

A Work Project presented as part of the requirements for the Award of a Master's
Degree in Finance from NOVA School of Business and Economics

The Implications of Expanding My Zurich to Other Customer Segments

**From the Business Project:
Advanced Analytics as a Market Differentiator in Corporate Insurance**

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Based on the Business Project developed at CEMS – MIM partner school

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1. Business Project Overview

Zurich Insurance Group (“Zurich”) developed in 2012 an online platform to help multinational corporations manage and control their “Controlled Master Programme”. In the past, global companies would buy insurance at a local level. As a consequence, corporations would have different levels of coverage and different types of insurance in different countries. As risk management departments got centralised, international programmes became the norm – “Controlled Master Programme”. There are three clear advantages of having such programmes: 1) economies of scale and reduction of insurance premium payments; 2) simplicity by only dealing with one insurance carrier (or broker) across all locations, allowing a better overview of the risk level and exposures; 3) possibility of using captives (own insurance companies) together with the international programme. However, these programmes are complex as they deal with different regulations and tax systems, in different countries.

While the first version of My Zurich was defensive and a response to market and customer demand, My Zurich 2.0 (to be launched soon) will be an offensive and strategic move. Both versions only include basic analytics: view policies, claims and invoices; apply filters and convert currencies; export data to Excel; access to risk engineering information. However, due to the nature of the current version there is a need to provide the customer with “Advanced Analytics” features – defined as features to be developed after the rollout on May 19th. Therefore, the purpose of the Business Project was to assess whether providing Advanced Analytics would be a (source of) competitive advantage for Zurich in the corporate insurance market.

This project relied on both primary and secondary research. It comprised academic research on “Competitive Advantage” frameworks, “Big Data and Advanced Analytics” and project development theories (“Minimum Viable Product” and “Effectuation”); empirical findings of primary research – interviews, to answer the research question; and the analysis of these interviews and assessment of the chosen framework.

The group decided to use a Resource-Based View (RBV) of the firm by Barney (1991) as opposed to a Competitive-Forces Approach by Porter (1985). At a glance, RBV assumes that different companies have immobile and heterogeneous resources that enable the firm to “implement strategies” that improve efficiency and efficacy. If these attributes meet a set of criteria – Valuable, Rarity, Inimitability, Non-substitutability (and Organisation) [VRIN(O)] - they may be a source of competitive advantage. The criteria are defined in Appendix A.

Advanced Analytics is a current trend in the corporate world. Companies are leveraging Big Data and using analytics to create value: McKinsey &Co. (2014) reports that data-driven decision making increases productivity by 5% and profits by 6%. It allows to customise customer experiences, reduce costs and cross-sell.

A total of 28 interviews were conducted with Zurich internal employees and brokers. The focus was put on the value of these tools (in Appendix B) to (potential) customers. Results showed that customers want to have access to information and actionable insights (about risk exposures and benchmarking) – addressed by Advanced Analytics. In addition, these new tools can also help customers reduce their costs by either preventing claims (and thus reducing insurance premium) or optimising investments. However, 40% of interviewees also revealed customers would not pay for these features as they expect them to be included in the service provided by Zurich.

Although it was not clear whether these tools would attract new customers, there is a unique cross-selling proposition, as customers have a better overview of their programme if they have all their policies with Zurich. Brokers represent approximately 80% of Zurich's corporate insurance revenue. It was therefore, important to understand whether the introduction of these features would foster competition or collaboration with brokers. My Zurich standalone is valuable to them thus fostering collaboration, since they have easier access to information. Nonetheless, Advanced Analytics tools would instead foster competition as it overlaps with brokers' services.

In 2013, there was another Business Project carried on the topic of My Zurich, where a ranking (Appendix C) comparing different online portals was constructed. The ranking was updated for 2014 and My Zurich would still be in 8th position. In case Advanced Analytics are introduced, the portal would stage in the 1st place, *ceteris paribus*.

It is important to note that this platform and features rely on information systems and data (Appendix D and E). Therefore, an investment is being made to consolidate systems and data sets (moving from a fragmented and silo'ed approach to an integrated system).

To sum up, interviews' analysis suggest that Advanced Analytics is not a long-term differentiator in itself, but rather the underlying data and systems may be a source of competitive advantage. Although the set of tools is valuable and the organisation is ready to exploit them, they are not inimitable and are substitutable.

2. Analysis of the Expansion of My Zurich to Other Customer Segments

2.1 Theory Applied to My Zurich 2.0 and Advanced Analytics

The aim of My Zurich is to continue innovating and introducing Advanced Analytics' tools as a differentiator in the insurance industry. In addition, it is also planned to open up to other customer segments in the future: middle market, small businesses and also non-corporate (Appendix F). The aim of this work project is to address this issue and understand how can differentiation and focus strategies be combined and how effective they are in the case of My Zurich.

Porter (1980) defined three generic strategies that companies could adopt to outperform other firms in the same industry. These are framed (Appendix G) in two different categories: Strategic Advantage – Uniqueness or Low Cost; Strategic Target – Industrywide or Particular Segment. The scope of this research comprises: Differentiation strategy, when the firm is producing something that is perceived as unique and thus can charge a higher price; Focus strategy when there is a unique selling proposition for a particular segment (product, customer, business).

Zurich Insurance Group is following a Differentiation strategy. This strategy is designed to be more customer centric, focussing on their needs and Zurich's strengths. Zurich is set in markets where it can offer a superior value proposition: "We do not charge less, we offer more" (Interview analysis, Petra Riga). My Zurich, however, is founded upon a Focus with Differentiation strategy as it is targeting Differentiation while only serving Global Corporations.

Following this strategy on an online portal has several consequences that must be highlighted. Although having been launched in 2012, developing such a portal is a very complex task when dealing with multiple locations, languages, currencies, levels of coverage, systems and people. As such, focussing on a particular customer segment concentrates the efforts on serving those customers and addressing their needs. In addition, developing this portal with this type of customer also increases its quality, as customers are more demanding and sophisticated. My Zurich, together with Advanced Analytics also creates needs that customers did not have, as they perceive the importance that certain tools have in their risk management duties. The impact of addressing and creating new needs is locking in customers by creating switching costs: learning to use the tools and having all the information in one place.

Nonetheless, one of the fundamental reasons for having only multinational corporations is the system that enables My Zurich – the IPS. This is a global system that Zurich uses to manage the international programmes; it is where the data is stored and is present globally in more than 120 countries. As an infrastructure, the relevant cost is relative to building the IT architecture and correspondent soft- and hardware, which is a fixed cost. The marginal cost of serving one more client is therefore non-significant.

Relating Porter (1980) (Appendix G) and My Zurich's vision (Appendix F), My Zurich intends to move from a Focus Differentiation strategy to an "Industrywide" Differentiation, in the long-term. Porter argues that when a firm has no clear strategy (among the three generic strategies) – it is "stuck in the middle" – it tends to underperform firms with a clear strategy. Dess and Davis (1984) also support this argument. However, Porter (1980) also states that this argument is only valid if the remaining firms are not "stuck in the middle". This makes relevant a further analysis of competitors' approach, which will be extended in the following sections.

Although these strategies were designed to apply to firms, an analogy can be made to adapt them to resources: there are online portals of other insurers that are competing with My Zurich, and this is the scope that will be considered for this Work Project.

2.2 Implications

Expanding the customer base of My Zurich from only global corporate to other corporations and even non-corporate has implications that must be considered and will be analysed in the following sections.

2.2.1 Implications regarding Customers and Brokers

The insurance purchasing process is not even among all the different customer segments. Truly global companies have a special concern about risk management and mitigation. The dedication to this task is due to the complexity of operations and the negative business impact that a disruption in the supply chain would have. In addition, being exposed to several different types of risks in different countries and with different levels of coverage does require special attention.

Other companies do not have professionalised risk managers but rather "insurance buyers". For these types of companies, their operations are not as complex and hence

risk exposures. As such, insurance is seen as a commodity and is not a point of concern to those firms. In this case, non-global firms may not have the same wants and needs that truly global firms have. As such, the portal, as it currently is, may not address their specific demands. However, as these companies do not pay as much attention to risk management topics, they heavily rely on brokers to fulfil their insurance purchasing needs and solve any related issues. Therefore, they will, most likely delegate the usage of the portal to the brokers, according to interviews conducted for the business project. Additionally, as also proved in the business project, brokers value the portal, which leads to efficiency gains.

The same reasoning can be applied to non-corporate clients, who are just “insurance buyers” and thus do not treat My Zurich as they treat home banking platforms, for instance, as the purpose is different.

2.2.2 Strategic Implications for My Zurich

The strategic implications for My Zurich are immense. The first is that the portal may become “stuck in the middle” as there is no clear strategy of Focus or Differentiation. Theory suggests that these firms underperform the ones following a clear generic strategy. However, if there are other firms in the same situation – “stuck in the middle” – underperformance may not be the case. It is, therefore, necessary to analyse the competitive landscape.

AON, a broker with an online Risk Management Information System (RMIS), just launched another version of its Risk Console – Risk Console Express, which targets the middle-market (still corporate). This version has less functionalities: only basic analytics and no “Advanced Analytics”, but is offered at a lower cost to customers, just to enable them to manage the basic of their insurance programmes. ACE Worldview, the platform of ACE group, an insurer, is perceived as the internal benchmark for Zurich (it was the first-mover). This platform, however, is currently targeting only global corporate. The same is valid for AIG’s platform. AXA, on the other hand, offers different tools for different customers within the corporate segment. The examples presented suggest that although currently only a few platforms are expanding to other customer segments, all are still targeting corporates.

Nevertheless, for Zurich, expanding to other customer segments has important implications at an Information Systems level. As highlighted, My Zurich runs on IPS.

Porter (1980) also stated that moving to a Differentiation strategy implies a high level of coordination among different functions. This statement can be adapted to coordination and integration of IT systems. The integration of domestic business lines into My Zurich would imply harmonising the systems used in different countries or adapt My Zurich to the different countries' systems. However, not only the systems need to be revisited: different countries have different agendas, priorities and people. Some countries have operations that are not so focused on one particular business segment and thus investments are not made in that direction. Portugal is a good example: there are not many international programmes in Portugal. As such, Zurich Portugal is not focussed on this segment but rather on others. The implication is that IT systems for that segment are being somewhat disregarded, although the data quality was ranked one of the best as people are introducing it complete and correct – (Interview Analysis, Claude Haueter). However, having people (globally) cooperating with this and working towards this objective is a challenge that Zurich faces.

The insurance industry was not particularly transparent and online platforms are changing this as more information is being given to customers. The corporate culture needs to adapt to these changes as well and therefore needs to pay closer attention to the data that powers all the systems and, ultimately, the platform. The coordination between functions is easily understood when Risk Engineers want to do a benchmark of claims, but the people responsible for handling claims do not enter the full set of data (e.g.: why, what, where, how much, agents involved, among others) but just the necessary to close that process.

Another aspect that deems consideration is the cost. Initiatives and investments are being made to improve data quality and harmonise the systems. If these investments are made regardless, they can be considered sunk costs for the purpose of this analysis. Therefore, expanding the customer base dilutes the fixed cost of the investment made. In addition, augmenting the base also may increase the chances that customers are willing to pay for the portal. According to the interviews conducted, 60% of respondents believed global corporates would be likely to pay for certain features with standalone value. Some would also be willing to pay for the access due to the importance it assumes with risk managers. AON, for instance, charges a considerable fee for the main platform and a smaller fee for the recent version; Zurich North America also charges for the platform designed for domestic business. Nonetheless, an

underwriter with customer contact in the middle market strongly highlighted that those customers that are only “insurance buyers” are not so interested in these tools and platform. When customers need to solve a pending issue, they either contact the broker or its contact within Zurich.

2.3 Risks & Mitigation, Concluding Remarks and Recommendations

Expanding My Zurich to other customer segments has risks that cannot be neglected. The first is that the platform becomes “stuck in the middle”. Although it is not obvious, competitive analysis suggests there is a trend that the competition is following the same path. The concern, in this case, is the loss of focus on the customers that value these tools the most – global corporates. As smaller firms do not perceive these tools as important, they have lower valuations for them – making lower the potential willingness to pay. The response to this problem would be to focus on the needs of each type of customer and do segmentation to some degree, as AON is currently doing. This way, Zurich can ensure that the portal is in fact addressing each customer’s needs. The other benefit of segmentation would be that for customers with a simpler version of My Zurich, other features, such as Advanced Analytics, could be priced. Regarding different features, interviews’ analysis reveals that features such as “Need an Expert?” (described in Appendix B) are more important for small and medium enterprises (SMEs) than for global corporates that know who their relationship leaders are.

However, another implication is that those customers would be “insurance buyers” and would delegate the usage and management of the programmes to their brokers. This can be a powerful tool for brokers as it is a time-saver and efficacy tool. It allows brokers to have all details in one place and improve the communication with Zurich. The consequence is positive for both agents, as brokers are able to provide better services to customers and as they have efficiency gains, they are more likely to influence customers to contract insurance with Zurich. Therefore, even though these clients may be more price-sensitive and not willing to pay for access (to My Zurich) or extra features (Advanced Analytics), brokers may be able to attract more customers to Zurich – increasing Zurich’s insurance premium turnover. Brokers revealed, during the interviews, that they are able to influence customers’ choices with an 80% degree, depending on customer’s size and industry.

The recommendation, for this point, is to focus on customer segment's needs to address them accordingly. In addition, the value proposition of these tools to the broker should also be very clear, as they are the ones that ultimately will use the portal on behalf of SMEs. Expansion may be fruitful in the future as other insurance carriers and brokers are moving to “the middle” and extending their platforms.

The second risk, also critical, regards data quality, consistency and availability. One of the reasons for domestic policies (non-international programmes) not to be included in My Zurich is related to systems and data. Extending My Zurich would need the guarantee that information systems fully support the platform and make data available with a considerable degree of quality. Some difficulties with integrating these systems are different operational languages (of the systems), currencies, people, culture and priorities.

The insurance industry is “going digital” (EY, 2013b), and Zurich needs to be at the forefront. Because of this, investments to integrate, consolidate and harmonise IT systems and human capital should be a priority. My Zurich's path from a Focus strategy to Differentiation should be done carefully. Being “stuck in the middle” is not a recommendable strategy as literature suggests that it tends to lead to underperformance. In this case, competitors will tend to move in the same direction, mitigating the negative effect. A recommendation would be that the extension of My Zurich is developed with caution, so as to understand what needs do customers have, and considering that brokers assume an important role, especially as the size of the company decreases. Offering access to non-global firms will benefit the three agents involved – customer, broker and Zurich. The customer gets all the information (insured with Zurich) in one place and gets better served by the broker. The latter, in turn, would also save time, as there is no need to regularly contact Zurich demanding information. The consequence is that if brokers' processes are eased, it is likely that it will collaborate more with Zurich in the future. Also, segmenting the customers and providing tailored versions of My Zurich and corresponding features would increase efficacy and ensure the customer-centric vision.

3. Reflection on Learning

The reason to have chosen CEMS was clear: it would be a relevant complement to a Master's in Finance. The business project gave me exposure to consulting and at the same time insurance, connecting both management and finance interests. As a four-month project it demanded the application of different concepts and skills acquired throughout the Master's in Finance and MIM.

The project heavily relied on interviews, which was a challenge given my unfamiliarity with primary research. Other group members had extensive experience in this type of research and this was crucial to push the project forward. After having chosen the framework to assess the potential of being a competitive advantage, the guideline for the (semi-structured) interviews was constructed so that it would address the VRINO criteria, while being structured by different topics: Customer, Broker, Competition and Data Management. To analyse these interviews, the method used was a categorisation of the responses together with frequency analyses, where external respondents were used as a control group to verify what internal people stated.

Being a consulting project, it required understanding of strategy frameworks. An adaptation of Barney's RBV was introduced and was also a novelty for me, as I had never had strategy subjects, apart from Porter's Competitive-Forces Approach.

In terms of content, as the project was not directly related to finance, no relevant content of the Master's in Finance was applied. However, regarding project management, time management skills acquired during the Master's were essential to deliver in every deadline (mostly internal deadlines).

Soft skills gathered during the whole CEMS experience were very valuable. The team was very diverse: it was composed of one Swedish, one Norwegian-Chinese, one German, one Swiss-Spanish and one Portuguese (me). All of us had different backgrounds in terms of culture, and in terms of academic subjects: Econometrics, Economics, International Management, International Relations and Finance, respectively. Cross-cultural skills were essential to lead with people that react in different ways to the same issue (e.g., Swiss/Swedish vs German). It was very challenging to understand each one's motivation and interests so that contribution and output would be optimised. Skill Seminars such as "Dealing with Critical Leadership Situations", the Block Seminar "From Creativity to Innovation" or the course "Responsible Leadership" were very useful to deal with such a team, and to help communication with every member.

As there was no clear leader in the team, sometimes coordination was difficult and there was no clear division of labour. It was very hard to gather the whole team in a meeting room to discuss important matters related to the project as members had different agendas and priorities. On that remark, I tried to show to those members that the project was very important to all of us (more ECTS than any other course), and that their input was VRIN and essential to the project development. My personal contribution was to talk to them individually to understand what was the problem and try to solve that before demanding anything. It worked most times with the Norwegian-Chinese, but it did not work so much with the Swedish and Swiss-Spanish as the first did not like meetings nor teamwork and the latter had another agenda, lived in another city and travelled abroad without notice. These efforts were further weakened by the lack of interest of some members who did not attend meetings with the corporate partner or academic advisor without notice, and thus were not part of important conversations.

During the train journeys between Zürich and St. Gallen, I reflected on how to approach the problems, talked with colleagues in other teams with similar experiences, and revisited the material from the aforementioned subjects. In the end I tried to reach them in a more rational and less emotional manner and explaining the situation and my perception of such. The business project was doubtlessly a valuable experience with this regard. For the future, I learned that working rules have to be agreed upon at the beginning of the project, as well as set expectations and align motivations and interests.

Nonetheless, after the incidents, two weeks before deadline, the whole team met to discuss those issues and structure the following weeks. The outcome of this meeting was very positive and despite all difficulties, the final output was solid, well structured and added value to Zurich. The first vector of value added was that results were somewhat different than the expected by Zurich; the second source of added value was that the team felt the need to go further and developed the “Groundwork for a digital strategy” as interviews supported this need. There were clear recommendations for Zurich in order to take a more entrepreneurial approach to launch these offerings faster, avoiding entering the market late.

In the end it was very rewarding to participate in this project with Zurich as they were very supportive and were very interested in our results, thus valuing the project.

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5. Appendices

Appendix A: Resource-Based View criteria definition (Barney, 1991).

Valuable	▷	Does the resource/capability/product exploit opportunities and/or neutralise threats in the firm's environment?
Rare	▷	Is the resource/capability/product not common among the firm's current and potential competition?
Inimitable	▷	Is the resource/capability/product imperfectly imitable?
Non-Substitutable	▷	Are there equivalent substitutes for the resource/capability/product, which are valuable but neither rare or imperfectly imitable?
Organisation	▷	Is the firm organised, capable and prepared to exploit the resource/capability/product?

Appendix B: “Advanced Analytics” features considered for this project (Guyer, 2014).

Benchmarking	1) Internal benchmark: compare different locations, at different levels within the company 2) External benchmark: compare firm with industry peers
Customisable Dashboard	It is the homepage of the portal where the customer can customise which pieces of information are more important. It shows alerts and allows to search for text.
Geo mapping	1) Tools that help the customer manage and assess any kind of risks rising from natural catastrophes (NATCAT). 2) Customer locations on generic maps with location specific information (e.g. RE visit done/pending).
“Need an Expert?”	Feature that allows online, real-time access and communication with experts.
Predictive Analytics	Forecasts based on predictive models, trend analysis, outliers and deviations, 'what-if' simulations, correlation and pattern analysis, rule-based and automated generation of actionable insights.
Self-service analytics	Tools to generate individual reports using all available data fields, e.g. correlation of loss experience with risk grading or RIA completion, financial analysis of insurance performance, identification of 'hot spots'.
Zurich Risk Room	Tool that help the customer understand and analyse any country-specific risk rising from: 1) financial markets and businesses; 2) political, environmental, technical and social.

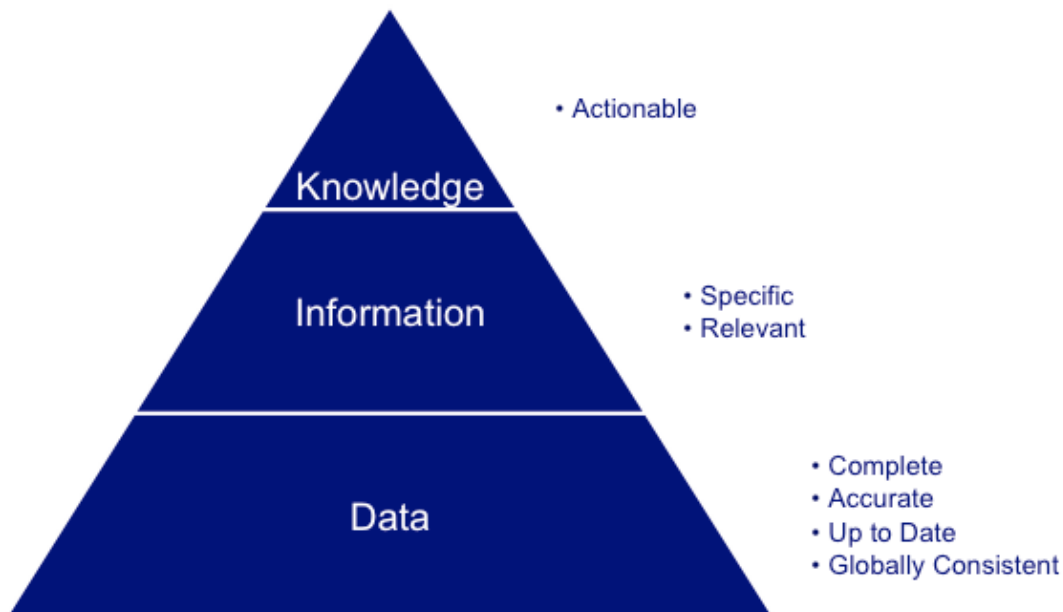
Appendix C: Comparison of competing online portals of Insurance Carriers, Reinsurers (Munich Re and Swiss Re) and Brokers (AON and Marsh).

Ranking of 2013 constructed by CEMS Consulting Group (2013). Ranking 2013' considers the same features in the 2013 ranking but uses another scale of importance of features. Ranking 2014 updates 2013's ranking. 2014** considers that My Zurich includes Advanced Analytics and all the others remain the same.

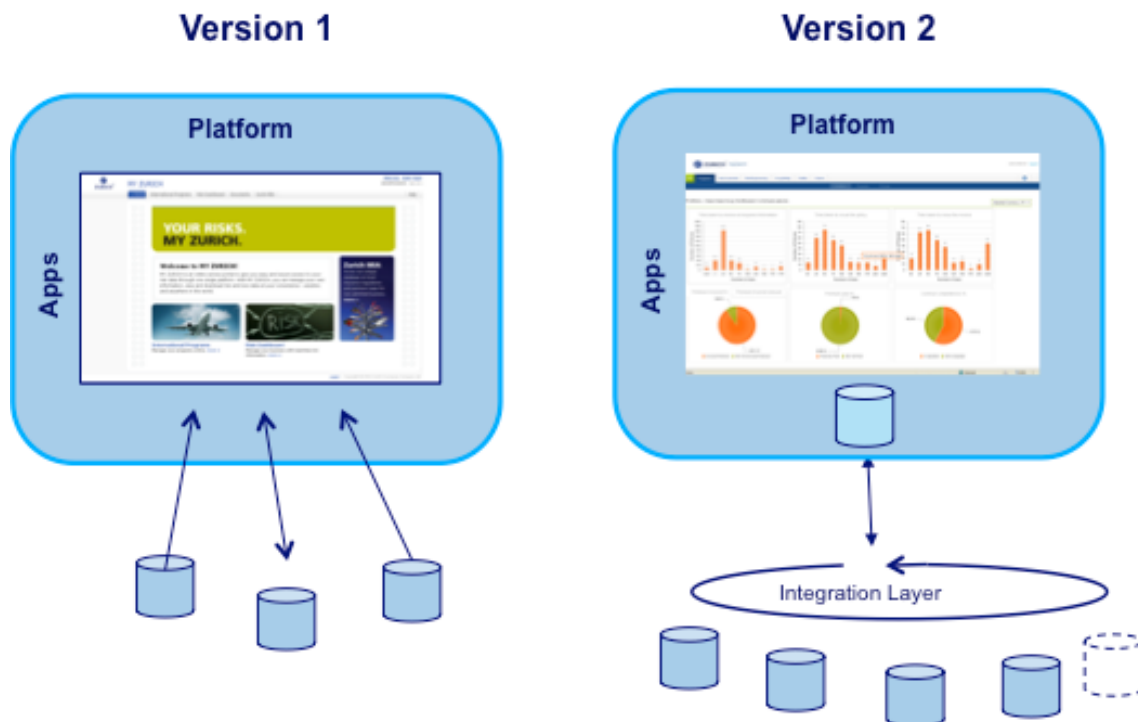
Ranking				
Place	2013	2013'	2014	2014**
1 st	Marsh	Swiss Re	Marsh	My Zurich + Advanced Analytics
2 nd	AON	Marsh	AON	Marsh
3 rd	Swiss Re	AON	Swiss Re	AON
4 th	ACE	Munich Re	Munich Re	Swiss Re
5 th	AIG	ACE	AIG	Munich Re
6 th	FM Global	AIG	ACE	AIG
7 th	Munich Re	Allianz	FM Global	ACE
8 th	Zurich	FM Global	Zurich	FM Global
9 th	Allianz	Zurich	CHUBB	CHUBB
10 th	AXA	CHUBB	Allianz	Allianz
11 th	CHUBB	AXA	AXA	AXA
12 th	XL GAPS	XL GAPS	XL GAPS	XL GAPS
13 th	HDI	HDI	HDI	HDI

Appendix D: KID pyramid (Guyer, 2014).

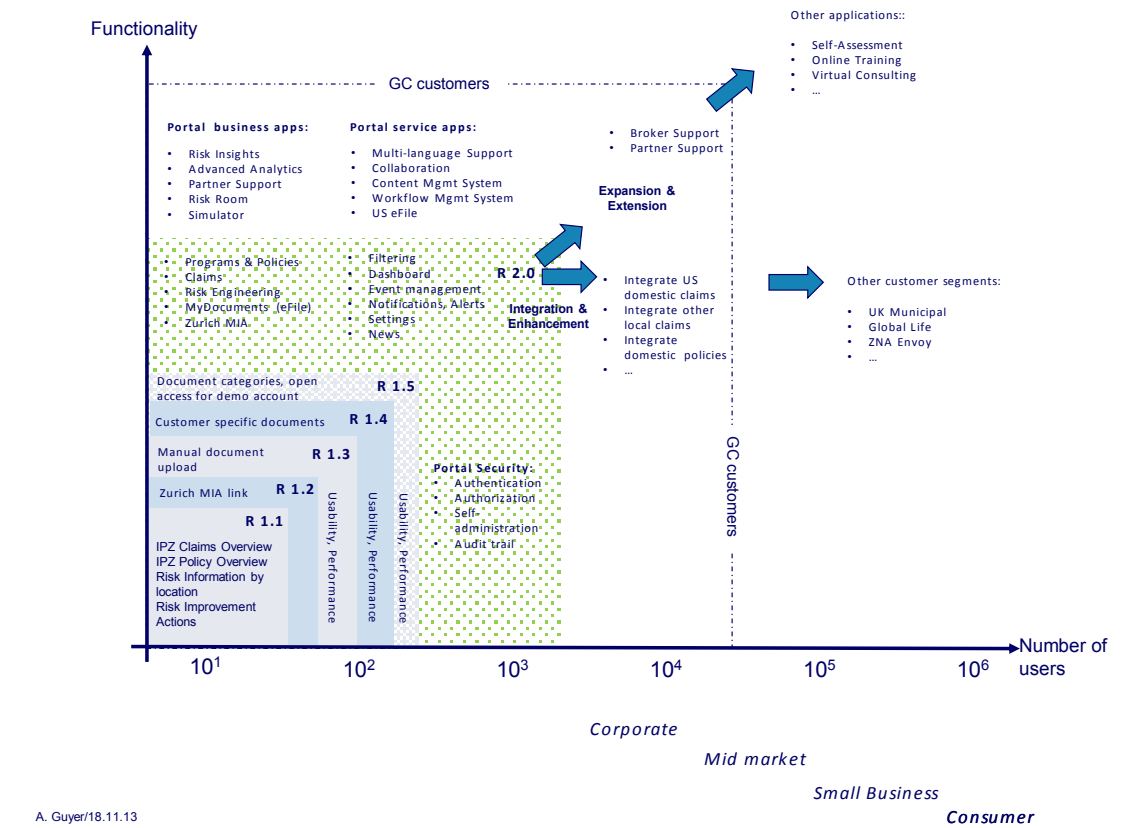
My Zurich 1.0 would provide data. My Zurich 2.0 aims at providing relevant information. Advanced Analytics will provide actionable knowledge and insights.

**Appendix E:** Architectural differences between My Zurich versions (Guyer, 2014).

Version 1 of the platform would use the silo'd information systems and would not integrate the data. The major change to Version 2 is that now an integration layer combines the data to provide information, according to the KID pyramid (Appendix D).



Appendix F: Development of My Zurich framed in functionality (differentiation) and scalability (number and type of customers) (Guyer, 2014).



Appendix G: Porter's (1980) three Generic strategies adapted.

