

Customers Really Matter

By Marek Jakubik and Vladimir Orovic

The concept of Customer Relationship Management (CRM) was brought to life in the early 90's and it has been quickly adopted; at first by large companies, then by those further down the corporate scale. The financial services industry was one of the early adopters. As usual, banks moved ahead of insurance companies. Yet, CRM investments during the big push of the 1990s didn't generate the expected returns for the companies that made them.

For example, a 2001 McKinsey study found that only 20 percent of the US retail banks that implemented CRM raised their profitability as a result. More and more, CRM began to be associated with two words: expensive and failure.

In preparing for this article we Googled the Web for references to insurance CRM. Believe it or not, short of brochures from vendors, there have been no serious articles or analysis of the space since 2003 or so. Then we tried McKinsey Quarterly and few other strategy publications. No better luck.

Has the mantra of CRM vanished?

More specifically, has CRM vanished from the radar of insurance companies? That was really hard for us to conclude given the interest expressed by our clients on both sides of the Atlantic.

Despite some pundits' recent predictions of the demise of CRM, our position is that we have only just begun. While the days of the multimillion-dollar CRM deals may be gone, the business mainstream is just beginning its adoption of CRM strategies. Vendors large and small are redoubling their R&D and sales efforts.

Admittedly, companies that got burned during CRM's over-hyped zenith days are down on the term itself, but even they are still focused on customers. They may now use 'customer experience management' or 'customer-focus' or whatever the term du jour is. Ultimately their point is the same: servicing customers better serves their bottom line. And that's CRM.

The customer is a complex creature

The initial mistake we make comes right from the name: CRM is an acronym that does not correctly interpret the meaning of the solution or the technology that is applied to managing customer relationships.

First and foremost, "CRM" implies that cus-

tomers are passively managed by the will of the organization. This is completely untrue. Customer relationship is a mutual exchange of values, and even more so in an industry such as insurance, where the transaction levels are low but the transaction values can be high (both financially and emotionally).

Secondly, CRM embraces a vast array of techniques and solutions that are individually complex in and of themselves, let alone from the implementation and operational standpoint; i.e. sales force automation (SFA), customer information files (CIF), marketing management, channel management, customer service and so on.

Thirdly, far too often and despite the existing evidence, companies still treat CRM as a technology solution. Which, regardless of what some vendors may impress on you from time to time, it is not. CRM is more than a piece of software; CRM is a business strategy, one that puts the customer at the heart of the business. And since CRM is a business solution, what it needs foremost is a customer strategy. We have recently had a discussion with an insurance client who is currently executing a number of initiatives that would all fall under the umbrella of CRM: integrated customer database, sales force automation tool, call center, etc. Only one of these initiatives was completely successful. When analyzed deeper, it became obvious that the successful initiative was managed by business objectives and measures. The others, driven by technology, were almost complete failures.

In one of their brochures, PWC Consulting says: "CRM is the business strategy that aims to understand, anticipate, manage and personalize the needs of an organization's current and potential customers". True and we agree.

In our engagements we also like to take this definition a step further and sketch the customer strategies that make the effect on the bottom line very explicit. For example, we define CRM's strategic and tactical opportunities in the following categories:

- Improving Sales and Marketing through
 - cross-selling and up-selling or
 - reducing costs of sales
- Improving customer retention and
- Reducing costs of servicing customers

Can mid-size insurers cut it?

Given the above, what is the role of CRM among mid-size carriers? Since almost as a rule they operate through independent agents, the definition of the actual customer becomes very foggy. Is that the agent or the policyholder? And what part of the policyholder's lifecycle is part of agent's responsibility and which one carrier's? Who and how should use the information at hand to better "manage" the relationship with the customer? And how to maximize collaboration between the parties?

To answer these questions, let's look at the issues and concerns along the three main functional dimensions of CRM:

1. Informational (i.e. CIF or similar)
2. Transactional (channel management such as sales force automation or service/call center)
3. Marketing (campaign management and similar)

The *informational* aspect of CRM plays a key role in two ways:

- Streamlining access to customer data that resides in multiple disparate policy or claims systems for the purpose of reducing the number of applications in use – realistically very few companies manage to exploit this synergy due to the inherent "closed" nature of the core insurance applications they use
- Intensive up-sell and cross-sell of products, which can only be executed properly in combination with transactional aspects of CRM and strong support and control of the distribution channel

The *transactional* aspect of CRM is critical for some of the following scenarios:

- Automating service centers (such as a call center), which in and of itself is very specific and so unique. There is always the question whether it is an essential part of CRM, especially when it's not integrated with other components (i.e. informational or marketing)
- Integrating the client's transactional data for the purpose of improving sales, marketing or service
- Ensuring that the products are distributed to the right customer segment through the most efficient channels if a multi-channel strategy is being used

The *marketing* aspect of CRM, builds on the two previous ones and can be a tool to

address issues such as:

- Serving the unique needs of very small segments, or segments of one (lifecycle marketing) that can be exploited jointly with transactional tools such as SFA
- Mitigating conflict between captive and independent channel
- Building on a sufficient historical volume of information to draw relevant strategic decisions (the "information before decisions" principle)

What does all this mean for mid-size carriers?

1. Given the cost and complexity of implementation, carriers should look at implementing only those components of CRM that are of highest value to them and even then only in a sequence of small measurable steps
2. The potential for channel conflict (between independent agents and internal capabilities such as internet or similar) should be resolved before embarking on a CRM initiative
3. Carriers should look at the possibility to extend their CRM capabilities and information to their independent sales force (i.e. agent network) and work in collaboration

A mini-guide to CRM success

With the given complexity and high rate of failure is there hope for CRM for insurance companies? Yes, as long as they apply "lessons learned", which evolve around the following key principles:

- Strategy comes before execution. Key elements of the strategy have to deal with at least six areas:
 - Customer and product direction and analysis
 - Competitive analysis
 - Selection of components that are of highest value to serve chosen customer and product direction
 - Channel and distribution strategy
 - Ability to implement
 - Measures of success
- Implementation should be staggered by focusing on one component at a time (or even a sub-component e.g. inbound call center, SFA or similar) and then built on top of that
- Data availability and quality as well as integration with source information systems (core insurance systems, finance etc.) have to be defined and resolved prior to

implementing any component of CRM

- Ability to migrate historical data into the components of CRM being implemented cannot be stressed enough given the nature of the business
- Ownership of the CRM not only has to reside within the business units, but it can and will migrate over time to various units due to the highly cross-functional nature of the solution. Continuous central oversight at the corporate level has to be established early in the life of a CRM solution. This will ensure that all individuals aim for the same goal

If you haven't begun, use the above points to map a road to CRM's success. However, if your CRM project is already underway and you may have an inkling of a problem, look for typical warning signs. The first is cost overruns or missed deadlines (they frequently result from needless complexity). The second warning sign are complaints by users about poor usability or unmet performance promises. These often emerge in the pilot or early-rollout phase. Such complaints may point to serious underlying design and technical problems.

Please note that even faltering CRM efforts can be turned around. The key to uncovering the root cause of the problem is to reassess the business goals of the system and the organizational and technical support it receives. Every CRM breakdown we have seen stems from some combination of poorly defined objectives and organizational and technical weaknesses.

And whenever in doubt, remember what CRM truly means: Customers Really Matter.

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