

Keys to a Low-Cost Insurance Strategy

The insurance sector is non-cyclic in nature. The expected effect of the current economic crisis is moderation in growth, not recession as in other sectors.

Nonetheless, insurance companies are feeling the strain just like everybody else, and they are offering new solutions to fit the needs of their clientele to try to get and keep more business.

Therefore, low-cost insurance is an especially attractive option during these lean times.

What exactly is low-cost insurance?

Low-cost insurance basically means “à la carte” insurance products. These products involve basic but highly adjustable types of coverage. So, the basic coverage option can be quite competitively priced and any additional charges are based on additional services chosen by the insured. This does not necessarily mean less service to the insured, but rather a type of service that is adapted to the specific needs of the insured to the greatest extent possible.

This phenomenon marks a move toward reduction in operating costs so as to offer more competitive prices.

The internet is therefore the ideal medium for this type of insurance. Standardized insurance products for vehicles and, less so, for health care, which the client requests proactively, are the types of insurance that are the most adaptable for sale over the internet.

However, starting a business of this kind involves certain internal factors that should be taken into account:

- Create an efficient, simple, user-friendly internet interface for acquiring a policy and customizing the product, and online after-sales services.
- Keep infrastructure costs low. Make your physical location in an area where expenses are low.
- Use tools to analyze the real cost of coverage and client use of coverage that will allow you to create a breakdown of premiums for different product options.
- Make room in your budget for branding. Having a distinct image will help insurance agents and brokers sell your product to end clients.

Is Low-Cost an Attractive Alternative during the Current Economic Crisis?

Companies that have exclusively employed low-cost strategies in Spain in recent years, like Clickseguros or similar internet-based companies, such as Balumba, with high profiles in their target markets, or Línea Directa and Direct Seguros with telephone sales and internet support, grew more rapidly than the market even when the market was doing well and have continued to do so despite the slump in the automobile sector in 2008. Now, more than 16% of automobile insurance policies are sold over the internet or by phone. If this growth trend continues at the current rate, in ten years we can expect that percentage to be greater than 30%, as it already is in more developed markets, such as the English market for example. Furthermore, the combined ratio of low-cost automobile insurance is between 3 and 4 percentage points below the sector average. So, we can say that low-cost insurance is an attractive and profitable line of business, providing a business plan is used that quantifiably defines possible alternative business models and ensures viability.

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