



**Bristol
Business School**

Customer Research Study into the Motor Insurance Market

“Is a Micra a fair swap for a BMW?”

or

How insurers can transform the customer experience after an accident

By

Alison Bond, Principal, ABA Research

&

***Professor Merlin Stone, IBM Professor of Relationship Marketing, Bristol
Business School, University of the West of England***

January 2004

Contents

<i>Background & Methodology</i>	3
<i>Results Highlights</i>	4
<i>Attitudes Towards Motor Insurance</i>	5
<i>The Renewals Process</i>	6
<i>Acquiring Customer Loyalty</i>	8
<i>The Claims Process - Current Attitudes and Future Expectations</i>	9
<i>What Does It All Mean?</i>	12
<i>The Qualitative Report</i>	15
<i>The Insurers</i>	16
<i>The Insurance Brokers</i>	17
<i>The Big Re-sellers of Insurance</i>	20
<i>The Customers and Customer Vetting</i>	22
<i>The Future</i>	25

Background & Methodology

This study is designed

- *To give a greater understanding of the attitudes of motorists towards their insurance companies, and in particular...*
- *To demonstrate how the views of customers who have made claims either on their own or a third party's insurance are affected by their experience of the claims process.*

In the first stage of the research we used a consumer omnibus study to identify a number of key segments as well as to ascertain headline figures for the insurance claims market overall. One of the results indicated that just under half of all motorists had claimed on either their own or another driver's insurance.

The next stage of the project involved devising and writing a fully structured telephone questionnaire. This was designed to determine customers' actual experience of the claims process and their attitudes towards insurance companies and towards car insurance in general. This included a section on replacement cars, which had been highlighted as one part of the claims process that was failing to meet customer's expectations.

In total three hundred telephone interviews were conducted with motorists using a bought in list of drivers. These respondents were distributed throughout the UK. There was an equal split of men and women drivers. All those interviewed were responsible for arranging and purchasing their own motor insurance.

To ensure we achieved the most from this stage of the project, we targeted the questionnaire towards those who had previously made an insurance claim ("claimants"). As a result, the age profile of respondents was skewed towards older age groups, as those who have been driving fewer years are less likely to have ever claimed. Overall 69% of respondents were claimants with only 12% of these aged under 35 years. 53% of respondents had made a claim on their own insurance. The rest of the claimants had claimed on a third party's insurance.

To highlight any regional differences the TV regions have been collated into three distinct regions

- *South - Carlton, Meridian and West Country TV*
- *Midlands - Central, HTV and Anglia*
- *North - Granada, Yorkshire, Tyne Tees, Border and Scotland.*

In most cases and unless otherwise stated results are given as a percentage of the total number of completed responses. Where percentage values do not add up to 100% this is due either to rounding of numbers or to the exclusion of "don't know/not stated" Values exceeding 100% tend to be where respondents are allowed to give more than one answer to a single question.

The final stage of the research included a series of in-depth face to face interviews with senior representatives from insurance brokers and major re-sellers of motor insurance.

Note: The quotes used throughout the report may not be the views of all respondents but are actual quotes from respondents. They are included to give background to the report and should not be used in isolation.

Results Highlights

“You pay your premium to cover you if you claim, so the only time you really use the service is if you claim, then it needs to be spot on, as that is the only time you get to know how good your insurer is.”

Overview

- *Consumers are increasingly used to shopping around when it comes to making buying decisions. Motor insurance is no different from other markets. The number of people who automatically renew with their current insurer and do not shop around is falling. This makes it even more important for insurers to establish a relationship with their customers rather than focusing just on price. Whilst some motorists say price is a major factor in determining choice of insurer, many others, especially claimants, take a more holistic approach and consider service levels and level of insurance cover.*
- *Claimants are even more cautious when it comes to renewing insurance. As the number of drivers and cars on the roads increases, the number of claimants will increase as well. Claimants have experienced the total insurance service package from their insurer. Instead of encouraging loyalty, our research indicates that this fuels a determination to seek something better next time.*
- *Very few motorists enjoy the renewal experience. It takes a lot of time, there are many questions to answer and customers find it difficult to distinguish one insurance provider from another. Companies could do more to ensure that motorists know exactly what they are paying for and the support they will get in the event of a claim. Customers expect a standard package of benefits that gives clear guarantees in terms of how they will be treated. What's more, our research indicates that people will be prepared to pay more for these.*
- *There is little loyalty towards insurers. Insurers should examine how they can generate loyalty - perhaps a two-tier system of service that provides a better level of service including things like replacement cars to customers who stay with them for more than three years.*
- *When it comes to service, motorists expect an insurance company to provide them with a replacement vehicle as soon as it is needed, preferably of at least the same standard as their own car. They also expect a customer charter, highlighting how well they will be treated. Today, at least a quarter of all claimants are left feeling less positive about their insurer after making a claim. This indicates that customers' expectations may be too high but also that some companies are under-delivering just when the customer needs them the most.*
- *There is strong evidence to suggest that the type of replacement car offered makes a big difference. Just under half of those offered a replacement car (and very few claimants were offered one) were given a car of an inferior quality to their own. Those provided with an inferior car were five times less likely to be left feeling 'satisfied about the company' and twice as likely not to choose the same insurance company when they renewed.*

Attitudes Towards Motor Insurance

Do motorists know who their insurer is?

Overall 88% did. However, there were some interesting regional and other variations. In the 'South' the number who knew was 91%, compared with 82% in the 'Midlands'. This was just one of the distinct differences between the views of motorists living in the South and those from elsewhere. Surprisingly, non-claimants were more likely to know who their insurer was compared with those who had. This may be related to the fact that once motorists claim they are likely to become "switchers" and will not remember year on year whom they are using. Or it might be that non-claimants were younger, and therefore would have taken out their first insurance more recently – and of course would have switched less.

We researched how respondents search for and select insurers. The result confirmed that 'shopping around' is common. The omnibus survey highlighted that 54% of respondents will either 'always/or sometimes shop around' at renewal time. The telephone research confirmed this finding and suggested that insurance brokers are still valued for their work here.

Many people see the market as very fragmented with companies offering more or less the same level of cover. Just under one in four respondents (23%) used a broker to find their current insurer. This was the most popular method used by respondents, despite the widely advertised claims from many direct sell operators that they offer the best cover at the lowest prices! Note that the figure is likely to be higher in practice, as many big brokers (such as the AA) are probably considered to be insurers by their customers. Many respondents still trust a broker to wade through all the different offerings and get the best deal. Customers trust them. Brokers can also save customers a lot of time. Claimants are more likely than non-claimants to use a broker to find an insurer who will offer good cover at a good price. When it comes to balancing the level of cover - service as well as price - an 'expert's view' is extremely valuable.

15% of respondents simply renewed their previous insurance with their current insurer. These tended to be older (aged 45+) and/or those with their current insurer for more than ten years. However, although other people may shop around, our research showed that many of them do not enjoy finding a new insurer. 79% of respondents agreed that it was very time consuming to ring around the various companies. During this process customers have to answer many questions repeatedly, only to find that often the premium quoted is very close to or even higher than that offered by their existing provider. Furthermore, nearly one in four respondents (22%) admitted they did not know what questions they needed to ask to ensure that they got the right policy for them. Consequently there is customer inertia. This will be challenged when one of these two things take place:

- Premiums rise considerably*
- A claim is made*

When this happens, the insurer is forced to deliver a different kind of service to the customer. It is no longer rated just on how quickly it sends out the renewal paperwork.

The Renewals Process

Our research suggests that once customers have claimed, their relationship with all insurers changes. Instead of being passive, they are far more likely to take a proactive approach to renewal, either directly or via a broker, challenging both price and cover. With more and more cars on the road, the incidence of claims may increase, thus changing the relationship further.

We also know that it takes around seven years for a policyholder to become profitable making it vital that service at the moments of truth in the relationship with them is handled well. This must include renewal and claims.

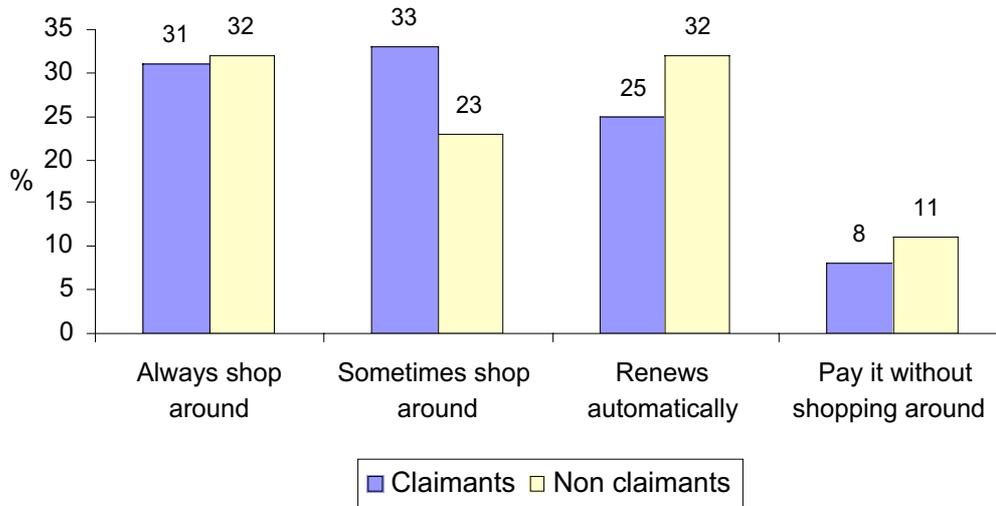
“I looked around for quotes and was quoted everything from £400 to £1200, which I found ridiculous.”

It is unlikely that this situation will stay the same, because the bad news for insurers is that the younger age groups are generally more used to shopping around for every type of service or product. They are likely to continue this habit as they get older. We also know that as people drive for longer, the likelihood of becoming a claimant increases. Over time the number of passive renewers will fall. The actions claimants/non claimants take on renewal are summarised overleaf.

On a similar note, the findings from another question indicated that over half of respondents (53%) agreed that they had no loyalty towards their insurer. ‘Loyalty’ was weaker amongst claimants than non-claimants (55% v 51%). People living in the ‘South’ also tended to consider themselves as less loyal customers compared with those living elsewhere and overall the concept of any loyalty amongst younger motorists was far lower.

We asked respondents to describe their relationship with their insurer. Three quarters felt they had a ‘good’ relationship, with a further 16% stating they really had no kind of relationship at all. The definition of ‘good’ here should not be confused with the term ‘loyal’. In essence it simply means they don’t bother us and we don’t bother them. A loyal customer is also unlikely to shop around when it comes to renewal - another characteristic of this market. Very few motorists admitted their relationship with their insurer was ‘poor’. However, with annual renewals, the opportunity to change service provider comes along quickly, ensuring that any dissatisfaction with an insurer doesn’t have to last for long.

Action Taken When Renewal Notice Arrives



Not surprisingly the less time people had been with their current insurer, the more likely they were to hold that there was little or no relationship between them. However the trend with 'younger' motorists is to change insurer more often, making it harder for insurers to establish a relationship with them. In the 'South' the situation is even tougher, as over one in five feel they have no relationship at all with their insurer. ('South' 21% v 'North' 10%).

Non-claimants were slightly more likely than claimants to consider they had no relationship with their insurer. This is a dilemma for insurers, as it suggests that one of the few ways an insurer can develop a relationship is when the customer makes a claim. However, at the same time, there is little evidence to suggest that insurers are very good at retaining claimants or at least that they have persuaded them to stop trawling market at renewal.

The figures, based on all respondents describing the relationship with their insurer, were:

	%
<i>Very good</i>	32
<i>Quite good</i>	43
<i>Only average</i>	6
<i>Poor</i>	1
<i>Don't really have one</i>	16
<i>Don't know</i>	2

Evidence from a recent study in the US shows that companies that try to drive down the cost of managing individual claims lose their best customers and keep their worst customers – those who claim the most. This has the paradoxical effect of increasing claims costs!¹

¹ William Pieroni, "Value Creation and High Performing Claims Organisation", unpublished insurance study, IBM Global Insurance, 2001

Acquiring Customer Loyalty

What do motorists want from their insurer? Only one in three respondents said they wanted 'the cheapest price whatever'. These were more likely to be non-claimants. This confirms that many motorists look beyond price as a measure of how good their insurer really is. They are not interested in free gifts at renewal either. First, they prefer using reputable companies, ones that they know they can trust.

"Service and cover are most important to me but I do expect a reasonable price"

When it came to specific elements of service, respondents were asked how far they agreed with a number of suggestions. The top three requirements were:

<i>A replacement vehicle delivered to your door as soon as you needed it</i>	<i>91%</i>
<i>A customer charter stating exactly what to expect if making a claim</i>	<i>89%</i>
<i>A replacement vehicle of a similar model to your own</i>	<i>56%</i>

The remaining requirements were:

<i>The cheapest possible price whatever the service if I needed to claim</i>	<i>25%</i>
<i>A replacement vehicle of a same make and model to my own</i>	<i>22%</i>
<i>A free gift if you renew</i>	<i>14%</i>

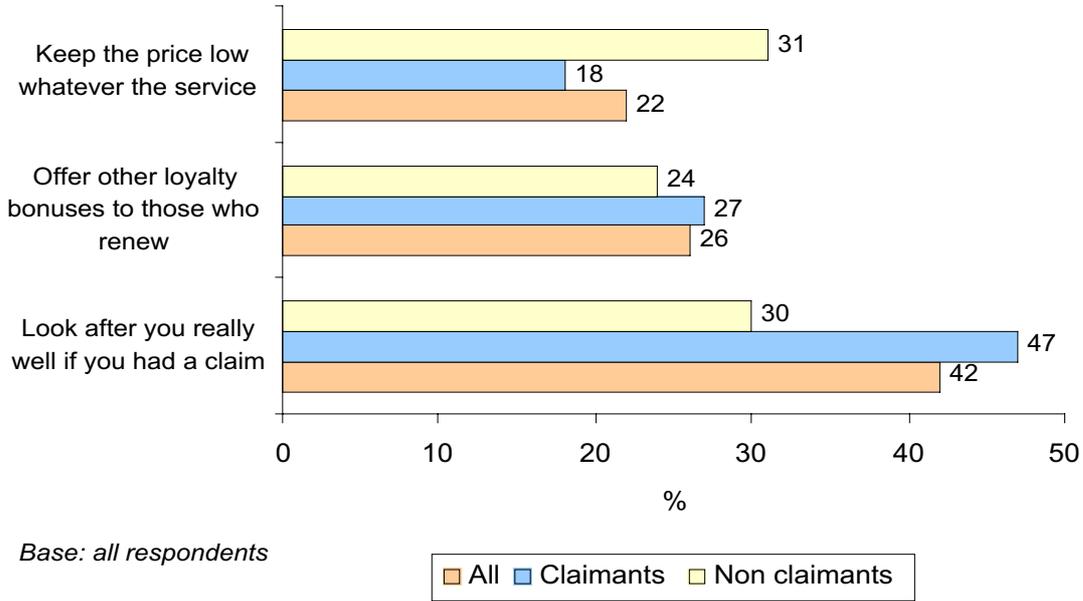
As shown earlier, once a customer has claimed, priorities change. Price is no longer the most vital element when choosing an insurer. The prevailing attitude ceases to be the cheapest price whatever the service level. It moves towards the highest level of service at an affordable price.

The chart below highlights various ways insurers could treat their customers differently. Comparisons are made between claimants and non-claimants. The chart once again reinforces the point that claimants concentrate more on service, non-claimants on price. A no-claims bonus is not necessarily seen as a benefit that is related to claiming on the insurance. Customers see it as a loyalty bonus and some see it as unfair if they lose their no claims bonus, just because they made a claim. This is because they value their custom to the insurance company as worth the bonus in itself regardless of whether they have claimed or not.

As the chart below highlights, 47% of claimants agreed that, if there was one thing insurance companies could do which would make them really loyal, it would be to look after them very well if they had a claim.

'To keep me loyal? They could protect my no claims bonus.'

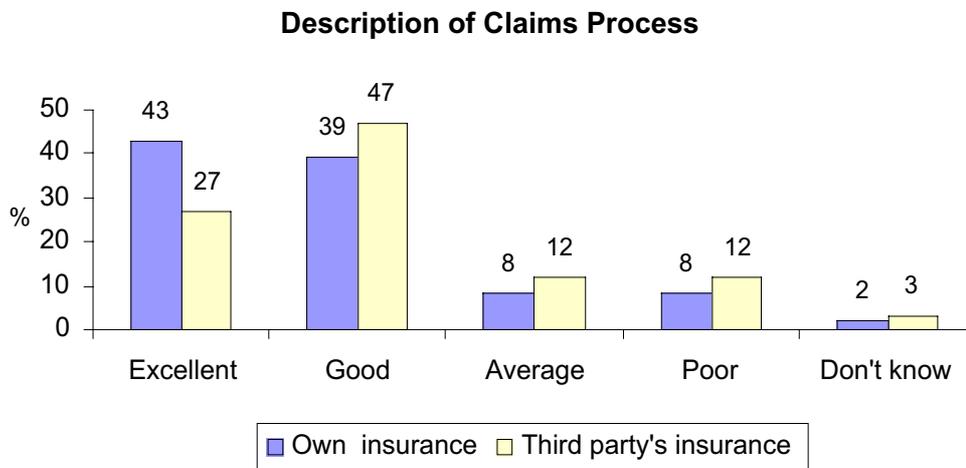
How Could Motor Insurers Get Loyal Customers



The Claims Process- Current Attitudes and Future Expectations

“The insurance company who dealt with the claim wasn’t mine but the driver’s who hit me. They kept me fully up to date with what was happening, and when I got my renewal notice in I went straight to them for a quote and used them the following year.”

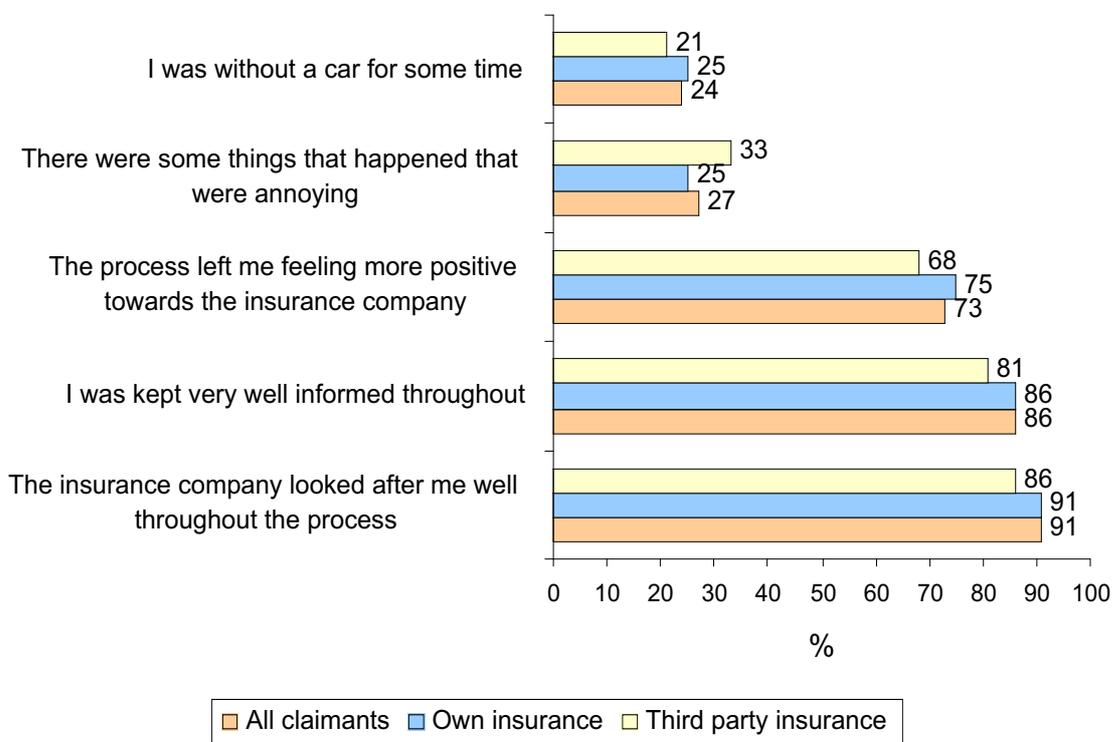
We asked claimants what they thought of the claims process and how it could be improved. Women were less likely to have made any claim as were those living in the less crowded and congested ‘North’. The results are shown in the chart below.



If insurance companies are looking to achieve excellence, there is plenty of room for improvement. This is particularly so when it came to the experience of claimants on a third party's insurance. For those living in the 'South' the experience appears to have been even worse. Are motorists living here harder to please or have they been given a 'harder time' by their insurer? What we do know is that 'Southern' motorists are the keenest to shop around with the highest numbers always shopping around when their renewal notice arrives. Only 34% of these motorists described the claims process on their own insurance as being 'excellent' - by far the lowest figure across the country.

The claims process was then broken up into a number of individual elements. Respondents were asked how far they agreed/disagreed with a number of statements covering the process. The chart below shows the number who 'agreed strongly/agreed' with each statement. The respondent base is 'all those answering who have made a claim'.

Agreement with Statements about the Claims Process



On nearly every statement the views of those who made a claim through a third party's insurance were less positive about the claims process and the insurer than those claiming through their own insurance. Motorists claiming through a third party's insurance were less likely to have been kept well informed throughout the claim's process. Overall they felt less well looked after by the insurer. Although in some cases the claims process is handled relatively well by some insurers, it is not always done well enough to generate greater customer loyalty. Perhaps customers are looking for something just a little bit better.

Whilst research in other areas of service suggests that a satisfied complainant is likely to be a better advocate for a company than someone who has never complained at all, the same cannot be said for every motorist when it comes to describing an insurance company. Around a quarter of respondents felt less positive about the insurance company after the claims process. In some

cases this was even higher. The claims process is the true test of the quality of service for an insurance company. In some cases they are not delivering this service.

Perhaps more companies should be looking at providing replacement vehicles. A quarter of claimants said that they had been left without a car for some time.

Around one in four claimants stated that during the claim some things had annoyed them. This was exactly the same number of respondents who disagreed with the view that the whole process had made them more positive about the insurance company. This suggests that around one in four claimants are unlikely to select the same insurance company at renewal time.

The survey also highlighted that all of the factors we asked about were important to customers when it came assessing the claims process. Customers do not want to be left without a car. Over eight out of ten respondents thought it was important that insurers provide a comparable replacement vehicle. The reality was that the majority got no replacement car. Only 40% of claimants were provided with one whilst their own car was being repaired.

The research also suggests that people claiming on a third party's insurance were more successful at acquiring a replacement vehicle than those who had claimed on their own insurance. The comparable figures were 48% and 37% respectively. Of those offered a replacement vehicle, nearly half were disappointed with the standard of car they were offered whilst only 17% of respondents enjoyed the benefit of driving around in a better car than their own even if it was only for a few days. The full results were:

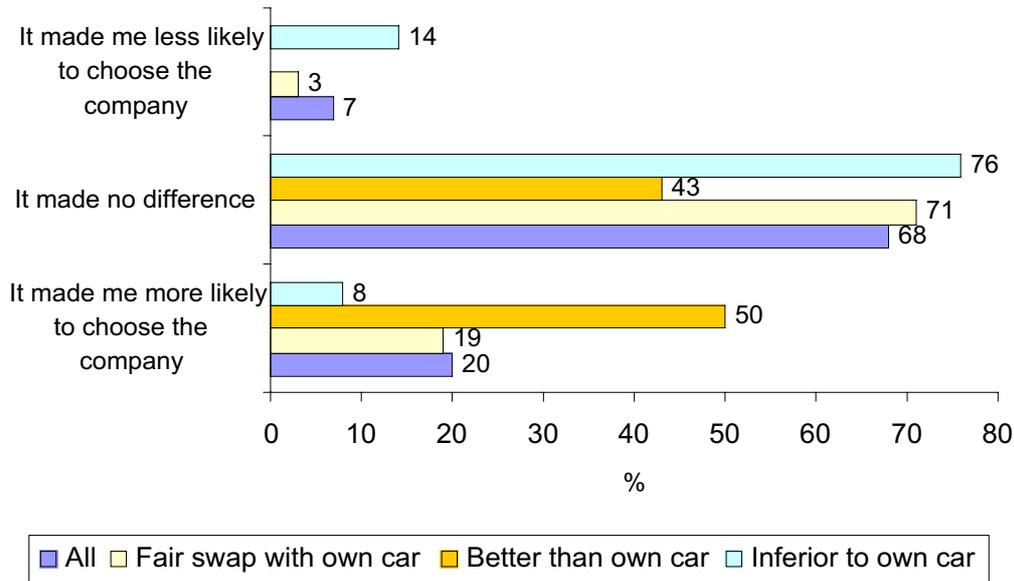
<i>The replacement car was inferior to my car</i>	<i>45%</i>
<i>The car was a fair swap with my own car</i>	<i>38%</i>
<i>The replacement was better than my own car</i>	<i>17%</i>

The effect of providing a replacement car on a customer's attitude towards an insurance company can be significant (see chart overleaf). Sometimes it may make the difference between a customer choosing to renew a policy with the insurer or not.

One in four respondents (24%) who had been provided with a car stated they were left feeling more satisfied about the company. Although the number is relatively small, those provided with a better car than their own felt more satisfied with the insurer (64%).

This gives insurers one key to promoting loyalty after a claim. The effect of providing a replacement car is more likely to be positive and at worst makes no difference to customers when it comes to renewal. For insurers offering a higher quality replacement car the impact on renewal rate could be enormous. 50% of customers offered a car better than their own were more likely to choose the company as their next insurer. If we compare this with the impact of providing an 'inferior' car only 8% of respondents suggested this would make them more likely to choose the insurer again.

Impact of Replacement Car on Renewal Decision



What Does It All Mean?

“I don’t like shopping around, repeating your details, especially when you have to tell them you have had an accident and have points. I want one company to show me how good they are, keep their prices reasonable and I would happily stay with them. Perhaps they could give me a three-year guaranteed price, with fixed increases each year.”

Three quarters of respondents agreed that the combination of price, service and product is important when choosing insurance. Are the motor insurance companies focusing enough on their service? Have any been truly successful at differentiating their service from that offered by other companies?

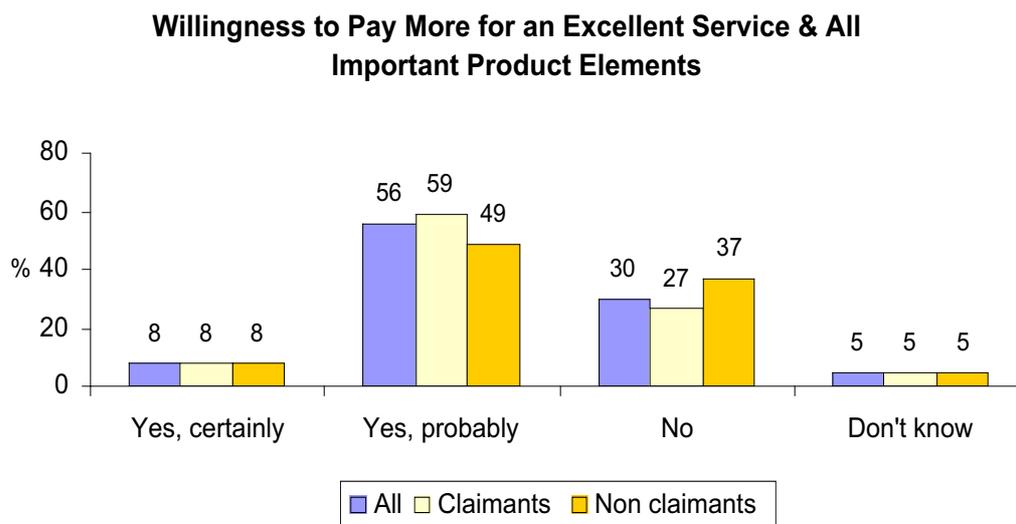
Whilst nearly nine out of ten respondents believe that their own insurance company is offering them a package of benefits that will suffice in the event of a claim, this confidence appears misplaced, as they find out when they claim. This is supported by the increase in shopping around after a claimant has claimed.

Previous results indicate that many motorists are uncertain whether they have the right policy for them and that many are critical about how long they were without a vehicle. Consequently 70% of respondents would like to see insurers offering a standard package of benefits that included the provision of a replacement car and guarantees in terms of claim resolution times. The figures for claimants and non-claimants were 72% and 65% respectively, indicating that these carry more weight amongst those who have needed them in the past.

“It would be nice to know that certain things were covered – there is a lot hidden in the small print.”

The idea of a standard package of benefits, perhaps outlined in a customer charter, has surfaced in some of our previous studies. Customers are confused by the whole service process and often find the business of getting good service rather unpleasant.² Customers are finding it harder to understand exactly what they are paying for when it comes to complex products and services. They also want it to be easier to compare different service providers. This is partly because of a breakdown in trust between service providers and customers.

What's more, there is evidence that nearly two thirds of motorists would be prepared to pay more for these kinds of service guarantee, as the graph below shows.



Claimants are far more likely to be prepared to pay more for guaranteed service agreement levels than non-claimants. Even amongst non-claimants, over half support the idea of paying more for a guaranteed better service. This also varied across the country. In the 'South', the proportion prepared to pay more was 69%, compared to 60% in the 'North'.

“Give me a reason to stay and I will stay.”

² See Alison Bond and Merlin Stone, “Declining UK Customer Service Standards”, Chapter 31 in Merlin Stone, Neil Woodcock and Bryan Foss, *The Customer Management Scorecard*, Kogan Page 2002

Appendix: Profile of Respondents

This is a summary of the three hundred respondents interviewed.

<i>Claimants</i>	<i>69%</i>
<i>Non-claimants</i>	<i>31%</i>
<i>Gender</i>	
<i>Male</i>	<i>51%</i>
<i>Female</i>	<i>49%</i>
<i>Age</i>	
<i>17-24</i>	<i>2%</i>
<i>25-34</i>	<i>10%</i>
<i>35-44</i>	<i>14%</i>
<i>45-64</i>	<i>37%</i>
<i>65+</i>	<i>37%</i>
<i>TV Region</i>	
<i>Carlton</i>	<i>20%</i>
<i>Granada</i>	<i>15%</i>
<i>Central</i>	<i>13%</i>
<i>Meridian</i>	<i>10%</i>
<i>HTV</i>	<i>10%</i>
<i>Tyne Tees</i>	<i>8%</i>
<i>Yorkshire</i>	<i>7%</i>
<i>Border</i>	<i>5%</i>
<i>Anglia</i>	<i>5%</i>
<i>West Country</i>	<i>4%</i>
<i>Grampian</i>	<i>2%</i>
<i>Scotland</i>	<i>1%</i>

The Qualitative Report

The Insurers

Despite the fact that many of the issues raised within our research project are of direct relevance to British insurers, we found it difficult to arrange meetings with them to share our findings and listen to their feedback. Perhaps this was because many insurers have busied themselves recently with internal restructuring to reduce costs and operate more efficiently. Dealing with customer service matters was a task worth tackling on another day.

Eventually, one of the country's leading insurers did agree to talk about their customer service experiences.

They held the view, expressed elsewhere within this report, that people are obsessed with getting the cheapest deals. Sometimes, this attitude can cost drivers money. For example, the insurer offers comprehensive cover that can include Green Flag roadside assistance for an additional £50. However, in the race to land the 'best' deal, customers opt for the cheapest policy but then pay the AA or RAC £100 for an identical level of roadside cover. In other words, they end up paying £50 more than they should.

Although policyholders are clear about the amount they pay for motor insurance, the insurer believes that many customers have false expectations about what will happen when they make a claim. The term comprehensive cover is misleading, as there are often many things that are excluded. Whilst this insurer recognises this problem, they also find it difficult to get the message across that customers need to pay more for better cover. Unfortunately, their own call centres do not respond by positively selling policy add-ons, as they currently focus on offering the lowest prices. The main point this raised was that customers know what they are paying but not what they are buying.

This insurer also remarked that the way they deal with people calling in for quotes should be improved. They would like potential customers to be talked through the benefits of their policies, but know that this does not happen. Call centres are measured on volume and agents want to get through as many calls as possible, which makes offering additional benefits very difficult and helps to ensure that customers remain committed to obtaining the cheapest price.

A final interesting point concerns research undertaken by the insurer amongst its own customers and third party claimants. They discovered that the latter group rated them more highly than their own insurers, because they were doing more to ensure that the problems associated with an accident were resolved before solicitors became involved and initiated costly legal actions. As this insurer would have been left to settle these costs, it was in their interests to look after third party claimants more carefully, which resulted in the higher satisfaction ratings. The insurer is now trying to persuade its own policyholders to pay premiums that will raise their cover levels to those traditionally offered to third party claimants. Additional extras would include physiotherapy and on-the-road lessons to make people feel more comfortable about sitting behind the wheel after an accident. However, the level of interest amongst policyholders remains low.

The Insurance Brokers

Background

The motor insurance industry has changed dramatically over the past five years for brokers and insurance companies alike. In the past, motorists would simply contact a high street broker to get the best deal. However insurance can be obtained from many new outlets including supermarkets, banks and companies like Kwik Fit as well as a whole host of insurance providers. Most telephone and internet websites will provide an instant, approximate, on-the-spot quote, making it far easier for the customer to shop around themselves.

While companies were successfully attracting new customers, they were less good at retaining them. As an increasing amount of drivers began to shop around, many companies, knowing that they were mainly being judged on price, began to lower premiums at the expense of some of the traditional benefits usually associated with motor insurance, like courtesy cars and small excesses.

This cost cutting trend stretched industry-wide and instead of paying brokers to sell their policies, insurers employed direct-sale call centres to handle both sales and customer enquiries and registration. Although this cut costs at the time, call centre staff do not have the same expertise as traditional brokers. Consumers are now beginning to suffer as a result of the market's new structure.

Findings

It's like they can't see the wood for the trees...

Of the brokers interviewed during this research the majority agreed that the changes that have happened over the past five years and the new approach to customer procurement has resulted in a less educated customer. It would seem that today's motor insurance customers want to talk about little more than the overall cost that they have to pay when they sign up.

Due to that fact that price is sometimes the only element of the policy that is discussed in detail, it is only when these same customers need to make a claim that they realise the importance of all of the benefits that were cut to bring down the initial cost. However in most cases, the call centre staff that originally sold the policy have not explained in detail what the chosen policy includes.

So, when customers make a claim they can find their expectations exceed the services on offer from their insurers. Things that they have taken for granted in the past, like replacement vehicles, are suddenly their own responsibility.

Customers do not realise that when they pay for insurance the product they get in return is the service, support and assistance provided if they have an accident. However, as the majority of drivers do not select a policy expecting to have a crash, many choose to take the risk and opt for the cheapest deal. Due to the way many people buy insurance, i.e. through the big intermediaries such as banks, supermarkets and building societies, they are unlikely to hear about any add-ons or extras that may be available. Often, these intermediaries are "white labelling" another

company's products and they cannot negotiate enhanced terms for their policyholders. Instead, they will be looking for the greatest margins for themselves and the lowest prices for their customers. It is hard to see how this scenario can encourage the development of genuine, customer-focused innovations that improve the overall benefits package offered to policyholders.

The loyalty lottery...

Almost all of the people we surveyed during this report agreed that if customers had been treated well during the claims process then they would use the same insurer again. Many of the brokers interviewed would also agree that those who have received good service are willing to pay more (although not too much more) to guarantee that level of service should they make another claim.

The subject of replacement vehicles can be a little more complicated. Often claimants are offered what one broker referred to as a 'Noddy' car while their vehicle is being repaired, if they are offered one at all. However, in many cases, especially with non-fault accident victims who are claiming from a third party, brokers advise claimants that they are entitled to a car of a similar marque to their own. This means they do not have to drive an inferior vehicle after an accident has taken place. Most claimants do not realise that this applies to them, and in some cases they could insist on renting a car and then recharging the insurer. However, it is worth pointing out that this option can also be overlooked by claimants who do not want the perceived hassle of arranging their own transportation.

Most motor insurance policy holders are not concerned about the type of car they receive as a replacement; many would just be glad to get one at all. But given the fact that in many cases claimants have a right to a like-for-like replacement, shouldn't insurers be making people aware of the options available to them?

At present insurance companies do not consider their customers' lifestyles when it comes to replacement vehicles. However, some customers become used to a certain type of car and do not want to drive anything else. Our evidence suggests that offering similar vehicle marques would be considered 'great service' and when it is time for customers to renew their policies they are more likely to stay with insurance providers that have treated them well.

The responsibility for providing replacement vehicles is often left to an insurance company's approved repairer. As it is in a garage owner's best interests to retain approved status, providing replacement vehicles normally forms part of this effort. The type of car provided is generally not specified, so in the interests of keeping down costs a garage will keep a small pool of standard A-class vehicles to cater for their customers' needs. This allows them to retain their approved status. However, the customer is left with little, if any, choice about what type of car they receive.

Creeks and paddles...

Among the brokers interviewed there is widespread belief that things are slowly changing and that people are again starting to look at service levels. Complaints about account handling during a claim are becoming more frequent. It would seem that policyholders are becoming tired of dealing with uneducated telephone staff who have been hired for their speedy data inputting and telephone skills.

This lack of knowledge has left the insurance companies with a problem. In the race to increase customer numbers many aspects of the qualifying process were rushed or overlooked, leaving people with policies that do not match their specific requirements and can create unnecessary costs for all parties. Customers also complain that when they do have questions about their policies it can be very difficult and time consuming to find someone who knows what they are talking about.

“If everyone knew they were going to have an accident people would focus more on the service they would receive and the cover they have not merely on the price”

UK motorists would be forgiven for thinking that the market has expanded. On the surface there has been a big increase in providers. However, there has been much consolidation in the insurance industry and in reality the market is shrinking. As mentioned earlier, many of the so-called ‘new’ providers, such as the supermarkets, are in fact only marketing large insurers’ products (‘white labelling’). These providers frequently lack the skills, knowledge and real experience available from brokers.

Re-introducing the middleman...

Almost all of the brokers we spoke to feel that their services are being underused. Their primary function is to work on behalf of customers to find a mix of products and services that best fits their needs. In strictly monetary terms, it is usually cheaper for customers to shop around themselves. However, the amount of time saved by letting a broker carry out the chasing and negotiations must also be considered. Like many other intermediary businesses, the main challenge for brokers is to convince people that they can add value, that their knowledge is worth something and that they can really help in the event of a problem.

The future will also see more in-depth analyses during the customer qualification process. More time will be spent developing smarter underwriting, including greater use of lifestyle questions to ensure that customers are getting the right policy and, more importantly, that they know what that policy entails. Mileage checks using MOT certificates are also being employed by some companies.

As the number of cars on the road grows so too does the risk of having an accident. In the coming years, more drivers will get the chance to test their insurance company’s ability to meet their needs. Some will be lucky with their choice of provider, others less so. Perhaps the broker will make a comeback?

The Big Re-sellers of Insurance

“The market is fear driven and no one wants to be taken advantage of.”

Background

“You could just decide it is a declining market and go for the switchers offering the cheapest price, and we might do that.”

In recent years there has been an increasing demand for insurance packages that carry the logo of a bank or financial institution. Purchased without any kind of branding, these so-called ‘white label’ products are re-sold using the bank or financial institution’s own brand to their existing customers.

In effect these companies are acting as very large intermediaries. However, they are not categorised as brokers because they only offer one product, which carries their branding. They also use only one insurance company, to which they are tied.

When we started this element of the project we were told by a senior influencer in the industry that no insurance company or intermediary is interested in service since their whole focus is on the use of technology to cut costs and headcount. We found little evidence to disprove this theory, although there were isolated incidences of good practice and customer focus.

The Service

“We know we need to be better at the detail and go for really specialised underwriting in order to keep customers.”

These companies agreed that for too long the car insurance market has been led by customers looking to obtain the cheapest deals. This meant the industry became fixed on providing the lowest prices, rather than focusing on the product itself or the physical elements of the service. To a large extent these companies still focus on price but with the emphasis on increasing premium levels. They all agreed that, following a long period of decline, premiums have risen over the last two years, making the car insurance market an attractive market to be in once more.

Investment in technology has led to two major changes:

- *Electronic data processing systems have reduced the need for written communication. The majority of customers now register by telephone.*
- *Automated phone answering services and detailed call centre scripting ensures that the right questions are asked in the fastest possible time.*

Who are you trying to impress?

When concentrating on reducing company overheads it is very easy to get caught up in the numbers and forget the needs of the end user, in this case the motor insurance policyholder. As discussed in the previous chapter, customers will rate a company based on the overall service received during a claim, including speed of response and the provision of a replacement vehicle.

In most cases, the large insurers operating as white label suppliers to big intermediary companies provide a stripped down service. For example, they will not offer replacement vehicles and will only work with a few chosen bodyshops that are regularly monitored on price as well as customer service.

As mentioned earlier, bodyshop car pools are tightly managed, giving them very little flexibility when it comes to offering outstanding service. And, as the consumer research in this study showed, this inflexibility was highlighted as one of the major problems that adversely affect customers' attitudes regarding the service they receive.

A step in the right direction...

It is reassuring that these big intermediaries are thinking about more than just reducing costs. Minimising the time spent by the customer on the phone and scripting call centre staff will ensure that employees' lack of knowledge does not impede the rest of the process. However, these improvements do not address any of the concerns and problems highlighted by customers during a claim.

One of the companies we interviewed in this sector does provide replacement cars but it has not seen any uplift in customer loyalty since doing so. When we discussed this service in more depth, it became clear that the company only provides a vehicle one level above the most basic hire car. This standard applies across the whole customer base, regardless of a policyholder's own car and the service is only offered to older, more affluent customers. Again, it is reassuring to know that at least one company recognises it should do more to meet its customers' needs. However, this replacement vehicle offering does not meet them fully.

Currently, companies do not focus on the need to provide more than just a swift, polite and empathetic service to customers. Instead, they operate a very basic "physical" service whilst the soft and friendly "virtual" (call centre) service is expected to carry the brunt of responsibility for customer loyalty. We know from our consumer research that many policyholders are expecting more.

"There is no choice in motor products, just a choice of prices."

As they become more educated about the options that are available, customers are likely to demand both a high quality physical service and a high standard of customer service when they have an accident.

The Customers and Customer Vetting

“There is no money in the mainstream market, only at the margins, and for that you need to ask a lot of questions to avoid being caught out.”

Leading the blind...

It is not surprising that insurers want people on their books who are considered low risk, fairly affluent drivers. They are looking for family drivers, with newer cars, living in safe areas - in short, people who don't make claims! In reality, these people only constitute a small percentage of policyholders and when they do have an accident, they are usually the claimants that demand the most attention and the highest quality service. These people will find living with no car or a much smaller vehicle a very big, if not unacceptable, problem.

We heard a story about a family that had their people carrier swapped for a Class-A vehicle. They had originally purchased a people carrier because of their four children. Ironically, it was because of the expense of having four children that their insurer had offered them the cheapest price. This was obviously an unsuitable product for the family in question. By using the cheapest price as the most important selling tool, insurance companies are getting away with offering unsuitable packages to uneducated customers.

All the intermediaries we spoke to have clear ideas of how to make money from the car insurance industry. According to them, it is easier to operate profitably than was the case two years ago, as premiums have risen and customers expect to pay more. On the other hand, these organisations know that customers are still not fully aware of the services on offer when they make a claim. This clarified the findings of our research, as people who had made claims were more demanding than those who had not.

Getting the right answers...

In order for insurers and intermediaries to minimise risk while still remaining competitive, we believe they should work to improve their underwriting skills. This involves collating more data than is usually gathered from standard questions about car types, number of years driving, mileage per annum etc. By obtaining additional data, companies can understand the risks associated with a vehicle and its passengers more fully.

A number of high street banks are beginning to introduce more in-depth questioning for some of their insurance products, although unfortunately car insurance policies are currently excluded from this initiative.

Of course, the level of risk determines the cost of motor insurance cover. However, if companies knew more about their customers' lifestyles, this information could be used to offer additional packages, such as a guaranteed replacement vehicle. The make and model could even be specified at this stage and paid for accordingly.

The introduction of smart underwriting would provide customers with the best chance of getting more suitable deals. Whether drivers will be given the chance to make real choices regarding the insurance products they buy remains to be seen. This would require educating customers

regarding their real value to their insurers, and for the insurers and/or its intermediary to volunteer a service that is open, honest and explanatory.

Doing it a different way...

At the moment there exists an unsustainable relationship within the car insurance sector. The only truly flexible element appears to be the consumer. It seems they are presently shopping around and paying higher premiums for what is, in many cases, an inferior value product and service. Insurance retailers that feel hidebound by FSA rules and consider little else other than their premium prices are unlikely to take the initiative. However, the larger companies have an opportunity to lead the way in raising customer service standards. They have the capability to do something different. However, it may only be “profitable” customers, the ones least likely to claim, who will find themselves eligible for any improved benefits that become available.

The grid below shows how the three main ways to market are operating and the status quo in the current market.

	<i>Insurers</i>	<i>Intermediaries</i>	<i>Brokers</i>
<i>Who are they?</i>	<i>Customers speak to the insurance company directly.</i>	<i>This will be a bank or financial institution selling insurers' products using their own brand names.</i>	<i>The broker is a free agent who can shop around on behalf of his customer in search of the best deal.</i>
<i>How do they assess a potential customer?</i>	<i>Each company will have an ideal policyholder profile, i.e. a family man with a number of years driving experience Potential customers will be rated on how close they come to that ideal. Many callers will be rejected.</i>	<i>These companies may well have access to other knowledge about the customer to help with the underwriting process and allow seemingly 'less safe' drivers to get a better price for the service they require. These companies will aim to turn none of its customers away, although the premiums on offer may be more expensive as a result.</i>	<i>Brokers can accommodate those customers classed as 'poor risk'. Because of the range of companies they use, brokers can offer packages made up from a diverse range of products that suit the customers' needs.</i>
<i>What will the customer get for their money?</i>	<i>The product is likely to be a stripped down one. Virtual (call centre) service will be friendly and efficient, but their usefulness is limited. For example, customers can expect to deal with a bodyshop more than the insurer during a claim. The package is unlikely to include a replacement car. If one is made available, it is likely to come from the bodyshop.</i>	<i>These companies can be uncompetitive with the lower risk customers and too competitive with higher risk ones. Consequently, service is often sacrificed for cost, so customers who are not familiar with the process are more likely to accept an unsuitable, lower cost option. Those people who have already experienced the claims process tend to be more demanding when it comes to quality of service.</i>	<i>Insurance companies do try and put together more diverse products to sell through brokers, who then do their best to find the best mix for their customers' needs. Often the consumer is more focused on price so they choose the cheapest package, rather than the most suitable.</i>
<i>What lies ahead? As customers become more educated...</i>	<i>These companies will be forced into offering more than just a good virtual service. Eventually customers will be able to buy a product that will be more suited to them if they have an accident.</i>	<i>These companies will not get away with offering unsuitable packages. If they do it will begin to affect the other financial services they offer. If they can use the information they have on customers to provide a tailored service and couple this with appropriate pricing, then they could challenge the market as it currently stands.</i>	<i>Brokers have the potential to be the agent for change, although not as they presently stand. They need to gain a more significant share of the market or take a very specialised stance to make an impact.</i>

The Future

“The market is fear driven. Underwriters have too much power and they spend too much time worrying about being caught out.”

During the qualitative stage of this project, it became clear that many insurers and big intermediaries are more interested in cutting costs than improving customer service. In their opinion, customers only respond to changes in price, so that is what they are given. Little is being done to educate customers and help them choose more suitable products. Insurance advertising and marketing sells either the ‘ideal price’ or the ‘quick, friendly and efficient’ service customers receive when making initial enquiries to a call centre.

One of the biggest direct insurers now offers a free valet of customers’ own vehicles, rather than a replacement vehicle during the time their car is being fixed. The problems faced by customers when they are left without a vehicle are not mentioned in the advertisements that promote this benefit.

All insurance companies would like to attract low-risk policyholders. As a result, many focussed their research and development budgets on IT and call centre improvements. However, as a consequence, service standards during the claims process appear to have been neglected. An insurer’s ability to get its customers back on the road when they have an accident is one of the main reasons that car insurance is bought in the first place. Also, it is during this time that customers are able to assess all aspects of the service they originally purchased. It is now time for companies to focus on developing more transparent and tailored products and service that meet the expectations of customers during the claims process.

“We accept we can only do a certain amount but if they are our customers we can work with them and start explaining what we can offer and what it would cost to offer this.”