Reshaping the Customer Experience for the Changing World of Risk

Growth brings new challenges for middle market companies

Middle market companies are signaling plans to grow, and **Marcus Cooper**, Head of Middle Markets for Zurich North America, is helping many of them manage the risks that come with expansion.

A recent survey of 1,000 C-suite executives conducted by the National Center for the Middle Market found that:

- The portion of middle market companies reporting year-over-year revenue growth and employment growth in the first quarter of 2018—77% and 55% respectively—reached the highest levels in the history of the survey.[1]
- Global and local confidence levels reached record highs, and almost half (49%) of businesses said they were planning to introduce a new product or service in the next 12 months.[2]

Cooper said growth heightens the vigilance needed in two key areas.

International expansion

"The majority of our middle market customers today are probably in a different place than they were a decade ago—a place where the need to have an international footprint is greatly increased," Cooper said.

Some middle market companies expand overseas without grasping the risk implications to their assets, including their employees. Some think their domestic insurance provides all the coverage they need, but that's often not the case due to varying regulations in other countries. Yet, middle market companies often do not need the complex solutions a large global corporation may need.

To address that gap, Zurich has invested in innovative technologies, such as robotics process automation (RPA), to develop cost-effective international insurance solutions for middle market businesses, often packaged with their domestic coverage for simplicity. RPA reduces data re-entry tasks, allowing Zurich's international teams to focus on the tasks requiring analysis and insight. RPA can also reduce turnaround times for international policies to be issued.

"It's important that our middle market customers can get a global solution out of the box that is providing compliance—legal and regulatory—and claims services that they will need to be successful in those countries," Cooper said. "Zurich is drawing not only on technology but also 40 years of experience in international programs."

Zurich manages over 7,600 international insurance programs in more than 210 countries and territories.

Supply chain

"In the past decade, the biggest change for middle market customers has been the changing dynamics of technology and how it affects their business," Cooper said. "The fact is, we are globally connected, and an incident that happens on the other side of the world that seems not to have any direct relationship on how they do business can actually have a catastrophic impact."

Many middle market companies make components that are critical links in larger organizations' supply chains. Delaying delivery of those parts—whether because of flooded roads after a U.S. hurricane or because one of their own suppliers in Asia suffered a cyberattack—can cause a ripple effect and even put them out of business.

"It's a shift now to how do we help our customers improve their risk," Cooper said. "We'd rather assess a risk than assess a loss. There may be a cost upfront, but ultimately it costs less in the long run, because we reduce costs overall."

Cooper said his teams are increasingly connecting customers with additional resources for critical parts. Diversifying their supply chain can help them resume operations faster if a disruption occurs. That, in turn, has many residual benefits. For one, Zurich's proactive guidance builds trust, sometimes resulting in the customer inviting Zurich in to see their business firsthand.

"Oftentimes we'll go in and see that they've automated certain aspects of their business," Cooper said. "We have a customer who employed drones to load products onto delivery trucks, thereby taking out a lot of opportunities for workers' compensation losses, which we would not have known if they hadn't invited us in. That makes them a more desirable risk. And improving their risk helps them improve their profitability."

Building strong relationships can be challenging today because of the number of middle market customers and their geographic span. That's why Cooper, in the digital era, travels frequently to meet with customers and brokers the old-fashioned way: face to face.

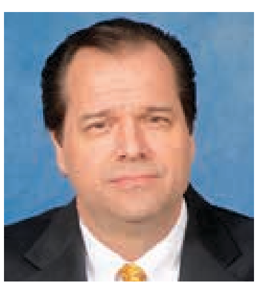
"Technology helps us stay connected, but really it's back to the basics: I want to get to know customers firsthand," Cooper said. "The better we know our customers, the more we can do to help inform and protect them from risk."

[1,2] National Center for the Middle Market. 1Q 2018 Middle Market Indicator – New Thresholds of Growth. 2018.

Resilience planning must play a wider role in driving risk management strategies

As one of the costliest years on record for property insurers and customers drew to a close, 2017 placed in sharp relief the need for resilience planning as a key component in the design and implementation of corporate risk management strategies.

Following three of the strongest hurricanes ever to strike the Caribbean and U.S. coastline, both the U.S. and Canada experienced some of the worst wildfires in both nations' histories. And those events were just the ones that grabbed the biggest headlines. According to an Aon Benfield report released earlier this year, insured losses for 330 natural catastrophes occurring during 2017 reached $134 billion, which still only amounted to 38 percent of the overall economic price tag of $353 billion.[1] Given the events of 2017, it is small wonder that CEOs and risk managers of organizations across North America and around the world are looking more closely at the value of resilience planning.



"Certainly, resilience has always been a topic with customers and brokers, but it is poised to become a bigger factor in risk management planning in the future," said **Richard Montminy**, Zurich North America Commercial Insurance Head of Property. "When businesses experience a catastrophic event or see others with similar business characteristics impacted by major natural catastrophes, interest in resilience planning moves to the top of the list, or should.

"When customers have made the necessary investments in time and resources to make their organizations more resilient, they've performed much better than their peers when faced with property losses and business interruption scenarios," he said.

Montminy noted that helping customers become more resilient requires thorough knowledge about their businesses and the types of risks presenting the greatest challenges to their risk management strategies.

"At Zurich, we do this by aligning the right underwriting and Risk Engineering talent with specific knowledge about a customer's industry or segment," he said. "The goal is to provide a more robust and relevant customer experience with insights into the industry-specific risks they deal with on a day-to-day basis. This also helps them develop resilience strategies that will deliver the greatest benefits should a loss occur.

"Obviously, customers in areas likely to be affected by hurricanes should have definitive plans in place that they can activate in the run-up to a storm," Montminy said. "Once storm surge and flooding begins, it's too late to figure out how you will safeguard your people, building, inventory, equipment and other assets."

While resilience against flooding from external sources is critical for businesses in flood-prone geographies, other kinds of water-damage occurrences can also cost dearly. Any building with an internal plumbing system, especially "charged" pipes required by interior sprinkler systems, may be susceptible to incidents that in themselves can be catastrophic.

"A burst pipe can be as devastating as a flood," Montminy said. "As a part of resilience planning, using technologies such as water sensors and automatic leak detection systems is a relatively inexpensive way to mitigate loss events and strengthen resilience. These tools can prevent hundreds of thousands or even millions of dollars in interior water damage to buildings, contents, stock and equipment, as well as mitigate business interruption."

From water to fire, proactive, anticipatory resilience knowledge from experienced Risk Engineers can help risk managers identify vulnerabilities and rectify them before an event.

"Wildfires are another example where resilience can be a decisive factor in outcomes," Montminy said. "Many buildings that have been destroyed in wildfires were situations in which embers landed in brush collected too close to a structure. A risk assessment in advance would tell the owners or risk managers that tasks as simple as clearing brush from around a building can help to prevent embers from causing a fire that might take down a building that might have survived."

Natural catastrophe events are not the only risks demanding resilience planning. New and emerging risks can come on the scene rapidly, sometimes from unexpected directions.

"Certainly, cyber is one of those risks, with real business interruption implications for customers who get hit," Montminy said. "A couple of years ago, we also saw the Zika virus keeping people home and not out supporting businesses, both here in the U.S. and abroad. Then, consider the risks posed by active shooters in populated areas, like a busy retail district. How do customers get their arms around that from a risk mitigation, transfer perspective? These infrequent events can be very impactful and cause significant business interruption as well as potential loss of market share.

"All of these factors suggest that customers need formal resilience strategies in place to deal effectively with both the known risks of today and the emerging risks of tomorrow," Montminy said. "The goal is to add value to the customer experience that can make the difference between a company getting back on its feet quickly after a major loss versus dealing with costly and potentially long-term negative impacts."

[1] "Insured Natural Disaster Losses in 2017 Were 38% of Economic Costs of $353B: Aon." Insurance Journal, 24 January 2018.

Technology and the quest for better insights are redefining the customer experience

Relationships between insurance carriers and commercial customers were once primarily transactional: Pay a premium, get a policy, file a claim if something happens. Over time, however, the relationship model preferred by risk managers evolved into a much closer and more collaborative experience aimed at achieving sustainable loss reduction and business resilience.

Today, the customer experience is continuing to evolve as new and powerful risk data and predictive analytics tools are accelerating the transformation and depth of those relationships. Customers increasingly want to work with insurers demonstrating intimate knowledge of their businesses, even acting as extensions of their risk management departments. Indeed, some risk managers view deepening relationships with their carriers as a critical need at a time when their own in-house resources have contracted, even as the risks they face are becoming more complex.

"As corporations have gotten leaner, some risk management departments don't have the same level of resources they had in the past," said **Brandon Fick**, Zurich North America Commercial Insurance Head of Casualty. "Many customers have come to rely more heavily on their insurance carriers and brokers to make sure they are getting the analysis and insights they need to effectively manage risk in a changing environment."

As client demands for better data have grown, new technologies being deployed by insurance carriers are dramatically transforming the customer experience for many insureds. Fick noted that his own company is now heavily invested in the application of robotic processing applications, predictive analytics and cognitive computing for an expanding repertoire of underwriting, claims and business-processing tasks.

"Zurich's experience is that these tools are having dramatic impacts on the changing character of customer relationships," Fick said. "We are able to provide risk managers with degrees of detail and analysis of program performance that were very difficult to deliver before the advent of these technologies.

"If you look at predictive models, what you are really trying to do is to drive outcomes for your customer," Fick said. "For example, on the medical management side, Zurich is using predictive models to try to figure out early in the claims cycle where we have the best potential to intervene and positively impact the customer's outcome. It's an area in which I believe we are one of the industry leaders."

At the same time insurers are adopting new and powerful risk analysis, underwriting, claims and business-processing tools, customers are deploying their own new technologies to enhance the product and service offerings they deliver to their own markets. For some, that process is opening up new risk frontiers, the most obvious being threats posed by cybercrime, security and privacy, the "Internet of Things," and related risks.

"For example, the expanding presence of artificial intelligence in many business segments is raising new concerns for many customers," Fick said. "While AI today is being applied in rather basic forms, what will the future hold? We are talking about a thin line between AI's current role as a decision-making enabler – identifying or interpreting trends – and using that power to potentially replace human decision making. Are customers prepared today to handle those evolving risks? And, how is the insurance industry's current product mix going to adapt with new ideas and solutions to meet these dynamic and developing challenges?"

Fick noted that insurers have not historically been at the leading edge of technological innovation, but that carriers are now engaged in a race to develop and deploy forward-looking tools that will enhance the customer experience. Helping to drive the pace of progress are upstart entrants who are charting new directions for the insurance marketplace to pursue.

"Today's insurtech players are helping to drive many of the technological and risk-data innovations customers really want," Fick said. "That's forcing the traditional marketplace to embrace change at a lot faster clip. Insurtech players got into the space because they saw some clear gaps in how traditional insurers used data and some definite opportunities to fill those gaps. They are pioneering tools that would have taken the industry as a whole a much longer time to develop. In a sense, the traditional insurance marketplace should view the insurtech space as partners in driving new standards of performance that will result in an enhanced and dramatically improved customer experience.

"The world is changing at a rapid pace, presenting us with risk challenges that in some cases were unheard of a decade or two ago," Fick said. "The rearview mirror is simply not going to tell us everything we need to know. As an industry, we are going to have to get more comfortable trying out new ideas and taking a few good, educated bets on behalf of our customers."

Want to know more about the risks facing your company? Zurich has collaborated with the World Economic Forum on the Global Risks Report. See zurichna.com.