



Insuring the Catalyst-Customer: Generation Y and the Insurance Industry



Foreword

As the U.S. insurance industry searches for new drivers of growth, a significant long-term opportunity is emerging: Generation Y (“Gen Y”). Born between 1982 and 1993, these teenagers and twenty-somethings are becoming an important part of the labor force as well as the newest customers for financial services companies. It constitutes the largest generation¹ since the baby boomers (born between 1946 and 1964) and it is projected to become the wealthiest generation ever.

However, since the appetite for insurance products is in large part triggered by a consumer’s age and life events, the insurance industry may not experience the full economic impact of this demographic shift for many years. Nevertheless, to better position themselves to capture this nascent opportunity, insurers should develop an understanding of the key characteristics of Gen Yers as consumers, which can help inform *how* the group will purchase insurance products as it ages. As customers of financial services firms, Gen Yers are: financial freshmen, independently dependent, practically motivated, tech savvy, entrepreneurially spirited, diverse, and socially mindful.² These characteristics are already beginning to manifest themselves in the group’s rising expectations of its desired customer experience, delivered substantially through product offerings, marketing and distribution.

It is worth noting that for insurers, Gen Y does not constitute a market segment in and of itself or replace the need for more sophisticated segmentation strategies rooted in analyses of demographic, socio-economic, geographic and psychographic variables. Instead, because Gen Y is typically at the leading edge of new technologies and other marketplace changes — with other generations following quickly — it offers a useful lens through which insurers can gain insight into the rising expectations of customers across all generations.

Thus, the immediate value of focusing on Gen Y lies in its role as a catalyst for insurers to raise their commitment to adopting a truly customer-centric business approach. Such an approach stands to improve the quality of the customer experience for all generations, including that of older and more immediately profitable customers. Furthermore, companies that successfully align their customer-experience strategies with changing consumer preferences and expectations can better differentiate themselves from competitors in the mature and challenging insurance business.



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An Emerging Opportunity

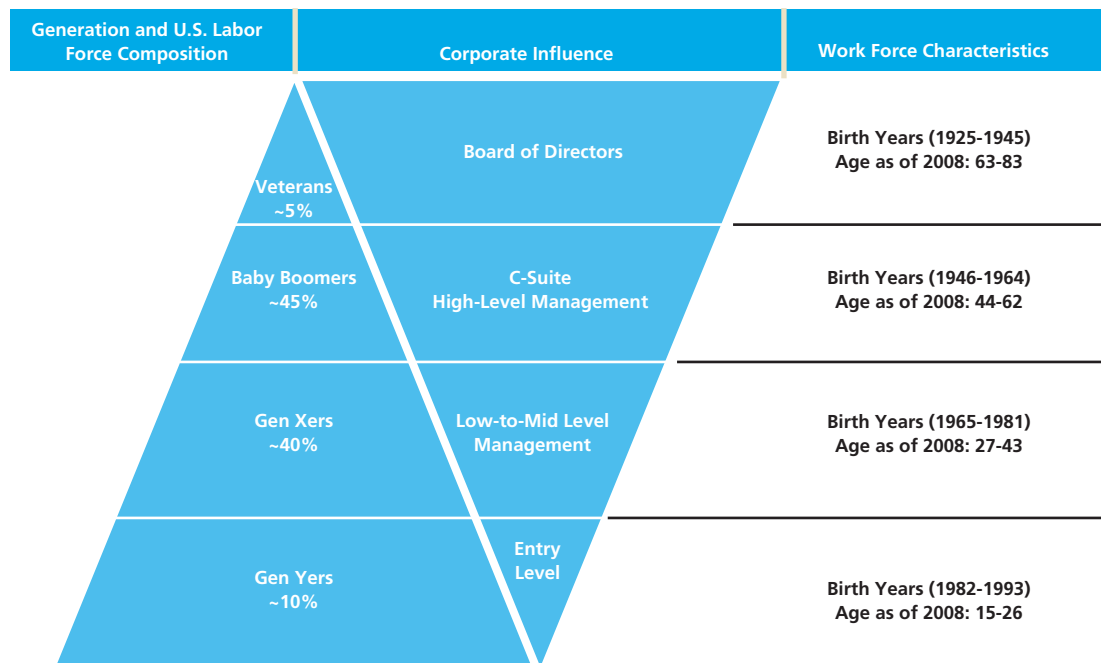
Boasting an annual income of up to \$200 billion and an expected inheritance of more than \$17.8 trillion, Gen Y is projected to become the wealthiest generation ever.³ While some are still in school, Gen Yers currently represent approximately 10 percent of the U.S. labor force (see figure 1). And as more individuals from this large generation enter the labor force, the generation's economic influence will likely continue to grow. Typically, the need for protection from risks associated with the creation and spending of wealth leads to a strong demand in the long-run for personal property and casualty (P&C) as well as life insurance.

In the short term, Gen Y's rising economic influence may present an even larger opportunity for auto and earlier opportunity for home insurers compared to previous generations of young adults. For example, according to one auto manufacturer, Gen Y will buy approximately 25 percent of new cars and trucks sold in the U.S. by 2010, and up to 40 percent by 2020.⁴

Additionally, according to one survey, the average age of a first-time home buyer from Gen Y was 26, three years younger than for Gen X or baby boomers.⁵

Moreover, as Gen Yers come of age and experience new life events, the timing is ripe for insurers to reach out to the group. In fact, one study found that "about one out of every three people who moved, got married, or changed jobs – life events that typically trigger financial decisions – were between 18 and 28 years old."⁶ As they face these life events and others, such as having a first child or purchasing a first home, Gen Yers tend to view insurance as a mere requirement that is confusing, expensive and unnecessary. Moreover, many of them do not even know they need insurance or why it may benefit them. Therefore, insurers have an immediate opportunity, in some cases, to educate and help Gen Y understand risk and the value of financial protection, and to sell products that meet its evolving needs.

Figure 1. Work Force Generations



Source: Deloitte Consulting LLP

A Closer Look at Gen Y

So, who is Generation Y, and what do insurers need to know to better position themselves to capture the enormous opportunity it presents? As their name suggests, Gen Yers are the younger siblings of Gen Xers and the children of baby boomers, giving rise to the nickname Echo Boomers. Simply put, they are a culturally diverse set of teenagers and twenty-somethings whose attitudes and beliefs have been shaped by the formative experiences depicted in figure 2.

From a consumer perspective, a combination of existing literature and proprietary research at Deloitte⁸ describes Gen Y financial services customers as financial freshmen, independently dependent, practically motivated, tech-savvy, entrepreneurially spirited, diverse and socially mindful (see figure 3).

Financial Freshmen

For their stage of life, Gen Yers have easier access to and more information about financial products and services than did earlier generations. However, when it comes to implementation, they are still novices.

According to one study, Gen Yers are not confident in their financial decisions: 57 percent could not “say they were making good decisions about their finances.”⁹

Likewise, one study found that, when asked about significant problems with auto insurers, Gen Yers are the most likely to state that insurance products are too complex.¹⁰ Thus, despite the fact that Gen Yers have access to an abundance of information on financial products, insurers have an opportunity to help educate this generation about risk and the value of financial protection.

Independently Dependent

Gen Yers are self-directed and resourceful in conducting research on financial services products, but they often seek recommendations from and validation of their decisions from family, friends and financial advisors.

One survey found that parents are the top resource that Gen Y (43 percent) turns to “for help and guidance on financial matters.”¹¹ Accordingly, as noted by one insurer, “young people tend to buy from the company or the independent agent that their parents chose.”¹² Additionally, a study by Life Insurance and Market Research Association (LIMRA) found that “references from friends, relatives, and coworkers are the most influential” when selecting a life insurance company.¹³

Figure 2. Four Generations of Consumers⁷

Veterans Birth Years (1925-1945) Age as of 2008: 63-83	Baby Boomers Birth Years (1946-1964) Age as of 2008: 44-62	Gen X Birth Years (1965-1981) Age as of 2008: 27-43	Gen Y Birth Years (1982-1993) Age as of 2008: 15-26
<ul style="list-style-type: none"> • Strong family values and traditional family structure • Served in the armed forces and had military training • “Command and control” management style and sharing of information on a “need to know basis” • World War II (WWII), U.S. Great Depression and Patriotism 	<ul style="list-style-type: none"> • Traditional household with working father and stay-at-home mother • Educational system that emphasized basic skills • “Face time” at work and limited technological connectivity • Management systems that range from “paternalism” to “autocracy” • Post-WWII prosperity, Civil Rights Movement and Women’s Liberation 	<ul style="list-style-type: none"> • “Latchkey kids,” with both parents working • First generation to use computers at school • Corporate downsizing, merger mania and Wall Street frenzy • Information explosion and Internet revolution 	<ul style="list-style-type: none"> • Non-traditional or single-parent households • Diversity in the workplace • High level of connectivity through technology • Consumerism and a desire to interact with everything they consume • Corporate scandals, Iraq War and emerging nations’ economic boom

Source: Deloitte Consulting LLP

In addition to personal networks, professional financial advice continues to play an important role in the decision-making process of Gen Y. For example, the same LIMRA study places insurance professionals among Gen Y's most-used sources of information for life insurance. Further as noted by one P&C insurer, Gen Yers often use the Internet and other research tools to find the combination of price and service that satisfies them, then validate their research, and buy the policy through an independent agent or over the phone.¹⁴

Practically Motivated

Given their stage in life, Gen Yers are naturally concerned with obtaining products and services at an affordable price.

One study of auto, health, home and life insurance customers found that Gen Yers rate price, followed by service, as the most important attributes when doing business with an insurer.¹⁵ The same study found that the relative importance of price decreases with each successively older generation, with service

Figure 3. Gen Y Consumer Profile for Insurers

Gen Y Profile	Characteristics	Implications for Insurers
Financial Freshmen Are financially aware, but novices in implementation	<ul style="list-style-type: none"> Lack confidence in their financial decisions Find insurance products too complex May not understand the need for risk protection 	<ul style="list-style-type: none"> Opportunity to provide education and advice about risk and the need for financial protection
Independently Dependent Seek guidance in purchase decisions	<ul style="list-style-type: none"> Are self-directed in research Seek recommendation and validation from personal networks and professional advisors 	<ul style="list-style-type: none"> Existing customers may serve as influential advertisers and endorsers Opportunity to provide professional advice
Practically Motivated Seek affordable rates and good service	<ul style="list-style-type: none"> Focus on price, value and convenience Expect good service Are prone to switching carriers 	<ul style="list-style-type: none"> Requirements to make value, convenience and good service essential to product offerings Need to cultivate Gen Y's loyalty
Tech Savvy View technology as an extension of themselves	<ul style="list-style-type: none"> Are avid web users Are avid mobile technology users Integrate technology into their lives 	<ul style="list-style-type: none"> Opportunity to use technology to satisfy Gen Y's desired mode of interaction and customer experience
Entrepreneurially Spirited Have stated intention to live an entrepreneurial life	<ul style="list-style-type: none"> Demonstrate a strong interest in entrepreneurship Describe themselves as "serial entrepreneurs" 	<ul style="list-style-type: none"> A potential early opportunity to commercial insurers Opportunity to explore Gen Y's expectations of B2B relationships
Diverse Seek to express their individuality	<ul style="list-style-type: none"> Are racially and ethnically diverse Come from diverse household types Have diverse professional experiences 	<ul style="list-style-type: none"> Opportunity to provide a customer experience that caters to Gen Y's diversity and individuality
Socially Mindful Value altruism and environmentalism	<ul style="list-style-type: none"> Participate in volunteer activity Are environmentally conscious 	<ul style="list-style-type: none"> Opportunity to cultivate relationships built on values

Source: Deloitte Research, Deloitte Services LP

and reputation becoming focal points of purchasing decisions. It is quite possible that, as consumers age and their insurance needs become more complex, they are more willing to pay someone to provide advice and take care of their servicing needs. Given Gen Y's desire to quickly research and often purchase auto insurance products online, the need for convenience may be the true driver for Gen Y's expectations of how insurers should deliver different products. Finally, it is also possible that an insurer's reputation becomes more important over time as customers begin to experience the benefits of insurance through the claims process.

Given the considerable value Gen Y places on price and the ease with which it can access information and recommendations on competing products and services, it is not surprising that one survey found that Gen Y is the least loyal generation: only 49 percent of Gen Yers "are reluctant to switch business from their existing insurers," compared to 67 percent of Gen Xers, 71 percent of young baby boomers and 75 percent of older baby boomers.¹⁶ Therefore, even if insurers inherit Gen Y customers through their own or agent relationships with baby boomer parents, they will need to actively cultivate the group's loyalty more directly.

Tech-savvy

Gen Yers grew up as "technology natives" and view technology as an extension of themselves, compared to baby boomers, who view it more as a tool.¹⁷

Experience from other industries shows that while online, Gen Yers actively engage with a variety of digital media, such as pictures, music, videos and games, making the Internet a source of entertainment. Furthermore, they often share this type of content with others: a Deloitte study found that Gen Y's use of social networking sites, chat rooms, blogs, and virtual worlds is substantially higher than all other generations.¹⁸ Additionally, insights from other industries indicate that Gen Yers may expect to realize some online functionality through their mobile telephone devices, which enable them to remain connected wherever they are.

While Gen Y's engagement with a variety of Web technologies appears to differentiate the group from others, it is worth noting that these technologies are gaining ground with older generations as well. For example, the same Deloitte study found that 46 percent of Gen Yers, 38 percent of Gen Xers, 23 percent of baby boomers and 10 percent of Veterans consider themselves to be 'broadcasters' of their own media. Perhaps even more surprising, 86 percent of Gen Yers, 73 percent of Gen Xers, 64 percent of baby boomers and 40 percent of Veterans are watching or listening to content created by others, including Web sites and blogs, for example. Over time, all generations will likely expect technology to play an increasing role in their interactions with insurance companies.

Entrepreneurially Spirited

Gen Y's entrepreneurial spirit presents an opportunity for insurers to consider outreach about group and commercial insurance at an early age.

Research by Inc.com found that, with college entrepreneurship programs increasing seven-fold over the past six years, 18- to 24-year-olds in the U.S. are starting businesses at a faster rate than 35- to 44-year-olds. Moreover, the organization found that compared to only 33 percent of baby boomers, 59 percent of Gen Y company owners describe themselves as "serial entrepreneurs" who plan to start more than one company in their lifetime. Put eloquently by Donna Fenn in Inc.com: "The stated intention to live an entrepreneurial life — and to start doing it before you're old enough to order a drink legally — is part and parcel of Generation Y's confidence, independence, and enthusiasm. And their impatience."¹⁹

Uncovering how Gen Y business owners' expectations of business-to-business (B2B) relationships may evolve could provide valuable opportunities for those customer-centric insurers that explore and learn to cater to these buying preferences.

Diverse

The consumer world is becoming increasingly diverse on many fronts, and Gen Y embodies this diversity.

With more than one third of Gen Yers in the U.S. identifying themselves as “non-white,”²⁰ Gen Yers are more racially and ethnically diverse than other generations. Additionally, compared to other generations, they come from households of varying composition (e.g., non-traditional or single-parent) and have a diverse set of professional experiences, from part-time jobs or internships in college to full-time jobs and their own businesses. As consumers of financial services products, Gen Y’s multi-faceted diversity often translates into the group’s desire for customer experiences that cater to this diversity and the desire to express individuality.

Socially Mindful

Many Gen Yers show a propensity for being altruistic and environmentally conscious or “green.”

One study released in late 2006 described Gen Y as “the most socially conscious consumers to date” and found that 61 percent of 13- to 25-year-olds “feel personally responsible for making a difference in the world”; 81 percent had volunteered in the past year; and 83 percent “will trust a company more if it is socially/environmentally responsible.”²¹ Additionally, evidence from a survey of Gen Y retail customers suggests that many of them value eco-friendly services. For example, 46 percent said they would “shop at a retailer more if the retailer were to go green,” and 47 percent said they would “pay more for environmentally friendly services, products and brands.”²² It is important to note that Gen Yers value authenticity in supporting civic and environmental causes, not just marketing gimmicks. Thus, insurers have an opportunity to appeal to some Gen Yers through innovative products or a brand that demonstrates commitment to the community or environment.



Toward a Customer-Centric Approach

Collectively, Gen Y's characteristics can help shed light on its purchasing behaviors and rising expectations of insurers. By paying systematic attention to Gen Y's expectations, insurers may develop better customer-experience strategies through suitably tailored product offerings, marketing and distribution. And because Gen Y occupies the leading edge of technology and other marketplace changes, such a customer-centric approach (see figure 6) stands to raise the quality of the customer experience for all generations, thereby enabling more customer-centric companies to excel.

Product offerings

To reach Gen Y, insurers should focus on new and existing products that meet a need in the broader context of a relationship.

Gen Yers often purchase insurance products because of requirements to do so (e.g., state regulations for auto insurance or lease obligations for renters' insurance), rather than out of a true understanding of the risks they face and the benefits insurance provides. Meanwhile, the complexity of insurance products can make it difficult for insurers to convey product benefits in simple terms. Challenges are amplified by the fact that insurance is a touchy subject for customers who are reluctant to think about many of the circumstances in which insurance becomes critical. Additionally, the initial sale of insurance products often entails a more intensive experience with customers than do many other types of financial products, ranging from moderate (e.g., for auto insurance) to intensive (e.g., medical testing for disability income or life insurance underwriting).

Together, these characteristics challenge insurers to present products in a clear, educational and compelling manner that allows these practically motivated, financial freshmen to quickly understand the risks they face and the solutions that are available. A successful educational approach may give insurers traction with Gen Yers for underserved needs, i.e., additional products that are relevant to the group, such as pet, identity theft, mortgage and accident insurance products, as well as financial products and services.

Additionally, insurers have found that coverage offered during the natural process of closing sales on consumer products like cell phones, cameras and furniture is a relatively easy sale to Gen Yers, who place a great deal of value on convenience. Similarly, insurers may find additional and creative opportunities as they develop a more insightful understanding of Gen Y.

While many carriers' existing product base should satisfy most of Gen Y's needs, several opportunities for innovation in product design lie in directly addressing this generation's values and lifestyle. For example, in response to Gen Yers' lifestyle, residency locations, price sensitivities and eco-friendly attitudes, a few insurers are pioneering pay-as-you-drive auto insurance that uses technology to track car usage and determines insurance premiums accordingly. Other insurers are responding to the way Gen Yers use technology by developing mobile phone insurance coverage or riders for laptop computers.

Another way insurers can connect with this socially mindful generation is by creating innovative products that demonstrate a commitment to the community or environment. For example, one insurer developed "green" home insurance policies that, for an additional premium, will pay for environmentally friendly repairs, such as the replacement of heating or electricity systems, flooring, paints, etc. that use eco-friendly materials. Some auto insurers are also designing pay-as-you-drive insurance as an appropriately priced match between the consumption level of an automobile and the price charged for insurance under the umbrella of an environmental initiative, since the product may provide an incentive for individuals to drive fewer miles.

Thus, strategies that link products to lifestyle or social and environmental causes can help insurers differentiate themselves, develop long-term relationships with Gen Y and provide a more enriching experience for the group. Furthermore, these types of product strategies are likely to resonate with older, wealthier generations who are often informed by and quickly follow Gen Y's lead.

Marketing

To attract and retain the loyalty of Gen Y, insurers and their distribution partners will need to develop and effectively spread marketing messages that are personally relevant.

Leverage word-of-mouth marketing techniques

Given Gen Y's reliance on personal networks, traditional and newer forms of word-of-mouth marketing techniques play an important role in spreading messages across the group and to other generations. An important starting point for insurers and distribution partners is outreach through friends and family, especially parents. Tapping into customers who are parents of Gen Yers not only provides insurers with a back door to this group, but also enables them, to some extent, to mine the risk profile they seek to underwrite. Insurers should seek ways to identify parents of Gen Yers in their customer base and develop ways to educate them, for example, through simple pamphlets, Web sites or joint conversations. Further, they should track these Gen Yers over time and develop methods to identify major life events that will trigger additional insurance needs.

Other physical networks, such as clubs or associations, malls, sporting events, high schools or university campuses present another opportunity for insurers to advertise and provide simple educational materials. Additionally, insurers may consider developing seminars or informational sessions for high schools and colleges in order to educate Gen Yers about risks and benefits of financial protection. Coordinated educational efforts across insurers and other types of financial services companies can help Gen Yers with their transition into financial independence.

Worksite marketing provides another important way to meet many of Gen Y's needs and preferences. For example, marketing through the worksite meets Gen Yers' need for recommendations and validation, can provide a sense of quality assurance and can reduce the amount of time and research it might otherwise take to learn about a variety of products, including auto, homeowners, life and long-term disability. Employer-provided options offer customers the added advantage of convenience and automatic payroll deduction, which may also benefit insurers by reducing the spotlight on price.

Not surprisingly, the Web also presents a major opportunity for reaching Gen Y. In general, younger consumers are likelier than older generations to conduct online research about auto and life insurance products. However, older adults are becoming increasingly comfortable with bringing the Web to the forefront of marketing and distribution. In fact, Forrester Research has found that "with nearly half of all U.S. auto insurance researchers using the Web, the Internet has become the most popular channel for researching auto insurance" and "now yields the highest number of applicants."²³

Investments in company Web sites may also attract highly coveted market segments that span generations. For example, Forrester Research found that those who research auto insurance online have an average annual income greater than \$70,000 and higher average asset levels than the overall population (greater than \$200,000 in investable assets and greater than \$100,000 in retirement assets).²⁴ Similarly, in another study, the organization also found that those who research life insurance online also tend to be wealthier.

But to reach Gen Yers and other generations more effectively on the Web, insurers must look beyond basic functionality to changing trends in technology and media consumption that are manifesting themselves across all generations. For example, often referred to as viral marketing, a newer form of word-of-mouth marketing entails leveraging Web technologies that quickly spread self-perpetuating messages through online social networks, for example through videos, images and links. Additionally, insurers should consider using interactive marketing methods such as online message boards and product reviews that enable the creation and sharing of content among customers. These activities may also help companies tune-in to any negative messages about their brand, products or services.

Adopt an educational approach

To market to these financial freshmen, insurers and distribution partners should consider adopting an approach that is educational and respectful. One way to educate Gen Y is to develop strategies that engage parents in educating and influencing their children's purchase of appropriate insurance products. Generally, insurers should focus on explaining complex products

and concepts in plain English through brochures, online videos and even consider experimenting with newer advertising media such as virtual life simulations. Commercial insurers will need to think carefully about how best to develop a strategy for educating young entrepreneurs about the risks they face and the types of insurance they require. Finally, insurers can enable Gen Yers to validate their research by developing Web sites to view and write reviews or posts on message boards. These and other educational activities can play an important role in helping Gen Y integrate into the financial community.

Build and manage the brand

A strong brand can play an important role in helping insurers attract and retain Gen Y customers. First and foremost, a brand that appeals to Gen Y should communicate value, i.e., what the company does for the customer. When insurers' prices are not as competitive, the brand should communicate a clear benefit that is received in exchange for the higher premium. Given the multiple venues available to customers for receiving information, companies that successfully establish a meaningful brand can help reduce customers' search costs by communicating value up front.

Additionally, when combined with competitive pricing, a strong brand can help insurers differentiate themselves, for example by cultivating an image of trust or appealing to diversity, values or lifestyle. Further, given recent turmoil in the financial markets, insurers may need to invest in reassuring Gen Y and other generations about the safety of their insurance policies. Positioning the brand with Gen Y on these dimensions can establish the foundation for a long-lasting relationship.

Insurers should also focus on building brand awareness by reaching across multiple media, such as television, Internet, etc. In addition, they should consider building the brand through both traditional and newer word-of-mouth methods, including campus visits and sponsorship of sporting, cultural and art events or associations.

Finally, with channels and technology becoming increasingly complex, insurers should carefully manage the brand across all customer touch points. Given the value Gen Y places on recommendations from friends and family, poor customer experiences can have negative ramifications across wide social networks. Similarly, with the popularity of blogs and online reviews, products' claims are frequently tested for validity and opinions are quickly dispersed.

Appeal to diversity and individuality

According to the U.S. Census Bureau, minority groups are projected to increase as a percentage of the overall population in the U.S. For example, Hispanics and Asians are projected to comprise 25 percent and 8 percent, respectively, of the total U.S. population by 2050, compared to approximately 16 and 5 percent, respectively, today.²⁵ Both personal and commercial insurers may consider reaching Gen Yers who are minorities through online ethnic portals, as well as foreign-language Web sites, call centers, print ads, direct mail and educational materials. These investments will likely attract minority groups across generations. For example, one study found that 80 percent of Asian Americans across all generations consume ethnic media; 70 percent visit ethnic portals; and that in general, they prefer advertising that uses their native language.²⁶

Another way both personal and commercial insurers can address Generation Y's diversity is to develop relationships with affinity groups. For example, insurers may use affinity marketing methods to develop relationships with alumni associations, Hispanic-, Asian- or women-owned business organizations, employer groups or other civic, social or cultural associations. Another often-overlooked way of attracting diverse consumers is to recruit, appoint/hire and train a diverse set of employees, agents and brokers. A lack of diversity in the insurer, broker, agency or sales workforce may make it difficult to engage diverse customer segments such as Gen Y in both personal and commercial lines.

Additionally, Gen Yers' desire to be treated as individuals and to express themselves often translates into expectations for personalization and customization of the customer experience, especially on the Web. For example, Gen Yers may like to see a personalized welcome screen that greets them by name and offers the ability to create a customized home page. They may also express themselves through social networking sites, online chat and message boards. While business-to-consumer (B2C) marketing through social networking technologies has taken off in general, time will tell if they will be successful in B2B relationships.

Distribution

For Gen Y, the customer experience and customer relationship are embodied in a combination of seamlessly integrated channels built on best-in-class technological capabilities that provide flexibility to obtain the advice and support it needs.

Informed by its experiences with other businesses, Gen Y will begin to raise the expectations of individual distribution channels as well as cross-channel experiences in the personal lines of the insurance industry. By requiring distribution channels to improve their functionality both together and separately, Gen Y will likely challenge each channel to become more productive over time.

Strengthen and leverage the Web channel

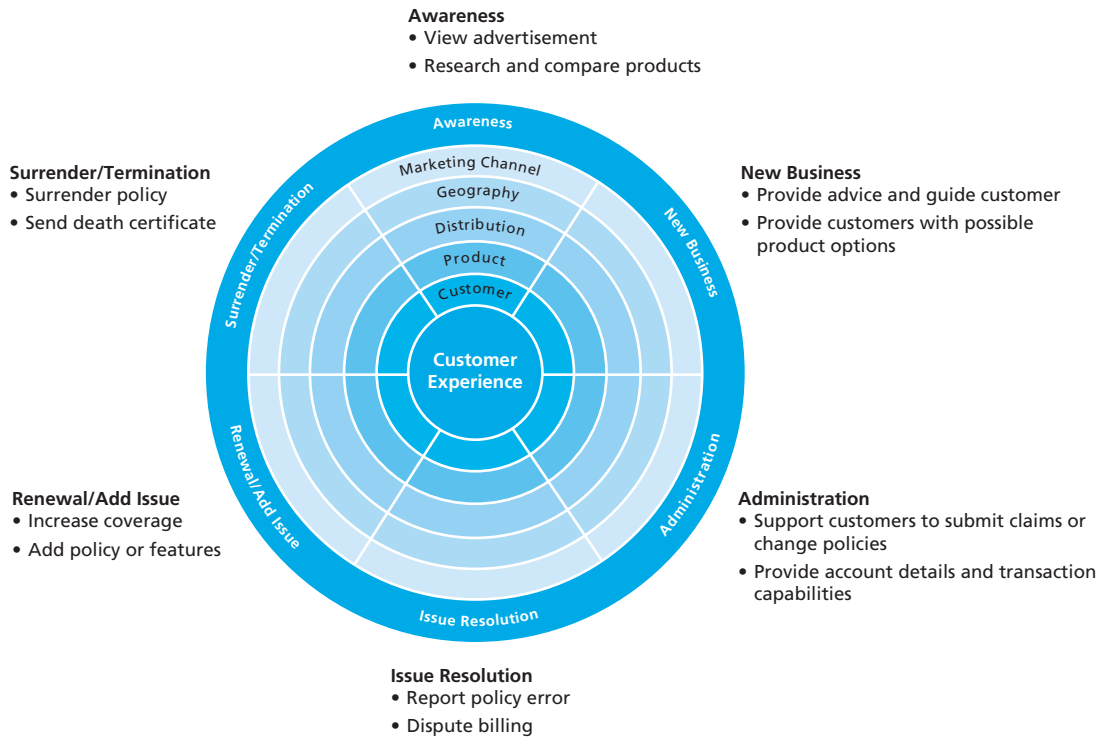
How Gen Yers are raising expectations of distribution channels is most obvious in the Web channel, which they consider to be an essential part of their experience with financial services companies. In fact, one study found that 20 to 25 percent of insurance customers across all generations do not consider themselves satisfied or very satisfied with their Web interactions.²⁷ Another study of 30 top European insurance companies found that many companies have poor search capabilities, buried content, small font sizes with wasted space, frequent crashes and poor error recovery, as well as missing information and little integration with other channels.²⁸

In addition to addressing these problems, insurers should also consider developing Web sites that are more user-friendly and meet Gen Y's need for convenience, for example through design features such as easy-to-locate customer service numbers and capabilities to chat online with a representative. Additionally, since Gen Yers often view company Web sites as destinations in their own right, insurers should seek to develop enjoyable, educational and personalized experiences. Furthermore, since Gen Yers are continuously connected and avidly use wireless services on their handheld devices, it is possible that, over time, they will begin to expect the basic Web site functionality of insurers to be mobile-friendly.

Moreover, insurers will also need to think about how they can leverage the Web channel to support services that have traditionally been reserved for face-to-face or telephone channels across the customer life cycle (see figure 4 for a representative example of the customer life cycle in life insurance). For example, just as Gen Yers look for validation of their online research through physical or virtual networks, they are also likely to seek advice through online functionality such as 'click to call' or online chat with an advisor when making a decision to purchase a new policy. In fact, one study of European Net users found that, of those who did not purchase auto insurance online, 42 percent did not do so because they wanted to speak to someone before buying.²⁹ Further supporting this notion, only 70 percent of online auto insurance researchers become applicants in the U.S., compared to 90 percent of those who conduct their research in person.³⁰



Figure 4. Customer Life Cycle in Life Insurance³¹



The concentric circles represent facets by which the customer experience can be customized throughout the customer life cycle.

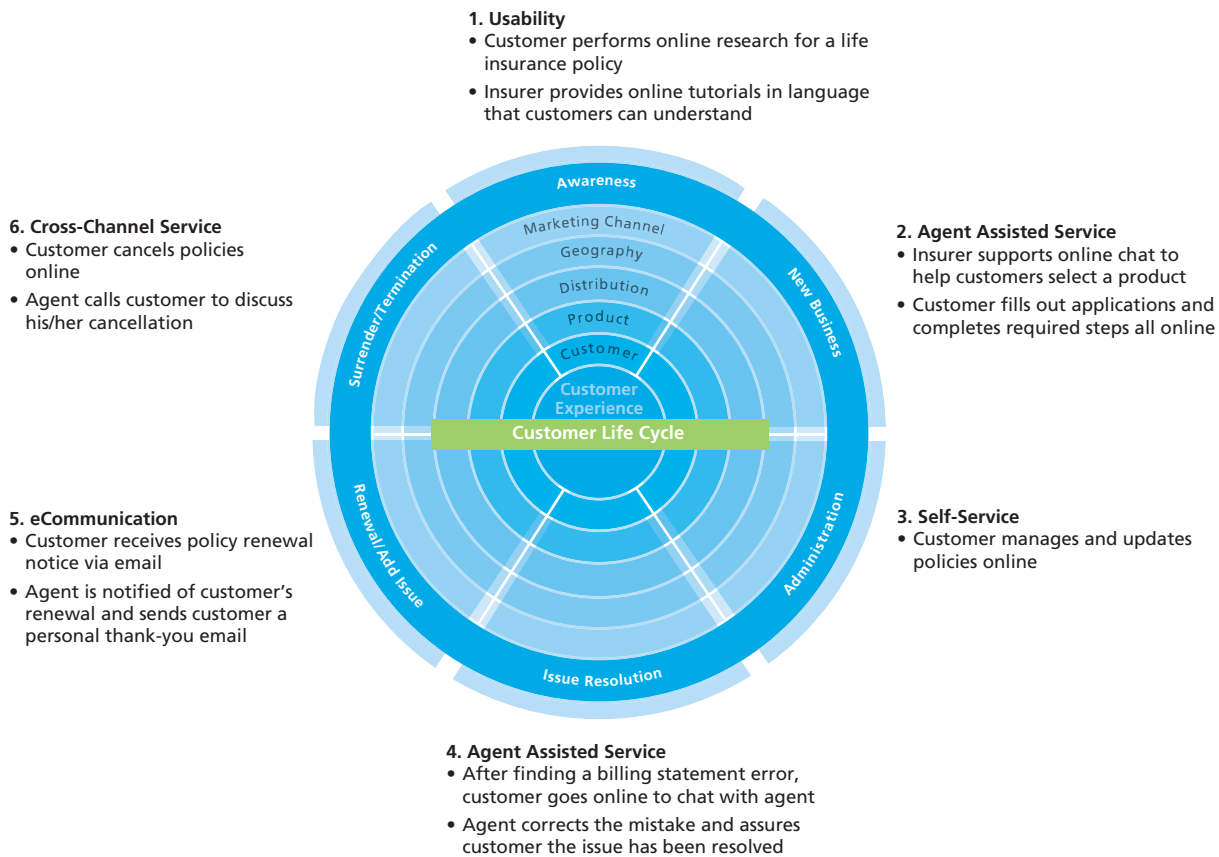
Source: Deloitte Development LLC

Additionally, this tech-savvy group will likely seek self-service activities, such as managing and updating policies and viewing a statement online. After all, Gen Yers are used to engaging in these administrative tasks online in other financial services sectors, such as banking and mutual funds. Yet, a newer area in which the Web channel can add value is in issue resolution by providing convenient, potentially 24x7 access to agent-assisted service. Similarly, the Web channel can be used to handle renewal or add issues. Finally, while Web-enabled requests for a policy cancellation might make it too easy for customers to leave, the capability may in reality help insurers and agents intervene more quickly to assess causes for dissatisfaction. This type

of information, when collected systematically, can be invaluable to insurers' efforts to reduce attrition. Figure 5 provides point-in-time examples of how a cross-channel strategy can improve the customer experience along the customer life cycle.

Across generations, it is likely that the degree of comfort with the Web will vary. Nevertheless, the Web channel plays an important role in integrating channels and providing flexible options for interacting and purchasing insurance products. Thus, technologically up-to-date, satisfying and entertaining Web experiences are quickly becoming an expectation of all insurers, not just of those with a purely direct business model.

Figure 5. Examples of Customer Experiences along the Customer Life Cycle³²



Source: Deloitte Development LLC

Manage the potential for channel conflict

Channel conflict is a salient risk that insurers face when improving their Web offerings. While many industry observers predicted that the online channel would render face-to-face and potentially all other channels extinct, the reality has played out quite differently. In fact, only about 15 percent of auto³³ and life³⁴ insurance policies are purchased online. Accordingly, a LIMRA study found that while 15 percent of Gen Yers purchased and roughly 20 percent of Gen Yers want to purchase life insurance products online,³⁵ “a financial professional is still the preferred purchase channel.”³⁶

For most consumers across generations, purchasing behaviors may vary with the relative cost, complexity and importance of the purchasing decision. Inexpensive, simple or commodity-like decisions such as basic renter’s insurance, auto insurance, or small benefits obtained through employers are far more likely to be purchased without as much reliance on advice, and in many cases, on a direct basis. More expensive and complex solutions tend to be purchased with more advice from professional “advisors” like agents and brokers.

Consequently, direct channels are not necessarily a substitute for agents and brokers. That said, the increasing sophistication of the Web channel will require face-to-face agents, brokers and telephone sales representatives to demonstrate value or improve the quality of advice they offer above and beyond content available through a company's Web site and other online resources.

In turn, insurers will need to support agents and brokers with the information they need to develop a customer-centric approach, including the knowledge, technological tools and ongoing support they need to improve their effectiveness. As Gen Y ages, both insurers and distribution partners will need to educate each other about how these customers' needs and expectations are evolving. Insurers can also support agents through training opportunities, agent- or broker-only work stations, performance tracking tools and better information quality that provides a holistic view of the customer. Collectively, this information can facilitate the cross selling of products to meet underserved needs.

It is important to note that the type of support insurers provide to their distribution partners can differentiate them from their competitors. For example, when choosing carriers, many agents place more importance on ease of doing business and personalized service, which can include self-service Web sites for agents, local presence and high-quality service to agents in general, than they do on mere commissions.

Promote cooperation and integration across channels

Insurers also stand to reduce costs associated with acquiring and servicing clients by allowing the Web channel to handle many aspects of the customer experience that have traditionally been confined to face-to-face or telephone channels. For agents, capabilities such as self-service insurance may reduce time spent on administrative tasks, thereby adding time for customer acquisition and development.

The Web is or can be a vital support tool for other channels. For example, company Web sites should clearly state where to find information, compare prices with other insurers, and how to interact with a representative across different channels. Sales agents and brokers should also promote company Web sites as a time- and money-saving source for information and servicing, educational content and interaction with other customers.

Explore and integrate newer channels

P&C and life insurers that have not already done so should consider expanding distribution through worksites. This channel provides insurers with direct access to working Gen Yers by short-cutting the prospecting process. Additionally, the strategy addresses Gen Yers' need for education, validation and trusted advice. For example, a LIMRA study found that: "Gen Ys are twice as likely to buy life insurance at work as boomers. Gen Ys cite convenience and confidence in the company based on a perceived 'employer approval' for that company's offerings."³⁷ Further, because of their ease of access and features like automatic payroll deduction, worksite channels provide Gen Yers with much-valued convenience. Finally, newer channels should also be integrated and co-promoted.

Looking ahead, the management of customer experience will become increasingly complex. The additional complexity and functionality that channel integration entails for both customers and producers will likely present economic challenges. For example, insurers will need to determine appropriate models for compensating complementary mediums or venues involved in the acquisition and servicing of business. Insurers will need to face these distribution challenges head-on if they want to improve the customer experience for individuals across generations.

Figure 6. A Customer-Centric Approach for Targeting Gen Y (Based on Gen Y Consumer Profile for Insurers)



Source: Deloitte Research, Deloitte Services LP

The Road Ahead

Given Gen Y's limited product needs in the early stages of the customer relationship, insurers and distribution partners may view the near-term reward as less than a compelling call to action. However, companies that move early and stay the course with a strategy to effectively build the loyalty of this group may reap rewards in the long run.

More immediately, the Gen Y customer base serves as a leading indicator or lens through which insurers can view the rising expectations of all consumers. Gen Yers occupy the leading edge of technology and customer experience; they are continuously raising their expectations of underlying technological capabilities that drive insurers' product offerings, marketing and distribution. And as Gen Y seeks increasingly flexible and customized customer experiences, older generations are quickly following in its footsteps.

Thus, the immediate value of focusing on Gen Y lies in its role as a catalyst for capitalizing on an opportunity to improve insurer performance and growth. Insurers who tune into Gen Y and seize this emerging opportunity to adopt a truly customer-centric business approach can set the stage for improving the quality of the customer experience for everyone.



Endnotes

- ¹ Population estimates for the group can vary due to disparate start and end dates for the generation as well as population estimates for immigrants. The start date can be as early as 1978, and the end date as late as 2000. As a result, estimates typically range from as low as 50 million to as high as 80 million.
- ² Terminology based in part on: David Cox, Thomas L. Kilgore, III, Tiffany Purdy and Rekha Sampath, "Catalysts for Change: The Implications of Gen Y Consumers for Banks" Deloitte Development LLC, 2008. For "independently dependent," see: Sheahan, Peter, *Generation Y – Thriving and surviving with Generation Y at work* (Australia: Hardie Grant Books, 2005).
- ³ Estimates as of 2005. "Why Target GenY? *Credit Union Magazine*," September 2005.
- ⁴ "Elusive Gen Y demands edgier marketing." *Automotive News*, 00051551, April 25, 2005, Vol. 79, Issue 6144.
- ⁵ "CENTURY 21(R) Study Reveals Generational Attitudes Toward Homebuying" *PR Newswire*, April 20, 2006. It is worth noting that the recent credit crisis and related market events may impact the ability of all consumers, including Gen Y, to make auto and home purchases going forward.
- ⁶ "Why Banks Can't Afford to Ignore Gen Yers" Forrester Research, August 6, 2004.
- ⁷ Andy Liakopoulos of Deloitte Consulting LLP.
- ⁸ As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.
- ⁹ "Fidelity Research on Generation X / Y Shows That Financial Intentions and Actions Are Often in Conflict" *Business Wire*, August 28, 2008.
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- ²² "Gen Y's Echo Attitude" *Chain Store Age*, October 2007.
- ²³ "The Web Dominates U.S. Auto Insurance Research" Forrester Research, September 11, 2008.
- ²⁴ Ibid.
- ²⁵ Terminology and ethnic categories based on U.S. Census Bureau. "US Interim Projections by Age, Sex, Race and Hispanic Origin" U.S. Census Bureau, 2004 accessed March 11, 2008 www.census.gov.
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- ³³ "Internet Captures Market Share From Traditional Agents in Purchase of Auto Insurance..." Reuters, May 12, 2008.
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