

# The Growth Engine: Superior Customer Experience in Insurance



Financial Services Practice

# The Growth Engine: Superior Customer Experience in Insurance

Introduction	3
On the Path to Profitable Growth	5
Barriers to Superior Customer Experience	6
Transforming the Customer Experience in Insurance	8
Taking Action	13

## Introduction

The difference between great and poor customer service has always been clear, and businesses on the wrong end of this spectrum usually pay a price. This is as true for insurance as it is for any other customer-facing business. Today, the consequences of subpar service are amplified by the speed and reach of social media. One poorly handled claim, one mistake captured on a smart phone, can escalate quickly into a brand-damaging crisis. This is just one reason firms across all industries should increase their focus on providing great customer experience.

Providing a strong customer experience is not just about reducing the risk of customer service mishaps. It is increasingly a way for companies in competitive markets to distinguish their brands. The airline industry is a good point of comparison with insurance. Both are highly regulated and highly competitive, and carriers in both industries find it increasingly difficult to differentiate their products without lowering prices. Airlines all use the same planes, serve similar food and match prices. Personal lines insurance is becoming similarly transparent. Due to the Internet, aggregators and social media, shoppers know more than ever about coverage, prices and services.

A number of airlines now see customer service as one of the few remaining ways to stand out from the crowd and are reaping the benefits. The three U.S. airlines with the highest customer satisfaction ratings have profits that are way

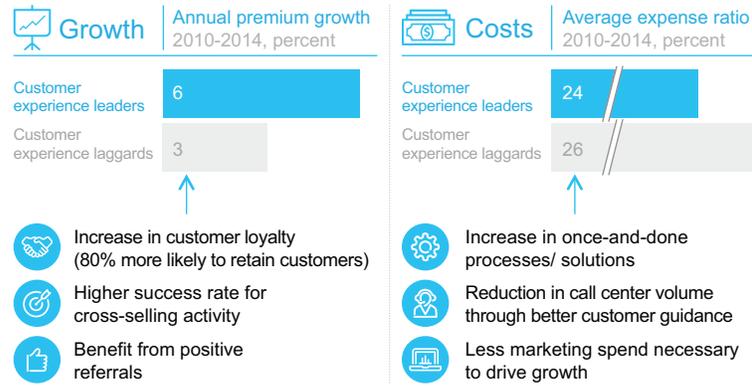
above the industry average. Another major carrier is raising prices—moderately—on the expectation that customers will pay more for great on-time stats and more reliable baggage-handling.

Can insurers follow this example and avoid competing on price until profits are shaved to zero? McKinsey's global research across industries shows that improving the customer experience can do far more to drive profitable growth than raising advertising spending or lowering prices. Some executives may still see insurance as a low-engagement, disintermediated category, but analytics prove that in an industry where profits are highly concentrated, leading carriers are delivering customer experiences that inspire loyalty and attract new customers frustrated by their experiences with their current carriers.

For example, in the past five years, U.S. auto insurance carriers that have pro-

Exhibit 1

Companies that offer consistently best-in-class customer experiences tend to grow faster and more profitably



Note: "Leaders" have consistently been in top quartile for customer satisfaction with the shopping experience in the past five years

SOURCES: J.D. Power 2011-15; A.M. Best; McKinsey & Company

vided customers with consistently best-in-class experiences have generated two to four times more growth in new business and about 30 percent higher profitability than firms with an inconsistent

customer focus, in part because satisfied customers are 80 percent more likely to renew their policies than unsatisfied customers (Exhibit 1).

# On the Path to Profitable Growth

Delivering a superior customer experience takes more than developing a mobile app or adding call center staff. It requires significant investments, relentless improvements and collaboration across customer channels and business functions, from distribution and underwriting to claims handling.

Many insurers look at each customer touch point, from visiting the website to calling an agent, as a discrete event. But customers see those events as steps in a single journey to meet an important need, such as protecting themselves and their families or recovering from an accident.

Improving customer satisfaction can be an engine of profitable growth, but it demands a common vision and new levels of coordination across historically strong organizational silos. Establishing cross-functional, multichannel customer experiences should be a CEO and board-level priority.

In this context, digital tools are unlocking new opportunities for insurers. For example, since more than 80 percent of shoppers now touch a digital channel at least once throughout their shopping journey, carriers can find new ways to engage customers efficiently and effectively with personalized messages, and improve speed, service and consistency to raise satisfaction.

A number of commercial lines carriers are using digital tools to improve journeys. Many commercial insurance buyers value online interfaces with self-service features and the ability to track the status of interactions in real time instead of having to make inquiries by phone, email or through their brokers.

Advances like these require coordinating multichannel interactions with an overarching view of business value. Quick, cosmetic fixes are likely to fall short, while costly changes do not always deliver strong returns. One carrier spent a significant sum upgrading its telephone system to reduce the average wait time from 40 to 20 seconds, but barely improved its customer feedback. Another touted its “superior service” in a national ad campaign—and saw an immediate decline in its customer satisfaction scores, perhaps because reality did not live up to higher expectations. Delivering a superior customer experience depends on the full range of pricing, products and services.

# Barriers to Superior Customer Experience

The main reason so many companies fail to improve customer journeys is that understanding what customers value is not an easy task. Identifying what drives customer satisfaction and translating it into operational performance improvements requires deep customer insights, solid analytics, and modeling the most important customer journeys, with cross-functional ownership and multichannel, end-to-end management.

A typical insurance carrier today delivers customer experiences via separate functions (marketing, distribution, underwriting, claims), using a website, sales call

tween an agent and a claims adjuster—both represent the insurer in the event of an accident.

So how can insurers overcome these barriers and deliver exceptional customer experiences? The first step is to align on what type of experience they want to deliver. Experts disagree on some fundamental elements of this issue. Some believe that fewer customer touch points are better,<sup>1</sup> while others say more interactions create more opportunities to add value and build loyalty.

Both can be correct, of course, depending on particular customer segments and the specific journeys they are on. Customers with more complex insurance needs might want a higher-touch approach during sales and onboarding, for example, while younger customers might prefer digital-only, self-driven experiences that include advice but remain non-intrusive and available on demand. Also, the more value there is at stake in

---

Many carriers overlook the fact that speed of resolution is as important as employees' courtesy, empathy, knowledge and professionalism.

---

center, service department and so on, most managed by different executives with different goals and metrics. This structure may have its purposes, but it overlooks the fact that from the customer perspective, the experience is often a single journey. Customers are unlikely to draw a sharp distinction be-

<sup>1</sup> "The Effortless Experience: Conquering the New Battleground for Customer Loyalty," Rick Delisi, Matthew Dixon, Nick Toman; Penguin.

a claim, the more time customers are willing to spend in live interactions during the first notice of loss. For example, many carriers overlook the fact that speed of resolution is as important as employees' courtesy, empathy, knowledge and professionalism. In McKinsey's research into repairable auto claims in the U.S., five qualities were key to driving customer satisfaction:

- Employee courtesy
- Ease of communicating with the insurer
- Employee knowledge and professionalism
- Transparency and ease of the process
- The speed of the claim settlement.

In a finding that may surprise industry executives, settlement amount ranked only 12th, behind ease of tracking claim status and flexibility in scheduling the appraisal. In other words, most of the policyholders surveyed cared more about service than payment, especially when the claim size was relatively small.

# Transforming the Customer Experience In Insurance

Understanding what customers want is paramount in building a better customer experience. But real transformations are achieved when carriers take a comprehensive approach to customer journeys and how their organization works.

Only a holistic process can deliver tangible and sustained improvements. There are four core elements to a successful approach to excellence in customer experience: inspiration, insights, improvements and institutionalization.

- *Inspiration*: Create a comprehensive vision for a customer-centric business and operating model with clear targets.
- *Insights*: Develop customer insights and link customer satisfaction to operational key performance indicators and business impact (such as churn and cross-selling).
- *Improvement*: Radically redesign customer journeys from start to finish, using digital elements as the standard.
- *Institutionalization*: Build customer-centricity into the organization, changing culture and processes from the front line to the C-suite.

Each element can yield a better experience, but the full impact is seen only when the four are pulled together. For example, making improvements without insights can mean allocating resources to features that customers deem unimpor-

tant. Vision without institutionalization may mean missing objectives, because change did not stick with the front line.

## Inspiration

A customer-centric transformation begins with an overarching vision exemplified by senior leaders and modeled throughout the organization. CEOs listening in to live call center phone calls or serving coffee to their customers are nice, powerful touches. But the real value of a customer-centric culture is unlocked when employees rally behind a common purpose that drives them to go beyond their regular standard of work.

Customer-centric organizations go the extra mile, demonstrating that customer satisfaction is not just a metric on a dashboard but an inspiration. One global bank improved new product sales and cross-sell numbers and raised consumer and small business customer satisfaction scores, by rewarding branch employees for being friendly, valuing customers' time, knowing the details of their business with the bank, and making sure customers' needs were met before concluding transactions.

Measurements are important, of course, and each function may pursue different objectives (e.g., avoiding errors to reduce cancelations, maximizing ease of doing business for brokers and agents), yet each objective must be consistent with the brand promise and tangible across all functions.

### Insights

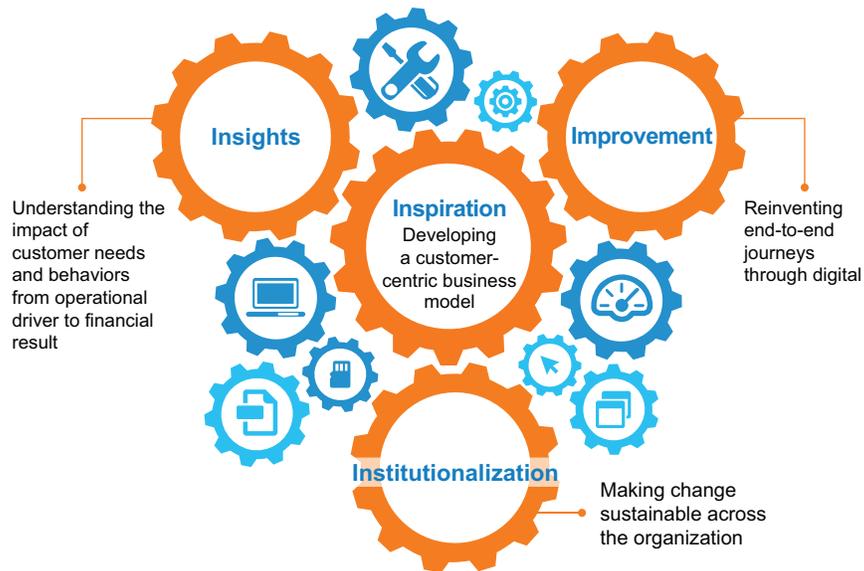
Improvements in customer experience result from a clear understanding of customer needs and their implications from an operational standpoint. Most customer-centric processes also improve efficiency, but large investment decisions demand a clear articulation of costs and benefits, such as how much value an innovation adds from the customer’s point of view and how much of a competitive edge it provides. In other words, customer satisfaction initiatives should be

grounded in facts, not gut feelings. Many companies typically rely on two tools to assess customer satisfaction, both with shortcomings:

- **Top-down metrics:** All insurers periodically measure customer satisfaction. Many do so on a differentiated basis—by division, for example. Those may be good starting points, but they rarely provide clear indications as to where and how to make improvements. Customer satisfaction scores need to be linked to operational metrics and economic value to highlight how to address customer needs. Likewise, recommendation scores may not reflect true customer satisfaction. In some industries, improving the customer rating may barely increase the likelihood of renewing a subscription or buying a new product, while in insurance, a similar jump can be a differentiator.

Exhibit 2

A “customer experience excellence engine” integrates best practices for transformation



- **Internal surveys:** Surveying internal leaders is a good way to generate ideas for improvements, but these leaders tend to focus on technical shortcomings and may not rank other nuances in interactions the way customers do.

Increasing customer satisfaction goes hand-in-hand with operationally relevant customer intelligence. For example, market research needs to reveal not just customers' satisfaction with individual touch points, but also the overall drivers of satisfaction, including brand, product, price and service, and how they contribute to business success, including policy renewal and cross-selling.

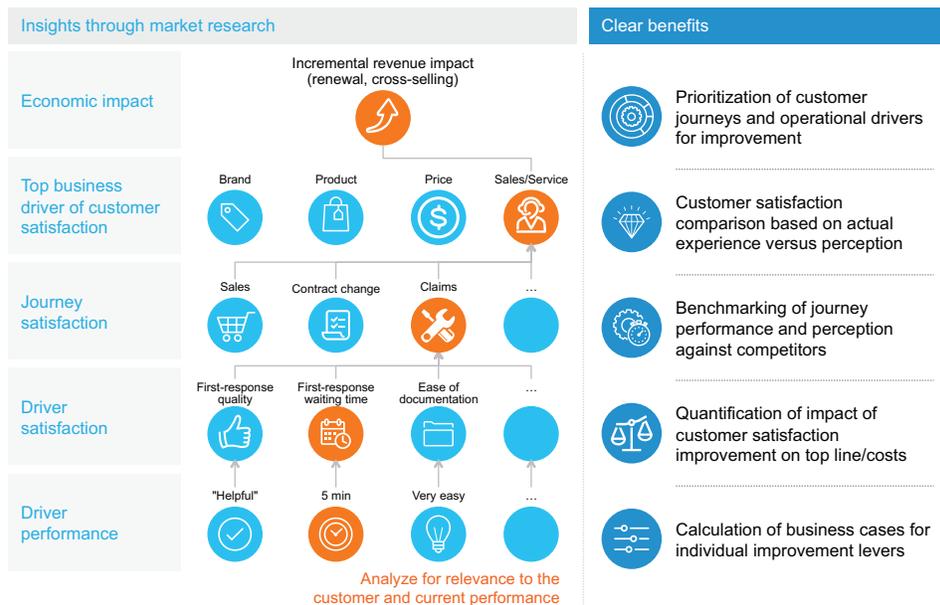
Research should determine which operational drivers and expected service levels lead to satisfaction in each journey (Exhibit 3). This type of research helps carriers understand which journeys and drivers are truly important for customers

but still unsatisfactory, and what service levels customers expect, making it possible to quantify acceptable waiting times in the call center, for example. This level of detail helps carriers avoid investing in areas that would not differentiate them from the competition.

Insurers can also gain valuable insights—and avoid trying to solve the wrong problems—by comparing how customers describe their experiences with actual company data. In other words, if customer complaints about long call-center wait times do not match reality, then the problem might have more to do with communication and not necessarily be solved by adding call center staff. Repeating this kind of research pragmatically but on a regular basis can shed light on changing customer expectations and point out opportunities to improve journeys.

Exhibit 3

An end-to-end economic model generates insights and guides the improvement process



SOURCE: McKinsey & Company

## Improvement

Insights from research help insurers decide where to invest, but effectively re-designing customer journeys also requires discipline. Journeys can be optimized according to a five step structure. An effective process usually requires a cross-functional team with members from sales, operations, IT and other areas:

- *Step 1* – Break down the journey using customer perspective as a central focus
- *Step 2* – Map the journey against current internal operations
- *Step 3* – Call out the “wow moments” and pain points, such as unnecessary wait times or delays in communication
- *Step 4* – Prioritize pain points based on what matters most to customers
- *Step 5* – *Radically* redesign the journey to address the pain points and focus on customer needs.

The first step is often the most difficult—bringing customers into the room with the team to reveal what their real emotional journey looks like and rapidly testing ideas for improvement before taking them too far. Analogously, digital tools now support much faster prototyping cycles, which accelerate the time to market and improve the carrier’s ability to keep tailoring the customer experience. Embedding behavioral research can also reveal which types of interactions customers prefer and how best to influence behavior.

Improvements must be seen as a continuous process. Carriers should plan for successive rounds of innovation, especially in digital, where expectations rise rapidly. All changes should be tested quickly with real customers, and not every lever must be in place before test-

ing begins: they can be piloted and implemented in stages, and many incremental improvements are possible without lengthy preparations or IT infrastructure overhauls.

## Institutionalization

Sustained improvements in customer satisfaction are possible only if the entire company—from top executives to the front line—is aligned around the effort and the roll-out is rapid. McKinsey has found that five best practices increase the chances of success:

- **Strong executive ownership** and a clear mandate for cross-functional journey owners to drive change across the organization.
- **Central measurement architecture** that continuously reports customer intelligence to the relevant operational KPIs, allowing feedback and improvement.
- **Lean management practices** with regular performance dialogues about customer satisfaction between top management and operational leaders.
- **Proactive change management** with compelling “change stories,” recognition from top management, regular interaction with real customers to gather feedback, and new approaches to attracting customer-centric talent.
- **Training** to give employees new skills, and “navigators” and “champions” to carry the change to individual departments and make it stick.

Many companies do well by starting with one or two small, rapid pilots to demonstrate impact and generate knowledge. They then use the momentum to scale

up the improvements across the company, rolling out three or four customer journey categories at a time, with organizational owners for each. A strong central team uses a standardized methodology and identifies synergies between customer journeys, such as in service and claims

call centers, and identifies the skills required for success in individual areas. Every team has clear objectives in terms of customer satisfaction with regard to the best competitor. Recruiting profiles and human resources policies are aligned with the new way of working.

# Taking Action

Insurers need to invest human and financial resources in customer-centricity to build and maintain a competitive edge. Best-in-class players have already made some of these investments and are reaping cascading benefits.

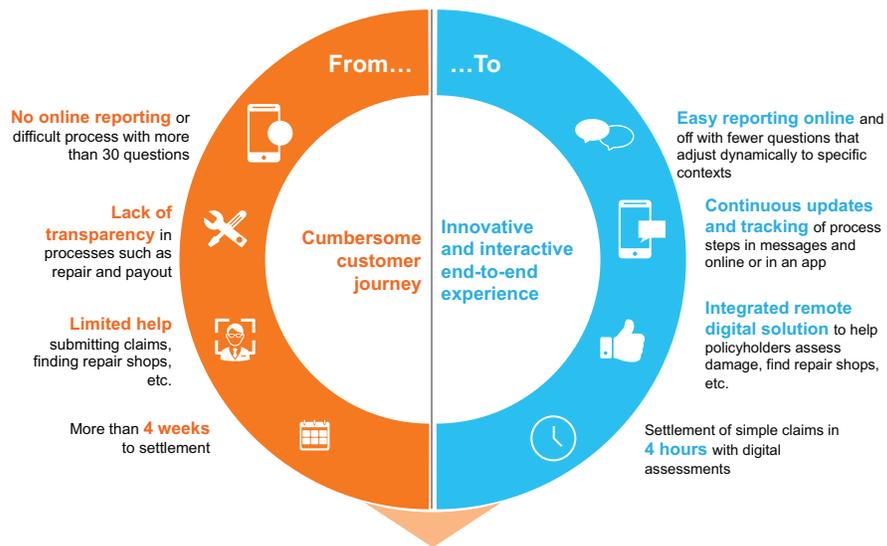
For example, a large carrier aiming to redesign its auto claims processes set out to reduce call center waiting time. However, using a consistent journey methodology and insights from measurement, they found that waiting time was not a major pain point for the customer. Changing call center routing to ensure a single point of contact for the customer mattered much more, especially when severe accidents occurred. An agile, cross-functional team redesigned the claims journey

and tested it quickly, demonstrating significant impact: customer satisfaction improved by 50 percent and call center inquiries (follow-ups) fell by over 80 percent—with no additional net cost.

Another large incumbent aimed to radically redesign its claims process from the customer perspective, relying heavily on digital to dramatically improve delivery. The company provided customers with an app to allow them to make self-service remote damage assessments. It also offered cus-

Exhibit 4

How a claims journey might be transformed



**Efficiency gains of up to 30% with digital self-servicing, straight-through processing and lower call volume**

tomers a digital connection to the repair network that included rules-based prioritization to guide customers to the shops closest to their work or office location. In addition to a positive impact on the customer experience, the efficiency gains yielded almost 30 percent savings, not to mention the potential improvement in loss ratio due to greater accuracy (Exhibit 4, page 13).

The opportunities for insurers to differentiate themselves through stronger customer experience are huge and growing. The fundamental challenge many companies face is getting the organization moving. There is no time to wait. In the digital era, consumer power is rising. Carriers that cling to product-, function- or chan-

nel-centric views risk falling behind as market leaders build deeper relationships with customers and capture ever-larger shares of the market.

For carriers with the resolve to see their business through the eyes of the customer, each interaction becomes a way to live up to their brand promise; functions come together in new ways across customer journeys; and technology and digital become accelerators.

Transforming any large organization is difficult, of course, but the value at stake is significant. The adage is still valid: “You don’t earn loyalty in a day. You earn loyalty day by day.”

## **Contact**

For more information about this report, please contact:

### **Tanguy Catlin**

Principal, Boston  
tanguy\_catlin@mckinsey.com

### **Ewan Duncan**

Director, Seattle  
ewan\_duncan@mckinsey.com

### **Harald Fanderl**

Principal, Munich  
harald\_fanderl@mckinsey.com

### **Simone Gammeri**

Associate Principal, Boston  
simone\_gammeri@mckinsey.com

### **Sascha Lehmann**

Principal, Frankfurt  
sascha\_lehmann@mckinsey.com

### **Johannes-Tobias Lorenz**

Director, Berlin  
johannes-tobias\_lorenz@mckinsey.com

### **Philipp Schaumburg**

Associate Principal, Frankfurt  
philipp\_schaumburg@mckinsey.com

## **Further insights**

McKinsey's Insurance Practice publishes on issues of interest to industry executives. Our recent reports include:

*The Key to Growth in U.S. Life Insurance: Focus on the Customer*

**March 2016**

*Small Commercial Insurance: A Bright Spot in the U.S. Property-Casualty Market*

**March 2016**

*Transforming Into an Analytics-Driven Insurance Carrier*

**January 2016**

*The Future of Group Life Insurance in the U.S.*

**January 2016**

*Building a Culture of Continuous Improvement in Insurance*

**April 2015**

*The Making of a Digital Insurer*

**March 2015**

