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Industry Insights
Focused Thought Leadership for the
UK Financial Services Industry

UK Motor Insurance: At the Crossroads?

Why business as usual is not an option

Summary

The UK motor insurance market is at a critical juncture, with insurers navigating extremely challenging profitability, intense regulatory and governmental scrutiny and rapidly changing distribution channels, technology and consumer behaviour.

Current market conditions mean that insurance companies cannot afford to maintain business as usual operations. They need to rapidly adapt and change their mindset in terms of the way in which they operate and compete in this sector.

Highlights from Accenture's 2011 survey of UK motor insurance customers include:

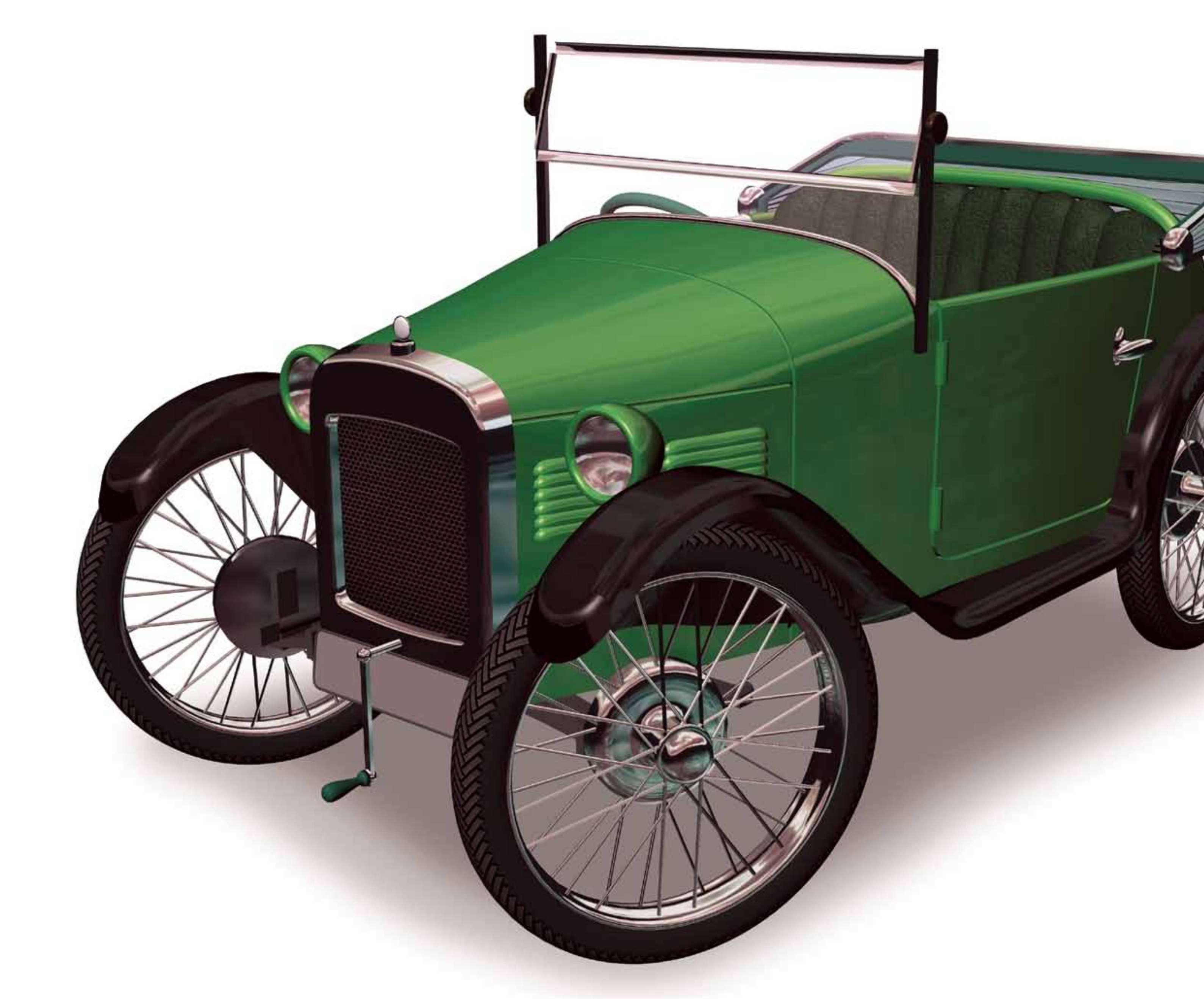
- There has been a step change in attrition levels; 68% of all customers have been with their provider for less than 3 years. Rather than retention just being at an extreme cyclical low, there has been a structural long-term shift to higher attrition rates, creating stiff challenges for insurer pricing and retention strategies.
- Although brand remains an important distinguishing feature for consumers, who often use it as a proxy for product features, benefits and service levels, the ways in which insurance companies are managing their brands needs to change with the times. Insurers need to move from brand awareness to brand effectiveness in the digital world.
- Good service remains a hygiene factor, but one that has strong indirect influence, particularly as a result of digital media.
- Targeted product propositions can be used to tackle retention for some consumer groups, provided they meet consumers' low cost criteria. New technology and the wealth of available digital data present plenty of scope for innovations that can be tested and adjusted in real-time to maximise conversion among target customer groups.

To be successful in current market conditions insurance companies must adapt to the waves of change facing their industry and the way in which they do business. Insurance companies need:

- Better connectivity – harnessing new technologies and social media to connect with consumers in different ways;
- A more analytic understanding of customers – improving retention strategies and allowing more targeted product propositions;
- The ability and flexibility to adapt at pace and respond to the changing landscape.

Survey methodology and objectives

Accenture conducted online interviews with 2,751 motor insurance customers in the UK in October 2011, probing the perceptions and behaviours governing their motor insurance relationships, switching activity, levels of satisfaction with service experiences, and the factors that influence provider selection.



The motor insurance market is at a critical juncture

The motor insurance market is at a critical juncture and insurers are facing challenges on all fronts. A dire few years in terms of profitability, a drying up of reserve releases, and a long period of unprecedented low interest rates, all mean that premium rate rises are attracting attention and criticism, but not yet making a really significant impact on the bottom line. The market is also under intense scrutiny from the OFT, Ministry of Justice and the Transport Select Committee, and is facing an uncertain future as a result of the potential outcomes of these investigations, along with the impact of the European Court of Justice gender ruling.

At the same time the market is navigating the challenges brought on by changing distribution channels, new technology and shifting consumer behaviour and attitudes. To top it all off, the fiercely competitive nature of the market shows no sign of dying down. These challenging and constantly changing market conditions mean that insurance companies cannot afford to maintain business as usual operations. They need to rapidly adapt and change their mindset in terms of the way in which they operate and compete in this sector. Accenture's 2011 survey of motor insurance customers in the UK puts the spotlight on some of the major issues facing the industry.

Retention: The acquisition treadmill is getting steeper, with fundamental implications for insurer pricing and retention strategies

Attrition levels are rising to new highs

Accenture's survey starkly underlines the growing retention problem faced by the UK motor insurance industry.

As shown in **Figure 1**, rising motor insurance premiums and the increasing popularity of price comparison websites have created a step change in levels of attrition in the market, with 38% of motor insurance consumers switching at last renewal. The pain does not end there; 68% of all motor insurance customers have been with their provider for less than 3 years, illustrating the almost complete lack of loyalty in this sector.

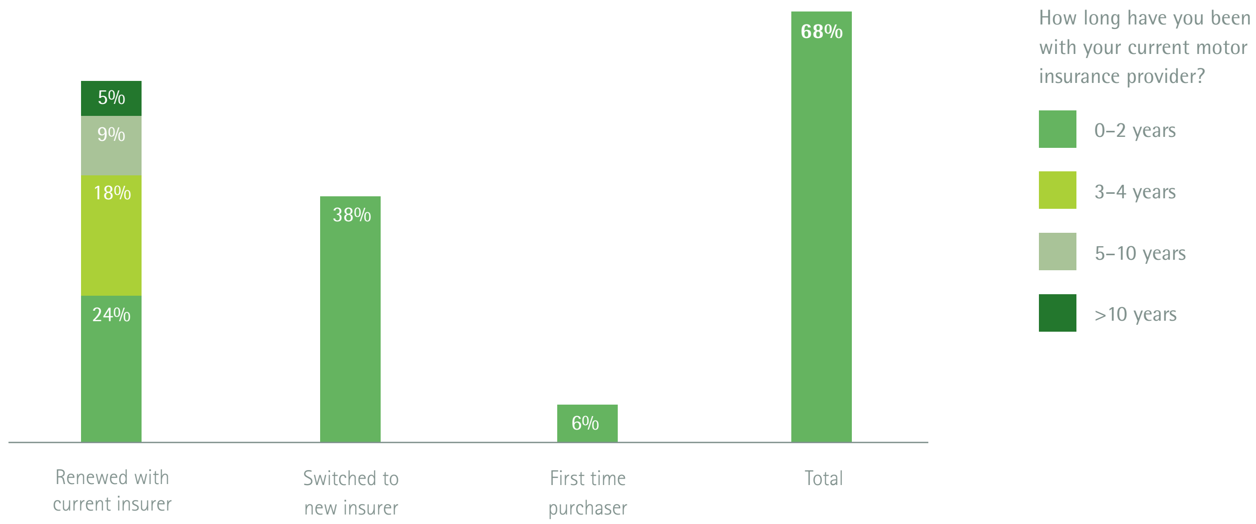
Attrition levels are always likely to rise during hard market conditions. For example, in 2007, just as the soft market was starting to turn, Accenture's study into customer retention found that under 20% of consumers had switched motor insurance provider at last renewal, while in 2002, after the peak of the hard market, attrition levels were just under 25%.

However, changes in distribution and consumer behaviour indicate that rather than retention just being at an extreme cyclical low, there has been a structural long-term shift to higher attrition rates (see **Figure 2**).

The internet and price comparison websites have now become mainstream distribution channels, normalising shopping around at renewal and increasing the base level of churn in the market. Market wide attrition is therefore rising more to the historic norm for these channels. Insurers cannot afford to assume that present high attrition levels are purely due to the underwriting cycle, and cannot rely on attrition rates falling back to previous soft market lows.

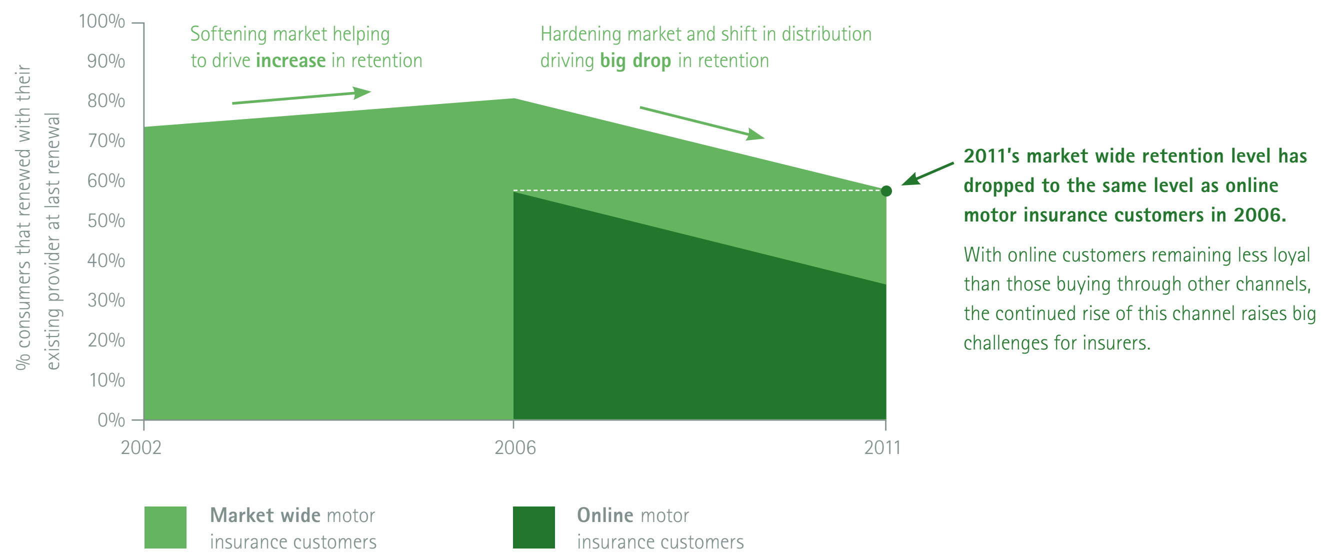
Figure 1: 68% of motor insurance customers have been with their provider for less than 3 years

Please indicate the circumstances in which you most recently purchased motor insurance



Source: Accenture UK FS Consumer Survey 2011

Figure 2: Changes in distribution and consumer behaviour indicate that rather than retention just being at an extreme cyclical low, there has been a structural long-term shift to higher attrition rates



Note: online data for 2002 is not available

Source: Accenture UK FS Consumer Survey 2011, Ipsos MORI – Accenture Customer Retention in UK General Insurance Paper, 2007

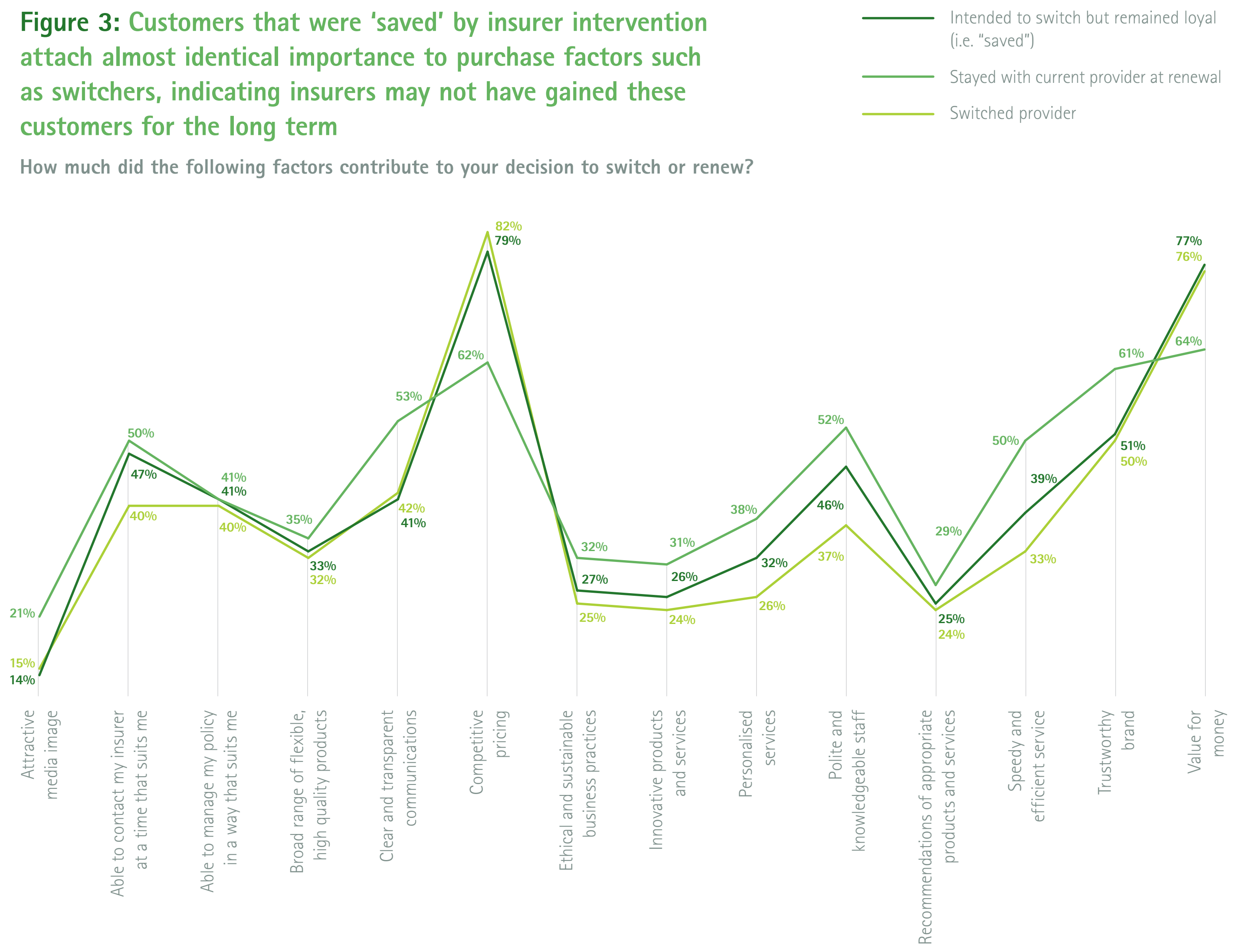
High attrition rates are having severe consequences for the insurance industry

- The acquisition treadmill is worsening; providers need to achieve substantial new business levels, or premium rate rises, in order to maintain market share.
- The pool of more profitable, long-term customers is shrinking. Cross-subsidising acquisition pricing with the renewal book is becoming more and more challenging, particularly as consumers are increasingly savvy about renewal pricing and shopping around for the best deal.
- The cost of managing interventionist retention strategies is rising along with attrition levels. Accenture's survey has shown that over 30% of retentions are directly a result of insurer intervention, persuading the customer to stay. 25% of these were retained due to the insurer matching the customer's best alternative offer.

Furthermore, it is highly unlikely that these 'saves' lead to any long-term gain. **Figure 3** shows that when looking at the factors that influenced consumers to switch or renew their motor insurance policy, customers that were 'saved' by insurer intervention (i.e. customers that were going to switch, but were persuaded to renew instead) attach almost identical importance to the same factors as switchers. This indicates that it is unlikely the insurer has gained the customer for the long-term, and they are likely to face the same issues at next renewal.

Figure 3: Customers that were 'saved' by insurer intervention attach almost identical importance to purchase factors such as switchers, indicating insurers may not have gained these customers for the long term

How much did the following factors contribute to your decision to switch or renew?



Note: Results are based on 'Very important' (8–10) results of scale scores
Source: Accenture UK FS Consumer Survey 2011

Insurers need to move from brand awareness to brand effectiveness in the digital world

Brand remains an important distinguishing feature in a market dominated by price

As demonstrated above, Accenture's survey highlights that value for money, competitive pricing and trustworthy brands are the most powerful factors influencing consumer decisions about whether to switch or renew. Price has long been the most important factor for motor insurance customers when selecting their provider. However, our survey demonstrates the continued importance of brand as a distinguishing feature.

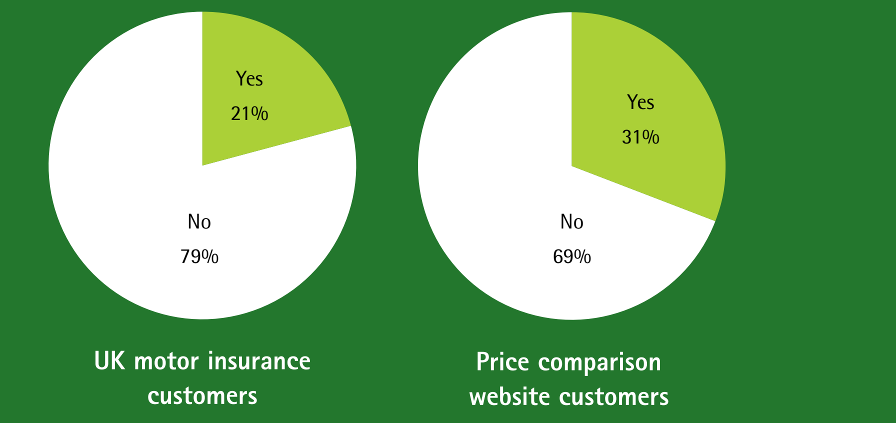
In a commoditised market, where few consumers take the time to read small print, brand is often used as a proxy for product features and benefits, and for reassurance on the assumed level of service customers will receive.

The popularity of price comparison websites and the high proportion of consumers using the internet to obtain quotes has undeniably weakened the importance of brand slightly. A higher proportion of price comparison website customers buy from brands they do not recognise than motor insurance customers as a whole (see **Figure 4**).

However, there is plenty of research to show the importance that is still attached to brand in the price comparison website buying process, with stronger brands achieving higher conversion rates even when they are not the cheapest priced quote. This is also reflected in Accenture's survey, as a higher proportion of consumers associate their provider with having a trustworthy brand than offering the cheapest price (as shown in **Figure 5**).

Figure 4: A higher proportion of price comparison website customers buy from brands they do not recognise, than motor insurance customers as a whole

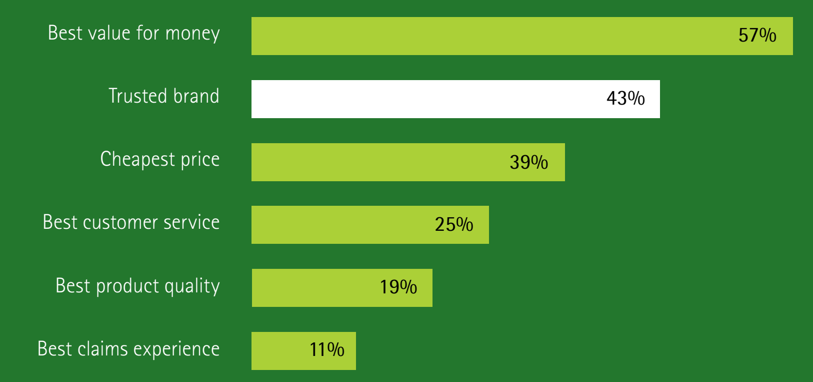
Have you ever purchased motor insurance from an insurance brand that you did not recognise?



Source: Accenture UK FS Consumer Survey 2011

Figure 5: A higher proportion of consumers associate their provider with having a trustworthy brand, than offering the cheapest price

Would you associate your current provider with any of the following characteristics?



Source: Accenture UK FS Consumer Survey 2011

The way in which insurance companies manage their brands needs to change

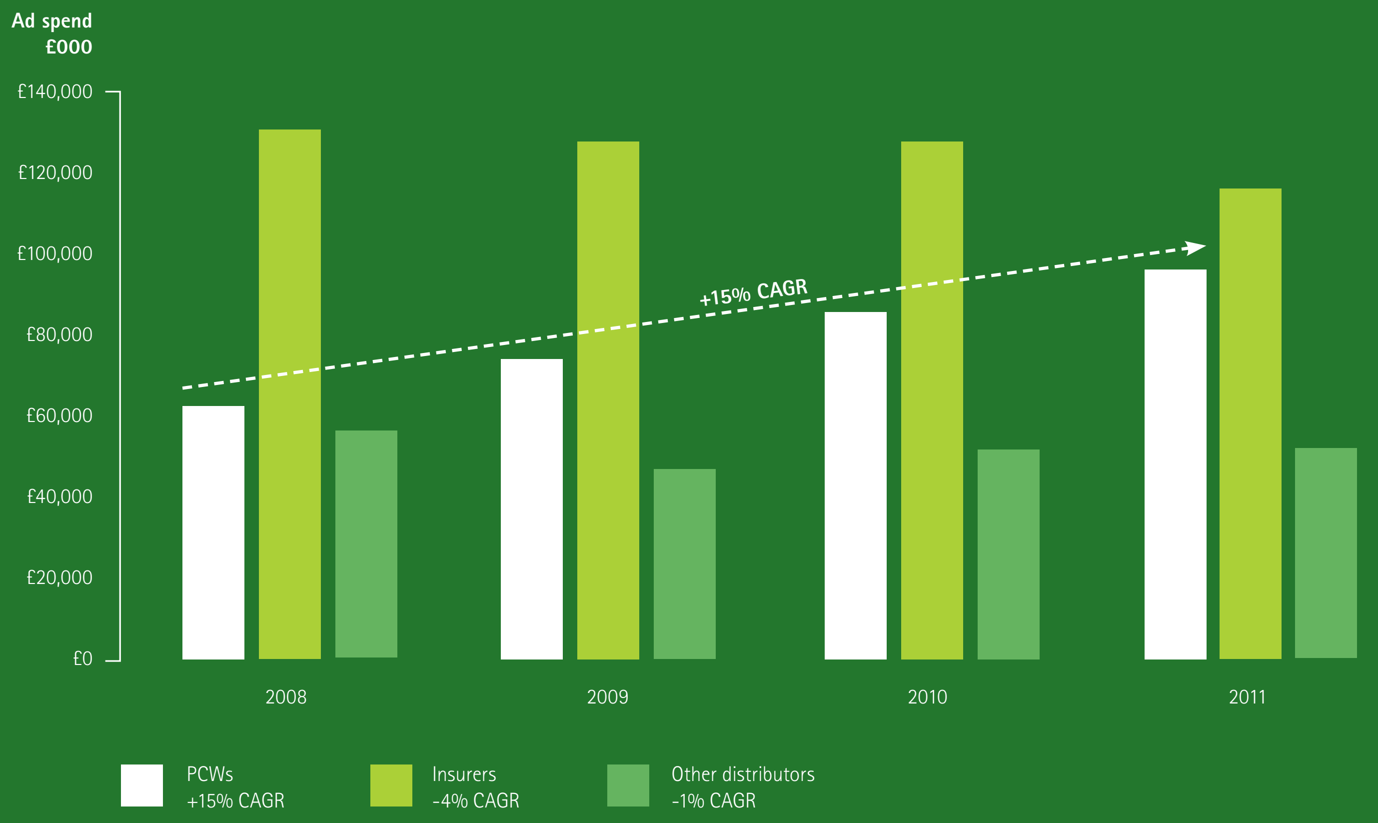
Nevertheless, the ways in which insurance companies are managing their brands needs to change with the times. The primary function of advertising and marketing spend during the online motor insurance boom was to raise brand awareness and drive consumers to insurers' sites via mass traditional media marketing campaigns in order to obtain quotes and hopefully buy. With the growth of both price comparison websites and digital marketing, there has been a notable shift in this strategy; large insurers have reduced traditional media spend and are gradually being eclipsed by the advertising spends of the major price comparison websites (see **Figure 6**).

Rather than retaining focus on traditional media marketing campaigns and corporate branding messages, there are far more options to interact with consumers via digital marketing and social media channels. Furthermore, in order to maintain brand differentiation and awareness, insurers need to evolve with consumers in terms of their involvement in the media, channels, communities and peer groups that are influencing customer perceptions.

Accenture Interactive's recent Social Media Diagnostic conducted among UK insurance companies has revealed that insurers still have a long way to go in the effective use of social media and some of the results are presented in **Figure 7**.

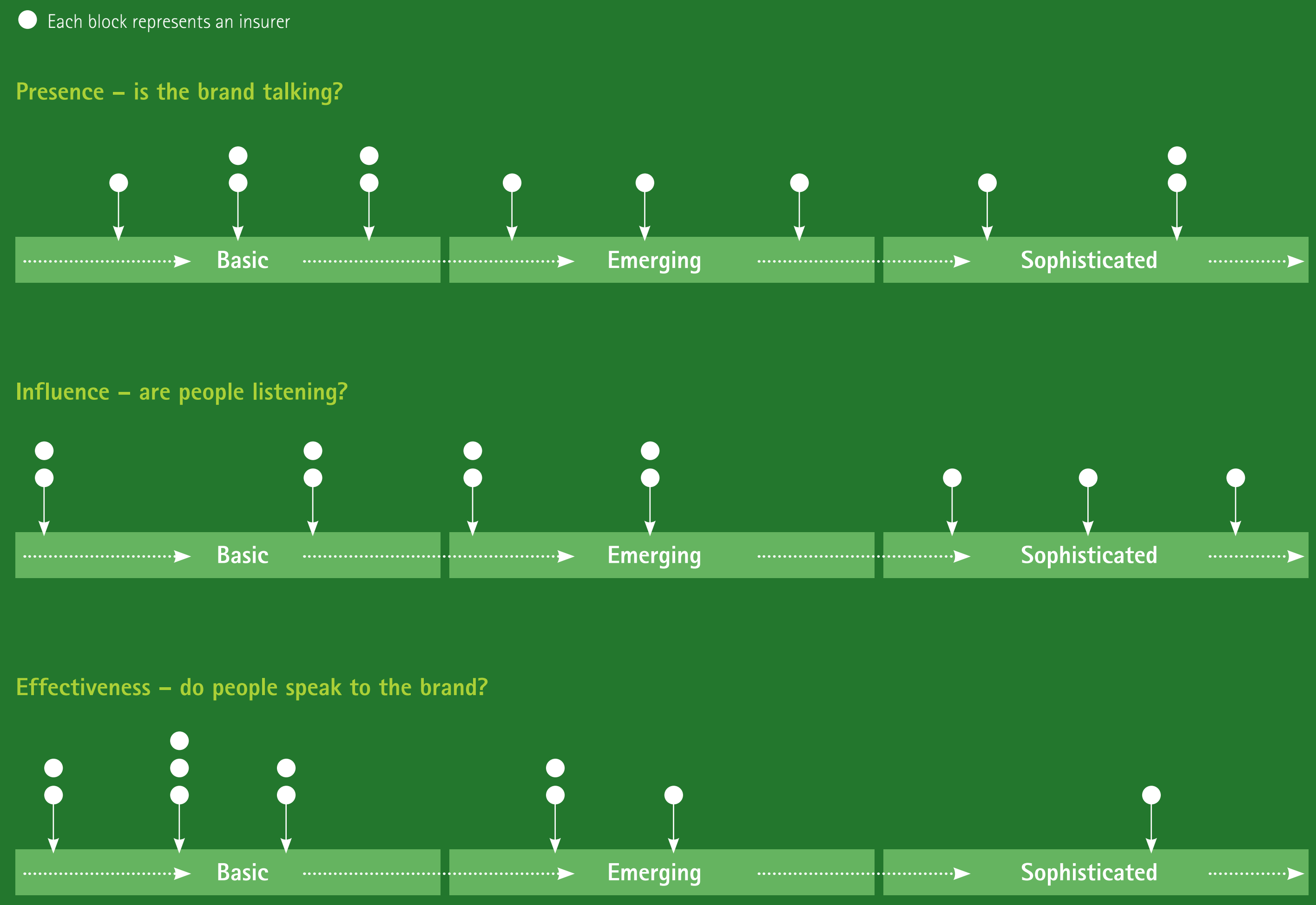
While a few players are successfully establishing a social media presence and getting consumers to listen to their messages, the industry is largely failing to engage consumers to interact with their brands i.e. by 'talking back'.

Figure 6: Ad spends of the major price comparison websites have risen by 15% a year, while major insurers and other distributors have reduced overall spend



PCWs refers to top 4 price comparison websites.
Insurer and other distributors are the top 10 advertisers in 2011
Note: Nielsen data run dates: 2008 and 2011: 14/2/12, 2009: 25/5/10, 2010: 6/10/11
Source: Nielsen

Figure 7: Accenture Interactive's Social Media Diagnostic reveals a big disparity in social media performance among major insurers and all have improvements to make in brand effectiveness



Source: Accenture Interactive's UK Insurance Social Media Diagnostic
Note: benchmark is relative to the industry

Service is a hygiene factor, acting as a strong secondary influencer

Good service is a hygiene factor, but service involving human interaction is likely to spark more positive or negative views among consumers

In spite of the high levels of churn evident in the motor insurance market, consumers are largely satisfied with their motor insurer; 61% of survey respondents indicated they were very satisfied. In a market driven by price, where shopping around and switching are virtually obstacle free, this relatively high level of satisfaction probably indicates that consumers are happy with market dynamics, particularly given recent premium rate rises. Insurers also performed fairly well in terms of customer satisfaction with claims and complaints handing.

However, in comparison to price and brand, service performs relatively poorly as a factor influencing motor insurance purchase decisions. For the mass market, good service generally does not drive individual loyalty. Insurers should nevertheless regard good service as a hygiene factor, an assumed facet of their offering. While it may not have a strong direct impact on purchase or renewal decisions, it certainly plays an important role in building a trustworthy brand and therefore has a strong indirect influence on consumers.

Accenture's consumer survey indicates that while there are some basic service elements that are taken as a given, such as quick, efficient, accessible service and clear communication, the softer side of service is important to consumers, particularly areas that involve human interaction. This is shown in **Figure 8**. Consumers seem to be more influenced by this element of service and are more likely to complain about it when insurers get it wrong.

The impact of service as a secondary influencing factor are multiplied as a result of digital media

Digital technology increases the impact of service as a secondary influencing factor, as consumers use social networks to discuss insurance in both positive and negative ways. For example, the negative effects of poor service are magnified by consumers airing their complaints via social media. 19% of consumers who complained about their motor insurer in the last 12 months told other people through Social Networking sites or Twitter.

Good service, on the other hand, can have a positive halo effect and influence consumer brand perception. For example, consumers that had claimed on their motor policy were largely happy with the claims service they received; 63% of claimants indicated that they were very satisfied. In spite of this, claims experience had no discernable impact on overall satisfaction.

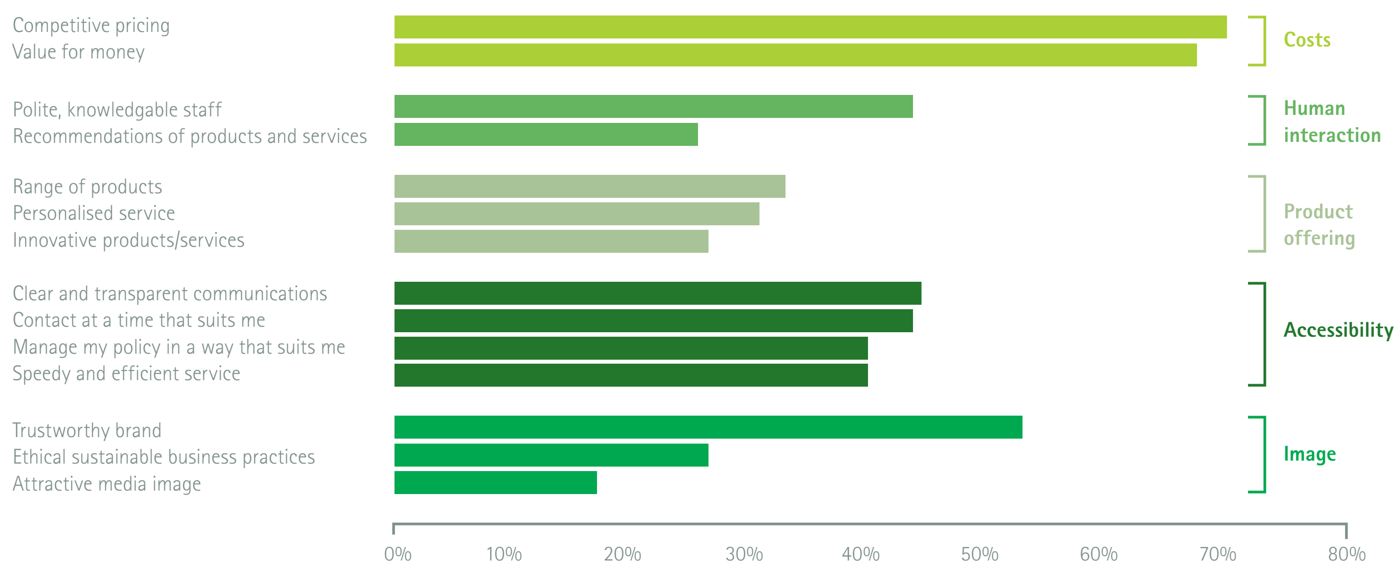
However, it did influence how likely a consumer was to recommend their provider; over 56% of claimants were very likely to recommend their motor insurance provider to friends or family, in comparison to 50% of consumers on the whole.

With over 80% of consumers researching online before they purchase or renew their motor policy, there is a growing chance that consumers will pick up on positive and negative consumer sentiment and service experience digitally.

Figure 8

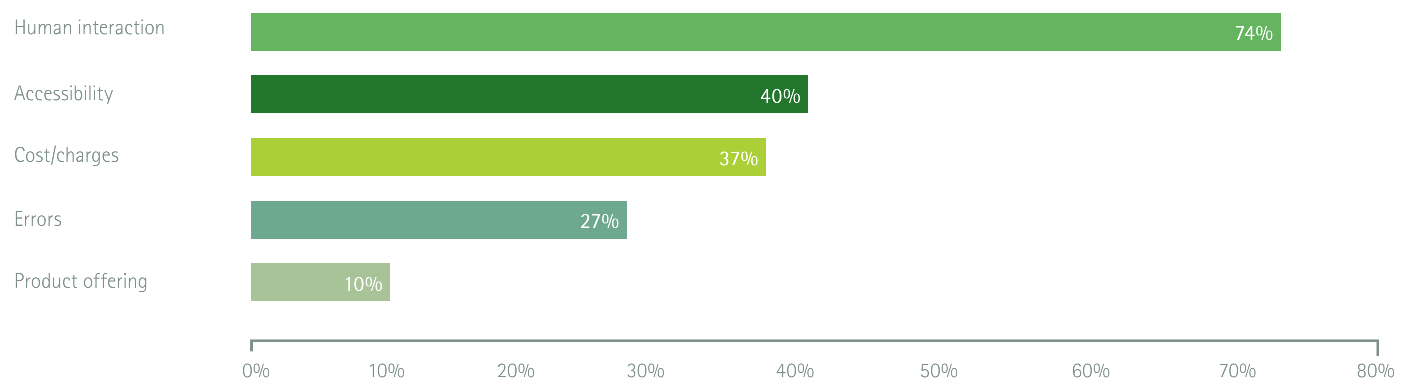
Aside from price, trustworthy brand, and basic hygiene service factors, staff play an important role in consumers' decisions whether to switch or renew

How much did each of the following factors contribute to your decision to switch or renew?



Complaints to UK motor insurers largely focus on areas involving human interaction, such as staff lacking knowledge and professionalism

What specifically was your complaint about?



Source: Accenture UK FS Consumer Survey 2011
Note: actual answers grouped into categories

Targeted product propositions can be used to tackle retention for some consumer groups

Consumers are interested in new product propositions that meet their low cost criteria

As already demonstrated, consumers are much less motivated by product or service features than they are by price and brand.

On the product front, providers need to be 'at market' competitive on product features and benefits, particularly those that are compared on price comparison websites. There are strong indications that other additional frills or benefits are not particularly important or visible to consumers on the whole, and have little impact on their decision to switch or renew. However, Accenture's survey indicated that consumer attitudes on product propositions are slightly different when linked to the most important decision criteria: price.

Consumers are receptive to product innovations that can demonstrably save them money. In particular, consumers would consider multi-year loyalty discounts and longer policy terms in order to obtain a better premium. Such product propositions could therefore have dual benefits in terms of acquisition and retention, particularly when targeted at appropriate customer segments.

Naturally any longer contract proposition would need to overcome consumer concerns around penalties for early exits or being tied in following bad claims or customer service, and would need to provide reassurance on the price benefit of signing up for a longer term. However, multi-year loyalty discounts and exploring ways to modify the annual renewal cycle appear to be areas well worth examining.

Is the time now right for Telematics?

Another product innovation that could potentially be successfully used to tackle the retention issue is telematics. Given the current level of insurer and media interest, Accenture's survey also explored consumer attitudes to this product proposition in more detail. It confirmed that again, when linked to price, there is potentially a high level of consumer interest, with 82% of consumers saying they might be convinced to try telematics if it could help them achieve a lower premium.

In light of the EU Gender ruling, affordability issues for young drivers and the falling cost of telematics technology, many feel that the time is right for substantial growth in this area of the market. However, despite many past and current trials, overall consumer awareness of available market offerings remains very low, and this is a big hurdle to overcome. Only 7% of consumers are aware of insurers currently offering telematics, but of these few, the majority (68%) indicated a willingness to adopt such a proposition.

Perhaps surprisingly, the strongest interest was with the mid-age (25 – 44) and mid-to-upper income brackets, suggesting that telematics may have a wider appeal than the traditional, more widely touted, younger driver target market.

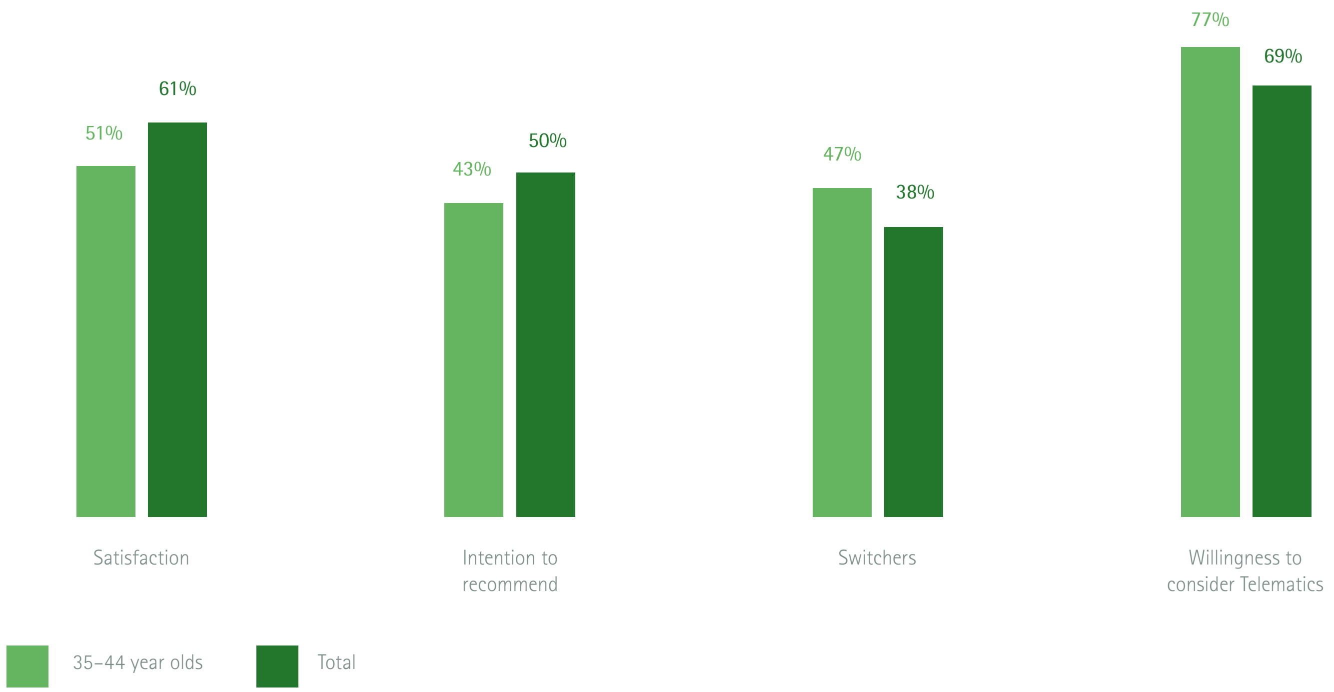
Telematics can change the game

With viable solutions now a reality, there is a unique opportunity to offer safer drivers the chance to more directly reduce the cost of motoring. Furthermore, instead of being punitive on the worst risks, there is enormous potential to influence driver behaviour by placing the focus on improving driver safety and environmental responsibility and thereby avoid exclusion of whole segments of the population who are grouped into the same risk bracket based on the historical experience of their peer groups.

In addition, telematics-based propositions and personalised pricing can reduce costs and help improve customer engagement and loyalty. By rewarding drivers with improved premiums that are specific to their risk profile, loyalty and satisfaction could improve. Exploring product innovations such as telematics can therefore be an important way of tackling insurers' retention challenges.

For example, as shown in **Figure 9**, Accenture's survey flagged 35 – 44 year olds as being among the least satisfied or loyal. Yet this consumer group was among those most interested in telematics. As this has traditionally been the core mass market for motor insurers, developing new ways of engaging with this consumer group could potentially bring big competitive advantages for insurers.

Figure 9: **35–44 year olds are among the least engaged and least loyal consumer groups, but insurers can potentially attract them with new offerings**



Source: Accenture UK FS Consumer Survey 2011

Actions insurers should be taking

There is room for improvement with existing retention strategies

Customer retention has been an important issue for many years within the motor insurance industry, and most players have taken action to improve their retention capabilities. However, despite investments in retention, Accenture's 2011 survey continues to confirm our 2007 study findings: that there remains a material difference in performance across the market. On average the worst performing player retained over 20% fewer customers than the top performer. There is therefore still plenty of room for improvement, especially in proactive retention strategies.

Increased pricing sophistication and understanding of customer lifetime value should be better applied to renewal pricing

Insurers have to tackle the acquisition and renewal pricing trap. To do this successfully, increased pricing sophistication and dynamic pricing based on an understanding of customer or household lifetime value is key. Providers should be seeking to optimise retention offer pricing for their different customers across both hard and soft cycles. Rather than waiting for the relatively time and cost intensive 'save' moment, insurers need to develop a better understanding of consumer price sensitivity and offer target customers their best renewal price first. In addition to reducing the cost of interventionist retention strategies, this will help to rebuild consumer trust in the industry and reduce the increasingly held view by consumers that renewal pricing is "punishing" them for their loyalty.

Tailored customer propositions should be cleverly developed

Tailored customer propositions and targeted acquisition and retention offers for different customer segments need to be developed appropriately, based on customer analytics, with insight driven customer segmentation driving market and customer strategy. New technology and the wealth of available digital data present plenty of scope for innovations that can be tested and adjusted in real-time to maximise conversion among target customer groups. "One size fits all" brand and product propositions with no differentiation will not succeed in current market conditions. Offerings need to either be low cost, no frills, but with high levels of brand awareness, or they need to be targeted or differentiated in some way.

Encourage low cost, efficient, self service and focus efforts on improving areas where human interaction is important

With regards to service, insurers need to get the basic hygiene factors right, particularly those relating to accuracy, speed, accessibility, and clear, simple communications. Systems and processes need to be in place to ensure that consumer expectations are met, with low cost, low touch, efficient service, encouraging self-service wherever possible. Efforts should instead be focused on service areas involving human interaction – investing in staff training, talent management and sourcing strategies.

Engage with consumers via new channels such as social media

With consumers voicing their opinions about companies and industries with a "digital megaphone", insurers need to effectively engage with their customers via these channels, and also harness the data and insight that can be gained. Digital channels and technologies present opportunities across the entire insurance value chain, and insurance companies should be actively focusing on upgrading service and claims functions to proactively interact with customers via these new media channels. For example, there is an opportunity for insurers to harness the "promoters" of their brands – identifying cases and circumstances in which consumers are promoting or recommending their brand and finding ways to harvest the value of these advocates as key influencers who may influence the buying behaviour of other consumers.

Shift the focus from brand awareness to brand effectiveness

The way in which insurance companies manage their brands and interact with their customers will change. The battle for customer awareness, perception and loyalty will be fought in the digital space. The war of attrition through TV advertising has to give way to engaging and responding to customers via digital channels, shifting the focus to brand effectiveness rather than simply brand awareness.

Conclusion: Embrace digital

To be successful in current market conditions insurance companies must adapt to the waves of change facing their industry and the way in which they do business. It is clear that insurers need to embrace digital and social media – engaging with consumers and harnessing data gained through these channels to improve consumer engagement, product propositions, marketing, targeted acquisition and retention, to name just a few areas.

Insurance companies need:

- Better connectivity – harnessing new technologies and social media to connect with consumers in different ways;
- A more analytic understanding of their customers – improving retention strategies and allowing more targeted product propositions;
- The ability and flexibility to adapt at pace and respond to the changing landscape.

For more details on the actions that insurers should be taking and the implications of the digital world for the insurance industry, please see Accenture's Point of View: The Digital Insurer.

Contact us

If you would like to hear more about Accenture's views on this topic or would like to discuss how you may address the strategic and operational questions highlighted in this paper, please contact:

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Industry Insights

Focused Thought Leadership for the UK Financial Services industry

The financial services landscape is undergoing a fundamental change. Timely insight and clear focus has never been more critical. With this in mind the Financial Services practice in Accenture is producing a series of 'Industry Insights' to help the industry address the challenges it faces. The series will focus on the five key issues facing the industry in the UK and Ireland:

- The regulatory challenge
- Innovating for the changing customer
- Globalisation
- Restructuring for growth
- Rebuilding trust and reputation

This point of view showcases results specific to the Motor Insurance industry found in the Accenture Financial Services Consumer Survey. It addresses what Motor Insurers can do to help improve client retention, how motor insurers can improve brand effectiveness in the digital world and discusses how targeted product propositions can be used effectively.

What's next in the Industry Insights publication series?

Over the course of the next several months, we will be issuing points of view addressing different aspects of each of the five key themes identified earlier. Below are the upcoming and recently released publications in the series.

What's next?

- Personal Financial Management: The Next Wave of Change in Mobile Banking
- The UKI Customer Service Survey
- The Digital Insurer
- The Future of Payments: Convergence, Competition and Collaboration

Recently published

- Top Ten Challenges for Investment Banks 2012
- Spotlight on Solvency II for Insurers
- If a Country Leaves the Euro...
- Managing Regulatory Change in Banking and Capital Markets
- A New Dawn? Reactions to the Independent Commission on Banking
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