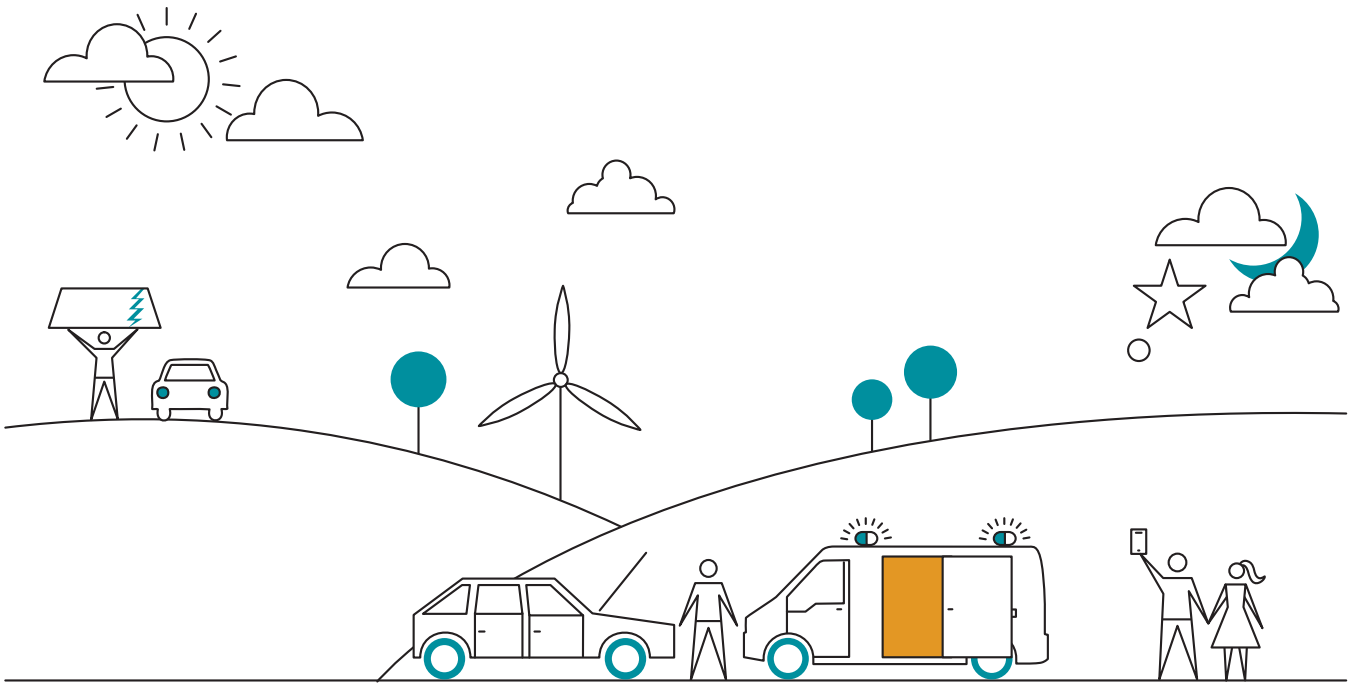
innovation group

THE FUTURE NOW REPORT - UK MOTOR

All change for the UK motor insurance industry

Contents



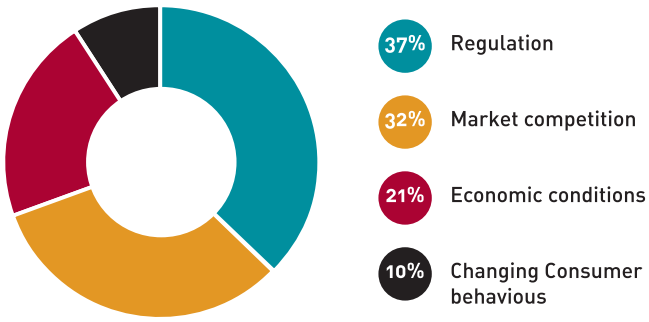
Introduction

The motor insurance industry is going through an unparalleled period of upheaval and change. Four key areas – regulation, economic conditions, technology and customer behaviour, have all, more or less simultaneously, thrown the industry into a state of flux.

Economic and regulatory changes have, at turns, stifled growth, kept pricing low and created immediate demands for change. Technology, and the changes it has wrought on consumer behaviour, have brought new (and old) challengers to the surface, raised the bar of consumer expectations, and created thorny new problems of their own. Social and societal change has affected the way we pay for and use motor vehicles, as well as the way we shop, buy and pay for insurance.

Consumer expectations and needs have mushroomed while insurers are wrestling with how to embrace and respond to digital technology; to the explosion in Big Data; to the onset of the connected car and the growth of the Internet of Things (IoT), Machine to Machine (M2M) and Telematics; to new regulatory challenges and to the growing threat of new entrants to the market.

FIG 1 Intensity of pressures on the industry over the last 12 months



Source: FCA[1]

For insurers to succeed, they need to embrace the opportunity for change, but they also need a platform on which to innovate in order to drive demonstrable improvements right across the insurance value chain.

For the purposes of clarity, we'll break our assessment into four areas identified by the FCA as the key challenges facing insurers: regulation, economic trends, market competition, and changing consumer behaviours.

1 Financial Conduct Authority

Regulation

Solvency II – diminishing returns, increasing complexity

Solvency II could charitably be described as having had a difficult gestation. It is worth remembering the original aim: to replace 13 separate EU insurance industry directives, creating a simple, level playing field that would allow insurers to understand and meet the trading requirements of 27 member states. The reality has been far less harmonious, to say the least.

The stated aims for consumers remain clear: with Solvency II, buyers of insurance policies should have greater confidence in their providers, enjoy improved, cost-effective protection as policyholders, and have access to fresher, more competitive products.

But from the insurer's perspective, the idea of being able to offer policies across the EU sounded like a fantastic opportunity – right up until the point that individual member states concluded that the draft regulations were not strict enough, and added their own on top, removing what was a potential level playing field and the opportunity to compete in new markets.

On top of this, Solvency II also hands a certain level of involvement in the affairs of insurers to private ratings agencies – the same private ratings agencies that failed to warn of the risks taken on by banks in the last decade.

Regardless, Solvency II is set to come into effect as of the first of January next year, and insurers must make number of changes before then. These fall into three areas that have to be addressed to a specific set of standards:

- a standardised valuation of capital requirements, assets and liabilities, which effectively mandates how much insurers need to set aside to cover potential claims
- Governance and risk management controls
- Reporting and disclosure, both to the general public and specifically to the relevant regulator. T rules set out how the insurer's business is performing, and how that performance is reported

...we must recognise that there are often unintended costs and consequences associated with regulation that is forced upon us.

The unintended consequences of Regulation

Over recent years, the rising volume and cost of personal injury claims has been a major concern for insurers. Countless hours and millions of pounds were spent lobbying for and implementing the Legal Aid, Sentencing and Punishment of Offenders Act 2012[2], better known as LASPO. This regulation of the legal sector clamped down on Conditional Fee Arrangements (CFAs) and their use in personal injury cases.

Key amongst the reforms initiated by LASPO was a process to settle claims early and efficiently through a an electronic portal. A cap on the amount of costs that could be paid under a CFA to a solicitor, a ban on referral fees, and the decision that additional costs should not be borne by the losing side should have reduced the costs of claiming and settling.

Instead, we've seen no reduction in frequency, an increase in litigation, massive cost inflation around the volume and level of disbursements and an explosion in costly deafness claims faced by insurers.

Future impact

"Regulation is critical if we as an industry are to ensure consumers are protected fully from the risks they seek to insure. In a world of infinite data and digital fulfilment we need to be even more mindful of our responsibilities," says Chris Ashworth, Managing Director, UK Motor at Innovation Group. "However, we must recognise that there are often unintended costs and consequences associated with regulation that is forced upon us. Far better that we collectively apply common sense and work together more collaboratively as an industry. In the claims space particularly. Acting pre-emptively to avoid the need for regulation and intervention in certain areas of the claims process will lead to a better deal for consumers."

By adding value to the process and not cost, insurers prevent opening up the market to trusted digital brands hoping to enter and disrupt the industry, says Ashworth.

2 https://www.justice.gov.uk/civil-justice-reforms

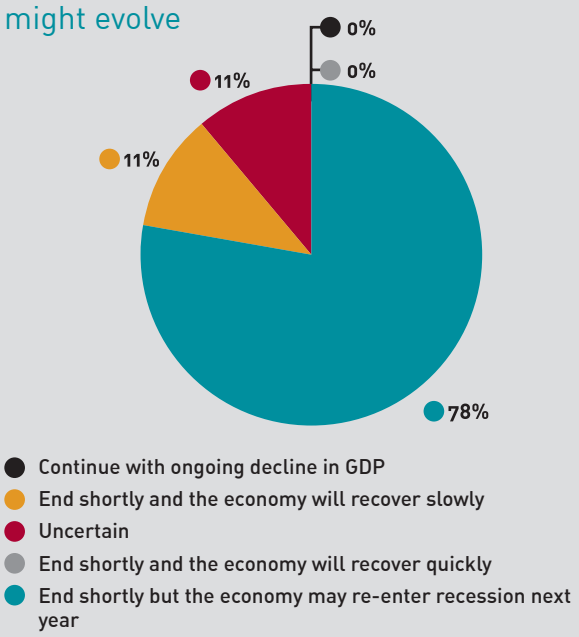
Economic trends

A climate of uncertainty

Worldwide economic depression or recession; whatever term you'd prefer to use, it's the case that the last five or six years has seen a drop off in economic growth, and, in some regions, economic collapse and the bailing out of banks, corporations and, in some cases, entire national economies.

The chilling effect on consumer optimism has been marked, but it has also hit business optimism. According to a study from Nottingham Business School on behalf of the Chartered Institute of Management Accountants, nearly eight in ten (78%) of the organisations it spoke to predicted an end to recession in the short term – but also a slow recovery.

FIG 2 Perceptions of how the recession might evolve



Source: CIMA[3]

This atmosphere inevitably leads to risk aversion. Coupled with drives to improve cashflow, cut extraneous spending and the postponement of significant capital expenditure projects. It's understandable that insurers have been reluctant to make investments in new product development, technology solutions, customer experience or service delivery.

Indeed, the CIMA study identified a set of key behaviours in the companies it investigated. Businesses tended to make adjustments to existing plans. Rather than throwing everything out and creating a brand new strategy for recession, for example, one might defer investment, adapting, rather than reacting, to change. Companies exhibited a desire to drive down fixed cost bases, improving operational efficiency and place more emphasis on product innovation and new product development.

Yet insurers cannot stand still. Simply doing nothing, and putting off investment, puts them at risk of falling behind competitors. And, as we'll see, technological advances and new competitors from other sectors threaten to force slower moving insurers' hands.

Auto repair market consolidation

Local evidence of a global trend: repair shops are consolidating at a stiff pace, and it's reshaping the entire supply chain downstream of motor insurers.

Powered by private equity firms – and driven by other acquirers following in their wake – vehicle repair shops are moving from backstreet small businesses to gargantuan corporations. In the US, Private Equity companies control three of the four largest collision repair businesses, and are, according to the Wall Street Journal[4], racing to buy up smaller chains and independent repair shops. In Australia, aside from the measurable profitability of these organisations (necessarily the first concern of any investor), this consolidation is driven, says ACA Research[5], by momentous changes in demographics, technology and marketplace forces that anyone in the motor insurance industry will be familiar with.

Firstly, insurance companies are more focused on cost control and customer outcomes, says ACA Research. Secondly, cars are simply becoming more complex – and thus more difficult to fix. The staff at these shops tends to be older – and there are fewer youngsters entering this industry. Finally, industry consolidation has, necessarily, applied all kinds of pressures on repair shops, and that's made many of them ripe for acquisition.

But all of this activity and consolidation masks a further, more concerning aspect: the relationship between insurers and repairers is inherently less straightforward than typical supply chains. While consolidation is simplifying

3 Nottingham Business School and the Chartered Institute of Management Accountants: The Impact of economic recession on business strategy planning in UK companies - http://www.cimaglobal.com/CIMA-in-business/How-MA-supports-your-business-/Supporting-growing-businesses/Planning-for-growth/The-impact-of-economic-recession-on-business-strategy-planning-in-UK-companies/

4 Wall Street Journal: Private Equity's Latest Fix: Auto-Body Repair 23rd July 2014 - http://www.wsj.com/articles/private-equitys-latest-fix-auto-body-repair-1406129444

5 ACA Research: How insurance companies are transforming the motor vehicle repair industry, 23 May 2014 - http://www.acaresearch.com.au/australian-market-research-blog/bid/346478/New-Automotive-Research-How-Insurance-Companies-Are-Transforming-The-Motor-Vehicle-Repair-Industry

these relationships, simply because there are less organisations in the chain, it's still a complex situation.

Technology has a key role to play in providing consumers with the digital solutions they demand. It also helps reduce costs to compete and make sustainable margins in a highly competitive and financially challenging environment. Financial pressures and falling claims volumes mean the demand for outsourced business process services has never been higher.

"More demanding consumers with louder voices than ever mean innovation and great service have never been more important," says Ashworth. "Consider these facts alongside the threat of further consolidation in the repair market and it's clear that insurers will be faced with challenges in securing capacity, quality and service at the right price. More flexible supply chains need to be established to ensure insurers are future ready and can turn these threats into product differentiation and competitive advantage."

Market Competition

New arrivals: Outside disruptors, or new institutional customers?

Not for nothing did panellists at Insurance Times' Digital Insurer conference last year[6] point to digital brands like Google as potential new market entrants. Expect digitally-savvy, non-financial services players to take significant market share from incumbent insurers before 2020.

Organisations that seek to disrupt financial services markets tend to do so at a point when technology or market forces put them in a position to do so. HSBC's launch of First Direct, and TSB Phone Bank are examples from nearly three decades past. Marks and Spencer and Sainsburys offered credit card services and banking, respectively. Tesco is a Mobile Virtual Network Operator. Direct Line and Confused.com have done the same for personal insurance.

Digital brands often have the cash, data processing insight capabilities and digital skills that insurers do not – which, coupled with low barriers to entry, make the insurance market ripe for the picking. It's highly likely that fresh entrants will begin to cannibalise the motor insurance market over the next half decade, just as other elements begin to contract.

That said, the motor insurance industry has weathered a series of storms over the last few decades that demonstrate a remarkable level of resilience; aside from the effect of direct entrants in the early 1990s, the creation of CGU from the merger of General Accident and Commercial Union in 1998, and the emergence of aggregators at the turn of the century are all indicators of significant change[7]. It might even be said that, in the UK at least, that the rise (and possibly imminent demise) of aggregators represented more of a threat than future entrants who may end up reselling the services of incumbents.

It's highly likely that fresh entrants will begin to cannibalise the motor insurance market over the next half decade, just as other elements begin to contract.

Data mastery – being able to do profitable stuff with the data you collect – is one of the most significant competitive trends for insurers over the next few years. Many insurers are, effectively, data rich and information poor. They've got all the answers they need to plan and prepare for customer behaviour, changes in the market and evolutions in buying, usage and claim habits to plan and execute a business strategy. But all too often, that data is in siloes, or locked in legacy systems, or, in the case of newer data types, such as that collected from telematics, IoT and Machine to Machine (M2M), simply too numerous and ever-growing to condense, analyse and distil.

The legacy of Legacy

The competitive advantage many new competitors have can be broken down into two things, of course: ownership of a disruptive business process or technology solution, and freedom from legacy 'stuff' – business processes, markets and, increasingly significant: legacy systems. This last area merits particular scrutiny, as it defines one of the key things that restricts the ability of incumbents to respond to new interlopers.

Legacy systems have been a headache for decades – with perhaps the most obvious case in point being the so-called Millennium Bug, which turned out to be less of a bang than a whimper. Yet understanding how many legacy systems operate, and working around the shortcomings, barriers and inhibitions they represent, is vital. They also represent a significant hindrance to established insurers, and those that have grown by acquisition – encumbrances that newer entrants to the market simply don't have to deal with.

6 Insurance Times: Google is a 'real threat' to the insurance industry - http://www.insurancetimes.co.uk/google-is-a-real-threat-to-the-insurance-industry/1408126.article

7 Towers Watson: Why we aren't making money - http://www.towerswatson.com/en-GB/Insights/IC-Types/Survey-Research-Results/2011/02/Why-arent-we-making-money

This isn't a new problem – companies throughout the market have struggled to build new systems that work with legacy Electronic Data Interchange (EDI) systems, and incorporate new data sources, both internal and external, into the pricing and delivery of policies. This integration of outside sources is driven by the digitisation of government services (notably those provided by the DVLA) and organisations that hold financial and other records for motorists and vehicles.

Insurers tend to over-think this stuff. There might be a blindingly obvious choice to make, but there'll be concerns about architectural elegance that delay that decision - ***Dan White, Ninety Consulting***

The problem with legacy systems comes into stark view when insurers attempt digital transformation. According to Marketforce, 76% of those surveyed thought that the state of legacy systems at insurers put insurers at risk of serious systems outages, while 92% said insurer legacy systems could not cope with digital, omni-channel operations. The problem is that, as 74% of respondents agree, replacing these systems requires more investment than insurers can justify in the current economic environment. Yet, as with the problem of suspending investment in a downturn described earlier in this paper, there is a point at which patching, hotfixes and running repairs add no further value, and the sheer dead weight of legacy systems starts to pull the entire edifice down.

Collapsing legacy systems often leave no clear path for companies to upgrade. Building new systems in-house, working with third parties, moving to existing platforms elsewhere or embracing the cloud to shift the problem elsewhere all offer potential solutions, but there's no quick, simple or cheap fix.

It's time for a rethink, says Dan White, Senior Partner, Ninety Consulting.

"There are a lot of software packages that are excellent at managing policies, or risk, or customer records. But they don't even start to be good at helping insurers interact with consumers through new channels. Let's use the right tools for each job. It's really important to focus on making legacy and new software work together, and not try to over-integrate. A policy administration system should be used for just that – no more, no less – and a customer contact suite for the use it was intended for. Most relatively modern systems have open integration APIs [Application Program Interfaces] and service layers that you create and extend without building more legacy lock-in."

The problem, says White, is that insurers, stung more than once, are quite correct to take a cautious approach to integration.

"Insurers tend to over-think this stuff," says White. "There might be a blindingly obvious choice to make, but there'll be concerns about architectural elegance that delay that decision. There's often a very good reason for that – the industry is understandably risk averse about large software projects, having been stung in the past, and there are therefore too many insurers out there behaving like software companies, not risk carriers."

"The good news is that there is a distinct move towards cloud-based software and Platforms as a Service [PaaS]. This allows insurers to move from an integration-heavy, bespoke model of getting the software they want to a more lightweight – but very effective – model that adapts well to change."

The three types of analytics – and their impact on data

Most insurers are conversant with the first form of analytics. Descriptive analytics talks about what has happened. Some may be familiar with the next step: Predictive analytics, which extrapolates current and past behaviours and trends, and offers a glimpse into a crystal ball based on past behaviour. The third – and currently most hyped – form, is Prescriptive analytics, which presents users with fresh scenarios and potential outcomes, along with specific recommendations on how to achieve them. In heavily data-driven applications, such as mobile communication service provision, internet retailing or motor insurance, such an advance offers significant competitive advantage, waste reduction and opportunity.

Of course, none of this is a consideration until insurers can make better use of the data they collect – which brings us back to the issue of data mastery, something that is by no means unique to the insurance industry. As data has become cheaper to store in bulk than discard, organisations find themselves sitting on larger and larger volumes of data of increased velocity and variety. Sifting through this – and through the smaller volumes that make up what are generally known as Big Data – is a task of societal, not industry-specific – scale.

Future impact

It's clear to see that legacy systems are a barrier to the industry making the necessary changes in order to remain competitive. This problem is magnified in the claims arena. Gone are the days when two or three year planning and large scale system implementations were sensible approaches to business.

"The technology stack needs to be even more flexible than the fulfilment process, and the introduction of new technologies from the supply chain and beyond is going to continue to accelerate," says Ashworth. "Designing a digital strategy that enables insurers to respond to these market conditions and not worry about continuous and expensive integrations is key to success in this rapidly changing environment."

Consumer behaviour and social trends

Consumers are changing the way they shop and buy for all kinds of products – and motor insurance is no exception. Yet advances in technology, that are increasingly connecting cars to communications networks, will perhaps have a more significant impact on future buying behaviour, fundamentally altering the relationship between consumer and provider – and even motor manufacturer.

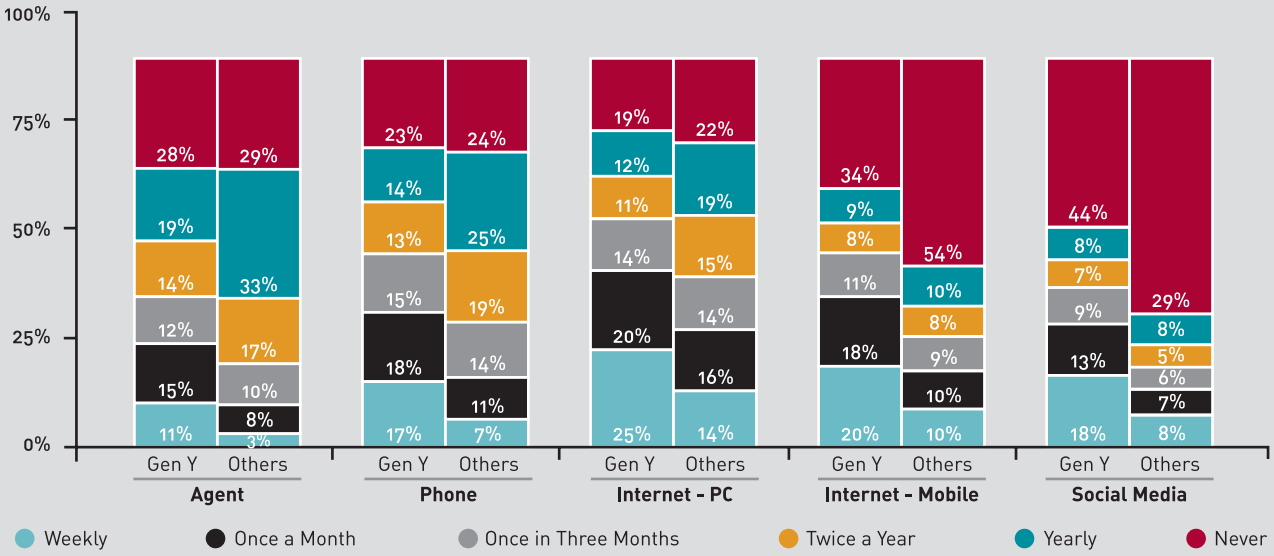
We've gone beyond the point of businesses responding to social and digital communications, and in to another era: Digital transformation. This is the realignment of every element of a business towards the way that customers now communicate: through multiple channels, with many and varied expectations of response time. This can be a prolonged and painful process – but it's something of an inevitable one for the vast majority of organisations that wish to continue trading with the public.

The benefit of adapting to this changing consumer behaviour is a double-edged sword. It helps create genuine, candid conversations with customers, but if things go badly, it can be a significant source of reputational pain.

Motor insurance buyers now make full use of all of the communications channels at their disposal to purchase, manage and claim on their policies. Their changing buying habits, lifestyles and expectations have to be taken into consideration.

Digital transformation has had a seismic effect on insurers, and will continue to do so: every business process, from customer acquisition through to policy cancellation must be rebuilt around the needs of customers who communicate via digital means – social media, the web (including intermediary and aggregation sites) and email, using mobile devices as well as PCs – in preference to dealing via brokers and call centre staff.

FIG 3 Frequency of Channel Usage - Gen Y Customers vs. Others (%), 2014



Source: Capgemini[8]

A worrying digital trend

Today's consumers are digitally dexterous and socially savvy, and they expect their insurer to be too. A seamless, real-time, multi-channel offering is now a baseline for good customer experience. For the motor insurer, this represents a multifaceted challenge; every customer-facing function of an insurer has to follow the latest developments in technology and communications as soon as it reaches reasonable levels of adoption – and that means preparing for such events well in advance. And even then, customer experiences can be significantly more negative than more traditional interactions with agents. Capgemini found[9] that the agent channel delivered positive customer experience levels almost double that of

8 World Insurance Report 2015, Capgemini and Efma - https://www.worldinsurancereport.com

9 World Insurance Report 2015, Capgemini and Efma - https://www.worldinsurancereport.com

digital channels. For whatever reason, this suggests that, as digital channels are increasingly used, insurers can expect positive customer experience reports to decline. And decline they did, in 2014, according to Capgemini's own research.

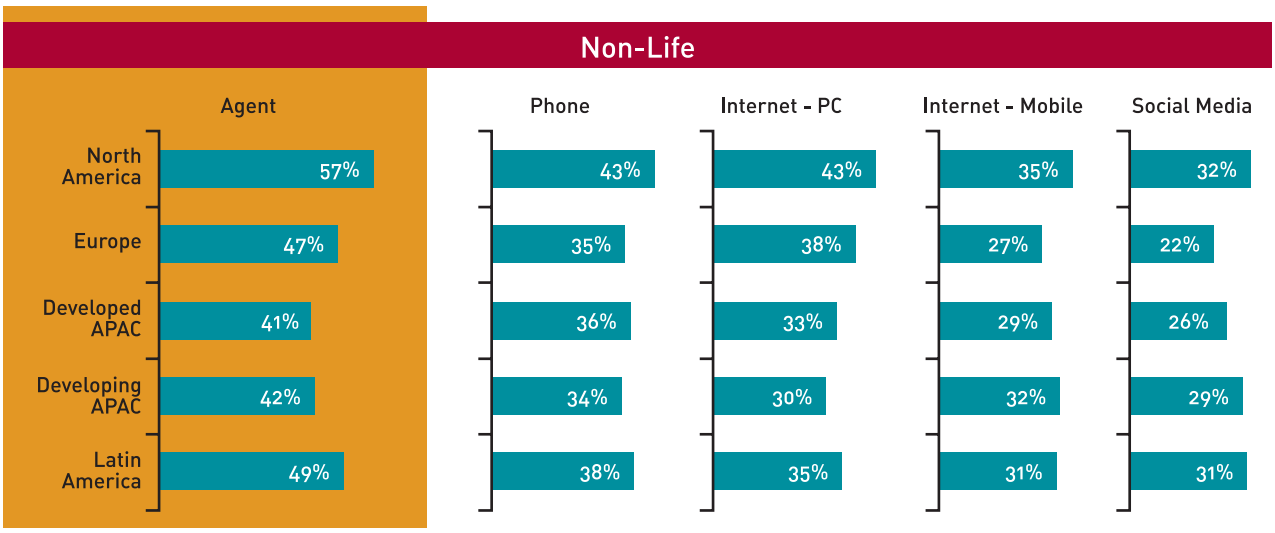
Perhaps just as worryingly, 'Generation Y' customers (those between the ages of 18 and 34, who grew up with the internet and smart devices) registered a steeper drop in customer experience levels; not only does this demographic represent an increasingly valuable chunk of the market, but their expectations are higher, their experience as customers less positive, and their medium of communication with insurers – digital – is significant less positive than more traditional mediums.

Whether this negativity is a function of social media and digital channels, or a demonstration of poor communication or channel management by insurers, is more difficult to establish. In part, it may simply be to do with the explosive growth of new channels, which is hard for organisations of all types, across all sectors, to keep up with. What is significant is that, as of 2020, Generation Y will make up 40%[10] of the working population.

Future impact

Consumers are moving to omnichannel – and the new channels they're using tend to be typified by poorer customer experiences. The challenge for insurers is to make sure that they maintain strong customer service grades as customers move to multiple new channels. To complicate things even further, customers already expect a 'joined up' approach, in which the organisation they deal with knows all of the contact points it has with the customer. A policy bought on a mobile device needs to have all of the customer's interactions attached to it, even as they handle a claim through phone calls, tweets, emails, picture messages and mobile app inputs – and, incidentally, expect similarly diverse insight into the progress of their claim.

FIG 4 Positive Experience Levels by Channel and Region (%), 2014



Source: Capgemini[11]

The customer experience imperative is, therefore, significant. Not only does it lead to lower customer loyalty, but recommendation levels also suffer, reducing a significant, authentic form of marketing: happy customers recommending your services to their friends.

10 KPMG: Transforming insurance: Securing competitive advantage, 2014 - http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Market%20Sector/Financial%20Services/Insurance/the-future-of-general-insurance-infographic.pdf

11 World Insurance Report 2015, Capgemini and Efma - https://www.worldinsurancereport.com

Customers are changing more than their channels of communication

In North America, they're carshares, and in the UK, car clubs – but the impact is the same. Rather than owning a car outright, more and more urbanites are choosing to hire a vehicle in increasingly small slices of time from companies that offer cars on demand to members, often at hourly or mileage-based rates.

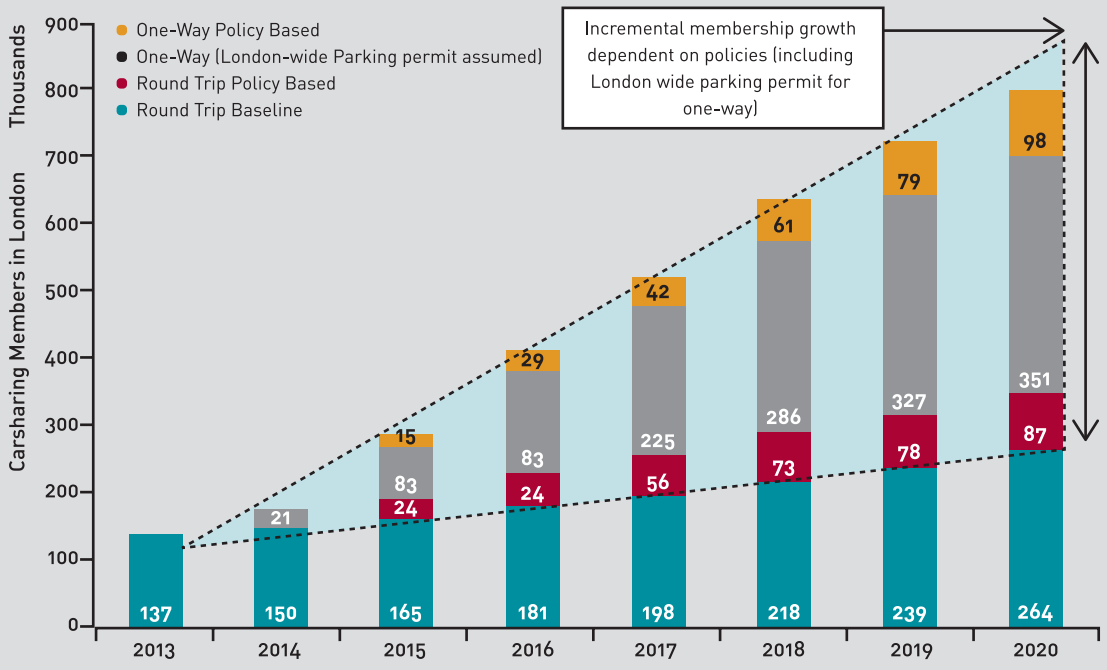
And it's not just the immediate usage market that's being changed by the technology that enabled car shares, argues Ninety's White:

"When you think of the products most insurers sell, they haven't changed in the last few hundred years," he says. "What has changed is that the technology has moved on, and connected homes and connected cars offer a real opportunity to prevent damage occurring before it takes place."

Research from Frost & Sullivan[12] for a UK-based car club, found that around 140,000 Londoners were members of car clubs in late 2014, and that, by 2020, car sharing of this type could take around 120,000 cars off the road in the UK capital, cutting CO2 emissions by 6%. The pollution reduction – based on 800,000 people sharing vehicles – was not solely related to reduced numbers of cars. Fleet vehicles used in the schemes are more likely to be made up of newer, less polluting models. Yet the most important aspect for insurers is this: 120,000 less cars in private ownership, in one part of the UK alone, represents a significant fall in potential policyholders. Indeed, the Frost & Sullivan study found that members of car sharing schemes saved around £3,000 each per year on car ownership costs, and drove 57% less than car owners.

The flipside, of course, is that newer, more specific policies for fleet operators are required, based on a large number of very different users with vastly different behaviours and driving habits. Combined with telematics and M2M, both of which have played a part in enabling car clubs in the first place, this represents a new market opportunity.

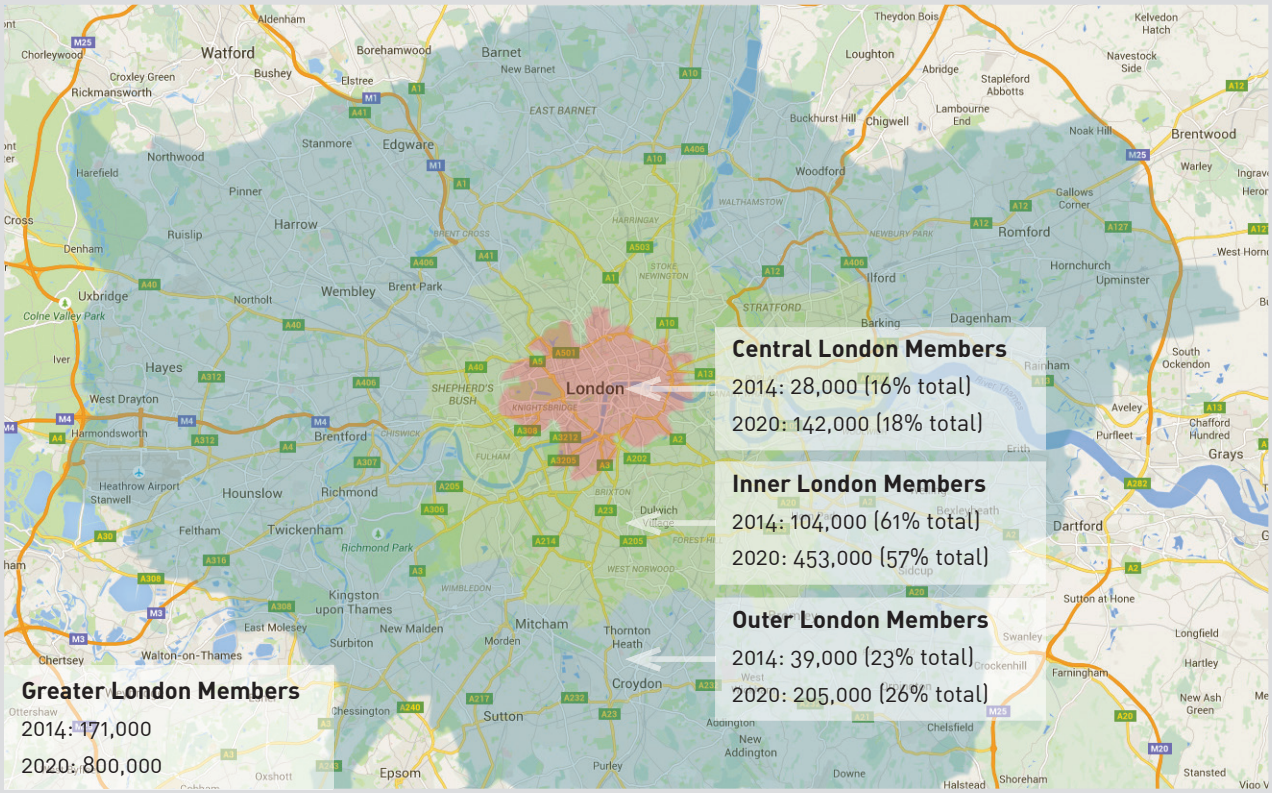
FIG 5 Car-sharing Membership in London 2013-2020 Projections



Source: Frost & Sullivan: Car sharing in London: Vision 2020[13]

12, 13 Frost & Sullivan: "Vision 2020" sets the Framework for exponential Growth of the Car-Sharing Market in London - http://ww2.frost.com/news/press-releases/frost-sullivan-vision-2020-sets-framework-exponential-growth-car-sharing-market-london/

FIG 6 Number of members by geographic area: Central (Red), Inner (Green), and Outer (Blue) London



Source: Frost & Sullivan: Car sharing in London: Vision 2020[14]

This also points towards a more flexible approach to car ownership. It is entirely possible that families owning more than one car will consider reducing their ownership to a single vehicle, saving significant costs. There is also the potential for variations in behaviour, with people hiring vehicles suited to intended purpose, such as small commercial vans for removals or waste transportation.

Further changes on the way for smarter cars

Ninety's White believes that the idea of connected cars will have passed into the public psyche within five to ten years. Self-parking, and collision-avoiding cars already exist and have reached mass acceptance. The real impact, says White, will be on insurers.

"The quoted statistic is that 95% of vehicle collisions occur because of human error," says White. "Take away a lot of the human error, and you take away 95% of the claims. What does that mean for companies that are built around claim fees? My suspicion is that we will see some fairly large companies failing because they are built around a dying business model, and so complex that they are unable to change fast enough."

Another technology is introducing more fundamental change

Buying decisions are increasingly impacted by the sentiment of the many, rather than the few. And mass sentiment towards insurers is often negative. Policy cost rises over the last few years, often caused by rises in criminally fraudulent claims, have hit customer loyalty, especially when coupled with poor customer service perceptions. Insurers who have, in the past, rewarded customer loyalty with an increase in premiums arguably have no right to expect customers to stick with them when other insurers offer lower premiums as an incentive to switch.

14 Frost & Sullivan: "Vision 2020" sets the Framework for exponential Growth of the Car-Sharing Market in London - http://ww2.frost.com/news/press-releases/frost-sullivan-vision-2020-sets-framework-exponential-growth-car-sharing-market-london/

However, this has, over time, led to a cannibalistic market where price, not loyalty, drives sales. But lately, there's been a change.

Lower premiums, driven by surpluses at insurers and improved fraud prevention, have made buyers more sensitive to customer service – something that, given the startling fall in positive customer experience discussed earlier, is worthy of consideration. Delivering this customer service in an era where the growing medium of communication comes with a side serving of poor customer experience perception is a challenge for more than one industry.

Yet this is very likely to change, thanks to the growing maturity of technological solutions that will have an effect on how motor manufacturers and insurers interact with consumers.

M2M, IoT and Telematics

Telematics has already had a significant impact on the insurance market, allowing insurers to price policies based on use and behaviour as it occurs, rather than based on historical patterns or extrapolations. It has given rise to new products, made young drivers's policies more fair and affordable and, in at least one case[15], actively helped save a life.

Yet insurers struggle to identify further applications for the technology, and design products that take advantage of it.

They're going to have to, however. Penny Searle, managing director of Wunelli, points to the advent of E-Call[16], a piece of EU-wide legislation that obliges manufacturers to install telematics in new cars. These black boxes will automatically summon the emergency services when a collision takes place. In a bid to recoup the cost of making and installing E-Call, OEMs will look to ways to monetise the data they collect – and this aligns closely with the gathering of customer behaviour data for analysis. Not for nothing, says Searle, has Toyota purchased Insure the Box.

"This [the purchase of Insure the Box] really demonstrates how important this part of the industry is to car makers and their insurance arms," says Searle. "Toyota will start to learn a great deal about driving habits – and that will help it to offer a far better insurance proposition that will compete with insurers at point of vehicle purchase."

"Collecting Driving Behaviour Data (DBD) is relevant to both manufacturers (OEMs) and insurers," says Searle. "However, it will be more accessible to OEMS at scale and across a wider demographic with the advent of E-Call. It opens a gateway to the OEM for ongoing customer contact

Cars will be sold with packages that don't just include finance, but also include an insurance policy. The manufacturer will have access to the car's driving data straight away – allowing it to provide a very competitive policy immediately, as soon as it's driven out of the showroom - *Penny Searle, Wunelli*

and this opportunity provides them with direct access to the data, with customer permissions, potentially enabling them to offer different insurance products at point of vehicle purchase."

It also challenges the current UK distribution of direct and aggregator.

"In the UK, a significant proportion of motor insurance policies are sourced via the aggregator channels – and only a tiny fraction of sales are made by OEM insurers or insurer relationships when vehicles are purchased," explains Searle. "Having the car already enabled to collect telematics data in the showroom allows manufacturers to strengthen their insurance products – and the means with which to offer a competitive sale. Cars will be sold with packages that don't just include finance, but also include an insurance policy. The manufacturer will have access to the car's driving data straight away – allowing it to provide a very competitive policy immediately, as soon as it's driven out of the showroom."

From Wunelli's perspective, says Searle, it is vital that the company facilitates relationships between OEMs and insurers that benefit both partners, while ultimately recognising that the consumer owns their data.

"The market has to grow in this direction, and it's better for the two groups – and their consumers – to grow together rather than for them to compete."

The Association of British Insurers has issued solid guidance[17] on the selling to telematics-based policies, noting that the technology allows insurers to manage individual policies, and it is likely that this aspect offers one of the more enticing reasons for delving further into the opportunity; a fall in the cost of storing, processing and presenting data as information, caused in no small part by improved analytics technology and cloud computing allows insurers to parlay the cost of calculating policies in near-real-time, offering more flexible policies based on usage and behaviour. Using car sharing organisations as a petri dish to explore new uses for the data is also a possible avenue of experimentation.

15 GetSurrey: Insurance black box saved driver's life after crash - http://www.getsurrey.co.uk/news/surrey-news/insurance-black-box-saved-drivers-8898066

16 http://ec.europa.eu/digital-agenda/en/ecall-time-saved-lives-saved

17 The Association of British Insurers: Selling Telematics Motor Insurance Policies - A Good Practice Guide - https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/Migrated/Telematics/Selling%20telematics%20motor%20insurance%20policies%20-%20ABI%20good%20practice%20guide.ashx

In the meantime, M2M and IoT technologies represent other opportunities to build support and service warranties into the insurers' offering. Combining such technologies into telematics offerings allows insurers to alert drivers to potential service issues, product recalls and upcoming replacement of wearable parts such as cambelts, tyres and brake discs. A car – and an insurance policy – that emails the user with reminders to service their vehicle, or even book the car in for a service with an agreed third party, is an enticing – if still slightly distant – possibility.

The next line: self service

A potential light at the end of the customer experience tunnel for many insurers is the concept of self service, with policyholders making, documenting and pricing claims in part themselves. As a means to improve service delivery standards and reduce costs, it has significant implications. Smartphones are, effectively, fantastically accurate claims devices, often equipped with GPS location capabilities, high resolution cameras, including video, audio recording, data transmission and other functionality that could lead to quicker, less costly claims handling that exceeds consumer expectations.

Future Impact

There is no doubt that the volume of people willing to give access to data from their vehicles and social habits will continue to grow. Innovation Group's own consumer research shows that this is more likely to happen when there is a value added pay-back such as lower premiums, improved security or simply a better claims experience.

"Insurers are faced with two big problems when it comes to telematics and claims," says Innovation group's Chris Ashworth. "Firstly, there are still many insurers and brokers that do not have access to the data required in the first place.

"Secondly, those that have data are faced with the challenges posed by legacy systems, low volumes expensive integrations and multiple sources of data that often mean the telematics claims experience of today is actually more cumbersome and less effective than the traditional claims process.

"For now, telematics is primarily sales-led and represents a huge untapped opportunity for insurers to reduce claims costs and secure true competitive advantage."

Conclusion

The motor insurance industry finds itself in the midst of tectonic competitor demographics: in customer behaviour, technological progress, regulatory impact and competitor change. Very rarely has such a diverse set of changes come along at the same time – and it's likely to result in an industry landscape that will undergo significant reshaping over the next few years. This challenge is, of course, a significant opportunity for those able to move fast enough.

It's certainly a brave new world for insurers, and one that is suited to organisations – both insurers and suppliers – that can deliver agility. For Innovation Group, that means harnessing the skills, expertise, software and flexible business approach at its core to help insurers become Future Ready.

The opportunities to introduce new products, extrapolated from, and driven by, the processing of large volumes of data, and responding to changing customer behaviours and practices, is perhaps one of the most exciting of all that present themselves – and not just to insurers. A policy for car club fleet operators that allows them to hand over fleet servicing, driver insurance, management and service delivery in a dynamic fashion is but one example. Often, at the heart of many scenarios, however, is the consumer. And increasingly they'll be using their mobile device to shop for, buy, use, rate, recommend, claim against and activate their insurance policy.

As premiums come down through fewer, less expensive claims, insurers need to fend off the threat of new digital entrants and falling revenues by delivering more value and products to consumers. This can mean adopting the tactics of digital businesses, just as those digital businesses seek to move into insurer's markets. An example may be Amazon's Prime service; a one-time payment that allows shoppers to get what they want on time at the quality and price they determine.

After all, why should consumers need, or want, a different insurer for their cars, home, pets, healthcare and travel? Once the need to shop around and play insurers off against each other is eliminated, there's more scope for such monolithic, data-drive policies, quite possibly with no fixed annual renewal.

The first step in the process of separating opportunity from catastrophe is to think laterally, embrace change and prepare for the future.

INNOVATION GROUP PLC

Yarmouth House, 1300 Parkway, Solent Business Park, Whiteley, Hampshire, PO15 7AE
T : +44 (0) 1489 898 300, F : +44 (0) 1489 579 181, info@uk.innovation-group.com, www.innovation-group.com/uk