

The Benefits of Customer Touches

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Introduction

Increasingly, insurance companies are losing contact with their policyholders. The use of the Internet and mass mailing has replaced the direct contact needed to build healthy customer relationships. From high turnover rates to adversarial relationships, there are hidden costs to this ever-increasing depersonalization. Quality Planning Corporation (QPC) understands the need for regular direct contact with policyholders to maintain a healthy relationship and assure the information on the policy is current. This direct contact has several benefits, from calculating the correct premium, to creating a trusting relationship, to increasing sales, and fostering safer driving habits.

Customer Touches

The non-renewal or 'churn' rates in the automobile insurance industry are generally high. A study done at Quality Planning across ten major insurance companies saw an average churn rate of 19% percent and the average policy age of less than six years. This means every year, an insurer's sales team has to find a large number of new customers who have unknown levels of risk and truthfulness. Consumer research has shown that the majority of customers defect mainly because of poor service, and not price¹.

Companies that make an effort to build relationships with customers can positively influence retention rates. Amica Auto Insurance, which has been ranked as the "Highest Overall Customer Satisfaction among National Auto Insurers" for seven consecutive years by J.D. Power and Associates, also has the highest customer retention in the industry. It relies on a 'human touch' approach and sells its products directly to customers, without intermediary agents. This creates a more personalized service environment. Companies with high customer satisfaction levels retain 90% of their customers, compared to only 78% for companies with low levels of customer satisfaction².

But, unlike other industries, not all automobile insurance customers are created equal when it comes to acceptable levels of risk. Some relationships are worth severing. Being able to identify policyholders who have been less than forthcoming with the insurer becomes critical when attempting to improve churn rates. If an insured will never enter into a cooperative relationship with the company, or is a high risk, severing the relationship is the correct business decision. The trick is to retain the right customer, while letting go the customer who continually misrepresents risk or claims.

¹ Survey by CRMGuru in November 2004 showed that 74 percent of defections were due to poor customer service, followed by poor quality of products, and price being the third most important factor.

² J.D. Power and Associates 2006 National Auto Insurance Study.

Communication Builds Trust

One of the most important steps in building a positive relationship with customers is communication. It has been shown that communication, either by phone or direct mail, plays a big role in reducing defection and increasing customer satisfaction. However, insurance companies have very limited contact with their customers. They only interact at the time of policy underwriting, renewal, or when there is a claim; mass mailings of new products does not count as customer contact. Most of these contacts are adversarial or impersonal in nature. The most important customer touch point is the renewal process, which occurs at a regular interval.

Policyholders want to hear from their insurance companies. Travelers Insurance found retention rates were higher for policies where their agents telephoned customers every year at renewal time showing a 5% improvement in retention³. Phone contact is important as it presents a human voice to the insurance company. Without a human connection, companies run the risk of being viewed as a faceless bureaucracy. Phone contact is not without risks. Improper interviews can cause greater misinformation on the policy or exacerbate alienation of the policyholder. Properly conducted interviews will uncover misinformation and build an emotional bond with the policyholder. This emotional bond can not only help the insurer by increasing customer loyalty but also help the insured. A study by Frederick Reichheld and W. Earl Sasser, Jr., showed that a 5% increase in customer loyalty can increase profits from 25% up to 85% by extending the average customer relationship lifetime⁴.

Regular phone contact has a benefit to the policyholder as well. Phone contact by their insurance company can have a positive influence on their driving habits. A 1993 study done by the Insurance Institute for Highway Safety cited eight major motivations for safer driving with increased insurance cost being second only to potential crash from reckless driving. When drivers weigh the cost benefit of reckless behavior insurance is heavy on their mind. Automobile insurance has a positive influence on driving behavior by adding an additional cost to unsafe driving practices. The influence is measurable. A multi-year study done at Quality Planning across a few major carriers showed a 15% to 20% reduction in claims the following year of a phone contact made during **Precision Re-Underwriting**. By reminding policyholders of their relationship with their insurance company, the disincentive for risky driving behavior is increased, resulting in safer driving. Customer contact not only helps insurance companies reduce claims and keep

³ Arthur Middleton Hughes. *How Travelers Retain Their Best Customers*, Database Marketing Institute.

⁴ Reichfeld, F. and Sasser, W.E.(1990). "Zero Defections: Quality Comes to Service". Harvard Business Review, September – October, 1-8.

valued customers, it can lead to safer driving practices by drivers, by putting the cost of reckless behavior in the forefront of their mind.

Properly assessing a policy's risk is always a challenging task; out-of-date data and misinformation can make this task seem impossible. Customer touches also play an important role in reducing misinformation. Opening channels of communication means important lifestyle changes are more likely to be revealed. People live dynamic lives, they get married, move, change jobs and become new drivers. Many of these changes are important in correctly rating risk. Through constant and positive contact with the policyholder these important changes will be uncovered. A better informed company has a competitive advantage by being better able to assign risk to policies.

Lastly, when customers have a positive view of their insurance company they are more likely to buy additional products and services from them. Griffin and Lowenstein in their book *Customer Winback: How To Recapture Lost Customers – And Keep Them Loyal*, cite research by Marketing Metrics (2002) suggesting that the chances of selling to an existing customer are between 60% and 70% as compared to just 5% to 20% for a new prospect.

Selling to an existing customer with whom you have a truthful relationship is less costly and risky than selling to new customers about whom you know very little. And cross-selling not only increases sales, it also decreases churn rates. Studies have shown the more policies a customer has with a firm, the less likely they are to leave. And, further increasing sales, loyal customers are more likely to provide positive referrals to their friends and colleagues. First Direct, the telephone- and internet-based commercial bank in the UK, and a part of HSBC Bank, spends more on customer experience than marketing and gets about 35% of its customers through word-of-mouth referrals. 95% of its customers have referred someone to the bank and the bank has the highest customer satisfaction and referral rates of any bank in the UK⁵.

Conclusion

Fostering a personal relationship with customers will be critical for companies in the growingly competitive market of auto insurance. Customer contacts have several benefits to the firm and to the policyholders. By improving relationships with customers a more trusting relationship will grow, cross-selling products will become easier and retention will rise. Also, by implicitly reminding drivers of the insurance cost of reckless driving behavior bad driving habits are mitigated. This effect can have up to a 20% reduction in claims the following year. Increased customer contact should be a goal of insurance companies but this goal is hard to achieve and it is difficult to know

⁵ According to Market and Opinion Research International and NOP Research Group, First Direct has been the most recommended bank in UK and it also had the most satisfied customers for the past 13 years.

which policyholders are being less than forthcoming and which are important to retain. Quality Planning can help insurance companies meet this growing need. We are the experts at how to successfully contact policyholders while maintaining costs and correcting rating policies. It is important to treat your policyholders equitably, not equally.

About Quality Planning Corporation

Quality Planning Corporation, the Rating Integrity Solutions Company, was founded in 1985 and is headquartered in San Francisco. A member of the ISO family of companies, QPC is focused exclusively on providing decision integrity solutions to the insurance industry. QPC works with insurance companies to identify areas of significant premium leakage using sophisticated database management, statistical analysis and modeling, customized survey design, and highly targeted customer interaction.

Quality Planning Corporation understands how to successfully contact policyholder. We have several proprietary technologies to assure quality interviews and high contact rates. Our interviews are highly targeted, short, and very effective and the interview process is polite and non-confrontational. Quality Planning has had success at cross-selling products at the time of the interview. Once a successful interview has been conducted is the ideal time to sell additional policies to the policyholders. From years of experience and research we know how to successfully contact policyholders.

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