

# The Art of Conversation

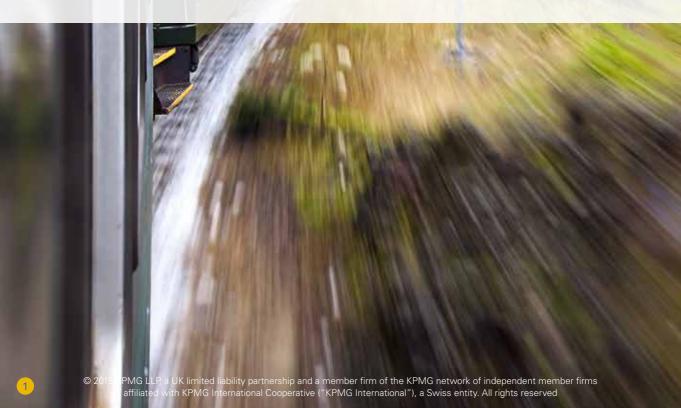
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## Why insurers need to rethink their relationship with customers

## before they lose them



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Technology is fundamentally changing the insurance market. One of its by-products – greatly increased customer data – provides a way of improving and developing relationships with those customers, but only if it's used properly.

As you'll know from the last time you renewed your car, house or life insurance, technology has radically changed the way that we as consumers buy our insurance. But beyond these small consumer transactions, in the macro space, this technology is triggering fundamental changes in the insurance market.

These changes are challenging traditional business models and creating greater competition among providers, but they are presenting insurers with exciting new opportunities. Many insurers are now moving from the space of protecting customers when accidents happen to seeking to prevent the accidents in the first place.

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The migration to price comparison sites has fuelled competition in the market, empowering customers to find the cheapest products in minutes. The average motor premium for private vehicles has been on a downward trajectory for many years according to the Association of British Insurers, and fell by 13 percent between Q1 2012 and Q2 2014.<sup>1</sup> This has led to commoditisation of services with a trend towards more generic policies that don't necessarily meet the specific needs of a particular customer.

While the guarantee that you can save money on your car insurance policy may well be the hook that draws consumers to price comparison sites, we predict that only 50 percent of customers will go on to purchase the cheapest product available which leads us to the question what drives the remaining 50 percent of customers to switch providers? In a market where customers are increasingly less loyal and less engaged, insurers need to focus on delivering additional value and creating an ongoing dialogue with their customers in order to differentiate themselves and avoid waging a battle with their competitors based purely on price.

The very same technology that has brought about this trend also means that more data and information about customers is available than ever before. This data, if harnessed correctly, can bring the voice of the consumer to the insurance market and inform the evolution from archaic policies to a tailored proposition, genuinely representative of customer needs.

> According to the Association of British Insurers the average motor premium for private vehicles fell by 13 percent between Q1 2012 and Q2 2014<sup>1</sup>

13%

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## TELEMATICS IS DRIVING CHANGE

Telematics is one such example of an innovative technology driving changes in the market. The obvious benefits of understanding a motorist's driving habits will undoubtedly help insurers to better understand the risk a customer presents and will allow them to adjust their pricing accordingly while providing an opportunity to engage with a customer on a new level.

The Aviva Drive app, for instance, uses smartphone technology to record a motorist's driving style, including their acceleration, braking and cornering. At 200 miles, the app will give the motorist an individual driving score, which will be used to calculate a personalised discount. This could be up to 20 percent off their premium and can provide a valuable opportunity to educate drivers as to how to drive safely and reduce their personal risk of accident.

We can already see the effect of telematics upon the market according to Direct Line Group, there was a 50 percent increase in under-21s taking out telematics policies in the first half of 2014. The use of telematics is said to make drivers more aware of their behaviour and therefore serves to improve their driving as they consciously seek to improve.

The use of scores to describe a driver's behaviour, provides an opportunity to use gamification to create ongoing dialogue in its own right. Encouraging consumers to compete to have the best driving score will further improve driver behaviour and encourage engagement in what has traditionally been a low-touch product.

Gamification is yet to be truly exploited in the wider insurance market outside of telematics, however the technology offers many opportunities. If we look to the automotive sector, some motor manufacturers are already introducing gamification into their product development.

Electric vehicles are being built with app stores and connectivity, allowing consumers to participate in 'driving games' where they are rewarded for certain behaviours, like driving a certain amount of miles without using petrol. They are rewarded with badges and icons which are then posted to social media on their behalf and it is not a stretch of the imagination to believe this could evolve to become discounts on their insurance products.

**50%** 

increase in under-21s taking out telematics policies

## WHEN ACCIDENTS HAPPEN

While telematics endeavour to educate customers and promote and encourage safe driving, the technology can also offer much needed assistance in the instance that an accident does occur. Primarily, telematics can allow an insurance company to understand when a collision has occurred and can provide insight as to how serious the accident has been by using G-force, accelerometer data and GPS co-ordinates among other metrics to estimate the scale of the impact. It can also trigger a call to the emergency services to secure help for customers at the critical moment.

The obvious benefits of such data have inspired the European eCall initiative, intended to bring rapid assistance to motorists involved in a collision anywhere in the European Union. According to some estimates, eCall could speed up emergency response times by 40 percent in urban areas and by 50 percent in rural areas, therefore gaining government sponsorship.<sup>2</sup>

In the case of less serious incidents, the claims process is currently one of the only times an insurer will have a dialogue with a customer outside of the renewal cycle. Leveraging data and technology can also speed up and improve the claims process, traditionally a long and costly business for insurers.

Allianz have embraced this opportunity through their MyClaim App. MyClaim allows policyholders to make a claim directly through the app and keep essential contact numbers in one place along with copies of receipts and warranty information for their valuables. They can also mark the exact location of a car incident using GPS, upload photos of where it happened and any damage to the vehicle as well as record the contact details of people who were involved or who saw it.

According to the latest industry study by market research firm Berg Insight, shipments of embedded telematics systems worldwide are forecast to grow from 8.4m units in 2013 at a CAGR of 30.6 percent to reach 54.5m units in 2020, signalling the industry's clear commitment to use telematics to engage with the customer.

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Innovations in technology do not stop at motor insurance. Development of the Internet of Things can tell insurers more than they've ever known before about householders looking for home insurance. Cloud based computing platforms like Microsoft's Azure can be used by insurers to quickly and efficiently gather, store,



The use of data generated by smart meters can help identify the escape of water which would trigger a home emergency response team to help protect customers from extensive damage. mine and analyse the vast quantities of data that an Internet of Things project will generate. Google's Nest product "learns" a householder's habits and automatically adjusts the heat when they're away from home. Google claims that it can save homeowners as much as 20 percent of heating costs, but the benefits of this insight also transcends into the insurance market.

This technology can provide insurers with substantial quantities of detailed information about their current and potential customers and can be used to help companies predict and prevent risk. The use of data generated by smart meters can help to identify the escape of water which would trigger a home emergency response team to help to mitigate the impact, protecting customers from extensive damage. Such an example demonstrates how, when it's used correctly, far from distancing customers from insurance companies, technology can - and should - bring them closer together.



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The adoption of such technologies is relatively new for the industry. As a consequence, many insurers are not yet able to fully understand the value this data presents and translate it into a price saving for customers. When considered against a backdrop of consumer mistrust, increased media coverage of cyber threats and the perception that Big Brother is watching, consumers are concerned that insurers will use data to put them at a disadvantage. Type "insurance" and "Big Brother" into a search engine, for instance, and you'll turn up numerous references to telematics.

Insurers need to demonstrate significant value to customers to transform their relationships from one that is currently more adversarial and distrustful than cooperative. A recent YouGov study showed that one in five policyholders do not think insurance offers good value for money. The report also revealed that consumers want insurers to act in mutually beneficial ways and with integrity and that companies need to do this in their everyday contact with their customers. Marketing and promotional efforts will have only limited success.<sup>3</sup>

To change consumer perception, insurers need to create relationships of trust and transform the owning of data from a negative, in the eyes of customers, to a positive. They need to talk about the data they hold in an open and proactive way – being transparent about what information they hold and emphasising how it can be used to offer customers the best deals. "The more you let us know about you, the better the deal we can give you and the better we can look after you," should be the message.

Only by doing this can insurers differentiate themselves, see off the growing commoditisation of their industry and ensure they have a vibrant and successful future.



one in five policyholders do not think insurance offers good value for money

### **FOOTNOTES**

- 1. UK Insurance Key Facts 2014, Association of British Insurers, 2014
- 2. "Commission takes first step towards rollout of eCall system", TRL (Transport Research Library, UK), 9 September 2011
- Insurance Reputation and Perceptions of Value 2014, YouGov, 24 Oct 2014

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