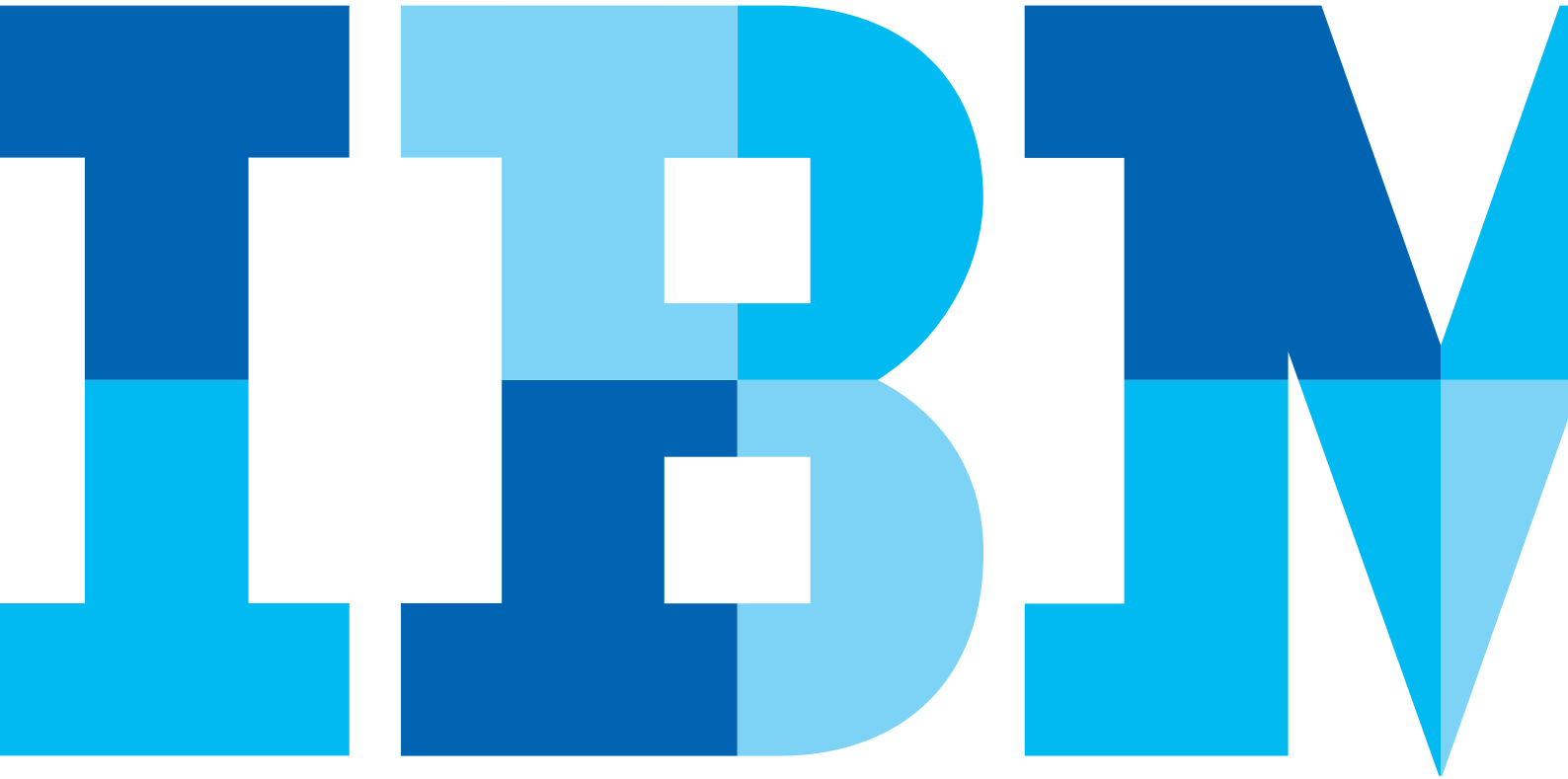


Insurance customer retention and growth

*Leveraging business analytics to retain existing customers
and cross-sell and up-sell insurance policies*



Introduction

Common sense suggests that the first step in growing the portfolio of quality customers is to first prevent attrition of current quality customers. Insurance companies can more successfully grow their books of business by doing a better job of retaining profitable customers and developing programs to retain those customers while working to increase revenue through more effective customer up-sell and cross-sell strategies.

By better understanding and predicting the behaviors and needs of key, at-risk customers, insurance companies can prevent churn and develop outbound marketing campaigns to increase revenues. In this paper we will explore the role of business intelligence (BI) and the use of predictive analytics to achieve customer retention and growth.

Overview

In the highly competitive insurance industry, policyholders are demanding better communications, higher levels of service and competitive pricing. At the same time, insurance companies are faced with the challenges of underwriting to a profit, identifying the ideal customer and avoiding churn—all while providing quality claims and supporting services.

In order to meet these challenges, it is essential to understand customer needs, behaviors and preferences. By applying customer analytics to the vast amount of customer data, insurance companies can more proactively manage customer relationships to make them longer lasting and more profitable.

The need for business analytics

IBM® Business Analytics software delivers complete, consistent and accurate reports and analyses that decision-makers can trust to retain customers and increase revenues. A comprehensive portfolio of BI and predictive analytics solutions provides decision makers with clear, immediate and actionable insights into current performance and the ability to predict future outcomes—providing a solid foundation for developing a comprehensive marketing, sales and retention strategy.

BI provides the historical view of the data, while predictive analytics allows you to gain a forward-looking viewpoint so you can proactively take steps to improve customer retention. Since predictive analytics allows you to analyze multiple types of structured and unstructured content—including attitudinal information—you gain better insights into the motivations that drove historical behaviors. By gaining advanced insights into why you have already lost customers, you can better understand the steps you can take today to improve retention of your current customers.

IBM Business Analytics software enables insurance companies to better retain customers who might otherwise defect by predicting the likelihood of their leaving early enough that you can take preventive measures to keep them from taking their business to a competitor. It also allow you to predict what preventative measures will be most successful and analyze the results of your retention efforts.

This enables insurance companies to make more strategic marketing plans, such as developing proactive campaigns to retain these high-risk customers or capitalizing on opportunities to sell incremental policies to targeted customer market segments.

Ask most insurance executives about their key strategies for growth, and the same answers tend to pop up:

- Increase revenues from existing customers
- Attract new policyholders
- Improve customer satisfaction and loyalty
- Serve mass market customers more cost-effectively
- Know customer needs so the institution can offer the right product at the right time

This is amidst a customer base that is more savvy, informed and price sensitive than ever before—and far less loyal. The risk of losing customers can be dramatic. In addition to lost revenues, insurance companies risk eroding the brand value they have worked so diligently to build. Social media and the Internet have made it much easier for unhappy customers to compare prices and share their experiences, potentially exposing insurance companies to viral campaigns from former customers.

In contrast, the rewards of a good customer experience are straightforward—a satisfied customer is more likely to remain loyal, buy additional policies, share their positive experiences over the Internet and recommend their insurance company to friends. But there are other related benefits of improving customer retention and satisfaction:

- Customer retention is far cheaper than customer acquisition
- A loyal customer is a strong competitive advantage because of the recurring revenue potential
- A satisfied customer can become “part of the team,” helping to sell your value proposition by word-of-mouth referrals
- Customers are a great source of feedback so you can continuously improve your service standards
- Customers also provide market intelligence feedback on competitive offerings so you can keep abreast of market dynamics

CIOs can enable growth by improving business analytics to micro-segment markets and optimize pricing structures, thereby boosting underwriting profitability

—Accenture¹

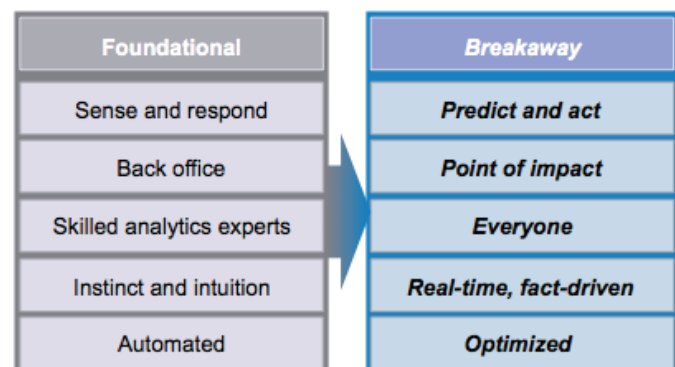
Taken as a whole, the benefits of delivering great customer care are like a multi-tiered annuity stream. Conversely, poor customer care can cause irreparable damage to your business. For every unhappy customer you hear from, there are countless more who are silent. Negative word of mouth can damage years of good reputation and ripple through countless prospects who never become customers. Ultimately, unhappy customers result in lower revenues for you and higher market share for your competitors.

¹Survival Skills: Insurance CIOs Must Adapt to Changing Market by Michael A. Costonis, Executive Director of Accenture’s North American Insurance Practice & Global Claims Lead; Keith Lippiatt, Managing Director, Technology Consulting Financial Services, Accenture. Insurance Technology, May 7, 2009.

The ability to monitor, analyze, report on and predict customer behaviors is essential for retaining existing customers and cross-selling and up-selling to the installed base. By carefully analyzing historical information, insurance companies can understand trends, and they can leverage predictive analysis to identify potential churn candidates and proactively develop retention programs.

Customer-facing employees can also make more informed decisions at the point of impact that retain existing customers, and insurance companies can increase “share of wallet” from existing policy holders by leveraging predictive analytics to segment customers by behavior or profile and develop targeted campaigns to cross-sell additional policies or up-sell existing policies. The pressure to retain and service existing customers more cost effectively demands better insight.

IBM Business Analytics software allows insurance companies to optimize every transaction, process and decision at the point of impact, based on the current situation, without requiring employees to be analytical experts.



Insurance companies can receive major efficiencies by leveraging foundational insight and adding breakaway capabilities that can optimize every decision, transaction or process at the point of impact.

Insurance companies can build on foundational insights and develop breakaway capabilities that deliver major advantages in the market place. IBM Business Analytics software allows insurance companies to predict behaviors and take actions to reduce churn and develop real-time, fact-driven campaigns that are optimized to proactively retain customers. When business analytics is embedded into operational processes, multiple processes can be optimized when it matters most, and insurance companies can make the greatest churn reduction improvements by enabling more informed decisions at the point of impact.

Making more informed decisions with business intelligence

By allowing more transparency or visibility into the underwriting, claims and services processes, insurers are able to provide better customer service and see where they are missing service targets. Creating a more customer-centric strategy is predicated on having customer segment or individual customer data available, analyzing the data to understand the behaviors and profitability of customers or groups of customers and then developing strategies and plans that maximize the institution’s success.

The tools to perform these tasks have existed for years, but in most cases, these technologies have failed to address the central issue. Data resides in disparate systems, and customer profitability solutions exist in relative isolation from the financial planning process. Better insight into customers allows insurance companies to better understand customer relationships and profitability at a granular level so they can develop new marketing strategies or products that better address customer demands. With BI software you can:

- Set targets, see results and understand what drives the numbers
- Identify trends that may be benefits or threats
- Take action with a common context for decision-making across every department
- Identify opportunities and patterns

Predict behaviors to retain customers

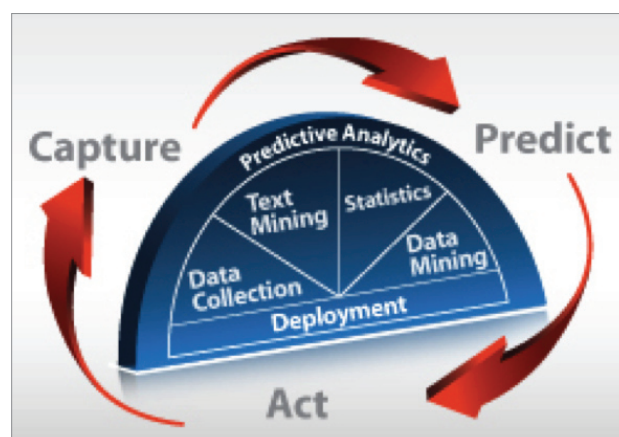
Retaining existing customers and increasing your business with them also requires the use of predictive analytics, which helps your organization anticipate customer requirements so that you can plan and carry out strategies that improve results. IBM Business Analytics software allows insurance executives to better understand customer behaviors and develop insights that support the development of proactive campaigns to retain customers that would otherwise likely be lost to the competition.

Predictive analytics is a transformational technology that enables more proactive decision-making, driving new forms of competitive advantage. It analyzes patterns found in historical and current transaction data as well as attitudinal survey data to predict potential future outcomes, and it provides unique insights that help insurance companies answer key business questions about each individual customer, such as:

- Is this customer likely to leave? If so, why?
- And what offer is most likely to persuade him-or-her to stay?
- And given the customer's predicted profitability and risk profile, what retention effort is justified?

By applying predictive analytics to data you already have, you can uncover unexpected patterns and associations and develop models to guide front-line interactions. This means you can prevent high-value customers from leaving and sell additional services to current customers, because predictive analytics gives you the knowledge to predict—and the power to act.

Predictive analytics is paving the way for insurance companies to retain existing customers and develop campaigns to up-sell and cross-sell to them. Marketing departments can proactively identify customers who are likely to leave for a competitor and tailor specific efforts to save that customer based upon their unique characteristics and past experience. In contrast, there are some customers who aren't worth keeping, and predictive analytics can help you identify those unprofitable customers as well.



Predictive analytics allows insurance companies to capture customer information across multiple channels, predict behaviors and preferences, and act on results to increase revenues.

IBM Business Analytics software enables insurance companies to effectively combine BI, financial performance management and predictive analytics to gain a competitive advantage—since the insights you gain by an analysis of your own customer base are not available to your competitors. Because customer acquisition cost is high and the market demands increased revenues, marketing departments are continuously driven to sell into their existing customer base.

Predictive analytics informs and transforms how insurance organizations segment customers, identify cross-sell opportunities and predict which offers—presented in which medium—are most likely to garner a positive response. It unlocks the hidden patterns within your disparate data and uncovers relationships that enable your organization to make recommendations that are highly targeted for each unique customer.

IBM Business Analytics offers insurance companies a comprehensive solution that combines business intelligence, financial performance management and predictive analytics in order to provide the clear, immediate and actionable insights needed to retain customers and grow revenue.

Analyze all relevant customer data

Those insurance companies that are able to leverage all relevant and available internal, external, structured and unstructured data to best understand customer behaviors will succeed. As you interact with your customers over the course of months and years, they leave behind a wealth of information about themselves. IBM Business Analytics software can help you combine diverse sets of information to develop a comprehensive view of each customer that includes:

- Descriptive information that tells you who they are, such as demographics
- Behavioral information that summarize what they do, such as summaries of the policies they hold, their payments and their claims
- Interaction information that describes how they interact with you, such as channel usage, information requests, complaints, service requests and online activity
- Attitudinal information that describes why they do what they do, such as satisfaction scores or opinions expressed in interactions with your agents

This customer view is highly unique to your relationship with them, and it allows you to uncover hidden—and potentially critical—insights to gain a competitive advantage.

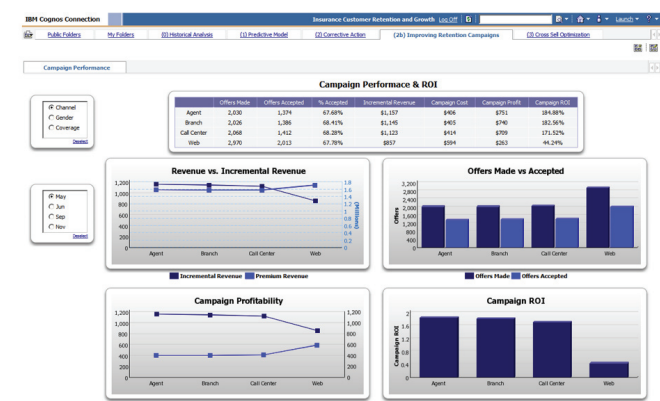
Apply predictive models

Once you have constructed this view of your customers, you can apply predictive models to identify the most appropriate offers for groups of customers or for individual customers. Leveraging historical customer information and previous campaign history, you can create predictive models that will accurately determine which customers have a high likelihood of accepting an offer. You will be able to provide employees with self-service access to insights that will drive results, and create predictive models in a timely manner so you can rapidly respond to customer requirements and preferences.

In addition to creating marketing response models, you can utilize the same historical data to model customers who are likely to churn based upon customers who have churned in the past. These models will provide the foundation for creating retention strategies to proactively save your most valuable customers. With these predictive models in hand, you can now assess each of your current customers to identify which offers—if any—are likely to retain each policy holder.

Develop informed marketing programs and tactics

Knowing the best offer to make is only useful if you can act on these insights. Insurance companies can more carefully segment customers who share particular behaviors or buying habits, and then develop more targeted marketing tactics—including email, direct mail, telesales, web promotions or social networking campaigns—that promote more relevant offers to each market segment based on their past responses to earlier promotions. Outbound marketing campaigns can also be more carefully targeted so they are less costly to implement—since they will be delivered to smaller and more targeted customer segments—and have much higher success rates.



Marketing campaign performance and ROI can be tracked by the Insurance Customer Retention & Growth dashboard and communicated throughout the organization in spreadsheets, PDFs, online reports or email.

Continuously improve retention efforts

As your marketing campaigns are executed, more detailed information from your customers will flow back. IBM Business Analytics software allows you to capture this information so you can continuously:

- Monitor predicted results versus actual results
- Refine your predictive models with the latest real-world evidence
- Update customer information for each contacted person to continuously improve your insights, retention strategies and customer interactions

Customer retention and growth solutions from IBM

IBM Business Analytics software delivers a complete solution with trustworthy, consistent and accurate reporting and analyses that decision-makers throughout insurance companies can use to improve customer retention and growth. IBM has created an accelerator for insurance companies looking to use analytics for customer retention and growth. It consists of a set of pre-defined reports, scorecards, dashboards and predictive models that will help you better understand your customers and define a market strategy to retain and grow your existing customer base.

IBM Business Analytics software allows insurance companies to prevent churn and retain existing customers by proactively identifying buying patterns and behaviors, better segmenting the customer base and more effectively predicting the most effective marketing methods and tactics for maximum success:

- IBM Cognos software provides an integrated, best practice based set of reports, scorecards and analysis for customer insight. It integrates and extends your critical data, and delivers the scorecarding, reporting, analysis and planning tools you need to manage and enhance profitability and performance. You can dramatically improve your understanding of the current state of your customer segments and improve your ability to make timely, informed decisions to develop proactive campaigns to retain existing customers and offer them additional insurance products.
- IBM SPSS software lets you capture customer attitudes and opinions, predict outcomes of future customer interactions and then act on these insights by embedding analytics into business processes. IBM SPSS solutions address interconnected business objectives across an entire organization by focusing on the convergence of analytics, IT architecture and business process. Insurance companies worldwide rely on IBM SPSS software to gain a competitive advantage in attracting, retaining and growing customers, while reducing fraud and mitigating risk.

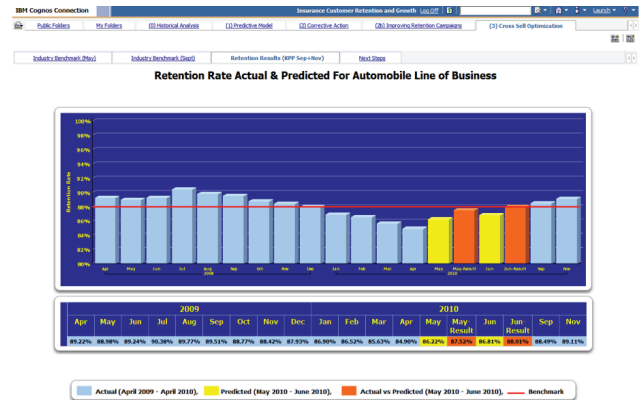
Corona Direct creates, optimizes and executes outbound marketing campaigns

To turn its unprofitable acquisition strategy into a profitable one, Corona Direct leveraged predictive analytics. Corona Direct automatically identifies groups that are likely to respond to a campaign and then performs a sophisticated profit-cost analysis, balancing growth targets against profit margins. With this dual focus on likelihood of response and expected profitability, Corona Direct is able to optimize its potential for growth.

Many of the leading players in insurance already choose IBM Business Analytics software, including four of the top five property and casualty insurance companies in the world. By leveraging IBM Business Analytics software, insurance companies can:

- Reduce customer churn by proactively presenting valuable offers to existing customers
- Increase revenues from current customers
- Increase campaign profitability through continuous refinements
- Increase loyalty by building longer-term customer relationships
- Reduce marketing expenses via more targeted promotions

Find out how insurers are improving insight, risk management, customer loyalty and bottom-line results with IBM Business Analytics software. For more information about how to leverage business analytics to retain existing customers and cross-sell and up-sell insurance policies, visit ibm.com/cognos/insurance.



Actual versus predicted retention rates can be tracked to enable continuous improvement of the SPSS statistical models.

About IBM Business Analytics

IBM Business Analytics software delivers complete, consistent and accurate information that decision-makers can trust to improve business performance. A comprehensive portfolio of business intelligence, advanced analytics, financial performance and strategy management and analytic applications gives you clear, immediate and actionable insights into current performance and the ability to predict future outcomes. Combined with rich industry solutions, proven best practices and professional services, organizations of every size can drive the highest IT productivity and deliver better business results. For more information, visit ibm.com/cognos/insurance.

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