European Motor Study
Focus on Switzerland

31 August 2015

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Ready for the customers' switch?

Welcome to the Swiss summary of the 2015 Deloitte Study on European Motor Insurance

In light of increased access to information and significant adoption of digital channels, Deloitte carried out a European-wide analysis on customers' changing behaviours when purchasing motor insurance and presented some perspectives on strategic choices faced by the Motor Insurance providers. This summary gives an overview from a Swiss angle of the European Motor Study, which also includes comparison with trends in France, Germany, Ireland, Italy, Poland, Spain and the United Kingdom.

The European Motor Study

With its objective to better understand the ultimate customers, what makes them tick and explore how insurers could differentiate themselves, Deloitte conducted a survey reaching out to 9000 motor insurance customers across Europe.

The study introduces a classification of countries according to their "switchability", a measure of the proportion of customers who are prepared to switch to a different insurer. More details on the survey and the methodology applied can be found in the European Motor Study report.

The Swiss' perspective

With an average loss ratio of 57.3% for its entire motor market (i.e. liability and comprehensive) in 2013, Switzerland incurred the lowest losses with respect to earned premiums among all eight European countries within scope. This leaved Swiss motor insurers with a comfortable margin to cover expenses whilst still remaining "comfortably" profitable. Indeed, with an expense ratio estimated in the range of 20% to 30%, the motor business' bottom line generated a gross income between 12.7% and 22.7% for every Swiss Franc of premium received. However, increasing trend towards more transparency (e.g. latest FINMA disclosure requirements) may force insurers to exercise a higher degree of caution. While some insurers prepare themselves to face lower returns in the future, the current consensus in the market seems not to engage into any sort of price erosion unless this becomes unavoidable. But regardless of their ownership structure, established insurers will need to show an ability to improve returns in the future. Recent data[1] revealed substantial loss ratio deterioration in the liability motor insurance, partly driven by a continuous rise in health care costs, in a context of prolonged negative risk-free interest rates over the first 10 years.

In view of the moderate number of new car registrations, offset by increasing competition, economic outlook, improvements in car safety reducing claims and cost inflationary trends, we do not foresee any substantial increase in total market written premiums. In fact, some insurers already observe a decrease in claims frequency and size due to technological progress in car safety features. While the current trends in demographic evolution in Switzerland will probably lead to a slightly increased customer base in the near future, we believe that the decreasing trends in claims will drive premium reductions subsequently leading to lower business volumes.

Consequently, there are only few options available to Swiss insurers for improving their returns. Inorganic growth through mergers and acquisitions is still the preferred way (as opposed to organic growth using more aggressive pricing strategies) but pose suitability and integration challenges. Market

[1] Insurance Market Report 2014, FINMA

expansions caused by disruptive innovations will take considerable time to grow significantly. A promising strategy is therefore the profitable increase in market shares by attracting the competition's customers.

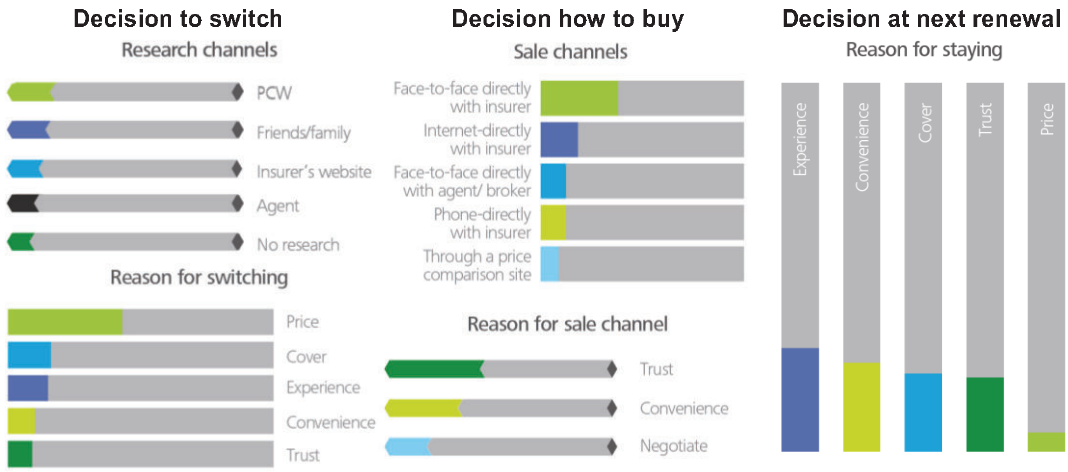
Even in Switzerland, customers' attitude towards motor insurance is changing. Our survey results indicate that while generally the behaviour of Swiss customers indicates a "low switchability" market, similarly to what is observed in France and Germany, there is a significant difference between historical levels of turnover and stated intentions for the future. These markets are more likely to see a step change in the average tenure of motor insurance policies.

Understanding customers' profiles enables insurers to select customer segments most attractive and valuable to their business. Referring to the terminology introduced in the European Motor Study[2], the Swiss customer landscape can be characterized by three segments: the "older loyalists", the "younger indecisives" and the "low-priced middle-aged loyalists", a category unique to Switzerland. Each of these customer segments presents a different potential attractiveness for an insurer's acquisition strategy. Moreover, insurers will also have to consider market dynamics. For instance, customers who regularly switch on the basis of price alone will lose value. Long-standing customers, who have experienced a successful switch, will gain the confidence to do so again. These changing trends in future tenure fundamentally challenge the concept of customer lifetime value where insurers can amortise the costs of acquisition over several years. Through a genuine understanding of what matters to each of the customers, we believe there are opportunities for insurers that act in a focused and targeted manner and contain or take advantage of these trends.

Our analysis of the survey points to possible answers as to what matters most to customers when making the following key decisions:

1. If, or when, to switch?
2. How to buy?
3. Whether to renew or not?

For the "low switchability" markets to which Switzerland belongs, the following charts[3] provide insights on these key decisions:



Price is unsurprisingly the most quoted reason for switching. Since the majority of insurers are able to propose a competitive price for each segment they want to underwrite, the real challenge is to understand what matters next to customers after price. The most significant factors in the decision to switch appear to be the adequacy and quality of the cover as well as poor experience with the previous insurer. Therefore, these are the areas where insurers should excel in order to retain and attract new

[2] Also refer to our online interactive dashboard.

[3] Source: Deloitte Analytics. Note: These figures only present the most quoted answers. PCW = price comparison website. Data with an asterisk is based on fewer than 50 respondents and cannot be considered statistically reliable.

customers. Human interaction also influences customers when deciding whether to stay with their insurers. The quality of experience is the biggest reason for customers to renew and price is no longer the most important factor. This suggests that there are clear opportunities for insurers to focus on improving their interaction with existing customers (for example, in call centres, throughout the claims handling procedures, and by understanding the customers' needs and the tailored offers to meet them). Customers are ready to remain with their insurers if certain criteria are met, but these vary between customer types. We can also expect some distribution channels to gain relevance. For example in France, another "low switchability" market, there has been rapid growth in bancassurance, or in Germany, where an increase in sales of insurance through car dealerships has been observed.

Many Swiss insurers have a well-developed network of agents. This is seen as driven by the Swiss cultural preference towards maintaining personal (often long-term) relationship with the insurance partner. Our view regarding future trends in relation to distribution channels mainly depends on the evolution of the standard of living and cultural mix within Switzerland. Current economic turmoil pose a threat that future generations' may not be in the situation anymore to afford insurance provided by a broad network of (expensive) in-house agents. On the other hand, the steady increase in population of foreign residents is influencing the cultural diversity within Switzerland which may lead to a preference for cheaper insurance. Ultimately both scenarios are likely to lead to a multi-channel distribution system with fewer agents for highly attractive clients and a more online-focused sales channel for more price-sensitive customers. As a result, Deloitte is expecting that premiums will decrease by approximately 10 percent over the next three years.

Having looked at customer segmentation, the value of different customer types to insurers, and what is important to targeted customers, insurers should focus on how to attract and retain these people. Of course, many insurers are thinking about responding better to customers' demands, but the key differentiation resides in systematically aligning their organisations and operating models with what is important to the different customer segments. They ought to deliver to those metrics, which should have the same level of visibility to the executive teams as financials have. Insurers should ensure they have a reason to speak to clients on a more regular basis, thus driving cross-sell and up-sell. Making life easy is another prerequisite: use of apps and mobile technology not just to push static content, but also to drive engagement. Innovations like DocumentVault and eSignatures also drive the mobile channel covering both sales and service. With improvements in digital technology, insurers now have access to ever-increasing quantities of data. If used appropriately, this can provide competitive advantage through facilitating better decision-making in underwriting, customer management, fraud mitigation and claims management. Some motor insurers are exploring the benefits of combining their internal data with open and third party data sources (including social media data and unstructured data), and applying data analytics to gain a deeper understanding of their customers and to optimise their interaction at the point of quote. The use of geospatial context combined with customers' characteristics provides a wealth of insights.

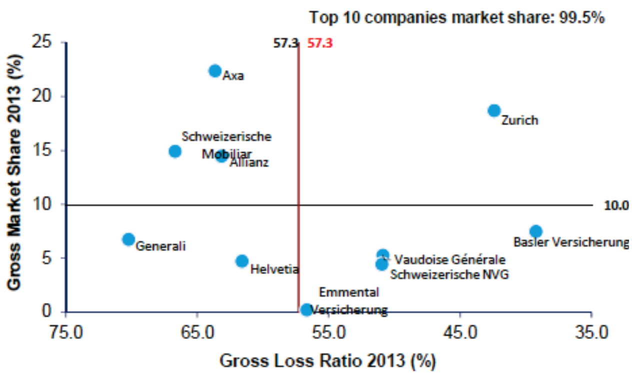
There is no "one size fits all" solution. Insurers should understand clearly the segments they wish to attract or retain and prioritise levers based on their relative importance. The EU Motor Study provides examples of customer segments and what matters at different stages of decision-making.

Conclusion

The limited options for growth and the fact that customers are more ready than ever to switch are the reason why we think it is the right time for established motor insurers to place the customer at the centre of their business development strategy. Serious challenges on historical business models especially around customer lifetime value and customer centricity will arise. As revealed in our study, price is a key decision factor, but will not be enough to retain or attract customers. Quality of the cover as well as experience are essential factors. Focus and execution aligned with changing customer behaviours and needs will be key. Insurers must adapt to survive.

Appendix

The following chart shows the Gross Market Share vs. Gross Loss Ratio in 2013. The Gross Market Share is based on Booked Gross Premiums. The total value in the upper right corner shows the sum of the gross market share of the shown companies. The horizontal line shows the average market share of the top 10 companies. The vertical black line shows the weighted average loss ratio of the top 10 companies. The vertical red line shows the loss ratio of the market.



Contacts

Marc Sarbach
Senior Manager, Actuarial & Insurance Solutions
msarbach@deloitte.ch

Colin Forrest
Partner, Actuarial & Insurance Solutions
colforrest@deloitte.ch

Emel Can
Partner, Insurance Audit and Advisory
emcan@deloitte.ch

Deloitte Consulting AG
General Guisan-Quai 38
P.O. Box 2232
Zurich 8022
Switzerland

www.deloitte.ch