REPORT

Insurance: The Digital Paradox

Why hasn't digital disruption happened in the insurance market, and how can insurers use this to their competitive advantage?

INSURANCE

Contents

Foreword

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The most revered institutions and respected experts in insurance have been warning us for years: ***digital disruption is coming****, and it will revolutionize everything. As McKinsey*[1] *reports, it is a change that not only needs to happen; it needs to happen fast.*

Some companies paid heed to this warning and began investing in digitization before the pandemic. Even the most digitally hesitant insurers shifted during it, realizing their audiences' appetite for digital channels had grown in every other market.

Due to customer demand, leading insurers are finally closing the gap—digital disruption is fully upon us. At least, that's what the wider market trends—and the experts—tell us.

Yet the evidence in this sample report of the Swiss market, suggests digital isn't making the impact in insurance that it is making elsewhere, and insurers' self-assessments don't seem to reflect consumer perceptions.

We are looking to increase the user base of this report in the upcoming years, to become even more representative. We hope the initial findings of this report can give you a better understanding of what each generation expects when purchasing insurance online, and brings you another perspective of how to approach your digital services.

[1] https://www.mckinsey.com/~/media/mckinsey/industries/financial%20services/our%20insights/time%20for%20insurance%20companies%20to%20face%20digital%20reality/digital-disruption-in-insurance.ashx

Summary

EPAM conducted primary research with insurance executives during the InsuranceCom Conference in Switzerland last year. The research compared and contrasted senior insurers' own assessments of maturity levels and usability across digital channels against the perceptions of several generations of consumers.

Before we endeavored on our research, we knew several key findings to be true.

A. CUSTOMERS ARE MIGRATING ONLINE

The pandemic, and its resulting lockdowns, have led people to buy more online.

Last year, consumers spent approximately $900 billion more online than they did in 2020[2]. Crucially, 20-30% of that COVID-inspired shift is expected to be permanent. But are insurers ready for this sustained mass eCommerce migration?

A 2016 World Insurance Report (WIR) claimed that insurance customers of all ages were expected to gravitate toward greater use of digital channels. In the 2017 WIR[3], 19.3% of customers said they had purchased insurance using a digital channel while 27.5% said they expected to use digital channels in the following year. During COVID that figure rose to 54%—and to 72% for car insurance. This has led to significantly increased investment in the digitization of insurance sales channels.

B. ONLINE SALES IN INSURANCE DO NOT ALIGN TO WIDER MARKET TRENDS

Despite so much digital effort, the shift in how insurers do business today, including how they sell insurance policies, has been slow. For example, two-thirds of insurance sales are closed by agents and brokers either over the phone or face-to-face. And despite the heavy investment in digital sales channels, only 6% of life and 23% of car insurance policies are bought online[4].

The data shows that online channels have failed to make any significant dent in insurance distribution, despite the traffic. Which leads to the question: will digital disruption ever happen to the industry? Or is insurance the exception to the rule?

This report asks *why*, and shows that for digital services to deliver their full potential, the sector needs to do more than simply ramp up the technology. It requires an approach that seeks to *truly understand* customers, which tailors service delivery to their needs and recognizes the interdependence of agents and digitally delivered services.

In short, it asks: why hasn't digital disruption happened in the insurance market, and how can insurers use this to increase their competitive advantage?

[2] https://investor.mastercard.com/investor-news/investor-news-details/2021/Mastercard-Recovery-Insights-E-commerce-a-Covid-Lifeline-for-Retailers-with-Additional-900-Billion-Spent-Online-Globally/default.aspx

[3] https://worldinsurancereport.com/wp-content/uploads/sites/6/2018/10/World-Insurance-Report-2017.pdf

[4] https://www.reutersevents.com/insurance/customer/insurance-customers-speak-out

Methodology

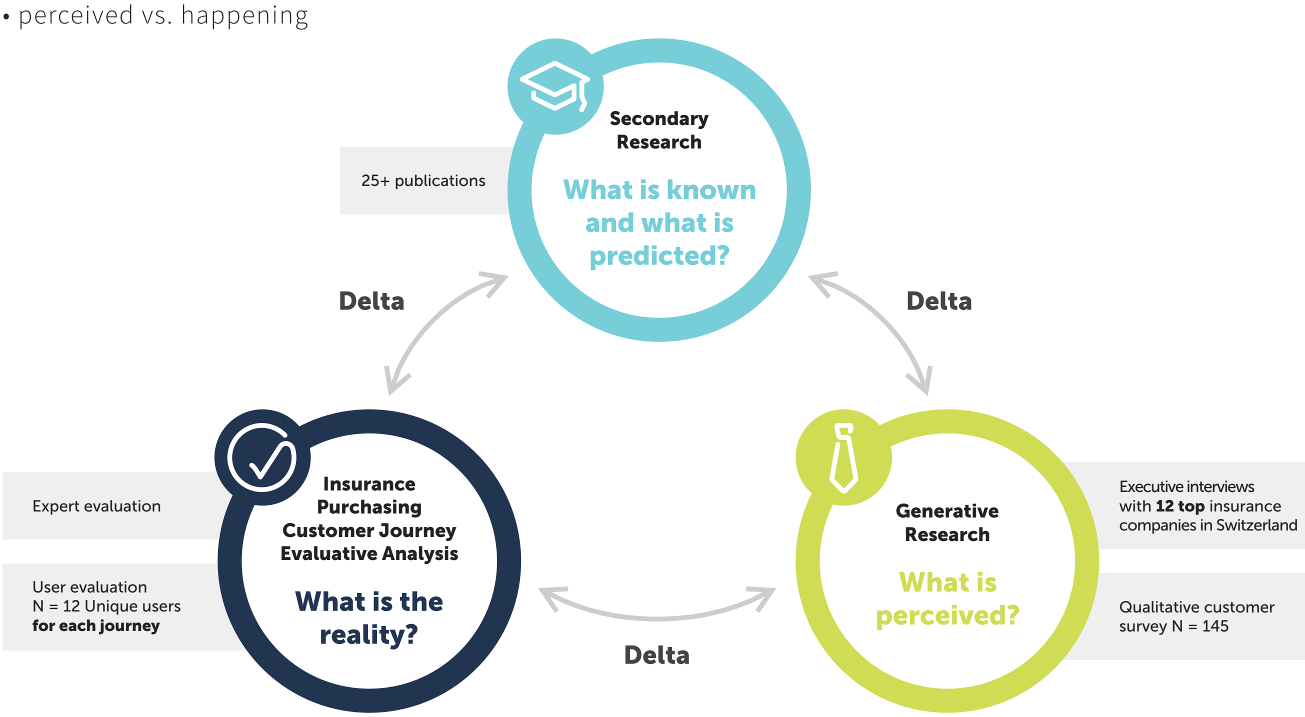
This report draws its insights from a mixed methods empirical study conducted online from August through November 2021 among 12 leading insurance companies in Switzerland and remote research with 145 customers across four generational cohorts in Switzerland[5].

THE STUDY COMPRISES OF:

1. QUALITATIVE EXPERT INTERVIEWS

15 qualitative expert interviews conducted with the executives of 12 insurance companies. We triangulated the data and looked at the differences between what is:

- known vs. predicted
- perceived vs. happening

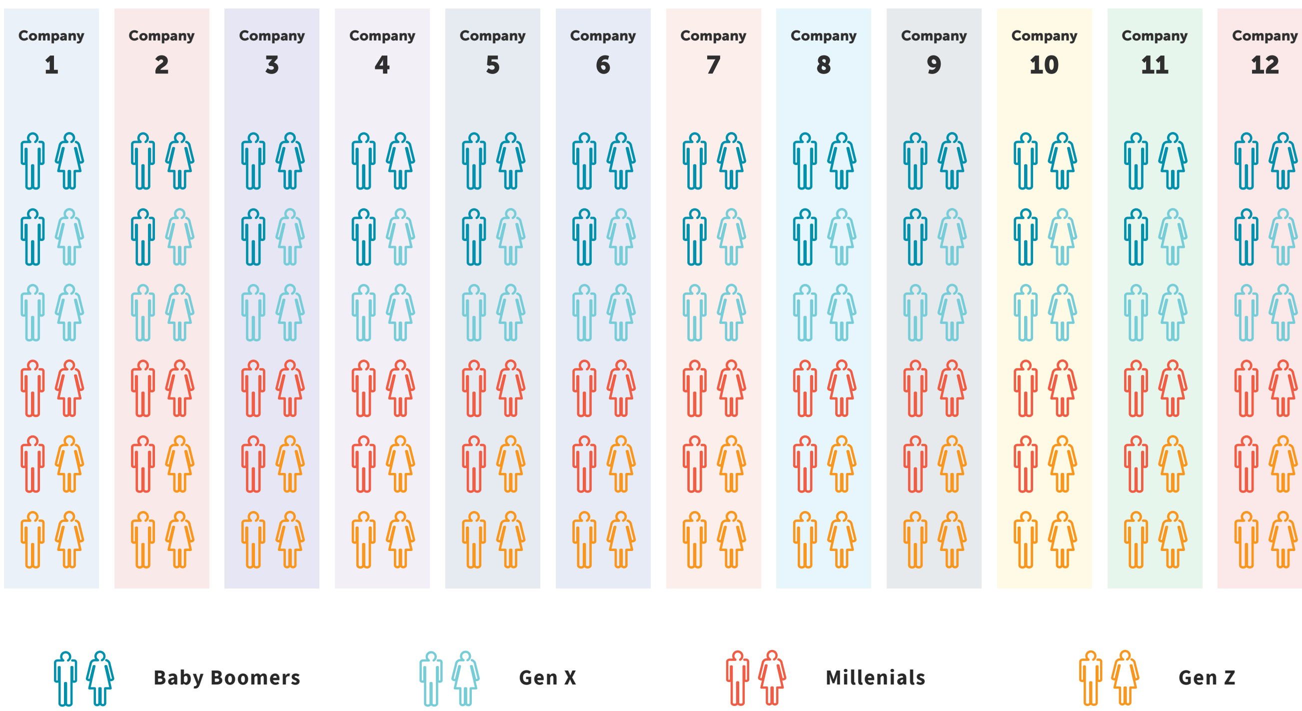


[5] Disclaimer: Results will neither represent "national" findings nor the market as a whole, but reflect the respondents and companies surveyed.

Methodology

2. CUSTOMER JOURNEY EVALUATION

To understand the customer journey, we studied how 145 research participants bought insurance via the top 12 insurance companies. This evaluation included two questionnaires: the System Usability Scale (SUS) and a questionnaire that measured particpants' agreement or disagreement with a given statement.



Methodology

3. QUALITATIVE SURVEY

A qualitative survey assessing the online purchasing journeys and insurance purchasing preferences of 145 customers.

25	BABY BOOMERS	36	GEN X
48	GEN Z	36	MILLENIALS

4. SECONDARY RESERACH - META ANALYSIS

Secondary research of insurance consumer behavior using more than 25 publications published between 2019 and September 2021.

The survey was developed collaboratively by EPAM researchers and reviewed, tested and administered by the EPAM Center of Research Excellence.

Findings

A LACK OF DIGITISATION IS NOT THE PROBLEM

From our research, we have concluded that technology is not the failing factor. Most companies have digitised both their purchase and claim journeys – but the sales themselves are taking place elsewhere.

What we did find was that the more customer-focused the journey, the greater the chance of completing the sale. The main gap for the full digital transformation of a customer's insurance journey appears be the lack of a customer-centric approach.

CUSTOMER-CENTRICITY IS HARD TO GET RIGHT

An underlying issue appears to be that most of the industry misunderstands what customer-centricity means in an insurance context and its importance. As a result, insurers are building online digital journeys that do not have customer experience in mind. This means that although customers are researching insurance online, they're not buying it there, simply because it is too challenging to do so.

Findings

THE USER EXPERIENCE NEEDS IMPROVEMENT

We examined the online purchasing journeys of 12 different insurance companies and evaluated the experience. Then, to find a benchmark, we used the same criteria to evaluate the online user experience of:

- Sushi delivery
- Mobile banking
- Telemedicine

[SUS of purchasing journeys, 12 companies]

We used the SUS (System Usability Scale), to measure how user-friendly each digital experience is on a scale of 0 to 100. A score of below 50 is considered 'poor', above 70 'good' and over 80 is the 'cross-industry standard'.

The 12 insurance journeys we studied achieved an average score of 43, well within the 'poor' rating of the SUS.

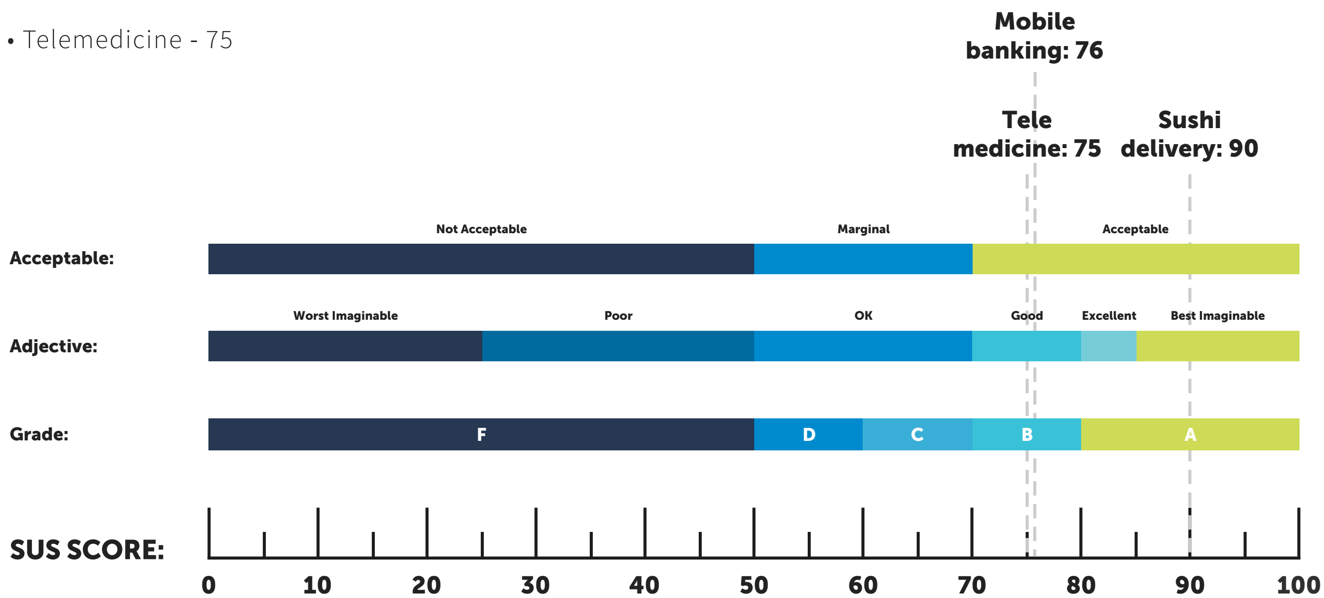
Findings

In contrast, the average rating of the non-insurance journeys set as benchmarks were:

• Sushi delivery – 90

• Mobile banking – 76

• Telemedicine - 75



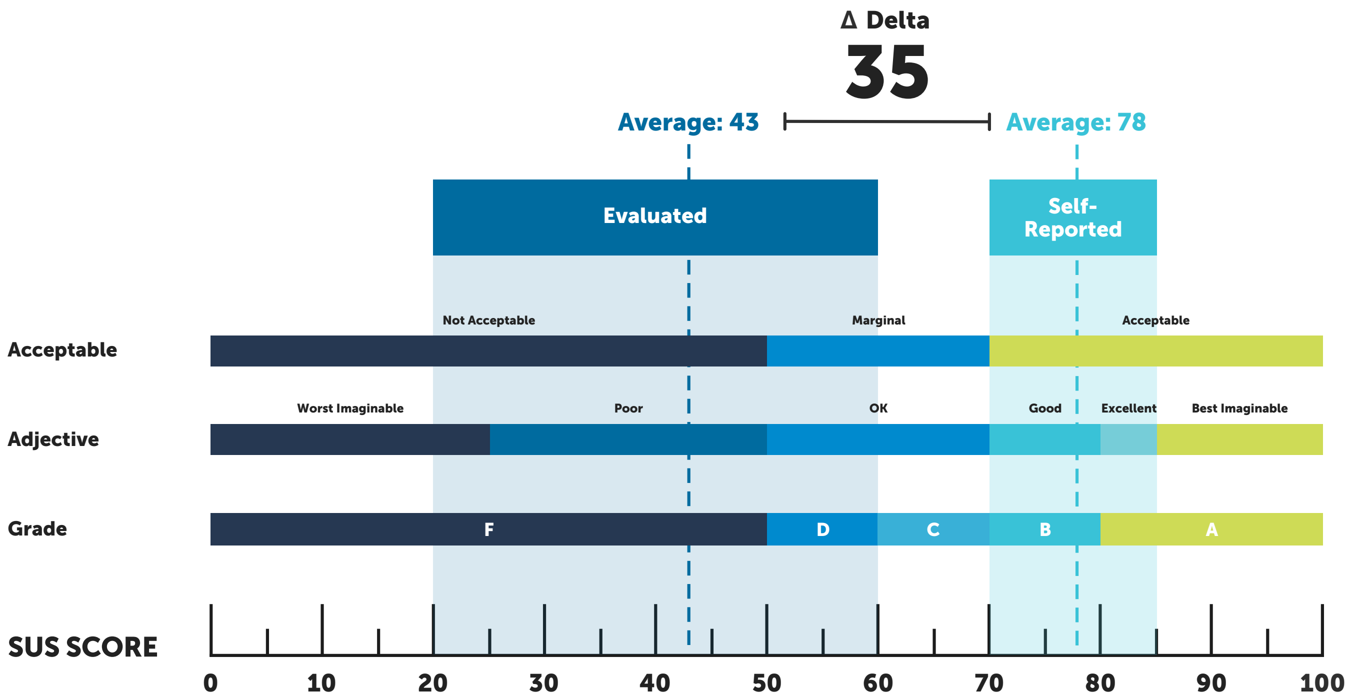
[SUS]

Arguably, both sushi deliveries and mobile banking offer more straightforward customer journeys overall, and, therefore, are more likely to inspire much higher user experience scores. Telemedicine on the other hand, which boomed during the pandemic, is notoriously complex, yet its average score was nearly as high as mobile banking.

Findings

THERE IS A GAP BETWEEN PERCEPTION AND REALITY

When we asked the C-level stakeholders to rate their own digital journeys against the SUS the average score was 78.



[Self-evaluation SUS VS Delta comparison]

There is a clear gap between what insurers believe about their digital journeys and where they actually stand. This is where the issue lies: If the industry isn't aware of the problem it faces, how does it fix it?

Findings

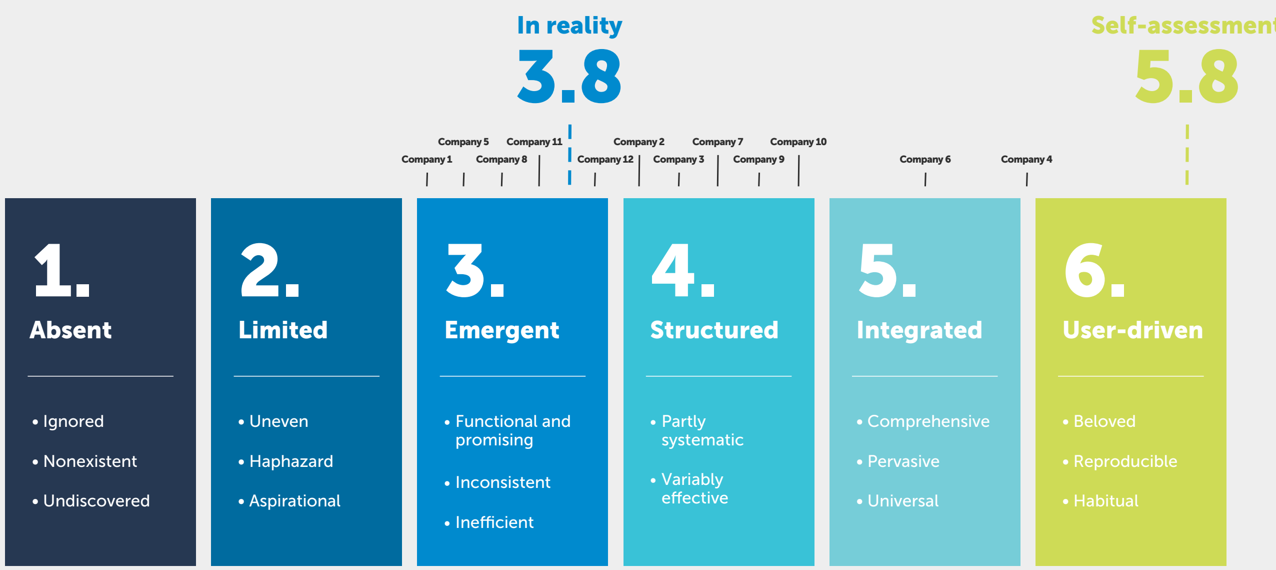
HOW CUSTOMER-CENTRIC ARE YOU?

Insurers are better known for acquiring new customers than for delighting the ones they already have. Despite this industry-wide perception, many insurance companies claim to be committed to customer-centricity. Yet, executives lack engagement with their customers, and express an undercurrent of skepticism around the tangible business value of outstanding customer experience. These benefits are often viewed as soft and intangible, making the ROI uncertain.

As a sector traditionally far more product-focused than customer-focused, insurers do not hesitate to allocate billions of dollars to marketing budgets each year, but have been less committed to investing in customer experience.

To understand the significant difference between perception and reality, we assessed the customer-centricity of insurer operations and culture. We used a framework by Nielson Norman (NN), a leading experience consulting firm, with global standard 'UX maturity levels' scaling from 1-6.

We began by asking our C-level executives to assess where they believe they stand on this scale. We then evaluated their companies.



The average score from the C-level executives was 5.8.
The average actual score was 3.8.

We also found 67% of those interviewed used 'digitisation' and 'customer-centricity' as synonyms. This shows that our C-level executives believe that digitisation is customer-centric by default, despite only 20% of them having experienced their most critical digital journeys themselves.

Findings

CURRENT CUSTOMER JOURNEYS DON'T UNDERSTAND THE CUSTOMER

There's a clear disconnect between what customers now expect in terms of the customer experience and what insurers believe a great digital journey should look like. The result of this is that insurers have either been:

1. Digitising substandard offline customer journeys without further adjustment.

2. Developing new digital journeys, which they fail to realize are too complex and do not meet user needs.

Insurers typically have one interaction with their customer per year, which means there's only one opportunity to impress them. It's crucial to get the sales journey right. If they don't get it right, someone else will.

THE PROBLEM WITH INSURANCE

Customer loyalty has always been a problem for traditional insurers. Now it is even more critical, as customers no longer tolerate a fractured experience and can very easily switch when disgruntled.

Insurers must embrace a customer-centric approach across the entire insurance customer journey. This includes a customer-centric focus on:

- Application
- Acceptance
- Onboarding
- Receiving the policy
- The coverage itself

POLICYHOLDERS HAVE THE POWER, BUT THEY NEED TAILORED SUPPORT TO EXERCISE IT

Traditionally, the insurance advisor or agent guides the consumer through the purchasing funnel, but the new purchase journey is no longer linear. With the rise of digital, the focus has shifted to the policyholder driving the decision-making process. Once they are made aware of a product or service, they do their research online, including price comparisons and reviews.

Findings

Generational Differences

As new users come online, more behavioral changes take place. Gen Z, the so-called 'digital natives', have different digital device usage patterns to Baby Boomers[6]. Although financial literacy is low across all generations, it is lowest amongst Gen Z, even lower than for borrowing and saving[7].

Our research into the generational differences in the same purchasing journey show this clearly:

	GEN Z	MILLENIALS	GEN X	BABY BOOMERS
MOBILE / DESKTOP	**96%** / 4%	**83%** / 17%	**79%** / 21%	39% / **61%**
SHOWS INSURANCE LITERACY	34%	69%	**94%**	**93%**
ADVISOR NEED	**83%**	51%	36%	**66%**
IN-PERSON ADVISORY SERVICES	15%	42%	**54%**	**52%**
ANALYSIS PARALYSIS	**37%**	21%	3%	12%
MISTAKE CONCERN	**91%**	43%	35%	37%
CALC CONCERNS	28%	12%	**47%**	**48%**
DATA SHARING	**81%**	**84%**	39%	13%

Millennials were the least concerned about the impact of getting the right policy. But, 34% of millennials said that advisors must be instantly available, or at least able to schedule a call at their convenience, otherwise they would switch.

For **Gen Z**, buying insurance is a complex process that most of the cohort don't fully understand. They wanted help in choosing the right policy.

[6] https://wpengine.com/gen-z-us/?clientId=2966465003.1638440430

[7] https://www.tiaainstitute.org/publication/financial-literacy-and-well-being-five-generation-america

Findings

> ***"I did not understand the terminology... and the contextual help pop up confused me even more."***
>
> Gen Z respondent

Gen Z respondents were, however, the most likely to share significant data on their health, exercise and driving habits in exchange for lower prices from insurers. In fact, 59% considered it essential that the person who talked to them understood their needs and 'clicked' with them. They were also the cohort that felt human interaction was most valuable, although only 15% wanted that interaction in person (the rest, presumably, were happy with phone or video call conversations).

Gen X was the most confident in getting the right online policy for them. **Gen X** and **Baby Boomers** were the cohorts most used to the experience of spending time on the phone with an agent. They were also more likely to feel that a next-day quote was reasonable (as opposed to a real-time solution). Instant quotes, gained by entering small amounts of data into a website, made them uncomfortable, but so did sharing lots of data.

Insurance customers, as for every other online purchase they make, now expect an Amazon-like experience. For insurers, however, the paradox is that a policy is not an Amazon-like product, nor does each customer cohort expect the same experience.

We discovered that digital natives are comfortable with technology but uncomfortable with understanding the complexity of insurance products and matching them to their needs vs. price trade-offs. Gen X and Baby Boomers have a greater understanding of the language of insurers and the buying experience which makes them less likely to feel unable to make a decision or worry they have made a mistake, but their approach to data sharing and device usage means that they too require insurers to craft distinct journeys that meet their needs.

Crafting those journeys takes more than IT and design skills. Insurers need teams with a solid background in behavioral science to help define and shape customer journeys that address pain points.

AND YET, IN OUR SURVEY, ONLY

10%

OF INSURERS

said they currently applied some form of cognitive science to the journey design process.

The Advisor Gap

Consumers are increasingly open to buying policies online as digital channels enable them to research, compare and evaluate. This follows an online purchasing behavior that's already developed in less sensitive areas of their lives. Is it safe, therefore, to assume that by fixing the digital journey, insurers can dispense with advisors? Au contraire.

67%

OF THE CUSTOMERS WE STUDIED

prefer communication with a human agent before they buy insurance.

Yet the study also reveals the nature and purpose of the interaction shifts depending on the consumer cohort. For some (most notably Gen Z), it's about allaying fears that they have made a mistake, understanding the terms or overcoming analysis paralysis. For others (most notably Gen X and Baby Boomers), it is about understanding how the policy is calculated or overcoming concerns about sharing personal data.

The specifics of the interaction vary, but all customers value greater interaction. This finding is further reinforced by EPAM's recent research for an investment bank which clearly showed that, when it comes to complex, high consideration purchases, people want advice from real people.

However, that doesn't mean customers expect traditional interactions in traditional ways. The purchase journey is getting shorter. Digital behavior is more complex. Policy buyers are savvier—even if their financial literacy is less well developed. This means the digital experience matters more than ever. The agent role, therefore, needs to exist within and adapt to this landscape.

How Should The Agent Evolve?

We can draw parallels from healthcare[8] where patients state that while they are happy for AI to have involvement in healthcare systems, they expect and demand human oversight and expect choices to be offered and decisions to be made based on person-to-person discussion.

Our findings suggest there is at least some awareness of this. Every insurer reported ongoing efforts to improve the relationship between agent/broker and clients.

83%

OF THE INSURERS WE STUDIED

said they had heavily transformed the role of broker,

although for

27.5%

OF THESE,

this only meant investing in tools the advisor used.

Crucially, however, only

16%

OF THE INSURANCE COMPANIES WE INVESTIGATED

offered seamless or even semi-seamless integration with the advisor in the customer channel.

The advisor is a crucial part of the digital ecosystem*, yet all too often that connection is undervalued and broken.*

[8] https://www.nature.com/articles/s41746-021-00509-1

Our Recommendations

Create a Digital Experience for Every Customer

The insurance customer journey is transforming at the speed of technology. As new touchpoints spring up, insurers are often left running to catch up. Yet, the heart of a successful strategy lies not in the technology itself, or with how quickly it is implemented. It all comes down to the customer's understanding of what that technology helps them do.

That understanding extends to more than the 'what' and 'why' of the products they are interested in. It includes the buying habits and behaviors that are crucial to supporting consumers in making high-consideration purchases.

Our Recommendations

There are **12 key steps** to reengineering the customer journey to deliver an experience that is more successful for every stakeholder:

01 LEARN WHAT IT MEANS TO BE CUSTOMER-CENTRIC.

The customer-centric approach is a business strategy based on putting customers' interests at the core of a business to give them an excellent experience. As our study demonstrates, true customer-centricity can only happen when an industry listens to what its customers are actually saying, as opposed to assuming it knows what those customers need.

INSURERS SHOULD:

Invest in user research. Reach out to customers proactively to understand their pain points, motivations and decision-making patterns.

02 EMBRACE THE NATURE OF WHAT YOU SELL.

Insurance is a high consideration purchase. The decisions made as part of the purchase process require reflection. It is not enough, for example, to merely publish a web catalog with policy specs, as might be appropriate for a simpler purchase.

INSURERS SHOULD:

Facilitate high consideration commerce purchases to help consumers through a rich, supportive buying experience. Insurers should ensure the online buying process enables this.

Our Recommendations

03 MAP THE CUSTOMER JOURNEY BEFORE YOU START TO DIGITISE.

Technology has the potential to make a complex buying journey simple. But simply transplanting an existing, flawed journey to a digital environment can amplify those flawed processes and experiences.

INSURERS SHOULD:

Develop a well-crafted customer journey map that identifies and addresses each buyer cohort's issues, pain points and friction. This builds a better understanding of the customer experience, helps to identify ways of improving it, and can help 'bake in' increased customer satisfaction and loyalty, driving more sales and revenue.

04 LOOK BEYOND THE TECHNICAL WHEN BUILDING TEAMS

Selling insurance online is not (just) about technology. It's about creating customer-centered experiences through technology.

INSURERS SHOULD:

Involve experts in areas such as psychology, ergonomics, and human-computer interaction to fully understand consumer intent, map currently unmet customer needs, and build experiences that matter to the user.

Our Recommendations

05 INFUSE JOURNEYS WITH EMOTIONAL RESONANCE.

"Our decisions are driven mainly by emotion rather than rational thought," Nobel Prize winner Daniel Kahneman once said. The psychologist, who specialized in decision-making and behavioral economics, pointed out that 95% of our decisions are emotional; 5% are rational.

Consumers' purchases are ultimately shaped by how they feel when interacting with a company and its representatives and the consequences of those interactions. Experiences engineered to focus only on customers' rational requirements miss the point. And as we have seen, many insurers tend to dramatically overrate the quality of their customer experience because they only focus on the technical, rational or visual.

INSURERS SHOULD:

Make customers' emotional needs an integral part of the experience to capitalize on the opportunity to build journeys that inspire confidence and cultivate trust.

06 INTEGRATE THE HUMAN ADVISOR SEAMLESSLY INTO THE PURCHASING JOURNEY.

Analysing multiple insurance policy criteria and making a decision is an intensive process for a customer, which often results in abandonment or procrastination. Advisor-assisted online journeys help users feel supported as they purchase.

INSURERS SHOULD:

View agents as essential reinforcements of and companions to the digital process with their ability to maximize the human attributes of understanding consumer needs and concerns, building trust, and expressing empathy.

Offer a high-touch experience embracing interactions across all available channels (e.g. phone, chat, email, in-person, etc.) to blend an online self-service experience with meaningful human-based customer touchpoints.

07 OFFER CONTEXTUAL ASSISTANCE.

24/7 advisors are expensive, and they may not be available exactly when customers need them.

INSURERS SHOULD:

Provide just-in-time assistance, based on context. Plug the gap between a consumer hitting a friction point and a human advisor being available with micro-content, interactive help, pop-up videos with tutorials, or chat-bots. They won’t replace the advisor but they will make the wait easier.

Our Recommendations

08 TAILOR CUSTOMER EDUCATION.

Consumers agonize more severely over high consideration insurance purchases than they do for less risky, less costly investments. As a result, they cling to educational content that makes it easier to feel confident about their online purchasing decisions. While it may be tempting to push all potential customers to well-crafted educational content pages, this may not meet the needs of every consumer cohort.

INSURERS SHOULD:

To meet a greater spread of user needs, supplement traditional instructional content with pop-up YouTube videos embedded directly into the policy calculator, and the possibility to connect with an advisor.

For non-negotiable steps of the customer journey that require the use of technical terms, simplify language wherever possible, so customers can easily understand the product they are considering and compare it with alternatives.

09 USE DATA MORE EFFECTIVELY TO DELIVER RELEVANCE.

The higher the purchase product complexity, the more consumers want the product and the buying experience to match their needs.

Insurance purchases are made relatively infrequently so the key to selling them online is to target consumers at the specific stages of the consideration-purchase cycle with experiences crafted to help solve their particular pain points and frustrations in a way that resonates with them.

INSURERS SHOULD:

Connect data to the customer journey in a way that delivers laser-sharp relevance and tailoring of the online product flow.

10 KEEP BRINGING CUSTOMERS BACK.

Insurance is often not a one-session purchase. That can make it a challenge to identify the channels that influence policyholder behavior, which can make it equally challenging to know which marketing levers to pull to keep consumers engaged.

INSURERS SHOULD:

Capture consumer information as customers enter the funnel using promotional code offers, gated content, account creation or similar. Use this data as the basis of remarketing efforts—a powerful way of bringing customers back.

11 MINIMIZE RISK PERCEPTIONS.

Good digital purchasing journeys should enable customers to make decisions confidently, feeling that, from initial support to post-purchase cancellation, their concerns have been addressed.

INSURERS SHOULD:

Use testimonials as social proof to help consumers feel that they have de-risked their purchase and overcome initial feelings of obligation and uncertainty.

12 INVOLVE C-SUITE IN CUSTOMER EXPERIENCE SHAPING.

Our study illustrated a disconnect between C-level perceptions and customer experience reality.

C-LEVEL STAKEHOLDERS SHOULD:

Test processes themselves, participating in usability testing in a way that enables them to move from a product-driven mindset to a truly empathetic customer-centric approach.

Conclusion

Digital disruption is coming. It will revolutionize insurance much like it has revolutionized every other market, from banking to medicine to sushi. But there's a catch: insurance isn't like every other market.

Consumer perceptions of insurance as a product are considerably different to any other purchase they are likely to make. The products themselves are complex purchases that need well thought through and easy-to-understand online journeys. Only when the sales journey fully meets consumer needs will the current digital gap close.

To date, progress in closing that gap has been relatively slow. It's why so many competitors have been able to gain ground. Yet, for now at least, the power to kickstart this market-specific revolution—and control its timing and pace—remains with insurers.

To take full advantage of this headstart and lower the risk of diminishing profitability, insurers first need to reassess their digital channels against a wide range of other eCommerce platforms. Then they must plan for remediation to meet consumer expectations, rather than their own. The insurers providing the most well-considered, customer-centric and generationally agnostic sales journeys will set a new benchmark, reaping additional digital sales in line with the wider market, while their competitors scramble to catch up.

Those who succeed will be doubly rewarded, because the digitally-creative and human-skeptic Generation Z are about to reach the age where buying insurance is just another fact of life. The insurers that get this right will be ready and waiting to welcome them.

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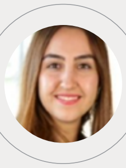

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WANT TO EXPLORE HOW YOUR ORGANIZATION CAN BETTER RESPOND TO CONSUMER EXPECTATIONS?

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