Insurance sector briefing

A perfect storm of disruptive change
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Major forces are combining to create a perfect storm of disruptive change for the insurance sector.

The first force for change comes from the accelerating pace of digital innovation. Technologies such as connected autonomous vehicles, the digitally connected home and wearable health tracking devices require insurers to re-think traditional business models. To survive and thrive, insurers need to embrace innovation at a pace and scale not seen for generations.

The second major force for change comes from the rise of a new generation of customers. By 2020, almost 40% of the workforce will be millennials. This new generation have less trust in big businesses and they are not engaging with many traditional insurance channels.

They prefer to buy online, have higher debts, are deferring major purchases and are reluctant to engage in planning their financial futures with their employers. To anticipate the needs of these customers insurers need to develop deeper and richer customer insight.

All this is happening at a time when non-traditional competitors such as the global technology giants and major ecommerce retailers have started to use their superior customer insight to launch their own insurance products and services.

Another major force of change are the changing expectations for customer experience from all customers. By redesigning their businesses outside-in, from the customers perspective, insurers can become more relevant to customers and better able to engage and interact effortlessly with them, to compete successfully in the new digitally connected world.

As shown in this report, recent innovations in the way US insurers are delivering superior customer experience provides an important lesson for many UK insurers wishing to follow this path.

At KPMG, we help our clients to navigate a path through this perfect storm. Our Customer Advisory practice can help you to embrace digital innovation, develop stronger customer insights and compete by providing better customer experience.

Should you wish to discuss how your company can become more innovative, insight-led and experience-centric, please contact us at KPMG.
UK insurers are fixating on their customer experience (CX) as an enduring source of competitive advantage.

Our recent research shows that there is much the UK insurance industry can learn from their European and US counterparts.
Several insurance companies appear in the KPMG Nunwood Customer Experience Excellence rankings in the US. Th

However, in the UK, the insurance sector lags several other sectors when it comes to customer experience excellence.

In the UK only two insurers make it into the top 100, none make it into the top 30.

The leading insurers from our US research are not just strong performers but also strong innovators.

It is their focus on life events and their ability to meet the range of needs that emerge for the changing consumer that is setting them apart.

Financial analysis shows that firms in the US insurance industry that are focused on the customer experience are growing twice as fast as those who are less committed to the customer.

US insurers are setting the benchmark; firms such as USAA, Geico, State Farm and American Family are finding new and innovative ways of meeting customer needs. They achieve this through a deep understanding of their customers, their customers’ lives and the events that befall them.
Globally, the consumer is changing

The Five Mys

For the insurance sector leaders, their success emanates from the deep understanding they achieve of the changing nature of their consumer. USAA, for example, describes its customer listening programme as “customer surround sound”. The organisation shares common characteristics with the leaders from other sectors in their ability to use the customer’s voice to surface and fulfil previously unmet or unidentified customer needs.

KPMG Global Customer Insights Program

Our research shows that there are a number of structural changes taking place in the psyche of the consumer as they grapple with shifting life events, social connections, trade-offs between time and money and the intense competition for their attention.

Today, our best experiences have become our expectations — we no longer just compare a company to its closest competitors, but to whomever sets the standard for our best experience as consumers. We crave convenience and more intuitive, personalised experiences.
We call these the 5 “Mys”: the multiple layers that shape and define consumer purchase decisions.

My motivation
Show me that you understand me, what drives me, what motivates me.

Business impact:
Knowing what customers really value in an experience and what’s setting the benchmark can help eliminate wasted efforts and focus on the ones that make a difference.

My attention
Break through the noise to build a relationship with me.

Business impact:
Knowing how to get customers’ attention can help target investment at the moments that matter, maximising return on investment.

My connection
Recognise how I interact digitally with others and help me offload jobs to technology.

Business impact:
Getting smarter about customers through their connections contextualises big data and generates actionable insights.

My watch
Help me balance the constraints of time and make the most of this resource.

Business impact:
Identifying the pockets before life events yields new opportunities to build customer loyalty and stickiness.

My wallet
Understand how I make trade-offs between time and money.

Business impact:
Understanding the trade-offs customers make between time and money can identify the best future customers and expectations.

Companys that view their customers through this framework are able to get a fuller and holistic view of the customers. In understanding their customers they will be able to innovate and drive new ideas to meet their customers’ needs.

For insurance companies, the traditional life event markets have been the pivotal driver of their customer relationship: The purchase of a new car, an accident on the road, bereavement, a burglary or natural disaster.

Increasingly, how these life events are planned for and managed is changing; here are new life events being added and others disappearing. The role of technology is facilitating new ways of satisfying customers.

For example, both the rate that millennials are purchasing cars and the importance for teens getting a drivers license have both changed. Traditionally getting a drivers license was a key life event moment for a teen; it was the key to their social life, interacting with friends, and their freedom. Today, however, the smart phone has replaced the role that the car once served. In addition, some millennials may never get a car due to the sharing economy. This may no longer be an opportunity. What does that mean for auto manufacturers and, for insurance companies? What are the new opportunities companies need to explore with this knowledge in hand?

Understanding how your customer and future customers are behaving and what drives them is critical in capturing them as your customer.

It is the focus on life events and the potential anxiety that surrounds them that is accelerating the performance of the most customer-centric insurance firms.

The firms that craft this understanding into a differentiated and innovative experience and anticipate and meet customers’ needs top the league tables in each of the countries where we conduct our research.
The Six Pillars

KPMG Nunwood examines customer experience through the lens of The Six Pillars of customer experience.

An analysis of 2 million customer evaluations of 2300 global brands, across 17 countries, has shown that great organisations who consistently deliver excellent customer experiences excel in these six areas: Personalisation, Resolution, Integrity, Time and Effort, Expectations and Empathy. This is certainly true for the top US insurance companies who register world-leading scores against each pillar.
When comparing industries and firms, The Six Pillars of customer experience are a useful benchmarking device:

1. **Personalisation**: The degree to which the experience is tailored to the individual, and to which the individual feels valued and important.

2. **Timeliness**: The fluency of the experience. The degree to which it is simple, easy and quick.

3. **Expectation**: The degree to which expectations are set, managed and delivered against.

4. **Reliability**: The moral code of the organisation. The degree to which it stands for more than making money for shareholders. Its competency and ability to keep its promises.

5. **Empathy**: How well problems are rectified when things go wrong.

6. **Empathy**: The degree to which the organisation displays that it cares about its customers.
The US and UK insurance sector CX performance

The US top 100 contains 9 insurers. The average sector score is some 7% higher than the UK. The following chart compares the US industry average against the UK for each of The Six Pillars. This is the sector experience signature.

As an industry, the US insurance sector performs very highly. It is faster and easier to deal with, it enjoys high degrees of trust and is better at resolving issues.

Most importantly, it is able to generate high degrees of emotional connection.

And whilst some of this may be attributable to the agent model used by some firms, that has proved to be a high customer satisfaction distribution model, – it is also based on customer closeness and innovation.
The Six Pillars: US vs. UK industry average

Key

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## Some of the leading insurers in the US 2017 CEE analysis

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Rank in 2017 of 257 brands</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>USAA</td>
<td>1</td>
<td>The world’s most customer-centric business. Entirely focused on making a positive contribution to their members’ lives.</td>
</tr>
<tr>
<td>American Family</td>
<td>46</td>
<td>An organisation that prides itself on customer (both agent and end customer) closeness. A Voice of the Customer programme has been instrumental in driving improvements.</td>
</tr>
<tr>
<td>GEICO</td>
<td>54</td>
<td>Has a price-led proposition. Intense focus on optimising customer journeys and the costs to serve. The net result is low cost structures and very high levels of customer satisfaction. An example of a firm that is demonstrating that the lowest cost and highest quality are not mutually exclusive.</td>
</tr>
<tr>
<td>State Farm</td>
<td>77</td>
<td>An agent-based insurer business model. Success is the power of their agents to help make sure that their customers get treated well.</td>
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### Six Pillar scores vs market average

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Pillar 1</th>
<th>Pillar 2</th>
<th>Pillar 3</th>
<th>Pillar 4</th>
<th>Pillar 5</th>
<th>Pillar 6</th>
</tr>
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<tbody>
<tr>
<td>USAA</td>
<td>+10%</td>
<td>+14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Family</td>
<td>+3%</td>
<td>+6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEICO</td>
<td>+3%</td>
<td>+4%</td>
<td>+4%</td>
<td>+2%</td>
<td>+4%</td>
<td>+4%</td>
</tr>
<tr>
<td>State Farm</td>
<td>+3%</td>
<td>+2%</td>
<td>+3%</td>
<td>+2%</td>
<td>+3%</td>
<td>+3%</td>
</tr>
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In the UK, only two insurance companies appear in the top 100:

LV=

Rank in 2017 of 295 brands: 32

Six Pillar scores vs market average

- +2%
- +5%
- +4%

Richard Rowney, CEO at LV=, has highlighted the key investments that have driven the organisation’s customer experience success:

“Over the last 2 years we have invested in developing a more customer-centric culture, together with a range of systems, process and supply chain changes that have been designed to put customer needs at their heart”. As such, the 3 biggest drivers of their improved CEE performance have been:

- A cultural shift, with much more focus on what matters most to the customer, and investment in training and empowering our people to meet those needs.
- Focusing on customer needs right at the start of every customer conversation, through customer-centric processes and employee training.
- Totally re-engineering the claims journey (systems thinking) around the customer’s priorities.

Churchill

Rank in 2017 of 295 brands: 43

Six Pillar scores vs market average

- +6%
- +7%
- +5%

Ranking 43rd in the 2017 analysis, Churchill has achieved its best performance to date, following progress in its CEE score over the last five years. The pillar of Personalisation has been a key driver of this improvement – recording a 12% uplift over that time.

In the competitive landscape of the insurance market, Churchill is something of a household name. With a lovable character at the heart of its advertising, Churchill the dog is heralded as a dependable partner. This dependability is something its call centre staff strive to deliver on, with respondents acknowledging strength in staff as a key aspect of its high performance. As one respondent in this year’s survey stated “I had to change our car insurance from my name to my husband’s, as he had not had insurance for three years and so had lost his no claim discount. The lady I spoke to was extremely helpful and explained that I could transfer my no claims discount to him, which was something I didn’t know. She sorted the whole thing in minutes. She really seemed like she wanted to help, rather than rack up a higher premium for my husband’s insurance.”
The sources of innovation

In financial services, life events are the trigger for a series of purchase decisions.

USAA is the world’s most customer-centric organisation. It is a financial institution that, in the main, focuses on members of the US military and their families. The firm has organised around key events in its customers’ lives and, in the process of solving the customer problems that arise as a result of these events, has led customer experience delivery across the US banking and insurance industry through groundbreaking innovation.

USAA’s approach drives personalisation, empathy and anticipation.

USAA’s process for dealing with bereavement recognises that the death of a family member is both difficult emotionally and arduous rationally. Arising from this circumstance are a range of “jobs to be done”. USAA has looked at all of these tasks and made conscious decisions as to the jobs they will take on, on the customer’s behalf, and those jobs where they will signpost a solution.

Underpinning the entire approach is an event guide that provides a systematic route map for the customer to help them manage through the entirety of the event.

The process is run by a “Survivors Relationship Team”, highly trained and emotionally intelligent individuals that can provide counselling and support during this difficult period.

The following illustrates how USAA helps with the “jobs to be done”, where they draw the line around what they will do and where they provide a signpost.
Take for example their car buying service:
Buying a new car – jobs to be done.

- Decide on car
- Decide when to buy
- Find dealer
- Negotiate discount
- Tax
- Apply grants or government discounts
- Extend warranty
- Insure (reduce premiums when on active service)
- Fund purchase
- Share on social media

Event: Bereavement

Notify registrar of birth, deaths and marriages
Stop cold calling
Stop direct mail
Inform Government
Notify banks, utilities
Claim on life insurance
Pensions and benefits
Will executorship
Estate management

This approach requires a different organisational mind set, new operating models and new approaches to segmentation that yield deeper levels of customer insight.

The boundaries around how you serve the customer become more fluid; areas that are often outside core competence become legitimate areas for customer experience design, new approaches to solving customer problems present themselves and innovation is the result.

Firms using this approach are getting ahead of the escalation in customer expectations curve to make a real difference to their customers’ lives and, in so doing, generate lasting loyalty and advocacy whilst lowering cost and driving revenue and profit.
The leading firms are in transition from where we have been historically: the “push” economy, where firms assumed or created customer needs, to where we are now, the “pull” economy, where firms deliver personalised products based on real needs, to the “predict” economy, where firms anticipate and meet needs before the customer realises they have a need.

For those businesses that have completed this transition, not only are their customer experiences differentiated, but the companies themselves are differentiated in that they have evolved. New, integrated and connected operating models enable the rapid conversion of insight into beneficial actions for their customer.
Summary:
Towards a new customer-centric paradigm for the insurance industry

The UK insurance industry is slowly progressing to a new way of seeing the customer. A world where its knowledge of the customer inspires improvement and change. A world that requires seeing the customer through a different lens from the outside in.

The prime task of the insurer in this new world is to enable their customer to make progress when faced with obstacles in their life.

Current ‘sell more’ paradigm
- Seeing the world from the underwriter out
- Organised in silos
- The insurer’s financial performance
- A deep interest in the product P&L
- 12 month product goals
- Finding new ways to sell you more
- Data creates value for insurer

Future ‘enable more’ paradigm
- Seeing the world from the customer in
- Organised around life events and customer journeys
- The positive enablement of customers’ lives
- A deep interest in the customer’s well being
- Customer life goals
- Finding new ways to solve problems
- Data creates value for the customer
Further resources

The Customer Experience Excellence Centre is the world’s largest CX think tank, dedicated to rapidly improving customer experience by defining what best-in-class looks like for customers around the world.

An award-winning resource that provides thought leadership, training, networking and practical project applications, with its systems, methods and outputs fast becoming a global standard for best practice.

Access the Excellence Centre:

- Download publications
- Apply for membership
- Access member training
- Register for events
- Read more on the blog

www.nunwood.com/excellence-centre/
Introducing KPMG Customer Experience Cloud

Transform the value of your customer experience

Equip your business with the capabilities of the world leaders:

- **cx. excellence**
  Harness the voice of the customer

- **cx. design**
  Design experiences and execute change

- **cx. economics**
  Master the economics of customer experience

- **cx. engagement**
  Create a culture of customer centricity

**Next-generation voice of the customer system**
For a demonstration or to understand how CX Cloud can connect your business, please contact:

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  Managing Director
  E: tim.knight@kpmg.co.uk

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  CX Solutions Director
  E: michael.crow@kpmg.co.uk

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