Riverside

White Paper

Building customer retention in insurance through personalised customer communication

For decades, insurers have known that it's generally more profitable to allocate funds to retaining existing customers than to acquiring new ones.

In his classic book, "The Loyalty Effect" *, Frederick F Reichheld described back in 1996 how studies by Bain & Co showed that a 5% increase in life insurance customer retention can improve customer net present value by 90%.

Nonetheless, the insurance industry at large often appears to allocate lower priority to customer retention and development than would seem commercially optimal.

Why is this?

In our experience, there are various reasons. Here are some:

- The "new business" number is often seen as the most important indicator of growth – with cross-sales, upgrades and retention featuring less prominently. This is especially the case in rapidly growing markets.
- Remuneration of management and the sales organisation can give greater focus to customer acquisition than retention and development.
- The effectiveness of customer retention initiatives can be seen as much harder to measure than actions taken to improve acquisition.
- Some insurers are concerned that customer retention would involve communicating directly with customers in a way that could upset or alienate agents and intermediaries. Or even that such communications would lead to higher policy lapses.

None of these factors can justify under-investment in customer retention. And today there are new market conditions that make active retention and development initiatives increasingly urgent:

- The surge in digital technology has rapidly increased customers' expectations regarding information about all their personal transactions.

Customers today expect providers to deliver relevant, useful communications that inform and benefit them in meaningful ways.
- The focus of the insurance industry is gradually changing from primarily underwriting risks and paying claims to including new value-added services that help control and mitigate those risks. Examples are fitness trackers and rewards in the life and health sector and the growing use of telematics by motor insurers.

Developments like these are also gaining impetus through the rapid growth of new InsurTech businesses.

To prosper in this new environment, insurance companies must protect and develop their existing customer relationships. And proactive, personalised communications that the customer finds relevant and valuable have a major role to play in boosting loyalty and profits within the existing customer base.

Since 2005, Riverside has been helping insurers around the world to do just this – with results that very clearly speak for themselves, as described below.

In a survey by The Collinson Group in the UK **, 46% of respondents reported hearing from their insurance provider on a regular basis. But 63% were open to further communication from their insurer and 74% were interested in receiving targeted product and benefits recommendations. 50% of respondents said that they would view their insurer more positively if they were offered benefits in addition to the core product.

How added-value communication lowers lapse rates

Respondents in the Collinson survey reported that most communications received from their insurers were limited to transactional matters like renewal notices (79%), policy updates (67%) and T&C amendments (37%).

While necessary, messages like this don't add great value to the customer experience. In fact, they might even reinforce the view that insurance only ever delivers a benefit in the event of a successful claim. And many customers see that as an unlikely event.

But communication that reminds the customer of the value of the cover they already hold can provide valuable re-affirmation of their original decision to purchase.

Riverside has firmly established that this alone can boost customer retention levels - because it provides a valuable and rare service to customers. Most insurance companies seldom deliver reassuring messages like this.

And our approach goes even further - by combining positive messages about the existing customer relationship with a highly personalised offer of additional cover.

This offer takes account of the customer's individual demographic profile and the cover they already hold with the insurer. Sometimes, this is in the form of an upgrade on an existing policy. Alternatively, it might take the form of an additional cover or a rider.

Typically, the premium level of the additional offer is 10%-30% of the existing premium paid, to make the uplift affordable for the customer. We also make the offer easy to activate - using the same premium payment method as the existing cover held.

It's widely recognised that the greater the number of individual products held by any individual customer, the higher the overall retention, or persistency, of that customer will be, compared with the average.

And that's exactly what we find too, as the results in the table below show.

The results speak for themselves…

At Riverside, we use "control" or "hold out" groups to measure the improvement in customer retention that our communication programmes deliver. We do this by clearly identifying a group of customers to be excluded from the communication. The profiles of these customers are the same as the customers included.

After the communication has been delivered, we can then track the lapse rates of the customers included, compared with the customers not included (the "control" group).

We consistently find that our communication programmes result in significantly lower lapse rates for the customers who receive the communication **– including those who don't take up the offer of additional insurance.**

The table below shows the results of this comparison for life insurance customers in three different countries. The figures shown are yearly lapse rates measured one year after the communication took place.

	NETHERLANDS		SWITZERLAND		UNITED KINGDOM	
	included	Not included	Included	Not included	Included	Not included
Policyholders	11,413	6,127	9,963	48,633	8,810	4,229
Lapses	776	472	271	1,954	455	295
Lapse Rate	6.8%	7.7%	2.7%	4.0%	5.2%	7.0%
Reduction in lapse rate	**12%**		**30%**		**26%**	

The reduction in lapse rates that the table shows are typical of Life companies working with Riverside. We generally see a reduction in lapses of between 12% and 30% after one year.

Such improvements in customer retention are clearly highly lucrative in their own right. But on top of this, we also see significant uptake in the additional cover offered.

For Life companies, between 10% and 30% of the customers included in the programme typically take up the additional cover.

In developed markets, these additional sales can deliver new annualised premium income of €500,000 - €2,000,000 per 100,000 customers included in the programme – **in addition to the value of the increased retention**, which will vary by company and product type.

Ultimately, on traditional Life portfolios, Riverside communication programmes can deliver an uplift in RoE of 0.5%-1.0% per annum.

The Riverside approach is also successful for non-Life insurance businesses, although the results are generally lower, due to the shorter-term nature of the business.

Customer communication also supports agents and intermediaries

As mentioned above, some insurers are concerned that communicating with their customers could upset or alienate the agents and intermediaries who introduced them.

At Riverside, we actually find that the opposite is true. Effective customer communication can delight agents and intermediaries and boost their loyalty to the insurance company.

We always advise the insurers we work with to provide full details of the activity to their intermediaries – and to allow every one of them to exclude some or all of their clients if they wish.

However, many intermediaries are happy to participate fully and enjoy a range of attractive benefits:

- Additional commission income for little or no effort.
- A list of clients included, to follow up for additional sales and referrals, if they wish.
- Additional inbound leads, prompted by the communication.
- The "halo effect" of good customer service. Research confirms that customers appreciate receiving these communications and this also reflects well on the intermediary.

The global pandemic has made business conditions difficult for many agents and intermediaries. Working with Riverside, insurance companies can provide them with much-needed support, to earn and sustain their loyalty into the future.

Robust data analysis is critical to success

The Riverside approach is based on a unique analytical approach that we have developed over the past 16 years, with over 130 different insurance companies in 40 countries.

Our analysis combines an in-depth examination of the existing customer base with an audit of the insurer's products, distribution channels and communication styles.

Following this analysis, we deliver our proposals – and projected results – with no cost or further obligation for the insurance company.   However, we find that the case we build is immediately compelling in a high proportion of cases.

We also share in the costs of every programme we recommend. This means that we have genuine “skin in the game”. We can only be successful if the insurer is successful too.

Find out more – with an exploratory online chat

We’d be delighted to tell you how the Riverside approach could work for your insurance business – wherever you are in the world.

In the current global business environment, we can deliver everything without any need for face-to-face contact with you. Our programmes are also designed to involve no face-to-face contact with your customers.

To arrange an exploratory chat, without any obligation whatsoever, simply contact Bill Gilbert: Bill.Gilbert@riversidegroup.nl or +31 6 50479647.

*   Reichheld, Frederick F. *The Loyalty Effect,* Harvard Business School Press, 1996
** Collinson Group: UK consumers want to hear from their insurance providers more often, November 2019