2010 National Homeowners Insurance Study℠

Gen Y Homeowners: Servicing a Maturing Consumer Segment

September 2010

Overview

Based on more than 10 years of experience by J.D. Power and Associates in measuring the Voice of the Customer in personal lines insurance, the *2010 National Homeowners Insurance Study* identifies how customer satisfaction impacts the profitability of an insurance company; examines how each service event in the relationship between a customer and their insurer impacts their overall impression of the company; and details critical service standards that drive higher satisfaction and subsequent policy retention. The study findings reflect perceptions of nearly 13,000 customers and benchmarks 29 of the largest personal property insurance providers in the United States.

Analyses of the personal auto insurance marketplace have shown a consistent theme that Generation Y customers—or Millennials—are more critical of their auto insurance-related experiences than are insurance customers in other generational groups.[1] From the initial shopping and on-boarding experience to general policy servicing and even claim handling, Gen Y customers are the least satisfied generational cohort. Consequently, Gen Y auto customers are the most difficult generation of customers to retain. Despite lower satisfaction and retention among this generation, Gen Y customers represent a lucrative consumer segment, given their potential to become multiple policy insurance customers and grow to outnumber any other generational cohort in the U.S.

This management discussion, the third in a series of four in 2010, focuses on the servicing of the homeowners policy. The following topics are examined:

- Is the lower satisfaction among Gen Y auto customers also apparent when Gen Y customers buy their first home?
- What is the impact of satisfaction on retention of Gen Y customers?
- Which insurers most successfully bundle Gen Y customers? How does this translate to market penetration of Gen Y customers?

[1] J.D. Power and Associates defines generational groups as follows: Baby Boomers—born 1946-1964; Generation X—born 1965-1976; Generation Y—born 1977-1994

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The Impact of Homeownership on Gen Y

In the property insurance industry, Gen Y customers represent a sizable share of the homeowner market, with annual homeownership rates approaching 40%. Once they purchase a home, Gen Y consumers are surprisingly secure home insurance customers, with a retention rate of 88% in 2010, which is just 4 percentage points lower than the industry average. This increased “stickiness” is partially attributable to the fact that Gen Y homeowners are markedly different than their auto-only counterparts. Those who own a home tend to be on the older side of Gen Y (the majority are 30 or older); are nearly twice as likely to earn more than $50K annually; and are more than twice as likely to be married compared to Gen Y consumers who do not own a home—suggesting that these “leading edge” Millennials may serve to predict how their younger counterparts will behave as they approach marriage, family, and homeownership.

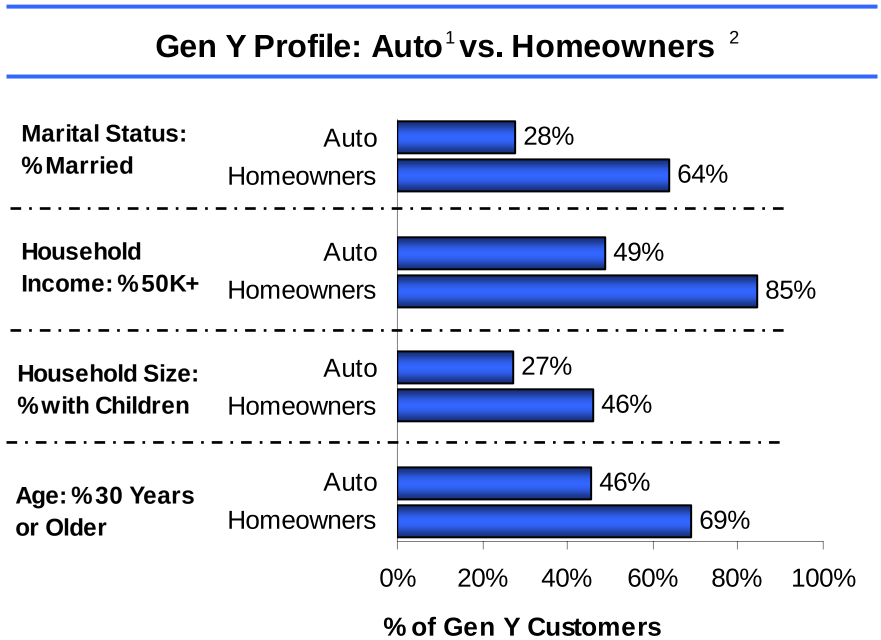

Figure MD-1

[1]Source: J.D. Power and Associates 2010 National Auto Insurance Study, based to auto customers without home policy(s).
[2]Source: J.D. Power and Associates 2010 Homeowners Insurance Study.

Findings from an earlier 2010 management discussion titled, “Keeping Millennials for Life,” based on the *J.D. Power and Associates 2010 National Auto Insurance Study,℠* show that Gen Y auto customers are far more critical of their auto insurer than are other generational cohorts. With the exception of Price, Gen Y customers rate their auto insurer lower than other generations across all satisfaction measures. In contrast, Gen Y customers are not the harshest critics of home insurers and provide overall satisfaction scores that are higher than those of Generation X customers. Figure MD-2 illustrates the customer “touch points” and service channels that drive the overall homeowner customer experience by generational cohorts.

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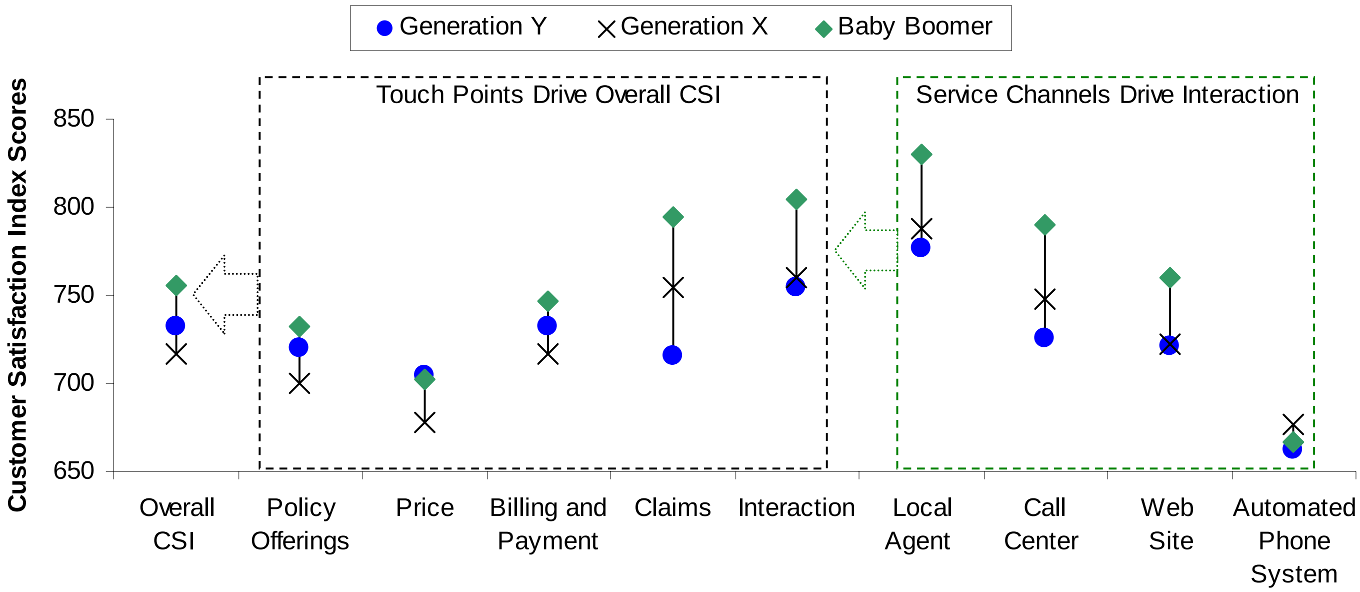
Range of Satisfaction Performance by Generation



Source: J.D. Power and Associates 2010 Homeowners Insurance Study.

Figure MD-2

Similar to their auto counterparts, however, Gen Y homeowners are least satisfied with two factors that drive overall satisfaction: Service Interaction and Claims—the two experiences that typically require personal service. Across auto and homeowners product lines, overall Service Interaction is rated the lowest among Gen Y customers, driven primarily by the two traditional service channels: Agents and Call Centers. Perhaps influenced by technology-enabled instant access to information and media, Gen Y customers clearly have a different expectation of service and are much more critical when service interactions require a longer time than they expect. From the length of wait time it takes to speak with a representative to the promptness in resolving their issues, the traditional service channels are failing to meet the expectations of Gen Y customers regarding service times. Figure MD-3 below shows that Gen Y customers perceive key service levels are not being met at the same rates as other generations and the impact on satisfaction is far more severe when service takes longer than they expect.

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Gen Y: More Critical of Service Times

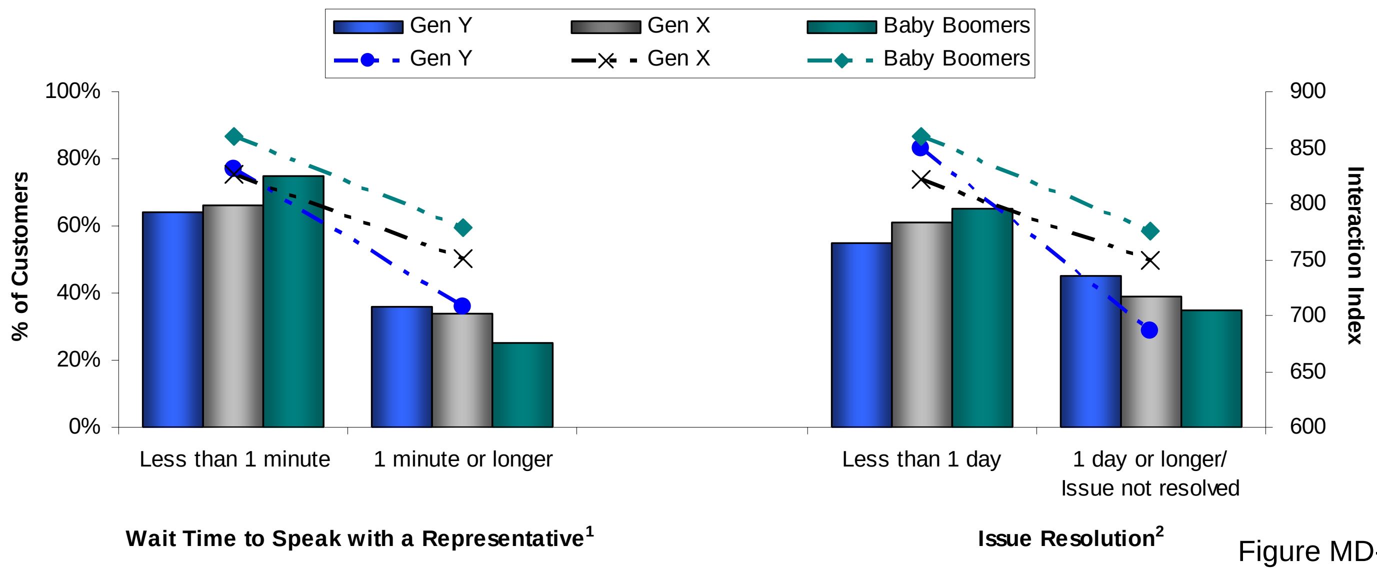

Figure MD-3

Source: J.D. Power and Associates 2010 Homeowners Insurance Study.
[1]Note: Combines Agent and Call Center Interaction Channels
[2]Note: Combines Agent, Call Center, and Web site Interaction Channels

Lower Claims satisfaction among Gen Y customers is driven by frustrations with claims policies and procedures. Also impacting this score is a higher rate of Gen Y customers who experience a claim for the first time, highlighting a need for insurers to more clearly explain the process and timing. The *J.D. Power and Associates 2010 Auto Insurance Claim Study*,[SM] scheduled for publication in October 2010, will address these differences in expectations and provide recommendations on how to effectively serve Gen Y customers during the claims process.

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Figure MD-2 shows that satisfaction with Price of the homeowner policy is highest among Gen Y customers, compared with customers in both Gen X and Baby Boomers. One explanation of this higher satisfaction is that premiums paid by Gen Y customers are typically lower, given these customers are usually in smaller “starter” homes with lower replacement costs, and thus, smaller premiums. Figure MD-4 compares auto and homeowner premiums across generations; for comparison purposes, the data reflects premiums among customers who bundle their auto and homeowners policies (Bundlers). Bundled Gen Y homeowners are more than twice as likely to have annual homeowners premiums that are $500 or less per year, compared with other generational cohorts. Furthermore, across generations, it is far less likely for an annual auto premium to be $500 or less annually, leading to a much higher ratio of Gen Y customers who pay less for homeowners than auto insurance. This finding suggests that the lower premiums for their homeowners policy helps drive higher satisfaction with Price among Gen Y customers.

Bundled Customers: Annual Premium $500 or Less

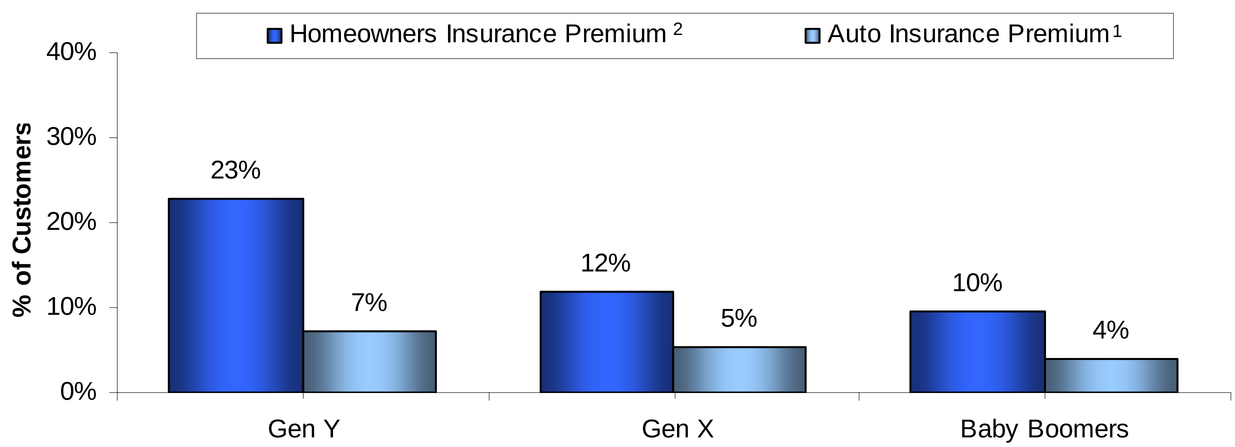

Figure MD-4

[1]**Source: J.D. Power and Associates 2010 National Auto Insurance Study.**
[2]**Source: J.D. Power and Associates 2010 Homeowners Insurance Study.**

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Satisfaction and Loyalty among Bundlers

Findings show that customers who bundle auto and homeowners policies are significantly more satisfied than those who purchase their policies from separate insurers. Figure MD-5 illustrates this relative gap in satisfaction by generation. Satisfaction varies by nearly 100 index points between Bundled and Non-Bundled homeowners, most notably among the Baby Boomers and Gen X generational groups. Consequently, these highly satisfied Bundled customers are more loyal to their current insurer, which translates into higher policy retention and long-term financial return.

CSI by Generation by Bundling

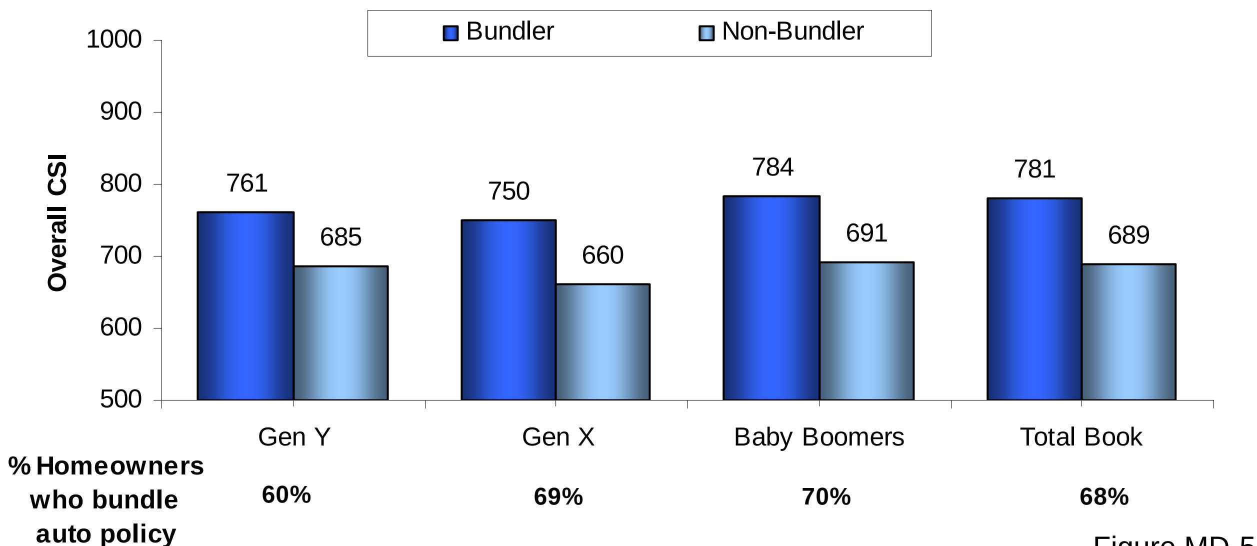

Figure MD-5

Source: J.D. Power and Associates 2010 Homeowners Insurance Study.

To further illustrate another positive effect of bundling, Figure MD-6 shows a comparison of auto and homeowners policy retention rates among generational cohorts who bundle and who purchase policies from separate insurers. Across generations, bundling home and auto policies provides a significant lift in retention, especially when compared to customers with unbundled auto policies who have the lowest levels of retention. While unbundled home policies are more likely to be retained than unbundled auto policies across generations, the highest retention rates are among bundled policyholders—well above 90%.

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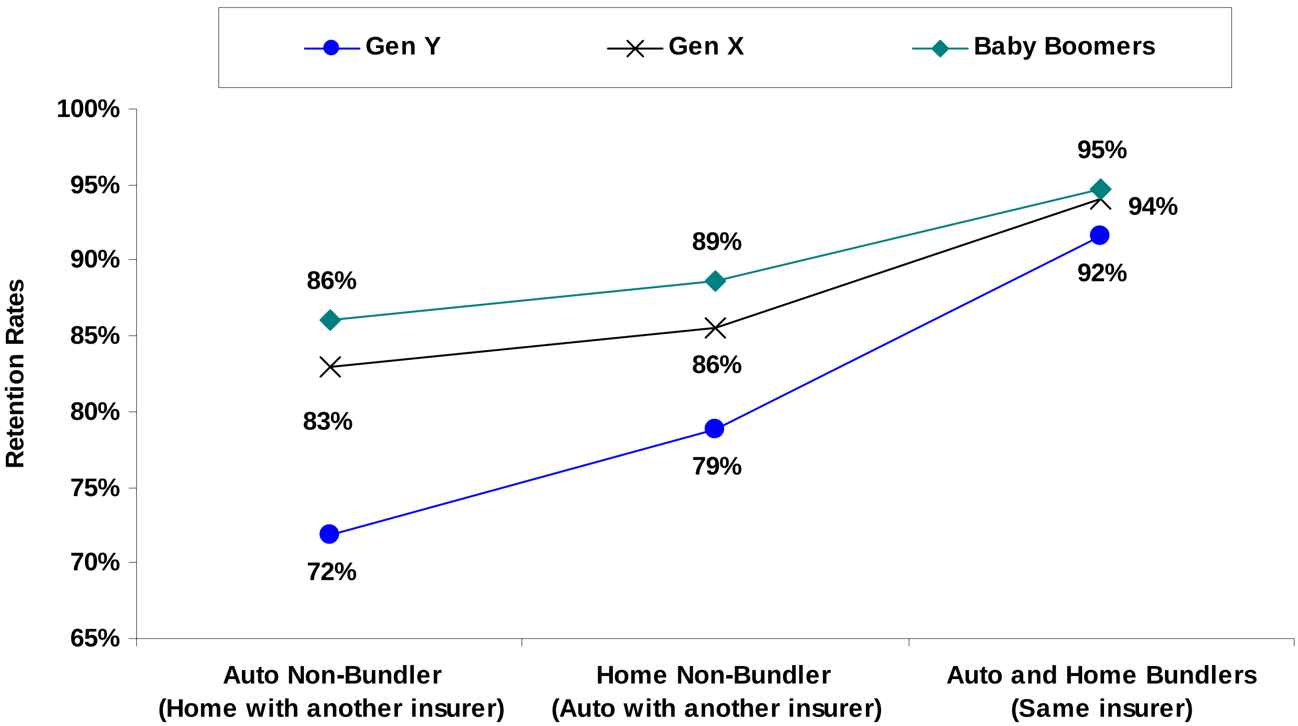
Policy Retention Rate Analysis



Source: J.D. Power and Associates 2010 Insurance Screener.

Figure MD-6

Gen Y customers are the least likely to be retained across product lines when they purchase auto and homeowners policies separately, yet when Gen Y customers bundle their auto and homeowners products, they behave similarly to their older generational counterparts. Gen Y retention rates range from a low of 72% among unbundled auto customers to a high of 92% among bundled auto and homeowners policies. This 20-point improvement suggests Gen Y retention is far more sensitive to bundling than it is to customers in other generational cohorts. Insurers that are able to successfully move Gen Y customers into bundled policies clearly position themselves for the financial benefits of retaining this growing generation.

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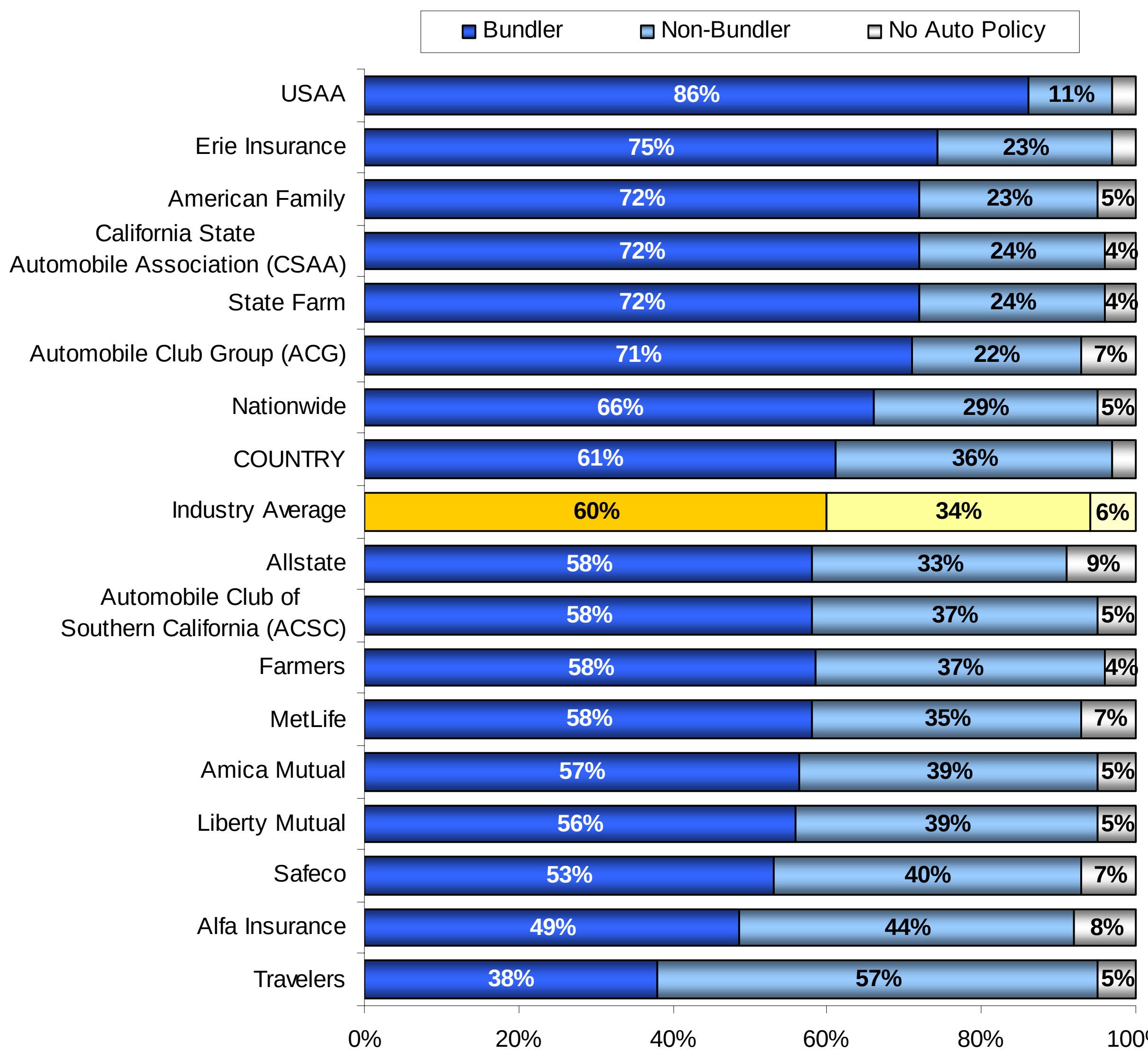
Successfully Bundling Homeowners Customers

Two homeowners insurers who are successfully bundling the Gen Y homeowner market are USAA and Erie Insurance—each bundling 75% or more of Gen Y homeowners (Figure MD-7). USAA leads the industry, with 86% of Gen Y homeowners bundling their auto and homeowners policies, and with just 11% of USAA homeowners placing their auto policy with a competing insurer. Comparatively, one-third of Gen Y homeowners, on average, place their auto policy with another insurer, representing a missed opportunity to insure a sizable share of high-value customers. Insurers capturing the fewest bundled customers are Travelers, Alfa Insurance, Safeco, and Liberty Mutual. As the Gen Y cohort matures, the ability to communicate the various insurance product offerings and create opportunities to cross-sell will help insurers penetrate this customer base.

Gen Y Bundling



Source: J.D. Power and Associates 2010 Insurance Screener.

Figure MD-7

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Which Insurers Are Most Successfully Capturing the Gen Y Market?

Insurers profiled in Figure MD-8 represent some of the largest property insurance companies in the industry, comprising 63% of the national market share[2] in terms of total premium. These insurers capture 71% of Gen Y homeowners, suggesting that the less well-known insurers are underperforming in gaining the attention of Gen Y customers. Findings from the *J.D. Power and Associates 2010 Insurance Shopping Study[SM]* show that Gen Y customers are far less likely to have unaided awareness of brands other than the top 10 in market share, compared with customers in other generational cohorts.

While these insurers are successfully capturing more Gen Y customers as a whole, the results differ significantly on an individual insurer level. Most notably, ACG, USAA, and American Family each capture a far greater proportion of Gen Y homeowners than their overall property insurance market share. In contrast, Farmers and Nationwide—two insurers that represent a sizable share of the property market, each capture significantly fewer Gen Y homeowners, relative to market share.

Three insurers garner the largest shares of Gen Y homeowners: State Farm, Allstate, and USAA. While these insurers are equally effective in capturing Gen Y customers in the auto insurance market, they are able to capture even higher proportions of Gen Y homeowners. This highlights the ability of these insurers to offer their Gen Y customers both bundled products and discounts.

Insurers with Highest Shares of Generation Y Customers

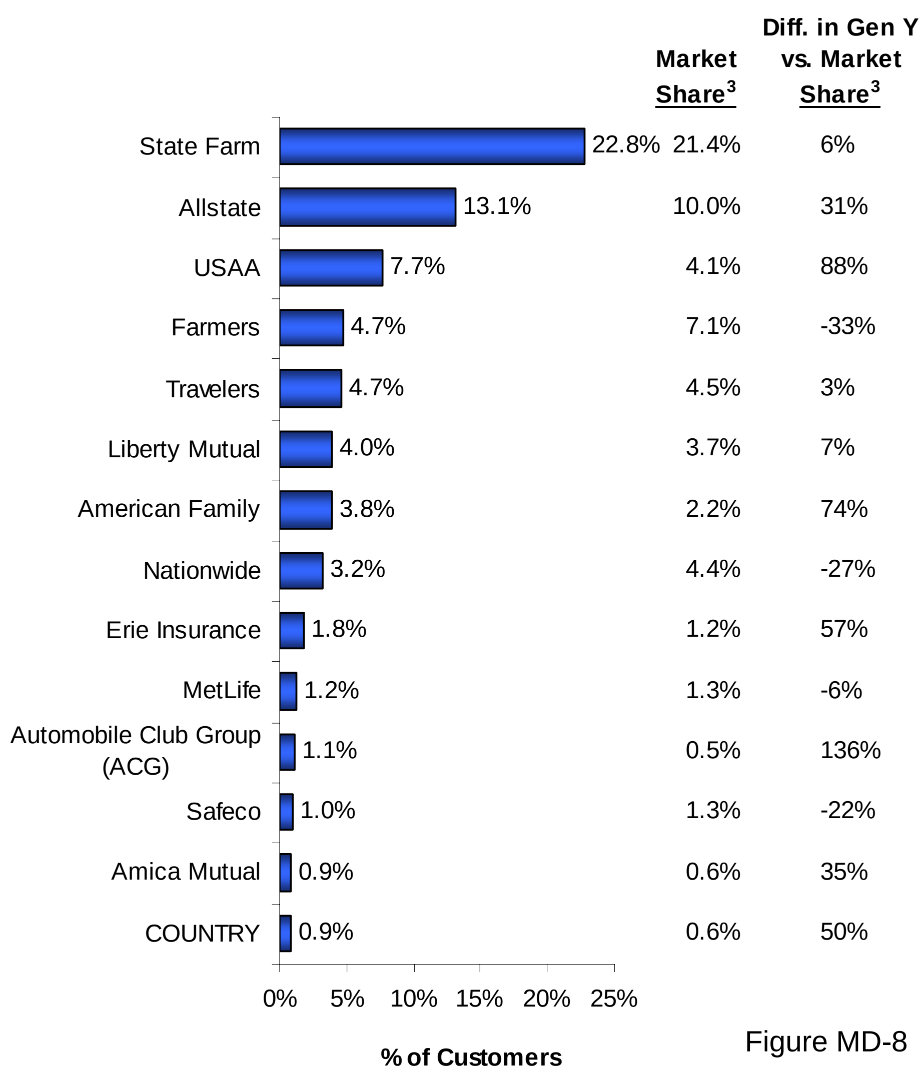

Figure MD-8

Source: J.D. Power and Associates 2010 Insurance Screener.
[3]A.M. Best 2008 Insurance Industry Financials based on statutory filings (reported in 2009).

[2] Source: A.M. Best 2008 Insurance Industry Financials based on statutory filings (reported in 2009).

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Conclusion

This management discussion, the third in a series of four this year that focus on the unique behaviors and expectations of Generation Y customers in the property and casualty insurance markets, highlights the challenges faced by the industry in servicing these often critical policyholders as they enter homeownership. Findings suggest Gen Y customers are less different than customers in other generational cohorts as they move through life stages, such as marriage and home ownership, and perceive more value in the homeowners product than do customers in other generational cohorts. One similarity in particular is the positive lift in satisfaction among Gen Y customers that may be achieved when their insurer can deepen the relationship through bundling multiple policies. This has a dramatic effect on retaining these customers long term, compared with their unbundled Gen Y counterparts. Insurers that have successfully executed on this bundling strategy are also acquiring customers in this generational cohort at a faster rate than their overall market share and are positioned for future growth. Conversely, companies that lag in their efforts to capture these customers may feel the negative financial effects well into the future, as Gen Y will soon grow to become the largest generational cohort. However, insurers should not be lulled by current satisfaction scores provided by Gen Y customers. While bundling increases satisfaction and retention, Gen Y customers are still far more critical and demanding of the service interactions with their insurer. Insurers must understand these expectations and be prepared to serve Gen Y customers in the manner in which they want to be served. Effectively leveraging the findings of the *2010 National Homeowners Insurance Study* may serve as an initial step in this direction.

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