds are doing exactly that: through the use of social networks and product customisation. We also identify the drags and what could possibly be done to make the process smoother.

We have considered insurers and pension trust funds in the same bucket because their clientele have similarities: insurers have pension and wealth products such as annuities; pension trust funds also have similar asset management obligations.

Additionally, multiple pension trust funds have seen pension buy-outs from insurance portfolios. Even insurers are offering lump-sums instead of annuities – a trend of de-annuitisation seen over the past 15 years.

## The power of social media

In 2014, only 40% of top tier<sup>1</sup> insurers used social media for sales and marketing. Today, nearly 90% of top tier insurers use social media to promote products<sup>2</sup>.

Some of the top insurers in this list include All State, Progressive, Lemonade, Metlife, New York Life, Prudential, AIG, Allianz, Aegon, QBE, and Liberty Mutual.

At first glance, it will look as if the days of direct mail marketing are long gone for insurers. However, many of them are still following this practice, particularly in the US for the 60+ age segment products, and local insurance brokers or agents for their client reach-out.

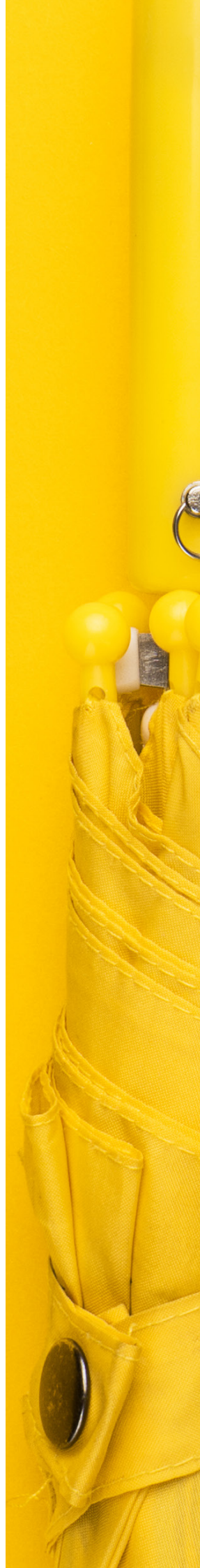
Social networks have impacted and brought benefits to many industries, and there is no reason why it would not work for the insurance industry. Especially since everything around insurers – demographics, consumer preferences, and technology, regulations, social and health aspects, non-systemic, accounting standards – are evolving. That means the way insurers attract and generate more business must get a serious upgrade as well.

While social networks are used to create targeted product campaigns, they don't throw any more light on product details that consumers may wish to know. Hence the benefits and cost transparency aspects of products are still vague to consumers. Social networks<sup>3</sup> can be of great help to the insurance business in:

- Accelerating business growth
- Measuring effectiveness of marketing campaigns
- Taking business decisions that improve sales profitability
- Formulating a strong marketing strategy
- Understanding the needs and preferences of customers to improve their satisfaction
- Capturing the attention of people and improving brand awareness

<sup>1</sup> Measured by issued premiums worldwide, <sup>2</sup> CRISIL independent research,

<sup>3</sup> <https://www.mentionlytics.com/blog/social-media-analytics-for-insurance-businesses/>



Social networks such as Facebook have an insurer’s business section<sup>4</sup> where they discuss a sample of relevant details on consumer behavioural<sup>5</sup> topics. These include aspects

noticed during the first year of the Covid-19 pandemic. Exhibit 1 shows these areas and the behaviour of social network users during that period of time.

**Exhibit 1: The behaviour grid**

Users staying...	By performing...	Our view on why it is relevant
Informed	Searches on Covid-19, joining groups and reading information sourced from the Centers for Disease Control and Prevention (CDC) and World Health Organization (WHO)	Very few insurers and pension trust funds have done a good job informing their consumers about relevant topics on Covid-19 and how they are tied to their own business relationship.
Positive	Virtual activities in groups related to friendship, dog, prayer and jokes	Bringing the human flavor and social impact will help to enhance users’ experiences.
Occupied	Distractions from daily tensions, particularly fitness activities, watch television, leisure activities, and handicraft	This is, in our view, the top behaviour that helps user overcome mental health problems from the lockdown. Insurers and pension trust funds should work with their policyholders to promote wellbeing.
Healthy	Searches and opinions about hospital, medicines, pharmacy and unemployment topics that can help users to deal with their health and financial stress	A top focus area for insurers given the nature of the business. It is not only about receiving monthly premium payments for their products, but also thinking about their policyholders in a more holistic manner.

The pandemic led to a significant increase in people joining Facebook groups<sup>6</sup>: in France, 1-2 million people joined global groups; in Italy, Facebook usage increased 70%; and in the US, 50% more people accessed Facebook live events.

This indicates not only increased use of social networks but also higher reliance on them by potential customers of the insurance industry.

According to Facebook, insurers should humanise their brand, be conscious of tone and show support to local communities and business. This is consistent with our view on how the insurance industry

can unleash the power of social media, attract new clients, and improve the level of transparency of benefits/cost of their products.

Determining which, and how, insurers have attained certain levels of social media practices is an interesting exercise. A point-in-time view to a sample of US P&C insurers such as Progressive and State Farm show that they have adopted many of the recommendations from the social media platform stated in the previous paragraph.

However, looking at how they conduct business, we observe that core features

<sup>4</sup> <https://www.facebook.com/business/industries/insurance/>, <sup>5</sup> Sample of relevant details on consumer behavioral

<sup>6</sup> Significant increase in people joining Facebook groups



of their underwriting process, such as the time taken to buy insurance and transparency of products, are still slow. This is also reflected in how new insurers have grown at a more rapid pace. For example, the disruptive insurer Lemonade has focused particularly on automation-reduced underwriting process, adding chat bots and simplifying any remaining paperwork. According to Lemonade#, it achieved one million customers in just 4.25 years compared to StateFarm that took 22 years; Allstate, 19-27 years; Geico, 28 years; and USAA, 47 years.

Among life insurers, the level of adoption of social media practices varies. While European insurers such as Aegon keep a close vision to community engagement, other insurers struggle to keep pace with evolving consumer habits.

The use of social networks has empowered consumers to identify common needs and risks (the very foundation of mutuality in insurance). These networks are building digital insurance solutions to mitigate their own risk without relying on insurers. For example, the German peer to peer (P2P) Friendsurance<sup>[1]</sup> was founded on the idea of bringing together “friends” or peers who share common risks to buy collective non-life policies from established insurers. Friendsurance uses social media to connect these “friends”.

While these cases may sound appealing from the perspective of proximity to social

media, life and health insurers should start keeping an eye on how to make their underwriting process more agile and boost capabilities. Lemonade now offers life products with way faster underwriting. Its strategy is simple: capture market share by reducing and simplifying the process from 5-15 days to mere seconds.

Leveraging social platforms to promote products should be on the agenda of every insurer and pension trust fund. This will bring in agility to the underwriting process and consumers closer to products that are difficult to understand. It will also usher in much-needed transparency in benefits and cost comparability across providers. Those who can combine these aspects in their offerings will increase their market share.

## Personalising insurance

Capturing some of the user behaviour mentioned in Exhibit 1 (such as staying informed, positive, occupied, healthy) into buying actions for insurance products is not easy. First, insurance product attributes are given in terms of long-term benefits or the occurrence of unpredictable events that are difficult to visualise today. After all, an insurance policy is an intricate contractual agreement between the insurer and the policyholder.

### Exhibit 2: Arguments against insurance purchase

Product type	Argument that makes it difficult to assess value or benefit
Property and home	Contingent events are not frequent and insurance prices are expensive and difficult to compare across providers
Car and other vehicles	Only useful in case of an accident or theft, no other value during other events except ‘peace of mind’
Health and injury	Payable only when a health or injury event occurs, young and healthy people have less incentive to buy this type of product
Life insurance	Underperforming asset returns due to prevailing lower interest for investment products, and not return of premiums
Retirement and wealth	Long-term in nature and underperforming returns make retirement products less attractive

Exhibit 2 makes it clear how insurance products are difficult to understand and how the benefits are difficult to measure and compare. Even today, it is extremely hard to find a quote for insurance online. Web portals have provisions only for customers to input their details. Eventually, they have to wait for calls from different providers with quotes on various products. Just a handful of insurers provide quotes on-the-fly based on non-traditional variables, credit card use, credit scoring, geolocation history, or biometric data from wearable devices.

Consumers are evolving quickly, fuelled by the virtual environment pushed during this first year of pandemic. All these changes are bringing new concerns to consumers and financial institutions alike, leading to

insurers and pension trust funds reviewing how they handle the personalisation of products.

These firms need to cope with humanising their products using social media, create a social and community purpose without staying away from the issues around transparency. They need to improve understanding around the products, and more importantly, create marketing flexibility or penetrate to new and niche products. Insurers and pension trust funds will have to stretch to new areas in order to navigate the new business environment and continue bringing the value potential consumers expect.

### Exhibit 3: How to work around the Achilles heel for insurers

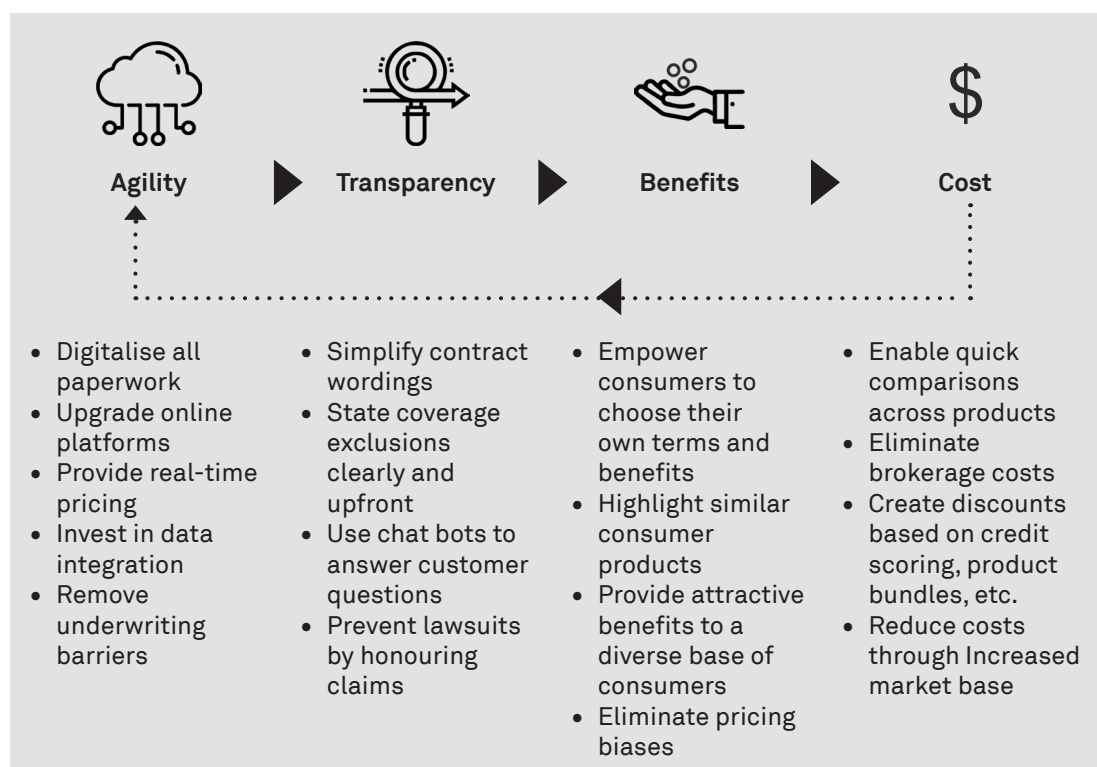


Exhibit 3 captures how insurers can make their products more intelligible to customers and gain trust. It brings together some of the top challenges faced by insurers: lack of agility and poor transparency in costs and benefits, so they can sharpen focus on how to work around them and reduce set-back to consumers looking to buy insurance products in an easy way (despite the arguments presented in Exhibit 2).

In the previous section, we mentioned about knowing the power of social media, but that is not enough. Modernisation and customisation of products are also necessary to attract customers.

That's because buying insurance is complicated. Understanding products and their cost/benefits is far more difficult for

the majority of consumers, unlike physical products bought off a shelf or even online.

Why is it so difficult to access information on insurance products, and compare prices or benefits? The answer is simple: insurers hardly focus on agility, transparency, benefits and cost. They need to adopt practices to engage the community and bring transparency to their products while focusing on their ability to accelerate underwriting, from insurance quote request to policy issued quickly.

Let's illustrate how this framework may be used in practice to create a taxonomy of the adoption components that insurers and pension trust funds may use to respond to existing customer needs.

#### Exhibit 4 shows the level of consumer personalization followed by insurers

Parameters	Top attributes	Level of personalisation classification <sup>#</sup>	
		High	Medium
Agility	Eliminate underwriting barriers and introduce efficient pricing systems	✓	Limited
Transparency	State coverage exclusions clearly and upfront – explain the small print	✓	✓
Benefits	Empower consumers to pick and choose riders and benefits	✓	Limited
Cost	Enable comparisons across products and remove middlemen	✓	✓

If your company falls in the 'High' level of personalisation, it is avant-garde, and has understood the relevance and value of developing products with a high degree of adaptability to prospective policyholders.

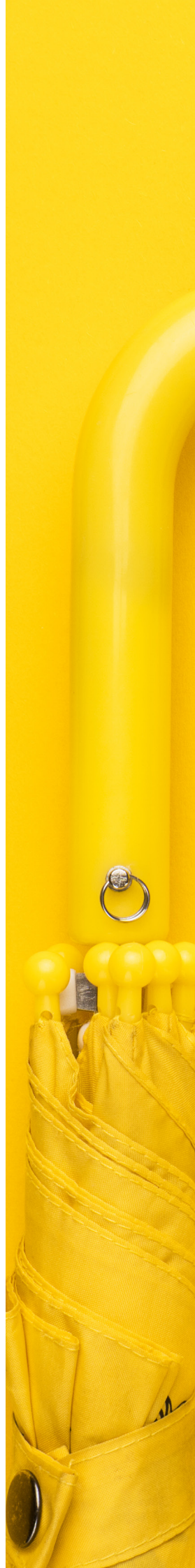
#### Our vision of your priorities

The avant-garde insurer and pension trust fund has the difficult task of bringing

agility, transparency, cost clarity and benefits upfront by deploying tools such as social media and personalisation of services and solutions.

Exhibit 4 shows how CRISIL can help navigate your investment and product customisation agenda.

<sup>#</sup> The tick marks represent a strong level of personalization achieved by the insurer in each various category. Insurers classified as High are strong across the board, whereas insurers classified as Medium are typically still lagging behind in areas such as Agility and Benefits.





## Exhibit 5. How CRISIL can help you

Area	Description or additional details
<b>Planning</b>	<b>Insightful approach:</b> Providing an overview of the insurer's business model towards improving transparency and setting a basis for transformation
<b>Governance</b>	<b>Streamlining internal and statutory policies:</b> By requiring updates at each reporting date and making key driver assumptions and establishing a system to assemble multiple information sources
<b>Model risk management</b>	<b>Holistic approach to all models:</b> Bringing best practices around model use, conceptual soundness, theoretical framework, implementation, data review, replication of results, independent validation, etc.
<b>Processes and guidelines</b>	<ul style="list-style-type: none"> <li>• <b>Strong orientation to user experience:</b> Elaborating the guidelines to help users navigate SAA and ESG challenges</li> <li>• <b>Data/analytics:</b> Establishing data management and analytics processes for social media and customisation of products</li> <li>• <b>Software:</b> Assisting in integration and migration of processes from legacy systems</li> </ul>
<b>Documentation</b>	<ul style="list-style-type: none"> <li>• Ensuring all users have access to both technical and non-technical information</li> </ul>
<b>Support across a variety of SAA, ESG and product customisation model components</b>	<ul style="list-style-type: none"> <li>• Data transformation engine</li> <li>• Risk factor management tool</li> <li>• Asset class models</li> <li>• Duration and smoothing tools</li> <li>• Stochastic model engine</li> <li>• Optimisation engine</li> <li>• Product management tools</li> <li>• Liability and cash-flow model data</li> <li>• Strategy and hedges</li> <li>• Liquidity and solvency models</li> <li>• Tax and statutory model</li> <li>• Reporting tools</li> <li>• Import assets portfolio tool</li> <li>• Treasury policy management tool</li> </ul>
<b>Talent</b>	<ul style="list-style-type: none"> <li>• <b>Team structure:</b> Supporting cross-functional teams mapped to key objectives</li> <li>• <b>Training needs:</b> Educating stakeholders on business needs, particularly model risk management</li> </ul>

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Global Research & Risk Solutions is the world's largest and top-ranked provider of high-end research and analytics services. We are the world's largest provider of equity and fixed income research support to banks, and the foremost provider of end-to-end risk and analytics services to trading and risk management functions at world's leading financial institutions. We provide corporate research and analytics solutions to operations, strategy, and sales and marketing teams of corporations globally. Coalition provides analytics and business intelligence to 14 leading global investment banks. We operate from 8 research centers in Argentina, China, India and Poland, working with clients across time zones and languages. Being part of CRISIL enables us to attract and retain top quality talent. We have over 2,300 employees, 75% of whom hold advanced degrees in finance, accounting and management. We employ the largest number of CFAs and CFA aspirants in India. We have won top honours at the World HR Congress on Talent Management and HR Project for the year 2015. We have also won the NASSCOM Exemplary Talent Practices Award (NExT Practices) for skill development for two years in succession in 2011 and 2012. The award recognizes us as a firm that has the vision to proactively invest in its people and get them future-ready. We are committed to delivering cutting-edge analysis, opinions, and solutions. This underscores our proposition of being the best people to work with.

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