

Marketing Insights

By AK Insights Ltd.

Special Issue

What's Important To You

Welcome to our first Special Issue!

We've dedicated our special issues to providing you with information related to database management and direct marketing but that is of *unique interest to your industry*.

We certainly hope that you'll find it relevant or interesting at the least.

Sincerely,
The Team at AK Insights

One Customer, Many Needs

Source: 1to1 Magazine March 2002

Did you hear the one about the traveling insurance agent? We promise no jokes, but will recite an industry axiom: "Insurance isn't bought, its sold." That's been a fundamental tenet of the business for centuries, and it still rings true today. So it comes as no surprise that this traditionally sales- and marketing-oriented industry is now grappling with the means of applying CRM's most relevant and effective strategies.

The playing field today is both complex and competitive. **First:** population growth is slowing, meaning fewer 'new' customers to pursue and more entities pursuing them. **Second:** regulations vary not only from country to country and they're all in flux. **Three:** add into the mix banks and brokers that are increasingly selling insurance products. **Four:** insurers are now

selling broader financial-services products. **Five:** don't forget the Internet. Increasingly, customers can gather information and comparison shop on their own, so yes, margins are under pressure.

A data-rich environment
When it comes to the potential role of CRM, the insurance industry, traditionally a conservative one, has been taking a 'go slow' approach. But today, as the competition for customers increases, matters are accelerating. The fact is, 'few industries are as data rich and have as much to gain from the implementation of one-to-one strategies,' says Ron Young, general manager for Siebel Insurance.

As this realization sets in, insurers begin looking more and more like broader financial-services companies.

That means opportunities for greater customer retention, cross-selling, up-selling and operating-cost reduction skyrocket. Meanwhile, as price competition increases across the financial-services industry, insurers also need to find ways not only to cut costs, but also to differentiate service offerings, paying close attention to Most Valuable and Most Grow able Customers (MVCs and MGC5), clients they can ill afford to lose. Another driver pushing CRM is the fact that so much insurance still is sold by third-party, or brokers. As such, the industry literally screams for CRM-friendly tools that share customer information, optimize leads, streamline workflows and thereby supercharge such partnerships. Insurers are realizing, says Young, that to make the most of their broker networks and other partner-

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AK Insights Ltd.

Data, Knowledge,
Insights!

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Is Your Business
Equipped To Outsmart
The Competition?



"If you have
foresight, you
are blessed, but
if you have
insight, you are
a thousand
times blessed."

- Old Chinese Proverb

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ships, they need to make their products easier to sell and service and they need to exchange information that can improve customer support.

All of this means that more and more large players are climbing the CRM learning curve, diligently transforming themselves from a position of spot-transaction driven, hard-sell, provision of discrete loss protection towards broader, higher value-added, customer-centric delivery of custom-tailored financial services at-large.

Need an example? Jean-Marie Schmid, head of CRM at Europe's Winterthur Insurance, a subsidiary Credit Suisse Group, says his organizations top management is sold on the concepts and understands and believes in CRM. Moreover, the group is striving to capitalize both on its customer relationships and its ties with Credit Suisse to

add relevant financial-services offers, such as pensions and mutual funds. Offering the most relevant cross-sells and up-sells, as well as utilizing the most effective marketing and service channels, is all part of the challenge. The precise way ahead may be unclear. But Winterthur is working hard, implementing a handful of pilot CRM programs in multiple European markets. As Schmid explains, his group is searching to find the right way, the proper way, step by step, setting well-thought out priorities for treatments that generate the highest added value for both our customers and Winterthur.

Job One: retention

Insurance exists in many forms: individual, group, fire, flood, auto, life, direct underwriting, reinsurance, term life, on and on. But no matter the precise form of policy being discussed, it's all about math. Fundamentally, all



insurance is a numbers game: define a pool of risks, quantify the cost of those risks, assess the probability of those risks, assess the variability of those risks (what are the worst-case scenarios), tack on an acceptable return and then price accordingly.

Two facts now become highly relevant to CRM strategists. First, the longer a retail customer remains a customer, the greater the ratio of premiums paid to potential losses. Meaning: If a customer has been a customer for a long period of time, even if he submits a claim, that loss has already been partially mitigated or completely covered by his premiums. Second, studies show that the longer a customer remains a customer, the less likely, or even frequently, he will submit

a claim. (The classic exception to this latter rule is the life insurance policy, where one claim can terminate the relationship.) Given these two realities, the bottom line is simple: With retail insurance, customer retention is a profitable strategy. Not only can you reduce the cost of finding new customers, you reduce the cost of claims, and that's the Holy Grail.

Accordingly, insurers are paying noticeably more attention to customer service. The industry is realizing that every interaction with every customer is an opportunity. Anything that can improve the customer experience, anything that can make it easier to remain with a carrier, anything that can differentiate the quality of service, anything that can make it less attractive to comparison shop, those are sound strategies.

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KeyBank Profits From Differentiated Strategy

Source: Inside 1to1, January 2005

Since it started a concerted push to get closer to its 3.8 million customers in late 2002, KeyBank has seen its strategy deliver impact in the form of higher returns from customers in high-profitability tiers and a 45% jump in opening deposit balances for new customers. Similarly, customer attrition rates have declined from 13% to below 11%. (The industry average is 17%).

The Cleveland-based bank and financial services company is ranked 257 on the Fortune 500 and has assets of \$88 billion, with more than 900

branches. In December 2004 it acquired American Express Business finance Corporation (AEBF), but the most important thing it has done has more to do with its customers than with the financial market. Senior VP and Director of Database Marketing, Patricia Mathe, says KeyBank's competitive difference is simply a matter of focus. She notes several times over the course of a single conversation that she doesn't use the word "campaign". That word, you see, implies a fixed-duration effort. KeyBank strives to make its customer strategy

initiatives a permanent part of the company's culture.

Though Mathe may not be keen on discussing "campaigns," two specific initiatives are commendable. The first is the Retail Banking Cross-Sell program, in which KeyBank wanted to add "share of wallet" by convincing existing checking, home equity and money market savings customers to add one or more accounts. The effort exceeded even the most optimistic. Going in, the company had been aiming for aggressive conversion rates for checking customers and

money-market savings customers. KeyBank doubled the conversion rates for both groups. The Business Banking Cross-Sell initiative, on the other hand, was designed to grow relationships with customers who already did business banking with KeyBank. KeyBank identified a narrow range of customers likely to respond to a highly targeted approach offered through an optimal channel. To see whether the models were working, the company simultaneously ran test and control groups. When it executed the program, more

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By contrast, any failure to anticipate or capably address needs represents an enormous risk to the relationship. CRM improves an insurer's ability to improve retention, as well as make more relevant offers to more customers. But an equally critical goal of CRM processes is to help an insurer avoid 'lapses and surrenders' of policies. It could be that no one has been in contact with the customer in a certain time period, or there's a change of address or a divorce or a marriage. Regularly updated customer profiles can help an insurer proactively turn these risks into opportunities.

Job two: meet more needs

Insurers need to become a one-stop shop for all of a customer's insurance and financial needs. Banks and brokerages have had a head-start, and now insurance companies are following suit. The more an insurance

business can understand all of an individual customer's assets, cash flows, aspirations and risk tolerances, the more competently it can deliver advice, products and services.

That is the view from which personal-lines insurer Allstate is restructuring its operations. Its goal is to move from a personal-lines insurer to a personal, financial-services company. The company is building on a broad set of technologies, what it calls its enterprise customer relationship management (or eCRM) initiative, to create, maintain and act upon a consistent, single view of its customers.

From this platform, the company is launching an array of one-to-one strategies, including targeted cross-sells and up-sells. Also noteworthy, this is an increasingly multi-channel initiative. Today, customers are able to work with Allstate, not only

through agents, but also via the Web, call centers, fax and email. It's more complicated, but they wanted to give customers more options to gather information for their buying process.

Central to these strategies, Allstate is utilizing lifetime-value models and related analytical tools to determine its MVCs. The goal is to identify the most profitable customers, extend the portfolio of products and services with these customers and build retention. To this end, the company is additionally applying predictive models to identify appropriate opportunities for up-selling or cross-selling, and to minimize customer defections.

The databases and technologies needed for this transformation are largely already in place. Moreover, while other insurers are working hard to become

broader-based financial-services providers, they're already there. Today, most of the work is refining and strengthening the culture and business practices to support the vision. The company is becoming more customer-centric, driving down the cost of servicing customers and driving profitability through more productive interaction.

The integration challenge

Winterthur's objective is to become a full-spectrum financial-services provider, while reaching customers via a seamless multi-access strategy. A big challenge is fragmentation of customer information. Among existing customers, there's huge potential for cross-selling other products like household, travel, personal liability protection, health, life insurance and additional financial services. The trouble is, there's still a lack of sharing

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than twice the expected amount of customers added a Demand Deposit Account, a Premium Money Market Account or another product.

A Welcome Approach

As for the Customer Welcome campaign (there's that word again), it was designed to elevate KeyBank to the status of "trusted advisor" in the minds of new customers. Each month, the company placed new customers into one of three groups: young transactors,

mature market, and all others.

Based on the group and the product or service they signed up for, new customers were immediately sent a targeted offer as part of their initial introduction to KeyBank. For example, the bank asked young transactors who opened a checking account whether they'd be interested in online banking. Customers responded to the aggressive approach: KeyBank saw a substantially higher conversion rate for online banking offers and a much higher percent conversion rate for deposit offers, both up substantially from previous pitches.

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Similarly, follow-up phone calls registered a big lift, more than 80%, in account conversions.

7 key groups identified

KeyBank's test-and-learn methodology ensures that the company will continually try to increase its customer intelligence. To thus end, it conducted an in-depth study of 1500 customers to find out what makes them tick. The surveys covered everything from risk tolerance and financial knowledge, to comfort with technology and interaction preferences.

After analyzing the data, it identified seven varying

groups, and now employs distinctly different approaches to communicate with and target the "Under-Prepared Asset Holders" and the "Mature Thrivers," among others. Even the graphics used in communications and marketing initiatives have been tailored to the needs and values of each group.

Mathe says "The changes weren't painless, and there was some internal resistance. There's still lots of room for process improvements, and I'm not saying we're Amazon.com or anything, but I think we have a pretty solid handle on this." ❖

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across the organization. For example, agents, and especially brokers, provide very little customer information to other parts of the company. As a result, even though it now has the ability to offer a wide variety of financial-services products, over half of its customers have only one insurance policy, mostly for their car.

Winterthur intends to better meet customer needs through a joint bancassurance model. This change will accelerate the idea of coordinated marketing and product exchange between the organizations.

Providing channel choices

Winterthur's goal is to develop multi-access capabilities that allow customers to interact with the organization through their preferred method, be it phone, Web or face-to-face with an agent or broker, while still being identified and treated aptly at each interaction. 'Our strategy is to

treat different customers differently, and at the same time consistently, across all access points,' says Schmid.

In addition, the company is creating a repository for customer-specific data. Completely independent of which channels the customer chooses, all information relating to any individual customer becomes part of a centralized and continually updated "customer overview." Though this data warehouse is up and running now, the company has far to go in terms of optimizing its operative customer database, as well as its data collection, access, analysis and use across the organization.

As the organization learns more about its customers and treats them accordingly, the goal is then to tailor interactions that will keep customers. An ongoing dialogue with individuals is the opportunity to increase share

of wallet of each customer, to optimize economic aspects of the customer relationship, and to gain valuable new customers by better understanding and meeting the needs of existing customers.



Though merely at the start of its journey, Winterthur can provide valuable insights:

First: Set a CRM strategy before jumping into technology. "Never allow IT providers to solve your CRM problem by selling you a couple of tools." "If you start with one very large IT project, if you do not prepare the business environment, you will make a huge investment and then watch it suffocate under the interest you pay until you get results or you go

out of the business.

Second: Focus on people. Help them understand. Help them change. Measure their success using a balanced scorecard. CRM touches many, many aspects of the business, including IT, customer privacy and permission, legal, training and processes. Employees therefore need to be educated. Why do we do CRM? Why should we treat different customers differently? What is the objective? Employees must understand why this change is occurring and how this change will affect both their jobs and the business overall.

Third: Shift the organizational structures away from products and instead organize around customers speaking with the customers instead of at them.

Fourth: Evaluate progress. ❖

AK INSIGHTS' SERVICES

Cost-effective, innovative, additional routes to your customers.

AK Insights provides full service expertise in the areas of Database Management, Direct Marketing and Small/Micro Business Marketing.

DATA MANAGEMENT

Data gathering (e.g. member data, general surveys, retail surveys, audits, etc.), data entry and ongoing database management.

DIRECT MARKETING

Postal & email marketing; Loyalty/ membership programs; Newsletters; Mini websites; Database surveys, etc.

SMALL/MICRO BUSINESS MARKETING

Development and implementation of marketing plans & strategies that focus on non-traditional marketing methods (a.k.a. "mini-media") and are affordable, creative, unique and effective.



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