Increasing Retention in Insurtechs Through Churn Prediction

Over the last decades, the insurance industry has seen decreased entry barriers due to deregulation and emerging new technologies, which is expected to disturb the stagnated and consolidated competitive landscape of the industry. Insurtechs - insurance companies leveraging new technologies - push the digitalization, transparency, and automation in the insurance industry, which is ripe for disruption.

Insurance as a product has existed for a long time, with traces dating back to risk-sharing contracts in Babylon 300 BC. Traditionally, the Swedish insurance industry has been strictly regulated, which has led to a high level of consolidation. However, the industry has recently seen an increased degree of innovation, partly driven by new entrants, and it has been argued that insurance is experiencing a similar ‘wave of disruption’ as that of the post-2008 financial industry. Initiated by newcomers like American insurance startup Lemonade, and in Sweden by Hedvig, there is an increased push toward digitalizing insurance and to improve efficiency and automation and increase customer satisfaction in the industry.

The environment for new innovative companies to succeed in the insurance industry is optimistic: advancements in digitalization, information technology, and machine learning could be highly valuable for Insurtechs - insurance companies taking advantage of the tools provided by the digital transformation, including predictive modeling.

As insurance is based on a subscription business model and is in essence reliant on recurring revenue from premiums, it is important for insurance companies that a large share of their customers keep their contract for a long period. Adding new customers to the platform comes with an acquisition cost in the form of marketing and the operational costs of onboarding new users. This makes it important to actively work to retain existing customers. Studies have shown that the cost of acquiring a new customer is about ten times higher than to retain an existing customer, and an increase in retention from 85% to 90% can give rise to an increase in net present value profits from 35% to 95%.

The method of increasing retention in focus in our study is to target customers who are at-risk, or likely to cancel their contracts, with directed actions. Focusing on the customers who are actually at risk, rather than targeting all customers, has many advantages including not wasting the marketing budget and ensures that one ‘lets sleeping dogs lie’, not interfering with customers that have ‘forgotten’ about their subscription. In order to target these customers effectively, one first needs to identify which customers are at the doorstep of leaving. There are varying ways of identifying these customers with different levels of sophistication: from simple rules based on experience to more recent predictive methods based on advancements in machine learning.

Our study shows that the importance of retention management is increasing, as it is becoming more expensive to acquire new customers and they have more complex needs. In 2021, the spend on existing customers is expected to increase by 30%, partially due to data availability and new technology. These investments are often spent on new digital technology such as marketing automation, in order to better handle the customer relationships. Proactive retention work, combined with reactive save desk operations, can have a large effect on retention, and can decrease the churn rate by between 25-50% in Insurtechs.

In order to make accurate predictions, it is critical to collect and develop trigger’ features in the data set that strongly signals that a user is on the verge of terminating their insurance, as even the most advanced machine learning models do not add any value if the right data is not being collected.

Oskar Christiansen and John Rapp Farnes
Lund, June 2021