



2013 Key Trends Report

ACT Strategic Future Issues Work Group
September 27, 2013 version

Note: This is Phase One of a two part initiative. In Phase One, we identify the key trends that will affect our future. In Phase Two, we will develop the Industry “Must Do” Issues, which are the key action items our industry should pursue in response to the challenges and changes brought about by the Hard Trends. The work group will begin work on Phase Two after the September 27, 2013 ACT meeting.

2013 Hard Trends

“Hard” trends are those that we believe are permanent and will change the reality with which we must deal. In 2012, we identified five trends: Social Web, Demographic/Diversity Transformation, Mobile and Mobility, Connected Consumer, and Data Availability and Analytics.

In early 2013, we began the process of reviewing, evaluating and updating the 2012 Trends to bring them current with what we believe to be the major trends that will impact our industry over the next few years. These Hard Trends will provide the foundation for the development of the industry’s “Must Do” Issues document.

We recognize that many of the examples used to help define the hard trends are themselves constantly changing and while they themselves may not be hard trends, they are “indicators” or “influencers” of the larger hard trends. Also, this is a living document that will grow and change over time and is designed to encourage dialogue and discussion.

The key Hard Trends are:

1. **Social Culture** – We have transitioned from using the term Social Web to using the term Social Culture. This term more accurately reflects the broad influence and impact “social” is having on all aspects of our society including our business lives. It implies the ongoing transformational change in our culture - it is an expansive strategic trend that has grown out of social web tools and technology.

In this new environment, consumers have taken social interaction to a higher level, communicating virtually with much larger groups of people, while at the same time becoming increasingly connected and empowered using social media, mobile devices and other technologies. Consumers are employing these new

tools to become better informed, to make buying decisions and to express their opinions to their followers about the products, businesses and events of interest to them.

Businesses are starting to reinvent their business models to fit into the social culture and are transforming themselves into “social businesses” to properly leverage the opportunities presented by the social web, as well as, being able to adapt and respond to the expectations of the connected consumer. Amber Naslund, President of Sideraworks, describes a social business as “the creation of an organization that is optimized to benefit its entire ecosystem (customers, employees, owners, partners) by embedding collaboration, information sharing and active engagement into its operations and culture. The result is a more responsive, adaptable, effective and ultimately more successful company.”

Some of the components and influencers of the social culture include:

- a. Rich Media - (Voice and Video - podcast, Vine, Instagram video, SlideShare)
 - b. The Education Economy - Think about what the consumer wants to know vs. what we want to tell them. Simply having an online presence is no longer enough... It is important to provide value through educating, informing and engaging clients and prospects. This can include demonstrating thought leadership and subject matter expertise. Consumers want to be educated, informed, advised but not sold.
 - Education includes informing your “community” in the moment so they can prevent mistakes and make right decisions.
 - The key is to create digital relationships and build a “community” around the needs or interests of the customer. That is, to create connections relevant to them.
 - c. [Inbound Marketing](#) - It is changing forever how insurance firms communicate with (“sell”) customers and prospects. One-way (push or outbound marketing) communications (e.g., advertising) is becoming a lot less effective with significant groups of people.
 - d. Digital Marketing/[Content Marketing](#)
 - e. New payment tools/methodologies (Paypal, Square, etc.)
 - f. Marketing Automation (Infusionsoft, Hubspot)
 - g. Speed/pace of change is accelerating - disruptive technology
 - h. [Transformational leadership](#) - reinvent business - adapt - transcend is key to survival.
2. **Connected Society** – Connected consumers are empowered through changing technology to interact with the world around them, and thereby to shape how businesses respond. They find, share and communicate information differently than the “traditional” consumer. They live on smart phones and tablets and network with friends and businesses through social and mobile technologies. In short, they make buying decisions differently and broadcast those decisions to their networked community. Reaching and responding to this consumer requires

both different strategies and tactics than traditional methods of marketing and communication. Again, it is critical to create relevant connections.

Connectivity is expanding from consumers to business and even “things” – that is, all aspects of our physical world are being connected.

Here are some of the changes taking place in this Connected Society:

- a. Digital Natives/Social Natives – interact and consume information differently.
 - b. Connected vs. Not Connected. Not only connected to the web, but to each other.
 - c. [Responsive web](#) - need to respond to a variety of devices with the full functionality of the website.
 - d. [Sharing Society](#) (cars, bikes, couches, homes, etc.)
 - e. [Internet of things](#) - physical and digital worlds will fuse.
 - f. Wearable tech will be an important trend in mobility in the coming years. (Google Glass - embedded chips). But also “things” that are connected to the Internet. (TV, Refrigerator, Toilet)
 - g. New Technology ([3D printing](#), driver-less cars, etc.)
 - h. “Showroom” retail (Visit shop - buy online, easily connected with GPS, QR codes, next-gen.
 - i. [Cloud Computing](#) - The ability to link and share across many types of devices.
 - j. [Location-based marketing/services](#) – Foursquare, GPS type services - Snapshot, etc.)
3. **Mobile and Mobility** – Mobile along with Social and Cloud Computing are what has enabled the cultural transformation and the emergence of the Connected Consumer. Mobile cuts across everything. It will change the products offered (telematics, health checks, travel, etc.); it will affect quotes, account management, and claims; it creates a new infrastructure for communications in disaster situations. It will also change the way the customer interacts with agents and carriers, and how agents and carriers communicate with each other.
4. **Demographic/Diversity Transformation** – ‘Diversity’ in every sense of the word (age, ethnicity, culture, gender, connected vs. non-connected). Examples would include producers, service reps and owners from 23 to 73 all working together within agencies - and interacting remotely/virtually, as well as, the increasing number of Spanish and Asian-speaking consumers. And, as noted above, there is now a new category of diversity consisting of the connected vs. non-connected consumer.

Each of these groups may have different preferences as to how they want to interact with their business partners.

Indicators and influencers related to Demographic/Diversity Transformation:

- a. Mobile workforce – work re-imagined (who, where, how)
- b. Virtual Employee (WAHVE)
- c. Exit of Baby Boomers from workforce, resulting in changes in business ownership, wealth transfer, the loss of expertise and industry knowledge.
- d. Solid perpetuation planning remains number-one driver of value of agencies – and their future.
- e. There are differing expectations among employees as to where, when, why and how insurance people should “work” in the future. More flexible work/life balance models are starting to modify the traditional brick and mortar or 9 to 5 models.

5. Growing Availability of Big Data and Actionable Business Intelligence –

New technologies and techniques are making possible the capture and analysis of more and more data ([Big Data](#)) and the creation of more useful [Business Intelligence](#) from it. Agencies and carriers are able to integrate this business intelligence into their decision-making in real time, enabling them to understand their consumers and operations better. These data analytic capabilities have significantly changed how insurance carriers make underwriting, servicing and marketing decisions over the last several years, but there are major opportunities for independent agencies to harness this business intelligence to enhance their prospecting, marketing, sales, servicing and management processes. That is, using BI and analytics to know when a consumer is likely to have a need rather than waiting for them to reach out or making a cold call.

Indicators and influencers relating to Big Data and Business Intelligence:

- a. New technologies applied to Big Data allow businesses to create Business Intelligence on a much larger scale than traditionally available from their internal systems. These technologies include the ability to make correlations between seemingly unrelated data to create accurate business intelligence. Predictive analytics is an example.
- b. Easy to use and comprehensive analytics available as part of online marketing tools to fine tune and measure the effectiveness of a business’s online marketing efforts.
- c. Carriers will gather increasing amounts of data from consumers’ social interactions, as well as from their own databases. This data will include “life event” trigger information. How can carriers convert this data into useful business intelligence for their agents to use in their marketing, sales and servicing efforts? In addition, how can carriers create business intelligence from their own claims data to assist their agents in providing risk management advice to their clients?
- d. What impact will the availability of more extensive data and business intelligence have on the roles performed within carriers, such as in underwriting, loss control and data analysis? What impact will this business intelligence have on the frontline underwriting traditionally performed by agencies? How might the relationship between the carrier and the

- policyholder change as the result of the carrier's possession of this extensive data and business intelligence?
- e. Does the availability of Big Data and business intelligence ease the entry of new competitors with business intelligence skills into the insurance industry? (e.g., Amazon, Google, etc.)
6. **Changing Nature of Insurance Risk** – Changing social norms, applications of technology, climate – all of the trends noted above and more – are changing the types of risks that consumers and businesses are facing, creating new opportunities for insurance carriers and agents to design new coverages and creating the need for insurance agents to advise their clients differently about their risks. Examples include the “sharing society,” information security exposures and the increase in the number and severity natural catastrophic events.

Indicators and Influencers for the Changing Nature of Insurance Risk:

- a. [Mass Customization](#) - customized and individually targeted marketing and product creation and delivery
 - b. Severe, unpredictable weather and major catastrophic events - Will the pattern of the last several years continue driven by global warming and/or other factors, or is it a temporary aberration from the norm?
 - c. Disruptive Channels (like the sharing society where property is shared among several users) - Will have a significant impact on what is insured and how insurance is sold. Will definition of risk and coverage change?
 - d. The need for us to re-visit existing coverages and services in addition to the need to design new coverages. Much of what we currently offer was developed several years ago and would benefit from a fresh look given all of the changes that are continuing to occur.
 - e. Carriers will need to be more agile and responsive to the increasing speed of change in our culture and business landscape.
7. **Information Security Regulation** – Federal and state regulators will increasingly target businesses which have not implemented statutorily required security plans and procedures, and the costs of data breaches will become more expensive to businesses. Criminal elements will continue to exploit the system security vulnerabilities of businesses and individuals using more and more sophisticated technologies, and employees will make mistakes – both resulting in the breach of classes of personal information protected by the federal and state statutes, typically referred to as Protected Health Information (PHI) and Personally Identifiable Information (PII). Mobility greatly increases the security risks that businesses face, if protected consumer information is put on these devices and they are lost or stolen.

These growing risks also create opportunities for carriers and agents to provide coverage and risk management guidance to clients. It is ironic that at the very

time consumers seem to be willing to share more and more personal information via social media, laws and regulations are being implemented which impose more rigorous requirements on businesses to safeguard certain categories of protected consumer information.

Implications

- We are seeing new business models spring up in industry after industry. They take advantage of disruptive technologies and changing consumers to displace traditional businesses. We have seen this occur to some extent in the insurance industry with auto insurance, as the direct carriers have taken market share from the traditional agency companies.

We are likely to see more radical changes in distribution models emerge in the future, giving customers opportunities to buy insurance in new ways. This may come from retail firms such as Walmart and Target, or companies known for their innovation and re-invention of traditional business models, such as Amazon and Google. How do agencies best position themselves to compete in such a market?

- New business models are emerging for independent agencies as well, which are much more virtual and unlimited by geographical boundaries. Many consumers will take advantage of self service functions online to perform routine inquiries, requiring agencies to reach out to them proactively both personally and using blogs and social media to provide the types of insights and insurance knowledge that consumers are looking for and which are not readily available elsewhere.

It is incumbent on independent agencies and carriers to heed these trends and to reinvent their businesses, becoming social businesses that engage with their clients and offer them the relationships, insurance knowledge, personal service and community participation that their clients value.

- Just as changing consumer expectations are driving agencies and carriers to interact with them in real time and in new ways, agency-carrier relationships will need to change as well, as agencies need a new level of real-time support from their carriers to respond to their clients and the business models of both agencies and carriers evolve to respond to these trends.
- Independent agencies and carriers are going to have to have the flexibility to interact with their clients using multiple communications methods, depending upon the type of communication and interaction the particular client is most comfortable with.

- The digital presence that independent agencies and carriers provide must be able to render well on mobile devices of all types, since consumers are using these devices at least half the time when they access the Web.
- This is an exciting time for carriers and agencies to fashion new insurance coverages and risk management strategies that focus on the changing nature of insurance risks that are outlined in the identified trends above. See [*"Keeping Up with Emerging Risks a Struggle for Insurance Industry."*](#)
- Agencies and carriers will need to keep up with federal and state privacy and data breach laws and regulations and have the policies and procedures in place to manage their information security risks.
- Agencies and carriers face the challenge of keeping up with the trends and competitive pressures that will impact them in this time of incredibly rapid and profound change. It will be important for individual firms to create a culture that embraces innovation and change, and that puts in place the processes necessary to evaluate and implement changes successfully. It also will be important for individual businesses, as well as for industry organizations, to create innovative communications strategies, so that the messages about the need and importance for change filter down to the right levels of individual organizations.