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Insurance | the way we see it

Trends in Insurance Channels 2013

Key emerging business and technology trends across insurance channels

People matter, results count.

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1. Highlights

Increasing internet penetration, adoption of smartphone and tablets, and social media usage are changing the way people take care of their daily business. Insurers are leveraging the wide reach provided by the joint force of the internet, smartphone, and social media and this is giving rise to greater investment in alternative insurance channels.[1] However, the importance of the alternative channels strategy by insurers varies globally due to different levels of maturity of internet, smartphone and social media adoption.

Even though insurers are building up their alternative channels strategy, they still continue to invest in traditional channels as well. Globally the focus on traditional channels[2] is driven by various triggers which vary across different regions. For example, in the Asia-Pacific region, the choice of insurance channel is mainly driven by the still growing insurance market where insurers are trying to attract customers from various segments. In this region, because of the complex nature of life insurance products, insurers are likely to build capability for personal financial advisors. At the same time, insurers in Asia-Pacific are likely to invest in traditional channels to capture the increasing middle class customer segment.

Insurers are investing in technologies (SaaS, analytics, telematics etc.) to improve customer experience while reducing operational cost. Insurers are implementing SaaS solutions for their non-core systems which improve the system efficiency at a lower cost. Insurers are also leveraging the enormous data captured from online channels such as internet, social media and using data analytics to analyze such data. Also, advancement in data analytics is making it easier for sensor based technology adoption, which is driving the adoption of usage based insurance.

1 Alternative channels for insurance include mobile, social media, bancassurance, and internet

2 Traditional channels for insurance include tied agents, multi tied agents, and brokers

2. Introduction

The insurance channel landscape has undergone a significant transformation in the last decade. In the early days, agents and brokers had been the main distribution channels. However, with increasing adoption of smartphones, people want to be updated and communicate around the clock. Insurers are looking to leverage smartphone usage by providing more options for customers to communicate with insurers, research insurance products, and buy policies. Although agents and broker remain the major distribution channels, alternative channels such as the internet, banccassurance, and social media are rapidly finding favor with insurance customers.

Though insurers are investing in alternative channels to increase the reach to their customer, they are still struggling to provide a highly positive customer experience across all the distribution channels mainly due to the economic uncertainly. Insurers in North America and Latin America are doing comparatively well in terms creating a positive customer experience across all the distribution channels. Alternative channels such as phone, internet-PC, and internet-mobile are gaining popularity and sometimes these alternative channels are preferred by customers over traditional channels.[3]

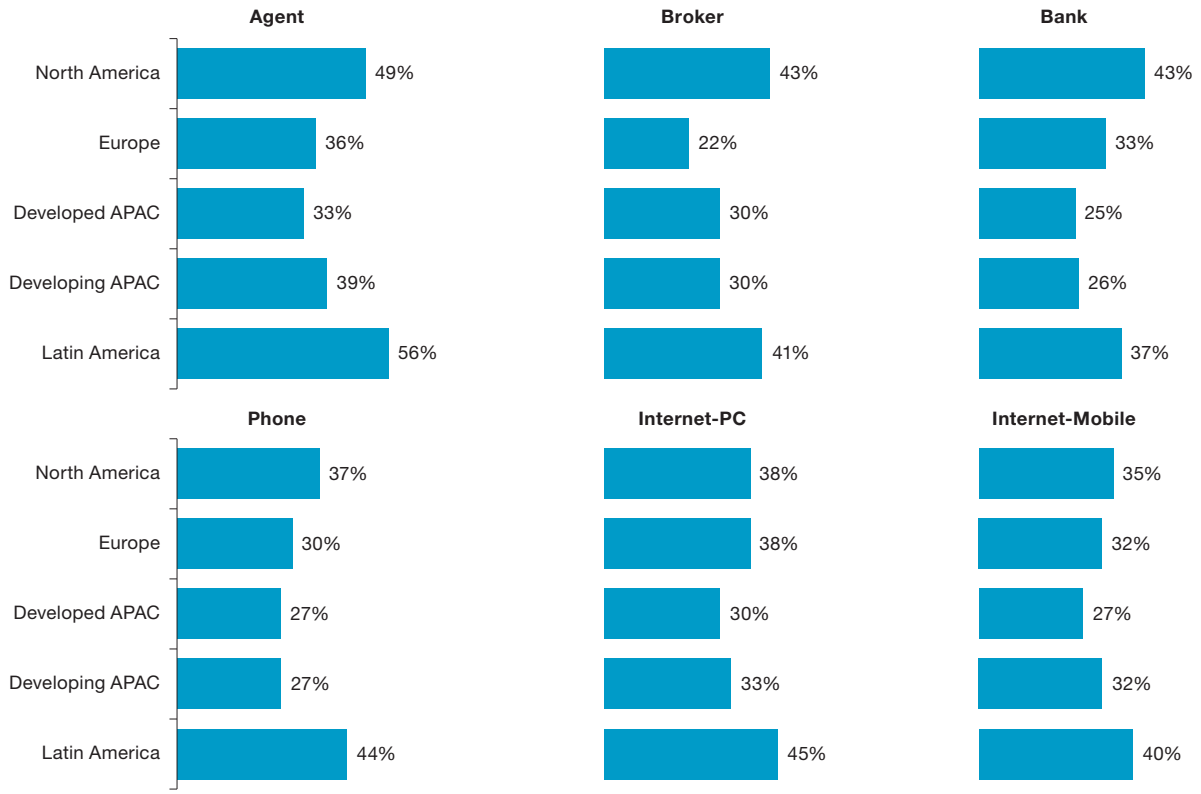
In Latin America, alternative channels have been rated higher than the broker and bank channels by customers mainly due to the population trends. The Latin American population is younger than any other region with less than 7% of the total population over 65 years.[4] Among the alternative channels, internet-PC has gained the most traction while phone and internet-mobile channels are expected to gain a higher traction in the future due to the increasing adoption rate of smartphones and tablets.[5]

3 2012 insurance survey of 16,500 customers across 30 countries. Results can be found in the World Insurance Report 2013, Capgemini and Efma

4 2013 Latin America Insurance Outlook, Ernst & Young

5 Capgemini's 2012 Insurance Voice of the Customer Survey

Exhibit 1: Customers with a Positive Experience by Channel and Region, (%), 2012



Source: Capgemini Analysis, World Insurance Report 2013 from Capgemini and Efma

Trends in Insurance Channels 2012

Trends in Insurance Channels 2011

3. Key Business Trends in Insurance Channels

An increasing number of tech savvy customers have required insurers to invest in several alternative channels such as social media and mobile. Though traditional channels such as agents and brokers still prevail in the market, alternative channels have made it possible for insurers to reach customers directly. Insurers are building their channel strategy in a way which can optimize their investment in both the traditional and alternative channels. In this section we review current market trends witnessed in insurance channels.

3.1. Business Trend 1: Customers across all age segments are engaging through multi-channels

As opposed to the popular notion that only younger customers prefer multi-channel capability, in reality **customers across all age segments use multi-channel function**.[6] To meet customers' expectations from multi-channel distribution, insurers are expanding the number of services available on existing channels and adding new channels to their existing portfolio for customer interaction. This is leading to increased investments in channel integration for a seamless channel transition.

3.2. Business Trend 2: Investments growing in mobile and internet channel strategies

To interact with both customers and insurance agents, insurers are building and executing a mobile and internet channel strategy. Insurance customers are choosing mobile and internet channels mainly for three reasons: (i) fast and immediate communication; (ii) simpler application; and (iii) the ability to easily compare different products, services and companies.

The investments in mobile and internet channel strategy by insurers are mainly driven by rising smartphone adoption. Smartphone adoption is higher among the younger generation and they prefer to communicate with insurers via mobile devices. Insurance customers can make informed decisions based on the information available on various mobile applications.[7]

Insurers are leveraging mobile and internet as alternative channels not only for customers but also for brokers, agents, and employees. Agents use mobile applications for tracking leads, providing real time quotes, and managing accounts and renewals. Some insurers are using mobile applications to monitor agent performance and calculate commissions.

For example, American Family's DreamVault™ app uses a speech-to-text function to help customers create or update their home inventory for insurance purposes. Using this application, the customer takes photos and documents their personal property, then reviews the results with an agent to select the right level of coverage.[8] Security First has a similar app called My Choice Home Protection™ which can predict and suggest the home inventory a customer may have. Both systems allow an agent to work closely with customers to reach an accurate assessment for personal property coverage.[9]

Another example is CastLight Health's mobile application which offers a comparison of medical services based on the price and quality of care.[10]

6 Winning Insurance Multichannel Strategies, CEB, Karen Pauli, 5 April, 2013, http://www.executiveboard.com/blogs/winning-insurance-multichannel-strategies

7 ibid

8 http://www.amfam.com/learning-center/my-home/dream-vault.asp

9 http://www.securityfirstflorida.com/my-choice-home-protection/

10 http://www.castlighthealth.com/mobile/

3.3. Business Trend 3: Bancassurance growth is expected to be driven by Europe, Latin America, and emerging markets

Bancassurance is in a different stage of maturity across different regions but is expected to grow at a high rate with the commission earned through bancassurance expected to grow globally at a CAGR of 5.29% between 2013 and 2017.[11] As an insurance channel, bancassurance can take different forms based on the banking system regulations and culture of each country. In developed countries, insurers leverage the reach and brand image of banks to increase the customer base and cross-sell insurance products. But in developing countries, insurers leverage the banking infrastructure to reach the rural population.

- In Europe, bancassurance holds one-third of the total market share. There are significant growth opportunities in emerging European countries such as Turkey and Poland.
- In Asia-Pacific, bancassurance is still an emerging channel and it is expected to grow faster due to improved customer service and entrance of large foreign insurance players in the market.
- The presence of large foreign insurance players has fuelled the bancassurance growth in Latin America.
- In contrast, bancassurance is still in a nascent phase in the U.S. with only 2% market share. This is mainly due to the separation between insurance providers and banks.[12]

Even though the maturity varies across regions, insurers are expected to invest on bancassurance to leverage the customer reach and trust of bank network.

3.4. Business Trend 4: Partnerships with distributors are introducing innovative business models

To expand their reach to customers of all levels of affluence, insurers are partnering with different distributors:

- Microfinance institutions to provide risk coverage to low income groups. Life insurance is the major microinsurance product.
- Financial advisors to target high net worth customers for whom insurance is increasingly becoming a tool for investment.
- Telecom firms to distribute simple insurance products at a lower cost. In Philippines, insurers are leveraging distribution channels of telecom firms by bundling special life insurance schemes which are easy to understand and have low premium with the sales of mobile phones
- Wealth management institutions for product innovation to cater to various customer segments.

11 Bancassurance Growth To Be Fostered By Emerging Markets, Trimetric Research, April 2013, http://timetricmarketing.wordpress.com/2013/04/02/bancassurance-growth

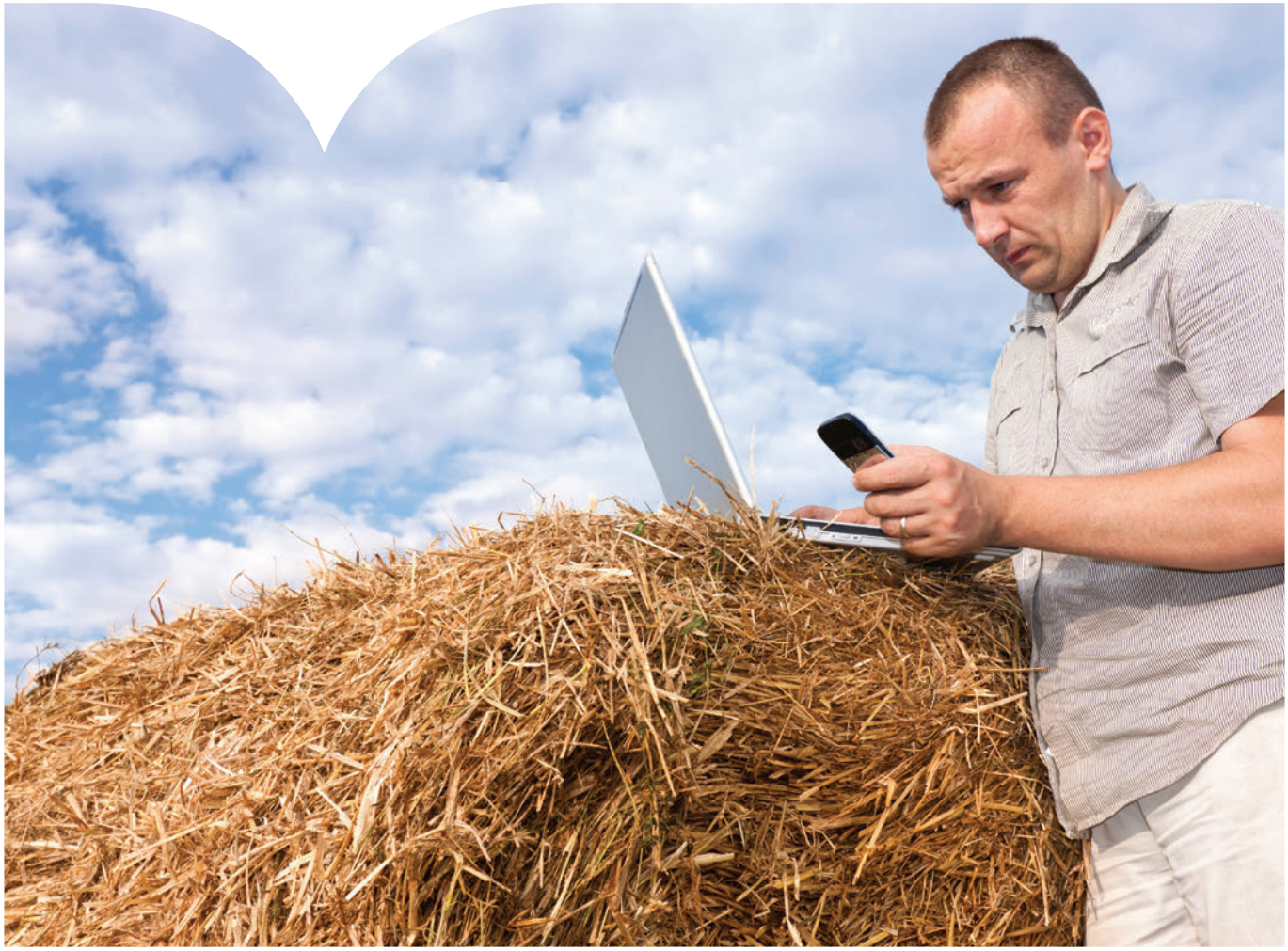
12 ibid

3.5. Business Trend 5: Data analytics and business intelligence are being leveraged to improve underwriting process and profitability

Insurers are implementing predictive underwriting which helps automate the underwriting process, leaving only the risks which cannot be processed directly and would require human intervention. Social data analytics can have a major impact in insurance underwriting or claims processes. However, social data analytics adoption is still in the early stages of development as the adoption is expected to be hindered by regulations related to the privacy of individual information.

Another analytics area of focus by insurers is real-time fraud analytics. Advancement in real-time and big data analytics are giving rise to real-time fraud analytics which can help insurers reduce the loss, time and costs associated with fraudulent claims and improve customer satisfaction by improving the claim process cycle.

4. Emerging Technology Trends in Insurance Channel[13]



Increased adoption of mobile technology and social media is giving rise to the fast adoption of alternative channels among consumers. The adoption of such alternative channels has been varied across the globe based on the insurance market maturity. Insurers in North America, Europe and Asia-Pacific have reached a high maturity level in building mobile and internet channel capabilities, whereas insurers in Latin America are still focusing on building out traditional channel capabilities. As insurers are channeling investments towards building alternative channels, they are also looking to cut costs in other areas such as IT.

Insurers' focus on alternative channels coupled with cost saving initiatives has led to the emergence of the following key technology trends in insurance:

1. Increased spending on social media as a marketing and collaboration medium
2. Increased focus on SaaS solution implementation
3. Increased investment in real time architecture to become an agile insurer
4. Increased adoption of data analytics to leverage large volume of data captured by alternative channels

13 The technology trends covered in this document are not exhaustive in nature and only current prominent trends have been analyzed

5. Trend 1: Increased Spending on Social Media as a Marketing and Collaboration Medium

Social media channels are not only being used as a marketing medium but are also gaining popularity as a collaboration medium by the insurers.

5.1. Background and Key Drivers

The use of smartphones, tablets, and social media is increasing at a fast rate. For example, smartphone ownership is increasing quickly in the U.S. where the share of mobile device users owning a smartphone has increased from 44.4% to 54.0% betweenJanuary and December 2012.[14] Similarly in the EU5 countries—Spain, Germany, Italy, France and the U.K. —57% of mobile users own a smartphone. Spain leads the EU5 countries with 66% penetration, immediately followed by the U.K. with 64% of mobile phone users having a smartphone.[15]

Smartphones are becoming more important for accessing social media. Social media users are spending more time on sites like Facebook, Twitter and Instagram via smartphones then traditional computers orlaptops.[16] To stay ahead of the competition, insurers are leveraging the data available through social sites where consumers share life events that can be a trigger for new insurance coverage. At the same time, insurers are exploring the channel as a cost effective method to communicate with internal and external stakeholders.

5.2. Analysis

Insurers are adopting social media as a marketing tool as the number of social media users is increasing rapidly. Customers are using social media to share their views on products, register complaints or make suggestions. For insurers, social media can be an effective tool for lead generation, remediation, and retention of customers. By performing a sentiment analysis of the social media data pertaining to a brand, company, or product, insurers can develop targeted marketing strategies. At the same time, insurers can find a potential customers by targeting life events such as getting married, having a child, or buying a car or home that are announced on social media. Insurers can also proactively respond to complaints made on social media.

Several insurers in developed countries have already integrated a social media strategy into their marketing strategy. To now leverage the vast potential of social platforms, insurers need to consider implementing social media data analytics tools.

For example, Farmers' Insurance used the Facebook game Farmville to engage with customers.[17] In 2009, Generali France launched a social-networking microinsurance site. In this group insurance scheme maximum 15 people can join together. The group earns points for each policy sold in the group. The points can be redeemed for lower premiums or reduced deductibles. This social media marketing strategy has helped Geneali to increase customer base and reduce acquisition costs.[18]

14 Smartphone Share of US Mobile Market Grew by 19% During 2012, February 7, 2013, Marketing Charts, http://www.marketingcharts.com/wp/topics/telecom/smartphone-share-of-us-mobile-market-grew-by-19-during-2012-26807/

15 Smartphones Reach Majority in all EU5 Countries, comScore, March 15, 2013 http://www.comscoredatamine.com/2013/03/smartphones-reach-majority-in-all-eu5-countries/

16 comScore Introduces Mobile Metrix 2.0, Revealing that Social Media Brands Experience Heavy Engagement on Smartphones, May 7, 2012 http://www.comscore.com/Insights/Press_Releases/2012/5/Introducing_Mobile_Metrix_2_Insight_into_Mobile_Behavior

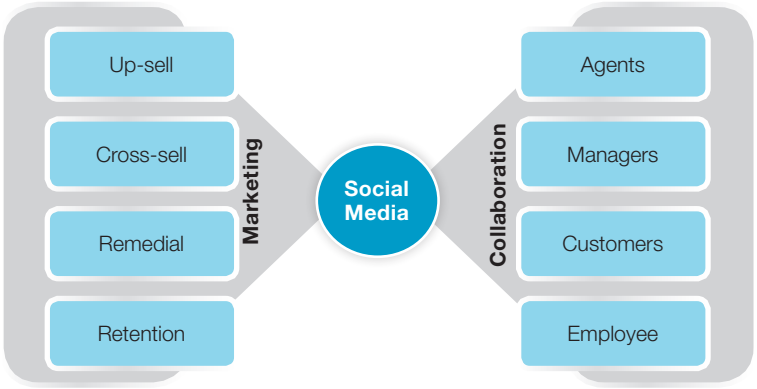
17 Farmers Insurance Offers Coverage in Virtual FarmVille, October 14, 2010, http://www.insurancejournal.com/news/national/2010/10/14/114046.htm

18 Social CRM is Much More Than Social Media, August 10, 2011, http://www.insurancenetworking.com/blogs/social_media_social_crm_stuart_rose_sas_marketing-28581-1.html

Social media is not only limited as a marketing tool, it is increasingly gaining popularity as a collaboration tool. As showed in the following exhibit, insurers are using social media such as social networks, blogs or micro-blogs, and photo sharing site to engage with employees, agents, and customers. To share updates on policy changes internally or externally insurers can use micro-blogging platforms such as Twitter. To collaborate with employees and agents, insurers could deploy their own social media platform instead of relying on public platforms to ensure privacy. Since agents are mostly in the field, insurers can use a wiki-like knowledge management platform to store policy-related documents, and guidelines.

For internal collaboration, social media adoption has been higher among employees and agents by using secure platforms such as Yammer. The use of social media for agent-to-insurer and agent-to-customer communication can help drive down costs and improve communication efficiency.

Exhibit 2: Social Media as a Marketing & Collaboration Medium



Source: Capgemini Analysis, 2013

5.3. Implications

In order to remain competitive in the market, it is important for the insurers to build social media strategy in their channel strategy. Insurers should invest in the data capturing tools required to capture the vast amount of social media data and at the same time, should implement data analytics tool to leverage these data.

According to Capgemini customer survey, 59% of insurers who were surveyed are already leveraging social media, and most of the insurers plan to implement it in the next two years.[19] However, adoption of the social media strategy can be hindered by regulation concerns around the privacy of individual information. The insurers need to develop governance model which needs to comply with the regulations. The governance model also helps to protect brand value by preventing any miss-communication from the insurer's side or by taking preventive measures in case of malicious posts. A system moderator needs to be in place which will track the social media chatter and can raise a flag and quarantine any harmful content. To successfully integrate the social media strategy insurers need to involve and train skilled people. For the technical assistance insurers can seek help from the professional services firms with related experience.

19 Executive interviews conducted for World Insurance Report 2013

6. Trend 2: Increased Focus on SaaS Solution Implementation

Insurers are starting with non-core systems for SaaS implementation and are expected to move forward to core systems.

6.1. Background and Key Drivers

Most insurers have been slow in adopting Software as a Service (SaaS) solutions mainly because of concerns over data security and risk. However, rising competitive pressures and an unstable economic condition are forcing insurers to seek solutions that can help minimize costs while providing high service quality.[20] Since SaaS is the perfect solution for these conditions, insurers specifically smaller or niche insurers, have started adopting SaaS-based solutions for both core and non-core systems.[21]

Insurers are attracted by two main benefits of SaaS:

- Significant reduction in the cost and lead time for IT implementation
- Lower total cost of ownership (TCO) because the IT system is managed by the service provider, allowing insurers to avoid adding IT staff

6.2. Analysis

Insurers have started implementing SaaS solutions for non-core systems to improve system efficiency at a lower cost. Due to local and regional privacy regulations, adoption rates vary based on geography. For example, European Commission has proposed regulation on the protection of insurance customers with regard to the processing of personal data and the free movement of such data.[22]

Once insurers feel comfortable with privacy and security capabilities of SaaS, we will gradually see an increased use of SaaS solutions over legacy systems. Insurers in the developed markets are expected to direct their investments in the alternative channels which would require them to take cost effective steps in other arenas of business operation. SaaS solutions can be cost effective for such insurers and thus SaaS adoption is expected to be higher in these markets.

Insurers need to standardize their IT infrastructure to be able to implement SaaS solution. Traditionally the insurance industry has had a lower degree of specialization mainly driven by two factors. Firstly, several mergers and acquisitions over the years have created an IT infrastructure where the systems are not integrated and they are being used in parallel. Secondly, new products are added in their product portfolio frequently and insurers keep using different policy administration systems for these products. Insurers need to address these to be able to fully leverage SaaS benefits.

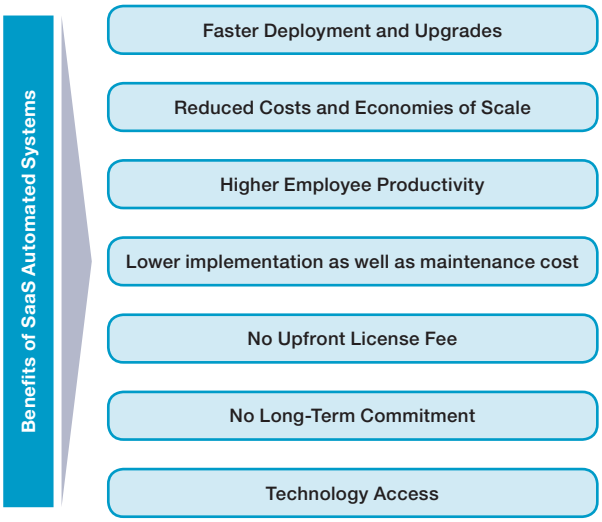
SaaS solution provides cost advantage to insurers. As SaaS applications are subscription based, the initial cost is lowered due to no license fees. In-house IT infrastructure cost is also lowered as SaaS provider manages the IT infrastructure which means lower IT costs for hardware, software, and the IT employees. As the SaaS-based applications evolve, and incorporate new capabilities, insurers can access the upgrades with minimal additional cost. In addition to cost reduction benefits, insurers can also leverage economies of scale by sharing the same claims network or by managing policies of other insurers. SaaS-based solutions provide higher efficiency for the insurance firms as the non-core functions are being taken care of a third party service provider, thus allowing the insurers to concentrate on their primary business.

20 4 Key Benefits of SaaS Automated Systems for Life Insurers, Insurance & Technology, May 2013

21 How SaaS Can Help Insurers Stand Out From the Crowd, Insurance & Technology, October 2013,

22 Insurance Europe key messages on the European Commission's proposed General Data Protection Regulation, http://www.insuranceeurope.eu/uploads/Modules/Publications/insurance_europe_key_messages_on_the_european_commission's_proposed_general_data_protection_regulation.pdf

Exhibit 3: Key Benefits of SaaS Automated Systems for Insurers



Source: Capgemini Analysis, 2013

In 2009, the Narragansett Bay Insurance Company (NBIC), a leading specialty underwriter of homeowner's insurer in the U.S., replaced their legacy systems for policy administration, underwriting, distribution management and billing systems with SaaS solution. Benefits from the SaaS deployment project include the following:

- Agents could have 360° customer account access
- Smartphone application for agents improving business efficiency
- 100% of new quote and endorsements were initiated online by agency staff
- Agents can quote and issue in one-third time of the replaced legacy system
- Automated underwriting was conducted for 80% of new business and is expected to reach to 90% of new business
- Straight-through-processing could be done for 75% of the new businesses, an increase from less than 5%
- Mailing and printing cost reduced by 50%

NBIC estimated that the return on investment for the entire SaaS deployment project to be 68% over five years.[23]

6.3. Implications

As insurers are facing an increasing pressure to reduce costs across the value chain, it is imperative for them to explore the benefits from SaaS-based solutions. Smaller insurers, who are looking for high growth opportunities, can implement SaaS-based solutions to leverage the economies of scale they offer. However, insurers need to also keep in mind to comply with the privacy related regulations. Insurance regulators also have restrictions on sharing customer data beyond a country boundary. Insurers can create a hybrid cloud model to be used by the insurer group and can address such regulatory restrictions. As highly customized solutions used by insurers also act as a hindrance for SaaS adoption, insurers can consult with a professional services firm to make their processes ready for SaaS implementation.

Insurers have already started to realize the benefits from SaaS and cloud based solutions which can be evidenced from the fact that according to a survey 59% of insurers believed cloud technology generates very high to somewhat high value. However, 43% of the surveyed insurers also believed cloud solutions represent very high or high risk.[24] To address these data privacy and security concerns, insurers can leverage private cloud. The SaaS adoption among insurers started with non-core horizontal solutions such as CRM and desktop productivity solutions. In the coming years, insurers are expected to implement SaaS solutions in core system at a greater degree.

23 Delivering Speed to Revenue through a Core System Replacement Deployed as Software-as-a-Service, Exigen Insurance Solution, http://info.exigeninsurance.com/Portals/16059/docs/NBIC-Exigen-case-study.pdf

24 Insurance Cloud Solutions: Forecast Not So Hazy, CEB, June 2013

7. Trend 3: Increased Investment in Real Time Architecture to Become an Agile Insurer

Insurers are focusing on being an agile organization to lead in a competitive market and improving customer satisfaction by providing personalized solution to the customers in lesser time.

7.1. Background and Key Drivers

Mobile technology and social media are providing an increasing number of sources for real-time data which can be leveraged by insurers to gain competitive advantage. Real-time data capture through online channels can be both reactive—a customer fills out a web form, and proactive—an insurer captures public data available on Facebook. Insurers are deploying new solutions such as ShortStack, leading software in custom Facebook app development, to collect real-time data from various online sources. To leverage the full benefit of real-time data, insurers are also deploying data analytics tools which can provide real-time solutions.

7.2. Analysis

Real-time data collection is being driven by the adoption of alternative channels such as internet and social media which are the major public sources of customer information. Data analytics can help improve customer satisfaction and lead to improved lead generation, customer retention, cross- selling and customer service.

For example, SafeAuto Insurance Company, an auto insurance carrier in the U.S., started using ShortStack platfrom from 2012 to aid in their social media marketing initiatives. SafeAuto Insurance obtained 10 percent of their total social media followers' contact information after running their marketing promotions using the ShortStack platform.[25]

Real-time fraud analysis is another area which can be driven by real-time data analytics. For example, insurers can track fraud scoring on a real-time basis based on inputs collected from telematics data or social media updates.This will improve channel performance by supporting pricing accuracy.

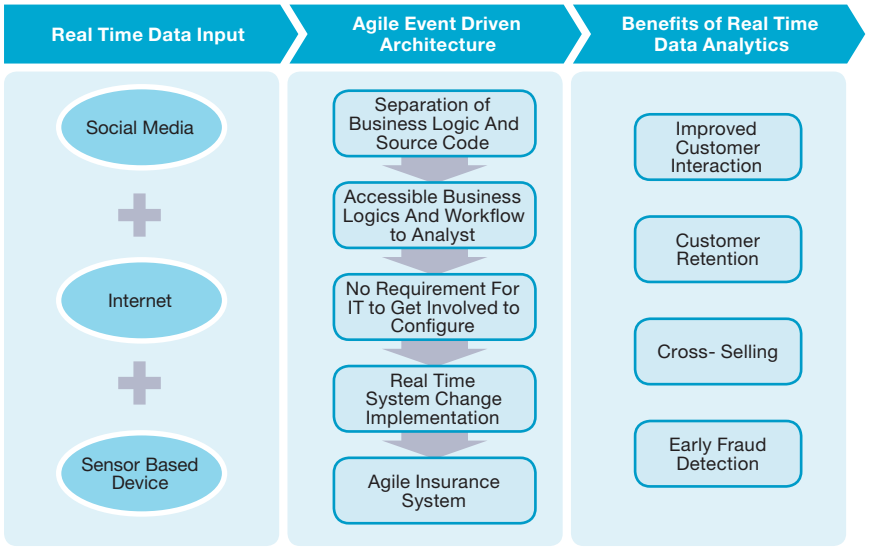
Insurance companies are using these advanced data anlalytics tools to gather customer insights and create product strategy. According to a survey conducted by Earnix, a leading provider of analytics solutions for banking and insurance, larger insurers are more likely to implement advanced customer analytics as they see additional value in it.[26]

Insurers need to be ready for event-driven architecture to embrace real-time analytics and leverage the possible benefits. To collect real-time data from various channels and cross-reference them, multi-channel integration capabilities will be required. To foster multi-channel integration, insurers are investing in Service Oriented Architecture (SOA) which helps insurers implement new channel services quickly across various systems. Business application management and business process management solutions are also being implemented to supportreal-time decisions based on an event trigger by real-time information. Key success factor for succefully implementing an agile event driven architecture will be sepeartion of the business logic and source code. These types of systems let insurers incorporate changes quickly into the system with minimal IT intervention.

25 SafeAuto Insurance Grows Social Media Following by 58 Percent Using ShortStack for Facebook Promotions, June 11, 2013, http://www.prweb.com/releases/facebookpromotion/safeauto/prweb10813382.htm

26 Insurance Companies are Increasingly Using Advanced Analytics to Better Understand Customers – New Earnix Survey Shows, August 21, 2013, http://earnix.com/insurance-companies-are-increasingly-using-advanced-analytics-to-better-understand-customers-new-earnix-survey-shows/3432/

Exhibit 4: Benefits from Real Time Data Capture from Alternative Channels



Source: Capgemini Analysis, 2013

7.3. Implications

As the customers are increasingly demanding real-time solution, insurers will be focusing on moving to agile and event-driven architectures. Insurers need to gain the agility and flexibility required to respond quickly to market changes, and to achieve that they will be combining event-driven architectures with business application management and business process management solutions. Insurers also need to implement real-time complex event processing application to get 360o view of customer accounts and can use real time real-time adaptive analytics to complement the decision making process. This would help insurers to provide personalized need based solutions to customers. At the same time, insurers need to leverage cloud based technology and alternative channels to be able to provide real-time solution to customers. In such a context, insurers have to invest in creating a secured infrastructure.[27]

27 2013 US property/casualty insurance outlook, Ernst & Young

8. Trend 4: Increased Adoption of Data Analytics to Leverage Large Volume of Data Captured by Alternative Channels

With an increasing real time data capturing ability, big data analytics is expected to play an important role in the insurance industry and insurers would need to make additional IT investments for building their data storage capacity and data capturing capability to leverage the benefit from big data analytics.

8.1. Background and Key Drivers

Since the insurance industry is data driven, the more an insurer can derive insights from available market data, the better they can compete in the market. Data has always played an important role in product development, product pricing, claim processing, risk management, and fraud detection for insurers. Through alternative channels, insurers can collect an enormous volume of data and gain meaningful insights using big data analytics.

Big data analytics are making it feasible for insurers to adopt sensor-based technologies such as telematics which let an insurer monitor driving behaviors of the insured. With more detailed information on a customer's driving patterns, an insurance company can offer usage-based insurance policies.

8.2. Analysis

Adoption of new alternative channels such as social media, internet, and mobile are giving rise to data sources where insurers can collect a huge volume of data on a real-time or near real-time basis. To generate useful insight from all the data, insurers are investing in big data capabilities.

Big data analytics let insurers analyze all the data captured from emerging channels like social or sensor-based technology. To date, sensor-based technology—which lets an insurance company track behaviors of the insured—has mainly been used in auto and property insurance to set insurance premiums based on the driver's behavior. In life insurance, insurers have begun to implement sensor-based technology through telematics, a combination of informatics and telecommunications. Telematics can be used in life insurance to better gauge the cost for an accidental death benefit rider which is traditional a flat price. In health insurance, sensor based technology helps to monitor a policyholder's health and also helps to make better living choice. The potential US Usage Based Insurance (UBI) market is estimated at approximately 1 million vehicles in 2012, climbing to 5 million by the end of 2013 and 60 million by the close of 2019. In the U.S., the usage based auto insurance market is expected to grow rapidly from 1 million in 2012 to 5 million by the end of 2013 and expected to reach 60 million by 2019.[28]

Earlier in the adoption stage, insurers were faced with some challenges which lead them to discontinue their telematics based products. For example, Aviva was one of the first insurers to launch telematics based insurance and they launched it in 2005, only to discontinue in 2008.[29]

The challenges faced by insurers few years backs are mitigated by advanced technologies. Firstly, cost of telematics devices has decreased drastically with improved technology.[30] It is also expected that integrated telematics for new cars is expected to reach 88% by 2025 globally and this will drive down the device cost for insurers.[31] Secondly, progress in big data analytics helps to effectively use the data captured by such device. Moreover, insurance customers are starting to realize the benefits of using such usage based insurances which award safe practice such as safe driving.

28 Insurance Telematics Report 2013, Telematics Update, http://www.telematicsupdate.com/insurance-report/index.php

29 Aviva Telematics Insurance Review, July 23, 2013, http://www.telematics.com/insurance-company-reviews/aviva-telematics-insurance-review/

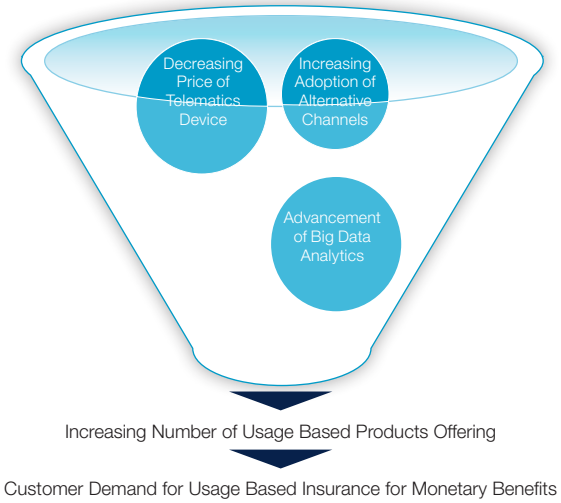
30 Telematics: The Game Changer, AT Kearney, 2010

31 The quest for Telematics 4.0, Ernst & Young, 2013

For these reasons, telematics insurance adoption rate is picking up. For example, Insurethebox is the first insurer in the U.K. to launch telematics only motor insurance products. The insurer keeps a track of the driving behavior of policyholders using telematics device. Policyholders are awarded bonus points for safe driving. According to a survey conducted between 2012 and 2013 by Insurethebox, the overall average saving made when customers buy an insurethebox policy is £620.[32]

Use of telematics is likely to drive product innovation such as pay as you use insurance which will improve customer segmentation. Consumers are expected to use self-service channels to buy usage based insurance products mainly due to the greater transparency for these products. But agents are expected to require more training to sell usage based insurance.

Exhibit 5: Adoption of Usage Based Insurance Driven by Sensor Based Technology and Big Data Analytics



Source: Capgemini Analysis, 2013

8.3. Implications

The insurers are increasingly leveraging data analytics to analyze the vast amount of data captured from various sources such as alternative channels and sensor based devices. To leverage the full potential of the data analytics insurers will increase their IT investment budget for improved data storage capacity, multi channel integration, and real-time data capturing capabilities. IT budget for data analytics by life insurers has increased from 8.5% in 2012 to 11% in 2013.[33]

Insurers are expected to look for cost effective solutions because the costly hardware infrastructure required for telematics implementations will be an obstacle for small- and mid-sized insurers. Adoption of sensor based technology will drive insurers to introduce more usage-based insurance products. While insurers expect market penetration for usage-based insurance to reach 36% of consumers by 2020, agents and brokers estimate only 19% penetration for the same period.[34] The expected adoption figures indicate that insurers would need to invest in training and compensation restructuring for agents to support these new products.

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33 Top 10 Areas of Data Investment for Life/Annuity Insurers in 2013, http://www.insurancenetworking.com/gallery/10-areas-data-investment-life-annuity-32504-1.html#

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