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Hanging on:
A new look at
commercial insurance
customer retention

The importance of hanging on

Best in class commercial carriers can achieve retention rates in the mid to upper 80s. Most carriers' retention rates are 4-6 points below this, yet retention strategies remain a distant consideration compared to growth and overall profitability.

This is a mistake. Carriers are leaving significant money on the table by not focusing enough on retention. On a \$1 billion book, every point of retention is worth \$10 million dollars a year. This lack of focus is also out of alignment with their independent agents' priorities, which are to better retain and service their customers (Figure 1)ⁱ.

Core market strategies around consistent underwriting risk appetite and pricing are critical drivers of high retention, but in themselves they are not sufficient to achieve strong retention. Instead, carriers need to define and execute a dedicated strategy around retention, the same as they do with growth. There are four distinct areas that should be included:

- Distribution management
- Customer stickiness
- The renewal experience
- M&A responses

Figure 1. Accenture's 2014 Independent Agent Survey: Agents' top 10 priorities



Distribution management

All agents are looking for carriers that provide consistency in ease of doing business. This includes appetite, pricing, agent servicing, and customer servicing quality and efficiency. Beyond these fundamentals, the first step is to understand that retention strategies shouldn't necessarily be the same for all agents. Based on our Independent Agent Study, Accenture identified four distinct IA segments:

- Conservative and risk averse
- Emphasizes competitive advantage
- More willing to switch carriers
- Prioritizes HR—focus on internal operations or HR competencies

The survey showed that, unlike traditional size- or even growth-driven agency segmentation, there are distinct groupings based on agency operational priorities and agency behavior. By analyzing agent and retention data, carriers will find distinct retention behaviors across their

agents, allowing them to develop individual retention strategies for the various groupings. For example, agencies with a lower propensity for switching carriers will need outreach programs that focus on assuring the agency that the carrier's underwriting strategy remains aligned to that agent's book of business, and that the carrier is continuing to focus on providing high service, protection, and quality to that agent's customers. Agents with a higher switch rate will need more active approaches focused on value and barriers to transition.



Customer stickiness

The idea behind customer stickiness is a simple one. By creating a superior experience a carrier can make it more difficult for an agent to transition a customer to an inferior service. Traditionally, carriers have focused on product features or, at times, claims service. However, in most cases, they failed to show agents enough of a service distinction in these areas to drive retention. To increase stickiness, carriers are going to have to consider new strategies that offer clear competitive distinction.

Examples include:

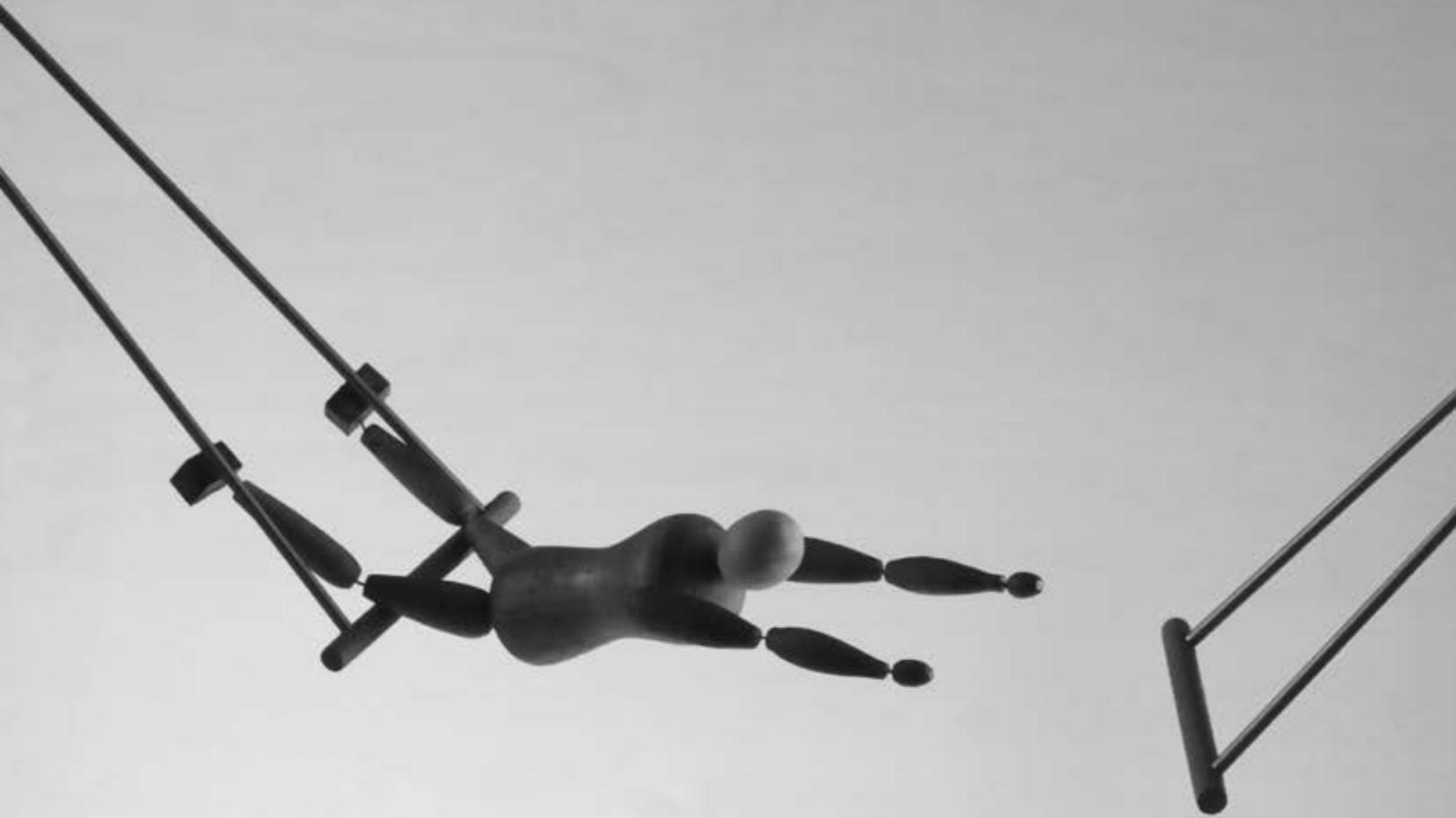
- **Analytics services:** Major multinational brokers are using sales and pricing data as a way to compete with each other by providing customers with insights into pricing comparisons. Carriers can use their data to provide similar value-added services to increase stickiness, such as more intelligent risk management or loss services.

- **Digital services:** Carriers can take advantage of digital technologies to provide services direct to customers. These can be core servicing solutions or complementary services such as the Allianz Global Assistance TravelSmart mobile app.
- **Alliances:** Alliances with outside vendors that provide a complementary service can create a powerful distinction. For example, Liberty Mutual has the Play Positive alliance complementing its sports program coverage.
- **Billing arrangements:** Billing structures that better meet customers' needs can be a source of distinction. We have seen this in the surety market, with pricing being tied to project stage rather than being calendar-based.

Figure 2. Accenture's 2014 Independent Agent Survey: barriers to switching

Q: To what extent do the following considerations deter you from moving business to a different carrier?





The idea behind customer stickiness is a simple one. By creating a superior experience a carrier can make it more difficult for an agent to transition a customer to an inferior service.

Renewal experience

The renewal experience is critical to determining whether a policy is retained or lost, assuming there have been no major service lapses during the year. Despite this, the agent or customer experience is usually minimized at this point. Most carriers have two main ways in which they renew a policy. The automated or flow-based renewal sends the agent a renewal notice shortly before the expiry date; the agent is simply required to reject or accept the renewal. Alternatively, the carrier will fully rewrite the policy, requesting that the agent provide a full suite of information on the insured requiring the agent to spend a significant amount of time on a renewal approach. This full underwriting approach may be better at identifying recent changes in the insured's risk profile. But it creates a disruption for the agency, which then may use the opportunity to shop the policy further.

There are several ways in which carriers can improve this experience, for both the agent and the customer, and thus increase retention:

- **Risk Selection:**

The full renewal process is disruptive to agents and customers, and is likely to trigger a competitive process. It is critical for the carrier to ensure that risks on the books are appropriately priced, but this process can be more intelligent than simple time-triggers. With advanced analytics, potentially supplemented by external data, carriers should be able to flow-renew a larger percentage of business in many market segments without significantly impacting their risks.

- **External Data:**

In a full renewal, the most disruptive element is the need for the agent to validate or collect new data from the customer. At times this is unavoidable, but it should be minimized to reduce the inconvenience to the agent and the customer, as well as the likelihood of triggering a competitive process. Rather than request data directly from the agent / customer, carriers should explore new sources of external data to determine if more insight about changes in the customer's risk can be gathered without having to involve the agent / customer. This is a growing way to balance needed underwriting information with service requests.

- **Value Proposition:**

The goal of a value proposition is to give both the agent and the customer a good reason for their continued coverage by a given carrier. It can highlight specific policy provisions or services, alliances, or other forms of value that competing carriers don't provide. This may sound simple, but including it with the quote makes it easier for agents to decide to remain with a carrier, especially in a competitive bid process. This is especially important if the renewal would include a significant rate hike.

M&A response

The best defined and executed retention strategy can be undone when key agents are purchased. With M&A transactions happening weekly, smart carriers need to have a playbook to improve the likelihood of retention as the business transitions to a new agent / broker. This can include:

- A high-touch communication plan to introduce the new agent to the carrier and educate it with regard to its value proposition
- Rapid white-glove onboarding of new acquiring agents
- Specialized incentive plans around year 1 retention

Preventing hard-earned business from slipping away

In summary, retention needs to have the same level of focus as a carrier's year-over-year growth plan. There should be a defined strategy for increasing retention, with clear goals, plans, and measures relating to all areas of the business. And this plan needs to be managed and monitored throughout the year with the same focus and drive as the growth plan. Without it, carriers are letting customers and premium slip through their fingers every day.

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About the author

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Reference

1. Powered by technology provided by TrueChoice Solutions, Accenture surveyed 1,100+ US independent agents between April 2014 and July 2014 to understand their operations and preferences.

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