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Insights

Customer Satisfaction and Financial Performance

The J.D. Power Customer Satisfaction Index has proved to be an enduring and reliable means to determine which aspects of a product or service are most critical to consumers' overall experience rating; however, it is through rigorous Key Performance Indicator analysis that J.D. Power is able to determine the behaviors that most drive customer impressions of quality and value. To substantiate the financial impact that efforts focusing on improving these KPIs might have for an insurer, J.D. Power compares the performance of all insurers ranked in the *J.D. Power 2013 U.S. Auto Insurance Study℠* with their financial performance in three critical dimensions:

- Customer retention
- Cost to acquire new customers
- Price elasticity

Year over year, the study consistently finds a correlation between these three profit levers and customer satisfaction levels; higher satisfaction corresponds with higher average annual policy retention, lower acquisition costs, and pricing power, while lower satisfaction corresponds with a decrease in these profit levers. In 2013, the link between satisfaction and financial return is once again confirmed even with several important insurers changing relative rank position. The linkage analysis includes segmenting profiled insurers into one of three tiers based on their Customer Satisfaction Index (CSI) scores. Insurance companies with a CSI that is statistically higher than industry average are included in the High Satisfaction tier, while those with a CSI that is significantly lower than industry average are included in the third satisfaction tier, labeled Among the Rest in Figure 1. Those with a CSI that is not significantly different from industry average are included in the Average Satisfaction tier.

"In 2013, the link between satisfaction and financial return is once again confirmed even with several important insurers changing relative rank position."

LINK BETWEEN CUSTOMER SATISFACTION INDEX (CSI) AND FINANCIALS

		Retention Related	Acquisition Cost-Related			
Insurer Satisfaction Tier	Overall CSI	Actual Retention[1]	3-Year Growth[2]	Acquisition Cost[2]	Avg. No. of Positive Mentions	% Will Not Switch for Any Price
High Satisfaction	839	95%	16.6%	14.4%	2.4	32%
Average Satisfaction	787	87%	4.3%	17.3%	1.6	18%
Among the Rest	743	85%	0.3%	20.0%	0.9	14%

[1] *Source: 100,000+ households screened by J.D. Power 2013 Insurance Screener Survey.*
[2] *Source: Standard and Poor's; Based on 2011 statutory findings—Insurance Expense Exhibit (Part III) of NAIC's Annual Statement.*
Source: J.D. Power 2013 U.S. Auto Insurance Study℠

Figure 1

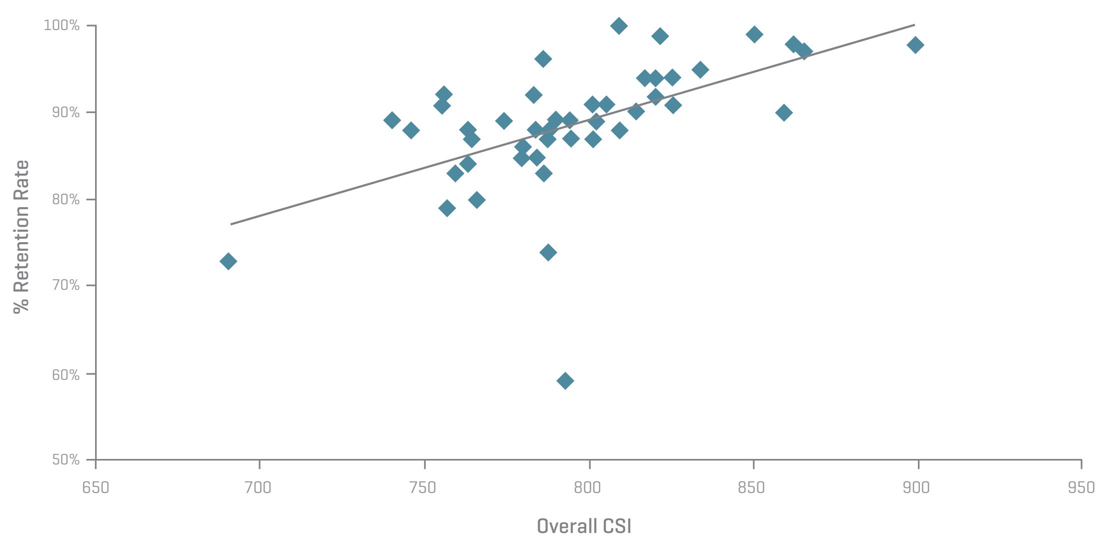
Despite continuous economic changes, high satisfaction insurers continue to achieve higher average annual policy retention, lower acquisition costs, and pricing power. Customer satisfaction, as measured by the index model for the *2013 Auto Insurance Study* has a strong correlation with financial outcome measures, such as retention and new-business generation.

Retention

J.D. Power's retention analysis reflects both actual retention (measured by surveying more than 113,000 customers regarding their current insurance carrier and policy tenure year over year) and stated intent to renew (determined by customer ratings in the survey for this study). Both metrics show a significant positive relationship to the overall Customer Satisfaction Index.

As shown in Figure 1, the average annual policy retention rate for insurers in the High Satisfaction tier is 10 percentage points higher than for those in the Among the Rest tier. Conversely, the proportion of customers who indicate they plan to shop (first step to defection) for a new insurer increases as overall satisfaction declines.

OVERALL SATISFACTION AND POLICY PERSISTENCY



*Source: J.D. Power 2013 U.S. Auto Insurance Study*SM

Figure 2

Acquisition Costs

There is a clear advantage for insurers in the High Satisfaction tier regarding acquisition costs, as measured by the Insurance Expense Exhibit (Part III) of the NAIC annual statement. These insurers have an acquisition expense advantage that is 2.9 percentage points higher than among those in the Average Satisfaction tier and 5.6 percentage points higher than among those in the Among the Rest tier. (Figure 1)

Many factors affect acquisition costs, such as distribution channel, state concentration, policy tenures, and risk profiles. Customer satisfaction has significant influence on controlling these costs, as word of mouth sales through recommendations generate low-cost leads and influence higher close rates. One indirect measure is the level of customer referrals relative to customer satisfaction. The number of actual reported recommendations averages 2.4 per customer for insurers in the High Satisfaction tier and 0.9 for insurers in the Among the Rest tier. These results flow down to the individual customer level, suggesting that there are benefits for improvement regardless of the insurer's overall index ranking.

For more information, please contact:

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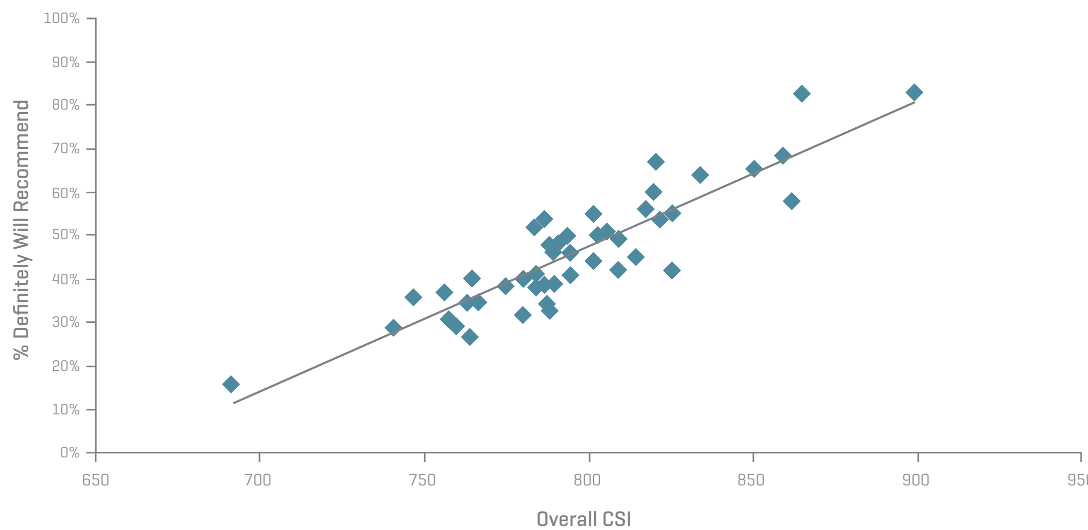
OVERALL SATISFACTION AND CUSTOMER ADVOCACY



Source: J.D. Power 2013 U.S. Auto Insurance Study[SM]

Figure 3

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