Keeping the Customer Satisfied

The Dynamics of Customer Defection, and the Changing Role of the Loss Adjuster

UK insurance suffers the highest rate of customer churnage in the service industry ie those who switch provider, says a recent report issued by Pitney Bowes.

There is a striking level of consistency in churn rates across the United States and European countries. In the report, every country reported its highest levels of customer churn to be in the insurer, supermarket, Internet service provider, mobile phone and bank categories, although not all in exactly that order.

One of the key areas that stands out is general insurance in the UK which is significantly higher than in any other country, at an astonishing 25%. Over a third of policyholders are considering a change of insurer in the next 12 months.

Which of the following have you changed in the past year?

	Italy	France	Spain	Germany	US	UK
Supermarket	36	34	32	27	32	27
Internet	25	22	29	29	38	24
Mobile phone	22	21	23	21	11	38
Bank	20	16	23	16	25	18
Car or house insu	17	16	21	16	12	25
Credit card	6	7	9	7	20	16
Travel agent	12	7	14	6	3	8
Utility provider	1	1	1	6	12	17

As an average, General Insurance (19.4%) is at much the same level of churn as Banking (19.2%) in Europe. But this figure hides a wide polarisation of individual company churn rates, ranging as widely as 5% in some cases to 40% in others.

The insurance industry may stand out because it is still largely intermediated – through traditional brokers and IFAs, but also non-traditional resellers such as supermarkets (e.g. Sainsbury and Tesco) Estate agents and product vendors such as Kwikfit also increasingly featuring. Different countries also have different distribution strategies, influenced by demographics, culture and local economic behaviour.

Intermediaries as introducers are unlikely be expected – in a highly competitive and price driven market– to automatically recommend the same insurer year after year. The report suggests that they will increasingly act in the client's best interests for price, to ensure that commission is not lost to a competing intermediary .

The burden of stemming customer defection is in large part focused on support for the reseller channel. Many underwriters are still of the mindset that the reseller channel is paid to conduct marketing, and it is their role to ensure retention.The report however suggest that insurers, once introduced, would be wise to establish a presence with the insured that encourages him or her to renew with the same insurer.

Will you consider changing your car or house insurer in the next 12 months?

Italy	France	Spain	Germany	US	UK
19.2%	7.1%	8.0%	21.9%	11.8%	35.9%

Customer Churnage in Insurance

Britain (22% churn per annum) is the customer defection capital of the West, possibly because of its crowded geography, its national wealth per capita, and its high levels of deregulation.

Does the particularly high level of churnage in UK insurance suggest any additional factors? Certainly the UK has been at the forefront of supply chain methodology in the insurance claims process. Although the report is silent on this specific area, anecdotally there seems to be a trend for those who have summited a claim to consider changing their insurer at renewal, subject of course to the type and duration of the claim.

The claims process has traditionally been seen as the moment of truth in the insurance promise. Insurance is a distress purchase, hoped never to be used. Yet at the same time, the level of service expectation is particularly high, and is often used as a competitive differentiator.

It is dangerous to consider the management of major weather events as being atypical of normal conditions. However they provide the ultimate test of the service offering. Therefore it is saddening that in his recent interim report, Sir Micheal Pitt referred to the;

‘highly variable experiences of insurers’ responsiveness.
Most (homeowners)received an immediate response, though some tried for several days to reach their insurer before being able to make contact. The timing of visits from loss adjustors was also crucial as it represented the first step in the claim process, and meant that cleaning up could begin. Many received visits very quickly, while others were forced to wait due to a lack of available loss adjustors, with resultant hardship for businesses and householders’

The Loss Adjuster as a Key Factor in Customer Retention

So, can the loss adjuster help to stem the level of UK customer churnage in the insurance sector?

Insurance is a complex industry. Insurers and claims handlers often only see the world through their glasses, but the broader customer dynamic requires a different viewpoint. Each customer lost by an insurer results in lost premium. (Of course, some insurers are delighted to lose customers, especially in high risk areas.) Each ‘floating’ customer represents an opportunity for the marketing team of the insurer or their intermediary.

The decision to change insurer seems to be linked, at least in part, to a satisfactory claims experience. But what does ‘satisfactory’ mean in this context – the customer being paid what they ask for, or that the loss is sensibly negotiated in a fair and equitable way. And of course, that everyone turns up on time, and does what they say they are going to do. How influenced are policy decisions on customer value?

Communication also seems to be a critical factor, and one the key step changes of the next 3-5 years will be improvement in customer communications management. The time is very rapidly emerging where the customer will be advised of the status of their claim as frequently as the customer choses – not as the insurer or adjuster dictates. Furthermore, the medium of communication will be that preferred by the customer – SMS, e mail, telephone or good old fashioned ‘snail mail’. This development is generically described as CCM, or customer communication management.

Wholistic and enterprise wide capabilities which are emerging within many of the major and mid tier insurers are increasingly recognising the link between the claims service and retention levels. To those who have been around for a while, this is obvious but sometimes it takes a while for the penny to drop.

Supply Chain, or no Supply Chain?

So does this ring the death knell for the supply chain managed approach to procurement of loss adjusters? Probably not. The levels of customer churnage indicate, in the UK at least, that the customer has a minimum level of expectation of the service they will receive during a claim. It is because of this minimal level of expectation that the policyholder is likely to continue their purchasing decisions based principally on cost.

In a crowded insurance marketplace where supply exceeds demand, insurers will continue to offer competitive premium pricing. This will be backed up by higher precision underwriting through customer and location intelligence.

So as premium pricing remains tight, and investment income by insurers runs the real risk of being threatened by an economic downturn, the pressure will fall back on the claims process. No change there then. And that means harder and more robust procurement processes throughout the supply chain, including the selection of adjusters.

The most successful adjusters and adjusting firms going forward will inevitably need to take a more broader view of what they offer, and their true value. This may involve the creation of new metrics that go beyond the traditional ‘claim and adjustment’ calculation, but also measure (and perhaps seek reward on) the behaviour of the customer after the claim has been resolved. How might this reflect on the adjustment of the loss, if one of the key drivers is that of keeping the customer satisfied? Perhaps the ‘new adjuster’ needs to be rewarded on a commission basis, linked to customer retention?

At a recent CILA meeting, there was in depth discussion regarding the basic principles and practices of insurance, and how these were still relevant to the insurance contract. This may be so, but the industry is going through a paradigm shift and we may shortly need a whole new set of principles and practices. Is there a case for rewriting the CILA logo, from ‘Truth and Equity’, to ‘Keep the Customer Satisfied’?

Tony Boobier B. Eng C. Eng FICE FCILA