

Reducing Churn to Improve Profitability

How P&C carriers can increase profitability quickly and cost-effectively in a challenging business climate

There is no denying it, Property and Casualty insurers are facing more challenges today than ever before. Rising loss costs — [\\$2.6 billion](#) in the US alone in 2022 — are making [bottom-line profitability uncertain](#) as the industry faces significant headwinds, including inflation, increased claims severity, rate challenges, and fierce competition. That's on top of macroeconomic and geopolitical uncertainty.

P&C carriers need to be creative and take a multi-pronged approach when it comes to managing profitability. Relying solely on premium increases will not suffice, especially with the lengthy process of each state approving such rate changes. Updating aging technology and leveraging new tools like AI and automation to streamline processes, reduce operating costs, and increase business agility are crucial steps — but these remedies take time to implement.

There is one quick, cost-effective, and efficient strategy that can deliver measurable profitability improvements in the short term: increasing policyholder renewals. This white paper discusses how insurers can increase customer satisfaction and grow customer lifetime value and offers a solution that empowers carriers to boost their policyholder retention rate.

Market challenges impede profitable and sustainable growth

According to the American Property and Casualty Insurance Association, the P&C insurance industry is facing the [hardest market cycle](#) in a generation, resulting from a perfect storm of barriers to profitability.

Inflation remains a significant challenge for insurers, pushing up the cost of losses across personal and commercial lines as building materials, trade services, and automobile repairs continue to see double-digit increases. At the same time, the number and severity of catastrophic events — combined with inflation and population, housing, and business growth in hazard-prone areas — pushed losses to roughly \$150 billion in the US and \$270 billion globally, with insurers [paying out more than they collected](#) in premiums in 2022.

As a result, insurers are finding it challenging to keep rates and premium income ahead of losses — without exceeding customers' ability or willingness to pay. On average, the churn rate in the insurance market exceeds 25%. With the pressure to attract new customers, renewals are at risk as well. The competition is extreme as each carrier focuses on offering competitive pricing, new products, or customer satisfaction in campaigning to convince policyholders to switch insurers.

The business impact of policyholder retention and renewals

An often overlooked driver of growth in the P&C insurance industry is customer retention, which has a strong correlation with sustainable high profits. The average insurer has a retention rate of 84%, which places insurance [fourth overall](#) compared to other industries. However, top performing insurers can achieve retention rates in the 93% to 95% range — a difference that means leaving significant potential profit on the table for companies in the normal range.

Consider [this scenario](#) from Guidewire. An auto insurer with a 3% growth rate and 93% retention rate will grow a \$400 million portfolio to \$412 million over the course of a year. Change the retention rate to 95%, and the portfolio grows to \$420 million. Over five years, the difference between the two insurers is \$48 million based on only a 2% difference in retention.

Looking at the value of retention another way, a 5% increase in customer retention can deliver a 25% increase in profits. Sustain that 5% improvement for five years and see profits double.

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Paying attention to retention is critical. Digitization puts competitors at your customers' fingertips, and price shopping has never been easier. One in ten P&C insurance customers in the US will shop around annually, and of those, **35% will switch** providers. Replacing those defecting customers, much less getting new ones to achieve a net gain in policyholders and premiums, is expensive. It costs 7x more to attract a new customer than it does to retain an existing one, and insurance has the highest customer acquisition costs of any industry.

Boosting retention and profitability with a best-in-class customer experience

Improving policyholder retention to achieve profitability — even in the face of rising premiums — depends on delivering a superior customer experience (CX) throughout a customer's journey. For insurers, a customer journey may be entirely digital, or entirely on the phone with a call center, or a mix. Insurance customer journeys include shopping, receiving and considering a marketing offer, purchasing or renewing a policy, onboarding, filing and settling a claim, paying a bill, or resolving a dispute

The customer experience bar is high. About half of customers that are merely "satisfied" — a "three" on a five-point scale — will leave within three years. Boost that satisfaction to a "five," and retention goes up to 92%. At the same time, **the payout is significant**. According to McKinsey, there is a direct link between CX and profitability. For example, US auto insurance carriers that consistently delivered best-in-class experiences were 80% more likely to retain customers, saw higher success at cross-selling, and achieved 30% higher profitability than CX laggards.

CX is so important that **81% of organizations** say it is a competitive differentiator. Delivering a superior CX means meeting customer expectations for hyper-personalization, seamless integration and shared information across departments, knowledgeable and empathetic employees who care, and fast, efficient interactions. A great CX also requires integrated, easy-to-navigate omnichannel touchpoints that include voice response systems, websites, customer portals, and outbound email communications.

Trustworthy data is a key driver of CX success and the essential enabler behind the personalized experiences that customers want. By integrating customer data across the organization, insurers can create engaging experiences built on deep intelligence about the customer. Understanding policyholder factors like length of time with the company, their policy and auto or property details, and claims history makes it possible to tailor experiences to their specific needs.

Attracting a new customer costs **7x** more than retaining an existing one.



81% of organizations say customer experience is a competitive differentiator

Data-driven personalization and the renewal journey

How Amazon Pinpoint and Precisely EngageOne™ Communicate software integrate to deliver a CX solution for policyholder retention

Reaching out to customers when their policies come up for renewal is a standard practice. Elevating the CX of that outreach to engage customers with deep personalization and an easy way to act can improve retention rates, increase upselling success, and boost profitability.

AWS and Precisely have partnered on a solution that makes it fast and cost-effective to mount an engaging and highly personalized rolling renewals campaign at scale. Here is a high-level view of how it works.

Amazon Pinpoint is a flexible, scalable AWS service that marketers use to engage with customers across multiple messaging channels, including custom channels. Through segmentation, channel choice, automated campaigns, and data-driven personalization, marketers can execute large-scale campaigns and customer journeys. To get started, insurers upload customer and policy data to AWS for ingestion by Amazon Pinpoint.

EngageOne™ Communicate software from Precisely is a cloud-based platform available on AWS that allows business users to create engaging interactive videos built on campaign logic and customer data flowing from Amazon Pinpoint via an API connection. Policyholders receive an email with a link to their personalized video. While watching, they can select content relevant to them and take action directly within the video, such as correcting contact information, selecting add-on coverages, and renewing policies.

The endgame: growing customer lifetime value

Insurance customers have more options and more pricing information than ever before, and there are many competitors chasing your book of business. At the same time, people have been conditioned by highly responsive, data-driven technology providers to have high expectations around customer experience and ongoing engagement.

In today's hard market, P&C carriers cannot afford to neglect any aspect of customer experience. CX is often more important to policyholders than product or price. In fact, **86% of buyers** are willing to pay more for a great customer experience. Delivering an exceptional CX centered around data-driven personalization is the key to building customer loyalty, maximizing renewals to boost profitability, and elevating customer lifetime value through retention, cross-selling, and referrals.



Learn how AWS and Precisely can help your organization maximize policyholder retention. Visit [Amazon Pinpoint](#) and [Precisely EngageOne™ software](#) for more information.

Resources

Learn more about the solution capabilities by exploring these resources:

- Watch the [on-demand webinar](#) that includes a demo on how to use Amazon Pinpoint and Precisely Engage One™. Video software to improve the renewals CX
- Learn how one auto insurer [boosted renewals by 12%](#) using personalized, interactive video
- [Test drive](#) an interactive renewals video for a fictional auto insurer



About Precisely

Precisely is the global leader in data integrity, providing accuracy, consistency, and context in data for 12,000 customers in more than 100 countries, including 99 of the Fortune 100. Precisely's data integration, data quality, data governance, location intelligence, and data enrichment products power better business decisions to create better outcomes.

Learn more at www.precisely.com.