

## “LEVERAGING DATA ANALYTICS TO ACQUIRE AND RETAIN LIFE INSURANCE CUSTOMERS”

**Ms. Archana V. Rao**

Assistant Professor, Model College of Commerce, Dombivli (E), District Thane

**Abstract :** Knowledge about customers becomes the key of all organizational strategies. Insurers are currently lagging behind the digital curve. As a result many may struggle to deliver on customer expectations. This paper explores the impact of the new age advanced data analytics in optimizing their customer acquisition and retention strategies. Particularly, analytics can help insurers personalize offers, speed up approvals, enhance customer loyalty and retention, maximize customer life time value, detect fraud and manage risk, maximize policy renewals, determine accurate premium rates, improve customer satisfaction and sales force effectiveness, optimize operational costs and maximize profitability. The return on investment of marketing efforts is currently the most significant driver behind investments in predictive analytics.

**Key words :** Predictive Analytics, Customer Life Time Value, Cross-selling, Effort Optimization

### INTRODUCTION

In just two decades, digital technology has transformed the world. India boasts of being the third largest internet base in the world after USA and China and is expected to reach a size of 330 million internet users by 2016. Social networks and mobile phones are a large driver of internet usage. As consumers increasingly shift from computers to smart phones and tablets, they can research, compare prices and buy anytime, anywhere. With evolving technology adoption and customer behavior, insurance companies are intensely focusing on scalable growth, cost-effective operations and superior customer experience. Gartner has stated that Indian insurance companies will spend Rs. 121 billion on IT products and services in 2014, a 12% increase over 2013. A PwC survey lists the technology developments in the industry as: Cloud computing and the growth of smart phones and tablets, Big data and real-time information. It states that Artificial Intelligence techniques will allow insurers to advance from using technology for transaction processing to strategic forward-looking decision-making.

### INDIAN DATA ANALYTICS AND THE CONSUMER EXPLOSION

Forrester Research, “Big Data Adoption Trends in Asia Pacific: 2013 To 2014,” shows that India currently joins with China as the largest big data adoption leader within the East. Emerging Indian companies wanting to upscale their businesses are finding the need to mature their processes to gain a competitive edge. Skillfully mined and analyzed, big data has the potential to reveal an in-depth view of the market that could enable more meaningful segmentation, inform product development, risk management and underwriting – and enrich the customer experience. Analytics help insurers in extracting maximum value from digital investment.

### MEANING OF DATA ANALYTICS

Analytics can be defined as studying past historical data to research potential trends, to analyze the

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effects of certain decisions or events, or to evaluate the performance of a given tool or scenario. The goal of analytics is to improve the business by gaining knowledge which can be used to make improvements. In the life insurance industry, analytics can help a company create a comprehensive roadmap for managing the entire lifecycle of a customer, from acquisition to lapse or maturity.

### **REVIEW OF LITERATURE**

Data analytics being a sunrise concept, primary data based research is wanting in this area. A review of books revealed that big data in marketing is finding a wide range of applications, from correlating ads and sales, to audience measurement, to predicting customer behavior. Leveraging big data in new ways is enhancing the ability to make advertising and marketing more effective, not just cost-wise, but in the ability to shape and target messaging in a highly customizable way (Marketing Analytics: Strategic Models and Metrics by Stephan Sorger). Big Data has changed the game completely - we can connect with customers, record every click on the web, watch every step in the store, and listen to all public conversations. We can now personalize our communications to each customer based on their current predisposition to the products being sold (Engaging customers using big data by Dr. Arvind Sathi). Marketing analytics techniques can be applied for solving key marketing problems ranging from resource allocation, segmentation, pricing, campaign management and digital marketing strategy (Cutting edge marketing analytics: Real world cases and data sets for hands-on learning by R.Venkatesan, and others).

### **NEED OF THE STUDY**

Life insurance has always been a competitive business. Insurers can increase top and bottom-line growth by acquiring and retaining the most profitable customers. However, identifying profitable customers and keeping them requires a structured customer relationship management strategy. An important tool for customer relationship management is analytics. In this paper, we will look at how analytics can help life insurance companies acquire and retain customers.

### **OBJECTIVES OF THE STUDY**

- 1) To study the meaning, scope and benefits of data analytics in the digital age.
- 2) To examine the data analytics models for customer acquisition and customer retention strategies.
- 3) To understand the challenges about big data explosion.
- 4) To study the implementation approaches for big data analytics.

### **RESEARCH METHODOLOGY**

The research paper is an attempt of exploratory research, based on the secondary data sourced from research reports, journals, articles, websites, and media reports.

### **INSURERS NEED TO EMBRACE THE MOBILE AND SOCIAL MEDIA WAVE**

Insurers should be taking social media and mobile more seriously as a means to engage with and influence skeptical, digitally savvy younger consumers. Social media gives rise to ready-made communities with demographic, sociographic and psychographic inputs on a scale and depth that enables companies to segment their markets in more innovative ways (beyond gender, age and marital status) and target customers with more precision than ever before. The right data, mined and analyzed in the right way can reveal new markets, increase cross-selling in existing segments and fuel the development of mobile-friendly products. Some foreign auto insurer campaigns, for example, have harnessed blogs, Twitter, YouTube and Facebook to provide driver education and safety tips.

### **USING ANALYTICS TO ACQUIRE AND RETAIN CUSTOMERS**

Life insurers can leverage analytical tools to unlock both simple and complex data and reap benefits that can:

- ◆ Identify potential markets and distribution opportunities
- ◆ Detect customer retention risk
- ◆ Customer retention analysis — why, where and when you are losing customers
- ◆ Customer leads analysis to support development of a fully integrated distribution model

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- ◆ Financial modeling to inform customer experience and advisor conversations on how to improve financial client well-being
- ◆ Claims management and leakage analysis
- ◆ Promote new products in specified markets
- ◆ Create cross-sell opportunities
- ◆ Generate long-term customer relationships

### ANALYTICS SUPPORT FOR CUSTOMER ACQUISITION

Analytics can reduce the cost of customer acquisition by optimizing the results of marketing campaigns. Predictive modeling for customer acquisition looks at a combination of psychographic, text, web-log, or survey data regarding prospects. When the data is fed to the analytics engine, it can uncover hot spots for prospect scoring. An insurer can create specific market segments and build appropriate strategies and activities for each segment.

### ANALYTICS SUPPORT FOR CUSTOMER RETENTION

#### The Impact of Policy Lapse on Revenue and Profit

Policy lapse is a concern for most insurers. The sooner a policyholder leaves an insurer, the less likely the insurer has recouped the acquisition costs that hurt the company's bottom line. That is why insurers focus on reducing lapse rates, particularly for the most favorable customer profiles.

#### Methods for Reducing Policy Lapses

##### 1 Multi touch Point Program

A multi-touch point program with appropriate message content and frequency brings down the chances of lapse during the first and corresponding policy years. The communication mechanism can consist of an annual review of the policy, thank you card, news letter and seasons greeting card.

##### 2 Cross-selling

Another way to reduce lapse is to sell new products to existing customers. Cross-selling expands the relationship and helps reduce attrition. Analytics play an important role in cross-selling campaigns by: Determining the next-best products for existing customers based on the typical buying patterns of customers with similar demographic characteristics. Uncovering customer segments that are most likely to respond within the existing customer base.

##### 3 Effort Optimization

Within a product portfolio, there are a number of policies that go into lapse status and there are different types of customer profiles. It does not make sense for an insurer to try to activate each lapse case. Some customer profiles are desirable, some standard, and some loss-making. To increase profits, insurers will focus on specific policies to be activated and not take an umbrella approach.

### A COMPREHENSIVE CUSTOMER RETENTION STRATEGY IS DEVELOPED USING TWO METRICS:

**Customer Life Time Value:** Determines the total value the customer will bring to the insurer

**Risk of Lapse:** Signifies the risk the customer carries to drop his or her policy at any point in time. Both these metrics will have different values at various points in time. Thus it can develop a comprehensive customer retention strategy to determine where to apply the focus for lapse reduction.

### CUSTOMER LIFETIME VALUE

A framework can be created to determine customer lifetime value based on demographics and transactional behavior details. The general rule is to put more weight on transactional details than demographic details when the relationship crosses the one year mark.

## MODEL FOR PREDICTING CUSTOMER LIFE TIME VALUE

### I. Pre Acquisition Data – Diminishing Weight with Time

- ◆ Demographics
- ◆ Age
- ◆ Gender
- ◆ Marital Status
- ◆ Income
- ◆ Insurance density of the place of residence

### II. Post Acquisition Data – Increasing Weight with Time

#### Product

- ◆ Policy Type & Features
- ◆ Tenure & Age of Policy
- ◆ Premium, Sum Assured
- ◆ Sales Channel

#### Transactional Details

- ◆ Payment history
- ◆ Failed payments
- ◆ Payment mode
- ◆ Policy status

This analytics model can help insurance firms measure the current value and predict future value of the policyholder and thus classify their existing clients into high value to low value categories.

## RISK OF LAPSE

Similarly, analytics can help build models to predict the risk of lapse. Risk of lapse is dependent on the servicing channels as well as transactional behavior of the policyholder.

Model for Predicting Risk of Lapse

#### Sales Channel

- ◆ Agency Vs. Non Agency
- ◆ Agent Performance
- ◆ Agent Tenure

#### Transactional History

- ◆ Premium Mode
- ◆ Premium frequency
- ◆ Use of grace period
- ◆ Past Cases of Lapse

Once risk of lapse has been determined, customers can be classified into Low, Medium, and High risk categories.

## BIG DATA CHALLENGES

Processing and analyzing such vast and disparate amounts of data in order to gain actionable business insights could pose significant challenges for any insurer. The inherent challenges that lie in big data are its velocity, variety, volume and veracity.

**1)Volume** – With the explosive proliferation of connected devices, data is growing at an exponential rate and adding overwhelming data stores.

**2)Velocity** – Business processes and human interactions with social media, mobile devices, etc illustrate that data is always in motion

**3)Variety** – Data, both structured and unstructured, comes extensively in the form of emails, photos, PDFs, audio, etc

**4)Veracity** – Veracity determines how biases, noise and abnormality in the stored data are managed and used.

## IMPLEMENTATION APPROACHES

The two prevalent big data implementation approaches are :

**Top-down approach** – As the name suggests, it is driven by the firm’s top management. It aids in business strategy and management planning. The essence is to look for hidden gems within the data to boost market share.

**Bottom-up approach** – This approach collects all available data, internal and external, and applies software tools to process, analyze and make sense of it.

## CONCLUSION

Looking ahead, digital technologies will continue to transform the insurance industry. The opportunities are tremendous for insurers who embrace digital technologies to improve the way they prospect and build relationships with intermediaries and customers, and who leverage big data to identify the ways their customers can fully benefit from their products and services. The return on investment of marketing efforts is currently the most significant driver behind investments in predictive analytics. Life insurance companies are at a nascent stage of using predictive analytics. The most commonly-cited barriers for employing exploratory or predictive analytics are start-up costs, processing expense, interoperability, cultural constraints and lack of expertise. For this reason, many insurers have outsourced analytics programs to IT vendors to develop, maintain, and enhance the models. Insurers must recognize the emerging digital landscape as an opportunity to retain and grow customer value.

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