



**Deloitte.**

European Motor Study  
Ready for the customers' switch?



# Foreword

## Welcome to this Deloitte report on changing customer behaviour in European motor insurance markets.

Motor insurance is a flagship product in non-life insurance. Across Europe, the industry has faced multiple challenges such as the economic crisis, regulatory changes, inflation and fierce competition but overall the total market size has remained stable. Interestingly, in many countries, customers have been relatively loyal but will they remain so in the future?

Innovative uses of omni-channel and digital by companies across industries have changed customer expectations of what they can buy, where and how. With additional trends such as ageing populations, how does the insurance industry need to adapt to customer demands? Will these trends impact the way people renew their policy and switch providers? Based on our European study we believe that customers are more ready than ever to switch and this is only the beginning.

This raises serious questions for motor insurers about how they are going to satisfy changing customer needs. How companies react to these needs will differentiate the winners from the losers.

In this report we present some perspectives on the strategic choices faced by the insurance industry over the next few years.

We hope that you find these insights thought-provoking and useful. Finally, our teams welcome an opportunity to discuss these trends and possible solutions with you in more depth. Thank you for your interest.

*In many countries, customers have been relatively loyal but will they remain so in the future?*

*Based on our European study we believe that customers are more ready than ever to switch insurers and this is only the beginning.*



**David Rush**  
Partner, Audit  
EMEA Insurance co-leader



**Michel De La Belliere**  
Partner, Consulting  
EMEA Insurance co-leader

# Introduction

## Purchasing motor insurance is shifting from traditional channels to digital and mobile, and we expect this trend to continue.

With improved access to information and significant adoption of digital channels (to which older people are turning to in ever greater numbers), it is clear that customers will be increasingly changing providers as they find better deals for motor insurance.

The insurance industry has to respond to this changing environment.

We wanted to assess the potential scale of the impact on the industry and how insurers could respond to such changes across Europe.

Deloitte asked about 9,000 customers from France, Germany, Ireland, Italy, Poland, Spain, Switzerland and the United Kingdom, to help answer these questions.

This report highlights key findings from our detailed country-specific analysis as well as the most important challenges.

For example, customers are ready to switch insurance providers more than ever before.

This is true across all eight countries, with most impact on countries with currently low levels of churn. The numbers of customers ready to switch will not increase linearly but exponentially. Our projections indicate an increase of a factor of up to 3, over the next five years, in the number of customers with less than a year with their motor insurer portfolios. Across these countries, this represents 67 million customers ready to switch.

For established motor insurers, this will be a call for survival as not everybody can win.

This report shares some considerations for insurers on how to identify customer segments that might be of greater interest and how they could respond and defend their position, or (preferably) win in the coming battle for customers. In particular:

- A successful strategy will balance digital with the 'emotional' connection that customers still cherish.
- As evidenced by the different cultures and countries, there is no 'one size fits all'.
- Winners will display an unprecedented sense of focus whilst remaining agile in the continuously evolving regulatory and digital landscape.

While this report summarises key findings, do not hesitate to contact us or any of our colleagues and gain further insights on our detailed country-specific analysis.

*We predict the number of customers with less than a year on their motor insurance portfolios could increase by up to a factor of three over the next five years.*



**Alex Poracchia**  
Partner, Consulting



**Chloe Paillot**  
Senior Manager, Consulting

# What is on the horizon?

This summary highlights the key findings from the study and the challenges facing European motor insurers.





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The insurance industry has to respond to this changing environment.

# Setting the scene

European insurance groups have turned their attention back to profitable growth, having focused in recent years on cost efficiency and regulatory programmes.

Motor insurance is still the biggest selling insurance product in Europe. Small movements in insurers' portfolios have large implications on the bottom line: it is therefore critical for insurers to get their motor insurance strategy right.

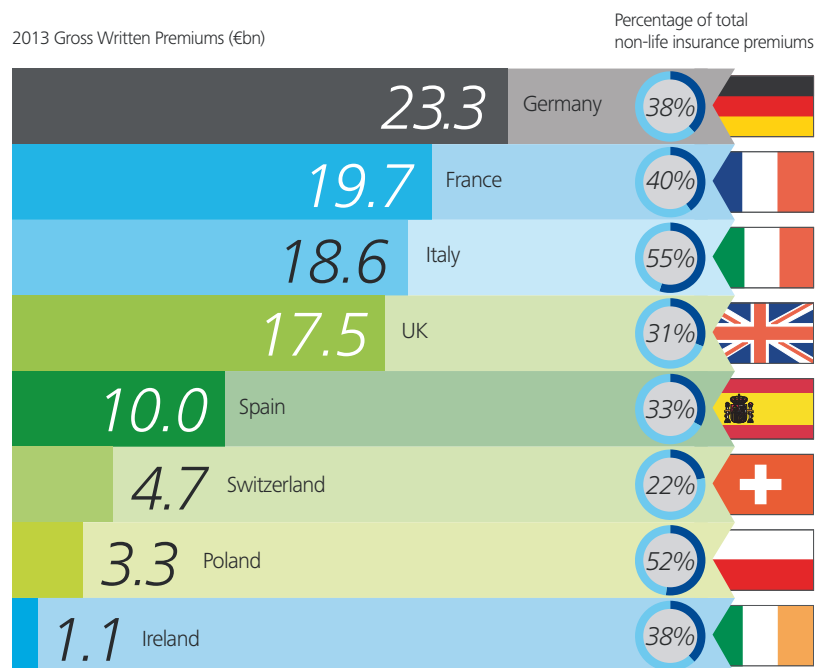
Europe's economy is slowly recovering. Demand for new cars is back. 2014 was the first year since the financial crisis to see an increase in private car sales across Europe: sales grew by 5.4<sup>2</sup> per cent, compared with an average annual fall of 3.8<sup>2</sup> per cent in the previous years since 2007. Whilst this creates churn, the pressure on households' disposable incomes has not completely eased. This means that customers are looking for new and better products, offering greater value for money.

## Why is motor insurance important to insurers?

In the eight countries covered by our survey, gross written premiums for motor insurance totalled €98bn (i.e. 76 per cent of the total European motor market estimated at €129bn<sup>1</sup>) in 2013. This represents between 22 per cent and 55 per cent of total non-life insurance premiums in those countries, making motor insurance the most significant non-life insurance product.

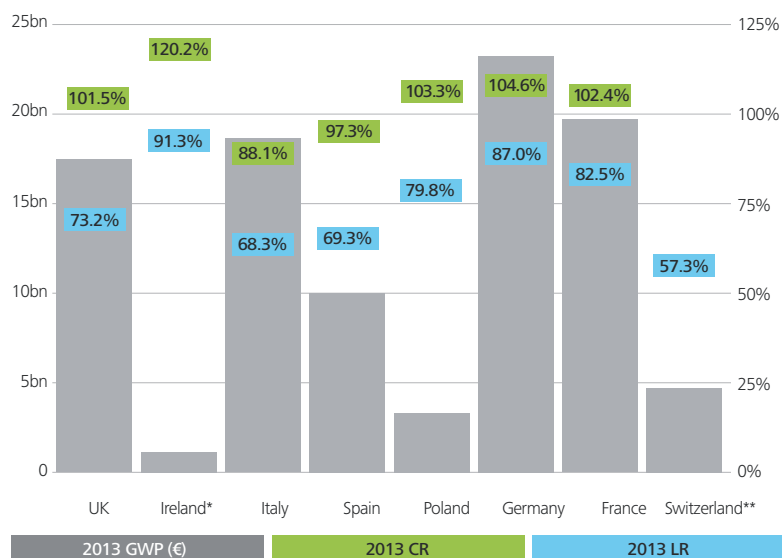
As a mandatory product, at least in respect of third party motor liability cover, motor insurance will continue to enjoy a sustainable market demand. Selling motor insurance gives insurers access to a large pool of customers and opportunities for cross-selling a range of additional products.

Figure 1. Motor insurance as a percentage of total non-life insurance premiums



Source: See note 1 on page 29

**Figure 2. 2013 written premiums, combined ratios (CR) loss ratios (LR) (gross of reinsurance)**



Source: See note 2 on page 29

\*Ireland Combined Ratio and Loss ratios are Net of Reinsurance.

\*\*Switzerland: the combined ratio is not publicly available

### Motor insurance market performance

Underwriting performance in the selected eight countries has not been particularly good, with the exceptions of Italy, Switzerland and Spain. Performance has been improving over the last few years, with better reported combined ratios. However, in many countries reported combined ratios were still above 100 per cent in 2013, as illustrated in Figure 2.

### A need to grow and improve profitability

With such levels of underwriting results, most insurers have relied on investment income and revenue from ancillary products and premium financing to generate higher returns. They have also implemented cost savings programmes. However, in the current low-yield investment environment and with increased regulatory focus on fairness to the customer, these routes to improving financial results have already been fully exploited.

Insurers need to improve their capabilities and services in order to remain competitive in their markets; and to invest in new platforms and other programmes. Regardless of their ownership structure, established insurers need to show an ability to improve returns in the future. This will be important if they are to secure new financing from shareholders or members, whilst still remaining competitive to customers. There is also a need to improve the overall returns to reward more stringent capital requirements under the upcoming Solvency II regulations.

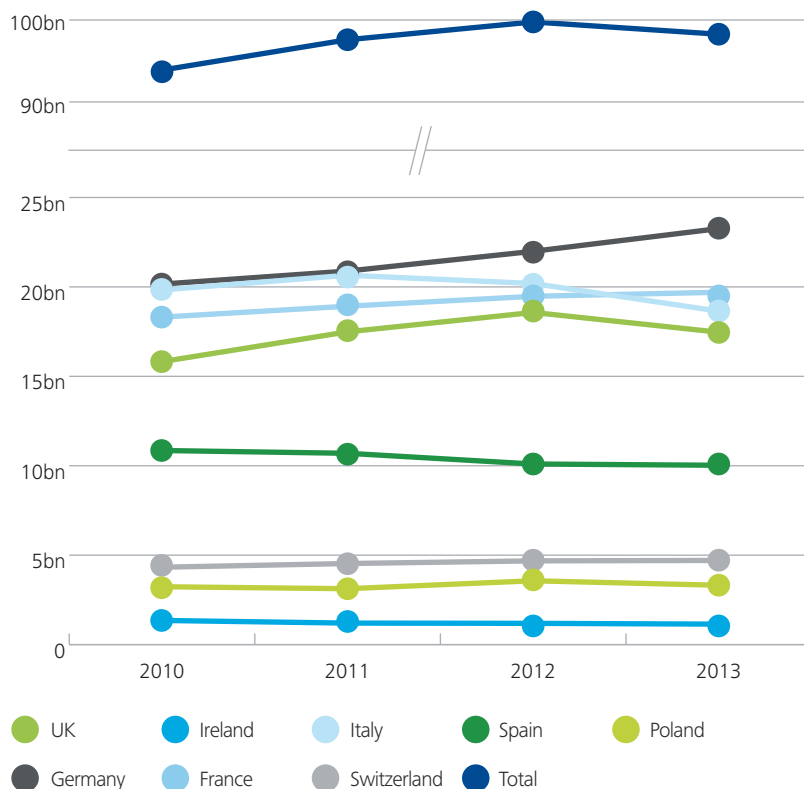


### What is the scope for future growth in premiums?

As you'll see in Figure 3, total motor gross written premiums for the eight countries in the survey increased slightly from €94bn in 2010 to €98bn in 2013: an average annual growth rate of just 1.5 per cent over the three year period. Recent market dynamics varied between the countries, ranging from significant growth in Germany, some growth in France and a decline in the United Kingdom, Ireland, Italy and Spain.

In view of the economic outlook, improvements in car safety reducing claims and cost inflationary trends, we do not foresee any substantial increases in total market written premiums.

Figure 3. Gross written premiums (GWP) by country (converted Euros)



#### CAGR (converted Euros)

UK: 3.4%	Poland: 0.9%
Ireland: -5.4%	Germany: 4.9%
Italy: -2.0%	France: 2.5%
Spain: -2.6%	Switzerland: 2.8%
Total: 1.5%	

#### CAGR (original currency)

UK: 2.2%	Poland: 2.5%
Ireland: -5.4%	Germany: 4.9%
Italy: -2.0%	France: 2.5%
Spain: -2.6%	Switzerland: 2.2%
Total: 1.5%	

Source: See note 3 on page 29

### So how to grow profitably in this market?

As total market premiums are unlikely to grow significantly, insurers will need to improve returns by profitably increasing their market share. Insurers are looking at both inorganic and organic ways of doing this.



*49% of our respondents across Europe have been with the same motor insurer for the last three years or more.*

*The survey suggests that this percentage could fall by more than one third to 32% in the next five years.*

The limited options for growth are the reason why we think this is the right time for motor insurers to put the customer at the centre of their business development strategy. Motor insurance customers now have access to more information than ever before. Their attitude towards motor insurance is changing and they are ready to shop around. Whilst price is most important to them, price on its own is not a sufficient attraction. Insurers need to recognise this change in customer attitudes, and act now to avoid losing out to competitors.

### A storm ahead

According to our survey, customers are now more ready than ever to switch. About half of our respondents across Europe have been with the same motor insurer for the last three years or more. However, their survey responses suggest that this percentage could fall by more than one third to approximately 30 per cent in the next five years.

Using our survey results, we have estimated the likely impact of such changes in behaviour across each of the eight countries. We have assumed that respondents will behave according to their stated intentions over the next five years, and have applied the survey findings to the numbers of registered cars.

On the basis of these assumptions, we could see between 60 and 67 million policy switches each year across the eight countries, compared to 27 million policies switching over at the last renewal. This means that about 320 million policies could be up for grabs over the next five years, which is about one third of the total number of policies.

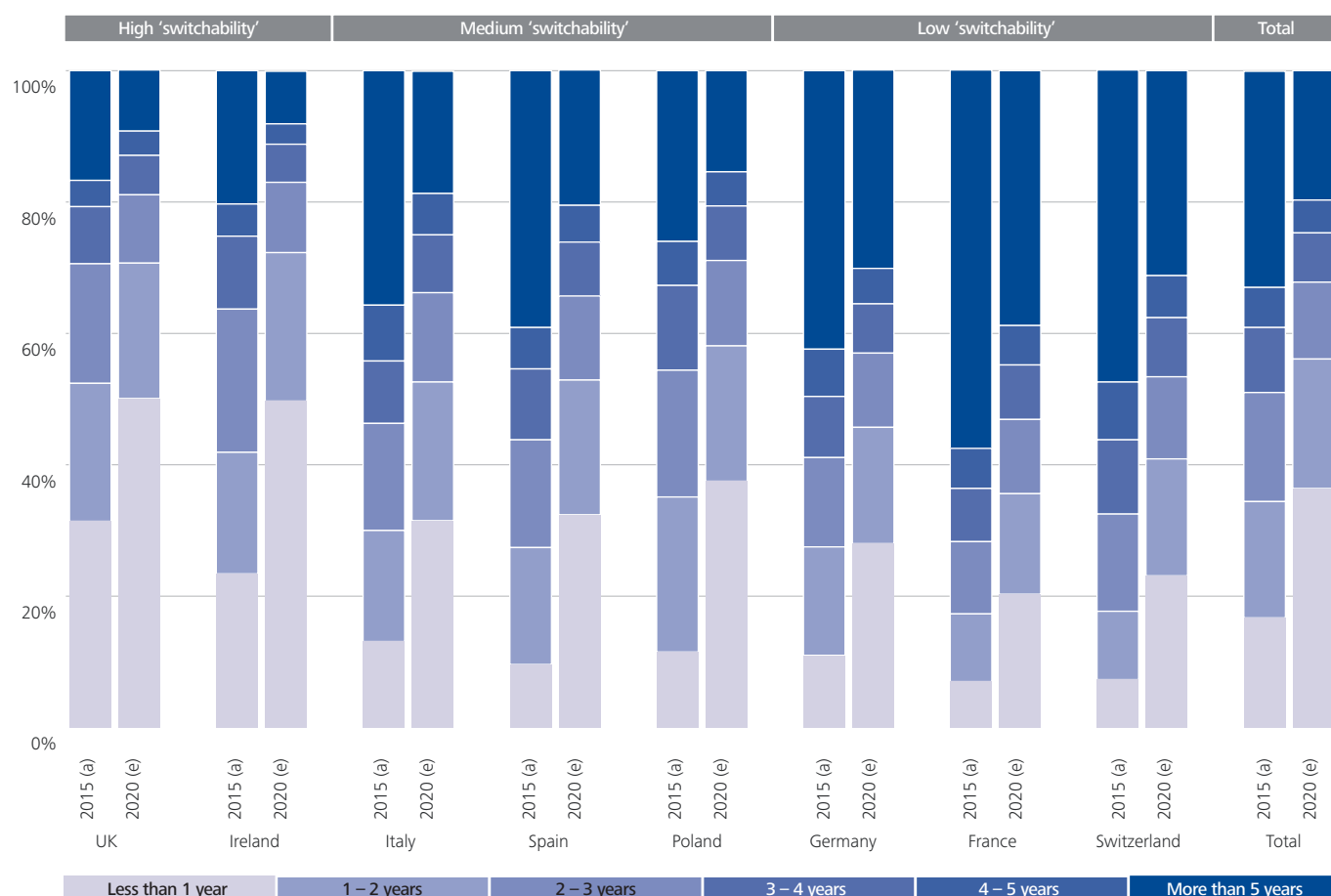
Such radical changes in customer behaviour will present a challenge for retaining valuable customers and opportunities for attracting new and profitable customers.

Figure 4 shows the actual distribution of the sampled population by policy tenure for each country in 2015 and our forecast of the distribution in 2020. These estimated distributions provide a sense of the direction in which the market is heading.

We have classified countries according to their 'switchability': this is a measure of the proportion of customers who are prepared to switch to a different insurer. We have assessed 'switchability' from the survey results as a function of tenure, likelihood to switch and awareness of renewal, and we have grouped the countries into three categories according to their current 'switchability':

- **High 'switchability' markets:** UK and Ireland.
- **Medium 'switchability' markets:** Spain, Italy and Poland.
- **Low 'switchability' markets:** France, Germany and Switzerland.

**Figure 4. Customer distribution by policy tenure**



a – actual e – estimated

Source: Deloitte Analytics

The actual distribution by policy tenure in 2015 indicates cultural differences across countries when it comes to renewing with their motor insurer.

Between 40 and 50 per cent of respondents in the UK and Ireland have been with their insurance providers for the last two years at most. In comparison between 40 and 60 per cent of respondents in France, Germany and Switzerland have been with the same insurance provider for five years or longer.

What we found from the survey is that customers are more willing to switch even if they have not done so in the past. There is a significant difference between historical levels of turnover and stated intentions for the future, in particular in those countries with low to medium 'switchability'.

*Customers are more willing to switch even if they have not done so in the past.*

*The changes present an opportunity for insurers to attract new customers as well as a threat of losing loyal customers.*

In countries such as France and Germany, where customers have historically been loyal to their motor insurance provider, we are more likely to see a step change in the average tenure of motor insurance policies. In France, for example, the number of customers with policies in their first year could double or even triple by 2020.

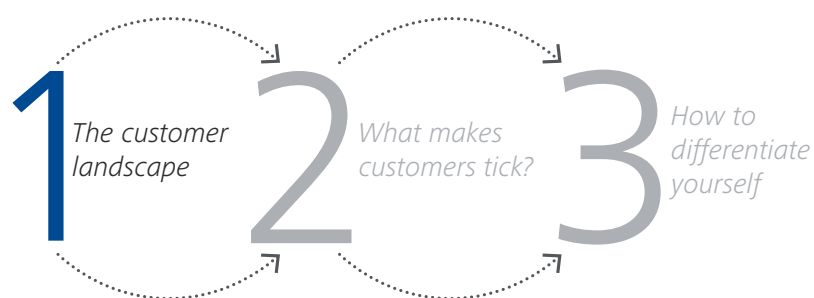
All eight countries are heading towards a less stable environment where customer behaviours will be more volatile. This increase in churn will come as a result of, and may even be accelerated by, digitalisation, increasing access to information, and mounting regulation that focuses on customer protection and rights to transparency. A wave of legislation across Europe is affecting motor insurance, around both increased customer protection and genuine freedom of choice at the point of sale as well as increased compensation to claimants. For example, the purpose of the 'Loi Hamon' in France, in force since 1 January 2015, is to assist customers in benefiting from market competition. Other examples of legislation affecting claim awards are the revision of the 'Baremo Auto', soon coming into force in Spain, and the Polish FSA guidelines regarding MTPL claims handling, in force since 31 March 2015. Regulations put further pressure on insurance premiums, which will make it even more important for insurers to have a customer-centric approach to their business strategy in order to move away from a pure price play.

The changes present an opportunity for insurers to attract new customers as well as a threat of losing loyal customers. Insurers need to act now to attract the right type of customers, before losing market share to competitors.

In the remainder of this report, we discuss three important stages for attracting the right motor insurance customers, in each of the eight countries. These stages are:

1. Understand the customer landscape.
2. Understand what makes customers tick.
3. Explore how insurers can differentiate themselves in the eyes of those customers.

# The customer landscape



## Understand the various customer segments and their potential.

The motor insurance market contains different types of customers, each with different behavioural characteristics that determine their potential lifetime value for insurers. It is therefore vital for insurers to understand the make-up of customers within each market.

Insurers should seek to attract the right type of customers: those who fit with their business strategy but, more importantly, who will generate value to insurers. Optimising customer lifetime value is all about maximising tenure and earning a revenue stream from new customers in excess of their acquisition costs. As we discuss later, the traditional concept of customer lifetime value will have limitations.

Based on the responses to our survey we have identified the following five categories of customers across Europe, as illustrated in Figure 5 overleaf:

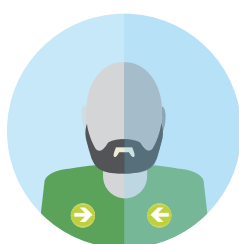
- Older loyalists
- Middle-aged switchers
- Younger indecisives
- Pricey elders
- Low-priced middle-aged loyalists

We have characterised each country by three segments, and the nature of these differ between the national markets.

Based on our survey responses, we have rated each customer segment according to their potential attractiveness for an insurer's acquisition strategy.



Older loyalists



Middle-aged switchers



Younger indecisives

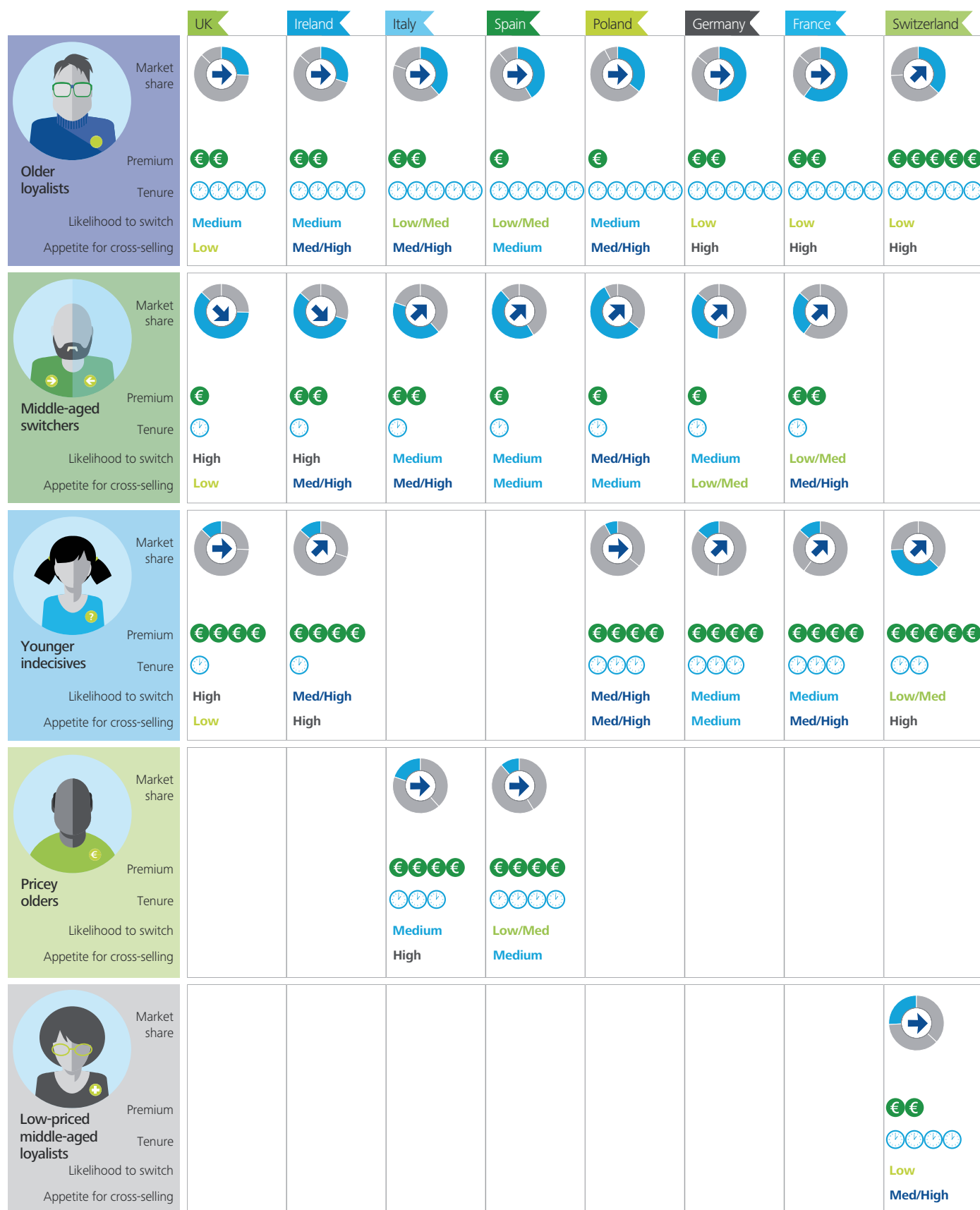


Pricey elders



Low-priced middle-aged loyalists

Figure 5. Customer landscape across Europe



Source: Deloitte Analytics

Note: Results presented in the figure above are based on survey results. Market shares are estimated with the number of survey respondents. The arrows illustrate the overall relative attractiveness of each segment



	Description	Attractiveness
Older loyalists	These tend to be at least 45 years old and have been with their insurer for more than four years. The level of premiums they pay varies by country but they are mostly in the low-to-medium range within their respective markets.	Older loyalists would appear to be a 'gold mine' and in the low 'switchability' countries they represent the majority of customers. However this segment of the market is likely to be saturated. The loyalty of these customers to their current insurer could be a barrier for acquisition, driving up the costs of acquisition. The possibility that they might switch currently varies between low and medium in all eight countries.
Middle-aged switchers	These tend to be 40 to 50 years old and stay with their insurer for about two years. Their premiums tend to be on the low side.	Middle-aged switchers are the largest customer segment in the high and medium 'switchability' markets, and are growing in number in the low 'switchability' markets. Insurers seeking to grow should therefore consider them carefully. Some Middle-aged switchers will diminish value for the insurer, because they will switch again before long; but others will stay if you can provide them with what matters to them most. There is an opportunity to attract more of these customers but it will be important to increase their satisfaction. Insurers need to look at segmenting this market further: many customers may be relatively easy to attract, but it will not necessarily be easy to retain them and maximise their lifetime value.
Younger indecisives	These tend to be about 30 years old on average in the UK and Ireland and slightly older (average 35) in the less mature markets. Their tenure with their current insurer varies by market, but is between two and four years. They do pay significantly higher premiums.	Younger indecisives are another interesting customer segment. They are eager to switch but do not always do so, probably due to a lack of options and tailored products to fit their needs. This represents an opportunity in itself. They are ready to switch, they pay high premiums, and in some countries they respond well to cross-selling. We believe however, that Younger indecisives are just a niche market opportunity in view of the limited size of the market segment: Switzerland is an exception.
Pricey elders	These tend to be about 45 years old, have been with their insurer for about four years and pay high premiums.	Average premiums paid by customers can be an indicator of inefficiencies in the market. This is the case with Pricey elders in Spain and Italy, where for various reasons their premiums are significantly higher than in the rest of market. There is potential for insurers to differentiate themselves for these customers, provided they understand the customers and their associated risks sufficiently well.
Low-priced middle-aged loyalists	These are a category unique to Switzerland. They tend to be 40 to 50 years old, paying lower premiums but staying for a relatively long time with their insurers.	They represent a decent proportion of our respondents. These are relatively less attractive than other Swiss segments due to relatively lower premiums combined with a low 'switchability'.

While insurers should carry out a more detailed segmentation of their markets, we have highlighted the main three customer segments to illustrate the market dynamics and key features for insurers to contemplate.

Insurers should consider those market segments where a market opportunity or niche market opportunity may exist. The key is not to target customers who switch regularly on the basis of price alone, as these customers will lose value for the insurer.

#### How will customers' tenure change in the future?

Figure 6 illustrates the current spread of customers' attitude towards switching from the survey. It compares the current tenure with the likelihood of switching for each customer segment across the eight countries.

What stands out is that there are clear differentials in tenure and appetite to switch across countries and customers segments. Obviously, the Older loyalists have stayed with their current insurers significantly longer than the Middle-aged switchers.

However, their readiness to switch varies widely: customers in Ireland, UK, Poland, Spain and Italy show a greater appetite to switch than those in Switzerland, France and Germany.

#### Where is it going next?

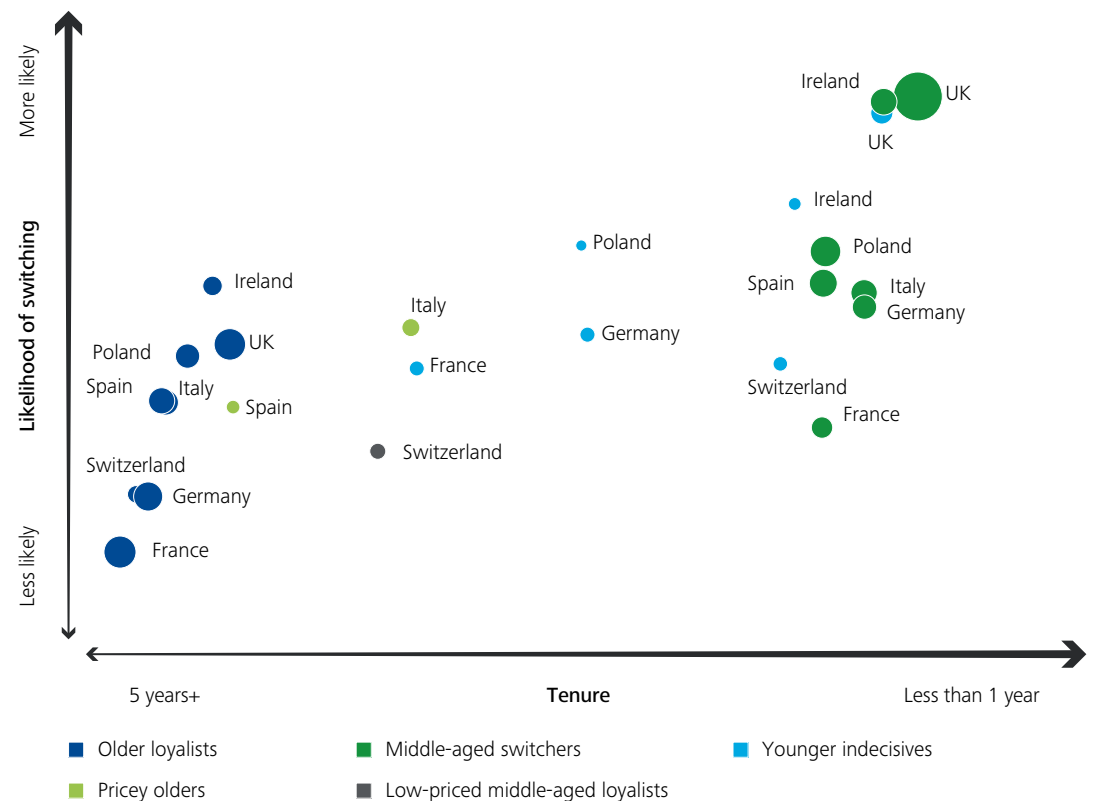
Taking Older loyalists as an example, Figure 7 illustrates our estimated shift over the coming years, informed by the different factors and 'switchability' captured in our survey.

Whilst the implication of many individuals switching insurer translates naturally into the reduction of average tenure, what is more surprising is that the likelihood for switching again increases too. In other words, once long standing customers have experienced a successful switch they gain the confidence to do so again.

The implications of these changes on the insurance industry are significant and far reaching.

Indeed, renewing a motor portfolio will be as difficult as acquiring it in the first instance.

**Figure 6. Current tenure versus likelihood to switch**



Source: Deloitte Analytics  
Note: The size of the bubbles is based on number of respondents

Furthermore, this fundamentally challenges the concept of customer lifetime value where insurers can amortise the costs of acquisition over several years. This may no longer be appropriate as this will not be a fair reflection of customer behaviours anymore.

Through a genuine understanding of what matters to each of the customers, which can vary widely as suggested by our survey, we believe there are opportunities for insurers that act in a focused and targeted manner and contain or take advantage of these trends.

For the remainder of this study we shall focus on three specific customer segments. These market segments illustrate the differing customer needs in each segment and the approaches that insurers could take to meet them.

**Segment 1.** Younger indecisives in UK and Ireland.

**Segment 2.** Pricey elders in Spain and Italy.

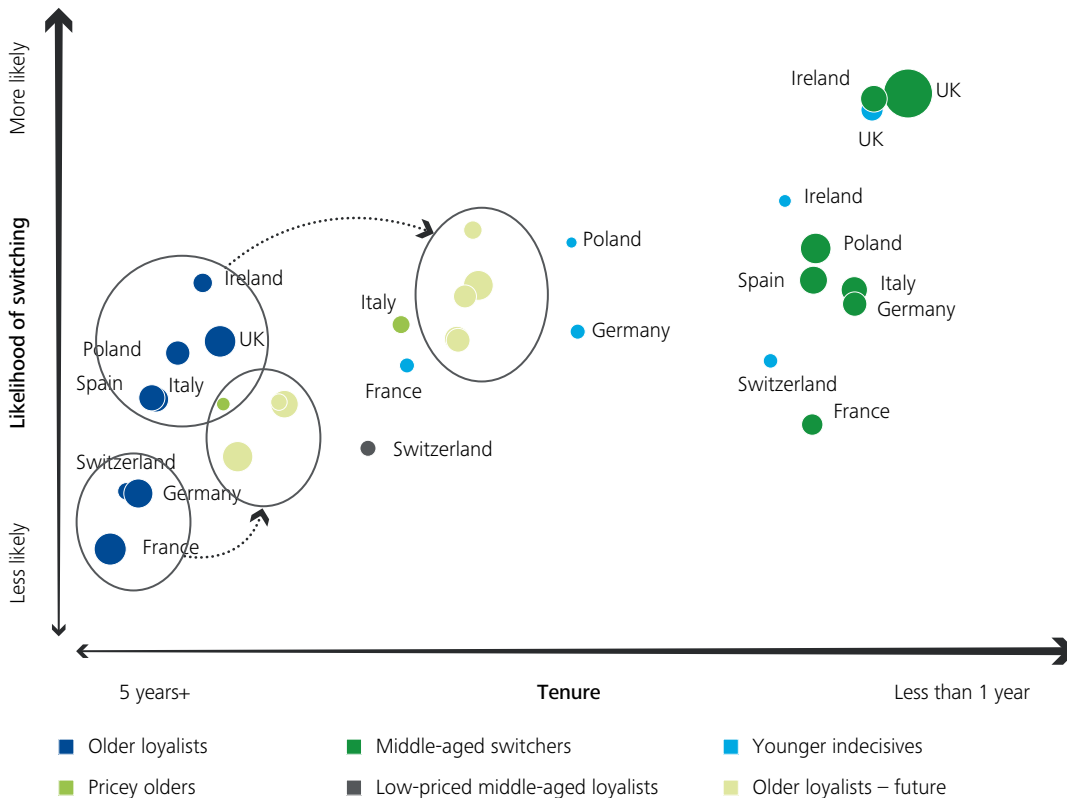
**Segment 3.** Middle-aged switchers in France and Germany.

*Once long standing customers have experienced a successful switch they gain the confidence to do so again.*

*Renewing a motor portfolio will be as difficult as acquiring it in the first instance.*

*This fundamentally challenges the concept of customer lifetime value.*

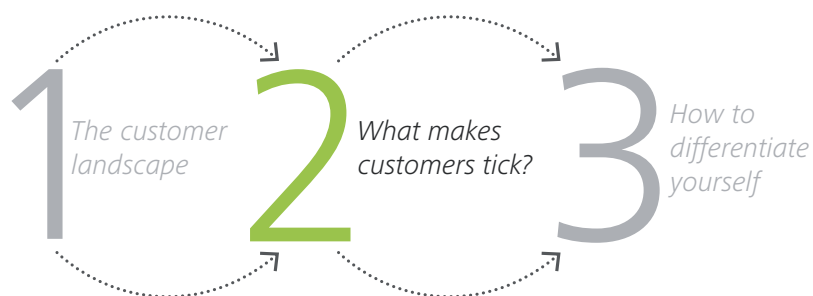
**Figure 7. Trends in future tenures for Older loyalists**



Source: Deloitte Analytics

Note: The size of the bubbles is based on number of respondents

# What makes customers tick?

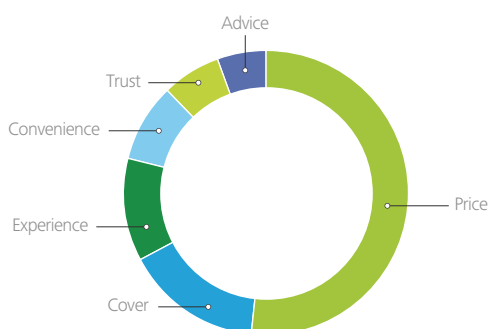


Understanding customers' profiles enables insurers to select customer segments most attractive and valuable to their business. Once identified, the next step is to understand what matters most to customers.

Price is still a critical factor; but since most insurers are able to propose a competitive price for each segment they want to underwrite, the real challenge is to understand what matters next to customers after price.

Figure 8 represents the different reasons for switching: price aside, the quality of the cover and experience are the next most important reasons for switching according to our survey across Europe.

**Figure 8. Factors for switching**



Source: Deloitte Analytics

Our analysis of the survey points to possible answers as to what matters most to customers when making the following key decisions:

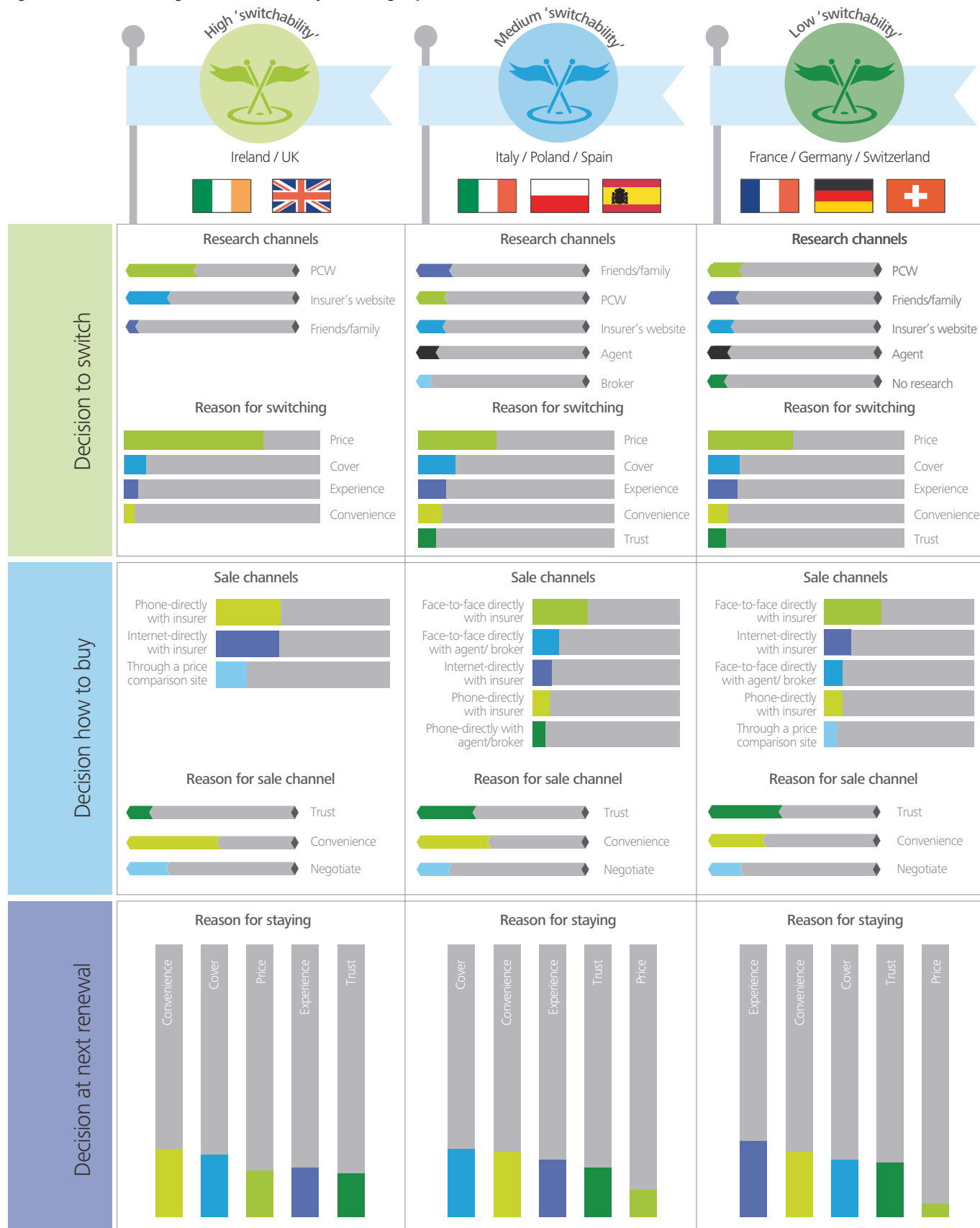
1. If, or when, to switch?
2. How to buy?
3. Whether to renew or not?

Figure 9 on pages 18 and 19 presents the results from our survey, showing customers' preferences at each of these decision points. The left hand side shows results by the three groups of countries introduced on page 9. The right hand side shows results by the three specific customer segments mentioned on page 15.

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Figure 9. Factors influencing customer decisions by the three groups of countries



Source: Deloitte Analytics

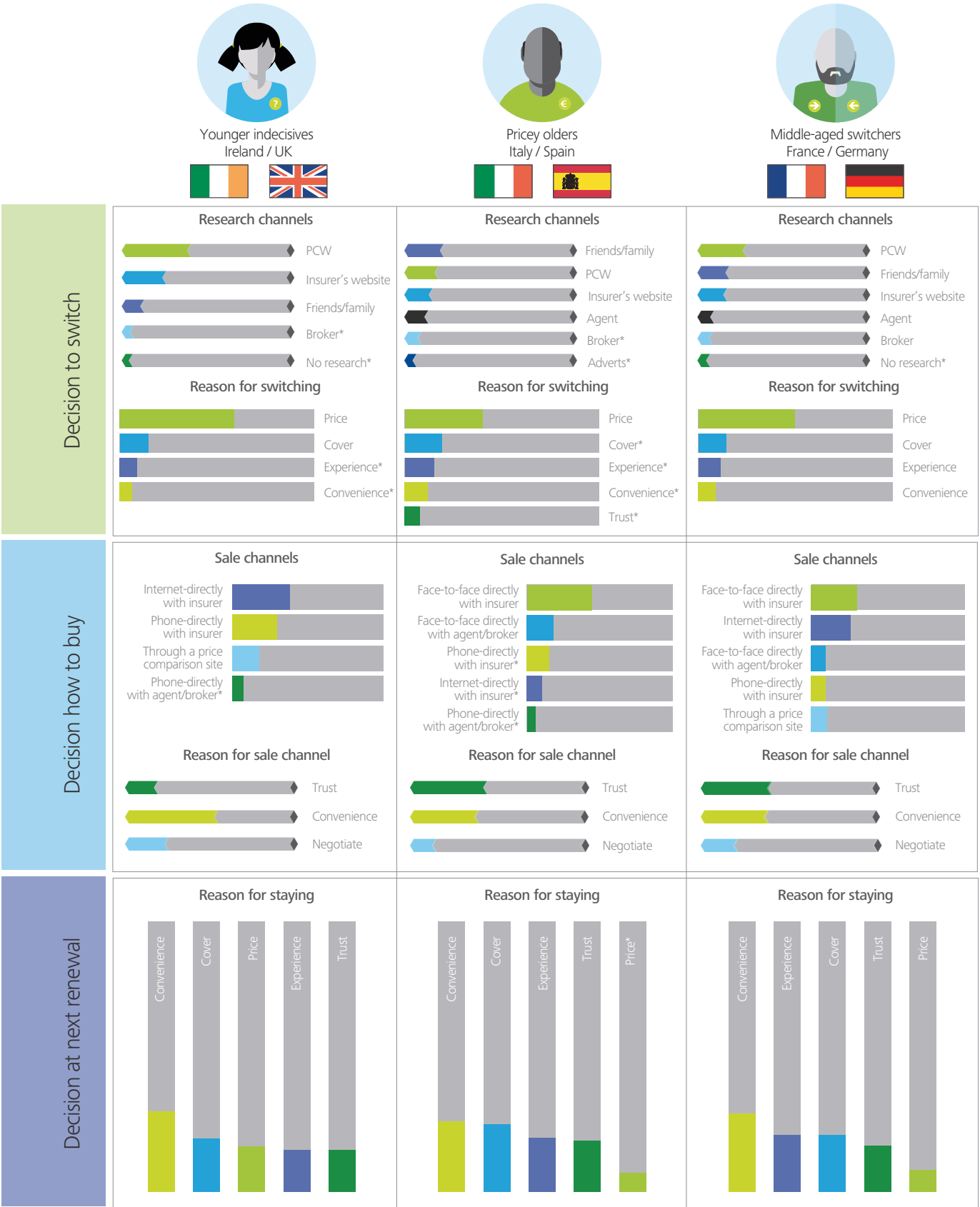
Note: These figures only present the most quoted answers.

PCW = price comparison website

Data with an asterisk is based on fewer than 50 respondents and cannot be considered statistically reliable



Figure 9. Factors influencing customer decisions for the three specific customer segments



## General conclusions

**Price** is the most quoted reason for switching, which is not a surprise as it is the only 'measure' consistently available for the customer to compare. Interestingly, the importance of price varies between countries. Price aside, the most significant factors in the decision to switch appear to be the adequacy and quality of the cover as well as poor experience with the previous insurer. Therefore, these are the areas where insurers should excel in order to retain and attract new customers.

**How do people search?** There is a big difference in search behaviour between the UK and Ireland and the other six countries. In the UK and Ireland<sup>3</sup> (to a lesser extent), more than half the research is done online, whilst the influence of people (agents and brokers, and family and friends) and the insurer's reputation is fairly limited. This contrasts with the other countries, where today only one third of research is online, and friends and family, agents and brokers exert a strong influence. Friends and family are the biggest influence, with the Older loyalists and the Pricey olders in Italy and Spain.

**Human interaction is still very important across Europe.** Despite being digitally savvy, approximately one third of the UK and Irish respondents in our survey still buy their policy on the phone directly from their insurers, although this is still less than online purchases (approximately 50 per cent of the total).

*Price aside, the most significant factors in the decision to switch appear to be the adequacy and quality of the cover as well as poor experience with the previous insurer.*

Behaviour is different in the other countries, with more than half of customers purchasing face-to-face, and the remainder split between online buying and phone calls to insurers or intermediaries. Human interaction also influences customers when deciding whether to stay with their insurers, most noticeably in the low 'switchability' countries, where the quality of experience is the biggest reason for customers to renew.

When it comes to renewing, price is no longer the most important factor, even in the most price-sensitive countries. This suggests that there are clear opportunities for insurers to focus on improving their interaction with existing customers (for example, in call centres, claims handling procedures, and understanding of customers' needs and then tailoring offers to meet them). **Customers are ready to remain with their insurers if certain criteria are met**, but these vary between countries and customer types (as illustrated in the next section).

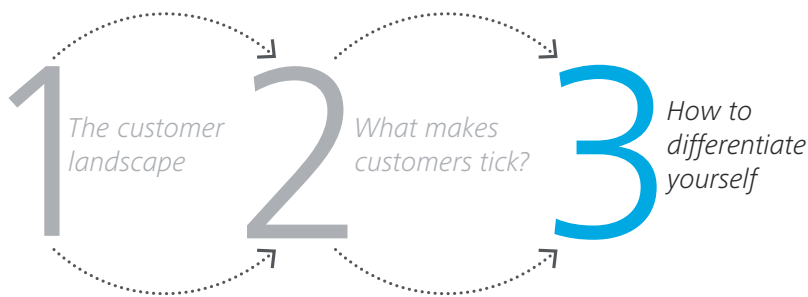
We can also expect some **distribution channels to gain relevance in some countries**. It is interesting to see partnerships or brand associations emerging or gaining momentum. In France and Spain there has been rapid growth in bancassurance, and, in Germany, there has been an increase in sales of insurance through car dealerships. There is an opportunity to build on customer attachments to other brands, whether these are based on trust, convenience or ability to negotiate.

The **renewal processes** also vary substantially between countries, especially in the case of tacit renewals in Switzerland. In Germany, the vast majority of renewals occur on 1st January each year, with only limited notice given to customers by their current insurers. Whilst insurers in these countries are relatively well protected at the moment, future developments such as new legislation could make it easier for customers to shop around and switch insurance providers.

Cost efficiencies, simplicity and speed drive business models towards standardisation and scalability. However, it is clear from our survey results that insurers in each country should flex their models, use of distribution channels and interaction with customers. Striking the right balance between standardisation and individualised customer engagement and experience is key to insurers' success.

There are numerous examples and opportunities for insurers to differentiate themselves and engage their customers successfully, which we will discuss next.

# How do you differentiate yourself?



Having looked at customer segmentation, the value of different customer types to insurers, and what is important to targeted customers, insurers should consider how to attract and retain these people.

We have presented the basic principles for good customer management in previous publications (such as 'Keeping promises' for customer services in Financial Services and 'What makes customers tick' in relation to understanding customers in the UK non-life Insurance industry). Of course insurers are thinking about responding better to customers' demands. However, we believe the winners will be those companies who will systematically align their organisations and operating models with what is important to the different customer segments. They ought to deliver to those metrics, which should have the same level of visibility to the executive teams as financials have.

There needs to be a stronger sense of putting the customer at the heart of the conversation. Insurers ought to be more engaging to ensure they have a reason to speak to clients on a more regular basis, thus driving cross-sell and up-sell. Making life easy is another prerequisite: use of apps and mobile technology not just to push static content, but also to drive engagement. Innovations like DocumentVault and eSignatures also drive the mobile channel covering both sales and service.

With improvements in digital technology, insurers now have access to ever-increasing quantities of data. If used appropriately, this can provide competitive advantage through facilitating better decision-making in underwriting, customer management, fraud mitigation and claims management. For example, motor insurers (particularly in the UK) are exploring the benefits of combining their internal data with open and third party data sources (including social media data and unstructured data), and applying data analytics to gain a deeper understanding of their customers and to optimise their interaction at the point of quote.

The use of geospatial context combined with customers' characteristics provides a wealth of insights.

By segmenting and understanding customers at a more granular level, some insurers have also managed to improve sales efficiency by having fewer, more targeted interactions with those customers with the highest conversion rates and biggest value to insurers.

Whilst we discuss findings for the three selected customer segments over the following pages, we have analysed results across all countries at different levels of granularity. Appendix A1 shows illustrations of individual country factsheets.

Over the next three pages we focus on the findings from the survey on what is important to the selected three customer segments at the three decisions points (research, purchase and renewal), and how insurers can make a difference by tailoring their levers which will make a difference to the customer segments.

*Understanding customers' profiles enables insurers to select customer segments most attractive and valuable to their business. Once identified, the next step is to understand what matters most to customers.*

# Younger indecisives – UK and Ireland



Younger indecisives

This is a relatively attractive segment, but more of a niche market, as it represents only 13 percent of our respondents. The Irish customers in this segment are also open to cross-selling. There is an opportunity to design a tailored product to attract customers in this segment who want to switch but do not appear able to do so, despite paying high premiums.



## Key insights – how do the Younger indecisives in UK and Ireland differ from other customers in their markets?

### Decision to switch

- They rely on greater input and advice from others
- Price is significantly less important than for the other customers

### Decision how to buy

- They prefer direct online purchase over phone

### Decision to renew

- Convenience is a significantly more important reason for renewing

Source: Deloitte Analytics

## Insurers' response

Product design	Leverage distribution	Communication	Provide quality services	
		Process	Interactions	
<ul style="list-style-type: none"> <li>• Ensure you tailor the product to the needs of this segment: cover is a more important reason to switch for these customers than it is for the rest.</li> <li>• Investigate product innovation and customer loyalty reward that will "speak" to these demographics.</li> <li>• Irish customers have an appetite for cross-selling.</li> </ul>	<ul style="list-style-type: none"> <li>• Controlled actions – there is less of a differential in the UK and Ireland due to the already existing wide use of the internet. There does not seem to be a need for significant adjustments, and focus on easy and slick online experience, as these customers buy more on the internet than the rest of customers. Note that they also place significantly more value on advice from friends and family.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure your processes are easy and slick.</li> <li>• Increase your self-serve capabilities and encourage their use.</li> <li>• Online portals should be developed further in Ireland.</li> </ul>	<ul style="list-style-type: none"> <li>• Pace yourself – these will not be a major differentiator. They use slightly more the internet and have less phone interactions.</li> <li>• Use customer information and interaction analytics to ensure the preferred frequency/mode/quality of interaction is available.</li> </ul>	<ul style="list-style-type: none"> <li>• Pace yourself – experience will not be a major differentiator. There may not be a need to provide an extraordinary quality experience.</li> </ul>

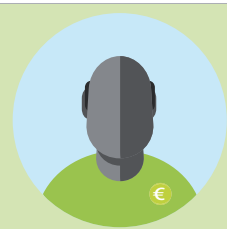
We have used colour coding to indicate the likely impact on these customer segments (where a darker colour indicates a greater impact)

## Case study: insurance pools

Customers are evolving, and so are their needs. A few companies have identified an increasing willingness to pool and tailor their offerings accordingly. We are seeing the launch of collaborative models, particularly in the UK, France and Germany, effectively creating a peer-to-peer model for insurance.



Most of these companies are built on different models, addressing different needs: whilst one focuses on pooling excesses, another's unused cash in the pool at the end of the year goes towards the following year's renewal premium.

# Pricey elders – Spain and Italy



**Pricey elders**

These customers pay high premiums and have been with their insurers for more than four years. They are also likely to react well to cross-selling, more so in Italy than in Spain. They are open to switching, but have a tendency to stay with their current insurers. There is probably an opportunity to attract customers in this segment by providing a tailored product to meet their needs. A large proportion of our Spanish respondents are concentrated in the Madrid area and value 'premium' covers. The Italian customers in this segment tend to be drivers in Southern Italy, who may not have alternative covers available to them: their premiums are significantly higher than for the rest of the Italian market. There is a potential here for insurers to enable their agents and brokers to differentiate themselves by analysing and selecting carefully customers with better risk profiles, and attracting them with improved services and a better purchasing experience.

**Key insights – how do the Pricey elders in Spain and Italy differ from other customers in their markets?**

Decision to switch	<ul style="list-style-type: none"> <li>There are no clear differentiators from other customers</li> </ul>
Decision how to buy	<ul style="list-style-type: none"> <li>They value personal interactions (mainly face to face combined with phone in Spain)</li> <li>Trust is significantly more important to them</li> </ul>
Decision to renew	<ul style="list-style-type: none"> <li>There are no clear differentiators from other customers</li> </ul>

Source: Deloitte Analytics

**Insurers’ response**

Product design	Leverage distribution	Communication		Provide quality services
		Process	Interactions	
<ul style="list-style-type: none"> <li>Pace yourself – this is not a key differentiator compared to the rest of customers.</li> </ul>	<ul style="list-style-type: none"> <li>Enable your “distributors” (direct offices, brokers, agents, bancassurers) to build and maintain trust. Trust is very important and these customers value personal interactions, mainly face to face interactions, as well as over the phone in Spain.</li> <li>In Italy, there is an opportunity in enabling agents to be trustworthy whilst being on the front foot on risk selection and potential fraud.</li> </ul>	<ul style="list-style-type: none"> <li>Pace yourself – this is not a key differentiator compared to the rest of customers.</li> </ul>	<ul style="list-style-type: none"> <li>Tailor your interactions focusing on building and maintaining trust. You should have a greater emphasis on face to face interactions, and over the phone in Spain.</li> </ul>	<ul style="list-style-type: none"> <li>Pace yourself – experience will not be a major differentiator. There may not be a need to provide an extraordinary quality experience.</li> </ul>


We have used colour coding to indicate the likely impact on these customer segments (where a darker colour indicates a greater impact)

**Case study: creating loyalty and protecting future renewals**


Since customers are increasingly ready to switch, a challenge for insurers is to retain newly-acquired policyholders and to develop their loyalty. There are several avenues to explore. We have seen an

example of an insurer in Spain guaranteeing premiums for the first two years, with up to three claims a year. This is an interesting way of securing customers for the first couple of years, and with the right mixture of service, interaction and cover, this should increase the likelihood of retention.

# Middle-aged switchers – France and Germany



This segment constitutes an attractive opportunity for insurers, representing a fairly large proportion (about 30 per cent) of our survey respondents. They are prepared to switch insurers but will need convincing. Typically they have been with their insurers for more than two years, paying low-to-medium premiums. We can see possibilities for cross-selling, slightly more so in France than in Germany.



Middle-aged switchers

Key insights – how do the Middle-aged switchers in France and Germany differ from other customers in their markets?

Decision to switch	<ul style="list-style-type: none"> <li>They are more likely to research using websites and less likely to use agents</li> <li>Price is more important, with experience relatively less important</li> </ul>
Decision how to buy	<ul style="list-style-type: none"> <li>They make a greater use of the internet with less face to face interaction (which still remains important) than other customers</li> <li>Convenience is more important to them than trust</li> </ul>
Decision to renew	<ul style="list-style-type: none"> <li>Convenience and cover are relatively more important than experience</li> </ul>

Source: Deloitte Analytics

Insurers’ response

Product design	Leverage distribution	Communication	Interactions	Provide quality services
<ul style="list-style-type: none"> <li>Pace yourself – this is not a key differentiator compared to the rest of customers.</li> <li>Opportunity for a simple product, easier to understand.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure you have an optimal combination of distribution channels (online and physical), through research and purchase. The Middle-aged switchers are looking for easy and convenient search and purchase. They use more internet and price comparison websites and less face to face interaction than the rest of customers.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure your processes are easy and slick, convenience is significantly more important for these customers when renewing.</li> </ul>	<ul style="list-style-type: none"> <li>More internet less face to face but face to face interaction still important.</li> <li>Use customer information and interaction analytics to ensure the preferred frequency/mode/ quality of interaction is available.</li> </ul>	<ul style="list-style-type: none"> <li>Pace yourself – There may not be a need to provide an extraordinary quality experience.</li> <li>Experience is not as important as it is for the total population.</li> </ul>

We have used colour coding to indicate the likely impact on these customer segments (where a darker colour indicates a greater impact)

**Case study: one step closer to make the quote process easier**

One of the barriers to switching by customers is the lengthy process for entering details, whether personal or claims-related. We are seeing several initiatives across Europe to overcome these challenges. In the UK, the Midata initiative was launched to empower customers through a standardised, safe, electronic and portable format for sharing personal data. The first use of Midata on a comparison website was launched in March 2015. This focuses on switching bank accounts. It won’t be long before this initiative extends to insurance and claims data.

In Spain, a private company, has been recording third party liability claims for many years taking into account restrictions imposed by local data protection regulations. We are likely to see an increase in the number of initiatives to enable easier capture of data, ultimately making the switching process easier. It is therefore important for insurers to leverage opportunities for making the process as convenient and efficient as possible for customers.



The strength of impact of these levers on customers will vary between segments and countries. It is therefore important for insurers to understand clearly the segments they are targeting and then to prioritise levers based on their relative importance. There is no 'one size fits all' so insurers should tailor their approach to maximise the impact on the customers they wish to attract and retain.

The examples of these three customer segments illustrate the need to understand what matters to customers at different stages of decision-making. This will then enable insurers to focus on levers that will have the most impact for their targeted customers. However, as we have indicated previously, insurers should look into targeted customers segments at a more granular level.

Now, some markets will adjust faster than others. For example, the Polish market, influenced by the multinational insurers tends to catch up quickly on the best practices used in other European markets. On the other hand, the Swiss market has proven more resilient to changes given the dominance of large domestic players combined with tacit renewals.

*The strength of impact of these actions on customers will vary between segments and countries.*

*There is no 'one size fits all' and insurers should tailor their approach to maximise the impact on the customers they wish to attract and retain.*

# Conclusion

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Digitalisation is impacting the way people behave. This is affecting all of us, and the motor insurance industry is not immune to these changes. Insurers must adapt to survive.

In our view, the winners will be the insurers that demonstrate agility in the customer experience, thinking of providing them with solutions rather than products. As customers are ready to switch, insurers need to prepare for it. Price is a key decision factor but will not be enough to retain or attract customers. Instead, as demonstrated in our study, insurers will need to differentiate themselves and bring the relevant value to each customer segment. Therefore, striking the right balance between standardisation, cost efficiency and personalised experience at each stage of the sales process will be essential.

Many industries like airlines and retailers have managed successfully to adapt to those changes. So can the insurance industry.

While not the focus of our study, there are further trends and developments that insurers can leverage to accelerate or enable a genuine customer engagement. With the advance in technology (with safety, sensors, telematics or electronic data depositories) combined with other mobile devices, cars are quickly becoming “platforms” to redefine services and value to drivers and their family or friends. Shared economies and the concept of car sharing could also become another access point for contacting customers and providing tailored solutions.

As always, for established insurers, focus and execution will be the key, if they are to successfully evolve to address changing customer behaviours and needs.

Rallying resources such as underwriters, actuaries, marketing, agents, brokers around a common goal and objective ultimately depends on the executive leadership’s ability to recognise the scale and urgency of those challenges.

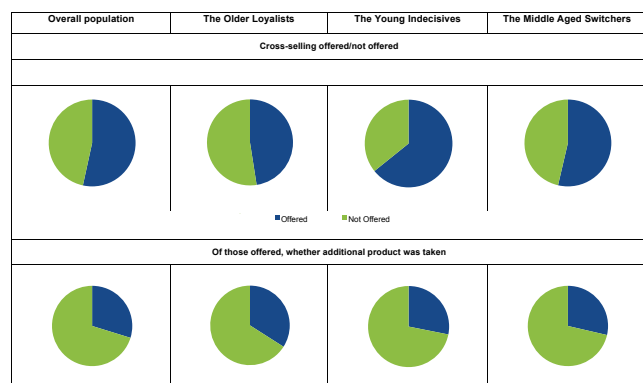
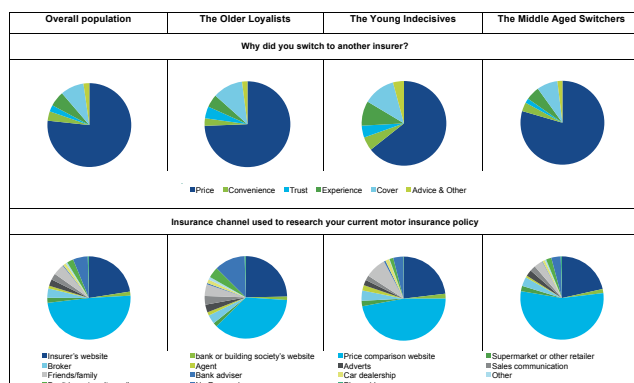
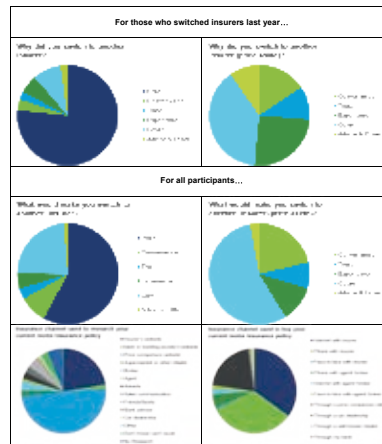
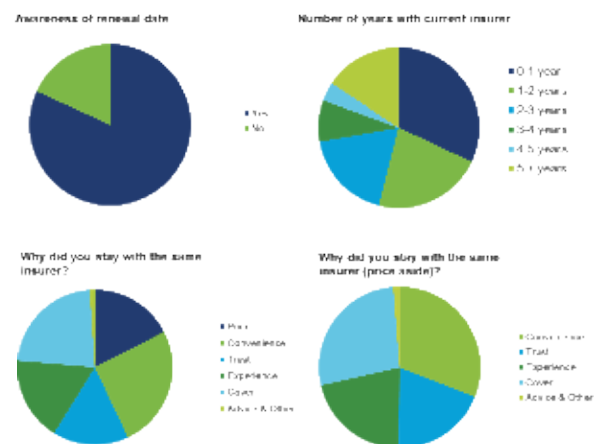
We hope this study will help insurance practitioners acknowledge these challenges and look forward to hearing and discussing their views to inform future studies.

*As always, for established insurers, focus and execution will be the key, if they are to successfully evolve to address changing customer behaviours and needs.*

# Appendices

## A1. Illustration of country factsheets

Whilst we have presented high level findings in this report, we also have access to a far greater level of data from our survey and analysis. As an example below is a snapshot of the UK. We have similar factsheets available for all the countries mentioned in this report.



## A2. Survey methodology

Our survey was designed to understand better the behaviour of customers at the different stages in their purchase of motor insurance. This survey was conducted by YouGov using an online interview in order to understand better the future trends of customers that are increasingly becoming digital-savvy. These interviews were provided to YouGov members from Germany, France, Italy, UK, Spain, Ireland, Switzerland and Poland. Emails were sent to panellists selected at random from a base sample. The responding sample was weighted to the profile of the representative country.

The profile was normally derived from census data or, if not available from a census, from industry-accepted data.

The data was provided from YouGov as summaries for each question as well as the responses from each individual in Excel files for each country. The individual responses were cleaned, removing any individuals without a valid driving licence or a car. For questions when 'Other' was selected and supplemented with a descriptive answer, the miscellaneous answer was assigned to a specific response as appropriate.

Figure A2 below shows the cleaned data split between country, gender and age group.

**Figure A2. Respondents to the YouGov survey**

Country	Total	Male	Female	18-24	25-34	35-44	45-54	55+
France	1,044	474	570	54	126	177	193	494
Germany	1,018	504	514	56	141	166	217	438
Ireland	764	378	386	49	177	166	139	233
Italy	1,005	473	532	84	162	211	195	353
Poland	1,007	485	522	99	228	189	180	311
Spain	1,007	497	510	84	186	229	191	317
Switzerland	472	232	240	38	92	110	109	123
UK	2,371	1,226	1,145	162	272	416	560	960
<b>Total</b>	<b>8,688</b>	<b>4,269</b>	<b>4,419</b>	<b>626</b>	<b>1,384</b>	<b>1,664</b>	<b>1,784</b>	<b>3,229</b>

## Clustering methodology

Each of the respondents was categorised into one of three distinct clusters using the variables of age, premium and tenure with their insurer, using a k-means clustering algorithm. We have clustered the unweighted data rather than the weighted data.

Various variables were clustered including sales channel and likelihood of switching. We have also varied the number of clusters from three up to five. The final selection of clusters was chosen by a graphical analysis of eight key permutations.

## Analysis methodology

When displaying the clustered data, all answers to multiple choice questions have been counted. Therefore, there will be more answers to multiple choice questions than the actual number of respondents. In addition, some answers are grouped into broader categories which may give more weight to some responses.

### A3. Notes

#### Note to text

<sup>1</sup>Source: Insurance Europe (European Insurance – Key Facts, August 2014)

<sup>2</sup>Source: European Automobile Manufacturers Association

<sup>3</sup>We note that the use of internet for Ireland contrasts with our 2013 customer survey, which is driven by the nature of survey, this one being carried out online.

#### Note to Figure 1

Figure 1 contains the Gross Written Premiums for Financial Year 2013. Data has been sourced from the following:

- Germany: GDV
- France: FFSA & GEMA: Les assurances de bien et de responsabilité – Données clefs 2013)
- Italy: ANIA (ANIA Infobila)
- UK: ABI
- Spain: DGSFP
- Switzerland: FINMA
- Poland: KNF
- Ireland: CBI

Swiss, UK and Polish premiums have been converted using the following respective exchange rates as at 31 December 2013: 0.82, 1.20 and 0.24 to the Euro.

We note that the UK Gross Written Premiums presented are an approximation for the total UK market, publicly available from the ABI. These estimates do not include non-ABI members and some Gibraltar companies.

- Germany: GDV Jahrbuch
- France: FFSA & GEMA: Les assurances de bien et de responsabilité – Données clefs 2013 and Press conference FFSA 29/01/2015)
- Italy: ANIA (Premi del lavoro diretto Italiano 2013, Edizione 2014)
- UK: ABI (Annual General Insurance Overview Statistics 2013)
- Spain: ICEA
- Switzerland: FINMA (Versicherungsreport\_2013-e)
- Poland: KNF + Financial Services Authority + Deloitte analysis
- Ireland: CBI (Central Bank Insurance Statistics 2013 (Table 22))

#### Note to Figure 2

Figure 2 contains the Gross Written Premiums as in Figure 1. The loss ratios and combined ratios for the 2013 Financial Year have been sourced from the following:

- France: FFSA (donnees\_cles\_dommmages\_juin\_2014, Press conference FFSA 29/01/2015)
- Germany: GDV
- Ireland: CBI
- Switzerland: FINMA
- Italy: ANIA (ANIA Infobila)
- Poland: KNF
- Spain: DGSFP
- UK: PRA Insurance Returns

The expense ratios were not available for Switzerland.

All ratios presented are gross of reinsurance except for Ireland, which is net of reinsurance.

The UK loss ratios and combined ratios are for the PRA-regulated companies only, which represent approximately 69 per cent of the 2013 UK motor market by gross written premiums. The majority of the remaining market share relates to Gibraltar entities and Lloyd's of London syndicates.

#### Note to Figure 3

Figure 3 contains the Gross Written Premiums for financial years 2010 to 2013. Sources are the same as for Figure 1.

We have used exchange rates as at 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013 as appropriate.

## A4. Glossary

### Technical terms

<b>CAGR</b>	Compound Annual Growth Rate
<b>CR</b>	Reported Combined Ratio: The sum of the claims (including prior year reserve releases) and expenses paid divided by earned premiums. Combined ratio can be gross or net of reinsurance as labelled.
<b>GWP</b>	Gross Written Premiums
<b>LR</b>	Loss Ratio: The reported claims divided by earned premiums. Loss ratio can be gross or net of reinsurance as labelled.
<b>MTPL</b>	Motor Third Party Liability

### Non-technical terms

<b>PCW</b>	Price comparison websites
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### Regulatory and Association bodies

<b>ABI</b>	Association of British Insurers <sup>(1)</sup>
<b>ACPR</b>	Prudential Supervisory Authority in France <sup>(1)</sup>
<b>ANIA</b>	National Association of Insurance Companies in Italia <sup>(1)</sup>
<b>BaFin</b>	Federal Financial Supervisory Authority in Germany <sup>(2)</sup>
<b>CBI</b>	Central Bank of Ireland <sup>(2)</sup>
<b>DGSFP</b>	Directorate General of Insurance and Pension Funds in Spain <sup>(2)</sup>
<b>FFSA</b>	French Federation of Insurance Companies <sup>(1)</sup>
<b>FINMA</b>	Swiss Financial Market Supervisory Authority <sup>(2)</sup>
<b>GDV</b>	German Insurance Association <sup>(1)</sup>
<b>GEMA</b>	Groupement des entreprises mutuelles d'assurance <sup>(1)</sup>
<b>ICEA</b>	Association of Insurance Companies in Spain <sup>(1)</sup>
<b>KNF</b>	Polish Financial Supervision Authority <sup>(2)</sup>
<b>PRA</b>	Prudential Regulatory Authority in United Kingdom <sup>(2)</sup>

<sup>(1)</sup> Association of insurers

<sup>(2)</sup> Regulator

# Contacts

## France

### Claude Chassain

Partner, Deloitte Conseil  
+33 (1) 40 88 24 56  
cchassain@deloitte.fr

### Michel De La Belliere

Partner, Deloitte Conseil  
+33 (1) 40 88 29 95  
mdelabelliere@deloitte.fr

### Arthur Dutel

Manager, Deloitte Conseil  
+33 (1) 58 37 03 39  
adutel@deloitte.fr

## Germany

### Helmut Hofmeier

Partner, B&W Deloitte GmbH  
+49 221 973244 4  
hhofmeier@bw-deloitte.de

### Thorsten Ante

Senior Consultant, B&W Deloitte GmbH  
+49 221 973246 4  
tante@bw-deloitte.de

### Raphael Meiners

Consultant, B&W Deloitte GmbH  
+49 221 973243 8  
rmeiners@bw-deloitte.de

## Ireland

### Glenn Gillard

Partner, Audit  
+353 (1) 417 2802  
ggillard@deloitte.ie

### Darren Shaughnessy

Manager, Audit  
+353 (1) 417 3600  
dshaughnessy@deloitte.ie

## Italy

### Paolo Vendramin

Partner, Consulting  
+39 (0) 283323240  
pvendramin@deloitte.it

### Francesco Iervolino

Director, Consulting  
+39 (0) 283323264  
fiervolino@deloitte.it

## Poland

### Grzegorz W. Cimochoowski, PhD

Partner, Consulting  
+48 (22) 511 0018  
gcimochoowski@deloittece.com

### Artur M. Palowski

Research Manager, Consulting  
+48 (22) 348 3667  
apalowski@deloittece.com

## Spain

### Jose Gabriel Puche

Partner, Consulting  
+34 914 43 20 27  
jpuche@deloitte.es

### Juan Miguel Monjo

Senior Manager, Consulting  
+34 914 43 22 69  
jmonjo@deloitte.es

## Switzerland

### Colin Forrest

Partner, Consulting  
+44 (0) 161 455 8365  
colinforrest@deloitte.co.uk

### Laurent Decosterd

Senior Consultant, Consulting  
+41 58 279 6200  
ldecosterd@deloitte.ch

## United Kingdom

### Alex Poracchia

Partner, Consulting  
+44 (0) 20 7007 7804  
aporacchia@deloitte.co.uk

### David Rush

Partner, Audit  
+44 (0) 20 7303 6302  
drush@deloitte.co.uk

### Chloe Paillot

Senior Manager, Consulting  
+44 (0) 20 7007 9537  
chlpailot@deloitte.co.uk

### Alice Boreman

Senior Consultant, Consulting  
+44 (0) 20 7303 3484  
aboreman@deloitte.co.uk

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