



2012 Property Claims Satisfaction StudySM

**A MANAGEMENT DISCUSSION BASED
ON THE 2012 PROPERTY CLAIMS
SATISFACTION STUDY**

March 2012

Insurance Practice

Overview

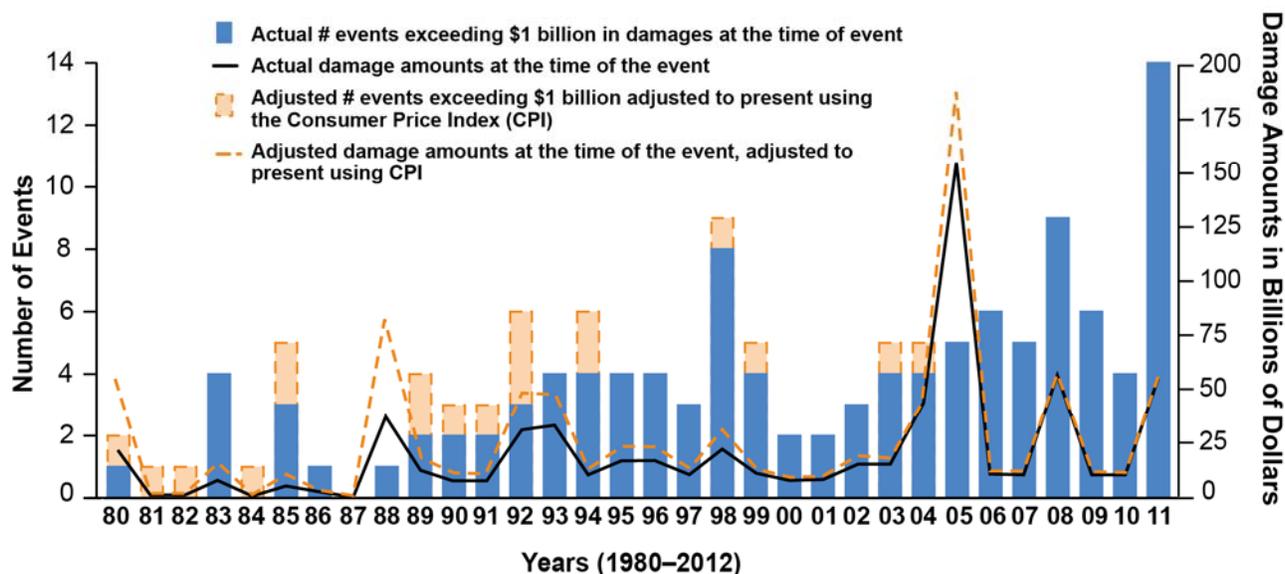
J.D. Power and Associates has provided carrier level benchmarks of overall customer satisfaction with homeowners insurance for more than a decade. In 2008, the company launched the *Property Claims Satisfaction Study*, which focuses specifically on the key drivers of satisfaction with the property claims experience—the ultimate moment of truth for any insurance customer. This study measures insurer performance throughout the entire homeowner’s claims experience, from first notice of loss (FNOL) through the repair of the home. The 2012 study represents claims handled primarily in 2011.

During the previous four years of this study, claimant satisfaction has remained relatively stable. While there have been some fluctuations in scores over the years, the results published in the 2011 study (representing claims handled primarily in 2010) were only 3 points different than in 2008 (823 vs. 826, respectively). So with claim satisfaction historically maintaining a relatively stable level, this white paper will examine the impact that increased natural catastrophe (CAT) activity in 2011 had on customer’s perception of claim handling. The analysis will highlight states in three regions that had large increases in the number of specific CAT events.

Background

Last year proved to be one of the most devastating years for insurers with record breaking storm losses and some of the largest claim payouts ever recorded in the US property insurance industry. Several insurers have reported their 2011 losses rivaled the 2005 hurricane season in the Gulf. Insurers were impacted by an unprecedented number of CAT events in the US in 2011, resulting in CAT-related losses more than doubling the total reported in 2010. Figure 1 provides a historical comparison of the total number of disasters that incurred over one billion dollars in damages in a calendar year. There were a total of 14 billion-dollar events in 2011, the most ever recorded since this tracking began over 30 years ago.

Billion Dollar Weather/Climate Disasters (1980–2011)



Source: NOAA/NESDIS/NCDC

Figure 1

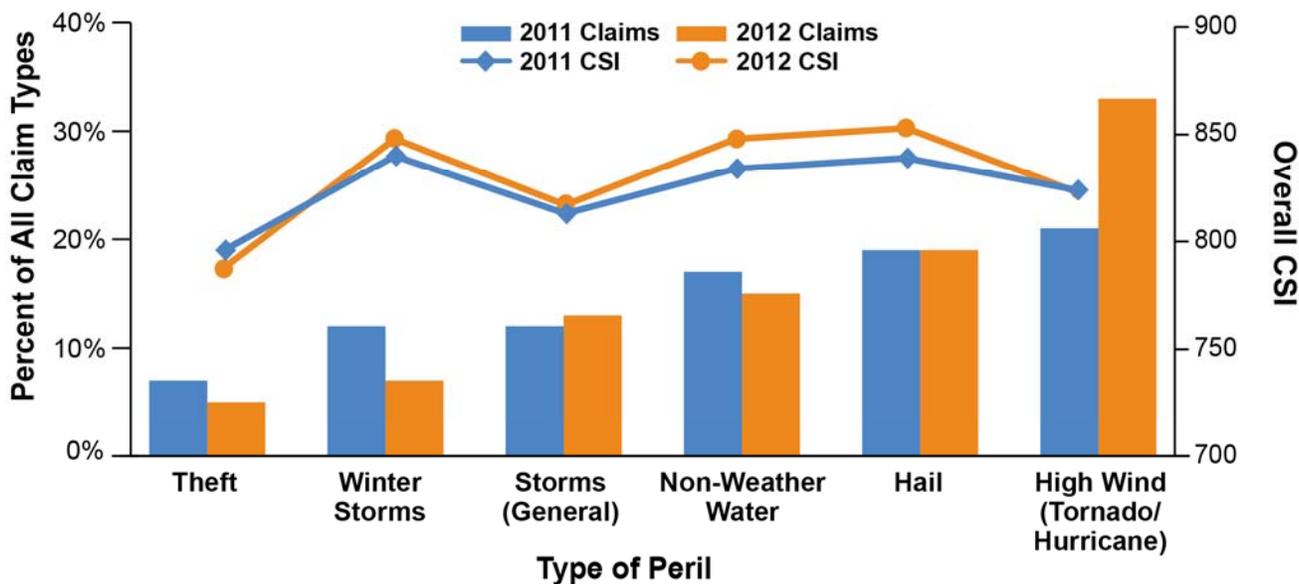
In addition to the 14 billion-dollar events, according to the Insurance Information Institute, the federal government issued 99 disaster declarations in 2011, a record.¹ Furthermore, losses due to thunderstorms (hail and tornadoes) this year exceeded \$25 billion, more than double previous records and nearly one-half of all damage, according to the Insurance Information Institute. Some states were struck repeatedly throughout the year which further strained claims resources for many insurers in these regions; the months of April and May were particularly bad for tornadoes.

Due to this increase in CAT activity, J.D. Power and Associates anticipated there would be a decrease in overall claimant satisfaction in the 2012 study results due to several factors: an increased use of independent adjusters; lengthened response and claim payment times; and the availability of qualified contractors and repair materials—all of which may have lengthen the claims process and, consequently, negatively impacted satisfaction.

CAT Impact on Satisfaction in 2012

As displayed in Figure 2, the increase in the number of thunderstorms is evident in the *2012 Property Claims Satisfaction* study—customers reported a 50% increase in the occurrence of high wind claims, from 21% in the 2011 study to 33% of claims in the 2012 study (study results primarily reflect the prior year’s claims). However, when comparing the year-over-year index scores by peril, satisfaction has not been negatively impacted this year as a result of the increase in storm losses. Among claimants with hail damage, satisfaction scores were actually *higher* compared with results from the 2011 study.

Year-Over-Year Differences in Peril and Overall CSI



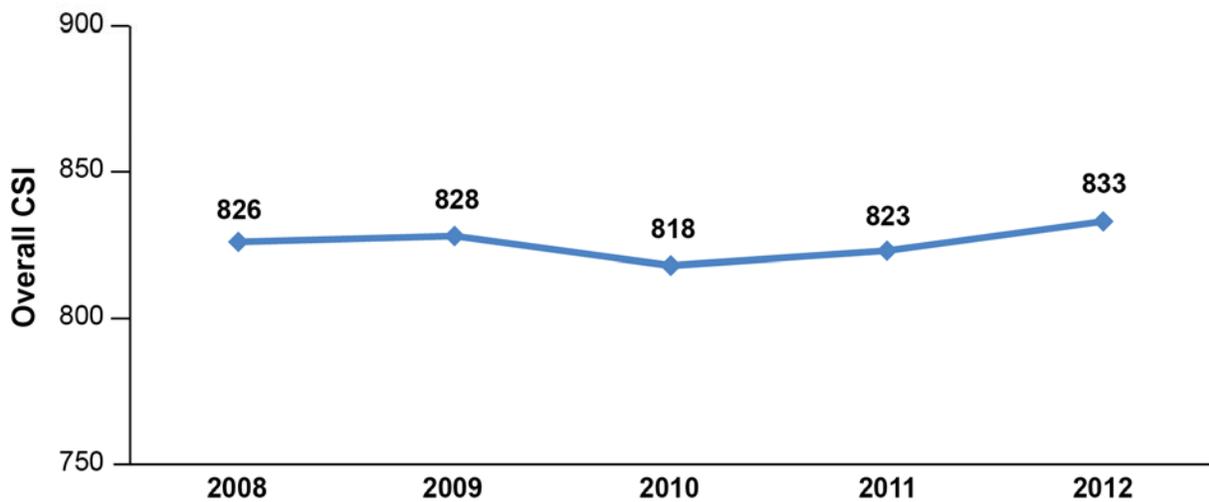
Source: J.D. Power and Associates Property Claims Satisfaction StudySM 2011-2012

Figure 2

¹ Source: Insurance Information Institute

As a result, overall industry property claim satisfaction in the 2012 study has increased by 10 index points from 2011. This is the largest increase we have observed during the 5-year period that J.D. Power has measured property claims satisfaction.

Overall Customer Satisfaction Index—5 year Trend



Source: J.D. Power and Associates Property Claims Satisfaction StudySM 2008-2012

Figure 3

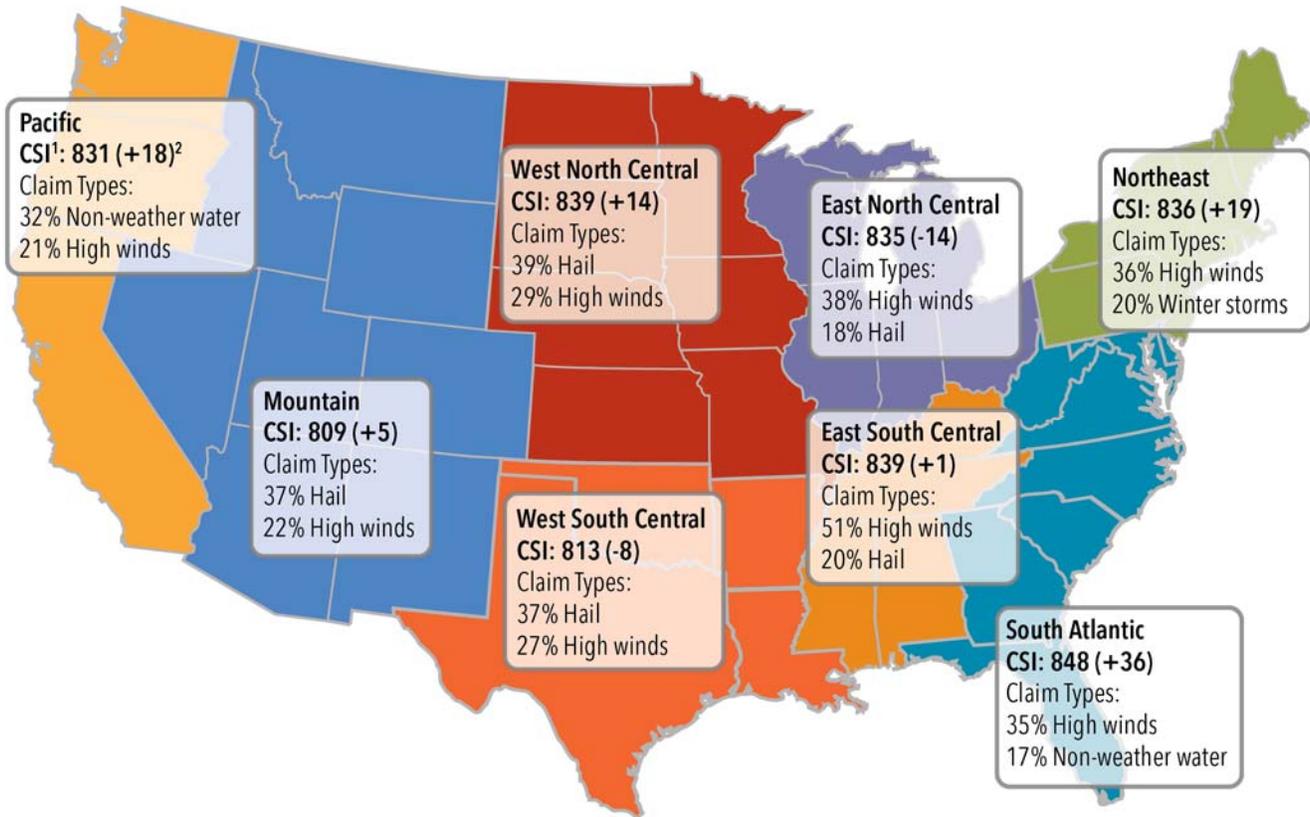
However, while the national average satisfaction score as measured in the *Property Claims Satisfaction Study* is trending upward, regional patterns vary. There are sizeable increases in some types of claims (mainly high wind and hail) in several impacted regions. Claimant satisfaction with claims handling varies when comparing year-over-year results for these regions. The following analysis focuses on key differences observed by region, highlighting the differential levels of claimant satisfaction in each marketplace, which is defined by both service experiences and underlying claimant expectations.

For this analysis, overall satisfaction was compared for eight regions of the contiguous 48 states and the top two types of peril for each region were identified. As shown in Figure 4, there are notable differences in the types of claims reported in each region, and claimants' perceptions of how their insurer is meeting their needs vary significantly, which is reflected in overall CSI scores this year. The most commonly reported type of claim in the Pacific region is non-weather-related water damage (e.g., leaks in plumbing or washing machines, etc.). Claimant satisfaction is high for insurers in this region. Hail claims are most frequent in the Mountain, West North Central and West South Central regions, and satisfaction scores vary in these regions—while there are increases in both the West North Central and Mountain regions, there is a decline in the West South Central region. Some of the states in the West South Central region had large swings in claim types, compared with the 2011 study, which may have impacted CSI.

The remaining regions all have higher ratios of high wind claims and, again, insurers' performance varies, compared with the 2011 results. Satisfaction increased in three of the regions: the South Atlantic region with an improvement of 36 points, followed by the Northeast region (+19 points) and the East South Central region (+1 point), but is significantly lower in the East North Central region (a decline of 14 index points).

Regional Differences in Peril and Overall CSI¹

INCLUDES INCREASE/DECREASE IN SATISFACTION FROM 2011



¹ Customer Satisfaction Index (CSI)

² Year-over-year difference in CSI

Source: J.D. Power and Associates Property Claims Satisfaction StudySM 2011-2012

Figure 4

The balance of this management discussion compares three regions that experienced notable shifts in the types of claims that were filed compared with the 2011 study and examines the differing levels of satisfaction in how customers perceived insurers responded to the increase in certain types of claims.

In the following analysis, J.D. Power has further segmented the regions in Figure 4 into three regions based on those states that experienced discernible shifts in the types of claims being serviced. The three regions are:

- ◆ South Central Region (Kansas, Texas, Missouri, Arkansas, and Tennessee): Insurers in these states experienced an increase in hail claims and satisfaction decreased from 2011.
- ◆ Midwest Region (Iowa, Wisconsin, Illinois, Michigan, Indiana, Kentucky, Ohio, and Pennsylvania): A large increase in high wind claims affected this region and Insurers in these states went from achieving the highest overall claimant satisfaction in 2011, to significantly declining in 2012.
- ◆ East Coast Region (Massachusetts, New Jersey, Maryland, Virginia, and North Carolina): Insurers in these states had notable increases in high wind claims yet achieved higher satisfaction in 2012.

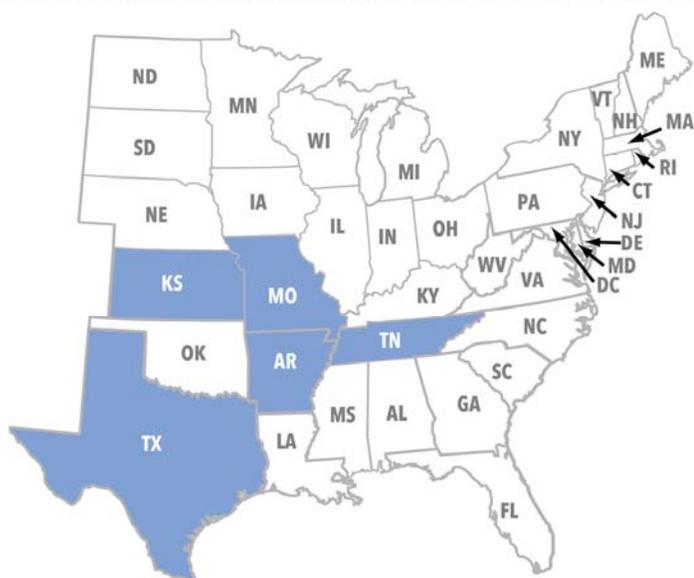
States Affected by Increased Hail Damage—South Central Region

The states in the South Central region (highlighted in blue in Figure 5) experienced a notable increase in hail activity throughout 2011. Hail damage comprised 42% of claims filed in this region, which represents a 40% increase from last year's study, when only 30% of claims were related to hail damage. As shown in Figure 6, overall satisfaction with claims in this region declined by more than 30 index points, while satisfaction in handling hail claims in the rest of the contiguous states improved by the same amount (+30 index points). An analysis was conducted to identify why satisfaction for handling these claims was lower in this region.

First, insurers in this region struggled to handle the first notice of loss (FNOL) calls through their call centers, as call center FNOL scores were rated nearly 75 index points lower compared to other states. In contrast, scores for FNOL handled by agents remained relatively stable during the same time frame. The largest drivers

of the lower FNOL satisfaction are significantly lower ratings for explaining the claims process (0.87 point difference on a 10-point scale) and expressing concern for the claimant's situation (0.95 point lower).

The large decrease in ratings for explaining the claims process may have been due to a larger number of claimants stating there were delays by the repair company in getting the damage fixed (nearly 50% in 2012). It is critical for insurers to clearly explain how their claims process will proceed and advise claimants of any potential delays, especially when the area has received widespread damage for particular weather events. For example, only two-thirds of claimants state their repair was completed when promised, compared with over 75% of claimants in states outside of this region. These delays in repair impacted the timing of when final payments were made to claimants, which ultimately impacted satisfaction with their insurer.

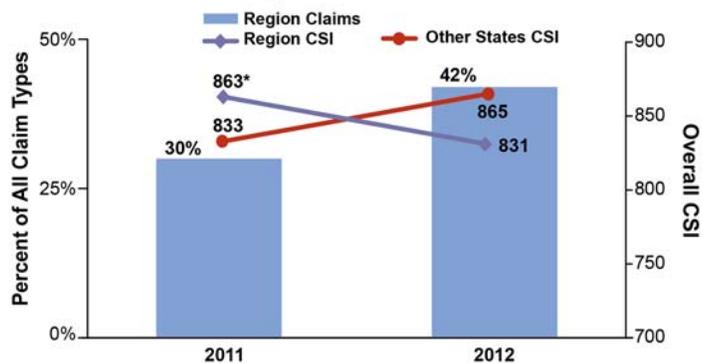


Source: J.D. Power and Associates

Figure 5

Settlement is another factor in which insurers in this region achieve significantly lower scores, compared with states outside of this region. There are several areas that influenced these lower scores, including claimants incurring higher levels of out-of-pocket spending, particularly for the deductible. Nearly 30% of claimants in this region paid deductibles greater than \$1,000 for hail-related claims, compared with only 7% of those in other regions who incurred hail damage. Additionally, there were much higher rates of multiple payments and longer repair times in this region, which impacted when claimants received their final settlement check, and ultimately, satisfaction scores.

Hail Claims—South Region



Source: J.D. Power and Associates Property Claims Satisfaction StudySM 2011-2012

Figure 6

States Affected by Increased High Wind Damage—Midwest Region

Much of the Midwest region (highlighted in orange in Figure 7) was battered by repeated tornadoes and thunderstorms in April and May 2011. For this analysis, this region was expanded to include Iowa and Pennsylvania, as claimants in these states filed considerably more claims for high wind damage throughout 2011 than in 2010. In fact, the number of high wind claims has increased by 65% in the Midwest region, to 38% of all claims in the 2012 study from 23% in 2011. The impact of this shift in claim types had a more

pronounced negative impact on claimant satisfaction, which has declined by nearly 50 points, compared with similar claims in 2011.

One of the largest contributors to lower satisfaction in the Midwest region is the agent's handling of the claim. Agent involvement has typically improved overall satisfaction, and data in prior years of this study suggest the more they are involved, the more satisfying the claims experience. However, agents may not be well equipped to handle a sudden increase in claims volume and keep their customers properly informed. Satisfaction with Local Agents in this region is a substantial 44 points lower compared to states outside of this region handling high wind claims. Lower scores for agents have a greater impact on overall satisfaction in this region, as several insurers utilize agents throughout different aspects of the claims process—from FNOL to managing the process and keeping claimants informed.



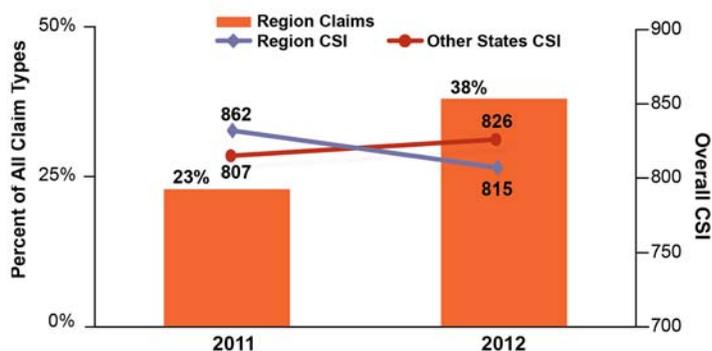
Source: J.D. Power and Associates

Figure 7

The attributes in the Agent factor with the largest declines in ratings are *How well you were kept informed* and the agent's *Timeliness of resolving questions*. It is evident that agents clearly struggle in servicing this influx of claims as key service metrics of returning phone calls and agents initiating contacts were also lower in the Midwest region as well.

Another contributor to lower satisfaction was expectations for the timing of the claims process were not clearly managed. Compared to states outside of this region, insurers in the Midwest region execute much faster cycle times in appraising damages; communicating what is covered; and issuing payments. However, a higher percentage of claimants say the process took longer than initially communicated by the insurer. So even though the process moved quickly, failing to properly set expectations had a negative impact on overall satisfaction.

High Winds (Tornado/Hurricane) Claims—Midwest Region



Source: J.D. Power and Associates Property Claims Satisfaction StudySM 2011-2012

Figure 8

States Affected by Increased High Wind Damage—East Coast Region

The East Coast region (highlighted in green in Figure 9) also shows a marked increase in the number of high wind claims. The states in this region experienced a combined 120% increase in high wind claims, to 41% of all claims in the 2012 study from 19% in 2011. Despite the increase in this type of claim, satisfaction has increased in this region, compared with decreases in the South Central and Midwest regions discussed above.



Source: J.D. Power and Associates

Figure 9

Overall satisfaction with high wind claims is 836, notably higher than with similar claims in the 2011 study, and higher than similar claims handled in states outside of this region.

One of the primary drivers of higher satisfaction is the Settlement factor, which is 30 points higher in this region than in other states handling high wind claims. This is partially due to a higher rate of single payments disbursed to claimants (70% vs. 60% in other regions), which may be a result of insurers reducing holdbacks and increasing single payments during CATs to expedite the claims handling time. Additionally, settlement negotiations occurred at half the rate as in other regions (15% vs. 30%, respectively), suggesting that insurers are performing better in communicating the settlement amount and accurately assessing and paying the claims. The attribute *Explanation of the settlement* receives significantly higher ratings in this region (+.42 point) than in other states.

In contrast to the Midwest region, where insurers provided a shorter claims process but failed to set expectations and consequently received lower scores for this metric, insurers servicing wind claims in the East Coast region tended to manage claimant expectations more effectively. As a result, a higher proportion of claimants state that the claims process was shorter and less complicated than they expected, even though two key cycle time metrics took considerably longer than in other regions—informing claimants of the settlement terms (+3 days) and issuing payments (+2 days). This may be a result of insurers performing better in managing expectations, or claimants adjusting their expectations based on being prepared for the severe weather experienced in the region. It is likely that both possibilities have influenced those who live in this region since, unlike tornadoes or hail storms that often occur without warning, hurricanes are tracked in advance, and severe weather warnings are prominently posted via a number of media channels. This allows for preparation for any impending weather and for insurers to prepare for a possible surge in claims by adjusting staff and altering the claims process if necessary.

High Winds (Tornado/Hurricane) Claims—Northeast Region



Source: J.D. Power and Associates Property Claims Satisfaction StudySM 2011-2012

Figure 10

Impact of Claim Satisfaction on Retention

As there are already signs that 2012 will be another severe weather year, it is imperative for insurers to be better equipped to handle the spikes in claim volumes due to an increased number of weather events. This paper has highlighted that managing claimant expectations may be difficult when there is an influx of claim types that do not typically occur at such high levels, such as for CATs. Claimant satisfaction tends to be lower when these expectations are not set and the claims process does not unfold as anticipated—whether due to the insurer, their agent, or the repair contractor. While only 30% of all property claims in the 2012 study were the result of a natural catastrophe, rising to the challenges associated with CAT claims frequency spikes may often strain an insurer’s claims organization. Insurers that have developed scalable claims processes and are able to successfully manage claimants’ expectations tend to also handle claims more efficiently and achieve stronger policyholder retention and advocacy rates.

Findings of the *2012 Property Claims Satisfaction Study* indicate that, while a positive claims experience may foster notable long-term loyalty, a negative claims experience may impact an insurer’s bottom line through either the loss of a policy or negative word of mouth comments made to friends and family.

Figure 11 illustrates the impact satisfaction has on key metrics related to retention and referrals among all claimants in the 2012 study. Claimants were grouped into one of three satisfaction tiers (high, medium, or low) based on overall index scores. Claimants in the low satisfaction tier are more than three times as likely to have already switched insurers after their claim was settled, compared with those in the medium tier. Additionally, claimants in the low satisfaction tier who haven’t switched insurers are also twice as likely to shop for a policy in the next 12 months. A negative claims experience may also impact word of mouth referrals—more than 50% of claimants in the low satisfaction tier have shared their negative experience with friends or co-workers, telling five people, on average. Even one in five claimants in the medium satisfaction tier make negative comments, underscoring the importance of delivering an exceptional claims experience.

Claim Satisfaction on Retention and Referrals

Claim Satisfaction Tier	Proportion of Claimants	Retention-Related			Referral-Related	
		% Switched Insurers	% Will Shop in Next 12 Months	% Definitely Will Renew	% Definitely Will Recommend	% Made Negative Comments
High Satisfaction (Index 901–1,000)	45%	2%	10%	84%	81%	6%
Medium Satisfaction (Index 551–900)	45%	5%	24%	51%	42%	21%
Low Satisfaction (Index 550 or less)	10%	18%	48%	12%	5%	56%

Source: J.D. Power and Associates 2012 Property Claims Satisfaction StudySM

Figure 11

Conclusion

While claimants' expectations may be shaped by such external factors as frequency of bad weather or storm activity, or advance notice of an approaching weather event, one common theme among the three regions included in the analysis in this white paper is managing claimant expectations. One challenge insurers must address is how to best manage these expectations—from the initial loss report to the representatives involved in processing the claim. Certainly, claimants can be understanding of the strain on resources and delays they experience with their insurer that may be inevitable when widespread damage occurs, but it is imperative for insurers to have the tools in place and properly trained staff interacting with claimants to manage such stressful situations. While agent involvement in handling the claim has shown to have a very positive influence on satisfaction with more typical claims (auto and home), the results of the 2012 study suggest agents may be taxed in keeping up with a large influx of claims when a CAT occurs. Insurers need to better focus on shaping claimants' expectations, whether through call centers handling the FNOL or through the local agent, and advise them of possible delays when the area has been heavily impacted by weather-related claims. Communication is key, not only during the FNOL, but also throughout the entire claims process, as claimants should never be left with unanswered questions or uncertainty about the next steps in the claims process.

This management discussion identifies some of the issues insurers face when dealing with sharp increases in weather events and how the industry performs in servicing these claims in various regions. Working to deliver on the key service practices discussed in this paper and elaborated in the detailed findings of this study may increase claimant satisfaction, regardless of the severity or circumstances of the claim, and ultimately result in higher retention. Findings in the full study provide detailed benchmarks for the 20 largest insurance companies. These help insurers to identify individual key strengths, as well as gaps in performance, which enables claims-related organizations to focus on those key performance behaviors and metrics that will maximize improvement in the claimant experience and, hence, retention and advocacy.

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