CUSTOMER ANALYSIS AND BEHAVIOR IN THE INSURANCE INDUSTRY

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Abstract

Human life is a most important asset and life insurance is the most important type of insurance which provides financial protection to a person and his family at the time of uncertain risks or damage. Life insurance provides both safety and protection to individuals and also encourages savings among people. LIC of India plays a vital role in the welfare of human well-being by providing insurance to millions of people against life risks such as uncertain death or accident. We focus on strategies used in sales management with reference to the standards of customer service and the models used in customer relationship management. The aim of the authors is to present the benefits resulting from the application of new technologies, thus estimating the pace of change, the new opportunities and the need for flexibility in the relationship with customers. Along with the technological component the human component is also present in order to ensure the successful implementation of CRM.

Introduction

The rising expectations of customers have forced the insurance sector to introduce more and more new customer relationship management initiatives as it has got a serious impact on the sale of the insurance products, while the technological advances and decreasing costs of technology have reduced barriers to adopting IT based CRM initiatives. As the profitability of the insurance sector is mainly depend on the services it offers and on meeting the customer demand on a regular basis, this suggests that a good CRM initiatives must be the foundation of the insurance sector. The major burden the industry faces is obtaining and keeping clients. This is due to the fact that it has become increasingly difficult for this particular sector to gain profits while curtailing costs.

Specific elements of CRM in insurance

The term customer relationship management encompasses all those concepts used by companies in relation to their clients including the capturing, storing and analysis of information about customers, while taking into account the data's privacy and security. This is a business strategy that influences the processes, the culture and technology of an organization in order to optimize revenue and increase its value by understanding and meeting the needs of individual consumers. Implementation of such a system involves the systematization of operations specific to each particular field, in a particular predetermined order and considering a number of components such as: analyzing the company - client relationship in sales, marketing and services, determining the profitability of introducing the CRM system by analyzing the costs and time required for CRM implementation as well as the project and data necessary to carry out the CRM process.

With the competition going up in the post-liberalization insurance market, one factor that could contribute to the overall performance of an insurance player is CRM. An increase in the number of insurance players in the market and rising awareness among customers of different products, companies in the insurance sector have realized the importance of CRM.

In today's competitive era, where the customer is the king, it is a must for insurance companies to not only prospect for new customers but also to maintain the existing customer and encourage them to go in for repeat purchase.

The Life Insurance Corporation (LIC) of India was the leading player in the insurance marketbefore the appearance of private players. Being a monopoly it didn't care much about either attracting new customers or retaining existing customers. If anyone needed an insurance policy, they had to purchase it from the LIC, which offered mostly a tax-saving scheme. But when private players entered the market, the competition forced LIC and other new entrants to become customer-centric. This highlights the importance of customer service. In the insurance sector, there is an agent-client relationship (strengthened through word of mouth advertising). Agent thus plays a vital role in building this relationship.

However the customer relationship management process is faced with different challenges, typical for each field of activity, which cannot be solved by applying the same standardized solution. In the insurance field the implementation of this process proved to be extremely complex especially because of the differences that are specific to each type of insurance:

- ✓ Property insurance
- ✓ Life insurance
- ✓ Liability insurance

Property insurance deals with property belonging to individuals or legal entities and may be the subject of natural phenomena or accidents (cars, buildings, household goods, assets etc). So basically all movable or immovable property belonging to individuals or legal entities can be insured (implicitly accepted as clients). Of course, depending on the practical conditions of the specific environment the insurers operate in, their own policies and their experience in a particular market, certain assets are not insured. The conditions for insuring a property or not, may vary from one company to another, from one market to the next.

Life insurance deals with the individual himself and it is meant to reduce disruption caused by natural disasters, accidents, disease etc., or it consists of paying the insured amounts in connection with the production of certain events (death, disability, etc.).

Of course, in this type of insurance also, there are exceptions; some people cannot be provided with insurance, such as, for example, people aged over 65.

Liability insurance compensates damages caused to third parties for prejudice caused by the insured. Therefore, depending on the type of claimed insurance, customers are accepted for insurance if they fall within the criteria predefined by the insurer.

Insurance has many specific characteristics that in time proved to be problematic for the implementing of customer relationship management. Firstly many of the specific products require fewer after-sales service. Once you have purchased a life insurance for example, the next significant event is the claim or the expiring term. Therefore investing in additional services for such a product is not justified by an increase in profits and therefore the cost of CRM implementation is also not justified. Secondly sales force in life insurance is more inclined towards new purchases. Although in sales it is recognized that cross-selling is cheaper than the acquisition of new customers, the compensation structure and training of sales people in the field, encourages the acquisition of new customers to the detriment of developing the existing ones. Thirdly it is extremely important to understand that the correct data is not correctly shared across the supply chain, which is composed of several levels on the B2B2C model. For the customer relationship management system to be truly effective it must be able to provide a focal point of information, for all parties to see the interaction to the final customer.

Finally, often, implementing CRM in insurance faces the problem of misidentification of the customer. Such a system considers distributors as being customers, completely neglecting the concrete result of the sale to the final consumer

Key Processes of Customer Relationship Management

The customer relationship management encompasses a broad spectrum of activities starting with the segmentation of customers in the database and continuing with acquiring new customers and retaining the existing ones. Therefore CRM is not just a technology but rather an intelligent system, a customer-centred approach of the organization's philosophy in dealing with its customers.

Customer Challenges in Insurance Business

Customer servicing today has clearly become the focal point of insurance companies. There is a greater sensitivity in these companies in dealing with the customers. Earlier, the marketing of insurance products was more product-centric. The trend is however, changing today. It is becoming more customer-centric and new companies are exploiting this trend and translating it into benefits. The public sector companies have not remained far behind. It is believed that one needs to protect ten times of one's present income through insurance, so that the family can be free of financial difficulties in the event of the insurer's untimely death. Few in this country can provide this kind of security. The concept of a customer buying more than one policy has not taken off yet.

According to the FICCI survey of customers conducted a few months back, 84 per cent of the respondents felt that services during the post-privatization period have improved and out of this 56 per cent described the improvement to be significant. Forty eight per cent and 44 per cent of the customers, respectively, felt that timely premium notice and imparting a personal touch in customer interaction would be important modes of providing customer services.

Retain Customers with Great Service

Most insurance companies understand the virtues of a single, complete, real-time enterprise view of individual customers, and they have made great progress towards providing this view at customer touch-points throughout the enterprise. But it's critical to note that this view should not be regarded as an end in and of itself-rather, it is a rich foundation to be used as a basis for a deeper, more advanced level of customer understanding.

The advanced level of understanding is needed to help insurance companies predict customer behavior and align marketing, cross-selling and up-selling efforts accordingly. By making customer analysis and behaviour prediction data immediately accessible at the desktop, sales efforts are optimized and customer loyalty is strengthened, as individual customers feel that their needs are understood and met in a way that is fast and convenient.

Predicting customer behaviour for improved sales efforts is a three-step process:

Sum Profiling: Insurance companies first build a profile of information about customers who have previously exhibited a targeted behaviour. Profiling requires rich customer data, including enterprise-wide transactional and behavioural data such as call center and account holdings information. Other data sources include key performance indicators and third-party demographics. An example of profiling might be building a profile for customers who bought new homeowners' insurance policies in the past two years. The goal is to determine characteristics to look for in future buyers.

Sum Modeling: By using data mining on the profile information, analytics can uncover the most relevant characteristics of the customer segment being analyzed. For example, the most significant attributes of customers who bought homeowners' insurance are gleaned from the profile via the data mining application. Such characteristics comprise the model of customers most likely to purchase homeowners' insurance in the future.

Sum Scoring: Insurance companies use predictive analytics to score existing customers by comparing them to the model. Those most closely matching the characteristics included in the model are most likely to exhibit the targeted behavior.

Given the example above, an insurance company can rate its customers numerically to indicate how closely they match the model of the person most likely to buy homeowners’ insurance.

Once customers are scored and the analysis pinpoints customers most strongly correlating with the model, an insurance company can address those customers, especially the top prospects. Customers scoring a nine or above might receive a special promotion for homeowners’ insurance,while a separate, incentive-based offer might entice those scoring seven and above.

Customer analysis and behaviour prediction can also be used to identify life events and/or extended relationships, which can be highly useful in improving profitability from individual customers. For example, life events often trigger changes in insurance coverage that can be anticipated and leveraged with targeted offerings. You might identify health insurance policyholders who have recently had new children and offer them an attractive life insurance policy. Using a single, complete, real-time enterprise view coupled with customer analysis and behaviour prediction, you may be able to identify good drivers among your auto policyholders who have children turning sixteen. It’s time for a targeted offer to add the family’s new driver to the policy.

As with many industries, the more products you can sell to a given customer, the less apt he/she is to migrate to another provider. Furthermore, as policy holders tend to stick with you, the ratio of premiums paid to the cost of claims increases in favor of the former. Lastly, statistics show that the longer a policyholder remains a customer, the less frequently he/she submits a claim. All of these factors contribute to improved profitability.

CRM Invades the Insurance Sector with Amazing Results

The current scenario in the insurance industry is a complex and competitive environment tinged with little stability.

CRM – Customer Relationship Management holds the key. CRM helps insurance companies to

ensure that the customer is understood better.

Right now insurers can achieve excellent policy administration; good billing systems etc but fall short on the customer front. However this alone is insufficient to survive on. Insurers have now realized that CRM is essential if they want to deliver high quality services since it satisfies current customers and gains new ones. This is because policies get sold only if relationships are built. CRM solves these problems with its user-friendly, web-based CRM tools that increase sales opportunities

Conclusion

CRM is a powerful tool, but it remains just a technology that cannot yield results by itself and it needs someone to know how to use it. Managers often used the CRM system to gather information about their customers and to be able to adapt their offer to the needs and desire of each client. Unfortunately adjusting the offer for a market segment which is too narrow can be extremely expensive and if the organization fails to effectively process the information it can be overwhelmed by too much information. No matter how well implemented, the customer relationship management system cannot replace a solid strategy, focusing on the client. In fact, such a strategy must already exist when implementing CRM.

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