insurance research

# Set it and forget it

## Can you foster customer loyalty in a low-engagement industry like insurance?


By Pete Jacques
and John Martin

Creating customer loyalty is a challenge for every company and has never been more important. Over the last few years, a plethora of loyalty programs have emerged to build cross-selling, retention and up-selling across a variety of industries. Customer cards, frequent-shopper programs and reward programs all work toward achieving these business outcomes. However, one industry that has had a greater challenge with creating customer loyalty is insurance, specifically personal protection products like life, disability income and long-term care insurance.

Several characteristics about this industry make it difficult to easily apply standard definitions and metrics of loyalty to their policyholders. For example, the (non-home/auto) insurance industry is low-engagement. Most policyholders are not transacting with carriers or agents on a regular basis, as one would with CPG products, household electronics or entertainment. Some policyholders pay their premiums annually - which is their only contact with their insurance carrier. As a result, there are few natural opportunities for up-selling or cross-selling. On the positive side, retention is generally high because switching costs can be high (e.g., having to go through another medical exam or the possibility of higher premiums if seeking insurance at an older age). However, this poses challenges for identifying appropriate measures of loyalty and their relationship to business outcomes.

Another major challenge is the nature of the relationship between policyholders and carriers. While most industries have direct links to their customers, or work through a proprietary sales force, many insurance carriers rely on independent agents and/or financial professionals who may or may not be aligned with the carrier's brand. The question becomes, do policyholders build loyalty only to their agents and financial advisors or do carriers earn loyalty as well? In either case, how can market researchers within carriers properly define these connections and make them meaningful in conversations with executives?

This article explores these questions and provides guidance on how industries that share some of these challenges (including health care) may take steps to make loyalty more of a reality than a fantasy.

**snapshot**

**The authors provide strategies for how to think about and begin measuring and improving customer loyalty in the insurance industry.**

### Challenge is even greater

It's no surprise that the challenge

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of building loyalty is even greater for low engagement industries like life insurance. That makes creating loyalty in the traditional sense a challenge but not one that is insurmountable. It just means that loyalty must be defined within the practical realities of the insurance industry.

As in any effort requiring constructs and measurement, the best place to start is to carefully define your constructs and metrics. In its simplest form, loyalty is driven by an internal disposition that comes from the heart. It is not something that can be purchased, it is earned. It is earned by understanding and connecting with the internal dispositions that drive the desired behavioral outcomes (e.g., additional purchases, recommendations).

The insurance industry faces some unique challenges when it comes to creating loyalty for both policyholders and its agents. First, looking at policyholder loyalty, the main challenge is insurance's low purchase frequency. It's not top-of-mind (How many of you were thinking about buying life insurance before you saw this article?) and its relationships are managed by intermediaries - the agents. In addition, the brand has little connection to the internal dispositions (emotional motivators) of its policyholders and therefore has little control over the behavioral outcomes driving true loyalty. Loyalty must be defined while keeping these practical realities of the insurance industry in mind.

For example, fear is an internal disposition. It is a condition that can be understood and solutions related to it can be provided to help build loyalty. Insurance products address the fear of dying prematurely and being able to support one's family; or the fear of losing one's income as a result of a disabling injury or illness. At the same time, disinterest in the product requires identification of a potential motivator and its meaningful association with the insurance brand, such as value-adding. Unfortunately the internal disposition for low-involvement is a challenge for building engagement.

## A difference in viewpoints

When it comes to managing the policyholder's relationship, there's oftentimes a difference in viewpoints between the carriers and the agents. From the agent perspective, the policyholder is his/her client and is loyal to the agent. The carrier is simply a manufacturer of the insurance policy and is there to pay the claim. Servicing comes from the agent and continued "loyalty" exists because of the relationship, service and expertise provided by the agent. The agent relies on that ongoing relationship for commission streams, cross-selling and, perhaps most importantly, referrals.

From the carrier perspective, the policyholder is their customer (along with the agent). The brand, financial strength of the carrier, product attributes and performance, and service are the responsibility of the carrier and ultimately allow the agent to provide superior offerings to their policyholders. Since some insurance products do not become profitable for the carrier until six or seven years after purchase, loyalty to the carrier is critical to maintain profitability and build opportunities for cross-selling and up-selling.

From the policyholder perspective, they may have their own impression of the relationship or lack thereof. In today's environment, policyholders are being encouraged to look for their own information online. This may be because they do not have an agent they trust. In fact, as a result of the financial turmoil of the last two years, consumer sentiment research shows policyholders are seeking additional sources of information, even if they have relationships with agents, because they have lost trust in financial services in general. For other policyholders, they may technically have an agent of record - the person who sold them their policy five years ago - but they have not heard from this person in three years. These policyholders, and those who are "orphaned" because their agent is no longer affiliated with the carrier who underwrites the policy, now exist in a state of limbo because they have no tenable relationship with either the carrier or a financial professional. Is it possible to move these clients from ambivalent to loyal?

## Took a closer look

In 2010 Chadwick Martin Bailey took a closer look at this low-engagement environment, specifically at how policyholders gather information about their insurance options and how often they do so. When it comes to information sources, the study of 1,500 U.S. consumers found that 49 percent go online, 28 percent look to their friends for recommendations and 55 percent never speak to an agent.

In looking at how often consumers review their policy, the same study found that 62 percent review their coverage once or twice a year, 7 percent every two to three years and 26 percent only review their coverage when a life event occurs such as moving, getting married or having a baby. Only 4 percent never review their policy.

The reality is, insurance is not top-of-mind and carriers must understand the goals that act as key motivators for the agents and policyholders. This will help carriers build better connections and deliver value beyond the product and price. There needs to be a goal-based process and marketing programs to help drive more effective and efficient customer engagement. For example, agents' goals vary from selling and management costs to building value for selling their agency, while policyholders seek internal dispositions such as peace of mind, safety and achieving value. If carriers can understand the goals of their agents as well as their policyholders, they will have a better understanding of the key motivators.

## Reduces churn

Loyalty does impact the economic health of the insurance company in terms of revenue and margin. Building loyalty reduces churn and increases the profitability of the policyholder. We all know customer churn is very expensive, as is the cost of acquiring new customers.

The more loyal the policyholders, the more opportunity there is for up-selling and cross-selling.

There are two metrics insurance carriers can use that appropriately link business outcomes to loyalty measures. The first is the likelihood to recommend. This demonstrates people's strong disposition and connection to the brand and behavioral intentions to stick with that brand. Likelihood to recommend is more forward-looking than other measures. If you look at renewal rates, for instance, you are focusing on opportunities lost, not opportunities you can convert to sales.

The second is measuring positive activity. Are your policyholders making additional purchases and seeking new information on new products and non-sales engagement? Understand how your policyholders want to engage with you and what kinds of information they find helpful. For example, we are seeing a rising interest among policyholders toward being "fully informed." This goal lends itself to leveraging information as a basis for generating engagement.

## Five steps

There has been a shift in the spotlight from the idea of loyalty being an impractical objective or fantasy, depending on the insurance setting, to a focus on increasing policyholder engagement and attachment within the practical realities of the relationship. There are five steps carriers can take to ensure their brand is driving loyalty to profitability:

**1. Make the concept of policyholder engagement concrete.** Policyholder engagement is not "one size fits all" and must be tailored to fit the needs of your policyholders. It needs to be well-defined and linked to business outcomes and explained internally to key stakeholders in a way that demonstrates the link between policyholder engagement and business outcomes. By having a concrete plan and set of objectives, you can build an engagement strategy and continually test different ways to increase it with measurable results.

**2. Cooperation between agents and carriers.** Both agents and carriers seek loyalty and the only way to get it is to use the strengths of each to create less churn and more loyalty. If both carriers and agents desire loyalty, they must work together to get there.

**3. Resist the urge to blindly adopt what's working in other industries.** The strategies you routinely see working in other industries simply do not align with the realities of the insurance setting. However you can learn from what others are doing to customize a program that aligns with your goals. Again, it is critical to get buy-in and share this framework with others in the organization.

**4. Use fact-based customer insights.** Using marketing research as a tool to understand the best way to increase and maintain strong policyholder attachment can be accomplished through thoughtful, well-executed analysis of insights from the marketplace. This is an opportunity to talk to policyholders and understand their goals and what you can do to help them achieve them.

**5. Use the right metrics.** It's important not to rely on lagging indicators like renewal rates but instead to use more forward-looking measures like the likelihood to shop a policy and recommend your carrier to others. These forward-looking measures help you understand not just the behavior of your policyholders but their disposition, which is crucial to truly understanding loyalty.

## Concrete, noticeable effects

Overall, it is important to understand that it is possible to maintain and increase policyholder engagement within the context of the carrier-policyholder relationship. Doing so can have concrete, noticeable effects on brand loyalty and profit. By clearly articulating a policyholder engagement strategy, working on improving cooperation between agents and carriers and using fact-based customer insights and appropriate metrics, insurance carriers can create - and keep - the loyalty that matters most: loyalty from the heart. | Q