In a world of rapid change, it can be tough to keep pace. All industries are learning this — and insurance is no exception. But amidst all this change, are there constants that the insurance industry can seize, leverage and capitalize on?

Charlie Munger, vice-chairman of Berkshire Hathaway Corporation, chaired by Warren Buffet, is quoted as having said, “Price is what you pay; value is what you get.” It remains fundamentally true that many humans are still willing to pay for “value.” The fastest-growing retail sectors are in the luxury space. Part of this is being driven by the 1% and the buying habits enabled by accumulating wealth.

But a bigger component is being driven by effective marketing — demonstrating that in a web world where commoditization is the overarching trend, value can still be both created and extracted. Whether it is the selection of the branded peanut butter over the no-frills version, when we decide what to buy at the grocery store or the price we will pay for the silk tie worn during that big client pitch, we are all living proof that value is still alive and that commodity trafficking is not the only future business model.

To illustrate, consider “premium” bottled water. There is perhaps no better example of a
Commodity than water freely available at roughly the price from the tap. And yet consumers are buying bottled water at prices progressively greater than zero. This reality is why it is so frustrating when people call insurance a commodity. It is not.

In fact, insurance is a product set with a rich range of value-added propositions embedding multiple costs of capital, as well as a very broad range of service and value-added functionality. To be sold as a commodity weakens the value proposition and exposes us to change threats. Value can still be sold — because consumers are still willing to pay for it — but to convince them of that, certain things need to be overcome.

Cynicism

No matter where today’s Canadians come from, it appears in one sense that we were all, in fact, born in Missouri. Cynicism about our industry remains high. It is why we are always at risk of demagogic political attacks in lines like Ontario auto. Insurance practitioners have always known that we start in a trust deficit and have to work our way back to better than balance. Today’s consumer is no different in this regard than those a decade or two ago. Or if they are, it is only because they are more cynical than ever.

Perhaps it is worse these days because the property and casualty industry is, by definition, grouped with other financial services pillars that have had recent significant and negative impacts on global financial health and well-being.

As a CEO of a Canadian-owned company with a subsidiary in the United States (just a wonderful thing to be able to say), I have experienced this deficit firsthand. As all U.S. state regulators require fingerprints from corporate officers, one of my first acts in my new CEO role was to get inked and fingerprinted at the Southfield, Michigan police station!

This consumer cynicism is, in fact, a source of great opportunity — particularly for those seeking to create value through advisory services. Those best able to overcome this cynicism and win the trust and loyalty of modern Canadian consumers will be particularly well-positioned to take advantage of a role that has remained constant in many other fields of endeavour.

The Trusted Advisor

One of the most fascinating conundrums in a web world where information is more readily accessible than ever, is that the quantum of that information is generating new value creation opportunities for information “brokers.” The challenge of “big data” is not just an overwhelming one for corporations; consumers are also potentially overwhelmed. Everyone is busier, forced to move faster simply to keep up, and threatened by the trends making middle class life tougher than ever.

The position of trust needs to be constantly re-earned. Too often these days, brokers seeking to increase operating margins have been working to reduce costly customer touchpoints and, as a result, have minimized their opportunities to deepen trust and actually offer advice.

Today’s Canadian consumer will continue to demonstrate one key element that has certainly characterized insurance consumers for decades — the readiness to outsource complexity to trusted advisors. Independent brokers have been beneficiaries of this trait for generations, and if we get this right, it has every prospect of continuing for generations more.

But the position of trust needs to be constantly re-earned. Too often these days, brokers seeking to increase operating margins have been working to reduce costly customer touchpoints (e.g., price-only quoting, automated renewals, direct bill and 1-800 claims service) and, as a result, have minimized their opportunities to deepen trust and actually offer advice. Competitors will be ready to offer price-only alternatives, with operators standing by 7/24.

To compete, intermediaries will have to re-think recent trends in their business models, and leverage new and older technologies to provide value-added service through a human interface. In some ways, they will have to go “back to the future” to continue to earn their place as “trusted advisors” in a mutually beneficial relationship.

Relationships

It is the “relationship” among independent brokers, their customers and their shared communities that has enabled brokers to defend market position for so long.

The largest single driver of human behaviour has been said to be the fear of loneliness. This certainly explains why we seek to establish relationships both in our private lives and our business transactions.

Making personal financial decisions alone is frightening — especially when the risk of error is magnified by the size of exposure, as is the case in the selection of car, home or business insurance. A relationship with a trusted advisor is an obvious solution to reduce the fear of error.

A truly interesting weakness of the web is that while it has the capacity to link people together, it has not proven to be a great platform for building deeper relationships. Of course, it tries. But locally based, human relationships are proving hard, and consumers are proving to be increasingly cynical about web-initiated efforts to build relationships.

That provides the independent broker with much room to prosper in insurance advisory services — and not just in commercial lines. But today’s independent broker, especially in larger urban centres, is going to have to work harder than ever to ensure the human relationships built over time continue to
be sustained in a world where human interactions become scarcer and touchpoints are automated or dis-intermediated. In this context, a key test will be how we respond when customers who trust us and feel they have a relationship with us seek help.

Help
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When uncertainty becomes fact and risk becomes tangible, customers do not start by seeking to make a claim—they start by needing and asking for help. This might be the hardest thing to automate, and may be the least desirable function for our industry to try to automate.

The faster an empathetic human can be introduced, backed by competency and authority to make things right, the better. The process of delivering help through a claim clearly represents the most significant opportunity we have to prove value, demonstrate that trust was not misplaced, and make the promise of our relationship real.

The special challenge is how to demonstrate all of this in advance? In an environment where no client really expects to claim—and the majority never will— it may come down to brand.

Brand
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Marketers call it the “brand promise” and spend a lot of time talking about “brand values.” But in the end, the companies that invest in brand often win. Brand is what can convince you to pay for value—like the label on that peanut butter or the tag on the back of that silk tie. The world of the web has not diminished the power of these brands. To the contrary. Precisely because the web is so impersonal, brands that have developed personality have become more important than ever.

The insurance industry has many great brands. Significantly, though, there is no famous intermediated underwriter in North America. This is because intermediated underwriters invest their acquisition expense in broker commissions rather than in electronic and print media. The relative weakness of intermediated carrier brands should be of great concern to the intermediated side and of particular concern to the disaggregated distribution channel made up of so many independent brokers fighting the ground war when the direct writers control the sky. In this context, there is an urgently necessary increased collaboration between intermediated carriers and their broker partners to mutually build upon each other’s brands.

LEVERAGING CHANGE

The insurance industry will continue to be roiled by political pressures, new telematics-driven pricing models and ever-increasing consumer expectations around service. There will be those who chase change and never catch up; others will give up the chase and manage their (hopefully) slow decline.

Winners, though, will most likely be those who work out how to grab a hold of the things that are changing—be it in technology or customer sophistication—and leverage those trends in a way that exploits the constant elements in human nature: those elements that leave personal and commercial consumers still open to business relationships, still ready to seek advice from people they trust, still eager for empathetic customer service and still willing to pay for value.

Innovation in business models will undoubtedly be required, but the best innovators will be those who know what is changing, ... and understand what is not. These winners will create lasting shareholder value by delivering real customer value.