INSURANCE 360

Pitney Bowes Software

2012 INSURANCE INDUSTRY REPORT

The inside track to achieving a more sustainable business

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Published by **Incisive Financial Publishing Ltd**
32-34 Broadwick Street
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An incisivemedia publication

Executive Summary

IN Q1 of 2012, Insurance 360 carried out an online study in collaboration with Pitney Bowes Software, addressing the challenges and opportunities faced by personal lines insurers in marketing, customer management, technology and operations. With radical change afoot in technology and the competitive environment, how could insurers best ready themselves for the future? We asked 14 questions. The Introduction section gives more detail on methodology and respondents.

Firstly, we examined which issues were of greatest concern to respondents. Customer centricity came out top of the table here, followed by differentiation from competitors, then risk and exposure management and operational efficiency. Number five priority was business agility, with compliance and telematics bringing up the rear. Most respondents probably felt that with compliance an unavoidable legal requirement, as a matter of course it would be taken care of. For the vast majority, differentiation from competitors and customer centricity were burning issues.

Next, we asked about the frequency of insurers' communications with each customer. Twenty-four per cent claimed that their companies communicated with their customers on a weekly basis, while another 24% said they communicated monthly. Twenty-one per cent said they were in touch about once a quarter. Nineteen per cent said their companies contacted customers about twice a year, while 12% admitted that contact was no more than annual.

Different respondents from the same insurer had widely-divergent perceptions. Insurers seemed to lack mechanisms that would give any one manager a 360° view of the customer, from the customer's perspective. Their various functional groups seemed to be communicating with customers independently of one another. Even if almost half of companies are indeed in contact with their customers on a weekly or monthly basis, this communication may well not be well-enough targeted to be effective.

Asked how well their current infrastructures allowed them to communicate with clients using each of the following methods, respondents were most satisfied with their inbound telephone systems. Then came email. Post and outbound telephone got comparable, mid-ranking marks. But 46% gave their company's website one of the two bottom grades. Confidence in companies' SMS and social media capabilities was lower still. Respondents saw great scope for improving their infrastructure in almost every area, but particularly in the newer technologies. In their use of communications technology, insurers are lagging far behind the UK's retail banks – and today's digitally-aware consumers.

Increased use of modern paperless media for customer communication could enable companies to cut their print and postage overheads. But is this currently part of management's calculations? We asked what plans respondents' companies had in place to reduce their print communications costs.

The underlying theme was a clear intention to shift to electronic communication. Many respondents had reviewed and changed the way they were communicating, or had plans to do so. 'We are extending electronic docs as a default option and shifting more promotions to digital and social media,' reported a head of marketing at a mid-sized business and personal lines insurer, 'and as a result we have been reducing print spend over the last three years.'

Few, however, had achieved their goals. While almost everyone claimed to be in the process of doing something, much was still to be delivered and there was plenty of opportunity for things to go wrong. Ageing systems, developed in-house, tend to soak up a lot of time and effort, yet rarely provide a robust long-term solution.

Companies that understand their customers as individuals are likely to do a better job of retaining and up-selling and cross-selling to them. So we asked respondents how close an understanding their company had of its customers and their concerns and needs. Perhaps erring on the side of optimism, just over half said that their company knew every policy each customer had and when they were up for renewal and sometimes contacted the customer proactively. But almost a quarter admitted to having a limited understanding of the clients and their needs and to rarely contacting them proactively. Barely a fifth said their company knew how each customer preferred to receive correspondence.

For several years, insurers have tended to follow a 'penetration pricing' or 'dual pricing' strategy, attracting new customers with loss-leading prices before quietly racking up their rates at renewal time. Today, however, it is easier than it has ever been for cost-conscious consumers to shop around, comparing prices online. So next we asked about the renewal rates insurers were actually achieving, the optimal rates they think they could achieve and how best to do so.

On home and contents, 50% of respondents reported an annual customer loss rate of 20% or more, while 16% put their company's loss rate at 40% or more. Loss rates in motor were worse. Of those whose companies wrote motor risks, 47% reported a loss rate of 20-39%, while 21% reported a loss rate of 40-59%. Six per cent reported a customer loss rate of 60-79% in motor.

Managers seemed to accept customer churn rates that would appal their counterparts in other sectors. Yet they did seem to believe that better results were achievable. Depending on the line of business, it seemed, respondents estimated it would be possible to retain a six to thirteen per cent larger share of their customers each year.

So why not do so? Asked how much potential various factors held to increase their company's success in renewals, respondents prioritised more flexibility on pricing, followed by the ability to discuss more renewals personally, then by increased flexibility in cover and relevant package deals. Use of multi-channel communications

attracted surprisingly low ratings – though 15% did see great potential here and 45%, moderate potential. Few saw much renewal-boosting value either in an earlier approach to renewals or in provision of annual discount vouchers

As respondents saw it, flexibility in pricing and cover was the key to retention. That implied an ability to discuss more renewals personally, in an intelligent manner. While contact centres are expensive, direct interaction with customers is a tremendous opportunity. Above everything else, to truly maximise retention, insurers should also be doing more to properly understand each customer and their needs in the first place.

Some customers are of more value to insurers than others. The challenge lies in identifying them – and treating them accordingly. Asked what ability their company had to assess and understand the lifetime value and cross-selling and up-selling potential of each customer, only nine respondents had anything to say here – and of these, five remarked on how limited its capabilities were.

Many large, well-established insurers still seem to be focusing primarily on new customer acquisition and have yet to get a firm grasp on the concept of lifetime customer value. They have not yet developed effective retention strategies that could drive ongoing renewals and profitability.

As one manager observed in response to our previous question, 'up-selling potential comes from knowing the number of policies the customer has with us'. But how many customers do have multiple policies? We asked what percentage of customers had more than one policy with respondents' companies. In short, only a quarter said that 30% or more of their company's customers held multiple policies – a figure that offers huge scope for improvement.

There are two opportunities here: to get a better understanding of which customers already hold what policies; and to also to find out what policies their partner and family have or could need. With that knowledge, insurers are well-placed to increase their 'share of pocket'. For customers with multiple policies, or a modular combined policy, insurers can deliver better cover, sharper pricing and an overall proposition that is very difficult for competitors to beat. Subsequently it becomes more challenging for the customer to shop around for – or even find – a comparable deal. Multiple polices mean a stronger relationship, a higher customer lifetime value and higher, more consistent profit.

Next, we asked respondents which of ten matters were most commercially urgent for their company. They could select up to four. Topping the table was online quote-and-bind technology, cited by 50% of respondents. Then came underwriting and risk management software, customer analytics and provision of self-service. Thirty-three per cent each cited their company website and CRM software, while automated documentation was an urgent priority for 31%.Nineteen per cent cited multi-channel communications software, while ten per cent cited social media. Only two per cent perceived automation of marketing campaigns as a priority.

In fact, the various options could be divided into three broad issues: automated customer communications and management; customer self-service and the company website; and customer analytics and CRM. Online quote-and-bind and automated documentation amount to much the same thing – customer communication – which emerged as by far the most urgent commercial issue for our respondents. Yet few respondents seemed to be ready for some of the newer capabilities, such as social media and intelligently automated marketing campaigns. Respondents seem to agree that they need to serve customers more efficiently – but for now, the main force driving their decision-making seems to be the need to cut servicing costs.

Finally, we asked what respondents' chief concerns were in ensuring commercial success for their company in the coming three years. Their number one collective concern was new customer acquisition, with fraudulent claims in second place. Up-selling and cross-selling to existing customers ranked third equal, alongside the increasing cost of claims, with managing catastrophes and exposure to risk fifth. Relatively few prioritised falling investment returns, costs of compliance and the loss of referral fees – facts they could, after all, do little to change and about which most insurers have already done what they can.

What did we learn here? There was clear anxiety about the industry's low current levels of profitability. Concerns about cost and about revenue seemed to be roughly in balance. Above all, insurers continue to fixate on new customer acquisition. With the old marketing paradigm of 'acquire and exploit', they relied on customer inertia to make money. Now that today's customer can compare prices across the industry at the click of a mouse, that tactic is at a dead end. 'Share of pocket' is the strategy for the future, involving an active dialogue between insurer and customer, with more business and better retention rates for the one and better price and service for the other.

Respondents seem largely to agree on the need to drive up retention rates and engagement. Many insurers are gradually realising the value of up-selling and cross-selling to existing customers. In practice, however, they have yet to change the way they deal with the customer. Although data-rich, insurers are information-poor and are currently missing the chance to identify the potentially lucrative customers they need to keep and develop.

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Introduction

IN Q1 of 2012, Insurance 360 launched an online study – in collaboration with Pitney Bowes Software – addressing the challenges and opportunities faced by personal lines insurers in marketing, customer management, technology and operations. With radical change afoot in technology and the competitive environment, how could insurers best ready themselves for the future? Target respondents were senior and upper middle-ranking people in marketing, operations and customer management and strategy at general insurance companies in Great Britain and Ireland.

We identified suitable respondents in appropriate job roles and sent them an explanatory email – complete with URL link to the questionnaire – inviting them to contribute their confidential input. Respondents' job titles included:

- Business Change Consultant
- Business Development Manager
- Chief Executive Officer
- Chief Operating Officer
- Customer & Market Insight Analyst
- Customer Relationship Manager
- Deputy Chief Executive
- Director – Market Management & Regional Operations
- Director – Operations & Marketing
- Director of Strategy
- E-Business Developer
- European Personal Lines Manager
- Finance Director
- Head of Business & Consumer Marketing
- Head of Commercial Direct
- Head of Communications
- Head of Digital Marketing
- Head of Marketing
- Head of Strategy
- Head of UK Sales
- Lead IT Architect
- Managing Director
- Marketing Manager
- National Broker Manager
- Operations Manager
- Performance & Decision Support Manager
- Proposition Development Manager
- Regional Underwriter
- Sales Director
- Sales & e-Commerce Manager
- Sales Manager (Property Owners)
- Sales Planning & Forecast Manager

Issues of Broad Concern

WE asked respondents: 'In your role, which of the following issues are presently of most concern to you?' There were seven options: compliance; telematics; customer centricity; business agility; operational efficiency; differentiation from competitors; and risk and exposure management. Respondents could select a maximum of four.

Overall, customer centricity emerged as the issue of greatest concern. Forty-three per cent of respondents rated it 'absolutely critical', while another 40% considered it 'of major importance'. Next came differentiation from competitors, rated 'absolutely critical' by 33% and 'of major importance' by a further 48%.

Risk and exposure management and operational efficiency came out roughly equal. Twenty-nine per cent the former considered it 'absolutely critical', another 36% rating it 'of major importance'. For operational efficiency, the respective figures were 26% and 40%. Number five priority of the seven was business agility, 24% citing it as 'absolutely critical' and 29% as 'of major importance'.

The tail-enders were compliance and telematics. Seventeen per cent rated 'compliance absolutely critical', another 36% marking it 'of major importance'. For telematics, the respective proportions were a slender seven per cent and ten per cent.

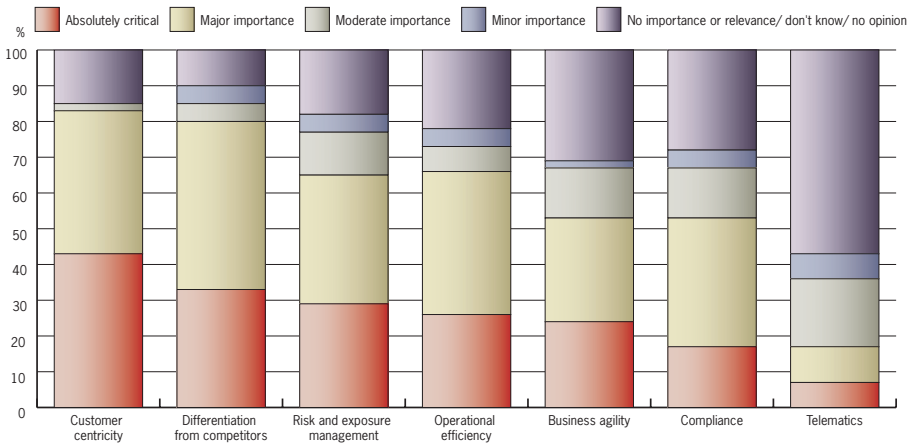
What do we learn from this? Most respondents probably felt that with compliance an unavoidable legal requirement, it would be taken care of, come what may. What had to be done either had been, or would be, done. Telematics is only much of an issue of motor insurers – and a fifth of our respondents worked for companies that didn't handle motor risks. Risk and exposure management and operational efficiency, however, were matters of pressing concern for nearly two-thirds of respondents. For all but a handful, differentiation from competitors and customer centricity were burning issues.

In your role, which of the following issues are presently of most concern to you?

Number	Absolutely critical	Major importance	Moderate importance	Minor importance	No importance or relevance/ don't know/ no opinion	Total
Customer centricity	18	17	1	0	6	42
Differentiation from competitors	14	20	2	2	4	42
Risk and exposure management	12	15	5	2	8	42
Operational efficiency	11	17	3	2	9	42
Business agility	10	12	6	1	13	42
Compliance	7	15	6	2	12	42
Telematics	3	4	8	3	24	42
Total	75	100	31	12	76	294

Number	Absolutely critical	Major importance	Moderate importance	Minor importance	No importance or relevance/ don't know/ no opinion	Total
Customer centricity	43%	40%	2%	0%	14%	100%
Differentiation from competitors	33%	48%	5%	5%	10%	100%
Risk and exposure management	29%	36%	12%	5%	19%	100%
Operational efficiency	**26%**	**40%**	**7%**	**5%**	**21%**	**100%**
Business agility	**24%**	**29%**	**14%**	**2%**	**31%**	**100%**
Compliance	**17%**	**36%**	**14%**	**5%**	**29%**	**100%**
Telematics	**7%**	**10%**	**19%**	**7%**	**57%**	**100%**

Customer centricity was the single issue of most concern to respondents



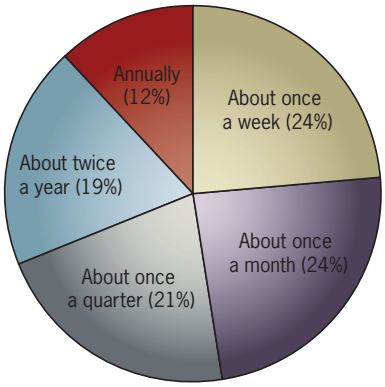
Customer Communication

NEXT, we asked: 'How often, on average, do you communicate with each customer?' There were five options: about once a week; about once a month; about once a quarter; about twice a year; and annually.

Twenty-four per cent claimed that their companies communicated with their customers on a weekly basis, while another 24% said they communicated monthly. Twenty-one per cent said they were in touch about once a quarter. Nineteen per cent said their companies contacted customers about twice a year, while 12% admitted that contact was no more than annual.

How solid are these results? Different respondents from the same insurer had widely-divergent perceptions. Insurers seemed to lack mechanisms that would give any one manager a comprehensive view of communications with the customer, from the customer's point of view. Their various functional groups seemed to be communicating with customers independently of one another. And even if almost half of companies are in contact with their customers on a weekly or monthly basis, it seems unlikely that this weekly or monthly communication – presumably consisting largely of emails – is sufficiently targeted and relevant to achieve the desired effect.

Nearly half of respondents claimed they were in weekly or monthly communication with customers



Frequency	Number	%
About once a week	10	24%
About once a month	10	24%
About once a quarter	9	21%
About twice a year	8	19%
Annually	5	12%
Total	**42**	**100%**

Communications Infrastructure

FOR our next question, we asked: 'How well does your current infrastructure allow you to communicate effectively with clients using each of the following methods?' Seven media were covered: SMS; post; email; website; social media; telephone (inbound); and telephone (outbound).

Top of the table was inbound telephone. Ninety per cent – a surprisingly high proportion – reckoned their inbound telephone system enabled them to communicate with customers 'very well indeed' or 'reasonably well' while only ten per cent admitted to 'room for improvement' here. Then came email. Sixty-seven per cent said their email infrastructure enabled them to communicate with customers 'very well indeed' or 'reasonably well', while 21% said there was 'room for improvement' in it and 12% said it enabled them to communicate only 'very poorly'. Results for post and outbound telephone were comparable.

Forty-six per cent gave their website one of the two bottom grades, however, and confidence in companies' SMS and social media capabilities was very low. Just seven per cent said they could communicate with customers 'very well' via SMS and social media, while 56% and 37%, respectively, said they could do so only 'rather poorly'.

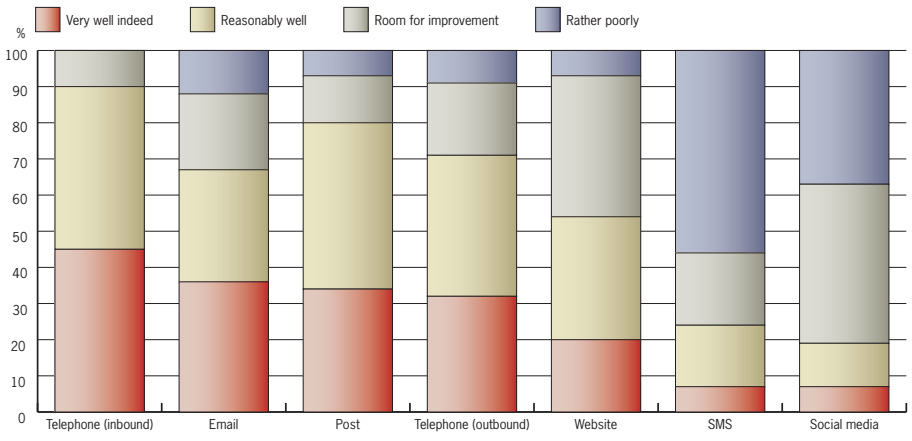
In short, respondents acknowledged that there was a great deal of scope to improve their infrastructure in almost every area, but particularly in the newer technologies. It seemed surprising that respondents didn't give their postal and email communications higher marks, given the time (about 200 years and 15 years, respectively) that they have had to perfect them. Insurers could do well to look at other industries. In their use of communications technology, they are lagging far behind the UK's retail banks, which were quick to spot the cost-saving potential of electronic communications and online service. Insurers are also lagging behind the digitally-aware consumer.

How well does your current infrastructure allow you to communicate effectively with clients using each of the following methods?

Number	Very well indeed	Reasonably well	Room for improvement	Rather poorly	Total
Telephone (inbound)	19	19	4	0	42
Email	15	13	9	5	42
Post	14	19	5	3	41
Telephone (outbound)	13	16	8	4	41
Website	8	14	16	3	41
SMS	3	7	8	23	41
Social media	3	5	18	15	41
Total	75	93	68	53	289

Percent	Very well indeed	Reasonably well	Room for improvement	Rather poorly	Total
Telephone (inbound)	45%	45%	10%	0%	100%
Email	36%	31%	21%	12%	100%
Post	34%	46%	12%	7%	100%
Telephone (outbound)	32%	39%	20%	10%	100%
Website	20%	34%	39%	7%	100%
SMS	7%	17%	20%	56%	100%
Social media	7%	12%	44%	37%	100%
Total	26%	32%	24%	18%	100%

Customer centricity was the single issue of most concern to respondents



The Drive to Digital Infrastructure

INCREASED use of modern paperless media for customer communication could enable companies to cut their print and postage overheads. But is this currently part of management's calculations? We asked: 'What plans do you have in place to reduce your print communications costs?'

The underlying theme was a clear intention to shift to electronic communication. Many respondents had reviewed and changed the way they were communicating, or had plans to do so. Customers were often as keen as insurers to dispense with paper documents, though for the time being insurers still need to offer both options. There was much to be said for an integrated approach. 'We are extending electronic docs as a default option and shifting more promotions to digital and social media,' reported a head of marketing at a mid-sized business and personal lines insurer, 'and as a result we have been reducing print spend over the last three years.'

Insurers that worked with brokers often seemed to be ahead of those that sold direct-only. For them, the broker market had acted as a test-bed for quote-and-bind, electronic documentation and self-service on points such as mid-term adjustments. They were now looking to roll out similar offerings in the wider personal lines market.

Very few, however, had achieved their goals. Almost everyone claimed to be in the process of doing something: 'we are investing'; 'we are moving'; 'we are extending'; 'we are piloting'; 'we are implementing'; 'we have been testing'. Clearly there is much still to be delivered. Some insurers are likely to be developing their own digital communications systems. But these tend to take a great deal of time, effort and money to build – and even then, they struggle to deliver the full range of reliable functionality that professionally-developed systems can provide.

Verbatim responses

- 'We are investing in our website in order to provide brokers and their clients with better access to a comprehensive library of policy documents, risk appetite and contact information. We actively use e-communications as our prime communication method to brokers and also use pdf documents in both policy issue and the communication of underwriting and marketing materials to brokers.'
- 'We are making increasing use of pdf for policy and other documents. Written communication is already dominated by e-mail and an increasing number of businesses are getting closer to being paperless. E-trading is increasingly recognised as a vital part of the commercial insurance mix.'
- 'We are moving messaging and communication with customers onto electronic means, where appropriate. An important element for us is to offer both our broker and end consumer customers a choice which suits their needs in how they interact with us.'
- 'We already send all documentation via e-mail and we are considering how we can communicate even more effectively. However face-to-face communication is an essential part of our business model.'
- 'We provide all of our customers with electronic documents and no longer print any policy documentation. Our website has been upgraded and improved to allow more electronic communication.'
- 'We are using document management to amalgamate policies and reduce mailings, with a web portal for documents linked with communication preferences and a statement of fact for claims'
- 'We are extending electronic docs as a default option, shifting more promotions to digital and social media and as a result we have been reducing print spend over the last three years.'
- 'We are going for print innovation in terms of colour versus mono, weight of paper used, upping the level of email, personalisation as opposed to mass communications.'
- 'We are looking at full outsourcing. However our core system creates challenges in this regard. Our new sales platform will allow emailing of documentation.'
- 'We are making an increased investment in electronic media, to reduce paper to the absolute minimum and allow customer to print where appropriate.'
- 'We are piloting paper-free documents with a number of our brokers and hope to roll this out later this year and have this across all brokers in 2013.'
- 'We have been testing print on demand and digital document delivery which is leading us to reduce to a minimum the production of paper docs.'
- 'Our communication costs are fairly low. I don't believe we are planning to reduce these and we may even increase our communications.'
- 'There has been a move towards email and online service, though I can't help but think this has reduced effectiveness as well as cost.'
- 'We already provide all our policy covers and documentation via pdf. Our brokers can turn off paper documents and most have.'
- 'We are always looking to reduce our print spend and the amount of times that we communicate with our customers.'
- 'We are moving to a more e-commerce based relationship. However, policy documentation is still required in a printed format.'
- 'We have enhanced our IT solutions to enable clients to download documents at their request, rather than us printing them.'
- 'We are implementing improvements to our website and telephony systems and improving operational efficiency.'
- 'We have plans underway to increase use of electronic documents and develop a secure document exchange.'
- 'We have implemented online documentation and are making more use of email and phone contacts.'
- 'We are reviewing options to produce and provide all policy documentation electronically.'
- 'We almost communicate with our broker partners entirely via email and e-zine formats.'
- 'We have integrated document management and workflow in our back office systems.'
- 'Currently looking at usage of social media and using our website more effectively.'
- 'We plan to outsource all printed material, letters and documents soon.'
- 'We are moving to more online/ electronic policy documentation.'
- 'We have a significant programme already underway.'
- 'We are using print less and email and SMS more.'
- 'We are already at our minimum cost level.'
- 'We are moving to online documentation.'
- 'We use online documentation only.'
- 'We have e-docs deployed.'

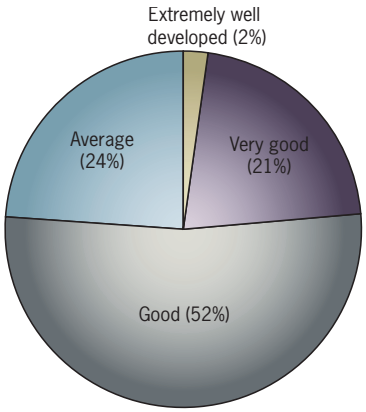
Understanding the Customer

COMPANIES that understand their customers as individuals are likely to be more competent at retaining and up-selling and cross-selling to them. So we asked respondents: 'In general, how close an understanding does your company have of its customers and their concerns and needs?' There were five options: 'A: Extremely well developed: we know every policy our customer has; when they are up for renewal; how each customer prefers to receive correspondence; and what policies they had with competitors'; 'B: Very good: we know every policy our customer has; when they are up for renewal; how each customer prefers to receive correspondence'; 'C: Good: we know every policy our customer has and when they are up for renewal and sometimes contact them proactively'; 'D: Average: we have limited understanding of our clients and their needs and rarely contact them proactively'; 'E: Unsatisfactory: we know very little about our clients and their needs, we only speak to them on a reactive basis'.

Only one (two per cent) answered 'A', stating that they knew every policy each customer had, when they were up for renewal, how each customer preferred to receive correspondence and what policies they have with competitors. Nine (21%) answered 'B' – essentially the same answer, but without knowing the policies held with competitors. Twenty-two (52%) went for option 'C'.

Ten (24%) answered 'D', admitting to a limited understanding of their clients and their needs and to rarely contacting them proactively. Not one respondent answered 'E'. These answers may lean slightly towards the optimistic. But in any case, virtually every respondent saw at least some scope for improvement – and most saw a lot.

Three-quarters gave their company a C or D for its understanding of customers and their needs



Grade	Number	%
A: Extremely well developed	1	2%
B: Very good	9	21%
C: Good	22	52%
D: Average	10	24%
E: Unsatisfactory	0	0%
Total	**42**	**100%**

Verbatim responses

As a supplementary question, we asked: 'If you answered A or B – to what extent and in what ways are you actually using that information?' Only seven gave a substantive response here. Most were using it as an aid to renewal, enabling them to make contact at the right time and in the right way, though cross-policy rating, risk management and TCF (Treating Customers Fairly) were also mentioned. Just one respondent said his company was using its knowledge of its customers to communicate with them in their preferred manner. Verbatim comments were as below:

- 'Targeted renewal.'
- 'For proactive management of renewal and risk management.'
- 'To develop cross-selling opportunities and build long term customer relationships.'
- 'We are using it for retention, cross-policy rating and discounting and multi-media outbounding.'
- 'We are using it for proactive management of insurance renewals, making contact eight weeks in advance. Ensuring adherence to TCF is also seen as important.'
- 'We vary communication to fit client preference – e.g. email only. We are also improving our transactional capability, to make much more fit online.'
- 'We are close to letting brokers 'self serve' on a number of products at renewal, with timescales that suit them, as well as carrying out mid-term changes themselves.'

"Virtually every respondent saw at least some scope for improvement – and most saw a lot"

Success – and Failure – in Renewals

FOR several years, insurers have tended to follow a 'penetration pricing' or 'dual pricing' strategy, attracting new customers with loss-leading prices before quietly racking up their rates at renewal time. This approach leans heavily on customer myopia and inertia. But any logic it may have had has diminished. It is now easier than it has ever been for cost-conscious consumers to shop around, comparing prices online. So in this section, we examine the renewal rates insurers are actually achieving; the optimal rates they think they could achieve; and how best to do so.

Firstly, current renewal rates. We asked: 'Roughly what proportion of customers has your company succeeded in retaining at renewal during the past 12 months, in each of these lines of business?' The three lines were motor, home and contents, and 'other'.

On home and contents, half of respondents reported a loss rate of 20% or more. Sixteen per cent put their home and contents loss rate at 40% or more. Typical loss rates on 'other' risks weren't quite so bad. But those in motor were considerably worse. Of those whose companies wrote motor risks, 47% reported a loss rate of 20-39%, while 21% reported a loss rate of 40-59%. Six per cent put their companies' motor renewal rate at a mere 21-40%; that is to say, they were losing 60-79% of their customers every year.

Insurers seem to take for granted customer churn rates that would be considered unacceptable within other sectors. Could they do better? And if so, how much better? We asked a simple question: 'Realistically, what would you like that figure to be?'

In home and contents, 81% reckoned that renewal rates better than 80% were possible, while the remaining 19% put 61-80% as the achievable maximum. In the 'other' category, the corresponding figures were 84% and 16%. Even in motor, 63% of respondents felt that renewal rates of better than 80% were achievable, while 34% reckoned 61-80% was realistic.

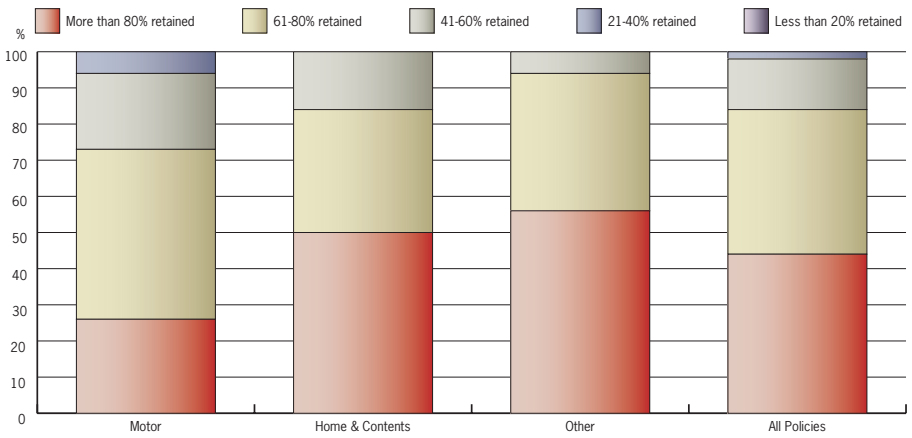
These figures imply mean achievable renewal rates of 86% in home and contents, 87% in 'other' risks and 82% in motor.

Roughly what proportion of customers has your company succeeded in retaining at renewal during the past 12 months, in each of these lines of business?

Number	Motor	Home & Contents	Other	All Policies
More than 80%	9	16	18	43
61-80%	16	11	12	39
41-60%	7	5	2	14
21-40%	2	0	0	2
Less than 20%	0	0	0	0
Sub-total	34	32	32	98
Don't know/ Not insured	8	10	10	28
Total	42	42	42	126

Percent	Motor	Home & Contents	Other	All Policies
More than 80% retained	26%	50%	56%	44%
61-80% retained	47%	34%	38%	40%
41-60% retained	21%	16%	6%	14%
21-40% retained	6%	0%	0%	2%
Less than 20% retained	0%	0%	0%	0%
Total	100%	100%	100%	100%

In general, retention rates for motor risks were relatively low



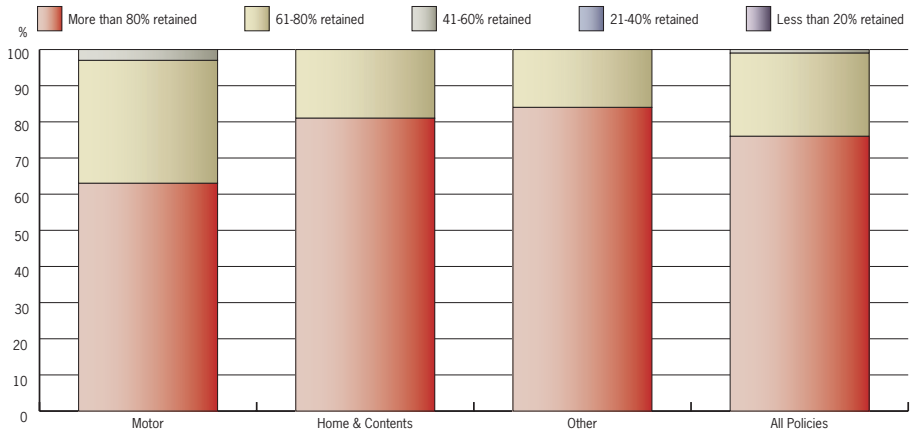
"Insurers could quite realistically retain a six to thirteen per cent bigger share of their customers"

Realistically, what would you like that figure to be?

Number	Motor	Home & Contents	Other	All Policies
More than 80%	22	25	27	74
61-80%	12	6	5	23
41-60%	1	0	0	1
21-40%	0	0	0	0
Less than 20%	0	0	0	0
Sub-total	35	31	32	98
Don't know/ Not insured	7	11	10	28
Total	42	42	42	126

Percent	Motor	Home & Contents	Other	All Policies
More than 80%	63%	81%	84%	76%
61-80%	34%	19%	16%	23%
41-60%	3%	0%	0%	1%
21-40%	0%	0%	0%	0%
Less than 20%	0%	0%	0%	0%
Sub-total	100%	100%	100%	100%
Don't know/ Not insured	17%	26%	24%	22%

Most felt renewal rates of over 80% were realistically achievable, even in motor



Our three further charts (overleaf) illustrate the gap between the renewal rates currently achieved in each line of business and what respondents thought was realistically achievable. Our analysis suggests that – depending on the line of business – insurers believe that they could realistically retain a six to thirteen per cent bigger share of their customers each year.

>> *Continued on page 14*

<< Continued from page 13

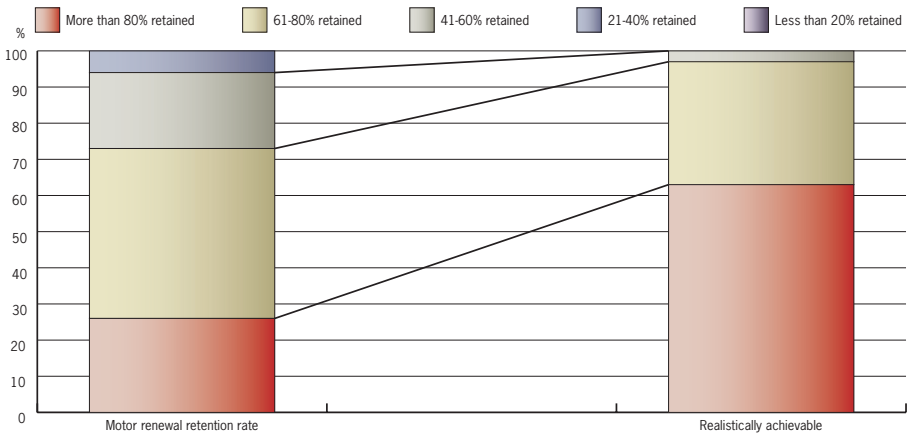
In that case – why not retain them? We asked: 'How much potential, in your opinion, does each of the following factors hold to increase your company's success in renewals?' There were four options: 'great potential'; 'moderate potential'; 'little potential'; and 'no potential'.

Top of the table was more flexibility on pricing, which 51% rated as having great potential and 41% as having 'moderate potential'. Next came ability to discuss more renewals personally, with 37% and 34% respectively. Thirty-one per cent of respondents saw 'great potential' in more flexibility in cover, while 49% saw moderate potential there. The figures for offering relevant package deals were almost as high. Then came avoidance of automatic rises in premium and loyalty discount schemes. In both cases, respondents who saw great potential in were outnumbered by those who saw little or none.

Use of multi-channel communications attracted surprisingly low ratings – though 15% did see great potential here and 45%, moderate potential. Few thought much of the value either of an earlier approach to renewals or of provision of annual discount vouchers, where renewals were concerned.

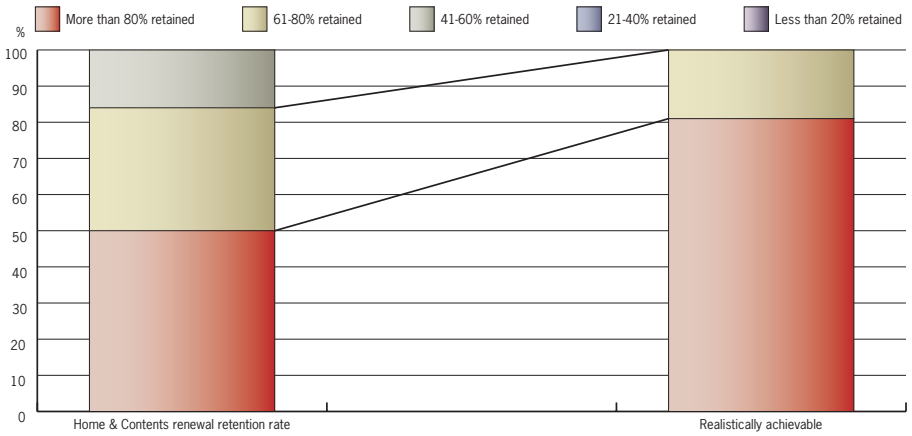
Respondents viewed flexibility as key to retention. Flexibility in pricing – taking a customer's broader circumstances into account, rather than simply trying to pin a flat rate increase on him regardless – was one part of that. But flexibility also meant flexibility in cover – and both implied an ability to discuss more renewals personally and in an intelligent manner.

Just 26% of respondents reported a motor renewal rate of more than four-fifths, but 63% thought it was realistically achievable



Motor	Motor Renewal Retention Rate	Realistically Achievable
More than 80% retained	26%	63%
61-80% retained	47%	34%
41-60% retained	21%	3%
21-40% retained	6%	0%
Less than 20% retained	0%	0%
Total	100%	100%

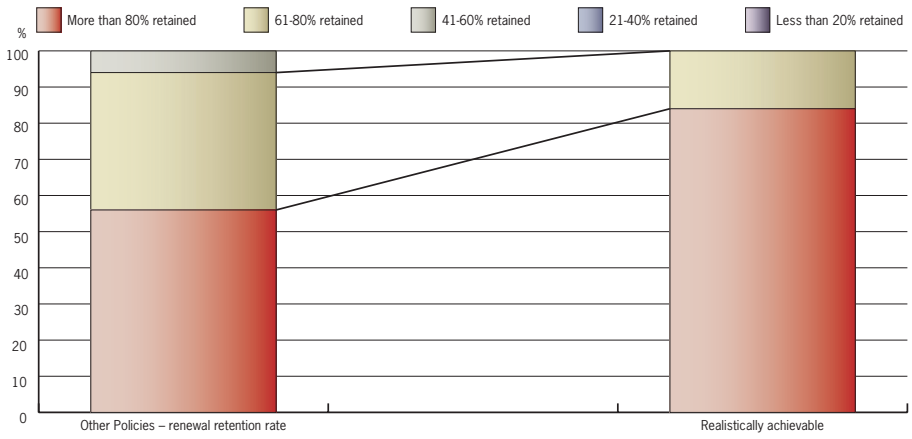
Only half reported a Home & Contents retention rate of over 80%, but most of the rest reckoned it was achievable



Home & Contents	Home & Contents Renewal Retention Rate	Realistically Achievable
More than 80% retained	50%	81%
61-80% retained	34%	19%
41-60% retained	16%	0%
21-40% retained	0%	0%
Less than 20% retained	0%	0%
Total	100%	100%

Contact centres are expensive, but direct interaction with customers is a tremendous opportunity. If an insurer wants to encourage customer engagement via the contact centre, its renewal notices have to be designed to

On 'other' policies, 84% felt a renewal success rate of 80%-plus was achievable – but only 56% were achieving it

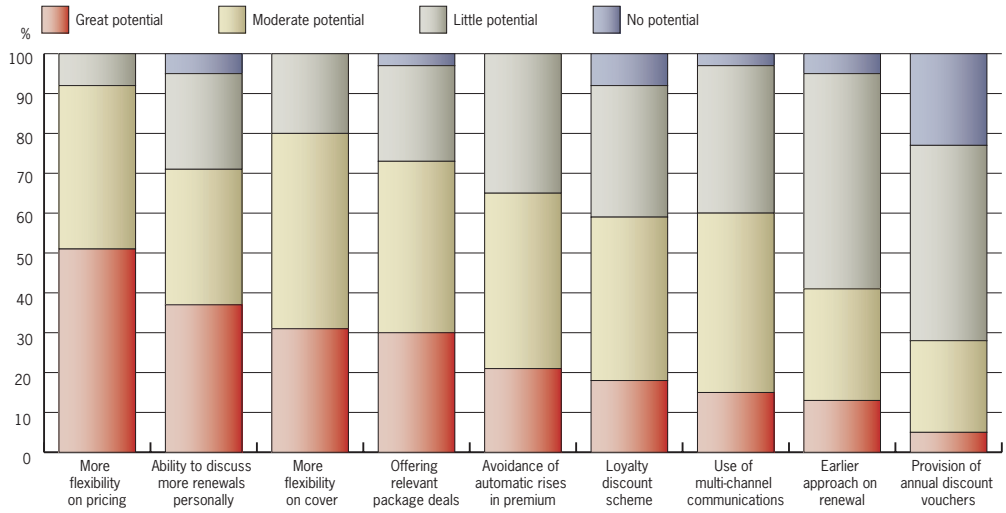


Success in Renewals	Other Policies - Renewal Retention Rate	Realistically Achievable
More than 80% retained	56%	84%
61-80% retained	38%	16%
41-60% retained	6%	0%
21-40% retained	0%	0%
Less than 20% retained	0%	0%
Total	100%	100%

do so in a very clear way. Insurers need to be doing more to know and properly understand their customer. As a very basic example, does this person drive a new Range Rover? If so, he is probably not too price-sensitive. What other insurance products does he have? What do he not have, that actually could be of value to him?

In a fast-evolving personal lines market, coordinated use of multi-channel communications is will also play an increased role in maximising renewal rates. Some companies are under-rating its ability to enhance customer-insurer relationships, build brand values and improve success in renewals.

Respondents rated increased flexibility on pricing and cover and personal discussion the factors with the more potential to increase their success rate at renewal



Number	Great potential	Moderate potential	Little potential	No potential	Sub-total	Don't know/ no opinion	Total
More flexibility on pricing	21	17	3	0	41	1	42
Ability to discuss more renewals personally	14	13	9	2	38	4	42
More flexibility on cover	12	19	8	0	39	3	42
Offering relevant package deals	12	17	10	1	40	2	42
Avoidance of automatic rises in premium	8	17	14	0	39	3	42
Loyalty discount scheme	7	16	13	3	39	3	42
Use of multi-channel communications	6	18	15	1	40	2	42
Earlier approach on renewal	5	11	21	2	39	3	42
Provision of annual discount vouchers	2	9	19	9	39	3	42
Total	87	137	112	18	354	24	336

Lifetime Value

SOME customers are of greater value to insurers than others. The challenge lies in identifying them – and treating them accordingly. We asked: 'How are you able to assess and understand the lifetime value and cross-selling and up-selling potential of each customer?'

Only nine respondents had anything to say here – and of these, five said they had a limited capability to analyse a customer's lifetime value. Responses, such as they were, showed a degree of acknowledgement of the difficulty in establishing customers' lifetime values.

Many large, well-established insurers appear to have yet to get a firm grasp on the concept of lifetime customer value. They have not yet developed the models to show how investment in retention strategies could drive ongoing renewals and profitability. A common truism in marketing says that it costs seven times more to find a new customer than to retain an existing one. Yet many insurers still seem to be focusing primarily on new customer acquisition. There is great scope for insurers to take advantage of available technology, to analyse their existing customers and develop retention strategies that can make a real difference to the bottom line.

Verbatim responses

- 'We're not.'
- 'We have limited capability.'
- 'We are unable to assess this.'
- 'We have little understanding of this.'
- 'We use a sophisticated marketing database and analytics.'
- 'We use LTV calculations for our direct to consumer offerings.'
- 'This is currently difficult, but likely to be improved in the future.'
- 'Very well, our business biased toward face-to-face, long term customer relationships.'
- 'We have the client base scored with customer lifetime value and each risk scored with propensities.'
- 'By analysing our earnings from each policy, the average length of time a customer stays with us and the costs of handling the business, we can assess each client's lifetime value. Up-selling potential comes from knowing the number of policies the customer has with us.'
- 'We complete mid-term up-sells and we are finding that they can proactively help retention, as the customer has a better and more recent reminder of the total levels of cover they enjoy. Book movement – particularly on more keenly-priced new business from this and last year – is the key driver to profit growth for us over the coming 12-24 months.'

Policies Held

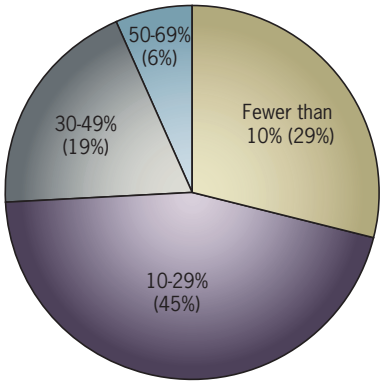
AS one manager remarked in response to our previous question, 'up-selling potential comes from knowing the number of policies the customer has with us.' But how many customers do have multiple policies? We asked: 'What percentage of your customers have more than one policy with your company?'

Twenty-six per cent of respondents did not know, would not say, or replied that their company did not possess that data. But of the remainder, 29% reported that fewer than ten per cent of their customers had multiple policies; 45% put the figure at between ten and 29%; and 19% gave a figure of 30-49%. Only six per cent said that 50-69% of their company's customers held more than one policy with it and none gave a higher figure. In short, only a quarter of respondents said that 30% or more of their company's customers held multiple policies – a figure that offers huge scope for improvement.

There are two opportunities here: to get a better understanding of which customers already hold what policies; and to also to find out what policies their partner and family have, or could need, too. Armed with that knowledge, insurers are well-placed to increase their 'share of pocket'. Admiral's multi-car policy is an excellent example of this type of strategy. For customers with multiple policies, or a modular combined policy, insurers can deliver more cover, sharper pricing and an overall proposition that is very difficult for competitors to replicate. Not only is it more difficult for the customer to shop around for equivalent cover, or to move, there is less reason to.

In short, multiple polices mean higher customer lifetime value and higher, more consistent profit.

Three-quarters of respondents said that fewer than 30% of their customers held multiple policies with them



Multiple policies	Number	%
Fewer than 10%	9	29%
10-29%	14	45%
30-49%	6	19%
50-69%	2	6%
70-89%	0	0%
90% or more	0	0%
Sub-total	**31**	**100%**
Don't know/ did not say	9	21%
We do not have that data	2	5%
Total	**42**	**100%**

Commercial Priorities

WE asked: 'Which of the following is most urgent focus for your company, in your opinion, in terms of its commercial value?' There were ten options, of which respondents were invited to select up to four: underwriting/ risk management software; multi-channel communications software; online quote-and-bind technology; automation of marketing campaigns; automated documentation; provision of self-service; customer analytics; CRM software; social media; and the company website.

Topping the table was online quote-and-bind technology, cited by 50% of respondents. Then came underwriting and risk management software, cited by 45%. Customer analytics was cited by 40%, provision of self-service by 38%, while 33% each cited their company website and CRM software. Automated documentation was an urgent priority for 31%.

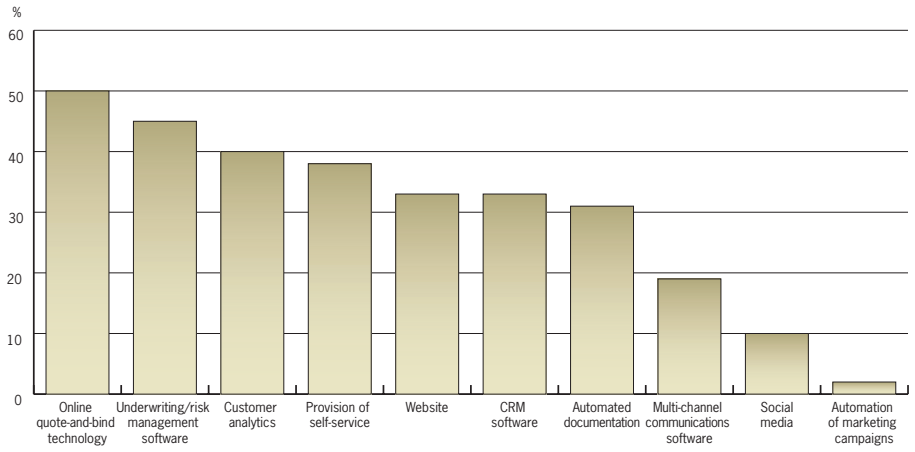
Nineteen per cent cited multi-channel communications software as a priority, while ten per cent cited social media. Only two per cent perceived automation of marketing campaigns as a priority.

The various options could be divided into three broad issues: automated customer communications and management; customer self-service and the company website; and customer analytics and CRM. In truth, online quote-and-bind and automated documentation amount to much the same thing, customer communication, which emerged as by far the most urgent commercial issue for our respondents. Yet few seemed to be ready, as yet, for some of the newer capabilities, such as social media and intelligently automated marketing campaigns. Respondents seem to agree that they need to serve customers more efficiently, but for now, the main force driving their decision-making seems to be the need to cut service costs.

Which of the following is most urgent to your company, in your opinion, in terms of its commercial value?

	Percent Citing	Number Citing
Online quote-and-bind technology	50%	21
Underwriting/ risk management software	45%	19
Customer analytics	40%	17
Provision of self-service	38%	16
Website	33%	14
CRM software	33%	14
Automated documentation	31%	13
Multi-channel communications software	19%	8
Social media	10%	4
Automation of marketing campaigns	2%	1

Respondents saw most potential in online quote-and-bind technology, underwriting software, customer analytics and self-service



Knowing the Customer

TECHNOLOGY can help insurers get a more informed view of each customer and develop a more durable and profitable relationship. We asked respondents: 'If there were ONE piece of additional information you wish you had on each customer – but don't – what would it be?'

Only eight gave a meaningful answer here (see right), which seemed to indicate a lack of deep thinking about customer engagement. The 'likelihood to claim' comment demonstrates a tight, short-term focus on the bottom line, while knowing a customer's 'propensity for re-quoting at renewal' is useful only to a point. 'Details of the potential household spend and insurance requirements', on the other hand, would be of great use in maximising a customer's lifetime commercial value.

Several gave answers relating to the customer's inclination to shop around at renewal and why they would do so. Perhaps oddly, however, no-one mentioned the potential for building up a broad package policy with the customer, providing a cost-efficient product and service. Such an initiative would make it far more difficult for competitors to lure their customers away.

Verbatim responses

- 'Why would they stay with us, rather than move to another insurer for a lower premium.'
- 'Details of the potential household spend and insurance requirements.'
- 'What other products they need insured but have placed elsewhere.'
- 'Their critical buying reason – e.g. price or cover?'
- 'Quite often it's their correct telephone number!'
- 'Propensity for re-quoting at renewal.'
- 'Agreement to contact by email.'
- 'Likelihood to claim.'

Concerns for the Future

WE asked: 'What are your chief concerns in ensuring commercial success for your company in the coming three years?' There were eight options, of which respondents could select up to four: 'up-selling and cross-selling to existing customers'; 'managing catastrophes and exposure to risk'; 'costs of compliance (Solvency II)'; 'reducing fraudulent claims'; 'falling investment returns'; 'new customer acquisition'; 'increasing cost of claims'; 'loss of referral fees'.

The number one collective concern was new customer acquisition, cited by 64% of respondents, while only 55% cited up-selling and cross-selling to existing customers. Fraudulent claims and the increasing cost of claims were chosen by 57% and 55% respectively, while 45% went for managing catastrophes and exposure to risk. Relatively few prioritised falling investment returns, costs of compliance and the loss of referral fees – facts they could, after all, do little to change and about which most insurers have already done what they can.

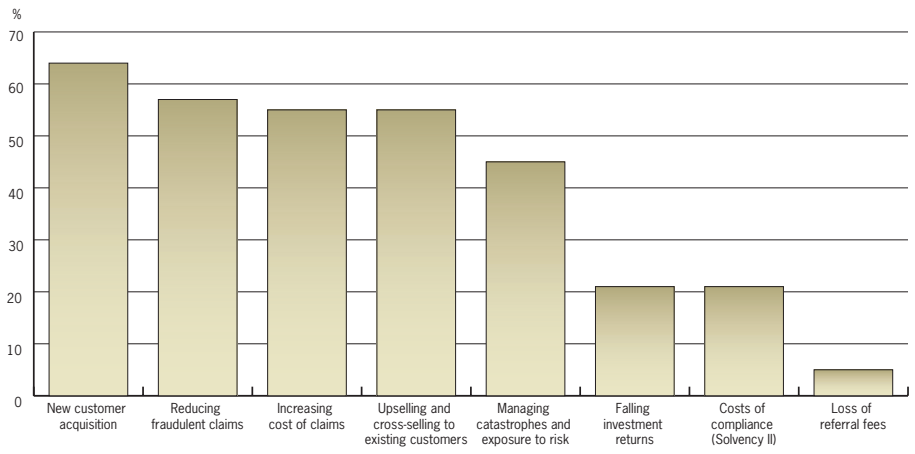
What do we learn here? There is anxiety about the industry's low current levels of profitability and concern about cost and about revenue seemed to be roughly in balance.

Insurers continue to fixate on new customer acquisition. With the old marketing paradigm of 'acquire and exploit', they relied on customer inertia to make money. Now that today's customer can compare prices across the industry at the click of a mouse, that tactic is null and void. 'Share of pocket' is the strategy for the future, involving an active dialogue between insurer and customer, with more business and better retention rates for the one and better price and service for the other.

What are your chief concerns in ensuring commercial success for your company in the coming three years?

	Percent Citing	Number Citing
New customer acquisition	64%	27
Reducing fraudulent claims	57%	24
Increasing cost of claims	55%	23
Upselling and cross-selling to existing customers	55%	23
Managing catastrophes and exposure to risk	45%	19
Falling investment returns	21%	9
Costs of compliance (Solvency II)	21%	9
Loss of referral fees	5%	2

New customer acquisition was respondents' chief stated priority for future success



Respondents seem largely to agree on the need to drive up retention rates and engagement. Many insurers are gradually waking up to the value of up-selling and cross-selling to existing customers. But they are not yet walking the walk. Other industries are far ahead here. Although data-rich, insurers are information-poor and are missing the chance to identify the potentially lucrative customers they need to keep and develop.

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