
THE 2016 CUSTOMER EXPERIENCE ROI STUDY INSURANCE INDUSTRY EDITION

Demonstrating the business value of a great customer experience...

A MESSAGE FROM WATERMARK'S FOUNDER

Seven years ago, we launched the *Customer Experience ROI Study* to illustrate the impact of a great customer experience – using the universal business “language” of stock market value. The analysis has since become one of the most widely cited research studies of its kind.

To date, all of our studies were based on cross-industry customer experience ratings, covering more than 200 companies from over a dozen sectors. The results were eye-opening, with the long-term stock performance of Customer Experience Leaders far exceeding that of the Laggards.

But readers of the study often asked us: Had we conducted a similar ROI analysis *within* specific industries? We hadn't... until now.

For our first sector-specific analysis, we looked for an industry 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.

“The fortunes of Insurance Customer Experience Leaders and Laggards diverge in a dramatic and revealing way.”

We found the perfect candidate in the Auto & Home Insurance industry. And while insurance isn't a business that's known for its customer-centricity, it is a sector that has its fair share of Customer Experience Leaders and Laggards.

As you're about to see, the fortunes of those two groups diverge in a dramatic and revealing way – demonstrating that, even in the staid insurance business, a great customer experience truly does pay dividends.

Regards,



Jon Picoult
Founder & Principal
Watermark Consulting

Follow me on Twitter at [@JonPicoult](https://twitter.com/JonPicoult).

THE CHALLENGE

What's a great, differentiated customer experience really worth to an insurance provider?

It's a vexing question for the industry. Many insurance executives publicly tout their commitment to the customer, but then are reluctant to invest in customer experience improvements – unsure of the financial return they really deliver.

As a result, insurers, agents and brokers continue to subject their customers to complex purchase processes, unintelligible policy documents, cluttered websites, dizzying 800-line menus, disempowered service representatives, confusing claims communications, and archaic business practices.

To help industry leaders understand the overarching influence of a great customer experience (as well as a poor one), 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.

At the time we conducted our analysis, Auto Insurance rankings were available for the period 2010-2016, and Home Insurance rankings for 2009-2015.

How The Study Was Conducted

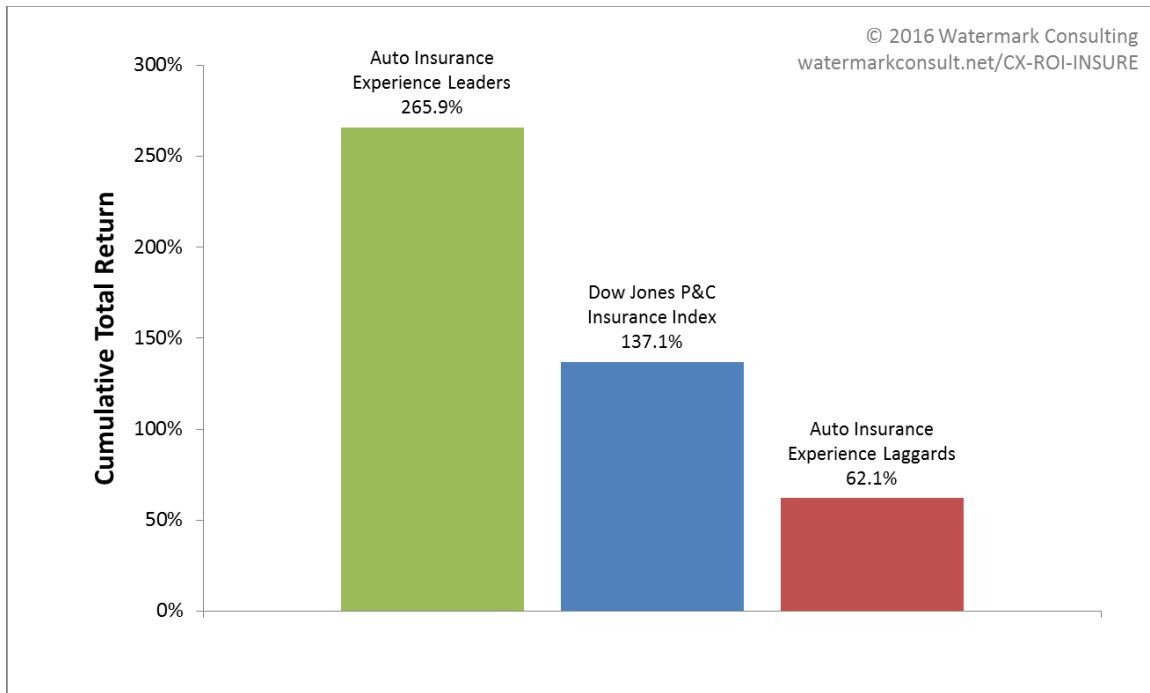
Our analysis was based on the cumulative total stock return for equally weighted, annually readjusted model portfolios comprised of Insurance Customer Experience Leaders and Laggards. For each year covered by the study, Leaders and Laggards were defined as the Top 5 and Bottom 5 publicly traded insurers 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.

As the following two pages vividly illustrate, the results of our analysis (covering *seven* years of stock performance) were quite compelling:

THE RESULTS – AUTO INSURANCE

Customer Experience Leaders Outperform the Market An Auto Insurance Industry View

7-Year Stock Performance of Auto Insurance Customer Experience Leaders vs. Laggards (2009-2015)

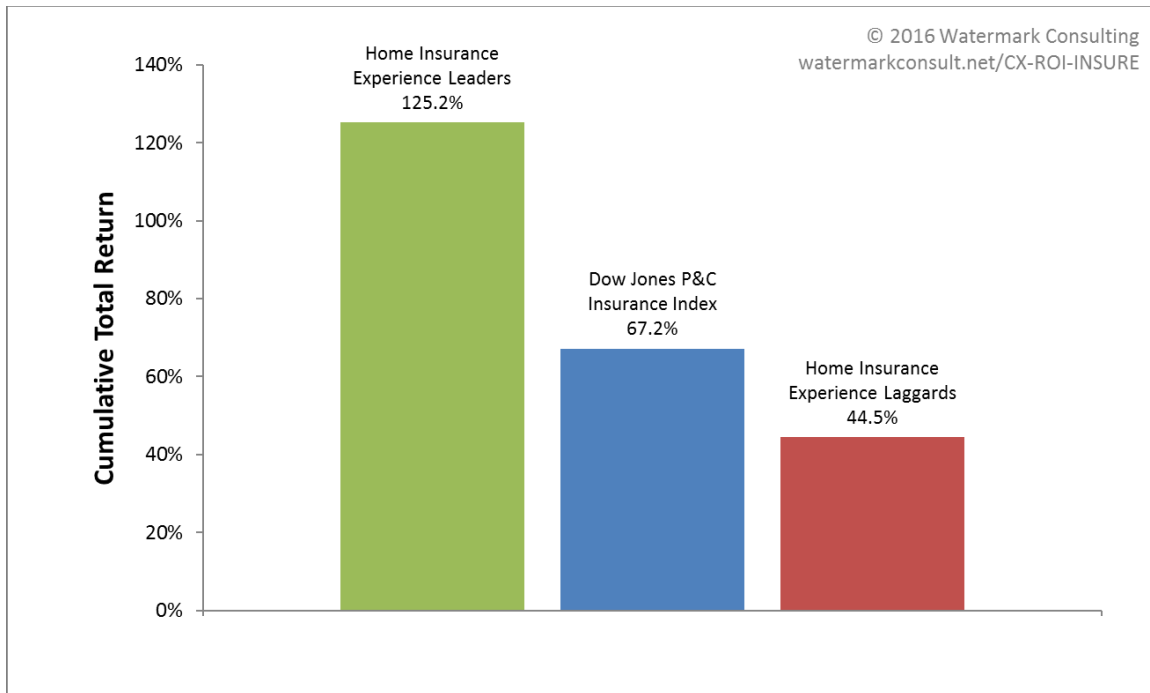


Watermark defines Auto Insurance Customer Experience Leaders and Laggards as the Top 5 and Bottom 5 publicly traded insurers in J.D. Power's 2010-2016 U.S. Auto Insurance Satisfaction Studies. Comparison is based on performance of equally weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards.

- ➔ Auto Insurance Customer Experience Leaders outperformed the industry, generating a total return that was *129 points higher* than the Dow Jones Property & Casualty Market Index.
- ➔ The industry's Customer Experience Laggards trailed far behind, posting a total return that was *75 points lower* than that of the broader Property & Casualty market.
- ➔ Over the seven year period, the Customer Experience Leaders generated an average annual return which was nearly *triple* that of the Laggards.

Customer Experience Leaders Outperform the Market A Home Insurance Industry View

8-Year Stock Performance of Home Insurance Customer Experience Leaders vs. Laggards (2008-2015)



Watermark defines Home Insurance Customer Experience Leaders and Laggards as the Top 5 and Bottom 5 publicly traded insurers in J.D. Power's 2009-2016 U.S. Home Insurance Studies. Comparison is based on performance of equally weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards.

- ➔ Home Insurance Customer Experience Leaders outperformed the industry, generating a total return that was *58 points higher* than the Dow Jones Property & Casualty Market Index.
- ➔ The industry's Customer Experience Laggards trailed behind, posting a total return that was *23 points lower* than that of the broader Property & Casualty market.
- ➔ Over the eight year period, the Customer Experience Leaders generated an average annual return which was more than *double* that of the Laggards.

THE COMPETITIVE OPPORTUNITY

These results, reflecting over a decade of company performance, offer a striking reminder of how a great customer experience is rewarded over the long-term, by customers and investors alike.

The Insurance Leaders in this study are enjoying the many benefits accorded by a positive, memorable customer experience:

- **Higher revenues** – due to better retention, less price sensitivity, greater wallet share and positive word-of-mouth.
- **Lower expenses** – due to reduced acquisition costs, fewer complaints, and the less intense service requirements of happy, loyal customers.

In contrast, the Laggards' performance is being weighed down by just the opposite – a poor experience that stokes customer frustration, increases attrition, generates negative word-of-mouth and drives up operating expenses.

“A great customer experience can deliver tremendous strategic and economic value to insurance providers, in a way that’s difficult for competitors to replicate.”

For both public and private insurance firms, the competitive opportunity implied by this study is compelling, because the reality today is that many sources of competitive differentiation can be fleeting. Product innovations can be mimicked, technology advances can be copied, and cost leadership is difficult to achieve let alone sustain.

But a great customer experience, and the internal ecosystem supporting it, can deliver tremendous strategic and economic value to insurance providers, in a way that’s difficult for competitors to replicate.

LEARN FROM THE LEADERS

How do Customer Experience Leading firms create such positive, memorable impressions on the people they serve? It doesn't happen by accident. They all embrace some basic tenets when shaping their brand experience – principles that can very likely be applied 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, these companies 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 that further distinguish the experience.
- 3 They understand that great experiences are intentional & emotional.** The Leading companies leave nothing to chance. They understand the universe 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 & employee experience.** Happy, engaged employees help create happy, loyal customers (who, in turn, 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

Perhaps the greatest takeaway from this study is that insurance firms shouldn't resign themselves to delivering just a mediocre customer experience (at best).

The results suggest there is competitive advantage to be gained by differentiating along this axis, but it requires companies to embrace some key realizations before setting a path forward:

- **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, it's essential that experience improvement programs 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.

Insurance providers are struggling to set themselves apart in a marketplace that increasingly views their products as commodities.

As the Insurance Leaders in this study demonstrate, the best way to break out of that “sea of sameness” is to deliver an end-to-end customer experience that turns everyday policyholders into true raving fans.

ABOUT WATERMARK CONSULTING

wa • ter • mark

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

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.

To learn more about our consulting services, educational programs or conference keynotes, please visit www.watermarkconsult.net.

Contact Us

Ask us a question, inquire about our services, or just talk through a problem. We’re happy to assist.

Phone: 860.658.4381

E-Mail: hello@watermarkconsult.net

Web: www.watermarkconsult.net