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Forward Focus

Insurance issues and insights from Howard Mills

Building social media
into the game plan



Deloitte.

Social media emerges at lightning speed

The world of social media is expanding at lightning speed. Facebook, Twitter, YouTube, and other Web 2.0 applications have not only infiltrated the consumer world, but are swiftly becoming the industry standard for doing business.

Insurers have been here before. It wasn't too long ago when concerns revolved around incorporating the Internet, email and chat functions into the standard business model. However, the train keeps moving. Companies that want to maintain a competitive advantage and keep branding fresh must climb on board now or risk having to play catch-up in the future.

This brave new world of social networking can present unique challenges for the insurance sector, including a lack of clear social media-specific regulation in the areas of advertising, records retention, and more. Also at issue are questions pertaining to return on investment: How much does it cost to execute social media? What are companies getting in return?

Conversely, there are many benefits to be gained by building social media into a company's framework. Some of these benefits include keeping up with the times and embracing new technologies that serve to boost company eminence. Other benefits can be seen in the areas of attracting talent, meeting customer expectations and optimizing marketing spend.

As the world becomes ever more empowered by mobile devices and new ways to communicate, the impact and the future of social media cannot be dismissed. Recognizing the forest for the trees, innovative insurance companies are taking the lead by acknowledging the power, opportunity, and efficiency of social media while finding ways to navigate around the apparent risks. Those who stay the course are likely to harness these new capabilities to support business initiatives and to enhance communication with employees, customers, agents, and other interested parties across the value chain.

Companies that want to maintain a competitive advantage and keep branding fresh must climb on board now or risk having to play catch up in the future.



Making sense out of social media tools

While social media is forecast to evolve as it continues to get woven into the fabric of the social and business culture of today's world, it is important to take a step back to define just what social media is and to determine its impact.

In summary, social media is an umbrella term to describe a host of sites and technology that facilitate social interaction, sharing and creation of user-generated content, and aggregation of users' opinions and recommendations. And, while the two terms are often used interchangeably, social media is not social networking. Rather, social networking (e.g., LinkedIn, Facebook, and MySpace) is just one of a number of social media capabilities that are out there and available for use.

Also falling under the wing of social media are technologies like microblogging via Twitter (where a person "tweets" brief thoughts and opinions); sites such as YouTube and Flickr, which allow users to share photos and videos; and RSS (real simple syndication), which acts as an aggregator of personal news and other media.

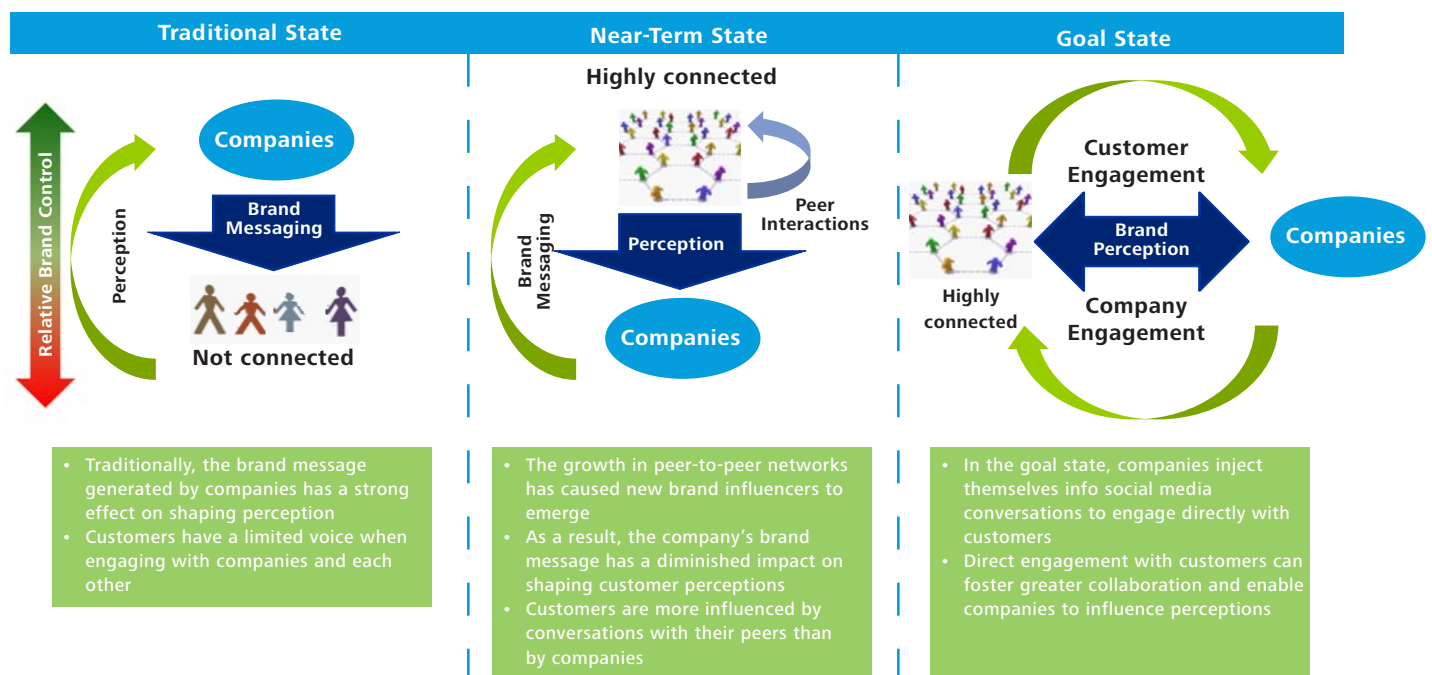
How big is social media? Consider that in the week ending March 13, 2010, Facebook overtook Google as the most visited Web site on the Internet, securing 7.07% of hits from the U.S. compared with Google's 7.03%, according to

the market research group Experian Hitwise.

No longer solely the territory of Gen X and Y, the use of social media has become widespread, as baby boomers have gotten a taste of the open environments the new technology tools allow in stimulating participation through informal interactions. A few examples are:

- Wikis, blogs, and discussion forums serve as repositories of gained knowledge and good places to show off leading practices
- Shared bookmarks, links, social searches, prediction markets, and widgets allow for organization and analysis of Web and other content while also serving to connect people with similar interests
- Personal profiles, prediction markets, social searches, and like programs allow for greater interaction as users create personal profiles listing their interests, responsibilities, experiences, etc.

Take another look at the above-mentioned capabilities and it is easy to see the myriad business value such tools have to offer. The chart below offers a view on the way things were and how social media is being built into the business.



Opportunity knocks

For many insurers today, communications are often limited to telephone calls, conferences, e-mail, and live meetings. However, businesses that have incorporated social media into their business communications areas are realizing a greater level of collaboration within a group.

For example, consider an agent with a client billing question. Previously, the agent might communicate the question by a phone call or e-mail to the home office. Someone would then respond and the question would be answered. Say 10 or 20 agents had the same question and used the same communication method — so generating more work by more people and causing delays in response time due to the multiple queries. Fast forward to the firm who uses a collaborative social media-enabled environment, where the agent would post the question to a central area; other agents would see the question and be able to respond in kind. In short, this is the epitome of one-stop shopping, saving spend, time, and effort.

Also key to being on board with social media is a company's talent element. This is especially true on the agent and broker side. At issue is the task of attracting top talent to replace the flow of retiring baby boomers. Here, younger generations, who have built social media into their personal lives, have come to expect the availability of similar communication networks in the workplace. Companies that fail to deliver may be losing out on emerging top talent. Beyond the issue of new talent, insurance companies are likely to see a growing demand by veteran producers and agents as social media use continues to grow in popularity among the mature set. To stay current and competitive, companies must be ready or risk employee disengagement at all levels.

And while the peer-to-peer networks have caused new brand influencers to emerge at some organizations, proactive companies are also pushing into the arena of instituting and/or broadening the use of social media to engage directly with customers. Direct benefits are seen as companies leverage communications channels that are already quite popular with customers. It's also important to keep in mind here that whether a company decides to implement social media or not, consumers are increasingly viewing and assessing the company brand on their own, through social networking tools. These activities include posting and blogging questions and opinions about an insurance company's background, record of reliability, level of service and pricing, among other factors.

According to Gartner, social networking is not only becoming the norm in consumer lifestyles, but it is starting to impact insurance buying decisions. "Social networks are beginning to become the prime conduit for online users (especially younger generations) to connect with others who can speak about concerns and interests in an easy, open, and free community," Gartner explained, citing studies that show that social media is currently in use by three-quarters of the online population in the United States.¹ "The continued adoption of social networking will have a profound impact on the insurance industry during the next five years," Gartner said.

Social media user cost is being viewed as another area of benefit. It costs nothing to join and set up accounts on social networking sites, such as Facebook, Twitter, LinkedIn, etc. And while regulatory concerns may become an issue, as we'll discuss later, insurers are finding ways to leverage these and other social media tools to engage consumers and create positive public relations and marketing opportunities.

The time to act on social media is now

Key reasons why insurers need to think about social media now...

There are significant time-sensitive risks to ignoring social media.

- **Branding risk:** Employees and customers will continue to use social media whether insurers recognize it or not. Ignoring customer conversations on social media can represent significant branding risk.
- **Compliance risk:** FINRA just recently released new guidelines for use of social media. Regulations have not evolved as fast as social media. Insurers are likely at risk without knowing it.
- **Risk of falling behind the competition:** Action is needed now to capitalize on the opportunity to attract the top agent talent and the next generation of customers. Doing nothing may result in customer loss and talent drain.

Companies can realize significant benefits now from adopting social media.

- **Generate long-term revenue growth:** All customer segments (including boomers) are rapidly adopting social media, a trend that was initially led by Gen X and Gen Y. Industries such as telecom and retail have embraced these capabilities, and customer expectations are quickly growing into all sectors of financial services.
- **Attract and retain top talent:** Top agent talent in the industry recognizes the need to engage with their clients using these new tools and is rapidly adopting them. Insurers that provide access, guidelines, and compliance clearance for social media tools will rapidly attract the top agent talent, and make their agents more efficient.
- **Optimize marketing spend and effectiveness:** Insurers can utilize social media as another tool to gather information about their customers and effectively conduct targeted marketing campaigns to the right customer segments.

¹ *Social Networks: The Insurance Agent and Broker of the Future?*; Gartner, Inc., September 2009

Navigating risk and challenge

In our interview with Mr. John Travagline, Vice President of Compliance at the Insurance Marketplace Standards Association (IMSA), Mr. Travagline spoke on the limitations that are holding insurance companies back from full-fledged acceptance of social media. The greatest limitation has been the absence of regulatory controls, he said.

As social media is much more fluid and open than other trackable means of electronic communications (such as e-mail and text messaging), the fear is that current laws around records retention, advertising, and safekeeping of trade secrets and intellectual property can be applied to insurers' social media use.

"What's happening is that, at first, insurance companies see the benefits of social media, but think that they won't be able to implement it due to lack of effective controls," Mr. Travagline said. "Then they say 'let's just prohibit it,' but it's too big and widespread to just prohibit it."

From a regulators' perspective, key challenges include lack of knowledge of social networks, lack of managerial support for monitoring, restricted access to social networking sites, lack of resources to conduct review, and lack of structured training.

However, regulatory guidance is beginning to bubble up. In January 2010, the Financial Industry Regulatory Authority (FINRA) issued new guidance regarding use

of networking Web sites by FINRA member companies, brokers, and representatives. The notice states that firms must supervise use of social networking by their "associated persons" for public communications in order to ensure that recommendations are suitable and customers are not misled. The notice also covers recordkeeping and other responsibilities.

Meanwhile, the National Association of Insurance Commissioners (NAIC) "D" Committee, which oversees market conduct, is discussing the concepts of social networking and social media as it relates to carriers. The committee has not yet put pen to paper in drafting any new regulations or model laws. At the NAIC's December 2009 meeting, the organization hosted an educational session on the issue of social media. Featured speakers included regulators, representatives of IMSA, academics, and lawyers. Topics of the meeting included:

- Future regulatory analysis may include company posts, consumer comments, employee blogs, agent sites, and blogs
- The importance of distinguishing fact from opinion of social media sites
- Future regulatory review of social media sites to determine allegations of marketing violations and deceptive or unfair trade practices
- Future regulatory review may determine whether licensed producers are providing insurance advice
- The prospect of future surveys and policy and procedure reviews of insurers' social media sites

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— John Travagline, vice president of compliance, IMSA



Creating company policies

With the limited guidance on insurers' social media practices thus far, some insurance companies are beginning to take matters into their own hands by developing an internal policy to allow for the use of social media, while keeping in mind applicable laws and regulations.

According to Mr. Travagline, a recent poll of IMSA in the first quarter of 2010, members showed that only half had a formal social media policy in place. That number should be better. To help facilitate a greater industry buy-in to the emerging world of social media, IMSA has expanded its efforts to provide compliant social media guidance and resources within the annuity, life, and long-term care insurance marketplaces. IMSA's Social Media Policy Template was designed specifically for companies that feel the prohibition of social media use is too great a risk. In addition, the upcoming release of IMSA's social media supervision and monitoring guidance can be incorporated into an insurance company's overall supervisory programs.

"If you just sit back and ignore social media, it's going to impact you anyway," Mr. Travagline said. "Insurers need to understand the power of social media and begin to effectively manage the risks."

Today, the burgeoning use of social media for business use has placed companies back where they were around 2000, when the issue then was controlling instant messaging and e-mail traffic. With no other way to control the interchanges, some firms went so far as to ban their use. That ended as e-mail applications and software emerged, allowing companies to monitor and keep records of the communications.

Insurance companies are increasingly turning to a growing number of social media software packages and services that allow for greater control and capture of social networking traffic. But from a technology standpoint, businesses must take a pragmatic approach to selecting vendors.

Similar to the dot-com bubble of 1999 – 2001, the number of vendors and providers is growing as quickly as the need is. Each provider is attempting to define a unique value proposition in a crowded marketplace. Organizations should use their business needs as a key guide post in finding complementary solutions to existing company frameworks.



Unknown ROI

Aside from the lack of regulatory controls in place, another issue holding insurers back from implementing social media tools is the question of return on investment (ROI). It might as well be labeled the \$64,000 question, because at this stage in the game it is difficult to quantify.

As quoted in "Information Week,"² Ed Moran, director of product innovation at Deloitte said the takeaway of social media depends upon what a company is trying to accomplish with its social media strategy.

Currently, most firms deem social media to be a marketing issue and something that is a low- or no-cost venue by which to spread the company brand. However, it's hard to track success stories in this space.

One area that's less challenging to track is in the customer service/relationship building space, where social media communities are being used to resolve policy-related problems. Such activity results in fewer calls to customer support lines — a savings that can be measured, according to Mr. Moran.

In summary, top areas where companies can realize significant benefits from adopting social media include:

- **The generation of long-term revenue growth:** All customer segments (including boomers) are rapidly adopting social media, a trend that was initially led by Gen X and Gen Y. Industries, such as telecom and retail have embraced these capabilities, and customer expectations are quickly growing into all sectors of financial services.

- **Attracting and retaining top talent:** Top agent talent in the industry recognizes the need to engage with their clients using these new tools and is rapidly adopting them. Insurers that provide access, guidelines, and compliance clearance for social media tools will rapidly attract the top agent talent and make their agents more efficient.
- **Optimizing marketing spend and effectiveness:** Insurers can utilize social media as another tool to gather information about their customers and effectively conduct targeted marketing campaigns to the right customer segments.

Conversely, the top time-sensitive risks to ignoring social media include:

- **Branding risk:** Employees and customers will continue to use social media whether insurers recognize it or not. Ignoring customer conversations on social media can represent significant branding risk.
- **Compliance risk:** Regulations have not evolved as fast as social media and insurers are likely at risk without knowing it.
- **Risk of falling behind the competition:** Action is needed now to capitalize on the opportunity to attract the top agent talent and the next generation of customers; doing nothing may result in customer loss and talent drain.



² 7 Questions Key To Social Networking Success; John Soat, Information Week, Jan. 16 2010

Moving forward —

With effective management of the risk, companies will look to jump on the social media bandwagon if they are not doing so already. Plain and simple, social media represents a changing communication dynamic that is enabled by technology. As our personal lives have increasingly been empowered by mobile devices and popular social networking tools, we've come to expect the same communication modes to exist in the workplace and with the companies with which we do business. Transferring social media's free and easy exchange of information to the heavily regulated insurance industry can be a challenge. However, insurers — just as they did back in the days when Internet and e-mail use was just emerging — are weighing the risks and benefits and finding ways to meet talent and consumer demand while staying within legal and regulatory boundaries concerning records retention and advertising, among others. Insurers should look to harness the power of these new capabilities to support their business initiatives.

Past experience shows that innovation can be used to improve business and expand relationships. Such lessons have been learned since the days of the Pony Express. There's really not much new here, other than the question of how to piece this communications framework together to benefit all stakeholders without added risk.

Insurers would be wise to be at the table now, rather than try to catch up later with competitors who have gotten a head start in embedding social media into their respective business models.

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