Evaluating the Customer Retention and Satisfaction and the Reasons of Losing Customers in the Auto Insurance (A case study)

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Abstract

In this study, one of the private insurance services companies in Iran is considered as a case study to investigate its customer's satisfaction and retention rate. In this regard, and for the first time in the case company, the auto insurance was investigated in two different time periods. Results indicated that more than 30% of the company's customers in this scope did not renew their auto insurance in the case company. The reasons that the customers were lost are investigated and listed in this step. Afterwards, by using Cochran's test, 567 and 599 samples were selected randomly for the first and the second phases, respectively. After contacting the customers through a phone call, it was deduced that "the sale of insured car" was the main reason of losing customers in this scope. "The impossibility of making a call or having a wrong number" and "customers gravitation toward other agencies of the same insurance company" are the two other reasons that customers abandoned the mentioned company. The results of this study, which is conducted for the first time in one of the main insurance companies in Iran, can be useful for similar insurance companies who want to improve their customer satisfaction.

Keywords
Customer satisfaction, retention, auto insurance, renewal rate, Cochran's test

1. Introduction

The role of customers in any business cannot be under-estimated. All business has the prime objective of satisfying their existing customers as well as attracting new customers (Murali, et al., 2016). According to Posselt and Gerstner (2005), improved customer satisfaction (CS) will lead to improve customer retention (CR) and customer loyalty (CL), eventually resulting in improved profit.

According to the USA Small Business Administration (SBA) (2014), about 50% of all new businesses persist five years or more and one-third of them survive ten years or more. Afsar (2010) expressed that no organization, except monopolists, can survive in the competitive business environment without having loyal customers. In other words, the main element of a successful business is developing loyal customers (Ansari and Riasi, 2016).

Studies indicate that enhancing customer loyalty can affect the profitability of the firms and can lead to abated marketing and customer acquisition costs (Gee, et al., 2008). Practitioner articles emphasis that firms which engage in multiple acquisitions over time may create substantial value for their shareholders (Rovit and Lemire, 2003). Thus, customer retention is a crucial issue which the empirical study of Zollo and Meier (2008) has identified as a long-term acquisition performance indicator within a single acquisition setting.

Insurance companies are an example of financial services firms which compete in a complicated and competitive business environment and should use their limited resources in order to increase their customers' loyalty. The importance of the insurance business in the developing countries is provided by Khatami, et al., 2011 and Saeedpoor, et al., 2015.

Historically, the firms competing in the Iranian insurance industry have not been very successful in constructing long-term relationships with their customers. As private insurance companies emerged in Iran, the customers' expectations from their service providers increased (Saeedpoor, et al., 2015).

Therefore, in order to be successful in both customer acquisition and customer retention, the Iranian insurance firms have to identify the factors affecting customer loyalty and should adjust their marketing strategies according to these factors (Bahramzadeh and Shokati Moghareb, 2009).

The basic auto insurance is mandatory in many countries as well as in Iran. Thus, there is a large amount of applicants for this type of insurance and almost all insurers are obliged to offer it. Accordingly, rendering competitive services will make a policyholder more likely to shop from an alternative insurer and potentially switch to another company. This issue increases the importance of considering the different reasons of losing customers and finding solutions for diminishing their impacts, as well as, increasing the switching costs for customers by providing competitive benefits for them.

However, the retail service industry is heterogeneous (Zeithaml and Bitner, 2003) and whether the impact of switching costs also differs between retail service industries remains untested (Blut, et al., 2014). These switching costs includes: 1) search costs, 2) transaction costs, 3) learning costs, 4) loyal customer discounts, 5) customer habit, 6) emotional cost, and 7) cognitive effort, coupled with financial, social, and psychological risk on the part of the buyer (Fornell 1992).

In this research, we want to recognize why an insurance services company may lose some of its auto insurance policyholders. Accordingly, at the first step, the auto insurance renewal rates were extracted in two different time periods. After that, the society of not renewed policies was recognized. Then, a phone call was made with the lost customers. Through it, some reasons that made the customers dissatisfied were understood.

To the best of our knowledge, there is no similar research in the Iranian insurance industry which investigates the customer retention and satisfaction and the reasons of losing customers in auto insurance. Therefore, the results of this research can be considered as initial results to further investigations in insurance industries around the world.

2. Literature review

Guelman and Guillén (2014) proposed a causal inference framework to measure price elasticity in the context of the auto insurance. One of the strengths of their approach is the transparency about the extent to which the database can support causal effects from rate changes. The model also allows them to more reliably estimate price-elasticity functions at the individual policyholder level. As the causal effect of a rate change varies across individuals, making

an accurate rate change choice at the individual subject level is essential. The rate at which each subject is exposed could be optimized on the basis of the individual characteristics, for the purpose of maximizing the overall expected profitability of the portfolio

Ansari and Riasi (2016) investigate the customer–service provider relationships in the insurance industry using the artificial neural networks and linear regression. Using a sample of 389 customers from 10 different startup insurance companies, it was found that artificial neural networks are an efficient way to evaluate the factors affecting customer loyalty. The results indicated that customer satisfaction and perceived value are significant predictors of customer loyalty. Additionally, it was found that trust, perceived quality, and empathy have a significant impact on both customer satisfaction and perceived value. The results also showed that customer commitment to service provider is positively associated with customer satisfaction and loyalty. After comparing the performance of linear regression models with artificial neural networks, it was found that the use of neural networks is a better approach for analyzing the customer loyalty, satisfaction, and perceived value.

Blut, et al., (2014) investigated the interrelationship between service characteristics and switching costs and makes two contributions to the service retailing literature: (1) as a means of better understanding the effectiveness of switching costs, the study suggests a two-dimensional typology of them, including internal and external switching costs; and (2) it reveals that the effect of these switching costs on customer loyalty is contingent upon four service characteristics. They carried out a meta-analytic review of the literature on the switching costs–customer loyalty link and created a hierarchical linear model using a sample of 1,694 customers from 51 service industries. Results reveal that external switching costs have a stronger average effect on the customer loyalty than internal switching costs.

3. Research Methodology

Undoubtedly, customer orientation is the cultural infrastructure of any organization. In commercial environment, in which there is rough competition, customers have the power of selection and can meet their needs from several ways. As it is mentioned by Allahi, et al., 2015, insurance with 29 active companies and 1.9% penetration rate is one of the most competitive industries in Iran.

Customers' needs and interests in this scope are changing over the years and their expectation for achieving high-quality services is pursuing an incremental trend. Naturally, a company is seeking for profit through increasing the number of its customers (Vafadarnikjoo, et al., 2015). As it is mentioned by Vafadarnikjoo, et al., 2015, there are many factors which affect the customer satisfactions which one of them can be the location of the branches. To make this aim practical, companies should attract new customers as well as implementing customer retention programs.

Regarding the issue that maintaining current customers is cheaper than absorbing new ones, in this study which is being implemented in an Iranian insurance services company, we are studying the reasons why some of the auto insurance policyholders are not willing to continue their insurance relationship with the mentioned company.

It should be mentioned that in Iran, the auto insurance is divided into two separate policies. The most popular one is the Third Party Liability (TPL) insurance which covers the liability of the car's driver against third parties in the case of a car accident which the driver was responsible for. However, the Body Insurance covers the loss happened to the policyholder's car in the cases that he was responsible for or other conditions that the liable is unknown as well as natural disasters (Saeedpoor, et al., 2015).

Hence, we are inclined to gain information about two main questions which are as bellow:

Question 1(Q1): What percent of the auto policies of an Iranian insurance services company were not renewed over a particular time period?

Question 2 (Q2): What are the reasons that some of the policyholders of an Iranian insurance services company are not willing to renew their auto policies with the concerned company?

This study has been accomplished in two phases on the basis of the data regarding to the auto insurance policyholders of an Iranian insurance services company. Thus, the target group constitutes the auto insurance policyholders, containing TPL insurance and Body insurance, who have not renewed their auto insurance policies with the mentioned company over the two particular time periods. The first phase was about those whose auto

insurance policies end date were over the second half of 2015 while the latter phase was about those whose auto insurance policies end date were over the second half of 2016.

To answer the first question, the auto insurance renewal rate of the mentioned company was extracted. This was through comparing the number of issued insurance policies which their end dates was over the particular time periods and the number of them that were extended which was conducted in two phases because of two time periods.

The output of this stage provided two societies of auto insurance policyholders whom the concerned insurance services company had lost in two different time periods, since their insurance policies were not renewed.

On the next stage, in both phases, for specifying the number of samples, Cochran's test was en-used and then the samples were chosen accidentally.

Cochran is one of the most applicable formulas for calculating the sample size in the case that the number of society is known. Cochran in 1977 developed a formula to calculate a representative sample for proportions as the following (Sarmah et al., 2013):

$$n = \frac{n_0}{1 + \frac{(n_{0-1})}{N}}$$

$$n_0 = \frac{z^2 pq}{e^2}$$

Where, N is the society size, n_0 is the sample size, z is the selected critical value of desired confidence level (which is equal to 1.96), p is the estimated proportion of an attribute that is present in the population (which is considered as 0.5), q = 1- p and e (is equal to 0.05) is the desired level of precision.

As presented in Table 1, by using the Cochran's test, the sample size of the study is calculated.

Table1: Calculating the sample sizes of the study through Cochran's test for the first and the second phases

First Phase			
Type	Society size	Sampling formula	Sample size
TPL insurance (polices that were not renewed)	3542		346
Body insurance (polices that were not renewed)	515	Cochran	221
Total	4057		567
Second Phase			
Type	Society size	Sampling formula	Sample size
TPL insurance (polices that were not renewed)	2531		334
Body insurance (polices that were not renewed)	848	Cochran	265
Total	3379		599

For gaining information about the reasons why some policyholders of the insurance services company were not willing to renew their auto policies with the concerned company, a questionnaire was given to three questioners and they were asked to collect some information from the sample group on different issues including:

a) The reason they did not renew their auto insurance policy with the mentioned company;

b) Are they intended to give their new car's insurance end date for future pursuance (in the cases that losing customer was because of care sale).

The questioners made phone calls with each members of the sample group and recorded their answers. Then, results were extracted through analyzing them.

4. Results

Analyzing the outputs of the research, the following results could be comprehended:

As it is presented in Figure 1, according to the auto insurance renewal rate analysis, it could be deduced that in this company, the TPL insurance renewal rate was 59% in the second half of 2015 that increases to 67% in the same period a year later. In the second half of 2015, 62% of Body insurance policies were extended while the percentage increases to 65% in the second half of 2016. In other words, the mentioned insurance services company lost more than 30% of its auto insurance customers in the mentioned periods.
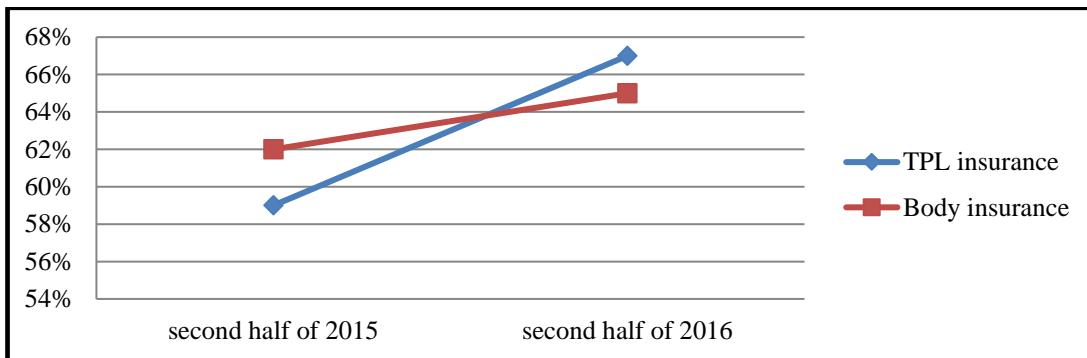

Figure 1: The trend of auto insurance renewal rate in an insurance services company

During the first phase, questioners made a telephone call with 567 samples -including 346 TPL and 221 Body insurance lost customers- while over the second phase 599 samples -containing 334 TPL and 265 Body insurance lost customers- were called in 12 days. The recorded data is revealed in the Table 2:

Table 2: The reasons why some policyholders of an Iranian Insurance services company did not renew their auto insurance policies with the mentioned company

Reasons	Body insurance		TPL insurance		Average
	First phase (%)	Second phase (%)	First phase (%)	Second phase (%)	
The sale of the insured car	34%	39%	34%	40%	37%
The impossibility of making a call or having a wrong number	22%	11%	27%	18%	20%
Renewing the insurance policy in other agencies of the same insurance company	11%	14%	10%	14%	12%
Others	6%	13%	3%	11%	8%
No explanation	5%	8%	2%	7%	6%
High premium or low discount	13%	5%	10%	3%	8%
The absence of branches near customers	2%	1%	10%	3%	4%
Dissatisfaction with compensation	4%	6%	2%	2%	4%
Dissatisfaction with paying in cash	0%	0%	1%	2%	1%
Inappropriate treatment of the insurance services company's employees	1%	1%	0%	0%	1%
The lack of notification for the expiration date	2%	2%	1%	0%	1%
Total	100%	100%	100%	100%	100%

By comparing the percentages of two phases, some trends could be extracted. As it is presented in Figure 2, the impacts of some main reasons on losing some TPL insurance policyholders of the mentioned company in two phases of the study could be comprehended.
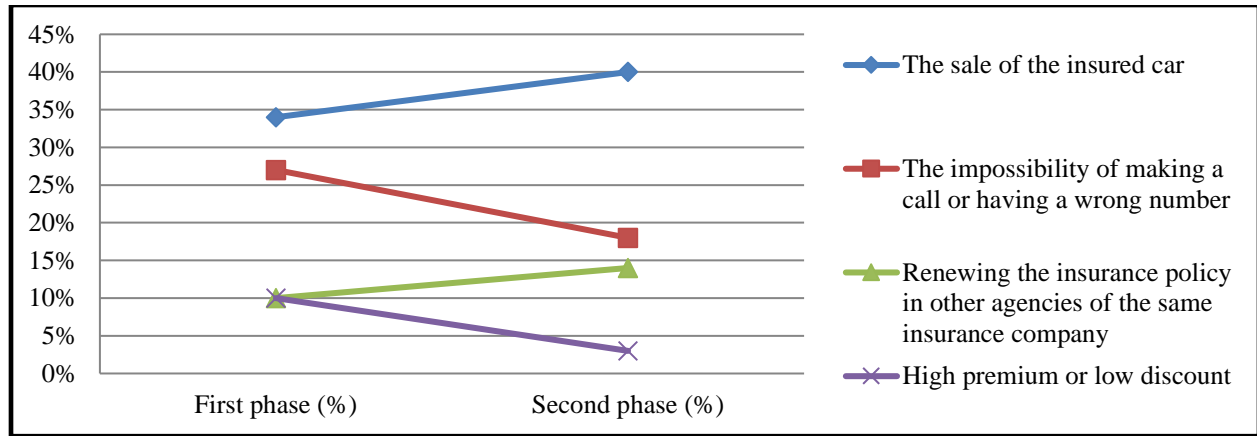
Figure 2: Comparing the impact of some main reasons on losing Some TPL insurance policyholders of an Iranian insurance services company in two different time periods

In figure 3, four main reasons that some Body insurance policyholders did not extended their relationship with the mentioned company and their trend in two different phases of study is indicated.
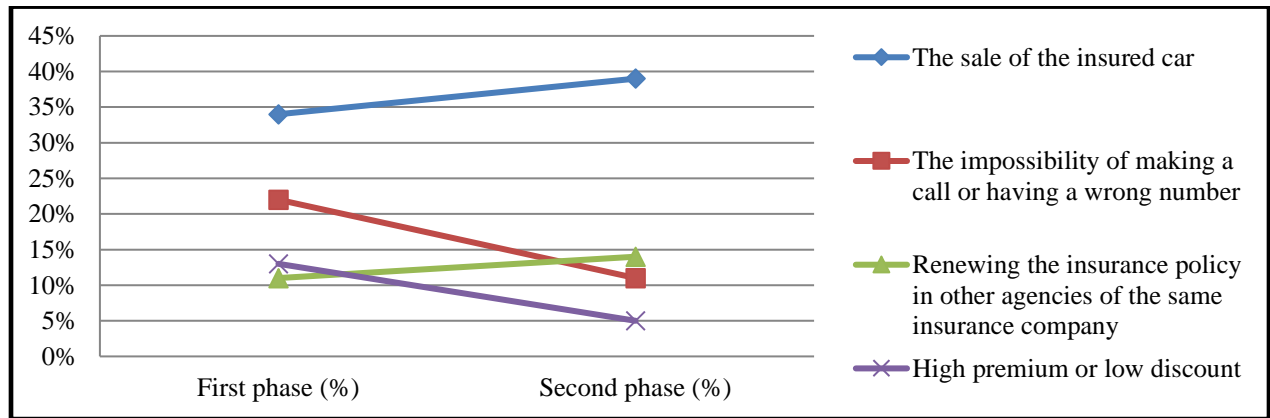

Figure 3: Comparing the impact of some main reasons on losing Some Body insurance policyholders of an Iranian insurance services company in two different time periods

According to the data presented," the sale of insured car" with almost 34% to 40% involvement, is the main reason for the insurance renewal failure in the mentioned company. Comparing the outputs of two phases indicates that the effect of this reason on the auto insurance renewal failure is rising. Hence, for diminishing its impact, some ways should be adopted with the aim of gathering the phone number of the car's new owner for the sake of creating further communication and future follow-up. One way to be implemented is sealing the auto insurance policies with a red stamp that through it the policyholder is asked to send one particular specification of his insurance policy to a special short message service (SMS) system in the case of a car ownership change. Therefore, through receiving SMS from some customers, the company will achieve the mobile number of the new policyholder and one specification of his insurance policy simultaneously. Through this way, the company will have an access to the final policyholder which may lead to abate the impact of this factor on auto insurance renewal failure rate.

The second main reason of losing auto insurance policyholders is "the impossibility of making a call or having a wrong number" which an average, 20% of not renewed auto insurance policies were a result of this factor. In this case, when the company's marketers wanted to make a phone call with some policyholders for renewing their auto policies, when it was expired, they were not succeed because some of the customers did not answer their phone or the recorded phone number was false; though there were not an access to some customers. However, pursuing the trend in Figures 2and 3 demonstrate that by moving from the first phase to the second one, the effect of this factor

declined from 22% to 11% in Body insurance and from 27% to 18% in TPL insurance which is mainly because of the company's surveillance increase on the sale staffs' performance in recording customers' contact information. Continues of company's supervision and staffs' accuracy in recording customers contact data in system may reduce the negative effect of this factor.

"Renewing the insurance policy in other agencies of the same insurance company" with an average of 12% involvement is the third reason for losing auto insurance customers. This issue indicates that customers could not place a difference between the mentioned company and other agencies of the same insurance company, since they thought they have not changed their insurer. However, for the mentioned company this means loss of customers. Pursuing the trends in Figure 2 and 3 demonstrate that by moving from the first stage to the second phase, the percentage increases from 10% to 14% which demonstrates that customers' inclination toward other agencies of the same insurer is rising. Hence, it seems necessary to implement policies in order to make the mentioned company different from other agencies of the same insurance company in the customers mind. In other words, the company has to create some benefits for its policyholders that are different from other agencies and customers may lose them if they do not continue their relationship with the mentioned company. In this case, the cost of change will be increased for them.

The fourth reason that some customers have left the company is "High premium or low discount". 8% of auto insurance policyholders who were not willing to extend their insurance with the mentioned company were dissatisfied about the premium or discount percentage. However, by making prices more competitive, the impact of this factor in losing customers followed a downward trend. In Body insurance, 13% (first phase) decreased to 5% (second phase) and in TPL insurance, 10% (first phase) abated to 3% (second phase).Understanding the precise nature of price sensitivities at the individual policyholder level is extremely valuable for insurers. A rate increase has a direct impact on the premium customers are paying, but there is also the indirect impact as a result of the "causal" effect of the rate change on the customer's decision to renew the policy term. A rate increase may impair its intended impact on the overall profitability of the portfolio if it causes a large number of policyholders to lapse their policy and switch to an alternative insurer (Guelman and Guillén, 2014). It should be noted that in Iran, auto is the type of insurance that people are sensitive about its price. Thus offering competitive premium and discounts will not only help maintaining current customers, but also absorbing new ones.

The four factors which have been explained above are the most important reasons of auto insurance renewal failure which play a more important role. Other factors did not have such a significant effect on customer loss in the mentioned company.

5. Conclusion

Due to the calculation of the auto insurance renewal rate, it was specified that an Iranian insurance service company has lost more than 30% of its policyholders over the second half of 2015 and the second half of 2016. Regarding the issue that maintaining current customers is significantly cheaper and easier than attracting new ones, in this study we investigated the reasons why some of an Iranian insurance services company's auto insurance policyholders were dissatisfied and found solutions to decrease their effects. Accordingly, the data of customers who did not renew their auto insurance policies over the second half of 2015 and second half of 2016 was educed. Then, Cochran's test was used for specifying the sample size. In the first phase, 346 TPL insurance policies and 221 Body insurance policies were chosen accidentally while in the second stage, 334 TPL insurance policies and 265 Body insurance policies were selected. Over twelve days, questioners made a phone call to the sample groups. Their recorded information indicates that "the sale of insured car" with 34% to 40% involvement is the main reason why the mentioned company lost some of its auto insurance policyholders. "The impossibility of making a call or having a wrong number" with an average of 20%, is the second reason and "renewing the insurance policy in other agencies of the same insurance company" with 12%, is the third factor which have been known for losing some of auto insurance customers. Other factors with less than 10% are not playing such an important role. Thus, finding ways to have access to the insured car's new owner (in the case of care sale) seems to be helpful. Moreover, as a second step, recording customers' contact data more accurately is proposed. Thirdly, creating some differentiations for the

policyholders of the mentioned company which would increase the move cost for customers (if they want to gravitate to other agencies) would help the company to increase its auto insurance renewal rate.

For future research, investigating the reasons of losing customers in other insurance policy fields is proposed. Moreover, dividing the customers of professional sale staffs and the beginners, and analyzing the responses of their customers separately is suggested. In addition, various applications of multiple criteria decision making (MCDM) approaches can be applied in the case insurance company to make efficient decisions while multiple criteria play role in decision making. For example, optimal location of insurance branches can be obtained using the integrated MCDM methods presented by Allahi et al. (2015). As another example of strategic decision making, and in order to improve the business of the insurance companies, MCDM tools can be applied to select the best portfolio of insurances (Khatami et al., 2011). In order to evaluate the branches of an insurance firm, the integrated MCDM approaches presented by Saeedpoor et al. (2015) and Vafadarnikjoo et al (2015) can be applied.

Acknowledgment

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