

Watermark Consulting 2018 Customer Experience ROI Study *Insurance Edition*

*Demonstrating the business value of
a great policyholder experience...*



A Message From Watermark's Founder

What's a great, competitively differentiated customer experience really worth to a company?

It's a question that many business leaders struggle with, and it was the spark that led to our very first Customer Experience (CX) ROI Study, released nearly a decade ago.

Back then – and still today – plenty of organizations publicly proclaim their commitment to customer-centricity, but the reality is more complicated. There is an undercurrent of skepticism among many executives around the true business value of a superior customer experience. Often the benefits are viewed as soft and intangible, the payoff uncertain.

With the CX ROI Study, we sought to counter that perception by conveying the value of a great customer experience in a language that every business executive would understand – the language of *shareholder value*. Our analysis has since become one of the most widely cited research studies of its kind.

The margin of outperformance between Insurance Customer Experience Leaders and Laggards has widened considerably.

A couple of years ago, we branched out and began developing some industry-specific CX ROI Studies. We targeted sectors where there was already a highly regarded, independent measure of customer experience – one that encompassed enough competitors and rating years to yield a rich dataset.

Auto and Home Insurance met that criteria and served as the focus of our very first industry study. With this report, we're revisiting that analysis, and the results are as eye-opening as ever.

Not only do Insurance Customer Experience Leader firms continue to outperform their Laggard counterparts, but the margin of outperformance has widened considerably.

This suggests that the competitive edge enjoyed by Insurance Customer Experience Leaders is not just real, *it is strengthening*.

That should certainly concern any carrier who frequently finds itself in the Laggard category, because these results do not bode well for firms that struggle to endear themselves to policyholders.

Regards,



Jon Picoult
Founder & Principal
Watermark Consulting

The Challenge for Insurers

If the insurance industry is known for anything, it's certainly not customer experience. This is a sector that has traditionally been far more product-focused than customer-focused (which explains the industry's low scores in other studies of consumer engagement and trust).

Insurers collectively spend billions of dollars each year on advertising but tend to hold the purse strings much tighter when it comes to investments in a better customer experience. This is an industry that is far more enamored with acquiring new customers than it is with delighting the ones they already have.

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There are exceptions, however. A handful of insurers are very deliberate in how they shape the end-to-end, prospect-to-policyowner-to-claimant experience. And, as you'll see in a moment, that strategy is rewarded by consumers and investors alike.

Our objective with this analysis was to help industry leaders understand the overarching influence of a great customer experience (as well as a poor one). To accomplish that, we sought to elevate the dialogue.

That meant getting the industry to focus, at least for a moment, not on the cost/benefit of specific customer experience initiatives, but rather, on the macro impact of an effective customer experience strategy.

We accomplished this by studying the cumulative total stock returns for two model portfolios – comprised of the Top 5 (“Leaders”) and Bottom 5 (“Laggards”) publicly traded companies in J.D. Power and Associates’ annual Insurance Satisfaction Studies.

As the following pages vividly illustrate, the results of our analysis (covering nearly a decade of stock performance) were quite compelling.

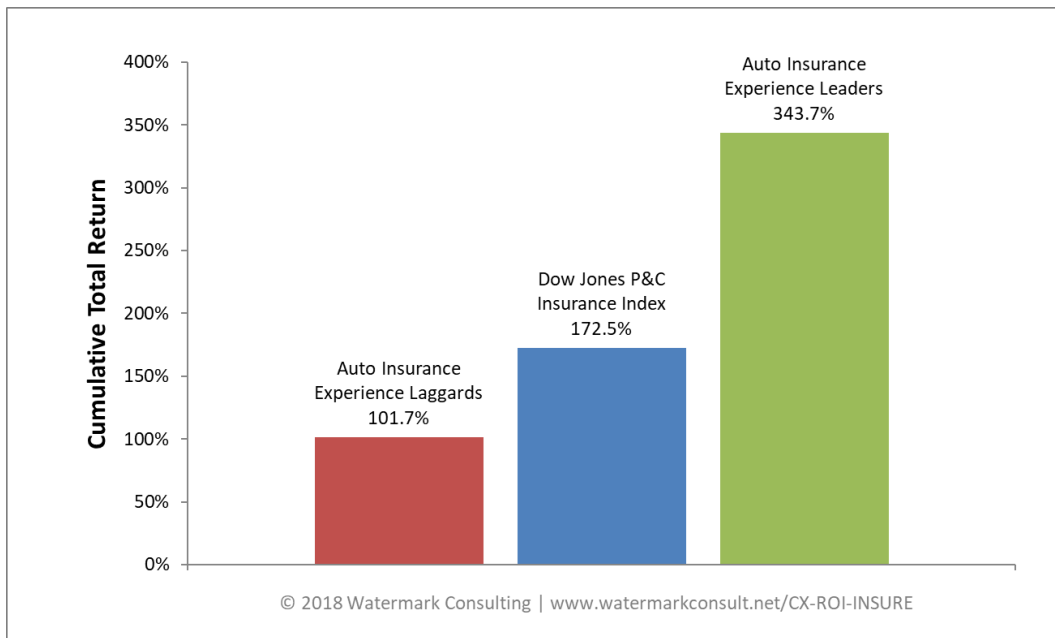
How The Study Was Conducted

Our analysis was based on the cumulative total stock return for equally weighted, annually readjusted model portfolios comprised of Insurance Customer Experience Leaders and Laggards. For each year covered by the study, Leaders and Laggards were defined as the Top 5 and Bottom 5 publicly traded insurers in J.D. Power and Associates’ annual Auto/Home Insurance Satisfaction Studies. Where necessary, national rankings were derived by averaging insurers’ regional satisfaction scores. Portfolio returns were based on the prior-year performance of the Leaders and Laggards, to ensure that the results were not influenced by the publication of the J.D. Power study itself.

Auto Insurance Results

Eight years of Auto Insurance satisfaction rankings were available for our analysis. The graph below shows the cumulative total return across that period for the Customer Experience Leaders, the Customer Experience Laggards and the Dow Jones U.S. Property & Casualty Insurance Index.

Auto Insurance Customer Experience Leaders Outperform 8-Year Stock Performance of Customer Experience Leaders vs. Laggards (2009-2016)



Watermark defines Auto Insurance Customer Experience Leaders and Laggards as the publicly-traded insurers falling in the Top 5 and Bottom 5 national ranking of J.D. Power's 2010-2017 U.S. Auto Insurance Satisfaction Studies. Comparison is based on performance of equally-weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards.

Leaders outperform the industry, Laggards trail it. The portfolio of Auto Insurance Customer Experience Leaders far outperformed the industry, generating a total return which was nearly double (171 points higher) that of the Dow Jones Property & Casualty market index. Laggards, in contrast, trailed the market index by 71 points.

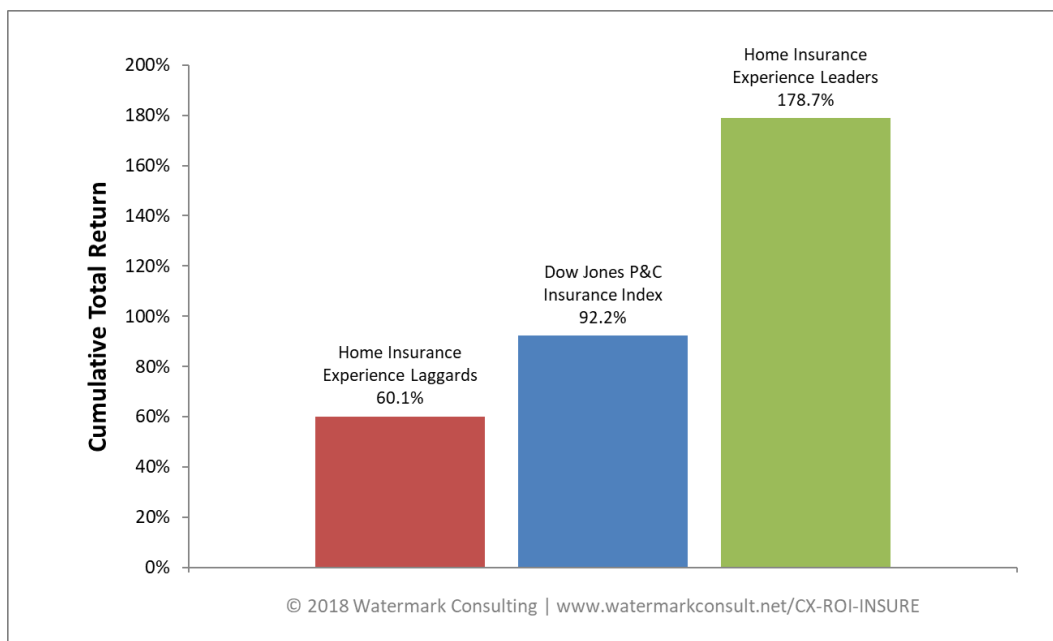
The Leaders trounce the Laggards. Over the eight-year period, the Customer Experience Leaders posted a total return that was an astonishing 242 points higher than the Laggards. Put another way, the Leaders generated an average annual return that was more than double that of the Laggards.

The performance gap is widening. The Customer Experience Leaders are pulling away from the Laggards. In the past two years, the total return performance gap between the Leaders and the Laggards has grown by 55 points.

Home Insurance Results

Nine years of Home Insurance satisfaction rankings were available for our analysis. The graph below shows the cumulative total return across that period for the Customer Experience Leaders, the Customer Experience Laggards and the Dow Jones U.S. Property & Casualty Insurance Index.

Home Insurance Customer Experience Leaders Outperform 9-Year Stock Performance of Customer Experience Leaders vs. Laggards (2008-2016)



Watermark defines Home Insurance Customer Experience Leaders and Laggards as the publicly-traded insurers falling in the Top 5 and Bottom 5 national ranking of J.D. Power's 2009-2017 U.S. Home Insurance Studies. Comparison is based on performance of equally-weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards.

Leaders outperform the industry, Laggards trail it. Like their Auto counterparts, the portfolio of Home Insurance Customer Experience Leaders far outperformed the industry, generating a total return which was nearly double (87 points higher) that of the Dow Jones Property & Casualty market index. Laggards, in contrast, trailed the market index by 32 points.

The Leaders rout the Laggards. Here, as well, the story between the Auto and Home insurers is quite similar. The Home Insurance Customer Experience Leaders generated a total return during the nine-year period that was far greater than that of the Laggards – a difference of nearly 120 points.

The performance gap has become a chasm. The degree to which the Leaders are outperforming the Laggards has grown considerably. In the past two years since our last Insurance CX ROI Study, the Home Insurance Customer Experience Leaders have doubled their total return advantage over the Laggards.

The Backstory: Leaders vs. Laggards

As this study demonstrates, the fortunes of Customer Experience Leaders and Laggards diverge in a dramatic and revealing way. What's driving the disparity in performance across these two groups?

Investors seem to be signaling that companies that deliver a great customer experience over the long-term are simply more valuable than those that do not (an important takeaway, for public *or* private entities).

What creates that enhanced value? Answering that question requires understanding the economic calculus of a great customer experience. When a company consistently delivers an impressive experience to customers, it triggers behaviors that influence business financials in two important ways:

Revenue growth. When most people think about the economic benefit from a great customer experience, this is where their heads go. And that's entirely appropriate, because revenue growth is indeed one clear advantage of customer experience excellence. Why? Happy, loyal customers have better retention, they're less price-sensitive and they're more willing to entertain offers for other products and services – all helping to raise revenue. Plus, because they love you so much, they spread positive word-of-mouth and refer new customers to you – lifting revenue even higher.

Expense control. This is the part of customer experience economic equation that most businesses fail to appreciate. (It's also why using revenue growth, alone, to demonstrate the ROI of customer experience is misguided.) When you have happy, loyal customers, it helps to better control – if not reduce – your expenses. For example, due to all the customer referrals you're getting, you can spend less on new business acquisition – which reduces expenses. In addition, happy customers tend to complain less, which reduces the stress on your operating infrastructure (e.g., lower call volumes), thereby also helping to keep expenses in check.

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Of course, these economic dynamics cut both ways. Customer Experience Laggards struggle to raise revenue (e.g., poor retention, high price-sensitivity, limited cross-purchasing, negative word-of-mouth) and they're burdened with higher expenses (e.g., to acquire new customers, and to deal with the existing unhappy ones). This weighs on their long-term profitability and makes them less valuable in the eyes of the market.

Learn From The Leaders

Over the past decade, we've studied Customer Experience Leaders, both inside and outside of the insurance industry. What we've discovered is that they all rely on a handful of time-tested techniques to create positive and memorable interactions with their customers. Here's a glimpse into some of the basic tenets that govern the Leaders' approach (and are likely applicable to your own organization):

1

They aim for more than customer satisfaction. Satisfied customers defect all the time. And customers who are merely satisfied are far less likely to drive business growth through referrals, repeat purchases and reduced price sensitivity. Maximizing the return on customer experience investments requires shaping interactions that cultivate loyalty, not just satisfaction.

2

They nail the basics, and then deliver pleasant surprises. To achieve customer experience excellence, the Leaders execute on the basics exceptionally well, minimizing common customer frustrations and annoyances. They then follow that with a focus on "nice to have" elements and other pleasant surprises, all of which help to create memorable peaks in the experience that strengthen customer engagement.

3

They understand that great experiences are intentional and emotional. The Leading companies leave nothing to chance. They understand the wide spectrum of touchpoints that comprise their customer experience and they manage each of them very intentionally – choreographing the interaction so it not only addresses customers' rational expectations, but also stirs their emotions in a positive way.

4

They shape customer impressions through cognitive science. The Leading companies manage both the reality *and* the perception of their customer experience. They understand how the human mind interprets experiences and forms memories, and they use that knowledge of cognitive science to create more positive and loyalty-enhancing customer impressions.

5

They recognize the link between the customer and employee experience. Happy, engaged employees help create happy, loyal customers (who, in turn, help create more happy, engaged employees!). The value of this virtuous cycle cannot be overstated, and it's why the most successful companies address both the customer and the employee sides of this equation.

Implications For Insurance Providers

Insurance providers shouldn't resign themselves to delivering just a mediocre customer experience, at best. The results of this study suggest there is competitive advantage to be gained by differentiating along this axis, but it requires insurers to look at their business through a different lens and embrace some new perspectives:

Retention is not a good proxy for loyalty.

Insurance providers often rely on retention to gauge the quality of their customer experience. While retention is a valuable metric, it can be a misleading indicator of customer perception (after all, a retained policyowner may not necessarily be a loyal one). As a result, many firms tend to overrate the quality of their customer experience.

Insurance can be more than a “grudge” purchase.

Some industry insiders question the viability of a customer-focused business strategy in insurance, given it's an intangible product that people must buy, never knowing if they'll get any benefit in return. Smart providers overcome this perception by engaging customers with value-added services that transcend traditional insurance coverage.

It's essential to focus on more than just claims.

As the ultimate moment-of-truth in insurance, it's critical that the claims customer experience be exceptional. However, the vast majority of insureds won't experience a claim in any given year. For this reason, insurers' experience improvement programs must go beyond claims – targeting other, more common customer touchpoints.

The mundane things matter.

Insurance is a low interaction business, which amplifies the impact of routine, recurring transactions on customer perceptions. Firms often treat these interactions (policy delivery, billing, renewal, etc.) as mundane, administrative tasks – and it shows in the resulting experience. However, for many insureds, these mundane touchpoints *are* the entire experience, which is why these routine interactions deserve close attention and careful choreography.

There is no silver bullet.

Insurers angling to break into the Leader category should be forewarned: there is no silver bullet for achieving customer experience excellence. Latching onto some buzzword – Big Data, InsurTech, AI, etc. – won't get you there. Neither will advertising how wonderful your customer experience is (the reality will always overshadow the marketing). Greatness is achieved through the disciplined and deliberate design of both the “onstage” customer experience as well as the “backstage” work environment that underlies it.

About Watermark Consulting

What if you could “watermark” your customer experience – making it so compelling and distinctive that, like a watermark on paper, it left an indelible impression that couldn’t easily be copied? This is Watermark Consulting’s focus.

We are a boutique customer experience consultancy. We help companies impress their customers and inspire their employees – creating raving fans that drive business growth.

We’ve worked with some of the world’s foremost brands (many insurers among them), collectively representing over 750,000 employees and \$500 billion in annual revenue.

The philosophy behind Watermark is simple: With every interaction, businesses win or lose share. Each touchpoint – be it with customers, distributors, or even employees – presents an opportunity to either build brand loyalty or erode it.

Watermark helps companies capitalize on this concept by creating end-to-end brand experiences that don’t just satisfy, but impress.

wa • ter • mark

A distinguishing mark impressed on paper during manufacture to make it appear more distinctive and rich. Often used to prevent imitation.

Contact Us

Isn’t it time you turned your company’s customer experience into its greatest competitive advantage? Contact us to learn more about our consulting services, educational workshops and conference keynotes.

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