

Customer retention and price elasticity. Are motor insurance policies homogeneous with respect to loyalty?

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Abstract

Understanding customer behaviour is extremely valuable for insurers. In this presentation we revise some classical contributions concerning customer loyalty and lifetime value, and we also present some empirical results obtained in our research on customer retention in insurance with Spanish and Canadian data. Methods to increase customer loyalty are discussed, including the logistic regression model to predict the probability of policy lapse and survival analysis techniques to predict customer duration. We also introduce some new results on the application of uplift random forests, which is a method to measure the impact of a marketing action on the retention probability of a particular customer. Finally, we discuss a case study on price elasticity measurement in motor insurance by using a causal inference approach. Our conclusion is that more interaction between retention strategies and pricing should be encouraged and that integrated predictive modelling is a promising area. Our proposed techniques provide insurers with a good orientation regarding business risk management.