

2010 Home Claims Satisfaction StudySM



*A Management Discussion based on the
2010 Home Claims Satisfaction Study*

June 2010



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Overview

J.D. Power and Associates has measured overall customer satisfaction with auto and homeowners insurance for more than a decade. In 2008, the company launched the *Home Claims Satisfaction Study*, which focuses specifically on the key drivers of satisfaction with the claims experience—the ultimate moment of truth for any insurance customer. The *Home Claims Satisfaction Study* measures insurer performance throughout the entire claims experience, from first notice of loss (FNOL) through the repair of the home.

The 2010 study includes evaluations from 2,900 insurance customers nationally who filed property claims between November 2008 and April 2010. For the industry overall, satisfaction among home claimants is significantly higher than the average satisfaction among all homeowners insurance customers¹ (818 vs. 773, respectively, on a 1,000-point scale).

J.D. Power and Associates has worked to provide insurers with valuable insights not only on their relative performance against key competitors, but also on how they can improve satisfaction, retention, and advocacy. One vital component is the identification and utilization of Key Performance Indicators (KPIs).

Key Performance Indicators establish the relationship between the subjective impressions of the end-customer (e.g., courtesy, knowledge, and ease of contacting), which determine index scores, and objective metrics (e.g., time, frequency, and cost), which are behavior-based and actionable for insurers to integrate into their performance improvement initiatives. J.D. Power studies in this industry generally include multiple KPIs designed to help insurers identify paths to customer satisfaction improvement through every step of the customer relationship.

This Management Discussion, based on the *J.D. Power and Associates 2010 Home Claims Satisfaction Study*,SM answers the following key questions:

- What is the impact of satisfaction on retention and advocacy?
- What are the most important key service practices insurers should target to improve satisfaction?
- How satisfied are claimants when these practices are executed successfully?
- What factors are used to measure satisfaction with the home claims process?
- Besides the top 10 service practices, what other KPIs exist for each stage of the claims process?

¹ J.D. Power and Associates 2009 National Homeowners Insurance StudySM



The Impact of Home Claims Satisfaction on Retention

Among the 6% of homeowners insurance customers who experience a home claim each year, no other aspect of their experience with their insurer is more meaningful. Findings from the *2010 Home Claims Satisfaction Study* indicate that a positive claims experience may foster notable long-term loyalty, while a negative claims experience may drive claimants to shop for a new insurer.

For this analysis, profiled insurers were segmented into one of three tiers based on their Customer Satisfaction Index (CSI) scores. Seven insurers with index scores between 840 and 908 are placed in the High Satisfaction tier. The Medium Satisfaction tier includes seven insurers with index scores closer to the industry average, ranging between 812 and 831. The three remaining insurance companies profiled in the study achieved index scores ranging from 737 to 808, and are grouped in the Among the Rest tier.

Not unexpectedly, claimants of companies in the High Satisfaction tier are significantly more likely to say they “definitely will” renew their coverage or “definitely will” recommend their insurer than are claimants of insurers in the other two satisfaction tiers. Additionally, claimants of insurers in the High Satisfaction tier are less likely to shop in the next 12 months for a new insurer and are more likely to make positive comments about their insurer, compared with claimants in the other two tiers. One in 10 claimants of the three companies in the Among the Rest tier indicate that they have already switched insurers, compared with only one in 25 claimants of High Satisfaction insurers. (Figure MD1)

Home Claims Satisfaction on Retention and Referrals

Company Satisfaction Tier	Overall CSI	Retention-Related			Referral-Related	
		% Switched Insurers	% Will Shop in Next 12 Months	% Definitely Will Renew	% Definitely Will Recommend	% Made Positive Comments
High Satisfaction	865	4%	18%	71%	67%	89%
Medium Satisfaction	822	5%	23%	59%	54%	81%
Among the Rest	794	10%	33%	53%	48%	75%

Figure MD1



The Top 10 Service Practices

The *2010 Home Claims Satisfaction Study* has identified 10 service practices vital to a satisfying experience for homeowners insurance claimants. These practices center on a few core servicing philosophies:

Managing Expectations—Providing claimants with a clear and easily understood description of what to expect at each step of the process is essential, since the claims experience can be overwhelming to many claimants. Confusion, surprises, and periods of uncertainty may lead to unnecessary discomfort for claimants and create an atmosphere of distrust and dissatisfaction with their insurer.

Convenience—In today's 24/7 world, claimants expect their homeowners insurer to respond promptly and provide a flexible experience tailored to their personal situation. The industry trend toward providing self-service claims solutions, whether on the Internet or through mobile applications, is but one response to this customer-centric focus.

Effective Communication—Information must be effectively shared not only among representatives of the insurer, repair or restoration contractors, and the local agent (if utilized), but also—most importantly—with claimants. Proactive status updates and follow-up contacts ensure that claimants continually feel at ease with the process.

Figure MD2 presents the industry's compliance with the top 10 service practices, identifying the proportion of claimants who experience each performance metric.



The Top 10 Best Practices to a Satisfying Claims Experience

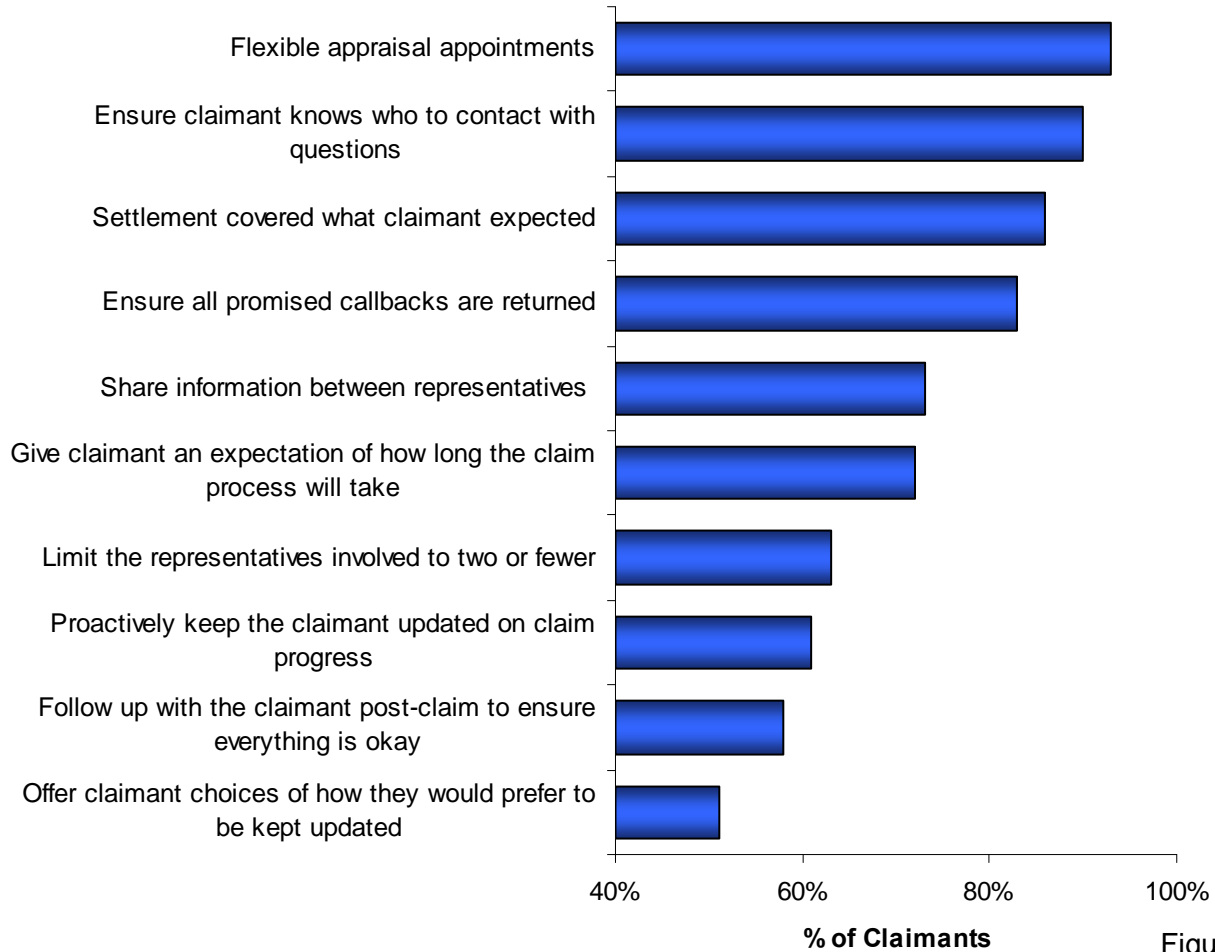


Figure MD2

More than 80% of claimants indicate that they experienced successful execution on four of these 10 service practices: received flexible appraisal appointments; provided with clear contact information; met settlement expectations; and returned calls as promised.

However, for the remaining six service practices, fewer than three-fourths of claimants indicate they experienced the best practice: did not need to repeat information; were given an accurate expectation of how long their claim would take to process; interacted with no more than two insurance company representatives throughout their claims process; were proactively notified of any claim status changes; received follow-up after the claim to ensure everything was okay; or were offered a choice of how they would most like to be kept updated on the progress of their claim.



The Impact of Executing on the Top 10 Service Practices

Overall, approximately one in six (17%) homeowners claimants indicates having missed none of the top service practices during their most recent claims experience. Among these claimants, satisfaction with their insurer averages 929—significantly above the industry average of 818.

Satisfaction gradually declines as service practices are missed, but remains above the industry average until a third KPI is missed (792). Once a fourth KPI is missed, satisfaction falls more than 150 index points below the industry average. More than one-fourth (26%) of claimants say that their insurer missed four or more of the top KPIs.

Delivery of the Top 10 Service Practices By Overall Satisfaction

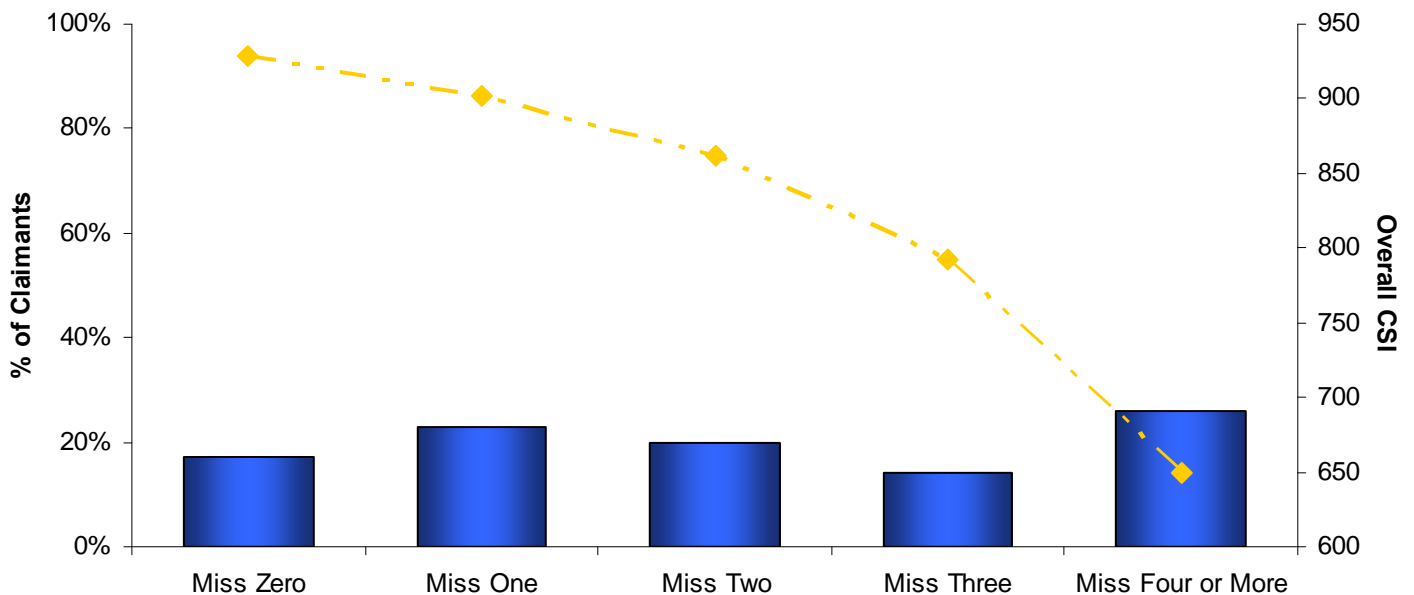


Figure MD3



Successful delivery of the top service practices aligns closely with overall satisfaction performance in the 2010 Home Claims Satisfaction Study. This finding is based on segmenting profiled insurers into one of the three satisfaction tiers presented earlier.

Fully one-half (50%) of claimants whose claims were handled by one of the insurers in the High Satisfaction tier indicate that they experienced no more than one KPI service failure, compared with just 36% of claimants served by those insurers in the Among the Rest tier—a gap of 14 percentage points. Conversely, nearly one in three (28%) claimants of Among the Rest insurers miss four or more service practices, compared with 19% of claimants of High Satisfaction insurers.

Analysis of the top 10 service practices suggests that even though comparatively lower satisfaction insurers have fewer claimants experiencing the customer service practices that drive high scores, these insurers may achieve the same lift in satisfaction when they do execute successfully on these practices. Lower satisfaction insurers that deliver all service practices to their claimants receive an average satisfaction score of 930, just 8 index points below satisfaction levels among claimants of High Satisfaction insurers experiencing these practices.

Top Service Practices – By Satisfaction Tier

	KPIs Missed (mean)	Miss Zero		Miss One		Miss Two		Miss Three		Miss Four or More	
		OSAT	% Claims	OSAT	% Claims	OSAT	% Claims	OSAT	% Claims	OSAT	% Claims
Overall	2.49	929	17%	902	23%	862	20%	792	14%	650	26%
High Satisfaction	2.00	938	21%	911	29%	891	18%	863	12%	692	19%
Medium Satisfaction	2.53	923	16%	899	24%	871	20%	810	14%	662	27%
Among the Rest Satisfaction	2.64	930	17%	900	19%	842	21%	752	15%	625	28%

Figure MD4



Factors Influencing Home Claims Satisfaction

The index models utilized in the *2010 Home Claims Satisfaction Study* segment the claims experience into separate factors. Together, the models cover each step of the claims experience, from FNOL to home repair.

Figure MD5 shows the aggregate industry index model. When looking at the industry in total, the claimant's first notice of loss drives 21% of the overall experience—often setting the tone for the remainder of the claims process. One-fifth (19%) of the index is comprised of the Appraisal factor, which includes appraisals with or without claimant interaction with the appraiser. The Service Interaction factor (14% of the model) includes interaction with local agents and/or claims professionals. The Settlement factor is vital to overall satisfaction with the insurer, driving 41% of the experience. Repair/Restoration Process accounts for the remaining 5% of the experience.

Home Claims Customer Satisfaction Index Model

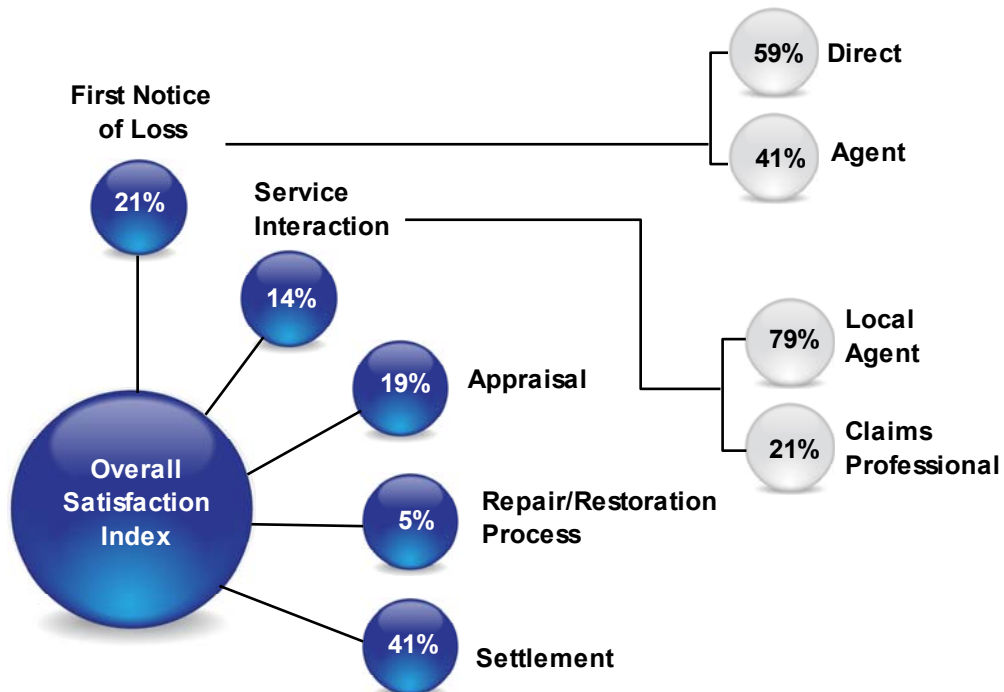


Figure MD5



First Notice of Loss (FNOL)

Losses can be reported via a local agent or directly to the insurer. Direct first notice of loss includes not only claims reported to a call center, but also those reported online or using a smartphone application. For losses directly reported to an insurer, satisfaction is 42 index points lower than for losses reported to a local agent. Amica Insurance, USAA, and The Hartford utilize the direct FNOL method most often. Independent agent insurers Auto-Owners Insurance and Erie Insurance have the highest rates of agents taking the loss report, while exclusive agent insurer State Farm has the third-highest agent FNOL rate.

When comparing KPI performance across the two FNOL methods, several opportunities for improvement are evident: (Figure MD6)

- Length of Time to Report Loss**—When reporting a loss, claimants are most satisfied when the FNOL experience takes less than 15 minutes. In addition to being brief, the FNOL process is expected to reduce uncertainty regarding the entire home claims experience. Seven in 10 (69%) claimants who reported their loss via a local agent cite an FNOL length of less than 15 minutes, while only three in five (59%) claimants reporting their loss directly to their insurer did so in less than 15 minutes.
- Process Explanation**—One in five (19% direct FNOL and 17% agent FNOL) claimants says that their insurer failed to explain the steps in the claims process during the FNOL call. As home claims tend to be infrequent, insurance customers do not have much experience with them. Therefore, confusion is often the norm, and insurers that take the time to thoroughly set expectations more often achieve satisfaction. FNOL performance between insurance companies ranges from a low of 79% to a high of 90% on this KPI.
- Coverage Explanation**—Claimants reporting their loss through a local agent (84%) receive an explanation of policy coverage more often than those dealing directly with the insurer (75%). Regardless of which FNOL method is selected, satisfaction is more the 150 index points lower when claimants do not receive an explanation of their coverage. Falling short on this KPI is particularly challenging for insurers, as home claimants often lack knowledge on the specifics/limitations of their policy and generally assume they have more coverage than they actually have.
- Empathy**—The local agent FNOL process (67%) is more likely to make claimants feel at ease with the claims process than the direct FNOL process (57%). This result is not unexpected, since a local agent is often someone well-trusted by the claimant. Empathy and heartfelt concern, while extremely difficult to display in a 15-minute FNOL phone call, help the claimant recognize that the insurer's representative understands what they are going through and is working to ensure they are made whole.



Range of Performance—FNOL Key Performance Indicators

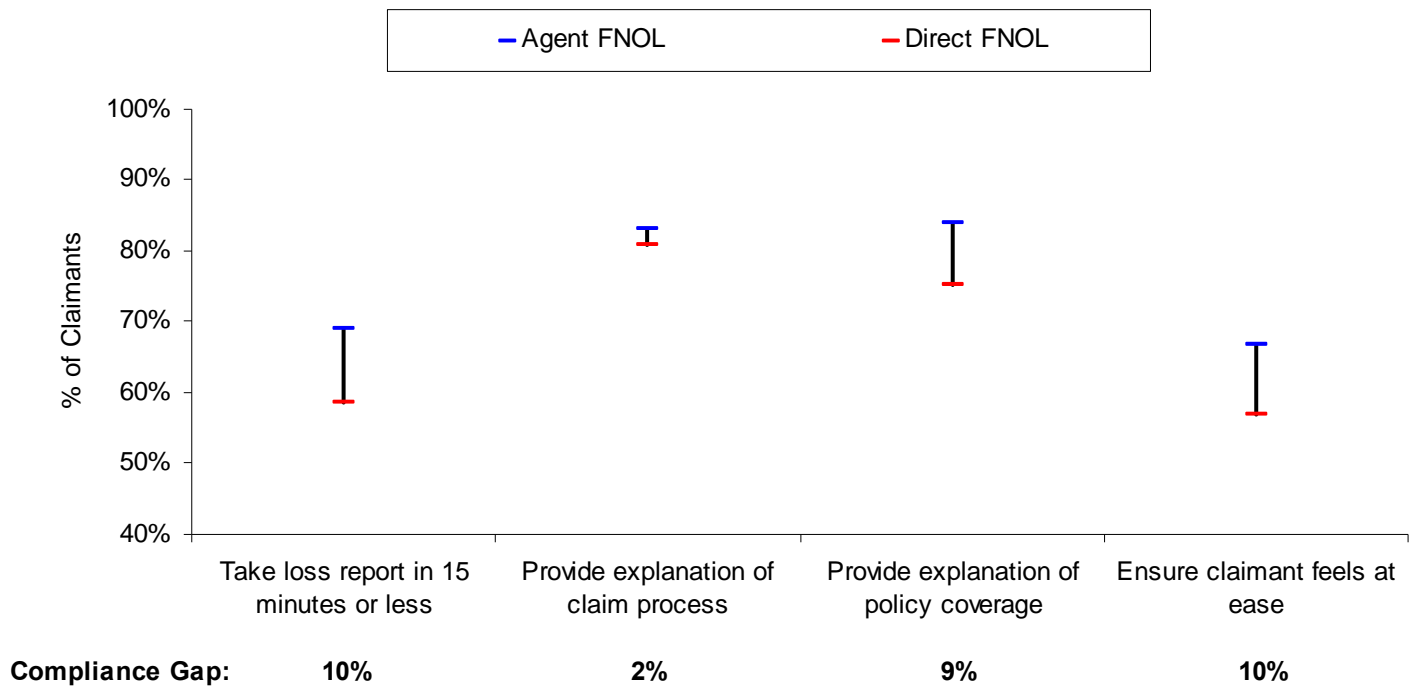


Figure MD6



General Servicing

General servicing does not focus on one particular step of the claims experience, but instead takes a broader look at the entire experience and all of the representatives involved. At the highest level, these Key Performance Indicators provide an assessment of the overall quality of communication and knowledge-sharing with claimants. The goal at each step of the claims experience is to limit uncertainty on behalf of claimants.

- **Meet Expectation of Claims Process Length**—Setting a realistic expectation of the time the claim will take to process is important so that claimants are not left guessing as to the next step in the claims process. In addition, any estimation of process length needs to be accurate, since an inaccurate expectation results in satisfaction just as low as when no time estimate is provided. Overall, fewer than three-fourths (72%) of claimants receive an accurate expectation of process length.
- **Ensure Claimant Knows Who to Contact with Questions**—Each claimant should be made aware of the various contact methods available and who they should contact with any questions they may have. Knowing who to contact will reduce uncertainty regarding the claims experience, but one in 10 claimants (10%) do not know who to contact when questions arise.
- **Provide Proactive Updates**—Ensuring that claimants are kept up to date throughout the entire process is key. More importantly, claimants should ideally never need to inquire as to the status of their claim. All updates should be proactive in nature as opposed to reactive. However, just three in five (61%) claimants indicate having received proactive updates.
- **Return All Promised Callbacks**—Returning a claimant's call as promised should be a standard business practice. Yet, one in five claimants states that not all promised callbacks were returned. In 2010, this KPI has the greatest impact on overall satisfaction—resulting in more than a 100-point decline in satisfaction when calls are not returned.
- **Limit Information Claimant Needs to Repeat**—Claimants find it frustrating to repeat the same details of the claim to each representative involved in the claims process. As a best practice, the number of representatives included in the claim should be limited to two or fewer. Regardless of the number of insurer representatives involved, every effort should be made to ensure representatives are sharing information among each other.
- **Follow-Up with Claimant Post-Claim**—After the claim is settled—meaning all necessary payments are made—a simple follow-up call to ensure that everything is as it should be leads to higher satisfaction with the claims experience. Although any representative involved in the claims process could handle this communication, satisfaction is highest when it is initiated by a local agent. At the industry level, only three-fifths (58%) of claimants receive a post-claim follow-up.
- **Offer Claimant Options of How to Receive Claim Status Updates**—Claimants have particular expectations of how they will receive updates regarding the status of their home claim. Often times, this preference is based on the ease of receiving updates, which explains why e-mail, text, and smartphone applications are the most desired update methods. One of the benefits these types of updates provide is that claimants can gain access from just about anywhere. Only one-half (51%) of claimants indicate receiving this top service practice.



Appraisal

Property appraisals are typically conducted by one of three types of appraisers—an insurer appraiser; an independent appraiser; or a repair/restoration contractor. Regardless of whether claimants personally interacted with their appraiser, this step in the home claims experience is important, accounting for one-fifth (19%) of the overall index. A poor appraisal of damages or inventory of personal items may negatively impact the rest of the claims experience. As a result, settlement issues including negotiations may occur more often.

The type of appraiser who conducts the appraisal has a minor impact on satisfaction. (Figure MD7) Large national insurers, such as State Farm and Allstate, tend to use their own appraisers at a higher rate than do smaller, more regional insurers, such as Auto-Owners Insurance and Amica Insurance. Reasons for the appraiser's impact on satisfaction vary by insurer, but often surround the process followed during the appraisal. Severe or higher dollar amount claims rely on an insurer appraiser to conduct the appraisal. These severe claims are ultimately less satisfying than simple claims. Repair contractors receive high ratings for *Thoroughness of appraising damage* since they are more likely to do some minor demolition to understand the complete picture. Appraisals conducted by independent appraisers require approval from the insurer before any settlement conversations can take place. This delay in approval makes it less likely an independent appraiser will discuss the work to be performed with the claimant. Performance on the following KPIs are compared for both insurer appraisers and independent appraisers (Figure MD8):

- **Follow-Up Contact within 2 Days of FNOL**—The longer claimants are required to wait without knowing the next steps, the less satisfied they become. Lower satisfaction levels are primarily caused by extending the period of uncertainty regarding coverage and, ultimately, the settlement amount. More than half (52%) of claimants with an insurer appraisal are contacted within 2 days of FNOL by their appraiser. Only 47% of independent appraisers contact claimants during this same time period.
- **Conduct Appraisal within 4 Days of FNOL**—Conducting the appraisal in a timely manner is important to being able to finalize the claim. Expectedly, claimants would like the appraisal conducted quickly, within 4 days of FNOL. Once again, insurer appraisers (47%) outperform independent appraisers (42%) in this KPI as well.
- **Provide Desired Appointment Time**—Making the home claims process easy and convenient for claimants should be the goal of any insurer's claims experience, and something as simple as providing a convenient appointment time should occur. More than nine in 10 (94%) claimants with insurer appraisers indicate having received their desired appointment time, compared with 88% claimants with independent appraisers. Satisfaction with the appraisal process is more than 200 index points lower when claimants do not get their desired appointment.
- **Provide Copy of Appraisal**—More than nine in 10 claimants say that they received a copy of the appraisal, regardless of who conducted the appraisal. In most instances, this is a step in the process that insurers are legally obligated to perform. In addition, providing claimants with a copy of the appraisal increases satisfaction, irrespective of who performs the appraisal.
- **Discuss Work to be Performed**—Communication is key throughout the claims process. A discussion of the work to be performed removes uncertainty about the process and, as with all "touch points" during the claims process, leads to higher satisfaction. Nine in 10 (89%) claimants with an insurer appraiser indicate that the required work was discussed. A slightly lower proportion (85%) of claimants who have an independent appraiser say the same.



Who Conducted the Appraisal

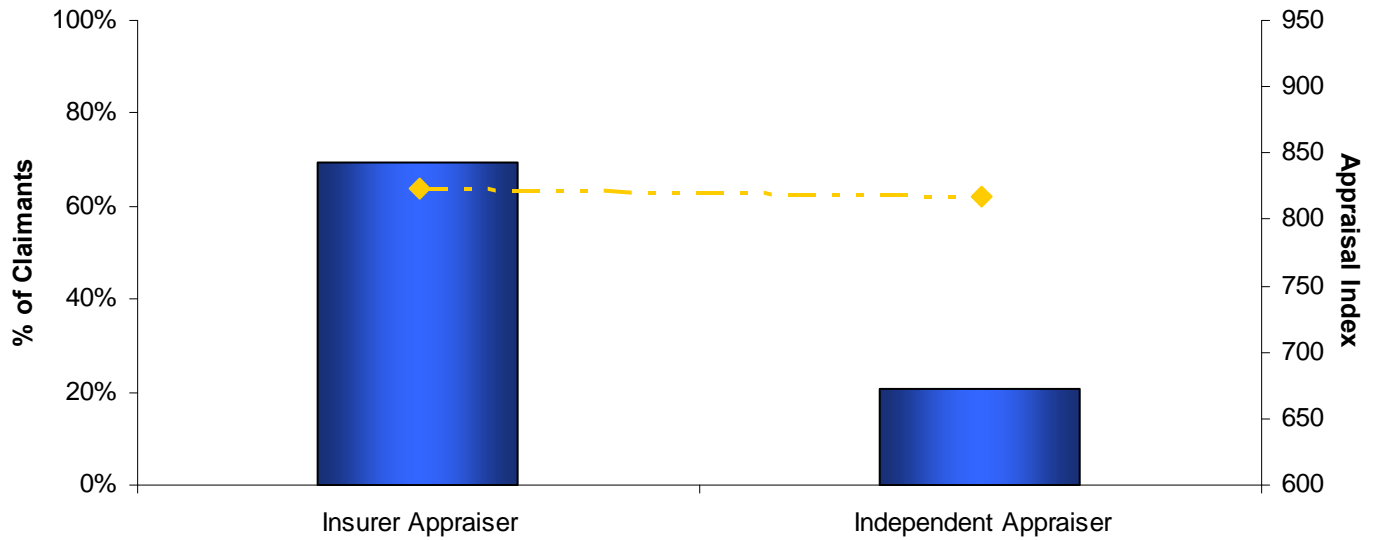


Figure MD7

Range of Performance—Appraisal Key Performance Indicators

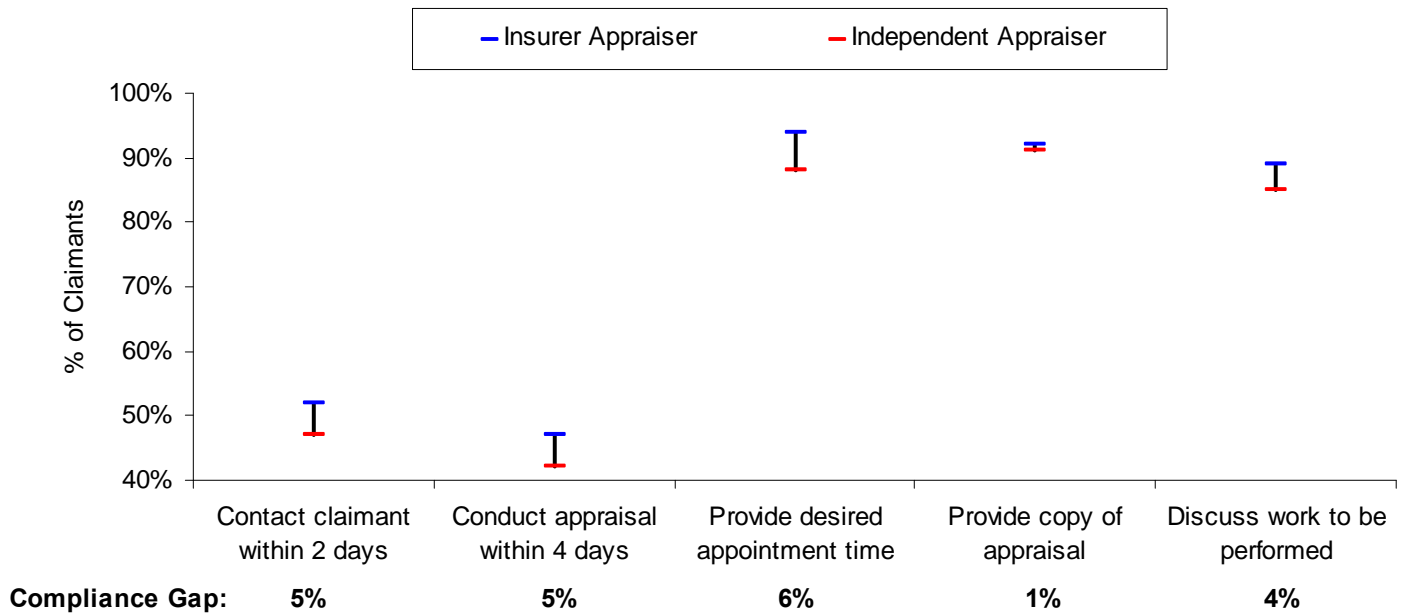


Figure MD8



Settlement

The Settlement factor accounts for more than 40% of overall satisfaction with the claims experience. As a result, several key performance indicators in this section are critical to successfully satisfying customers during a home claims experience:

- **Meet Settlement Expectation**—One of the most important KPIs in the *2010 Home Claims Satisfaction Study* is ensuring that the settlement meets the expectations of claimants. Insurers that excel in this area often rank high in overall satisfaction. At the industry level, 86% of claimants indicate that their insurer fully met their expectations regarding the settlement. As noted previously, thoroughly explaining the limitations of the policy's coverage and fully managing expectations at FNOL are paramount to ensuring that claimants are not surprised by their settlement offer.
- **Avoid Negotiated Settlement**—One in four claimants negotiated the settlement amount with their insurer. This type of interaction is never pleasant, regardless of the outcome, and often leads to dissatisfaction with the claims experience. When settlement negotiations take place, claimants are more likely to consider switching insurers.
 - More than one in four claimants with an insurer appraiser negotiates their settlement, the highest rate among the various types of appraisers. As previously noted, insurer appraisers tend to handle the most severe/complex claims, which may help explain this difference. The lack of claimants' knowledge regarding the parameters of their coverage also leads to a significant volume of negotiated settlements. (Figure MD9)
 - Claims involving content loss are more likely to require negotiation than those involving only structure. Also, when contents are included, claims with settlement amounts less than \$2,500 are most likely to result in negotiation. This is contrary to structure-only losses, in which claims in excess of \$5,000 are most likely to result in negotiation. (Figure MD10)
- **Deliver Settlement Term within 3 Days**—Two in five (41%) claimants indicate having received settlement terms within 3 days of FNOL. The number of days to inform claimants of settlement terms is a key cycle time milestone (the amount of time from FNOL until the claim is paid). Limiting the length of time at this milestone also reduces a period of uncertainty for the claimant, which should be the ultimate goal throughout the home claims process.
- **Provide Verbal Settlement Explanation**—Verbal explanations of the settlement are more satisfying than explanations received in writing or online and satisfaction levels for verbal explanations are similar to those for receiving e-mail communications. However, only two in three (67%) claimants say that they received their settlement explanation verbally.



Negotiated Settlement Amount by Who Appraised

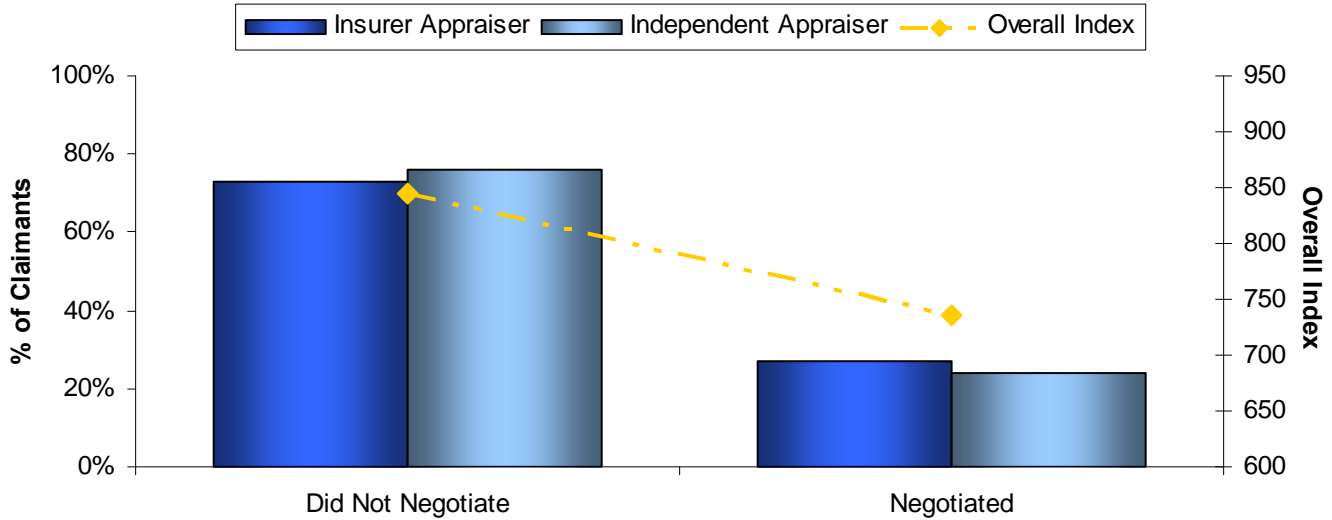


Figure MD9

Settlement Amount and Type by Negotiation

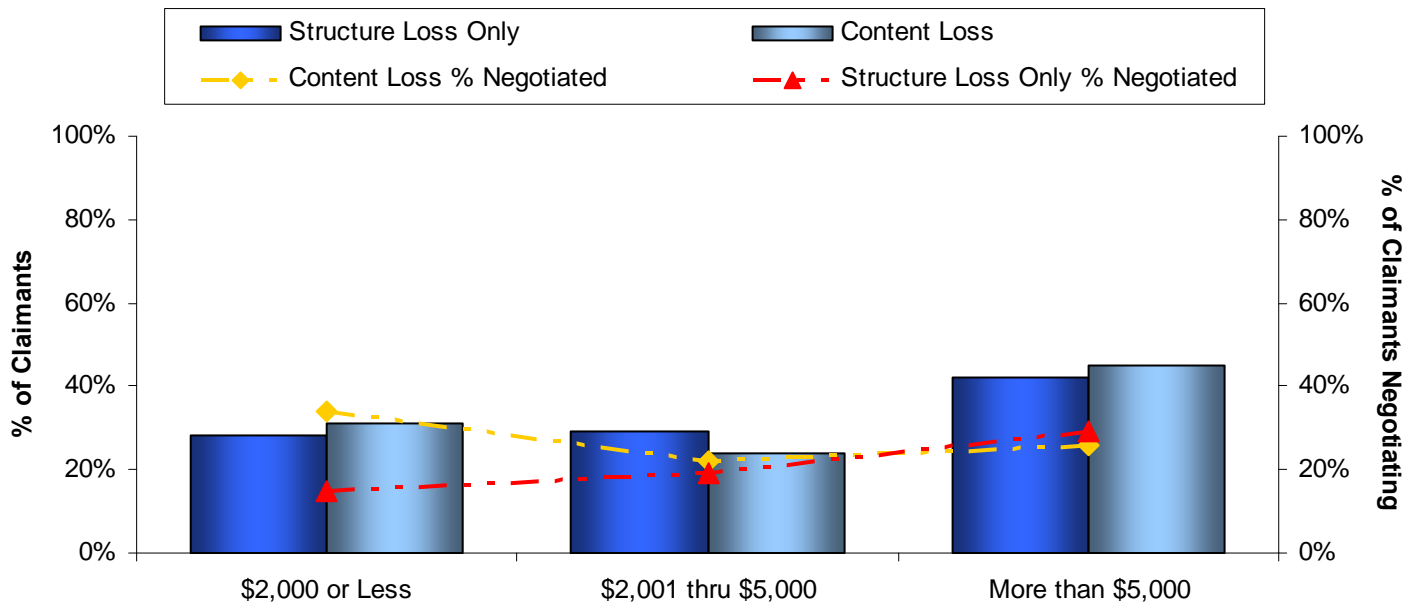


Figure MD10



Property claim cycle times—measured from FNOL until the claim is fully paid—average just under 21 days for the industry overall, but vary widely across insurers. (Figure MD11) Most insurers inform claimants of the settlement terms within 10 days of FNOL. Ensuring this information is conveyed to claimants near to the time of appraisal eliminates the period of uncertainty about what their policy covers. While some insurers deliver the settlement information on the same day as the appraisal, others may take more than 5 days. There is a wide disparity in the number of days it takes from the point of being informed of the settlement terms to the time claimants receive final payment, ranging from a low of approximately 6 additional days to as many as 14 days. (Figure MD12)

Homeowners insurers also have an opportunity to better manage claimants' expectations regarding how the settlement will ultimately be disbursed. Multiple payments are often needed for home claims (38% of claimants say that they received their settlement in two or more installments), possibly due to the complexity of the claim and separate handling of repair and content losses. However, satisfaction declines significantly when claimants are not paid in a single allotment, again illustrating the importance of realistically setting claimant expectations early and communicating them often.

Two reasons for multiple payments for one claim are negotiations and holdbacks. It is not unexpected that negotiations result in multiple payments. This year, three in four claimants who negotiated their settlement required multiple payments. In some instances, insurers hold back a portion of the settlement until the claimant has accomplished certain requirements, which can range from the repair work being started to when personal items are replaced.



Homeowners Claims Cycle Times by Insurer

■ Contacted by an appraiser ▲ Appraisal conducted ◆ Informed of settlement ✖ Received final payment

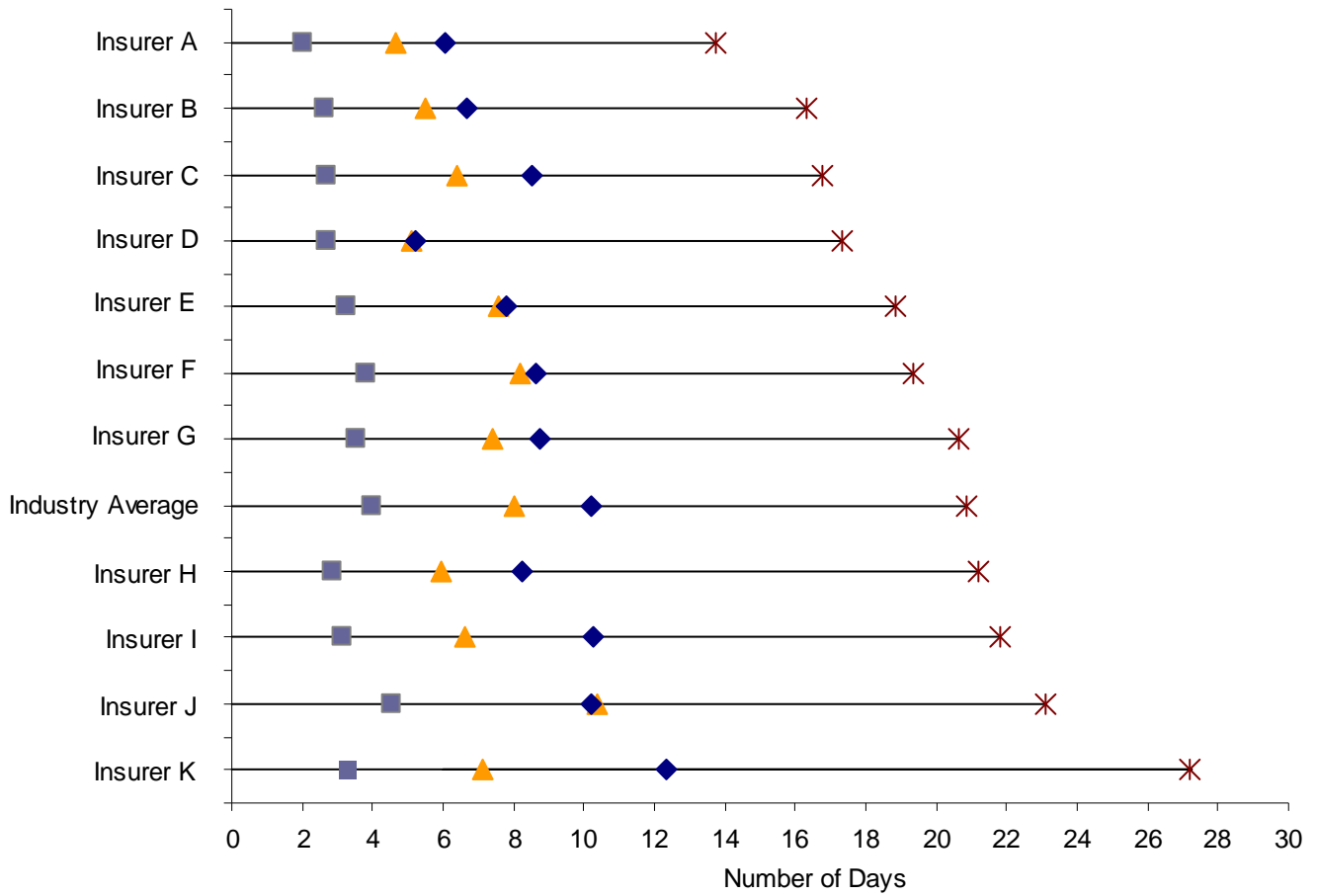


Figure MD11



Cycle Time

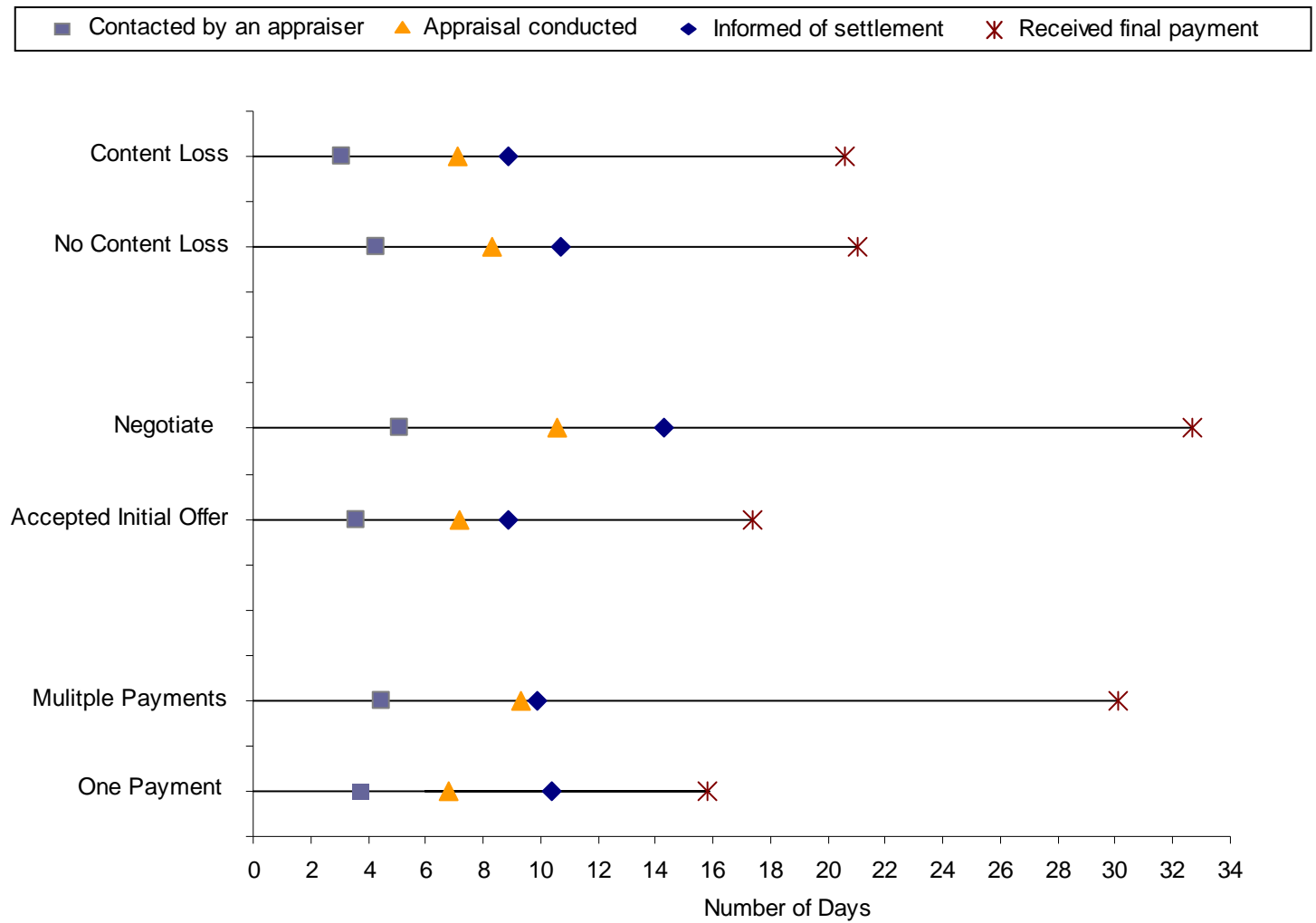


Figure MD12



Conclusion

Property claims continue to be far more personal, complex, and customized, when compared with auto claims. Yet, this added complexity should not deter homeowners insurers from delivering on the universal best business practices: managing customer expectations; providing convenient solutions; and ensuring effective communication throughout the claims process. When servicing homeowners' claims, insurers may reap significant gains in loyalty and advocacy by focusing on the top 10 service practices.

This Management Discussion has illustrated the impact these top 10 service practices have on claimant satisfaction, as well as the financial gains achieved by the highest-scoring insurers. However, many of these practices are well within reach of every insurer, requiring no additional investment in technology or incremental settlement expense.

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