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The virtuous circle:

Customer retention in the general insurance market

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Contents

Executive summary

With the overall size of the UK general insurance market remaining relatively flat over the past few years, insurers recognise that growth for individual brands must primarily come from taking market share from other brands whilst maximising the retention of their existing customer base.

Breaking this down a little further, insurance brands have three main opportunities for customer growth:

1. Reducing the number of existing customers shopping around at renewal
2. Minimising the number of existing customers who switch their insurance to another brand at renewal
3. Acquiring more new customers than the number who leave

Using unique insights from our Insurance Behaviour Tracker (IBT), Consumer Intelligence has been able to determine that profitable growth is driven by a focus on renewals and that there is a proven link between brands with strong retention rates and high levels of customer engagement.

IBT is a comprehensive survey which monitors the insurance buying journey of over 40,000 home and motor customers each year, giving insurance brands an unprecedented depth of understanding into consumer attitudes and behaviour throughout the renewal process.

Consumer Intelligence's own data for motor insurance in 2017 found that around 84% of consumers shopped around for their insurance at renewal. Of these 84% who shopped, 53% ended up staying with their existing brand.

However, the length of customer tenure and renewal rates vary significantly across the industry and by segment and whilst price is a significant factor in the retention of customers, CI's data highlights that other factors are also influential in generating strong levels of customer retention.

Although it seems counter-intuitive, we found, for instance, that in many cases, brands that put through a higher than average price rise at renewal still had a significantly higher level of retention than those brands that put prices up by less.

Rajeev Aggarwal, Managing Director of Consumer Intelligence's Advisory service commented, "Given these insights, we believe that price cannot be the only significant determining factor used by consumers in deciding whether to shop and switch. Further analysis by CI has proven that retention is driven by price AND customer engagement."

Customer engagement measures include, amongst others, expectation of good service and belief in a philosophy of customer care. CI has evidence that brands that are better at retention also have more engaged insurance customers, and that this translates into measurable retention benefits.

Aggarwal sums up the research findings, "Consumer Intelligence believes that insurance brands can create a virtuous circle through customer engagement and retention that creates less 'pressure' on new business acquisition. This in turn allows for greater pricing flexibility within renewal prices which in turn pushes retention rates higher."

"Consumer Intelligence believe that price cannot be the only significant determining factor used by consumers in deciding whether to shop and switch. Our analysis has proven that retention is driven by price AND customer engagement."

Rajeev Aggarwal, Managing Director of Consumer Intelligence's Advisory service

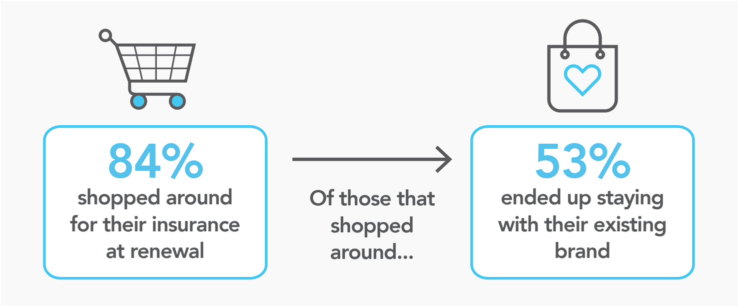
2.0 The importance of retention in a static market

The size of the UK general insurance market has remained largely flat over the past few years and in a relatively static market, it is clear that policy growth for individual brands must primarily come from taking market share from other brands whilst maximising the retention of existing customers.

The motor insurance market is also currently in a period of premium deflation, putting further pressure on margins and increasing the commercial importance of retaining customers as demonstrated in Figure 1.

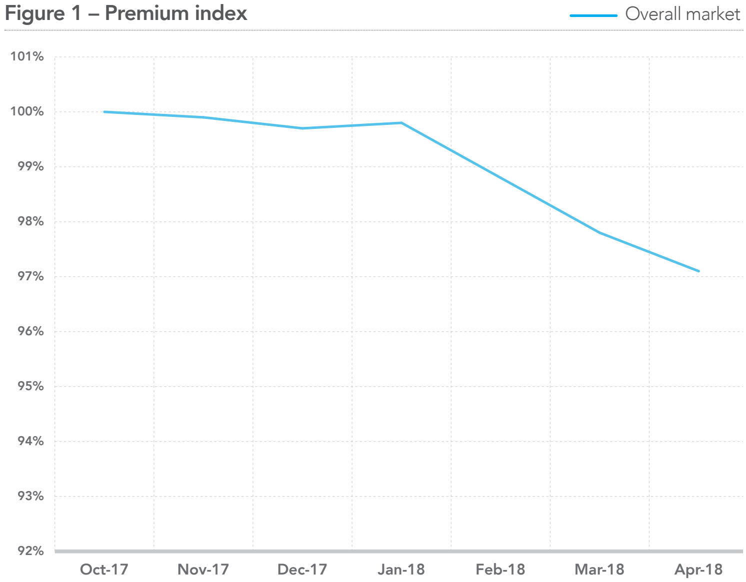
At the same time, with the FCA actively supporting customer shopping behaviour, customers are arguably being encouraged not to remain loyal to their brand for long periods of time.

On average however, most customers do not switch their insurance every year, even if they have shopped around. Data from Consumer Intelligence demonstrates that across motor insurance in 2017, around 84% of consumers shopped around for their insurance at renewal. Of these 84% who shopped, 53% ended up staying with their existing brand. Given the costs of new customer acquisition, retention of customers remains extremely important. With a cost of acquisition per customer at around £100, it is simple arithmetic to identify that it is more profitable to keep a customer than to lose them and replace them with a new one.



Rajeev Aggarwal, Managing Director of Consumer Intelligence's Advisory service commented, "Of course, it is important in the very first place that brands acquire the 'right' type of customer for them. 'Right' in the sense of being within their risk appetite, underwriting footprint, ability to service and with appropriate levels of cover."

Figure 1 – Premium index



Source: CI Motor Market View (Aggregator / Direct Price benchmarking) Oct-17 to Apr-18 data

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2.0 The importance of retention in a static market

Brands have several opportunities to maximise customer retention starting from the moment of initial acquisition and continuing through every customer interaction and communication (including mid-term adjustment, up- or cross-sell activity or claims) and culminating in the renewal activity itself.

It is inevitable that having acquired a customer in year one, a brand will lose some customers at the point of renewal, not least because of marketing/product/price promotion activity from other insurance brands.

From a consumer's perspective, the primary 'trigger' in starting to decide whether to switch or stay is often the renewal invitation from the brand.

The creation of the renewal invitation is the first of two opportunities for an insurance brand to maximise retention.

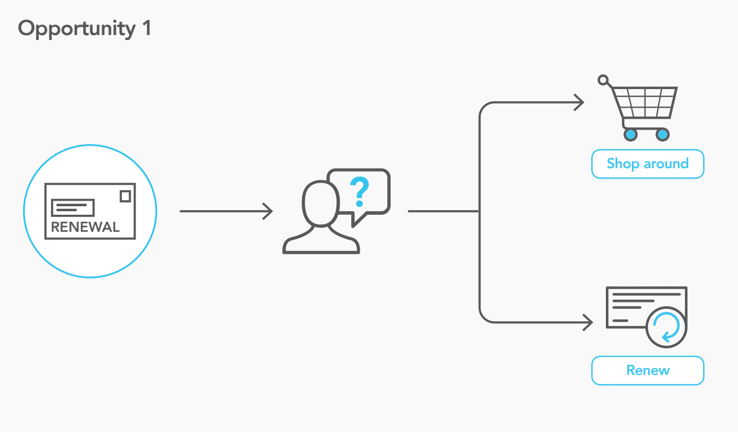
The sending of the renewal invitation will result in one of two actions from the customer:

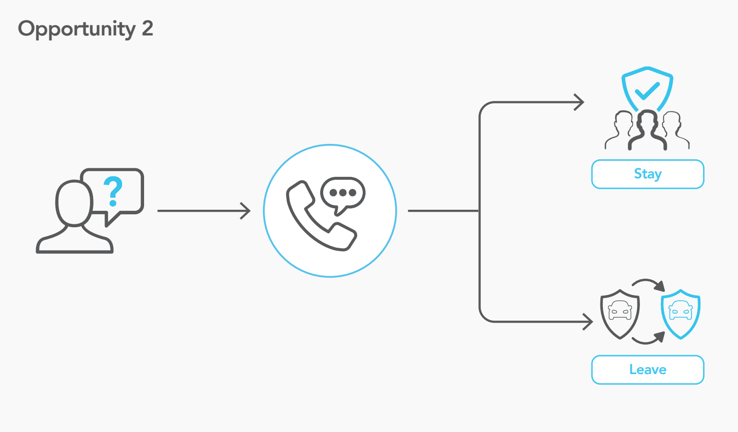
1. Begin the process of shopping around
2. Decide not to shop around and just renew

Therefore, the brand who persuades more of their customers to take decision 2 has a benefit over its competitors who has more customers initially choosing decision 1.

The second chance is to persuade those customers that have decided to shop around not to leave.

The recognition of the importance of this second chance to retain a customer is of course the reason for the creation by many brands of a dedicated customer retention team. If a customer contacts the insurer with the intention of leaving, they are often diverted to a specialist team who will try and persuade the customer to stay, often through the negotiation of the renewal price. And ultimately the customer decides to stay or leave.





2.1 Understanding best and worst in class

Consumer Intelligence tracks consumers' renewal intentions and thus has unique insight into the performance of most of the brands across the general insurance market.

Figure 2 shows the spread of retention performance across the motor insurance markets. It quite clearly shows that there is a significant variation between the 'best' and 'worst' performers in terms of retention.

Customer tenure is also often linked to customer retention. For example, the longer a customer's tenure with a brand, the better the retention rate. Those brands that have a high level of tenure across their customer base will be incurring significantly less churn and cost than those with low customer tenure (as the departing customers have to be replaced with new, more expensive acquisition customers). As can be seen in Figure 3, there is, again, significant variation in the tenure of customers across the industry.

Moving forward, this paper will focus on retention as opposed to tenure. It is recognised that there are subtle differences between the two measurements, but for simplicity of the argument being presented, it has been assumed that tenure is an outcome of retention.

Figure 2 – Retention % by brand

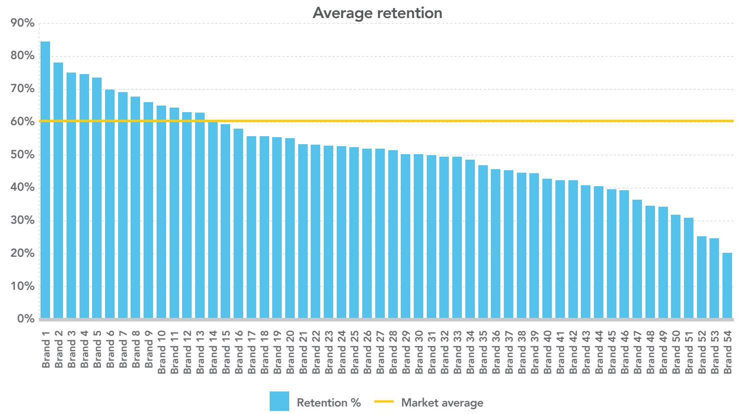
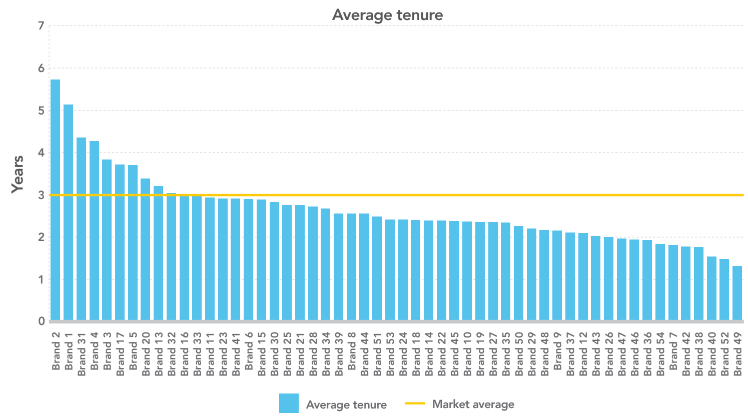


Figure 3 – Average tenure by brand



> **Those brands that have a high level of tenure across their customer base will be incurring significantly less churn and cost than those with low customer tenure.**

3.0 Price as the dominant factor in retention

It's appropriate to ask the question, what factors influence a customer's decision to switch or renew? Price is a significant factor but is it just the actual price being charged or the differential between the previous year's premium and the renewal premium?

Of the motor brands tracked by Consumer Intelligence, customers of 85% of them were more likely to see an increase in premium than the previous year at renewal.

3.1 The impact of the FCA renewal premium notice

Logical thinking would suggest that the greater a price rise implemented by a brand, then the lower their retention rate. We can start to consider whether this is the case by reviewing the impact of the requirement since April 2017 to display the previous year's premium on renewal notices together with a message encouraging customers to shop around.

A year on from this requirement being introduced, has anything changed? The short answer is "only a bit".

Consumer Intelligence's data shows a modest uptick in the number of consumers who shop around at renewal. For example, the number of motor consumers who shopped around at renewal increased by 1% to 85.1% for renewals after the FCA's rules took effect.

Encouragingly for the FCA, this includes customers who had been with their previous insurer for a longer period. This group, which the regulator particularly thought needed an extra prompt, still shopped around far less than average, but they moved in the right direction. This was especially pronounced in motor compared to other insurance types, with 70.6% of customers who had been with their insurer for four years or over shopping around after 1 April, compared to 66.9% before the disclosure requirements.

The incumbents are doing a good job of fighting back and hanging onto the customers who do shop around. The proportion of those motorists who shopped around but ended up staying put increased by 1.2%. A slightly higher proportion of those who stayed reported that they had been offered a better price. Indeed, offering a better price to customers who went to the effort to shop around helped 46% of motor brands to hold onto customers they were at risk at losing.

Ian Hughes, CEO of Consumer Intelligence, sums this up, "In other words, there are better deals for loyal customers — they just have to threaten to walk first."

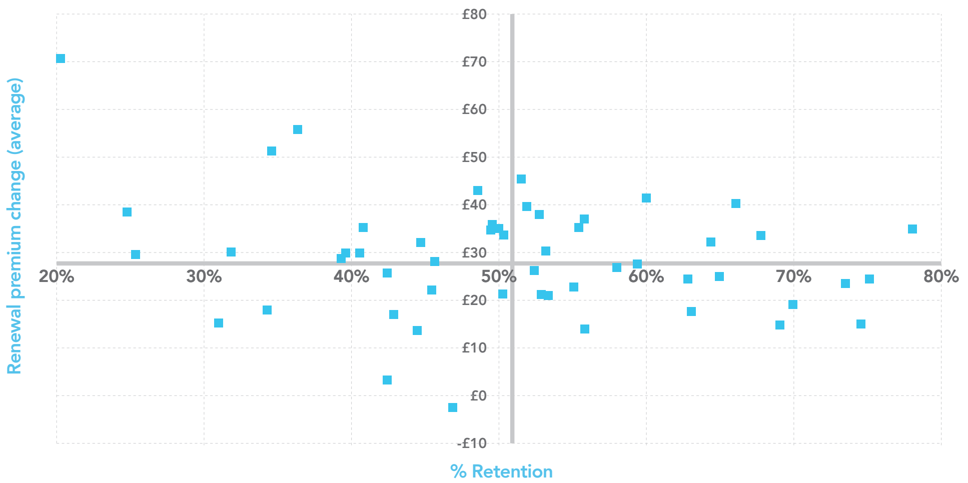
Of the motor brands tracked by Consumer Intelligence, customers of 85% of them were more likely to see an increase in premium than the previous year at renewal.

3.2 The relationship between renewal premium change and retention rate

If shopping around rates didn't increase significantly when prices were rising and given we are now in a period of premium deflation a key question is, is it just about price?

To help answer this, let's look at renewal rates and changes in renewal premiums by brand as it should be expected that those brands that put through the highest price rises at renewal would also be the brands that stimulated the most shopping around and ultimately the highest levels of switching.

Figure 4 – Average change in motor premiums against a brand's retention rate for over 40 brands



Axes cross at the market average level

As can be seen in Figure 4, there are some brands where large price rises correlate with low retention and lower price increases generate high retention (for example the brand that put through an annual premium increase of around £70 and had a 20% retention rate; and the brand that implemented only a £10 increase on renewal premiums with a circa 75% retention rate).

In many cases however, brands that put through a higher than average price rise at retention still had a significantly higher level of retention than those brands that put prices up by less.

Rajeev Aggarwal, Managing Director of Consumer Intelligence's Advisory service concludes, "This insight, in addition to the previously mentioned conclusions that highlighting price changes on renewal notifications doesn't significantly impact shopping behaviour, suggests that price cannot be the only significant determining factor for consumers in deciding whether to shop around and switch."

"...price cannot be the only significant determining factor for consumers in deciding whether to shop around and switch."

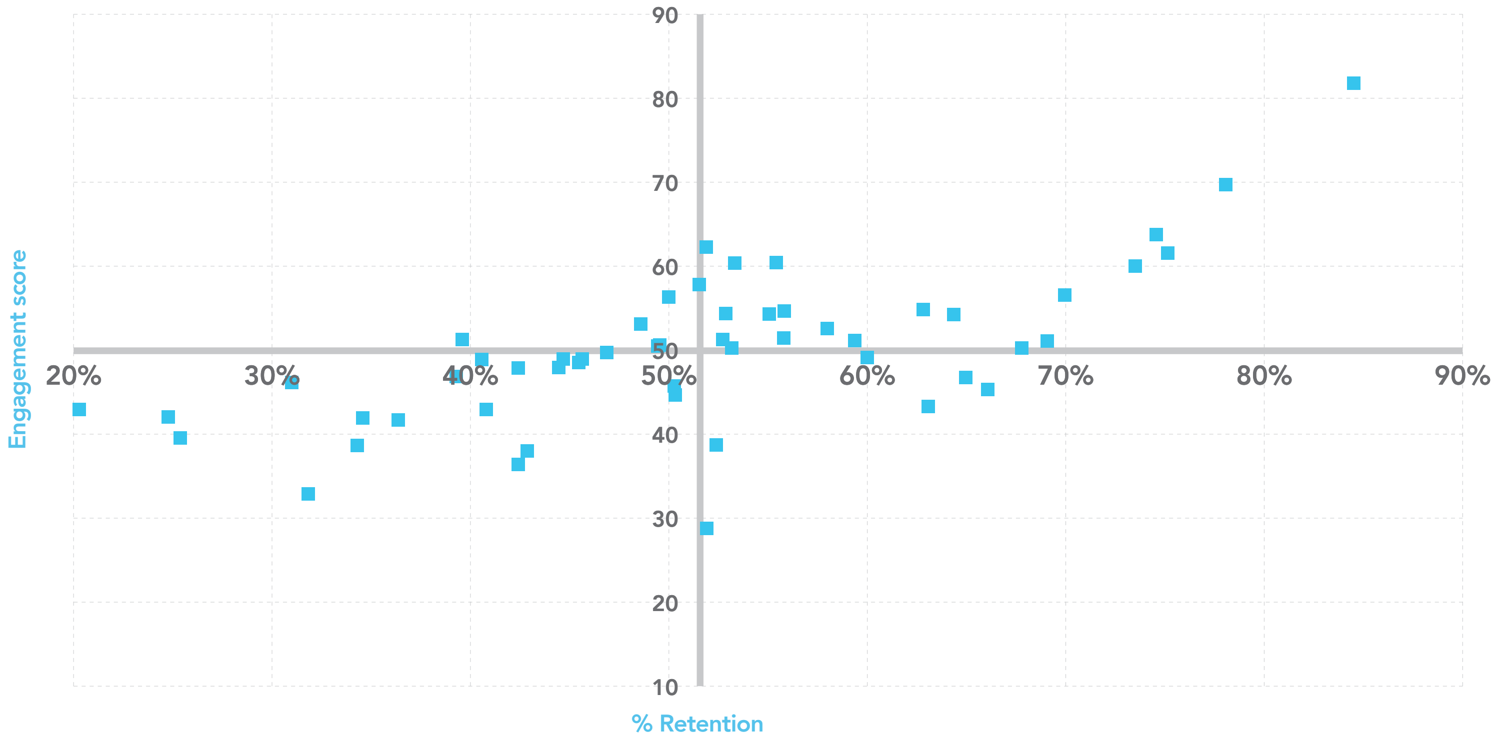
Rajeev Aggarwal,
Managing Director of Consumer Intelligence's Advisory service

4.0 What differentiates the brands that win at retention?

Additional data from Consumer Intelligence generates further insight. In Figure 5, a 'customer engagement' score has been mapped against a brand's actual retention rate.

The horizontal axis is the retention rate and the vertical axis the engagement score. Each data point represents a brand's position between both axes. Brands that are in the upper right quadrant have above average retention and customer engagement scores.

Figure 5 – 'Customer engagement' score mapped against a brand's actual retention rate



Axes cross at the market average level

The chart demonstrates a clear relationship between how 'engaged' a customer is with their insurance brand and their renewal intention and behaviour.

4.1 What makes up customer engagement?

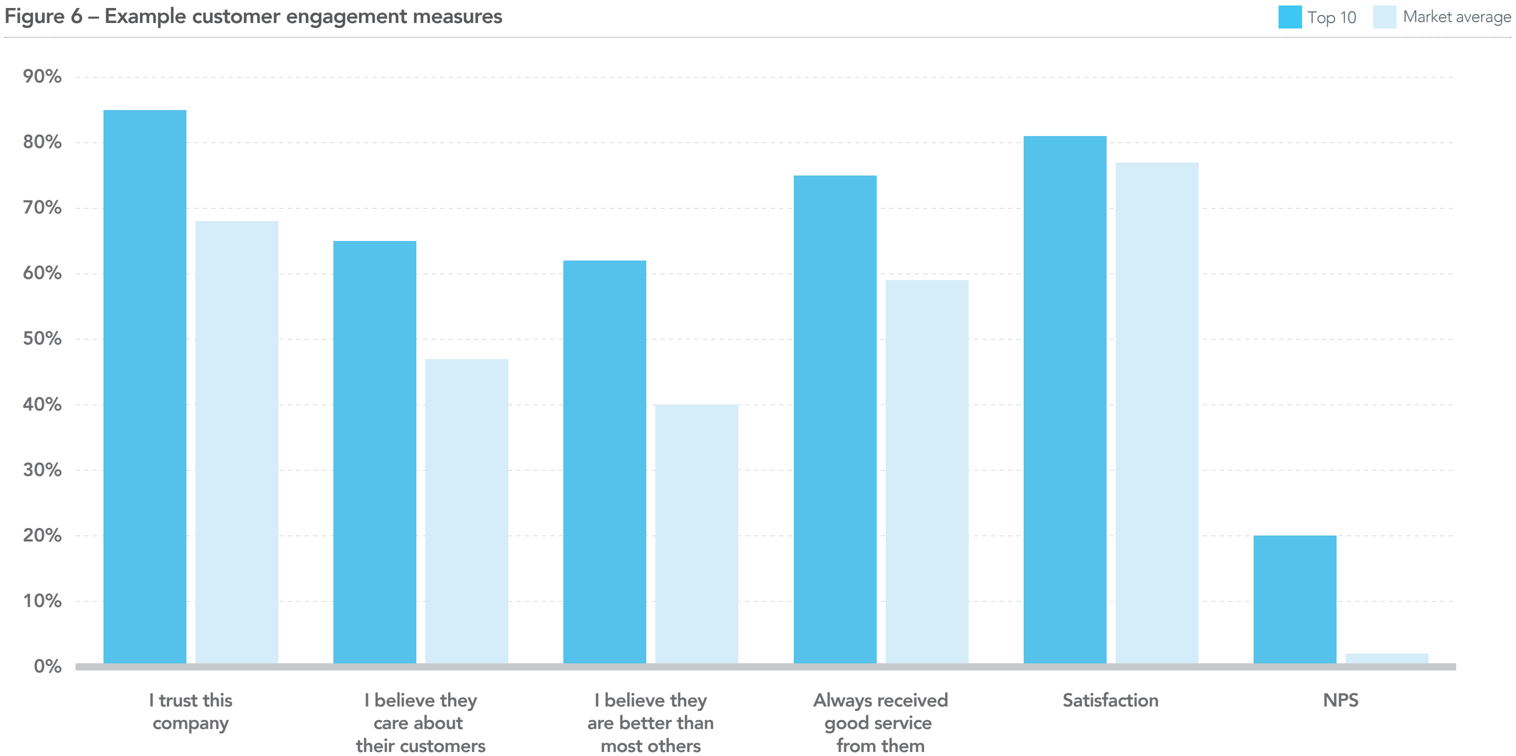
Consumer Intelligence tracks several measures concerning the attitudes of consumers towards their insurance providers.

These measures include:

- Expectation of good service
- Belief in a philosophy of customer care
- Belief in being better than most other insurers

Figure 6 shows how customers rate their insurer across a number of engagement measures. The top 10 brands that have the highest scores can demonstrate a clear difference when compared to the market average.

Figure 6 – Example customer engagement measures



"It's clear that brands that have engaged customers focus on factors other than price, and that having engaged insurance customers is translating into measurable retention benefits."

Leigh Calton, Senior Consultant at Consumer Intelligence's Advisory service states, "It's clear that brands that have engaged customers focus on factors other than just price, and that having engaged insurance customers is translating into measurable retention benefits."

In the next section we will demonstrate how brands that focus on customer engagement and therefore retention can create a 'virtuous circle' which can reduce the cost of new customer acquisition, providing greater flexibility for the provision of renewal discounts which may strengthen renewal rates further.

5.0 The commercial benefit of good customer retention

There is solid commercial rationale for insurance brands to focus on retention. To illustrate the point, let's consider two brands named Insurer A and Insurer B:

Insurer A
1,000 customers
Objective: Grow by 1%

Insurer B
1,000 customers
Objective: Grow by 1%

1. Preventing shopping around

Shopping rate 85%

Insurer A already has a marginal gain in this area. For them, 15% of customers don't shop around. **This means that**
150
of their customers decide not to shop around.

Shopping rate 90%

Meanwhile, Insurer B's shopping rate of 90% **means that**
100
of their customers won't shop around at renewal.

At this point, even if Insurer A and B perform the same at stopping shoppers from switching (their second chance), **Insurer A has still retained at least 50 customers more than Insurer B.**

2. Stopping shoppers from switching

Insurer A has a higher customer engagement score than Insurer B. This translates into a better level of performance in terms of retaining shoppers:

Shopper retention rate 60%

Insurer A retains 60% of their shoppers (850) =
510 customers

Shopper retention rate 55%

Insurer B retains 55% of their shoppers (900) =
495 customers

At the end of the renewal cycle, Insurer A has retained 150 non-shoppers and 510 of their shoppers, meaning their customer base is now **660 customers**. Compare this to Insurer B's new policy base of (100+495) **595 customers**.

3. New business 'gap'

As previously stated both insurers had an objective to grow by 1% from their start of year policy base. The 'gap' that new business acquisition needs to fill is:

New business 'gap'
350 customers

New business 'gap'
415 customers

Assume that both Insurer A and Insurer B perform exactly the same on new business acquisition. For the sake of simplicity they both incur a **£50 acquisition cost** and a further **£50 of internal costs**.

Cost of acquisition

Insurer A
Customer volume gap (350)
x Cost of acquisition £100 per policy
= £35,000

Insurer B
Customer volume gap (415)
x Cost of acquisition £100 per policy
= £41,500

Insurer B faces 18.5% higher acquisition costs than Insurer A to get back to parity in terms of customer volume by the end of the year.

5.0 The commercial benefit of good customer retention

A final consideration is how the CPA could be used to drive even higher levels of retention, as the cost of acquisition could be used as a renewal optimisation discount for the original customer base of 1,000.

For example, Insurer A could discount each renewal by £35, and Insurer B by £41.50. Of course, it is recognised that that this calculation works well in theory by assuming that 100% of customers would renew, with new business acquisition generating only growth, as well as the fact that with some customers renewing anyway, giving these customers renewal discounts is 'leaving money on the table'.

However, Ian Hughes concludes, "The point being made is that brands that are better at retention incur less effort and less cost than their peers to maintain or grow customer volume."

Obvious, right? So why does it all go wrong?

The rather simplistic maths of the difference between Insurer A and Insurer B proves a point, but why doesn't it appear to come through in the numbers that insurers have? The answers are probably misattribution and short term pricing strategies.

General insurance companies find it difficult to know whether a policy holder that renews has had to be reacquired and paid for again, or whether they simply and cheaply renewed, with little or no cost. So, they look at anyone that was a customer last year and say they were a renewal, but if a customer has gone and shopped and then switched back to the insurer via a new business route, the insurer will misattribute the customer as a renewal.

Insurers can also decide to price on a short term basis to hit immediate targets rather than taking a longer view led by expected customer life time value.

Without comparison to the market, it is almost impossible for them to realise that to grow from 1,000 polices to 1,010 they have had to spend significantly more than a company with a good renewal base.

General insurance companies find it difficult to know whether a policy holder that renews has had to be reacquired and paid for again, or whether they simply and cheaply renewed, with little or no cost.

6.0 Conclusions

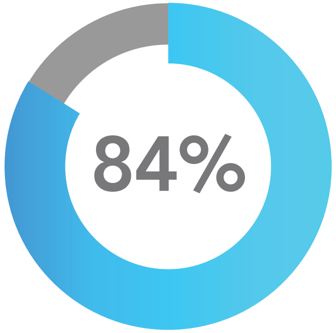
With 84% of motor insurance customers shopping around when it comes to renewal time and considering the significant costs of new customer acquisition, it is clear that the optimisation of retention rates remains absolutely critical to the success of insurance brands.

This white paper has used insights from Consumer Intelligence's data to highlight the variance in retention rates across the insurance industry and demonstrated that while price undoubtedly has a significant impact on retention, customer engagement is also a key component of brands that achieve the best results when it comes to renewal time.

With factors such as good service and customer care contributing to overall engagement, insurers must continue to seek out new ways to add value to their policies and optimise the customer experience in order to give themselves the best chance of creating what we have termed the 'virtuous circle' of engagement and retention.

Rajeev Aggarwal sums up the impact of these findings:

> **"We know that customers' decisions when it comes to renewal time are not driven merely by price. Insurers that focus on building a brand that consumers can trust and creating the very best customer experience that they possibly can are the ones that will ultimately be able to differentiate themselves and win. Never has it been more critical, therefore, for insurance brands to have their fingers on the pulse of what is driving consumer attitudes and behaviour, and to be the first to respond to those insights in shaping the optimal level of engagement with their customers."**



84% of motor insurance customers shopped around for other quotes at renewal time

Consumer Intelligence

Consumer Intelligence has unique consumer renewal behaviour data for brands across the general insurance sector including customer engagement metrics and works with most of the leading insurance brands in the UK.

It also has an Advisory capability to help insurance brands use these insights to develop winning customer-led strategies. To understand how your brand and customers perform in relation to your peers, contact Consumer Intelligence on insights@consumerintelligence.com for a confidential discussion.

Using our tailored research, insights and forecasting capability, we not only identify issues. By also understanding what causes them, we turn this into strategic opportunity – and advantage.

We believe businesses that can best understand and respond to the dynamism of their customers' needs will flourish. Our service gives our clients the tools to put their clients at the heart of what they do.

Leveraging a substantial network of industry and functional experts who can respond to each individual project or brief, we support the development of products, services and operations for some of the world's biggest financial institutions.

Consumer Intelligence's Advisory services include:

Horizon scanning

Insurers are facing a period of unprecedented change as new players – from both inside and outside the sector – emerge, and consumer behaviours and expectations rapidly evolve.

Growth strategy

In an environment where margins are under renewed pressure, and the competitive landscape increasingly crowded as a result of emerging players, both large and small, achieving sustainable growth is a growing challenge.

Customer engagement and retention

The key to driving profitable growth is holding on to your customers. Retention rates vary driven in part by price but customer engagement has an increasingly significant role to play.

Performance benchmarking

Competitive advantage is not easy to achieve. Nor is the market operating in a vacuum. Whether its pricing strategy, conversion optimisation or claims delivery, all performance is relative.

Meet the specialists

Rajeev Aggarwal
Managing Director, Advisory,
Consumer Intelligence

As head of our Advisory service, Rajeev brings a wealth of experience, having successfully delivered transformational performance improvement for financial services players on a global basis, from strategy to implementation.

He is currently advising CI clients on future trends impacting the insurance industry, how to increase market share, and how to boost customer retention.

Prior to joining the business, Rajeev spent 18 years in strategy consulting with PwC and Booz & Co., where he advised many of the leading global banks and insurers.

Leigh Calton
Senior Consultant,
Consumer Intelligence

Leigh is an experienced insurance industry marketer and strategist, specialising in future-proofing organisations by providing strategic and operational frameworks for dynamic and sustainable growth. He has worked across life and pensions, private healthcare and general insurance, holding senior roles in digital strategy, customer segmentation, marketing, data analytics, research and proposition development.

Leigh is a frequent speaker at leading business conferences on topics including artificial intelligence and the role of insurance companies in the smart home and has previously worked for blue chip companies including Denplan, Friends Provident, AXA PPP healthcare and Ageas.

Ian Hughes
CEO
Consumer Intelligence

Ian has made it his life's work to help companies understand how to improve their world by helping them better understand their customers. In 2003, he launched Consumer Intelligence, a data analytics company that helps businesses fixate on executing great customer strategies, which now operates in 9 countries globally.

Ian is a Fellow of the Institute of Direct Marketing, a Best Business Awards judge and an I Love Claims Board member. He is a graduate of Harvard Business School.

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