Ian Hughes

is the managing director of Consumer Intelligence, a research and mystery shopping company that specialises in financial services. He has worked in direct marketing for 18 years on both sides of the Atlantic at MM Group, eCharity.com, VDC and Direct Excellence. Ian is a graduate of Harvard Business School's PMD programme.

Customer loyalty in the UK general insurance market

Ian Hughes

Received: 12 May 2008

Abstract

This report examines the issue of customer loyalty in the UK general insurance market, examining what types of customers are likely to be loyal, and whether insurers can modify their strategy to capture more loyal customers. Concentrating on the volatile motor insurance market with a 12-month survey of over 24,000 policyholders, our findings reveal a worrying scenario in the contemporary marketplace.

- 26.9 per cent of the sample was likely to be disloyal at renewal.
- 43 per cent of the market has not been through more than one renewal cycle either with their existing insurer or with their previous insurer.
- Older males are likely to be the most loyal customer group; students are likely to be the most disloyal.
- The best way to capture a loyal customer is through personal recommendation or through traditional media advertising.
- There is a very high correlation between price sensitivity and propensity to switch insurer. Insurers continue to offer price discounts for new customers, even though our research shows that these people are most likely to be disloyal in future.

Journal of Direct, Data and Digital Marketing Practice (2008) **10**, 29–42.
doi:10.1057/dddmp.2008.23

Keywords: loyalty, customer relationship, general insurance, disloyalty, renewal

What type of customer is likely to be loyal?

Ian Hughes
CEO Consumer Intelligence
1 Lower Lamb Street
Bristol BS1 5UD, UK
Tel: +44 0117 3178181
Fax: +44 0117 3178182
E-mail: ianh@consumerintel.com

Introduction: Customer loyalty

The argument as to why customer loyalty in general insurance is so important has been well made on a number of occasions, and many people have different ideas on how to achieve such loyalty.

But what type of customer is likely to be loyal? Can a company modify its strategy in order to capture more loyal customers? These are the questions that Consumer Intelligence (CI) has sought to address in this report, working on the thesis that if it is possible to predict loyalty, then a company can directly alter its strategy to acquire more loyal customers.

As a result, we have broken this research into two main sections: first, an analysis of the kind of customer that is loyal and, secondly, how a company can use this information in order to improve potential customer retention levels.

As part of our comprehensive research into these key questions, CI carried out a 12-month survey of over 24,000 purchasers of motor insurance, the largest single general insurance line in the country and the one that previous studies have consistently demonstrated as having the most disloyal customers.

The research

Over a 12-month period, CI interviewed over 24,000 purchasers of motor insurance. This was achieved by contacting a nationally representative sample of consumers over the internet and inviting them to complete a survey.

Consumers were then filtered using the following three questions:

1. Are you the person responsible for purchasing motor insurance in your household?
2. Do you have a car under the Motability Scheme?
3. Do you personally own a car for which you pay insurance?

Those who selected themselves as responsible for buying insurance, not being in the Motability Scheme (allows disabled individuals to buy or lease an automobile at a reasonable price) and personally owning the car were asked a series of questions about themselves and their motor insurance. In particular, they were asked how long they had been with their current motor insurer and how long they had been with their previous insurer.

This target market was then further reduced to only those who knew how long they had been with their current insurer and previous insurer (if they had one). This reduced the sample size to 19,897.

The results were then analysed to see whether there were any major factors or indicative patterns likely to influence the key decision: whether or not a policyholder was likely to stay with their existing insurer.

Going further, we derived another set of data from the first set by examining the duration of a customer's relationship with their previous insurer, as well as the length of time they had been with their current insurer. We then added these two data sets together, allowing us to identify four types of customer.

- Loyal customers.
- 'Maybes' who may have been loyal to their previous insurer, but have only just switched to their new insurer, so their loyalty to this insurer cannot yet be determined.
- 'Modests' who may have had a modest level of loyalty to their existing insurer and their previous insurer.
- Disloyal customers.

For the purpose of this report, we are most interested in whether we can identify loyal and disloyal customers. We will, therefore, generalise the two middle groups into one 'unknown' classification and focus on the results that drive us towards one end of the spectrum or the other on the pages that follow (Figure 1).

Is a policyholder likely to stay with their existing insurer?

Figure 1: The pyramid of disloyalty

What do loyalty and disloyalty look like?

It is easier to define disloyalty because this group comprises a substantial part of the overall sample.

Loyal or disloyal

Table 1 shows that disloyal customers account for 26.9 per cent of our sample, whereas loyal customers only account for 5.7 per cent of the sample. The ‘unknowns’ are in the majority.

This first set of results demonstrates just how difficult it is to identify those customers who will be loyal, because this group equals roughly one in 20 of all customers, whereas the disloyal customers account for one in four.

Even more interesting is that the number of disloyal customers at 26.9 per cent is similar to the attrition rate experienced by insurers. What these statistics immediately indicate is that the real issue for insurers is not how to gain loyalty, but how to avoid disloyalty. In uncovering such strategy, an insurer can reduce disloyalty levels and the chances that customers will take their business to a competitor even if that customer becomes apathetic.

The demographics of loyalty

As previously stated, the purpose of this paper is to see if loyalty and disloyalty can be predicted, especially during the acquisition process. Essential to this process is gaining key demographic data about a potential customer. By analysing loyalty in relation to these key demographics, therefore, we can have a clearer understanding of what constitutes a loyal customer.

Table 1: Disloyalty tabulation

Valid	Frequency	Per cent
Disloyal	5,348	26.9
Loyal	1,130	5.7
Unknown	13,419	67.4
Total	19,897	100.0

Table 2: Disloyalty by region

Region	Disloyal (%)	Loyal (%)	Unknown (%)
North East and Yorkshire	28.0	5.1	66.9
North West	30.2	4.7	65.1
Midlands	27.5	4.8	67.7
East Anglia	29.9	3.1	67.0
London	26.0	5.0	69.0
South East	25.6	6.3	68.0
South West	26.6	6.6	66.8
Wales	26.9	6.7	66.3
Scotland	23.0	7.5	69.5

The following chart provides a demographic breakdown by gender.

Gender	Loyal or disloyal		Total	
	Disloyal (%)	Loyal (%)	Unknown (%)	Disloyal (%)
Male	24.8	6.8	68.4	100.0
Female	29.1	4.5	66.4	100.0
Total	26.9	5.7	67.4	100.0

These results show that men are more likely to be loyal than women.

Table 2 provides an overview of loyalty vs disloyalty by region.

From this table we can see that the most disloyal region within the UK is the North West, closely followed by East Anglia.

Scotland bears the distinction of being not only the least disloyal region but also the most loyal region, with 7.5 per cent of consumers acting in a loyal way.

We also analysed the results by employment status (Table 3).

The most disloyal group in our research was students. This should not come as a surprise for one main reason: their low no-claims discount and the general fact that insurance premiums are higher, the younger the individual. A general assumption can then be made that younger, covered individuals would be more likely to follow lower rates. The retired, on the other hand, are the most loyal group with nearly 14.5 per cent loyalty.

Examining by age group, Table 4 shows a correlation between loyalty and age, with people over the age of 60 displaying extreme

Table 3: Disloyalty by work status

What is your work status?	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
Full time employed	29.4	3.4	67.2	100.0
Part time employed	26.0	4.9	69.1	100.0
Self-employed	23.2	7.8	69.0	100.0
Retired	17.8	14.5	67.7	100.0
Student	44.3	0.2	55.5	100.0
Unemployed	29.7	2.6	67.6	100.0
Home maker	28.7	4.1	67.1	100.0
Other	16.7	7.5	75.9	100.0
Average	26.9	5.7	67.4	100.0

Table 4: Disloyalty by age

Age	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
18–24	48.0	0.1	51.9	100.0
25–29	37.1	0.1	62.7	100.0
30–34	31.4	1.4	67.2	100.0
35–39	28.6	2.5	68.9	100.0
40–44	26.0	3.2	70.8	100.0
45–49	22.8	6.0	71.1	100.0
50–54	19.1	8.9	72.0	100.0
55–59	17.9	8.9	73.2	100.0
60–64	17.5	13.1	69.4	100.0
65–69	17.2	16.0	66.8	100.0
70 and above	14.1	18.2	67.7	100.0
Average	26.9	5.7	67.4	100.0

loyalty. As for the younger end of the results, most notably those between the ages of 18 and 29, these results should come as no surprise. This is mainly because disloyalty is a trait or characteristic for which the younger generations, namely Generation Y (born between 1983 and 1994), have become known. According to US publication *Customer Relationship Management*, ‘Published reports have labelled Generation Y as fiercely disloyal, claiming its access to Web information and online communities empowers members of this cohort to research vendors in a market and switch to a competitor if they’re unhappy with their existing vendor’.¹ The article goes on to say that the only thing more likely to sway a younger individual to stay with a particular company or even to switch in one direction or another is the level of familiarity with the company’s brand name. Indeed, the results shown by this table are particularly noteworthy, because in our analysis the highest correlation between any of our separate demographic variables was that between age band and loyalty.

Table 5: Disloyalty by social grade

Social grade from sample	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
A	23.0	8.5	68.5	100.0
B	25.3	5.8	69.0	100.0
C1	30.6	3.8	65.7	100.0
C2	27.9	3.6	68.5	100.0
D	30.2	3.3	66.5	100.0
E	22.0	10.6	67.4	100.0
Average	26.9	5.7	67.4	100.0

Next, we examined loyalty according to social categorisation.

Social grade, as it is known, is broken down into six groupings of individuals within the UK based on career. These include:²

Social Grade A: Approximately 3 per cent of the total population. Includes professional people, very senior managers in business or commerce or top-level civil servants; retired people, previously social grade A, and their widows.

Social Grade B: Approximately 20 per cent of the total population. Includes middle management executives in large organisations, with appropriate qualifications; principal officers in local government and civil service; top management or owners of small business concerns, educational and service establishments; retired people, previously social grade B, and their widows.

Social Grade C1: Approximately 28 per cent of the total population. Includes junior management, owners of small establishments and all others in non-manual positions (jobs in this group have very varied responsibilities and educational requirements); retired people, previously social grade C1, and their widows.

Social Grade C2: Approximately 21 per cent of the total population. Includes all skilled manual workers and those manual workers with responsibility for other people; retired people, previously social grade C2, with pensions from their job; widows, if receiving pensions from their late husband's job.

Social Grade D: Approximately 18 per cent of the total population. Includes all semi-skilled and unskilled manual workers, apprentices and trainees to skilled workers; retired people, previously grade D, with pensions from their job; widows, if receiving a pension from their late husband's job.

Social Grade E: Approximately 10 per cent of the total population. Includes all those entirely dependent on the state long-term, through sickness, unemployment, old age or other reasons; those unemployed for a period exceeding six months; casual workers and those without a regular income. Only households without a chief income earner will be coded in this group, which can be seen in Table 5.

This table reveals loyalty at both ends of the social spectrum, with the most disloyal groups being C1s and Ds.

Insurance purchasing patterns of the loyal and disloyal

The respondents were asked to comment about the way in which they handled their insurance affairs and their driving record.

First, we asked them to identify their current motor insurer.

What Table 6 demonstrates is the disparity in the way insurers and intermediaries go about the process of recruiting and retaining their customers. (How is that gleaned from this information? For those who do not know how to read this chart, I elaborate on how that conclusion was reached.)

Swiftcover, part of the AXA Group, has the most disloyal customers. In part, we believe this is because it is a relative newcomer to this arena. So, although the number of customers who have joined recently is high, it is hard to define the pattern of loyalty of its new customer base and, in turn, also hard to predict an increase in loyalty.

At the other end of the spectrum, NFU Mutual achieves an astonishing result, reversing the loyalty trend of the average company. Their loyal base is over 30 per cent and their disloyal base is only 5 per cent. What can we credit for this? It suggests that the NFU Mutual brand is very strong and perhaps benefits from such an affinity with the NFU brand. As was previously mentioned regarding younger individuals' propensity to steer more towards well-known brands and even switch to a more familiar named company, other groups have indicated the same. According to that same article, '36 per cent of those surveyed between the ages of 16 and 34 find it risky to buy an unfamiliar brand'.³

Marketing

Marketing is a crucial component of the contemporary personal lines market. As such, we asked respondents how they first learnt about their current motor insurer.

Table 7 shows clearly that the most loyal customers are those who come as a result of personal recommendations. Conversely, the most disloyal customers are those who come as a result of price comparison websites.

We should not be completely surprised at this final result, however. The internet offers a wealth of information to consumers, including the opportunity to shop and conduct price comparisons, often with a competitive insurer offering to supply the price comparisons for their prospective customer. With such willingness, in addition to ready information on the web and the propensity of a large portion of the sample population to switch based on price, it is easy to understand why those who find one insurer via the internet will continue searching the same channel for bigger and better deals, encouraging a vicious cycle of disloyalty.

Our results found that insurers seeking to establish a more loyal base of customers have a better chance of doing so by employing the advertising power of traditional marketing mediums such as newspapers and magazines.

Table 6: Disloyalty by insurer

Who is your current motor insurance provider?	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
AA	27.1	4.7	68.2	100.0
Admiral	36.0	0.8	63.2	100.0
Adrian Flux	34.5	1.7	63.8	100.0
Allianz Cornhill	26.2	3.3	70.5	100.0
Asda	24.2	4.5	71.2	100.0
Autodirect	31.0	6.0	63.1	100.0
AXA	31.2	6.8	62.0	100.0
Barclays	51.1	0.7	48.2	100.0
Budget	39.5	1.1	59.4	100.0
Churchill	20.9	6.6	72.5	100.0
Co-operative (CIS)	21.1	16.1	62.7	100.0
Cornhill Direct	10.2	15.0	74.8	100.0
Dial Direct	29.1	2.5	68.4	100.0
Diamond	31.2	1.7	67.1	100.0
Direct Choice	38.1	5.1	56.8	100.0
Direct Line	16.3	8.6	75.1	100.0
Egg	12.2	2.2	85.6	100.0
Elephant.co.uk	29.5	1.1	69.4	100.0
Endsleigh	40.7	2.9	56.4	100.0
Esure	15.6	6.3	78.1	100.0
Fortis	24.3	6.3	69.4	100.0
Frizzel	13.6	11.0	75.3	100.0
Halifax	14.4	8.5	77.1	100.0
Hastings	26.7	2.4	70.9	100.0
HSBC	35.3	2.4	62.4	100.0
its4me	35.0	5.0	60.0	100.0
Kwik Fit insurance	36.0	4.0	60.0	100.0
Liverpool Victoria	13.2	14.0	72.8	100.0
Lloyds TSB	26.1	6.1	67.8	100.0
Marks & Spencer	34.5	0.7	64.8	100.0
MBNA	11.1	5.6	83.3	100.0
More Than	25.9	5.8	68.3	100.0
Nationwide	22.6	5.4	72.0	100.0
NatWest	13.0	6.5	80.4	100.0
NFU Mutual	5.1	30.8	64.1	100.0
Norwich Union	21.6	7.1	71.3	100.0
Peoples Choice	55.4	2.7	42.0	100.0
Post Office	49.8	2.0	48.2	100.0
Privilege	22.0	2.9	75.1	100.0
Provident	37.7		62.3	100.0
Prudential	41.5	4.2	54.2	100.0
Quinn Direct	50.7		49.3	100.0
RAC	31.1	4.2	64.7	100.0
RIAS	14.6	5.9	79.5	100.0
Royal & Sun Alliance	16.8	13.7	69.6	100.0
Royal Bank of Scotland	16.9	12.3	70.8	100.0
Royal London	20.0	20.0	60.0	100.0
Saga	23.3	9.5	67.2	100.0
Sainsbury's Bank	25.3	7.1	67.6	100.0
Screen Trade	35.5	3.9	60.5	100.0
Sheila's Wheels	40.5	0.3	59.1	100.0
Swiftcover	57.5	0.3	42.2	100.0
Swinton	29.7	7.1	63.2	100.0
Tesco Personal Finance	18.7	4.6	76.8	100.0
Virgin	28.6	2.5	68.9	100.0
Zurich	24.2	9.1	66.7	100.0
Other	31.4	7.1	61.5	100.0
Average	26.9	5.7	67.4	100.0

Table 7: Disloyalty by media channel

How did you discover your current motor insurance provider?	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
Direct mail	18.4	7.7	73.9	100.0
Free insurance	22.6	8.5	68.9	100.0
In-store promotion	19.2	7.2	73.6	100.0
Internet search	32.2	2.8	65.0	100.0
Magazine advert	16.3	8.6	75.1	100.0
Newspaper advert	11.8	11.8	76.5	100.0
Personal recommendation	14.0	12.4	73.6	100.0
Price comparison website	39.0	2.5	58.5	100.0
Radio advert	26.8		73.2	100.0
TV advert	21.3	5.1	73.6	100.0
Yellow Pages	20.2	5.2	74.6	100.0
Other	19.7	12.1	68.2	100.0
Average	26.9	5.7	67.4	100.0

What about the number of people on a policy? Does this matter?

Our results show that the most loyal consumers are those who have more than one named driver on the policy. This is perhaps because of the difficulty of shopping around for these consumers, which might also explain the level of disloyalty among those who insure in their name only (Table 8).

We also analysed loyalty for motor insurance according to how people actually use their car.

Table 9 reveals little difference in the loyalty between most categories, with those in the social, domestic and pleasure group and those in the commuting group being the most likely to be disloyal. This is, however, not a strong indicator of loyalty or disloyalty.

To claim or not to claim

Does the no-claims discount make a significant difference when it comes to renewal time?

Table 10 demonstrates the link between a customer's no-claims discount and their loyalty: the lower the level of the no-claims discount, the higher the likelihood of disloyalty and the lower the propensity to be loyal.

A recent report released by Fraoch Marketing discusses the topic of consumer loyalty with a look at the behavioural habits of consumers when it comes to credit cards. What they found is the following: 'So once the introductory offer came to an end with one provider, they moved on to the next. Loyalty becomes irrelevant: the deal is king, and as marketers we proactively encourage this behaviour — then bemoan it when it works against us, not for us'.⁴ We can assume a close connection between the attitudes of those consumers who were willing to switch credit cards in order to obtain a better offer and a consumer switching insurers in order to leverage a lower no-claims discount.

Table 8: Disloyalty by policy users

Is your insurance policy ...	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
In your name only	30.7	4.7	64.6	100.0
You and one named driver	25.0	5.7	69.2	100.0
You and more than one named driver	18.9	10.4	70.7	100.0
Other	25.0	15.0	60.0	100.0
Don't know	53.8	0.0	46.2	100.0
Average	26.9	5.7	67.4	100.0

Table 9: Disloyalty by car usage

What usage do you have on your insurance?	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
Social, domestic and pleasure (SDP)	25.2	6.5	68.3	100.0
SDP and commuting	32.1	2.9	65.0	100.0
SDP and Business Class A	23.5	7.7	68.8	100.0
Other	34.9	7.2	57.8	100.0
Don't know	28.1	5.6	66.3	100.0
Average	26.9	5.7	67.4	100.0

What about the type of policy?

Our results indicate that there is a difference between policyholders with fully comprehensive policies and those with third-party-only policies. Fully comprehensive customers are the least disloyal (excluding others), whereas those with third-party only and third-party fire and theft are the most disloyal. To be completely stereotypical, it may be wise to assume that those who are paying a premium (more than others who are not) for fully comprehensive insurance are likely more responsible, and hence more likely to remain loyal to their insurer. This is in contrast to those who are looking to save money through the less costly options and will, therefore, seek out opportunities to switch to a provider with a better offer (Table 11).

Finally, we examined the issue of loyalty with regard to how customers pay for their motor insurance. We asked participants how they spread the cost of insurance. Those who answered that they paid the insurer through direct debit were the most loyal with 6.7 per cent, while those who make single payments were most likely to be disloyal with 30.3 per cent.

The results are not all that surprising, because those customers who make single payments are probably much more aware of the total annual cost of their premium and are more likely to switch insurers if the price at renewal is not to their satisfaction.

Table 10: Disloyalty by claims years

What is your current no-claims discount?	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
None	54.3	1.6	44.2	100.0
1 year	57.4	1.3	41.4	100.0
2 years	45.2	2.3	52.5	100.0
3 years	31.1	2.3	66.6	100.0
4 years	26.6	3.6	69.8	100.0
5 years	23.1	5.3	71.6	100.0
6 years	24.9	4.6	70.4	100.0
7 years	24.7	4.6	70.7	100.0
8 years	23.2	4.4	72.4	100.0
9 years	28.7	4.5	66.8	100.0
10 years	21.8	5.4	72.8	100.0
11 years	28.9	4.6	66.5	100.0
12 years	25.2	6.7	68.0	100.0
13 years	27.0	6.1	67.0	100.0
14 years or more	19.7	11.1	69.2	100.0
Other	13.6	15.7	70.7	100.0
Don't know	19.9	10.4	69.8	100.0
Average	26.9	5.7	67.4	100.0

Table 11: Disloyalty by type of insurance

What type of motor insurance do you currently have?	Loyal or disloyal			Total (%)
	Disloyal (%)	Loyal (%)	Unknown (%)	
Fully comprehensive	26.1	5.9	68.0	100.0
Third-party only	34.2	3.4	62.4	100.0
Third-party fire and theft	35.7	3.3	61.0	100.0
Other	5.9	11.8	82.4	100.0
Don't know	33.3	0.0	66.7	100.0
Average	26.9	5.7	67.4	100.0

Summary

The results show clear demographic indicators with regard to customer loyalty, and some are especially important.

In short, people who first learn of their insurer from a personal recommendation or from a newspaper advertisement tend to be more loyal. People over the age of 60 or who are retired are substantially more loyal than those under the age of 60.

We found, however, that it is much easier to define the type of individuals who are likely to be disloyal. The key demographic categories for disloyalty based on our findings are

- people under the age of 35
- those who live in the North West
- those who are classified on the social scale as C1s or Ds
- those who insure in their name only

Table 12: Loyalty as a trait

How long have you had your policy with your current insurance company?	How long were you with your previous insurer?									Total (%)
	1 year (%)	2 years (%)	3 years (%)	4 years (%)	5 years (%)	6 years (%)	7 years (%)	8 years (%)	9 years or more (%)	
Less than 3 months	4.8	2.9	1.4	0.7	0.4	0.2	0.1	0.1	0.3	10.8
Between 3 months and 6 months	5.1	3.5	1.9	1.0	0.6	0.2	0.2	0.1	0.4	13.0
Between 6 months and 12 months	9.2	7.0	3.4	1.6	1.0	0.5	0.2	0.2	0.6	23.6
More than 12 months but less than 2 years	5.4	5.3	3.1	1.5	1.1	0.5	0.2	0.1	0.6	17.8
2–3 years	3.9	5.8	4.4	2.1	1.4	0.6	0.3	0.2	1.0	19.9
4 years	0.9	1.4	1.2	0.7	0.6	0.3	0.2	0.1	0.5	6.0
5 years or more	0.9	1.3	1.3	1.0	1.4	0.4	0.3	0.2	2.2	9.0
Total	30.3	27.3	16.6	8.6	6.6	2.7	1.5	1.0	5.6	100.0

- policyholders who have three years or less no-claims discount
- customers who only insure for third-party fire and theft.

We found that other demographic pointers were not as significant. The rest of the market shows only varying levels of loyalty, with no definite emerging trends.

What gets rewarded gets done

In undertaking this analysis we have looked at most of the factors that are currently captured within the current underwriting process during the phone call.

Our results show that it is possible to screen loyal and disloyal customers using current data collection techniques. The next step is to look at factors that are not currently a part of the analysis undertaken by most insurers.

Thus, our research took into account attitudes regarding three crucial components of any relationship between a policyholder and their motor insurance: price, service and quality.

The results showed a significant correlation between price sensitivity and propensity to switch insurer: the greater the price sensitivity, the greater the propensity to be disloyal. In our analysis, this is the reason behind high disloyalty on price aggregation sites as it is the most price-sensitive people who tend to use them.

One final component of our research was an examination of whether loyalty to a previous insurer has any correlation with loyalty to a current insurer.

Table 12 shows the willingness of a person to stay with their existing insurer in relation to the length of time they were with their previous insurer.

The results demonstrate that 19 per cent of the entire market has been with their current insurer for less than one year and were also

with their previous insurer for less than a year. Almost half (43 per cent) of the market has not been through more than one renewal cycle with either their existing insurer or their previous insurer. At the other end of the spectrum, only 4.4 per cent of participants reported staying with their current insurer for more than five years and with their previous insurer for at least five years.

So what conclusions can we draw from this analysis?

It is clear that loyalty and disloyalty are in fact character traits: people who are disloyal to one insurer are equally likely to be disloyal to another. These character traits are reinforced by an industry that provides the cheapest price to new customers and continues to increase rates for existing customers.

Unsurprisingly, purchasers of motor insurance act in many ways like Pavlov's famous dog. Every year they start drooling at the thought of getting a cheaper insurance price and every year their actions are reinforced by the pricing structures of the large insurance companies.

Towards a better pricing model

In order to avoid disloyalty within the insurance market, it is essential that brands look at how their pricing is structured. If their pricing is structured in order to reward those consumers who switch regularly, then they are likely to find that consumers will do precisely that.

What our research has shown is that it is possible to detect both loyalty and, more importantly, disloyalty during the renewal process. This can be affected by asking customers simple questions about their previous switching habits. Those who have switched regularly are likely to be disloyal.

The difficulty is trying to reflect this within the pricing of the product. Clearly, the more disloyal the customers, the more difficult it will be to make a profit from them while they are customers. If these customers are acquired by an insurer, then it would be better to price for this eventuality. This would entail offering preferential rates to consumers who have stayed longer with their previous insurer.

As consumers begin to understand that their loyalty is being rewarded with lower premiums, their propensity to be disloyal will diminish over time. This will make it very difficult for organisations such as aggregators to continuously offer the cheapest prices to consumers.

Clearly, customer disloyalty is a major problem for the UK insurance industry, but at present it is not one that is being seriously addressed by underwriters when it comes to renewals. Yet, our research has consistently demonstrated that not only is it possible to predict customer loyalty, it is also possible to adjust pricing levels accordingly in order to reward loyal customers much more than current practice allows.

If the industry is content to let the staggering levels of disloyalty among personal lines consumers continue, all it has to do is carry on down the same path of actually rewarding disloyalty through lower

Those who have switched regularly are likely to be disloyal; those who don't are likely to be more loyal.

premiums. As each renewal process means that a different insurer will also adopt this strategy and capture your policyholder, is it really worth playing this game in order to have a customer for a year or two at the most? Surely it makes sense for the industry to incentivise loyalty rather than reward disloyalty?

Underwriters and brokers have been complaining for years about the volatility of the marketplace and the need to create a more stable underwriting environment. Yet the brutal truth is that the existing pricing models practically serve to reinforce this volatility. With a more logical pricing structure in place, we could well see not only a more stable underwriting environment but also a more loyal consumer base.

References

1. Myron, D. (2006) 'The growing consumer disloyalty', *Customer Relationship Management*, Wednesday, 1 November 2006.
2. Taken verbatim from Fusion Software: Survey Software Components. <http://www.fusionsoftware.co.uk/SocialGradeDefinitions.aspx>.
3. *Ibid.*
4. 'Consumer loyalty in the 21st century — can we pin down butterflies?' Fraoch Marketing.