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Feature

Want More LOYAL Customers?

Go 'digical' and please your policyholders through service and post-sale attention.

by Gunther Schwarz, Harshveer Singh and Andrew Schwedel

Key Points

▶ **The Picture:** Combining digital access and physical touch points gives policyholders a rewarding "digical" experience.

▶ **The Result:** These customers are seven times more loyal to their carriers than those whose interaction is uninspiring.

▶ **The Bottom Line:** Loyal policyholders drive more revenue and cost less to please, and insurers who understand this dynamic tend to be leaders.

Customer loyalty has been tough to come by in the insurance industry, especially for life insurers that traditionally have far fewer interactions with customers than, say, retail banks.

Yet, in most countries, for both the life and the property/casualty sectors, one or two insurance carriers manage to excel in earning their customers' passion and advocacy.

Some of these loyalty leaders are doing so in part by fusing digital and physical channels into a seamless experience that pleases customers—what we call a "digical" transformation.

Bain & Company's latest global customer survey shows while customers are using online and mobile channels more frequently for their interactions with insurers, most customers still demand phone or in-person channels for purchases, advice and other interactions.

Why dwell on loyalty? Because it improves a carrier's economics. Customers who are loyal promoters of their insurers stay longer, buy more, recommend the company to friends and family, and usually cost less to serve—with the mix of these forces dependent on the particular market and type of insurance. In the United States, for instance, Bain analysis shows a promoter's lifetime value is worth, on average, nearly seven times that of a customer who's a detractor of the carrier, and two to three times that of a passive customer.

Bain's new survey of 158,422 consumers in 18 countries was conducted online through Research Now for the great majority of respondents and Survey Sampling International for additional respondents in Asia. The survey measures loyalty by calculating the Net Promoter Score for each insurance company, derived from responses to this question: On a zero-to-10 scale, how likely are you to recommend your insurer to a friend or a colleague? Based on the scores they give, respondents are classified as promoters (9-10), passives (7-8) or detractors (0-6). NPS is the percentage of promoters minus the percentage of detractors.

The survey reveals important aspects of consumer attitudes and behavior:

• Within many national markets, NPS of the different carriers varies widely. In Australia, for instance, top P/C performer Apia's NPS is 57 points higher than the worst performer and 32 points higher than the country average. In the United States, top life performer USAA has an NPS that is 65 points higher than the worst performer and 49 points higher than the country average. (See Figures 1 and 2.)

• All countries have a significant share of customers who conduct

Contributors Gunther Schwarz (Düsseldorf), Harshveer Singh (Singapore) and Andrew Schwedel (New York) are partners in Bain's Global Financial Services practice. They may be reached at gunther.schwarz@bain.com, harshveer.singh@bain.com *and* andrew.schwedel@bain.com

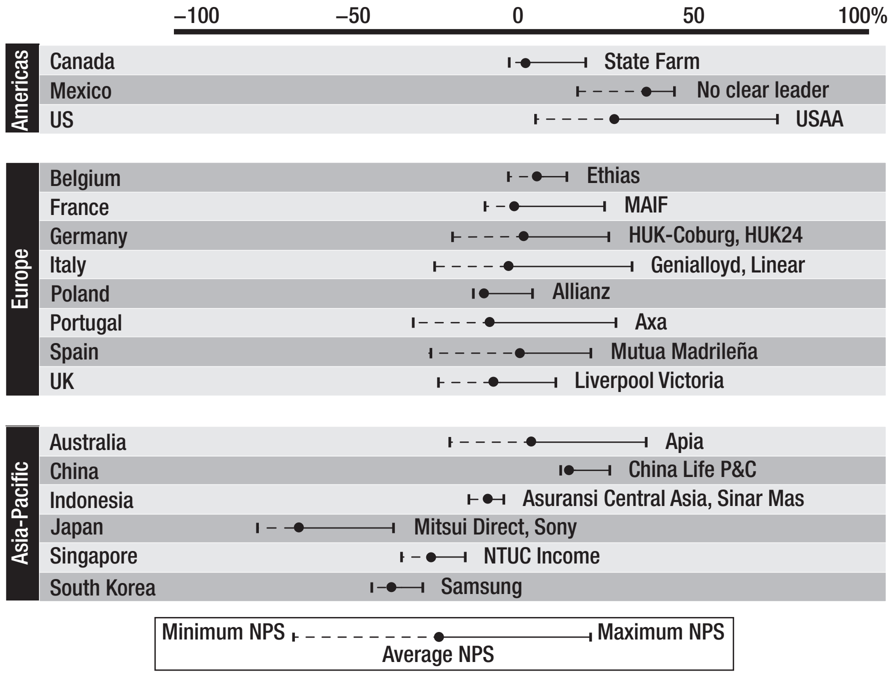

Schwarz


Singh


Schwedel

Figure 1
Net Promoter Score (P/C)

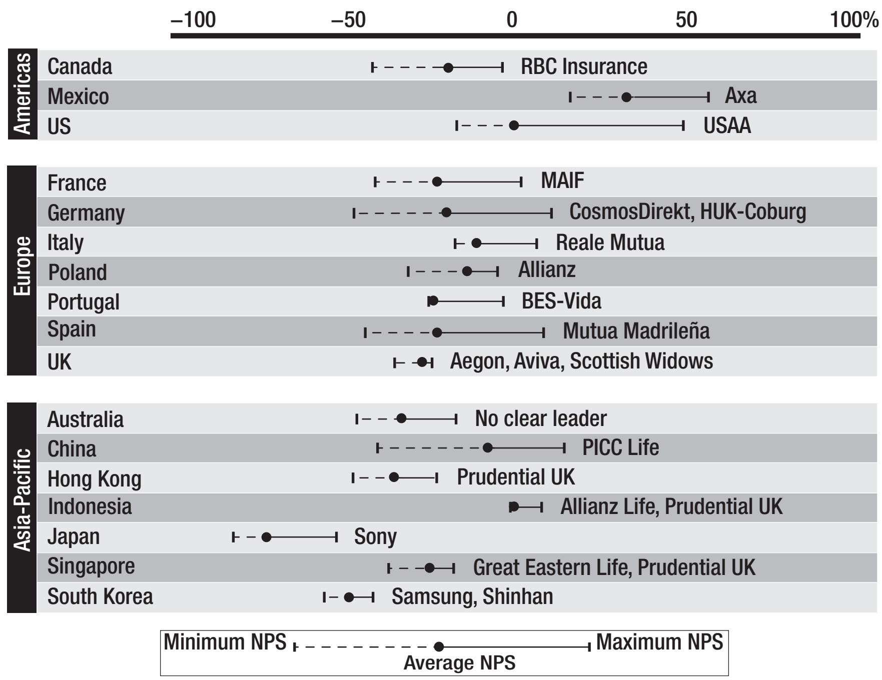
Within each country, there's a wide range of Net Promoter Scores for the P/C sector…



Note: Excludes markets with insufficient number of providers that have >100 respondents.
Sources: Bain/Research Now and Bain/SSI global NPS surveys, 2013-2014

Figure 2
Net Promoter Score (Life)

…and for the life sector.



Note: Excludes markets with insufficient number of providers that have >100 respondents.
Sources: Bain/Research Now and Bain/SSI global NPS surveys, 2013–2014

insurance-related research or interact digitally with their insurer, and their ranks will grow over the next three to five years. For the actual purchase, however, most customers still use mainly phone or in-person meetings. (See Figure 3.)

- Digital interactions thus need to be complemented with offline interactions in order to delight customers. In fact, digital-only interactions result in the lowest NPS in most countries.
- Among all types of interactions, the strongest demand for digital tools comes in purchasing online and handling claims.
- Although insurance has fewer customer transactions than, say, retail banking, being in touch with customers has a large, positive effect on loyalty.
- For P/C customers, price stands as the most important purchasing criterion, just ahead of having the right product for one's needs. The most price-sensitive buyers, however, give the lowest NPS in the first year after signing up.
- Low prices don't necessarily conflict with good service. P/C loyalty leaders, such as Liverpool Victoria in the United Kingdom and HUK-Coburg in Germany, excel at both price and performance on touch points such as advice, claims and service, as perceived by customers.
- For the life sector, most customers say product attributes are a major factor influencing their purchase decisions, closely followed by price and reputation.
- Once customers are onboard, however, the life insurance business depends on relationships. Interactions with a personal adviser tend to raise NPS, more so when complemented by interactions through other channels. In the United States, for example, the NPS for customers who interacted with an adviser and used digital channels is 34 points higher than for customers who used a call center and/or digital channels.

While understanding customers' behavior and earning their loyalty is necessary for generating superior revenue growth, it's insufficient. Leaders must also motivate customers to actively promote the company. Bain's research and work with insurance companies suggest four specific steps that are essential to succeeding with a more customer-centered approach.

1. Accelerate the 'digical' transformation.

Every country has a significant share of digitally active customers—but digital channels don't replace physical channels. Customers still benefit from talking with a person when dealing with complex insurance products or transactions; that's why multichannel customers give the highest NPS.

The digital shift in behavior and the attendant disruption present both an opportunity and a threat. Insurance companies can significantly improve the customer experience if they act quickly yet thoughtfully to build out digital channels for transactions and communications, transform their physical networks for higher-value services and redesign their processes to seamlessly integrate their various channels into a hybrid "digical" model.

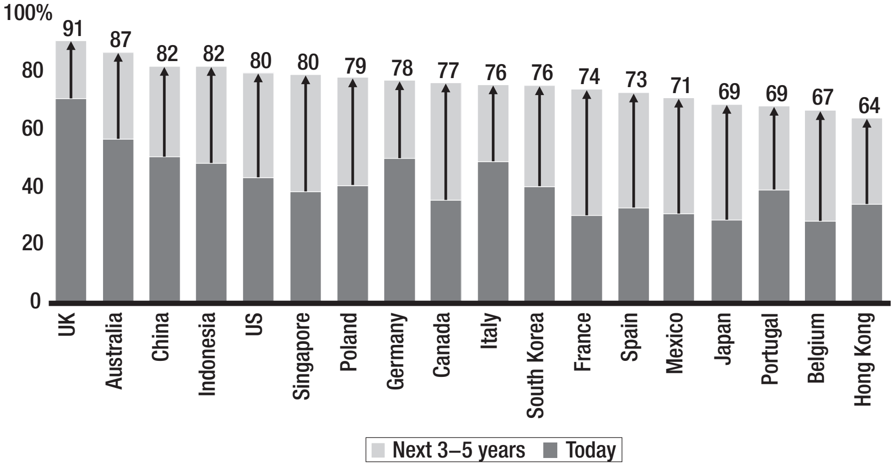
Laggards, meanwhile, may get crushed by forward-looking competitors and upstarts that provide a better experience and better service at a lower cost. Consider China's Internet giants Alibaba and Tencent, which recently partnered with Ping An to offer online insurance.

As insurers make the transition to a "digical" world, they should target investments in proportion to the value at stake by, say, digitizing processes to both reduce costs and please customers. Case in point: AIA has issued iPads to its agents throughout Asia so they can sit with customers, do a needs analysis and accept customers' digital signatures to allow straight-through processing.

Figure 3

The share of digitally active customers ranges from 35% to 70%, with a sharp increase expected over the next three to five years.

Share of digitally active insurance customers* (P/C and life combined)



*Respondents who used digital channels for their last insurance-related information research and most important interactions with their insurance providers (to learn about the provider or product, get advice, make a purchase, obtain service or pursue a claim) in the past 12 months; maximum of three responses allowed for choosing channels

Sources: Bain/Research Now and Bain/SSI global NPS surveys, 2013-2014

2. Decide where you must win and where you can afford to lose.

Loyalty leaders know they can't be all things to all people. They either started with a mandate to serve a narrow segment of customers—as is the case with most mutual companies—or they decided to define a narrow segment and put the needs of those customers first.

In the United Kingdom, for instance, Admiral's in-vehicle telematics system, called LittleBox, aims to reduce automobile insurance premiums for young customers with safe driving habits. New insurers like Sheilas' Wheels target safe female drivers, with lower premiums and tailored branding messages. In Asia, a number of insurers have refined their offerings for affluent, high-value customers and wrapped them in premium services, including regular check-ins by agents or financial advisers.

Other new segments have been developed based on behaviors and interests rather than basic demographics. Discovery Holdings, a major insurer based in South Africa, has generated exceptional growth over the past decade in part through its Vitality program, which appeals to people committed to healthy living. Vitality members accrue points for demonstrating certain healthy, safe behaviors—reinforced through discounts on gym memberships and healthy foods, as well as by installing tracking devices in cars—which they can redeem for rewards from other vendors.

Vitality has built a healthier book of business with a better risk profile and a lower cost to serve, and has helped Discovery maintain a very loyal customer base.

3. Selectively invest in moments of truth.

Being in touch regularly and in meaningful ways with customers builds loyalty both in P/C and life. During moments of truth such as filing a claim, it's vital to exceed customers' expectations and deliver a level of service and support that leaves strong, positive impressions. This does not mean simply offering more generous payment policies; our survey results show that the initial filing of a claim often has a higher potential to please than the subsequent payment.

Regular communication containing useful, relevant information reinforces those impressions. Affluent customers in particular place a high value on regularly staying in touch. That's a departure for some agents who live mainly by commissions for new sales and thus have little incentive to nurture current customers.

Many carriers have underinvested in touch points where they communicate directly with customers, relative to those handled by agents, so carriers will want to improve the functionality of their direct touch points. In many Asian countries, for instance, there's a trust deficit between younger customers and traditional agents, who are perceived as being too mercenary in their interactions. Some challengers and incumbents in Asian markets, therefore, are betting on alternative channels such as direct (Lifeplanet, Kyobo's joint venture with Lifenet in South Korea) or bancassurance (Axa), a channel that has reached a roughly 40% market share in new business volumes in certain Asian countries.

4. In P/C, acquire mostly through price, but retain through product and service innovation.

A quandary: Today's fierce battle for new customers in P/C is largely won by price, yet price-sensitive buyers are more prone to switching later for a lower-priced offer. (For the life sector, price matters less than investment returns, except for standardized products like term life, because there's less price transparency.)

One way to deal with this problem is to avoid the most price-sensitive customers and use marketing that emphasizes other types of value, as Allstate has done in the United States through advertising that focuses on peace of mind.

Even price-sensitive customers, though, can be converted to loyal promoters through differentiated products and standout service.

Some product or service innovations depend on digital technologies. In the United States, for instance, MetroMile has launched an auto policy structure priced by the number of miles driven, made possible by in-vehicle telematics.

Other innovations focus more on management of certain operations like the supplier network. German auto insurer HUK-Coburg has assembled a network of 1,300 certified repair shops. Going through these garages saves costs and thus reduces prices, while also providing high-quality repairs and a better claims experience—a combination that HUK-Coburg customers love.

A seamless "digical" experience is what customers want and have come to expect from their insurance companies. When it's well executed and combined with the other principles detailed here, insurance companies can enhance their customer loyalty and turbocharge profitable growth. BR