

Insurance IoT Digital Report:

Insurance As A Service – Using IoT for
Customer Engagement



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Customer centricity and the Internet of Things

European insurers are facing a periods of intense change. New technologies and customer behaviour are generating a new ecosystem and creating a fundamental shift in the way insurance is built and delivered.

Two trends are converging to drive and accelerate this change through 2016: Customer centricity and the Internet of Things (IoT). The latter is a loose term covering a range of automations, artificial intelligence and remote measurement applications and though often referred to as cutting edge, insurers have been using it in the form of telematics as early as the turn of the century.

Customer centricity is the latest evolution of data-driven enterprise, a trend that has been gaining momentum over the last three to five years. Companies are increasingly open to acting on the insights mined from their customer information, creating brands that change to meet customer needs and delivering on customer expectations.

As these two trends merge, insurers find themselves in a paradox. In terms of IoT, they are pioneers, having been the first to adopt telematics technology. However, in relation to customer centricity, the industry is filled with self-avowed laggards.

“In the main, the insurance world has been driven by satisfying a compulsory need, and therefore, in some regards we could be accused of just been pushing products that have changed little over the decades. The opportunity for us today is to try and understand from a customer perspective how they are living and will be living their lives as a result how they see the risks they face and what it is that they want from an insurance provider,” explains Matthew Thomas, Director of Strategy and Planning at Ageas UK.

The combination of these two trends could prove a powerful tool for the insurance industry. Insurers have long been concerned about how to engage with their customers at more than just the two traditional moments of truth: renewal and claim. Without ongoing engagement, it is argued, insurance is all too easy to commoditise.

By delivering relevance on an ongoing basis through technologies such as the Internet of Things, insurers are able to evolve with their customers’ needs. Evolution is vital because, in an age of growing disruption, it is all too easy to see the casualties who have failed to understand how their markets have moved on. For every Amazon there is a Kodak.

The IoT Influence

There can be no doubt that IoT is fundamentally at the heart of what it means to be an insurer today. In many cases, the primary function of IoT is in the reduction of risk. Telematics systems have long been used to monitor and alter driver behaviour to improve their overall risk profile. According to FC Business’s *Insurance Internet of Things (IoT) Industry Survey, 2015*, customer behavior steering was identified as IoT’s most valuable outcome (24.7%).

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Sensor technology has also altered customer attitudes to risk. With the use of connected home devices such as Hive, Nest or Echo, consumers are able to mitigate their own risk by turning heating up or down, shutting off power outlets, monitoring their perimeter and reacting rapidly to problems such as leaking pipes.

“We need to respond to the customer’s appetite for risk. With IoT they are in more control of prevention or at least mitigation of some risks, many of which drive the low to mid-range claims that we look after today. If you follow this trend in to the future, the potential outlook for insurers is going to lean more towards dealing with catastrophic issues,” Thomas suggests.

“We’re not going to be risk managers but we’ll be involved in the prevention of risk. It’s changing our own definition. The best example is in health where we won’t only be there for customers when they’re sick. We won’t manage illness, we’ll manage health,” adds Josep Celaya, Chief Innovation Officer at Mapfre.

For the private consumer, turning insurance from a compulsory purchase to a lifestyle management one is an important step, but it’s still difficult to move it out of the ‘distress purchase’ category. That is to say, insurers still have a great deal of work to do to convince customers of the inherent value of paying for prevention as much as cure.

In the B2B sector, the advantages to the client are clearer: “The rise of the sensor brings with it the ability to monitor more and more. Its potential is in decreasing loss costs, improving safety and reducing down time. For example, in a mine the first indication of machinery going wrong was perhaps a bad smell followed by an immediate loss of function. Sensors can remotely show operators the deterioration of components. It replaces a possible two-week downtime with planned, preventative action,” reveals Nicolas Berg, Head of Casualty, EMEA at AIG.

While commercial insurance accounts for 19.9% of survey respondents who believe IoT will have the greatest impact, it is overwhelmingly (52.7%) in the general insurance space where executives expect to feel the greatest effects. However, the learnings from the B2B sector in terms of demonstrating the value of prevention (in this case, significant financial savings) are something the B2C sector should take on board when rebuilding their propositions.

It takes an ecosystem

One of the most radical suggestions about the impact IoT will have on insurers is about who owns the relationship with the customer. “As an industry we are still operating with the idea that we are separate and the rest of the world is organising itself in ecosystems,” Celaya warns, adding: “The smartphone is an ecosystem. To operate within it you have to have a higher level of cooperation and no longer behave like a separate business. It’s a transformational change. There are very few companies in the world that can be at the centre of this ecosystem - Google or Facebook perhaps.”

The reality is that more and more non-insurers are becoming inextricably linked to the customer through insurance scenarios. Car drivers, for example, are using vehicles with an array of smart technologies. It is Volvo’s stated aim that any of their

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drivers with autonomous technology should never have an accident involving a fatality. Referring to an announcement made by the car maker in Washington DC in December 2015, Thomas notes: "If something does happen, Volvo sees itself as being liable for any loss that's caused, rather than the traditional car insurer."¹

Berg adds: "A lot of oil and gas facilities are operated remotely. Before, the people in control of operations were physically on site. Now the control room is in Switzerland. If something happens, where is the risk and liability managed? Is it on site? Or with the telecom company carrying the digital instructions? Or even the software company processing them?"

Insurance executives have begun referring to this as the 'hub and spoke model' with the customer and IoT devices or sensors at its centre. The spokes are formed by diverse companies all coming together to serve the customer. With Nest, for example, insurers, banks and utilities providers all interacting with the customer via an IoT thermostat to deliver the connected home. The creation of this ecosystem around a single customer demonstrates how rapidly most sectors - not just insurance - are moving from a product-centric to customer-centric approach. It would not have been thought of 24 months ago. "It forces us to ask what our role is in the customer relationship," Thomas states.

The natural extrapolation is, if other parties are taking control of some of the elements of liability, it is up to the insurer to evolve their services to cater for the remaining unmet needs. In Thomas' case, he has identified that his claims teams have more to offer than just claims processing.

"We think we're good at handling claims but when you unpick it, we're not just doing the repairing, we're sourcing the services. Our people's skills can be applied to providing advice about mitigating risk. It stops being 'help I'm flooded' and just becomes 'I have a leak that needs repairing'. Let's adapt," Thomas advises.

The ecosystem as a whole will have to adapt as consumer behaviours change. The sharing economy is one example where more than one sector will have to reassess its appetite for risk. Understanding how short-term home rentals such as AirBnb might impact mortgage decision-making in the future could also prove significant for insurers.

Thomas claims: "If a mortgage company is blocking a customer's demand to own a property in which they can rent out a room or the house itself for a short period, how can that lead to the customer being satisfied? If the mortgage company won't change their stance, the customer will no doubt start looking for a provider who can give them what they want. It may be that the mortgage provider perceives a risk in what the customer is seeking so how can insurers partner with mortgage providers to satisfy the customer? It's all about understanding how the customer sees the future role of providers and how providers meet these new needs."

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¹ <http://www.theregister.co.uk/2015/10/13/>

[volvo_to_accept_full_liability_for_crashes_involving_driverless_cars/](http://www.theregister.co.uk/2015/10/13/volvo_to_accept_full_liability_for_crashes_involving_driverless_cars/)

The final analysis

The data revealed through IoT in terms of risk mitigation and prevention in individual use cases is just the tip of the iceberg. Pooled in a central analytics system, it becomes a powerful tool to help insurers predict, manage and redefine risk on an organisational, national and even international scale.

“Big Data is an ill-defined concept. We make our business from understanding risk and probability. Now the way risk is estimated is very different. We can predict things and not by using a crystal ball. There are new sets of data we can take advantage of,” Celaya reveals. For Berg mining the data from all sources, including IoT, reveals patterns that could never have been arrived at intuitively.

However for many insurers this possibility remains tantalisingly close but not yet fully realised. To be able to work with IoT data in any meaningful way, it needs to be seamlessly integrated. With most insurers still enduring incompatible legacy systems it will be some time before the information can be worked smoothly in this way. “There are new sets of data and we need to be able to take advantage of them. It is a challenge to integrate machine learning into this for example. It’s very difficult to migrate,” Celaya acknowledges.

Encouragingly, the industry appears to have made strides in this direction. Berg noted that **AIG** had implemented analytics to help anticipate client needs. Thomas on the other hand acknowledged that securing a customer relationship was vital as well as delivering value in exchange for their data. In the *Insurance IoT Survey*, only 11% stated that data management issues were the reason why IoT adoption was slow compared to a lack of clear strategy which dominated the results (40.7%).

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Conclusion

Organisations appear to be overcoming the conceptual barriers to customer centricity and this is being supported by the internet of things. A third of those surveyed stated that they weren't ready for IoT yet however the majority had taken steps or were already implementing it.

"It has been easier than I expected to introduce this thinking into the organisation. Seeing industries around you doing very different things; the levels of realisation are pretty high at the moment. But, finding a course of action is not that easy," warns Celaya.

Investment in IoT is expected to stay the same or even grow slightly with only 17.9% stating they planned to decrease their stake. A paltry three per cent were ignorant or dismissive of IoT but the majority (58.9%) acknowledged that they were at the beginning of a path to implementation over the next five years.

The futuristic image of IoT is also potentially holding it back. Publicity surrounding driverless cars, for example, can lead executives to feel that true IoT domination is still some way off. However, as Berg notes, it's important to realise that many of the technologies involved in the more cutting edge concepts are already in play:

"Driverless cars are really the end state. All the features exist already. Up to now the truck driver who fell asleep at the wheel would keep going until something stopped the truck. Tomorrow, that truck will brake because it has collision avoidance technology," Berg insists.

For insurers, it is not necessarily failing to grasp the technology that is hampering progress, but an appreciation of the roles each actor plays in the new ecosystem. The company is no longer at the centre of that ecosystem, the customer is in its place. This raises questions over the ownership of liability, the definition of risk, the role of service and the evolution of product.

"Insurance is a mature industry that has been here for many decades. There haven't really been any transformational events in that time. Even banking is a bit ahead of us. Insurance will be going the incremental route. Our CEO is adamant that business transformation is one axis of our strategy and that's where we're focusing our innovation," Celaya notes.

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The purpose of this white paper was to develop thoughts and ideas in the run up to the conference. We are looking to build our intelligence in the area of IoT adoption in insurance and support the community of people who face challenges in this area.

Insurance IoT Europe has been created for the community by the community with research spanning over 6 months and an anticipated audience of over 150 expected at the event.

To receive an additional £100 off of current booking rates, quote 4400CNT100 on the registration page
www.fc-bi.com/insuranceiot/register.php