

Karel Van Hulle

Head, insurance & pensions unit, European Commission
Directorate General for Internal Market & Services



Panel 1: Better customer service through innovation

CEA Motor Insurance Conference, 4 March 2010

Panel 1: Better customer service through innovation

- Question: what are the main challenges for motor insurers today and in the future, if they want to meet customers' expectations?
- Reply: insurers need to use their creativity to develop new products and give value for money, so as to satisfy customers' wishes.

Differences in compensation arrangements may need to be addressed through for example comprehensive insurance products with cross-border extension.

Panel 1: Better customer service through innovation

- Question: customer expectations and behaviour have changed quite significantly in recent years and the need for innovation has increased significantly. How do you think the capacity for innovation can best be ensured?
- Reply: Need to reduce restrictions in internal market so as to enable industry to offer innovative products which give customers best value for money in terms of prices and conditions.

Sten Nahrgang
Head of products property casualty, Generali Deutschland



Panel 1: Better customer service through innovation

CEA Motor Insurance Conference, 4 March 2010

Motor insurance has changed since deregulation –

Wins and losses for all involved

Development of motor insurance in Germany

Topic	Content
Deregulation: Beginning of innovations	<ul style="list-style-type: none">• Customers very quickly take advantage of new rating factors (garage, age of car, mileage ...)• Insurers gain from the necessity of distinct risk analysis and underwriting• But: Transparency disappears – e.g. a Stiftung Warentest comparison on 2 pages no longer feasible
Customer protection affects cust. behaviour	<ul style="list-style-type: none">• Customer protection organisations start a discussion on high potential savings in motor insurance• Price war starts in shape of discounts – new soft rating factors are „invented“• Internet insurers start with inexpensive offers and aggressive marketing
Insurers improve benefits	<ul style="list-style-type: none">• Improved risk analysis enables changes to the scope of benefits• First differences in the amount insured, Bonus/Malus scales and benefit enhancements• Integration of accident breakdown cover into TPL or Kasko• Starting fine adjustments of risk factors (combining client data with vehicle data etc.)
Comparability gets more difficult	<ul style="list-style-type: none">• Loss of transparency – customer protection organisations focus on reviewing benefits and comparing only exemplary calculations using certain combinations
Comparison tools start on the Internet	<ul style="list-style-type: none">• Internet with ever growing importance and popularity regarding price comparisons• New business model: Comparison portal identifies lowest priced insurer and mediates the client• Price war getting more intense – Decline of average premiums; poor profitability
Insurers feel pressure on expenses	<ul style="list-style-type: none">• Claims management leads to considerable cutbacks on expenses• New market participants – e.g. Admiral and Internet secondary branches• Two product strategy: Differentiation into Basis and Comfort
Status quo	<ul style="list-style-type: none">• 150 insurers are offering several new business tariffs – Customer spoilt for choice – Market adjustment?• Insurers gaining significant know-how – however, hardly any actuarial profits• Slow-down of price war – Only slight average decline of premiums; few customers take profit

German market affected by intense price and benefits competition –

Insurers aware of customer needs align their products accordingly

Core statement

Topic	Content
Market development	<ul style="list-style-type: none">• 2005 - 2008<ul style="list-style-type: none">– Average premium decreased from 230.60 € in 2005 to 206.50 € in 2008– Combined Ratio increased in the same period from 92.5% to 101.9%– Written premiums decreased from 21.8 bn € to 20.0 bn €• Premium level today similar to 25 years ago
Customer needs	<ul style="list-style-type: none">• Customers are mature citizens who want to and are able to decide for themselves• Insurers do know customer needs and align their range of products accordingly<ul style="list-style-type: none">– Multi product strategy: Introduction of inexpensive basic tariffs with reduced benefits in addition to established comfort products– Multi channel strategy: Introduction of secondary internet brands (HUK24, Allsecur, HDI24, Bavaria)– Improvement of benefits: „Mallorca“ coverage, FahrerPlus, B/M protecton, SF2 for second cars, etc.
Decreasing willingness to change insurers	<ul style="list-style-type: none">• Willingness to change insurer significantly decreases from 8.4 m customers in 2009 to 6.1 m in 2010<ul style="list-style-type: none">– About 1.7 m have cancelled their motor insurance in 2009 and 1.5 m of those have changed to a competitor – previous year 2.4m / 2.1 m– In 2009 33% wanted to change but did not find a better offer, compared to 25% in the previous year a significant increase – price-sensitive customers had already changed in the years before• For 71% prime reason to change is a lower price, for 12% better benefits were decisive; 49% say that good benefits are a supplementary reason<ul style="list-style-type: none">– On average every change leads to yearly savings of 113€. People changing to a direct insurer are saving a little less – mostly because they already had their car insured with a low priced direct insurer before

Summary of German motor insurance topics within the European context

Topic	Content
Legal framework	<ul style="list-style-type: none"> • Insurers do not use the potentials of free trade of services – interpretation of legal framework vague • Insuree able to buy contracts in all of EC (freedom of services) • Reporting requirements: Manufacturers must publish intent (claims management) – insurers: VVG reform
Customer expectations	<ul style="list-style-type: none"> • No fundamental changes: Price-sensitive customers as well as seekers of benefits and services • Customers nowadays are better informed (customer protection, comparison sites) • Assistance in Germany still with low importance (accident only – preferably with no additional premium)
Motor innovations in recent years	<ul style="list-style-type: none"> • KASKO PLUS, FahrerPLUS, Accident assistant, B/M protection, B/M saviour, SF2 for young drivers, Full Kasko Premium bodyshop management, replacement value compensation (Basis 6 / Comfort 18 months) • Pay as you drive (no market penetration) • Technical development – Smartphone, GPS, vehicle technology
Market access	<ul style="list-style-type: none"> • Generali group with multi-channel strategy • Internet comparison sites gaining importance – Check24 more than 1 m contracts in 2008
Cooperations	<ul style="list-style-type: none"> • Insurance sales via car dealers important for new business – Problems with profitability and dependency • Allianz in cooperation with manufacturers – market share about 70%
Price war	<ul style="list-style-type: none"> • About 150 insurers are offering several (mostly) new business tariffs • Differences in price positioning and price execution (discounts) • Overall tariff level decreasing for some years – CR has increased; still – moderate – loss of premium

Craig Staniland
Director, motor, Axa Insurance, UK



Panel 1: Better customer service through innovation

CEA Motor Insurance Conference, 4 March 2010

Innovation in Distribution

■ Why innovate?

- *“Never before in history has innovation offered promise of so much to so many in so short a time.” Bill Gates*

■ Innovation sought by the customer

- *Focused in part on communication*
 - Rise of:
 - Mobile phones
 - Internet
 - Social networking
- *Focused in part on personal need*
 - *Rise of tailored solution*
 - Long tail

■ Innovation historically driven by the supplier

- *Focused on pricing*
 - Improved accuracy
 - New analysis techniques
 - External data
 - Telematics
 - Reductions in supply costs



■ Swiftcover and more recently AXA Direct

- Developed our car insurance offering for the internet age
 - We enable the customer to inception and manage their policies 100% online.
 - Or by phone (or any combination of phone and internet)
 - We were the first and only 100% online insurer in the UK in 2005.
 - And still are!
- Meets customer needs
- Dramatically reduced production costs and servicing costs
- We still have much to do:
 - To meet the changes due to the rise of mobile phones
 - We sell via the 3g and text but need to improve the offering
 - Approx. 97 out of 100 inhabitants in the developed world have mobiles
 - Approx. 53 out of 100 inhabitants in the developed world have a pc
 - Legislation:
 - Advent of new legislation (for us this is quite manageable)
 - But interpretation of some laws is changing which is less straightforward.
 - Fortunately, given our production and development costs relative to our competitors the more change there is the more we gain.

Alberto Macián

Manager, motor insurance department, Estrella Seguros, Spain



Panel 1: Better customer service through innovation

CEA Motor Insurance Conference, 4 March 2010

HOW TO BETTER SERVE MOTOR INSURANCE CUSTOMERS?

- A claim is the “moment of truth” for an insurance product.
- With respect to claims service, and in order to provide customers with a proper value proposition, we must be aware of:
 - Avoiding litigation, by all means necessary.
 - Speeding the claims handling and settling process.
 - Operating efficiently, so that total costs to be transferred in the end to premiums can evolve in a self-contained manner.

That’s to say, balancing properly service and cost.

- The way to improve the image of the insurance industry is an ongoing process of service improvement, increasing the satisfaction of the customer base.
- Even though innovation is also faced at company level, improvements must be launched at industry level to be significant and appreciated by the customer base.
- Since the 1980s the Spanish motor insurance Industry (pooled under the wings of UNESPA) has launched a wide variety of initiatives at industry level, both for Material Damages (large claims) and Bodily Injuries (long tail claims).
- Those initiatives have aimed to fulfill the requirements mentioned above, by means of mutual collaboration, sharing claims information at industry level, and introducing claims handling and settlement agreements (direct settlement/indemnity agreements).

WHAT'S BEEN DONE BY THE SPANISH MOTOR INSURANCE INDUSTRY?

- Markets are different; positive experiences are not always positively exportable.
- On the Material Damages side, the historical sequence is the following:
 - The introduction of "Mixed Units" (articulated trucks and platforms) agreement, in 1987.
 - The introduction of the Friendly Claims Report, in 1987, sponsored by CEA (antecedent).
 - The introduction of CIDE agreement, in 1988, for TPL Material Damages.
 - The introduction of ASCIDE agreement, in 1990, for TPL Material Damages not cover in CIDE.
 - The automation of CIDE/ASCIDE agreements, in 1994, with the IT solution CICOS (improved additionally in 1999 with the "regularization service", in 2002 with the "technical office" and in 2005 with an automated calculation process of the compensation fee).
 - The introduction of SDM agreement, in 2001, for claims not covered in CIDE/ASCIDE.
- More than 95% of industry's TPL Material Damage claims are currently under the scope of the above mentioned agreements.
- TPL Material Damage claims took on average from 70-100 days to be settled, prior to 1987. In 2009, the average was 8.5 days for claims under CIDE/ASCIDE agreements, approx. 90% of total TPL Material Damage Claims.

WHAT'S BEEN DONE BY THE SPANISH MOTOR INSURANCE INDUSTRY?

- On the Bodily Injury side, the historical sequence is the following:
 - The introduction of “Baremo” (mandatory ruled system that assesses the compensation amount for Bodily Injuries) in 1995.
 - The introduction of CAS (an IT automation of Medical Expenses Agreements, covering all public and some private medical institutions) in 2005, intended to:
 - Boost the process of responsibility assessment (what insurance company must pay for the medical assistance in a motor TPL claim).
 - Boost the process of invoicing and payment.
 - Now in project the introduction of SDP agreement, for bodily injury claims, intended at a first stage to operate as a communication platform, and also to handle/settle bodily injury claims, and to take care of recoveries.
- In 2009, more than 320.000 invoices were automatically sent from the insurance industry to the medical system, with an automatic acceptance of 93%.
- Previous to CAS, the average time to settle such claims was more than 40 days. Nowadays it takes 8 days on average for an automatic invoice to be accepted, and 5 more days to be finally payed.

WHAT ABOUT CUSTOMERS PERCEPTION?

- **Litigation has clearly decreased, from >10% prior to 1987, down to (less than) 0.5% in 2009.**
- **Claims are handled and settled in a faster way, year after year, as already noted.**
- **Average premiums (source: UNESPA & ICEA) in 2009 are below the levels of 2002 in nominal values, and below 1992 levels in real values, with better vehicles insured and higher levels of cover (not only compulsory covers). The industry has done its homework.**
- **Sector satisfaction index (source ICEA) for motor insurance claims remains high and increasing: from 83% in 2002 up to 88% in 2009.**