P&C INSURANCE: DOES NET PROMOTER SCORE MATTER?

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Driving Profitable Growth

Net Promoter Score (NPS) has long been championed as "the one number you need to grow" by consumer-packaged goods, retail, tech and service businesses – as well as their eager consultants. But how does this metric measure up in predicting growth for personal lines P&C insurers? And more importantly, does it help predict and deliver *profitable* growth?

Quincy Analytics

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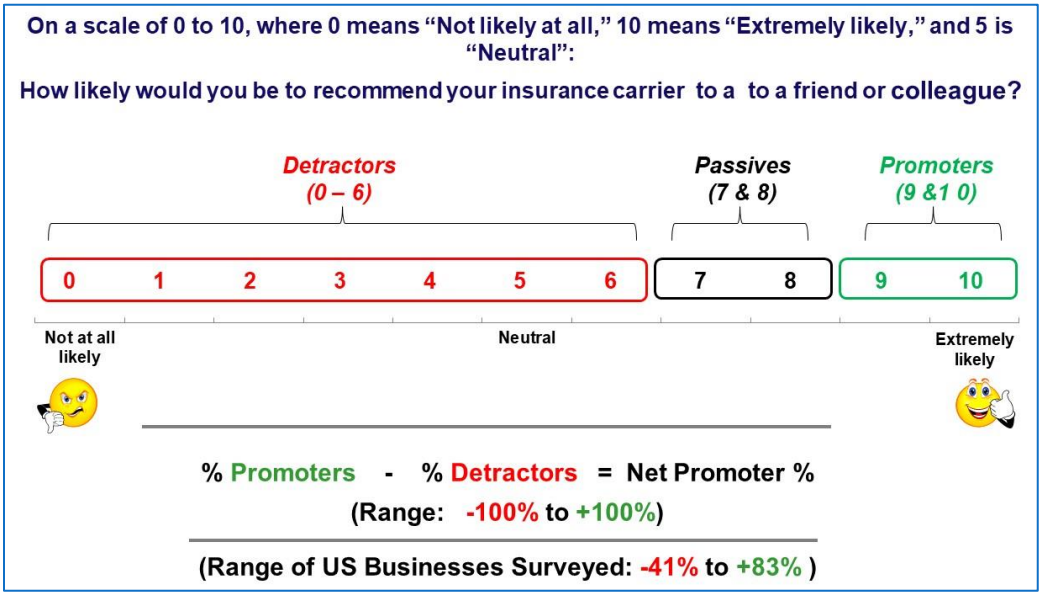
Background

Since its first introduction almost 15 years ago, Net Promoter Score (NPS)[1] has been widely embraced by companies worldwide as the single most important customer service metric and, to some, the *only* question management needs to monitor, measure, and cultivate to ensure profitable growth. The original work done by Fred Reichheld and a team at Bain & Company demonstrated the power and importance of this simple metric in industries as far-flung as airlines to high-tech to fast food. Broader adoption has shown it to be a trustworthy barometer of customer satisfaction and loyalty – as well as growth – for B2B and B2C industries globally. But is NPS a useful metric for P&C insurers to measure and manage? Does aggressive NPS management provide the secret key to unlock *profitable* growth for P&C insurers? The research suggests NPS certainly applies to P&C insurance; however, the results around profitability aren't as clear, and some insurers may be sacrificing long-term profitability for short-term gain, while others may be leaving considerable money on the table.

The Allure of NPS: A Simple but Powerful Metric

NPS is appealing to managers in search of profits and growth mainly because of its simplicity to measure and power in predicting revenue growth. The market researcher only needs to ask a single question, "On a scale of zero to ten, where zero means 'not likely at all' and ten means 'extremely likely', how likely are you to recommend this company (service, product, etc.) to a friend or colleague?" Respondents are then

Figure 1: NPS Calculation - The Most Important Question You Can Ask Your Customers?

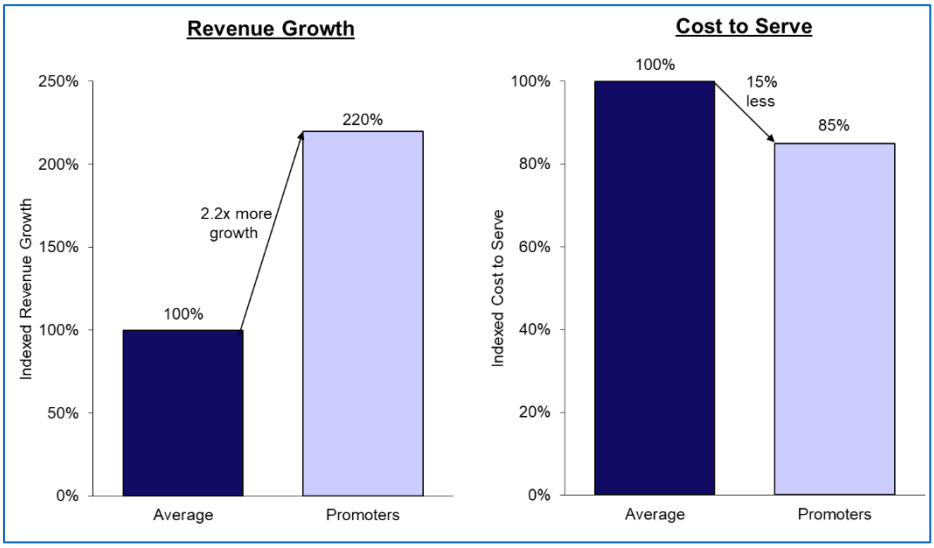


[1] Net Promoter®, Net Promoter Score® and NPS® are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

categorized as either "promoters" (scores of 9 or 10), "detractors" (scores of 0 to 6), or "passive/neutral" (scores of 7 and 8). A "net" promoter score is then calculated as seen in Figure 1. Theoretically NPS can range anywhere from -100% to +100%; however, research has shown the range is normally anywhere from roughly -40% to +80% across an array of industries. The absolute metric is very specific to industry type (for example, insurance agents and brokers tend to score higher than insurance carriers who have to adjudicate (and potentially deny) claims), so cross-industry comparisons are often less useful or meaningful than within industries or same positions in the value chain. Similarly, a comparison between personal and commercial line insurance carriers or between P&C and life-health insurers is not as meaningful as comparing similar lines of business within carriers (e.g. personal lines to personal lines). Also, it is critical to survey the actual buyer, the purchase decision-maker, and not just an "influencer." For insurers, this means the risk manager for commercial lines, the paying consumer for personal lines, the benefits manager for group life/health, etc., recognizing they may not be the ultimate user of the product or service.

The real power of the metric is the robust statistical correlation it has shown with revenue growth and profitability across a wide variety of industries. While the results vary somewhat from industry to industry, products versus services, B2B versus B2C, etc. the overall picture (presented in Figure 2) demonstrates why managers have been so quick to adopt, measure and manage net promoter scores carefully.

Figure 2: Promoters Deliver Lower Costs and Higher Growth



The rationale behind the data in Figure 2 is logical. Those who think highly enough of a product or service to enthusiastically refer a friend or colleague (scores of 9 and 10) are apt to be loyal and yield long-term, mutually rewarding customer relationships. Because they are not switching, acquisition costs are lower. These customers tend to be less price sensitive as they perceive they are getting value for their purchase. Their "cost to serve" tends to be lower since they are satisfied and are not consuming customer service resources, and data show that they tend to have higher credit-worthiness and may also be superior underwriting risks. Their satisfaction also tends to make them more open to cross-sell opportunities and afford their suppliers an opportunity to gain a greater "share of wallet." And, obviously, as enthusiastic endorsers of a company's products and services, they help generate access to more "wallets" to sell. Furthermore, in an era of expanding social media, promoters tend to be responsible for over 80% of positive posts (e.g. Yelp, Google) while detractors have been shown to account for 80-90% of negative reviews.

It is no wonder then that so many of the world's largest and most admired brands are ardent proponents of NPS (Figure 3)[2].

Figure 3: NPS Champions

NPS: Does it Apply to P&C Insurers?

While it may be assuring that many global brands embrace the NPS philosophy and metric, the question remains: is there relevance in P&C? After all, insuring one's car, home, property, or liabilities is very different than buying a computer, a pair of sneakers, or internet service. It is well known that USAA - the military-focused personal lines carrier and stalwart revenue growth and profit leader - has long embraced the metric and is a perennial NPS leader across *all* industry groups; however, does the metric have broader applicability across the P&C spectrum? To test this, QA looked at 28 personal lines (auto and homeowners) carriers[3] and used online surveys of roughly 1,200 insureds (conducted in January of 2017) to quantify the net promoter scores of actual auto and homeowners' buyers. These scores were also validated against publicly available NPS data for companies who provide them or are tracked by third-party services. The insurers in this sample had an average of $7.8bn in combined auto (liability and phys-dam) and homeowners' writings (the range was from $375mm to $54bn), and all had been consistently writing from 2010-2015[4]. The data were adjusted to account for major acquisitions/consolidations. Statutory premium data for growth calculations and combined ratio profitability were obtained from AM Bests, *Aggregates and Averages*.

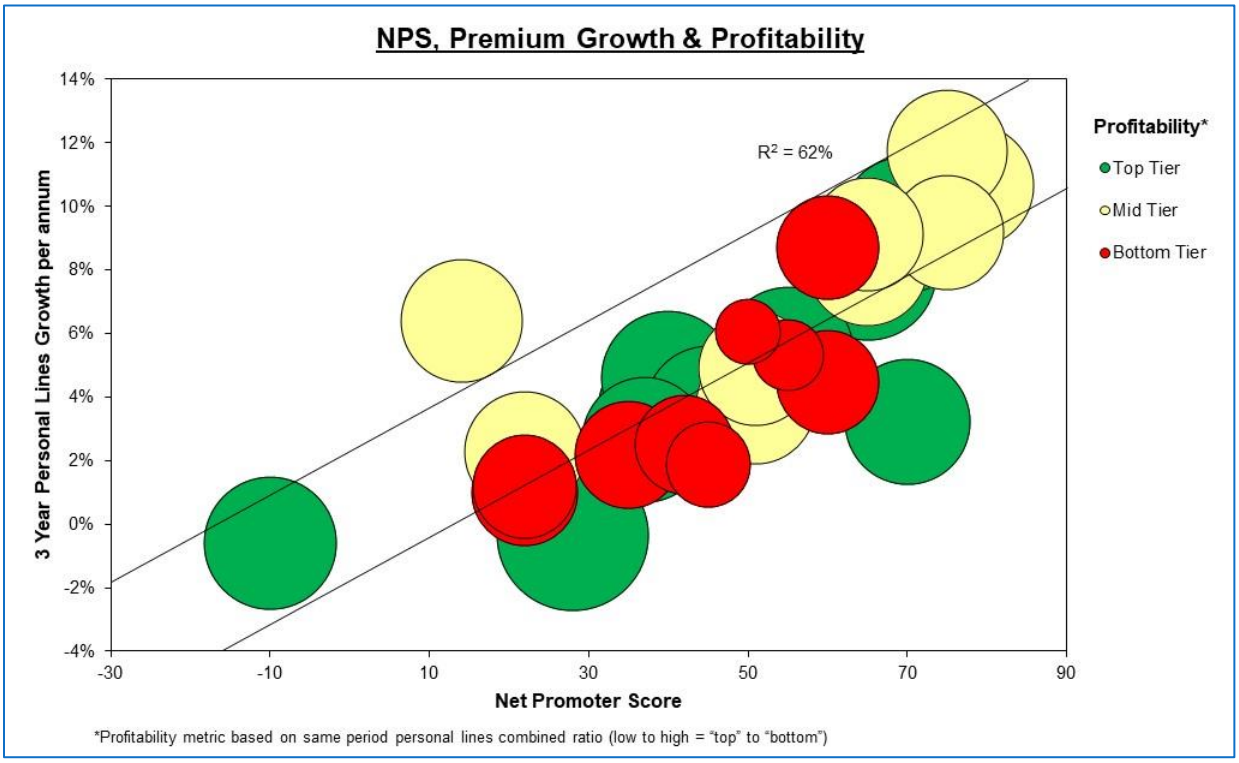
> *"We were founded on service, and this remains our top priority. We are committed to delivering the best experiences for our members so they can easily and effectively access USAA services when they want, where they want and how they want."*
>
> *- Carl Liebert, COO USAA*

The results of this analysis are presented in Figure 4. This chart plots 3-year growth (2012-2015) in statutory net written personal lines premium against average net promoter score (minimum n=15) for

[2] Source: Satmetrix and Bain & Co.
[3] A complete list of carriers in the data set is included in the Appendix
[4] Latest year of premium and profitability data available

each carrier. The personal lines profitability of each insurer over the same period is indicated by the circle size and color. In this case, large circles indicate higher profitability as measured by the inverse of the carriers 3-year combined ratio[5]; conversely, smaller circles indicate lower profitability. The bottom third carriers, based on profitability, are in red; the middle tier in yellow; and the top performers are shaded green.

Figure 4: Correlation of NPS and Personal Lines Premium Growth



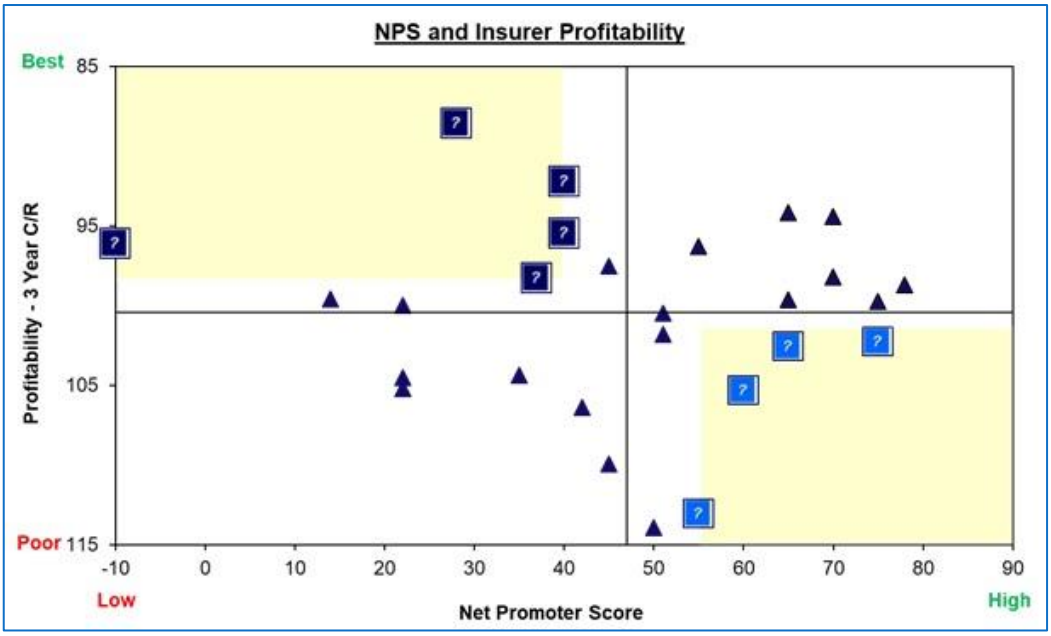
As anticipated, growth increases directly with higher NPS ($R^2 = 62\%$; t-stat = 6.5); so, we can infer that growth and NPS are positively correlated for personal lines with a high degree of confidence and accuracy. While this analysis is limited to personal lines – and a small, but relatively random, selection of P&C insurers – preliminary analysis suggests that similar results may exist in commercial P&C lines (especially Worker's Compensation) as well as individual life, group health and disability insurance.

While it is reassuring to see the NPS growth hypothesis hold for personal lines P&C insurance, the more interesting question is: what about profitability? This is particularly important in insurance where mispricing, lowered underwriting standards to grab share, adverse selection, moral hazard and cat exposure can affect profitability quickly – washing away years of steady profitability at the expense of rash growth "strategies." As Figure 4 shows, while NPS and revenue have the expected positive, linear relationship, profitability seems more "random." Figure 5, showing just the relationship between net promoter score and personal lines combined ratio for these same carriers, reinforces the *lack* of any

[5] Combined ratios are a common measure of profitability in insurance. They represent all costs (claims paid, claims handling, commissions, policy administration, underwriting, and all other general expenses) divided by premium (revenue) but exclude investment income earned. A ratio below 100 suggests the insurer is writing at an underwriting (operating) profit. Lower combined ratios indicate higher insurer relative profitability.

meaningful correlation in P&C between profits and net promoter score. While this figure depicts just the latest year, weighted-average combined ratio for all personal lines, a similar analysis of 3 year combined ratios shows similar "disappointing" results.

Figure 5: NPS Shows Little Correlation with Personal Lines Profitability



Digging a little deeper into Figure 5 poses some interesting questions. The carriers (blue triangles) in the upper right quadrant (above average profitability and net promoter score) make intuitive sense: they have high net promoter scores and high profitability (low combined ratios). They are NPS *and* profit "stars." Similarly, the triangles in the lower left make intuitive sense: these would-be "dogs" yield low net promoter scores and well below industry average profitability (high combined ratios).

However, the curious outliers in this group are the ones in the shaded yellow boxes. The carriers marked by dark blue question marks in the upper left quadrant are in the top 95th profitability percentile but bottom 95th NPS percentile. It would seem these carriers are generating superior profits from very dissatisfied customers – customers who wouldn't recommend their insurance carrier to their worst enemy! Alternately, the carriers in the yellow box in the lower right quadrant (light blue question marks) have NPS scores in the top 95th percentile but rank in the lowest 95th percentile in profitability. Their customers seem to be very happy…and with good reason: they are costing their insurers dearly.

Does this then mean that NPS doesn't really matter in P&C? Drawing that conclsion would be a serios mistake; akin to throwing the proverbial baby out with the bathwater. If, perhaps, there were a significant *inverse* relationship between NPS and profitability (or direct relationship between NPS and combined ratio, as higher combined ratios indicate lower product line profitability), then NPS would certainly be a spurious and perhaps even deleterious metric for P&C insurers. However, this is not the case.

The more apt conclusion around NPS and P&C is likely more nuanced. The dark blue, question mark carriers in the upper left are probably reaping short-term profits at the expense of long-term customer relationships…and long-term profits. Their current gains are coming from customers who are apt to switch and do little to drive top-line growth. These policyholders wouldn't recommend their carrier, are

unlikely to buy additional or new products, and may well cost more to serve in the long run – or worse present adverse selection or moral hazard issues. Conversely, the light blue, question mark carriers in the far lower right have the most serious underwriting dilemma: their customers are paying too little or generating above-average losses, *and they are eager to tell their equally adverse friends to join in their good fortune!*

Rather than abandoning the NPS metric entirely in P&C as a result of these facts (as some naysayers, "experts," and consultants often recommend), insurance carriers can use this type of analysis to better understand their unique business situation and ask some constructive questions. For example, what corrective actions are possible for the insurer with a high NPS (60) but a combined ratio north of 105 (versus peers at just under 100)? Perhaps there is some upside pricing opportunity without running the risk of losing these loyal customers. Perhaps there are additional cross-sell opportunities of other, more profitable lines of business. And for the insurers with low relative NPS scores and low relative combined ratios, need their management be concerned that perhaps they are "living on borrowed time," waiting for issues with moral hazard to arise or dissatisfied customers switching carriers and leaving them with considerable adverse selection? As one industry executive once commented, "Sure, I can make all my customers happy and 'juice' my net promoter score. All I have to do is pay every claim to the max and cut my prices to the bone. Then everyone will be 'happy' – except my boss and our shareholders!" Obviously, such cynicism is not indicative of effective NPS management, nor a prudent way to run a high-performing insurance operation, but it is an apt observation and valid concern over indiscriminate application of NPS in insurance.

Going Beyond NPS: 3 P Scores™ and the 3 Ts

Perhaps more than any industry, applying the power of NPS analysis and management to insurance requires incorporation of a profitability dimension. To that end, QA has developed a metric that combines NPS, growth, *and profitability* to score insurers across all three dimensions. Using this 3 P (Profit, Promoter, Premium growth) Score™ for the insurers in this sample yields the following ranking:

Figure 6: Rankings of Personal Lines Insurers Using the 3 P Score™

Superstars	Tweeners	Laggards
Excel on all 3 dimensions	Excel on 2 of 3 dimensions	Excel on 1 or no dimensions
• Geico	• State Farm	• Liberty Mutual
• Progressive	• Allstate	• Farmers
• USAA	• Hartford	• Nationwide
• American Family	• MetLife (Personal Lines)	• Travelers
• Erie Insurance	• Auto Club Enterprises	• MAPFRE NA
• Chubb	• CSAA (AAA)	• Country Financial
• AIG	• Auto-Owners Insurance	• The Hanover
• Plymouth Rock Assurance	• Mercury General	• Infinity
	• The Auto Club (AAA)	• NJM
	• Amica Mutual	

Viewed by 3 P Score™, a company is labeled a "Superstar" because they excel relative to peers on NPS score, premium growth, *and* lower relative combined ratios. "Tweeners" outperform peers on 2 dimensions; while "Laggards" better the competition on one, or often none, of the 3 P dimensions.

The 3 P framework helps identify 3 key points of differentiation between Superstars and Laggards that can be instructive. What is it that separates a star from a dog? It is more than pleasant and responsive customer service, or what is often vaguely called "customer intimacy." While these companies do deliver an exceptional, polished customer experience, those who excel at the 3 Ps also deliver on 3 critical "Ts":

1. **Transparency:** Superstars tend to pay claims fairly and on time. They offer a price that seems fair and delivers perceived *value*. Even when a claim is denied or modified, customers tend to understand why and don't feel "gipped." Deductibles are understood up-front, and customers don't perceive surprises buried in the "fine print."
2. **Transcendency:** "Underwriting excellence" has become a cliched and overused term, but Superstars tend to employ one of three core underwriting disciplines: they are focused on a niche demographic (e.g. high-net-worth clients for Chubb and AIG; military members and their families for USAA); a regional or limited geographic focus (e.g. Erie, PRAC, American Family); or exceptional data mining, analytics, and pricing sophistication (e.g. Progressive, GEICO). Not every insurer can be as analytically or technologically sophisticated as GEICO or Progressive, but focusing on homogeneous groups and zeroing in on like demographic or geographic attributes to build expertise in targeting and underwriting those segments has been fundamental to true underwriting excellence since the first gathering of underwriters at Edward Lloyd's Coffee House in 1688.
3. **Tenability:** Also known as "Brand Credibility," Superstars' customers believe their carriers keep their promises, deliver what they pitch, and don't make false claims. This would suggest that GEICO's chipper gecko offering "to be there" and Progressive's Flo offering to compare rates even if the competitions' are lower are better believed than hollow "accident forgiveness" and "new car replacement" claims.

The Progressive Group of Insurance Companies has always lived up to its name by being one step ahead of the insurance industry, and finding new and affordable insurance solutions. We began in 1937 with the first drive-in claims office, became the first to introduce reduced rates for low-risk drivers, and then changed the insurance shopping experience by offering comparison rates on the Web.

- First Paragraph of "About Us" on Progressive's Website

Key Takeaways: Putting it all Together

NPS is a useful dashboard metric for astute insurance executives to include in their toolkit. However, in insurance, where premium growth and customer "delight" can so easily be achieved through price cutting or lax claims management, a profitability component must also be included. A 3 P (Profitability, Promoter, Premium growth) Score™ framework provides a quantitative comparative view by which insurers can measure their *overall* relative performance. Insurers lagging their peers on 3 P Scores™ will likely find they are misfiring on one or more of three critical CRM dimensions:

1. **Transparency** in pricing and claims handling
2. **Transcendency** in underwriting: deep knowledge of the underlying risk pool
3. **Tenability** or credibility of the message and the brand

Correcting deficiencies in any of these three can seem challenging, if not impossible. However, for managers up to the task, the rewards can be substantial: on just the profitability dimension alone, weighted-average, three-year combined ratios were almost 4 points better for "Superstars" in this sample than "Laggards." And the *per year* premium growth differential was a whopping 6.5 percentage points. So, in the end, *NPS does matter* in P&C insurance; however, like most things in the insurance industry it is a little more complicated. Blindly tying compensation, incentives and management performance to the "one number you need to grow" is fraught with peril in our industry. Nonetheless, those who are systematically able to add a profitability component, benchmark correctly against peers, and fix broken 3-T drivers can be rewarded with the holy grail of P&C underwriting: sustained, *profitable* growth.

About Quincy Analytics

Quincy Analytics is a specialized consulting firm with deep expertise in the P&C, Life, and Disability insurance industries. We specialize in strategies for profitable growth including: net promoter analysis; core and adjacency growth; profit pool opportunity assessment; organizational design and span-of-control optimization; strategic vendor management; and vendor complexity reduction. See more about us at **www.quincyanalytics.com**.

About the Author

Brian Kelley is the founder and Managing Director of Quincy Analytics. He began his career as a Bain & Company consultant and subsequently served as an executive with Liberty Mutual Insurance Group where he ran corporate strategy, integrated disability, and global e-commerce. He has consulted to numerous insurance carriers, insurance service providers, and private equity investors in insurance services and technology ventures.

Appendix and Data Sources

Carriers Included in the Survey and Data Sample:

	Company/Group
1	Allstate Insurance Group
2	American Family Insurance Group
3	American International Group
4	Amica Mutual Group
5	Auto Club Enterprises Insurance Group
6	Auto Club Group
7	Auto-Owners Insurance Group
8	Chubb
9	Country Financial PC Group
10	CSAA Insurance Group
11	Erie Insurance Group
12	Farmers Insurance Group
13	GEICO (Berkshire Hathaway Insurance)
14	Hartford Insurance Group
15	Infinity P&C Group
16	Liberty Mutual Insurance Cos.
17	MAPFRE North America Group
18	Mercury General Group
19	MetLife Personal Lines Group
20	Munich-American Holding Corp Companies
21	Nationwide Group
22	NJM Insurance Group
23	Plymouth Rock Assurance Company
24	Progressive Insurance Group
25	State Farm Group
26	The Hanover Insurance Group
27	Travelers Group
28	USAA Group

Sources for NPS scores: 1,193 random online surveys of personal auto and homeowners' buyers conducted January 2017 (minimum of 15 responses per carrier for calculation; maximum of 63). Scores validated, where available, from publicly available third parties including: Temkin Group; npsbenchmarks.com; and indexnps.com.

Source for statutory NWP (private passenger auto liability; private passenger auto physical damage; and homeowners) and combined ratios (2010-2015): *AM Bests, Aggregates and Averages* (2011-2016).

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