Customer Lifetime Value: Can Insurance Carriers Bring Home the Love?

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TowerGroup Take-Aways

- Not all insurance customers deserve the same amount of focus, but because carriers historically have been unable to determine which customers are the most valuable, they have failed to differentiate them.
- Expense management is critical; therefore, carriers must assess customers to allocate resources to those who generate the most value so that they can improve retention rates and offset the costs of acquiring customers.
- The financial services crisis has caused consumer distrust, but one way carriers can rebuild trust is to demonstrate that they know their customers and can address their unique requirements.
- Carriers that invest in robust customer value initiatives will excel at product and pricing, service, channel management, marketing, and retention.
- Data aggregation and management as well as the robust use of predictive analytics and models must replace carriers' profiles developed from anecdotal theories of the most valuable customer.

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Report Coverage

Customer value means different things across the insurance industry, and this lack of a shared view leads many carriers to conduct random customer initiatives that generate minimal value. Conversely, they could pay the same amount of attention to all customers, but doing so is expensive. However, carriers must develop a focus on customer value to win back the trust and confidence of consumers whose positive view of financial services has been shattered by recent economic events. This TowerGroup ViewPoint addresses the internal financial reasons to focus on customer value as well as the external demand to repair relationships and provides guidance on implementing initiatives to determine customers' value.

Introduction

If property and casualty underwriters are asked which customer brings the most value to the company, they will say one that does not have a loss. If life and annuity broker-dealers are asked the same question, they will say the one who has the most assets. Customer call center supervisors would probably say the customer whose question is answered in the least amount of time. Although the three points of view are part of a total determination of customer value, the identifications cannot stand alone. Historically, most carriers have created profiles of the customer they feel will bring the most value. The profiles come from tradition and assumed points of profit. They generally are not managed from a standpoint of enterprise results and thus do not reflect market and demographic changes. Clearly, they are not detailed and discrete enough.

The internal carriers' view of a profitable customer has been the driver of some nominal activity related to products, pricing, and marketing in the past. However, the impact on consumers has been marginal. Consumers who are asked, "Does your insurance company understand and respond to the value you bring to their organization?" will most certainly say no. Many customers report receiving three pieces of identical, generic marketing material in the mail, one for each policy held, leading to this response. Because of the financial services crisis, consumer confidence is badly shaken. In a recent Nielsen survey, 71% of respondents said they did not have confidence in their life insurance company. This is a global problem. For example, Business Times in Malaysia reported a 15% drop in insurance new business premiums, largely coming from weak consumer confidence. A GfK Marktforschung survey conducted in Germany indicated that 55% of the respondents see a need for more regulation to protect consumers purchasing insurance products. Just two years earlier, only 35% of the respondents felt the same way. Most insurance carriers are financially sound and do not conduct business in the same manner as the high-profile carriers that are players in the current economic distress. However, the broad-brush reality is that consumers do not trust financial services organizations, including insurance companies. Carriers must recognize this lack of trust and use customer value initiatives to demonstrate that they know and understand their customers and want to respond with personalized products and services.

Is Customer Value or Household Lifetime Value the Target?

Is lifetime customer value an appropriate target for carriers? Is there really such a thing as *lifetime* value? TowerGroup posed these questions to a group of insurance executives during a roundtable discussion. Approximately 50% of the participants did not measure customer value. Those that did measure it did not believe that they could measure lifetime value. Meeting customers' needs for their entire lives was clearly the goal. However, measuring the value, predicting outcomes, and developing strategies did not have credible value past five years, on average. Because of inevitable changes in customers' lives, value measurements must be for shorter periods than the lofty goal of "lifetime." Interestingly, TowerGroup research shows the banking industry has made the same findings about time.

The discussion with the executive group shifted from the topic of time line to a comparison of customer value and household (family) value. The majority of the group felt that household value was a significantly more robust context because of the overall greater economic opportunity. On the one hand, household value was a more challenging operational issue because of the scope of gathering data for a group of individuals, potentially with a variety of last names and addresses. For example, it would be difficult to determine the customer's identity if Mrs. Insured is the name on a personal automobile policy, Mr. and Mrs. Insured are named on a homeowner's policy, and Mr. Insured is named on a small business owner's policy. Viewing each situation as an individual customer heavily undervalues the relationship the entire household has with the carrier. Developing strategies does become more complicated in this instance because of the diversity of risk, but this challenge is one that carriers can address through technology.

Customer Value Paves the Way for the Future

Whether value is defined at the individual or the household level, establishing and responding to customer value initiatives has multiple advantages.

Pricing and Product Development

Customer value allows carriers to develop pricing and product development strategies that more accurately account for risk while targeting the unique features of individual households. For example, a carrier that knows its customers and accurately identifies the best customers will understand the makeup of the family. It will know that children are in the household and will know their ages. Therefore, it will know when those children are most likely to need their own automobile policy and will push an Internet buying link to the family.

Multichannel Strategies

Carriers that invest in customer value initiatives can use the knowledge they gain to shape multichannel strategies. Consumers' buying habits are changing. For certain products, such as basic life insurance, personal auto insurance, and on a growing basis, small business automobile insurance, consumers are buying and shopping online. Millennials, who do all things online, will push this trend forward. Carriers that distribute through independent agents and brokers or that have a captive agency force are wrestling with channel shift. This is a very complex subject, covering issues as diverse as alienation of traditional distribution channels to choice of technology to facilitate multichannel buying. Knowing when individuals and families grow into a more complex financial makeup, based on their buying behavior, allows carriers to present the opportunity to shift from a direct buying channel to an advisor or agent channel. Although online buying of insurance is a clear reality, over time, even the most active online shoppers will find that their personal and financial lives have become too complex and they definitely need an advisor or agent.

Customer value is also important in call center environments, where the carrier has the unique opportunity to interact directly with the consumer. In the independent agent distribution channel, the call center contact may be a very rare contact point because of the primary relationship between the agent and the consumer. Therefore, the contact is precious and must be capitalized upon. For the captive and direct-to-consumer markets, it is the only time the carrier has an opportunity to interact directly with the consumer, gaining an important opportunity that it cannot miss. A household value capability allows call center personnel to appropriately and accurately cross-sell and up-sell a customer. It also allows carriers to differentiate services capabilities. For example, they may offer concierge services to certain high-value customers to assist them with a claim situation. For a small business policy owner, business support services maybe a value-added capability that a carrier can utilize to demonstrate that it is the carrier of choice.

Better Claims Experience

Carriers looking to maximize claim workers' time should add customer value to claims decision models. One of the most common complaints in claims situations is that a carrier treats long-time customers with multiple policies as though it has no knowledge of them. Many customers who provide great value to the carrier feel that the carrier sees their relatively simple claim as an attempt to defraud the carrier. There is clearly a difference between doing some due diligence and treating every customer as though a major claims investigation must ensue.

Customer Retention

In the current economic environment, retaining customers and generating premiums are top of mind for all carriers. The insurance industry has always been leery of differentiating service and pricing for fear of being accused of discriminating against individuals. Customer value initiatives are not about treating one customer badly and one customer well. Timely and fair service is the baseline. However, customers who bring the most value to a carrier financially warrant additional attention. Examples are retention marketing initiatives. Customer value scoring can assist in determining which customers should receive marketing materials on a unique new service that they cannot get elsewhere. Such a marketing event is designed to retain them as customers, whereas customers with low value would not be included in the offer. Although the carrier would not deny low-value customers access to the service, it would not commit resources in areas where the impact would be small if a customer left the carrier. SAS Institute reports that a Spanish insurance company reduced its cancellation rate by 9% after modeling customer characteristics that affected policy cancellation. Because acquiring a customer costs $150 to $300 or more, it does not take too long to build positive financial results.

Reengendered Trust

The bottom-line driver of customer value initiatives is reforging positive relationships. Consumers absolutely fly to the institutions they trust. Being valued is part of establishing that trust. The results from a recent survey conducted by J.D. Power and Associates prompted Jeremy Bowler, senior director at J.D. Power, to comment, "Most customers would prefer to hold tight to their current provider, which they already know, rather than risk trying a new provider, particularly amid negative coverage surrounding a number of insurance providers recently." This statement may appear to be a wholesale acknowledgement that the insurance industry is doing an excellent job of valuing customers, but the study results show a gap of more than 100 points between the top-performing carriers (USAA, Erie Insurance, American Family, and the Hartford) and the lowest-ranking performer (AIG). The top performers are leaders in customer knowledge and related strategies. Unfortunately, the plight of AIG is well documented.

Technology Enablers Are the Key to Success

Any discussion of customer value immediately leads to questions about how to determine value. Customer value cannot simply be a profile based on history. Exhibit 1 represents a fully engaged technology capability for customer valuation.

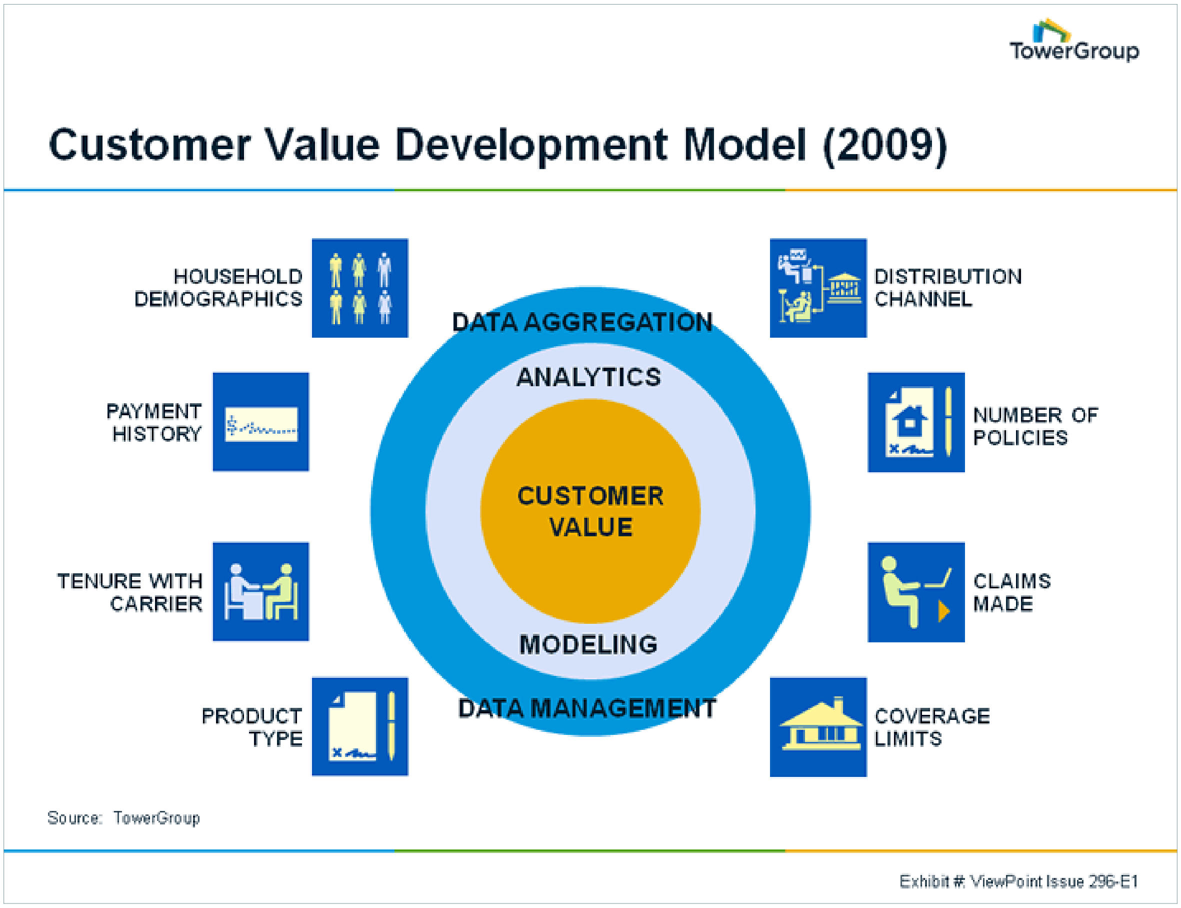

Exhibit 1
Customer Value Development Model (2009)
Source: TowerGroup

Carriers have been engaged in data warehouse and data refinement initiatives over the past several years. As a first step toward a robust customer capability, carriers must assess gaps in data and information. Although Exhibit 1 is not all inclusive, it illustrates the breadth of data that must be included to fully measure customer value. Data must be housed in modern data warehouses. The good news about enterprise data initiatives is that the results can be utilized to solve a number of business problems: catastrophe management, reinsurance acquisition, regulatory demands, business process management, and, of course, customer value. Maximizing IT spending by addressing multiple business needs is critical, particularly now that expense management is one of the primary ways to turn around poor bottom-line results.

Along with data management capabilities, carriers must adopt predictive analytics and modeling so that the data can be analyzed and utilized on a forward-thinking basis. Too many carriers believe that following rules, based on historical results, is satisfactory. Because of the dynamic nature of household characteristics, carriers must employ predictive technologies so that responses are real time and reflective of changes in the market. TowerGroup sees little reason for carriers to have customer value initiatives if business analysts are not utilizing hard facts and information to generate new strategies to differentiate products, prices, and services. Robust analytic and modeling capabilities allow this to happen.

Summary

Acknowledging customer value through differentiated products, pricing, and service demonstrates, in a tangible way, that insurance carriers understand the value of individual customers. Consumers expect products and services that are unique to their particular situation; thus, customer value initiatives are no longer optional. Now is not the time to blast out generic coverage and product offers that have random applicability. Making customers wonder whether their insurance company really knows them will have disappointing consequences. It is too easy to switch insurance companies, and marketing studies frequently point out that most customers quietly depart, without complaining to anyone.

Data aggregation and data management are the critical first areas on which carriers should focus a household value initiative. Predictive analytics and models must then follow. Business analysts with the skills to use the resulting information must work customer value strategies into all points that touch the customer. Carriers must use precious human resources in value-add tasks, assisted by customer value scores. Emeril Lagasse, the famous chef and restaurateur, uses the signature phrase "kick it up a notch" when he is raising a recipe to another level. It is time for the insurance industry to kick it up a notch through customer value capabilities and demonstrate love for their best customers.