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Customer retention: Policy offers

Cheap tricks

Many insurers attempt to attract new customers by offering cut-price introductory offers. But while insurers may hit new customer targets and customers gain cheap quotes, do these deals really benefit either party in the long run? Nicola Andreas finds out

The UK personal lines insurance industry is probably one of the most competitive in the world. The rise of the internet and price comparison websites has enabled consumers to research their options faster and easier - with switching providers becoming increasingly popular.

In order to attract these shrewd customers, many insurers offer enticingly cheap introductory deals as a means of standing out from other brands. But does this focus on cheap introductory offers mean insurers are missing out on providing the best customer service and achieving customer retention?

Ian Hughes, managing director at Consumer Intelligence, last year warned that insurers were "treating customers like dogs" by insisting on offering these cheap introductory deals.

He says: "The issue we've really discovered is that everyone talks about loyalty, but what we are saying is the critical issue is actually disloyalty: don't try and make customers loyal, try and stop them being disloyal." He admits this may just sound like an alternate way of defining the same concept but points out it is really a different way of thinking.

He explains insurers need to start to understand which customer is going to be a loyal. After conducting research last year over a 12-month period, interviewing more than 24,000 purchasers of motor insurance, Consumer Intelligence claims this is possible to predict by simply asking them one question: how long were they with their previous insurer?

The study found 26.9% of its research sample were predicted disloyal, compared to just 5.7% who were understood to be loyal. Mr Hughes believes insurers should start by focusing on what type of customer they want to recruit and attempt to keep them on rather than focusing just on the huge annual new customer targets.

And it appears that there are some slight winds of change with the likes of More Than and Direct Line recently changing their marketing strategy to focus on retention rather than acquisition. More Than has launched an offer that sees it give customers 12 months for the price of 11 in year one, going down to 12 months for the price of 10 in the second year of the policy.

Direct Line has offered to cap motor insurance premiums for new customers at renewal, as long as the customer does not have a claim or change any of the details of the policy. Halifax Insurance also has a 'beat and freeze' promotion for home cover, which offers customers a competitive introductory price and freezes it for three years.

Rewarding loyalty

Mr Hughes says these deals are worthy of merit as they are an attempt to reward loyalty not disloyalty.

Susan Fanning, head of retention at Halifax's home insurance division, agrees: "At Halifax our focus is on providing customers with the most competitive deal, not necessarily the cheapest. We aim to provide customers with peace of mind through the quality of our cover and service." She adds that its beat and freeze product means customers can rest assured they are getting a great deal and great service for three years, eliminating the need to shop around.

Ms Fanning adds: "Most insurers provide introductory offers of some sort and there's a feeling in the market that it is necessary in order to compete. It's a vicious cycle as insurers are forced to develop more compelling offers to compete with other players in the insurance market that are also using offers."

And research by the Pitney Bowes Group 1 Software found that customer churn rates in the UK insurance industry rose by 43% from 2005 to 2007, revealing that although the sector is increasingly competitive and customers are ever more informed, successful retention strategies have not been put in place. It says that customer defection rates within the general insurance sector have risen from 17.8% in 2005 to 25.4% in 2007.

Its report also highlights the importance of retaining customers. "In an atmosphere of high or habitual defection rates, the importance of customer profiling becomes paramount. In the first place, the community of habitual switchers must be identified so that retention effort is not expended on those who will defect anyway," the report states.

It continues: "At the other end of the spectrum, high value - or high potential value - high inertia customers must be made to feel special, and further products or services relevant to their needs offered to them under the aegis of a brand that they obviously value."

Alan Thorpe, commercial and operations director at G2 Data Dynamics, says that it appears that for the majority of general insurance providers the marketing message is simply 'we do it cheaper', with wider issues about breadth of cover or length of consumer relationship swept conveniently out of sight.

He adds: "Unfortunately, since consumers don't feel the quality of insurance products until they claim, it's all too easy for them to select minimum cover and minimum cost. For many this may be a perfectly acceptable solution to their needs, where short-term financial gain from low prices outweighs the additional risks being carried."

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Impressive figures

Consumer Intelligence's 2007 research found that, out of its sample of customers, Swiftcover had the most disloyal customers: 57.5% disloyal and just 0.3% loyal.

The research found NFU Mutual achieved an "astonishing result", reversing the loyalty trend of the average company. The firm's loyal base is over 30% while its disloyal base is only 5%.

Interestingly, the research shows that Direct Line had 16.3% disloyal customers, with only 8.6% loyal. Meanwhile, More Than had 25.9% disloyal and 5.8% loyal.

The Pitney Bowes Group 1 believes that companies are beginning to actively explore the information they have on customers, rather than solely focusing on new customer acquisition - and this is affecting the market.

But Mr Hughes adds it takes a courageous company to make this change: "I think Direct Line and More Than have been brave to say they are going to stop the madness and, instead, think more carefully about what types of customer they want to recruit."

A spokeswoman for Direct Line says its two-year capped policy has been highly successful. "When it comes to buying insurance, consumers should ensure they buy a policy that meets their particular needs in terms of coverage, service and peace of mind," she explains. "Direct Line offers a wide range of benefits including our uninsured driver and vandalism promise, and the recently launched two-year capped offer; reinforcing that it pays to be with the right insurer."

She says that recent research by the firm clearly indicated that consumers are concerned by the increasing costs of motoring, so by providing a capped offer its customers have certainty of pricing as long as they do not change their policy or have a claim. "We believe this is a great value for our customers, it is not available elsewhere and has been highly successful," she adds.

Mr Hughes points out that its own research shows people do not want to keep moving insurers. "Why would anyone want to have to change insurer? If they can be assured they are getting a good price and a good quality product then that is one less thing to worry about each year.

"The rise of the price comparison site only happened because people discovered that the only way of getting a cheap price for car insurance is to move. If that was not true then there would be no price comparison sites."

But Mr Hughes' view is not shared by all in the insurance industry. Martin Chilcott, marketing director at BGL Group, which includes brands such as Budget and Inbuyeco, says: "Today's customer is much more savvy than ever before and as a result is less likely to be loyal to a particular brand. It's so competitive that brands need to offer special deals to stand out; without a competitive price or offer, providers will 'disappear' with the result that there will be little opportunity to even talk about service."

He adds: "It's the consumer who is driving the trend for introductory offers, not the insurance providers. Even if the focus were on service - in place of price - customers are not swayed by talk of excellent service consistently - it's promised everywhere but seldom delivered.

"The real solution is to demonstrate service consistently, once consumers choose and start to use your brand. If you deliver, they'll be more likely to stay. If you don't, they'll definitely leave for someone else's introductory offer."

James Hillon, head of home insurance at Co-operative Insurance, agrees. He says that providing good customer service is an essential part of success: "Those companies that do not meet or exceed customer expectations are likely to lose customers irrespective of offers in the market. Product offers should not be seen as a compromise over service, but rather a way of attracting customers who are then retained through good service. Good offers, if transparent, are an integral part of enabling customers to obtain a good price for their insurance."

Mr Hillon admits there are some signs that some customers have 'offer fatigue' and that promises to beat renewal quotes are cynically viewed and becoming tired. Nevertheless, he adds: "You only have to look at the sheer number of offers in the market to understand that there are companies making a success out of it."

Scratch the surface

There have been some murmurs in the insurance market that those insurers that offer renewal deals rather are using it as a way of getting around not being the most competitively priced product. Mr Hillon says: "There are clear trends in the market between competitively priced insurers who don't make a lot of 'money off' offers and those insurers that are less competitively priced but will offer discounts."

He points out that the latter are aiming to make an impression on consumers through the apparent strength of the offer and adds: "The key thing for a customer is to compare prices from a number of providers and make the appropriate choice based on the product and price."

Esure head of corporate communications Adrian Webb agrees, stating that customers should always look around at other deals rather than just immediately accepting a renewal offer from their current insurer: "The greatest enemy to consumers is inertia. The customer should not let current deals cloud their judgement; checking other prices in the market is always a good option."

Esure says it has no plan to offer any retention deals similar to More Than or Direct Line at the moment, and Mr Webb suggests that most insurers aim to stay competitive in the second year as customers can quickly find out from comparing online whether they are being milked.

"The power is with the customer and is greater than it has ever been. If insurers want to retain customers they have to make sure the contact and service is good. Their loyalty is relative to how well you treat them."

Meanwhile, Mr Hughes says Consumer Intelligence will complete its next research project by the summer to find out whether retention focused deals like Direct Line and More Than's are successful at keeping loyal customers. If these different marketing strategies prove successful, it could see a real wind of change in the industry and signals a move away from new customer grabbing strategies - conducted at any cost.