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New Insurer Market Demands and Service Innovations

Can a business sector that, by its very nature, is characterized by controlled risk management also be capable of offering innovative products and services?

If we go by what we have seen in the insurance sector in the past few years, the answer is no.

Overall, competition in the sector has been focused on a moderate broadening of distribution channels and, reluctantly, price. Still, we haven't seen the same level of innovation we have witnessed in other sectors like telecommunications, banking or mass consumption, to name a few. Maybe this is the reason that insurance company client service levels have not yet reached levels considered to be standard by other business sectors.

Can you imagine a telecommunications operator or banking institution attempting to become a leader in its business segment without multi-channel access for all pre-sale, sale and after sales processes, or lacking 24x7 on-line services? In the insurance sector, this is the rule and not the exception.

All this is understandable, up to a certain point. The insurance business is characterized by the assumption of a broad variety of risks (along with ceding some part of these risks by means of reinsurance to other companies) while trying to minimize the negative impact that said risks might have on company financial statements. With this in mind, a majority of the companies working in this sector have focused their efforts on technical control, making internal operations more efficient and providing services to clients using an increased number of distribution channels. Overall, results have been mixed. Continuing along the same path, however, won't be suffice for being able to continue successfully competing in the insurance marketplace for too much longer.

In the European market, and especially in the Spanish marketplace, profiles have changed as much as client demands. This will force companies wishing to become segment leader in their home markets to make strenuous efforts to "redefine" existing products and services, thus making them fit with certain new realities.

One important element to take into consideration is that the Spanish population

pyramid has changed at a colossal rate. In a relatively short span of time, we have gone from being a poor, young and immigrant country to being a rich nation having an enormous flow of immigration that, on average, is better educated and “older” than ever before.

The immigration we are experiencing is coming from both developing countries (people seeking a better future) and developed nations, mainly European (people looking to take advantage of the good quality of life and the geographic proximity to their home countries, thanks to a modern and efficient communication and transportation offering).

Spanish per capita GDP is moving closer and closer to the EU average, high labor strike levels have been drastically reduced and are now lower than those found in, for example, Germany. On top of all this, Spain has integrated almost 5 million immigrants in the last five years. Along a large part of the Mediterranean coast and in Madrid, the immigrant population represents over 10% of the local population. In some provinces, immigrants make up almost 20% of the total population. Thus is it necessary to take new offers, new channels and possibly brand name changes into consideration in order to take care of the specific needs of an ever more diverse and complex marketplace.

From a channel perspective, the market penetration levels achieved by mobile telephony in the Spanish market are worth studying. Spain has one of the highest mobile telephony penetration levels in the world. Mobile telephony coverage in Spain reaches almost 100% of the population. Does this not point out a demand for (preferably 24x7) access to remote insurer services by local clients?

Furthermore, approximately 40% of the population currently has Internet access. Some estimates are forecasting a broadband penetration rate of 49% by 2007 (...while that may sound far off, we’re talking about next year). Since 2000, growth in direct car insurance sales is five times greater than the increase in all car insurance premiums combined. On top of this, various polls have confirmed that the most important demand currently face by insurers is providing service to those insured.

With this in mind, how can we justify the fact that the majority of insurance companies continue to try and stem this tide? How can we possibly explain to our clients that they can neither purchase products nor manager their relationship with insurers “from a distance” if that’s what they desire to do? There are broad market segments and products in which professional advice offers significant added value, and if in today’s world there are a large number of people capable of buying and selling stock, warrants and options or participate in investment funds using Internet; why aren’t insurance company clients able to purchase a multi-risk insurance policy for their new home or a retirement plan on-line and in their native language?

If we focus our attention on an extremely well known product, like cars, we can see that while there are more and more vehicles on the road every day, their use is neither uniform nor regular. The needs of households having a third vehicle or of foreigners who have temporary residency and live somewhere along the Mediterranean coast are different from the market average. These are just a few examples of the new market segments. Why can't we apply mobility technologies that allow for following-up on vehicle use, compliance with traffic laws, proper driving habits, etc.? The actuarial, operational, organizational and maybe even legal implications would be significant, but this could be accomplished, along with taking care of new requirements, by effectively implementing bonus/malus.

Insurance companies benefit from the products and services that are best adapted, especially, to the needs of good drivers. How many parents of almost adolescent children would feel more at ease if they could find out, by Internet, how their children use their vehicle on Friday night or when they go up to the mountains on the weekend with friends? The restrictions in place are not of a technological nature, but caused by the use insurance companies are willing to make of technology.

Given the high number of immigrants, the banking sector is already offering access to mortgage loans for financing the purchase of houses in homeland countries while making corresponding payments in Spain. Mobile telephony operators offer contracts in Spain (meaning that the person paying the bill lives in Spain) for mobile telephones functioning in Latin America (meaning the service user, usually a family member, lives there). Why not offer insurance products that can be contracted and paid for in Spain but cover items located in the Americas, Morocco or Eastern Europe by working in conjunction with local companies?

If consumer demands have shifted, and will continue to change even more in the future, and the different technologies made widely available by other business sectors allow for the development of products and services not currently offered by the insurance industry, what will it take to get insurers to offer such innovation to their clients? While universal prescriptions for solving this dilemma don't seem to exist, it does seem that letting in a bit of fresh air into many an insurance related business organizations would be a positive move that would allow for raising barriers that really need not exist.

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