Blind Spot

The existential crisis hiding in wait for the Australian general insurance industry.

Even though it's barely begun, 2019 is already lining up to be a challenging and difficult one for buyers of insurance. The market continues the hardening trend which began in 2018 and underwriters are withdrawing from classes long considered to be business as usual.

In their recent quarterly market commentary, Honan Insurance Group predicted "a continuation of upward pricing pressures" throughout this year. While brokers benefit from rate rises, Honan and others predict a growing discrepancy between low and high-risk business and and increasing willingness on the part of insurers to walk away if profitability thresholds are not met.

Insurance Brokers Network of Australia Chairman Gary Gribbin foresees a "really lumpy" year, with business as usual in some areas but others experiencing major rate increases.

Insurers and brokers are also bracing for pending shockwaves of the Hayne Royal Commission as they ripple out through the market. The precise implications are yet to be fully understood, but executives in the large insurers say they are hoping for the best, while preparing for the worst.

If the banking and wealth sectors prove to be any sort of guide and many industry insiders and analysts believe they will, the way insurers and their broking channel partners engage with their customers is set for an overhaul at least as dramatic as the one the banks are starting on. In the short term, the current hardening cycle driven by increased focused on profitability will enable many organisations to kick the customer engagement can down the road a little further. An environment of rising prices across the board will provide another convenient smokescreen behind which sins which have been accumulating for some time can remain hidden. But like Dorian Gray's picture of himself, when the truth is revealed – as it ultimately must be, the consequences for those left to face it could be decidedly ugly.

More than a decade ago, cracks began opening between the growth aspirations of companies and the ability of their marketing and selling functions to deliver and sustain that growth. At RevenueTEK we have been observing and measuring the widening of those revenue cracks across countries and industries since 2005. In 2019 for the first time, we have been able to quantify the scale of the crack for general insurance in Australia.

RevenueTEK

Since 2005, RevenueTEK has been tracking and studying how effectively and efficiently organizations convert their marketing and sales opportunities into revenue.

Last year's Revenue Performance Index (to view or download the 2018 Index report, go to www.RevenueTEKi.com or click on the image below) revealed that globally, corporate pipeline conversion had descended to a new low of 1.92%. For every one hundred opportunities developed by marketing at the start of the pipeline, less than two are now making it to the end of that journey. In 2005 when the Index was first published, that figure was 3.7%, which means that in the past twelve years and in spite of nearly a trillion dollars collectively invested in everything from CRM and marketing systems to data analytics, recruitment and training, corporate revenue performance – the ability to convert sales opportunity into revenue, has declined by nearly 50%.

Our 2018 data set included a total of 588 organizations across 16 different vertical industry segments on four continents. Twenty eight respondents were insurers or brokers – all of them with operations in Australia, with seven being recognized global players. Drawing twenty eight companies from a population as large, complex and diverse as the global insurance industry, is hardly a statistically significant sample, and we're not for a moment suggesting that it is. However, what those 28 companies revealed courtesy of their survey responses is worthy of further research and study. The implications for the gap – which the data suggests is more like a yawning chasm, are profound for an industry which will soon have to look very hard at how and how effectively it engages with its customers.

If the directional conclusions suggested by their data are even close to being correct, the global industry faces a problem much bigger and potentially more serious than a Royal Commission or any of the risks highlighted by recent industry reports published by the Big Four accounting firms or other industry analysts.

Critical insurance industry risks according to CEO's

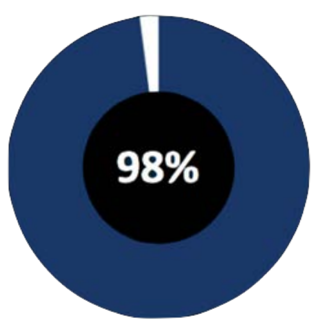
Earlier in 2018, PwC, EY, KPMG, Deloitte and several other insurance experts each published research studies on the challenges facing the commercial and general insurance industry. While they ranked the various top risks differently, they all identified pretty much the same ones.

The biggest risk however, already facing insurers and brokers - particularly in Australia, doesn't appear. Perhaps because the right question wasn't asked in any of the surveys?

The insurers and brokers who responded to the 2018 Revenue Performance Index, converted fewer than two out of every 100 new business opportunities into new clients. Another way of saying that, is they ***failed 98% of the time*****.** Before dismissing that because of the small sample size, note that the sample included three global insurers and four of the world's largest international brokers.

It's important to understand the RevenueTEK data measures a new client's ***full buying journey***, from raw lead to closed sale. Most organizations only measure part of that process – usually the part that starts when the prospect has become visible (from Contact to Win on page 4). Many CEO's are surprised to learn that the buying journeys of their new clients are actually well underway by the time they become visible to their marketing or sales people; if indeed they ever become visible.

Brokers marginally outperform insurers and smaller brokers outperform larger ones (see data on page 4). On the RevenueTEK data, the insurance industry as a whole **underperforms the benchmark Australian revenue conversion index by 17%.**



Failure rate in 2018 for new customer acquisition for the Australian insurance industry

Client Acquisition – November 2018

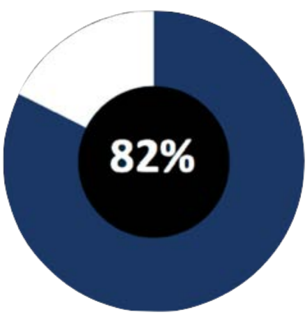
Total Aust (n=497)	Insurers (n=3)	Large Brokers (n=4)	Mid-sized Brokers (n=7)	Small Brokers (n=14)
34%	29%	29%	23%	17%
33%	29%	35%	34%	49%
17%	12%	15%	15%	25%
1.9%	**1.1%**	**1.6%**	**1.2%**	**2.2%**

Client Growth, Cross and Up-Sell – November 2018

Total Aust (n=497)	Insurers (n=3)	Large Brokers (n=4)	Mid-sized Brokers (n=7)	Small Brokers (n=14)
62%	54%	52%	46%	38%
78%	69%	81%	79%	97%
48%	36%	42%	41%	59%
23%	**13%**	**18%**	**15%**	**22%**

The strike rate on converting cross-sell and up-sell opportunities is better, but nowhere near as good as many expect it to be. The data excludes annual renewals i.e. re-signing the same coverage for the same client from the previous year, ideally at an increased premium.

This part of the process **only fails 82% of the time** – with clients who already know and supposedly trust their advisor.



Failure rate in 2018 for up-selling and cross-selling to existing customers.

Insurers and brokers under-perform the benchmark Australian revenue conversion indices at nearly every pipeline stage.

Of the brokers, mid-sized firms perform worst, under-performing larger and smaller brokers by 25% and 43% respectively. Ignoring competition from non-insurance sources (e.g. banks) this mean that the only competitors mid-sized firms beat with any consistency – are other mid-sized brokers.

When it comes to cross-selling and/or up-selling to existing clients, no group reaches the end-to-end benchmark index.

Across the board, brokers miss out on four of every five opportunities in clients where they are already incumbent to some degree.

Note this data excludes annual renewals.

Ugly implications

What these two sets of numbers mean is that insurers and brokers of all sizes are steadily leaking revenue they should really be winning from their existing clients – while simultaneously failing spectacularly to win new business with any consistency.

The only thing keeping the whole show running is the annual premium increase. While premiums in many classes – most notably D&O, have increased dramatically after several tough years, relying on price increases in a hyper-competitive market being disrupted by low cost providers with alternative business models is not sustainable and fraught with danger.

In any case, as premiums rise, clients will simply increase the pressure for value, and if they fail to find it, vote with their feet, accelerating the exodus to low cost alternatives. The hardening market could well prove to be a double-edged sword – with a very sharp edge!

Like the Doomsday Clock, unless something changes, by continuing to focus on other risks at the expense of winning and growing clients and revenue, the industry is sowing the seeds of its own destruction, and no amount of improvement in premiums, technology, compliance or claims processing will be enough to save it.

Five core areas of revenue risk currently exist for commercial and general insurance firms. None are being particularly well measured or managed, the preference being to loosely bundle them together under the label "customer risks"

- Increased competition from other firms and new service models
- Declining relevance of traditional services and brands
- Evolution of the Internet and decline of traditional media
- Proliferation of touch points demanded by clients when researching and buying

- Lack of meaningful lead indicators
- Management cannot see the future with clarity or granularity
- More data than ever before, but no insight
- Revenue forecasting is oxymoronic
- Processes are inconsistent or non-existent
- Marketing and BD metrics and processes poorly aligned – reinforce differences

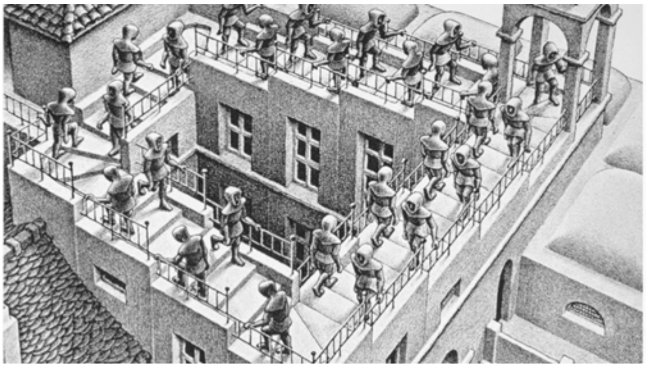
- Simultaneous challenges of growth & cost containment
- BD efforts and Marketing siloed, misaligned & dysfunctional
- Lack of alignment with client buying journey
- No clear line-of-sight between strategy and revenue execution
- No repeatability, consistency or sustainability

- More stakeholders in decisions
- Longer, more complex sales cycles
- Increased scrutiny over value proposition and ROI
- Information asymmetry favours clients
- Clients demand more for less
- Online / social hampering traditional engagement

- Declining effectiveness and productivity
- Repeated investments in training not bringing results
- Decreasing BD executive / rep tenure
- Dearth of genuine BD "rain-making" talent
- Challenges to incent, motivate and reward people
- Cross-generational management challenges

RevenueTEK

The solution is to stand back from the noise and look at the problem from a different perspective, not simply work harder or worse, go around in the same circle everyone is going around in. In insurance - with only a few exceptions, everyone is doing almost as poorly.



The good news is there is a solution, and it is neither difficult nor particularly complex. In fact, it's surprisingly close to the way insurers and brokers view everything else they do in their firms – from assessing risks to processing claims. But it is different to the way they currently view revenue creation.

Since 2005, 154 organizations – including one of Australia's leading insurance brokers, have changed the way they go about revenue creation – and **averaged 24% and 130% year-on-year growth in revenue and profitability respectively** by doing so.

Conversion benchmark for median mid-sized Australian broker as at November 2018

The median mid-sized broker in Australia converts 23% of leads into qualified opportunities, 34% of those opportunities into proposals and 15% of those proposals into wins – for an end-to-end yield of 1.2%.

By increasing those three conversion factors by just one percent each – 23% to 24%, 34% to 35% and 15% to 16%, the overall yield improves by 1.2% to 1.3%.

Which doesn't sound like much….until you consider that 0.1% is an **improvement in yield of 15%** on 1.2%.

Another set of one percent increments drives **a further 14% yield improvement – or 30% in total.**

Revenue risks and drivers

This RevenueTEK Heat Map taken from an insurance broker in Europe, illustrates how revenue is an outcome that results from a complex interaction of as many as 36 inter-connected risk drivers. The secret to consistent over-performance lies in understanding how the drivers relate to each other and how the various correlation coefficients between the drivers interconnect to enable to maximum performance hit for the minimum amount of effort and cost.

Each driver relates to - and to varying degrees is correlated with, all the others. Changes to individual drivers invariably result in flow-on effects to other drivers downstream and ultimately to the revenue outcome.

Get those changes right, and incremental – often almost imperceptible improvements, can multiply to drive disproportionately large improvements in overall revenue system yield.

Get them wrong, however, and the force multiplier effect works just as powerfully – in reverse.

(For a demonstration of the power of incremental improvements in individual drivers at different stages in the revenue cycle, copy the following link into your browser: https://youtu.be/FbrQdONteNg

Ultimately, managing revenue risk and consistently out-performing involves examining six questions, and using the insights gained from those questions to providing an informed base from which to decide what to do and what not to do. Not carrying on as the insurance industries continues to, with more poorly-educated guesswork, gut instinct and worse – what other companies are doing.

Six fundamental questions

1. How well your revenue "engine" is really running, as opposed to how well you think it might be running?

2. Which elements (i.e. drivers) are working well, and how well are they really working?

3. Which elements aren't working well, how badly are they affecting you and why aren't they working?

4. Of all the things you could potentially improve, which 4-5 will deliver the biggest kick for the least investment and risk. In other words, **where are the "one percenters"?**

5. What is the upside in terms of revenue and profitability for making those handful of changes, and how long until you see those results?

6. Are there any risks in the way you're running your marketing and business development that you can't see, or might have under-estimated?

Since 2005, RevenueTEK has been helping organisations around the world use data and analytics to unlock the secrets to sustained revenue improvement. Across 154 clients to date, those clients have enjoyed year-on-year revenue improvement following engagement with RevenueTEK of 24%.

To learn more about how our Telemetry RT3 Sales Intelligence and Analytics solution could do the same for your organization, visit our website at www.revenuetek.com or email us at info@revenuetek.com.