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Shopping Around

The share of e-commerce premiums is small today in most markets, but things are changing. Advances in technology are already playing an important part in framing consumers' expectations of how they want to browse, shop and be served by insurers.

By: Kulli Tamm, Senior Economist, Swiss Re
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Swiss Re's latest sigma study, Digital distribution in insurance: a quiet revolution, looks at how technology is revolutionizing insurance distribution globally. Where does Canada stand?

Globally, the Internet and mobile telecommunications are fundamentally changing how consumers and firms interact with insurers. The study found that new technology will eventually enable customers to arrange most of their insurance through remote digital channels.

Though the share of e-commerce premiums generally remains small today, advances in technology in most markets are already playing an important part in framing consumers' expectations of how they want to browse, shop and be served by insurers, as well as the quality of interaction they expect. Canada, however, is a relative laggard in this space.

A PUSH FROM PRICE COMPARISON SITES

The motor market in the United Kingdom is the clear leader in terms of e-commerce sales. Direct channels - including telephone, Internet and price comparison websites - now account for almost two-thirds of personal motor distribution in the country. Success can be attributed to cultural factors and a big push by price comparison websites backed by advertising dollars and, thus, leverage with insurers.

In Canada, despite the existence of online comparison sites such as Kanetix - which has been around for more than a decade - a 2012 survey, commissioned by Allstate and conducted by Pollara, found that only 2% of customers had bought their current auto policy online.

Moreover, 2013 Canada property-casualty insurance outlook, an EY (Ernst & Young) global consumer survey released the same year, found that only a third of Canadians had even researched property-casualty insurance on the Internet.

This is likely due to the strong presence of direct agent networks of most major Canadian insurers, as well as brokers, and the limited push by the companies to promote sales through their websites.

However, the experience of the U.K.'s motor market shows how quickly consumers' buying patterns can change. With consumer surveys indicating greater interest in online research and purchasing, the future in Canada may look quite different from today.

Aware of the growing consumer interest, particularly among Generation Y, most large Canadian insurers have launched online auto quote generators on their websites over the past few years. Still, the latest sigma survey shows, they continue to lag behind other markets in providing website capabilities to allow research, advice and sales online, in the auto insurance sector and beyond.

TAPPING THE MOBILE SPACE

Like the Internet, mobile devices are still largely used to gather information, but insurance executives expect that to change as online purchasing proliferates. To accommodate how consumers interact with their mobile devices, however, successful insurance distribution via smartphones requires mobile-tailored design, not just providing mobile access to websites.

For example, in the Netherlands, Aegon launched a new company, Kroodle, in 2013. This is paperless insurance offered via Facebook only, using Facebook profile information to partially pre-fill the insurance application. Similarly, innovative homeowners' insurer Homesite in the United States has a sales application designed specifically for convenient mobile use.

In the U.S., many insurers' mobile apps can also be used for post-purchase services, including reviewing policy documents, making changes to policy coverage or personal information, or even starting a claim by uploading accident photos via smartphone.

Canadian insurers, on the other hand, do not appear among the first-movers with mobile technology. An increasing number of companies have started to offer mobile apps and mobile-friendly websites, although a large majority of Canadians nevertheless still go through their broker or agent to change policy information and file claims.

Telematics are fundamentally changing insurance distribution by mobilizing the data collection process. So far, most applications have been in auto insurance, with global adoption accelerating in the past few years.

In Canada, Quebec was the first province where a telematics product was rolled out in 2012, for young drivers of Industrial Alliance Insurance and Financial Services Inc. The relatively slow spread to other provinces has been partly attributed to regulatory hurdles.

However, over the past year, Ontario has seen a few insurers introduce telematics, including some of the largest p&c providers in the country, and a number of commentators have suggested the slow start will give way to a fairly quick ramp-up in the near future.

Over time, the use of telematics-based insurance is likely to grow beyond motor. In property insurance, this could, for instance, include sensors in homes or buildings to detect changing risk conditions. In the life and health space, the use of wearable devices to track information related to individuals' exercise, diet or health behaviours is influencing design, pricing and claims management.

In South Africa, for instance, Discovery's Vitality program already allows users to record activities with web-enabled mobile devices, receiving premium discounts in exchange for providing information to underwriters.

BIG QUESTIONS

Consumers' digital interactions have resulted in the capture, storage and management of large quantities of information - both from direct engagement with customers, through, for example, insurers' own websites, and via data gathered by third-party vendors such as Google and Facebook.

Combined with enhanced analytics (often collectively referred to as Big Data) this is facilitating a deeper understanding of customer wants, needs and behaviours.

The key is to harness the insights from data and analytics to not only improve risk selection and pricing, but also to use the technology to make insurers' products and services more customer-centric.

Insurers are not leading investors in Big Data, but they are gearing up.

Canadian insurers are somewhat behind the U.S. in implementing predictive modelling in underwriting, risk selection and pricing, although they actually may be ahead of the game in some commercial pricing applications, as suggested by separate reports from Towers Watson and Swiss Re.

Claims management and fraud detection are also potential beneficiaries of Big Data analytics and predictive modelling. For example, the Insurance Bureau of Canada has worked with IBM on a fraud identification project that is projected to lead to solutions that could save Ontario auto insurers about $200 million per year, notes information on IBM's The Big Data & Analytics Hub.

Globally, the sigma study concludes, technology-led shifts in distribution increase transparency, empower customers and lower barriers to entry in some markets, which can lead to further commoditization of insurance products.

In this more price-competitive world, the most successful insurers will be those that can build trusted brands and reputations for good service.

Mastering the latest devices to be able to provide more personalized cover and accurate risk-based pricing to differentiate from the competition will matter.

As everywhere, Canadian insurers will have to innovate to develop a client-centric and digital mindset capable of responding to changes in the market environment and delivering insurance solutions closely tailored to customer needs.

Photos

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File size: 26.5 KB (512px X 768px)
Caption: Kulli Tamm, Senior Economist, Swiss Re

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