

# National Homeowners Insurance Study<sup>SM</sup>

## THE IMPACT OF PRODUCT BUNDLING ON CUSTOMER LOYALTY

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*Insurance Practice*

## Introduction

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 *2012 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 31 of the largest personal property insurance providers in the United States.

On the heels of the worst CAT year in US history, the homeowners insurance industry is understandably more focused on property lines than ever in the past decade. With premiums up an average of 19% year over year<sup>1</sup>, many industry executives are anticipating a period of policy churn in their books. In order to grow the business, it can be more effective to cross-sell additional products to existing customers than to acquire new policyholders. Penetrating additional products or lines into a household has an added benefit in terms of tenure that has a significant, accretive benefit to revenue over time. It is therefore imperative that insurance companies understand customer attitudes toward bundling as well as how other insurers successfully sell additional policies.

The strategy of offering and incentivizing bundling of insurance products has been around for years and much of J.D. Power's previous analysis on the topic has focused primarily on auto and homeowners bundling, the most frequently bundled product pair. This management discussion identifies the further benefits of bundling additional products as well, focusing primarily on the following products: auto; personal liability umbrella; individual life; recreational vehicles (including motorcycle/ATV, personal watercraft, and RV); and second homes. The following topics are examined:

- The impact of bundling, by line, on customer satisfaction
- Which policies have the highest rates of being bundled
- The factors that lead to customers bundling insurance policies
- Which carriers are successfully penetrating existing relationships, sometimes referred to as share of household

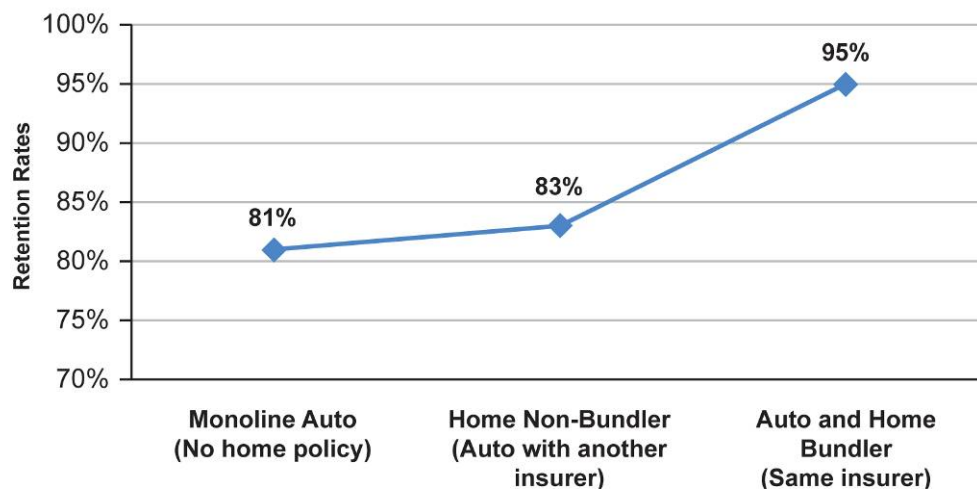
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<sup>1</sup> Source: Homeinsurance.com 2011 rate report—*Homeowners facing a 19% increase nationwide*, May 16, 2012.  
<http://homeinsurance.com/press/homeinsurance.com-releases-2011-ratereport-homeowners-facing-a-19-percent-increase-nationwide.php>

**The Impact of Cross-Selling and Bundling on Retention**

Each year, as part of the series of insurance studies published by J.D. Power and Associates, more than 150,000 households are surveyed to identify customers' shopping and switching behaviors with their auto and homeowners policies within the previous 12 months. The overall industry retention rate of homeowners policies was 89% from 2011 to 2012. Retention rates vary greatly among insurance companies and different customer segments tend to be more loyal than others—for example, a customer's age, tenure with their insurer and bundling of products are all factors that have a notable impact on retention. To illustrate the positive effect of bundling, Figure MD1 shows a comparison of policy retention rates among customers who bundle auto and homeowners policies and those who purchase policies from separate insurers. While the overall retention rate is 89%, the retention rate among customers who bundle their homeowners and auto policies is significantly higher (95%) when compared to customers who purchase auto and homeowners with different insurers (83%).

**Policy Retention Rate Analysis**



**Figure MD1**

The finding that customers who have more than one policy with an insurer are less likely to switch their insurance upon renewal crosses all generational groups.<sup>2</sup> According to the management discussion in the *J.D. Power and Associates 2010 National Homeowners Insurance Study*<sup>SM</sup> titled, “Gen Y Homeowners: Servicing a Maturing Consumer Segment,” retention rates across all generational groups were significantly higher among customers who bundled their auto and homeowners policies than among those who did not bundle them. While the analysis in the 2010 management discussion focused only on the combined impact of bundling auto and homeowners policies, there is an even further incremental lift in retention when multiple products in addition to auto are combined with a homeowners policy. The balance of this management discussion explores the added benefits of bundling the following products with a homeowners policy:

- Auto insurance
- Personal liability umbrella

<sup>2</sup> J.D. Power and Associates defines generational groups as Pre-Boomers (born before 1946); Baby Boomers (1946-1964); Generation X (1965- 1976); and Generation Y (1977-1994).

- Individual life (purchased separately from work)
- Recreational vehicles (including motorcycle/ATV, personal watercraft, and RV) and
- Secondary home insurance

**The Impact of Bundling Insurance Products on Customer Satisfaction**

As shown in Figure MD2, not only is satisfaction lowest among customers who do not bundle additional products with their homeowners policy, but also these customers are the least likely to say they “definitely will” renew with their homeowners insurer. The primary reason for this lack of commitment to their home insurer is that more than 90% of these customers have another insurance policy, most frequently auto, with a different insurer. In fact, many of these monoline homeowners customers have multiple policies with other insurers, which further erodes their stated intention to renew their homeowners policy with the same insurer. Bundling the auto and homeowners policies is typically the first and most influential step in creating a longer-lasting relationship with customers. The benefits are substantial when examining the levels of satisfaction and stated retention among customers who bundle one additional product with their homeowners policy, as both overall customer satisfaction (+80 points on a 1,000-point scale) and stated retention (+18 percentage points) are significantly higher, compared to those who do not bundle an additional product with their homeowners policy.

The levels of satisfaction and stated retention increase further when a second additional product is bundled with the homeowners insurer. As customers’ insurance needs grow and more products are added to the portfolio, customers are inclined to keep their policies together with one insurer, as illustrated below by the high rate of product penetration with the homeowners insurer. Customers with multiple products recognize the benefits of bundling their policies with one insurer, with high rates of stated retention among those who bundle three or four additional products.

**Impact of Bundling Multiple Products**

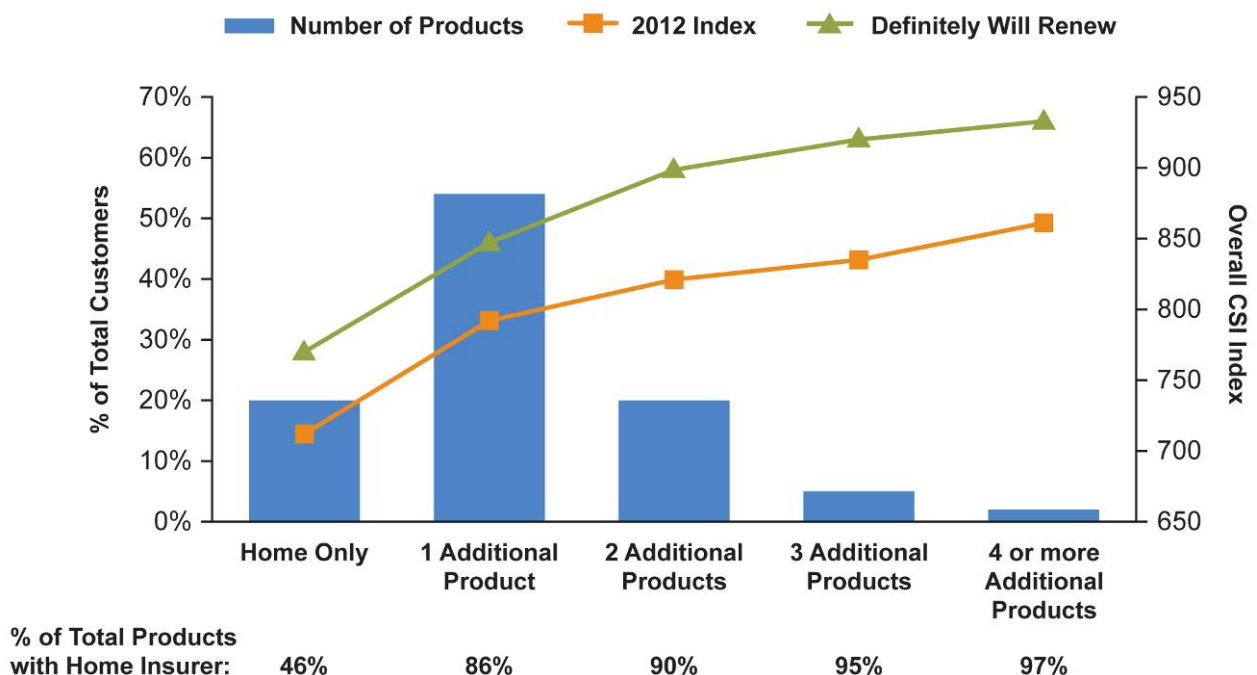
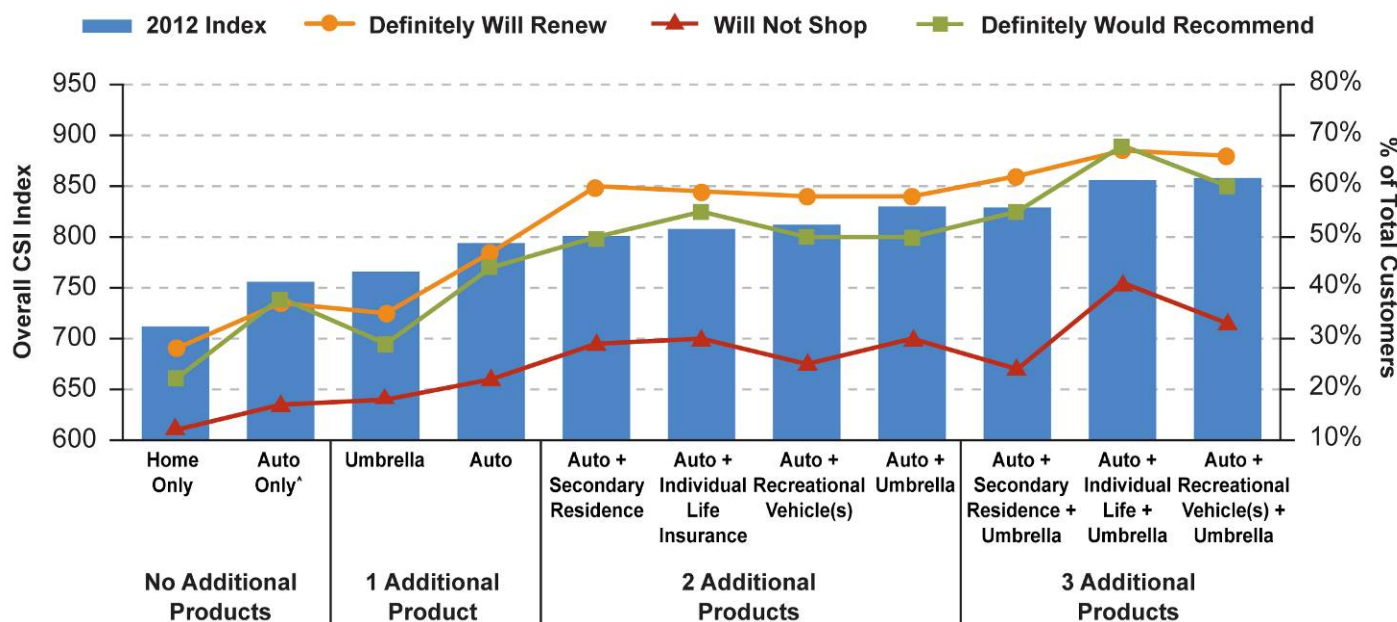


Figure MD2

The benefits of further penetrating the insurance needs of customers by combining additional policies are clear; however, not all policies provide an equal positive impact on both customer satisfaction and stated retention. Figure MD3 shows the most common additional products bundled with homeowners insurance and the gains in satisfaction and retention yielded by each combination. As shown in Figure MD2, satisfaction and stated retention are lowest among customers who have only a homeowners policy with their insurer. While adding one additional policy provides a notable lift in satisfaction and retention, the benefits are greater when the additional product is an auto policy, compared with an umbrella policy.

**Impact of Commonly Bundled Additional Products**



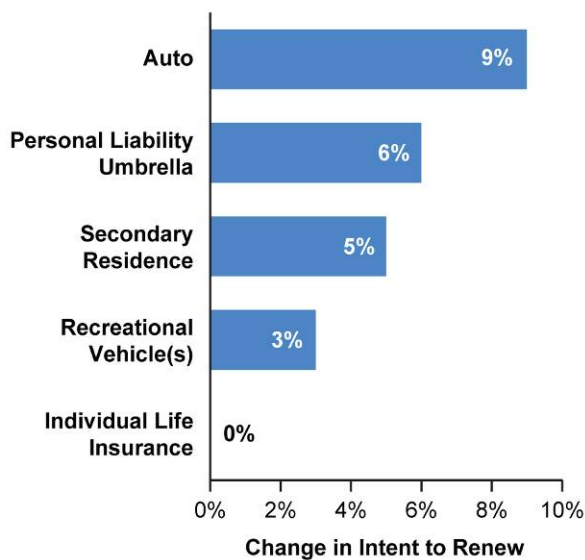
*\*Data from J.D. Power and Associates 2012 National Auto Insurance Study<sup>SM</sup>*

**Figure MD3**

To further expand on the additional impact each product contributes to customer satisfaction and stated retention, an analysis was conducted to determine the unique impact of each product. (Figure MD4) Clearly, bundling auto and homeowners policies provides the largest lift in stated intent to renew (+9 percentage points), followed by umbrella insurance (+6 percentage points). Moreover, while the data shown in Figure MD4 reflects the unique impact each product has on stated retention and satisfaction, the impact may have an accretive effect as multiple policies are added—for example, adding both auto and umbrella policies yields a 15-percentage-point increase in the rate of stated retention.

In contrast, life insurance policies do not provide any additional lift to stated retention with the P&C products. This may be due to the unique nature of life insurance—customers do not have the ability to move a policy between insurance carriers so the potential to save money by switching does not exist as in the other P&C policies. That is not to say that bundling life insurance does not provide benefits to customers, but rather the analysis indicates that other policies provide more of a lift in retaining customers.

**Impact on Retention**



**Impact on Overall CSI**

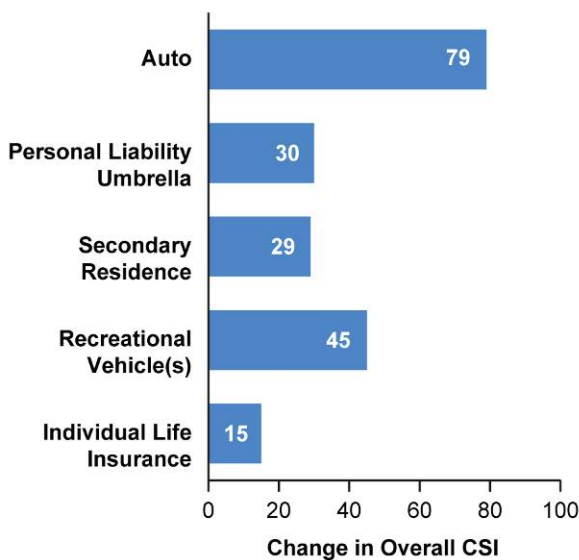


Figure MD4

**Products with the Highest Penetration of Being Bundled**

The most common product to be bundled with a homeowner policy is auto, which is typically customers' first purchase with an insurance company. Since both are regulated coverages this is perhaps not surprising. As shown in Figure MD5, the incidence of customers who have both homeowners and auto insurance policy is 97%, with a bundling rate of nearly 80%. In a comparison of generational cohorts, Gen Y is the least likely to bundle homeowners and auto with the same insurer at only 73%; the bundling rate increases to 77% among Gen X and maintains near this level for the other age cohorts.

**Incidence of Bundling Products**

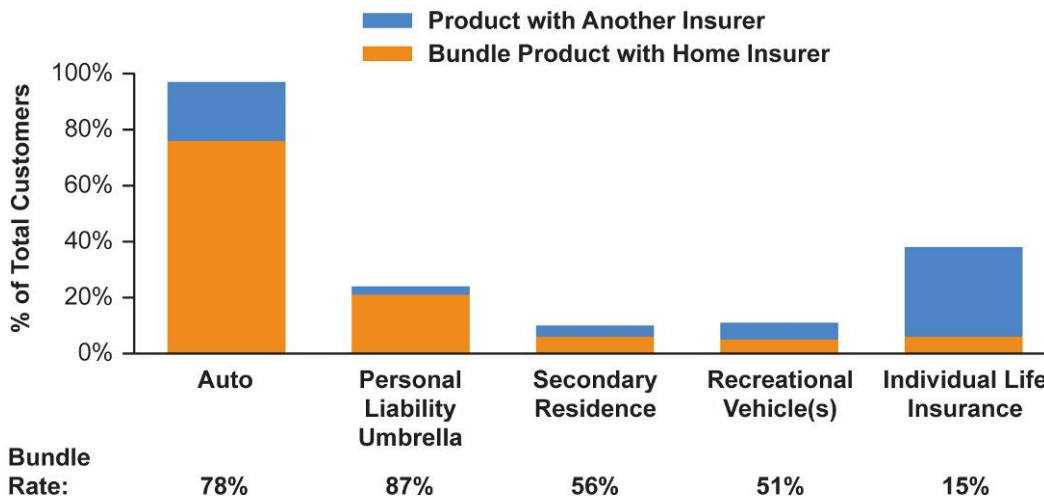


Figure MD5

Following auto insurance, the next-most-often bundled product is a personal liability umbrella policy. Unlike auto insurance, for which approximately 20% do not bundle the product with homeowners insurance, umbrella insurance has a very high rate of bundling (87% of those who own the product bundle it with homeowners), which is consistent across generational groups. The high bundling rate suggests customers are more open to cross-sell opportunities when they are presented with them, as nearly 40% purchase an umbrella policy after they purchase their homeowners policy. Agents are more successful in selling umbrella policies, as nearly 40% of customers indicate an agent recommendation was the reason for purchasing their policy. However, with only 25% of customers having an umbrella policy, there is room to further penetrate this product into existing customers.

Understanding which customers purchase and bundle the different types of policies may help insurers develop a more targeted marketing approach to selling insurance policies. Figure MD6 provides a high-level overview of some of the demographic differences among customers who purchase the four specific products. Umbrella policies are much more prevalent among customers with higher income, as they presumably have more assets to protect in an increasingly litigious society. The incidence of customers owning these policies increases from 14% among customers with household income less than \$70,000 to 24% among those with between \$70,000 and \$124,999 in income, and increases to 36% among households earning \$125,000 or more. Given that customers in Gen X and Gen Y typically have fewer financial resources, umbrella policies are more often purchased by those in the Pre-Boomer and Boomer generational groups.

In contrast, younger customers are more likely to bundle their life policies, indicating that as they move through significant life events, such as marriage and starting a family, and begin considering purchasing a life policy, their first inclination is often to look toward their current homeowners insurer to purchase life insurance. As such, when a customer first determines they need to buy life insurance, the bundling of that product with their auto or homeowners will have an incremental effect on customer retention performance. It is only over time therefore, as households move and carriers change, that the legacy life policy has a diminished effect on persistency.

**Demographic Profile by Product**

Products	% Bundle with Home Insurer	Demographics
Personal Liability Umbrella	21%	Older, Empty nesters Highest education, Most affluent
Individual Life Insurance	6%	Youngest—29% (Generation Y/Generation X) Families—34% (Have Children)
Recreational Vehicle(s)	6%	Younger, Less affluent, Less education Live in rural areas
Secondary Residence	6%	Oldest, Affluent, Empty nesters

**Figure MD6**

**Drivers of Product Density**

Understanding which customers are buying specific products as well as which products have a higher tendency to be bundled are important steps in developing strategies to penetrate existing customer relationships. Another key element is knowing which factors have the greatest influence on whether customers will bundle their products with their homeowners insurer. The following analysis examines several factors from the study with respect to their impact on driving further product density (i.e., having multiple products with one insurer). Figure MD7 shows the factors with the greatest impact on driving product density with homeowners insurers.

Multi-policy discounts were the single largest driver, accounting for more than one-half of the influence on product density. Multi-policy discounts, which are often greater than other discounts, offer a convincing argument to purchase the products together, given the cost consideration involved in purchasing insurance. Following price and discounts, the next largest driver is delivering a satisfying customer experience and achieving high overall customer satisfaction scores. There is a strong relationship between providing satisfying customer service and the willingness of customers to purchase more products from their insurer.

**Drivers of Overall Product Density**

Drivers of Bundling	Driver Impact
Overall CSI	Medium
Generation Y	Low
Agent-Serviced	Low
Multi-policy discount	HIGH
Annual policy review	Low
Receive outbound communications	Low

**Figure MD7**

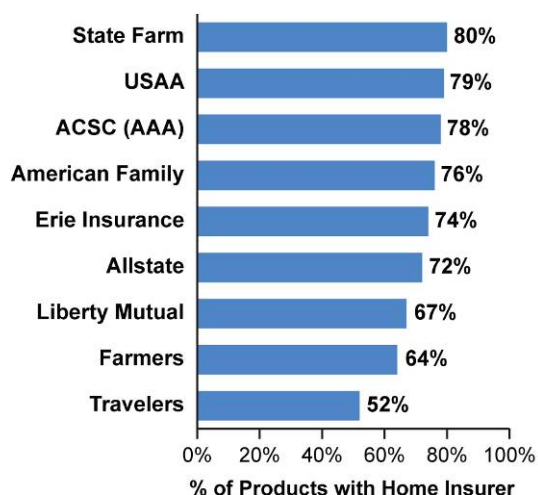
Other factors that influence overall product density are customer age—Gen Y has a higher rate of bundling products, compared with the older generational groups—and having a local agent. Agents have the advantage of a local presence and are able to provide more of a consultative approach to customers’ entire range of insurance needs, often in person, as reflected in higher bundling rates among Agent-served customers and a higher incidence of customers who say that the agent was an influence on their decision to purchase some of the products in the first place. The local nature of an agent presents a challenge for Direct insurers to overcome in order to provide these customized consultative services without a sales agent to conduct face-to-face meetings. Communicating regularly with customers is a way for both Agent and Direct insurers to help achieve further product density, particularly through offering customers annual policy reviews, which allows insurers to stay abreast of changes in the insurance needs of customers and to offer products at the right time.



**Insurers with the Highest Performance in Product Penetration**

On average, insurers that execute several of the drivers of product density outlined in Figure MD7 have a greater rate of product density across their customer base, compared with those that do not consistently execute on these drivers. To better demonstrate the relationship between executing on the drivers and actual product density, Figure MD8 shows the percentage of insurance products that are bundled with each insurer listed. Clearly not all insurers have all product lines to offer or may be selective in who they will service through underwriting (e.g., coastal risk in homeowners, driving record for auto, health condition for life, etc.) That said, State Farm has the highest rate of bundling all household insurance products (80%). The table on the right shows the insurer’s relative rank position for each of the drivers. State Farm achieves a high product density through offering multi-product discounts; delivering a strong service experience; and communicating regularly with customers, in part through agents conducting annual policy reviews.

**Household Product Density by Insurer**



**Performance Relative to All Profiled Insurers**

Share of household	Multi-policy discount	Overall CSI Score	Generation Y	Agent-serviced	Annual policy review	Received outbound communication
1	3	805	20	2	3	3
3	16	910	13	31	5	1
4	1	824	21	23	21	3
8	9	815	8	4	1	6
13	10	822	9	8	17	13
17	19	782	4	15	2	9
24	22	763	14	25	28	16
26	25	760	11	13	7	15
29	29	752	15	24	24	30

**Figure MD8**

USAA also has a high product density across their customer base, which is accomplished without the use of local agents or a very high rate of multi-product discounts. Instead, USAA excels in delivering an outstanding customer experience and communicating regularly with their customers about additional products and services and through offering annual policy reviews.

In contrast, some of the insurers with much lower product density do not perform well across several of the drivers. Even when an insurer performs well in one area, it may be difficult to further bundle products if the insurer underperforms in the more important areas. For example, Farmers is among the 10 highest performers in offering customers annual policy reviews, but does not perform as well in overall product density, which may be related to not being as competitive in offering multi-policy discounts or delivering outstanding customer service.

## Drivers of Bundling by Product Line

Strategies to further penetrate the overall insurance needs of customers may begin with developing specific marketing strategies or sales efforts focused on one specific product at a time. It is therefore important to understand if the underlying drivers of product bundling are different for each product to assist in developing product-specific strategies. Since each of the products has unique characteristics due to the needs of customers purchasing them and different rates of being bundled, the drivers of bundling also show differences when examining the bundling rate of each product in isolation. Figure MD9 shows how the impact of each driver changes based on the product line. Due to the high impact of offering multi-policy discounts, this driver is removed from the analysis to better highlight the differences in impact of the remaining factors on influencing product bundling.

### Driver Impacts by Product Line

Drivers of Bundling	Auto	Recreational Vehicle(s)	Personal Umbrella	Individual Life Insurance	Secondary Residence
Overall CSI	HIGH	HIGH	HIGH	Medium	Low
Generation Y	Low	--	--	HIGH	Low
Generation X	Low	Medium	--	HIGH	Medium
Baby Boomer	--	--	--	--	Medium
Agent-serviced	Medium	HIGH	HIGH	Low	Low
Number of discounts (non multi-policy)	Medium	Low	Medium	Medium	HIGH
Annual policy review	HIGH	HIGH	Low	Medium	HIGH
Informed of other products/services	--	Low	HIGH	Medium	--
Received outbound communications	HIGH	Medium	Medium	Low	Medium

Note: High, medium, low scale is relative to each product line

**Figure MD9**

While many of the drivers have a high impact on multiple product lines, there is much variation when comparing the drivers across different products, suggesting there are different approaches insurers can take in their efforts to drive further product penetration. For example, conducting annual policy reviews has a high impact on bundling additional items the customer may own, such as a recreational vehicle or second home. These reviews can provide an opportunity for cross-selling other products as they serve as a great opportunity for the insurer to stay informed of their customers' insurance needs, allowing them a better chance of offering the product at the right time when the customer makes a new purchase or addressing the benefits of bundling if the customer has existing policies with another insurer.

A strategy for further penetrating umbrella policies may lean on the relationships fostered by local agents, which have a high impact on bundling umbrella policies. Informing and educating customers on other products and services has a high impact on bundling umbrella as well, so insurers who can lean on their agency force to help inform and recommend these products may have a better chance on cross-selling and bundling an umbrella policy. A leading reason for purchasing an umbrella policy is due to an agent recommendation, so clearly the consultative approach by agents to provide the household a more tailored insurance package should be leveraged when possible.

## Conclusion

In the competitive marketplace of P&C insurance, insurers need to constantly monitor and refine their marketing and product strategy to ensure their product offerings are reaching the right customers at the right time. Given the lower bundling rates of several products highlighted in this management discussion, insurers have several opportunities to develop product bundles and strategies to market them more effectively by targeting specific life situations or certain demographics in order to meet the needs of current customers and potential prospects. Knowing which drivers have more of an influence on bundling particular product lines allows insurers to develop a targeted bundling strategy incorporating these most impactful drivers which may help maximize the effectiveness of further penetrating product offerings.

Communication is key in executing a product bundling strategy and through regularly offering policy reviews and informing customers about other products and services, insurers can stay in touch with their customers and be aware of life events that may result in new insurance needs. Due to customers becoming increasingly price sensitive in recent years, pricing strategies are an important element in bundling products as well. Effectively developing and communicating multi-policy discounts is a key driver in product density as the financial reward of persistency on multiple lines may even outweigh the premium profit on the incremental line sold. For some who may be quick to dismiss the cheaper umbrella policy for example, the real benefit to the customer as well as the agent and insurer is important to highlight.

Another important factor in enabling the cross-sell opportunity to be maximized is ensuring the customer service experience is a priority, as prior experiences with the insurer contribute considerably to the decision to purchase additional products with the current insurer. The full analysis available in the *2012 Homeowners Satisfaction Study* may help guide the way in targeting key behaviors that provide a more satisfying customer experience. The full study provides detailed service practices, brand-level comparisons of the 31 largest homeowners insurance companies, and year-over-year trending to help insurers better understand areas that need improvement and identify areas of competitive strengths and weaknesses.

Insurers that are able to effectively incorporate these elements into the product and bundling strategy stand to benefit financially, since penetrating household insurance needs may yield higher retention rates and increased revenue now and in the future.

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