2012 Auto Claims Satisfaction Study SM

MANAGEMENT DISCUSSION

October 2012

Insurance Practice

Introduction

During the past several years, J.D. Power and Associates has annually surveyed personal auto insurance customers who recently filed a claim with their insurer. The *J.D. Power and Associates 2012 Auto Claims Satisfaction Study*[SM] examines each "touch point" between claimants and their insurer and the extent to which each event impacts overall satisfaction. The study also details the most critical service standards that drive higher satisfaction and, subsequently, policy retention, and profiles each insurer's relative strengths and weaknesses in meeting claimants' expectations in each of them.

J.D. Power has provided insight each year in this study on how insurers may better understand the perceptions and expectations of claimants, and that focusing on the most impactful areas may further improve their customer service during claims handling. Prior-year management discussions have focused on understanding differences in the total loss experience, servicing Gen Y customers, and how the claims experience differs based on the process and people interactions claimants experience throughout the claim. One consistent finding in the claims experience analyses is how critical it is to manage claimants' expectations for what the settlement will cover.

An analysis of recent claims experiences identifies the Settlement factor as having the highest importance weight in the overall Auto Claims Satisfaction Index (36%). The Settlement factor is comprised of two attributes: *Fairness of the settlement* and *Time to settle the claim*. While claimants' perceptions of timing can be measured more directly through questions about the amount of time involved in different elements of the claim, their perceptions of fairness are more subjective and varied in nature.

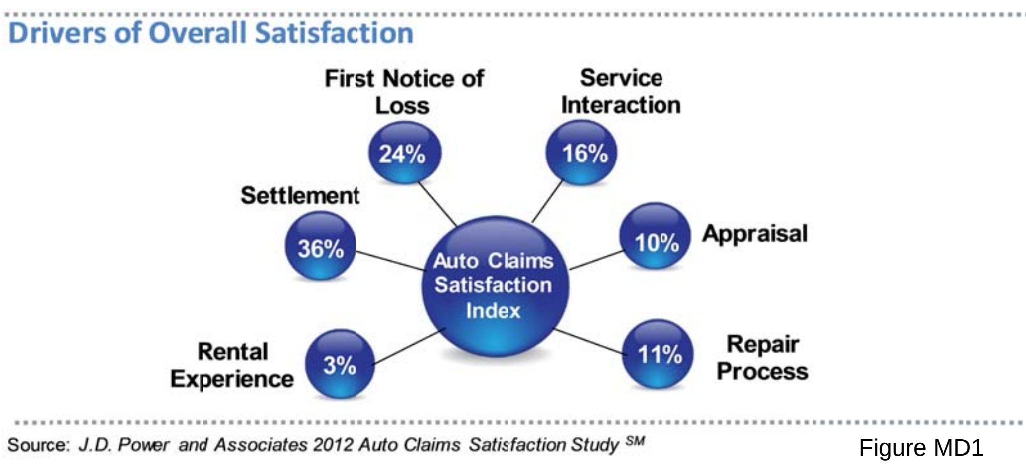


Figure MD1

While every insurer essentially pays what they owe on each claim, and every auto claim involves the same basic process steps—capturing a claims report; determining liability; assessing the level of severity; and settling the claim—the 2012 study finds notable differences in how claimants describe their experiences, as well as their expectations of what constitutes a fair settlement. For example, perceptions of fairness are quite different for a total loss, for which claimants are most often paid directly for the value of their vehicle, compared with a repairable vehicle claim, for which typically no payment is made to the claimant, and picking up the repaired vehicle is often viewed as the close of the claim.

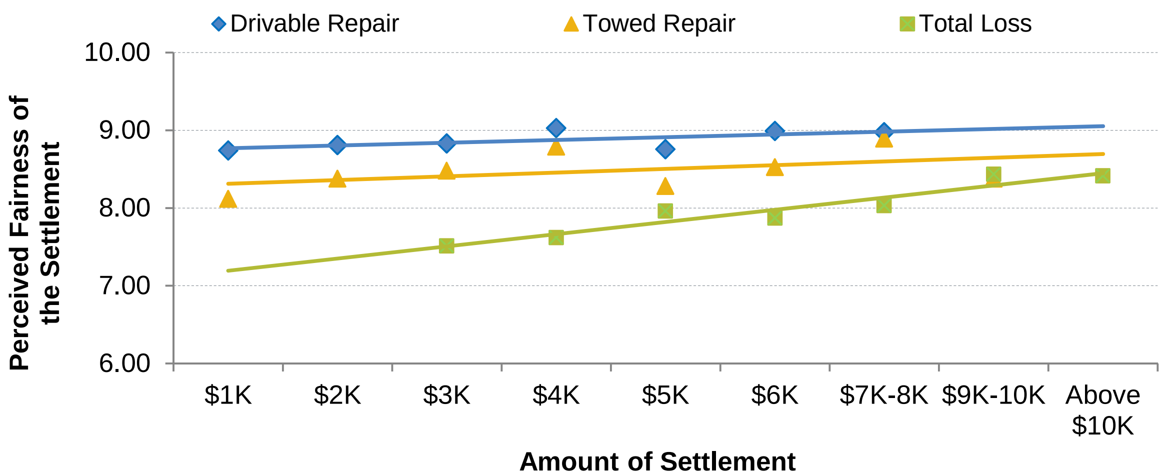
This management discussion will focus on the different elements that impact perceptions of fairness by analyzing factors such as expenses incurred by claimants; how quickly they were informed of the settlement; the execution of Key Performance Indicators (KPIs); and how other metrics, such as overall tenure with the insurer, shape claimants' expectations and perceptions of what is considered a fair settlement.

Drivers of Settlement Fairness

Starting with claimants' reported settlement amount, the study finds very little relationship between the total dollar amount of the settlement and claimants' ratings of fairness (on a 10-point scale) for repairable vehicles, as evident in the relatively flat trend line in Figure MD2. This may not be unexpected, considering that in a majority of repair-based claims the payment is made directly to the body shop. In these instances, claimants' primary focus is getting their vehicle back in a condition similar to prior to the accident and not necessarily on making sure the dollar amount seems sufficient. As a result, the total settlement figure for repairable vehicles is not highly correlated with the perception of fairness.

In contrast, there is a stronger relationship between severity and perceptions of fairness among total loss claims, for which a settlement check is more often provided directly to claimants. Unlike repairable vehicle claims where claimants are focused on ensuring their vehicle looks and drives similar to pre-accident condition, those with total losses need the settlement to be sufficient to replace their vehicle. Furthermore, in total loss claims, this effect may be further pronounced because claimants receiving only $3,000-$4,000 may find it substantially harder to purchase reliable transportation. Indeed, 57% of those receiving $4,000 or less report their settlement was insufficient to cover the cost of a replacement vehicle.

Fairness and Settlement Amount



Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

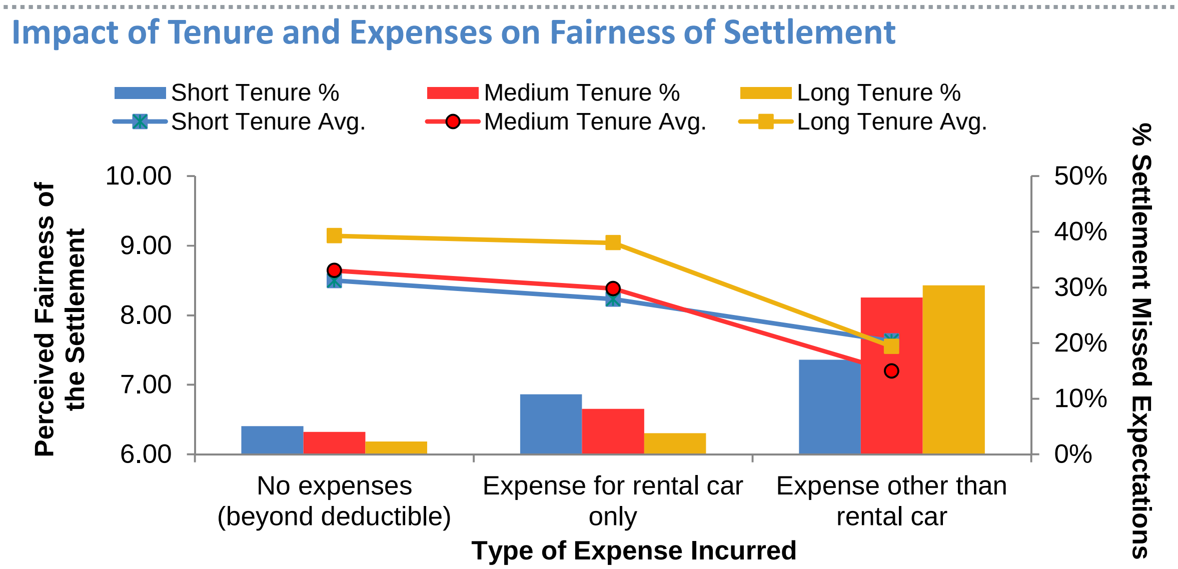
Figure MD2

Out-of-Pocket Spending

While the total settlement amount has little relationship to the overall fairness of claims paid for repairable vehicles, there are other metrics related to money that have a more meaningful relationship—particularly when claimants incur out-of-pocket expenses. This relationship is most pronounced when claimants incur out-of-pocket expenses in excess of their deductible that they did not expect having to pay. Among claimants whose only out-of-pocket expense was their deductible, nearly all (96%) say the settlement met their expectations. The remaining 4% of claimants who paid only their deductible but say the settlement didn't meet their expectations more often negotiated regarding the damage that needed to be repaired or the amount of the deductible to be paid (especially among those who were not at fault in the accident). The proportion of claimants who say the settlement did not meet their expectations increases fourfold to 12% among those who incurred some type of out-of-pocket expense beyond their deductible. This proportion varies, depending on the type of expense, and there are large differences when comparing claimants who have a much longer tenure with their insurer than among claimants who have recently purchased their policy. This finding may be attributable to long tenure claimants, who have been paying their premiums for several years, coming to expect everything to be covered when they finally do have a claim.

Figure MD3 shows the relationship between the types of out-of-pocket expense and how claimants in different tenure groups not only perceive the fairness of the settlement, but also how it met their expectations. For this analysis, claimants were grouped into three tiers of tenure[1]—short, medium, or long—depending on how long they have been with their insurer. It is worth noting that the tenure is calculated differently for each generational cohort in order to minimize the impact of one cohort over-representing a tenure group.

Claimants with short tenure tend to be more sensitive to out-of-pocket expenses other than their deductible, as 10%, the highest rate among the tenure groups, say the settlement missed their expectations when expenses for rental car (the most common form of out-of-pocket expense) are incurred during a claim. In contrast, long tenure claimants, who may have a better understanding of how their policy works, are not as negatively impacted when rental car expenses are incurred, as ratings only slightly decrease for fairness and perceptions that the settlement covered what was expected. However, the long tenure group has the largest declines in fairness and the sharpest increases in missed expectations when expenses beyond rental car are incurred, suggesting these long tenure claimants do have a different level of expectations for what should be covered in the claim.



Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

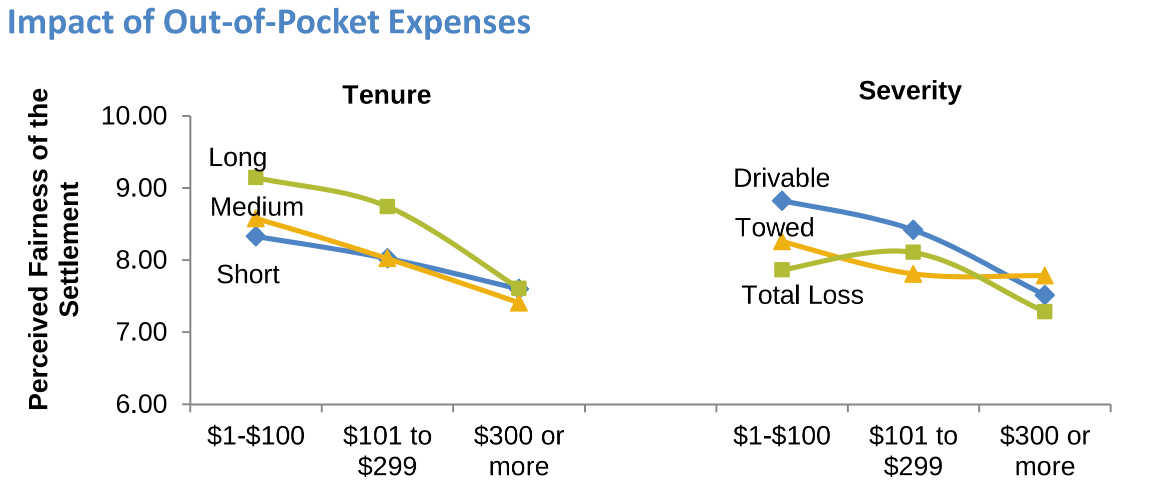
Figure MD3

The sharp decline in perceived fairness among claimants who incurred expenses other than for a rental car is primarily driven by much higher average expenses ($415), compared with those who only incur expenses for a rental car ($136, on average). The perception of fairness is influenced by the total dollar amount spent, regardless of the reason for the expense. Figure MD4 shows the relationship of total dollar amount spent and ratings for the fairness of the settlement. While claimants in all tenure groups are similarly critical of fairness

[1] For Gen Y, Short=4 yrs. or less, Medium=5-10 yrs., Long=11+ yrs.; Gen X, Short=6 yrs. or less, Medium=7-15yrs., Long=16+ yrs.; Boomer, Short=8 yrs. or less, Medium=9-20 yrs., Long=21+ yrs.; Pre-Boomer, Short=11 yrs. or less, Medium=12-30 yrs., Long=31+ yrs.

[2] J.D. Power and Associates defines Generation Y as born between 1977 and 1994. Other generational cohorts are Pre-Boomers (born before 1946); Baby Boomers (born 1946-1964); and Generation X (born 1965-1976).

when they incur $300 or more in expenses, the negative impact is more pronounced among those in the long tenure group.

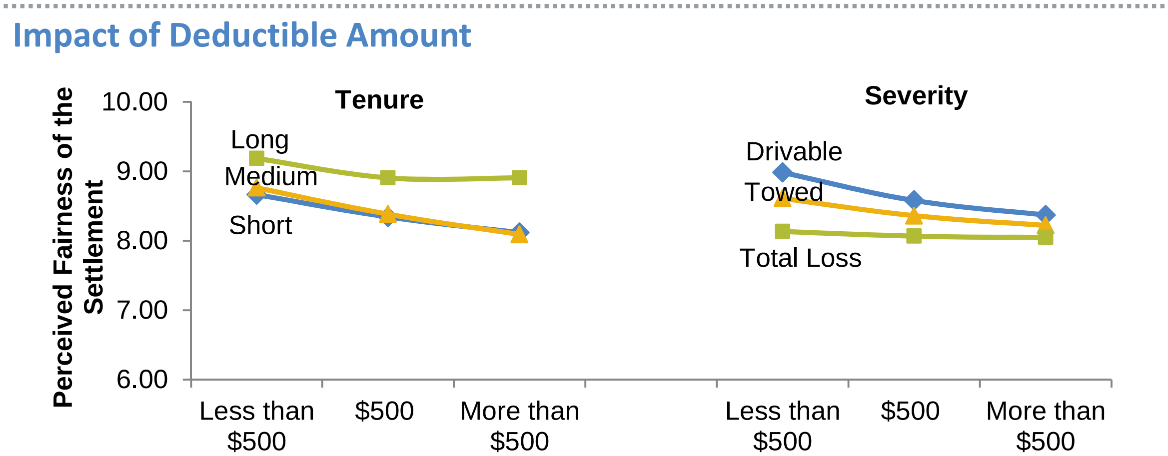


Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

Figure MD4

The impact of expenses incurred during the claim also varies based on the severity of the vehicle damages. (right chart, Figure MD4) Perceptions of fairness decline most among claimants whose vehicle had the least severe damage, those whose vehicle was still drivable. While the average settlement for a towed vehicle is $4,600, the average settlement for drivable vehicle claims is $2,200, thus expenses of $300 or more represents a greater percentage of the overall settlement for a drivable vehicle claim, which may impact the sharp decline in the perception of fairness.

A similar relationship is observed when comparing the cost of the deductible. While most claimants pay for their deductible, as the amount of the deductible increases, those with the least severe claims provide lower ratings for fairness. (Figure MD5) In contrast, fairness of the settlement is consistent across the different deductible amounts for claimants with a total loss, suggesting the average settlement of nearly $9,000 puts the deductible in a different perspective.



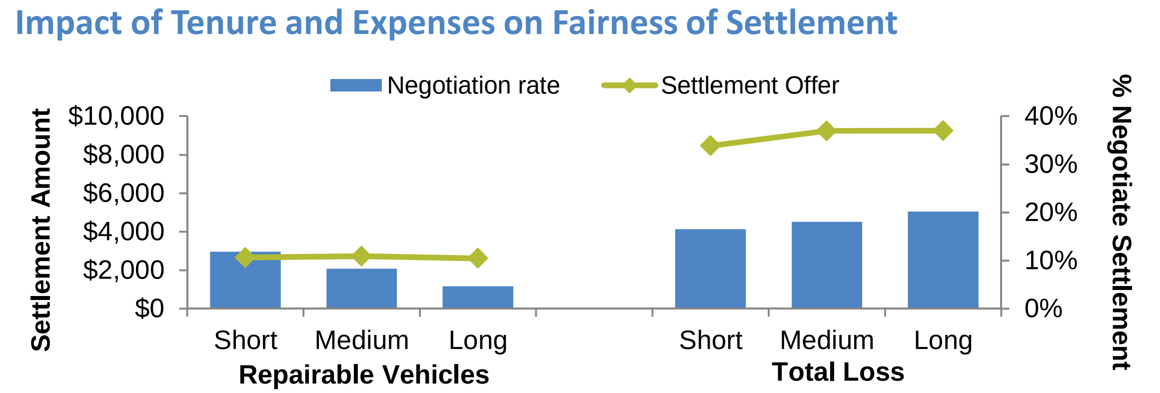
Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

Figure MD5

Negotiations

Another key driver of fairness of the settlement is whether or not claimants negotiated either what was going to be covered in the repair or the amount of the total loss settlement offer. Figure MD6 shows the rate of negotiations for the different tenure groups by the average settlement amount for both repairable and total loss vehicles.

For repairable vehicles, the total settlement amount for all tenure groups is similar. However, long tenure claimants are less likely to negotiate and trust that the insurer will provide a fair settlement and take care of the repair. Shorter tenure claimants are twice as likely to negotiate and not only typically question the damage to be repaired, but also the type of parts being used (i.e., OEM, aftermarket, recycled, etc.).

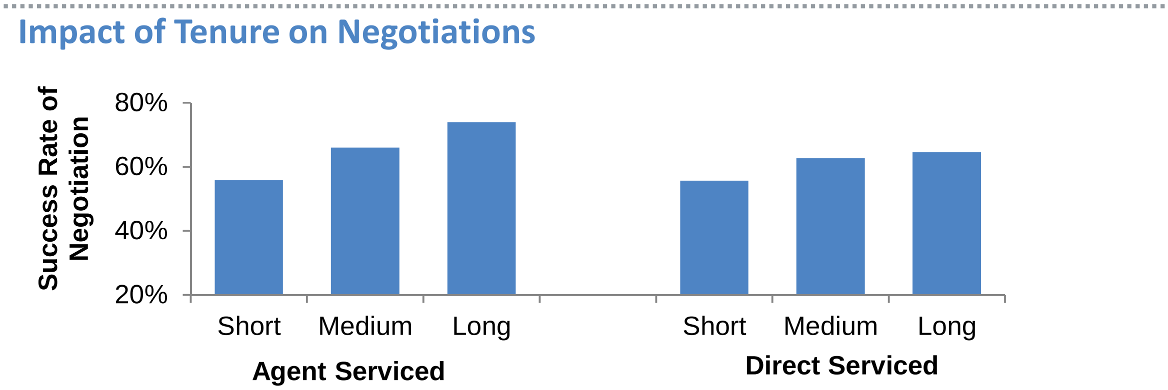


Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

Figure MD6

However, this trend reverses for total losses, as long tenure claimants are more likely to negotiate the settlement offer. This is due in part to the settlement check more often being issued directly to these claimants. Because they receive payment directly for a total loss claim, it is likely these claimants expect that the years of paying their premiums should be taken into consideration in the event of a claim.

Study findings show that this actually may be the case, as these long tenure claimants are more successful in negotiating a higher dollar amount than are claimants in the short and medium tenure groups. The difference in success rate (Figure MD7) is even more pronounced when comparing agent-serviced claimants to direct-serviced claimants, suggesting agents are more likely to approve higher settlements when negotiating with long tenure claimants.



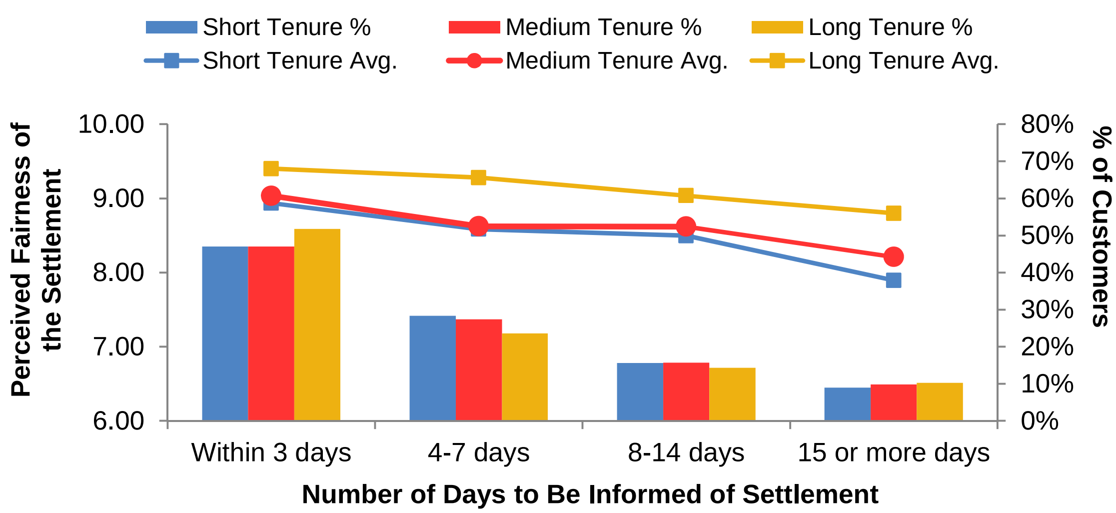
Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

Figure MD7

Timing of the Settlement

In analyzing all of the different claimant-reported time-related metrics (e.g., timing of post-FNOL contact, appraisal, and delivery to body shop, among others) the one measure of time that has the strongest relationship with fairness is how quickly insurers inform claimants of what will be covered in a claim. Even among claimants who say the settlement covered everything they expected, ratings for fairness still decline as the time it takes to inform them of what is covered increases. (Figure MD8) These findings are consistent when comparing the different tenure groups and the severity of the claim—taking longer to communicate coverage erodes claimants' trust in the handling of the claim and results in a lower perceived fairness of how they are being treated.

Impact of Time to Inform of Settlement (Settlement Met Expectations)



Source: *J.D. Power and Associates 2012 Auto Claims Satisfaction Study* SM

Figure MD8

The impact is more pronounced among shorter tenure claimants—ratings are much lower when it takes longer than 2 weeks to communicate what will be covered—as they have been with their insurer for a shorter period of time and are less likely to know what to expect in the claims process. While longer time to inform claimants of the settlement may be indicative of a more complex claim, the decline in satisfaction is also attributable to other key metrics more likely to have been missed as the time to inform claimants lengthens. Insurers still need to maintain a level of service that is acceptable to keep claimants satisfied, and taking a long time to inform them of the settlement is often consistent with failing to execute other key service practices, such as returning phone calls and making it clear who claimants should contact with questions.

Key Service Practices

The analysis thus far has focused on various factors related to perceptions of fairness: out-of-pocket expenses, negotiated settlements, and the time to inform claimants what is covered. However, one of the largest drivers of perceived fairness is delivering an excellent service experience. Claimants who receive outstanding customer service throughout the claims process take that experience into consideration when rating the fairness of the settlement.

An example of how executing on the service practices impacts fairness is provided in Figure MD9. All claimants, regardless of their length of tenure with their insurer, provide significantly lower ratings when key service practices are missed in handling the claim.

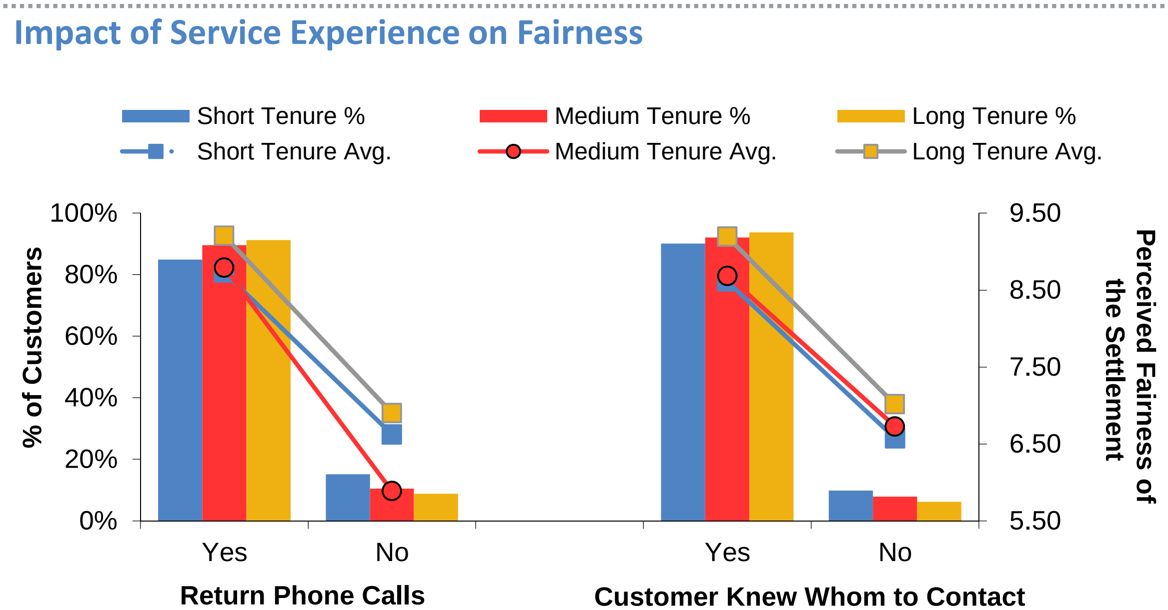


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Figure MD9

The *2012 Auto Claims Satisfaction Study* explores in detail the KPIs that must be executed in order to deliver a highly satisfying claims experience. Collectively, these KPIs, which provide a road map for insurers to achieve higher levels of satisfaction, focus on three core themes:

- **Managing Expectations**—Providing claimants with a clear and easily understandable description of what to expect at each step of the process is vital. Confusion, surprises, and periods of uncertainty may lead to claimants' discomfort and create an atmosphere of distrust and dissatisfaction with their insurer.
- **Convenience**—In a 24/7 world with high expectations of instant responses, claimants expect their insurer to respond promptly and provide a flexible experience tailored to their specific situation. Offering a choice of communications channels may largely contribute to meeting their expectations regarding responsiveness.
- **Effective Communication**—While it is vital that information be effectively shared among representatives of the insurer, repair facility, and local agent (if utilized), it is most important to also share such information with claimants. Additionally, proactive status updates and follow-up contacts ensure that claimants are kept informed.

Conclusion

As the largest driver of overall claims experience, managing customer expectations regarding the settlement is key to a highly satisfying claims experience, and hence positive word of mouth and policy renewals. So why does performance vary so significantly in the eyes of customers of one insurance company to the next, if all insurers work with the same network of repair shops and settle total losses based on fair market valuations? To answer this question, the financial impact on claimants was examined, as well as the impact that delaying advisement regarding the settlement may have on their attitudes. Not unexpectedly, claimants who incur personal expense or must wait to be advised what will be covered in a claim tend to grow less satisfied as cost or time increase.

This analysis finds that in order to fully understand claimant expectations, it is vital to consider each claimant's tenure as a policyholder. Claimants with shorter tenure want to pay as little as possible, and any incremental expenses will reduce their perception of fairness; if asked to pay additional expenses, they are more likely to negotiate for a better settlement. In contrast, long tenure claimants are more understanding of incurring rental car expenses but are less tolerant if they incur additional expenses¸ compared with shorter tenure claimants. Claimants in all tenure groups want their insurer to communicate with them quickly and are critical of their insurer when key service expectations are missed.

It is important for insurers to understand these differences in expectations to better adapt servicing strategies that address the areas that lead to dissatisfaction with claims handling. While 2012 study findings would suggest that insureds who purchase their policy through an agent have a higher success rate in negotiating a larger settlement, there doesn't appear to be any favorable treatment toward long tenure claimants. Given that lower satisfaction with claims leads to higher policy lapse rates and lower customer referral rates, insurers should be highly motivated to optimize their claims processes and tailor service to match the expectations of each claimant, especially those with long tenure who likely have a higher value to the insurer.

The findings presented in this management discussion provide an overview of the complete findings of the *2012 Auto Claims Satisfaction Study*, which also includes all Key Performance Indicators unique to each claimant touch point, as well as brand-level comparisons and year-over-year trending.

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