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A demanding future

The four trends that define insurance in 2020

Chapter One: New world, new customers, new solutions

New world, new customers, new solutions

While technology is transforming the insurance industry, customers are becoming just as disruptive. In chapter 1 of our new campaign *A demanding future: The four trends that define insurance in 2020*, based on an exclusive survey of 200 EMEA insurance executives, we explore how customer needs and expectations are changing drastically and why the industry has to extend beyond its core products and services if it is to retain consumer loyalty.

Key findings

Non-insurance is the new insurance

62%

think offering non-insurance products, which add value and are an extension of core insurance products, is the most important factor for consumers when choosing an insurance provider.

And **61%**

of respondents believe they are performing well against this metric.

Knowledge and ability breed confidence

57%

believe that being able to speak to friendly and knowledgeable staff for information and assistance is the most effective way to maintain customer loyalty.

43%

of all sector respondents feel they offer friendly and knowledgeable staff.

Customers are the challenge

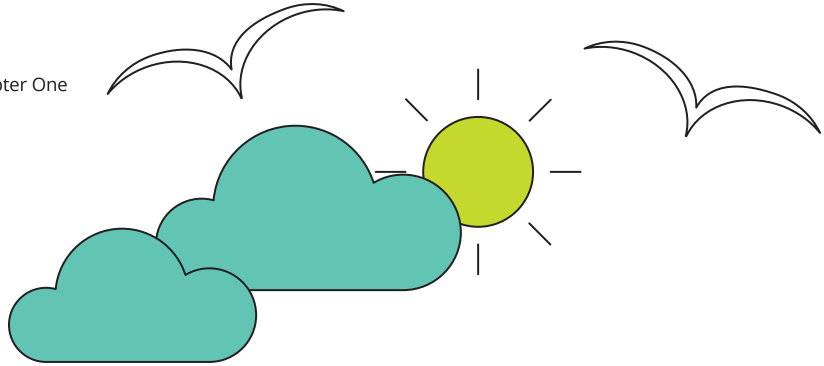
45%

believe that rapidly evolving customer needs and expectations will be the top challenge for growth over the next three years.

Rewards are not so rewarding

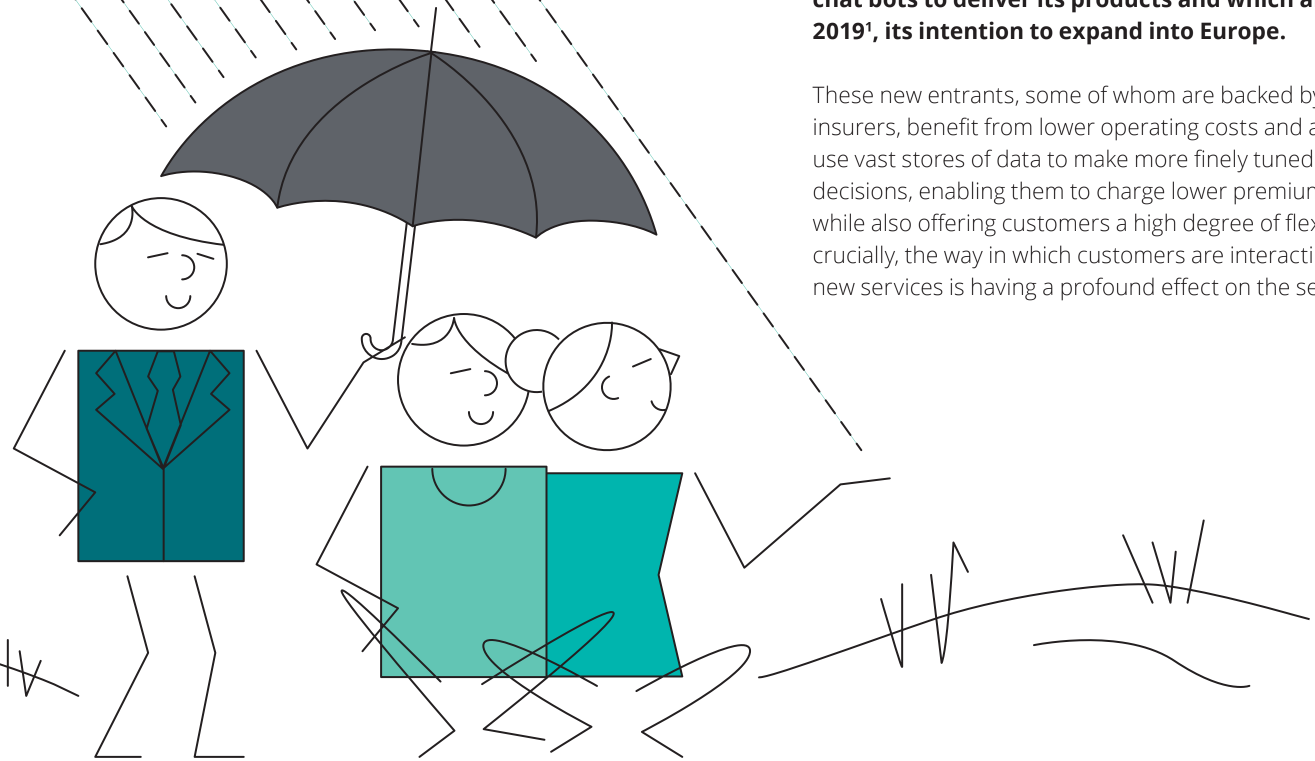
Only **12%**

of respondents see rewards and promotions as the most important factor for customers choosing an insurance provider.



The years since the crisis have seen new challenges emerge for the insurance industry. The persistent low interest rate environment has put pressure on the industry's investment returns and regulatory change has necessitated large investment in systems while also increasing capital insurers are required to hold. Meanwhile, technological developments have brought with them new, agile entrants. These include insurers, such as US-based home and rental insurer Lemonade, which uses artificial intelligence and chat bots to deliver its products and which announced, in 2019[1], its intention to expand into Europe.

These new entrants, some of whom are backed by traditional insurers, benefit from lower operating costs and an ability to use vast stores of data to make more finely tuned underwriting decisions, enabling them to charge lower premiums and/or fees while also offering customers a high degree of flexibility. And, crucially, the way in which customers are interacting with these new services is having a profound effect on the sector.



Non-insurance is the new insurance

As a result of these changes, large, incumbent insurers are having to work harder and smarter to attract and retain customers. For many, it is no longer the case that customers will come to them solely on the basis of reputation and trust in brand – just 26% of respondents mentioned this as a factor for customers when choosing an insurance provider, the second lowest response rate for this question (although the proportion rose to 35% for the property and casualty insurance sector).

Instead, our survey shows that, excluding price, insurers believe that offering non-insurance products that add value and are extensions of their core products (including areas such as home security, financial planning and car maintenance) is the most important factor for consumers when choosing their provider, mentioned by 62% of respondents overall. And this is clearly where they are focusing their efforts, as this is where 61% of respondents feel their organisation performs best when it comes to attracting customers.

This suggests that insurers recognise that few customers – whether they be consumers or businesses – currently find the idea or process of buying insurance an exciting prospect. The insurance success stories of tomorrow will be those that can streamline administrative processes, such as applications or claims, and that can offer a range of innovative and flexible products to customers in a way that interests them. They may offer a suite of products and services based around their core product – for example a one-stop-shop for home repair and maintenance as well as utilities offers, all packaged around a home insurance product. In addition, Open Banking in the UK and PSD2 in the European Union, initiatives that provide a secure way of giving financial services providers access to customer information, may offer new opportunities for brand extension among insurance companies and the potential to "own" the customer, much as WeChat has done in China. Having started out as a messaging app, its access to user data has enabled it to become indispensable to many of China's urban dwellers, offering them easy payment solutions, restaurant- and taxi-booking services and a variety of offers on products and services that are highly targeted to users via a single interface.

Preventative measures

Insurers will need to move away from focusing on providing a product and towards an emphasis on what the products enable customers to do. For example, customers may not necessarily want health insurance, but they do want help to stay fit and healthy to keep away from hospitals. We have already seen some moves in this direction. For example, life insurance start-up yulife offers customers rewards for keeping active or engaging in, say, mindfulness, in the form of its yucoin currency that can be exchanged for vouchers at stores such Amazon and John Lewis. This has the twin benefit of bringing premiums down for those who lead healthy lifesyles as well as reducing potential future claims. It is a clear example of the move in the industry towards proactive prevention rather than reactive payments to cover loss.

New products for a new environment

The life insurance and annuity sector felt most confident about its performance in this area, with 71% saying their organisations delivered well in non-insurance products. This could include some form of financial planning assistance, such as offering millennials savings and investment products that may help them buy their first property, at which point they are more likely to need life insurance products.

In property and casualty, where respondents felt they were better at providing speedy service (52%) than offering non-insurance products (47%), the development of sensor technology has the potential to shift insurers towards more preventative services and products. Household water leaks, for example, are not only painful for customers but also for insurers, which, in the UK alone, pay out £1.8m a day in claims for repair and damage caused, according to the Association of British Insurers[2]. Offering sensors can help customers spot changes in water pressure early on, enabling a rapid response, limiting damage and reducing claims.

In reinsurance, 74% of respondents said that the provision of non-insurance products was key to attracting customers – this was the highest of the three insurance sub-sectors. Part of this is likely to reflect reinsurers' increased focus on using their data to offer consultancy services for insurance clients to help them design better products or target the market more effectively. Munich Re, for example, offers software tools alongside consultancy for a range of clients.

However, it is also a significant finding for other parts of the insurance industry, given the fact that reinsurers are diversifying away from traditional reinsurance products by teaming up with InsurTechs, in moves that continue their push into the territory of primary insurers. Again, Munich Re serves as an example here – its corporate venturing arm Digital Partners has invested in companies such as Trov, a US-based start-up that offers on-demand insurance, and London-based collective insurance-buying business Bought By Many[3].

The next most important factor in attracting customers is offering insurance products that are flexible and/or tailored to customers' needs, as mentioned by 45% of respondents. This is clearly linked to the rise of non-insurance products and reflects the emergence of models that are not based on annual premiums, such as pay-per-mile car insurance.

Speed of issue and query resolution (44%), speed of service (40%) and customers being able to speak to helpful and friendly staff (40%) were also viewed as important and the areas in which respondents felt they were performing best largely mirrored the above proportions.

Figure 1. Overall, which of the following, excluding price, do you think is most important to consumers when choosing an insurance provider? (select top three)

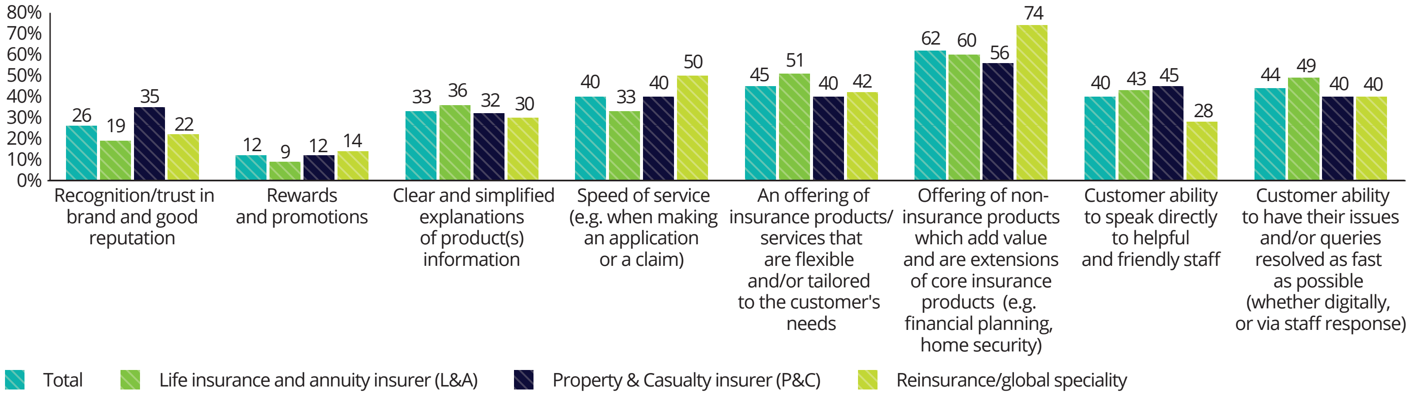


Figure 2. In which of these areas (excluding price) do you think your organisation delivers/performs best? (select top three)

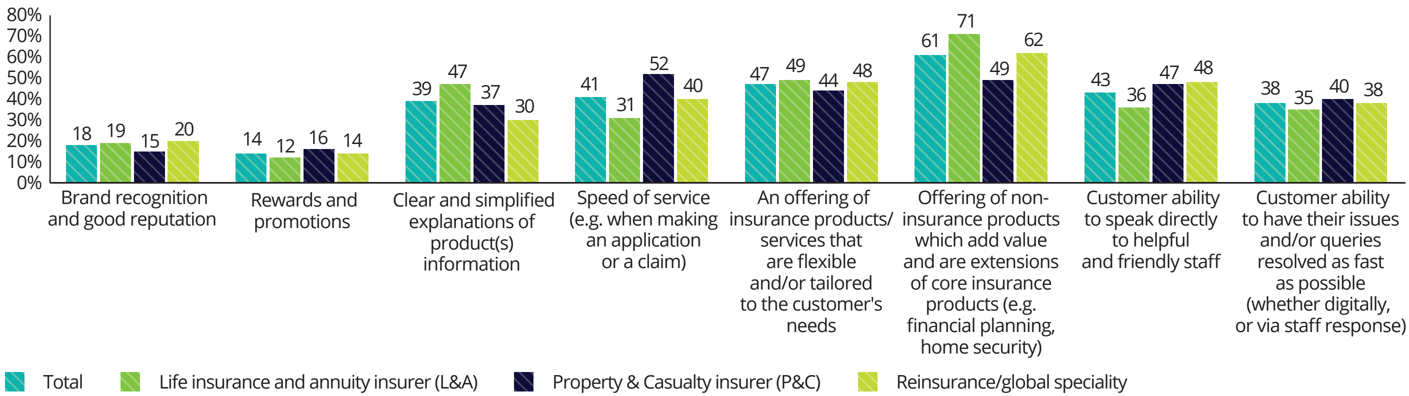
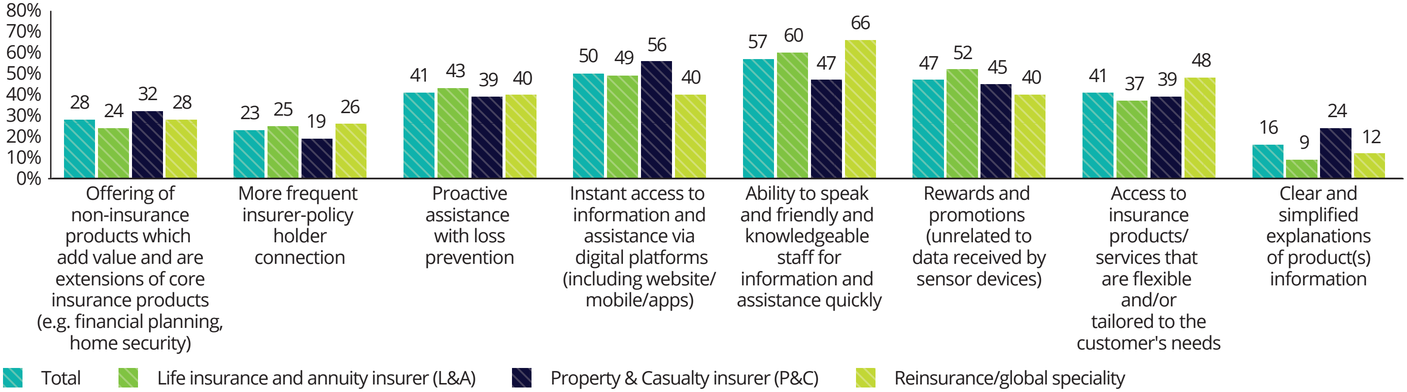


Figure 3. Which of the following enhancements to the customer experience do you believe to be the most effective in maintaining customer loyalty? (select top three)



With great service comes greater loyalty

When it comes to maintaining loyalty among existing customers, insurers are clearly focusing on service provision. Over half (57%) of respondents said the ability to speak to knowledgeable and friendly staff was effective in customer retention. It's clear that, while technology such as chat bots has its place (see below), insurers feel that many situations are too complex to be handled by technological solutions alone. People with expertise play an important role in insurance companies. As one Danish property and casualty insurance CEO commented: "We put great emphasis on customers being able to speak with well-trained staff, since this is their main point of contact with the company. This plays an important role in them determining company service."

While it is natural to shift to serving customers effectively to keep them on board, it is intriguing that insurers are less likely to maintain their efforts to offer these customers adjacent, non-insurance products (just 28% cited this), even though they cited this as the most important way of winning new business. This suggests a missed opportunity, particularly in a world where widely available data, not just data collected by insurers themselves, can be easily mined and analysed to suggest new products and services that are likely to be suitable for existing customers.

Creating a rewarding experience

This is not the only missed opportunity. While just 14% of insurers said their organisations performed well when it came to offering rewards and promotions – the lowest response – nearly half (47%) said this was an important factor in maintaining customer loyalty.

Yet if they are to compete on factors other than price, traditional insurers will need to place customer retention at the peak of their priority list, particularly given the increasingly competitive landscape, which includes InsurTech entrants and is likely to feature technology giants.

Technology businesses have access to and – more importantly – the capacity to analyse and make sense of deep pools of customer information. With brands such as Amazon, Apple and Google launching financial services products, such as digital wallets and cyber currency, it is likely that these tech giants will soon set their sights on large parts of the insurance market, using their vast stores of data on customer preferences. One of the ways in which they are seeking to do this is by becoming distribution channels for insurance products. While Google Compare, an online insurance comparison service, was shut down in 2016, this is unlikely to be the end of technology brands attempting to get into the market. Amazon, for example, teamed up with Travelers Companies in 2018 to provide smart home kits at discounted prices in the US through their Amazon.com/Travelers site, with other devices offered free to certain home insurance customers.

Targeted engagement

Unlike traditional insurers, which have often used intermediary distribution channels, technology businesses already have multiple touch points with customers. As our survey shows, insurers are currently less focused on proactive contact with customers – just 23% of respondents said more frequent insurer-policy holder connection was effective for maintaining customer loyalty. Yet if insurers were to offer more rewards and promotions to customers that are relevant to their needs, either through in-house initiatives or through partnerships with customer-facing organisations (such as the Travelers/Amazon example above), this could provide more opportunities to engage.

As one group IT director at a UK-based life and annuity provider commented: "We understand the importance of customer loyalty through our marketing services and are monitoring the effects of each effort, mapping out the results and acting accordingly. We've noticed how proactive contact has been the most effective way to communicate, increase services and retain customers."

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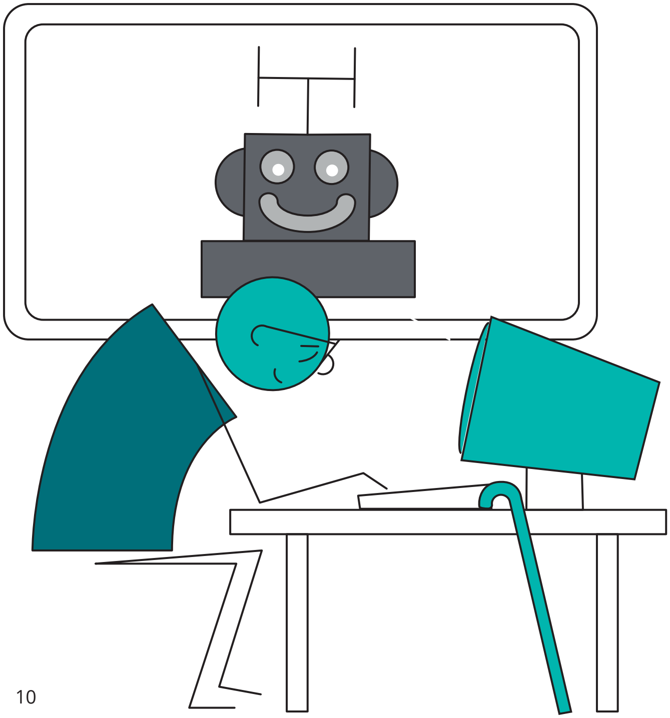
>
> **Group IT Director**

New forms of communication

And, while customer service is clearly an important area on which to focus, this proactivity does not necessarily require the addition of further teams at call centres. Technology businesses have built platforms that are effective at answering most customer queries and issues through the use of chat bots and online resolution. There will always be a need for customers to be able to speak to knowledgeable and friendly staff in more complex situations (as our survey attests), yet customer behaviour is changing – younger generations tend to prefer to transact and communicate online and through digital platforms.



Indeed, many will prefer to make their own choices across a range of financial services and insurance products. “There will be more self-service models in place in the next 10 years,” said an Oman-based CEO of a property and casualty insurer. “This will be appreciated by customers, but there will be consequences, such as having to lower the workforce further to support these models.”

To remain attractive to these customers, insurance companies need to find ways of helping them do this in a streamlined way. There are signs that the industry is working on this. Half of respondents said that instant access to information and assistance via digital platforms was effective in retaining customers. This was the second highest result, yet it does follow the more traditional response of having friendly and knowledgeable staff. As one Nigeria-based reinsurance CEO commented: “Digital technology is helping us engage with customers. It is challenging to keep up with advances, but it is worth the extra spend and effort because engaging customers through innovation is a better direction for the company than more traditional routes.”

Perhaps one of the reasons behind these missed opportunities is related to the way many insurers view the shifts in the market. When asked about challenges in the industry, 45% of respondents said that evolving customer needs and expectations would be a major challenge over the next three years – the top response. This is hardly surprising in an industry where change and innovation can often be held back by legacy systems, the size and complexity of many insurance organisations and, in some cases, regulatory issues.

Three steps to success

It is clear that customer needs and expectations are changing – and they will continue to do so, possibly at an even more rapid pace. Those that view this as an opportunity to provide new and innovative products, services and delivery channels will be the winners in what will be a different market in years to come. And there are three crucial steps that insurers need to take if they are to change with their customers.

Be truly customer-centric

While insurance companies have made significant strides in becoming much more customer-centric organisations, this is still a work in progress. Many organisations claim to have a single view of the customer and some insurers have been successful in creating slick user interfaces, but the reality behind the scenes is often a number of siloes, each with their own processes and datasets.

In contrast, many new entrants benefit from simpler structures, fewer staff and no legacy infrastructure to upgrade, all of which enables them to be innovative and agile. As a head of technology at a life and annuity group in France commented: “InsurTechs have the upper hand when it comes to providing personalised policies, and present more advanced aspects which are intriguing to customers, hence the challenge to our core business. Over the next three years, we need to step up and work on strategies to combat the new players in the market and move forward.”

One area that looks set for significant growth, for example, is the sharing economy. As a report by AIG and Marsh acknowledges[4], the development of more flexible ways of working and using assets such as cars and homes present new opportunities if firms can truly understand the nature of the sharing economy. AXA, for example, has teamed up with Uber to provide all its drivers and couriers in Europe insurance covering areas such as accident, illness and paternity benefits[5].

However, challenges such as outdated regulation, a lack of historical information and/or collateral in start-ups and a blurring of the lines between commercial and personal lines of insurance could hold less fleet-footed firms back.

The AIG and Marsh report advises insurers to become more creative, giving the following example: “An insurer can look at three years of historical loss data to predict future losses for a traditional limousine company. A modern ride-sharing company won’t have that… but with the telematics they are collecting, the right model could lead to a more accurate representation of exposure.”

The potential market is significant. A 2018 survey of consumers across the US, UK, China, Germany, France and the UAE we carried out with Lloyds of London[6] estimated that 500 million people have shared assets or services and that 680 million people had consumed shared assets or services, with nearly three quarters (73%) of the online population in China falling into the latter category. While 57% of those who had shared assets or services had taken out insurance for this activity, the report notes that there is still a gap in bespoke cover. It recommends that insurers and sharing economy platforms work together to reduce risk and promote growth.

Get on board with the sharing economy

Get creative

If traditional insurers are to remain relevant, they will have to focus on how customers live their lives and the changing nature of business goals. The advent of products such as pay-per-mile, on-demand insurance and the bundling and unbundling of products to provide flexibility for customers is just the start of an industry-wide shake-up. For many organisations, boosting creativity is likely to require:

- Recruitment of in-house expertise from other sectors to allow cross-fertilisation of ideas.
- Re-evaluation of distribution channels – organisations that 'own' today's customer have the greatest capacity to create value for customers and, ultimately, themselves by moving away from providing commodity purchases based on price alone.
- More effective analysis of data to create a truly customer-centric model, including more bespoke products and services and offering rewards and promotions that are relevant to them to maintain loyalty.
- More partnerships and collaboration with technology companies, financial services organisations and possibly even competitors to create a seamless and more engaging customer experience.
- Removal of pain points for customers, such as streamlining applications and claims processes through the use of big data and analytics so that customers are not filling in multiple forms or being asked questions they cannot accurately answer.

Endnotes

1. https://www.lemonade.com/blog/coming-to-europe/
2. https://www.abi.org.uk/news/news-articles/2018/12/is-water-damage-covered-by-insurance/
3. https://www.munichre.com/topics-online/en/digitalisation/reinventing-insurance-digital-generation.html
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6. https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-squaring-risk-in-the-sharing-age.pdf

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