The Retention Myth
By Chris Burand

In *The Odyssey*, Homer tells the famous story of the three Sirens leading sailors astray. Insurance agencies have their own insidious Sirens leading them astray and one of the most treacherous is retention rates.

Retention rates are as enticing and dangerous as most femmes fatale. I have polled hundreds of insurance agents about their competitive advantage. 90%-95% respond their competitive advantage is “great service.” When asked how they know great service is their competitive advantage (not withstanding the fact that if everyone has the same competitive advantage, the said advantage can no longer be an advantage), a popular response is, “Well, if we didn’t have great service, our retention rate would not be so high.”

The belief that high retention is indicative of great service is a dangerous siren. We want to believe high retention means customers like us. We want to believe that customers must like us or they would leave. But, like Odysseus’ Sirens, retention rates lead agents down a course of deception. Customers typically stay with an agency for many reasons other than good service. In fact, very little correlation exists between high/low retention and good/bad customer service.

I recently heard an experienced buyer of insurance agencies speak about why his company chose certain agencies over others to purchase. He reported he initially used retention rates to judge good agencies from poor ones. With time and many acquisitions, he learned that good agencies and poor agencies alike had similar retention rates. Regardless of agency quality, retention rates typically fell within the very narrow range of 87% to 92%.

My own experience is similar. I have visited very poor agencies, average agencies, and great agencies and their reported retention rates never differed significantly from the 87% to 92% range. Retention rates are simply poor indicators of good service or satisfied customers. (One caveat: most agencies do not accurately track retention. If they did, we might find a real correlation between great service and retention. On a reported basis though, not much correlation exists.)

If good service doesn’t keep retention rates high, what does? One reason is few agents are asking customers for their business, so customers tend to stick with their current agent even if their current agent provides poor service. Recently, I asked an audience to call a new client, someone they personally wrote in the past 3 months, during our break. Not one person called a single client during the break. No one had written anyone new in the last three months! Other than call-ins, walk-ins, and lucky breaks, not much new business gets written in many agencies. If no one is pulling customers away, customers do not leave (unless the current agency really screws up). The result? High retention rates.

Suppose an agency is actively soliciting business from other agencies. What is required to steal a customer away from other agencies? Most producers say they need a 10% price advantage to get a new customer (all else being equal). Since a consistent 10% price advantage rarely exists, it is the exception that we can convince a customer to leave. Therefore, again, retention is not indicative of great service. It is more indicative that your price is less than 10% higher than the competition's price.

What about all those price shoppers? Progressive did a study in 2000. The results? 46% of those surveyed reported they never shop for auto insurance to save money while 40% said they would spend up to two hours to save 50% on their underwear! Progressive did a simultaneous study of the average difference between the highest and lowest premium available to consumers for the identical policy offered by different insurance companies. The result? The cost for identical auto insurance varied from the high company to low company by an average of $515 every six months. You can buy a lot of underwear for $515.

Thinking we have great service and therefore a competitive advantage when we don't, leads to disaster because we forego creating real competitive advantages. We think our customers like us, we take it for granted they like us, and then we are surprised when they leave. We never specifically asked how we were doing. We don't know if they stayed because they did not have a better offer or because we truly were the better agent. Retention is a siren leading us down the wrong course.

The solution is to use more specific measurements. One example is referral percentages. A superior agent should achieve a 25% referral ratio. For example, if a producer has 100 accounts, they should get 25 referrals and write at least 50% of them. Another great example is a 90+% customer satisfaction score on customer surveys. Customer loyalty is another measurement. How loyal are your customers? Download the Loyalty Acid Test at www.loyaltyrules.com to find out.

Like Odysseus' sailors chasing the Sirens, using retention as a management tool to indicate customer satisfaction will lead agents to a cruel end. True indicators take more work to identify but are worth the effort. Track your referral rate, track your customer satisfaction scores, know your customer loyalty, and sail home to victory.

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