

Commitment and discounts in a loyalty model

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Abstract

The loyalty of an insurance customer is usually defined from how long a customer decides to stay and renew the insurance company's services or products. There are several ways to develop such a model. By building a model for loyalty, we can explore the properties of the customers and how they act and react to different situations depending on their age, type of object insured, how long they have been insured and so on. Most companies use retention programs to make the customer invest in more products, but also to stay longer than they usually should have by making the customer commit to more products and services. To make this an attracting offer for the customer, it is sometimes combined with a discount. But what matters most for loyalty; the discount or the commitment (representing convenience, lock in effects, satisfaction, etc)? To do this we studied car insurance at Länsförsäkringar, a federation of 23 different regional companies sharing a common brand and regulating their own retention programs and discount levels. The aim of the paper is to build a full model describing the loyalty of non-life insurance customers, using all eligible and relevant factors, and then to separate the loyalty added from commitment into what is price related and what is not. Conditioning a discount on a commitment can be an effective way to increase the loyalty of a customer. If the expected time in years a customer without commitment will stay in Länsförsäkringar is two years, then the partially committed with a discount of 5% is expected to stay three years and the fully committed with 19% six years. A customer without commitment needs a discount of 23% to be as loyal as a fully committed customer with 15%.

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