MYTHS AND CRITICAL SUCCESS FACTORS OF PERSONAL LINES INSURANCE

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Abstract

When the market for commercial insurance becomes too competitive, and in the post-2008 financial crisis, a number of insurers turn to personal lines business, aiming to achieve profitability. There are insurers who claim to be personal lines focused. However, not all of them would succeed ultimately. The myths of personal lines are that they are simple in all aspects, involve tedious work, and can easily become successful providers of continuing profit, not only as a bolt-hole in hard times but a perennial cash cow, needing little skill or attention from management.

In reality, personal lines are not an easy route to insurer success. There has to be a five-fold focus: on branding, customer centricity, efficiency, product commoditization, and risk diversification. Three essential capabilities are needed: the ability to deal with the general public; to be cost-effective; and to build a balanced pool of risk. Five critical success factors are: product renewal; close customer relationship; distribution; technology; and management commitment. There are several current and looming challenges: consumer rights; high levels of regulation and compliance; centralization of medical financing; and lack of talented people. A case study is presented of an online motor insurer based in Singapore.

บทคัดย่อ

เนื่องจากตลาดการประกันภัยมีการแข่งขันมากรวมถึงวิกฤติทางการเงินในปี พ.ศ. 2552 จึงทำให้บริษัทประกันภัยมุ่งแสวงหากำไรจากการประกันภัยส่วนบุคคล โดยเน้นการขายการประกันภัยส่วนบุคคล ซึ่งไม่ใช่ว่าจะประสบความสำเร็จในทุกบริษัท การทำประกันภัยส่วนบุคคลเป็นเรื่องง่ายในจัดการทุกรูปแบบ โดยมีลักษณะงานแบบเดิม ๆ ที่สามารถทำกำไรได้อย่างต่อเนื่องอย่างง่าย ๆ เป็นธุรกิจที่ทำกำไรได้อย่างยาวนาน โดยใช้การจัดการและทักษะในการทำงานเพียงเล็กน้อย

ในความเป็นจริงแล้ว การประกันภัยส่วนบุคคลไม่ใช่เรื่องง่ายที่จะทำให้เกิดความสำเร็จแก่ทุกบริษัท โดยจำเป็นต้องเน้น 5 ด้าน คือ ตราสินค้า ความผิดแปลกของลูกค้า ประสิทธิภาพ การควบคุมสินค้า และการกระจายความเสี่ยง สมรรถนะที่จำเป็น 3 อย่าง คือ ความสามารถในการติดต่อกับสาธารณะ การจัดการต้นทุนอย่างมีประสิทธิภาพ และการสร้างความสมดุลย์ในการจัดการความเสี่ยง ปัจจัยที่ทำให้ประสบผลสำเร็จ 5 อย่าง คือ การเปลี่ยนลักษณะสินค้า ความสัมพันธ์กับลูกค้าอย่างใกล้ชิด การกระจายสินค้า เทคโนโลยี และความรับผิดชอบในการจัดการ โดยมีปัจจัยที่ท้าทายในปัจจุบันหลายอย่าง คือ สิทธิผู้บริโภค กฎข้อบังคับและการปฏิบัติตามในระดับสูง ศูนย์รวมการจัดการด้านค่ารักษาพยาบาล และการขาดบุคคลากรที่มีความสามารถ กรณีศึกษานี้แสดงเกี่ยวกับบริษัทประกันภัยรถยนต์ออนไลน์ในประเทศสิงค์โปร์

*This article is adapted from a dissertation by Mr Wong, which earned him Fellowship status in the Chartered insurance Institute, a world-class and world-wide professional body whose secretariat is in London.

INTRODUCTION

Looking back to the history of general insurance, it is hard to tell exactly when personal lines insurance was first invented. While marine insurance was the first type of general insurance, fire insurance was introduced after the Great Fire of London in 1666 and seemed to be the first personal lines insurance in the world. Having said that, after 350 years of development and evolvement, personal lines insurance has not earned the due attention that it deserves. "Low premium, high volume" personal lines insurance is understood to be "simple and tedious". Not surprisingly, some insurers treat personal lines insurance as a supplementary business. Some underwriters also prefer working as commercial lines underwriters for its specialty and technicality. Not until recent years subsequent to the financial crisis of 2008, has personal lines insurance come under the spotlight once again.

According to a recent survey by the Personal Finance Society, 63% of its members believe that the importance of personal lines insurance is increasing as a result of current economic turmoil (News & Insight, 2009). Now, the number of insurers competing for personal lines business is on the rise. Nevertheless, transacting personal lines insurance is not as simple as just making corresponding products available on the shelf. Learning from the past, not all insurers will ultimately succeed. What are the issues? Why do some outperform and gain footage in the personal lines market, while a few cannot?

This paper aims to locate the key focuses that personal lines insurers should emphasise. A real example is taken to demonstrate how the business of personal lines insurers would be affected should the right focuses not be there. Critical success factors and challenges for personal lines insurers will be highlighted later.

WHAT IS PERSONAL LINES INSURANCE?

In the insurance industry, it is pretty straightforward to define personal lines insurance as products designed to meet an individual's insurance needs. These are household contents insurance, individual health insurance, personal accident insurance and private motor insurance, etc. The purpose of this paper is to list the critical success factors of transacting personal lines insurance. In this regard, an understanding of the features of personal lines insurance is imperative. The following list could be used for comparison of commercial lines with personal lines:

Table 1: Comparison between Personal and Commercial Lines

	Personal	**Commercial Insurance**
Target customers	General public	Corporate customers
Nature	High volume, low premium	High premium, low volume
Exposures	Small and scattering	High and concentrating

What should be the focuses? What does the above comparative list mean to insurers? It should be to realise the capabilities that have to be developed by personal lines insurers. By looking at these capabilities, which are outlined below, one can easily identify the key focuses for personal lines insurers.

THE CAPABILITY TO DEAL WITH THE GENERAL PUBLIC

Insurers writing personal lines insurance are dealing with the general public. The number and quality of customers are concerns which personal lines insurers are expected to deal with. In the commercial world, corporate customers, such as multinational conglomerates, usually have a specific team responsible for insurance procurement. Having some insurance knowledge, this team expects a product comparison to be carried out. Premium price and the insurers' financial standing are key areas of comparison. However, for the general public, a buying decision is not always well structured. Impulse purchasing is how customers buy, confirmed by what they see or what they hear from friends. Premium price is one consideration but not the sole one. Other factors such as brand recognition and reputation play equally important roles. Customers use a brand name for simplifying purchasing decisions (Poisez and van Raaiji, (2007). Building a compelling brand is one of the focuses of personal lines insurers.

The fact is, personal lines insurance is a piece of paper contract. Customers are concerned as to what they are paying for. They expect to receive not only what personal lines insurance brings to them, but also quality experience whenever needed. They will contact personal lines insurers for answers and insurance knowledge. How approachable, how responsive and how flexible insurers are when listening and answering their needs, are significant. The insurance industry is not alone: the services provided are compared with those of other financial institutes such as banks. Being customer centric means that personal lines insurers are willing to understand customers' needs, and emotionally connect with them proactively. This customer centricity is another focus of personal lines insurers.

THE CAPABILITY OF DOING BUSINESS COST-EFFECTIVELY

Transacting personal lines insurance is an art of handling size and volume. Being "high volume, low premium" suggests the need of running backroom operations effectively. On one hand, personal lines insurers build volume. On the other hand, pressure on customer services, policy administration and claims response increases. Efficiency becomes the focus of personal lines insurers in order to cope with volume. Outsourcing and offshoring are sensible strategic moves for efficiency, justified by cost and benefits analysis and backed up with business continuity plans for just-in-case events. Repetitive and/or low value-added activities are to be off-loaded. Remaining resources are to be spent on business-critical services. There may still be worry on the degree of control for ser-

vices outsourced or offshored. Personal lines insurers can alternatively opt for promoting efficiency by process improvement and simplification.

Having appreciated the exposure of personal lines products, insurers are willing to relax the underwriting requirements. Applications for personal lines products can be completed in minutes with a pre-approval feature. Personal lines insurers take a lenient approach in handling claims, and introduce the option of "fast-track claims". Under all these arrangements though, there may be a few inferior risks accepted or illegitimate claims paid, overhead operation costs can be greatly minimised. Benefits of improved efficiency outweigh abuses as a result of relaxed operations.

As stated, personal lines insurance is concerned with volume. Product differentiation is possible, but, given the high business volume, this degree of differentiation is not going so far as to allow individual customisation. Use of technology to build a sophisticated system would make this product differentiation feasible, but for personal lines insurers, commoditising the products to suit majority needs is of first priority. Product commoditisation should always be the focus of the personal lines insurers, as it helps the marketing team in designing products, the customer service team in explaining product coverage, the administration team in issuing policy documents, and the claims team in adjudicating tiny claims.

Customers' experience, thus, should be standardised and guaranteed. In spite of the benefits brought by product commoditisation, it does not mean differentiation is unnecessary. At the end of the day, differentiation makes insurers distinguishable from others. This will be explained later in this paper.

THE CAPABILITY OF BUILDING A POOL OF RISK

The size of personal lines insurance is comparatively small, so is its exposure. This is different from commercial lines insurers who can be severely burnt with the experience of merely a few risks. Personal lines insurers care little about any particular irregularity in risk exposure, caring more about the size of the pool.

Rome wasn't built in a day. For insurers doing personal lines insurance, it takes years to build a sizeable pool for withstanding volatility. Mergers and acquisitions are a quick-win solution, but managing differences in corporate guidelines and culture in companies is another nightmare for insurers.

Some may suggest that personal lines insurers can shorten the time taken for building the pool by aggressively entering a market with just a few products, such as household contents insurance or private motor insurance. They praise this as a tactic to achieve both volume and economy of scale. However, homogeneity of the risks accepted poses an accumulation risk to the insurers. Overly concentrating on a particular business line or

geographical area makes insurers vulnerable to a competitor's cut-throat pricing competition, changes in market conditions or in the regulatory realm or in the reinsurance capacity obtained, and natural calamities. This is not a sound option for personal lines insurers. To avoid the accumulation risk, personal lines insurers should focus on risk diversification. For developing capabilities to cope with the special features of personal lines insurance, these insurers ought to focus on the above five areas. The benefits of these are summarised in the diagram and Table below.

Figure 1: Focus Capabilities

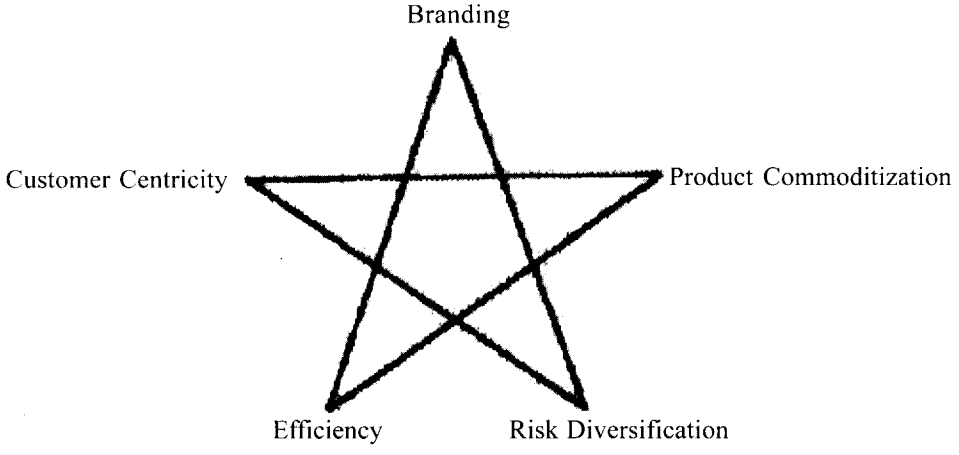


Table 2: Two Focuses of Personal Line Insurers

	Focuses of personal lines insurers
Focus	**Purpose of focuses**
Branding	Promoting awareness and public confidence
Customer centricity	Understanding customers' needs and expectations; engaging customers

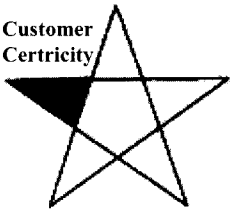
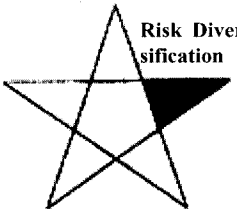
A CASE STUDY EXAMPLE

DirectAsia.com was established as a purely direct insurer by Whittington Insurance Group in June 2010. Being a "direct-to-customer" insurance company, DirectAsia.com is positioned to be an online insurer to capture 550,000 private cars in Singapore. Market research supported this as the population of Singapore is receptive to internet sales. There are 3.55 million internet users in the country, corresponding to 77% of the entire population (Munich Re, 2011).

DirectAsia.com sells insurance direct to customers. Its slogan is "no middleman, no agency commission" It boosts a profit margin with leaner processes and careful customer selection. By providing customers with flexibility to pick and choose, DirectAsia.com aims to be a significant direct insurer. In 2012, DirectAsia.com opened another operation in Hong Kong. Employing a similar business model, DirectAsia.com in Hong Kong also puts a prime focus on motor insurance. As of the end of 2011, DirectAsia.com ranked 34th among 51 direct insurers in Singapore. 97% of its portfolio

was motor business. However, similar to AVIVA its counterpart for online motor insurance, substantial cost and inferior claim experience have taken most of the premium. The combined ratio of DirectAsia.com reached 166.5% (MAS, 2011). It is hard to tell whether DirectAsia.com can turn loss into profits sooner or later. However, taking into account the focuses of personal lines insurers outlined earlier in this paper, the following are observations on how well DirectAsia.com has appreciated these focuses.

Figure 2: The Five Focuses Described

Focuses	Observations
	DirectAsia.com has been right to invest aggressively in promoting visibility, through TV commercials and newspaper advertisements. It has teamed up with celebrities to promote road safety, hoping to be widely recognised as a socially responsible corporation. However, there is an execution risk associated with its business plan and limited market recognition. Rating is an issue for a startup company. This is why DirectAsia.com emphasises its reinsurance backup with Munich Re which is financially stronger. DirectAsia.com is on the right track to build awareness. However, spending in this area in the coming few years could be considerable.
	There are two major touch-points in the business model of DirectAsia.com: the website for online application, and the call centre for claim reporting as well as inquiries. The website is well constructed to allow customers to leave comments with the online questionnaire. Furthermore, the message on customer centricity is strong as DirectAsia.com commits itself to communicating with customers in plain and jargon-free language. DirectAsia.com successfully tells customers how approachable its call centre is, with its round-the-clock hotlines for claim reporting. DirectAsia.com claims to be a customers' advocate, reinforced by the service awards it has won.
	Being a direct insurer doing business via the internet, DirectAsia.com gains efficiency when applications are accepted online. Resources are allocated to critical business services that cannot be done by machine, such as attending to customer calls. Though its business model is sensible for an online personal lines insurer, running a call centre will be expensive. DirectAsia.com had just captured 3.2% of the Singapore motor market, with around 20,000 customers as of the end of 2011.
	In the initial stage of the startup where the portfolio is not yet substantial, running an in-house 24/7 call centre will be really costly. DirectAsia.com sells not only motor insurance, but also other package products such as travel insurance, household contents insurance and personal accident insurance. To provide speed, convenience and simplicity to customers, DirectAsia.com has its products commoditised. Flexibility to top up benefits can only be found with motor insurance. Thanks to the sophisticated backroom system, DirectAsia.com allows customers to customise coverage online, according to their needs. The call centre can rely on the integrated system to deliver services accordingly.
	DirectAsia.com has made several products available for sale. However, emphasis has been put on motor insurance. As of the end of 2011, motor insurance represented 97% of its products. The fact is, similar to developed countries, the motor insurance markets in Singapore and Hong Kong are very competitive. Key insurers are chasing after motor business, because of its mandatory nature and its large premium size. DirectAsia.com has acquired market share with a commission-free strategy. Premium rates are low, but the claim ratio is high. Even though business quality can be controlled by an online quotation engine, the profit margin is indeed slim. The reality is that DirectAsia.com is not the first one in the direct online motor insurance market. Aviva has been doing this for years. To avoid head-on competition, DirectAsia.com should emphasise risk diversification.

In summary, as a personal lines insurer, DirectAsia.com recognises the importance of branding, customer centricity, product commoditization, and efficiency. However, being too focused on online motor insurance is alarming. Initial prices quoted on the website tend to increase as the sales process continues. Cover is adjusted. The excess is reduced and additional features are added. Customers are directed to price-led marketing leading to product features being relegated to the small print (News & Insight, 2011). In fact, the insurance industry has seen a similar tactic before. AIU (currently known as Chartis) launched "AIU Direct" to capture online motor business in the late 90's. It subsequently triggered price competition among insurers, but regrettably, at the end AIU could not gain footage in this competitive market.

THE CRITICAL SUCCESS FACTORS

Having emphasised the right focuses, we can ask whether insurers can be destined for success in the competitive personal lines market. Paying attention to the focuses is like a chef putting all ingredients in a frying pan. It does not necessarily end up with a delicious dish, until the chef knows the secret formula. While the focuses are the areas of attention, the critical success factors are the secret formula at the core of making insurers transact business successfully in the long run. For personal lines insurers, what are these critical success factors?

1. Product renewability
2. Customer stickiness
3. Sustainable distribution
4. Technology as competitive edge
5. Management commitment

Product renewability

Insurers find it easy to enter personal lines market and copy products from others. Thanks to the internet, differences among insurers are reduced. Offerings are difficult to keep proprietary (Porter, 1980). Duplication becomes effortless. Appealing products will soon be duplicated. The commoditised personal lines market is a fast-cycle market. Personal lines insurers wanting to excel in this competitive market have to proactively renew product features on a regular basis. Every product renewal exercise involves comparing own products with what competitors are offering, and reviving own products to beat the competition. Speed to market is key in a fast-cycle market (Duane, Hoskisson and Hitt, 2011). Nonetheless, real examples can be seen that reveal insurers who just renew products reactively.

Given the long list of personal lines products in the portfolio, only winning personal lines insurers will commit sufficient resources to ensure that product renewal exercises are done perseveringly. Insurers should not just copy the product features of others. Efforts should also be dedicated to differentiate products. Differentiation need not to be sub-

stantial, for even minor differences can attract customers. In the case of all chocolate manufacturers making chocolate with cocoa beans, supermarkets now stock a number of brands with chocolate in various favours and bitterness. That example can be applied to personal lines insurance. Household contents insurance is fundamentally composed of a property section and a liability section, but can be differentiated to tap respective customer groups. This sort of differentiation can be achieved by product innovation, bundling ancillary services, or segmentation (Quelch, 2007). It is also important for personal lines insurers to fine-tune the risk appetite from time to time. When a pool of risk has been accumulated over years, the ability to raise risk appetite increases, leaving personal lines insurers room to differentiate and renew products continuously.

Customer stickiness

Another critical success factor for personal lines insurers is to promote customer stickiness. It is logical that personal lines insurers would contact customers for issues of a particular product. When these issues are resolved, interaction terminates. An example is personal lines insurers handling renewal for a product. It is sort of "one contact, one product" interaction that cannot cultivate strong bonding between insurers and customers. Customer loyalty is low, which will affect the renewal ratio. Customers in fact have multiple needs for personal lines products, but these needs are not met by a single personal lines insurer but a number of them. Having insured with a number of insurers, customers are tempted to compare insurers. The result is that customers become demanding (Morgan and Deloitte, 2010).

For customers in the UK and Germany, approximately one third prefer a single company for all their personal insurance needs. They are looking to make life easier for themselves by meeting all needs from one cost-effective source (Denton, 2010). Thus, to compete with quality customers for quality business, personal lines insurers should seek to invite customers to insure multiple products with them. Customer stickiness rises with the number of policies insured. Persistency at renewal should rise with a higher customer loyalty. Value per customer surges, and insurers can build business volume speedier when compared with other insurers.

To invite customers to insure multiple products, personal lines insurers have to anticipate customers' insurance needs. These needs change over a customer's life cycle. Personal lines insurers therefore need to contact customers periodically, such as at renewal, to make relevant and appropriate suggestions about other products that would be appropriate to their insurance needs (Ernst & Young, 2012). Having the right products to be promoted at the right time is crucial, if personal lines insurers promote customer stickiness fruitfully.

Sustainable distribution

Another key factor making personal lines insurers successful is having sustainable distribution. It can be a single channel, or multiple platforms serving as touch-points. Looking into the financial aspects of personal lines insurers, acquisition cost are a significant share

in the combined operating ratio. This cost may be the commission paid to intermediaries or a fee to aggregators for business referred. In facing competitions, distribution cost cannot be greatly reduced. Given differences in profit margin, finding the right product to be distributed via the right channel is the trick, making distribution viable.

For cost reasons, in recent years a number of personal line insurers have moved away from intermediaries and turned to leverage internet to distribute their products. Sales via the internet have significantly increased and will grow further in coming years. Another trend is the development of affinity sellers as an alternative channel for personal products. For instance, supermarkets are selling household contents insurance, and travel agencies are selling travel insurance. This is known to be successful, because the right customers are reached for the right product at the right time of shopping, and because this distribution channel is co-sponsored by both the affinity sellers for merchandise sold and the insurers for the insurance products sold. Needless to say, premiums for personal lines products are small, as is the commission or fee. Distribution sustainability is very important in the business model of these insurers.

Technology as a competitive edge

Personal lines insurance is highly commoditised. The drawback is that products offered by respective insurers are alike. Insurers fighting for market share with price, now have to accept the fact that their profit margin is squeezed. Insurers respond by either focusing on efficiency or focusing on the core business only (Hagel and Brown, 2008). In such a competitive environment, personal lines insurers have to distinguish themselves with innovation. Innovation can be achieved in the area of product coverage by including unique features which are not yet available in the market. Nevertheless, the edge it brings to an insurer will be short lived. Coverage and wordings are transparent, making copycat products easy. Thus, winning personal lines insurers will develop a sustainable competitive edge with capability that is valuable, rare and costly to imitate (Duane et al., 2011). This capability is the application of technology in the business operations.

For personal lines insurers, technology application will best allow them to cope with intensive administrative operation. Technology can also be used in customer management, in allowing customers to request endorsements and confirm renewal. There are also ready-to-use third party applications that personal lines insurers can leverage for promoting business. Examples are applications for customer clustering, mobile technology for creating multiple touch-points, and online media such as Facebook or Twitter for hooking customers. Applications are many, but regrettably only a few insurers would be really passionate in their attitude to the use of technology and sincerely believe in what technology can bring to them as a competitive edge. In this era of technology, the cost of technology has not inflated at the level of people cost. It used to be the case that the cost of replacing the backroom operation system was incredibly high. Now the cost in software and hardware has become affordable, due to technology advancement. The replacement of backroom operation system can be done on a module basis. Today's youngsters will soon be the household decision makers. Technology is the key element that can

strategically provide high-tech options for sales and services (Deloitte, 2012).

Management commitment

For commercial lines insurers it is easier to build a pool of risk technically. Writing a few major accounts or chasing after some mega projects will be the solution to hit the target. Transacting commercial lines is like riding a rollercoaster. Premium and result follow cyclical ups and downs. The market turns hard after years of a soft market. Commercial lines insurers enjoy a decent growth in years of a hard market. Sometimes insurers who have tried to develop personal lines insurance are distracted by the commercial lines market during the hard market period, and lose interest in personal lines subsequently. It is paramount that management are committed to writing personal lines. Given current low inflation economies, premium income cannot guarantee a decent investment return. Insurers are supposed to appreciate the steady return that personal lines insurance brings, whether in a hard or soft market.

WHAT ARE THE CHALLENGES AHEAD?

Writing personal lines is like sailing. The market is not that rough. With focuses and critical factors in mind, insurers are heading in the right direction for profitable business. Nevertheless, there may be floating icebergs ahead, to which the insurer management have to pay attention. The main challenges to personal lines insurers are:

The rise of consumer protection rights
A threat of over-regulation and over-compliance
Centralisation of medical business
Lack of talented people

Rise of consumer protection rights

In this age of consumerism, consumer awareness increases. Customers are free to question and challenge. Insurers have to be prepared to answer. This implies that personal insurers need an operation setup where decisions on underwriting or claims are fair and visible. What is challenging for personal insurers is the paradigm shift in consumer rights from "respecting the contract" to "the customer's always right". In addition to providing coverage according to the policy wording, personal insurers have to meet customer's demands for more than that. Of course, personal lines insurers can reject these demands, but customer complaints and media pressure force personal lines insurers to meet these demands amicably. The challenge from the rise of consumer rights is everywhere in the service industry. As opposed to commercial insurers, personal insurers are more likely to be hit by this challenge, and should prepare to meet rising customer demands.

Threat of over-regulation and over-compliance

Government involvement and intervention are also increasing. In the aftermath of the 2008 financial crisis, the insurance industry feels that is being tarred with the same brush as the Banks, and as a result ends up with unnecessarily onerous and inappropriate regu-

lation (CSFI Survey, 2011). This is another challenge, as the insurers have to meet more stringent requirements. Particularly in the last decade, the world has witnessed terrorist attacks and the fall of corporations. Waves of new directives, regulations and compliance standards on capital, consumer protection, as well as anti-terrorism have been introduced. Insurance companies have to comply. In our complex world, the need for regulation and compliance is understood. However, efficiency is prime for personal lines insurers, and meeting these regulatory and compliance requirements needs additional resources. Efficiency is undermined.

Given the current unsettled credit crisis, the risk of over-regulation and over-compliance will persist. Personal insurers need to accept this and equip themselves for the expected changes. Responding to new standards in a short period of time can be difficult, particularly in a situation where forbearance may be scarce. Additionally, personal lines insurers should be united to rebuild trust from government and regulators, and to foster the confidence of the general public (Ernst & Young, 2010).

Centralisation of medical business

In many parts of the world, healthcare systems are faced with the challenge of ageing populations. The topic of health care reform has been debated for years. It concerns not only the general public, but also the government in terms of spending money to finance the healthcare system. No matter what the conclusion of the debate is going to be, health insurance plays a role in supporting a reformed health care system. In some countries, health insurance procured by individuals is helping to support unsubsidized medication and services, whilst the government pays for standard essential health care. In other countries, medical needs are funded in accordance with one's financial position, leaving medical insurance to meet the unfunded portion of medical care. To have a sustainable healthcare system, the government has an indispensable duty to make sure that health insurance providers are capable of meeting present and future obligations. Government control on health insurance providers is unprecedentedly tight, regarding the way of treating customers, designing products, adjudicating claims, and earning profits. In some countries, there are allegations that health insurance is deficient, or that the participation of health insurance providers is resulting in inefficiency. Governments are under a huge pressure to further regulate the health insurance business and even to nationalize it. This poses a direct threat to personal lines insurers who have been writing individual health insurance.

Lack of talented people

Shortage of talent is a worldwide issue for the insurance industry. The situation is even worse within the personal lines market whose products are considered to be trivial. This is true when we compare the knowledge needed in underwriting household contents insurance and boiler insurance. Personal underwriters may just need to know the sum insured and the risk location. Whilst Boiler underwriters have to know technical details, such as the boiler's manufacturer and model, and the frequency of inspection services.

Graduates new to the insurance industry prefer working in the commercial lines market. They think that personal lines would be uninteresting as they only involves repetitive documentation work. However, writing personal lines business is about how to accept business on a pool basis. The emphases are portfolio management and process improvement, aimed at generating steady underwriting profits. Being patient to accumulate the business volume is necessary, but the commitment in developing people to believe in personal lines business is of equal importance. For the management of personal lines insurers, the challenge is to attract talent.

CONCLUSION

Personal lines insurance is fundamentally simple, but transacting this insurance profitably requires knowledge and expertise. Many insurers begin personal insurance because of a mandate to offer a complete product range. They do not have sufficient awareness of the benefits that personal lines can bring to the company, let alone the areas on which they ought to focus. To be focused, these insurers should constantly check whether the business model is appropriate, and includes the five focuses, which are branding, customer centricity, efficiency, product commoditisation and risk diversification.

Insurers must ensure that these five are addressed concurrently in writing personal lines. Missing any one of these will affect how well the business is developed. Of course, insurers are not simply writing personal lines, but are hoping to do it successfully. Having the right focuses is primary to achieving this hope.

There are also critical factors behind making insurers successful in the long run. These factors are: having personal lines products which are renewed periodically, promoting customer stickiness, developing sustainable distribution channels, and using technology as a competitive edge. Management commitment is also a critical success factor, as building a profitable pool of risk requires the management to have a compelling vision and to be patient and persistent in achieving it. Having a pool of risk is not that difficult, but accumulating a pool of quality risk is even more critical. All these factors comprise the secret why some insurers develop personal business healthily, and why some cannot.

One should always appreciate the changing environment that produces notable challenges to the personal insurers. Not one insurer can avoid these challenges but a winning insurer will foresee them and act accordingly. These challenges are: the rise of consumer protection rights, a threat of over-regulation and over-compliance, centralisation of medical business, and lack of talented people. Insurers who are prepared for these challenges will maintain a leading position in the long-term. The ongoing effects of the 2008 economic recession are palpable. Insurers are reminded they cannot rely on investment income to produce a profit and avoid loss. Insurers have to focus on driving underwriting performance (Capgeminni and Efma, 2012). Personal lines insurance has to be an insurer's definite choice. To succeed, such an insurer must take this personal lines business seriously.

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