Japan

Voice of the customer
Time for insurers to rethink their relationships

Global Consumer Insurance Survey 2012
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Faced with the unprecedented challenges of troubled financial markets, changing regulatory oversight and economic uncertainty, there is a risk that some insurers may not be listening and responding to the most important voice of all – that of their customers. For any insurer hoping to navigate through this difficult time, understanding how customer behaviors and attitudes are changing is critical. Previous assumptions and received wisdom about customers may no longer be reliable, and those insurers who are able to respond best to what customers want now are most likely to succeed.

In light of this, Ernst & Young conducted a groundbreaking survey of insurance customers. Working with the research firm Ipsos, we set out to test the received wisdom by interviewing 1,004 consumers of life and non-life personal insurance products in Japan between August and October 2011, as part of a global survey covering 23 countries in seven regions around the world.¹

¹ For a full description of the methodology used to create this report, please see page 32.
Understanding the Japanese consumer requires an appreciation of both economics and demographics. Aging populations are a common theme in the developed world, but in Japan the population is shrinking and growing older faster than in any other country. According to census data, in 2010 the population of Japan was 120 million, but by 2050 it is expected to be only 90 million.

This shrinking population is very highly educated, and culturally, the Japanese hold each other to high standards: there is an expectation that the “right thing” will be done. In business, a strong sense of partnership exists and relationships are long and lasting.

Insurance companies have an overarching need to consider how the preferences and needs of this aging Japanese population are changing. Recent financial events and the prospect of further physical disasters are also having an impact on those preferences, causing customers to carefully review their purchasing decisions.

The global financial crisis did not make Japanese customers significantly more risk averse, in part because the Japanese financial sector was less affected by the crisis compared with other jurisdictions. The March 2011 earthquake and tsunami, however, have had a strong impact in making consumers reconsider their needs for insurance protection.

Given other demands on government revenues, customers are likely to be reconsidering their willingness to depend on the state for long-term health and pension cover. This provides a greater opportunity for the private sector, although the market dominance of both life and non-life sectors by a small number of large insurance companies, means that smaller insurers must focus on how to differentiate their product offering. According to Ernst & Young internal research, five insurers have a market share totaling 63% of the Japanese life and pensions market, but no other insurer has a share larger than 2%. In the non-life market, four insurers have a market share of 92%.

### Japanese life and pensions key findings

- In a mature market like Japan, product penetration is high, so insurers need to focus on growing value from existing customers—selling additional products and retaining customers for longer. This requires building long-term, trust-based relationships.
- Perhaps surprisingly for a country where business relationships are based on trust, consumer confidence in the life insurance industry is relatively low compared with other regions. So insurers need to rebuild customers’ trust and loyalty if they want to build long-term relationships.
- A significant factor in this lack of confidence is a concern that products are too complicated; consequently, customers lack the information required to make a well-informed choice. So simplifying products and providing better advice and information will help rebuild trust and confidence, both at initial purchase and over the customer life cycle, in response to changing needs.
- Personal interaction remains important for most Japanese customers, so insurers need to make sure their agents and intermediaries are able to deliver the quality of information and advice customers need to buy with confidence.
- However, there is a significant trend for Japanese customers to do more research on the internet, even if they subsequently buy through an agent. This is driven by using the internet for other consumer purchases—customers are starting to expect the same convenient access to objective information from insurers, so insurers need to make this information readily available if they are to rebuild confidence.
- Consumers prefer to work with companies they trust and consider convenient to deal with. They also would hold their products for a longer period if insurers were more responsive to their changing needs. But customers say their level of repeat purchase is relatively low, with insurers making little attempt to retain them when they are considering changing providers. If insurers want to build more valuable customer relationships, they need to respond to customers’ changing needs with appropriate product offers and interventions at key policy events, including lapse and maturity.
The combined impact of these findings leads us to conclude that there is a real opportunity for Japanese insurers to increase customer revenue by delivering a more customer-focused experience. This entails:

- Providing simple and transparent products which customers can buy with confidence, supported by clear information and advice
- Making it easy to access relevant products and information throughout the product life cycle, particularly online
- Building trust by delivering against customer expectations and responding to customers’ changing needs throughout the life cycle

Japanese non-life key findings

- In the Japanese non-life market, customers are driven by convenience, trust and value.
- Convenience includes customers being able to easily research and buy when they want, which is driving the growth of company and third-party websites in Japan. But convenience also includes avoiding problems later on — with cover, service or technology — and this means that a significant proportion of Japanese customers still rely on tried and tested channels such as agents, family advice or trusted brands.
- One aspect of convenience is that customers expect a high level of service from providers. A good claims experience is expected, but it will not drive improved customer loyalty. A bad claims experience, however, will reduce retention and diminish brand value.
- The desire for convenience presents opportunities for repeat and additional sales. Customers are willing to buy multiple products from the same trusted provider, so long as the insurer makes it simple.
- Value is also complex to assess, as it reflects a balance of price, product features and service that vary by product and customer type. For example, price is most important in motor insurance, but brand is a larger issue with health insurance, perhaps as customers treat brand as a proxy for quality.

The net impact of these findings is that in a part-online, part-offline world characterized by complex customer segmentation, delivering convenience and value has become more complicated. For non-life insurers, meeting this challenge means:

- Integrating online and offline channels seamlessly to meet changing customer needs over the product life cycle
- Ensuring technology is integrated across several different communication channels, serving both sales and back office functions
- Understanding the cost to serve for each segment and channel, as well as the behaviors that characterize them
- Developing and managing the brand in cyberspace to develop customer trust

We hope you will find this research useful in considering how you shape your business going forward.

If you would like more information, and to review the detailed findings, please contact your usual client service partner, or go to www.ey.com/insurance.

Mitsuo Uchida
Senior Partner, Japan Area Insurance
Ernst & Young ShinNihon LLC
We set out to explore customers’ attitudes and behaviors today, to separate myth from reality and provide some hard evidence of what customers want now.
Life and pensions (including investments)

While there is some truth in the received wisdom around how life and pensions products are bought and sold, the reality is more complex. Understanding the nuances helps insurers understand what they can do better or differently to attract consumers, deepen and retain relationships and unlock greater customer lifetime value.

Our survey explores the following myths:

1. Customers have low confidence in the life and pensions industry
2. Life insurance is sold, not bought
3. Personal interaction is essential
4. It’s hard to cross-sell to existing customers
5. Providers can’t influence persistency
Myth 1

Customers have **low confidence** in the life and pensions industry

Received wisdom is that the financial crisis has created mistrust of financial services: there is a perception that all financial services companies are untrustworthy. Our research shows that while Japanese business relationships are based on trust, confidence in the insurance industry is relatively low.
**Japanese customers are less confident than in other regions**

In most of the regions we surveyed, the data shows that customers have a surprisingly positive view of the insurance industry, suggesting that it may have been less affected by the financial crisis than banks, in terms of undermining customer trust. But Japan is an outlier to this trend, with customers expressing a significantly lower level of confidence that the products they hold meet their needs.

To a lesser extent, Japanese customers express lower overall satisfaction with insurance companies than in other countries. The overall customer satisfaction rating for the industry is 7.6/10 in the Americas, 7.0 in Europe and 6.8 in Asia-Pacific, whereas Japan’s score is 6.2.

These surprising results appear to be at odds with the cultural backdrop of trust and long-term relationships that prevails in Japan. However, the selling practice in Japan, where customers rely heavily on advice from family, friends or trusted agents, means they have less personal understanding of the products on offer. Part of the explanation may also reflect that customers’ needs have changed, rather than that the product will not perform as described: the second most common reason for a lack of confidence revealed by our research is a change in customers’ needs (23%). The prolonged low interest rate environment, which limits the returns customers can expect to earn, also helps to explain this perceived change in needs.

However, a good part of customer dissatisfaction arises from reasons that are within providers’ control. The top reason given by customers who said they were not confident they had made the right purchase is a lack of information about how the product is performing. This suggests the industry could do more to improve clarity of communication and information about products.

Customers are generally ambivalent about their insurance providers in Japan. Culturally, the Japanese are naturally cautious and tend not to be critical of companies, but they also tend to only give a high score if the company has done something outstandingly well. Accordingly, 56% of responses for satisfaction with providers were within a range of 5 to 7 out of 10. It’s also likely that Japanese customers don’t have strong opinions about their providers because the efficient yet impersonal direct debit system used to collect payments offers few customer touchpoints.

We also found that, perhaps surprisingly, the financial crisis has had limited impact on customers’ attitude to risk: 59% say their attitude to risk hasn’t changed in the last two years, while 24% feel more conservative about their investment choices. This may be because the Japanese financial sector was less affected by the crisis compared with other jurisdictions. The March 2011 earthquake and tsunami, however, have had a strong impact in making consumers reconsider their needs for insurance protection.

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**59%** say their attitude to risk hasn’t changed in the last two years.

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![Percentage of customers who are very or fairly confident their product will meet their needs](chart.png)
There is room for improvement compared with other industries

In most countries in the global survey, customers regarded the life and pensions industry as well behind others on the quality of service offered and rewards offered for customer loyalty. This trend is less pronounced in Japan, despite the lower confidence levels and slightly lower overall satisfaction scores. However, the data does reveal that some Japanese customers see the industry as behind others on rewarding loyalty, with a net 13% agreeing this is the case.

Customers increasingly expect rewards such as loyalty points, as provided by other consumer industries.

While Japanese customers don’t perceive the insurance industry as significantly behind others on service quality, they do want to see improvements. The top service improvements Japanese customers mention are easier communication and more transparency, improved access to online services and better claims processes. Overall, the industry could do more to bring itself into the 21st century.

Why are you not confident that the product is the right one for your needs?

- I do not have enough information about how well my product is performing
- My needs have changed
- It hasn’t performed as well as other insurance products
- I did not fully understand the terms when I first bought the product

29% 23% 21% 16%

None of the above
I think I received poor advice
Don’t know

14% 13% 9%
56% of responses for satisfaction with provider were within a range of five to seven out of ten.

<table>
<thead>
<tr>
<th>Implications for insurers</th>
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<tbody>
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<td><strong>Need to rebuild trust and confidence at point of sale</strong></td>
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<tr>
<td>The low level of customer confidence suggests that insurers need to work with their intermediaries to improve the quality of the sales process, making sure that customers receive sufficient information and advice so that they understand what they are buying and are confident it is appropriate for their needs. Point-of-sale IT systems with automated financial planning tools can help ensure that a robust and consistent advice process is delivered, and post-sales reviews of the customer experience are a good way to test customer understanding.</td>
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<tr>
<td><strong>Maintaining confidence over the customer lifetime</strong></td>
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<tr>
<td>Clearly customers’ needs change over time, and customers need information to monitor the performance of their product holdings and determine how well it is delivering against their expectations. The survey indicates that customers want better quality and accessibility of post-sale information (particularly online) and increased flexibility, allowing product features to change with their changing needs. Insurers should also consider how to reward profitable customers for their loyalty — as in other industries; this could be a good way to build long-term, trust-based relationships.</td>
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<table>
<thead>
<tr>
<th>Net percentage customers agreeing with the statements “the insurance industry is behind others on quality of service/rewarding loyalty”</th>
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<tbody>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Loyalty</td>
</tr>
<tr>
<td>5%</td>
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</table>
Life insurance is sold, not bought

Received wisdom is that because of a lack of customer knowledge and confidence, life insurance products are “sold” to consumers – the purchasing decision is not customer-driven. Our research indicates that a growing number of consumers are taking a more proactive role.

Customers expect to do a lot more research in the future
Historically, Japanese life and pensions insurance customers have been very passive. In the past, only 17% of customers said they did a great deal or a fair amount of research before buying a policy. Our survey shows that this attitude is changing. Customers want more control over the buying process, as evidenced by a greater willingness to conduct their own research regarding future purchases. In the future, 57% of customers intend to conduct either a fair or great deal of pre-purchase research – this proportion rises to two-thirds in the 35-64 age group. These figures, however, still lag behind other parts of Asia. For example, 73% of customers in Asia-Pacific and 78% in China expect to conduct a fair or large amount of research in future.

Use of online information sources is increasing
Consumers have previously relied mostly on direct contact with a bank or insurance company, word of mouth or advice from intermediaries and agents. In the future, word of mouth is still expected to be an important information source, according to 33% of consumers, but consumers will collect information proactively from a range of sources, particularly from online channels. Customers want to use sources they can trust without risk of sales bias. Our survey shows customers are willing to use objective online sources for future research, such as comparison sites, blogs and social media. Advice from an agent is still mentioned as a frequently consulted source, but it is only one of a wide range of sources.

Sources of information and advice customers expect to use when researching a new policy

<table>
<thead>
<tr>
<th>Source of Information/Advice</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online comparison website</td>
<td>45%</td>
</tr>
<tr>
<td>Family or friends – word of mouth</td>
<td>33%</td>
</tr>
<tr>
<td>Advice from intermediary or agent</td>
<td>32%</td>
</tr>
<tr>
<td>Bank or insurance company websites</td>
<td>28%</td>
</tr>
<tr>
<td>Direct contact with bank or insurance company people (call center, branch)</td>
<td>23%</td>
</tr>
<tr>
<td>Other online sources</td>
<td>22%</td>
</tr>
<tr>
<td>Advertising/direct mail from product provider (bank or insurance company)</td>
<td>20%</td>
</tr>
<tr>
<td>Online blogs/communities</td>
<td>14%</td>
</tr>
<tr>
<td>Financial press/media</td>
<td>13%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>10%</td>
</tr>
<tr>
<td>Information from an employer</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>
Customers want “hard” information about products

In their research, Japanese customers are looking for factual information to confirm they are selecting the right product to meet their needs. More than half (56%) of Japanese customers rank product features as one of the top two or three most important factors when choosing a policy.

Factors such as brand or recommendation are less important. Only 15% of consumers rank brand among the most important factors. Just 16% rank recommendations from family or friends, and 10% recommendations from agents and intermediaries, among the most important factors.

Unsurprisingly, given the current uncertainty surrounding the financial system and the long-term nature of life and pension products, customers also consider the financial stability of their insurer to be very important, cited by 45% as one of the two or three most important factors.

Implications for insurers

Influencing objective sources is critical

Insurers need to respond to the emerging customer trend of pre-purchase research, using objective and independent sources, particularly online. The challenge is how to communicate propositions so that objective sources such as social media and comparison sites represent insurers fairly, allowing the customer to make a well-informed choice. This is a new challenge facing a number of industries, and it requires a new approach compared to traditional marketing and communication methods.

Insurers need to consider how to simplify product design and information, as well as how to ensure they consistently deliver the service customers expect, so that independent sources (including customers) comment positively about the company and its products. A key part of this is providing the hard data that customers say they want concerning financial strength, product features and performance. This may not be good news for insurers with uncompetitive products or poor service, but in the new world of internet-based product comparison, customers want to have hard, objective information to make comparisons, just as they do for other consumer products.

Most important factors when choosing a new policy

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<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product features (such as premium, cover, investment/fund range/options)</td>
<td>56%</td>
</tr>
<tr>
<td>Financial stability of the insurance provider</td>
<td>45%</td>
</tr>
<tr>
<td>Performance of the product (its track record)</td>
<td>39%</td>
</tr>
<tr>
<td>Recommendation from family/friends</td>
<td>16%</td>
</tr>
<tr>
<td>The brand of insurance provider</td>
<td>15%</td>
</tr>
<tr>
<td>I have discussed the decision with an insurance specialist</td>
<td>15%</td>
</tr>
<tr>
<td>Their reputation for customer service</td>
<td>14%</td>
</tr>
<tr>
<td>It is recommended by my insurance agent/intermediary</td>
<td>10%</td>
</tr>
<tr>
<td>I am already a customer of the insurance provider/the insurance agent</td>
<td>8%</td>
</tr>
<tr>
<td>Don't know</td>
<td>6%</td>
</tr>
<tr>
<td>It is recommended by my bank</td>
<td>4%</td>
</tr>
<tr>
<td>None of the above</td>
<td>2%</td>
</tr>
</tbody>
</table>
Personal interaction is essential

Received wisdom is that personal interaction is essential to educate customers about their financial needs and explain which products to buy. Our research indicates that this is frequently the case; however, some customers are becoming more self-directed.
Personal interaction remains important for most customers

One of the distinctive features of the Japanese market is that, while the online channel will become more significant as a customer touch point, this does not mean that personal contact will become less important. Personal interaction is considered important by 72% when buying a policy and by 67% when researching. Personal contact is also the preferred means of contact with insurers, and it is in the younger 18–34 age cohort that this preference is most marked, which suggests that the trend will persist.

Historically, personal contact has been essential, especially when actually buying the policy. The two most common reasons cited for the continuing importance of personal contact in Japan are that the products are overly complicated and technical (55%) and that consumers do not know which products will best suit their needs (54%).

Some customers prefer to take complete control

Our findings show that a significant minority of consumers (18%) no longer consider personal interaction important. These people have become more familiar with insurance products and have some understanding of their needs and how these change over their life stages, even if they may still use personal contact channels to conduct transactions. These customers want complete control over the buying process and don’t want to be subjected to sales pressure. They also feel it is more convenient and a way to get a better deal. Agents do not have a particularly strong position in Japan. Historically, direct channels have been an important feature of the Japanese market, arising from the practice, started after World War II, of insurance companies employing female direct sales forces. In the distribution of retirement income product, agents and intermediaries play more of a role and are used in 27% of cases. Buying through the workplace, however, is particularly significant for retirement income products, with one-third of consumers purchasing through a workplace package.

In the future, a significant proportion of customers still expect to seek advice from agents or intermediaries when researching a policy – 32% expect to use this source of information compared with 33% who expect to consult friends and family. However, a larger proportion of customers (45%) expect to conduct their own research using online comparison websites. Some of those researching online may, of course, end up using an agent to complete the transaction.

Customers prefer multi-tied agents who can select from a range of insurers. Where customers do buy through agents, the agent’s recommendation is less important than “hard” buying factors, the most prominent of which are product features, the provider’s financial stability and the performance of the product.

Life and pensions

In general, would you prefer to use a single-tied or multi-tied agent or do you have no preference?

- 49% Prefer multi-tied
- 21% No preference
- 17% Neither of the above
- 14% Prefer single-tied

72% of customers consider personal interaction important when buying a policy.
I am confident that I sufficiently understand the product that I want to buy without assistance. I think I can get a lower price or a better deal myself by shopping around online. I find it more convenient to research and purchase through the 24-hour web. I want to avoid pushy sales people.

**Why is personal interaction important to you?**

- Products are too complicated and technical: 55%
- I don't know what products are best for my needs: 54%
- I need assistance with the paperwork and general administration: 46%
- I don't know how to measure the products' performance: 36%
- I feel I need expert assistance to make important financial decisions: 29%
- I don't know the insurance companies: 12%
- Other: 4%
- Don't know: 2%

**Why is personal interaction not important to you?**

- I want to avoid pushy sales people: 47%
- I think I can get a lower price or a better deal myself by shopping around online: 38%
- I find it more convenient to research and purchase through the 24-hour web: 34%
- I am confident that I sufficiently understand the product that I want to buy without assistance: 16%
- Don't know: 9%
- Other: 4%
The concept of trust is fundamental to Japanese culture. In the past, customers bought life and pension products on the basis of representation rather than research. Trust will continue to be an important factor in the Japanese market.

Given the continued need for personal interaction by the majority of customers, insurers need to ensure that sales channels effectively deliver what these customers need — in particular, providing the right expertise to help people make well-informed financial decisions. This will be helped by greater transparency in the advisory process and in product design. Given the declining use of female direct sales forces, insurers may also want to consider the potential role for independent financial advisors or multi-tied agents in the distribution channel.

The survey identifies a sizable minority of customers who have the confidence to buy without the support of an agent or intermediary. These customers are looking for good-value products that they can buy directly, preferably over the internet. In other countries, new propositions that are primarily online are emerging to target this segment — particularly in the wealth management space, and for buying simple life protection products — using approaches similar to non-life comparison sites. This sales route may take an increasing share of the market, so insurers need to respond to the trend if they want to maintain market share.
Cross-selling is low
Our research shows that levels of cross-selling are indeed low. In Japan only 23% of those surveyed have bought more than one product from the same provider. In Asia-Pacific the equivalent figure is 37%, although cross-selling is lower in the Americas (16%) and Europe (19%). However, perhaps surprisingly, customers are quite willing to buy multiple products from existing providers and in fact may prefer to do so.

Trust in the provider and convenience are the main factors driving repeat purchases. In Japan, 47% say that trust in the provider is an important factor in the repeat purchase decision, and 35% agreed that it is easier to buy from a known provider. It is also clear that improved quality and frequency of contact, as well as satisfaction with the provider, drive repeat purchases, and incentives or rewards for loyalty can also influence purchasing decisions. But although customers are willing to buy more, they expect insurers to make it easy for them and deliver what they want: their main buying factors are “hard” factors rather than existing customer relationships. In Japan, the highest-ranked buying factors are product features (56%) and provider financial stability (45%), with existing relationships cited by only 8%.

The buying process has to be convenient, providing an opportunity for cross-selling at the time of original purchase and subsequently via the channel of the customer’s choosing. Products need to be simple so customers can easily understand what they are buying.

Did any of the following factors play an important part in your decision to purchase the additional products or services from your existing provider?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I trust the provider</td>
<td>47%</td>
</tr>
<tr>
<td>It was easier to buy from a provider I already know</td>
<td>35%</td>
</tr>
<tr>
<td>The product I already had was outperforming the market</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
<tr>
<td>My agent advised me to buy from this provider</td>
<td>10%</td>
</tr>
<tr>
<td>I received a discount for buying additional products</td>
<td>9%</td>
</tr>
<tr>
<td>I received other awards for buying additional products from this provider</td>
<td>7%</td>
</tr>
<tr>
<td>I received additional services without additional cost</td>
<td>7%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4%</td>
</tr>
</tbody>
</table>
Implications for insurers

Cross-selling is key to boosting profitability
Japan is a mature market with high levels of product penetration. The market is dominated by a small number of large providers (63% of the market is controlled by the top five insurance companies).

In this kind of market, many “new” sales are simply business churning from one provider to another. This means that profitability is increasingly driven by retaining customers for longer periods of time and increasing revenue per existing customer — in other words, increasing customer lifetime value.

This makes it essential for insurers to increase their cross-selling efforts. The challenge is how to achieve this.

Understand customers’ changing needs
In Japan, many customer relationships are built around a single product sale, and very few customers have completed a financial needs analysis with their provider. Insurers therefore have an opportunity to review the needs of their existing customers, which will present cross-selling opportunities and help to overcome the lack of confidence among consumers.

Of course, individual customer contact is a lengthy and expensive process. Insurers need to consider how the latest CRM technology can enable them to segment existing customers and target relevant customers with tailored, appropriate products. Rather than focus on hard-sell techniques, more emphasis should be placed on contacting customers to determine how their needs are changing and offering them an appropriate product. Providers that build relationships with customers and give them what they want, when and how they want it, will drive value.

Recognizing the value of the customer relationship is vital — both at the point of initial sale and over the customer lifetime. Some insurers are developing effective “sales through service” operations, which use routine servicing contacts to understand customers’ changing needs and offer carefully selected, relevant products where a need is identified. These operations are based on customer segmentation models, which identify customers who have the highest propensity to purchase. These operations can be highly effective and improve customer satisfaction, especially when compared to traditional unfocused “product push” cross-sell efforts.
Providers *can't influence persistency*

Received wisdom is that providers feel they have little ability to retain customers and make a material difference to persistency. Our research shows that insurers can influence persistency.
Providers do little to influence persistency
A common perception in the industry is that it’s hard to influence persistency, particularly with intermediated sales in which insurers have limited contact with end customers. However, based on our research, we believe that improvements in persistency can deliver both improved embedded value and improved new business value.

Retention levels in the Japanese life and pensions market are similar to other regions. In Japan, 8% of those surveyed said they have changed their provider in the last five years, compared with 9% in the Americas, 10% in Asia-Pacific and 8% in Europe.

However, Japanese insurers do very little to contact customers when their coverage is about to lapse. Insurance providers in Japan only make “fair” or “great” efforts to retain customers in 21% of cases.

Providers can influence persistency
There is evidence that customers are willing to stay with their existing providers and are reasonably loyal. But they are effectively forced to leave because as their needs change, providers are not flexible or responsive enough to meet those altered requirements. This reason is the most frequently cited — by 62% of respondents in Japan — for changing providers.

If customers have reached the point where they are about to leave, our research shows it may be too late to repair the relationship; poor service from the previous provider is the second most common reason for switching (24%). Thinking about how to build loyalty by meeting customers’ needs and expectations over their lifetime will make a difference to persistency.

In Japan, insurance providers have an additional reason for contacting customers. Until about five years ago, single premium variable annuity products were a significant part of the market, and these products are approaching maturity over the next few years. Given that these products contained guaranteed returns, insurers have an additional incentive to contact customers to help them understand how their product is performing and what their rights under the existing policy might be, as well as to provide opportunities for switching into other products that may better suit the customers’ needs.

Our research also shows that actions by providers could make customers reconsider switching. At the point where customers leave, they clearly state that if the provider had given them an incentive to stay they would have considered doing so – 37% of customers said that they would have reconsidered the decision to switch if they had been made a better offer on their existing product. Providers would obviously need to consider the trade-off between offering such incentives and the impact on overall profitability. But improved transparency, better service and more personal contact are also important factors.

How much effort did your previous provider make to persuade you to stay with them?

- Great deal — my provider was very proactive (5%)
- A fair amount (45%)
- Just a little (29%)
- None at all — I never heard from them (13%)
- Don’t know (8%)
37% of customers said that they would have reconsidered the decision to switch if they had been made a better offer on their existing product.

### Implications for insurers

Our survey shows there is a real opportunity for insurers to influence persistency, and that they should consider it essential to have an effective customer retention function.

Use of predictive models can be helpful to target customers based on likelihood of lapse and the value of retaining them, but “test and learn” approaches are essential to work out which interventions are most effective.

**Better customer engagement will drive loyalty**

Retention activity should be supported by improved engagement with existing customers. The survey shows that overall customer satisfaction and the quality of customer contact across the life cycle are material influences on retention. This needs to be backed by flexibly designed products that can respond to changing customer needs. Firms should also consider whether to provide financial incentives to reward customer loyalty – perhaps over the customer life cycle rather than just at the point of lapse. But the key to improving persistency is removing the reasons why customers consider leaving in the first place.

**Insurers need to manage intermediaries better**

Insurers can also influence persistency through better management of intermediary channels, whether tied or independent. Some providers are segmenting distributors based on a profitability model that takes into account the persistency of business introduced by intermediaries, refocusing their sales management effort on more profitable intermediaries and withdrawing business from those who do not behave profitability.

### Why did you change providers?

- My needs changed and my provider couldn’t meet my new needs: 62%
- Poor service: 24%
- Poor product performance: 21%
- My agent recommended a new provider: 7%
- My agent changed providers and recommended the new provider: 3%

### What would have made you reconsider switching providers?

- Better offer on existing product(s): 37%
- Confidence that the service I receive would improve: 29%
- More frequent communication with me: 21%
- Nothing: 18%
- Advice from my agent: 16%
- More transparency about my product(s) and their performance: 13%
- More personal contact with my provider: 13%
- Other: 3%
Non-life insurance

While there is some truth in the myths around how non-life insurance products are bought and sold, the reality is more complex. Understanding the nuances helps insurers understand what they can do better or differently to attract consumers, deepen and retain relationships and unlock greater customer lifetime value.

Our survey explores the following myths:
1. The future is online
2. It’s only about price
3. Good claims experience builds loyalty
4. Customers don’t respond to cross-selling
5. Insurers can’t influence customer retention
The future is **online**

Received wisdom is that the use of internet resources is growing rapidly and in the future online will be the dominant channel – not only for research, but also for transactions. Our research indicates that while their use is growing, online channels need to be part of an integrated channel strategy.

**Online research is growing quickly, but sales are lagging behind**

The importance of online channels for research and their expected continued growth is clear across our survey. The growing use of the internet for research is not confined to third-party websites – 19% of Japanese customers are currently using a range of online channels, including providers’ own websites and blogs, to research purchases.

Crucially, the proportion of customers using online resources for research is growing quickly: 30% of Japanese consumers expect to make more use of comparison websites in the future.

Online sales via distributors, however, lag behind internet use for research purposes, with only 7% of consumers reporting that they have bought through a comparison site. This suggests that, at present, not all customers believe that the speed and flexibility offered by online transactions outweigh concerns over reliability or unfamiliarity. As insurers improve online sales processes – giving customers confidence that they can purchase a reliable product, quickly – more customers will migrate to this channel.

**Personal contact is still important in Japan**

Although the use of technology is expected to rise, this does not necessarily mean that the importance of personal contact will decrease. Direct contact remains important in Japan during many phases of the product life cycle. For many customers, personal contact remains the leading preferred method of contact, especially during a claim (44%), extending cover (42%) or renewing a policy (41%). Significantly, 61% of Japanese consumers want all or some personal contact when renewing their policies.

---

**Net percentage of additional customers planning to make more use of information channels in the future**

<table>
<thead>
<tr>
<th>Information Channel</th>
<th>Net Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online comparison website</td>
<td>20%</td>
</tr>
<tr>
<td>Family or friends – word of mouth</td>
<td>15%</td>
</tr>
<tr>
<td>Advice from intermediary or agent</td>
<td>10%</td>
</tr>
<tr>
<td>Financial press/media</td>
<td>5%</td>
</tr>
<tr>
<td>Bank or insurance company websites</td>
<td>0%</td>
</tr>
<tr>
<td>Direct contact with bank or insurance company people (call center, branch)</td>
<td>-5%</td>
</tr>
<tr>
<td>Advertising/direct mail from product provider (bank or insurance company)</td>
<td>0%</td>
</tr>
<tr>
<td>Online blogs/communities</td>
<td>0%</td>
</tr>
<tr>
<td>Information from an employer</td>
<td>5%</td>
</tr>
</tbody>
</table>

---

1 The net percentage is calculated by taking the percentage of respondents saying they would make more use and subtract the percentage of those respondents saying they will make less use of a channel.
Implications for insurers

Meeting customer expectations across channels
For online insurers, making sure that their online proposition really matches up to customers’ expectations will be critical. Customers expect insurers to provide clear product information for new buyers – this may include using technology that enables personal interaction, such as chat box facilities for simple queries or a simplified renewal process for returning customers. Different customer types will have different information needs, but creating easy and reliable processes is key for all customer segments.

Insurers have to be able to seamlessly integrate online and offline channels, even though ensuring accurate and easy-to-use record-keeping across three or four different communication methods is a technology challenge for many organizations. Certainly, when Japanese consumers decide they want personal interaction, whether face-to-face, by telephone or web chat, they want an efficient response: they do not want to squander their time on an insurer’s own process inefficiencies or internal requirements.

Online is no panacea: flexibility is key
Online sales should not be seen as a way to lower costs for Japanese insurers, as conversion rates are low, marketing costs are high and websites need constant updating. It’s also a mistake to believe that online propositions are just electronic versions of traditional propositions. To succeed, insurers will need to design their online sales and service processes around new media, be it a home PC or smartphone.

Customers’ high expectations for the sales process will still require a contact center (phone and internet) to support queries. However, as the adoption of smartphones over the past two years illustrates, technology is evolving constantly and rapidly. Only agile companies with short product development cycles and flexible operating models will be able to adapt quickly to future technology advances.

Preferred form of contact at renewal

<table>
<thead>
<tr>
<th>Preferred form of contact at renewal</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All personal (e.g., by telephone or face to face)</td>
<td>41%</td>
</tr>
<tr>
<td>All online/electronic (e.g., by website/email)</td>
<td>27%</td>
</tr>
<tr>
<td>Some online and some personal (e.g., by telephone or face to face)</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
</tr>
</tbody>
</table>

61% of Japanese consumers want all or some personal contact when renewing their policies.
Price is an important component of value, but it’s not the only one. Pricing is particularly sensitive for new business. Existing customers, in making their renewal decision, will also consider the service they have received and the confidence they have in the provider. And the degree of switching is usually influenced by individual country culture and market structure – for example, with respect to the number of providers available.

In some ways, non-life products operate very differently from commodity goods, which are characterized by standardized quality but with different prices. Price comparison websites and “whole of market” agents are driving price convergence in many markets, but in non-life customers don’t simply choose the cheapest product. Many seek to differentiate providers on other components of value, such as a trustworthy brand, previous experience and good product features.

In Japan, price is the key driver in purchasing decisions for 49% of people, followed by a brand (44%), financial strength and stability (31%) and track record or reputation (28%).

Price sensitivity also varies by product: price is a key factor for 57% of motor insurance customers whereas only 42% of customers buying health insurance consider it a key factor. In fact, 50% of respondents quoted either a well-known or trustworthy brand as a key factor in buying health insurance. Among those who have switched insurers, price was the primary reason for 56% of motor insurance customers but only 14% of health insurance customers.

Online research and comparison sites are leveling the price playing field in a number of markets. Some insurers have responded by unbundling their products to offer a low headline price. Through unbundling, customers have the ability to purchase only the components they value, rather than all the ancillary covers on offer. For those ancillary products perceived as overpriced, sales will drop quickly.
Implications for insurers

It’s not just about price: insurers have to build their brand, too

In Japan, a period of price competition in non-life insurance markets has been followed by an increase in both price transparency and price convergence, which is raising the importance of non-price buying factors such as brand and track record.

While being competitive on price remains important, there are additional factors that insurers can address to retain existing and win new customers. These include product flexibility, brand positioning, ease and simplicity of the sales process, and developing customer segmentation strategies. If a customer is faced with a number of providers offering similar prices, they will revert to secondary buying factors such as brand or reputation to make their final choice.

The number of customer groups and distribution channels means that insurers need to understand the true cost to serve for each segment and build this into their pricing models. Insurers must also understand their customers’ vulnerability to other insurers’ brands or products – for example, if insurers have a strong brand, how much can insurers add to the price and still beat a weaker brand?

Manage your brand in cyberspace

The importance of brand means that insurers now also have to invest in managing their brand online to ensure that blogged and tweeted comments reflect the company’s brand values. For Japanese insurers, managing their reputation in cyberspace is not something they have had to do in the past.

Insurers must decide how to position their brand message – whether to have a multi-brand strategy targeting different customer segments or invest in a ubiquitous brand with general appeal. Whichever option is chosen, insurers will need to invest both in customer insight techniques and technology, as well as in building this insight into customer operational processes and product design. Being agile enough to appeal to a wide set of customer behaviors is now critical for success.

56% of motor insurance customers who have switched insurers say that the primary reason is price.
Good claims experience builds **loyalty**

Received wisdom is that if providers offer a good claims experience, customers will be delighted and this will drive loyalty and help build brand value. Our research shows that a good claims experience is expected not valued, but that a bad experience diminishes brand value.
A good claims experience is necessary but doesn’t build loyalty
An efficient and effective claims function is a key profit driver for any insurer. From a customer perspective, however, our research shows a very clear and consistent picture regarding claims. An efficient and quick response will validate a policyholder’s view that they have chosen the right insurer. But customers expect great service and a good claims experience as a matter of course, so this will not drive greater loyalty or significantly improve customer retention. Conversely, a poor claims service is likely to drive customers to switch provider.

Our survey results showed that respondents are only slightly more loyal following a good claims experience compared to those who have never filed a claim. However, loyalty scores for those who had a poor claim are 10 percentage points lower. This pattern is repeated in many territories. Fortunately, the proportion of those surveyed who felt they were satisfied with their claims experience is 78%.

When asked what their insurer could have done to improve their claim handling, the most frequent responses are speed (51%), more practical support (14%) and better communication (13%).

Implications for insurers
Target the bottom line when investing in claims
For insurers in every territory, inefficient and ineffective claims processes are a source of financial leakage. Improving claims efficiency and effectiveness can have a significant impact on profitability. Investment in claims processes and technology therefore should be driven by the ambition to improve claims costs rather than the belief that it will help to improve retention.

In difficult economic times, where claims frequency may increase and insurers may need to tighten the parameters around claims assessment, it is absolutely critical that insurers communicate clearly and consistently the scope of the cover and the mechanics of the claims response so that there can be no room for doubt and no opportunity for failing to meet expectations.

Ongoing investment is critical
It is difficult for insurers to differentiate themselves in customers’ eyes through claims service. This means that the claims service carries a predominantly downside risk. As customer expectations change, it is critical that insurers invest to keep up and to ensure that communication methods and distribution channels integrate seamlessly. Otherwise, a level of service that would have scored 8 out of 10 today will only score 6 out of 10 in three years’ time, which could increase switching.

Consumers across all age groups may rely on a variety of communication channels – phone, email or text – to stay informed as a claim progresses. Insurers need to be sufficiently agile to respond promptly and appropriately – and maintain transparency and consistency across multiple channels and touch points – to succeed.

Percentage of respondents who said they were unlikely to change insurer

<table>
<thead>
<tr>
<th>Region</th>
<th>No claim</th>
<th>Bad claim</th>
<th>Good claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>45%</td>
<td>45%</td>
<td>10%</td>
</tr>
<tr>
<td>Americas</td>
<td>40%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>35%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Europe</td>
<td>30%</td>
<td>25%</td>
<td>45%</td>
</tr>
<tr>
<td>India</td>
<td>35%</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>South Africa</td>
<td>40%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>UAE</td>
<td>45%</td>
<td>45%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Customers don’t respond to cross-selling

Received wisdom is that customers don’t enjoy the sales process and resent insurers trying to sell them additional products. Our research found that customers are willing to buy more products from the same provider.
Your customers want to buy from you

Our research shows that customers are willing to buy multiple products from existing providers. In fact, many prefer to do so if it can be done in a manner that is convenient for them and which delivers greater value. In the survey, 37% of Japanese consumers agreed they would like to buy more products from the same provider.

Convenience and trust in the provider are the main factors driving repeat purchases. Japanese customers who prefer to hold multiple products with one provider mainly do so because they perceive this to be easier (65%) and offering better service (32%). It is also clear that improved quality and frequency of contact, as well as satisfaction with the provider, drive repeat purchases. Incentives or rewards for loyalty can also influence this.

But although customers are willing to buy more, they expect insurers to make it easy for them and to share in the benefit. The process has to be convenient – for example, by providing an opportunity for cross-selling at the time of original purchase and via the channel of their choosing. Customers expect their provider to leverage their knowledge and insight to offer relevant, related products in one quick and easy sale rather than in multiple contacts over a protracted period.

Implications for insurers

Leverage customer data to make every interaction count

Japan’s aging population is likely to have new needs that can be addressed as cross-selling opportunities, particularly in non-life products where shorter product life cycles present more frequent renewals.

Insurers need to demonstrate that an additional purchase is either easier or a better value than going to another insurer. Insurers that can better manage their improved customer data to align the product proposition to the customer’s needs regardless of the channel will have a competitive advantage.

Unlike some other financial services industries such as banking, many insurance customers will have only one or two interactions with their provider in a year. Insurers therefore need to make these interactions count.

Sales processes for repeat sales need to leverage existing customer data to shorten the sale time and help to tailor the product. Trying to cross-sell after the primary purchase is likely to be less successful, as this is perceived as no more convenient than buying from a new insurer.

In addition, customers will often expect a discount for holding more than one product, so insurers need to develop a pricing model that allows this: for example, by sharing some of the benefits from a lower cost of sale or an improvement in the assumptions on retention for those customers with multiple products. Finally, if insurers ask questions during the sale process to which they already know the answer, they will lose their goodwill advantage very quickly!

Why do you prefer to buy different types of insurance from one provider?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>It makes it simpler to have it all in one place</td>
<td>65%</td>
</tr>
<tr>
<td>I think I will get better service from one provider</td>
<td>32%</td>
</tr>
<tr>
<td>It was cheaper to have multiple products with one</td>
<td>14%</td>
</tr>
<tr>
<td>My agent/advisor suggested that I do it</td>
<td>7%</td>
</tr>
<tr>
<td>Don't know</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>
Too little, too late

In the Japanese market, customer attrition is relatively low — only 14% of those surveyed said they had changed their insurance provider in the past five years. This low attrition rate is partly because it is inconvenient to switch, but it is also linked to Japan’s cultural background of building long relationships. In turn, customers’ inherent reluctance to switch is part of the reason insurers really don’t make greater efforts to retain their customers.

Switching behavior, however, is expected to increase in the future — 22% say they are fairly or very likely to change their provider in the next five years, although nearly half of customers (43%) indicate that they would be more likely to renew if their insurer or agent contacts them. Despite this, in Japan 39% of consumers felt their insurer made no effort prior to renewal, and a further 31% reported only little contact.

Customers are reluctant to switch

The research also shows that customers are reluctant to switch because it is inconvenient. In Japan, 65% of consumers say they are either not very, or not at all, likely to change insurers in the next five years.

Customers who remain with their insurer cite convenience and trust as the key reasons. A sizable proportion (37%) sees no reason to change. Sadly, if customers have reached the point where they are about to leave, our research shows it may be too late to repair the relationship. Perhaps drawing on their experience from other industries, consumers are used to having their loyalty rewarded, either through price discounts or extra value, and are disappointed when insurers fail to meet this expectation. Thinking about how to build loyalty by meeting customers’ needs and expectations over the product lifetime will make a difference to retention.

39% of customers felt their insurer made no effort to retain them.

Myth 5

Insurers can’t influence customer retention

Received wisdom is that providers feel they have little ability to retain customers – it’s just not something they can control. Our research found that this was not the case.

How much effort did your previous provider make to persuade you to stay with them?

- Great deal – my provider was very proactive
- A fair amount
- Just a little
- None at all – I never heard from them
- Don’t know

Would contact from your provider make you reconsider switching?

- Strongly agree
- Tend to agree
- Neither agree nor disagree
- Tend to disagree
- Strongly disagree
- Don’t know
Implications for insurers

Don’t rely on inertia and miss the retention opportunity
Customer inertia may work in the insurers’ favor as a provider, but it is clear that there is more to gain from improving retention activity. A retention policy, however, is not appropriate for all products in the Japanese market. For example, motor liability insurance is compulsory and sold as a tariff product, so customers are ambivalent about who their provider is.

Japanese insurers can further increase retention by improving the quality of contact with customers – particularly with those at risk of lapse. Those providers who are able to use their customer data to identify valuable customers stand a better chance of improving retention and potentially up-selling or cross-selling other products.

Understand cost to serve
Critical to retaining the most valuable customers is understanding the cost to serve different customer segments and channels. Without a firm grasp of costs, insurers can’t work out whether a customer is worth retaining and, therefore, how much insurers should invest in retaining them. Insurers also need to understand the switching behavior of their clients and how this differs by customer segment. Combining an understanding of cost to serve with switching propensity will inform a retention strategy.

Investing in retention is vital
In some product markets and for some insurers, customer retention will come from using a highly trained specialist retention sales force, able to make appropriate recommendations around cover and pricing combinations. This requires not only dedicated staff, but also agile products with flexible pricing models so that the retention team can negotiate effectively on price and product coverage. Without this level of product flexibility, the retention team will be able to offer only blanket discounts, which rarely create long-term profitability. Having an effective customer retention function that segments the customer base, targets those who are most valuable and communicates with them proactively is becoming increasingly important for insurers to boost retention and profitability.

Reasons why customers remain with their current provider

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No reason to change</td>
<td>37%</td>
</tr>
<tr>
<td>Easier/less trouble to stay with my current provider</td>
<td>33%</td>
</tr>
<tr>
<td>I trust my current provider</td>
<td>22%</td>
</tr>
<tr>
<td>Happy with the service I receive</td>
<td>15%</td>
</tr>
<tr>
<td>They have been competitive on price</td>
<td>11%</td>
</tr>
<tr>
<td>They have dealt well with my claim(s)</td>
<td>6%</td>
</tr>
<tr>
<td>I am confident they will pay out if I make a claim</td>
<td>6%</td>
</tr>
<tr>
<td>They have offered me non-insurance services that complement my policy, e.g., car</td>
<td>5%</td>
</tr>
<tr>
<td>My agent recommend that I stay with the same provider</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>
During August and October 2011, Ernst & Young commissioned a global customer insurance survey. Working with Ipsos, this research focused on better understanding the behaviors and expectations of customers across the globe.

The survey covered **24,000 customers** across **7 regions** and **23 countries**.

The survey was designed to be broadly representative of the insurance-buying population in each country, accessible through online panels. Only people holding at least one insurance policy were eligible to participate. This methodology has been widely used by Ipsos for insurance, consumer products and services clients around the world.

It is important to remember that in developing markets, online panels tend to be more representative of an urban and relatively affluent population than of the population as a whole. However, as this is the group that is more likely to buy insurance (and indeed, consumer goods and services in general), it was felt that an online approach still produced a sample that is broadly representative of the target market for insurance companies. It is also a reasonable assumption that younger people are less likely to own an insurance policy and therefore formed a smaller proportion of responses to the survey than they do of the population as a whole.

**The following steps were taken to reach a cross-section of insurance customers via the online panels:**

- Interviews were conducted in each market using online access panels* among members of the adult population.**
- The outgoing sample, i.e., the group of people initially invited to respond to the survey, was balanced to be representative of the national population by age, gender and region.†
- A screening question was placed at the beginning of the survey to exclude respondents who did not hold at least one product from a set list of insurance products.
- Quotas were set on life and pensions and non-life insurance to ensure equal numbers of responses across the two main insurance categories (in order to facilitate analysis within each category.)
- No further quotas were set. The interviews were left to fall out naturally across the online demographic groups on the assumption that the responses should broadly reflect the profile of the insurance market in each country.
- For the European, American, Asia-Pacific and India regions, the data has been weighted according to the size of each individual country’s Gross National Income adjusted for the Purchase Parity Power (GNI PPP). Source: World Bank website, 2010 data.
- Analysis of the survey findings has been conducted jointly by Ipsos and Ernst & Young.

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* Global methodology

** South Africa conducted offline and India mixed online/offline.

*** In some markets this is 18–65 years old, extended to 65+ where feasible.

† Excludes regions in some developing markets where this is not appropriate.
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