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Generation X and Y Consumers are Changing the Way Insurance Providers Service Auto Policy Customers

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Move Over Boomers

With today's smart, well-informed and savvy shoppers, the auto insurance industry now faces the challenge of marketing to the younger-than-40 crowd. Having gained an understanding of the needs of the large Baby Boom generation, insurance providers are repositioning their strategies to reach the less experienced and less loyal Gen X (born between 1965 and 1975) and Gen Y (born between 1976 and 1982) auto insurance customers.

Representing nearly 30% of the population, these "modern spenders" have significant buying capacity. While some of the major players in the market are embracing these younger and often riskier shoppers, others appear to be slow to react. Providers who haven't already implemented specific tactics to respond to the needs of Gen X and Gen Y shoppers may need to adjust their near-term goals in order to achieve long-term success.

By taking a closer look at the *J.D. Power and Associates 2004 National Auto Insurance Study,*[SM] this analysis provides a snapshot of younger consumers and how they perceive the customer-insurance carrier relationship. This paper identifies some critical aspects of the customer interaction experience and includes suggestions on how providers can better address the needs of these important consumer segments.

What Makes These Consumers Special?

First, Gen X and Y are better educated: Younger consumers represent the highest share of college-educated respondents in the study. While Gen Y consumers are early in the career cycle and report lower incomes, Gen X income levels rival those of their Baby Boomer parents. For both Gen X and Gen Y, as their earning potential and incomes grow, so will their spending potential.

The second-most-important distinction is that consumers younger than 40 years old are more informed. With their early exposure to personal computers, these buyers are technically savvy and represent the largest share of respondents with online access. Accustomed to timely news stories, available 24/7, these highly informed consumers have increased access to competitive information and are keenly aware of their purchasing options.

Why Focus on Them?

Gen X and Gen Y consumers are a moving target, literally and figuratively. Gen X consumers are now heading households and entering their prime spending years. Two of five have recently moved and one-third have accepted a new job. Looking at younger-than-30 Gen Y consumers, more than two-thirds have recently acquired a vehicle or relocated/changed addresses. Also, more than one-half have recently accepted a new job.

According to the study, Gen X and Y consumers are also more likely than any other age group to have recently changed their marital status or purchased a new home. With an increased propensity for life changes, these consumers are more likely to consider their options before making a decision for the services they acquire.

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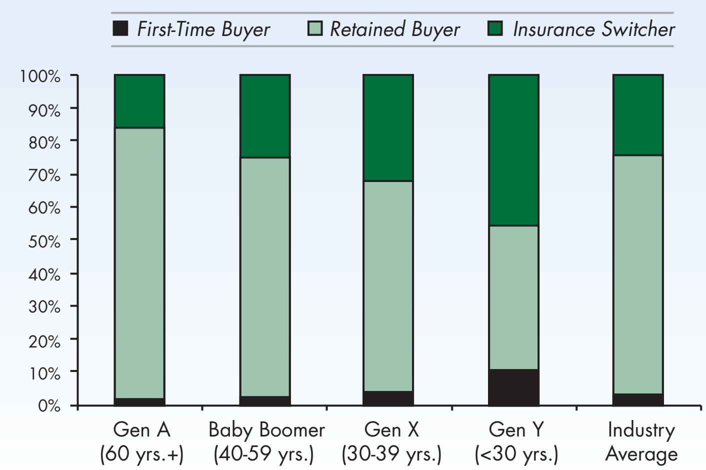
By definition, younger insured drivers are usually new drivers and more recent entrants into the insurance market. Gen Y policyholders comprise the largest share of first-time insurance buyers in the study. As a result, they also have the shortest tenure with their insurance provider (three years vs. nine years, on average).

Figure 1: Buyer Groups by Generation Cohorts



Compared to the entire insured market, Gen X and Y consumers are more likely to have recently switched providers. Switching behavior is even more pronounced among Gen Y buyers, as nearly one-quarter have changed insurance providers multiple times during the past three years. If these fickle consumers carry this behavior into their thirties, it could have a catastrophic effect on industry profitability.

Modern Spenders, Savvy Shoppers

Having a less-developed relationship with their existing insurance provider, younger insured consumers indicate a greater propensity to shop for auto insurance in the near future than do their older counterparts. Nearly one-third of younger consumers have shopped for auto insurance in the past year.

While the Internet is increasingly used during the shopping process by all age groups, it continues to be most commonly used by younger consumers when shopping for auto insurance. Nearly 40% of recent shoppers under the age of 40 used the Internet while shopping, and more than 60% intend to use the Internet when they shop for auto insurance.

The rapid penetration of viral messaging (marketing by creating a "buzz" about a particular product/service) channels, such as text messaging phones and instant message applications for personal computers, only reinforce this disparity.

Compared to older consumers, Gen X and Y consumers are more likely to respond to advertising messages from competitive companies. Relying heavily on testimonials, these younger consumers are also the most likely to seek information from friends, relatives and co-workers, and they rely more heavily on other direct methods of gathering information, such as provider Web sites and directly calling the provider.

More transient in nature, younger consumers are less complacent and more accepting of change. They have significant discretionary buying power, and are accustomed to seeking external information to make educated purchasing decisions. Younger consumers are more often "at risk" of being lost to a competitor since they are less likely to develop a long-standing relationship with their provider.

The Road to Maturity

Due to their less-developed relationship with their provider, the youngest consumers are less likely to purchase other products from the same provider. As relationships with a provider become more complex and deepen with the expansion of consumers' insurance needs, Gen X consumers are just as likely to bundle insurance products with their primary provider as are more mature insurance consumers.

Gen X policyholders are the most likely to purchase services such as rental car coverage, auto club memberships and life insurance since they are entering a life phase in which family and home ownership are priorities. There are pricing challenges facing carriers that target Gen Y policyholders, as this younger group of drivers report that they have received a ticket for a moving violation more often than all other age groups.

Insurance Carriers Meet the Younger Generation

There are a few key major insurance providers that underwrite a large share of policies to these younger consumers. With the youngest median-aged customer base, Progressive aggressively markets to the young policyholders.

Figure 1: Buyer Groups by Generation Cohorts

Provider	% of Customers Younger than 40
Progressive	39%
American Family	32%
GEICO	30%
USAA	28%
Erie	25%
21st Century	25%
Other	24%
Allstate	24%
Industry Average	**24%**
State Farm	23%
Amica Mutual	23%
Nationwide	22%
Liberty Mutual	21%
MetLife	20%
ACG	20%
Farmers	18%
Allied	18%
ACSC	18%
Safeco	17%
AIG	17%
Travelers	16%
CSAA	16%
Prudential	14%
Encompass	13%
The Hartford	4%

Everyone's a Critic!

Consistent with satisfaction measurement in other industries, younger customers tend to be more critical of product and service providers. Generation X and Y consumers tend to be more critical of the overall insurance experience than are the more mature, post-WWII Baby Boomers. Because Gen X and Y consumers differ from Boomers, who have dominated the buying audience in the past, understanding these younger groups is critical to fully leveraging their vast purchasing power.

When asked what prompted them to shop for auto insurance, Gen X and Y policyholders tend to cite events such as a change in family status, a move or recent car purchase. The transient nature of younger consumers' lives can often trigger consideration of another insurance provider and lead to switching behavior.

However, Gen Y consumers cite poor service more frequently as a reason for leaving their past provider, which suggests higher service expectations than other consumer groups.

Frequent Customer-Initiated Interaction

Younger insurance customers are more likely to have contacted their provider in the past year. They are also more likely to initiate contact because of some type of problem or change to their policy.

Younger consumers are more comfortable initiating contact via automated phone systems and company Web sites due to their early exposure to advanced technology. These consumers also give the automated channels more positive ratings.

Younger consumers, however, say that providers less frequently offer them a timeframe in which their problems will be resolved or benefits, such as company-covered towing or use of a rental car. These buyers also report that providers are less likely to review their insurance needs periodically. These events represent one of the few key opportunities to establish deeper relationships and create positive experiences with these consumers who are still forming an impression of their provider and the industry as a whole.

Payment Preferences

Gen X and Y consumers are more likely to pay their insurance bills monthly and quarterly, and unlikely to pay the entire policy at renewal, compared to all other age groups. Gen X and Y consumers typically take full advantage of their provider's direct-payment programs.

USAA, 21st Century and GEICO are among the providers earning the highest cost-satisfaction ratings from younger consumers. Progressive's customers report the highest median premiums ($705 per six-month policy), and are also among the least pleased with the cost of their insurance.

Conclusion

As with all insurance customers, pleasant interactions with providers most positively impact Gen X and Y customer satisfaction. While perceptions of the overall auto insurance experience are influenced by the contacts they frequently initiate, reaching the Gen X and Y consumers is likely to occur on their terms.

As younger generations increasingly represent a larger proportion of the auto insurance market, providers will need to seek a competitive advantage among Gen X and Y consumers. By understanding their needs and perceptions, providers will be better able to meet the unique expectations of this demanding breed of consumers.