

INSURANCE ANALYTICS REPORT WINTER 2012

Customer Contact Analytics: New Fuel for Bottom-Line Growth



REGULAR CUSTOMER CONTACT IS CRITICAL

In a 2007 report titled “The Benefits of Customer Touches,” Quality Planning examined the need for auto insurers to maintain regular contact with policyholders. We noted that nonrenewal rates (sometimes known as “churn”) were extremely high industrywide, at around 19 percent, with most insurers reporting an average policy age of less than six years.

According to J. D. Power & Associates¹, even companies with high levels of customer satisfaction were retaining, at best, 9 out of 10 of their customers each year. With a finite number of policies written each year, there is intense competition for each customer. Addressing that situation, we discussed strategies to boost customer retention. For example, we recommended insurers implement procedures to maintain regular and uniform communication with their customers to build a personal relationship that fosters trust — the basis for a long-term, profitable relationship.

Today, we stand by that recommendation. We continue to see improved retention statistics for insurers that actively pursue “customer touch” programs using a variety of channels. Based on additional data we subsequently gathered, we conducted a more focused analysis to get a better understanding of how a well-managed rating integrity program might drive improved customer retention.

WHOM TO TARGET FOR CONTACT?

QPC knows that customers are most likely to cancel their policy at renewal or after filing a claim. Auto insurers commonly take steps to minimize this attrition. We also know that more frequent contact with customers boosts retention. Could it be cost-effective to increase the number of policyholders that an insurer contacts directly over the course of the year? Or, if it is unfeasible for an insurer to contact every policyholder several times every year, how might we formulate a way to identify the right customers to include in a focused customer retention program?

In this report, we discuss customers you should target for contact and consider how improved customer retention could be an additional benefit of pricing your book properly.

¹ J.D. Power and Associates 2006 National Auto Insurance Study.

THE ELUSIVE POLICYHOLDER

Marketers pitch consumers with countless messages every day. The result: we have all become adept at sidestepping efforts by companies to contact us. Some of us scour our mailboxes for junk and unceremoniously pitch “important offers” into the blue recycle bin, unopened. Others have fine-tuned their e-mail programs to minimize intrusions from marketers, automatically diverting those messages into the spam folder. And many can easily screen phone calls with caller ID.

For these reasons, it would certainly be prohibitively expensive to contact every policyholder whenever a policy comes up for renewal. Apart from the labor costs of implementing such an approach, contacting and connecting with today’s busy consumer is a daunting task. Most don’t want to be contacted, and some policyholders actively avoid their insurance company as it conducts diligent efforts to verify policy information.

The majority of insurers have neither the resources nor the right methodology to implement a scientifically formulated customer retention program that maximizes the return on their investment. When we talk about “customer touch” programs with insurers, they frequently have a lot of questions. For example:

- Is the first-year anniversary of a policyholder more important than the first sixth-month or even the sixth-year anniversary?
- Is it best to connect once, twice, or more during the year?
- When should we contact our customers?
- Which channels are most effective? Mail, Internet, e-mail, or phone? Which combination?
- Is it possible to determine which customers are more valuable and likely to stay and separate them from those who appear to be profitable but who will likely cancel their policy, regardless of the attention you give or service levels you provide?

Later in this report, we will discuss techniques for determining which policyholders to contact. First, let’s quantify the cost of *not* contacting your policyholders.

“HARD TO REACH” = UNPROFITABLE?

As stated earlier, it is expensive to try to contact and talk to each policyholder when a policy comes up for renewal. In addition, policyholders may not want to talk to their insurance company every year, especially if there have been no changes (or no *perceived* changes) in their lifestyle or insurance needs.

A compromise approach would be to target a segment of policyholders based on the likelihood of a change in the information used to underwrite their auto policy. This targeted approach could use rating integrity analysis to determine whom to target and then compare retention rates of customers we managed to contact with those we did not contact.

For this study, Quality Planning did just that. We used historical rating information data to design a scientific targeting strategy, and then compiled data gleaned from thousands of “customer touch” assignments from various insurers. We divided policyholders into three groups:

1. Flawed rating information suggests targeting for contact, and we made contact.
2. Flawed rating information suggests targeting for contact, and we could not make contact.
3. Rating information suggests no need to target for contact.

The results are presented in this table:

POLICY GROUPS	RETENTION RATE
“TARGET CONTACT” segment, successful contact	88.1%
“TARGET CONTACT” segment, unsuccessful contact	83.4%
“DO NOT TARGET” segment	86.5%

The data show that retention rates are noticeably higher for customers who we successfully contacted compared with those who we could not reach. If, despite repeated attempts, we were unable to reach a customer, there was an almost a five-percentage-point decrease in the retention rate for those customers. We also found that a successful phone contact can lead to reduction in claims in the following year. A multiyear study across several major carriers showed a measurable reduction in claims in the year following phone contact during the renewal process. There can be many reasons for this phenomenon. Perhaps customer contact personalizes the insurance company in the mind of the customer, resulting in a decrease in claims exaggeration and reporting.

One conclusion is that customers who avoid contact are likely not the customers you should try hard to keep; some relationships are worth severing. The key is determining which customers misrepresent their true risk or, in the event of a claim, the true severity of that claim. This is where it is essential to have good analytics behind any risk management strategy.

A lower retention rate for a segment of your business is not necessarily a bad outcome. A detailed loss-ratio analysis conducted by some Quality Planning clients concluded that policyholders who did not renew after several attempts to contact them had on average 60% higher loss ratios when compared with the overall book. These were policyholders who were hard to connect with *because they did not want to be contacted!* From an underwriting perspective, they were less-desirable risks, were misrepresenting their policy information, and had higher claims (possible claim fraud).

FORMULATING A STRATEGY

To maximize the revenue upside and minimize the cost of a rating integrity and customer retention program, it is essential to identify the optimum subset of policyholders to target. In our experience, these are typically the policyholders whose rating information can be shown to be inaccurate.

The approach we recommend aims to validate the following, at a minimum:

- test for inaccurate VINs and model years
- calculate a reliable estimate of annual mileage for each vehicle
- predict whether a vehicle is used for commuting to work
- calculate a reliable estimate of the commute distance for each vehicle
- determine the likelihood of business usage for each driver
- determine the likelihood of additional drivers in the household
- determine the likelihood of an inaccurate garaging location

Quality Planning typically runs a series of tests to determine the integrity of existing or “on file” rating information for each customer, and flags customers who meet a set of criteria indicating required follow-up action. Armed with the right set of customers to target, the insurer can now formulate a contact methodology that will maximize the probability of successful contact.

WEIGHING THE RISKS

The research suggests that elusive policyholders are potentially some of your most unprofitable customers. In our experience, based on millions of rating integrity checks, the harder it is to make contact with a policyholder, the more likely there is a potentially costly discrepancy between the rating information on file for that person and the actual facts. The flawed rating information might relate to annual mileage and commute distance estimates, actual drivers in the household, garaging territory, inappropriate discounts, or unreported use of a vehicle for conducting business. But does that mean those customers should be dropped or left unattended to shop freely with competitors?

Which are the customers who will stay through thick and thin and which are the customers who, no matter how hard you try, are the ones most likely to leave? This is an imposing question and one that until recently, was very difficult to answer.

With the significant advances in analytic tools and data, it is possible to develop scoring models that can segment the book of business based on risk of flight (nonrenewal) and profitability. Once the policies with greater profitability and higher risk of flight are identified, analytics can be used to make the phone contact efficient and cost-effective. Table 1 (on the following page) shows the operational and strategic challenges by risk segment. This strategic differentiation will result in long-term financial success.

Table 1: Risk Management Strategies by Segment

Risk of Flight	Strategy for	Profitability		
		High	Medium	Low
High	Relationship	Coddle your customers ... high touch "I would like to help you". Any discounts ? ...cross sell to retain.	High touch ... "Is there anything that I can do for you?"	Touch only if it is possible to move to profitable segment ... otherwise let them leave!
	Underwriting	Review coverages to reduce premium if it improves retention and review rating variables.	Review coverages and rating variables ... improve chances of retention while still being profitable.	Review coverages and rating variables Will changing these move business to profitable segment?
	Actuarial	Is your rating plan overcharging for this segment relative to competition.	Watch	Is your rating plan undercharging for this segment?
Medium	Relationship	Coddle your customers ... high touch "Is there anything that I can do for you?"	Medium touch. Any cross-sell opportunities?	Touch to move to profitable segment.
	Underwriting	Review coverages for needs and rating variables for accuracy.	Review coverages and rating variables.	Review coverages and rating variables Will changing these move business to profitable segment?
	Actuarial	Watch.	Watch	Rating plan may be undercharging for this segment.
Low	Relationship	Coddle your customers ... high touch "Thank you for your business"	Medium touch. Any cross-sell opportunities?	Touch to move to profitable segment.
	Underwriting	Go after this segment	Review coverages and rating variables. Is it possible to improve profitability?	Review coverages and rating variables Will changing these move business to profitable segment?
	Actuarial	Is there no competition in this segment?	Is this segment being undercharged?	Rating plan may be undercharging for this segment.

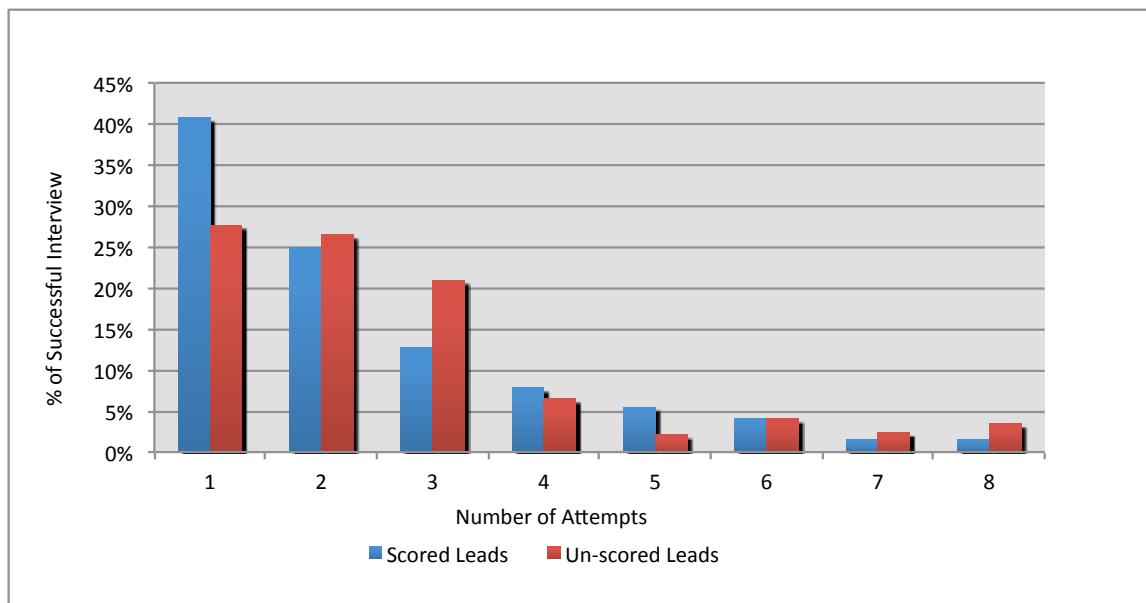
USING ANALYTICS FOR SUCCESSFUL PHONE CONTACT

When contacting policyholders by phone, an effective and efficient calling process is extremely important. Significant analytical capability is needed to optimize the contact strategy. Analytics and database matching come into play to maintain currency of contact information and improve contact rates.

Phone-queue scoring algorithms can assign scores to each phone number based on policyholder information, household data, and surrounding demographic information, indicating the best chance of successful contact by time of day and day of week. The algorithms can also rotate the scores at regular intervals to allow dialing in different time periods. Phone-queue scoring algorithms allow companies to reach more contacts with fewer attempts, thereby improving call center efficiency while optimizing costs. It also leads to an increase in overall contact rates.

Figure 1 shows the improvement possible using analytics in the contact process. Using scoring algorithms, we made more than 40 percent of successful contacts in one attempt compared with 28 percent without scoring. That's an improvement in efficiency of 46 percent.

Figure 1: Number of Attempts for a Successful Interview using Scored and Unscored Leads



END NOTE

Attracting and retaining the right customers should be a goal of every insurance company. Advanced analytics, combined with regular, efficient customer contact, makes it easier to meet this important objective.

For more information on this study or to discuss how to formulate an effective customer retention strategy, please contact Robert U'Ren, SVP Underwriting, Quality Planning, San Francisco:
email: ruren@qualityplanning.com :: phone (415) 281-2893

STUDY METHODOLOGY

For this study, Quality Planning examined a sampling of policies from 2005 through 2009. For the five-year period under study, the sample size totaled more than 7 million policies from multiple carriers. QPC classified the policies into two groups after running a series of tests to determine the integrity of the rating information for each policy. We flagged policies that met a set of selection criteria as ‘Target Contact’ — indicating a follow-up action is required.

Some of the rating factors that we looked at for determining the rating integrity for the policies included:

- inaccurate VINs and model years
- reported annual mileage
- reported use of the vehicle (pleasure, commute, business use, farm use etc.)
- reported one-way commute distance for vehicles used for commute
- likelihood of additional drivers in the household
- likelihood of an inaccurate garaging location

We contacted policyholders in the ‘Target Contact’ group by mail and phone. We did not contact policyholders not part of the ‘Target Contact’ group (‘Do Not Target’ group). We then compared the renewal rates for both the groups. Over the study period, we selected approximately 703,000 policies in the ‘Target Contact’ group.

WHAT IS RATING INTEGRITY?

The rating information underlying most private passenger auto insurers' books of business can be seriously flawed. Policy information is often incorrect, outdated, or incomplete. As a result, insurers lose an enormous amount of premium each year. Our studies consistently show that U.S. insurance companies fail to collect about 10 percent of their auto insurance premiums because of rating errors. We also know that, if an insurer can recover even a small portion of that revenue, this yields meaningful bottom-line gains.

Quality Planning believes that information integrity leads to decision integrity. Only with complete and accurate information can insurers make consistently good business decisions. Quality Planning provides the tools underwriters need to select risks that meet their specific underwriting criteria, price the risks appropriately, and ultimately achieve premium integrity.

Quality Planning is focused on providing rating integrity solutions to auto and home insurers. A member of the Verisk Insurance Solutions group at Verisk Analytics, Quality Planning works with insurance companies to identify areas of significant rating error using sophisticated database management, statistical analysis and modeling, customized survey design, and highly targeted customer interaction. Quality Planning helps clients work within their existing rating plans and charge fair prices to policyholders based on a true representation of risk. The company was founded in 1985 and is headquartered in San Francisco. For more information, visit www.qualityplanning.com

The Quality Planning Rating Integrity Solution™ offers a proven, effective, and economical way to combat rating error. Unlike in-house approaches or other commercial products, Quality Planning combines decades of industry perspective and experience with advanced analytic techniques and exhaustive reference checks across numerous and carefully vetted data sources.

Our Rating Integrity Solution helps insurers:

- focus on specific, high-value recovery objectives
- determine the appropriate premium for your risks
- create a sustainable competitive advantage