



Cookson Walker Consulting

Retention- Nothing but the Facts

Most brokers do not track retention of clients. Cookson Walker estimates that less than 20% of brokers go to the trouble of monitoring the number of clients they retain each year. Of those that do track retention many rely on insurer numbers that only have limited relevance to the broker and some actually use the wrong calculation.

When pressed, many broker principals will tell you that they are close to their clients and they would be aware if there were any problems. So why bother with an overly detailed review of client retention? In fact, the reasons why a broker should track retention are compelling enough that Cookson Walker considers it a 'best practice' or something that separates well-run brokerages from the "also-rans".

Taking a "gut feel" approach to client retention can be misleading. In Alberta, more than one broker has stated that revenues are up significantly and that "we are obviously doing something right". However closer examination shows that many brokers are actually suffering from a declining client base and that only the red-hot Alberta economy, which allows the remaining clients to buy bigger homes and more expensive cars, and a hardening market has meant any increase in revenues at all.

Consider that in a landmark article in the Harvard Business Review eleven years ago, it was demonstrated that a 10% reduction in the attrition rate of an insurance brokerage's clientele would mean an increase of profits in the magnitude of 50%! Consider that the same research showed that increasing retention by ten percentage points more than doubles the value of those customers and of the brokerage itself.

Retention is so important that Cookson Walker considers it one of the four critical measures of a brokerage's success, which includes profitability, growth, and remuneration expense. And while retention clauses in purchase agreements almost disappeared in the acquisition frenzy of the past few years, brokerage principals should expect them to become more common again as the market for brokerages returns to some form of rationality.

Better brokerages go beyond merely tracking overall retention to tracking it by individual employee. While many brokerages track retention of portfolio rollovers, the better ones do it using their brokerage management system- as opposed to relying on insurer numbers. Insurer numbers are based on when the

insurer processes the business meaning timing differences, and insurer numbers do not capture business that the broker transferred to another market.

Understanding Retention

There are two aspects to retention from the perspective of the brokerage. Involuntary retention or the “move/die ratio” appears to be 6-8%. These clients are leaving the brokerage for reasons that the broker cannot control. Therefore the maximum retention that brokers can experience is 92%-94% (we are referring to personal lines here as commercial can be more erratic due to the typically smaller number of clients).

The second aspect of retention is voluntary retention, which means that clients choose to either stay or leave the brokerage for some reason that the broker can influence. The importance of this type of retention varies from time to time and place to place depending on circumstances. For example, a few years ago we noted that the better brokerages in Alberta had experienced a decline in retention from 92% to 87-88%. This appeared to be the result of price driven flux in the marketplace as new entrants, especially call center based operations advertised heavily in order to grab market share. The Ontario experience was similar due to price competition partially driven by changes in the regulatory environment.

From this experience we can begin to put the impact of price into its proper context. We know from various reported studies that only a small portion of consumers “shop” their insurance in any one year. Even in Alberta where insurance advertising reached a level previously unheard of, and price competition became fierce, retention in better brokerages suffered only by 5 percentage points.

Other than price the other two main reasons why consumers voluntarily leave a brokerage are dissatisfaction with quality and dissatisfaction with service. Studies show that only 14% of customers stop patronizing a service business because of dissatisfaction with quality (typically claims service or tardy documents in the insurance industry) but that more than two-thirds of customers leave “because they find service people indifferent or unhelpful”.

It is this kind of finding that suggests that the over-used phrase “the customer is number 1” is misleading. Only by making employees very important in the equation will your customer’s receive the highest level of service. One office that had a 50% turnover of staff experienced a client retention rate of less than 70%, demonstrating the direct correlation between the two.

Tracking Retention

Tracking retention using most broker management systems is not difficult, nor is it especially time consuming. Using Agency Manager for example, brokers use

production reports (not book of business reports) to complete the following equation for any time period desired:

$$1 - \frac{(\text{CAN})}{(\text{REN} + \text{REW}) + (\text{CAN})} = \text{retention rate}$$

Where CAN= cancellation transactions
 REN= renewal transactions
 REW= rewrite transactions

The important things to consider when calculating retention are:

- Retention does not include new business as a factor
- Retention should be calculated on a policy count basis- not by premium dollars or commissions (because of rate increases etc. premium retention may be distorted)
- It is critical that rewrites not be coded as cancelled files.

Some systems allow policies to be “lapsed” instead of cancelled which means that they are not recorded as a transaction. If this is the case then typically the extra step of canceling the policy (i.e. on the computer) will ensure that management information is consistent.

Because production reports in Agency Manager can be run by producer, branch or CSR (depending on how the data is entered) then it is an easy matter to track retention in what-ever manner is important to the brokerage. When tracking retention by employee we would suggest allowing for a sufficient period of time – we would suggest six months- to allow for normal fluctuations.

Brokers have attempted to get to the root of retention issues using other means, such as customer satisfaction surveys. It is important to note that what people say and their behaviour can be quite different, not because they lie but typically because they resist the inconvenience of relating their unsatisfactory experience. The big three automakers continually struggle with this issue. All their customer surveys relate that over 90% of customers say that they are satisfied or very satisfied with their purchase but only 30%-40% of customers will purchase their next car from the same manufacturer. The only meaningful measure of customer satisfaction is the retention ratio.

Improving Your Retention

There is a clear and demonstrable relationship between the breadth of coverage that a broker has sold and client retention. Retention will not only be higher if you have both the home and the auto, but also on the number of coverages that have been cross-sold to the client (such as umbrellas and fine arts floaters in personal lines and boiler & machinery and business interruption in commercial

lines). In an examination of its own portfolio, a major insurer found five percentage points of higher retention when five or more coverages were sold to the insured. Incidentally, the insurer also found that loss ratios on such cross-sold coverages were significant lower than on the policy as a whole.

In practice few brokers have sustained cross-sell efforts. Examples that stand out are Lloyd Sadd Insurance in Edmonton where a program of compensating staff for each “retention” telephone call, or calling to review coverages and maintaining contact with the client, as well as bonus amounts for actual cross-sells, has led to an increase in retention in the tough Alberta market. At Alliance Assurance in New Brunswick, where the motto is “what gets measured gets done” an elaborate monitoring system using the Signasure Management System has been effective in encouraging staff to increase their retention efforts.

The key to improving retention begins with staff. Research indicates that 95% of customers will remain with their current broker if their complaint is resolved immediately. If resolution of the complaint takes even a little time however, the number drops to 70%. Having staff with the skills and authority to resolve customer issues immediately is one key to higher retention.

Observing brokers across Canada, Cookson Walker is of the opinion that those brokers who practice a “consultative approach” to their clients tend to exhibit higher levels of retention. What are the hallmarks of such an approach? A consultative approach is one where the broker becomes a problem solver for the client, not a creator of problems. An approach that entails listening to the client, understanding their needs and then proposing solutions that make sense.

Sounds simple! Most brokers do it right? Well a consultative approach means that clients get at least one telephone call each year to review their coverages and not just a policy, which is increasingly common as brokers move to direct bill. A consultative approach means that a client can talk to a human being within two rings and get an answer- as opposed to being put on voice mail. A consultative approach means that your clients understand what they are covered for when they use their credit card to cover the insurance on the rental car.

A consultative approach means using psychometric profiling to evaluate potential staff for counselor aptitudes. It means ongoing training for staff on dealing with not only difficult customers but also training that allows them to make those retention calls with confidence. It means constant reinforcement so that behaviours of staff are consistent with the goal of higher retention.

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