

Digital Customer Engagement in Insurance:

Changing the Paradigm for Customer Interaction



An SMA White Paper

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About This White Paper

This white paper is based on SMA's experience, research, and insights.

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Table of Contents

What: Transform the Customer Experience	3
<i>Rich Interactions – the New Norm</i>	
<i>More than the Millennials</i>	
<i>The Power of Customer Engagement</i>	
Why: Maximize the Value of Every Interaction	4
<i>Interactions Create Opportunities</i>	
<i>Interactions Drive Profit</i>	
How: Begin the Journey to Customer Engagement	6
<i>Improving and Enriching Customer Data</i>	
<i>Leveraging Analytics for New Customer Insights</i>	
<i>Optimizing Customer Communications</i>	
SMA Call to Action	8
About Strategy Meets Action	9



Insurance companies have embarked on a journey to transform the experiences they provide to their customers. In an omni-channel world, insurers must harmonize interactions across all channels, recognizing that digital interactions are increasingly playing a larger role in shaping customer experiences.

What: Transform the Customer Experience

Insurance companies have embarked on a journey to transform the experiences they provide to their customers. Following in the footsteps of other industries, insurers are assessing and rethinking how their customers interact with the company, its agents, and business partners. In an omni-channel world, insurers must harmonize interactions across all channels, recognizing that digital interactions are increasingly playing a larger role in shaping customer experiences. These exchanges include the common, mundane communications of everyday life as well as some unique and highly specialized interactions. Customers are becoming increasingly demanding, and expect information, sales transactions, and services through the Internet and mobile devices. There are three aspects of the digital customer experience that are paramount for insurers to consider as they undertake the transformation of the customer experience: the nature and richness of the interactions themselves, the various expectations of customers in the digital world, and the power in moving from customer experience to customer engagement.

Rich Interactions – the New Norm

Many insurers have been steadily working to increase their ability to communicate digitally with their customers. For many, the journey began in the mid to late 1990s with the first insurance web sites. Today, this journey has evolved to include mobile apps, SMS messages, and social media interactions. A common question in the insurance industry is, "What really differentiates one insurer from another, if they are all offering digital interaction capabilities?" The answer is simple – rich, well-coordinated interactions. But, what constitutes a rich interaction? The answer to that question is a bit more complex. In essence, the "rich" part of the digital interaction involves a combination of information, insights, and a visual presentation that makes each individual customer touch point meaningful. This means that the information conveyed is accurate, complete, timely, and useful. It also means that the information is presented in an appealing and engaging manner via the customer's preferred device and channel. A rich interaction may make maximum usage of advanced technologies, such as touch screen interactions, video, animations, and graphics. Or, it might be presented using simpler technologies. The real key to an effective, high value interaction is in its personalized messages, informed by insights about a specific customer. A rich interaction gives the customer the sense that the insurer understands who they are, knows what they need, and will make extra efforts to satisfy them. More individuals are expecting rich interactions because these types of informed, personalized, and satisfying interactions are already the norm in other industries. The expectation level has been officially raised. It won't be long before rich interactions become the norm in insurance as well.

More than the Millennials

When business planners and strategists discuss the importance of creating and improving the digital customer experience, the focus has frequently been on the millennial generation, sometimes referred to as Gen Y or the Net Generation. These individuals were born in the 1980s and 1990s and have grown up in a digitally-connected environment. There is no question that this generation is critical to future success in the insurance industry; they are the next wave of customers and employees. These



Creating an environment of rich interactions and communications tailored to specific segments and individuals makes a major contribution to satisfied customers. The next wave of opportunities is based on going beyond improving the customer experience and developing a richer digital engagement that is integrated with and into other channels.

millennials have a built-in expectation that they will be able to communicate and interact with anyone and everyone regardless of time, location, device, or method.

However, it would be a mistake to narrow any discussion of the digital customer experience to the millennial generation. Customers of all ages and demographic groups are joining the digital revolution. Grandmothers are becoming avid texters to stay in touch with their grandchildren (and friends). Smartphones are being used by 7 year olds, with parents willingly supplying the devices for safety and convenience reasons. Retirees are surfing web sites for everything from financial planning and investment information to healthy recipes. Business professionals are using Siri on their iPhones to make travel arrangements and find restaurants. Thirty-somethings are networking to find new jobs and turning to the web to share pictures of their families for friends and family to enjoy.

The Power of Customer Engagement

Creating an environment of rich interactions and communications tailored to specific segments and individuals makes a major contribution to satisfied customers. Satisfied customers are more likely to renew and to purchase additional products. The next wave of opportunities is based on going beyond improving the customer experience and developing a richer digital engagement that is integrated with and into other channels. Achieving the promise of an omni-channel environment means full awareness of customer interactions across all channels and capitalizing on digital capabilities to provide an easy, positive experience for the customer.

Insurers with an understanding of the full scope of the relationship with an individual customer and the context of each of their interactions are positioning to truly engage their customers. Engaged customers view the insurer as more of a trusted partner than a product provider. This level of engagement requires real-time access to the information and insight that frames each interaction and strengthens loyalty – because the insurer demonstrates that they know and care about the customer. Insurers operating with a customer engagement mindset consider the long-term relationship, which may mean that some individual interactions are not optimized from the insurer's perspective. Advising a customer *not* to buy a certain product or spending more time on the phone than usual are examples of activities that promote long-term relationships. Customer engagement allows insurers to benefit from customers that become their advocates – willing and even eager to refer their family, friends, and social media connections to the insurer.

In short, digital customer engagement will touch everyone in some way. A digital experience will soon be the standard – everyone will want it and expect it. For insurers, increasing the sophistication level of customer interactions creates opportunity to gain new customers, retain existing customers, and attract talented new employees.

Why: Maximize the Value of Every Customer Interaction

Interactions Create Opportunities

There is a reason that insurers speak about “moments of truth” or “customer touch points.” For most customers, the insurance experience is different than what they normally experience with banks, retailers, travel companies, or phone providers. The typical customer has frequent interactions as they deal with companies in other



industries where hundreds or even thousands of exchanges per year are common. Most insurers do not even come close to that level of contact frequency with their policyholders. In the insurance industry, a high percentage of the interactions involve billing and claims transactions – not exactly pleasant compared to those experienced in other industries where the customer gets some level of satisfaction or even enjoyment from a transaction. For most insurance customers, even the sales-oriented transactions are a necessity that is not exciting, largely because most products sold by insurers require that customers commit to spending money for protection against something they hope never happens, or for long-term investment toward a distant goal.

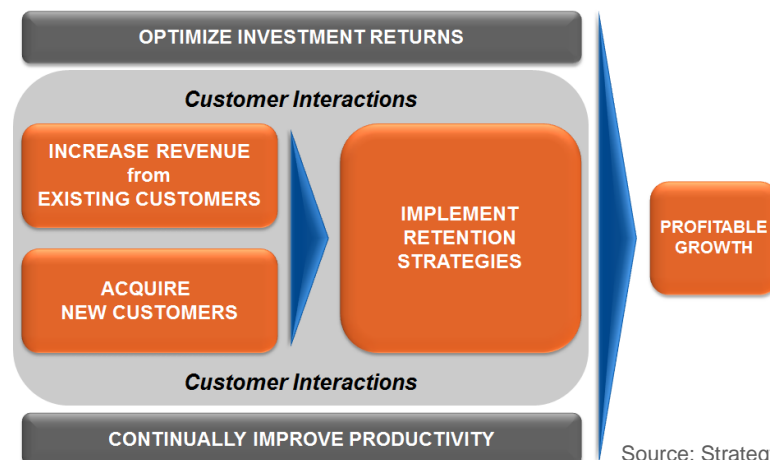
So for insurers, every customer touch point is critical. The infrequent touch points in insurance often involve stressful or onerous tasks – situations where, with the right finesse, insurers have an opportunity to “turn lemons into lemonade.” Every quote, bill, customer service inquiry, investment redirection, or claim check provides an opportunity for making an impression. Each of these individual communications has the potential to influence the policyholder – either in a negative or positive way. As the world goes digital, many of these interactions will start as digital requests. Some may be completed without human interaction, while others will involve human experts. But, insurers that are able to begin with sophisticated, digital customer interactions will be better positioned to leave the policyholder with a positive perception. And those insurers that have advanced customer analytics capabilities will be able to harness new insights that can take customers well beyond just basic satisfaction. They will be able to deliver the extra value that retains customers and drives additional product and service sales.

Interactions Drive Profit

All insurers have objectives to improve their financial results. The key levers for improving net income fall into three categories, as illustrated in Figure 1:

- Optimizing investment returns – by wisely investing premium income and managing assets on behalf of policyholders.
- Acquiring and retaining customers – by expanding the customer base, increasing revenue from the existing customer set, and retaining (profitable) customers.
- Continually improving productivity – by managing expenses and improving the effectiveness and productivity of the human resources across the enterprise.

Figure 1. Customer Interactions and Profitability



Source: Strategy Meets Action 2014



Insurers have been focused on improving productivity and optimizing investments for many years. Today, that focus is expanding and there is significant new attention on customers – understanding more about customers, creating innovative products to address customer needs, and improving the customer experience. Insurers are especially interested in improving retention ratios that are stuck in the 80 percent range for many companies, translating to a churn of 20% per year. Giving customers more reasons to be loyal will increase retention, decrease sales costs, and have a big impact on profitability.

The transition to digital customer engagement is a vital component for success. It is critically important as insurers view the customer experience as fuel for their next wave of growth. Ultimately, the richness and quality of customer interactions will have a direct impact on an insurer's top and bottom line.

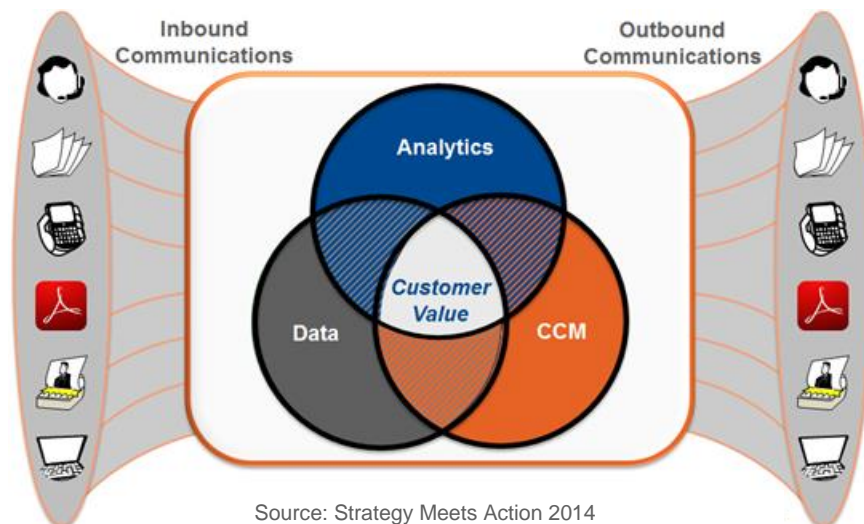
How: Begin the Journey to Customer Engagement

Most insurers are in touch with the fact that customers want and expect digital engagement, rich interactions, and a deeper understanding of their wants and needs. Insurers also see the value in providing an increasing array of digital experiences for their customers and prospects, and significant impact these can have on results. Many insurers already have a strategic vision for capitalizing on digital customer engagement to drive their growth and profitability. So, what will separate the winners from the losers? It all boils down to how rapidly and successfully an insurer is able to proceed on the journey to creating rich customer interactions.

Figure 2 depicts three critical technology components that are required to support and continually improve digital customer engagement:

- Data – accurate, timely, and complete data about the customer and their relationships, and the ability to continually improve and enhance that customer data.
- Analytics – tools, technologies, and information that yield insights about customers and customer interactions.
- Customer communications management (CCM) – tools and technologies that make it possible to optimize every customer interaction.

Figure 2. Technology Components and Digital Customer Engagement



Source: Strategy Meets Action 2014



The quality of the data is of the utmost importance. The insurer's high quality data can then be enhanced and enriched through geocoding and matched with supplemental data from internal and external sources. Rich information results when data about markets, products, risks, locations, and others is combined with the underlying insurer data about the customer.

Improving and Enriching Customer Data

Information about the customer is the starting point for creating a great digital customer experience. Insurers collect and possess a wealth of data about customers – information about basic demographics, business and family relationships, assets, financial status and situation, insurance products, and past and present relationships with the company. This data is conjoined with data about specific risks and markets, creating a wide range of data that is typically spread across many databases.

The key to fully capitalizing on all this data is improving its quality and enhancing it to produce even more value. The quality of the data is of the utmost importance. Software that is able to perform data validation, identify and correct errors, and normalize data is critical to ensure that customer communications and insurer decisions are based only on the highest quality data. The insurer's high quality data can then be enhanced and enriched through geocoding and matched with supplemental data from internal and external sources. Rich information results when data about markets, products, risks, locations, and others is combined with the underlying insurer data about the customer.

Leveraging Analytics for New Customer Insights

Once an insurer has collected, improved, enhanced, and organized data, they are positioned to leverage analytics capabilities to generate new customer insights. Customer analytics fall into two primary categories: the first, group dynamics and the second, individual behaviors and needs. Offline analysis of large quantities of data is performed to identify group behavior, patterns, or needs that can be used to support market segmentation, campaign analysis, and/or product development. Analytics can also be applied to better understand individual policyholders. Customer insight can be gleaned from every interaction. When combined with a full view of the customer relationship, the insurer has the ability to personalize communications and provide real-time advice during the transaction. Armed with information and recommendations, front line employees and agents are able to do a more effective job of selling and servicing – identifying cross-sell or up-sell opportunities, spotting customers at risk of defection, and using customer value scores to support tiered service levels.

Optimizing Customer Communications

Keen insights about customers, enabled by robust data, are vital for insurers seeking market advantages. However, it is important to realize that the full value is only achieved when these insights are put to work optimizing all types of customer communications, whether they fall into the digital realm or not. Timely, insightful information provides the power to take proactive steps. Regardless of how the insights are applied (via letters, phone calls, e-mails, and/or web-based promotions and communications), these proactive measures help insurers acquire new customers, increase wallet share for existing customers, improve customer satisfaction, and retain valuable customers.

The key is capitalizing on the insights to augment the interaction using the most relevant message, channel, and timing, personalized for the recipient, to achieve the desired result. For example, an analysis of a policyholder's premium payment patterns, coverage changes, and customer service calls may call attention to a high risk of defection. If further analysis shows that it is an unprofitable customer, the best response may be just to send them the standard renewal letter and allow the policy to lapse if there is no



action on the part of the customer. On the other hand, if this further analysis shows that the customer is a profitable, long-term customer, a proactive communication may be in order – delivered either via a personalized letter or via an alert to an agent. Perhaps a different payment plan, revised deductibles, or altered coverage could be offered once the policyholder's current situation is evaluated and discussed with them.

Ultimately, informed customer interactions can enable rich digital experiences that begin the journey to true customer engagement.

SMA Call to Action

The ability to provide rich, digital customer experiences that lead to engaged customers offers great potential for differentiation in the world of insurance. Insurance customers are increasingly willing to switch their loyalty to providers that allow them to communicate via the channels and devices of their choosing. They are looking for an insurer that is able to interact via informed conversations that relate to individual needs, desires, and relationships.

Insurers that are beginning or accelerating their journey to digital customer engagement should consider four concrete steps.

- First, understand the communication preferences of your customers, agents, and other business partners. They may vary considerably by line of business and market segment. Don't rush off to build the ultimate digital experience until you have a clear view of their priorities. Recognize that most customers are likely to use a variety of digital and non-digital channels – phone, web, agent, mail, etc.
- Second, complete a comprehensive assessment of the state of your data. Are the right processes, people, and technology in place to ensure that your data is high quality? Are you linking and enriching your internal data with valuable data available from external sources? Are you capitalizing on the power of location based data and analysis?
- Third, assess the analytical tools and models you currently use for customer analytics. Are they getting you the answers you need? Are they able to give you the insight you need regarding customer opportunities and customer problems? Are they providing deep, actionable insights?
- Fourth, if you don't already have a customer communications management (CCM) platform in place, evaluate your needs. A common, well-architected platform that is able to create, deliver, and manage digital content should be on your list of requirements. If your processes and tools are aging, consider implementing modern CCM capabilities.

Insurance is a risk-based business. The focus on risk won't go away, but increasingly the leaders are devoting attention to the management of the overall business with customer-centric strategies that target growth and profitability. A key element of those strategies is to change the paradigm for customer interaction through digital customer engagement.





About Strategy Meets Action

Exclusively serving the insurance industry, Strategy Meets Action (SMA) blends unbiased research findings with expertise and experience to deliver business and technology insights, research, and advice to insurers and IT solution providers. By leveraging best practices from both the management consulting and research advisory disciplines, SMA's services are actionable, business-driven, and research-based – where strategy meets action – enabling companies to achieve business success.

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