CRM Practices In The Asia-Pacific Insurance Industry - A Conceptual Study

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INTRODUCTION

'Recession' and 'Economic downturn' has been the talk everywhere; companies have wakened up for a more reforming strategy to beat the heat of the crash. Across the globe, the economic slump has traumatized many companies to the core, even the traditional and established companies. The market is becoming robust with the economic conditions making their way up the ladder. Traditional practices of marketing are shifting from 'product-centric marketing' to 'customer-centric marketing'. They have recognized that customers are the core of a business and that a company's success depends on effectively managing relationships with them. With the changing social trends, such as the increase in ready-to-cook foods to automatic washing machines, marketing methods have changed. In addition to this, the lesser Government controls have brought many foreign companies as well as competition in the market. In this light, CRM is ringing its bell in every organization.

Figure 1: Traditional Marketing Vs CRM Approach

Traditional Marketing		Customer Relationship Management
Transaction Focus	⟷	Customer Focus
Short Term Focus	⟷	Lifetime Focus
One Transaction	⟷	Multiple Transactions
Broadcast Approach	⟷	Sniper Approach
One way, one time communications	⟷	Two way, continuous dialogue
Segment of Many	⟷	Segment of One

Customers are nowadays empowered to demand more, because of the availability of abundant information through various sources such the internet, television, newspapers, exhibition and trade fairs, etc. Therefore, he is aware of the various products available as well as the comparative analysis of their features. Hence, to aptly identify his needs and to provide the right solution is the greatest challenge of the salesman. In an article, "Do You Want to Keep Your Customers Forever?" in the Harvard Business Review, Pine, Peppers and Rogers mentioned that "*Customers, whether consumers or businesses, do not want more choices. They want exactly what they want, when, where and how they want it- and technology now makes it possible for companies to give it to them*".

Despite several approaches towards the concept of CRM, the unifying factor quoted by Peppers and Rogers (1997) is: Customers have hidden or overt preferences that marketers can reveal by building a learning relationship.

The key to customer relationship is to 'treat different customers differently'. Thus, it is a core business strategy that provides a platform to create a long-term and profitable relationship with the customers. Organizations which have realized the positive impact of CRM strategies have taken steps to implement them and are having competitive advantage in the market. Especially, the Financial Services Markets which has become increasingly global, with many foreign financial service companies entering into the Indian market. Recent advancements in IT and communications have made it possible for even the smallest investor to purchase financial instruments from almost anywhere abroad. The general revival in the economy has resulted in the rising personal income and savings in many areas around the

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world. The need to protect this wealth, health & oneself, and provide significant opportunities for protecting them against risk of theft or damage or loss has become crucial. This environment facilitates Insurance companies to seek premiums and place investments globally. Today, most of the organizations are 'customer-centric'. Insurance is one such industry that involves many customer touch points/interaction points. It requires a supportive back office enabled with CRM technology. Insurance is a complex product which needs to be personalized and the Insurance companies, on an average, manage around hundreds of customers/insurers per day. In order to maintain competitive advantage and viability, Insurance companies are focusing very carefully on delivering superior customer service. CRM in insurance begins with a single, complete, real-time enterprise view, so that call center representatives, agents and brokers can understand and serve every aspect of individual customers, thereby increasing profitability of the company and increasing the satisfaction of the customers.

CRM - WHAT IT IS ALL ABOUT?

CRM is more than just a technology, it is a strategic process. Today, technology provides businesses with systems that can help companies track customers' interactions with the firms and allow the firms' employees to quickly retrieve all information about the customers. This concept is called Customer Relationship Management (CRM).

Greenleaf and Winer (2002) have explained CRM as: Customer Relationship Management (CRM) is a business strategy to select and manage customers to optimize long-term value. In the words of other experts, CRM means, "*It is a term representing the business strategy built around the concept of improved customer service. CRM practice involves all aspects of communication and dealing an organization has with its client, whether it is product or service linked. More clearly, CRM aims at increasing customer satisfaction, consequently increasing a business' income.*"

Alternatively, CRM means, "*A system that aims at providing better customer service, retaining customers as long-term profitable customers, selling services/products more effectively, gaining new customers from present customers through referrals, and providing helping hand to salespeople*".Also, "*CRM is a process of building partnerships with your clients/customers, which involves technology, personal marketing techniques, strategic planning, and internal business processes from customer service, sales and marketing to build a relationship that adds to revenue margins and productivity*".Thus in general, CRM allows a company to know who its customer is and what his/her specific requirements are and to be more precise, CRM solutions collect information about customers and evaluate that information to profit the organization.

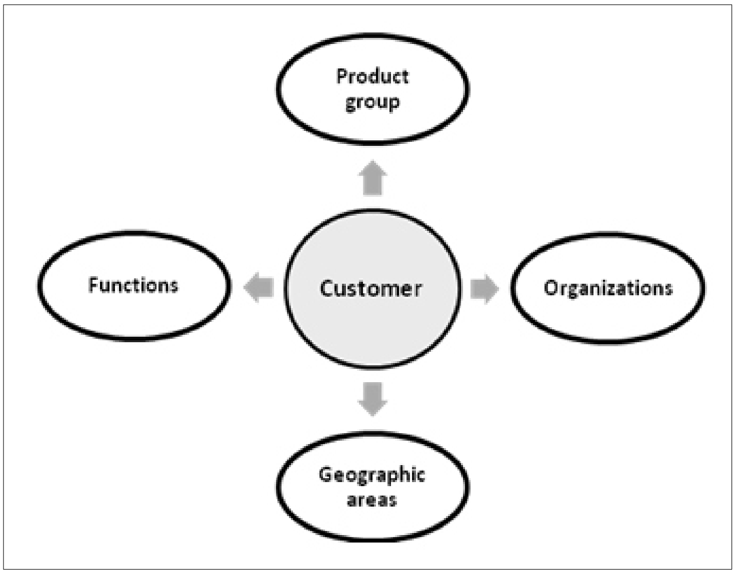
MANAGE RELATIONSHIPS FOR PROFITABILITY

The aim of CRM initiatives is to retain the right customers and a key determinant of customer retention is customer satisfaction. The objective is to ensure that customers are satisfied to ensure their continued patronage. Almost all salesperson would be concerned about converting their prospects to a customer and generate more business through them. This can be accomplished only if the customer is happy with sales experience and also with the product/service, particularly, the after-sales service. Once a product/service has been mapped in the customer's mind, then the customer would work on our behalf. Especially in the insurance industry, when the insurer is happy about the money-returns and services rendered by the insurance company, he will definitely refer his friends and family members.

"*Acquiring new customers can cost five times more than satisfying and retaining customers*" (Kotler and Keller. 2009. pg. 138). Nowadays, customers are smarter, well-educated, more informative and have unlimited access to information than it was in the past. So to identify their actual needs and giving more than their needs is the tough job of sales people. Once companies have learnt this magic, then customers keep coming back to them for a life time. Organizations must make sure to gather and respond to customer feedback keeping in mind that the end goal is changing customer behaviour.

Harvard research shows that an improvement in customer retention by just five percent alone can increase profitability by 25-100 percent. Loyal customers, encouraged by the relationship building of loyalty-driven companies, increase their purchasing over time. The tenth purchase of the average online apparel customer is 80 percent larger than his or her first one. Customer Lifetime Value (CLV) is a way of measuring how much your customers are worth to you over the length of time that you retain their business. Kotler and Keller (2005) explain the concept of Customer Lifetime Value (CLV) as: "*The present value of the stream of future profits expected over the customer's lifetime purchases*". "*The aim of CRM is to produce high customer equity. Customer equity is the total of the discounted lifetime values of all* *of the firm's customers*". CRM will help realizing the lifetime value of customers. Researchers have suggested CLV as a metric for selecting customers and designing marketing programmes. The researchers have also provided empirical evidence to prove that relationship exists between marketing actions and CLV at the aggregate level. Thus, satisfying one customer means more business to us. Hence, to retain customers, companies have to transform from traditional cultures to customer-centered cultures. A customer-centered company has an external point of view, making plans and decisions based on the anticipated impact on the customer. These companies are more in tune with their customers, more aware of how the company is perceived in the marketplace, and are much more likely to deliver consistent, coordinated, and positive customer experience than other companies.

Figure 2: Customer-Centered Company



According to Chan (2005), to enable a holistic view of customers, all interaction with the customers should be tracked across various functions like sales and marketing, call centers, customer service, distribution channels and alliance partners. Interactions across the department should be in a customer-centric manner instead of company-centric manner. Few suggestions are as follows:

- Product features based on requirement of the customer - collaboration with customers for product innovation.
- Use of technology to fulfill customer transaction on a 24/7 basis - customer convenience should be of utmost importance in all interactions with customers.
- Ensure updated information on all customer transactions are available to all concerned personnel to ensure proactive fulfillment of customer requirements.
- Fulfilling the latent desires of customers - aiming at delighting the customer.

DELIVERING CRM

Thus, it is essential to develop and suitably deliver a CRM tool to ensure various benefits for the organization. First, by developing a closer relationship with customers, organizations may gain a competitive edge. Over time, individual customers typically educate a company about their individual needs, wants, and preferences-a costly process that they are reluctant to repeat with a rival. Thus, getting to know customers intimately creates a barrier to imitation of the leader's strategy. Second, effective CRM can lead to increased customer satisfaction. Properly implemented, the customer company dialogue facilitates the tailoring of products and services closely to individual needs, and the development of new products and services to meet changing needs or even anticipate future needs. Third, using CRM techniques contributes to decreasing overall marketing expenditure as already mentioned above. Therefore, it is obvious from the suggestions of CRM proponents that CRM leads to higher profitability due to increased sales, declining customer acquisition costs, and increasing profitability of CRM program customers willing to pay a premium for "better" service.

Figure 3: CRM Model

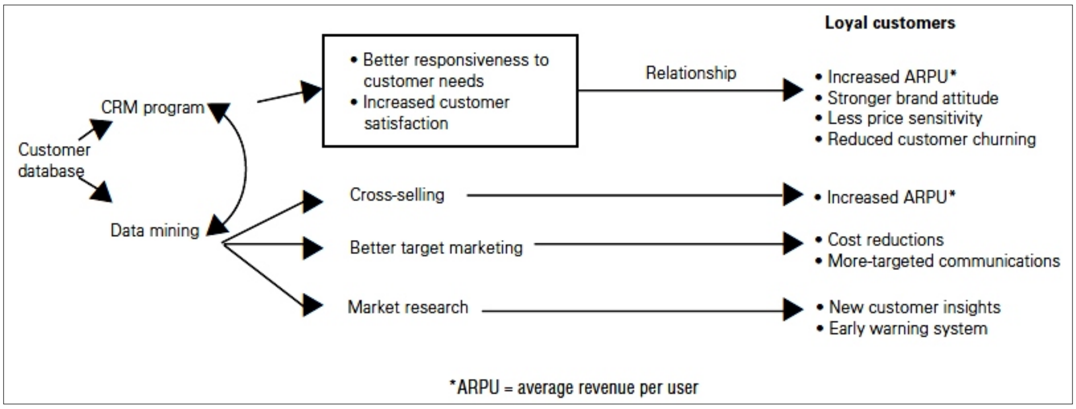


Fig 3: is the representation of how CRM will be effective for companies. In the Figure 3, CRM program illustrates on building relationships with customers and thus establishing customer loyalty. The Data Mining lists the well-accepted outcomes of data-mining activities. Together, those two sets of outcomes have stimulated many companies to invest in creating a database-driven CRM system. Many CRM applications, which historically looked only at the customer interaction area, now include all transactional data and processing along with the very important role of supply chain and collaborative working.Today's CRM technology with its analytical, collaboration and multi-channel help complements the traditional operational processes involved in supporting all aspects of customer-facing interactions. Three segments identified in this framework are: **Operational, Analytical and Collaborative.**

❁**Operational CRM:** Also known as "front-office" CRM, involves the areas where direct customer contact occurs. It supports front office processes, for example, the staff in a call center (Vervest and Dunn 2000, Myers 1998, Crego and Schiffrin 1995; and Greenberg 2001).

❁**Analytical CRM:** Also known as "back-office" CRM or "strategic" CRM, it involves understanding the customer activities that occurred in the front office. It builds on operational CRM and establishes information on customer segments, behavior and value using statistical methods (Nykamp 2001, Peppers and Rogers 2001).

❁**Collaborative CRM:** It concentrates on customer interaction using a coordinated mix of interaction channels (multichannel management) for example, online shops and call centers, (Keen et al. 2000). It makes interactions between a business, its channel and its customers possible (Reynolds 2002).

In Insurance companies, there is a constant challenge for effectively managing and resolving claims. This includes not only managing the interactions between the many parties involved in settling the claim, but also defining the process behind prioritizing and assigning the claim for completion. All too often, customers are asked to repeat the same information over and over again to several different members of the insurance company who are involved in resolving the claim. This extends the life of the open claim and helps to foster the familiar perception of insurance companies - that they are eager to collect premium payments from customers, but are not as eager to assist customers when it comes to paying out a claim. This can be ruled out only if the different CRM components work collaboratively.

INSURANCE IN THE ASIA PACIFIC REGION

The early twentieth century was exciting times for the insurance industry in Asia Pacific. As governments came up with relaxing the monopolies and liberalize regulations, the industry was witnessing unprecedented growth driven by the economic boom and increasing presence of multinational insurance companies in the region. Deregulation in the sector had created new opportunities in a region that was one of the most underserved in the world. On the other hand, APAC's insurance industry was facing challenges on a number of fronts. While countries such as India and China welcome foreign market players, poor market conditions and politically unstable environments had led to the withdrawal of several insurers from countries such as Taiwan and Indonesia. Another key challenge faced by insurers was the development of products and distribution channels to meet the requirements of increasingly sophisticated consumers in more mature markets. As a result, new product areas such as investment-linked insurance plans are growing, as is the development of bancassurance (bank-sold insurance products) as an important distribution channel.

These factors had caused several companies to review their dependence on agency sales forces and to look at alternative methods of distribution. The Asia-Pacific insurance market grew by 2.5% in 2002 to reach a value of $644,436 million in terms of premiums written. The largest proportion of the Asia-Pacific insurance industry was made up by life and pensions insurance, this category accounts for 66.6% of the industry value in terms of gross written premiums. Despite being home to a larger proportion of the world's population than either Europe or North America, the Asia-Pacific region made up just one quarter of the value of the global insurance industry, with a share of 25.5%.
In the same region, life insurance market generated total revenues of $629.2 billion in 2007, representing a compound annual growth rate (CAGR) of 6.9% for the period spanning 2003-2007. The Asia-Pacific Non-Life Insurance market generated total revenues of $210.6 billion in 2007, representing a compound annual growth rate (CAGR) of 4.5% for the period spanning 2003-2007. But 2008 was a difficult trading year for the financial services industry. As a region, Asia Pacific was not immune to the global economic crisis and local stock markets were significantly affected. Investor confidence dropped considerably over the year and sales of investment and investment-linked products were negatively impacted across the region. Despite this, the Asia Pacific region remains highly attractive with markets ranging from large and mature to emerging powerhouses. The low insurance penetration in most countries, ageing populations and high GDP growth indicate that prospects for continued growth in the life and pensions industry are very good. The latest economic forecasts predict GDP growth for the region of 5.8% in 2009[1].

ESTABLISHED MARKETS (AUSTRALIA, SINGAPORE, HONG KONG)

The Australian market has moved away from older style retail investment products and today, over 90% of retail investments are being channeled through the wrap administration market. While current market volatility and declining investor confidence will clearly have an impact on growth in the short term, it is believed that the strong fundamentals in the Australian market will enable double digit growth in both the protection and platform markets over the next decade. Singapore and Hong Kong are relatively mature markets and are developing as offshore private wealth management hubs in Asia. As a result, demand for retirement planning and wealth management products is increasing.

HIGH POTENTIAL MARKETS (INDIA, CHINA)

India is a highly attractive market with its large population, a high gross domestic savings rate creating capital for investment, a large and growing middle class to support long-term growth and the government's commitment to economic reform. China is also a very attractive market due to its population size and stable, rapid GDP growth. The life insurance market grew by an average of 26% per annum between 2000 and 2007 and grew by 48% in 2008 [2]. The low insurance penetration and changing demographics (a growing affluent class, an ageing population and the acceleration of urbanization) will continue to fuel growth in the medium term.

NEW START MARKETS (SOUTH KOREA, MALAYSIA, SRI LANKA AND TAIWAN)

Different insurance companies explored the new market and started joint ventures with bank partners in markets at various stages of development. Taiwan and South Korea both saw recent penetration of foreign insurance companies, through joint ventures with leading local banks. These are both advanced markets with insurance penetration similar to the UK. Malaysia is an emerging market where the government initiatives to make the country an international Islamic financing hub are expected to translate into a strong increase in Takaful business. The life insurance industry in Sri Lanka grew by an average of 19% per annum between 2003 and 2007[3]. It has South Asia's fastest ageing population and the low insurance penetration has the potential to drive continued growth in the future. Despite the global economic and financial turbulence, Asia remains an attractive growth region. In 2009, while this sector will continue to grow the business in line with the market and, it will also focus on the efficient use of their capital. Insurance companies are having a sound business in Asia Pacific with successful, established partnerships and a strong financial

[1]Source: Asia Development Bank, December 2008.
[2]Insurance Regulatory Commission (CIRC).
[3]Insurance Board of Sri Lanka, based on gross written premiums.

position and we remain committed to building a strong presence in this region. In Table 1, the eight major markets of the Asia Pacific region are given a broad outlook based on survey of Insurance companies focusing on factors such as similar challenges, including a low interest rate environment, volatility in investment markets, liability risks, and a significant drop in new business, which will hamper capital resources, and in turn may weaken balance sheet strengths and financial profiles.

Table 1: Outlooks For Eight Asia Pacific Life Insurance Sectors

Country	Industry Outlook
Australia	Stable
China	Stable
Japan	Negative
Hong Kong	Negative
New Zealand	Stable
Singapore*	Negative
Taiwan*	Negative
Thailand	Negative

*Revised To Negative In October 2008

CRM IN INSURANCE

The insurance industry has been a booming sector and companies are going overboard to get and retain customers. CRM has proved to be an effective tool in the quest for better customer relationships for the insurance companies. The aspects where insurance companies have been able to apply CRM concepts include:

A)PERSONALIZATION OF OFFER

In general, Insurance companies have appointed many trained 'insurance advisors' or 'insurance agents' who regularly establish contact with prospective customers and undertake the job of explaining to them the benefits of the insurance policies. These 'advisors' or 'agents' draw the profile of the prospect via a friendly conversation and suitably propose a insurance product to meet their requirements.

B) REGULAR COMMUNICATION WITH CUSTOMER

Insurance products are intangible and customers are often left high and dry to understand the various aspects concerning the policy that they have bought. Therefore, to ensure that customers are kept in the know, regular communication is required from both the company to the customer and also the sales agent to the customer. Regular communication with customer will also help the companies to identify the unmet insurance needs and further cross-sell or up-sell another insurance product.

C) AGENTS ADOPTING A CUSTOMER-CENTRIC APPROACH

A study that was conducted to study the reason for customer defections and the role of agents to curb them revealed that 65% of the customers who had not spoken to the agent had defected, whereas 80% of the customers who had spoken to the agent had not defected. Thus, agents need to be provided with suitable platform to constantly keep in touch with their customers and also process the customer's request at the earliest.

D) SALES FORCE AUTOMATION

This feature or facility will offer more customer-facing time for the salespeople. All routine and preliminary works can be outsourced to data management centers. The online details or profile of the customer will be accessible by the agent and the salesperson to obtain the necessary information. Special access to agents can be given to quickly and efficiently handle customer requirements.

E) UNIFICATION OF DATA-SINGLE CUSTOMER VIEW

Insurance companies are known to operate as silos with hardly any data sharing across the various divisions and departments. This results in the same customer being targeted by the various divisions and resulting in irritation for the customer as well as waste of efforts on the part of the insurance company. This can be suitable addressed and avoided by proper utilization of CRM.

EXAMPLE FROM THE INDIAN MARKET

The Kotak Group has initiated a group wide implementation of Siebel CRM. The solution is expected to go live in the next six to nine months. "*Kotak Life posted a hundred percent growth rate in the last financial year. We also see a huge business potential as eighty percent of India's population is still not insured. As a result, to cope up with the increasing scale of operations, we are deploying the CRM solution," says Dhiresh Rustogi, executive VP-IT, Kotak Life Insurance. As part of the strategy, instead of running multiple applications and then integrating them with the CRM, Kotak Life decided to go for a system that will not only fulfill the integration needs, but also serve as a single repository for data. Coupled with this, Siebel will enable Kotak to capture typical data about cold leads, existing, former and prospective customers, and Sales Force Automation. As a result, the solution offers wide scope for interaction not only with the existing customer but also with former and prospective customers and agents. As of now, the business processes are mapped to fit into the individual systems and applications in place. The challenge before Kotak is to chart a standard set of processes for handling customer, agents, marketing campaigns, however, the sub-processes can be different in the standard processes. Standardization of processes will be the key benefit after the solution goes live." "The customer experience will be standardized across all the group companies. Financial benefits will start rolling out after we initiate the analysis of all the data captured in the system because we are looking at this product from a long term perspective,*" said Rustogi.

While the CRM market in India is still nascent, bigger players such as ICICI Prudential Life Insurance Company are adopting it in a big way. The company was earlier using GoldMines (a sales and marketing tool) and HEAT (an operational CRM solution) from FrontRange Solutions. Last year, it took a decision to invest in CM3 from Teradata and SAS's statistical tool for BI. Anil Tikoo, head-IT at ICICI Prudential Life Insurance Company says, "*As a forward looking company, we see CRM playing a significant role in acquiring new customers. CRM lets us obtain granular details about our customers, helping us to design better products, improve service levels and reduce operational costs.*" CRM has helped ICICI Prudential Life capture five lakh customers through effective event-based marketing and lead tracking to cross- and up-sell products.

Tarun Pandey, application manager at Aviva Life Insurance Company India adds, "*CRM helps us categorize and segment customers and align our products that best suit them.*" Aviva says that CRM is helping them expand into rural areas. Aviva caters to close to 100,000 customers with its CRM solution.That's not all. Players such as Birla Sun Life, Aviva, HDFC Life and MetLife are expected to adopt CRM tools as well in the near term.

CRM - SUCCESS AND FAILURE

Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy, people, technology and business processes (Fox & Stead, 2001). A successful customer relationship management program in financial services addresses four key areas of business: strategy, people, technology and process. The processes in the organizations are the drivers of change that provide direction to the organization. The strategic direction moves the two enablers, people and technology through their systematic interaction to a successful customer relationship management program. Defining the customer's expected life cycle, performance measurement mechanism and corresponding service mix offering are crucial for success of an Insurance provider. The success or failure of the system implementation is largely dependent on the cooperation of the employees and the accuracy and completeness of the initial system analysis. When these are good, under-budget and ahead of schedule implementations may be experienced, otherwise, a protracted implementation that does not fully match critical factors and benefits in the implementation of CRM and the needs of the client is likely. Rewarding cooperation may occasionally be useful, but is generally less effective than creating an understanding and acceptance of project goals. Kale (2004) writes that the estimates of failed CRM projects range from 60% to 80%. This high percentage of failures was bound to scare any company wishing to undertake CRM. Kale has undertaken a research and listed the seven deadly sins with regard to CRM which leads to a failure in implementing CRM. They are:

- Viewing CRM initiative as a technology initiative.
- Lack of customer centric vision.
- Insufficient appreciation of customer lifetime value.
- Inadequate support from top management.

- Underestimating the importance of change management.
- Failing to re-engineer business process.
- Underestimating the difficulties involved in data mining and data integration.

CRM - CHALLENGES AHEAD

With the profound knowledge of strategic customer management, companies would have a better understanding of handling customers and their requirements. Inspite of these, few challenges have been identified, as listed below.

Table 2: CRM - Challenges Ahead

Types	Challenges
Strategic Challenge	Managing customers across multiple channels (Neslin et al. 2006).
	Achieving customer centricity (Shah et al. 2006).
	Managing brand equity versus managing customer equity (Leone et al. 2006).
Models and Metrics Challenge	Developing and operationalizing appropriate customer lifetime value (CLV) models
	(Gupta et al. 2006).
	Understanding the link between CLV and shareholder value (Berger et al. 2006).
Implementation Challenge	Developing forward-looking customer metrics (Zeithaml et al. 2006).
	Successfully implementing Customer Relationship Management (CRM) Strategies (Bohling et al. 2006).
	Implementing CRM in global environments (Ramaseshan et al. 2006).

CONCLUSION

The increased competition from the local as well as the foreign insurance companies, has just resulted in the increase in the demand and expectation of the customers. Thus, the concern of customer service and CRM are vital in the developing environment. This is especially true in the case in developing countries where changes in customer expectations are linked to increasing educational standards and literacy. Although there has been a significant and rapid advancement in the area of customer management, there are many issues to be explored. Insurance companies across the world have also started recognizing the value of superior customer care. However, they are still in the initial phase of CRM implementation, with some foreign and private sector banks taking the initiative on the technology front. One of the major challenges in implementing CRM is resistance to change. The success in the implementation of CRM is achieved only if the company can create the right environment, a culture and attitude of the employees to serve the customer better. Besides, it also reflects that CRM still requires the adoption by insurance companies of significant new skills and technology, together with some reorganization of the marketing function.

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