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Charting a path to customer centricity

How design thinking can transform life insurance

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Charting a path to customer centricity – how design thinking can transform life insurance

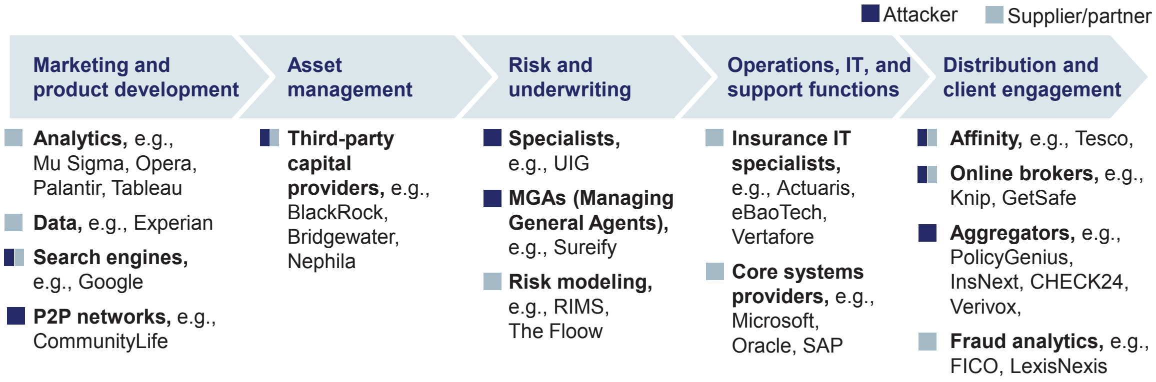
For generations, the life insurance industry delivered its promise of financial security with the help of strong actuarial functions, working through intermediated distribution channels. Complex products, limited services, rigid processes, and cumbersome consumer interactions did not necessarily hamper business success. In the past decade, however, the rules of the game have changed. Today's consumers reward transparency, speed, and flexibility, new competitors are looming on the horizon, and the low-interest-rate environment makes the traditional business model a thing of the past.

This challenge is reflected in the sector's financial performance: the life industry has grown only 3.1% p.a. globally[1] in the past decade (and only 2% p.a. in Europe), significantly lagging behind other mature industries such as banking or manufacturing, which have achieved a 5 to 6% p.a. growth rate.[2] European life insurance delivered an after-tax ROE of around 8.6% between 2010 and 2015E[3] – in line with the performance of banks (8.6%) and slightly above that of asset management (7.6%) – however still below other mature industries such as retailing (13.1%)[4].

To some fintechs, noninsurance incumbents, and venture capitalists, the industry's challenges suggest opportunity. The life insurance value chain is increasingly losing share to these players, who are chipping away at the profit pool of incumbents (Exhibit 1).

How can incumbent life insurers keep pace in today's fast-moving competitive environment and meet customers' changing needs? There are three major ingredients of the "winning recipe": simplified, compelling product design, a streamlined cost base, and delightful customer journeys. This article focuses on the third ingredient, and describes a new approach called "design thinking (and doing)" that connects every aspect of the business, from marketing to distribution, underwriting, and claims. It is a method that goes beyond the traditional mantra of customer centricity and aims to change not only a company's processes but also its people.

Exhibit 1 **Companies disintegrating the life insurance value chain – examples**



SOURCE: Capital IQ, company annual reports, press clippings, McKinsey analysis

1 Growth of global gross, direct domestic premium written in life; McKinsey Global Insurance Pools
2 HIS, World Industry Service: total gross sales (nominal)
3 McKinsey Global Insurance Pools: after-tax ROE 2015
4 Capital IQ

Incumbent life insurers that don't keep pace will falter; some might disappear. As Klaus Schwab, chairman of the World Economic Forum, famously put it: "In the new world, it is not the big fish which eats the small fish, it's the fast fish which eats the slow fish." Size or complexity cannot be an excuse for sluggishness: the top global insurers typically have a market cap of around USD 60 to 80 billion, while Alphabet's (Google) is well over USD 500 billion.

The disconnect between life insurers' value proposition and today's customers

Imagine Susan, a 34-year-old high school teacher who is expecting her first child and hence decides to buy a life insurance policy. First, it is very unlikely that a provider will proactively reach out to her. If she tries to shop for a policy online, she may be intimidated by complex products and technical terminology that is confusing and makes her feel incompetent.

If she looks for an agent and is lucky enough to find one that she feels she can trust, she is likely to have concerns about how much the policy will really cost, the meaning of all the fine print, and whether the agent is more interested in her needs or a quick commission.

If Susan overcomes these doubts and decides to buy a policy, she will begin what may be an arduous application process: lengthy forms with sensitive medical questions, weeks of waiting, and little transparency on where things stand. She may wonder why the process is so complicated and time-consuming when many companies in other industries offer convenient, fast (and mostly digital) services.

If she has questions on her coverage after buying the product or wants to change her policy, she will likely struggle with the limited self-service options offered by the insurers and may find that her agent has moved on.

Such pain points may make Susan abandon the process or take her business elsewhere, as illustrated by the most common business leakage drivers in Exhibit 2.

Exhibit 2 **Illustrative business leakage drivers along the customer journey**

Awareness	Consideration	Purchase	Application processing	Customer care	Claims
• Limited product engagement and doubt about its value-for-price • Incomplete product under-standing • Tendency to put off the purchase to a later time (seen as a "chore" without urgency or reward)	• Low trust in delivery ("Will they pay?") • Limited rapport with agent or broker	• Confusion about product features • Doubt if the product is the right fit • Feeling of "being sold to"	• Frustration about delay and lack of transparency • Feeling rejected when application is turned down	• Limited or no access to quick, easy self-service tools • Limited product flexibility	• Feeling of vulnerability and being over-whelmed • Need for emergency bridge help

SOURCE: McKinsey analysis

Susan's journey illustrates some of the big challenges facing life insurance:

Low engagement. Life insurers have long struggled to engage prospective clients and nurture relationships with existing ones. The product spurs high customer interest but low engagement, leading to significant untapped demand.

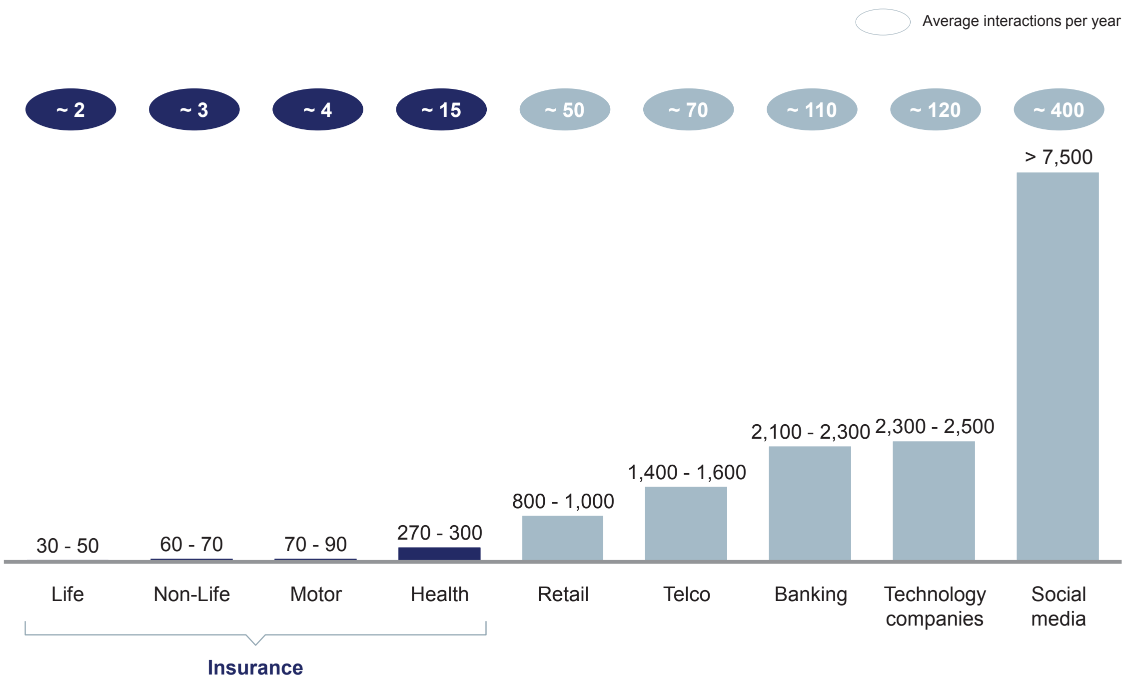
Distribution is often intermediated through brokers, independent financial advisors, or banks, putting distance between insurers and their customers. And typical customers have very few interactions with their provider compared to other industries, such as banking (Exhibit 3). This is a major barrier to reducing attrition and enabling cross- and upselling.

Limited ability to meet the preferences of Generation Y (and the new needs of Generation X). Generation Y, the millennials now coming of age, will comprise close to half of the insurance customer pool within the next ten years. They expect highly interactive digital experiences, complete price transparency as well as fast and even instant delivery. When seeking information, they rely less on friends and family, looking instead to social communities and online reviews. Thanks to the "equalizing" effect of smartphones, the members of Generation X are adopting many of these behaviors rapidly.

Few life insurers have the management mindset, functional firepower, or digital talent to develop propositions that meet these preferences. They also have difficulty adjusting to their fast-paced changes. These gaps frustrate consumers – and open the door to agile innovators.

Legacy cost structures and IT systems. Life insurance carries a large, inflexible stock of customers/policies, and it is hard to change products or systems when some of the policies on the books were sold 30 years ago. At many incumbents, this means a clunky IT landscape that is difficult and costly to transform, especially

Exhibit 3 **Estimated average number of customer contacts over 20 years (and average per year)**



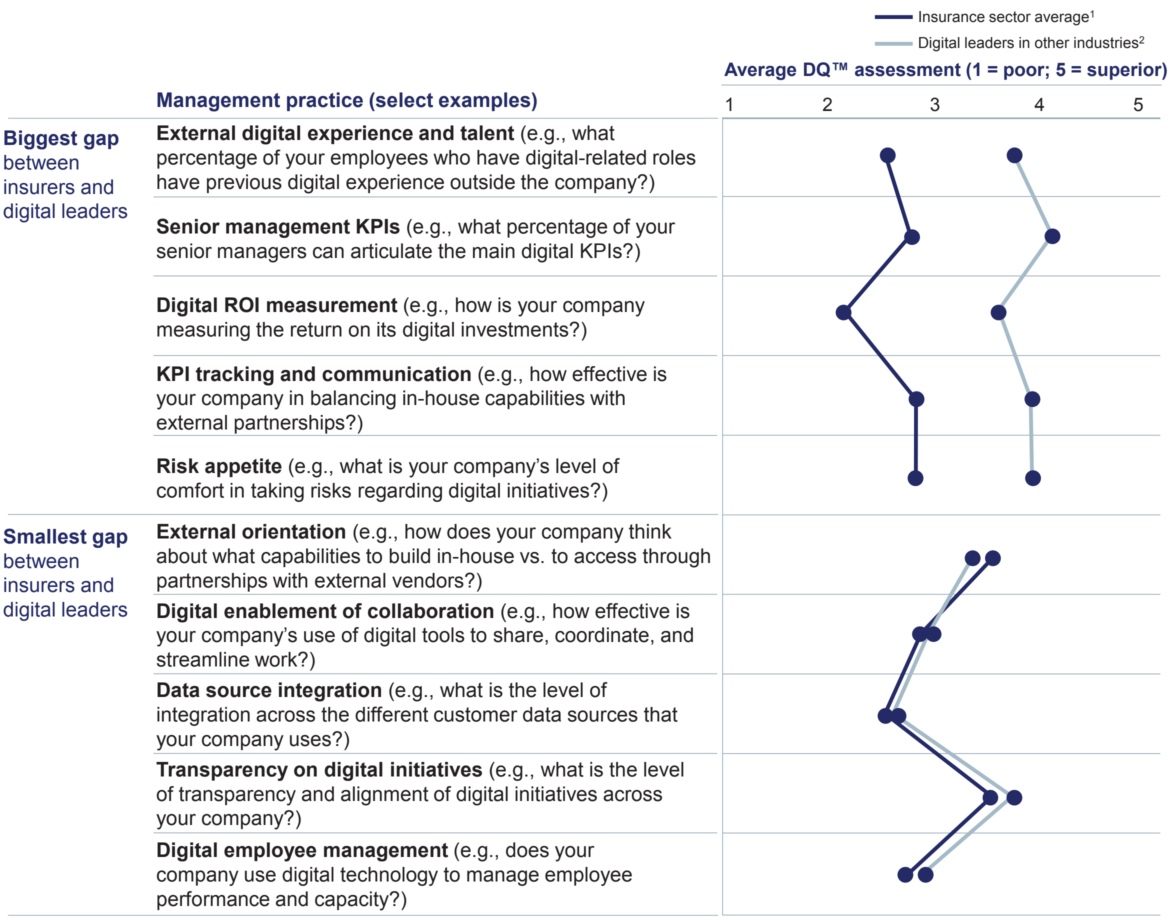
SOURCE: McKinsey analysis

given an expense ratio of 9 to 10%[5]. The rigidity of the in-force book creates an environment where old processes never die and costs keep building over time. As a result, industry expense ratios have fallen only slightly in the past ten years; for key European markets, the total expense ratio declined by only 0.5 percentage points[6] between 2000 and 2013.

The dilemma of the slow fish. Insurers have historically been slow to change since their business is built on stability and risk aversion. Product development cycles often stretch to a year, and most IT upgrades follow a sequential "waterfall" approach. Accountability is diluted, which leads to management by committee and slows delivery. In our recent proprietary Digital Quotient™ assessment (a comprehensive tool that rates an organization's digital maturity across roughly 20 management practices), insurers lag behind digital leaders especially in terms of performance steering and measurement (Exhibit 4). As a consequence, speed of decision making and agility suffer.

The life industry has not stood still in the face of these challenges, of course. Many incumbents have

Exhibit 4 **Digital Quotient™ (DQ™) assessment for insurers vs. digital leaders**



1 Average of 48 insurance companies surveyed 2012 - July 2015
2 Average of 24 digital leaders surveyed 2012 - July 2015

SOURCE: McKinsey analysis

5 Total expense per GWP; average of European life insurers
6 Average expense ratio (expense per GWP) from 2000 to 2013; unweighted average expense ratios of Austria, Belgium, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom (McKinsey Global Insurance Pools)

launched efforts to transform themselves. Most have experimented with digital initiatives, agile work modes, customer immersion, and so on. Some have set up incubators or accelerators to explore new, customer-centric solutions outside their core operations. Only a few are making the more painful change of transforming their IT platforms to enable digital delivery. And hardly any have truly transformed their basic value propositions or created genuinely customer-centric cultures. Initiatives in this direction often remain cosmetic or produce artifacts that never see the light of day.

Applying design thinking to systematically rework customer journeys

How can incumbent life insurers reorient themselves around the customer? One powerful approach is to apply the principles of customer-centric "design thinking," which can deliver a compelling end product and be disruptive enough to transform a company's culture along the way. The methodology is based on the insight that optimizing individual touch points is insufficient to deliver a truly satisfactory overall journey – what is required is an end-to-end redesign. It is also informed by the understanding that consumers today do not separate products or services from the experience of buying and owning them. As a result, the entire "package" needs to be carefully designed.

A few common misconceptions need correcting up front. Design thinking is not just about creating pretty interfaces or replacing paper with digital records. What it really means is applying creative, nonlinear approaches to reinvent how customers interact with the business. It touches on all functions, from product development through underwriting to IT. The essence of this new perspective is to view the customer experience as a source of competitive advantage and taking action – and making investments – accordingly.

Applying design thinking to the customer journey in life insurance requires a fundamental shift along four dimensions:

Instilling customer empathy. Good design requires real empathy that goes beyond what customers want: it reflects *why* they want it. In life insurance, fintechs are successfully attacking incumbents in this arena. The sleek experience provided by PolicyGenius, Knip, Acorns, and other start-ups shows that they are anchored in customer preferences. Like with Uber, Airbnb, and many others, the heart of their success is not the digital tool, but the experience it enables.

Real empathy allows designers to respond to true underlying needs, not superficial, stated interests. By doing this, it spurs breakthrough innovation. In fact, we believe it is the only way an incumbent insurer can be sure of delivering more than a "me-too" customer experience.

This kind of empathy requires specific research tools that typically have an ethnographic flavor, such as "shadowing," "follow me home," or "shop-alongs" – but empathy is about more than just collecting "soft" insights. A critical part of instilling empathy across the organization is translating it into hard operational metrics that can be tracked and managed (e.g., response time to underwriting-related inquiries, number of broker or agent calls that get resolved without a call transfer, share of rejections where no alternative product was offered). In this sense, improving customer experience metrics has to become a "contact sport" where the entire organization works together to move the same set of numbers.

Getting comfortable with an iterative approach. To use the design methodology, insurers have to feel comfortable releasing "imperfect" products that offer basic functionalities and services with the goal of obtaining immediate customer feedback. This approach helps avoid costly mistakes down the road and aims to bring new solutions to the market in less than 16 weeks rather than 9 to 12 months. It also means that the product is never really complete: it undergoes constant iteration. In VC and start-up jargon, it is the "minimum viable product" refined in multiple consecutive user tests.

As an example, in testing a digital application tool, designers found that brokers were most excited about the “accelerator” button that allowed them to fast track three policies per month for their high-potential clients. By contrast, bank-based advisors liked a feature that prompted them to hand over the tablet to the customer to answer the sensitive medical questions themselves. To drive this kind of highly responsive innovation, many insurers need to develop a two-speed IT architecture that permits experimentation without disrupting the architecture that supports a massive in-force book.

Replacing functional siloes with agile cross-functional teams. Life insurers are conservative organizations built around functions, such as Risk, Underwriting, and Sales. These offer deep expertise, but are too rigid to respond to a rapidly changing environment. In a functional setup, no one owns the full customer experience. In fact, it typically takes one to two weeks (and many work sessions) to create a complete view of the end-to-end customer experience and pain points. What is the solution? Agile, cross-functional teams that are self-motivating and entrepreneurial. They follow a new cadence, including structured, transparent, weekly sprints with daily stand-ups, review meetings, and retrospectives, to learn and take on more accountability.

The cultural gap between the traditional and new setup is immense, and incumbents find it hard to navigate the transition. What is important is to anchor this thinking at the top. Having one person monitor every aspect of design thinking could work in the transition phase. It need not be a stand-alone position – one of the existing managers, such as the Chief Marketing Officer, can take on the role. The key is to have a senior leader oversee the end-to-end customer journey.

“Braiding” business and IT. Traditionally, the business has led IT. Sales and product managers defined their requirements, and IT (and operations) executed. Today’s environment has propelled Chief Operating and Chief Technology Officers to a more critical role. Since they are typically the ones who get firsthand exposure to what fintechs and digital providers are experimenting with, they have become the door openers to new possibilities.

Operational and IT leaders are often tempted to take over the company’s digital agenda, but this approach can easily backfire. Digital and customer transformations stall if leaders cannot show how they deliver value. IT needs the business leaders to link the investment to a clear customer need (and business case). On the other hand, business leaders trying to bypass IT out of frustration with its speed or capabilities doesn’t work either. This creates isolated, greenfield solutions that are hard to integrate back into the IT landscape. Common examples are product navigators, insurance coverage calculators and advice tools that are not linked into a single vision or IT infrastructure. The pragmatic middle way is a “braided” approach where operations, IT, and business leaders work in close partnership to define and execute a customer-centric strategy. Hallmarks of this approach include an honest dialog about the starting position as well as real-time investment in defining a joint digital ambition.

Turning design thinking into results

Life insurers can adopt design thinking with an agile, sprint-based approach that allows for a full experience redesign in 8 to 12 weeks (for one product proposition). A design wave of this kind has three critical components:

Immersion. As described earlier, customer immersion involves a rich set of interviews, shadowing, and desk observations of end customers and distribution partners. It is critical to engage a broad set of stakeholders in this phase: customer immersion should be mandatory for everyone who works on the design. It is also important to differentiate between traditional customer research and immersion, coach the team on the difference between both, and show how to uncover and document fresh insights. A sign of success is if the team members start quoting the customers they have spoken to and tackle service issues through the eyes of customer “personas” they have created.

The outcome of the immersion is a detailed depiction of the customer journey that highlights pain points and links them to hard operational metrics, such as policy processing time, number of rejections without an alternative offer, or average number of interactions with clients per year.

Ideation. Ideation starts with brainstorming around the target journey, devoid of any internal or external constraints. The goals are to resolve basic pain points and servicing issues as well as to develop "signature moments" that can drive customer loyalty and cross-selling. Examples could be emotionally charged moments, such as year-end thank-you cards to the policy beneficiaries to remind them that they are protected. Other features like a simplified 2-minute upfront risk check to provide immediate price guidance, or a real-time application status tracker could be very compelling as well. Surprise and delight elements, such as accelerated paths for simple applications, can also be powerful.

The vision then needs to be translated into pragmatic actions, many of which will not be digital in nature, such as underwriting services or turnaround times. A systematic leakage analysis along the customer journey provides the basis for prioritizing across these initiatives. In a next step, the initiatives are translated into mock-ups of processes that allow visualization of the new customer experience. At the end of the ideation phase, the crude mock-ups become detailed prototypes.

Iteration. Iterations are built on user tests and are ideally done in short, weekly sprints. The willingness to let go of "pet" features and ideas if they fail the customer test is a critical prerequisite in this phase. While the designs are being iterated, the technical implementation can begin in an agile way to deliver value to the customer (and road test the new design) in the shortest time possible.

Importantly, iteration continues after the launch of the new proposition or service. As the organization moves towards a test-and-learn approach, it needs to use market feedback to spur the next iteration. Since today's consumers expect frequent updates and new features in nearly every product and service, the insurer's innovation work is never done.

Hallmarks (and impact) of a revamped customer journey

The end product of the redesign process is a new customer experience that can combine radical changes with surprise elements and simple operational improvements. It is an experience that our protagonist Susan can enjoy and even recommend to friends. What could this look like?

Susan might be proactively contacted by an insurer with a short message that explains the value of buying a life insurance policy given her family situation, thus saving her extensive research.

The outreach could include a link to tool that maps her needs (and demographics) in a quick, "human" and fun way – and delivers an instant offer with a buying rationale that feels personal to her (even if it is "just" a smart algorythm).

When visiting the insurer's Web site, she might be able to select her agent based on shared interests or background (which is proven to build trust – and hence sales successs).

If her policy is not issued instantly, she can track her application status online, and see the estimated day when her policy will be (e)mailed to her.

When the policy arrives, it comes with an emotional gesture that "rewards" her for taking care of an important financial to do for her family. Examples could be a token gift or a branded card with the product name and coverage amount that she can share with her beneficiary.

Obscure jargon is banned from all communications. Once Susan becomes a customer, she gets quarterly account updates with just the two to three headline data she cares about. What is more, she can adapt the policy on a self-service site without having to download an app, and she can choose to buy additional products without having to reenter all her data.

These elements are just examples and focused purely on the end customer. Our work with different insurance clients has shown that there is typically a portfolio of 40 to 60 experience elements along the journey that can be built in to create a delightful experience – not only for end customers, but also for agents and brokers.

The financial impact is significant. Depending on the starting situation, an overhaul of the journey can generate a 50 to 100% increase in new premium.

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Life insurers in Europe and across the globe need a jolt to keep pace with a new breed of customers and attackers. We believe that design thinking can be a fresh approach that provides this, because it allows transformation that spans functional lines and changes the way people think and act. It is also a proven tool that has already delivered results in many other industries. Incumbent life insurers are now called upon to take action and make the much-needed change happen.

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Ildiko Ring
Partner

Jochen Kühn
Partner

Maximilian Straub
Engagement Manager

Markus Berger-de Leon
Digital Partner, Head of McKinsey Digital Labs (MDL) Studio Germany

Mark Bothorn
Digital VP

Insurance Practice
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Design contact: Visual Media Europe
www.mckinsey.com