Research Insights

Elevating the insurance customer experience

Win hearts and minds with data and AI

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How IBM can help

Maturing markets, tight capital, increasing risk, and technologically sophisticated customers are just some of the pressures the insurance industry faces today. As a result, insurers have to work faster, more efficiently, and—above all—smarter. Those that do can thrive while others fail. Insurers need to be more nimble, innovative, and connected with their customers. The IBM Global Insurance team has reinvented itself, providing solutions to help clients meet the demands of today's insurance business. From enhanced customer service to greater efficiency in the back office and improved risk management, there's a smarter solution for you. For more information about IBM Insurance solutions, visit www.ibm.com/insurance.

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By Christian Bieck,
Yoann Michaux, and
Matthew Stremel

Key takeaways

Dramatic improvement
In the past decade, insurers have made great strides in their implementation of customer experience (CX). Eighty-five percent of insurers are deploying CX initiatives throughout the customer journey, and 90 percent have a Chief CX or Chief Customer Officer (CCO).

Still a way to go
Yet insurers have a long way to go. While customer inertia and lack of alternatives have largely kept major attrition at bay, 42 percent of customers don't fully trust their insurer. As expectations evolve and insurance changes from a product that is sold to a product that is bought, insurers will have to provide their customers much more than they have in the past.

The right data, technologies, and tools will help
While challenges exist convincing customers to share their data, insurers using artificial intelligence (AI)-based tools to augment understanding report significantly better customer satisfaction and retention, saving money at the same time.

Insurers play CX catch-up

Traditionally, insurers didn't need to be overly concerned about how they were perceived by their customers (see "Insight: What is customer experience"). Whether insurance was mandatory, such as auto or health insurance in many countries, or a basic necessity to secure financial health in case of personal catastrophes, the industry focused more on selling the coverage than providing great customer service afterward. Insurers thrived on the fact that they had vastly more knowledge about risks, its causes, and effects than their customers. As a basis for their business models, this worked well for centuries.

But times have changed. In the digital age, information asymmetry is harder to come by. Due to the proliferation of the internet and social media, customers can easily exchange information about the brands they do business with, their products, and the quality of customer service those brands provide after the deal has closed. Market power has shifted to the consumer; in essence, insurance has moved away from being a product that is sold to one that is bought, and the right CX drives that purchasing decision.

The COVID-19 outbreak cast an even brighter light on CX. Consumers, worried about their health and financial futures, are looking for help from whomever will give it. This provides organizations across all industries with an immense opportunity to show sincerity in their commitment to their customers, whether it's through extending loyalty programs, rebates, or being good corporate citizens.

CX drives customers' satisfaction with insurance

85%
of insurance executives are deploying CX to at least a moderate extent

60%
of insurance executives agree their organization is lacking in CX strategy

64%
of consumers want their insurers to understand them well

Reaching for a higher bar is mandatory

This is especially important since the perception of CX is independent of the industry. Today, customers compare and contrast all manner of service providers, and insurers are increasingly seen through the lens of an informed consumer whose last great experience may have been with an online retailer. In addition to the loss of information asymmetry, insurers are now being compared against the best CX from other industries—not just other insurers.

Under such heightened scrutiny, how do today's insurers fare in the minds of consumers? And how do insurers see themselves and their progress in customer experience matters?

To better understand the answers to these questions, the IBM Institute for Business Value (IBV) interviewed 1,100 insurance executives in 34 countries regarding their CX initiatives and corresponding key performance indicators (KPIs). We augmented this data with a survey of more than 10,000 consumers across nine countries to hear the customer side of the story. Both surveys were conducted during the COVID-19 pandemic, and reflect the specific experiences in these times.

In this report, the IBV discusses the efforts and progress insurers have made. Then, we highlight areas of improvement and make suggestions for the way forward.

A huge leap for "insurance-kind"

When the IBV launched its first consumer survey-driven insurance study in 2008, customer centricity and CX were still largely unknown concepts to insurers' strategies, much less implemented in any meaningful way. The push-model of insurance distribution was the only game in town, with the mantra, "Our customers will not change in the near future" almost universally accepted.[1]

90 percent of carriers surveyed have a CCO or Chief CX Officer.

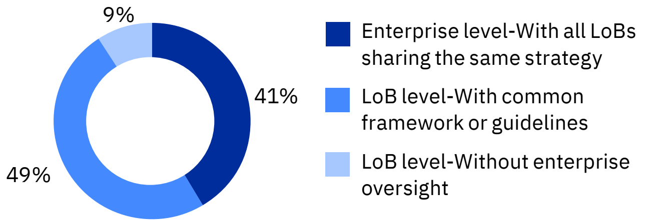
The insurance industry has made big strides since 2008. Most insurers have written customer centricity into their strategic plans and followed through with specific measures. For example, the roles of CCO or Chief CX Officer, rare sightings in 2008, have now or will soon be established in 90 percent of the carriers we surveyed; for 79 percent of respondents, that is even the case at the line of business (LoB) level.

Far from being a strictly centralized endeavor, LoBs have a large degree of freedom in setting a CX strategy to serve their specific customers and needs (see Figure 1). For implementation, on the other hand, they are taking advantage of the economies of scale that a cross-enterprise approach offers.

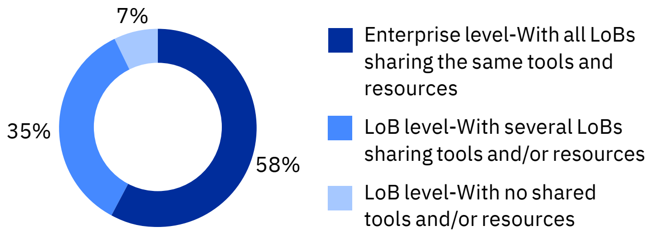
Figure 1

LoBs have freedom in setting CX strategy

Q: Where in your organization is CX strategy determined?



Q: Where in your organization is CX strategy implemented?



Source: IBM Institute for Business Value CX Executive Survey 2020

Insight: What is customer experience?

Customer experience is the holistic perception a customer has of their relationship with an organization's business or brand. It is the result of every interaction a customer has with the organization. For an insurer, that ranges from navigating the website to talking to intermediaries and customer service agents, all the way to receiving the product or service bought from the organization. CX also includes any exposure to the brand through commercials, events, and other sponsoring. Everything the insurer does can impact customers' perceptions, their decisions to keep coming back or not, and their degree of advocacy of the organization's business and brand.

Insurers are investing in various forms of digital self-service.

Investment in CX tools is rapidly rising, from 1.1 percent of gross written premium (GWP) in 2018 to 1.5 percent of GWP in 2022, an increase of 36 percent. Insurers are pushing CX initiatives in all parts of the customer journey. Eighty-five percent of respondents are deploying CX to at least a moderate extent everywhere, while about two-thirds are significantly focusing on customer service, claims, and the phases of customer onboarding (see Figure 2).

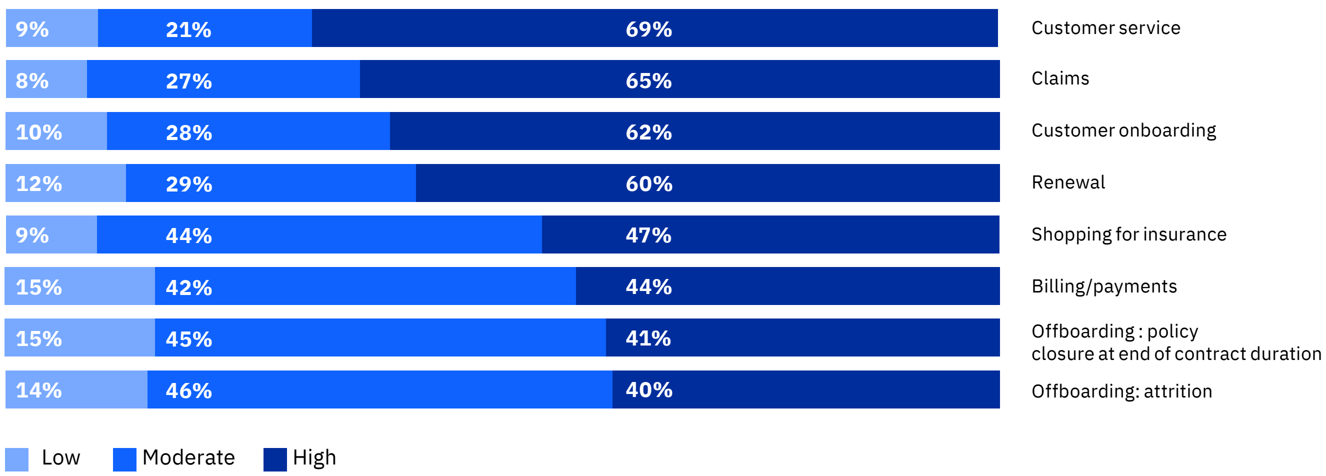
Historically, a frequent customer complaint was that insurers were hard to do business with.[2] To mitigate this concern, insurers have expanded their efforts to broaden channels, simplify language, offer hybrid experiences (direct, direct to agent, agent-based), and increase the number of touchpoints throughout—rather than interacting only at the time of renewal. At the same time, to reach increasingly internet-savvy customers, insurers are investing in various forms of digital self-service, mainly websites and apps, with some forays into chatbots and digital virtual assistants.

Positive experiences have taken on an ever more important role to help people get through the ongoing pandemic physically, psychologically, and financially. Insurance companies have risen to that challenge. For example, people are spending more time at home than before, introducing risks that not every customer has included in his or her insurance coverage. To help with this, AXA Germany, a subsidiary of French insurance giant AXA, offered all customers free additional protection for a limited time with their #SpecialTimes (#BesondereZeiten) campaign.[3]

Recognizing that restrictions due to COVID measures had curtailed car travel, and thus reduced auto-related claims, many insurers reacted. As one of many examples, Canadian insurer Desjardins has been automatically refunding 30-40 percent of insurance premium to all its auto policyholders.[4] In the US, these kinds of reliefs have been estimated to total up to more than USD 10 billion, with virtually every carrier quickly following suit as customers came to expect it as part of the insurance CX.[5]

Figure 2

Most CX initiatives are in customer service



Q: To what extent is your LoB deploying CX initiatives in each of the following parts of the customer journey?
Source: IBM Institute for Business Value CX Executive Survey 2020

These efforts at improving CX have netted insurers some positive results. For example, most consumers in our survey seem to have settled with a carrier that suits them well in terms of CX. Asked to compare their insurer with an organization in any industry they liked across a range of attributes such as speed, accuracy, or convenience, more than half rated their insurer better than the comparison. Roughly a third gave both parties the same rating.

Additionally, in an IBV study published five years ago, only 37 percent of customers stated they fully trusted their insurance provider. In the current survey, this increased to 58 percent. So, while still a far cry from unanimous and complete customer trust, most feel their insurer is better than the others.

Shadows of the past

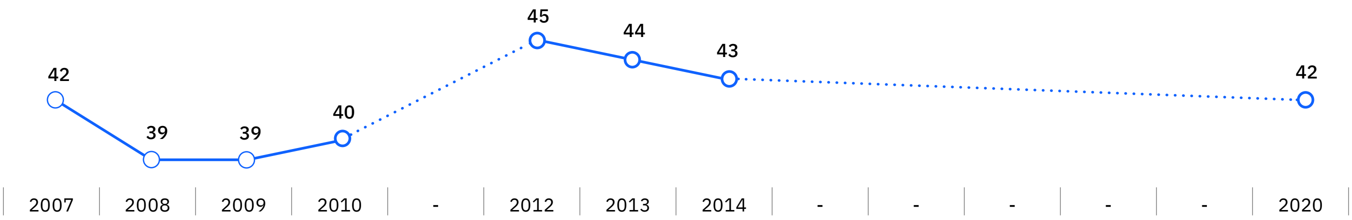
As much as we can appreciate the progress insurers have made regarding CX, a closer look reveals a few gaps and blind spots.

When nearly half of your customers don’t fully trust your organization, that should make you worried. Fortunately for insurers, for satisfaction and advocacy, we tend to measure perceptions against expectations, and for the insurance industry, expectations have typically been very low.

Additionally, customer inertia in insurance tends to be high, and customers might feel they have nowhere else to go. Beginning with the 2008 study mentioned earlier, we had periodically measured to what degree insurers trust the insurance industry. After more than a decade, this number has hardly budged: a majority of consumers still do not trust the industry (see Figure 3).

Figure 3

Consumers still do not trust the insurance industry



Q: Do you trust the insurance industry?
Source: IBM Institute for Business Value consumer surveys 2007 to 2020

Overconfidence can be seen in all parts of the customer journey.

So, it seems like customers don't mainly stay with a provider because of the great improvement in CX, but rather because they trust everybody else even less. As protection against attrition, and as the basis of a business model, that seems shaky ground to stand on.

Many insurers seem content to overlook this fact, and their apparent successes have made them overconfident. When we asked insurance executives to compare their CX performance across the customer journey with their competitors, a full 62 percent believed their CX in customer service to be better than the industry average, and 61 percent reported the same about their customer onboarding. Only 8 percent in both cases reported they are worse. While less pronounced elsewhere, this overconfidence can be seen in all parts of the customer journey (see Figure 4).

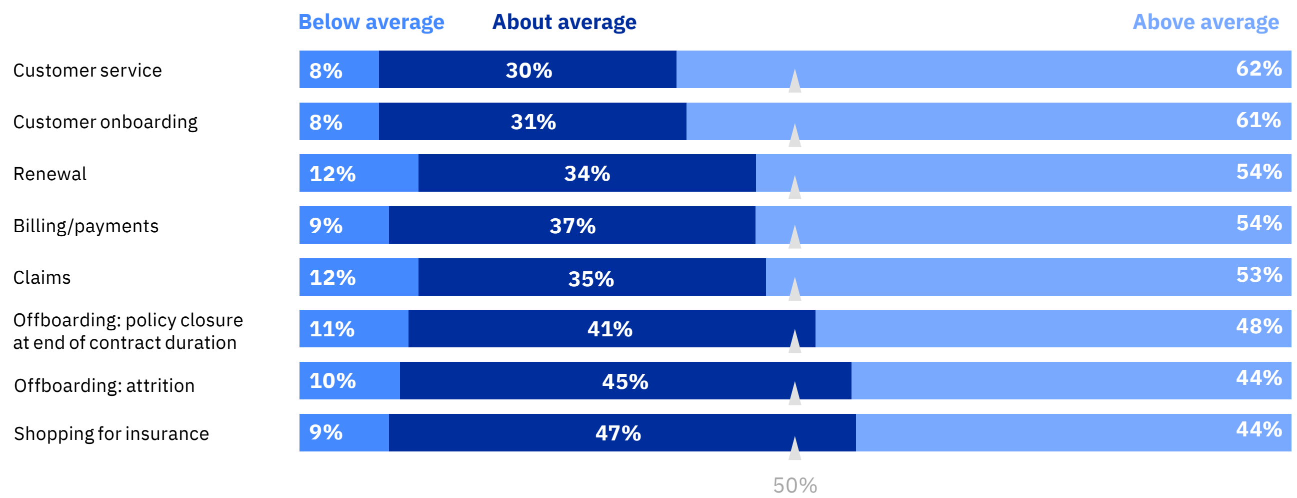
What could be driving this disconnect? A combination of two factors. First, insurers perceive their steps forward in CX, but lack awareness of the overall progress of the industry. Second, they fail to recognize the inertia and cognitive bias of their customers, who have convinced themselves the providers they do business with must be better by virtue simply by being their chosen providers.

If insurers wish to improve on the CX front, realistic assessments of their capabilities are necessary, and they need to meet customers at their preferred contact points.

In their engagement with insurers, consumers highly value contact by phone, in person, or digitally per web (see Figure 5). These channels provide quick interactions, responses, and seamless connections.

Figure 4

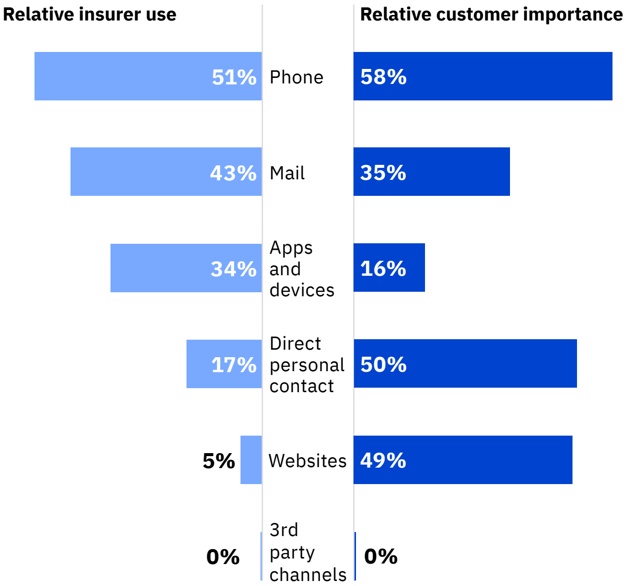
Most insurers overestimate their CX prowess



Q: How do you rate your LoB's CX compared to your competitors
Source: IBM Institute for Business Value CX Executive Survey 2020

Figure 5

Insurers customer engagement still relies on old-school methods



Note: 3rd party channels (use and importance) are set as the baseline for both
Source: IBM Institute for Business Value CX Executive Survey 2020, CX Consumer Survey 2020

Yet instead of pursuing an omnichannel approach, many insurers continue to engage primarily by phone and traditional mail. The latter is relatively expensive and makes seamless integration difficult, requiring several steps to digitize, analyze, and integrate communications. Investment in digital front office transformation would better align insurers with their customers' engagement needs and improve cost efficiency.

Another indication that insurers are staying wedded to traditional ways of doing business, carriers are continuing to focus on new business instead of strengthening retention. Customer acquisition expenses have been rising and are set to further rise, from 15.8 percent of GWP in 2018, 16.6 percent in 2020, and up to 17.9 percent in 2022.

Additionally, research on the effects of COVID-19 underscores the fragility of insurers' commitment to customer service (as shown in Figure 2). When asked about the desired benefits of digital transformation initiatives, "improving customer service" ranked second (behind increasing productivity) two years before the pandemic, but fell off the radar as a future benefit, being replaced by "improving competitiveness and reducing costs."[6]

Yet if reducing cost is the goal, customer retention is at least four times as cost-efficient as pursuing new business.[7] And consumers would reward a strong service focus: asked where they wanted their insurer to provide good CX, respondents rated customer service and claim processing highest, whereas onboarding was in the bottom half and shopping for insurance dead last.

All of these points indicate a certain dearth of strategic CX focus: 60 percent of insurance executives agree to some extent that their organization is lacking in CX strategy. With risk and information asymmetry diminishing, that will have to change. Carriers will have to provide their customers much more than in the past. Insurers that want to improve their CX and thrive will have to listen better.

Listen to improve

Good CX requires data that customers must be willing to share. In a previous IBV study, customers proved reluctant if they didn't trust their insurer, were not aware of a clear benefit, and did not have an easy mechanism to share or control their data.[8] The current survey shows similar findings: forty-six percent of consumer respondents agree with the statement that the fewer data their insurer keeps about them the better, with 38 percent being neutral. Insurers need to win over these 46 percent by providing enough value to overcome their concerns.

Unsurprisingly, technology will play an important role in getting CX right. Digital transformation is key in providing customer value. Without it, neither seamless channel integration nor easy data sharing is possible. Also, without the data in a digitally accessible format, it is hardly possible for insurers to extract the insights needed to create the benefits, so customers are willing to share in the first place.

Indeed, insurers' use of technologies such as AI and cloud is increasing across the board, and many show a positive association with Net Promoter Score (NPS) and retention. NPS is widely used to measure customer satisfaction and how favorably they rate providers' CX.[9] Our analysis shows that insurers who increase AI use for various steps of the customer journey show a significant increase in customer satisfaction, both as measured in NPS and retention rate (see sidebar, "IFFCO Tokio General: Using AI to improve the claims experience").

IFFCO Tokio General: Using AI to improve the claims experience[10]

A joint venture of Indian Farmers Fertiliser Cooperative Limited (IFFCO) and the Tokio Marine Group, IFFCO Tokio General Insurance Company Limited, operating in India, wanted to improve claims handling.

Up to 30 percent of its customers were not satisfied with the assessment of their claims. Adding an external agency to work with repair shops would improve the process but was not scalable across India.

The insurer worked with partners to build an AI-based Claim Damage Assessment Tool (CDAT). Leveraging cognitive image analytics, the CDAT analytical model uses advanced computer vision and deep neural network-based techniques to assess the type and extent of vehicle damage. Customers upload images of damage via the app, with assessment happening almost instantly. End-to-end claims settlement time was reduced from three-to-four hours to just 15 minutes, resulting in improved customer experience and satisfaction. A bonus, IFFCO claims processing costs were reduced by 30 percent.

Insurers need to capture hearts first before they capture minds and market share.

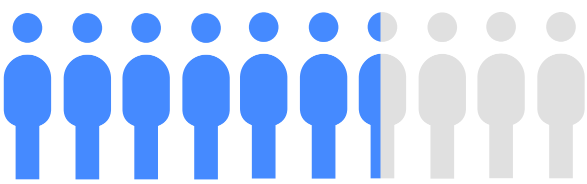
There are other applications of AI that can help insurers improve CX. For example, while having a 360-degree view of each customer is important, customers want to be engaged emotionally, and insurers need to capture hearts first before they capture minds and market share.[11] To do this effectively, insurers need to understand how their customers feel, yet only about a third in our sample make a significant technical effort to do so using customer sentiment analysis (CSA) tools (see sidebar, "Japanese insurer: Getting emotionally closer to the customer").

Insurers are underestimating the importance of emotional understanding for their customers (see Figure 6). Our data shows that those that make the effort are seeing clear and positive effects on customer satisfaction. Insurers who've just started using CSA report an average NPS of 33.5, rising more as sentiment analysis is used, up to an average NPS of 41.6 for the insurers in the strongest use bracket.

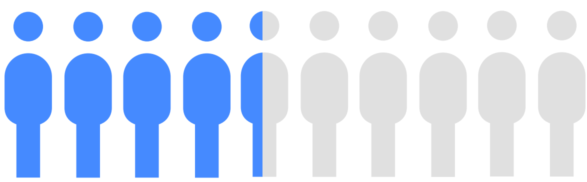
Figure 6

We found a substantial gap between the perceptions of consumers and insurers

How important is sentiment analysis for customers?



Consumers: **64%** important/highly important



Insurers: **44%** important/highly important

Japanese insurer: Getting emotionally closer to the customer

At a large Japanese insurer, more than a million customer interactions accumulated annually across all channels. The impact of these contacts on customer satisfaction and overall customer behavior was largely unknown, inhibiting the improvement of the overall customer experience.

To proactively address this barrier to customer satisfaction, the insurer implemented a CSA tool using advanced text analytics. CSA captures customer sentiment in written or spoken encounters and allows appropriate reactions for optimal customer experience. It integrates with customer account data to link sentiment profiling with specific customer segments to gain a granular understanding of the client's needs.

Using the gained insights to implement data-driven service improvements, the insurer achieved a 20 percent annual reduction in customer complaints. Additionally, customer retention was significantly increased by identifying high-risk segments and developing service enhancements.

OP Financial Group: Scaling CX with an intelligent chatbot [12]

To meet growing customer demand for online services, one of Finland's largest financial services companies, OP Financial, launched a website that gives customers insurance advice. The site includes an online chat feature where customers can interact with customer service teams. An instant success, the number of users grew by 1,000 percent in the first few months, leading to unacceptable waiting times, especially in the winter when storms could paralyze large parts of the country and customers need help simultaneously.

To increase the scalability of their site and chat feature, OP developed an AI-enabled chatbot. This virtual assistant was trained to converse with customers in their native Finnish in a natural way, giving advice about insurance claims and helping them get them back on track after adverse events. The virtual assistant did not replace regular service staff, but expanded the availability of the service and augmented its functionality.

The AI chatbot vastly outperformed OP's expectations, with the rate of automation double of what was originally planned. Wait times for customers have been reduced to zero.

Analysis of the NPS score in our sample leads to an interesting conclusion for insurer CX efforts: focus on all parts of the customer journey, not just the upfront sales and onboarding process. It is more cost-efficient to focus on routine processes that support retention, such as billing/payments, renewal, and especially high touchpoint areas like claims. Insurers who have this additional focus show both better NPS and retention rates, with the effect on the former strong and the latter a bit smaller.

Another useful tool based on AI technology is a virtual assistant. Only 16 percent of insurers in our sample use these digital helpers to a significant degree, yet 38 percent of consumers view them as important self-service tools to interact with insurers. Digital virtual assistants tick several boxes at the same time: their AI backend allows for an intelligent and emotionally aware interface while being a cost-efficient replacement or augmentation of human personal interaction that may not be available 24/7 (see sidebar, "OP Financial Group: Scaling CX with an intelligent chatbot"). They also add consistency of information provided to customers across channels where they are used.

Taken together, AI applications can be the key to unlocking true customer centricity, but technology alone cannot make it happen. The insurance industry sells a promise, not a product, which necessitates that customers trust it will be kept. Improving customer satisfaction with good CX can help build trust, and using AI is a good starting point.

Action guide

Elevating the insurance customer experience

Considering the ongoing global pandemic, leading insurers need to rethink traditional CX approaches to drive recovery in a "different normal." The following recommendations will help insurance executives guide their organizations.

Set the foundation

1. *Foster an agile enterprise organization and culture.* Prioritize customers and their needs over organizational "red tape." Hire and train the right talent that can envision, design, develop, launch, execute, and continuously optimize experiences as opposed to just creating and executing campaigns.
2. *Design around the customer, but not only for the customer.* Any constituent involved in the experience must be considered as part of the overall design and continuous feedback monitoring. This includes client-facing employees such as direct writers and claims adjusters, employees executing underlying processes, intermediaries, and external partners.
3. *Implement intelligent workflows.* Leverage exponential technologies such as the Internet of Things (IoT), AI, automation, and straight-through processing (STP) to align the front-end experience with back-end systems. Supply experience management with technology based on AI and cloud to facilitate, orchestrate, execute, deliver, listen, and measure.

Listen to customers

1. *Invite customers to share data.* Provide customers clear benefits to data sharing such as added value offerings, and ensure sharing happens in an ethical, transparent, simple, and easy way. Use the data to provide a more tailored experience at each interaction, increasing trust, and creating a positive feedback loop toward more data sharing.
2. *Make use of data that is already available in-house.* Create the enterprise data foundation to steer away from siloed, legacy operational-focused data warehouses towards open data platforms and governance that support customer-centric analytics.
3. *Leverage customer research.* Don't guess what customers are looking for, ask them about their needs and expectations. Enable your internal workforce with AI-based, customer-focused tools that help them understand customers and their needs.

Look beyond

1. *Explore beyond the four walls of your organization.* To better understand growing customer expectations, look to peer insurers to benchmark yourself and learn from them. Don't hesitate to copy what works in adjacent industries such as retail, banking, and travel.
2. *Evolve from traditional coverage provider to trusted advisor.* Become relevant in your customer's daily lives to create more frequent interactions, whether by offering general liability policies "by the job" for contractors, on-the-spot travel insurance, or creating a health and wellness daily experience.
3. *Leverage platforms and partnerships.* Put a specific need in touch with a specific coverage, and create new on-demand products and services. Look to insurtechs to discover and integrate relevant technologies into the existing organization and accelerate innovation.

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Study approach and methodology

In cooperation with Oxford Economics, the IBM Institute for Business Value (IBV) surveyed 1,100 business insurance executives in 34 countries globally from May to July 2020. All participants were asked a range of questions specifically both for their organization and the line of business they represent; questions center on KPIs influences by customer experience initiatives and tools, as well as the qualitative measure around customer experience itself.

Additionally, and in the same timeframe, we surveyed 10,061 insurance customers in 9 countries, with a minimum of 900 respondents in each country: China (1,800 respondents), India, US (1,800 respondents), Canada, Brazil, UK, France, Germany, and the Netherlands. Consumers were asked similar questions to the insurance executives, but from the consumer viewpoint.

Related IBV publications

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Notes and sources

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3 "Aktionsverlängerung – Das AXA Unterstützungsangebot #BesondereZeiten für Kunden." AXA Website. May 5, 2020. https://www.axa.de/presse/aktionsverlaengerung-besonderezeiten

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6 IBM Institute for Business Value 2020 COVID-19 U.S. Executive Pulse Survey, unpublished insurance data. Note: n=20, i.e. small sample size

7 Bieck, Christian and Lee-Han Tjioe. "Capturing hearts, minds and market share: How connected insurers are improving customer retention." IBM Institute for Business Value. June 2015. https://www.ibm.com/thought-leadership/institute-business-value/report/insurance-retention

8 Bieck, Christian, Peter Maas, and Lee-Han Tjioe. "Data: Gold or kryptonite? An insurer's guide to the resource of the future." IBM Institute for Business Value. October 2017. https://www.ibm.com/thought-leadership/institute-business-value/report/insurancedata

9 Note: NPS is calculated by calculating a ratio between customers with a high likelihood to recommend a brand (usually 9+ on a 0-10 scale) and those with a low (0-6) propensity. Scores above 0 are generally seen as good, those above 5 as excellent.

10 "IFFCO Tokio General Insurance Company Limited: Improving customer experience with smarter solutions." IBM. July 2020. https://www.ibm.com/case-studies/iffco-tokio-ibm-services-ai

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12 "OP Financial Group: Enhancing customer experience at scale with an AI-powered chatbot." IBM. June 2019. https://www.ibm.com/case-studies/op-financial-group

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