

THE FUTURE OF MARKETING IN
THE INSURANCE INDUSTRY.

ADDRESS TO THE INSURANCE INSTITUTE OF DUBLIN

MONDAY, 23RD OCTOBER, 1989.

Some months ago when I agreed to this talk the title was decided upon to allow some scope for manoeuvre. In the past number of weeks as I set about the task my problem was to concentrate the focus. In the end what I decided upon was to concentrate on the two or three areas I felt were most relevant because of their potential impact. The points I would like to make have to do with :

- . Customer orientation
- . Current marketing thinking of relevance to insurance
- . Our industry's image

To some extent the three are stitched together in this paper but I think that you will recognise them individually.

My first step is to stand back and consider the role of marketing in the insurance industry in the proximate future. To do this it will be necessary to draw comparisons with the state of the art in other industries, for it would have to be said that it is there that we have been set example as to how marketing functions in its fullest sense. There was a time when we could, to our own satisfaction, isolate ourselves and say "well the Insurance Industry is actually different isn't". Different we may be but not to an extent that allows us ignore the best of business practice.

Quite clearly there is no need in this gathering to spend time defining what marketing is, I'm sure there is little disagreement that its core proposition is that the rationale for doing any business commences with the client/customer/consumer and the needs that they have which the business proposes to serve. Whether we are talking about gurus like Theodore Levitt in the 60's or Michael Porter in the 80's, that is the essence of it. What I want to do first of all is to examine a few of the directions which that central belief has brought business in and then ask how our industry looks along side that.

Perhaps the single biggest trend today is the de-massification of markets. Quite simply this recognises that there is little sense in pursuing mass markets anymore, because in advanced economies at any rate, such an approach does not reflect or provide a good match with, the facts. Where ever you look, whether in industrial marketing, fast moving consumer goods or financial services the catch words have to do with niche marketing and segmentation. These approaches are acknowledging that within large and what where thought to be homogenous market groupings, there are further subdivisions and that the firm which identifies these and serves them in some unique way has competitive advantage over its rivals.

It is no longer sufficient to have a Peugeot 105, 205, 305 etc. At the Turin Motorshow earlier this year there were 27 different versions of the 205. Proctor and Gamble introduced this month a phosphate free washing powder. Sainsburys were in just before them with a whole range of environment friendly washing products aimed similarly at the emergent Green Consumer.

The Midland Bank introduced earlier this year, backed by heavy branding, the Orchard Meridian and Vector accounts. The particular combinations of service and facility associated with each of these are aimed as much at a lifestyle profile as any age grouping.

What is taking place is that, having identified some underlying difference which defines a new segment, companies are then seeking to realign their offer, whether that means adjustments to product, pricing, distribution or all of them to provide a better fit with that target.

How the firms find the true basis of differentiation goes back to first principals. Michael Porter's model seeks to identify Buyer Purchase Criteria by using what he calls Value Chain analysis. Quite simply this means that you have a good hard look at what your customer is doing, by breaking up all his activities into one or other compartment in a value chain. You then ask where the goods or service you are supplying impact in his value chain. If you can impact beneficially, i.e. by either reducing his costs or improving his performance, you have hit the nail on the head. There are numerous examples of the very great lengths to which other industries are going to discover such pressure points.

Do we go to anything like that trouble to get into the shoes of our customers? I doubt if many of us could, hand on heart, say that we do. Our industry has perhaps come a considerable way from the time when we adopted the stance of monopoly suppliers, but we have a long way to go to true market orientation. Certainly we are a long way from having our customers agree that we have achieved that state of grace.

Business Week, in a cover story, last August entitled "Insurance - An industry under siege" painted a very unflattering picture of the American scene. It described how the once tranquil world of insurance is in turmoil. Instead of the most ignored industry in America it has become perhaps the most reviled. Consumers, corporate executives and law makers are lambasting insurers for everything from profiteering to an unseemingly attitude of arrogance and insensitivity. The President of the Insurance Association is quoted as saying " we are being besieged. Its a holocaust that is going on!" the article goes on to describe how ;

- . The industry's customers are rebelling - citing Proposition 103 in California and suggesting that as many as 10 similar voter initiatives are possible in 1990.
- . The industry's political clout is crumbling as the legislators distance themselves from it.

- . Some insurance markets face the possibility of Government take-over. The motor and health markets have become so dysfunctional, with millions of people unable to get affordable cover, that they may be assumed by State and federal mechanisms.
- . The industry's financial health is deteriorating. There is an increasing trend for industry to self-insure - Tillinghast estimates that captives now have a 35% market share, worth annual premiums of \$50 Billion and that by 1995 that share could reach 50%. The article concludes that what insurers must do to arrest their slow slide into a permanent eclipse is to apply " a heavy dose of enterprise, imagination and hustle - in sort a cultural revolution."

All very tough talk, and of course it is referring to America. But anyone who has read the article, to whom I have talked, has confessed to a feeling of great unease with its similarities to our situation.

At the Insurance Institute of Ireland Conference in Rosslare last May Paddy Galvin, Operations Director of Guinness Ireland and now Chief Executive of Waterford Crystal gave us his views as a customer, of how our business performs. Asked whether the Insurance Sector had responded well to the needs of industry, he said that on balance the answer has to be favourable to insurers, but there are still many shortcomings instancing imperfections in the system which have driven many companies down the Captive route in recent years. The imperfections he referred to are to do with availability of cover and volatility in premiums, which has made life very difficult for business.

While not in the published paper you will no doubt recall that Mr. Galvin used quite strong words to criticise our high cost base and seeming lack of concern with the customers needs.

Only last month at the Chartered Insurance Institute Conference in London we had Ron Lamb, Corporate Risk Manager with Digital Equipment Corporation speaking in very similar vein.

"The Insurance Industry has traditionally focused on what it wants to sell versus what the buyer needs. Evidence of this abounds in such areas as the move to exclude exposures at the first hint of new potential risks to a business or when the insurance industry decided that a claims made liability programme would solve their profitability problems. The fixation of the industry on short term financial market issues, to the exclusion of consideration of buyer needs, has contributed significantly to a chasm between market products and buyer needs."

And if all this were not depressing enough we see frequent reminders to the public from the media or the Consumers Association or some other body of just how hard done by they are by the Insurance Industry. More of this later.

If there is anything more than a germ of truth in all of the foregoing criticisms, then our customers, who give us our living, by and large do not hold us in high esteem. This is surely a perilous situation.

While doomsday is not yet upon us I suggest that we really do need to excellerate the shift to a customer focused way of doing business. That probably involves embracing some of the marketing technology which I referred to earlier, such as value chain analysis and other ways of determining just what it is the customer wants and what criteria he is using to evaluate you in his purchase decision.

CORPORATE POSITIONING.

Obviously we do not have unique insights into the way things are shaping up and I have no doubt that most other companies are beginning to realign themselves, through their products, their distribution formats and the signals they send to their markets, to address the problems outlined. If, collectively as an industry, we are all doing that of course it is going to raise the competitive heat as we all jockey for positions which we perceive to confer competitive advantage. Just what the co-ordinates of these positions are I do not know, or if I did would not be telling. I can though give you the example of some work our Company did engage in a couple of years ago prior to launching a new corporate image.

We commissioned research to determine just how the insurance industry, and ourselves within it, were perceived by the public. The picture that emerged was distinctly unflattering to all of us, at least all of us in the General Branch side of the business. On a thumbnail we are seen as distant, aloof, grey and cold. Against the background of this research we examined a number of positioning options in an attempt to achieve a more favourable standing. Amongst them we considered the idea of projecting an image of security, given the strength of our shareholders, but found really that the public did not put much store by this. I wonder why? In the end it seemed to make sense to us to realign the Company in the public perception around the propositions of Quality and Accessibility. Those of you who know us well will be aware of how seriously we take this and the lengths we have gone to to achieve it. We are by no means there yet but we believe we have laid the ground work. It will take time, commitment and most of all a performance that delivers to our customers the reality of what we are signalling to them.

I am suggesting that what all of us should be doing is redefining the insurance needs of business and public through a process of enquiry and listening, rather than telling. Taking this approach and peeling off the layers as we find them will no doubt uncover a variety of discrete needs. Then the individual ingenuity of companies in formatting products/services to fit these segments will be the key to success. That may fuel competitive heat, but at least as an industry we will be more focused on what is wanted of us by the market place.

DISTRIBUTION CHANNELS.

There is a sea change taking place in the way in which our business transmits its products to the end user. Legislative and competitive pressures will almost certainly produce a significant contraction in the number of intermediaries who would up to now be classified as Brokers. The competition for the traditional Broker on the main street is being manifested first of all as own-brand household products for the likes of Banks and Building Societies with extensive branch networks. The move into motor maybe slower because of its potential to give rise to contentious situations in their branches, but it will come.

The Brokers who are able to compete will of course survive. They will clearly be the people who are more professional in their approach to their business. For the Broker handling volumes of Personal Line business I believe that an essential for survival will be computer systems which link in with Underwriters mainframes. Whether this be through the network our Company recently entered or by some other means is not for me to say, but they will not live without such links.

For the Broker dealing with large corporate risks I believe that the change of emphasis will be that the winners will be the ones who bring the Underwriter into the process of serving the clients needs. Again this is something practised by our Company in what we call a tripartite approach and it is based on a mutuality of interest between the risk, the Broker and the Underwriter and also presumes longer term relationships to be beneficial to all.

The other rapid evolution we will see in distribution is through Direct Marketing. This is probably a misnomer in this case because I believe, again, it will be a tripartite relationship between Risk, Broker and Underwriter, but the principal remains. Insurance Companies, along with Banks, Building Societies, have been sitting on huge volumes of client information for a long time now. It is only in the past year or so they have begun to awaken to the strategic possibilities of this information and are scrambling feverishly to reorganise accounts and product based files into client files - a Marketing Database. No one wants to get into the junk mail business so it is essential to drive these efforts from a fully relational client database. Fully fledged systems, which introduce us to new buzz words such as de-duping, merge/purge, profiling, response tracking and multi-variate analysis, are now being wheeled into position in many organisations, including our own.

PUBLIC RELATIONS.

Returning somewhat to the tone of the earlier part of this paper, I must put it to you that the public image of our industry is not good. I am basing this on both comparative research and media coverage. Adverse comment on our industry has tended in recent years to focus on Motor insurance, though it is not by any means confined to that. What worries me most is that there is an ongoing public debate on us in which our own voice is not heard sufficiently often or perhaps loudly. It is hardly an exaggeration to say that our image is being torn to shreds by this debate which we have effectively stood back from. We know that there are so many points to be made for our case whether it be comparisons with rates in other countries or the statistics with regard to claims. We know very well that the basic arithmetic of Motor insurance in Ireland is not going to change radically, yet public opinion has been shaped to expect that. We must as an industry take part in the debate and seek at very least to limit the damage. I do not think that we should set it as our objective that we swing public opinion massively in our favour, but that there should at least be some pro-active voice out there working on our behalf which might at the very least muddy the water. We have failed to grasp this nettle for long enough. By that I mean we have not been prepared as a group of companies to provide the IIF with the wherewithal to prosecute such a campaign. It would have to be done on a large scale and over a long period of time. It would involve national advertising, task groups to follow up every erroneous letter to an editor, every slanted editorial or broadcast. Until such time as we are collectively prepared to assign several hundred thousand pounds to this purpose we allow public confidence in us to erode.

CONCLUSION.

In conclusion I hope that I have covered to some level of satisfaction for you the points I mentioned;

Customer orientation: which I believe to be germane to success in any competitive business. All the evidence is we lack sufficient commitment to it. We do this to our own distinct detriment.

Advanced marketing methods: marketing in our industry needs to be professionalised, I believe that will mean importing talent in the short term, hopefully we will grow our own timber for the long haul. The function needs to be brought more into the forefront and intrinsically involved in overall Company strategy.

PR: I hope I have made strongly enough the point of the need for our industry to be pro-active in signalling the beneficial role we have to play in society and in commerce. There are countervailing forces rolling now with some momentum. We should not delay action.

Thank you.

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