



Industry Report

A customer-first future for motor insurance

Putting fairness and dialogue
before price to meet the
changing needs of drivers and
increase customer retention.

BY BITS

The motor insurance industry is reaching its moment of reckoning.

Seismic changes in vehicle usage and driver behaviours, along with rapid adoption of electric vehicles and semi-autonomous driving technology, will come together to create a perfect storm over the next five years.



Phil Ost
Head of Personal Lines
Zurich Insurance Company Ltd

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Foreword

Insurers who focus on meeting and exceeding the expectations of customers, will be able to increase customer retention and remove themselves from the constant race to the bottom on price.

Whilst other segments of the financial services industry, such as retail banking, have embraced new business models and implemented new technologies to transform customer experience, innovation has been harder to achieve within motor insurance.

Now the COVID-19 pandemic has brought the situation to a head. Customers are becoming increasingly dissatisfied with their experiences during the pandemic and unhappy about what they perceive to be unfair and inflexible pricing. At the same time, a new breed of innovation-led insurer is disrupting the market and stealing customers with their promise of more engaging communication and fairer products.

This report examines the measures that the industry needs to take in order to transform itself to better meet the needs of drivers now and in the coming years. This includes better communication and more flexible, usage-based pricing models.

At a broader level, the report emphasises the need for

senior leaders within insurance firms to re-define how they approach business growth and success, replacing price with customer experience as their guiding principle.

Insurers that focus on meeting and exceeding the expectations of customers, will be able to increase customer retention and remove themselves from the constant race to the bottom on price.

This is the big shift in thinking that is required across the industry and this report sets out the steps that insurers can take in order to future-proof their businesses and take advantage of the opportunities it will undoubtedly bring.



Robert Lumley
Co-Founder & Director
Insurtech Gateway



Unless insurers take meaningful action now, they stand the chance of becoming obsolete.

Callum Rimmer
CEO By Bits

Introduction

A tipping point for the motor insurance industry

As with so many sectors, the COVID-19 pandemic has challenged the motor insurance industry like nothing before.

Introduction

The pandemic has rapidly accelerated and accentuated market dynamics and customer behavioural trends that were already being felt across the industry; and in some cases, it has exposed significant but previously hidden weaknesses and vulnerabilities.

The changes have shone a spotlight on how motor insurance companies serve and treat their customers, and caused drivers to evaluate both the customer experience and the value they receive from insurers.

For millions of people, the fact that they have had to continue to paying the same level of premiums on their motor insurance despite a huge reduction in their driving and mileage feels highly unfair. At a time when many industries have gone the extra mile to provide consumers with far greater transparency and flexibility to help them navigate through this challenging period, the motor insurance industry has struggled to move quickly in response to changing circumstances.

But the growing sense of frustration amongst drivers is not simply the result of what they deem to be unfair and inflexible pricing. It also stems from the level of customer experience they receive from

motor insurers – the irregular communication and lack of personalised offerings or digital innovation.

Insurers have long been aware of the need to evolve and diversify their offerings to meet the demands of drivers. The notion of delivering fairer and more transparent pricing has been talked about within the industry for several years. Similarly, motor insurers have been pursuing digital innovation for a number of years, aimed at delivering more innovative and engaging digital experiences for customers.

However, efforts to evolve and transform the motor industry over recent years have failed to deliver the level of change required to meet the needs of today's drivers. The events of 2020 have shown just how far the motor insurance industry still needs to go in order to satisfy customer expectations and remain relevant in the post-pandemic economy.

77%

of motor insurance companies admit that they have previously put profit above customers and that they now need to redress the balance if they are to succeed in the future.

But only

11%

say that they are planning make significant changes to their approach to business in order to meet customer demands.

This report explores in depth the dynamics that are driving the need for transformation within motor insurance, during the pandemic and beyond.

Based on comprehensive research amongst both UK motor insurers and brokerages, and UK drivers, the report reveals how insurers are acutely aware of the need to evolve their business models and customer offerings in response to changing driver needs, particularly in the wake of the pandemic. But it indicates that many insurers are still underestimating the scale and nature of the changes required, or the urgency involved.

This report argues that the industry needs to put the customer at the heart of its future strategy in order to achieve meaningful and sustainable transformation. And that means looking beyond immediate financial goals and adopting fairness, transparency and first-class customer experience as its guiding principles.

Critically, this shift in thinking also makes sound commercial sense. Insurers that succeed in meeting the evolving needs of drivers and engaging them with open and regular communication, will see game-changing improvements in customer retention levels. This in turn will lead to more predictable revenues and profits, and allow them to finally extract themselves from the unwinnable race to the bottom on price. Put simply, it is the best route to build an agile, innovation-driven business fit for the future.

As part of this new customer-first approach, the research explores appetite for usage-based insurance products amongst both insurance providers and drivers, and the potential for pay-per-mile policies to deliver fair and transparent pricing. Once again, whilst insurers are found to be largely positive about the impact that usage-based insurance products will have on the industry, the research reveals a concerning lack of action and raises questions around their reasons for introducing pay-per-mile offerings into their portfolios over the coming years.

Will the introduction of usage-based insurance products signal a defining shift towards putting the customer front and centre of motor insurance provision, or will it be managed in such a way as to maintain the status quo and protect margins?

The report concludes that the shift to usage-based insurance represents an opportunity to re-set the motor insurance industry as a whole. It provides a platform for insurers to re-invent their go-to-market strategies and to make fundamental and necessary choices about how they serve customers in the future, not just in terms of fair and transparent pricing, but in delivering the open dialogue and engaging experiences that drivers are so desperately seeking.

Worryingly

the research reveals that many motor insurance companies are still directing their transformation and innovation initiatives on operating costs and profit margins, rather than on delivering enhanced customer experience.

Research Methodology

Who we spoke to and how the research was conducted

Research methodology

The B2B research entailed

To better understand the challenges facing motor insurance providers one year on from the beginning of the pandemic, and their priorities moving forward, By Bits has undertaken comprehensive research amongst insurers and insurance brokers in the UK.

102 64%

Interviews with 102 senior decision-makers within insurance and insurance brokerage businesses, including CEOs/Managing Directors, Heads of Product and Innovation, Operations Directors and Finance Directors

of respondents worked for insurance companies; **36%** worked for insurance brokerage or intermediary companies

36% 33%

64% of respondents worked for businesses operating in the UK only; **36%** worked for companies with internal operations

of respondents worked for companies with less than £50m Gross Written Premium on their personal motor insurance policies; **55%** worked for companies with between £50m and £499.9m GWP; and **12%** worked for companies with GWP of £500m or more

The driver research consisted of

By Bits has also commissioned a study of UK drivers to explore changing consumer needs and demands in relations to motor insurance and how driver behaviours and expectations are likely to evolve in the next five years.

1,000

Interviews with 1,000 UK drivers who arrange and pay for their own motor insurance

50/50

There was an even split between men and women and a representative sample across age demographics

A challenging landscape

Heightened customer demands & changing behaviours

Challenges facing motor insurance businesses in the last year

Motor insurers report a wide range of pressures that have impacted them during the pandemic, from declining sales and squeezed pricing, through to increased instances of fraud and regulatory compliance.

Alongside this, 86% of motor insurers say that delivering digital transformation has been a challenge over the past 12 months, and 79% state that keeping up with competitors offering usage-based policies has been a challenge.

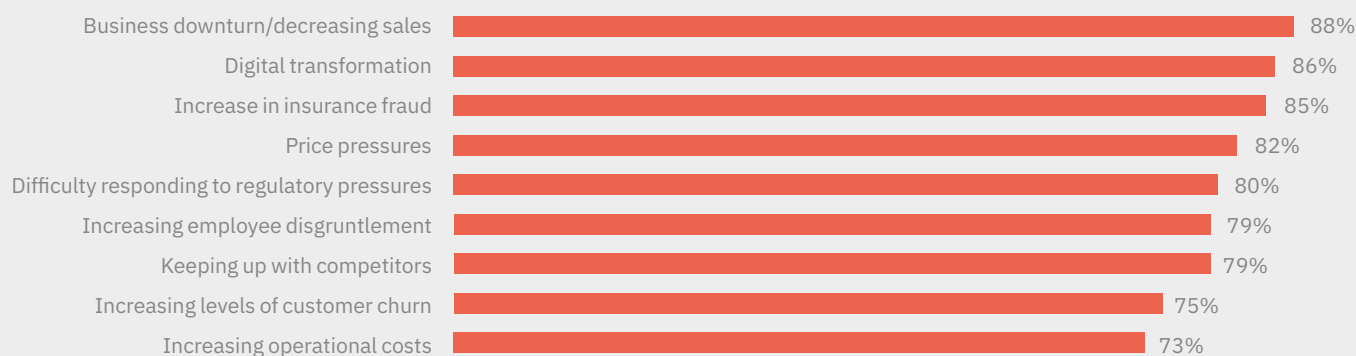
“What challenges have you experienced in your motor insurance business over the last year?”

86%

of motor insurers say that delivering digital transformation has been a challenge over the past 12 months.

79%

state that keeping up with competitors offering usage-based policies has been a challenge.



How drivers have become more demanding during the pandemic

Alongside these challenges, the research reveals the extent to which customers have become more demanding and more vocal during the pandemic.

Significantly, however, the research indicates that pricing is only one factor in increased customer demands. Drivers are also seeking better communication, more personalised and flexible policies and seamless, intuitive customer experiences (such as mobile apps and live chat).

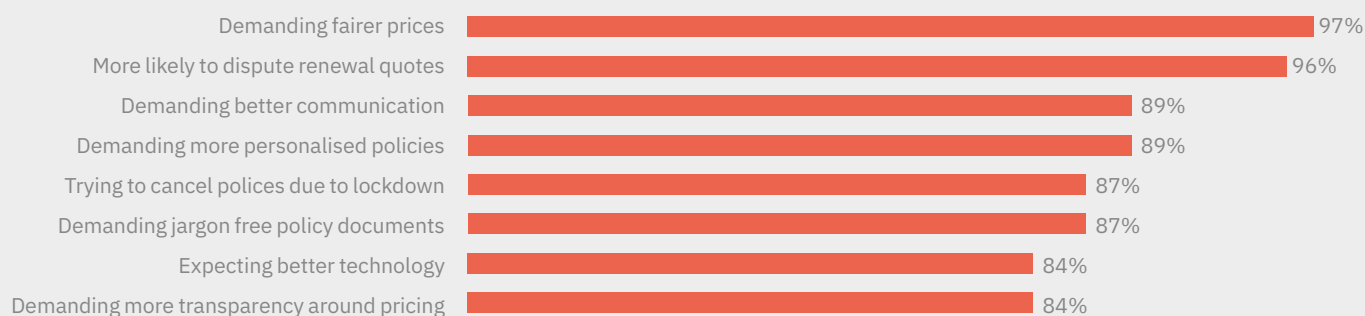
“In which of the following ways have you seen motor insurance customers become more demanding in the last 12 months?”

97%

of motor insurers report that customers have been calling for fairer pricing based on usage or mileage during lockdown

87%

state that customers have tried to cancel policies due to drastically reduced mileage



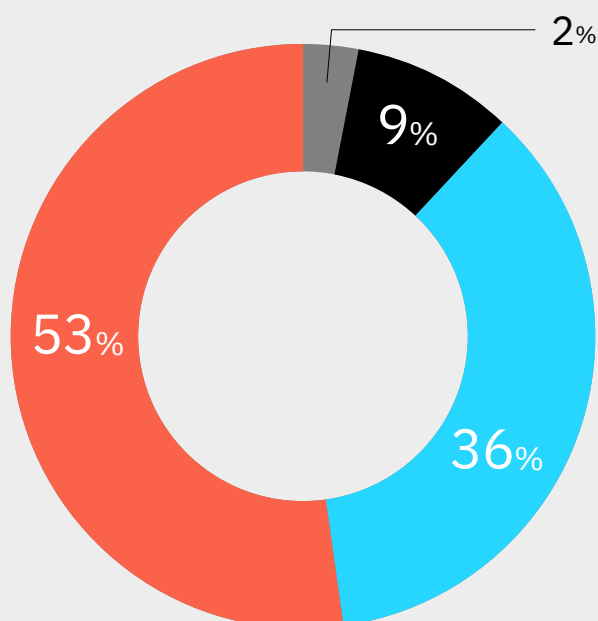
What drivers want from motor insurance providers in next 1-2 years

And the research amongst drivers highlights the pressure on insurers to provide greater transparency around pricing and more flexible policies. Drivers want jargon-free, easy to understand policies, and more innovative customer experience.

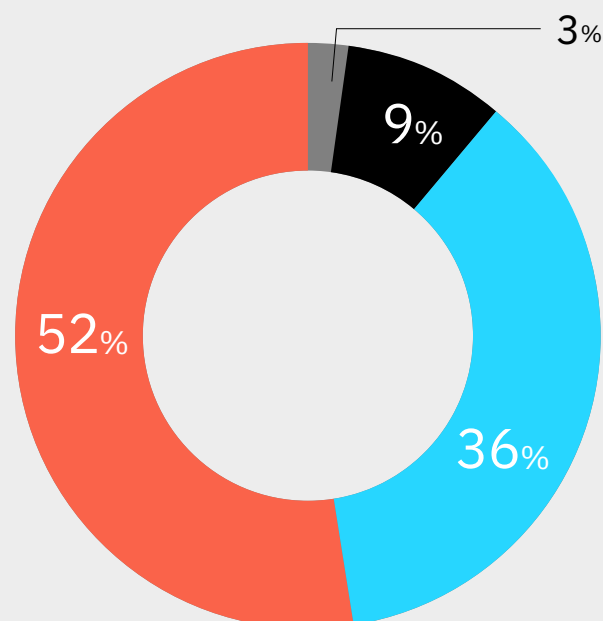
“What would you like to see from car insurance brands in the next 1-2 years?”

■ Yes definitely ■ Yes probably ■ Not particularly ■ Not at all

More transparency around pricing



Jargon free policy documents



What drivers want from motor insurance providers in next 1-2 years

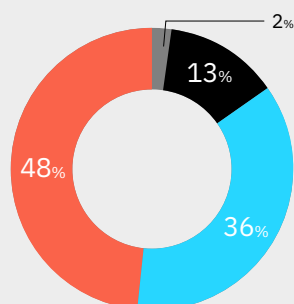
Interestingly, the research reveals that 62% of drivers think they will drive less over the next five years than they did in the previous five years.

They put this down to more home working and a reduced need to commute for work as a lasting consequence of the pandemic, as well as becoming more environmentally conscious and needing to reduce their outgoings.

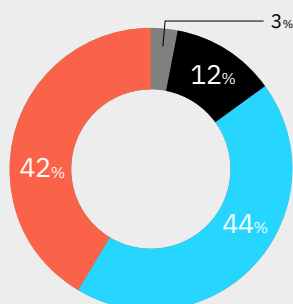
“What would you like to see from car insurance brands in the next 1-2 years?”

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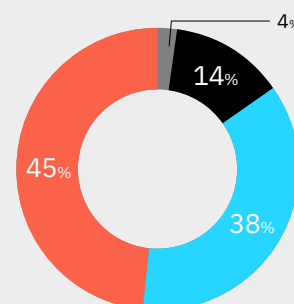
Price based on actual mileage



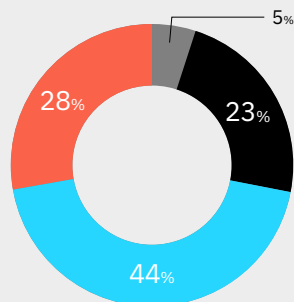
Personalised/flexible policies



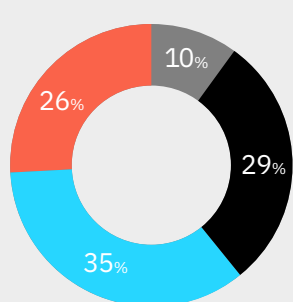
Incentives/rewards based on behaviour



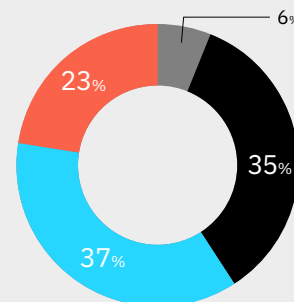
Innovation in customer experience



Mobile app



Ongoing communication (not just at renewal time)



How to respond

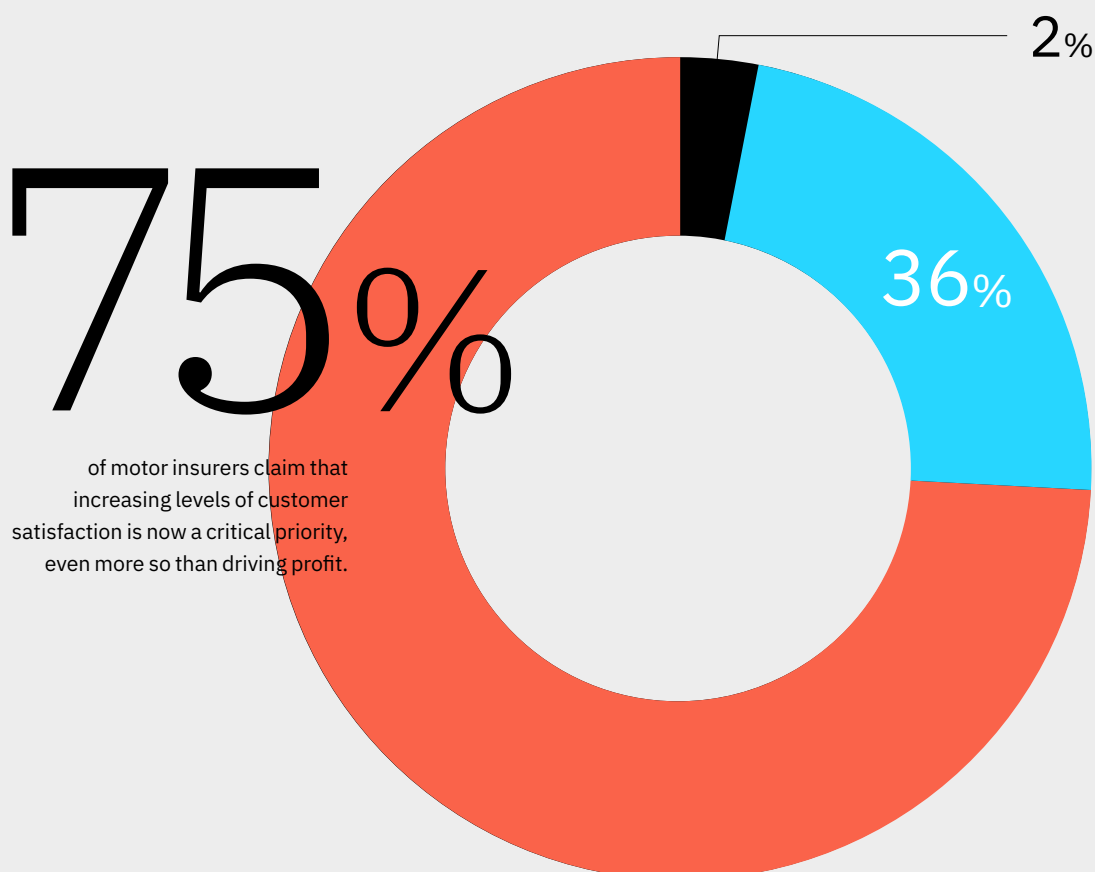
Adapting to respond
to changing customer
behaviours & expectations

Importance of increasing customer satisfaction compared to other objectives such as profitability

Motor insurers are acutely aware of the need to revise their approach to business in response to evolving customer needs.

“Compared with other objectives such as profitability, how important is it for your organization to increase levels of customer satisfaction?”

■ Critical ■ Important ■ Not particularly important



Business priorities for motor insurers over next two years

Significantly, more than three quarters (77%) of motor insurers admit that they have ‘put profits above customers for too long and now need to redress the balance’ in order to succeed.

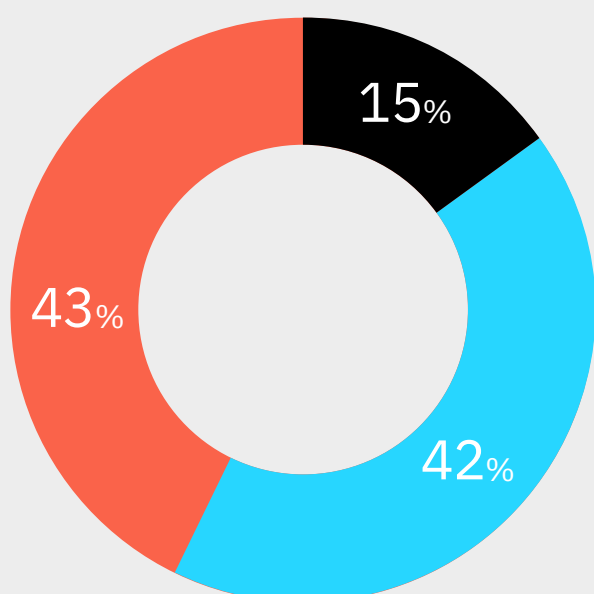
This is a profoundly important finding and suggests that the motor insurance industry is on the brink of a major pivot, putting the driver at the heart of its future strategy.

In line with this, insurers are placing a heavy emphasis of improving customer experience and repairing their reputation and brand image in the eyes of customers over the next two years.

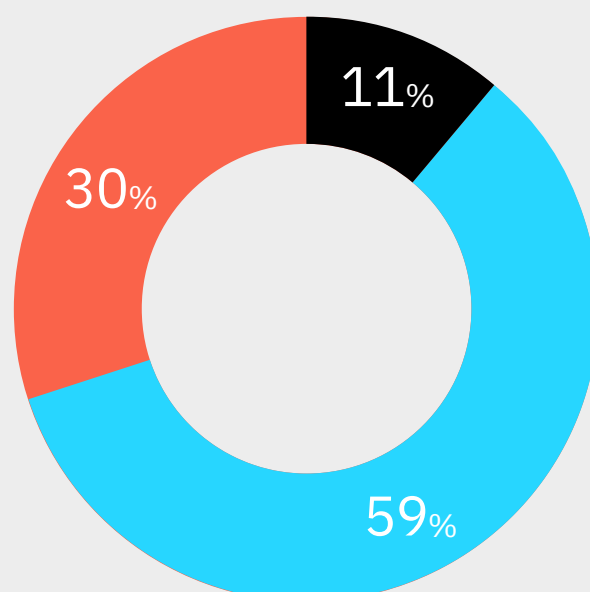
“What do you see as your main business priorities over the next two years?”

■ Main priority ■ Secondary priority ■ Not such a priority

Improving reputation
& brand image with customers



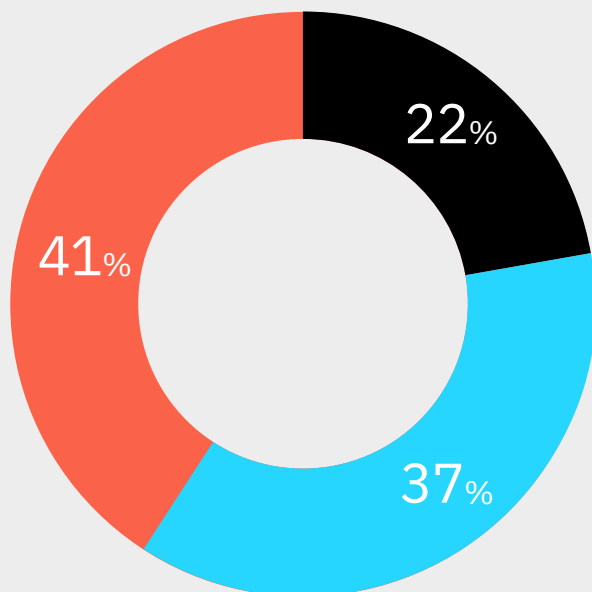
Attracting new customers
/entering new markets



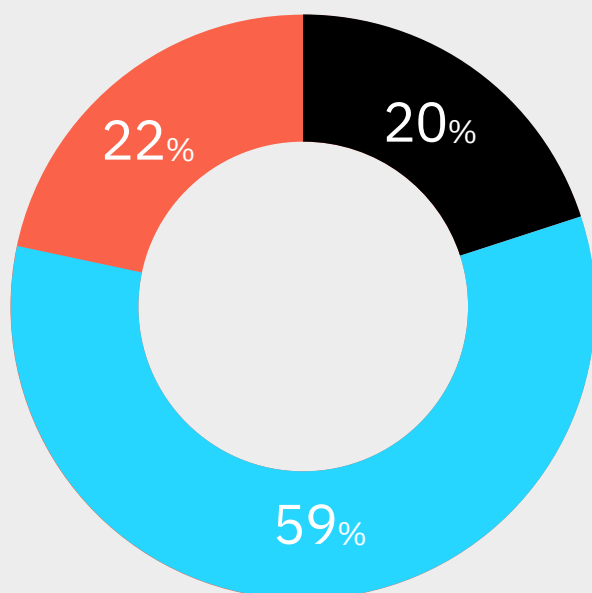
“What do you see as your main business priorities over the next two years?”

■ Main priority ■ Secondary priority ■ Not such a priority

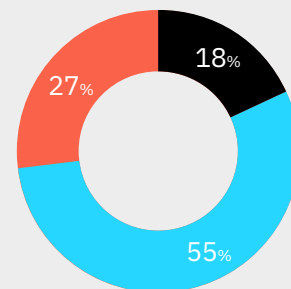
Improving customer experience



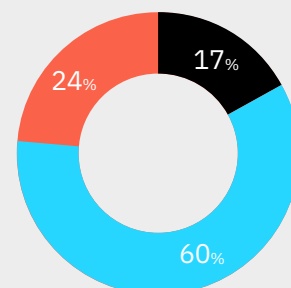
Innovation/ expanding product portfolio



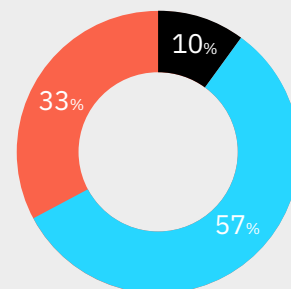
Increasing sales/
market activity



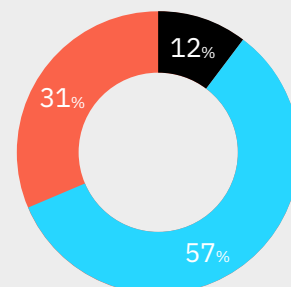
Reducing operational costs
(e.g. technology)



Accelerating digital
transformation



Investing in quality
data infrastructure



However, despite their stated intentions, the research suggests that many insurers do not understand or recognise the speed and scale of the changes required to transform their businesses to better serve the needs of drivers.

Whilst

71%

of insurers claim that they are looking to make some level of change to their approach in response to new customer demands.

And staggeringly, despite

97%

of insurers stating that drivers have been demanding fairer, usage-based pricing during the pandemic, **only a fifth (20%)** have made any changes to their motor insurance pricing models in the last 12 months.

Only

11%

are planning to make significant changes to how they serve customers.

Almost half

47%

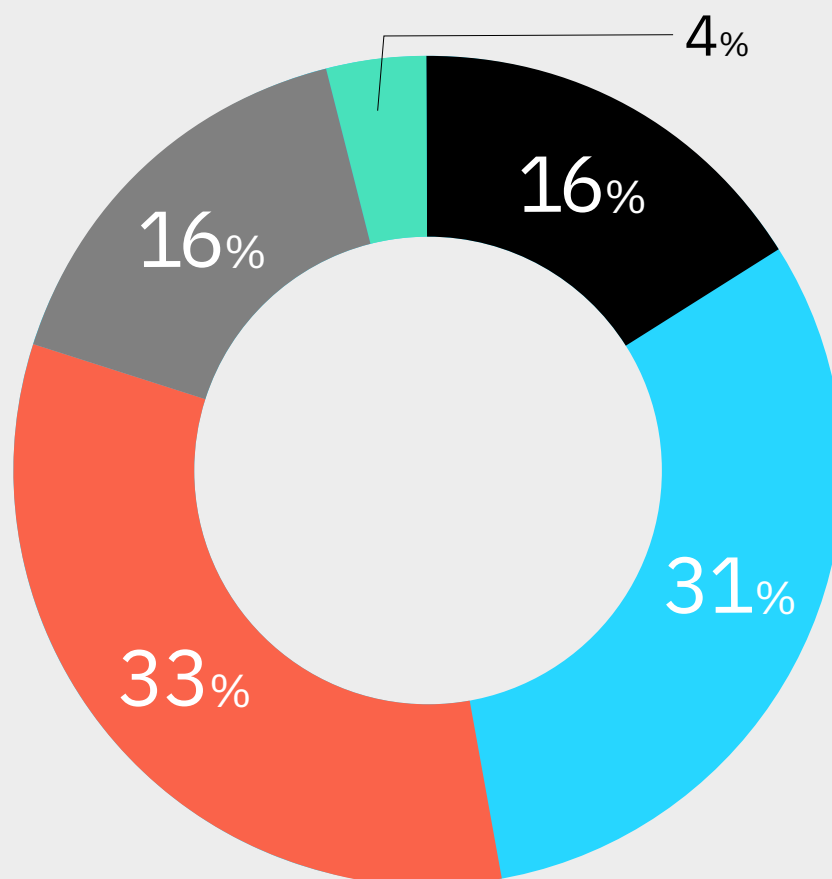
admit that they have made no significant changes to their product portfolios in the last two years.

Frequency with which insurers have made significant changes to their motor insurance portfolio

Evidently, whilst insurers acknowledge the need to re-think their go-to-market strategies, many are yet to take meaningful action to deliver what customers are looking for in 2021 and beyond. The talk is yet to turn into action.

“When did you last make a significant change to your motor insurance portfolio / released a significant new motor insurance product? “

■ Within 2 years ■ Within 3 years ■ More than 3 years ■ Within 12 months ■ Within 6 months



Looking ahead

A shift to fairer pricing & usage-based policies

The research highlights the wide range of customer and technology trends which will impact motor insurance portfolios and pricing models over the next two years. These include the overall reduction in average mileage per driver; the expected proliferation of electric vehicles and semi-autonomous driving technology; and the increased availability of telematics and connected car technology.

Impact of industry trends on motor insurance pricing models

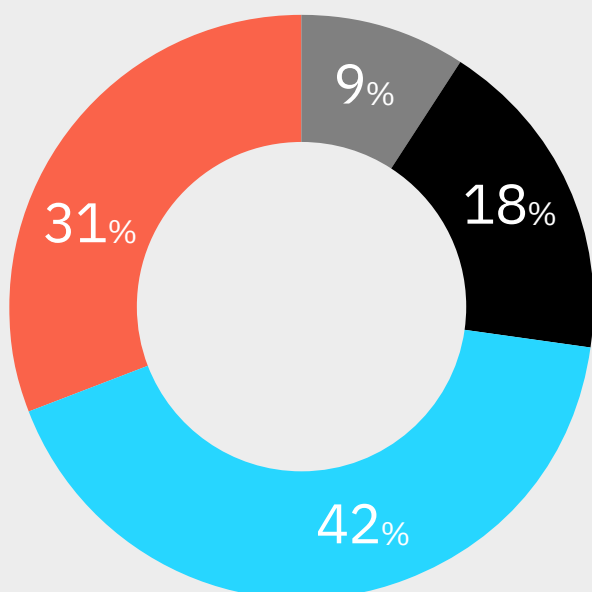
Interestingly, the need to develop sustainable risk management models is expected to be the biggest driver of changes to portfolios and pricing over the next five years.

In order to achieve sustainable risk management, the majority (54%) of insurers believe that they will need to integrate pay-per-mile offerings into their portfolios and adopt a more data-driven approach to more accurately predict risks and costs.

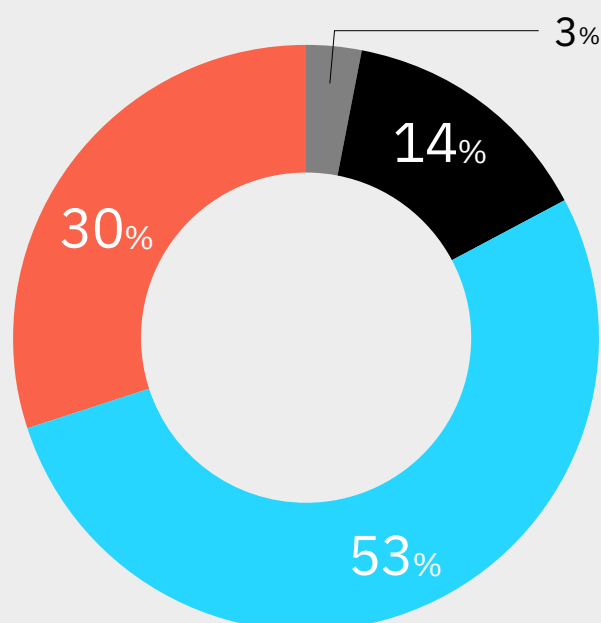
“To what extent do you see the following trends or industry scenarios impacting your motor insurance portfolio or pricing models?”

■ Yes definitely ■ Yes probably ■ Not particularly ■ Not at all

Focus on sustainability risk management

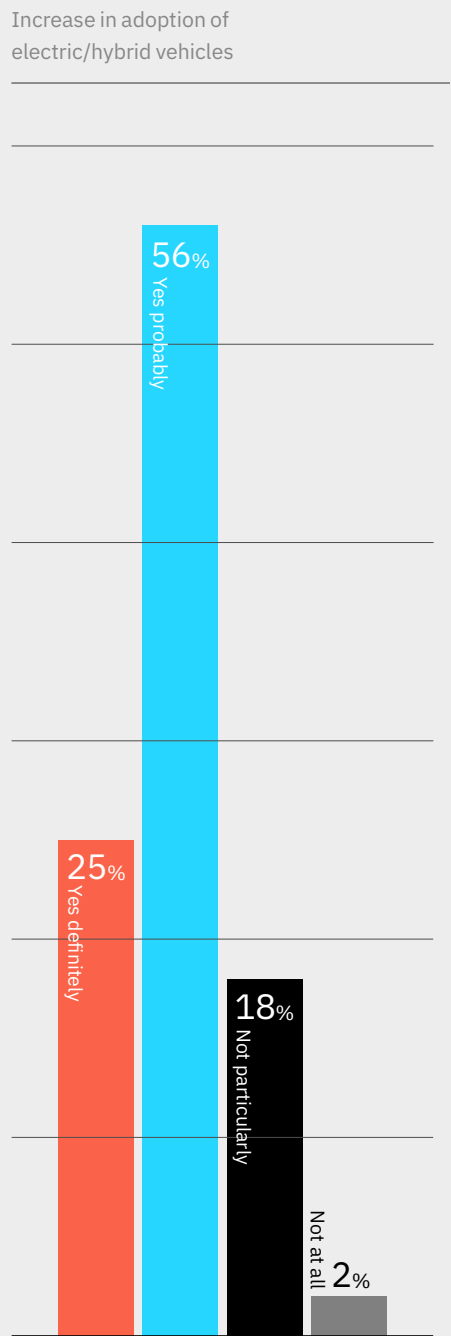


Increase in car ownership over time

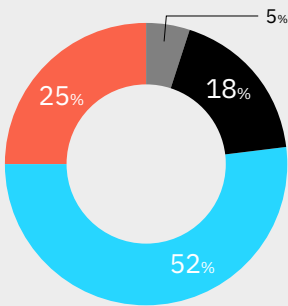


“To what extent do you see the following trends or industry scenarios impacting your motor insurance portfolio or pricing models?”

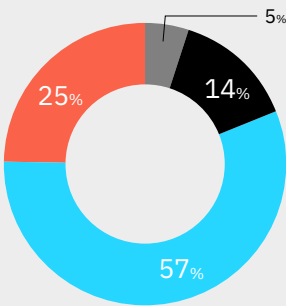
Yes definitely
Yes probably
Not particularly
Not at all



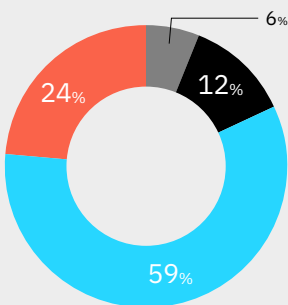
Increased availability of telematics & connected car technology



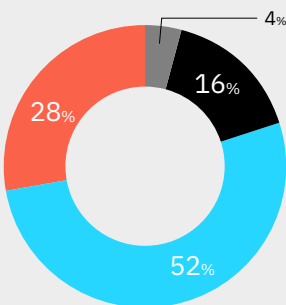
Reduction in average annual mileage



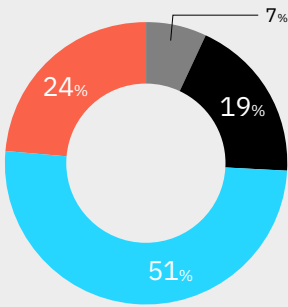
Increase in volumes of data



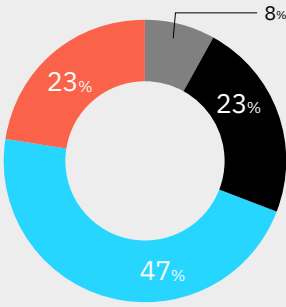
Adoption of semi-autonomous assisted driving technology



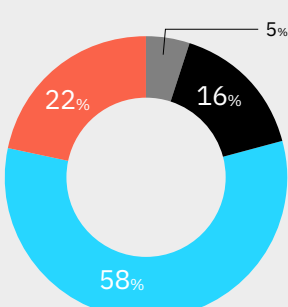
Taxation/duty based on environmental impacts



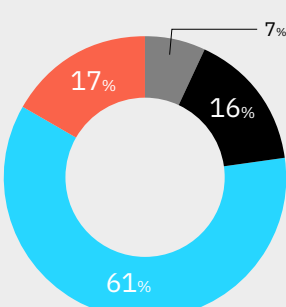
Motor vehicle taxation based on usage/mileage



Disruptive competitive threat



Increase in different mobility options (e.g. ride sharing)



Extent to which insurers believe they could use data to improve pricing models

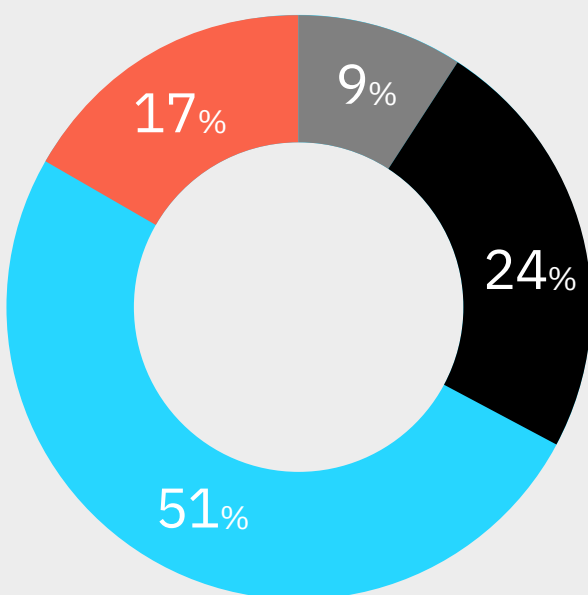
The research reveals that where insurers do currently adapt their pricing models, they tend to do so in response to trends relating to vehicles rather than driver preferences and behaviours.

So, for instance, they have revised pricing based on assisted driving technology and the adoption of electric vehicles, rather than changes in car usage and mileage.

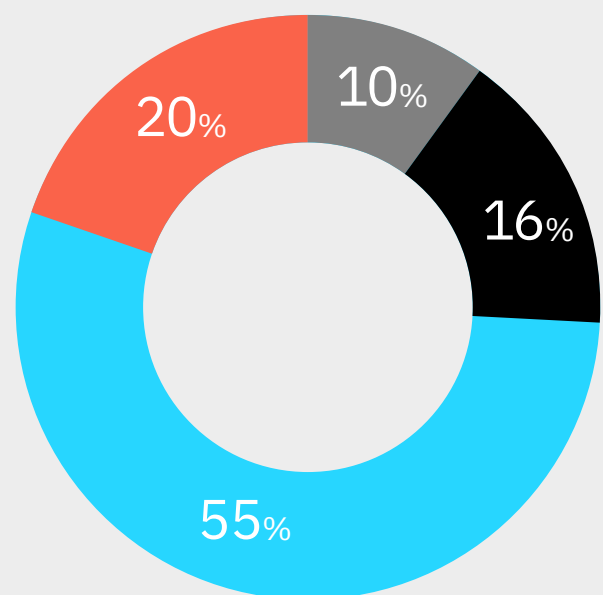
However, looking ahead, insurers recognise that they could make better use of both vehicle and driver data to deliver more customer-centric products.

“To what extent could your organisation be making better use of driver data to improve its motor insurance pricing models?”

■ To a great extent ■ To some extent
■ Not particularly ■ Not at all



“And to what extent could your organisation be making better use of vehicle data to improve its motor insurance pricing models?”



91%

of insurers regard usage-based insurance pricing as positive for the industry

Encouragingly, given the overwhelming consumer appetite for pay-per-mile insurance products

84%

believe it represents an opportunity for their organisation

The speed of change

The race to deliver usage-based insurance products

Most insurers now regard the introduction of pay-by-mile insurance products within their portfolio as an appealing prospect, with 79% claiming it is an attractive proposition.

Benefits of introducing usage-based motor insurance products

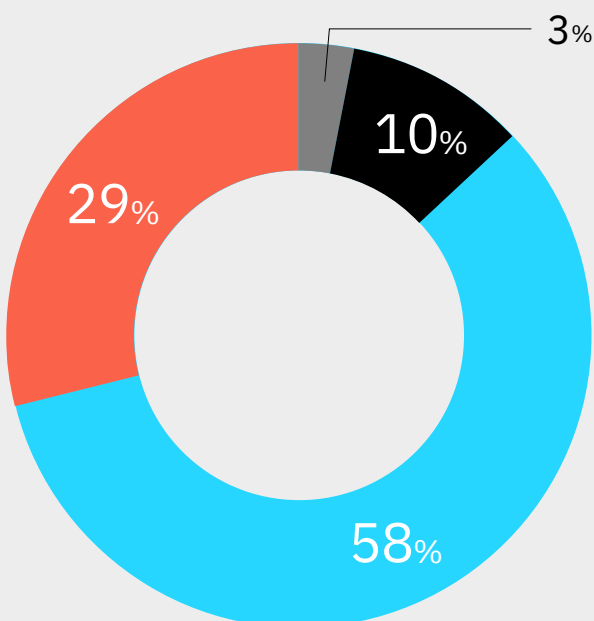
Insurers point to a wide range of game-changing benefits, including future-proofing their business, reducing customer churn (a deep-rooted issue within the industry) and generating competitive differentiation.

Significantly, given current consumer demands, 81% of insurers believe that offering pay-by-mile insurance pricing will improve their image to customers and 78% feel that it will provide a platform for more ongoing and meaningful engagement with customers.

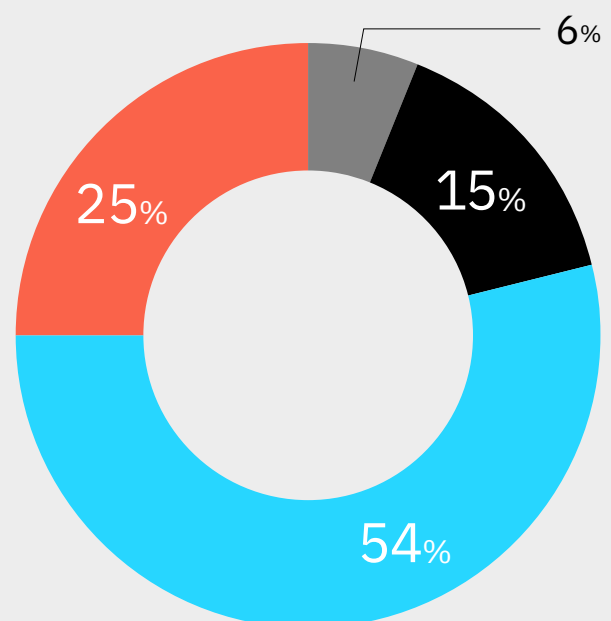
“What benefits can you see from introducing usage-based motor insurance as part of your portfolio?”

■ Significant ■ Moderate ■ Not particularly
■ Not at all ■ Don't know

Future proofing our business



Reduced customer churn



“What benefits can you see from introducing usage-based motor insurance as part of your portfolio?”

Significant

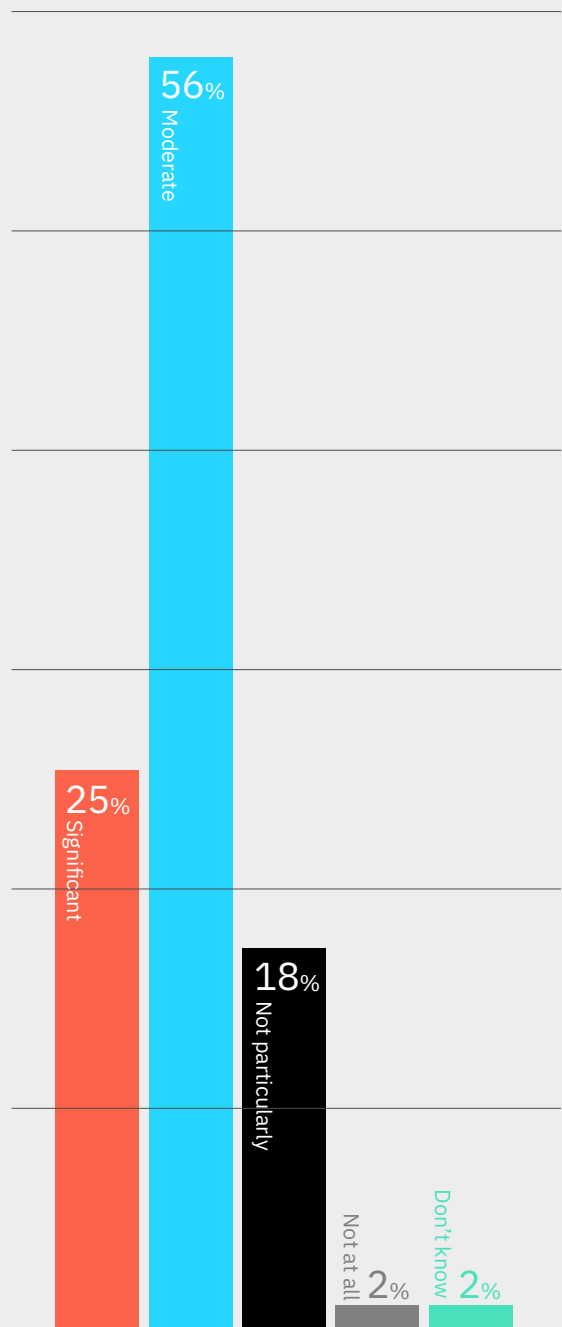
Moderate

Not particularly

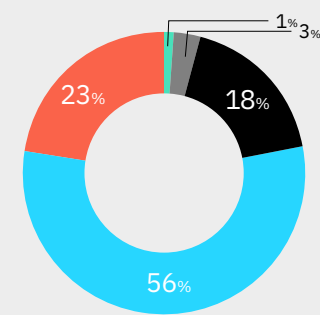
Not at all

Don't know

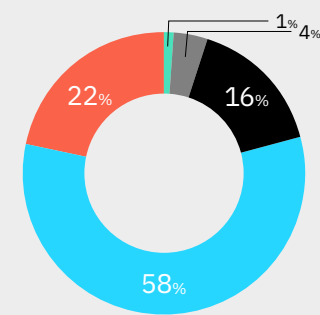
Improve our image to customers



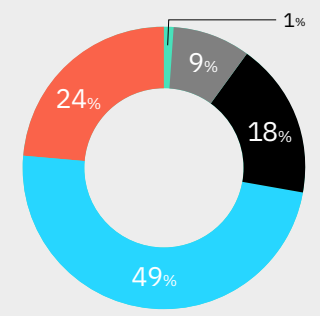
More attractive to new customers



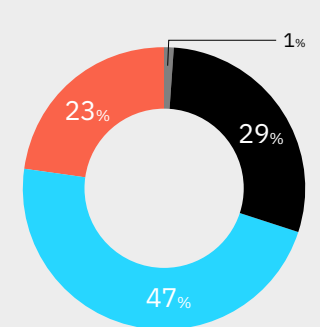
Opportunity for more ongoing customer engagement via an app



Competitive differentiation



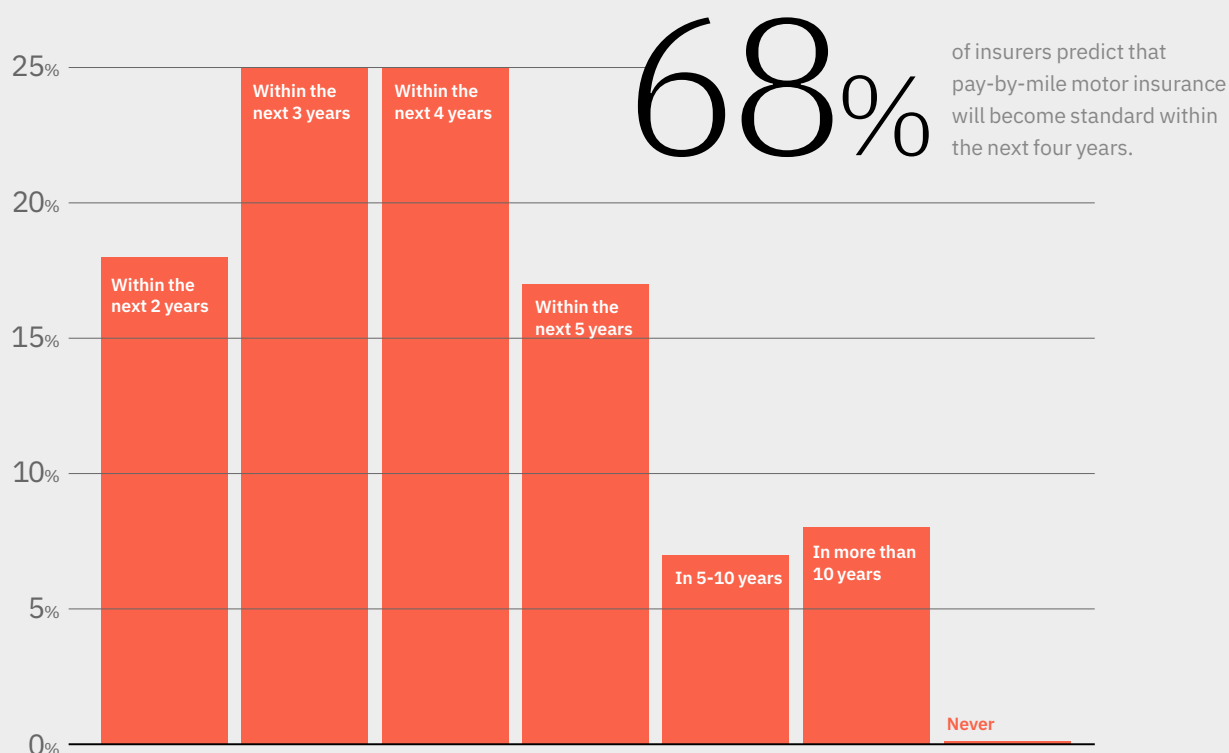
More sustainable risk management



Timeframe in which usage-based insurance motor insurance products will become standard

In fact, the research exposes a widespread acceptance amongst insurers that the usage-based insurance is set to increasingly take over the motor insurance industry over the coming years.

“In what timeframe do you think usage-based (pay-by-mile) motor insurance products will become the standard in the motor insurance industry in the UK?”



However

whilst the majority of insurers predict that usage-based insurance will become the norm within four years, and more than three quarters claim that this is an attractive proposition, the research finds that only 30% are currently offering or proactively looking to incorporate pay-per-mile pricing models into their product offerings.

These findings indicate that a significant minority of insurers are looking to steal early-mover competitive advantage, reacting swiftly to changing driver behaviour during the pandemic and heightened demands for fairer and transparent pricing models. In doing so, these insurers can take advantage of consumer dissatisfaction with the wider motor insurance industry and increase their customer acquisition and retention.

But on the other hand, the research suggests that the majority of insurers are aware of the need to introduce pay-per-mile pricing, but continue to do little or nothing about it.

No excuses

Breaking down the barriers to usage-based motor insurance pricing

Insurers cite a number of
challenges in introducing
usage-based insurance
products into their portfolios.

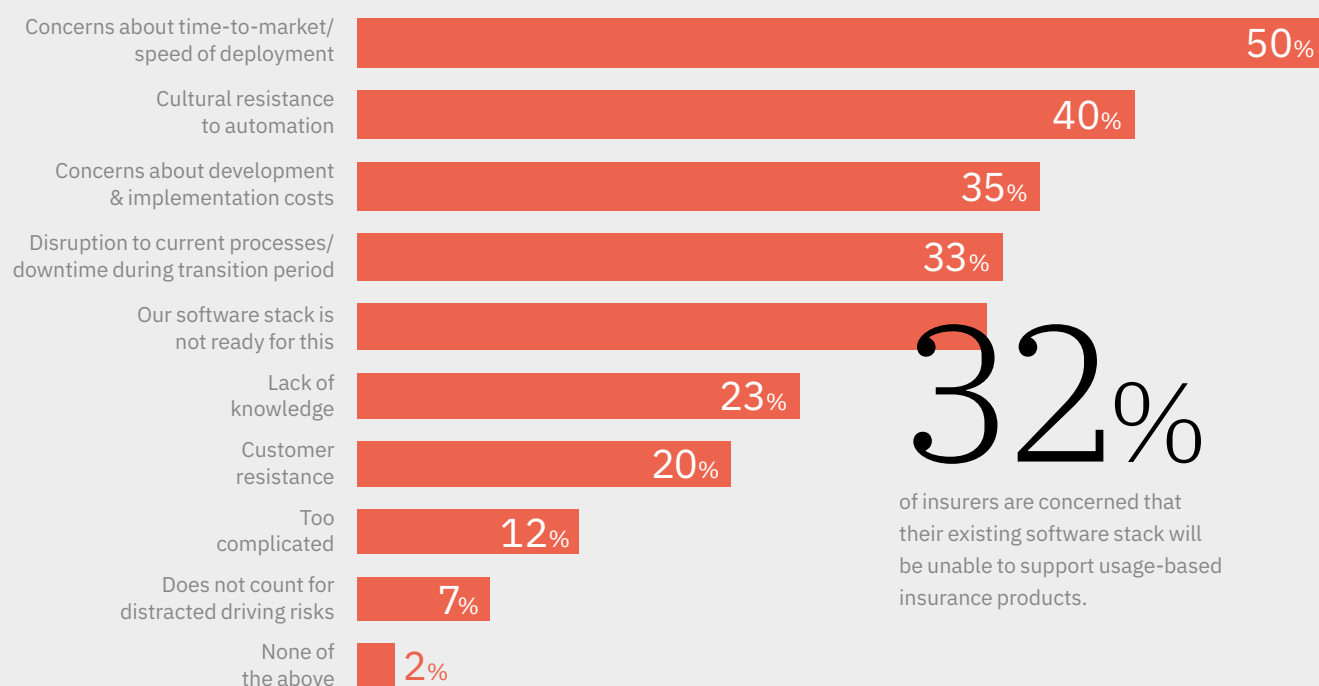
Perceived barriers to offering usage-based motor insurance products

The biggest perceived barrier concerns speed of deployment and the time it will take to develop usage-based products and bring them to market.

Half of insurers points to this as a challenge. Linked to this, more than a third (35%) express concerns about the development and implementation costs involved.

Other issues are cultural resistance to change within insurance business, potential disruption and downtime during the transition phase, and a lack of knowledge and confidence around these new products.

“What do you see as the main barriers / challenges in offering a usage-based (pay-by-mile) motor insurance product as part of your portfolio?”



32% of insurers are concerned that their existing software stack will be unable to support usage-based insurance products.

Insurers don't seem to be communicating

that cannibalising the premium with UBI solutions being a dominate issue. The retention that comes with being a more customer centric, app focused proposition means UBI could actual make more revenue per policyholder.

Clearly, motor insurance companies need help to bring usage-based policies to market in a timely and cost-effective way, navigating around potential IT Integration and product development issues.

And just as importantly, they need to develop the mindset and skills to embrace innovation and change, and accept that the future of motor insurance will be very different to what they have known over the last ten or twenty years.



Conclusion

The transformation to being customer-centric

The research tells a contradictory story. On the one hand, it is a tale of insurers recognising the need for transformation; to better serve customers and to adjust products to align with current and future driving habits and technologies.

Conclusion

There is a clear acknowledgement that radical change is inevitable and that it will ultimately work in the interests of both drivers and the industry itself. And there appears to be an appetite amongst insurers to get on the front foot, to adopt a proactive approach to transformation to take advantage of new opportunities.

But, conversely, the other side of the story exposes a surprising lack of meaningful action amongst the majority of insurers. It suggests many are underestimating the scale of change required to serve the needs of customers, in terms of both transparent and fair pricing and more open dialogue.

Perhaps more worrying is the fact that many insurers still appear to be approaching digital transformation and change from a traditional, inward-looking perspective. Rather than thinking first about how best to meet the needs of drivers, their guiding principle continues to be how they can best maintain the status quo by driving down cost and protecting their margins.

This approach to business is simply not sustainable in a digital economy where consumers

are now used to seamless and personalised experiences in all aspects of their lives, from banking and retail through to travel and entertainment. Consumers expect regular and engaging communications with their chosen brands, and they expect flexible service delivery.

The fact that 81% of motor insurers admit that they typically engage with their customers once a year, at renewal time, sums up just how far the industry still needs to go.

However, the research uncovers a minority of motor insurers who are taking a proactive approach to transforming their businesses and putting customers at the heart of their future strategies. They are embracing new business models and driving innovation to deliver better communication, build

sustainable relationships and offer fairer, more flexible pricing.

In doing so, these insurers are adapting to evolving driver needs and future-proofing their businesses. They are taking advantage of the seismic behavioural and technological shifts that are currently happening and creating genuine differentiation in the market. This will lead to improved customer retention and a more predictable, sustainable commercial model.

This research suggests that the motor insurance industry will re-invent itself over the next four years, with a far greater emphasis on customer experience and a decisive shift towards usage-based pricing. Those that fail to act now will inevitably become irrelevant and fall behind.

Motor insurers are facing a defining moment and the clock is ticking.



Callum Rimmer
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About the authors

About By Bits

By Bits is a new technology platform for the motor insurance industry to transform the customer experience and bring fair and transparent pricing to drivers. The platform enables motor insurance providers to create innovative, personalised services for customers and bring usage-based policies to market in a fast and cost-effective way. The platform has been brought to market by the co-founder of By Miles, the UK's only pay-by-mile motor insurance product.

By Bits provides two main services – an insurance rating engine and an insurance policy management system. The By Bits rating engine enables insurance companies to calculate insurance premiums using modifiable underwriting

and rating rules. The policy management system enables insurers to manage every aspect of the lifecycle of a car insurance policy ranging from quotation to policy and renewal.

The By Bits platform is delivered through a software as a service (SaaS) model and can be integrated into existing technology systems or used as a stand-alone, white label solution. It provides insurers with best-in-class documentation and APIs, significantly reducing the cost and time required for insurers to develop their technology stack to meet the customer-centric demands of an evolving insurance industry.

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