

Retention Modeling and Understanding the Lifetime Value of Your Insurance Customers

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THE
POWER
TO KNOW.



Lifetime Value Pricing (LVP)

- ***What is LVP?***
- ***How does it differ from traditional pricing (indemnity)?***
- ***Is LVP really necessary?***

Benefits of Retention Modeling and Lifetime Value Pricing

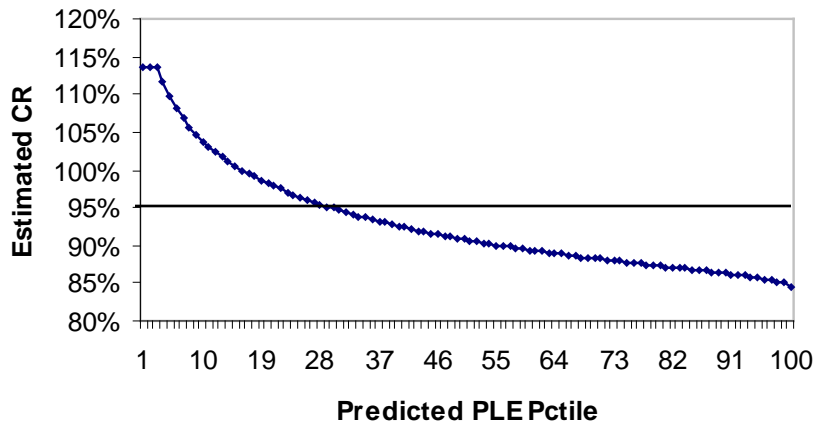
- ***Allows you to attract more long-tenure policies:***
 - Generate more revenue
 - Cheap to maintain
 - Less costly – fewer claims, less fraud
 - More affluent - buy more products and greater cross-sell opportunity
- ***Helps plug pricing holes – expense and indemnity sides***
- ***Helps target under-performing Agents***
- ***Useful for proactive retention improvement initiatives:***
 - Call to action for “soon-to-cancel” policies
- ***Valuable for proactive marketing campaigns targeting retention or key new business segments***

Lifetime Value Pricing Principles

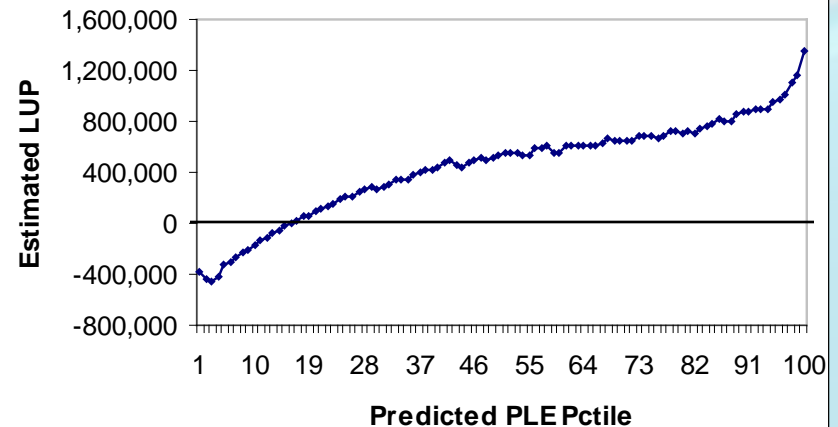
- ***Insurance pricing must be fair and equitable***
- ***Not all customer segments are equally profitable***
- ***Should one “profitable” segment subsidize another possibly unprofitable one?***
- ***Do traditional “Combined Ratio” targets really work?***
- ***Is there an opportunity/desire to improve the mix of business?***

Policy Life Expectancy (PLE) - Segmentation Opportunities

CR vs PLE



LUP vs PLE



Not all segments are equally profitable

- ***Lose money on short PLE segments (negative Lifetime Underwriting Profit)***
- ***Long PLE policies very profitable***
- ***Combined Ratio varies by tenure segment***

Road to Lifetime Value Pricing...

- **Having a strategy on what you want to achieve**
 - Balanced pricing and expense structure?
 - Mix shift to a more preferred book?
 - Improve current book retention?
 - More effective/targeted marketing campaigns
 - Etc.
- **Understanding your key customer retention segments**
 - Data exploration
 - Structured retention models
- **Determining customer lifetime value projections**
- **Customized pricing plans based on these LVP estimates**

Retention Modeling and LVP Tool Chest

- **JMP Software**

- Excellent data exploration capabilities
- Preliminary (and sometimes final) modeling

- **SAS Base and STAT**

- Thorough statistical modeling capabilities including survival analysis and related techniques
- Flexible programming to create custom implementation plans, per your strategies and goals

JMP Software Demo

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Impact of Lifetime Value Pricing – Customer Success

- **Recent results from implementation of a Lifetime Value Pricing solution with one of our customers yielded the following results:**
 - *More than doubled the acquisition of best retaining / preferred customers*
 - *Reduced acquisition of worst retaining/non-profitable customers by 60%*
 - *Increased premium by 12% for the lowest retaining segments, making such customers profitable*
 - *First term Retention expected to rise by 3% to 8%*
 - *Ongoing policies in-force expected to rise steadily over the next 5-10 years*
- **Overall, this medium sized insurer expects to add at least \$8M to top line NWP and \$400K to bottom line per year (at 5% underwriting profit) with no additional ongoing cost after implementation**

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