

2011 Auto Claims Satisfaction StudySM



A Management Discussion Based on the 2011 Auto Claims Satisfaction StudySM

October 2011



Overview

J.D. Power and Associates has measured overall customer satisfaction with auto and homeowners insurance for more than a decade. In 2007, the company launched the *Auto Claims Satisfaction Study*, which focuses specifically on the key drivers of satisfaction with the claims experience—the ultimate moment of truth for any insured. This study measures insurer performance throughout the entire claims experience, from first notice of loss (FNOL) through the repair and delivery of the vehicle or settlement of the total loss.

Each year, approximately 16% of auto physical damage claims result in a total loss. While handling these situations can be an everyday occurrence for insurance companies and adjusters managing a large number of claims, for the claimant, this may be a once-in-a-lifetime event. No other aspect of their experience with their insurer is more meaningful than this moment of truth, which can leave a lasting impression on them for years to come. Total loss claims can be far more emotional and disruptive to the lives of the claimant as they are suddenly faced with having to replace their vehicle. Furthermore, only one-half of claimants feel their settlement was sufficient to purchase a similar make/model, so this experience could also have a substantial impact on the claimant's financial situation. As a result, total loss claims are more often a negative experience than those with repairable damage. Insurers are challenged to provide a satisfactory level of service while also maintaining proper scrutiny over their business and managing expectations of claimants who are often likely to have an inflated perception of the value of their vehicle.

The processes and touch-points in handling these claims are fundamentally different than repairable claims and include a unique set of claimant expectations. This, in turn, creates both different drivers of satisfaction and unique service practices insurers can improve in order to deliver an exceptional total loss experience. There is more at stake in handling these claims as any negative experiences are more likely to lead to attrition and negative recommendations, compared with repairable claims.

This management discussion, based on findings of the *2011 Auto Claims Satisfaction Study*, will explore total loss claims and provide insurers with key insights for delivering a satisfying experience, specifically addressing three primary needs throughout the claims process:

- **Communication**—Insurers must not only be available when claimants have questions, but also make the effort to clearly explain the claims process, follow up in a timely manner, and keep claimants informed throughout the claims process.
- **Speed**—Insurers must quickly move the claim along from first notice of loss to the appraisal to communicating settlement amounts and ultimately paying claimants.
- **Fairness**—Claimants want to be treated fairly regarding the settlement and avoid surprises in the process, whether caused by out-of-pocket expenses or not fully understanding what their policy covers in a claims situation.

“ Insurers are challenged to provide a satisfactory level of service while also maintaining proper scrutiny over their business and managing expectations of claimants who are often likely to have an inflated perception of the value of their vehicle. ”

Effective Insurance Representatives Are Key to the Process

One of the major differences J.D. Power observes in analyzing customer data regarding the claims process is how different the claimant experience is for total loss claims, compared with repairable claims. The management discussion for the 2009 study, titled *"The Six Pathways to Claim Handling,"* explored the different approaches insurers take in handling claims by comparing the different touch points and hand-offs throughout the claims process. While that analysis focused on repairable claims, a comparison of the most common interactions between total loss and repairable claims, based on data for the 2011 study, is presented in Figure 1 below.

Comparison of Claim Paths

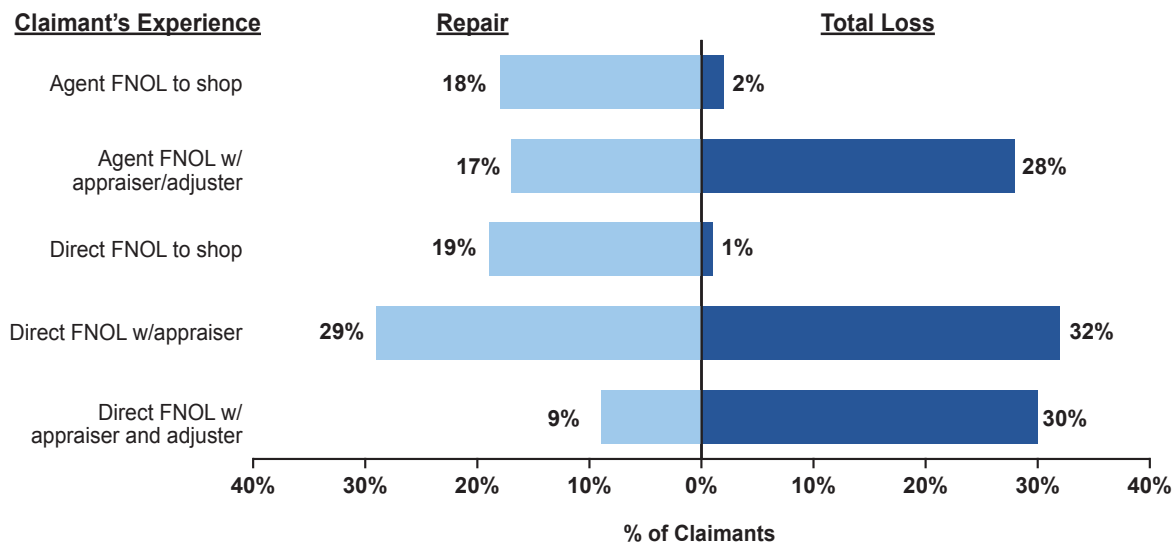


Figure MD1

As expected, in a total loss claim the role of the repair facility is greatly reduced, as adjusters and appraisers assume more of the interactions with claimants. Interactions with both an appraiser and an adjuster increase threefold, ranging from 9% for repairs to 30% of total loss claims. This claims handling model shifts the focus of the claim interactions squarely on the shoulders of the insurance company staff.

As shown in Figure 2, for repairable claims, the repair facility most often assumes primary responsibility for handling the claim from the claimant's perspective. As a result, many of the updates on the repairs are communicated directly by the shop, which reduces the need for periodic communications from a representative of the insurance company. However, in a total loss claim, this role most frequently switches to the claim professional and claimants typically communicate only with their insurer. While this allows much more control over the claims handling and communication with claimants, it may also increase the likelihood that the claimant will blame the insurer if their needs are not being addressed.

Primary Interaction throughout Claim

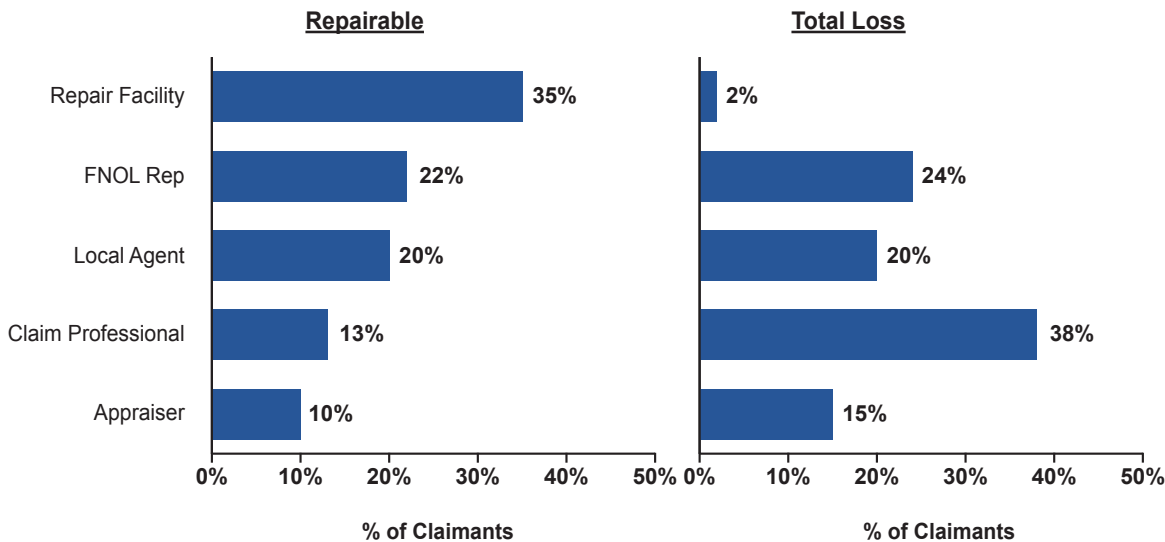


Figure MD2

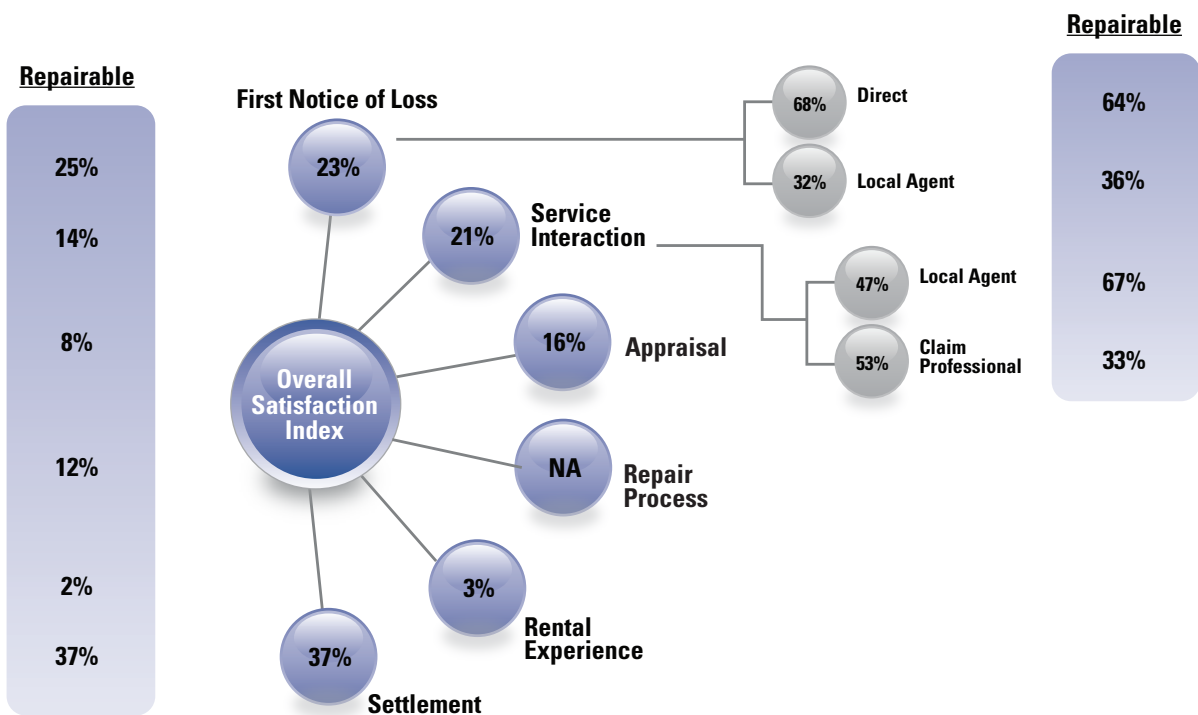
Factors Influencing Total Loss Claim Satisfaction

The more prominent role claim professionals and appraisers take in the total loss process is also apparent when examining the drivers of satisfaction that contribute to overall satisfaction. The Overall Satisfaction Index model shown below displays the relative importance of each stage of the claim in driving overall satisfaction for total loss claims, and the weights for repairable claims are provided for comparison purposes.

The primary difference between the total loss and repairable models is that the 12% importance weight of the Repair Process is redistributed to claimant interactions with the Appraisal (+8 points) and Service Interaction (+7 points). The importance of FNOL remains relatively similar, although there is a slight increase in total loss claims reported directly to the insurer rather than to the Local Agent.

The Settlement factor is vital to overall satisfaction with the insurer, regardless of whether the claim is a total loss or repairable, and drives 37% of the Overall Satisfaction Index.

Total Loss Index Model



Note: Percents may not sum to 100, due to rounding

Figure MD3

Overall satisfaction is more than 40 points lower among claimants who incur a total loss, compared with those who incur a repairable claim. As shown in Figure 4 below, the most significant difference is in the Settlement factor, which accounts for the highest percentage in the overall CSI model. Satisfaction is nearly 80 points lower among total loss claimants, compared with repairable claimants. The gaps in score for most of the other factors for total loss are moderately lower, ranging from 11 to 24 points below those for repairable claims. The exception is for Claim Professional—scores are higher for their role in handling total loss claims, compared with their role in repairable claims.

Comparison of Repairable and Total Loss Claims—2011 Index Scores

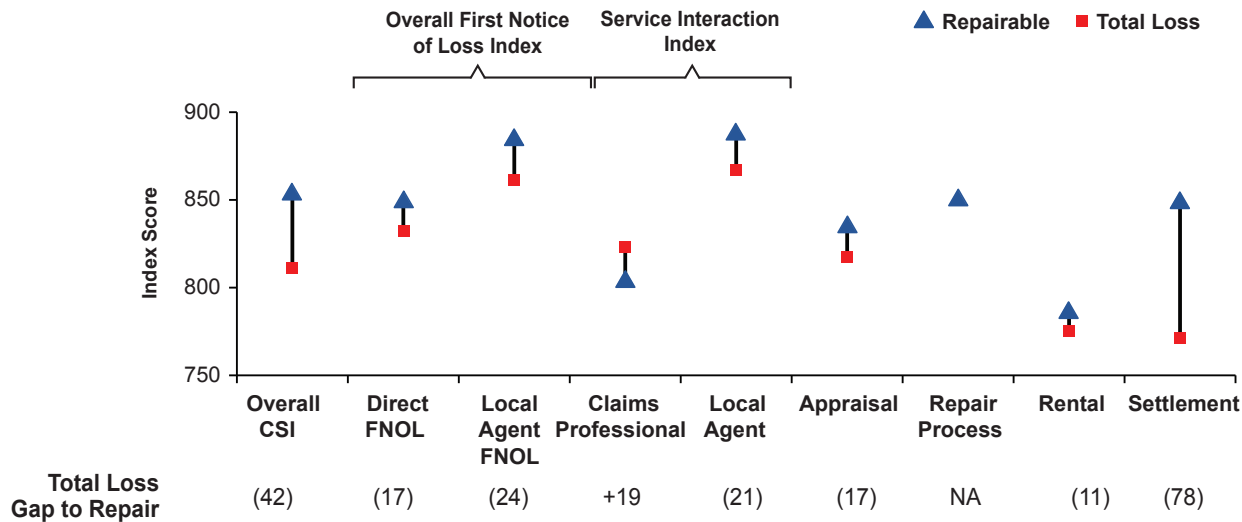


Figure MD4

The Settlement factor is comprised of two attributes: *Time to settle the claim* and *Fairness of the claim settlement*. These attributes are equally important from the claimant's point of view and are two of the three key issues necessary for a satisfying claims experience—speed and fairness. These two attributes, while equally important, receive the lowest ratings of any attributes, with *Time to settle the claim* receiving the lowest average rating, 7.57 (on a 10-point scale).

In addition to speed and fairness, communication is a key area for improvement, based on the attributes with the lowest ratings in the total loss process. In addition to the two settlement attributes shown in Figure 5 below, the next four listed attributes address some form of communication. Whether keeping the claimant up to date on their claims status or taking the time to thoroughly explain the settlement, communication is clearly an area for improvement.

Lowest Rated Attributes

Repairable		Total Loss	
Claim professional kept me informed of claim progress	7.51	Time to settle the claim	7.57
Claim professional's concern for your situation	7.91	Fairness of claim settlement	7.84
Claim professional's responsiveness	8.00	Claim professional kept me informed of claim progress	7.88
Thoroughness of claim professional's settlement explanation	8.07	Appraiser kept me informed of claim progress	7.89
Speed of completing the work	8.14	Appraiser's concern for your situation	7.95
Appraiser's concern for your situation	8.21	Thoroughness of appraiser's settlement explanation	7.95

Figure MD5

When claimants were asked what insurers could improve in the claims process, claimants most frequently cited communication—nearly 40% of claimants who provided input mentioned this issue. Because the timing of a total loss claim typically is longer than that for a repairable claim, communication is key. In addition to a longer period during which claimants expect to be kept informed, there are also several representatives typically involved in the claim; thus, additional touch points provide more possibilities for a missed callback or the necessity of asking claimants to repeat information. For example, in only 27% of repairable claims do claimants interact with three or more insurer representatives. Conversely, in total loss claims, 54% of claimants interact with three or more representatives.

Because each representative plays a key role in communicating with claimants, it is critical that they understand the impact their interaction may have in shaping claimants' expectations.

Total Loss Process Timing

A total loss claim typically takes several days longer to settle than does a repairable claim, particularly regarding the two points of time considered by claimants to be the most critical—how quickly they are informed of the settlement terms and how quickly the settlement payment is received. Informing claimants of the settlement amount (or what will be covered for the repair) is as short as 5 days for repairable claims in contrast to more than 9 days for total loss claims. More importantly, the time between the appraisal and informing claimants of the settlement amount is much longer for a total loss claim (4 days vs. half of 1 day for repairable claims). While the gap from the appraisal to settlement has continued to shorten each year for total loss claims (from a high of 6 days in 2008), claimants still express frustration over this long period of uncertainty.

Cycle Time by Severity

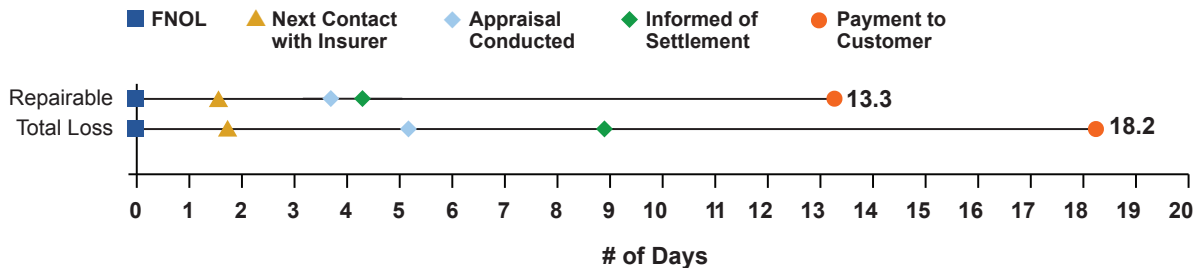
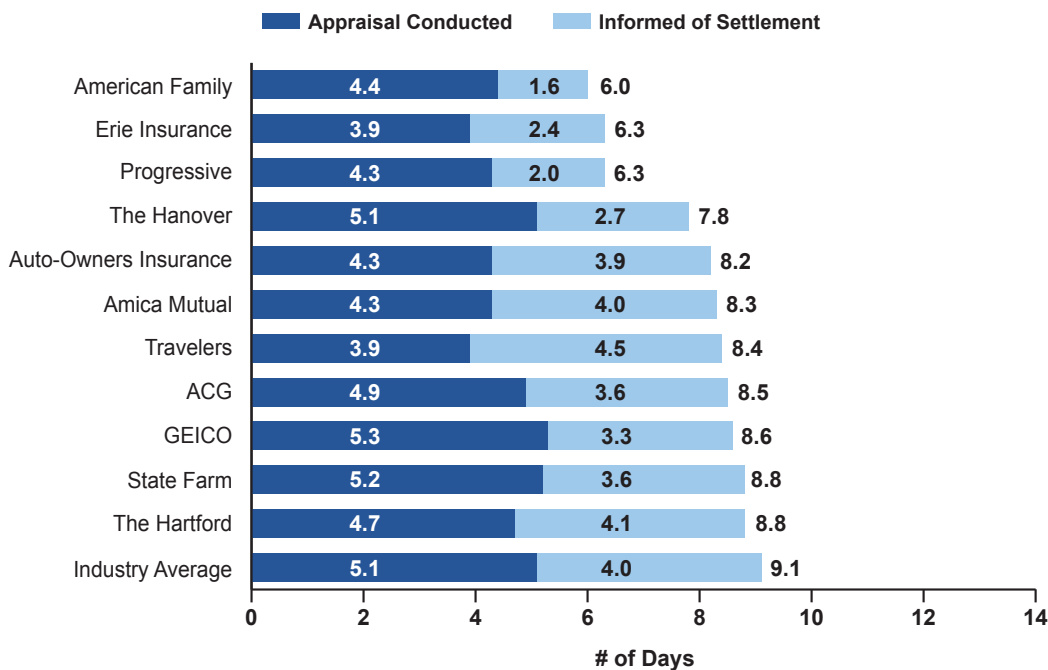


Figure MD6

Although being informed of what the insurer will pay takes an average of 4 days, there are several insurers that communicate much more quickly with claimants. American Family executes the shortest time frame for informing claimants of the settlement amount—a full 3 days shorter than industry average. Erie Insurance ties for the second-shortest time to inform claimants. Both of these insurers have the highest rates in the industry for the appraiser communicating the settlement amount. This approach is not common in the industry, as many insurers have a separate claim professional handle these discussions with claimants, but the approach of having the appraiser communicate the settlement amount eliminates a hand-off from claimants' perspective and appears to contribute to speeding up the process on the insurer's side.

“While every insurer typically strives to pay the Replacement Cost Value (RCV), the study finds significant variation among insurers in claimant-perceived fairness of the settlement.”

Informed of Total Loss Settlement—By Insurer



Note: This chart reflects insurer-level results combined for 2010 and 2011, to provide more stability in the metrics.

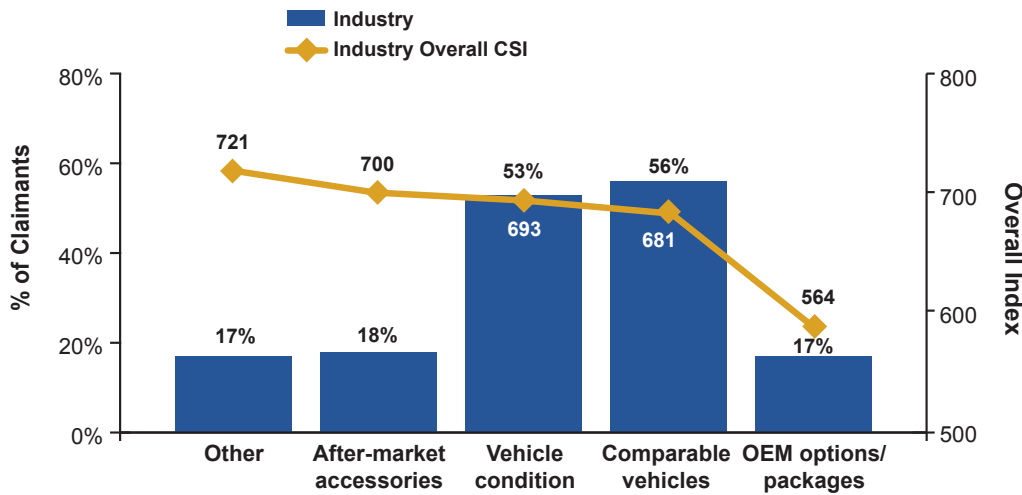
Figure MD7

Fairness of the Claim Settlement

While every insurer typically strives to pay the Replacement Cost Value (RCV), the study finds significant variation among insurers in claimant-perceived fairness of the settlement. While certain influences may be out of an insurer's control, such as the intrinsic value of the vehicle to the claimant or the extent to which the claimant conducted their own research to determine the value of the vehicle, there are several steps insurers may take to help shape claimants' perception of fairness.

“ Nearly 20% of claimants negotiate the initial settlement figure they receive, and claimants successfully obtain a higher settlement—approximately \$1,200 more, on average—about 80% of the time. ”

Impact on Satisfaction by Type of Negotiation



Note: multiple mentions allowed

Figure MD8

Thoroughly explaining how the RCV was estimated and providing supporting comparison vehicle evidence may reduce the frequency of settlement negotiations. Nearly 20% of claimants negotiate the initial settlement figure they receive, and claimants successfully obtain a higher settlement—approximately \$1,200 more, on average—about 80% of the time. Despite receiving a higher settlement amount, satisfaction still declines by 115 index points due to claimants’ perceptions the insurer wasn’t fair or missed something in their initial RCV assessment of the vehicle. Satisfaction declines by nearly 200 points when claimants are unsuccessful in their attempt to obtain a higher settlement. Regardless of whether or not the negotiation was successful, the majority of these conversations center on the condition of the vehicle or the comparable vehicles used in assessing the value of the claimant’s vehicle. While claimant assessments of the vehicle’s condition may be more subjective in nature, satisfaction is significantly lower when the OEM options or packages on their vehicle were not correct. While it may not be feasible to completely eliminate negotiations in the claims process, study findings suggest there are different approaches insurers may use to more accurately establish RCV and reduce the frequency of claimants questioning the settlement figure.

Factors Influencing Negotiated Settlements

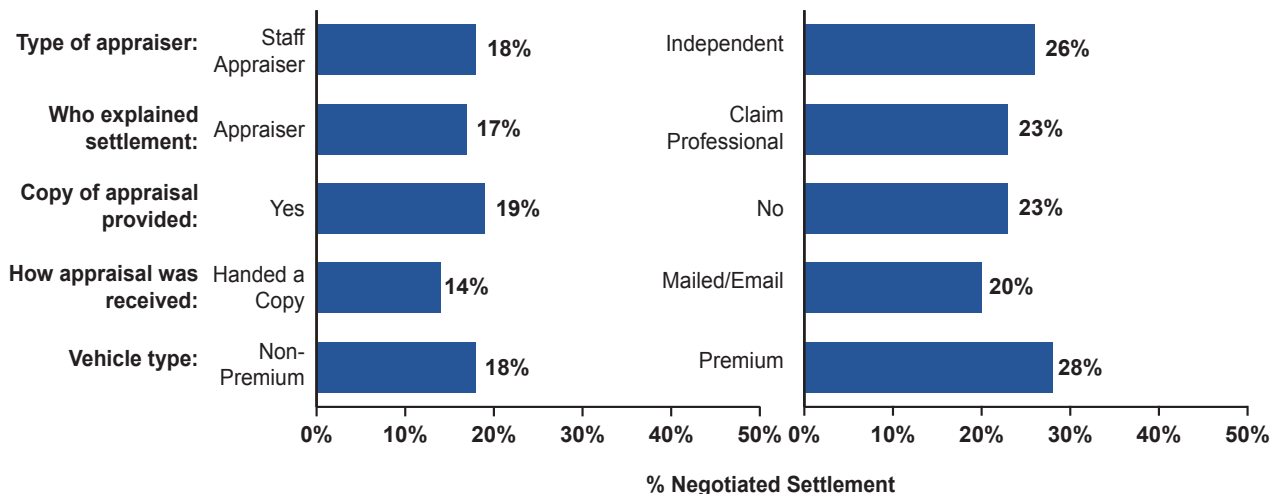


Figure MD9

As shown in Figure MD9, the representatives involved in the settlement and how the explanations are provided may impact claimants’ perception of the fairness of the settlement. There is a higher rate of negotiations when an independent appraiser is involved, compared with a staff appraiser, or when a claim professional is communicating the settlement, compared with the appraiser. Negotiations regarding OEM options/packages have the largest variation based on the type of representative who is explaining the settlement—when the appraiser handles the discussion, only 9% of negotiations are due to OEM options/packages, compared with 24% when a separate claim professional is involved. The rate of negotiations is lowest (14%) when the appraisal is personally handed to the claimant. This face-to-face interaction presents an opportunity for a more thorough conversation and appears to reduce the likelihood for negotiations. Insureds who don’t receive a copy of the appraisal or who only receive it via mail or email are much more likely to negotiate the settlement.

Another critical area of focus in order to address the perception of fairness is limiting out-of-pocket expenses. Claimants are more likely to incur some out-of-pocket expenses for a total loss claim, most commonly a rental car, and typically spend nearly \$100 more than claimants with repairable damage. Due to the prolonged period of time to settle and receive payment for a total loss, a typical rental time frame is about 4 days longer than for a repairable claim. Nearly one-third of claimants who paid a portion of their rental say the reason for incurring the cost was because they ran out of coverage. Satisfaction is lowest when claimants perceive that their daily rental coverage was not enough to rent a vehicle, which occurs among more than one-half of claimants who pay a portion of the expenses. Claimants who pay a portion of the rental cost spend an average of nearly \$150 for their rental car. Claimants who incur the total cost of a rental spend an average of nearly \$290.

Out-of-Pocket Expenses

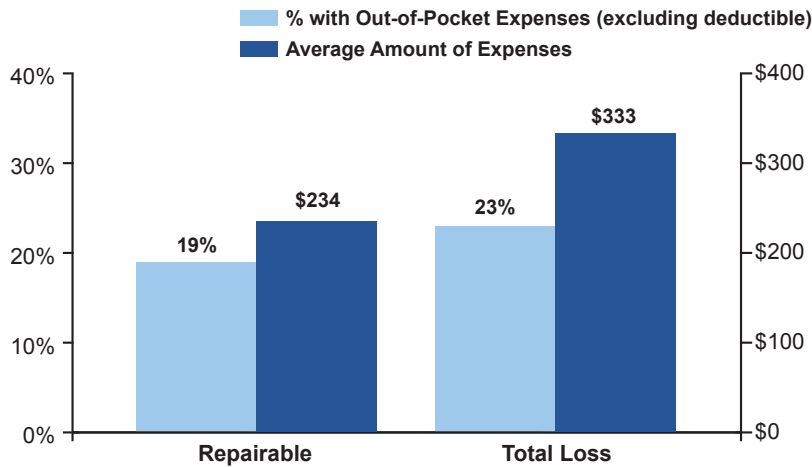
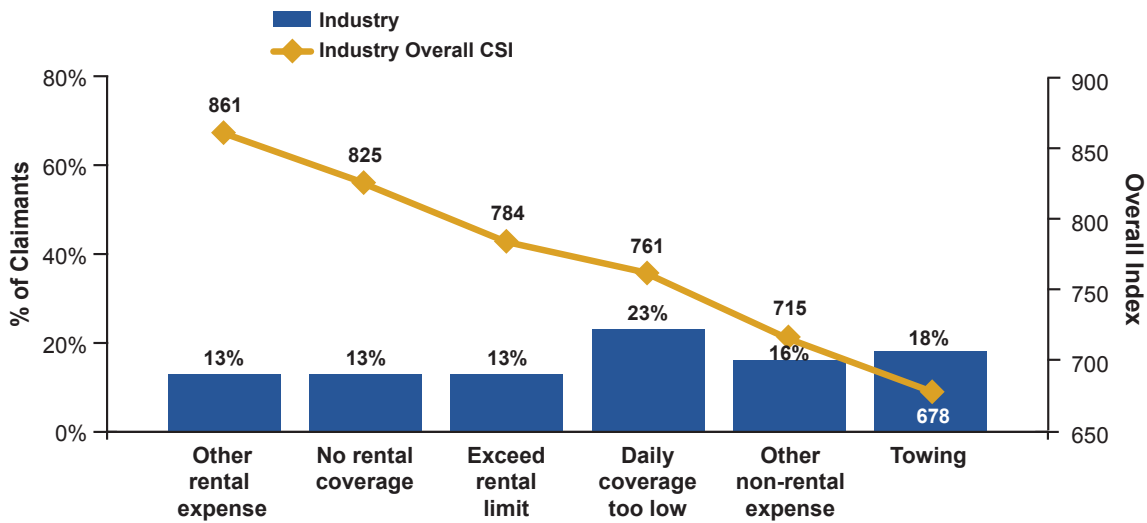


Figure MD10

Figure MD11 shows the negative impact of these expenses on satisfaction. Satisfaction remains relatively high among claimants who incur expenses due to not having rental coverage, which is likely because those claimants do not have any preconceived expectations regarding rental coverage. Scores drop quickly among claimants using rental coverage when they reach their coverage limits or do not have sufficient daily rental coverage. Any expenses other than for a rental car have an even more pronounced negative effect—satisfaction is lowest when claimants incur costs for towing their vehicle (below 700 index points).

These findings underscore the importance of properly setting claimants' expectations and thoroughly explaining the limitations of their policy coverage.

Reason for Out-of-Pocket Expenses



Note: data not shown for multiple mentions of non-towing expenses (4%)

Figure MD11

Impact of Satisfaction on Retention

Findings of the *2011 Auto Claims Satisfaction Study* indicate that while a positive auto physical damage claims experience may foster notable long-term loyalty, a negative claims experience may impact an insurer's bottom line through either the loss of an insured's business or negative word of mouth comments made to friends and family. Although this is also true for total loss claims, the impact of low satisfaction in this situation is even more pronounced.

Figure MD12 below shows the impact satisfaction has on key metrics related to retention and referrals. Claimants were grouped into one of three satisfaction tiers based on overall index scores. Claimants in the low satisfaction tier are far more likely to have already switched insurers since their claim was settled, and among those who haven't yet switched, an additional 40% say they will shop in the next 12 months due to the way their claim was handled. In addition, 56% of claimants in this tier have made negative comments about their insurer's handling of the claim, underscoring the importance of delivering a satisfying claims experience.

Impact of Claims Satisfaction on Retention and Referrals

Satisfaction Tier	Proportion of claimants	Retention-related			Referral-related	
		% Switched insurers	% Shop within year due to claim	% Definitely will renew	% Definitely will recommend	% Made negative comments
Total Loss Claims						
High Satisfaction (Index 901-1000)	38%	3%	1%	83%	80%	3%
Medium Satisfaction (Index 551-900)	52%	7%	9%	45%	39%	19%
Among the Rest (Index 550 or less)	10%	23%	40%	8%	7%	56%

Figure MD12

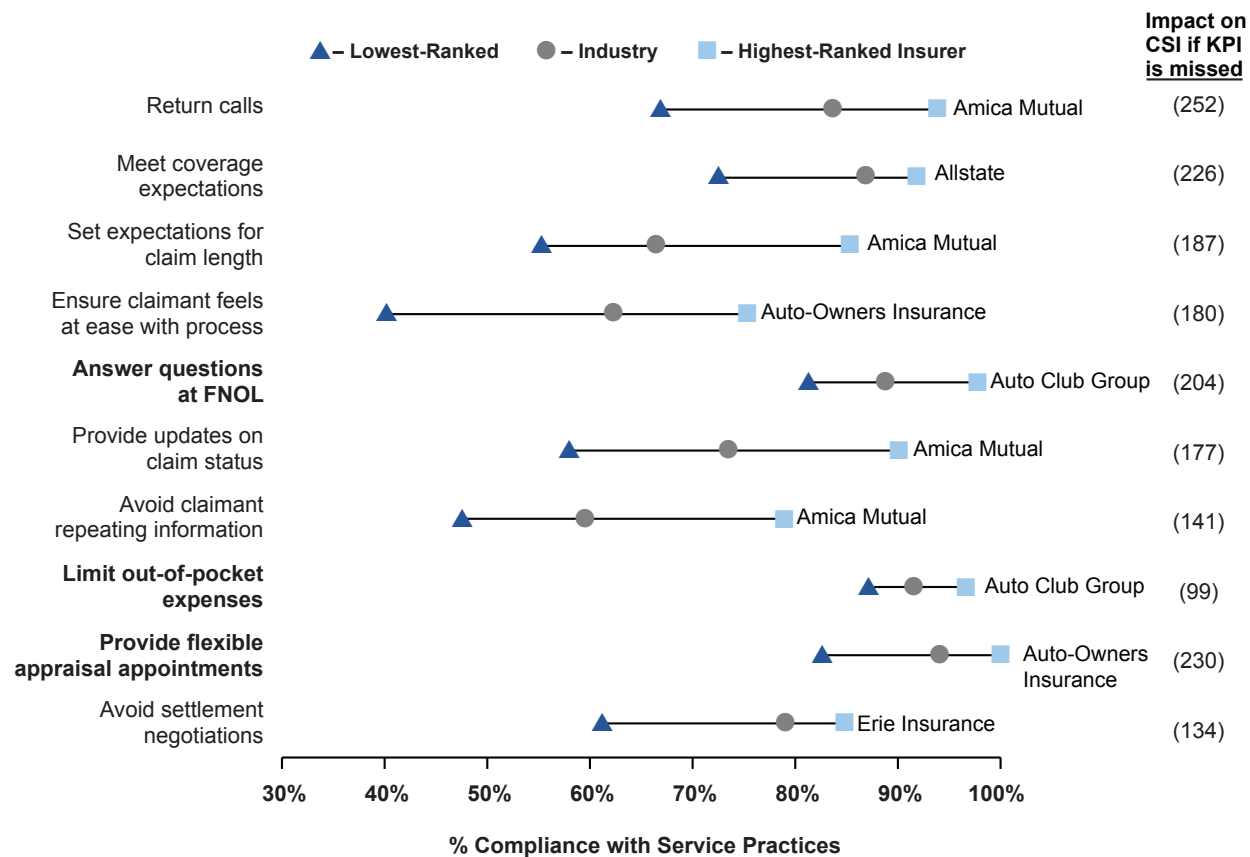
What are the Highest Performers Doing Well?

J.D. Power provides insurers with valuable insights not only on their relative performance against key competitors, but also on how they may improve satisfaction, retention, and advocacy. One vital component is the identification and utilization of Key Performance Indicators (KPIs).

KPIs establish the relationship between the subjective impressions of the end-customer (e.g., courtesy, knowledge, and ease of contacting), which determine index scores, and objective metrics (e.g., time, frequency, and cost), which are behavior-based and actionable for insurers to integrate into their performance improvement initiatives. J.D. Power studies conducted for the insurance industry most often include multiple KPIs designed to help insurers identify paths to customer satisfaction improvement through every step of the relationship.

Figure MD13 lists the top 10 KPIs insurers should focus on executing in order to maximize satisfaction with the total loss process. The order of importance of these practices changes for total loss claims, compared to repairable vehicles and a few additional service practices move into the overall top 10 (highlighted in bold). Several insurers that lead the industry in providing the most satisfying service deliver the highest rates of compliance with these KPIs.

Comparison of KPIs Total Loss



Note: This chart reflects insurer-level results combined for 2010 and 2011, to provide more stability in the metrics. **Figure MD13**

The single-most-impactful KPI is the common customer service courtesy of following up with claimants and returning phone calls. The lack of availability of adjusters is a common complaint among claimants. Taking the time to follow up or implement better follow-up processes may go a long way toward satisfying claimants and removing an unnecessary frustration from the process.

A KPI new to the top 10 this year is unique to the total loss experience: ensuring claimants have a chance to get their questions answered during FNOL. Understandably, not all questions a claimant might have can be addressed during FNOL, such as whether their vehicle will be totaled or not. Claimants most often indicate that unanswered questions regard explaining the process and timing. Numerous verbatim comments by claimants indicate concerns regarding what would happen next in the claims process and how long the process would take. These are questions that should be addressed during FNOL if at all possible. Taking advantage of this early opportunity to address the claimant's concerns and uncertainty may result in a more satisfying claims experience.

As noted in Figure MD13, Amica performs particularly well in the industry in four KPIs, all of which focus on communicating with claimants—returning phone calls; setting expectations for the claim; providing status updates; and avoiding the need for the claimant to repeat information. Not only does Amica perform particularly well in satisfaction for total loss claims, but for Amica there is also virtually no difference in satisfaction compared with repairable claims. At the industry level, satisfaction with total loss claims is 42 points lower than for repairable claims.

Conclusion

Auto claims resulting in a total loss may be far more personal and complex, compared with vehicle repair claims. Yet, this added complexity should not deter insurers from striving to deliver on KPIs, especially those involving interaction with representatives or the settlement process. Insurers should strive to simplify the claims experience by limiting the number of representatives with a role in the claims process and seek to alleviate periods of claimant uncertainty. Ongoing communication and managing expectations are key not only during the FNOL, but also throughout the entire claims process, as claimants should never be left with unanswered questions or uncertainty about the next steps in the claims process.

This management discussion identifies the issues insurers face when dealing with claims for losses that are more personal and, as a result, more emotional in nature. However, insurers may increase satisfaction if each representative involved in the claim works to deliver on the Key Performance Indicators discussed in this paper, which may also ultimately drive higher retention. Insurers should focus on the three keys addressed in this paper: communication, fairness, and speed.

The findings presented in this management discussion represent an overview of the full analysis, including all top KPIs unique to each claimant touch point; brand-level comparisons; and year-over-year trending, which are available by subscription to the *J.D. Power and Associates 2011 Auto Claims Satisfaction StudySM*.

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