

Identifying At-Risk Customers is Critical for Insurance Carriers in Minimizing Defection Rates and Increasing Loyalty

by NAMIC

Although 85 percent of auto insurance customers indicate they are loyal to their carriers, more than one-third of auto insurance policyholders shopped for a new insurance provider, according to the J.D. Power and Associates' 2008 Insurance Retention/Defection Study released Dec. 17.

Identifying those customers with a higher propensity to switch and employing the tactics needed to keep their business is critical for insurance carriers.

The inaugural study examines current auto insurance policy holders who are considering switching carriers and why customers choose to either defect to another carrier or remain loyal to their current carrier.

"Insurers typically categorize and segment their insurance customers using underwriting information such as driving history and demographics," said Jeremy Bowler, senior director of the insurance practice at J.D. Power and Associates. "Our research finds that incorporating customer attitudinal data such as their shopping habits, investment style, and affinity to new products and brand names improves a carrier's effectiveness in modeling long-term customer retention and value. Since attracting new customers is much more expensive for an insurance carrier compared with retaining their current customers, the most cost-effective approach is to anticipate which customers are most likely to look for a new carrier and engage a retention strategy before they even begin the shopping process."

The study finds that 15 percent of policyholders defected to another carrier in 2008. An additional 20 percent of customers were "at risk" of leaving their current insurance carrier. Among the 15 percent of customers who defected, only one-third intended to switch carriers when they first started to shop, suggesting that carriers have an opportunity to retain up to two-thirds of all defectors. However, only 30 percent of defectors report that their previous insurer made any attempt to keep their business.

The study also finds that price is a key driver among both defecting and loyal customers. Nearly 60 percent of customers who defected indicated price was the primary driver for switching carriers; 40 percent of retained customers stated price as their primary reason for remaining loyal to their insurer. Additionally, nearly 80 percent of retained customers said price discounts were the most common offer, and 51 percent of defectors said the same.

"While retaining customers starts with providing high-quality service, it is also critical to identify customers who are most likely to switch carriers and to do so early enough to allow time to try to salvage the relationship," said Bowler. "While offering competitive pricing and discounts is one way to persuade customers who are at risk of defecting, educating them about their policies and providing thorough policy reviews on a regular basis is another key tactic in persuading them to stay on board. Initiating proactive contact with customers after they initially sign on can help prevent them from falling into the at-risk category in the first place, which ultimately saves carriers time, effort, and money in the long run."

The study also finds the following insurance customer trends:

Customers in the at-risk category who ultimately remain loyal to their insurer have been with their carrier an average of four years longer than those in the category who ultimately defect.

Nearly 25 percent of customers with bundled packages "auto and home insurance policies" shop for a new insurance provider while 40 percent of non-bundlers shop. Ultimately, only 25 percent of customers shopping for both auto and homeowners insurance defect while almost 50 percent of those shopping for only auto insurance switch insurers.

More than 45 percent of Generation Y customers (18 to 23 years old) shopped for a new carrier in the past 12 months, compared with 38 percent of Generation X customers (24 to 44 years old) and only 31 percent of Baby Boomers (45 to 62 years old).

The 2008 Insurance Retention/Defector Study is based on responses from 167,412 auto insurance customers. The study was fielded in March and April 2008.

Source: J.D. Power and Associates

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