

2011 Property Claims Satisfaction StudySM



*A Management Discussion based on the
2011 Property Claims Satisfaction Study*

July 2011



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Overview

J.D. Power and Associates has measured overall customer satisfaction with auto and homeowners insurance for more than a decade. In 2008, the company launched the *Property Claims Satisfaction Study*, which focuses specifically on the key drivers of satisfaction with the claims experience—the ultimate moment of truth for any insurance customer. The *Property Claims Satisfaction Study* measures insurer performance throughout the entire claims experience, from first notice of loss (FNOL) through the repair of the home.

The 2011 study includes evaluations from 2,842 insurance customers nationally who filed property claims between November 2009 and April 2011. For the industry overall, satisfaction among home claimants is significantly higher than the average satisfaction among all homeowners insurance customers¹ (817 vs. 750, respectively, on a 1,000-point scale).

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

Key Performance Indicators 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 in this industry generally include multiple KPIs designed to help insurers identify paths to customer satisfaction improvement through every step of the customer relationship.

This management discussion, based on the *2011 Property Claims Satisfaction Study*, addresses the following key questions:

- What factors are used to measure satisfaction with the home claims process?
- How do content losses impact satisfaction?
- What types of claims typically include a content loss?
- What are the most important key service practices for the settlement process?
- How is the settlement process affected by different coverage types?
- What are the most important key service practices for interaction with the claimant?
- What is the impact of satisfaction on retention and advocacy?

¹ J.D. Power and Associates 2010 National Homeowners Insurance StudySM



Factors Influencing Home Claims Satisfaction

Each year approximately 7% of homeowners insurance customers experience a property claim. For these insureds, no other aspect of their experience with their insurer is more meaningful. The index models utilized for the *2011 Property Claims Satisfaction Study* segment the claims experience into separate factors. Together, the models cover each step of the claims experience, from FNOL to settlement.

Figure MD1 shows the industry index model for claims involving content loss as well as those that do not. In both claim types, the claimant's FNOL drives 21% of the overall experience, and often setting the tone for the remainder of the claims process. One-fifth of the index for each claim type is comprised of the Appraisal factor, which includes appraisals with or without claimant interaction with the appraiser. The Service Interaction factor (14% of the model) includes interaction with local agents and/or claims professionals. Claim professionals are more likely to be involved with claims that include content loss and have a higher importance weight as a result. The Settlement factor is vital to overall satisfaction with the insurer, regardless of whether the claim included content loss, and drives approximately 40% of the experience. The Repair Process accounts for the remainder of the experience.

Home Claims Customer Satisfaction Index Model - Content Loss -

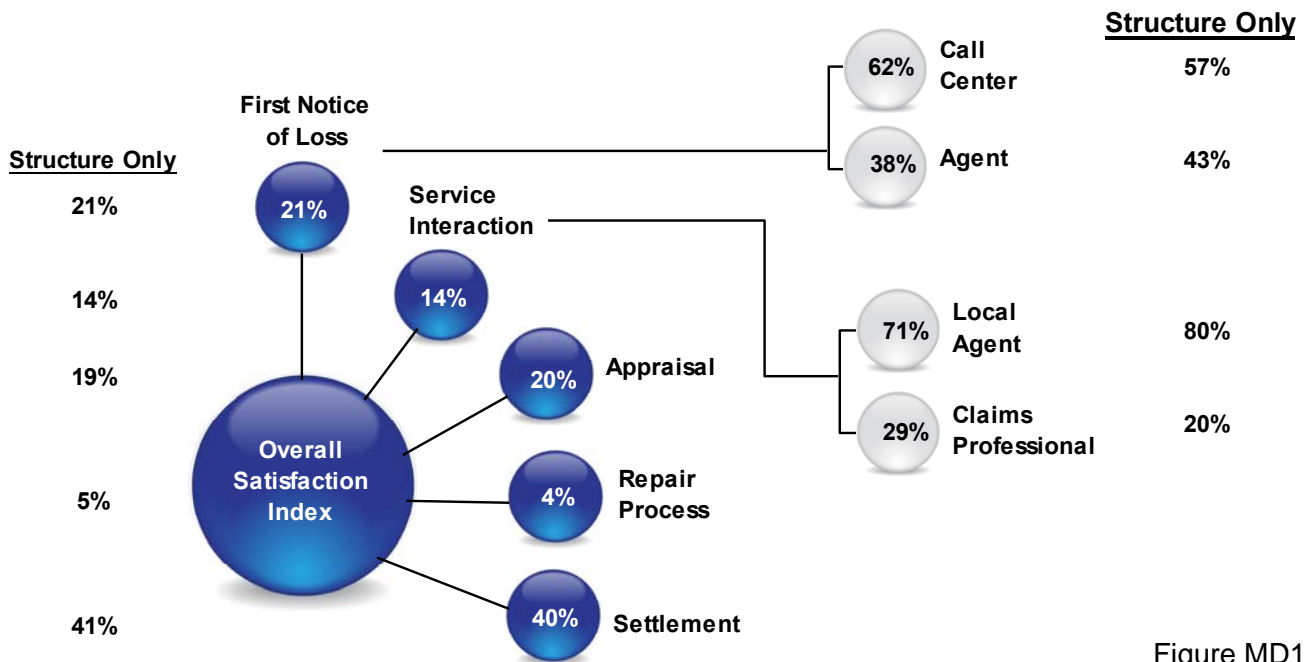


Figure MD1



Impact of Content Loss on Claim Satisfaction

Satisfaction is lower in each factor for claims involving content loss than for structure-only losses. The largest gap in satisfaction is for the Claims Professional (-78 index points). This difference is primarily driven by low ratings for *thoroughness of the explanation of the settlement*. Repair Process (-37 index points) and Settlement (-33 index points) also have large gaps in satisfaction.

An analysis of key service metrics indicates communication plays a vital role in delivering a highly satisfying claims experience, and even more so for claims involving the loss of contents. Settlement is also a primary driver of claims satisfaction for content losses, and is the most important for claims that are strictly structure losses. As a result, this management discussion will focus on communication and settlement, specifically the Key Performance Indicators (KPIs) for each claim input and how specific processes impact these areas of the claims experience.

Comparison of Structure and Content Loss Claims—2011 Index Scores

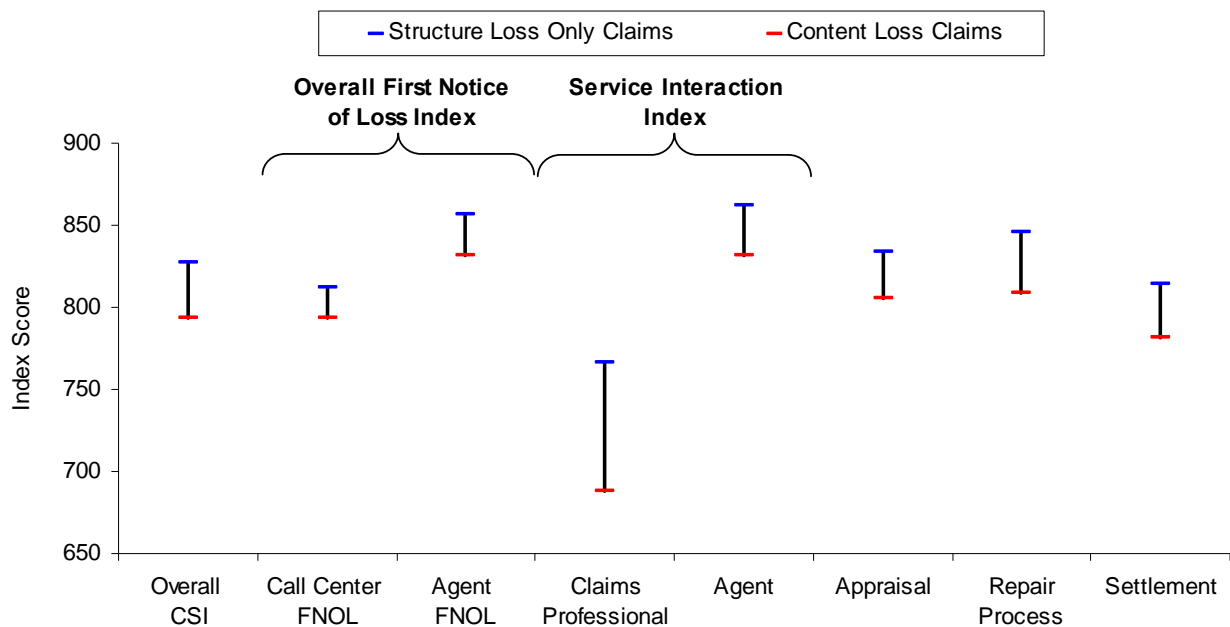


Figure MD2



Causes of Claims with Content Losses

In general, approximately one in three claims includes the loss of contents. However, the most common types of claims, those resulting from weather related damage, are least likely to involve the loss of contents and tend to result in higher satisfaction. In contrast, content loss is most common among lower-incidence claims such as theft/vandalism, fire, and non-weather-related homeowners claims that involve water damage. Events such as theft, vandalism, or fire are highly emotional events that require communication with claimants to ensure they have accurate expectations of the claims process and, ultimately, the settlement amount. Insurers are more challenged in delivering a satisfying claim process in these complex claims as there are many opportunities to fail to meet customer expectations, which is evident in the much lower satisfaction ratings among these claim types. Managing customer expectations from the start is key to providing a satisfying claims experience that fosters loyalty.

Satisfaction Impact of Cause of Loss

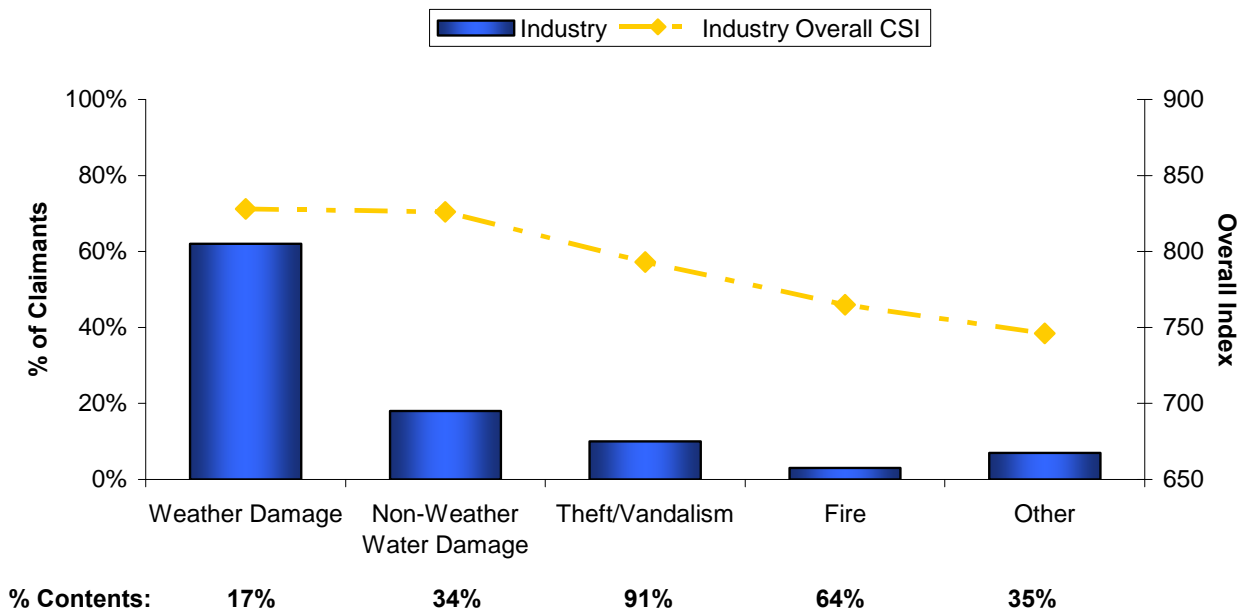


Figure MD3



Settlement Key Performance Indicators

The Settlement factor accounts for more than 40% of overall satisfaction with the claims experience, regardless of whether it includes a contents loss. As a result, several KPIs for this factor are critical to successfully satisfying insureds during the property claims experience:

- Meet Settlement Expectation**— The single-most-impactful KPI in the *2011 Property Claims Satisfaction Study*, regardless of content loss, is ensuring that the settlement meets the expectations of the claimant. Insurers that excel in this area often rank high in overall satisfaction. At the industry level, four in five claimants indicate that their insurer fully met their expectations regarding the settlement. Similar rates are reported for claims with content loss and those without content loss. Thoroughly explaining the limitations of the policy's coverage and fully managing expectations at FNOL are paramount to ensuring that claimants are not surprised by their settlement offer. This is especially true for claims involving contents, since coverage and settlement methods may be unfamiliar to many claimants.

Satisfaction Impact of Meeting Settlement Expectation

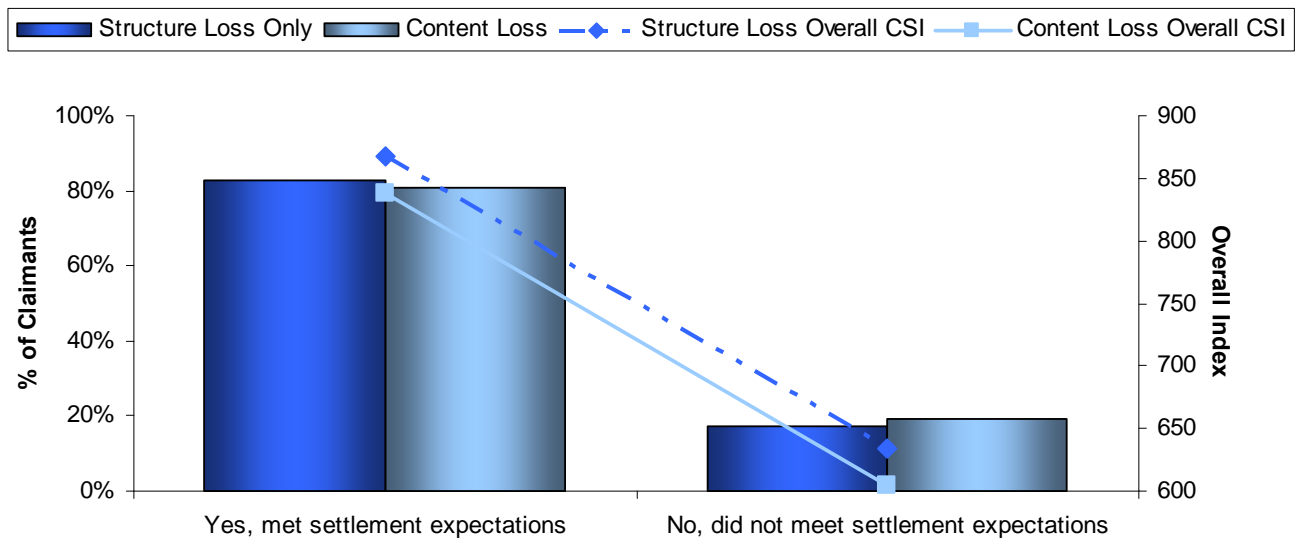


Figure MD4



- Avoid Negotiated Settlement**—Overall, approximately one in four claimants negotiated a settlement amount with their insurer. This type of interaction is never pleasant, regardless of the outcome, and often leads to dissatisfaction with the claims experience. (Figure MD 8) Once settlement negotiations have taken place, claimants are more likely to consider switching insurers. Claimants typically negotiate the amount of damage to be covered (50%); additional living expenses (41%); materials used in the repair (28%); and/or replacement of personal items (16%). Not unexpectedly, negotiations often result in multiple payments. Three in four claimants who negotiated their settlement required multiple payments, another dissatisfier.

Negotiated Settlements Impact Satisfaction

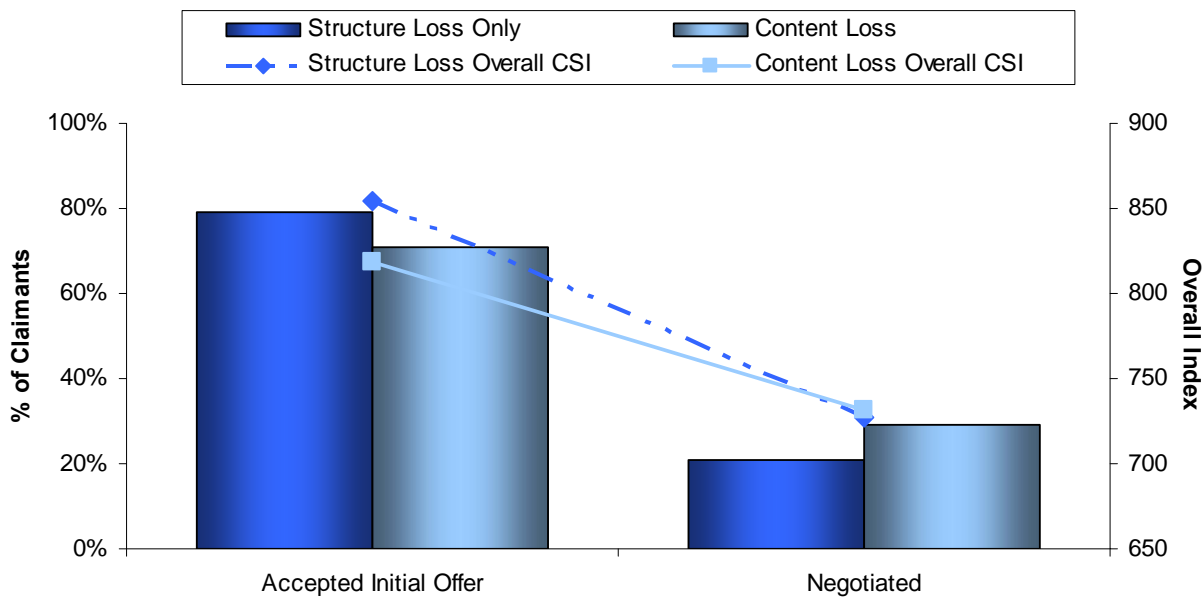


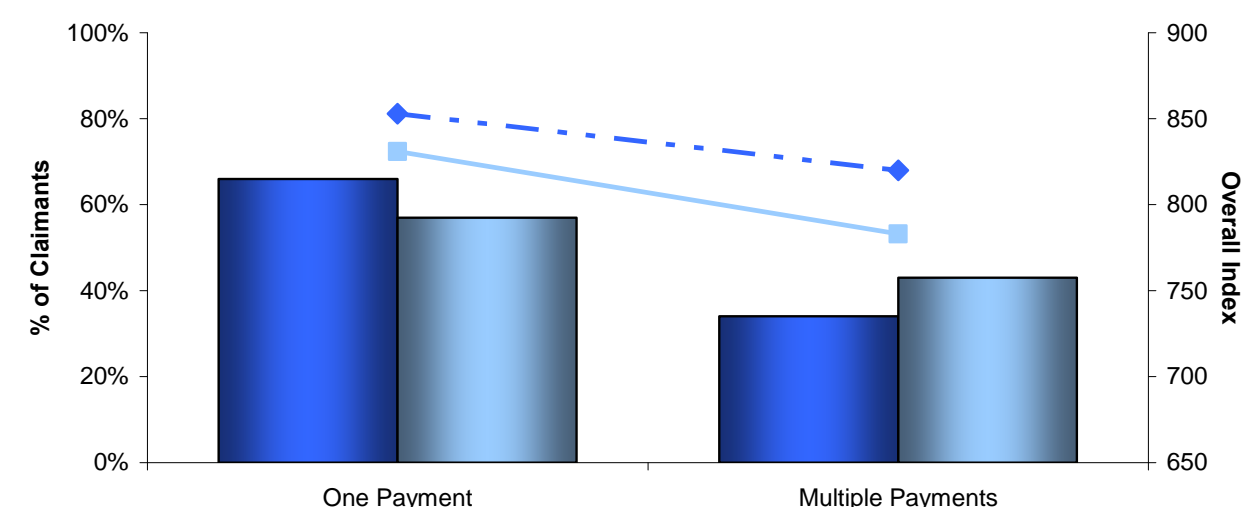
Figure MD5



- Avoid Multiple Payments**—Homeowners insurers also have an opportunity to better manage claimants' expectations regarding how the settlement will ultimately be disbursed. Multiple payments are often required for home claims involving content loss (two in five claimants say that they received their settlement in two or more installments), possibly due to the complexity of coverage regarding settlements for content losses. In some instances, insurers hold back a portion of the settlement (recoverable depreciation) until the claimant has accomplished certain requirements, such as starting the repair work or replacing personal items. However, satisfaction declines significantly when claimants are not paid in a single allotment, again illustrating the importance of realistically setting claimant expectations early in the claims process and communicating them often.

Number of Payments Received

■ Structure Loss Only
 ■ Content Loss
 ◆ Structure Loss Overall CSI
 ◆ Content Loss Overall CSI



% Replacement Cost with Recoverable Depreciation:
 N/A 42% N/A 62%

Figure MD6



Settlement Process Diagnostics

In addition to the Settlement KPIs previously noted, coverage can impact claims satisfaction:

- Type of Content Loss Coverage**—The type of content loss coverage may impact overall satisfaction with the claims experience, even though the coverage may have been selected by the insured. Communication, not only during the claims process, but also at initial purchase or during a policy review session, may help mitigate dissatisfaction with coverage that is less than expected by the claimant. The two types of coverage that result in the highest satisfaction are those that fully pay replacement costs or for which the insurer supplies a replacement item. Ultimately, either option makes a claimant whole in the quickest and most convenient manner possible. Satisfaction dips below 800 for any settlement in which the claimant pays out-of-pocket expenses or that delays the claims process.

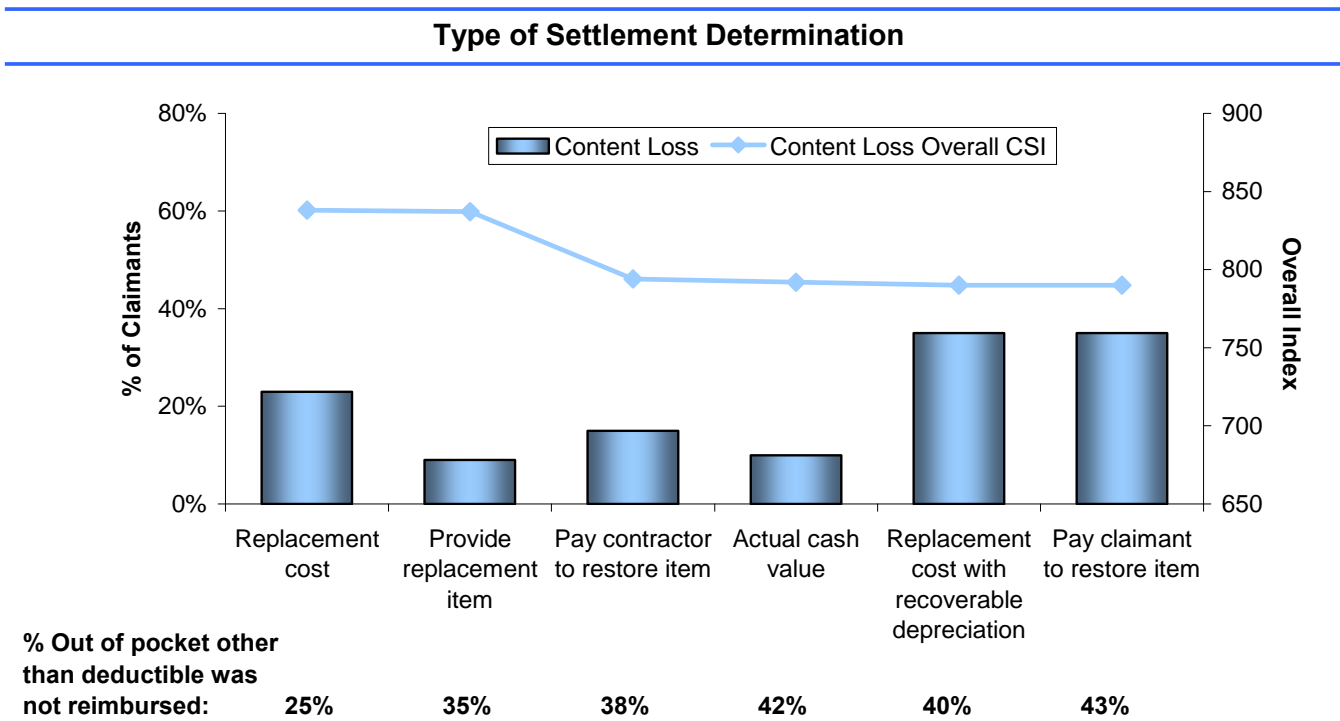


Figure MD7



- Avoid Out of Pocket Expenses**—Satisfaction declines sharply whenever a claimant must pay out-of-pocket expenses during the claims process, an experience that occurs at a much higher rate for claimants with contents impacted. The drop in satisfaction is noticed even if the expense is ultimately reimbursed, which occurs among approximately one in three claimants who suffer a content loss. While there is a decrease in satisfaction when the out-of-pocket expense is the amount of the deductible, the difference is minor compared to other out-of-pocket costs. This indicates that claimants may not be dissatisfied with paying their deductible as they expect to incur this cost. However, the higher the deductible, the lower the satisfaction.

Out-of-Pocket Expenses

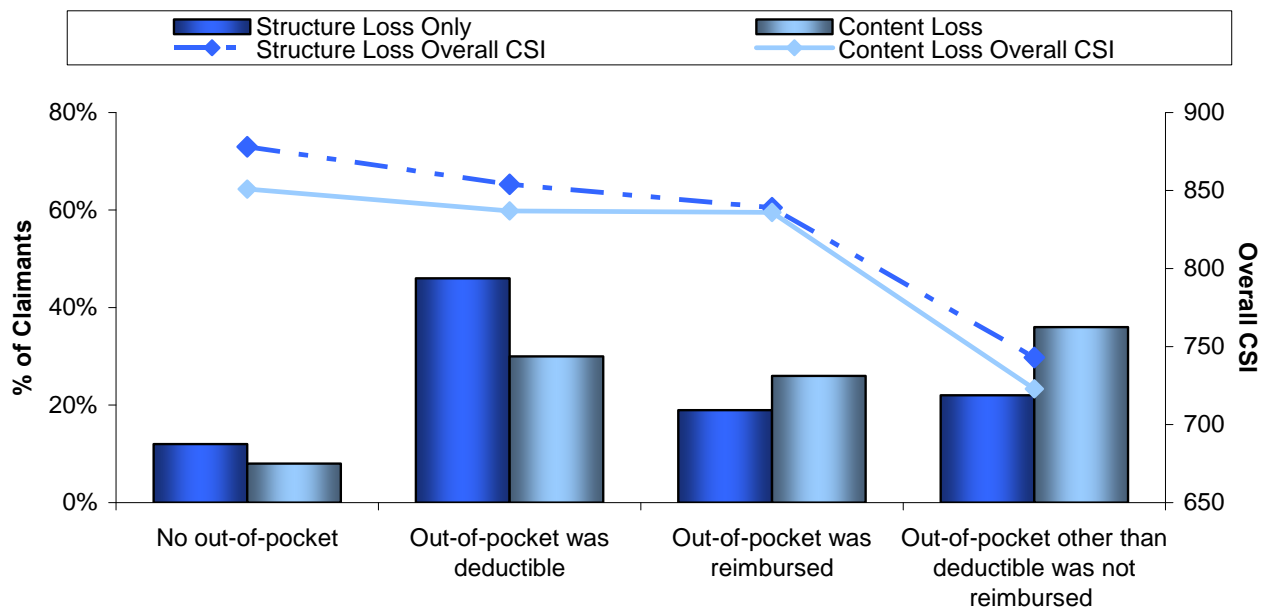


Figure MD8



Communication Key Performance Indicators

Communication is key to satisfaction for any claim, but is even more important for those claims that include content loss. Content losses involve many personal items for which the claimant may have emotional ties and which prove difficult to value in a satisfactory manner, evident in the higher rate of negotiated settlements compared to claims that do not involve contents. Similar to the KPIs for Settlement, there are several KPIs that are directly related to communication during the claims process. Each of these KPIs is reflective of the claimant's experience with the different representatives involved—the FNOL representative, local agent, appraiser, claims professional, and/or any other insurer representative that may have a role in the claims process. Good communication skills are critical for claims professionals who are more likely to be involved in content losses, so they are also more likely to be involved in the settlement negotiations with claimants. Furthermore, claims professionals are typically the second or third individual a claimant interacts with which increase the likelihood the claimant will have to repeat information, a dissatisfier. However, it is important to note that for some insurers, the involvement of a claims professional still results in a satisfied claimant overall.

Number of Representatives Claimant Spoke With

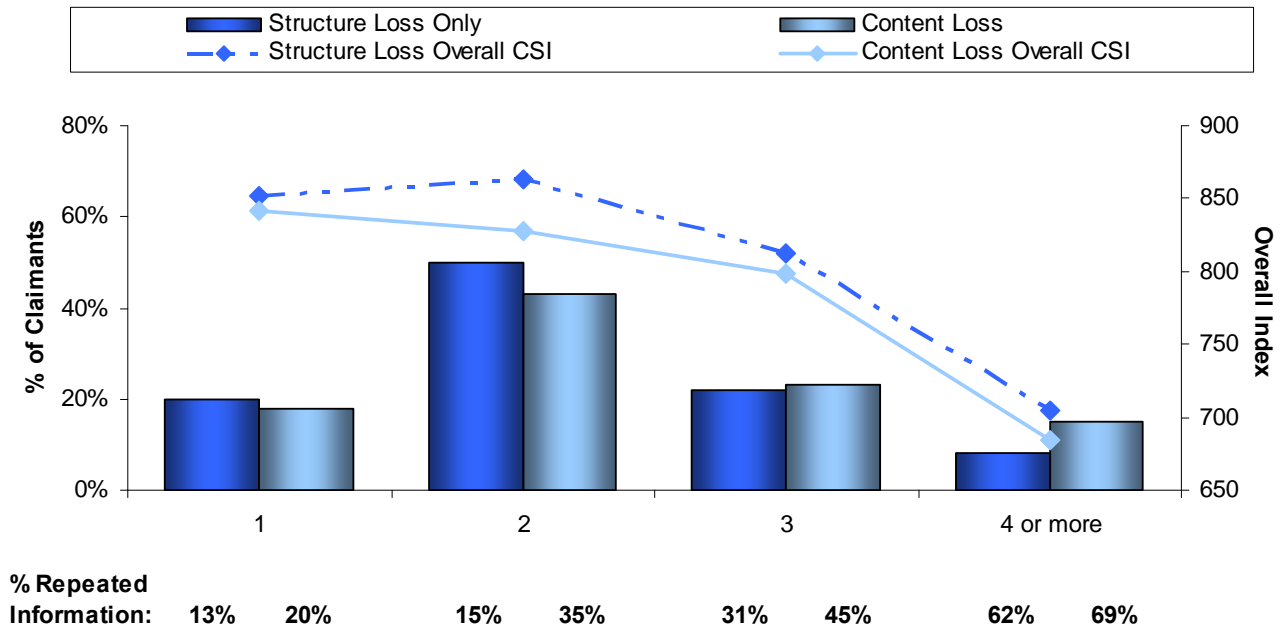


Figure MD9



- **Share Information**—Claimant frustration grows when there is a need to repeat the same information to more than one insurer representative. Two in five (42%) claimants with a content loss report repeating the same information more than once, while just one in five (22%) claimants with a structure-only loss had to do the same.
 - Content loss claims are more likely to require additional representatives to be involved, especially for more complex claims that include both structure and content losses. Satisfaction declines when more than two representatives are required. For the 15% of content loss claims that involve four or more representatives, satisfaction declines below 700 index points.

Satisfaction Impact When Information is Shared

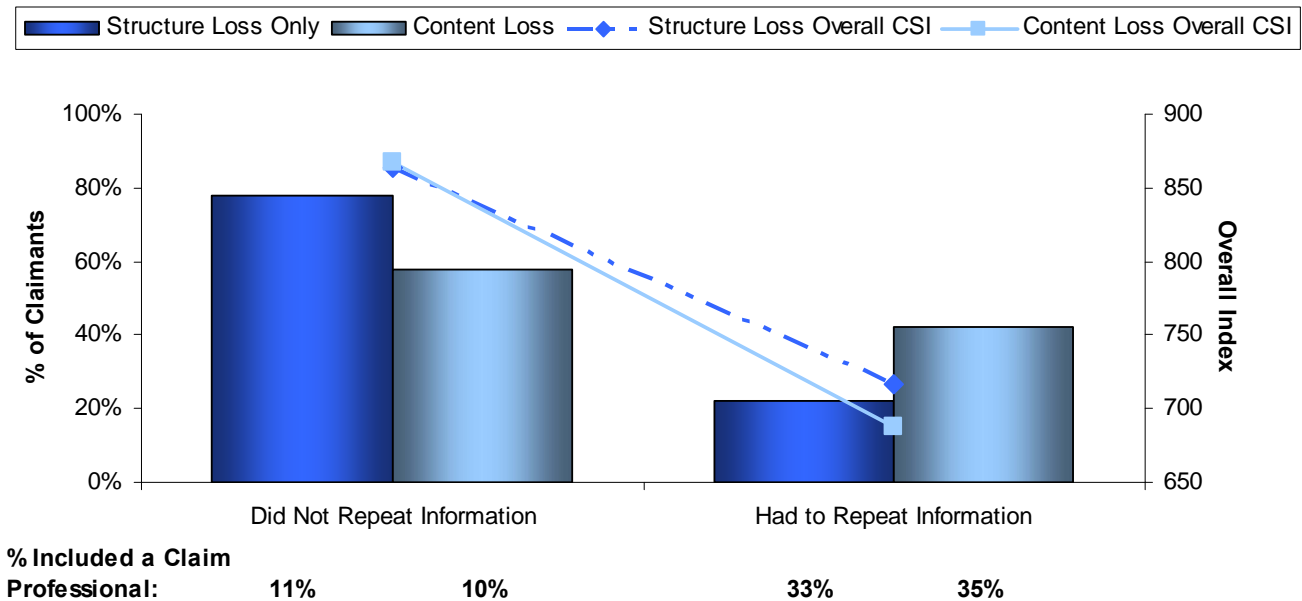


Figure MD10



- Provide Expectation of Process Length**—Providing and, more importantly, meeting an expectation of the claim process length is a satisfier among all claimants. However, the impact is even greater for those with a structure only loss where their home may be unsuitable for living or at the very least cause everyday inconveniences. While managing these expectations is critical for any representative involved in the claim, there is more room for improvement among claim professionals. Although fewer than one in five claimants interact with a claim professional overall, they are typically involved with more severe claims, which can be difficult to set accurate expectations.

Expectation of Claim Process Length

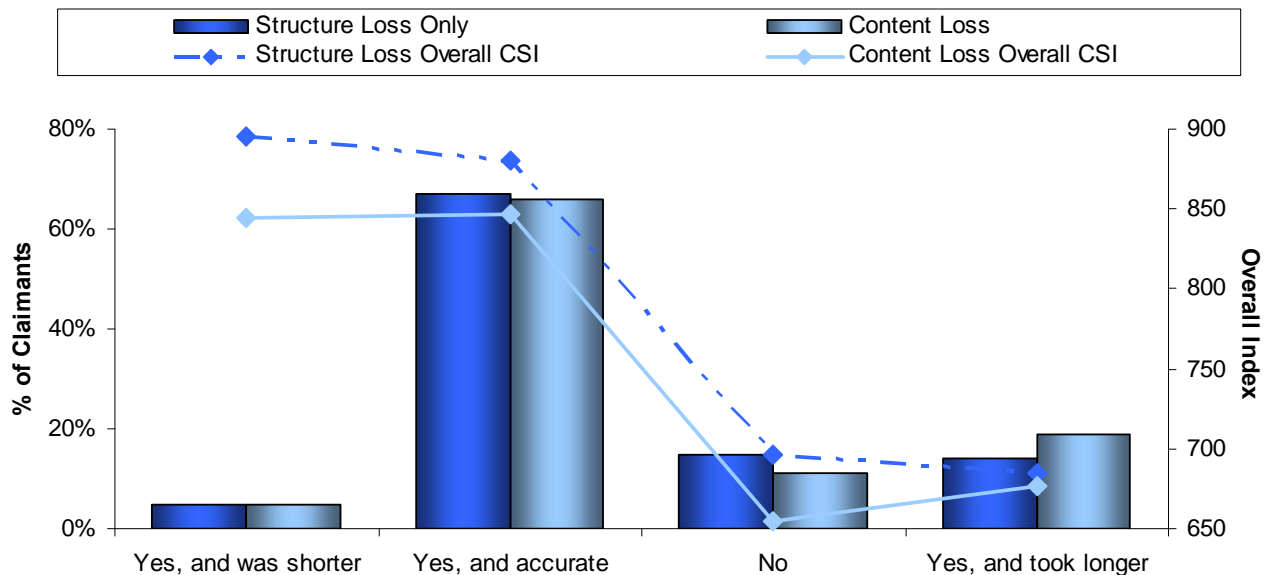


Figure MD11



- Provide Explanation of Policy Coverage during FNOL**—Due to the emotional tie that many claimants have with their personal items, explaining policy coverage during FNOL can put their mind at ease. Satisfaction declines by approximately 150 index points when claimants who need an explanation of policy coverage do not receive one, compared with claimants who either received an explanation or did not require one. One in five (21%) claimants reporting their loss directly to their insurer indicate not receiving an explanation when necessary, compared with just one in 10 (10%) claimants reporting their loss to a local agent.

Received Policy Coverage Explanation during FNOL

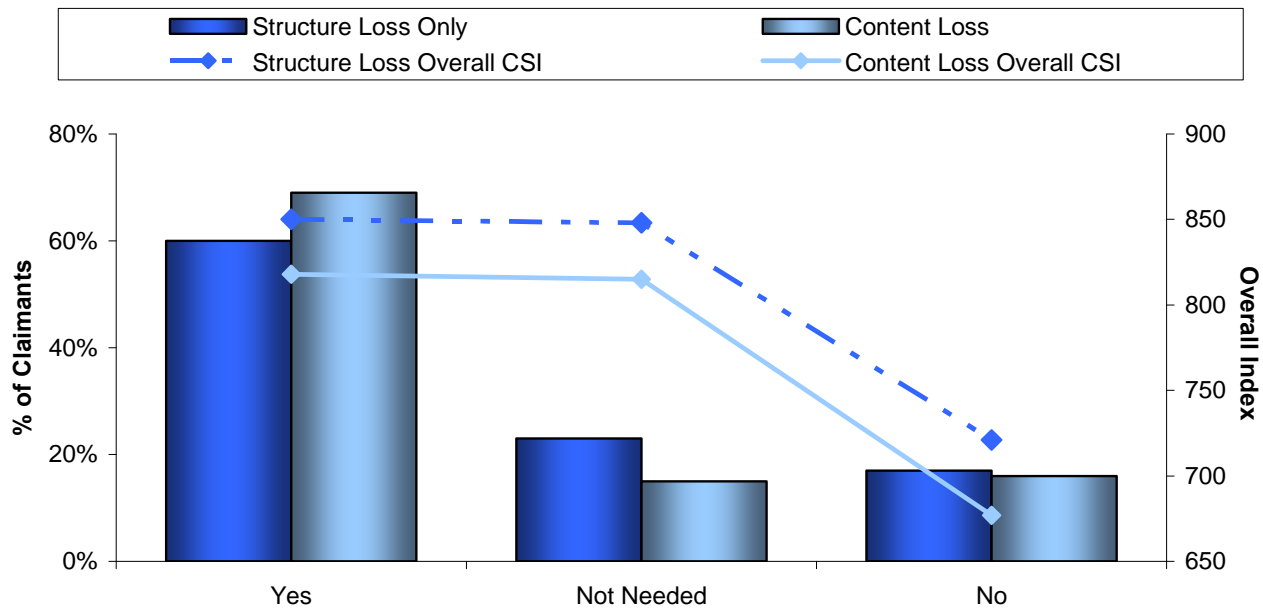


Figure MD12



Impact of Claim Type on Retention

Claims that involve the loss of contents can be a more emotional experience and, as a result, are more susceptible to a negative experience than those dealing strictly with a structure loss. As this paper has highlighted, claimants with a content loss tend to be less satisfied partially due to a higher incidence of communication issues—not receiving a coverage explanation, repeating the same information more than once, or negotiating the settlement amount all occur at higher rates.

Findings of the *2011 Property Claims Satisfaction Study* indicate that while a positive claims experience may foster notable long-term loyalty, a negative claims experience can impact an insurer’s bottom line through either the loss of a policy or negative word-of-mouth comments made to friends and family.

The table below shows the impact satisfaction has on key metrics related to retention and referrals and provides a comparison of structure-only vs. content loss claims. Claimants were grouped into one of three categories (high, medium or low) based on their Overall Index scores. For content loss claims, 16% of insureds are in the low satisfaction tier compared to 11% for structure-only claims. Claimants in the Low Satisfaction tier for content losses are more than twice as likely to have already switched insurers since their claim was settled and 60% have made a negative comment about their insurer’s handling of the claim, underscoring the importance of delivering a satisfying claim experience.

Impact of Claim Satisfaction on Retention and Referrals

Insured Satisfaction Tier	Overall CSI	Retention-Related			Referral-Related	
		% Switched Insurers	% Will Shop in Next 12 Months	% Definitely Will Renew	% Definitely Will Recommend	% Made Negative Comments
-Structure Only-						
High Satisfaction (Index 901-1000)	967	4%	13%	80%	77%	5%
Medium Satisfaction (Index 551-900)	777	7%	22%	51%	37%	18%
Low Satisfaction (Index 550 or less)	444	12%	46%	14%	7%	56%
-Content Loss-						
High Satisfaction (Index 901-1000)	968	5%	18%	79%	78%	11%
Medium Satisfaction (Index 551-900)	766	8%	38%	43%	36%	31%
Low Satisfaction (Index 550 or less)	414	25%	55%	14%	10%	60%

Figure MD13



Conclusion

Property claims involving content loss continue to be far more personal, complex, and customized, when compared to structure-only losses. Yet, this added complexity should not deter homeowners insurers from striving to deliver on best business practices, especially those involving interaction with representatives or the settlement process. In addition, insurers should strive to simplify the claims experience, especially when content loss is included, by limiting the number of representatives with a role in the claim and explaining policy coverage during the initial call. Explaining policy coverage does not mean it is necessary to indicate whether a loss will be covered, but instead provides an opportunity for the insurer to put the claimant's mind at ease by explaining possible outcomes. Communication is key, not only during the first notice of loss, but throughout the entire claims process, as the insured 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, working to deliver on the Key Performance Indicators discussed in this paper may increase claimant satisfaction regardless of the severity or circumstances of the claim and ultimately result in higher retention.

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