Myth vs Reality

The Expectation Gap in the ANZ Insurance Industry

Target

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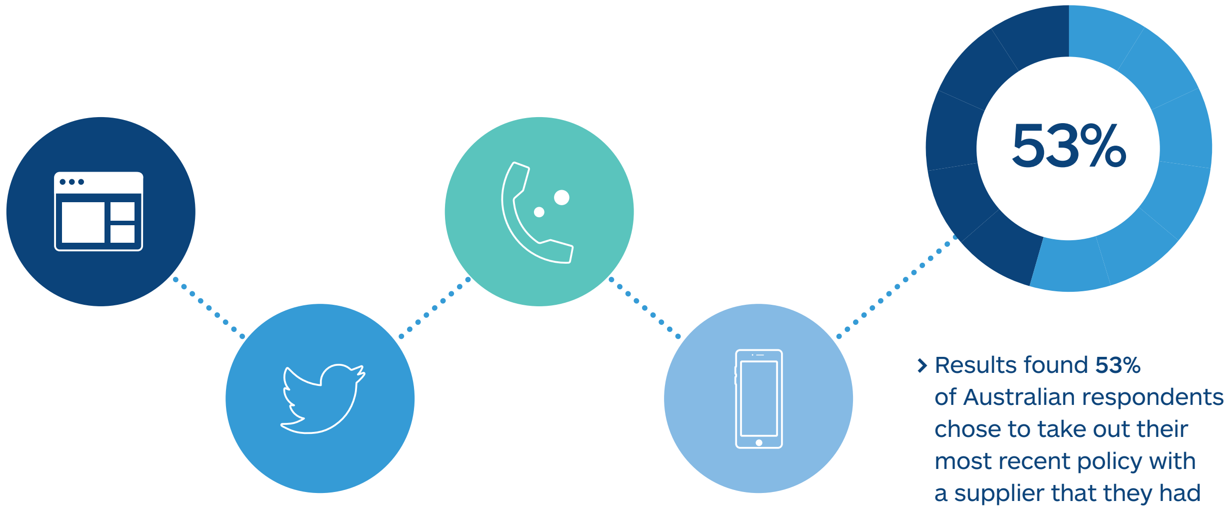
Executive summary

The insurance industry is evolving. Methods of distribution and customer contact continue to change and the traditional, linear relationship of consumer to direct sales force or broker has begun to become more and more fragmented.



› Results found **53%** of Australian respondents chose to take out their most recent policy with a supplier that they had used previously

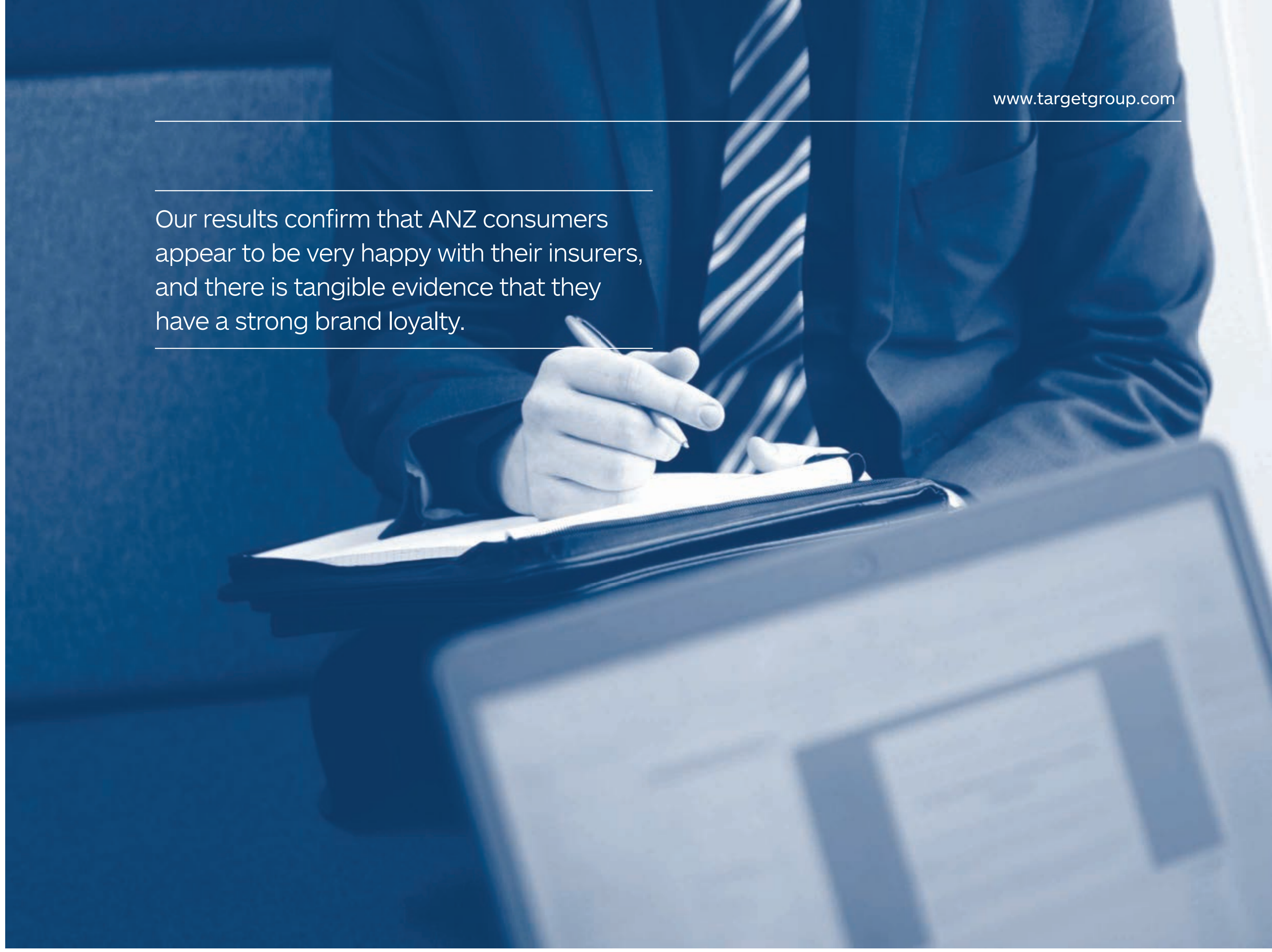
It is often suggested that the industry is not meeting customer's needs and creating an expectation gap leaving customers feeling disappointed with the insurance experience. This whitepaper looks at customers' views on whether this is the case today and how these trends will likely develop.

Our whitepaper is based on interviews with 500 consumers across Australia and New Zealand (ANZ), focusing on their views on the current state of the industry and their expectations both today and in the future.

It will cover:

- How customer expectations have changed and are changing
- Whether customer expectations are currently being met
- The policyholder's relationship with their current insurers
- Areas where insurers must seek to improve
- Whether traditional strengths and advantages will endure for insurers and where future opportunities exist.

Overall, the current reality is that ANZ consumers appear to be very happy with their insurers, and there is tangible evidence that they have a strong brand loyalty. This is emphasized by the **53%** of Australian consumers that chose to take out their most recent policy with a supplier that they had used previously. In New Zealand, this figure was even more significant at **58%**.



Our results confirm that ANZ consumers appear to be very happy with their insurers, and there is tangible evidence that they have a strong brand loyalty.

› Results found **86%** of Australian respondents (**89%** NZ) said that they would only consider between one and three different insurers when choosing their next policy

Furthermore, **76%** of Australian respondents (**81%** NZ) said that they actually like and trust their current provider.

This brand loyalty is further evidenced by the finding that, a substantial, **86%** of Australian respondents (**89%** NZ) said that they would only consider between one and three different insurers when choosing their next policy.

To understand the drivers behind this loyalty, we focused our attention on the 'holy trinity' of brand, product and price. We uncovered what was important to ANZ consumers across demographics, what it is likely to be driving their preferences in the future, and the factors insurers need to be aware of.

Expectations vs Reality in ANZ

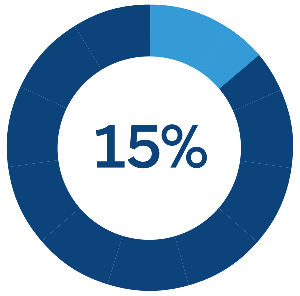
Brand loyalty is a double edged sword – when you already have a large market share you have much more to lose.

Brand loyalty and brand familiarity are both high in Australia and NZ. This is acutely evidenced by the fact that the vast majority of those surveyed **86%** in Australia and **89%** in NZ, state that they will only consider between 1-3 different insurers when researching their next policy.

Any new entrants to this space will have to work hard at their product and pricing options in order to gain any potential foothold if they do not have the large budgets required for significant brand building.

This could be a challenge, as in Australia, just under **15%** believe that it was "essential" to find the cheapest product with more than a quarter ***(27%)*** confirming that their most "essential" requirement was getting the best value for money. In New Zealand, perhaps understandably given the 2011 Christchurch Earthquake, the figure for price was even lower at only **10%**.

The emphasis on 'best value' suggests that the region wants access to policies that are providing a strong level of cover primarily, and although would like these to be competitively priced, this is not the main driver.



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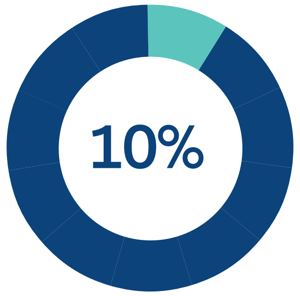
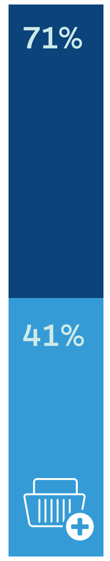


> In comparison to New Zealand where the figure for price was even lower at only **10%**



> In Australia 71% of men are prepared to look at more than one different insurer

> Whereas 41% of women will only consider one

This view is borne out further by the responses that illustrated a desire for an extensive level of cover **(71%)** ideally from an established brand (**51%** in Australia, **64%** in NZ). The idea that they trust the brand is also evident with two thirds **(66%)** of respondents advising that this is a consideration.

High customer retention rates and an apparent lack of broad research by consumers in the market does, on the face of it, point to a degree of apathy. There is also a suggestion that the market could be ripe for change should any new entrants be able to put meaningful propositions together that resonate with consumers.

Our research also uncovered an apparent emerging appetite for brand comparison. The willingness to 'shop around' is particularly evident amongst Australian men.

They approach their policy purchase as "a project" with a significant amount **(27%)** spending between 30 and 59 minutes on their research. This was contrasted by females; **18%** saying they will only intend to spend 15 minutes or less.

Also in Australia, **71%** of men are prepared to look at more than one different insurer whereas **41%** of women will only consider one.

This view is contrasted across the age ranges. In Australia **37%** of respondents aged bewteen 18-24 said that they would only consider one insurance brand when buying a new policy with just **6%** saying they would consider more than four different brands. Our previous research[1] suggests that it is the younger age group 18-24 that find insurers offerings confusing **(84%)**, due to their less sophisticated insurance knowledge.

More than **60%** of 18-24 year olds said that they will seek some sort of advice before purchasing an insurance policy. Almost a quarter **(24%)** of Australia's 18-24-year-old group admitted that they took policy advice from a friend, relative or colleague, which interestingly is more prevalent than any of the established, more formal routes: broker **(11%)**, financial advisor **(11%)**, bank **(12%)**, or retail store **(8%)**.

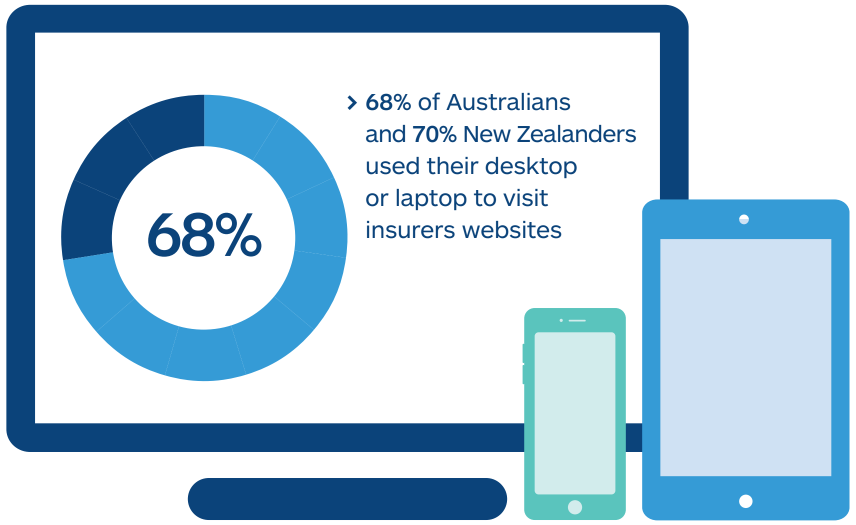
With the 55+ age group, **41%** look at only one insurer - compared to the **11%** willing to consider more than four insurers - suggesting that they are more comfortable making an informed decision themselves.

This view is further supported by our research, which shows how the combination of being tech savvy and product savvy further increases the likelihood of shopping around. Australia's 25-34-year-old age group being the least likely to go with the first insurer they see, with a fifth **(20%)** willing to consider at least four different brands. This group is also prepared to do a lot more research, just **1.5%** admitted to doing no research at all, compared with the Australian average of **13.3%**. The most striking statistic within this age group however is that nearly **60%** bought their most recent policy from a new insurer.

[1] Target Group - Distribution Strategies in Insurance, Understanding the Customer View (2015)

Multi-Channel Purchasing

It would appear that 'the Amazon effect' of offering interaction when customers want, where they want and how they want, is becoming ever more important.



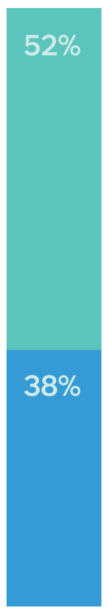
› Around a third of our respondents researched their most recent insurance policy using their smart phone or tablet

Our research illustrates that the differences across age and gender are not absolute. Tech savvy customers may lack confidence in the insurance product and product savvy customers might want to interact via a call rather than the internet. This rise of multi-channel purchasing of insurance is where significant commercial advantage can be gained.

68% of Australian and **70%** New Zealand respondents used their desktop or laptop to visit insurers websites but this is not the only method that will play a role in the sales process.

In addition, around a third (**28%** Australia, **34%** NZ) of our respondents researched their most recent insurance policy using their smart phone or tablet. **12%** Australian (**18%**, NZ) respondents also advised that they used an app on their smart phone or tablet.

These numbers increase to almost half **(49%)** of 25-34 year olds, 'outsmarting' their younger 18-24 year old counterparts' usage **(28%** Australia, **34%** New Zealand**)**.



› Results found 52% of New Zealand respondents spoke with someone in a call centre during the process

› Compared to 38% of respondents in Australia

The telephone cannot be ignored as a key aspect of the new multi-channel sales process and its use in ANZ remains incredibly important. During the process **38%** Australian and a significant **52%** New Zealand respondents spoke with someone in the call centre.

Telephone statistics were also particularly high for the 45+ age group **(53%)**, and 18-24-year olds **(58%)**. This once again supports the view that the younger customers, although tech savvy are not confident with products and the older segment being the reverse. This is important as it is easy to assume that it is the tech savvy millennials who demand a fully on-line experience.

Given the average consumer is likely to carry out their research via more than one channel, insurers need to ensure that they are positioned to offer a seamless transition from one channel to the next, in order to keep up with changing and varied customer expectation.

Emerging Threats

Like Airbnb who own no real estate and Uber who own no vehicles, price comparison websites (PCWs) do not manufacture insurance policies, however they have a significant influence on the UK market.

The UK market has also seen the rise of retail brands moving into the insurance space with the likes of leading UK supermarket Tesco becoming insurers in their own right. Should these trends advance in ANZ, insurers need to ensure that they are ready and able to react.

Interestingly, potential new entrants offer first and foremost convenience and a complimentary customer journey.

The threat of the new is already becoming apparent. In Australia, **56%** of 25-34 year olds (**42%** in New Zealand) said that they would either be “likely” or “very likely” to consider buying insurance from a technology company such as Google. **43%** (**31%** in New Zealand) said they would buy direct from a P2P platform and almost one third (**31%**) of Australia’s 18-24 year olds expressed a willingness to buy insurance from a social media platform such as Facebook. More markedly **40%** of 25-34 year olds said that they would be “likely” or “very likely” to follow suit.

The overwhelming support for major high street and technology brands threatens to rival the support which has traditionally been enjoyed by ANZ insurers. Even though they are not closely associated with the insurance industry, their familiarity has laid the groundwork for a future foray into this field. Insurers need to embrace these new technology platforms and offer customers the same reassurance and ease of use that they have come to expect from sites such as Amazon and Facebook. Relying on the existing brand loyalty is unlikely to be enough across Australia and New Zealand.

Ultimately, if they don’t take the initiative and disrupt themselves, the new entrants will happily do it for them.

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The Future of the Industry

In many ways, ANZ insurers are in a great position – they command huge brand loyalty, they are trusted by their customers, and they have retention rates of more than 50% across the board. However, rising claims costs, low investment returns, flat premiums, and the limited scale of the market remain ongoing concerns.

Their challenge will be to hold on to this business in the face of value-driven policies and more convenient competition, so that the 'big three' can convince the next generation of insurance customers that they are best placed to meet their needs. This won't be as simple as offering perks and rewards (not one single ANZ 18-24-year-old listed this as a priority), or creating cheaper policies (just **10%** of New Zealand and **15%** of Australian 18-24-year-old respondents named this as a top priority). Instead, they need to focus on developing and maintaining a strong brand, and offering great value products which are easy to find, easy to understand and easy to engage with.

In the UK, the insurance industry has been changed by the rise of PCWs, our research[2] showing that nearly three quarters **(73%)** of consumers use them as part of their purchasing journey.

While our research has shown that there is an appetite for comparison, thus far, PCWs have failed to get a foothold in the ANZ market. They have not yet managed to attract the big brand names that they need in order to draw the attention of the general public, but major names such as CompareTheMarket are challenging the status quo by bringing in international and boutique brands instead. It will be interesting to observe the evolution of the ANZ aggregators over the next few years, with insurers being at least prepared to embrace or challenge this new method of interaction.

Other threats are beginning to emerge in the form of the P2P platforms, social media brands and technology firms such as Google. Lending Crowd has already started to offer its own fully underwritten insurance product in New Zealand.

It will be interesting to observe the evolution of the ANZ aggregators over the next few years, with insurers being at least prepared to embrace or challenge this new method of interaction.

The technology is already out there, in order to continue to meet their customer needs, insurers must embrace these new models of technology and make them work for them. A strong social media presence, a comprehensive web experience, telephony, as well as any device – a true omni-channel offering combined with an innovative range of value-added policies will help give them the edge over the emerging competition. If they can rival the new entrants in terms of usability and cost and cover, they are likely to stay at the top of their game for a long time to come.

The ANZ market is in a fortunate position at the moment. However, it should learn from what has happened already in other markets and realise that change will come. In order to meet the increasing expectations of the market, insurers have to embrace disruption, introduce innovative new product offerings, and simplify the end-to-end customer experience. In such a competitive industry, no one can afford to stand still.

[2] Target Group - Myth Vs Reality. The Expectation Gap In The UK Insurance Industry (2016)

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About Target Group

We deliver software and business process outsourcing solutions to the financial services industry for loans and mortgages, insurance and investments.

Over 50 major financial institutions across the UK, Australia and New Zealand rely on us to manage their lending, investment and insurance portfolios. Over £24bn of assets are serviced on our systems with over 3 million accounts under management.

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We employ over 900 staff in offices across the UK, Australia and New Zealand. We have over 36 years' experience in providing software and services that help companies in the financial services and insurance markets achieve innovation, enhance customer service and mitigate risk.

Our industry is constantly evolving – addressing new innovation, bringing new products to market quickly and staying ahead of the competition are all key business challenges, we enable our insurance software clients to operate efficiently with a service that has quality at its core.

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