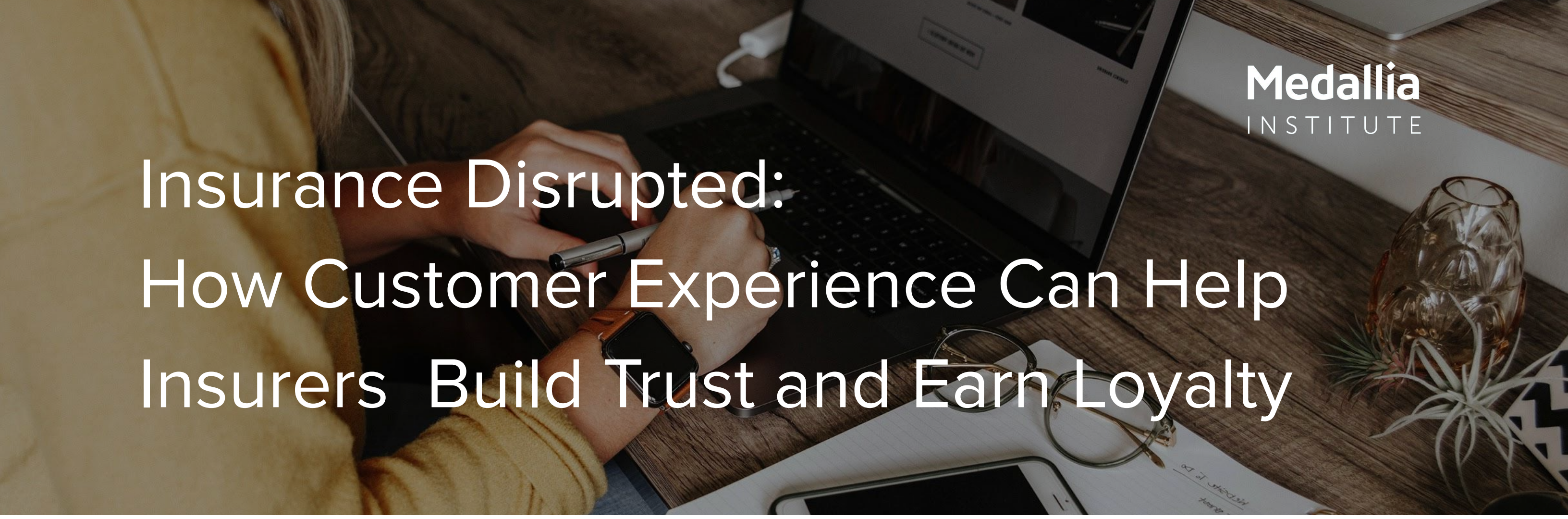

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Insurance Disrupted: How Customer Experience Can Help Insurers Build Trust and Earn Loyalty

Why This Matters

Over the last decade, insurers across the world have witnessed the steady rise of direct low cost competitors which has led to the commoditization of their industry. Combining this with years of low interest rates, increased frequency of large catastrophes, the advertising “arms race”, and the threat posed by InsurTechs, many executives are wondering how they can continue to compete in this new world. Recently Oliver Bäte, the CEO of Allianz, answered this question by saying:

“We need to become institutions that really do understand what clients want and give it to them, and in a way that still leaves us a good margin. I really believe these things are not antidotes. The best brands have also the best margins and the best brands have the highest consumer trust.”[1]

and similarly the CEO of The Hartford, Christopher Swift, recently said:

“The reason we have stayed in business through events like the Civil War and the Great Depression is that people trust us.”[2]

Brands that build an environment based on trust and the needs of their clients are better positioned to deliver exceptional experiences and above-average returns. By listening to its existing and future policyholders, insurers can improve their products and processes to deliver a frictionless, differentiated experience. This is true whether you are selling term life or complex specialty coverage.

Key Takeaways

Medallia’s research indicates that generational differences in customer satisfaction, trust in insurance providers, and eagerness to try out new business models pose significant challenges for insurers seeking loyalty from Millennials and Gen Z consumers.

Drawing on a survey of over 4,000 U.S. auto and homeowners’ insurance customers and on lessons from major insurance companies, we identified several steps that insurers can take to maintain their edge with established clients while also appealing to today’s younger and more diverse customer base. Regardless of a customer’s age or other personal characteristics, the key to earning her satisfaction and loyalty is trust. Two key pillars of trust, in turn, are effective communication and agility in responding quickly to customers’ changing needs.

Specifically, insurers should:

- Enrich customer data by integrating client feedback and bringing to life the insurer's understanding of the diverse needs of different customer segments
- Contextualize customer data in order to foster meaningful dialogue with clients
- Maintain a seamless balance between human and digital touchpoints
- Let customers, not hot news trends, guide your approach to innovation

The Insurance Industry, Disrupted

The insurance industry is being buffeted by many of the same forces that have upended other parts of the U.S. economy. Plans that were based on multi-year core system implementations have been pushed to the side as companies have been forced to adopt a digital-first approach in real-time. In fact, recent data shows organizations have vaulted five years forward in consumer and business digital adoption in a matter of months.

In addition, the influence of digital-first technology companies has led to new expectations for how consumers want and hope to engage with insurers: 68% of consumers are willing to use an app from their insurance company, 67% of consumers would be willing to have a sensor attached to their car or home, and 58% of Americans expect to use a robo adviser by 2025. These influences are also shaping insurers' IT spending decisions. Allocating 70-80% of the IT budget on just "keeping the lights on," is not sustainable. At the same time AI, machine learning, cloud, and other emerging technologies have led to a wave of new market entrants such as InsurTech firms, who view these tools as a way to increase efficiencies and lower the cost to serve. According to Business Wire, global revenue for InsurTech firms is expected to reach over $10 billion by 2025, growing at a compound annual growth rate (CAGR) of 10.80% during the period 2019-2025.

These competitive forces are the result of insurers being judged on customer experiences not by those of rival carriers but rather from other brands like Amazon and Uber.

In fact, when Medallia asked over 4,000 U.S. auto and homeowners' insurance customers to name a company their insurer should emulate, most of those who did so named another insurer, but the next most common response was to volunteer a tech company such as Amazon, Google, Apple, or Facebook.[3]

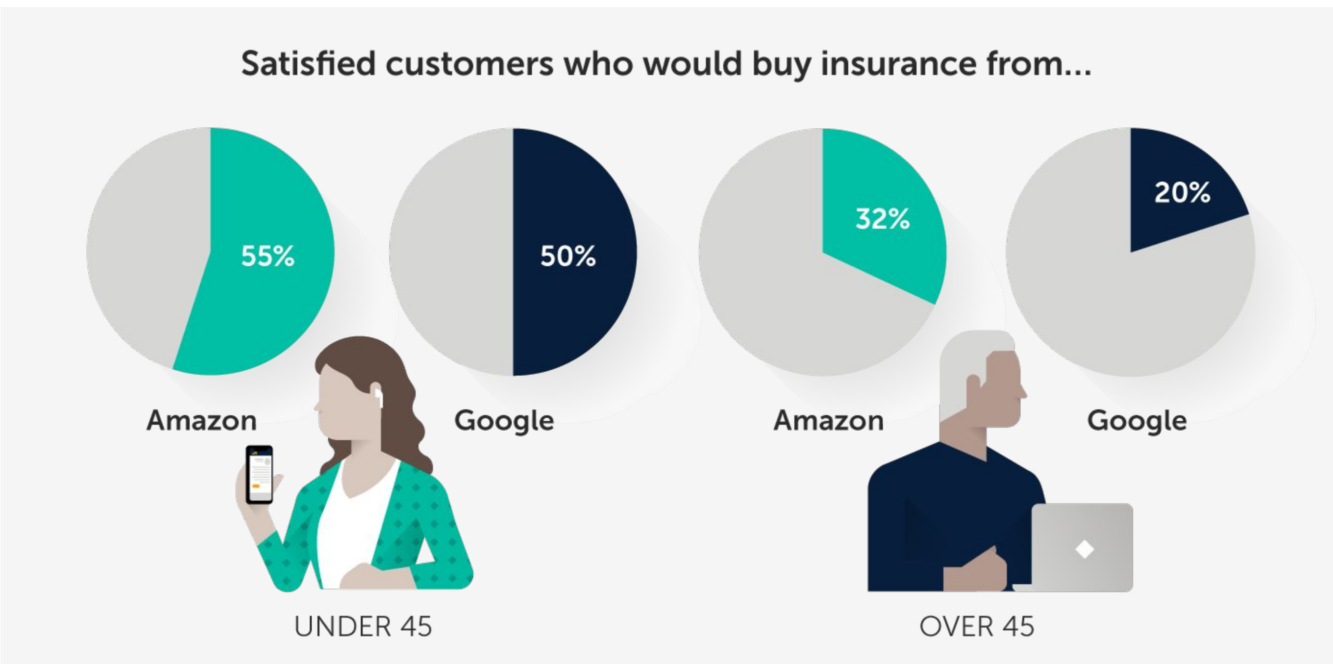
In this environment, the challenges of attracting new clients and maintaining customer loyalty are greater than ever. The results of Medallia's survey of insurance consumers suggest that traditional insurers' historic advantages in areas such as name recognition and risk pricing are unlikely to protect them against consumers' openness to trying out new business models and products. This is especially true for Millennials and members of Generation Z.[4]

Generational Differences in Trust, Satisfaction, and Loyalty

The good news is that overall levels of trust and customer satisfaction remain quite high. About 77 percent of consumers trust their current insurance provider and 81 percent are satisfied with their overall experience.[5] Still, there are significant generational differences on both counts. For example, customers over 65 are 16 percentage points more likely to trust their insurer than those under 25.[6] Younger consumers also tend to be less satisfied with their provider: while only 38 percent of respondents under 35 report being highly satisfied, 54 percent of those over age 55 are. Further, customers under 35 are almost twice as likely to anticipate switching carriers in the next three years.[7]

Perhaps even more worrying, among younger customers even satisfaction with their current carrier appears to be no guarantee of future loyalty. For instance, more than half of currently satisfied customers under 45 say they would consider purchasing insurance from Amazon, and half would do so from Google. In contrast, satisfied customers over 45 are much more likely to say they would not purchase insurance from these non-traditional providers: only 32 percent would consider purchasing from Amazon, and 20 percent from Google.[8]

The key challenge for insurers, then, is to maintain the high levels of satisfaction observed among more established customers while also finding new ways to earn the loyalty of Millennial and Gen Z clients. To do so, a focus on excellent customer experience, grounded in a sophisticated understanding of customers' needs and perspectives, is vital.



Trust: The Foundation of Satisfaction and Loyalty

Medallia's research shows that trust is synonymous with customer satisfaction, and central to loyalty. A customer has a 99 percent chance of being satisfied with her insurer if she strongly trusts the company, but only a one percent chance if she strongly distrusts it. Further, a person who strongly distrusts her insurer is nearly 18 times as likely to anticipate changing carriers in the next three years as one who strongly trusts her provider.[9]

The business risks implied by these findings are clear. Insurers who fail to establish and maintain the trust of their customers risk being abandoned en masse. What's more, with the lower levels of trust and satisfaction observed among younger consumers, the danger appears more pressing for auto insurers, whose customers are on average seven years younger. Indeed, while 38 percent of auto insurance customers are under 35, only 22 percent of homeowners' insurance customers are, and 40 percent are 55 or older.

What, then, drives trust among insurance consumers? We find that it rests on a bedrock of effective communication based around meaningful dialogue, and agility in responding to customers' changing needs.

Building Trust Through Communication: Customers Want Meaningful Dialogue

The vast majority of insurance consumers had at least some contact with their insurer in the past year, with Millennial and Gen Z customers somewhat more likely to be in touch: the chance that a respondent under 35 communicated with her provider through at least one channel (phone, email, text message, etc.) was 89 percent, versus 83 percent for older customers.[10] Auto consumers were also 6 percentage points more likely to be in touch than homeowners' customers, at least if they did not have a claim.[11]

When it comes to building trust, however, it is the quality of communication that matters most. Especially with younger customers, communication should be a two-way street. While customers want to be kept informed with timely and relevant information, many also want to know that their insurer cares about their point of view. Insurers who demonstrate that they know both when to pick up the phone or send an email, and how to listen, will be best positioned to send the message that they care about their customers' experiences.

A person who strongly trusts her insurer has a

99% chance

of being a satisfied customer

Keeping Customers Informed Means Providing Timely, Clear, Relevant Information

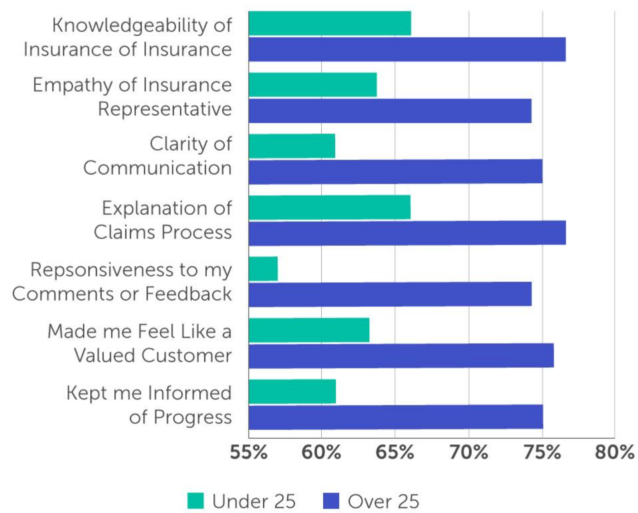
The single most important contributor to trust is for a customer to feel that her insurer keeps her up to date with the information she needs. A customer who strongly agrees that her provider keeps her well-informed has a 99 percent chance of trusting the company, but this drops to only 10 percent if she strongly disagrees.[12]

A customer has a
99% chance
of trusting an insurer that makes her feel well-informed

There is also a clear opportunity for insurers to build greater trust with customers of all ages by improving the content and delivery of their communications. According to a YouGov poll, 72 percent of U.S. adults agree that, in general, insurance companies use confusing language that is difficult to understand, and older respondents were even more likely to feel this way than younger ones were. Meanwhile, Medallia's research shows that when it comes to the communication they receive at key moments in their relationship with their provider, the youngest customers are consistently less satisfied than their older counterparts. Among survey respondents with a claim in the past year, those under 25 rated their insurer lower than older customers did across seven different aspects of communication about the claim.

As highlighted in **Figure 1,** these customers were less likely to feel that their insurance representative was knowledgeable, empathetic, or responsive to feedback. They also found their insurers to be less clear communicators in general, in explaining the claims process specifically, and in keeping them informed of progress. Finally, these customers were also less likely to agree that their insurer made them feel like a valued customer.[13]

Figure 1. Percent Satisfied With Each Aspect of the Claims Process



Several insurers have achieved promising results by tackling these kinds of communication problems head on. One insurer saw its Net Promoter Score (NPS) for claims increase after it began sending clients personalized communications about what to expect in the process as soon as they initiate a claim. In addition, as part of a major overhaul of its CX strategy, Italian insurer Generali used customer feedback to identify clarity of communication, insufficient status updates, and the quality of person-to person contact as key pain points for its clients.

In response to these insights, it implemented a company-wide plain language program that focused on revising company documents to make them easier to understand; began providing customers with automatic updates via SMS, the company app, and other digital portals; and initiated empathy coaching for employees along with welcome calls to new customers in order to enhance the human touch in its client relationships.

Zurich Insurance offers a similar lesson on the value of feedback in learning how to better keep customers informed at key moments. After discovering that customers in its Turkish market were dissatisfied with its automated policy renewal process, Zurich altered its process to explicitly inform customers when their policies are up for renewal. This change led to an increase of 20 points in the NPS score for the renewal process within just two months of detecting the problem. Zurich also discovered that even a simple change in language can make a big difference in customers' perceptions about the information they receive. Survey feedback revealed that customers were often suspicious of the company's motives when they learned that an assessor had been assigned to examine their claims, seeing this as a sign that the company was looking for reasons not to pay them. In response, Zurich began referring to these employees as specialists instead and according to one representative, "what [we] began to notice was that where previously the commentary from customers had been 'I'm suspicious about the presence of an assessor', customers would say 'Well, I like the fact that you've assigned a specialist to deal with my claim.'"

A corollary to customers' hunger for the information they need is that many are turned off by communications they see as irrelevant or sales-motivated.

When Medallia asked what one thing customers would most like their insurer to stop doing, the second most popular answer (after halting premium increases) involved complaints about unwanted communication, including receiving too much paper, advertising, emails, phone calls, or text messages; and up-selling or cross-selling of other products and services.[14]

ZURICH

Zurich Insurance, a Fortune 100 enterprise, **increased its NPS by 20 points** in just two months after taking action on customer feedback by altering its automated policy renewal process to explicitly inform customers when their policies are up for renewal.

Listening is Part of Trust for Younger Customers

A second aspect of communication that is crucial to trust for younger customers is listening. Those under the age of 35 specifically want their insurer to seek out their feedback and listen to them, yet only 63 percent feel that it does. For this group the difference between strongly agreeing and strongly disagreeing that their insurer does these things is a 20 percentage point increase in the probability of trusting the company.[15]

In contrast, for respondents over 35 there is no direct relationship between feeling heard and trust. Clearly there is room for insurers to improve their relationships with younger customers by giving them more opportunities to provide feedback, but providers should not ignore input from their more mature clients, either. As we discuss below, such feedback can help them respond more quickly and effectively to these customers' needs, which is also vital for maintaining trust.

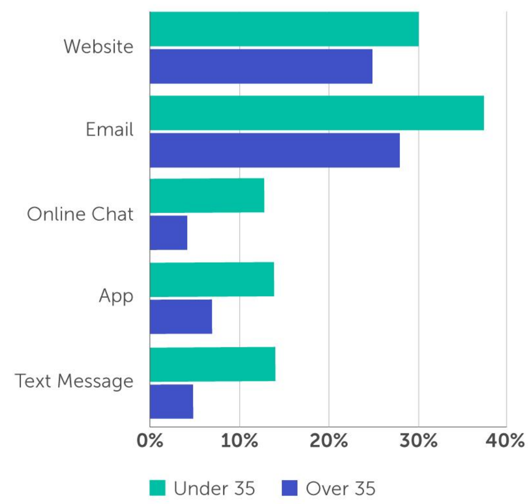
Attentiveness to client feedback has also yielded positive outcomes for a variety of insurers. One company, for example, saw up to a 30 percent increase in retention when it began following up with highly dissatisfied customers after a claim. And for Australian insurer Auto & General, listening to feedback has led to a more customer-centric company culture. According to a customer experience manager there, "It's been amazing to see the cultural shift at Auto & General. Now the company thinks of our customers as people with emotions, and we now consider how we can make them feel valued when we make certain business changes."

Invest in Digital Tools, but Maintain a Human Touch

To establish meaningful dialogue with customers, insurers must be available to communicate with them at the times and through the channels they prefer. In practice, this means providing customers with access to digital tools while also taking care to maintain a human touch. This is especially true of younger consumers.

Primary research with several insurers found that younger customers expect streamlined digital experiences before and after purchase. "Digital engagement is an important aspect of attracting millennial customers and keeping them on as long-term clients." And indeed, for every digital communication channel Medallia inquired about, Millennial and Gen Z consumers were more likely to interact with their insurer.[16]

Figure 2. Probability of Communicating With Your Insurance Provider by Channel



Still, by far the most common way that customers communicate with their insurers is by phone: 61 percent of respondents did so in the last year, and this was nearly twice as many as used email, the next most popular method. What is more, the very youngest consumers — those under 25 — were most likely of all to speak with their insurer by phone, with 68 percent doing so in the past year. Among customers with a claim, 77 percent chose to report it either by phone or in person, including 70 percent of those under 35.

More broadly, only 17 percent of customers -- and only 19 percent of those under 35 -- communicated with their insurer via digital means alone, while 36 percent used a mix of digital and non-digital channels and 29 percent used non-digital channels only. Further, once a customer's level of trust in her insurer is accounted for, there is no significant relationship between the type or number of communication channels she uses and her overall satisfaction, for either younger or older consumers.[17] What these findings highlight is that even while many consumers appreciate the convenience of digital communication, what matters more than any particular method of contact is the message the company sends about its availability and, therefore, its commitment to its customers as individuals.

Building Trust Through Agility: Adapt Quickly to Customer Needs

A second key contributor to trust is agility, or insurers' ability and readiness to act on customers' emerging needs. Agility requires both a clear understanding of these needs and the capacity to respond without delay. A customer is 17 percentage points more likely to trust her insurer if she strongly agrees that the company understands her needs and offers unique products that are valuable to her.[18] Customers of all ages are also more trusting if they feel that their insurer is innovative and responsive. One who strongly agrees that her insurer takes action when customer issues arise is 3.5 times more likely to trust the company than one who strongly disagrees.[19] And a respondent is 20 percentage points more likely to trust her provider if she strongly agrees that it innovates and adapts to keep up with her needs.[20]

Consumers are
20% pts
more likely to trust their insurance provider when the company innovates and adapts to their needs.

While agility is important to customers of all ages, it may mean taking different approaches for customers at different life stages. For instance, Medallia found that among respondents who had switched carriers in the past three years, fewer than half of those under 35 cited price as the primary reason, compared to 60 percent of those over 35. Instead, younger consumers were significantly more likely to say that they had switched carriers for another reason, including due to a bad experience, to find an insurance product that better fit their needs. To find a provider that uses more advanced technology, or to consolidate their own or their family's policies with a single provider.

These results are probably explained at least in part by the more fluid insurance needs of an age cohort that is more likely to be getting married, purchasing a home for the first time, or adding new children to their families. Thus, one way to wow these clients could be to anticipate such life changes with offerings that more easily and seamlessly allow consumers to adjust their policies as their insurance requirements expand, and to reach out at the right moment to make customers aware of these options.[21]

Life transitions affect older customers in ways that can alter their insurance requirements as well, and that can be expected to have a growing impact on the insurance market in coming years. The U.S. Census Bureau reports that the 65-and-older population segment has grown by over a third during the past decade and by 3.2% from 2018 to 2019 alone.

Finding ways to assist these senior clients and their families, whether with understanding their insurance options as their living circumstances change or with helping them to age safely in their current homes, will likely be a key part of keeping up with client needs in line with anticipated demographic changes.

Another key to agility is personalization, which insurers can achieve in any number of ways. One approach some providers take is to reach out to customers who provide negative feedback about an interaction with the company partway through a process such as a claim or quote request, in order to address their problem and turn their experience around before the transaction is complete. Another strategy is to offer customers personally tailored advice about their risks for loss or injury, or about the safety of particular driving routes or potential home hazards.

As research by Accenture has pointed out, many consumers would like for their insurer to provide them with this kind of information.[22] Regardless of how insurers aim to go about providing such personalized experiences, however, doing so requires not just an in-depth understanding of each customer, but also the infrastructure to respond and update clients in real-time as information about their experiences and risks changes.

Recommendations

Driving higher levels of policyholder satisfaction, loyalty, and retention in insurance comes down to building trust through a combination of effective communication and agility. To achieve them, insurers must clearly grasp their different customers' unique needs and adapt their products and services to meet them. While this is a tall order, our findings suggest insurers can rise to the challenge by:

- **Investing in a 360 degree view of the customer**. Insurers need to do more than just capture customer data. To truly understand individual clients' needs and preferences for products and information, and to offer personalized experiences, they need to combine customer feedback with demographic, behavioral, and purchase data. This information should also be available to the company's employees as they interact with customers. Achieving these goals requires the technological architecture to bring together diverse data that may be fragmented across different business lines or legacy systems. Insurers should focus on eliminating these barriers, such as by establishing cross-functional teams to address those customer experiences that span different parts of the business.

- **Combining human and digital channels**. Insurers should be available to communicate with customers at the times and through the channels they prefer. This means providing customers with access to digital tools (such as chatbots and mobile apps) while also maintaining a human connection by making sure a real person is available when issues arise. Digital tools should be seen not as a means to replace person-to-person interactions, but as a way to free up employees to build personal relationships with customers at key moments in their journeys with the company.

- **Leveraging customer feedback to power continuous innovation**. Insurers should use customer feedback to quickly understand and react to customer pain points and needs. While doing so will require companies to invest in advanced technologies, they should not forget that these technologies are merely the means to a larger end. From the customer perspective, innovation is ultimately about creating new value by developing seamless experiences and valuable products that can flexibly adapt to changing life circumstances and expectations.

Methods

Except where otherwise noted, all statistics in this report are based on analysis of a Medallia commissioned survey of 4,004 U.S. insurance consumers fielded in January 2018. The sample was matched to the U.S. census based on age, gender, and census region (Northeast, Midwest, South, West).

Endnotes

[1] InsurTech Connect presentation. October 21, 2020

[2] www.hartfordbusiness.com/article/the-hartford-ceo-insurance-companies-cant-be-expected-to-cover-a-business-pandemic-losses

[3] Except where noted, all figures in this report refer to data from this survey, fielded in January 2018. There were a total of 4,004 respondents, of whom approximately 2,300 named a company they wanted their insurer to resemble. Of these, about 63% named an insurer and 11% named a technology company.

[4] Millennials refer to individuals between the ages 23-38 and Generation Z refer to individuals who are 22 and younger.

[5] Customers who rate their insurer 7 or higher on a 0-10 scale for overall satisfaction and trust.

[6] 85 percent of those over 65 trust their insurer, versus 69 percent of those under 25.

[7] About 10 percent of those over 55 indicated that they expect to change carriers, versus 18 percent of those under 35.

[8] The probability that a satisfied customer under 45 would purchase from Amazon is 55 percent, and from Google is 50 percent. Results are based on logistic regressions controlling for gender, region of the United States, income, education, and whether the consumer is an auto or homeowners' customer.

[9] The chance that a respondent who rates her insurer a 10 on trust plans to change providers is 4 percent, versus 71 percent for one who rates her insurer a 0. All probabilities in this paragraph are predicted results from logistic regressions that also control for age,gender, education, income, whether the respondent communicated with her insurer in the previous year, whether the respondent was an auto or homeowners' insurance customer, and whether she had a claim in the previous year.

[10] Predicted results from logistic regression also controlling for gender, income, education, auto vs. homeowner, region, and whether the respondent had a claim in the last year.

[11] Auto consumers without a claim had an 85 percent chance of communicating with their insurer, versus 79 percent for homeowners' customers. These are predicted results from logistic regression controlling for age, gender, income, education, region, and whether the respondent had a claim in the last year.

[12] Predicted results from logistic regression that accounts for how well a customer feels her provider keeps her informed, seeks her feedback, understands her needs and offers unique products that are valuable to her, innovates and adapts to keep up with her needs, anticipates her needs, and takes action when customer needs arise. These models also control for customer gender, income, education, whether the customer is under 35, and whether she is an auto or homeowners policyholder.

[13] For each question, the difference in the proportion of under 25 and over 25 respondents who were satisfied was significant at $p < .02$ in a Chi-squared goodness of fit test. Customers under 25 were also slightly less likely to agree that their insurance provider keeps them well-informed more generally, independent of the claims process (66 percent for those in this age group vs. 70 percent for older respondents), but this difference barely missed statistical significance at the standard .05 level.

[14] These complaints account for about 21 percent of those who volunteered an answer to this question, and 13 percent of all respondents.

[15] This probability jumps from .73 for those who strongly disagree to .93 for those who strongly agree, a 1.3x increase. The regression contains the same covariates as the one described in note 11, plus an interaction between the question about feedback and the indicator for customers under 35. Other interactions between age and customers' views of their insurers were insignificant, and omitted.

[16] Results are predicted probabilities from logistic regressions that include an indicator for respondents under 35 and also control for gender, income, education, region of the U.S., whether the respondent was an auto or homeowners' customer, and whether the respondent had a claim in the last year.

[17] Findings from logistic regressions that also included the respondent's trust in her insurer, an indicator for respondents under 35, gender, income, education, whether the respondent was an auto or homeowners' customer, and whether the respondent had a claim in the last year.

[18] All results in this paragraph refer to the regression described in note 11. Respondents who rate their insurer a 10 on understanding their needs have a 94 percent chance of trusting their insurer, versus 77 percent for those who rate their insurer a 0 (a 1.2x increase).

[19] Respondents who rate their insurer a 10 on taking action when issues arise have a 97 percent chance of trusting the company, versus 28 percent for those who rate it a 0.

[20] Respondents who rate their insurer a 10 on innovating and adapting to keep up with their needs have a 94 percent chance of trusting the company, versus 74 percent for those who rate it a 0 (a 1.3x increase).

[21] The difference in the proportion of under 35 and over 35 respondents that switched carriers to find a lower price, versus for another reason, was statistically different at $p < .001$ in a Chi-squared test of independence. The same test was significant at $p. = .04$ when respondents were asked why they expected to change carriers in the next three years.

[22] See p.3.

Contributors

Andrea Everett leads Medallia's research team, where she conducts studies that help organizations understand how they can take action to improve their customers' and employees' experiences. Before joining Medallia, she taught and conducted research on international politics and organizational behavior. She is the author of Humanitarian Hypocrisy: Civilian Protection and the Design of Peace Operations (2017, Cornell University Press).

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About the Medallia Institute

The Medallia Institute provides quality research, insights, and education programs to equip business executives and customer experience professionals with the insights and know-how to lead their organizations to compete and win on customer experience.

About Medallia

Medallia is the pioneer and market leader in Experience Management. Medallia's award-winning SaaS platform, the Medallia Experience Cloud, leads the market in the understanding and management of experience for customers, employees, and citizens. Medallia captures experience signals created on daily journeys in person, digital, and IoT interactions and applies proprietary AI technology to reveal personalized and predictive insights that can drive action with tremendous business results.

Using Medallia Experience Cloud, customers can reduce churn, turn detractors into promoters and buyers, and create in-the-moment cross-sell and up-sell opportunities, providing clear and potent returns on investment. Medallia has offices worldwide, including Silicon Valley, Buenos Aires, London, New York, Tel Aviv, and McLean, Virginia. Learn more at www.medallia.com.

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