



Aegon Launches Facebook-Based Insurance to Reduce Administration, Costs, and Fraud

Overview

Country or Region: Netherlands

Industry: Insurance

Customer Profile

Launched in 2013, Kroodle is a subsidiary of Aegon, an insurance company based in Netherlands which conducts business in more than 20 countries.

Business Situation

Aegon wanted to use new communication channels to attract customers from the 18–35 generation.

Solution

The company launched Kroodle, an insurance company primarily designed for mobile users, to sell products that are only accessible through Facebook.

Benefits

- More customer convenience
- Less administration
- Lower marketing costs
- Fewer claims
- Less fraud

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Marnix Zwart, Cofounder, Kroodle

Social media and mobile devices have the potential to reshape companies' relationship with consumers, in particular with technologically savvy generations. In early 2012, the strategy and innovation team at Netherlands-based international insurance company Aegon responded to this changing environment by asking itself a fundamental question: “How do we, as a traditional insurer, use today's technology to become more relevant to the 18–35 age group?” A year and a half later, Aegon launched Kroodle, a paperless insurance company primarily designed for mobile users, selling products that can only be purchased via Facebook. Aegon believes that this venture will not only appeal to a generation which values speed and convenience; it will also reduce marketing expenditure and fraudulent claims.

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Situation

The very purpose of insurance is to reduce risk. Once purchased, contracts usually last for at least a year; and for life and critical illness insurance policies, the contracts last a whole lot longer. Put these two elements together, and it is no wonder that the insurance industry has a widespread popular image as conservative and old-fashioned, as safe and secure but slow to embrace change.

All things considered, insurers were unlikely to act as eager pioneers at the forefront of the general corporate response to the recent influx of new communication channels between companies and consumers. Research by The Economist Intelligence Unit from 2012 reveals that only around one in three companies in the overall financial services industry use company-branded mobile applications or social networking sites to communicate with customers. What’s more, these channels are predominantly used for marketing purposes only. For example, just 6 percent of financial services companies single out sales as the current primary purpose of their participation in social media.¹

This relatively low penetration of new digital media should, however, not be confused with blasé indifference. Only 3 percent of financial services respondents in the same survey regard new communication channels as a “passing fad,” and almost two-thirds predict that they will be viewed as a “crucial development” in five years’ time, with the benefit of hindsight. This is very much an industry which is still in the process of organizing its strategic response to a new phenomenon, whose commercial significance it readily acknowledges.

It was against this backdrop that the newly formed strategy and innovation team of Aegon, the Netherlands-based

international insurer, sat down with its Microsoft partners in early 2012 to formulate a creative approach to an environment that was almost unrecognizable from just a few years before.

“We had already witnessed an enormous change in the way that consumers transact insurance, with many fewer people going through a broker to get coverage for their car or house,” says Luc Schamhart, European Finance Industry Lead at Microsoft. “In addition, the 18–35 age group, in particular, had started to spend much of their time on mobile devices and social networks. The challenge was clear: how does Aegon, as a very traditional insurer, capitalize on this changing consumer behavior?”

Indeed, Aegon is hardly a new player in this industry. It is a long-established leader in the insurance market, employing around 24,000 people and serving millions of customers in more than 20 markets throughout the world.

As such, any solution had to be rigorously thought through in order to overcome all the inevitable internal checks and balances of a large, established company, and obtain the vital commitment of its senior management team. With regulatory bodies naturally protective of consumers within an industry focused on risk avoidance, and ever more vigilant in the wake of a severe financial crisis, the team also anticipated substantial legal obstacles to any creative new venture.

Solution

Assisted by Microsoft’s experience and knowledge of related activity within the financial services sector, the team set about scanning the market to identify opportunities appropriate for the Netherlands, where any new operation would first be launched. According to

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Marnix Zwart, Kroodle’s Cofounder, the idea they eventually came up with was original on two main counts.

“To the best of our knowledge, the fact that Kroodle was specifically designed for mobile devices is unique within the international insurance market,” he explains. “Only after we had achieved that goal did we also design it for other screen sizes, such as tablets and laptops. The second main innovation is the deep integration with Facebook.”

Aegon selected Facebook as the ideal platform for Kroodle because of its powerful dominance within the Dutch market. In 2013, 10.8 million people in the Netherlands will access their Facebook account at least once a month, representing the highest proportion of internet users doing so within any leading country in either Europe or North America.²

When Zwart talks about “deep integration,” he doesn’t mean that Facebook acts purely as a mechanism for marketing or publicity, as it does for so many companies. Without logging on to a Facebook account, purchasing any Kroodle product, such as travel or home insurance, is simply not possible.

Although telephone support is available in the event of customer concerns over an insurance claim, all other dealings—transactions, policy amendments, and cancellations—will be conducted digitally, and all documents can be viewed online. Right at the start of the sales process, potential customers are asked whether they are happy to do all business with Kroodle in this way. If they answer in the negative, they cannot become a customer. “The only paper you get from Kroodle is our business cards,” jokes Zwart.

Time-consuming policy applications, together with policy numbers and

signatures, are anathema to Kroodle—the goal is to be able to complete a purchase within one minute. The home insurance application process highlights this efficiency. With relevant personal information already registered with Facebook and specific property details accessible via public and paid-for databases, prospective customers only need to submit their zip code and house number to obtain a quote.

Another key feature of Kroodle is its transparency, with the standard operating mode allowing for all customer communication with the company, even notification of insurance claims, to be posted on the individual’s Facebook page for their “friends” to view. To reciprocate this openness, the company plans to make an active effort to communicate its loss ratios (total claims incurred as a proportion of total premiums) to customers.

Cash rewards for current customers that recommend Kroodle to others who then go to purchase a policy represent a further innovation, at least within the financial services sector. These rewards, which are paid to both the existing and the new customer, are stored in a virtual wallet and paid out over a period of 12 months.

The technology for this member-get-member system, and most of the other user-facing processes and supporting development and infrastructure, were built by Verne, a software provider recommended by Microsoft, which had also initially proposed that Kroodle be built on a Microsoft .NET environment, with a Microsoft SQL Server database. “Microsoft provided invaluable expertise in two main areas—business strategy and technical requirements,” explains Zwart. “Their insight on developments in the financial services industry enabled us to develop our thought process, and eventually decide on the concept. And their knowledge of the

“Countries like Indonesia and Brazil...could well offer opportunities for us [in the future]. For many people in these countries, a mobile device is their only means to connect to the internet.”

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technical side allowed us to find the right software partner and recommend suitable solutions for the site construction.”

Meanwhile, after a great deal of discussion, any objections from regulators were successfully overcome. “We explained over time that our way of doing things gives much more flexibility to the consumer,” says Perry Koorevaar, another Kroodle Cofounder. “Our customers have all the latest information about their policy at their fingertips, and they can cancel at any time. There were no explicit legal barriers to what we were creating, but it had never been done before. Change is always painful.”

Benefits

“The world’s information infrastructure should resemble the social graph,” wrote Facebook Founder and CEO Mark Zuckerberg in a letter to prospective investors in 2012, “a network built from the bottom up or peer-to-peer, rather than the monolithic, top-down structure that has existed to date.”³ Kroodle aims to use these fundamental changes in the way information is distributed for its own commercial benefit.

Lower Marketing Costs

Along with counterparts in other sectors, traditional insurers typically spend vast amounts on the acquisition of new customers, with financial services companies in the United States, for example, devoting more than 10 percent of their revenue to marketing.⁴ However, the member-get-member system spurred by cash rewards, and the fact that transactions with Kroodle can be openly viewed by Facebook “friends,” will, the company hopes, serve to bring down this marketing outlay.

Less Fraud, Fewer Claims

Transparency may not simply act as a means to attract customers and increase revenue. At the core of Kroodle’s

philosophy is the belief that the very openness and collective ethos of social media will reduce claims and fraud. After all, someone is less likely to make a false claim if friends and family can see the claim notification on Facebook, potentially leading to embarrassing questions on the same page.

Kroodle’s planned declaration of its own financial performance will, the company believes, also help to curb claims. “Increased claims ratios lead to higher premiums—that is the basic mechanism of insurance,” explains Koorevaar. “By clearly communicating our results, people will be able to see this logic playing out right in front of them, providing another incentive to reduce the number of claims they make.” With detected and undetected fraud estimated to represent up to 10 percent of all claims expenditure in Europe,⁵ Kroodle considers its open approach to be a potentially significant competitive advantage.

Customer Convenience, Reduced Administration

The speed and accessibility of Kroodle works to provide a further edge over rivals in two separate ways. First, the company’s way of doing business is likely to appeal to a 18–35 generation increasingly unwilling to wade through the form-filling bureaucracy that still characterizes traditional insurance. “Kroodle gives younger people the freedom they crave,” says Zwart. “It allows them to do their business when and where they want, not be constricted by office hours or by the fact that they are nowhere near a computer.” Second, online transactions should also substantially reduce the cost of labor-intensive back-office administration.

An inventive component of Kroodle’s travel policy offers an illustration of the company’s emphasis on convenience. Customers can simply turn the insurance on

from their mobile device before departing on vacation, and switch it off on their return, meaning that premium is only paid for the time they actually need coverage. Memorable and fun-sounding product names such as “Boodle Kroodle” or “Trouble Kroodle” symbolize the company’s departure from the norm.

Future Plans

One of the great commercial benefits of online communication channels is that they allow closer tracking and analysis of customer attitudes, opinions, and needs. Kroodle is considering using Microsoft Dynamics CRM to register and break down this mass of data. The company is also planning to use Windows Azure, the cloud computing platform and infrastructure, to deploy new applications.

Having officially launched Kroodle in the Netherlands in June 2013, Aegon has ambitious plans for the new venture. “Countries like Indonesia and Brazil, where Aegon already has a presence, could well offer opportunities for us,” says Zwart. “For many people in these countries, a mobile device is their only means to connect to the internet. Besides, these markets are huge and their Facebook usage is also very high.”

Sources:

1. “Getting Closer to the Customer,” Economist Intelligence Unit, 2012
2. eMarketer, April 2013
3. Letter by Mark Zuckerberg contained in Facebook’s flotation registration document filed with the United States Securities and Exchange Commission, www.sec.com/archives
4. Gartner, March 2013
5. “The Impact of Insurance Fraud,” Insurance Europe, 2013

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