

Value based marketing – a general insurance case study assignment

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Value Based Marketing ??? A General Insurance Case Study 1. 0 Introduction

As the global financial crisis begins to take effect in the ASEAN region and Malaysia alike, it becomes a test on the strength of internal capabilities of financial institutions, which have been operating under a tightly regulated environment and a booming investment market in the past years. Although insurance companies in Malaysia have not felt the complete wrath of the financial turmoil, most have already experienced a sudden decline in their investment income.

The more long-term consequence is expected to hit the insurers' bottomline resulting from a two-prong industry killer: ??? Premium reductions caused by a decline in demand for insurance products as businesses and consumers choose to self-insure and the subsequent price-wars between insurance companies to maintain their share of the shrinking market; and ??? Increased frequency of claims due to moral hazards in an unforgiving economic environment coupled with rising quantum of incurred losses from rising material costs 1. Jerneh Insurance Berhad (JIB) Since its establishment as a captive insurance company for the Kuok Group, JIB has evolved over the years to provide general insurance products to the corporate sector and small businesses outside its parent company. With the current soft market for general insurance, JIB has been facing challenges caused by conflicting goals of targeting double-digit growth in gross premiums (The Star, 2008b), whilst maintaining high underwriting profitability commensurate with its parent company's conservative philosophy.

Despite the company's recent rebranding as a provider of risk-based

solutions, premium growth is expected to be slow due to stiff market

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competition (The Star, 2008a). 2. 0 Embracing the Value Based Approach To achieve its mission of being a risk-based solutions provider, JIB must embrace value creation from its two rudiments, ie. understanding what really constitutes customer value, and how the business subsequently aligns its resources to deliver that value to its chosen market segments (DeBonis et. al. 2002, p. 3). To the customer, insurance is primarily viewed as unsought goods (Kotler 2009, p. 62), either purchased to satisfy stakeholder requirements or based on the traditional notion of transferring financial risk of a potential loss. Hence, from the customer's perceived value of insurance, the product itself may bear little or negative value to the customer. Nevertheless, insurers can 'recreate' value for its products by emphasising a cognitive dissonance within the customers' needs. This can be accomplished by shifting the focus away from insurance as a means of financial risk transfer, to addressing the fundamental need of businesses to maintain business continuity.

Customers tend to treat the former as a cost, whereas the latter is often perceived as value-added, revenue-producing services (Zeithmal et. al. 2009, p. 13). To create and deliver this customer benefit, JIB must realign its resources according to its internal strengths and accessible opportunities, as illustrated in Figure 1. 0. By matching JIB's strength in risk management services with opportunities through its intermediary distribution channel, JIB can capitalise on increasing customer awareness on risk management.

Furthermore, with the anticipated liberalisation of the Malaysian insurance market and future direction of the economy, JIB's prudent underwriting

philosophy may become its strength instead. Strengths ??? Strongly capitalised ??? Strength in provision of loss control and prevention services ??? Strength in product development ??? Good spread of branch network across Malaysia ??? Above average underwriting capacity for conventional product lines ??? Good reputation amongst existing intermediaries Weaknesses ??? Lack of brand awareness amongst end users ??? Lack of synergy with Kuok group companies Conservative business approach stemming from corporate culture of parent company ??? Prudent underwriting philosophy in a presently soft market Opportunities ??? Liberalisation of local insurance market ??? Regional exposure through JAB sister companies ??? Growing customer awareness on risk management ??? Growth opportunities through global partners Threats ??? Emergence of large competitors resulting from consolidation in the industry ??? Forced level playing field on a regulated price and product delivery platform ??? Rise of Takaful insurers governed by less stringent regulations ??? Moral hazards arising from global financial crisis Rising cost of claims due to inflation and fuel price effects ??? Instability of investment market

Figure 1. 0: SWOT Analysis of Jerneh Insurance Berhad (based on information extracted from corporate and industry reports)

3. 0 Creating Value for the Customer

3. 1 Understanding the Customers' Needs

When a customer purchases an insurance policy, there is a certain amount of value anticipated from this purchase. The perception is articulated in the form of the customer's stated need to receive full compensation from the insurer if a claim materialises, so no losses are suffered on the customer's part.

More often than not, the customer walks away post-loss feeling dissatisfied with the insurer, despite having received the appropriate amount of compensation. This dissatisfaction arises because the customer's expectations and real needs have not been met. Most customers may not even be aware of their real needs and may require the insurer to help customers learn what they want (Kotler et. al. 2009, p. 13). In this case, the customer's real need is to adequately manage his risk exposures within his financial and emotional risk appetite.

For this very reason, insurance is only able to provide financial relief, but the corresponding emotional loss has not been alleviated. For business entities, the financial needs remain unchanged, whilst the emotional needs can be interpreted as management of non-financial risks such as reputation loss and business disruption downtime within the business's tolerance. Business customers with a high level of risk maturity would normally establish their own risk management framework to ensure these needs are met. However, most insurance customers are unaware of these needs and tend to remain unaware until the unexpected occurs.

This is referred to as the customer gap, which arises from the difference between the customer's expectations and the perception of the actual value gained from the service (Zeithmal et. al. 2009, pp. 32-33). 3. 2 JIB's Value Proposition Closing the customer gap requires a focused approach on increasing the customer benefit element of the overall customer perceived value of insurance. JIB must follow through on its new brand image as a risk-based solutions provider to create a value differential from its competitors.

According to Porter's generic strategies, the differentiation strategy calls for the delivery of an important customer benefit perceived as unique and provides a higher value to the customer (Porter 2004, p. 37). This translates to JIB's commitment to ensure its customers' business continuity by safeguarding their interests with insurance coverage and risk management solutions. For example, instead of purely providing property insurance to its business customers, JIB would supplement the insurance coverage with loss prevention advice on hazards such as fire, flood and windstorm.

If a loss does materialise, JIB would go beyond covering the financial loss itself by providing advice on post-loss restoration of the affected property. However, this offer of risk management solutions may not appeal to all businesses, depending on the level of risk awareness and maturity of the customer. With the exception of Singapore, the corporate culture in most countries within the ASEAN region has yet to achieve the risk maturity of developing nations. This is particularly true of cost-oriented home-grown companies.

Such companies may choose to ignore the inherent need for business continuity and prefer the traditional purpose of insurance. By combining Porter's generic strategies on differentiation and focus, JIB can take an offensive marketing strategy to anchor itself in this differential advantage position within its target market (Best 2009, p. 405).

3.3 Market Segmentation JIB is currently servicing the insurance needs of a diverse range of customers, including small and large sized businesses, as well as the personal lines market (Jerneh Asia Berhad 2008, p. 2). As a result of

attempting to use a mass-market strategy to penetrate market segments with distinctive needs, the company has experienced unsteady and tapering growth in recent years. JIB exhibits the classic “stuck in the middle” syndrome, lacking the market share and resolve to succeed on the low-cost strategy, whilst simultaneously lacking the focus and capital investment to create differentiation (Porter 2004, p. 41). Needs-based market segmentation is crucial to effectively deliver its value proposition to the right customers.

Table 1. 0 demonstrates the characteristics of the various market segments within the insurance customer market. Table 1. 0: Market Segmentation of General Insurance Customers Market Segment Psycho-graphics Psycho-graphics Demo-graphics Demo-graphics Core Customer Needs ??? Risk Maturity ??? Business Culture ??? Business Structure ??? Access Channels (adapted from

Ronez 2007) A Public relation Cost-oriented Individuals and Direct or through Cheap premium, ??? stakeholder privately owned agents minimal coverage reinsurance companies

B Compliance Cost-oriented Regulated industries Direct or through Cheap premium, ??? liability avoidance and government agents basic coverage, linked companies reliable claims payments

C Protection Cost or growth Public-listed Through in-house

Comprehensive ??? crisis avoidance -oriented companies agencies, market

coverage, wide range or mitigation agents or brokers of insurance products, purchasing convenience D Operating Growth-oriented

Public-listed Through in-house Wide range of performance and multinational agencies or insurance products ??? risk management companies brokers and value-added leverage across services the business

E Shareholder value Growth-oriented Multinational Through brokers Customised risk-based enhancement companies solutions to enhance ??? risk and business growth opportunity integration for business growth

Segments C, D and E are attractive in terms of market growth and accessibility. JIB can access segments C and D through its existing relationship with its intermediaries, as well as its global partners. Segment E is also accessible through the same channels, but penetration to the end-customer may prove a challenge, as companies within this segment would prefer larger foreign-based insurers. Whilst competition within these segments is high, JIB's value proposition provides the competitive advantage and barrier to increase market share in these segments.

Overall, segment D appears to be the most logical segment of choice in today's market, with the adjacent segment C offering an attractive opportunity due to the segment's growing awareness of risk management. These segments offer higher profit potential as increased focus on risk management typically translates to lower exposures and better controls. Besides organic growth of the companies within the segmentation, members from the lower segments are anticipated to move along the risk

management continuum and achieve increasing higher levels of risk maturity over time.

As this happens, segments C and D would grow in size to incorporate members from segments A and B respectively. 3. 4 Positioning for Value Delivery JIB needs to develop a positioning strategy to deliver the core customer needs of the chosen segments. Delivery of value to meet these specific needs requires careful resource allocation. Figure 2. 0 illustrates the product and service improvements targeted to increase customer-perceived value. Value-added services are offered to the customer to address the intangible aspects of risk management, and to complement the existing insurance products and services.

The range of value-add is targeted at increasing the total customer value. This in turn results in lower risk exposures for the customer, thus allowing premium reductions (in a liberalised market), and minimises non-financial, non-insurable losses experienced by the customer. By providing the customer with comprehensive services to meet the full-range of needs, the total customer cost reduces through time and energy savings. A crucial element to JIB's success in repositioning includes marketing communications. The value created must be effectively communicated to both intermediaries and end-customers, via a well-crafted marketing campaign.

The marketing campaign should: ??? Create brand awareness of JIB as a risk-based solutions provider ??? Promote the new brand differentiation within the targeted segments ??? Enhance intermediary and customer relationships

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with JIB as a long-term business partner 4. 0 Aligning Value Creation with Corporate Goals Value creation is a continuous process, and requires constant review of customer needs, and the ability to satisfy and exceed those needs. Successful value creation is achieved when JIB is able to continuously deliver a stream of unique insurance products and risk-based solutions to benefit its customers.

Through value creation, JIB establishes itself as a partner to its customers, thus building strong relationships for long-term premium growth.

Concurrently, quality of underwritten risks will continue to improve resulting in increased underwriting profits. Combining this two-prong approach, JIB can strive towards meeting its overall goal of growth and profitability. 5. 0

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