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Real-Time Services in Insurance

Industry priorities and customer attitudes in the Swiss insurance market

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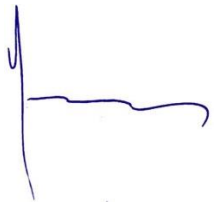
Foreword

The relevance of data in today's business environment is indisputable. Companies find new ways to serve their customers more quickly and in more value-adding ways using data to support a customer-centric approach. Some industries (e.g., consumer goods) are more advanced than others are (e.g., insurance), where regulatory environments and a legacy infrastructure may present certain hurdles. In due time, these hurdles will either disappear, however, or companies will be able to manage them more effectively and exploit the full potential of their data.

We are grateful for this opportunity to collaborate with the Zurich University of Applied Sciences (ZHAW) over the past year to investigate the relevance and impact of data on insurance providers and their product and service offerings in Switzerland and, even more importantly, the impact on customer behavior. The study shows that new dynamics and forms of interaction between insurance carriers and their customers can be realized and that exciting times lie ahead.

I hope you will find this publication informative and thought-provoking!



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Abstract

In the insurance sector, more and more data are available. This poses new questions for insurance companies and their business models. Leveraging data enables insurers to improve risk management, customize products and services, and explore new forms of relationships with their policyholders. On the other hand, organizations from outside the industry, with better and direct access to relevant data, seek opportunities to enter the market. This study focuses on this dynamic and explores the underlying question of the overall direction of data-driven services in the Swiss insurance market.

Our study was conducted in three steps. First, we interviewed a small group of experts to identify and discuss relevant issues. Second, we surveyed a broader set of industry experts to provide insights into the industry perspective. Third, we surveyed some 1,400 policyholders in Switzerland to understand the perspective of individual customers.

As our results show, industry experts are aligned with customers' long-term priorities on convenience and risk management. Nevertheless, insurance companies currently mainly focus on short-term cost-cutting measures and process improvements. Customers in Switzerland view insurance providers quite favorably. This perception opens a window of opportunity to develop additional services in spite of customers' reluctance to share personal information in general. This window may not remain open indefinitely, as customers tend to be open to sourcing, especially in terms of the more important services from non-insurance providers.

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Introduction

Data has become the fuel of the modern world. As the Economist (2017) stated, “the world’s most valuable resource is no longer oil, but data.” Across industries and geographies, technological advancements are paving the way for companies to collect, analyze, and interpret data for a better understanding of their customers. Some companies and industries (e.g., the technology industry) are at the forefront of generating and collecting data due to their products and service offerings. Mobile phone producers such as Apple and Samsung or sport equipment companies such as Fitbit can offer their customers valuable products and services in exchange for personal information.

However, not all companies and industries have access to the same amount of customer data with which to drive customer relationships. Especially in the insurance sector, which is generally known to be reactive rather than proactive, a company’s way of doing business is affected by its ability to better understand customers (Beer et al., 2017; Garth and Westlake, 2018). Changing customer expectations resulting from the availability of new technologies as well as generational shifts represent new challenges for the insurance industry. New opportunities are presenting themselves, allowing insurers to collect more personal and other relevant customer data and interact with policyholders on various levels. Acquisitions and partnerships are generating new revenue streams, potential for synergy, and a variety of new product and service offerings. With their ability to process data and translate it data into individual and personal services, tech giants have raised the bar of the expectations customers have for their service providers, both in insurance and other industries. Increasingly, therefore, even insurers are called on to offer individualized, highly flexible, and real-time services to their policyholders.

Insurers need to be prepared for and capable of handling these expectations, as the policyholder is becoming an increasingly critical element in their market (Beer et al., 2017; Buehler and Maas, 2016). Especially new customers seem to be confused by traditional industry approaches (Pugnetti and Bekaert, 2018). At the same time, companies are required to use the available interaction channels to inform their customers in advance about upcoming opportunities and assess their openness towards and their perception of such changes.

There is an industry dynamic towards data-driven services in the insurance sector, and this research a) aims to understand what is likely to happen in the coming years, from an industry as well as a market perspective, and b) explores whether insurers should be concerned about this development. The relevant theoretical framework is therefore primarily based on the insurance customer, the role of customer data in insurance, and policyholders’ willingness to share data.

1.1. THE INSURANCE CUSTOMER

Whether it is insurance or any other B2C industry, the factor that needs to be the center of attention is the same: the customer. To best understand and serve the clientele, organizational activities, whether they involve omni-channel sales processes, production processes, administrative operations, or claims and cost management, need to be to some extent aligned with the customer. Subsequently, the market shows that in order to succeed, an organization’s ability to understand its customers and predict potential changes in their behavior is one of the inevitable differentiators. In the insurance sector, specifically the Swiss insurance market, the customer persona has undergone some changes in recent years, predominantly due to generational shifts and technologies triggering new needs and higher expectations (Deraed and Henry, 2012; Buehler and Maas, 2016). With the increasingly widespread use of mobile devices, for example, the interaction between insurer and insured has radically changed, with policyholders asking for digital touchpoints and new interaction channels. A study by Bain & Company (Kotalakidis et al., 2016) showed similar results and found that the tendency is steadily increasing. Today, only some six percent of Swiss residents say they do not use mobile devices or the internet for communicating and information gathering. Moreover, the same study specifically focusing on the Swiss insurance sector reveals that

already back in 2012, 72 percent of policyholders preferred individual, more personalized services and flexible consulting (Deraed and Henry, 2012). Today, policyholders are asking for more involvement and individualized, flexible services, putting pressure on insurers to develop new offerings and touchpoints through omni-channel distribution (Kotalakidis et al., 2016).

A reliable omni-channel approach can be used to inform, involve, attract, and support customers in their decision-making (Berman et al., 2012; Buehler and Maas, 2018). It also enables insurance providers to more easily obtain high-value customer information. In view of the previously highlighted increase in expectations towards insurers, it is worth noting that policyholders have also changed their preferences with regard to choosing a provider. According to Beer et al. (2017), a lack of services to address their specific needs is the main reason why 41 percent of policyholders in Switzerland would change their provider. Customers tend to not be interested in understanding which insurer provides which insurance services. They choose the insurer with which they can identify and that best understands and meets their needs (Buehler & Maas, 2016). Consequently, monitoring, investigating, and addressing the changing expectations of their customers will enable insurers to differentiate themselves in already saturated markets.

1.2. CUSTOMER DATA IN INSURANCE

Technological advancements such as the internet of things allow organizations to collect an increasing amount of (sensor-generated) data, which creates numerous new business opportunities. The data generated can, for example, contribute towards improving the risk selection process. When handling and processing data in an adequate manner, insurers are able to better customize their products in line with their customers' risk profile (Baecke and Bocca, 2017). As insurers are primarily an opportunity for individuals and organizations to transfer risk, new data generation opportunities enable new approaches to tackling the information imbalance in the industry.

In terms of managing risks in insurance, two concepts need to be taken into consideration: moral hazard and adverse selection. In a study on health insurance, Cardon and Hendel (2001) describe moral hazard as the tendency of policyholders to take specific risks knowing that, in the case of a claim, the insurer will cover the resulting damage. Adverse selection, on the other hand, can manifest itself in situations with an information imbalance (as in the case of principal-agent problems). Here, the policyholder has more valuable and important information about his or her potential and actual risks compared to the insurance provider, leading to several problems and challenges for the insurer. As the policyholder will aim to choose the product that will cover his or her needs in the best way possible, the insurer is unable to properly assess his or her risks and calculate the premium adequately based on available information (Stiglitz and Rothschild, 1976; Borna and Avila, 1999). Both moral hazard and adverse selection can be understood as consequences of the information asymmetry within the industry.

To leverage this asymmetry, technological advancements, such as the internet of things and artificial intelligence to extract and interpret meaningful information in communication, can be used to provide the missing information, or at least reduce the level of missing information and so improve the overall situation. This is especially true in underwriting and risk assessment, the core business of insurance. If the information asymmetry can be improved – for example with more reliable and adequately processed data – insurers can reduce their technical exposure, while at the same time offering more customized and more accurately priced products and services. The insights and understanding generated through data are an essential contribution to better risk assessment and risk allocation (Cardon and Hendel, 2001).

However, even though the situation could, at least theoretically and technically, be solved rather easily, a major challenge for insurers is the need to collect data from customers with their explicit permission. This influences the dynamics of the exchange: An increased awareness on the part of the customers of the value of their information to address the information asymmetry in the industry triggers an increased need for insurers to provide benefits in return. Thus, the need for customers to agree to share their personal information poses a significant challenge for insurers, especially in the transition phase, as new underwriting and pricing models emerge.

1.3. WILLINGNESS TO SHARE INFORMATION

The best insurance services are worth nothing if customers are not willing to buy them. As beneficial as data collection can be, in the insurance industry it comes at a significant price. Insurance companies need a dedicated infrastructure that can cope with all the regulatory requirements and guidelines. More importantly, they need the express permission of their customers to collect, store, process, and interpret personal data. Customers tend to be hesitant and skeptical, however, when it comes to accepting and using new services that are linked to or depend on a high level of disclosure of personal information (Pugnetti and Elmer, 2020). Insurers have to find ways to overcome the hesitant attitude of policyholders to share data with innovative – mainly personalized, real-time – insurance offerings that exceed customer expectations. These, however, require a better understanding of the customer and, therefore, large amounts of data.

Concerning the willingness to disclose information (WSI) as such, two types of information disclosure can be identified: voluntary (e.g., by agreement / upon request) and non-voluntary (e.g., third-party distribution) (Bravo et al., 2010). Concerning the regular case of voluntary information disclosure between customers and organizations, a relevant aspect for insurance providers lies in the privacy calculus theory, which states that "individuals are willing to disclose personal information in exchange for some economic or social benefit" (Kehr et al., 2013; Culnan and Armstrong, 1999) and in the social exchange theory – which, in fact, "is not a theory at all. It is a frame of reference within which many theories can speak to one another" (Emerson, 1976), so a cost/benefit analysis of the influenced/requested party leads to the decision as to whether or not to provide information (e.g., Gatignon and Robertson, 1986; Steiner and Maas, 2018).In other words, if the individual customer – in this case a policyholder – perceives the benefits obtained through the action of giving away information as higher than the risks assumed, they will be willing, or motivated, to provide the information (Laufer and Wolfe, 1977). Moreover, policyholders are willing to share information provided they can assume or believe that the information will be used fairly and there will be no negative consequences.

Information requests from insurers can be seen as less invasive when (a) information is collected in the context of an existing relationship; (b) policyholders can control the future use of the information; (c) the information is relevant to the transaction; and (d) the information can be used to draw reliable and valid inferences (Stone and Stone, 1990). However, over time, academic research has identified several factors influencing this construct and the behavior of individuals. Kunreuther and Pauly (2005) and Steiner and Maas (2018), for example, investigated the decision-making in the context of disclosing information in the specific context of insurance, identifying differences to other industries. Customer value is an attribute that has been covered by a number of researchers, who see it as the key influencing factor in many industries. Not so in the insurance sector, however, where , customer value differs as the term not only involves the perception of product quality but also a company's reputation and services, and thus includes additional influencing factors such as trust, satisfaction, and the relationship to the insurer (Consolvo et al., 2005; Simpson, 2012; Steiner and Maas, 2018).

Simpson (2012) devoted his efforts to investigating the role of trust and trying to answer the fundamental question of what trust really is. He found, as did Metzger (2004), that "trust is perhaps the most important influence on information disclosure". This statement can be seen as confirmed in all reviewed areas of information disclosure. With regard to e-commerce, Culnan and Armstrong (1999) found that trust plays a key role when speaking about information disclosure and procedural fairness. Giving the policyholder a voice and control over the outcome can increase trust and mitigate the privacy concerns mentioned previously. In the same year, Swaminathan et al. (1999) published their Internet Consumer Trust Model (ICTM), proving again that trust is a key determinant of reducing perceived risks and concerns regarding the sharing of information.

Besides trust, the literature has revealed that individuals' characteristics also contribute to and affect the willingness to disclose information. Consolvo et al. (2005) and Iriarte et al. (2017) put forth that age and the personal setting, together with cultural elements and social status, have an influence on disclosure behavior. Especially younger consumers, and men, are more likely to share information (Jai and King, 2016). Interestingly, female respondents were found to be less likely to share body information with recipients who are personally close to them, while male

respondents were found to be less likely to share information if they believe the information will be verified (Schudy and Utikal, 2017).

One of the most significant challenges that remains is the privacy paradox—the claim that users are very concerned about the privacy of their personal data compared to the remarkable lack of activity to protect it. This paradox is pervasive and can arise in both rational and irrational decision processes. It is further complicated by the widespread use of mobile devices. To date, there are no concrete proposals to address and correct the problem (Barth and De Jong, 2017).

A final relevant distinction in the context of this study is related to a study by Smith et al. (2011) noting that people tend to provide certain types of information (e.g., demographic information) to third parties, in this case insurers, much more readily than – as he called it – sensitive data. In addition, Milne and Gordon (1993) stated that when considering all aspects equally, a consumer perceives the disclosure of sensitive information as riskier and is less likely to disclose it than non-sensitive information. Although there is evidence in these studies that the perception of sensitive information can vary from one individual to another, the assumption is that the respondents perceive the information they are asked to share as sensitive (Malhotra et al., 2004).

While in broad agreement with the insights from other markets, research on WSI in insurance indicates that customer value involves not only the perception of product quality, but also of company reputation and the services provided. Further, customer value can also be influenced by the level of satisfaction with the insurance agent (Steiner and Maas, 2018). Insurance customers in Switzerland have been found to be generally open to sharing information in return for enhanced services or premium discounts, and to be influenced in their decision by the insurance-specific vs. behavioral nature of the information requested (Pugnetti and Elmer, 2020), with younger customers being more open to this than older ones (Pugnetti and Seitz, 2019). Several market tests by incumbents are already underway in the Swiss insurance market, with a special focus on personalizing motor insurance (Arisov et al., 2019). Another trend in personalization is focused on giving insureds more freedom on the duration of their policies, away from the standard yearly coverage. Interest in these on-demand insurance solutions for home insurance in Switzerland, however, seems to still be underdeveloped (Hohl et al., 2020).

1.4. RESEARCH FOCUS

This research aims at understanding the potential development of data-driven services and the implications for both insurance providers and insurance customers. On the one hand, it sheds light on the industry point of view concerning the topic of data-driven services and the current focus of insurance incumbents. On the other hand, it investigates the market's view, in particular customer perception and acceptance, towards such products and services. It also investigates the preferred provider for each service, to check whether insurers face industry-specific competition. Interviews and a survey among experts were employed to develop insights on industry trends that in a second step were compared to the results of a customer survey.

Given the potential impact of leveraging better customer data to improve products and services, we investigate and compare the points of view of industry experts and retail customers in the Swiss insurance industry. Our aim is to develop a better understanding of a) the potential evolution of data-driven services in the market, b) the potential structural impact of this development on the Swiss insurance industry, and c) how the view of industry experts matches or deviates from customer perception.

Discussion

2.1. METHODOLOGY

The study was conducted in three phases: First, we recruited a core group of twelve experts to identify key research questions, next we polled a broader panel of industry experts, and finally we surveyed personal insurance customers. We then compared and contrasted expert and customer responses.

Expert Interviews

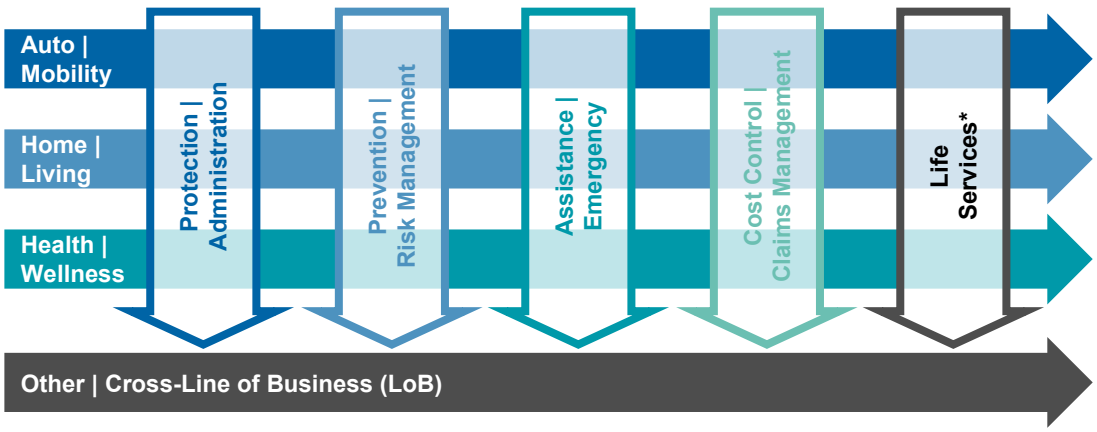
Twelve exploratory expert interviews were conducted between April and June 2019. We used qualitative semi-structured focused interviews to understand the relevance of real-time data in insurance and guide our research design. Table 1 provides an overview of the experts, their expertise, and their roles at the time of the interviews.

Table 1: Expert panel

Expert	Area of Expertise	Role
1	Customer Analytics	Product Owner | Team Lead
2	Claims Prevention	CEO
3	Ecosystem & Partnerships	Head of Ecosystems & Partnerships
4	Non-Life | IT	Head of Software Engineering, NonLife
5	On-Demand & Instant Insurance	CEO
6	Business Intelligence | Customer Engagement	Stream Manager, Business Intelligence
7	Innovation	Sr. Manager, Innovation & Transformation
8	Innovation and Transformation	Lecturer
9	Customer Services	CEO
10	Smart Home and Telematics	Head of Telematics & Smart Homes
11	Digital and Innovation	Special Advisor
12	Private Customer Innovation & Transformation	Senior Manager

The core group of experts helped structure the research around five types of services across three lines of business (LoBs). In addition, we identified four cross-LoB services, as listed in Figure 1.

Figure 1: Research setup – services



*) Life Services are products and services that are not part of the insurance core business.

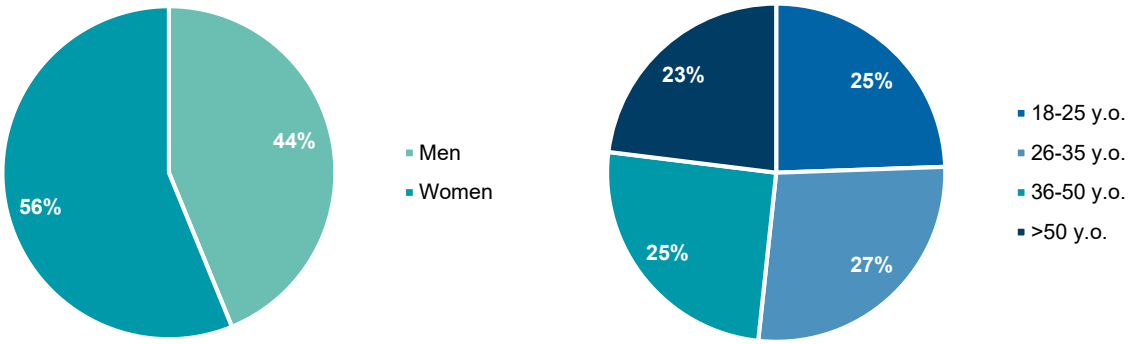
Expert Survey

The insights elicited in the 12 expert interviews were used to develop a structured questionnaire. Participants were asked for their opinions regarding the key business model drivers, organizational capabilities, drivers of importance, and their point of view on the adoption and impact of real-time data-driven services in insurance. The questionnaire was distributed in July 2019 to 35 insurance experts recommended by the first expert panel. 23 of them responded to the survey.

Customer Survey

A customer survey following the same structure as the expert survey was distributed in January 2020 to German-speaking Swiss insurance customers with motor, home, and health insurance policies. We received 1,451 responses, which yielded roughly comparable samples by gender and across four age cohorts, as shown in Figure 2.

Figure 2: Overviews by gender and age



Participants were questioned on their willingness to share different data and information. We presented them with various real-time data-driven insurance services (as shown in Table 2) and asked them to rate their interest in these services and their preference for different providers. We also investigated the respondents' willingness to share different types of personal information necessary to provide the services (e.g., location, smart-home-related information, calendar data, and car sensor data) divided into different levels matching the requirements of the services, their attitude towards insurance, and their current insurance provider(s).

Table 2: Overview of services surveyed

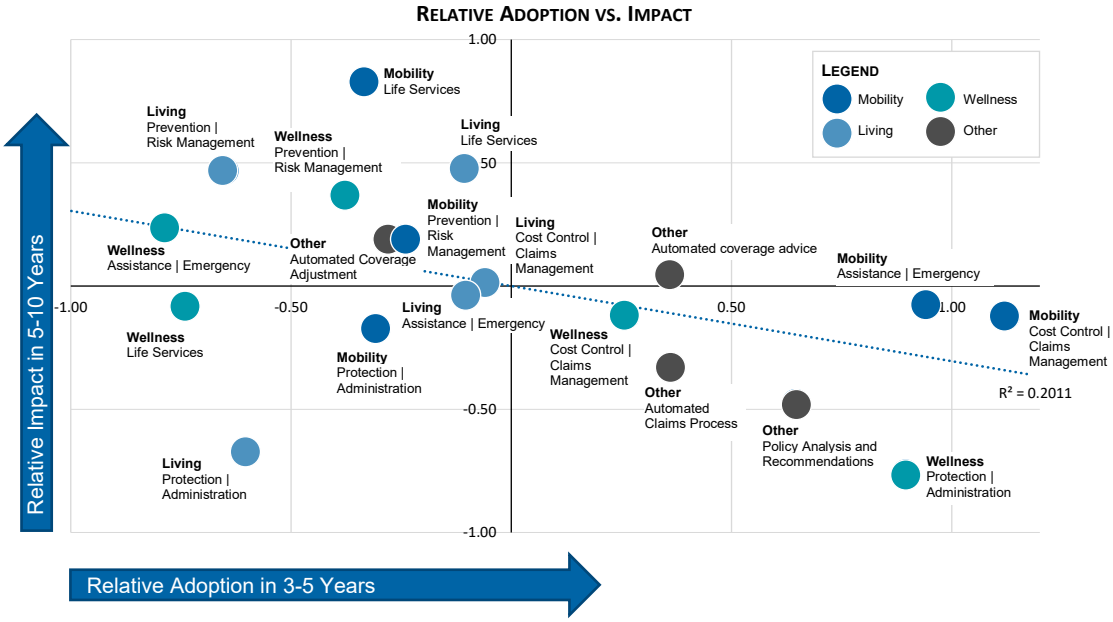
Service	Example
Auto | Mobility	
Protection | Administration	Automatic policy adjustment for new vehicle purchase
Prevention | Risk Management	Receive warnings while driving (e.g., accidents with proposed alternative routing, risk of aquaplaning, etc.)
Assistance | Emergency	Automatic emergency release and accident coordination in case of an incident
Cost Control | Claims Management	Completely automated coordination of repairs, inspections, replacement cars, scheduling, and billing
Life Services	Automated coordination of additional services such as car preparation, services, etc., based on customer location
Home | Living	
Protection | Administration	Automated policy adjustment based on new purchases, renovations, etc. (e.g.: home contents cover)
Prevention | Risk Management	Automatic shut-off of water, gas, etc. if necessary.
Assistance | Emergency	Proactive, automated order management and assignment of contract to companies in case of emergency (e.g., flooding)
Cost Control | Claims Management	Automated, proactive coordination, agreement and execution of services, inspections, controls around the house (e.g., heating or fireplace)
Life Services	Living in old age: support for senior citizens (e.g., push messages if bed not used, fall messages, or alarm if refrigerator not opened)
Health | Wellness	
Protection | Administration	Automated digital handling and processing of personal health records, medical bills, etc.
Prevention | Risk Management	Health-tracking with individual nutrition and exercise recommendations
Assistance | Emergency	Automated appointment scheduling and calendar entries if customer / family member needs a doctor's appointment / follow-up appointment based on health data and health monitoring
Cost Control | Claims Management	Access to network of specialists for chronic conditions
Life Services	Automated coordination of sports activities (e.g., gym reservation on business trips, appointment with personal trainer based on eating and activity habits, individual adjustment of training activities and coordination of appointments in case of bad weather)
Other (Cross-LoB)	
Policy Recommendations	Automated policy analysis and contract change recommendations independent of the insurer
Automated Coverage Advice	Automated and individually tailored insurance consulting and planning
Automated Coverage Adjustment	Automatic adjustment of insurance policy / coverage based on activities (e.g., additional travel insurance for family vacations, or ski insurance for a weekend in the mountains)
Automated Claims Process	Completely automated claims processing regardless of the type of damage (e.g., car, house, or mobile phone.)

2.2. EXPERT SURVEY

The results of the industry expert survey conducted as a first step are shown in Figure 3. The experts were asked to rate the adoption of the services presented in the coming three to five years (x-axis). In other words, they had to rate how likely it will be that insurance companies will focus on the implementation and support of such services. The respondents also had to assess the impact on the industry in the coming five to 10 years, which provides an indication of their relevance and potential for differentiation (y-axis). Both dimensions are indexed to the mean value. Services represented by dots higher on the y-axis will have a larger strategic impact and will be more important for carriers to differentiate themselves in the market. The position of the dot along the x-axis, on the other hand, indicates how likely it is that carriers will focus on implementing the service, with services farther on the right more likely to be implemented.

Overall, the results imply that the insurance sector is focusing on services with low strategic impact. Insures seem to prioritize cost control and administration rather than more customer-focused prevention, risk management, and non-insurance related offerings. As an example, Figure 3 shows that life services in mobility were considered the most relevant services in the next five to 10 years for insurance providers. On the other hand, cost control services in mobility are the ones most likely to be pursued.

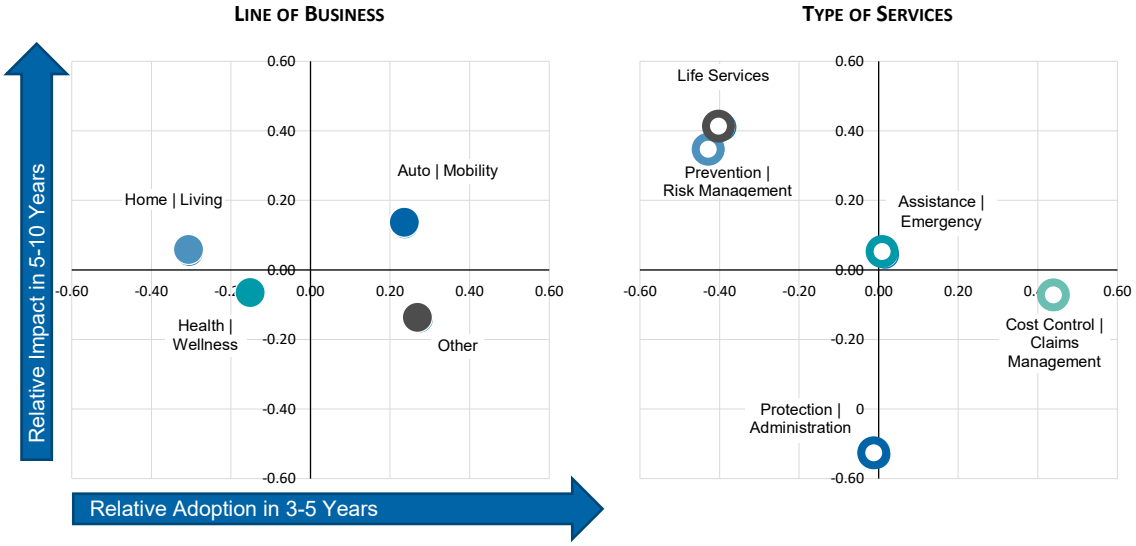
Figure 3: Expert opinion of likelihood of adoption and impact on insurance industry (detailed view)



By grouping insurance services according to line of business and type of service, respectively, the results can be better visualized and summarized (see Figure 4). In the coming three to five years, insurance providers are most likely to focus on cost control and claims management. At the same time, however, the survey results show that the industry is aware that other services will be of higher strategic importance in the next five to 10 years, in particular services focusing on customers and their needs. Investing in such services will change the image of insurance and enable insurers not only to pay out claims, but also to prevent losses or damages.

In the future, the top priority for insurers should be improved risk management and the development of risk prevention services, together with life services that go beyond traditional insurance and improve the convenience and experience of customers. This approach will bring them a competitive advantage and ensure a strong market position in the long term. Moreover, helping policyholders prevent claims opens up new avenues of customer interaction, thereby providing a new value proposition and changing the dynamics of the customer relationship, while requiring a comparatively low level of engagement.

Figure 4: Expert opinion of likelihood of adoption and impact by line of business and type of service



To sum up, experts are aware of the strategic relevance of data-driven customer services and the issues that will be crucial in the future. However, the immediate focus of insurance companies seems to still be on cost-cutting measures and process optimization.

2.3. CUSTOMER SURVEY

As a next step, the questions from the expert survey were transferred to a customer survey to determine whether what the industry is doing and what it perceives the situation to be is in line with what customers actually want and what they consider to be valuable. Thus, 1,451 Swiss policyholders were polled on their opinions about potential data-driven products and services (as described in Table 2 above), their general interest in them, their intention to purchase them, and their willingness to share the data required by providers to develop them. They were also asked about their preferences with regard to providers, not only existing insurance providers but also players from other industries (e.g., car manufacturers offering motor insurance and related services). We asked the provider preference question to evaluate if incumbent players should be concerned about non-industry providers entering the insurance market.

The existing imbalance of information between an insurer and its policyholders causes difficulties in underwriting and premium calculation when it comes to customizing offers. The increasing amounts of data that are generated in all aspects of life can affect and be used to address this imbalance. To this end, insurers need not only data but also the agreement of their customers to make use of it.

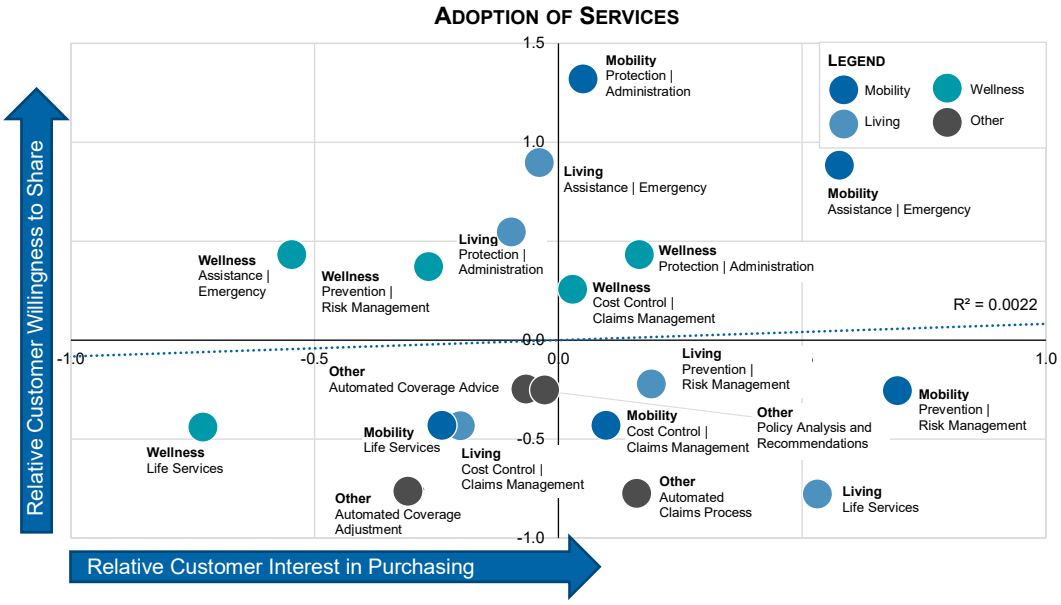
The results of our customer survey show that customers are generally open to sharing relevant information when it comes to mobility but not when it comes to living- and health-related information. In particular in the area of mobility, the participants surveyed indicated not only a high interest in preventive and convenience services, but also a willingness to share the related information. From this it can be inferred that the more personal the information requested by the insurance company (e.g., in the living or health domains), the lower the willingness on the part of customers to share it.

Higher volumes of data available with a higher frequency are necessary to provide prevention and life services, to identify a potential loss or damage. In addition, the data needs to be of a more personal nature to increase customer convenience (e.g., automatically schedule inspections based on season and/or presence in the home). Thus, customers tend to be more resistant and less willing to share the information necessary to provide these services. Here it is worth mentioning that a trade-off based on the exchange theory may influence this behavior. It can be assumed that financial incentives or other factors adding value can influence a customer's decision to share

information. In other words, the customer will share such information if he or she considers the benefit to be greater than the investment.

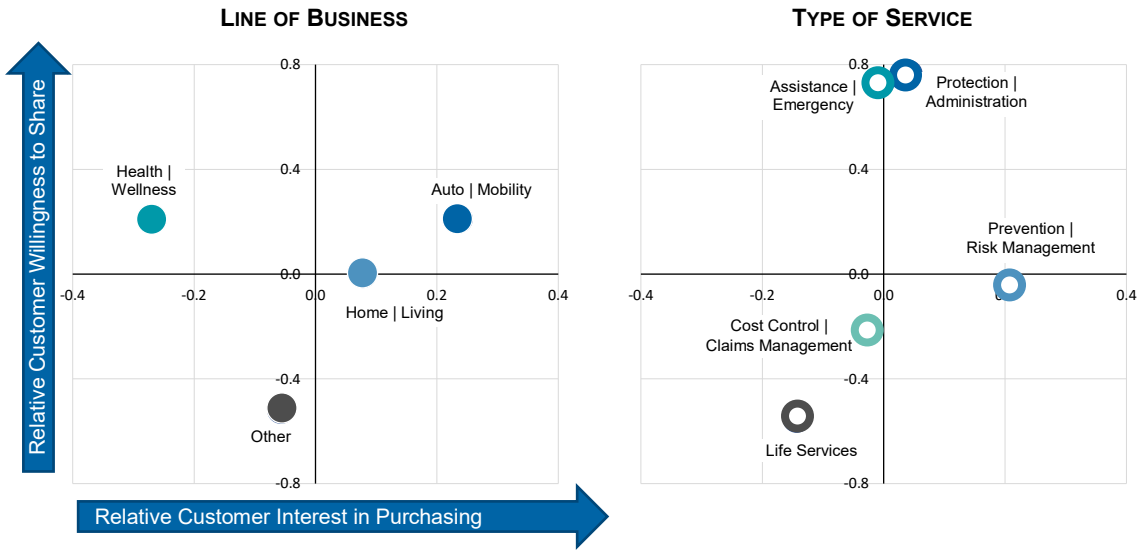
Figure 5 gives a detailed view of customers' interest in purchasing (x-axis) and willingness to share information (y-axis). The relationship is not clear and customers are not necessarily more open to share the information required to provide the services they are most interested in purchasing. Thus, insurers can play it smart by starting the with services where collecting relevant data is possible and improve customer experience over time.

Figure 5: Interest in purchasing vs willingness to share information (detailed view)



By grouping the results by line of business and type of service as illustrated in Figure 6, it can be shown that customers are willing to share information (y-axis) when it comes to claims handling and in case of emergencies or situations requiring assistance. However, the (sensitive) personal information needed to enable prevention services based on more accurate risk management or to create more convenient life services can be difficult to obtain. Taking into consideration what services customers want to purchase (x-axis), especially the mobility and the home sectors provide opportunities for carriers to develop new products and services focusing on protection. Finally, insurance providers can acquire more information on their customers by considering value-added services for their customers with regard to policy administration and policy handling. Even though these might not be immediately recognized as areas in which to actively engage with customers, the results show that customers are willing to share information on their latest acquisitions and on their buying intentions (e.g., house or car) once they realize that policy adjustments and/or recommendations for changes can make life easier for them (e.g., by reducing their administrative effort).

Figure 6: Interest in purchasing vs willingness to share information



2.4. COMPARING EXPERT AND CUSTOMER INSIGHTS

In the next part of our study, the results of the expert survey were compared with those of the customer survey. We wanted to find out whether the insurance industry is aligned with and aware of what customers want and expect, if there are windows of opportunity, and what hurdles to consider.

2.4.1. Impact of Services

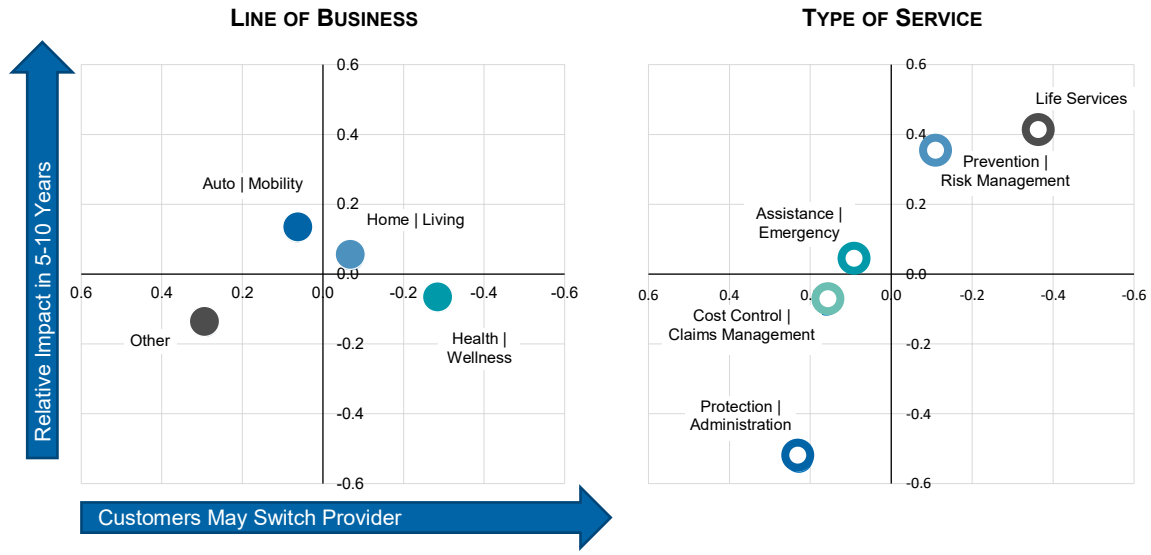
Figure 7 below gives a consolidated view of the comparison between the strategic relevance of services as perceived by the experts – expressed as the impact on the industry in the next five to 10 years – on the y-axis and customers' intention to switch provider in case of the availability of alternative offerings on the x-axis. The higher the dot on the y-axis, the more important the line of business or type of service is for the industry; the farther to the right a dot is along the x-axis, the more likely it is that the customers will switch provider based on products and services available.

The results show that experts and customers are aligned concerning the impact of services in the coming five to 10 years and their respective strategic and differentiating potential in the market. In other words, the industry knows what customers want and what direction to take. The long-term impact of prevention, rather than traditional protection-oriented products and services, as well as life services increasing customer convenience beyond the traditional insurance business, have the highest potential for carriers based on the importance they are assigned by customers.

Similarly, with regard to line of business, mobility is currently perceived as the area, which will have the highest impact on the industry in the next five to 10 years. Nevertheless, the results indicate that insurers could be underestimating the potential for disruption in the health and wellness segment. Additionally, providers should be aware of customers' intention to switch providers. Results show that in the areas with the highest impact, there is also the highest willingness by customers to switch to another provider. Therefore, there is a window of opportunity for carriers prepared to be first movers or for non-industry providers with similar products wanting to enter the market (e.g., car manufacturers with mobility offers or produces of wearables for prevention services in health).

To prevent customers from changing provider, insurers must rely on a strong customer focus and position themselves as a partner rather than just an insurance provider. They also need the right set of services that deliver value above and beyond standard insurance to help counter customer switching intentions. In any case, in the future, it will no longer be enough for companies in the Swiss insurance market to rely solely on their brands and on improving administration and claims handling.

Figure 7: Impact and relevance of services by type of service and line of business



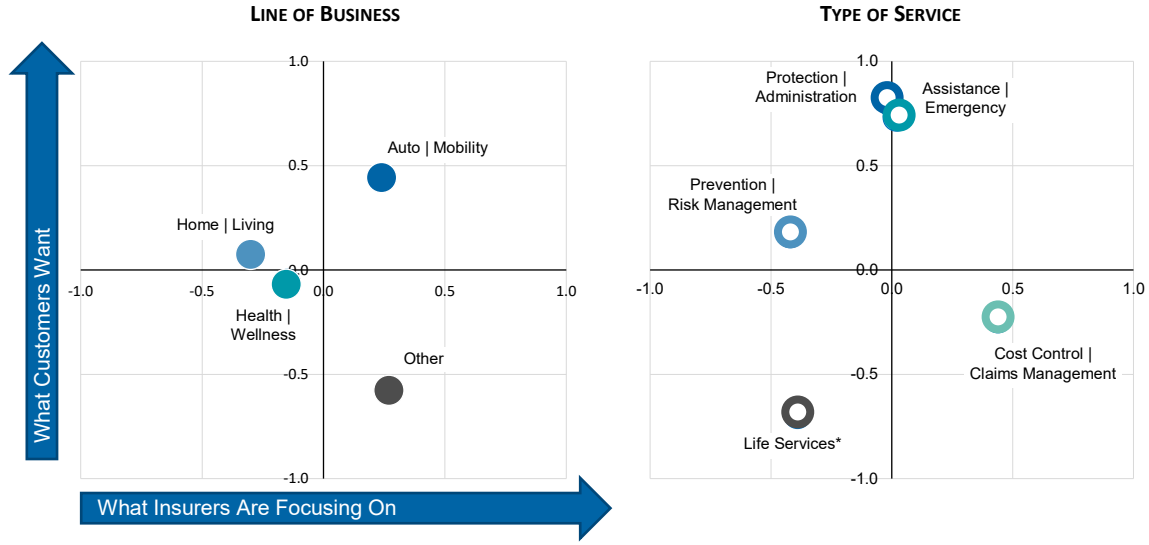
2.4.2. Implementation of Services

Another aspect covered by our study is a comparison between the areas of focus for insurers and customer preferences as shown in Figure 8. Along the x-axis, we have tabulated the areas of focus of insurance companies in the next three to five years; along the y-axis the customer preference for these services. There seems to be little or no correlation between customer preferences and the current efforts of insurance carriers. Customers are interested in insurance products and services in the areas of protection, assistance, and prevention. In spite of this, the study results imply that major insurance providers in Switzerland prefer to focus on internal optimization and cost reduction activities.

A special area worth mentioning are life services, in which customers are expressing a low level of interest despite their strategic importance, mainly due to the level of (sensitive) information needed to provide such services (e.g., location, calendar, and contact data). As is shown by the answers of the respondents participating in the study, if customers did not have to make this data-sharing tradeoff to benefit from life services, they would be extremely interested in services increasing convenience and customer experience. Consequently, insurers need to find a way to access such data without risking the integrity of their customer relationship.

In terms of the line of business, the good news is that the industry is aligned with its customers. Figure 8 shows that auto and mobility are the areas where insurers are investing in new products and services in alignment with customer interest, partly through the active engagement in or even creation of an ecosystem of partners (e.g., UPTO of AXA).

Figure 8: Implementation of services by line of business and type of service



*low rating result due to cost of data sharing

To sum up, the following three points need to be repeated concerning the comparison of the views of experts and customers: First, even though the insurance sector in Switzerland is aware of what is or can be important to them and their customers in the coming five to 10 years, the short-term focus is not on the customer as such but on cost-cutting exercises and process improvements. These may or may not include elements that increase customer value. Second, mobility is the most promising and interesting area for insurers to a) collect data as customers are willing to share personal information, b) provide a broad spectrum of potential new products and services as well as opportunities to engage in (or drive) an ecosystem, and c) benefit financially and in terms of customer intimacy if they play a smart, long-term game. And finally, insurers must not underestimate the opportunities and threats of the latest activities in the global insurance market (e.g., partnerships and acquisitions). As the results show, even though insurers have a solid position in the Swiss market, the areas where they can differentiate themselves and improve the customer experience are the ones where customers show the highest willingness to consider different providers if they like what they offer.

2.5. CUSTOMER ATTITUDES TOWARDS INSURANCE

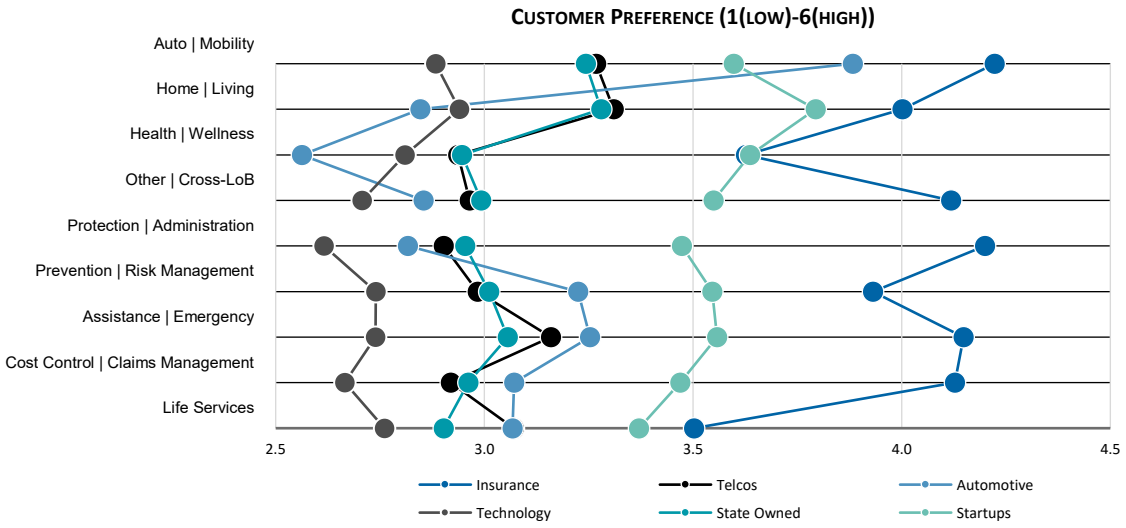
In Switzerland, the insurance sector is subject to a comprehensive but relatively benevolent regulatory and legal environment, especially when compared to other jurisdictions. New entrants from other industries and technology companies face difficulties entering the market. Nonetheless, with the latest trends and activities in the market on a global scale (e.g., Tesla providing insurance for their vehicles in the US), insurance providers in Switzerland must be vigilant and address the threat of new competitors.

To raise awareness of these issues, this study surveyed Swiss policyholders concerning their preferences and their interest in purchasing insurance services from other providers rather than from insurers. The results indicate that Swiss customers show a great affinity for insurance companies based on the brand reputation and trust they have built over the years. This can be seen in Figure 9, which visualizes the average preference of the 1,451 survey participants. The study participants were presented with specific company examples (e.g., FAANG in the technology industry) and asked whether they would consider purchasing a specific insurance service from them. The results show that insurance companies need not yet feel threatened by newcomers from outside the industry. This is especially true for technology companies (e.g., Google, Facebook, Amazon), which scored low in terms of customer preference.

The exception is the automotive area, where car manufacturers would be the next best providers, after insurance providers, from which to purchase insurance services. This could constitute a genuine threat once established car manufacturers such as BMW or Mercedes enter the market with insurance products and service options for their cars. As the results show, in the area of health-related information, customers seem to be particularly reluctant to share information. There, dedicated companies (e.g., Fitbit as a producer of wearables) have an advantage when it comes to customer access and data generation.

Overall, therefore, dedicated start-ups and/or scale-ups represent the most significant threat to insurance providers in terms of customized products and services, especially in the area of health and wellness.

Figure 9: Customers' provider preference by line of business and type of service



Finally, insurance companies in Switzerland enjoy a high level of trust with respect to their customers, who therefore have a strong preference for their products and services. This can be seen as a window of opportunity for developing a strong value proposition in the next few years. Changing the perspective, these results must also be seen as a call to action for incumbent insurer. Observing the ongoing activities and acquisitions in the market on a global scale as well as investments in insurtechs, competitors from outside the industry are working hard to improve their own products and services to position themselves in the insurance market.

Conclusions

The aim of this study was to investigate and understand the importance of insurance services enabled by customer data. It focused on identifying the direction in which the industry will move in the coming three to five years, and where the potential for strategic impact may lie in the next five to 10 years. It also explored the current industry focus and where competitive advantages and differentiation may be possible in the future. Finally, customers were asked whether they would be willing to share the information required to create new data-driven services and whether they would be prepared to share this information with insurance companies or with other providers.

The results of the study are clear: Insurance experts are aware of and agree with the view of their customers regarding the relative desirability and importance of different services and their expectations as customers. Nevertheless, at least in the short term, the industry seems to be focusing on cost-cutting exercises and process optimization instead of working on making a longer-term, more strategic, impact. This can be achieved through services increasing convenience for the customers, by better risk management and prevention, and by services assisting customers in real time.

Results further indicate that carriers should use the momentum provided by the high trust they enjoy among customers to invest in what really matters and boost innovation and develop new offerings that go beyond the traditional insurance business. The trust Swiss policyholders have in the industry is creating a window of opportunity to prepare for potential new market entries in the upcoming years. This window of opportunity should be exploited sooner rather than later, as the study shows that Swiss policyholders do have an interest in data-driven services to bring an additional dynamic to the rather static insurance business and are, in many cases open, to sourcing services from other providers.

Insurance providers need to be aware that there is still a long way to go before they are able to offer such services. For one thing, they lack some of the skills required (e.g., data science). More importantly, customers are careful and reluctant to share data with third parties – especially when it comes to sensitive personal data such as health- or home-related information. As the study shows, the more frequent and the more personal the data is, the less willing the Swiss policyholder is to share it with insurers.

Overall, the study indicates that even though insurance providers do not want to risk damaging the relationship with or the trust from their customers, the time to invest in new activities and offerings beyond the core is now rather than later. The customer portfolios we evaluated for all major insurance companies also each individually reflect these findings, indicating a low market maturity and, thus, an opportunity for first movers.

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Tables

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