

Producing Highly Satisfied Customers Can Improve the Bottom Line for Auto Insurers Through Increased Renewal Rates

by NAMIC

Auto insurance customers with high commitment levels not only make more recommendations and are more likely to renew their policies, but are also significantly less sensitive to pricing offers from competitors, according to the J.D. Power and Associates' 2008 National Auto Insurance Study released Aug. 28. Auto insurers with highly satisfied customers have a renewal rate that is 9 percentage points higher on average than insurers whose customers report low levels of satisfaction.

The study measures customer satisfaction with auto insurance companies across five factors: interaction, policy offerings, billing and payment, price, and claims.

The study finds that 59 percent of customers with high commitment report they would not switch their auto insurer for any price, compared with only 9 percent of low-commitment customers who say the same. Policy renewals are also much more likely among customers with high commitment levels, as 90 percent report they "definitely will" renew their auto insurance policy, compared with only 14 percent of low-commitment customers who indicate that they "definitely will" renew.

Customers with low commitment levels are also much less likely to provide recommendations to friends and family (9 percent) compared with highly committed customers (81 percent). Additionally, the average number of recommendations made by customers with low commitment (1.4) is notably lower than the number of recommendations made by high-commitment customers (7.7).

"Increasing their numbers of highly committed customers by delivering positive service experiences can be very rewarding to auto insurers and significantly impact their financial returns," said Jeff Leiman, senior director of the insurance practice at J.D. Power and Associates. "In an industry where a 1 percent shift in total market share can amount to a \$1.6 billion dollar shift in premiums, enhancing the customer experience to gain highly committed customers is absolutely critical to auto insurers."

Overall satisfaction across the auto insurance industry has increased -- up from 781 points on a 1,000-point scale in 2007 to 787 in 2008. Additionally, satisfaction has increased steadily during the past five years, improving by 25 points since 2004. In 2008, eight of the 27 profiled insurance carriers demonstrate significant year-over-year improvements in customer satisfaction.

"Intense competition in the marketplace and the consistent improvement by carriers over time signal that insurance companies recognize that merely satisfying customers is not enough to remain competitive," said Leiman. "The very nature of the auto insurance market requires continuous improvements in order to keep pace with ever-increasing customer expectations."

Amica Mutual ranks highest in customer satisfaction with auto insurance companies for a ninth consecutive year, followed by State Farm, Erie Insurance, Auto-Owners, American National Property and Casualty, and the Automobile Club of Southern California respectively. USAA, an insurance provider open only to U.S. military personnel and their families, and therefore not included in the rankings, also achieves a high level of customer satisfaction.

The study also finds that while all factors of the auto insurance experience are important, insurers can make the greatest impact on satisfaction by focusing on and increasing customer interactions.

"Proactive, outbound communications greatly improve the customer experience, as the more engaged auto insurers are, the more satisfied customers become," said Leiman. "Implementing various key practices -- such as resolving issues on the first contact, offering annual policy reviews, providing online access to policy information, and increasing customer awareness of policy discounts -- can also greatly impact satisfaction and enhance the overall experience."

The 2008 National Auto Insurance Study is based on 21,236 responses from auto insurance policyholders who were surveyed in April and May 2008.

Source: J.D. Power and Associates

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