J.D. POWER AND ASSOCIATES®

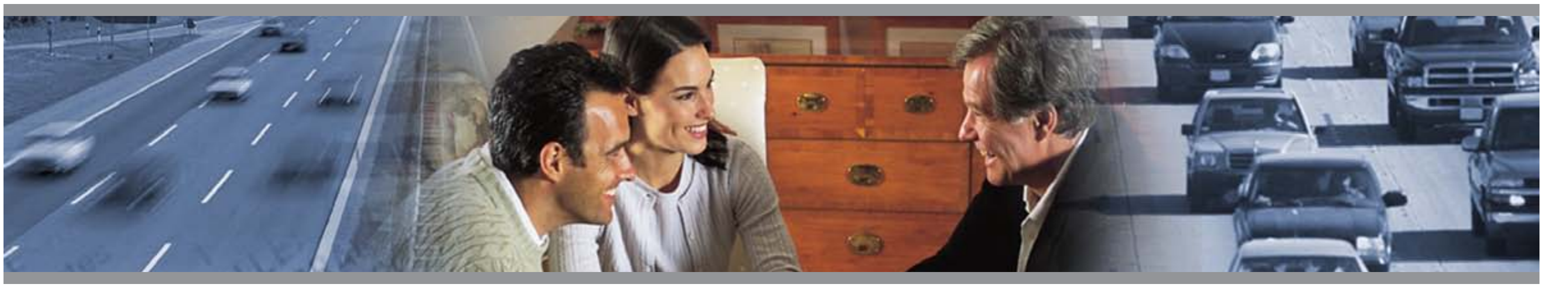
2010 National Auto Insurance Study℠

Keeping Millennials for Life:

Tailoring Service to Meet the Unique Needs of Generation Y Customers

July 2010

Insurance Practice



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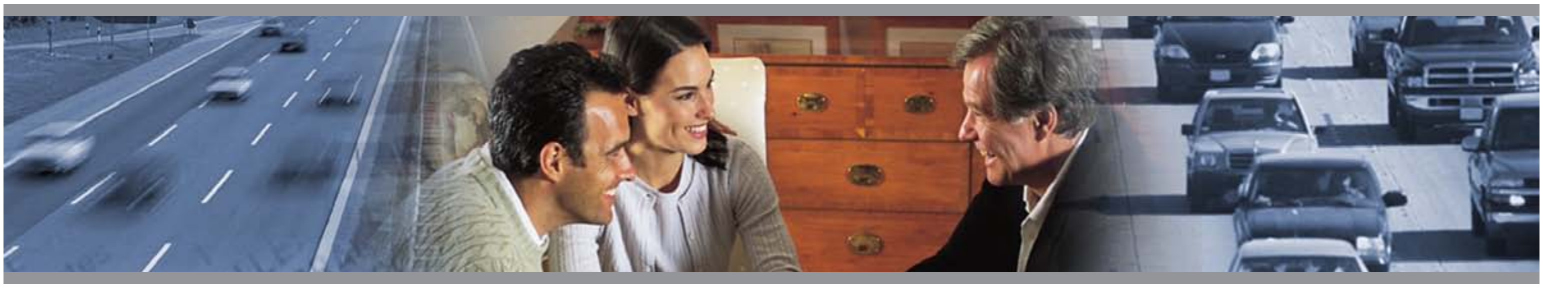
2010 National Auto Insurance Study℠



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 Auto 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 more than 25,000 customers and benchmarks 46 of the largest personal auto insurance providers in the United States.

Findings show the insurance marketplace is not homogeneous: customers' expectations and behaviors are influenced by various factors, including attitudinal and demographic differences. Across all J.D. Power insurance studies, a consistent theme has been observed that Generation Y (Gen Y)[1] consumers—or Millennials—provide more critical ratings for insurance-related experiences than do consumers in other generational groups, from shopping, selecting, and on-boarding with an insurer, to general policy servicing, and for claims handling, if needed. As a result, Gen Y consumers have the highest attrition rate among the generational groups, especially when compared with Baby Boomers.

Despite the challenges in servicing and retaining Gen Y consumers, auto insurers that are able to successfully meet the needs of this emerging group of highly valuable auto insurance customers may reap financial benefits. Many Gen Y consumers are experiencing significant life events (e.g., graduation, employment, professional career development, marriage, children, home ownership, etc.) and are also becoming part of a lucrative group: multiple-policy insurance customers. Perhaps most significantly, during the next decade, Gen Y consumers are projected to outnumber any other age cohort—placing further pressure on insurance companies to connect with this unique group of consumers.

The management discussion of the *J.D. Power and Associates 2010 Insurance Shopping Study,℠* titled, "Courting the Millennials: When Generation Y Shops for Insurance", examines the differences in personal auto insurance shopping and purchase behaviors between Gen Y and Baby Boomers. This study finds that Gen Y shoppers rely more heavily on recommendations from their social network of friends and family and are much more likely to use online resources to gather information. A comparison of what drives their purchase decisions shows that Gen Y consumers place more importance on the sales channel (e.g., Web, Call Center, or Agent) they use to purchase their policy, compared with Baby Boomers (14% and 10%, respectively).

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

This management discussion addresses the phase of the customer life cycle that follows initial on-boarding—the ongoing servicing of the policy. The following topics are examined:

- How does channel preference and satisfaction differ for Gen Y and Baby Boomer customers?
- What is the impact of satisfaction on policy retention and advocacy for Gen Y customers?
- What are the most important key service practices insurers can target to improve satisfaction among Gen Y customers? How satisfied are customers when these key service practices are executed?

The upcoming *J.D. Power and Associates 2010 Auto Insurance Claims Study,*℠ scheduled for publication in October 2010, will address differences in expectations and how to better serve Gen Y customers throughout the claims process.

Generation Y: Far More Critical than Their Parents

Findings from the *2010 National Auto Insurance Study* indicate Gen Y customers are more critical of their insurance provider than are consumers in other generational groups, and less forgiving if an expectation goes unmet. Across most of the factors influencing customer satisfaction with their insurer, Gen Y customers consistently provide lower ratings. (Figure MD-1) However, there is no discernable difference in scores in the Price factor which receives one of the lowest scores across all generational groups. This finding suggests that the value proposition of the policy is not being clearly communicated to insurance customers of any age.

Range of Satisfaction Performance: Generation Y vs. Baby Boomers

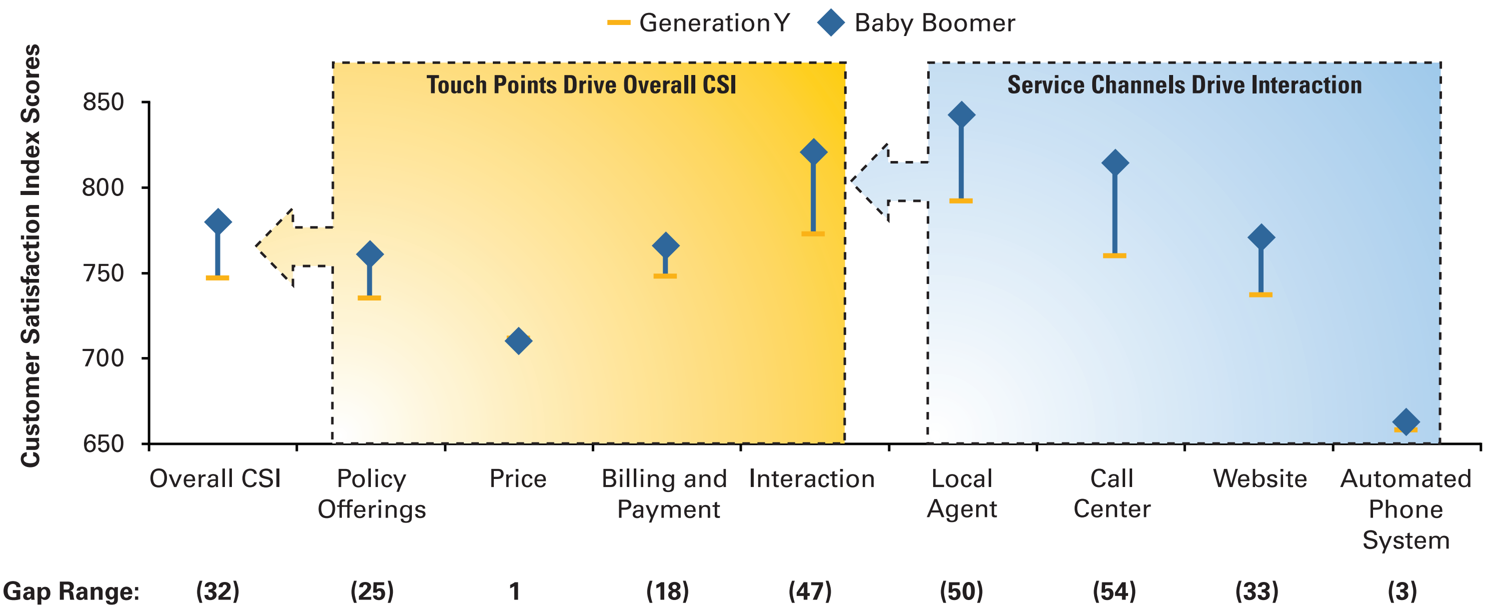


Figure MD-1

Source: J.D. Power and Associates 2010 National Auto Insurance Study[SM]

Gen Y customers provide significantly lower ratings for service interactions with insurance representatives, whether local agents or call centers. These low ratings permeate the entire service experience—from the ease of contacting a representative, to the level of courtesy they are shown, and ultimately to the clarity of the information they are provided. This lack of clarity may be attributable to these younger customers having less understanding of their policy coverage—a finding supported in the *2010 Insurance Shopping Study* that recently on-boarded Gen Y customers are far less likely to receive help choosing the right coverage and to fully understand their policy.

The low ratings for service interactions with representatives illustrate that the insurance representatives who have traditionally been responsible for owning the customer relationship are underserving Gen Y customers. However, not all insurers have received low ratings from Gen Y customers. Some insurers that successfully serve this age cohort offer tailored services, such as dedicated customer service teams for new customers, smartphone applications, and online chat services to appeal to this younger, tech-savvy generation. The growing number of customers using smartphones says insurance providers that offer useful, convenient applications understand their needs and wants, and "get it."[2]

[2] *J.D. Power and Associates Web Intelligence Division, July 2010.*

Gen Y Leading the Trend to Web Adoption

While the emergence of smartphone applications is the latest trend in "do it yourself" customer service, one of the fastest-growing service channels is Website. While usage has significantly increased among Baby Boomers, who continue to close the gap with the younger generations, Gen Y customers have the highest levels of using their insurer's website. Figure MD-2 displays the range of website utilization between age groups for three distinct customer "touch points": obtaining a quote, general policy servicing, and claims handling.

Although Gen Y leads the way in Internet usage, Website is a prevalent service channel for every generation and represents a sizeable share of a customer's experience interacting with their insurer. Figure MD-3 shows the relative importance of each service channel in determining an insurer's overall Interaction Index score.

Because Website continues to grow as an alternate contact channel for various service needs, Gen Y Customers have unique service expectations. Many Gen Y customers indicate a preference to chat online, text, or e-mail rather than to call to speak to a person. Even so, while the insurer's website drives one-fourth of the Interaction experience, the Local Agent channel is still the dominant driver of overall Interaction satisfaction, suggesting that customers of all ages are not ready to abandon their agents or call center representatives entirely.

Web Utilization across Customer Touch Points

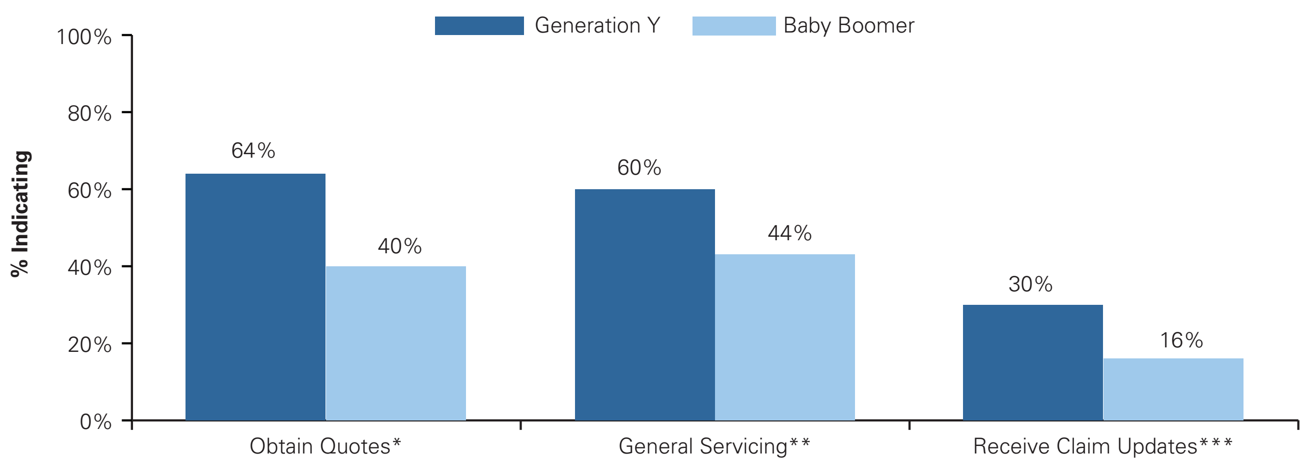


Figure MD-2

** Source: 2010 Insurance Shopping Study*

*** Source: 2010 National Auto Insurance Study*

**** Source: 2009 Auto Claims Study*

Service Channel Influence on Interaction Index

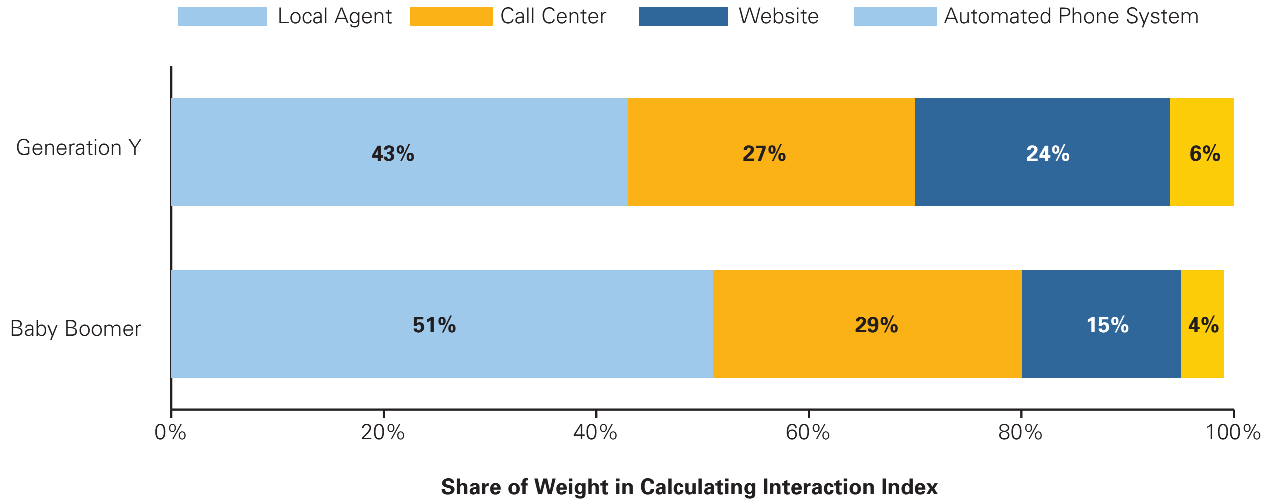


Figure MD-3

Source: J.D. Power and Associates 2010 National Auto Insurance Study℠

What is the Financial Benefit of Delivering on Gen Y Expectations?

Since 2005, the *National Auto Insurance Study* has demonstrated the value of improved satisfaction relative to three key measures of financial performance for an insurer's entire book of business:

- Increased customer retention
- Increased growth and reduced acquisition costs
- Lower price elasticity for satisfied customers

Financial Return by Insurer Satisfaction Tier

Company Satisfaction Tier	OSAT Index	Retention-Related			Acquisition Cost-Related					% Will Not Switch for Any Price
		Actual Retention*	% Definitely will Renew	% Definitely Plan to Shop	3-Year Growth**	Acquisition Cost**	% Definitely will Recommend	Avg. No. of Positive Recommendations	Avg. No. of Negative Comments	
High Satisfaction	824	94%	61%	3%	3.2%	15.2%	58%	2.4	0.1	22%
Medium Satisfaction	772	87%	44%	7%	-1.9%	17.2%	40%	1.8	0.2	14%
Among the Rest	738	82%	33%	9%	-16.5%	17.1%	29%	1.3	0.2	10%

Figure MD-4

** Source: 150,000 households screened by J.D. Power and Associates 2010 Insurance Screener Survey.*
*** Source: Standard and Poor's; Based on 2009 statutory findings—Insurance Expense Exhibit (Part III) of NAIC's Annual Statement.*

Findings have consistently shown a positive relationship between these measures of financial performance and high customer satisfaction. For the financial return analysis, each of the 46 insurers profiled in the full study was first ranked according to their overall CSI score and then segmented into one of three satisfaction tiers based on their relative performance. Insurers that provide a highly satisfying customer experience benefit from higher customer retention, reduced costs in acquiring new customers, and more word of mouth referrals than do insurers in the other satisfaction tiers. (Figure MD-4) These factors have contributed to notably higher growth rates in the high satisfaction tier during the past 3 years—5 percentage points higher than insurers in the medium satisfaction tier and nearly 20 percentage points higher than those in the rest of the industry.

While the prior analysis segments insurers into one of three satisfaction tiers based on their relative performance, the following analysis segments customers on an individual level into three tiers based on satisfaction: high satisfaction (an overall index score of 901 or higher); medium satisfaction (an overall index score of 551 to 900); and among the rest (an overall index score of 550 or lower). The customer-level analysis shows an even stronger relationship between satisfaction and retention behaviors.

Gen Y: Retention and Advocacy by Customer Satisfaction Tier

Customer Satisfaction Tier	Share of Gen Y Customers	% Definitely will Renew	% Definitely Plan to Shop	% Definitely will Recommend	Avg. No. of Positive Recommendations	Avg. No. of Negative Comments	% Will Not Switch For Any Price
High Satisfaction	18%	74%	5%	81%	4.0	0.0	21%
Medium Satisfaction	68%	31%	7%	26%	1.4	0.2	7%
Among the Rest	14%	7%	17%	6%	0.7	1.1	7%

Figure MD-5

Source: J.D. Power and Associates 2010 National Auto Insurance Study℠

While fewer Gen Y customers are included in the high satisfaction tier—only 18%, compared with 24% of Baby Boomers—the benefits of achieving this level of satisfaction are clear, particularly regarding recommendations. Moving Gen Y customers from the medium to high satisfaction tier provides more than a threefold increase in the proportion who "definitely will" recommend the insurer. Furthermore, the average number of recommendations made by Gen Y customers (four) is higher than for any other generational group and more meaningful to Gen Y customers, as they are more likely to use recommendations when shopping for insurance. Conversely, failing to meet the needs of Gen Y not only yields a lower rate of brand advocates, but it also yields a much higher rate of negative comments from Gen Y customers than from other generational groups.

The relationship between satisfaction and the intent to both renew and recommend an insurer among Gen Y customers is further explored in Figures MD-6 and MD-7. The graphs plot the mean satisfaction index score for brands with sufficient data against the Gen Y customers who say they "definitely will" renew with the insurer or "definitely will" recommend the insurer. The highest-rated insurer achieves customer-stated intent to renew and recommend rates above 80%, while among the lowest-rated insurers less than 25% of Gen Y customers state they will either renew or recommend the insurer.

Having first established that Gen Y customers are indeed more critical than customers in other generational groups, and then showing the link to financial outcomes that satisfying this unique group of customers may yield, the analysis next explores what opportunities exist for insurers to tailor their service to better meet the unique needs of Gen Y customers.

Overall CSI and Intent to Renew—Generation Y

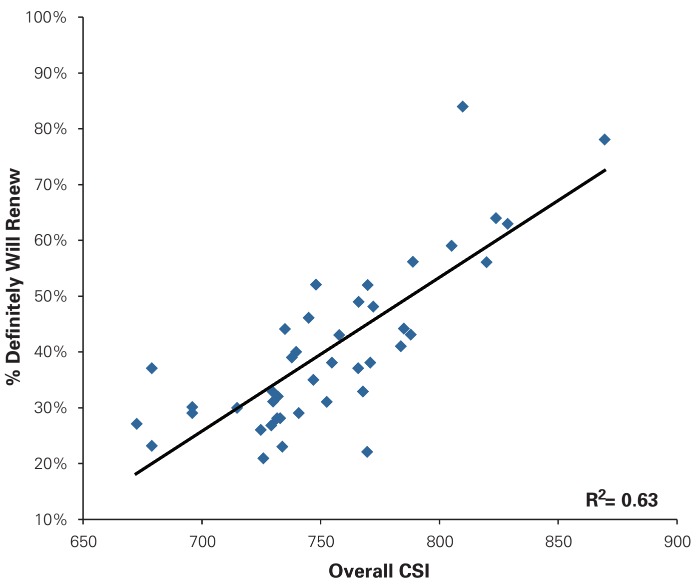


Figure MD-6

Overall CSI and Intent to Recommend—Generation Y

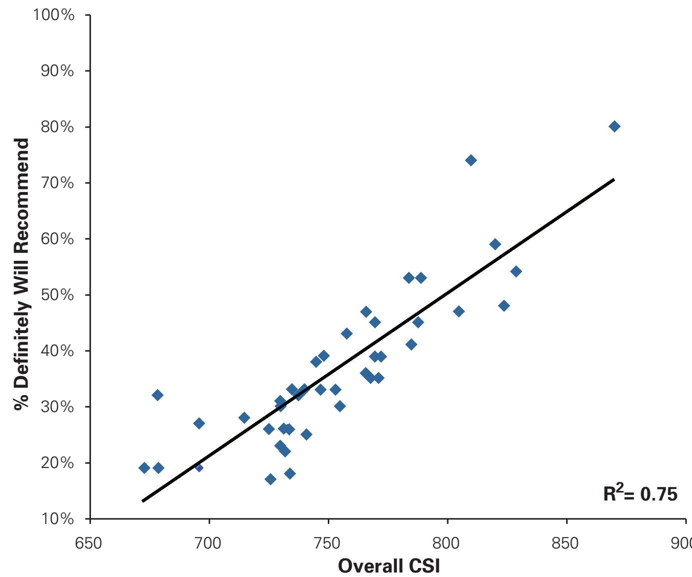


Figure MD-7

Source: J.D. Power and Associates 2010 National Auto Insurance Study℠

Key Service Practices to Retain Generation Y Customers

To help insurers realize the potential financial benefits of delivering on Gen Y expectations, the *2010 National Auto Insurance Study* identifies more than 50 Key Performance Indicators (KPIs), or service practices, critical to a satisfying customer experience. While these practices represent key drivers for the total industry, they do not necessarily have the same impact across generational groups. As a result, insurers need to tailor their services to meet the unique needs of different customer segments. To provide an example of how service practices differ by customer groups, the top service practices for both Gen Y and Baby Boomers are displayed in Figure MD-8 in order of importance. Not unexpectedly, the expectations and wants of each group center on similar issues, but a statistical analysis indicates the best practices for each group have a different order of importance.

Key Service Practices to a Satisfying Customer Experience—Generation Y and Baby Boomers

Importance Rank Order	Generation Y	Baby Boomers
1	Ensure policy information is accessible online on the website	New customer welcome kit
2	Reduce number of problems experienced	Ensure representative(s) are clearly understood
3	Proactively communicate useful policy information	Provide error-free bills
4	New customer welcome kit	Proactively communicate useful policy information
5	Ensure representative(s) are clearly understood	Send newsletters and magazines
6	Offer automatic payment discounts	Offer purchase options through affinity programs

Figure MD-8

Source: J.D. Power and Associates 2010 National Auto Insurance Study℠

As noted previously, Gen Y customers are leading the way in Website channel utilization, and having access to their policy information online has become a key component of a satisfying experience. Among Gen Y customers who either do not have online access to policy information or are unaware of such a capability, satisfaction is nearly 120 index points lower than among Gen Y customers who do have online access. While still an important issue for Baby Boomers, this service practice ranks 11th overall among the 45 best practices that drive satisfaction. Instead, Baby Boomers place more importance on traditional communications, such as receiving a new customer welcome kit and newsletters/magazines, both of which are included in the top service practices for this group.

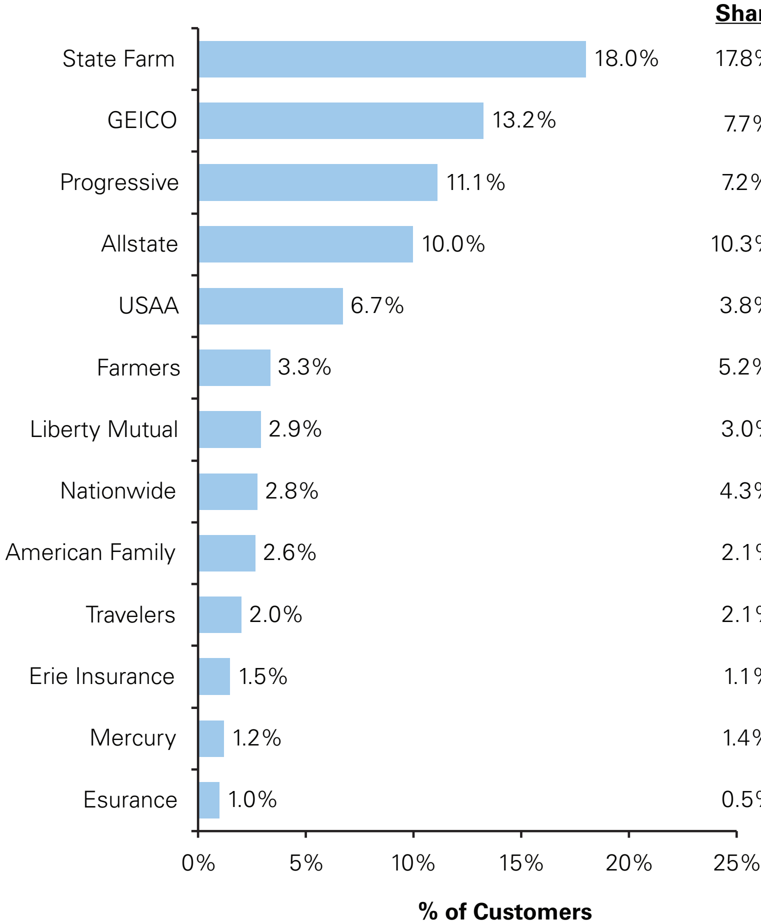
A common theme between the two customer groups is effective communication, whether through live interactions with insurer representatives, in which clearly understanding the representative is a critical component of the interaction, or by proactively providing beneficial and helpful policy information to customers. The full detailed analysis presented in the *2010 National Auto Insurance Study* allows subscribers to examine their own strengths and weaknesses, when compared to individual competitors, and determine which brands are most successful at delivering these KPIs. By using the success rates of key competitors, insurers are able to estimate the retention lift that might be achieved if they were to improve their performance in a critical to quality measure. To further illustrate this point, the balance of this management discussion focuses on which insurers have been most successful at capturing the Gen Y market to date, and retaining the Gen Y customers they do acquire.

Which Insurers Are Successfully Capturing and Retaining Generation Y Customers?

The insurers profiled in Figure MD-9 represent 67% of the P&C insurance industry on a national basis in terms of total market premium share[3]. These same insurers capture 76% of all Gen Y policyholders, highlighting the underperformance of smaller, often regional independent agency companies to capture this segment of the market.

While larger insurers capture a significant share of Gen Y policyholders overall, on a carrier level the distribution of Gen Y customers varies from overall market share—often by a significant margin. For example, State Farm, the largest insurer in the P&C industry, is also the largest insurer of Gen Y customers. However, Allstate, the No. 2 insurer in market share, drops to fourth behind GEICO and Progressive for share of Gen Y customers. GEICO and Progressive both succeed in capturing far more Gen Y customers than their overall market share. USAA rounds out the top five Gen Y insurers, capturing 80% more of the Gen Y market compared to their overall market share.

Insurers with Highest Shares of Generation Y Customers



Insurer	% of Customers	Market Share*	Diff. in Gen Y vs. Market Share*
State Farm	18.0%	17.8%	1%
GEICO	13.2%	7.7%	71%
Progressive	11.1%	7.2%	54%
Allstate	10.0%	10.3%	-3%
USAA	6.7%	3.8%	80%
Farmers	3.3%	5.2%	-36%
Liberty Mutual	2.9%	3.0%	-4%
Nationwide	2.8%	4.3%	-35%
American Family	2.6%	2.1%	24%
Travelers	2.0%	2.1%	-4%
Erie Insurance	1.5%	1.1%	31%
Mercury	1.2%	1.4%	-17%
Esurance	1.0%	0.5%	101%

Figure MD-9

** Source: A.M. Best 2008 Insurance Industry Financials based on statutory filings (reported in 2009)*
Source: J.D. Power and Associates 2010 National Auto Insurance Study℠

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

While USAA captures a far greater share of the Gen Y personal auto market than their overall market share, they also retain Gen Y customers at the highest rate (Figure MD-10), positioning USAA well for future growth as Gen Y becomes the largest generational market for auto insurance during the next 10 years. While USAA succeeds in retaining these customers at a similar rate to their overall customer base, other insurers typically have Gen Y retention rates that are 5 to 8 percentage points lower. Overall industry retention for Gen Y is 83%, which is 6 percentage points lower than the industry total retention rate of 89% and compared to 91% for Baby Boomers.

State Farm is another example of an insurer that is not only capturing a high rate of Gen Y customers, but is also retaining them at a much higher rate than the industry average. However, there are also examples of insurers on the opposite end of the spectrum—those that have a smaller share of Gen Y than their overall market share and lower retention rates for this customer group. These companies may potentially lose market share if they do not quickly adapt strategies to address these customers' needs.

Generation Y Retention Rates by Insurer

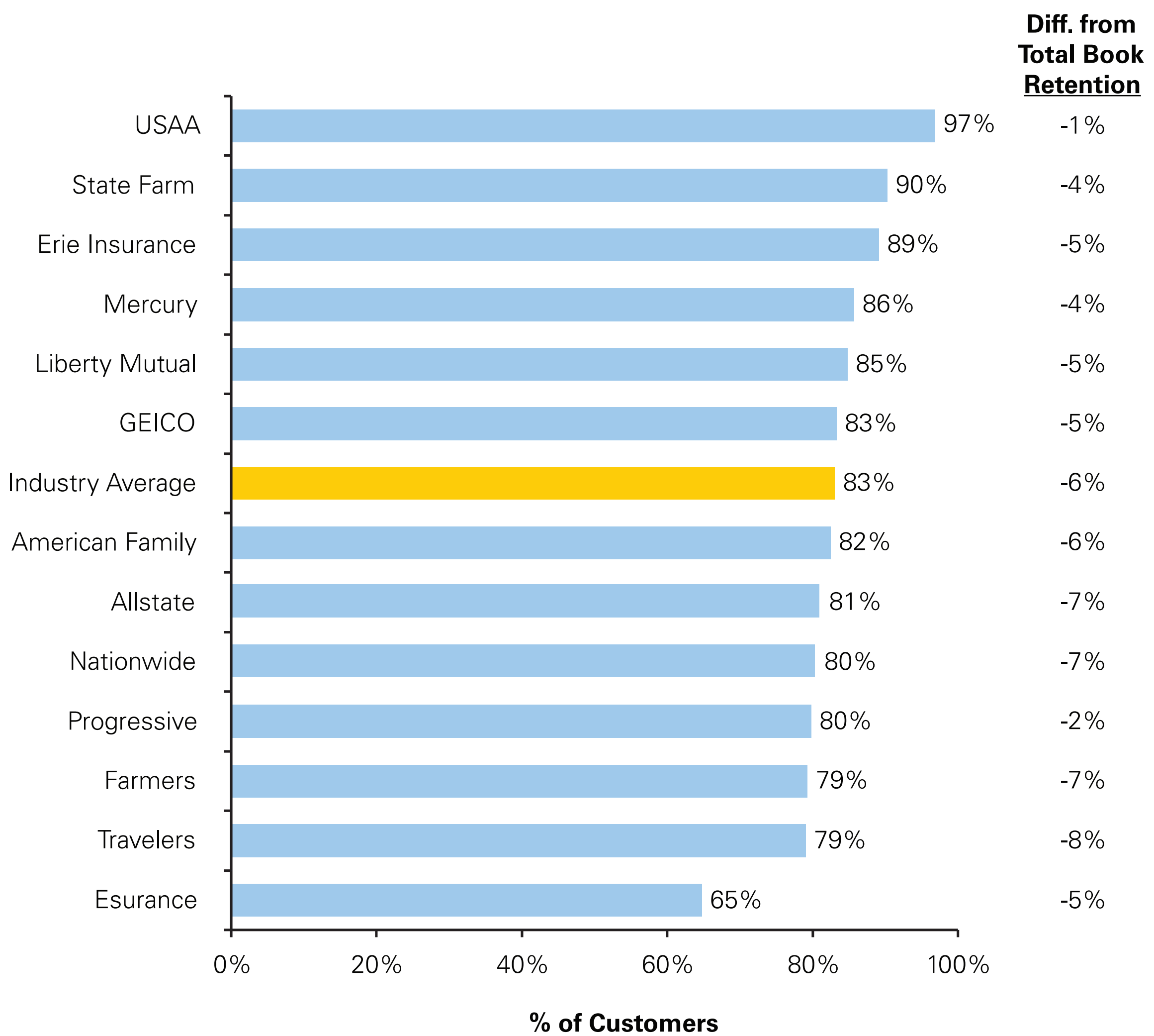


Figure MD-10

Source: J.D. Power and Associates 2010 National Auto Insurance Study℠

Leveraging the Information

This management discussion, the second in a series of three this year that focus on the unique behaviors and expectations of Generation Y consumers as they enter the personal auto insurance market, highlights the challenges faced by the industry in retaining these often critical policyholders. Gen Y consumers have grown up in a "wired" society, with instant access to information, and are more apt to both offer and act upon recommendations made by peers. The traditional sales and service channels offered by insurers for decades garner significantly lower customer satisfaction—and, hence, lower policy retention rates—among this younger demographic group. A comparison of the top drivers of higher satisfaction between Gen Y and Baby Boomers highlights this younger generation's greater emphasis on self-service, freedom of choice, and real-time service. The challenge for insurers, therefore, will be to tailor service and operations to meet the changing needs of this cohort as they rapidly grow into the largest segment in the US personal auto insurance market during the next decade. Effectively leveraging the findings from the *2010 National Auto Insurance Study* may help guide the way.

Authors:

Jeremy Bowler
Senior Director
Jeremy.Bowler@jdpa.com

Mark Garrett
Research Director
Mark.Garrett@jdpa.com

Marcus Skerske
Research Specialist
Marcus_Skerske@jdpa.com

Jay Meyers, Ph.D.
Director, Marketing Sciences
Jay.Meyers@jdpa.com

Colleen Cairns
Research Supervisor
Colleen.Cairns@jdpa.com