

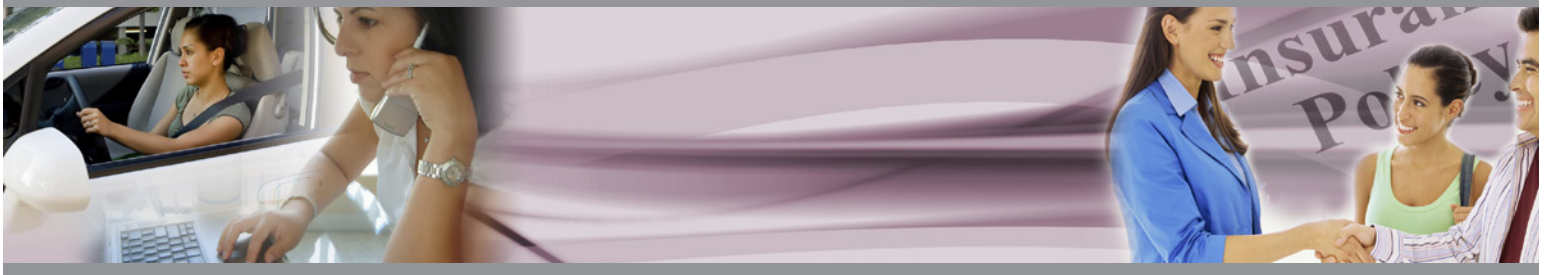
2010 Insurance Shopping StudySM



***Courting the Millennials
When Generation Y Shops for Insurance***

May 2010

Insurance Practice



Overview

Much has been written about the youngest age group entering the U.S. workforce. Generation Y, whose members are often referred to as Millennials, is estimated to be 76 million strong—nearly as large as the Baby Boomer generation of 80 million members.¹ While numerous books and articles seek to describe Generation Y members—what motivates them and how to best engage them in the workforce—this management discussion focuses on their attitudes toward risk and insurance. Based on findings from the *J.D. Power and Associates 2010 Insurance Shopping Study*,SM this management discussion highlights the shopping dynamics of Generation Y auto insurance shoppers, and compares them with Baby Boomers, the largest generational group in the U.S.

Now either approaching or entering their 30s, Generation Y consumers are an emerging group of highly valuable prospective customers for personal lines auto insurers. While most of these consumers have yet to enter their prime earning years, many have accumulated sufficient wealth to be profitable multiple-policy customers. The long-term value these consumers represent to insurers is especially evident when considering they are the next wave of new homeowners and parents, the majority of whom have yet to develop strong loyalties to any insurer. Generation Y is a fertile group of prospective customers for insurers that can engage them and earn their trust and loyalty.

Having spent their adult lives in a world with the Internet and mobile communication technologies, Generation Y consumers, sometimes referred to as the Digital Generation, are very different from their predecessors. They have starkly different preferences for how they want to interact with service providers, such as auto insurers. Leading insurers are abandoning traditional marketing strategies for new ideas when targeting this generation. Generation Y shoppers are less likely to shop due to price concerns or in response to advertising, compared with their older counterparts. Generation Y shoppers are more likely to use online sources to gather information about insurers; more likely to rely on recommendations from acquaintances; and more likely to obtain quotes and buy their auto insurance policies online, compared with older generations.

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What Drives Generation Y Consumers to Shop Their Auto Policies?

During the past 3 years, the personal auto insurance shopping triggers have been broadly consistent at the industry level. However, there are marked differences in what causes Generation Y consumers to shop, compared with Baby Boomers. Generation Y shoppers are less sensitive to price, as only 68% of these shoppers cite price as a reason for shopping their auto policy, compared with 83% of Baby Boomer shoppers. While many advertising campaigns are aimed at Generation Y consumers, Baby Boomer shoppers are more likely to indicate an advertisement as a reason for shopping their auto insurance policy than are Generation Y shoppers (25% vs. 19%, respectively). However, Generation Y shoppers are more likely to cite an offer from an insurer or a referral from an acquaintance as a reason why they began shopping. Research conducted by J.D. Power and Associates in the social media space shows that close family and friends, as well as Internet review sites and blogs, are the

¹ J.D. Power and Associates defines Generation Y as those born from 1977 to 1992 and Baby Boomers are those born from 1946 to 1964.

primary sources of influence for Generation Y shoppers as they make purchase decisions for products such as insurance. Also, Generation Y shoppers require information and validation from multiple sources (four sources, on average) before making an insurance purchase decision, compared with older generations that rely on fewer sources before making purchase decisions (2.3 sources, on average).²

Generation Y and Baby Boomers not only differ in terms of why they shop for auto insurance, but also differ substantially in the rate at which they change insurers as a result. While Generation Y consumers are less likely to shop because of an advertisement than are Baby Boomers, they are nearly twice as likely to switch insurers when they do shop because of an advertisement, compared with Boomers (15% vs. 8%, respectively). Generation Y shoppers who shopped because of a price concern switched insurers 43% of the time, compared with only 31% of Baby Boomer shoppers. Generation Y shoppers who indicate a desire to purchase auto and homeowners policies (referred to as bundling) from the same insurer switch insurers 58% of the time when shopping, compared with only 33% of Baby Boomers who want to purchase bundled policies from the same insurer. Lacking the years of tenure that many Baby Boomers may have established with their auto or homeowners insurer, Generation Y shoppers are also particularly fickle with respect to service experiences with their auto insurer. Nearly 80% of Generation Y shoppers who cite service experiences as a shopping trigger switch insurers when shopping, compared with 63% of Baby Boomer shoppers.

Gathering Information

Despite explosive growth in advertising by auto insurers—up from \$1.7 billion in 2000 to more than \$4.1 billion in 2009³—shoppers continue to look for other sources of information when shopping for auto insurance. More than one-half of Generation Y shoppers have used insurers' websites to gather information. Generation Y shoppers are slightly more apt to use an online quoting service or an advertisement on the Internet for information than are Baby Boomers. Generation Y shoppers also seek out recommendations from friends or family more often than their older counterparts.⁴

Insurers have recently sought to benefit from this younger generation's proclivity to use online social networks and social media, with many insurers actively building a presence on such online social networks as Facebook and Twitter. Some insurers have gone even further and are continually monitoring consumer "buzz" about their brands on blogs and other social networking sites, which allows them to quickly recognize changes in their brand perceptions and react directly via social networking. Effective marketing through these emerging channels may yield insurers more business from Generation Y consumers, as they rely on online social networking for information to assist them in making purchase decisions.

Effective marketing to Generation Y shoppers may not only help grow new business, but also may help retain existing customers. Insurance companies that help Generation Y consumers educate themselves to make informed decisions, rather than utilizing a traditional sales approach, are more likely to build credibility with this cohort and retain them as customers in the future.⁵ Not unexpectedly, Generation Y shoppers are less prone to use more traditional sources of information, such as local insurance agents, direct mail, or magazines/booklets, when seeking information about auto insurers, compared with Baby Boomers.

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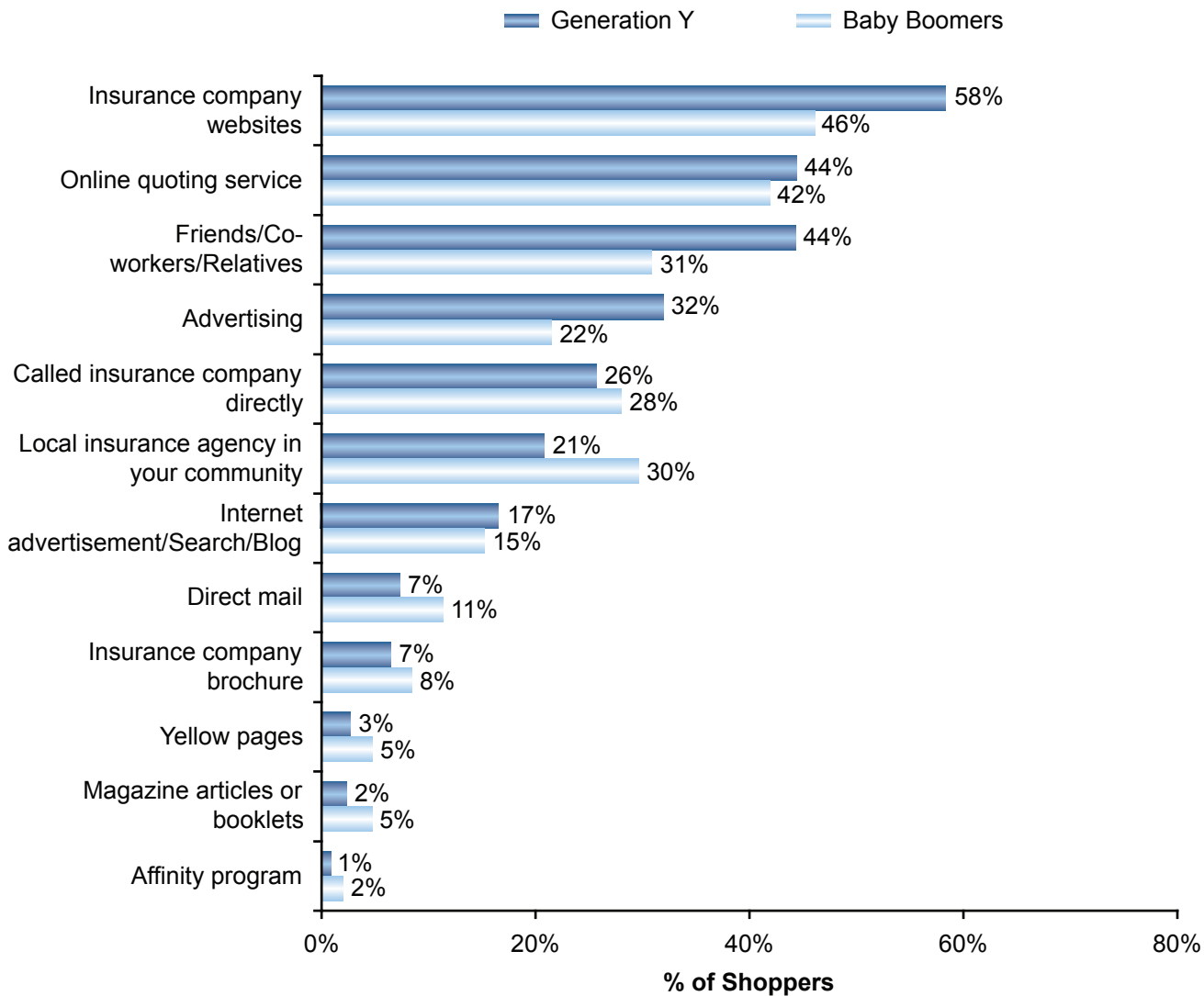
² J.D. Power and Associates Web Intelligence Research Division; *Purchase Decision Influences*, 2010

³ Dowling and Partners; *INBR Weekly*, April 15, 2010

⁴ J.D. Power and Associates Web Intelligence Research Decision; *Purchase Decision Influences*, 2010

⁵ *Ibid*

Sources of Information When Shopping for Auto Insurance



Source: J.D. Power and Associates 2010 Insurance Shopping StudySM

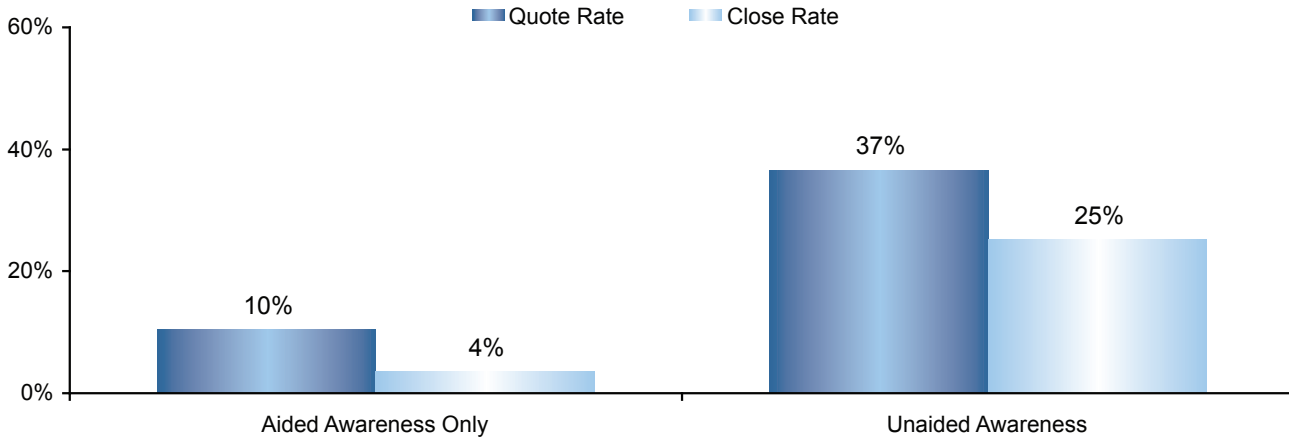
Brand Awareness and Consideration

The substantial increase in advertising expenditures by personal auto insurers during the past decade has made many insurers household names among American consumers. As discussed in more detail in the *2010 Insurance Shopping Study*, insurers stand a significantly better chance of selling policies to shoppers who have top of mind “unaided” awareness of the insurer’s brand, compared with shoppers who merely recognize the name and logo of an auto insurer (“aided” awareness). The study measures unaided awareness by asking shoppers who participated in the survey for this study to name the first five auto insurers that come to mind.

When a shopper has unaided awareness of an insurer, they are nearly four times as likely to obtain a quote from that insurer and more than six times as likely to purchase from that company when they do obtain a quote, compared with shoppers who only have aided awareness of the brand.

Despite having more years of experience with shopping for and selecting insurers, older shoppers are only able to name the same number of brands, on average, as Generation Y shoppers. Regardless of age, shoppers are able to name an average of four brands. In fact, a higher percentage of Generation Y shoppers are able to name five insurers (32%), compared with Baby Boomers (30%).

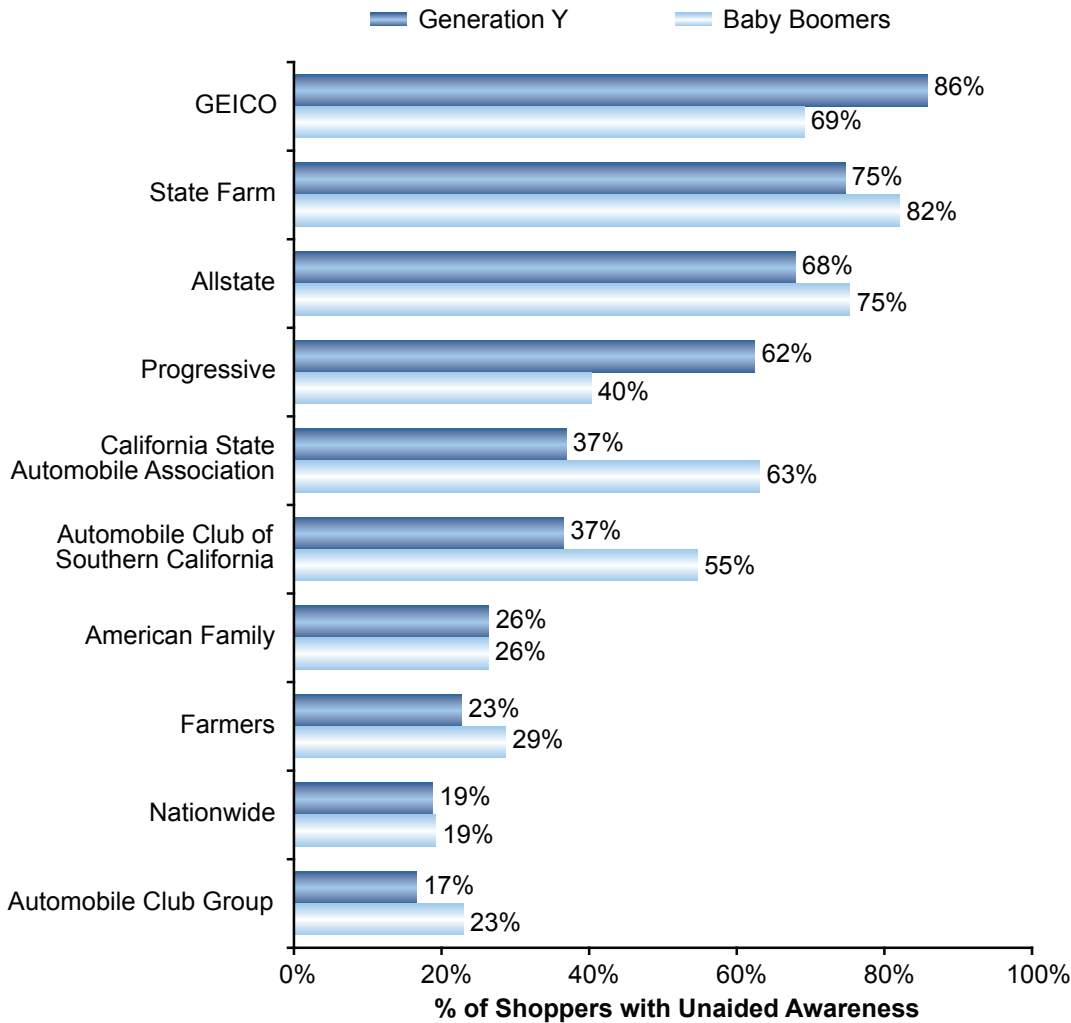
Winning Customers through Top of Mind Awareness



Source: J.D. Power and Associates 2010 Insurance Shopping StudySM

GEICO, State Farm, Allstate, and Progressive have the highest levels of unaided awareness among Generation Y shoppers—all are named by more than one-half of Generation Y shoppers. These same insurers are among the most-frequently named insurers by Baby Boomers as well. However, Generation Y shoppers are much more likely to name GEICO and Progressive than are Baby Boomers.

Top of Mind Insurers



Source: J.D. Power and Associates 2010 Insurance Shopping StudySM

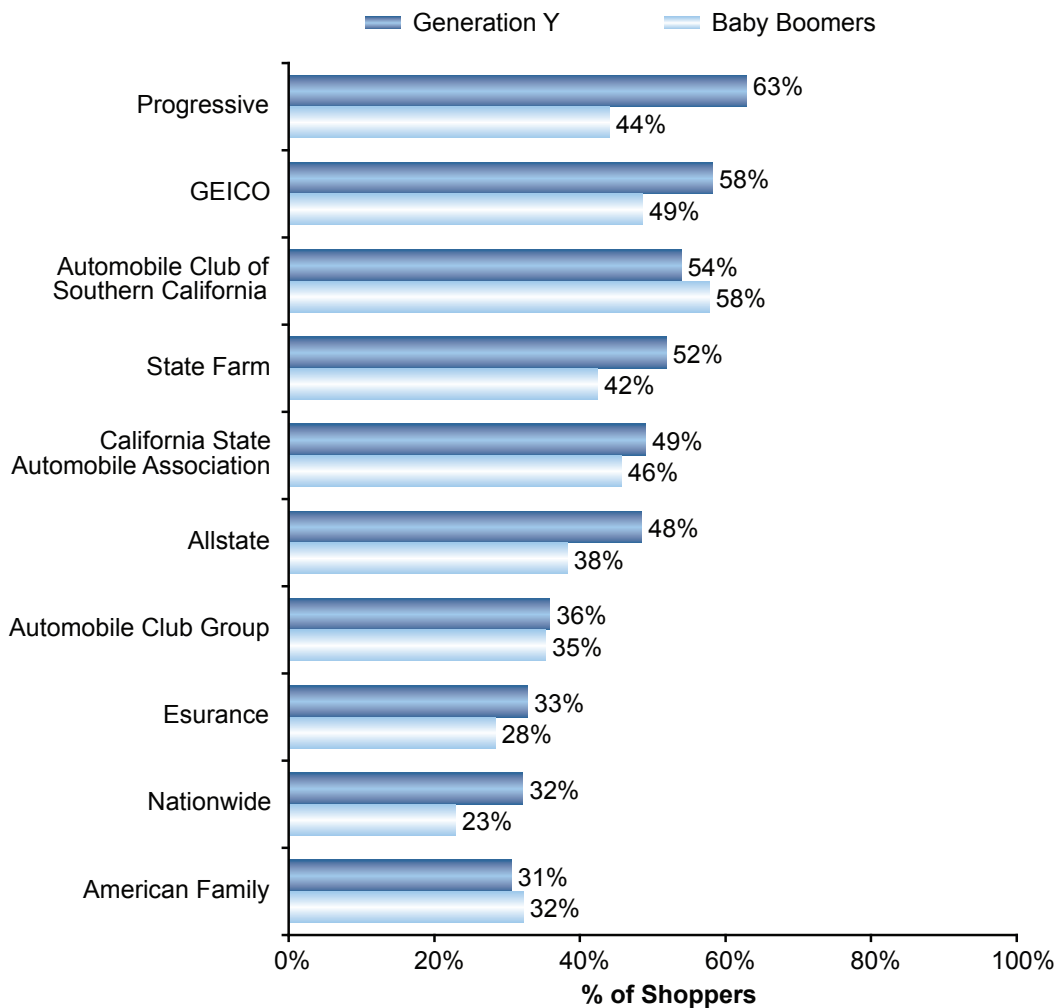
As shoppers gather information about insurers, they sometimes encounter an insurer with which they would not consider doing business. To have an opportunity to provide a quote to a prospective new customer, insurers must first be considered by that shopper as a brand with which they would like to do business. Aside from price messaging, many insurers have also focused recent campaigns on such themes as value and responsibility to garner an even stronger brand image in the marketplace. To the degree that brand image improves an insurer's chance to be considered by insurance shoppers, these strategies may pay off by driving more quoting activity.

Insurers, through years of marketing and servicing their customers, have built perceptions about their brands that affect the likelihood shoppers will consider them. These consideration levels differ across the various generations of insurance shoppers.

Four insurers are considered by at least 50% of Generation Y shoppers who are aware of their brands—Progressive, GEICO, Automobile Club of Southern California, and State Farm. Notably, only one of these insurers is considered by more than 50% of Baby Boomers who are aware of their brand—Automobile Club of Southern California. In contrast, Progressive has a 63% consideration rate⁶ among Generation Y shoppers, compared with a 44% consideration rate among Baby Boomers.

Esurance has historically considered younger auto shoppers their target market and focuses many of their marketing efforts on this generation. These marketing efforts have yielded positive results, as one-third of Generation Y shoppers who recognize Esurance consider the company for their auto insurance needs. Conversely, only 28% of Baby Boomer shoppers who recognize Esurance consider them for their auto insurance policy. In fact, Generation Y shoppers consider Esurance more often than they consider substantially larger insurers, such as Farmers, Liberty Mutual, or Nationwide.

Top 10 Consideration Rates



Source: J.D. Power and Associates 2010 Insurance Shopping StudySM

⁶ Consideration rate equals the number of shoppers who consider an insurer divided by the number of shoppers who are aware of the insurer on an aided basis.

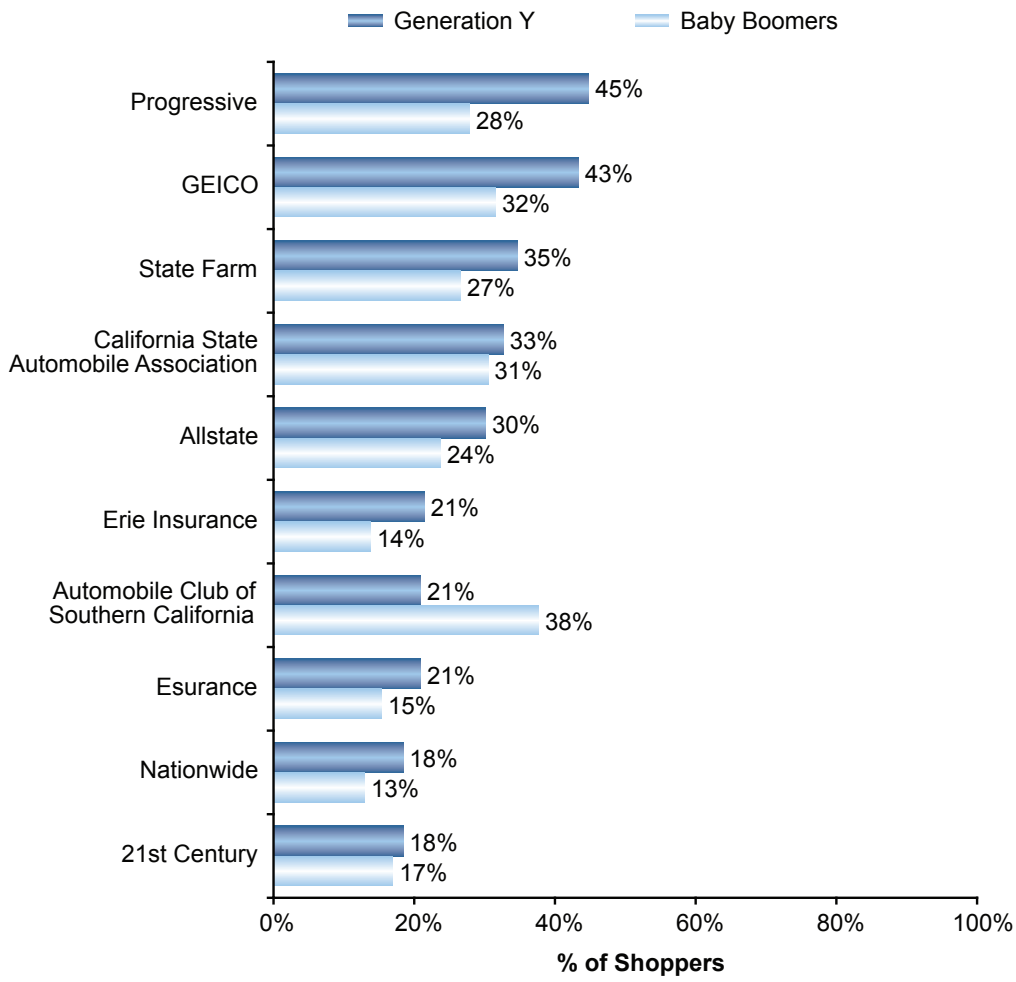
Gathering Insurance Quotes

Generation Y shoppers are also the most likely age cohort to shop for renters insurance (22%), life insurance (9%), and individual health insurance (4%) as they collect quotes from insurers for their auto policy. Auto insurers that successfully cross-sell these policies stand to gain more brand-loyal customers. In general, the more policies a customer has with their auto insurer, the more likely they are to stay with that insurer.

Not only do Generation Y shoppers gather information through different channels more often than other shoppers, but they also quote through different sales channels. Generation Y shoppers are substantially more likely to gather quotes directly from an insurer's website than are Baby Boomers. In fact, 48% of Generation Y shoppers gather a quote on an insurer's website, compared with only 28% of Baby Boomers. Although Generation Y shoppers are more likely to quote online directly from an insurer, they are no more likely to use an online quote service than are Baby Boomers (26% vs. 25%). While Generation Y shoppers are the least likely of any generation to quote via local agents, more than one-fourth (28%) still do so. In line with their greater awareness and consideration of Progressive, Generation Y shoppers are more likely to obtain a quote from Progressive than are Baby Boomers (3% vs. 2%, respectively). Generation Y shoppers have also been faster to adopt mobile technologies, as 2% of these shoppers obtain a quote via a mobile phone or smartphone, compared with only 1% of Baby Boomers.

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Top 10 Quote Rates



Source: J.D. Power and Associates 2010 Insurance Shopping StudySM

As with brand awareness and consideration, the list of insurers most often quoted by Generation Y shoppers differs from that of Baby Boomers. Progressive, GEICO, and State Farm are all quoted by more than one-third of Generation Y shoppers who are aware of these brands. Conversely, the two California Automobile Clubs and GEICO have the highest quote rates⁷ among Baby Boomers. Erie Insurance and Nationwide in particular have made strong inroads with this younger generation, as these two insurers both rank among the top 10 quoted insurers by Generation Y shoppers, but do not appear in the top 10 for Baby Boomers. Both insurers have quote rates approximately 1.5 times greater among Generation Y shoppers than among Baby Boomers.

The Purchase Decision

When Generation Y shoppers finish gathering quotes and select the insurer they want, the relative importance they place on the different factors driving their purchase decision varies from that of Baby Boomer shoppers.⁸ Although Generation Y shoppers are less likely to begin shopping because of price concerns, the importance of price in the final purchase decision is consistent across Generation Y and Baby Boomer shoppers—a majority of shoppers in both generational groups indicate price is the most influential driver of their purchase decision. While Generation Y shoppers are more likely to seek out the opinions of acquaintances when deciding which insurers to quote, they place less importance on these endorsements when making their purchase decision when they switch insurers, compared with Baby Boomers (8% vs. 12%, respectively). Conversely, the sales experience, whether with a company representative (agent or call center service representative) or a website, is more important to purchase decisions by Generation Y switchers (14%) than to Baby Boomer switchers (10%).

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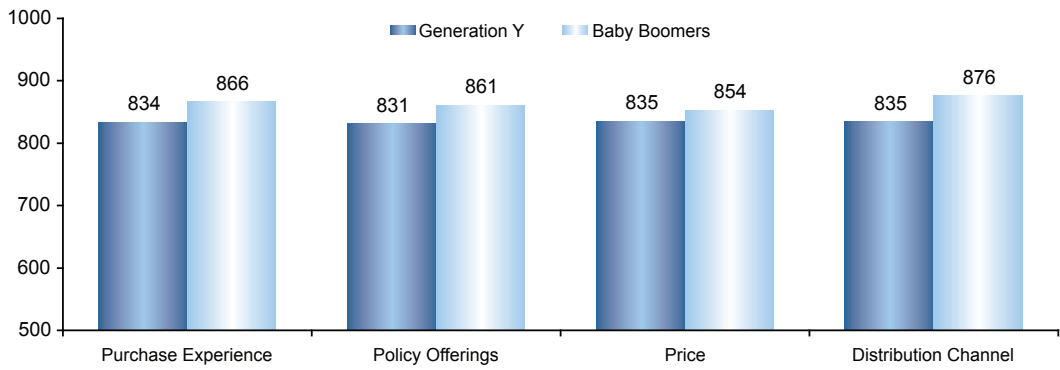
⁷ Quote rate equals the number of shoppers who obtained a quote from an insurer divided by the number of shoppers who are aware of the insurer on an aided basis.

⁸ The model is built using statistical regression between stated purchase decision drivers and the insurer chosen by the shopper.

Providing a Satisfying Purchase Experience to Generation Y Insurance Shoppers

Since satisfaction with the purchase experience plays a role in closing the business with a potential new customer and because this experience is often the first interaction a new customer has with an insurer, the *2010 Insurance Shopping Study* also measures the importance of various factors in providing a satisfying experience to new buyers. Generation Y new buyers are generally less satisfied with their purchase experience overall, compared with Baby Boomers. Furthermore, their satisfaction is driven more by price and distribution channel than it is with Baby Boomers, while policy offerings play less of a role in satisfying Generation Y new buyers.

Generational Differences in Satisfaction



Source: J.D. Power and Associates 2010 Insurance Shopping StudySM

Conclusion

The findings of this management discussion demonstrate some of the important differences in how Generation Y auto insurance shoppers approach the process of shopping insurers, compared with Baby Boomer shoppers. Auto insurers may better market and sell to Generation Y consumers when they have a better understanding of what causes this emerging group of consumers to shop; why they choose the insurer they do; and how satisfied they are with the experience of shopping. The 2010 Insurance Shopping Study includes survey responses from nearly 3,000 Generation Y auto insurance shoppers to better understand the insurance shopping dynamics of this group. The full analysis is available by subscription to the syndicated 2010 Insurance Shopping Study.

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Detailed retention, conquest, and growth data for the major insurers listed in the Appendix are presented in the full analysis included in the J.D. Power and Associates 2010 Insurance Shopping Study,SM to be published in June 2009.