When Digital changes the way insurance works

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The digital economy is here. The world currently has 6.7 billion mobile phone users, 2.7 billion internet users and 1.7 billion social media users[1]. The technology adoption curve is accelerating and mobile data traffic is expected to be 11 times larger by 2018. Compared to 2013, smartphones and tablets are behind 85% of digital traffic[2]. This connected online population forms a brand new cross-border market with a totally different viewpoint on topics such as information access, convenience, choice and communities.

Digital has already changed the rules of the game in the insurance marketplace, and is expected to create additional disrupting over the next few years. Despite its specificities, the Luxembourg market is also impacted by digital trends in various ways.

1 *Euromonitor, Ovum, eMarketer, IDC, EIU, 2014*
2 *Cisco VNI Forecast 2014*

From customer experience to operational excellence, the effects of digital can be seen everywhere

The most straightforward example is linked to internet transactions, with customers now able to perform transactions directly online. The main objective for insurers is to create the maximum possible number of touchpoints with customers to increase interactivity. The sales process is already well-supported overall, with customers able to subscribe online. There are differences between insurers in the areas of self-service and after-sales support, such as online claims submission and tracking. On the local market, insurers are continuing to give preference to the brokerage network for quotes and subscriptions, despite demand for mobile apps supporting sales activities (e.g. 360° review or white labelling). However, some local players will soon be releasing one-stop-shop mobile apps for claims management along the lines of what is existing in in France and Belgium. These apps allow customers to take pictures of damage to their car, answer a basic Yes/No questionnaire and even add a voice message when submitting a claim.

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The second example is derived from the success of social networks. Increasingly, consumers are collaborating and interacting to compare products and experiences. This is also true for insurance services. Social networking services are primarily used by insurers for marketing purposes, where there is growing demand for personalised online services and digital customer interaction. A key way to stand out on the market would be to implement a single point of contact strategy, transforming 'Like' into 'Want'. Examples could be analysing Facebook activities to propose personalised ads or using the Facebook 'Like' from individuals to promote a company by alternative means and at lower costs. Another example would be the analysis of social media activities to update risk ratings (e.g. for customers practising extreme sports). On the local market, the unique relationship between a client and his/her broker means that social media interactions are not defined as a priority. The closest example found in Luxembourg is related to insurance products provided by a local company that are automatically offered to customers when booking travel with LuxairTours. Customer experience is also a growing trend, in particular through 'gamification', which is the use of game thinking and game mechanics to increase customer engagement and prompt desired behaviour through challenges, incentives and rewards. Insurers have applied this to several uses, for example by creating incentives to improve behaviour (car insurance).

The impact of digital is not limited to customer relationships; core processes and intermediaries are also affected

Insurers are implementing a digital supply chain with the objective of achieving operational excellence. Critical processes are being converted to digital (e.g. Straight Through Process, paperless initiatives) and digital is being taken into account when designing new products and defining pricing strategies. For example, in France, some insurers have created car insurance products featuring the installation of a box for sending information back to the company, allowing the driver's premium to be adjusted depending on their driving habits (i.e. 'pay as you drive').

Digital is also impacting the way intermediaries are integrated into the company by equipping sales and distribution networks with mobile tools allowing them to be fully interconnected, in real time, with the company's backend systems. As it stands, this represents a major area for improvement for local players. Offering an app to support agents in their dealings with clients is a clear USP. Using answers to simple questions, the app fetches a list of products from

the company's core system—which can, if needed, be added to records from the CRM—and sends an offer to the customer via email. Electronic signatures can also be used. Additionally, with more and more direct interaction between the company and the customer, intermediaries need to redefine their role, and white labelling provides a possible answer.

As a final example, the internet of things involves sensor technology combined with wireless communication, stimulating the growth of devices and objects connected to the internet. The real challenge for insurers is to capitalise on the increasing quantity of additional data that will become available. As an illustration, analysing non-traditional insurance data could reveal new risk factors enabling price differentiation or new value proposals.

Conclusion

From a Luxemburg point of view, the main challenge for non-life insurers will be to find the right balance between direct interactions with customers, made possible with digital, and the redefinition of the role of intermediaries. In the context of life insurance, digital will bring improved responsiveness and create additional channels for customers to access information and documentation, as is required by regulations.

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