

# AN EFFORTLESS CUSTOMER EXPERIENCE: A CRITICAL ENABLER FOR INSURANCE INDUSTRY COMPETITIVE DIFFERENTIATION

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## A WEST MONROE WHITE PAPER

*AN EFFORTLESS CUSTOMER EXPERIENCE:  
A CRITICAL ENABLER FOR INSURANCE  
INDUSTRY COMPETITIVE  
DIFFERENTIATION*

West Monroe Partners defines the Customer Experience as the sum of a customer's interactions with a company across all of its touch-points—including agents, channels, systems, products, and services—and the resulting perceptions about the brand. Research has shown that a policyholder's perception of an insurance company is developed as a result of their interaction across multiple-channels, not through one individual transaction or moment in time, and that a positive and effortless customer experience can result in increased policyholder satisfaction, loyalty, advocacy and greater customer lifetime value.



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Customer Experience is particularly vital in the insurance industry because empowered policyholders are changing the rules of the game, including how firms think about their business and operating models:

- Both P&C and life insurers' point of view is transitioning from a focus on product delivery to a more holistic customer-centric solution-driven view—requiring a complete customer view and analytic insights into purchasing and attrition drivers (not just risk assessment).
- Personal lines have seen a large increase in self-directed customers who perform their own research, make independent purchase decisions, and require only limited customer support.
- An increase in mobility and the demand for near instantaneous service has increased the importance of mobile, tablet, interactive, and other multi-channel capabilities with customers.
- P&C insurers are seeing an increase in the influence of social media on the purchase process.

In general, the financial benefit of customer experience is also validated by the following 2011 Gartner research:

- 86% of consumers said they would pay more for a better customer experience
- 73% of consumers who stated that they would expand their purchases with a vendor by 10% or more if the customer experience was superior
- 58% of consumers said they would recommend companies that deliver a superior customer experience

Couple these financial benefits with those specifically about policyholder engagement in the insurance industry:

- Five percent of responders to a 2011 Forrester survey rated their changes of switching carriers as likely or highly likely
- One in 20 insurance buyers is likely a defector. Five percent of responders to a 2011 Forrester survey rated their changes of switching carriers as likely or highly likely.

Improving the customer experience can result in improved policyholder retention, greater capability to cross and up-sell, ability to achieve superior premiums, prevent commoditization and margin erosion, and increase the propensity for customer advocacy.

The financial benefit of customer experience has been validated by a recent study comparing Forrester's annual Customer Experience Index (CxPi) with the total returns for customer experience Leaders and Laggards. From 2007 through 2011, a period which includes both economic peaks and troughs, 'Leaders' performed 27% better than the S&P 500 Index and 128% better than 'Laggards'<sup>1</sup>. West Monroe Partners has determined that the correlation between the 2011 CxPi and 2010 to 2011 revenue growth for these firms is statistically significant (0.47). Thus, expertise at customer experience can not only be correlated to better top line financial results, but it can also help to drive market capitalization and shareholder value.

In 2010, Forrester had reported that the insurance industry as a whole dropped 1% on the CxPi score from 2008 to 2010. Customer experiences ranged from Poor to Good across several insurance companies, clearly



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demonstrating opportunities for improvement across the industry.

EVOLUTION OF CUSTOMER EXPERIENCE

Over the last ten years, managing customer experience has become a leading initiative for many companies due to the emergence of a host of enabling technologies. But customer experience as it is known today really began with the creation of automated call routing technology for call centers in the early 1970s. Prior to this, media experiences were “one-size-fits- all” —delivered by the three major television networks, radio, and hard-copy newspapers and magazines. Increased computing capabilities enabled large-scale data mining which began in the 1980s and provided better insights into customers. Interactive voice response (IVR) and telephony technology dramatically changed contact centers in the 1990s. A revolution began with widespread use of the Internet in the mid-1990s and continued through end of the decade, as everyone clamored to “get online.” The 2000s saw the proliferation of mobile with smart phones and creation of social media. The late 2000s and early 2010s stood witness to the social media explosion, rise of the cloud, and launch of tablets. Today, an effortless customer experience has truly become information-enabled, insight-driven, multi-channel, and digital.

Figure 1: A Brief History of Customer Experience

1970s	1980s	1990s	2000s	2010s
<p><b>Importance of Mass Media</b></p> <ul style="list-style-type: none"> <li>Customer experience is defined by one size fits all ads found in channels such as TV, radio, newspapers, and magazines as well face to face experiences with employees.</li> </ul> <p><b>Creation of Call Centers</b></p> <ul style="list-style-type: none"> <li>1973 Continental Airlines first to use call routing technology</li> </ul> <p><b>Targeted Products &amp; Services</b></p> <ul style="list-style-type: none"> <li>Products and services continue to be targeted to target markets</li> </ul>	<p><b>Advent of Large Scale Data Mining</b></p> <ul style="list-style-type: none"> <li>Companies begin to utilize computers in collecting and analyzing large amounts of data that improve understanding of customer insights, trends, and future outlook</li> </ul> <p><b>First Customer Loyalty Program</b></p> <ul style="list-style-type: none"> <li>American Airlines AAdvantage (1981)</li> </ul> <p><b>First Mobile Phone 1G Network</b></p> <ul style="list-style-type: none"> <li>Chicago-based Ameritech using the Motorola DynaTAC cellular phone (1983)</li> </ul> <p><b>Metrics &amp; Operations</b></p> <ul style="list-style-type: none"> <li>Focus on metrics to improve operations and reduce costs</li> </ul>	<p><b>Customer Loyalty Program Proliferation</b></p> <ul style="list-style-type: none"> <li>Interactive relationship between customers and companies</li> <li>Rewards are exchanged for customer information</li> </ul> <p><b>IVR Proliferation</b></p> <ul style="list-style-type: none"> <li>IVR dramatically changed the contact center model</li> </ul> <p><b>Widespread Internet Usage</b></p> <ul style="list-style-type: none"> <li>Customers can interact via the web including e-mail, chat, and websites</li> </ul> <p><b>Call Center/CRM/SFA Software Introduced</b></p> <ul style="list-style-type: none"> <li>Siebel founded (1993)</li> <li>Salesforce.com founded (1996)</li> </ul> <p><b>Targeted and Cross Marketing Campaigns</b></p> <ul style="list-style-type: none"> <li>Focus on cross-selling customers during interactions and target marketing based on existing customer knowledge</li> </ul> <p><b>First Smart Phone</b></p> <ul style="list-style-type: none"> <li>Blackberry launched (1999)</li> </ul>	<p><b>CRM Software Considered Foundational</b></p> <ul style="list-style-type: none"> <li>Oracle/SAP dominate the marketplace</li> <li>Oracle acquires Siebel</li> </ul> <p><b>Call Center Outsourcing Flourishes</b></p> <ul style="list-style-type: none"> <li>High percentage of businesses use overseas call centers</li> </ul> <p><b>Mobile Internet Capabilities</b></p> <ul style="list-style-type: none"> <li>Smart phones allow firms to cater to the mobile consumers</li> <li>iPhone and Kindle launched (2007)</li> <li>Consumers are better informed regardless of location</li> </ul> <p><b>Creation of Social Media</b></p> <ul style="list-style-type: none"> <li>Creation of LinkedIn, Facebook, and Twitter</li> </ul>	<p><b>Proliferation of Social Media</b></p> <ul style="list-style-type: none"> <li>Personalized ad experiences are prevalent on sites such as Facebook, Twitter, and LinkedIn</li> <li>Companies directly interact and receive feedback from individual consumers on fan pages</li> </ul> <p><b>Rise of the Cloud</b></p> <ul style="list-style-type: none"> <li>Cloud allows for highly accessible, easily organized and consolidated customer data for total 360 degree view of customer</li> <li>Huge amounts data (big data) both structured and unstructured data that paves the way for improved analytics</li> </ul> <p><b>Mobile Tablets</b></p> <ul style="list-style-type: none"> <li>iPad launched (2010)</li> </ul>



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1 “The Customer Experience Index 2012”, *Forrester Research*, Megan Burns, January 23, 2012

## CUSTOMER EXPERIENCE PRINCIPLES & THEMES

West Monroe Partners believes that adherence to the following principles are mission critical to developing an effective customer experience strategy in support of policyholders.

- Develop a Knowledge & Insight-based View
- Think Outside In
- Connect the Lifecycle
- Be Digital By Default
- Safeguard Privacy
- Measure Improvement

*Develop a Knowledge & Insight-based View* —All policyholders, their needs, and their value are not created equal. To understand where you should focus, it is essential to view policyholders across all touch points. Integrating all demographic, behavioral, and attitudinal policyholder data – for a single view of the policyholder – allows marketers to uncover key insights not otherwise derived. Using this information and insight, policyholders should be differentiated based upon their needs and preferences as well as their value (and potential value) to an insurer.

*Think Outside In* —Leverage customer insights and take a view from the policyholder’s perspective. Understand their needs, wants, and preferences and develop solutions accordingly. Treat policyholders as individuals not markets, segments, or clusters. Don’t push products; deliver extraordinary, effortless experiences.

*Connect the Lifecycle*—Connect the customer lifecycle end-to-end from awareness to acquisition to growth to retention (and win-back if necessary), and successfully unveil unique moments of truth and opportunities to provide differentiation. Insurance industry leaders always keep policyholder touch points effortless and consistent across channels based upon needs, preferences, and value.

*Be Digital by Default* —Today, digital devices have been integrated into much of everyday life. These devices put substantial computing power in the hands of policyholders and enable them to have deeper, more fulfilling relationships with insurance companies. Mobile smart phones, and more recently tablets, have had a significant impact on the customer experience. Both device types offer unique opportunities for two-way mobile information exchange, and in the case of tablets, an extremely portable yet rich user interface experience. For instance, a policyholder in their mid-thirties may prefer submitting claims and checking status from their mobile device while on the go, but they also may check in with their agent to discuss terms of a new policy.



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*Safeguard Privacy*—Developing an excellent customer experience generally requires insight into policyholder needs and preferences, and that means collecting and maintaining customer information. Legal requirements for the insurance industry are being instituted under Dodd-Frank and the Consumer Protection act of 2010, however, to maintain an excellent customer experience and engender loyalty, more data beyond that which is required by law is necessary. According to the "Edelman 2012 Trust Barometer," consumer trust in businesses to "do what is right" averages only 53% globally; insurers should do what is right, and if they use data, safeguarding policyholder privacy is of utmost importance.

*Measure Improvement*—Baseline the current customer experience, its metrics and its current measurements; build the business case for change using proven models and methodologies; create and implement a closed loop feedback improvement mechanism; and evaluate and refine results.

Although no one metric is a silver bullet, Customer Effort Score (CES), a metric developed by the Corporate Executive Board's Customer Contact Council, is an effective metric to measure policyholders' overall customer experience. Customer Effort Score is, in short, comprised of one question that a firm can add to a post-transactional survey to assess the degree of effort that the customer had to exert in order to get an issue resolved, a request fulfilled, a product purchased/returned, or a question answered, relative to expectations. Whereas conventional thought states that to improve customer loyalty a firm must 'delight' a customer by exceeding expectations, large scale research has determined that what customers really want is simply to resolve their service issue satisfactorily<sup>ii</sup>.

Another widely used customer experience metric is Net Promoter Score (NPS). This is a customer loyalty metric developed by (and a registered trademark of) Fred Reicheld, and serves as an alternative to traditional customer satisfaction research. NPS measures the level to which a customer is either a detractor or a promoter of their firm. It is currently very popular but is not universally accepted from an academic and market research perspective. Research by Keiningham, Cooil, Andreassen and Aksoy disputes that the Net Promoter metric is the best predictor of company growth (2007) and Hayes in 2008 stated that the "likelihood to recommend" question, does not measure anything different from other conventional loyalty-related questions<sup>iii</sup>. Nevertheless, NPS does have many strong advocates.

## **CUSTOMER EXPERIENCE MATURITY MODEL**

There are four key capability dimensions across four levels (Developing, Foundational, Advanced, and Optimized) that are required to deliver effortless customer experiences that are multi-channel, digital and leverage insights straight from policyholders:

- Customer Experience Strategy & Design
- Customer Experience Information Management
- Customer Experience Insights



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- Customer Experience Delivery

Figure 2: Customer Experience Maturity Model

Dimension/ Level	4 Levels: <i>Developing to Foundational to Advanced to Optimized</i>
<i>Customer Experience Strategy &amp; Design</i>	<ul style="list-style-type: none"> <li>❑ Level of development of Customer Experience vision and strategy</li> <li>❑ Lagging/leading indicators/KPIs for Customer Experience</li> <li>❑ Customer-centric organizational design</li> <li>❑ Alignment of incentives to Customer Experience performance</li> </ul>
<i>Customer Experience Information Management</i>	<ul style="list-style-type: none"> <li>❑ Common customer IDs established for 360° view</li> <li>❑ Enterprise-wide customer data integration capabilities</li> <li>❑ Big and/or unstructured data management capabilities</li> <li>❑ Customer data governance processes</li> </ul>
<i>Customer Experience Insights</i>	<ul style="list-style-type: none"> <li>❑ Customer segmentation capabilities- demographic, behavioral, attitudinal, needs, persona and/or micro</li> <li>❑ Customer value differentiation – customer profitability, customer lifetime value, potential value</li> <li>❑ Usage of predictive or pre-emptive analytic modeling</li> <li>❑ Social media listening and analytics capabilities</li> <li>❑ Customer Experience metrics - descriptive, subjective (e.g. Customer Effort Score), and outcome-based</li> </ul>
<i>Customer Experience Delivery</i>	<ul style="list-style-type: none"> <li>❑ Customer self service capabilities (e.g. customer portals, virtual agent)</li> <li>❑ Effortless, insight-based, differentiated customer experiences</li> <li>❑ Multi-channel, seamlessly integrated, consistent experiences across sales, marketing and service</li> <li>❑ Digital and mobile experiences (e.g. social media engagement, mobile apps for tablet)</li> <li>❑ Collaboration and digital content management capabilities</li> </ul>

The following include leading practices within each dimension:

- **Customer Experience Strategy & Design** – Developing a unified vision and strategic blueprint that is consistent with the brand promise

Research shows that Customer Experience is a strategic priority for many insurance companies, but not nearly as many insurers have developed a clearly articulated vision and strategy as to what that means or is. To start, leading practices require a customer experience strategic roadmap that is closely aligned with the vision and differentiated brand proposition. Measurement-driven firms also develop and incorporate lagging if not leading indicators/KPIs for customer experience. More advanced insurers even incorporate organizational design and agent incentive structures (consistent with a policyholder-centric culture) with an incentive structure that ties compensation to performance on key customer experience metrics. Many of these firms have a senior-level Chief Customer Officer or equivalent with cross-functional responsibilities.



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- **Customer Experience Information Management**—Integrating policyholder data – including big and unstructured data - and platforms in order to develop a single policyholder view

Leading practices include common policyholder data definitions and their enforcement through a governance organization and processes. Tools that support the movement of data from operational systems into data stores and warehouses for policyholder segmentation analysis and reporting are called ETL tools (extract, transform and load). ETL tools enable common data definitions through metadata, capabilities and thus are also considered leading practice.

To remain competitive, insurers also require the ability to handle and leverage both big and unstructured data, especially from policyholder-generated content on social media channels. “An explosion of information is now available, explicitly and implicitly, for collecting customer demographics, psychographics, customer behavior, their clicks, their aspirations, their sentiment, their networks, their location, their reputation, online and offline transactions, stage of a buying process, life cycle stage, etc. All this information will be mandatory to meet lofty goals, such as a 360-degree view of the customer. Big data will not be an exercise in merely collecting massive amounts of this data; rather, it will be about making the right information accessible and action oriented for both the company and the customer for core CRM,” says Adam Sarner of Gartner.<sup>iv</sup>

Gartner goes on to predict that over 85% of Fortune 500 companies will not be able to effectively exploit big data for their competitive advantage from 2012 through 2015—leaving a large opportunity to exploit customer experience failures and gain a competitive advantage.

- **Customer Experience Insights**—Leveraging information-based customer intelligence, analytics, modeling, segmentation, and research

Leading practices in customer insights require advanced analytics and a data mining platform. These tools can perform advanced statistical analyses across large data sets to identify advanced customer segments, such as persona-based policyholder segmentation and micro-segmentation. Additionally, they enable policyholder profitability and lifetime value analyses, including policyholder-level activity-based cost capabilities to accurately calculate cost and contribute profit. Advanced insurance companies also develop sophisticated predictive propensity and preemptive models that focus on policyholder retention/attrition, cross-sell and up-sell of policies, and other policyholder propensities.

Optimized customer insight practices include usage of non-parametric, non-statistical artificial intelligence capabilities - innovative tools that provide more complete customer insights than traditional statistical models. Leading practices also include subjective and outcome-related metrics such as Customer Effort Score.





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- **Customer Experience Delivery**—Using data, insights, and technology to make an optimal customer experience operational for prospects and existing customers that is multi-channel and leverages digital

Best practices for customer experience delivery include multi-channel integration and activation, policyholder journey mapping, development and implementation of a policyholder brand and engagement strategy as well as a loyalty and correspondence strategy. However, developing the strategy is only the first step; executing upon that strategy and allowing customers to effectively and efficiently interact with your company is key. Today, customer experience delivery capabilities also require digital and social platform integration, customer experience management applications, and traditional CRM applications. To provide insight-driven sales, marketing and service offerings, an insurance company must be prepared to support complex processes that convert insight-based rules about policyholder behavior into differentiated offers and treatment by agents or electronically across all touch- points.

#### CREATING THE CUSTOMER EXPERIENCE ROADMAP



The greatest value of the Customer Experience Maturity Model is in using it to assess where an organization currently ranks in its customer experience capabilities, determining where it wants to go and then identifying the gaps. Then, gap fulfillment strategies become the foundation for a Customer Experience Strategy Roadmap. For an ideal approach to developing plans and strategies for implementing customer experience capabilities, insurers should consider the following steps:

- Customize the Customer Experience model for the insurance industry. Specifically, create a “leading practices” benchmark, and include a strategy for addressing key touch points the policyholder will have when they experience certain life events
- Perform a current assessment of customer experience by ranking internal capabilities on the model, including where a company stands on metrics such as Customer Effort Score
- Benchmark competitors and show where they rank on the model
- Synthesize this information and determine where the organization needs to be on the Customer Experience Maturity Model

The results of this analysis will resemble Figure 3 below. This chart is a summarized version of current state (C), future state (F), and gap analysis (the vector between them).



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Figure 3: Customer Experience Strategic Roadmap

Dimension/ Level	Developing	Foundational	Advanced	Optimized
Customer Experience Strategy & Design		C		F
Customer Experience Information Management	C		F	
Customer Experience Insights		C		F
Customer Experience Delivery			C	F

When combined with benchmarking (e.g. competitor firm 1, 2, and 3 in Figure 4 below) this approach can yield very insightful competitive intelligence. The benefits of combining leading practice with competitive analysis are compelling. Leading practice analysis alone, while helpful, does not address the market dynamics in which a company operates. Industries vary tremendously on their adoption of customer experience strategies. Combining the leading and competitive practices analyses provides greater clarity for the organization that needs to decide where to make its strategic investments.



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Figure 4: Competitive Benchmarking

Dimension/ Level	Developing	Foundational	Advanced	Optimized
Customer Experience Strategy & Design		1 2		3
Customer Experience Information Management	1	2	3	
Customer Experience Insights	2	1	3	
Customer Experience Delivery		2 1		3

Once an insurance company has reached consensus on the rankings and desired future state capabilities to offer to policyholders, gaps then become apparent as represented by the capabilities that appear between the two points on the Customer Experience Maturity Model. These gaps can be targeted as initiatives in a customer experience strategic roadmap, including: program descriptions, resource requirements, timing, and a business case/ROI model. While initiative costs are more easily quantified than benefits, it is possible to make detailed projections based upon similar programs and solid assumptions of premium enhancement via an increase in policies and policyholders, growth, and retention as well as cost reductions via customer experience efficiencies.

CONCLUSION

West Monroe Partners’ believes that a policyholder’s perception of their insurer is developed as a result of their interaction across multiple-channels, not through one individual transaction or moment in time. A positive and effortless customer experience can result in increased policyholder satisfaction, loyalty, advocacy and greater customer lifetime value, which leads to competitive advantage.

Our experience suggests that an “optimized” or even an “advanced” customer experience ranking is not necessarily required for attaining competitive advantage. In many cases in the insurance industry, even a “foundational” ranking can be differentiating if the competition is less mature. Therefore, it is important to consider both leading practices and competitive analyses before establishing a customer experience



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program.

Customer savvy organizations always want to know who is operating in the “advanced” and “optimized” dimensions and what they are doing to achieve this level. Insurance companies are leading the way in “optimized” capabilities, some offering policyholder support via mobile applications.

Profitable growth is always a challenge. However, when firms identify strong brand propositions and align them with data-enabled, insight-driven, organizational design and technology-leveraging strategies to enhance and optimize the customer experience, they can achieve competitive advantage. In a digital, social media-connected world, policyholders are expecting effortless, multi-channel, differentiating customer experiences from the firms with which they choose to do business.

Insurance companies must holistically address the four dimensions of customer experience in order to provide an effortless, data-enabled, insight-driven customer experience that empowers competitive differentiation. Developing a unified vision and strategic blueprint that is consistent with the brand promise is the first step. Integrating customer data and platforms in order to develop a single policyholder view is the information-based foundation of a customer-centric organization.

Leveraging this information and analytic-based insights that along with new technologies can be utilized to deliver multi-channel, digital, and optimized customer experiences can then truly enable competitive differentiation with incredible results.

For more information on how to improve experiences to drive customer value in the insurance industry, please contact Dave Nash, Director-Customer Experience, at [dnash@westmonroepartners.com](mailto:dnash@westmonroepartners.com).

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