Foreword

The UK’s insurance sector is a powerhouse – employing over 300,000 individuals, it is the largest in Europe and the third largest globally. Yet at the same time it is subject to a growing number of pressures that are threatening to destabilise business models that have historically proven successful.

Insurance companies are tasked with growing gross written premiums in a market of soft pricing driven in part by structural changes and where new entrants or targeted offers are cherry picking the best risks in an otherwise saturated market.

Coupled with low interest rates and consequently poor return on low risk gilt and bond portfolios, insurance carriers have seen an overall deterioration in combined operating ratio.

There is also the changing nature of risk to contend with. Many carriers are looking at strategies that will allow them to better identify risk and price their policies more effectively, to push back on those competitive forces and improve profitability.

At the same time, insurance companies are also looking to price their policies more effectively. In non-life insurance, there are a lot of commodity pricing pressures, whether from carriers that are leveraging their scale or direct channel strategies, or non-traditional competitive forces, such as aggregator websites. This is leading to poor combined ratios in some markets.

And, of course, insurance carriers are attempting to address all of these challenges – growing premium, pricing policies more effectively, and improving returns on reserves – in an environment that is increasingly complex in terms of regulations, and where they have to attract a new generation of customers and employees.
As a result, insurance providers are increasingly exploring new strategies and technologies to respond to these challenges. One key component of this that is emerging as a major focus for carriers is a push to improve the quality of their customer interactions. This emphasis on the customer experience is seen as integral to efforts to drive retention and organic growth, thereby addressing high product saturation as well as the growing demands of a new generation of customers.

As this report outlines, customer experience management in the UK insurance sector is under-developed, providing carriers with an opportunity to gain a key competitive advantage. Over several chapters, this report will examine the pressures that characterise the sector, the challenges facing providers, the opportunities that technology-led innovation can provide carriers, and the next steps that leading-edge insurance organisations should consider.

Clearly there are many forces and issues affecting the insurance industry today, but carriers must look at ways to take advantage of innovation, and in particular technology-led innovation, to respond to the challenging economic conditions they face.

Gina Timm
Dynamics CRM Product Marketing Manager, Microsoft UK
Contents

1. Overview
2. Characteristics of the UK insurance sector
3. Challenges
4. Opportunities
5. Next actions
6. Summary
Customer Experience Management (CEM) has carved out a reputation as a crucial discipline in the business world, with investment reflecting its growing profile.

### Customer Experience Barometer: general insurance

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<th>Country</th>
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<tr>
<td>China</td>
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Source: Customer Experience Barometer, KPMG International, 2014
With MarketsandMarkets forecasting that CEM will be worth $8.39 billion by the end of the decade, it is little surprise that CEM should be important to the insurance sector, where competition is fierce, customer loyalty is low, regulation is increasing, and margins are being squeezed by price comparison sites.

Yet the customer experience delivered by many providers in the UK insurance industry still appears to be quite poor. In the KPMG Customer Experience Barometer, which surveyed 5,000 customers in a range of sectors across the UK, US, Germany, China and Australia, only a third of UK customers rated their general and life insurance customer experience highly, lower than in many other countries such as the US and Germany.

And there are few signs this will improve – the study found that only 16% of UK general and life insurance customers felt their experience had improved over the last year, which was again typically lower than other countries.

**Change in customer experience over the past year in general insurance**

Source: Customer Experience Barometer, KPMG International, 2014
When compared to other European countries, the British insurance market is quite unusual as it is highly commoditised, with many customers switching annually and using price comparison websites in search of a better price. These high churn rates are indicative of an industry that has customer loyalty problems.

“Every year, about four out of five customers re-shop for their general insurance,” notes Ian Hughes, CEO of market research firm Consumer Intelligence. “The number of people who do leave is roughly around 50%, so customer loyalty in the market is very low.”

**The rise of comparison sites**
The rise of comparison sites is also of particular significance to the industry. With so many customers using price comparison sites to find the cheapest provider, it has become increasingly difficult for insurers to differentiate themselves.

Customers often go for the lowest price, and this is a massive problem for insurers because margins are squeezed and they can’t prove they are different from their competitors. It’s also a problem for customers, because they may get the cheapest cover, but that’s not always the right cover for their needs.
Yet Bruce McKee, insurance industry lead at Microsoft, believes that the rise of comparison sites could ultimately be a catalyst to drive CEM forward within the UK insurance sector.

“Insurers in the UK have traditionally relied on pricing and aggregator based distribution rather than a focus on customer experience management. Increasingly, there is an understanding that in order to redefine the experience, increase loyalty and improve profitability a differentiated proposition is needed and now can be delivered at scale at a suitable price point. Rethinking the customer experience is force driving behind this move.”

**Sector maturity**

Nonetheless, while most insurers acknowledge the importance of Customer Experience Management, and in particular the role it could have in reducing customer churn, it would appear that many struggle with the delivery of outstanding experiences for their customers. “CEM in insurance is bland and undistinguished,” remarks Colin Shaw, CEO of Beyond Philosophy. “I think that insurance firms know about CEM, but they aren’t doing it. They may see it as a competitive differentiator, but they aren’t willing to put their money where their mouth is and do anything about it; so it’s that classic difference between talk and action.”

“Yet being bland,” he adds, “is a problem because it forces customers to make a decision based purely on price, which therefore drives commoditisation.”

The UK Customer Satisfaction Index demonstrates that while sectors such as retail are reaping the benefits of understanding their end-to-end customer experience, the insurance industry is lagging some way behind.

Very few brands get excellent scores, as UK consumers generally rate experiences of UK brands in a much more critical way than other European consumers, but good scores are usually reserved for sectors such as retail. Insurance often comes quite low because customers can’t always associate any positive experiences with the company at all. According to last year’s Capgemini World Insurance Report, just 32% of
UK insurance customers reported having positive experiences in 2013, down from 43% the previous year. This was the biggest drop of any country questioned in the study.

And while there is some evidence of improvement, it is incremental and slow.

**32%**

Global insurance customers reported positive customer experience in 2013

**#1**

U.S. is the only country with positive customer experience base over 50%

**18.2%**

Netherlands had largest improvement (due to focus on digital and broker channels)

Source: World Insurance Report 2014 from Capgemini and Efma

**Driving engagement**

While the commoditisation and churn issues that plague the UK sector could be counteracted with robust focus on the customer experience by providers, there is little action to be seen by the majority in the UK. Insurance providers abroad, however, are not lagging behind the same way, and are employing a number of innovative practices to drive engagement.

**76/100**

- Institute of Customer Service UK Customer Satisfaction Index 2014 score for the insurance sector, up from 74/100 in 2009.
“The US retail insurance sector has a number of players who have grown to dominate the market by focusing on the customer experience through the adoption and smart use of technology to automate key customer-facing processes, improving efficiency and making it easier for customers to use,” comments McKee.

“These ideas are now being exported around the world with companies in the UK adopting similar successful approaches and new ways of approaching a particular group of customers.”

This means there is pressure on UK insurers to differentiate themselves by providing additional services on top of usual insurance, to add value to customers.

They need to use digital technologies to build more persistent bridges to their customer’s lives. For example, offering an app that has different offers from related services; so an attempt to create a relationship between the customer and the insurer, which doesn’t just boil down to a yearly renewal or a claim.

Jo Causon, Chief Executive of the Institute of Customer Service (ICS) says that the UK industry needs to embrace the new operating environment it has found itself in if it is to remain competitive.

“That is quite important in this sector, which is rich in data and information, because in terms of technological advances, it is in the early stages.

“Everything is much more around personalisation, and insurers really need to think about this, because if there isn’t trust, customers won’t give their data; if they don’t have data, they can’t provide more personalised services. So while its maturity is mid-table now, that’s not good enough because we’re living in a brave new world.”

**Slow to adopt technology**

Indeed, there is strong evidence that the insurance industry is lagging behind other sectors in terms of adopting technology to improve the customer experience, and McKee cites the banking industry as a good example of making CEM a vital differentiator.
“Take, for example, the growth in mobile banking. The insight from the banks was to be where the clients were and where and when they needed banking services. Now a banking app is expected for any scale player. Insurance hasn’t had the same pressure and tends to worry about churn at the point of renewal rather than whilst providing the service during the contract. For change to happen, one or two companies need to take a leap of faith”, he adds.

“When an insurer takes the leap, everyone will watch for signs of success and replicate quickly. For example, companies such as Aviva are putting a lot of investment into their digital offering and have created the role chief digital officer, a new role with a vital role to play.”

A recent Forrester report, on European digital insurance trends in 2015, stated that it is crucial that insurers engage the ever more ‘digitally-savvy’ consumer, as customers are increasingly applying their digital research and purchase habits to insurance. In fact, an earlier Forrester survey revealed that, in 2014, only 16% of European online adults used agents when researching insurance purchased in the last three years – fewer than ever.

**Trust and transparency**
The statistics paint an arguably painful picture for the sector. With commoditisation and high churn its core characteristics, the ingredients are there to encourage an improvement in the experience delivered by providers. Certainly there is evidence abroad that insurance providers have stepped up to the plate to embrace technology and innovation to better engage their customers.

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**Areas Where Digital Capabilities Improve Customer Experience**

- Policy Acquisition
- Policy Servicing
- Online Claims Processing
- Online Claims Notification
- Research and Get a Quote

**Within 5 years, more than 30% of insurer business will occur digitally**

Source: World Insurance Report 2014 from Capgemini and Efma
So why is the customer experience still left wanting in the UK?

Trust and transparency appear to be key issues.

“There is a very high correlation between trust and customer satisfaction,” says Causon. “Where organisations improve their customer satisfaction scores, they also improve their reputation and trust scores, which is obviously a key area.”

Hughes believes that a lack of trust and loyalty can be traced directly back to some of the behaviours of the insurers, the most common example of which is the provider offering cheaper prices to new customers rather than existing ones:

“The overall customer experience is that, in general terms, the insurer is not loyal to the customer, so the customer doesn’t feel loyal towards it.”

There are other examples. Shaw believes that trust also becomes a big issue when customers get into an automatic renewal of their insurance policy.

“They attract the customer and then keep them with automatic renewal – but the price of that is the highest. From a customer experience perspective, that tells me they are not giving me the best price and I can’t trust them.”
Source: Customer Experience Barometer, KPMG International, 2014
Moments of truth
If the renewal process is one ‘moment of truth’ on the customer journey that could be improved by many providers, there is another that they should also be looking to improve – the claims process.

For insurance customers, few experiences are as important as the claims experience, and this is where trust and transparency are vital.

Even though the claims experience is rare, when it does happen it is one of the make or break moments. If you can’t come through at this point, when the customer really needs you, the customer relationship is usually impacted.

Hughes adds that what really drives customer satisfaction in the claims area is feeling that they don’t have to worry about anything – which requires the insurer to be more proactive.

“We actually found that companies that fixate on customer satisfaction in claims actually have lower costs, because the costs rise when, for instance, a customer has to phone up many times, but doesn’t get a satisfactory answer – the cost of dealing with that customer is very expensive,” he says.

“So these are the things that drive customer dissatisfaction, where they don’t feel like they are being communicated with, but bizarrely, these are also the things that drive horrific costs. So looking at it through the eyes of the customer actually allows them to bring their costs down.”

A recent Forrester survey revealed that many customers are unhappy because of the lack of transparency around conditions of insurance and the complexity around each policy, which usually comes with a very long contract and exemptions.

It is for precisely this reason that the insurance sector is witnessing the emergence of disruptive new digital models such as Guevara, a peer-to-peer car insurance service launched in the UK last year. This enables customers to pool their premiums online, with any money left at the end of the year going towards lower prices the following year.

Guevara connects people in need of insurance to each other and facilitates the creation of self-insurance groups, so that customers don’t get stuck in these annual renewal situations, with no transparency.

The 2015 digital insurance trends report by Forrester also identified a number of usage-based insurers, such as Whoosz in the Netherlands and Only Young Drivers in the UK, that are using telematics to underwrite drivers more accurately. Forrester said that ebusiness executives at insurance firms must therefore embrace digital business transformation to pre-empt any digital disruption.

This represents another threat to the industry, and another reason why customer experience should be high on the agenda for all UK providers going forward.
The companies that seem to be successful are the ones that really focus on delighting their customers and, as a result, create lower costs.”

There are a number of obstacles that UK insurance providers have to overcome in order to deliver improved customer experiences, not least the cost that is involved. Hughes believes the industry has historically been price-fixated and, as a result, it is not customer-fixated.

“The unique challenge for insurers is to be seen as part of the solution, rather than the problem. Companies think that if they do more for the customer, it will cost them more and that will make them less competitive. I totally refute that – I actually think that companies that focus on getting their end-to-end customer experience right are the ones that have lower costs. But that is a really difficult issue for the industry to grapple with because it is counter-intuitive.”

He stresses that CEM is a fundamental part of creating good operational processes.

“The companies that seem to be successful are the ones that really focus on delighting their customers and, as a result, create lower costs,” he comments.

Another challenge is the speed of change around customer expectations over the last few years as customers are far less tolerant than they used to be. Insurers also need to focus on
getting the basics right and consistently delivering well on issues such as dealing with complaints and attracting and retaining people with the right skills.

“The world has moved on from being transactional to a more relationship-based economy,” adds Causon. “So if a customer is going to give their data, they need to feel they have a relationship with the organisation. The challenge is around recruiting and training people with much higher order social intelligence skills.”

The proliferation through which customers want to interact with providers is another significant challenge for the sector.

Findings from the Eptica Multichannel Customer Experience study, published in June 2014, revealed that insurers are failing to engage consumers on digital channels, with just 20% responding to questions asked on Twitter and via email, and only 30% answering questions satisfactorily.

“Insurers need to serve their changing client base via the modes of communication the clients expect and are comfortable with. The older millennials (born post 1980) are now earning good money and a target audience so insurers need to speak in their language using their technology-based solutions,” remarks McKee.
Yet from these challenges arise huge opportunities for insurers too. As much as technology can be a challenge for insurers, there is also a massive opportunity to use it to provide a more personalised service by taking customer data and using it to tailor products and services, as well as provide a more simplified service.

In other markets, such as The Netherlands, companies like Aegon are developing competitive differentiators by launching simpler digital propositions, where customers can buy an insurance policy on their mobile, because the contract is so short and the terms and conditions are very simple.

This is a customer experience model that the UK could follow. By simplifying the policy and the terms and conditions, customers can easily understand what they are covered for and what they are not, and they can purchase that policy with full confidence.

A 2014 Forrester report found that 19% of European online adults, who bought insurance in the last three years, found information or researched that policy on providers’ websites. Insurers therefore need to ensure that these prospects find what they are looking for, says Forrester, with a clear overview of available policies, answers to key questions, and help choosing what is right for them.

With the rise of wearable technology and connected devices, insurers also have a chance to create a policy that is more engaged and tailored more closely to customers’ needs, so that they don’t become an after-thought when something happens, and are instead more present throughout the lifecycle of their customers.
Companies in Germany and France are already experimenting with home sensors. If customers had sensors, insurers could send them an alert if, for instance, they forgot to close the window, or if the water is running, or if gas is detected. As well as informing the customer, insurers could also potentially notify their own emergency teams to start dealing with the problem early on. It is easy to see how this could create positive experiences for customers.

But not all opportunities are technical. Cultural issues also have an important role to play in improving the standard of customer experience, and some leading providers have identified employee engagement as a vital area to help drive higher levels of customer satisfaction.

Insurer LV= was recently voted top insurer for customer satisfaction in the UK Customer Satisfaction Index. Peter Sinden, sales and service director at the firm, puts this down to its people-based culture.

“We believe that if our employees are engaged, they will deliver great customer service. Our unique people-based culture really sets us apart.”

**Investment in CEM**

What is necessary for providers to capitalise on these opportunities is – of course – additional investment in CEM.

While there are some signs that investment in CEM is increasing, it does appear to be patchy. Some insurers are investing in working with consultancies to use the right metrics to improve CEM and realign internal processes. Yet Hughes remarks that as it is more difficult to measure a return in customer experience, many don’t invest in it.

“They are much more interested in Big Data and analytics than they are in customer experience, but that is probably because you can draw a line between an investment in Big Data or analytics and a return, as it is hard in the way that it is measured, whereas customer experience tends to be softer.”
Causon says that insurers must ensure they invest more in technology to enhance customer experience, although it’s not as simple as just spending more in this area.

She notes: “It is also about joining that up across the culture and the organisation, and seeing customer service as a key strategic driver for the business that is integral to the business plan – and not just a function or department that sits on the side.”

**Improving standards**

While the sector is maturing and standards are rising. Insurers look to other markets overseas and bring successful processes back to the UK, and advances in technology are helping to improve the customer experience and drive differentiation.

With insurance being so commoditised, good customer experience and a good reputation in the eyes of the customer is the only differentiator because policies are almost identical.

However, analysts have noted a renewed focus on customer experience and satisfaction and many companies are experimenting with different measurements to identify the problems in the process; so they are really trying to use metrics to help them understand and improve that.

Nonetheless, Causon believes that the customer perception of standards in the sector, as a whole, are decreasing as customer expectations continue to rise and insurers are being left behind.

“There are organisations that are outstanding in their responsiveness, personalisation and ability to train and develop their people, but overall the sector is in decline,” she warns. This scenario would suggest that insurers need to make bigger experience improvements than they have so far achieved in order to keep pace with the rising customer expectations.
To ultimately improve customer experience, insurance companies must ensure that the response starts from the very top of the organisation, with senior executives ensuring that staff are highly engaged and motivated to provide the levels of service that customers want and expect.

“A focus on staff training would ensure employees deal with customers efficiently, show empathy and provide real insight and knowledge,” remarks Causon. “A culture that encourages this can only be driven from the leaders. This could be an organisation-wide initiative, but it needs to start at board level and proliferate throughout the company. It is no coincidence that a number of businesses are now hiring CEOs with customer service backgrounds.”

Hughes adds that executives also need to encourage focus on their customers, in particular actively listening to them to find out what they want.

“It’s about spending time with customers and understanding why they are buying insurance. There is much focus on what they buy and how they buy, but very little focus on why they buy. That is a really fundamental issue because those companies that seem to be better at
understanding why their customers are buying from them have greater loyalty and greater satisfaction.”

So, CEOs must get out of the boardroom and genuinely listen to what their customers want. It sounds simple – but that’s because it is.

“This is non-complex,” stresses Hughes. “It really is about a commitment that goes beyond a bunch of words written on a mission statement, and goes to the heart of whether the boardroom is actually spending time listening to customers. If they are taking the time to focus on customers, then they will be better able to think about what customer experiences look like.”

In terms of staff engagement and recruitment, one of the biggest challenges the industry is currently facing is attracting digital-age employees, meaning that insurance firms must also focus on recruiting and retaining new talent with fresh ideas, as they can often be a catalyst for transformation.

“A key reason why the industry is lagging behind is because they have valued stability over innovation and up to recently this has driven long term shareholder value, but technology has improved to enable either nimble insurance companies or technology focused companies to offer new propositions based not on price but on the customer experience.”

CEOs must get out of the boardroom and genuinely listen to what their customers want. It sounds simple – but that’s because it is.

“Companies such as Carrot Insurance have looked for niches in the market where technology and service can differentiate. They have then partnered with non-traditional insurance partners to offer something different to their clients,” remarks McKee. “They also need to have more automation at to ensure a low cost deliver or a key service such as claims.”

As previously noted, claims is a key area for insurance companies to focus on because customer satisfaction drastically improves when a firm implements a first-rate claims process.

“If a customer has a claim and their experience with how it is dealt with is good, then the client is less likely to actively churn. Conversely, a poor claims experience is almost guaranteed to lose a client. Claims is the shop window, the product the client is actually buying, it is not a cost centre to be squeezed at the expense of customer experience.”

Technology’s role in improving CEM

Consumers are increasingly demanding a more personalised approach in the new relationship economy, so introducing technology that streamlines the personalisation process is crucial to improving CEM in the insurance sector.
“This might be technology that automatically updates your renewals and policy documents with your personal data at the right time, providing you with the option of receiving it online or in paper form,” suggests Causon. “Technology that reduces a customer’s workload and provides the latest up-to-date information is being used effectively across the retail and banking sectors, and must also be adopted by the insurance sector.”

To drastically improve the customer experience, insurance firms must therefore look at adopting technologies that make the customer’s life easier, deliver results quicker and offer the ability to engage with the customer anywhere, anytime. This can either be at the new policy stage, or in policy administration during the life of the customer, or indeed in claims.

“Recent research has shown that the insurance company with claims professional aligned to the ethos of the company and to the needs and interests of the clients offer the most positive claims experience. This translates into customer experience at the top end of the ranking. A good example of this is how John Lewis Insurance works to ensure the claims staff are on message,” comments McKee. Yet the challenge of adopting technology in the UK insurance sector is not actually the technology itself, but business transformation, so that the available technologies can be leveraged to their maximum potential.

“This kind of business transformation would require a shift in culture and mindset within the industry, which would put digital technologies at the heart of their business strategies,” says McKee.

“Insurers need to transform the experience and in doing so are likely to cut costs and increase flexibility. To do so, the nimble iterative approach is most sensible, the days of big large scale projects lasting three years are over. But the complexity comes when piecing together an overall vision and strategy from a number of smaller projects and keeping an eye on the changing technology and competitive landscape. These iterative improvements in service enhance the experience, improving the offering both in the short-term and medium-term as part of a wider digital and customer experience strategy.”

This focus on business strategy, to place digital technologies at the forefront, would bring about short-term, quick and positive improvements to customer experience, but would also prepare the industry to react to changes quickly, rather than playing catch-up all the time.
Some commentators are predicting a polarisation of the industry in the coming years, with some companies continuing to target those customers who are prepared to pay very little – with those customers purchasing their policies online through comparison engines, without thinking necessarily about customer experience.

But at the same time, there will be a growing number of companies that will try to differentiate by providing additional services and leveraging technology; these policies will be more expensive but they will provide added value and engagement to customers. Shaw believes that the word ‘experience’ is key, because there are two parts to an insurance customer’s experience – the rational part, such as price, and the emotional part, such as trust and peace of mind.

“I don’t see any organisation embracing the emotional side of the experience, yet we know, through research, that 50% of a customer experience is how a person feels. But insurers look solely at the rational part and that could effectively drive them into the ground.”
Ultimately, insurers that focus on areas such as personalisation, data insights and the end-to-end customer experience will be the ones that succeed in the future, remarks Causon.

“Customer service is at a turning point and those organisations that embrace all of this will be the ones that have sustained growth. Insurance is a huge and very important sector, with some great opportunities to grasp, but it does need to focus on building trust and the whole end-to-end customer experience.”

Hughes agrees, adding that as customer experience will continue to grow and become an increasingly important factor, it is the only way ahead if insurers want a competitive advantage.

“Companies that fixate on creating positive customer experiences are the ones that survive and grow. They are the ones that will exist in the long-term, because they are focused on the most important thing, which is the customer. There are still too many companies that really aren’t focused on creating a positive customer experience – they think it’s not important – but to my mind it’s the only long-term way to survive as a business.”

$8.39m CEM’s worth by the end of the decade - MarketsandMarkets.
MyCustomer.com is Europe’s leading online resource for customer-focused professionals, with over 100,000 members. Sharing news and advice on fields including customer service, marketing, sales and CRM, MyCustomer.com is a vital hub for business leaders looking to enhance every facet of the customer experience they deliver.

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