

WHITE PAPER



Collaborate Across Functions to Acquire With Retention in Mind

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Executive Summary

There are many factors that impact insurance carrier profitability to one degree or another. However, what most carriers have in common is that they are increasingly challenged to find and keep the right customers for their business — an endeavor supported by both the marketing and underwriting/product management functions. In today's highly competitive environment, the ability to target and attract prospects with the longest potential future relationship — or to acquire with retention in mind — is a critical undertaking if carriers are to remain profitable.

To better understand the drivers behind acquiring with retention in mind, and the relationship between these two business functions in terms of delivering on this effort, LexisNexis® Risk Solutions conducted a study of the top 50 U.S. auto, home and life carriers. The findings point to numerous opportunities for marketing and underwriting/product management to more closely collaborate to improve business results, increase profitability and improve customer experience.

Collaboration can improve business results, increase profitability and improve customer experience.

Introduction

Billions of dollars are invested annually in consumer-facing marketing activity. Yet identifying, attracting and converting policyholders who not only align with a carrier's risk profile but who also remain within the book of business long enough to recoup acquisition costs can often be challenging. There is no doubt that acquiring with retention in mind makes the most business sense.

In late 2016, LexisNexis® Risk Solutions administered a nationwide survey of 155 decision-makers within the top 50 U.S. auto, home and life insurance carriers. Conducted anonymously and using a mix of online and telephone interviews, the study addressed:

- Marketing functions with responsibility for at least two of the following: designing or executing customer communication or marketing programs, audience identification and segmentation, cross-sell and/or upsell activities, and/or customer retention activities
- Underwriting/product management functions with responsibility for at least two of the following: product development and enhancement, rate setting, profit and loss, DOI negotiation, and/or risk acceptability, risk appetite and/or segmentation

Research Objectives

LexisNexis commissioned the research to gain a better understanding of the dynamics behind acquiring with retention in mind, with a focus on the relationship and degree of collaboration between the carriers' marketing function and the underwriting/product management function.

The study sought to explore:

- The structure of the relationship between insurance marketers and the underwriting and product management teams
- Specific issues and needs associated with this relationship
- The opportunity for improved cross-functional collaboration to address longer-term acquisition and retention goals
- The importance and use of insurance-specific big data and analytics to support longer-term acquisition and retention goals

Key Findings

Qualitative feedback collected throughout the study highlighted the importance of robust acquisition and retention strategies that adopt a longer-term view. Better qualified prospects identified at the point of marketing are more likely to match a carrier's risk profile, more likely to purchase a policy and less likely to lapse. However, acquiring with retention in mind requires carriers to break down silos that may exist between marketers and underwriters/product managers.

The good news is, the study indicated there is both opportunity and mutual motivation for improved collaboration between the marketing and the underwriting/product management functions in order to improve acquisition and retention outcomes. A more collaborative and aligned approach between these business functions is a strong predictor of increased retention rates and profitable outcomes.

Not only that, from a policyholder perspective, acquiring with retention in mind delivers on the promise of an improved customer experience — which could have a positive impact on customer loyalty and retention.



Quotations from study participants on the impact of customer acquisition and retention on the organization:

"... the market is different now. The market is static and there's more competition for a smaller pool — so we have to focus on retaining those who are most profitable — it's expensive going out and getting new customers."

"Top priority, life-blood of the business, necessary for growth."

"Profitability, long-term growth, competition. These are related mostly to retention."

"Key priority, foremost, growing the business profitably."

A Deeper Look

The study covered a variety of topics, ranging from how the two functions measure performance to strategy development and execution to leveraging data and analytics for better business outcomes. It revealed commonalities and differences, both of which point to increased opportunities for collaboration.

Following are a few of the highlights from key areas explored.

Highlight 1: Identifying and Measuring Core Business Goals

The majority of the respondents shared a common set of metrics. Profitability was the number one metric by which all respondents, regardless of job function, were measured. This was not surprising, given that the study respondents were senior insurance executives and included titles such as Chief Marketing Officer, VP Marketing, Chief Underwriter and VP Underwriting. Other core metrics included policy sales growth rates, renewal or retention rates, and new business counts. Each group identified both its own core business goals and its counterparts' goals.

Underwriters and product managers were primarily concerned with enhancing existing products, developing new products, and developing and maintaining a profitable book of business. Marketers had a high awareness of the goals of underwriters and product managers. For the most part, they were able to identify the goals that were reported by underwriters and product managers.

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Core business goals of marketers:

- Cross-sell/up-sell current customers
- Meet sales quotas
- Retain customers

Core business goals of underwriters/product managers:

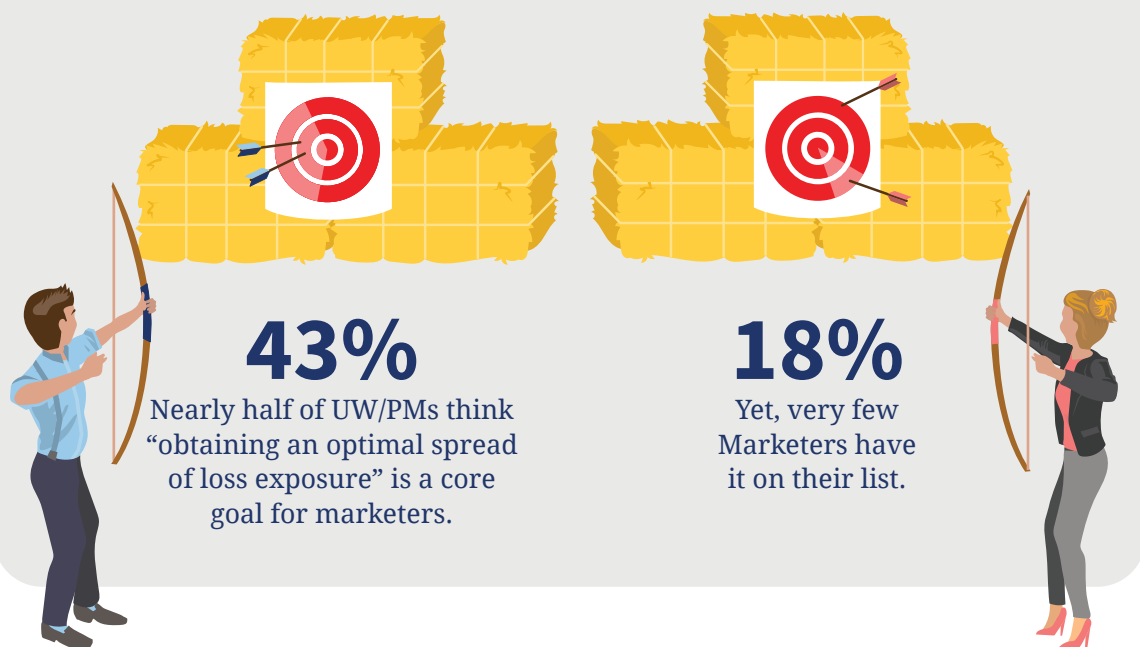
- Create new products
- Enhance existing products
- Obtain optimum spread of loss exposures

Marketers' goals focused on cross-sell/upsell initiatives to current customers, meeting sales quotas and retention. Underwriters and product managers identified these as being the goals of marketing, but there were disconnects that could suggest some misalignment across the cross-functional teams.

For example, only 18% of marketers cited the need to “obtain optimum spread of loss exposures” as a key business goal for themselves, yet a significantly higher proportion of underwriters and product managers (43%) listed this as a key business goal for marketers. Could this be an indication that either underwriters and product managers believe marketers have the optimum spread of loss exposure as a higher priority goal, or that they believe they should?

Target the right customers by working together and aligning your goals

Disconnects exist, even when 85% of respondents have similar performance metrics (profitability is #1) and good awareness of each others' business goals.



Highlight 2: Strategy Development in Isolation

The overwhelming majority of participants acknowledge that increased cross-functional collaboration about strategy development was important, suggesting a willingness to embrace working together to drive the business forward to achieve profitable growth. Yet, in contrast to this finding, only four in 10 respondents reported that they develop their acquisition and retention and/or lifetime value strategies together.

This contradictory behavior is at odds with their willingness to work together more closely. The lack of collaboration could be holding them back from achieving higher profitability. Greater collaboration could help carriers develop and execute acquisition strategies that identify, attract and convert those policyholders more likely to be retained.

To succeed, you have to
be on the same field

Collaboration is key, yet many don't
unlock their potential

94%

Nearly everyone agrees that working more collaboratively across business functions is “extremely important” or “important”.

40%

Only four in ten respondents say teams build their strategies together.

Highlight 3: Acquisition and Retention Strategy Execution

When asked to rate their peers on the execution of their acquisition and retention strategies, all respondents acknowledged room for improvement. The results revealed 43% of marketers were not completely satisfied with the degree of execution of acquisition and retention strategies by underwriters and product managers. Meanwhile, 46% of underwriters and product managers reported that they are not completely satisfied with the degree to which marketers execute acquisition and retention strategies.



Quotations from study participants:

“I don’t think marketing places as much focus on retaining good customers as there should be.”

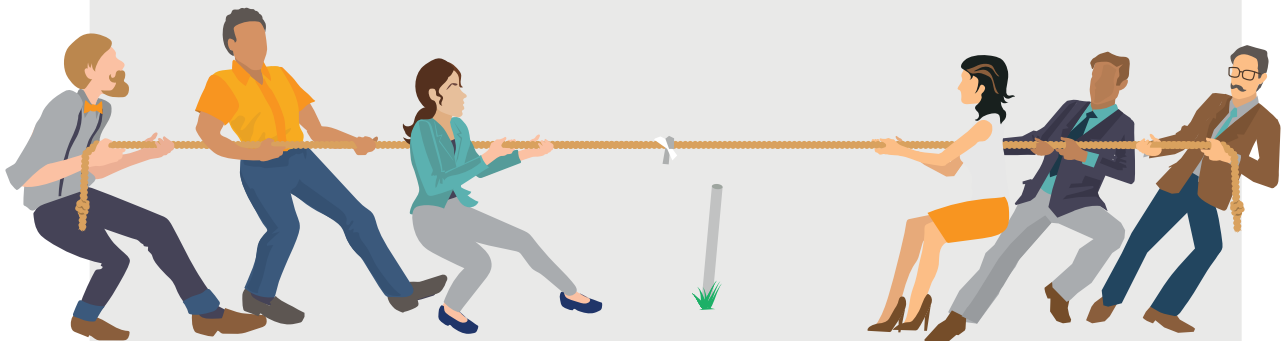
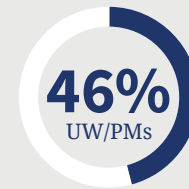
“A key job of marketing is to understand the market from the business perspective, but sometimes they are more focused on getting the numbers.”

“... faced with the challenges of underwriting to a profit and identifying the ideal customer. That isn’t always easy.”

Teams must work in sync to meet goals and drive business forward



43% of Marketers and 46% of UW/PMs aren't completely satisfied with the other team's acquisition and retention strategy execution.



Highlight 4: Identifying the Highest Return Opportunities

The dissatisfaction with the degree to which acquisition and retention strategy is executed seems to be related to the issue of identifying the highest return opportunities. When asked to rate their ability to identify the highest return opportunities, be that programs or consumers, in order to help prioritize marketing activities and resources, the majority of respondents (57%) claimed that the ability to zero-in on these highest return opportunities was an unmet need.

Respondents also acknowledged the ability to identify programs and consumers more likely to convert and be retained as crucial to building a successful acquisition and retention strategy. Yet more than half of the respondents claimed this was an area for improvement. A higher proportion of marketers (63%) indicated that zeroing-in on the highest return opportunities was an issue.

Highlight 5: The Influential Role of Data and Analytics

Based on the survey results, it appears identifying high-return opportunities is directly linked to good data sources and analytics capabilities. Not surprisingly, 43% of respondents indicated that their current external data sources were not meeting their needs in terms of enabling them to identify consumers and/or programs that represent the greatest opportunity for the carrier.

Similarly, 54% of respondents indicated they could improve when it comes to understanding the link between marketing activity and customer conversion.

Collaborate on ways to improve the relationship

Two agreed-upon areas for improvement:



Zeroing-in on
the highest return
opportunities



Understanding
the link between
marketing activity
and customer
conversion



Much like the ability to zero-in on the highest return opportunities, the inability to close the loop between campaign and business goals is a fundamental component of a robust acquisition and retention strategy. At the very center is marketing attribution.

Are we reaching a tipping point whereby insurance-specific insight and data is crucial for carriers to not only achieve a satisfactory return on marketing investment but also to weather ongoing market challenges?



Quotation from a study participant on the need for an advanced and highly predictive database as well as optimized leads lists:

“... the holy grail. These would be great when trying to mitigate against adverse selection ... really jumped out at me.”

Conclusion: Collaboration is Key

Current market conditions are tough. While insurance shopping rates have stabilized, the proportion of policyholders who have not shopped is at an all-time low. Recent LexisNexis Risk Solutions data reveals that less than 35% of the insured population has not shopped their auto insurance in the last five years.

The proliferation of channels and the ease with which consumers can comparison shop has put pressure on retention rates. On average, nearly four in 10 auto policy holders will switch before the end of the first term, well in advance of a carrier's ability to recoup the acquisition cost.

Meanwhile life insurance carriers are confronted with challenges unique to their market. The Insurance Barometer Study, jointly conducted by LIMRA and Life Happens, tracks the perceptions and attitudes of US consumers in regards

The proliferation of channels and the ease with which consumers can comparison shop has put pressure on retention rates.

to life insurance. Highlights of the 2017 study included a call from consumers for easy-to-understand products (83%) and a ‘faster sign-up process’ (51%). Many consumers overestimate the cost of life insurance, which leads to insufficient coverage. While 85% of respondents agree that most people need life insurance, the reality is much less, only 59% have coverage.

Clearly, acquisition with retention in mind is a critical business imperative. The question is, what can carriers do to improve these efforts? Based on the study results, one answer is to unite marketing and underwriting/product management in a collaborative effort to focus on getting and keeping the right customers, right off the bat.

Overall, the study highlights the opportunity for improved cross-functional collaboration to improve the development and execution of acquisition and retention strategies. It is only through cross-functional collaboration and cooperation that carriers can effectively acquire with retention in mind.

The adoption of a longer-term, qualitative approach at the point of marketing — one that complements the insurance-specific approach at the point of underwriting — would deliver improved business outcomes for the organization. This approach can be exponentially enhanced by the use of insurance-specific data and analytics that can help carriers identify and attract those prospects with the highest potential for long-term profitability.

Unite marketing and underwriting/product management in a collaborative effort to focus on getting and keeping the right customers.



About the Author

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Sandeep Kharidhi leads Product Management for Acquisition and Retention products at LexisNexis Risk Solutions. In this role, he is responsible for managing solutions that enable insurance carriers to acquire new customers and retain and grow existing policy holder relationships. Previously, Kharidhi served in executive roles for over 18 years with several firms including ChoicePoint, Acxiom, Merkle and Harland Clarke. Kharidhi's expertise is in marketing strategies, analytics, campaign attribution and optimization. He is a frequent speaker at industry conferences and has previously been a member of several trade groups. Kharidhi completed his graduate studies at the University of North Carolina in Charlotte with a master's degree in Computer Science with a focus on data mining and artificial intelligence. Kharidhi is actively volunteers in the local community and is a board member of The Empty Stocking Fund.



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LexisNexis Risk Solutions (www.lexisnexis.com/risk) is a leader in providing essential information that helps customers across all industries and government assess, predict, and manage risk. Combining cutting-edge technology, unique data and advanced scoring analytics, we provide products and services that address evolving client needs in the risk sector while upholding the highest standards of security and privacy. LexisNexis Risk Solutions is part of RELX Group plc, a global provider of information and analytics for professional and business customers across industries.