

Achieving Customer-led Growth in Insurance

Three steps to improve retention and return to growth

By Chad Mitchell



The need to attract and retain profitable customers is more urgent than ever as insurers struggle to return to growth. There are many obstacles that stand in the way (See Figure 1), but we believe an insurer's failure to deliver value with each and every customer interaction is the main barrier. And we're not the only ones: 90 percent of all insurance CEOs picked getting closer to the customer as their most important strategic initiative in the next five years.¹

It's no surprise then that most insurers have developed customer-centric vision statements in an effort to improve customer experiences and retention. But marketing spend remains concentrated on the switch-and-save messaging of the last decade, a strategy that has commoditized the entire industry.² Because of this, insurers now face a largely self-inflicted cycle of low customer trust, empowered customers, and ease of switching between providers (See Figure 1).³

Customers with low trust in the insurance industry as a whole are almost 20 percent more likely to switch providers.⁴ This fact alone makes it increasingly clear that the customer strategies of the past – endlessly swapping disloyal and dissatisfied customers – will never lead to sustainable retention or growth.

So what elements of an effective customer strategy are these insurers missing? Scope and execution.

The business press is awash in success stories about companies enjoying the high returns of customer-centricity. From Apple to leading shoe e-tailer Zappos, every industry has its vanguards. And while nearly every company today talks about the importance of customers, the leaders in customer strategy share a deep understanding of two critical things: 1.) how detailed and comprehensive the scope of a customer strategy must be, and 2.) how difficult it is to execute.

Refining the Scope

One of the main reasons customer strategies fail is that insurers miss opportunities to deepen customer relationships and improve the customer experience at every interaction and touchpoint. Insurers focus too much on acquisitions and claims, but do little to foster advocacy throughout the various stages of the customer lifecycle.

Figure 1 North American Personal Lines Snapshot

Industry Challenges

- Low or no growth market
- Supply exceeds demand
- Low retention
- Soft pricing market
- High amortized acquisition costs
- Agency versus direct conflict
- Low engagement products

Consumer Characteristics

- Empowered by technology
- Low trust of industry
- Multi-channel shoppers
- High expectations for user experience
- Preference for buying from agents or person-to-person

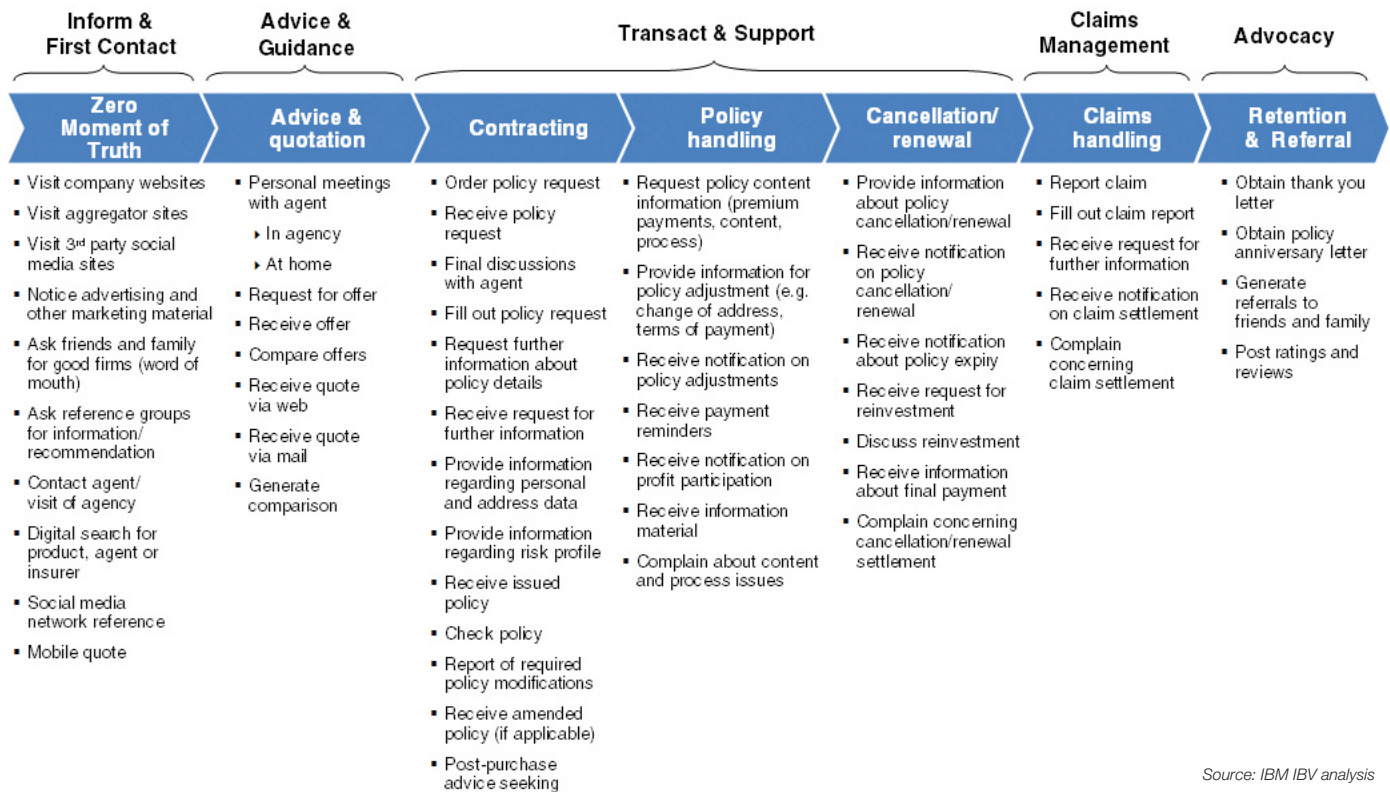
Source: IBM IBV analysis

According to a survey conducted by Thunderhead, a customer communication management software vendor, 66 percent of insurance customers currently do not feel their communications needs are being met by their insurer. And 50 percent of respondents agreed that insurers communicate without regard to customer preferences.⁵

There are countless missed opportunities between acquisition and claims to deepen relationships and improve experiences. These opportunities are called moments of truth (MOTs) – positive or negative (never neutral) customer interactions leaving a lasting impression with an opportunity to deepen and improve a customer relationship. Examples of MOTs are when a customer needs information, advice or service (See Figure 2). MOTs are not a new concept. We have worked with several global insurers who improved retention and returned to growth by identifying MOTs as part of a refined customer strategy and approach.

The most successful customer strategies assume that moments of truth happen with each and every customer interaction, from initial search results to reading a review of an agent to paying a bill. Insurers that are serious about getting closer to their customers are foregoing conventional channel development and instead focusing on quality interactions.⁶ They are refining the scope and approach of their customer strategy.

Figure 2 – Insurance Customer Lifecycle & Moments of Truth Situation



Executing

Developing a strategy for customer-centricity and actually delivering on it are two vastly different things. Despite nearly every company claiming a customer focus, research shows large divides in customer experience scores between leaders and laggards – and an equal number of good and bad interactions.⁷ How different are these companies' customer strategies? We believe they are extremely similar. What varies is how well they are executed.

Larry Bossidy, former CEO of Honeywell, and Dr. Ram Charan, CEO advisor and former Harvard Business School professor, define execution as: “the missing link” and “the main reason companies fall short of their promises.”⁸ That is why leaders, like Amica, have reputations for not only developing strong customer strategies, but also executing on those strategies at every customer interaction.⁹

Leaders in customer experience in any industry share certain common traits when it comes to execution. Our work with many of these leading companies highlights the importance of comprehensive training to all associates, stressing the benefits of empathy and delivering great service across every touchpoint. This focus on execution leads to differentiation, trust, loyalty and ultimately growth as customers buy more and refer friends and family. Firms with the highest customer advocacy ratings retain customers who are less likely to switch, more likely to purchase additional products, and more likely to refer friends.¹⁰

Three Steps to Success

Expanding the scope and improving the quality of customer interactions is not a philosophy or a technology platform. It's a business strategy; an operational and cultural shift in the way insurers approach their customers. The goal of this strategy is to generate profitable growth. And it works. Forrester reports that companies with high customer experience and advocacy scores generate great shareholder value and have higher revenues than their peers.¹¹

To embark on this journey, insurers must first have clean, accessible, and reliable customer data at their disposal. Having quality data is the basic building block of a successful customer interaction strategy. This allows a firm to successfully follow a three-step approach to deepen customer relationships, improve customer experiences, and drive sustainable growth.

1. Identify key interactions across the customer lifecycle
2. Deliver needs-based communications for sales, service and retention MOTs
3. Enable a closed-loop analytics capability to test and improve

Step 1 – Identify key interactions across the customer lifecycle

IBM's Institute for Business Value conducted a global survey in 2010 of more than 21,000 insurance customers (personal lines and life) in 20 countries. The survey found that if insurers are serious about getting closer to their customers, they should forego conventional channel strategy development and instead focus on quality customer interactions.¹²

This requires a change in the scope of an insurer's customer strategy. In a channel or product-centric operating model, insurers are managing toward a loss ratio or combined ratio with less focus on underlying customer metrics. But in this time of limited growth, insurers need to create a comprehensive list of key customer interactions across the customer lifecycle (See Figure 3) with the highest potential to:

1. Improve the customer experience
2. Deepen the customer relationship.

Traditionally, insurers have fewer interactions with customers than many other industries. A banking customer, for example, may log onto a Web site to pay a bill or view account balances several times a day. But an insurance customer may pay their policy only once or twice a year, and may only communicate with an agent during a claim. This is why insurance companies must identify more opportunities to interact with insureds during the customer lifecycle.

Our work with leading insurers shows that there are typically 40 to 50 key customer interactions (See Figure 2). To be successful, companies must focus on 5 to 10 key MOTs, and improve the quality of those interactions to gain real returns. In a recent engagement with a global life insurer, we helped the insurer identify key MOTs with the highest impact on retention. The focus was on improving the quality of non-claims interactions across the customer lifecycle. One key driver of retention is first problem resolution. The goal is to solve the customer's problem during the first interaction "to obtain service." We can all relate when this goes horribly wrong. We trudge through an automated phone menu only to get hung up on or transferred to another 800 number. For this insurer, we identified key MOTs and breakdowns in their business processes. By identifying and correcting these service MOTs, the insurer realized value through increases in retention, advocacy and cross-sell. (See Figure 3 – Global Life Insurer)

Figure 3 – Global Life Insurer

Situation

- Product and channel-centric strategy
- Below average loyalty versus peers
- Low customer advocacy & experience scores

IBM Approach

- Defined customer-centric strategy
- Segmented customer groups to differentiate offers based on needs
- Moments of truth defined with highest impact on retention

Realized Value

- \$160 million in realized value over three years
- High single digit increase in retention
- High single digit increase in advocacy
- High single digit increase in cross-sell/share of wallet

Source: IBM IBV analysis

IBM also helps insurers identify and capitalize on zero moments of truth, or ZMOT. Google defines the ZMOT as the critical interaction when a customer researches online (mobile, desktop) for a product or service.¹³ We believe ZMOTs occur across all channels. (See Figure 4) In this age of ubiquitous connectivity, both existing and potential customers may never even see an insurer's paid or owned media. ZMOTs often take place before a customer ever visits the company's Website, speaks to an agent or engages a customer service representative. And in the insurance industry, the ZMOT is equally important for retaining customers as it is for acquisition, because existing insurance customers actively search for better pricing or additional products. And Google found that 94% of insurance shoppers (auto, home, life) are influenced during the ZMOT.¹⁴

An example of a ZMOT would be a customer posting a question on Facebook for recommendations for an auto insurer. The ZMOT occurs immediately as friends and family in the customer's network provide positive or negative postings regarding insurers. Customers may also see positive or negative reviews in search results and by postings of other online content, such as blogs or YouTube videos. In fact, 25 percent of search results for the world's top 20 brands already come from user generated content.¹⁵ Our data shows that word-of-mouth

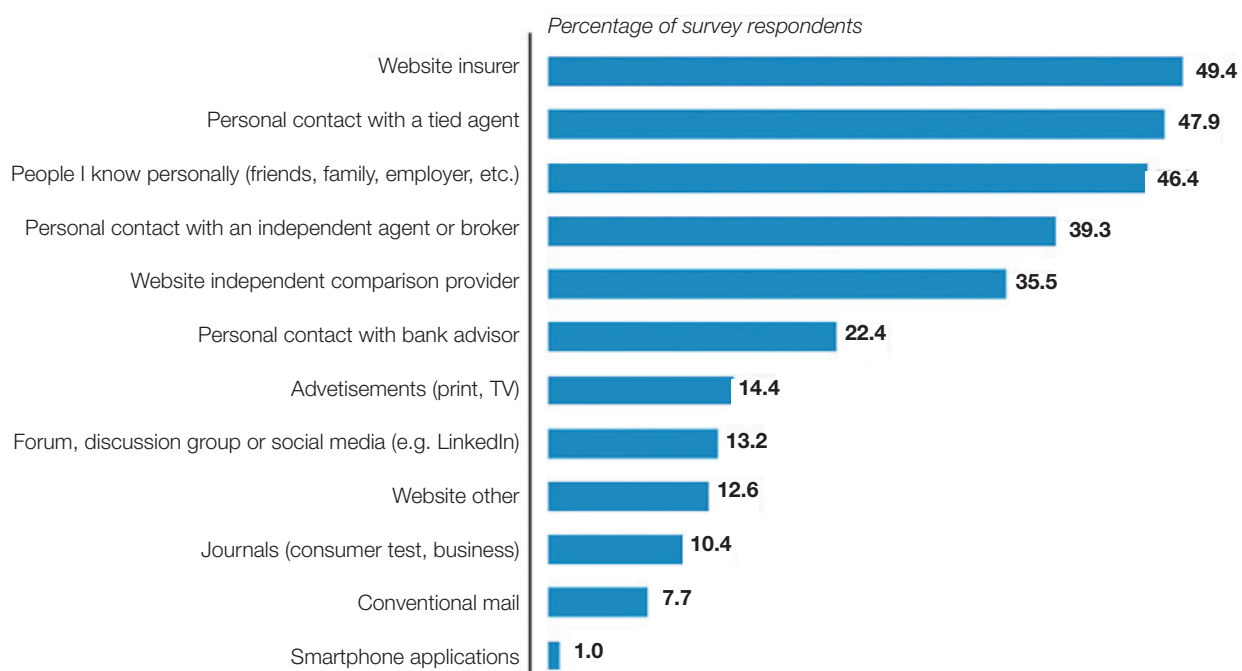
is the third most common interaction point, and that 13 percent of customer interactions occur via social media. We believe this trend is only just beginning, and that soon there will be no distinction between word-of-mouth and social media interactions, only a network of consumers receiving advice from their friends, family and anonymous strangers.

USAA is successfully engaging customers during the ZMOT by integrating earned user-generated content into its paid and owned marketing. Forrester reports that USAA integrated customer rating scores onto a renter's insurance online marketing banner. If an insurance shopper searched for "renter's insurance", a USAA banner ad appears with the number of customer reviews for that product and the average score. This campaign resulted in a 32-fold increase in conversion.¹⁶ And proves that focusing on advocacy during key interactions can improve engagement or deepen a customer relationship.

Step 2 – Deliver needs-based communications for sales, service and retention MOTs

Once the key MOTs are defined, firms must develop needs-based multichannel communications and treatment strategies. The communication strategy can be a message or script delivered through any channel. The treatment strategy is a set of rules determining what action, if any, occurs for a specific MOT.

Figure 4 – Consumers use a variety of interaction points to search for insurance.



Source: IBM Institute for Business Value survey data 2010, n=21,740

These communications and treatment strategies for key MOTs amount to a cultural and operational shift from “I have a product, who can I sell it to?” to “I have a customer or agent, what does he or she need?”

Insurers must look beyond push marketing messages and focus on every sales, service and retention interaction. This is the key to executing the customer strategy to deepen relationships and improve experiences. Figure 2 shows how leading insurers and financial services firms develop a customer-centric strategy that accounts for every customer interaction and MOT. The customer is not receiving a constant stream of marketing offers, but instead a mix of communications for service, offers, or information.

This transition from product or channel-centric to customer-centric is significant because it pushes every associate out of their comfort zone. The CMO and marketing group can now influence the tone, content, timing and channel of a billing or claims communication.

In this model, a thoughtful approach to both the timing and the nature of various customer communications is critical. If a high value customer is trying to resolve a problem, it is not a good time to deliver a cross-sell offer. There are times when a marketing interaction is not appropriate. In fact, it’s often more beneficial, from a long-term perspective, to have a series of service or relationship building interactions, which may then drive a marketing or sales interaction. CMOs must work with all functional groups, including finance and claims, to build a series of treatment strategies for sales and service communications that complement each other, and don’t conflict. The treatment strategies create a set of guiding principles on when, how and what to communicate.

IBM worked with a large multi-line financial services firm in the Asia-Pacific region to create customer-specific treatment strategies for key sales, service and retention MOTs (See Figure 5. Asia-Pac, Multi-line Financial Services Firm). The results were highly impactful and drove improvements in nearly every area of deepening or improving customer experience. This demonstrated the power of expanding the scope of your customer strategy and improving the execution by developing treatments for specific MOTs.

Figure 5 – Asia-Pac Multi-Line Financial Services Firm

Situation

- Low customer advocacy
- High customer fatigue
- Low share of wallet per customer
- Increasing attrition

IBM Approach

- Defined customer-centric strategy
- Identified key customer moments of truth (MOT)
- Developed customer-specific treatments for key sales, service and retention MOTs
- Defined business rules for contact optimization to improve customer experiences and deepen customer relationships

Realized Value

- Increased first contact resolution from 56% to 82% in 9 months
 - 30% increase in lead close rate
 - 25% in value per sale
 - 34% increase in customer value
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Step 3 – Enable a closed-loop analytics capability to test and improve

James M. Kilts, former CEO of Gillette, Kraft and Nabisco and turnaround specialist, says in his book *Doing What Matters*, “To me, if you can’t measure it, it’s not real.” He adds that simple metrics make it easier to focus on the goal.¹⁷ The same mindset around analytics should be applied when expanding the scope of your customer strategy and improving execution. You must be able to measure every variable and refine scope and approach or you won’t be able to understand what caused an improvement or decline in key metrics.

The simple metrics are already identified: 1) retention; 2) customer value; and 3) advocacy net promoter score. It is essential to develop a closed-loop analytics capability allowing measurement of the refined scope and execution.

In a joint study between the MIT Sloan School of Management and IBM Institute for Business Value, more than 3,000 executives were interviewed regarding the use of analytics to generate value for their firms. The study found that top performers — firms with higher shareholder value and financial performance — were more than five times more likely to use an analytic approach versus intuition, demonstrating the importance of closed-loop analytics.¹⁸⁰

We have worked with firms who had both limited and advanced analytic teams and capabilities. The key was developing a simple set of metrics; measuring and tracking performance; and implementing a closed-loop capability allowing managers to test and learn when applying different techniques.

Getting Started

The business case for more comprehensive customer strategies is clear. CEOs want them. Customers demand them. And marketers need them if they are ever to break free from the switch-and-save mentality that continues to erode customer loyalty and pressure margins.

But while it's easy for a company to embrace customer-centricity through a television advertisement, it's far more difficult to develop an effective internal strategy, anticipate the necessary cultural and operational changes, and to execute with commitment and confidence.

With IBM, clients build business cases through test-and-learn pilots. They identify key MOTs; create personalized and integrated experiences across any touchpoint; develop treatment strategies that improve interaction quality; and improve methods that drive substantive returns. And they do it all while delivering returns at each step of the process.

To begin your journey toward true customer-centricity, contact your IBM client representative, or visit:

ibm.com/smarterplanet/us/en/smarter_commerce/overview

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