

European motor claims

Is customer
satisfaction enough?



Introduction: Why claims matter

European motor insurance is characterized by tough competition, increasing commoditization and volatile profitability. In these circumstances, insurers are naturally keen to minimize indemnity and administration costs. However, the claims process is also a unique opportunity for insurers to deliver an experience that will allow a positive customer relationship to develop. This can lead to increased retention, shorter claims life cycles and higher fraud prevention rates.

In recent years, European motor insurance markets have seen a steady increase in combined ratios and a corresponding decline in profitability. At the same time, specialist claims management companies and firms of personal injury lawyers have taken a more active role in claims processes in some countries, and the economic slowdown has seen bodily injury claims increase in number and value in others. In many countries, the internet has also served to intensify price-based competition, and insurers have found it increasingly difficult to pass on their growing costs to customers. Many insurers are struggling to balance their market share and profitability goals, and some have chosen to exit the market altogether.

In markets that are often highly commoditized, making a claim may be the only direct contact that customers have with their insurers – particularly when they have organized their cover through an agent or broker. As such, claims represent a crucial opportunity for insurers to deliver a positive experience, and their best chance of developing a stronger customer relationship. We expect customers satisfied with their claims experience to be more likely to remain loyal to their insurer or to recommend them to friends and colleagues. Conversely, dissatisfaction has the potential to push both new and existing customers away.

From the perspective of the insurer, the claims process has another important facet – cost. Claims represent a motor insurer's largest spend both in terms of indemnity losses and operating expenses. It is therefore vital for companies to keep claims costs under tight control. Unfortunately, for some firms an indirect consequence of this approach has been to erode the quality of customer service and reinforce commoditization.

We believe that effective, efficient claims management is central to the success – or failure – of European motor insurance models. Recognizing this, a number of European insurers have started to give claims management greater priority, and are increasing their investment in technology and training¹.

To explore this important area, Ernst & Young commissioned Ipsos MORI to conduct a pan-European survey. Motor insurance customers in Belgium, France, Germany, Italy, the Netherlands, Spain and Great Britain were polled online. In each country, 700 customers were surveyed, 500 who had made a claim during the previous two years and – to provide a control group – 200 who had not. Polling was conducted between late August and early September 2010. The survey results will reflect the Ipsos MORI panel composition in each country but are considered to be a good proxy for overall country trends.

This report explores the survey's key findings, arranged into sections on customer satisfaction, its effect on brand loyalty, and the implications for claims processes. It ends with our view of the most important messages for motor insurers. We hope you enjoy reading its findings.

¹ *Strategy Matters: Driving claims to the next level of performance*, UK Chartered Insurance Institute/Ernst & Young, March 2010.

Executive Summary

Customer behavior in any market is a complex animal, and motor insurance has the added features of being a compulsory, regulated product sold to millions of customers. Furthermore, European motor insurance is characterized by tough competition, increasing commoditization and volatile profitability. In these circumstances, insurers are naturally keen to minimize indemnity and administration costs.

This report focuses on customer satisfaction with motor claims, and the consequent impact on retention rates and brand advocacy. We fully recognize that while claims service is an important part of an insurer's proposition, price, claims cost, operations and brand are also highly significant.

Nonetheless, we believe that claims management is vital to any successful customer retention strategy. In today's highly commoditized markets, making a claim is often a customer's only direct interaction with their insurer. As such, it represents a crucial opportunity for insurers to deliver a positive customer experience. This can lead to increased retention, shorter claims life cycles and higher fraud prevention rates.

Any insurer considering an investment in customer service improvements will want to fully assess the potential benefits and costs for each aspect of its business. As part of this process, each business needs to decide what value it attributes to customer service, as well as whether money would be better spent elsewhere, such as on marketing or premium discounts which could achieve similar improvements in customer retention.

Based on a pan-European survey of nearly five thousand motor insurance customers, this paper aims to assist in the decision-making process by helping to identify:

- ▶ Current levels of customer service
- ▶ How customer service can impact satisfaction, loyalty, retention and advocacy
- ▶ Which elements of the value chain are most culpable for customer service failure
- ▶ Some potential customer service improvement initiatives



Executive summary (cont'd)

Overall, the survey shows that insurance customers are much happier with their claims experience than we had expected, although there are wide national variations. The sense that insurers are placing customers at the heart of the claims process is a key driver of satisfaction, and the human touch is vitally important. The results show that most European customers have come to expect – and receive – a good level of service. This is a positive finding, but it raises the bar even further for insurers aiming to meet future customer service expectations.

High levels of customer satisfaction emerge from the survey as a powerful driver of stronger loyalty and brand advocacy. In contrast, moderate satisfaction has a far lesser impact on brand loyalty. There is therefore an opportunity to boost customer renewal rates by increasing the numbers of customers with high levels of satisfaction. Responses confirm that making a claim is a “make or break” moment when it comes to customer loyalty. Knowledgeable staff and good customer communication is a key element of success, and can have a significant impact on retention costs.

As already mentioned, there is more to motor insurance than good claims management. Even so, we believe that further investment in this area could be very worthwhile for European insurers. In particular, the way that insurers choose to communicate with their customers is vital to generating a high-quality service. Tighter supply chain control also has the potential to deliver real savings, without having a negative effect on customer satisfaction.

Nonetheless, insurers need to remain flexible in their approach to different European markets. A “one size fits all” approach does not work across borders, and insurers need to be able to flex their operational practices to suit each market in which they operate, while retaining their ability to deal with claims data from multiple channels consistently.

Just as every insurer needs to develop its own response to the challenges of its markets, each business needs to strike its own balance between the need to control costs, meet hygiene levels of service and realize the potential upside of higher customer satisfaction. There are no simple fixes, but we see real potential for insurers making the right improvements to their claims processes to achieve stronger performance in a highly challenging market.

How Ernst & Young can help

A clearly articulated claims strategy should be at the heart of every insurance company intent on attracting and retaining customers and growing and maintaining a profitable business. Successful claims transformation is led from the top of an organization and reflected in the operational architecture, the underpinning capabilities and how these deliver the customer experience.

Ernst & Young can help you realize this by:

- ▶ Working with you to identify areas where your business has the opportunity to lead, setting a claims strategy and philosophy aligned to your business goals.
- ▶ “Health-checking” your claims operation, evaluating its current state against future required capabilities.
- ▶ Designing the claims target operating model by defining how required capabilities will be delivered through people, processes, governance and technology.
- ▶ Helping you to execute a claims transformation agenda to meet your goals.

Our claims advisory programs to date have included helping clients to:

- ▶ Define and develop claims operating models, design principles and underpin capabilities.
- ▶ Improve the effectiveness of their operations through leakage analysis and supply chain.
- ▶ Improve efficiency, effectiveness and customer service through claims technology.

Methodology

Market research firm Ipsos MORI was commissioned by Ernst & Young to conduct a survey across seven major motor claims markets in Europe: Belgium, France, Germany, Great Britain, Italy, Spain and the Netherlands.

4,918 online interviews took place across the seven countries between late August and early September 2010. In each country, at least 700 customers were surveyed; at least 500 of whom had made a claim within the previous two years; and – to provide a control group – at least 200 who had not.

The countries were selected based upon the relative size of their motor insurance markets: Germany, the largest in Europe (\$28bn of gross written premium in 2009), Italy (\$26bn), France (\$25bn), UK (\$20bn) and Spain (\$17bn) make up the next largest markets¹.

The survey results to some extent reflect the groups of customers surveyed in each country and the composition of the consumers responding to our survey was as follows:

	18-24		25-34		35-44		45-54		55+	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Belgium	6.98	7.12	11.11	11.25	10.40	12.39	9.40	10.68	12.11	8.55
France	15.42	18.67	16.69	24.47	3.96	6.65	1.70	5.94	2.97	3.54
Germany	7.99	7.13	14.27	18.26	12.84	10.98	8.27	9.84	4.71	5.71
UK	7.53	7.81	5.97	9.09	7.53	9.52	7.10	7.10	18.47	19.89
Italy	15.14	15.00	10.71	13.71	7.29	11.29	6.71	9.00	5.71	5.43
Netherlands	6.42	8.27	9.13	11.13	9.27	12.27	9.99	10.13	13.12	10.27
Spain	11.24	12.23	18.07	19.06	9.39	11.24	4.84	7.68	2.28	3.98

Net Promoter Scores

Net promoter scores (NPS)² are a loyalty metric that represent a simple way of calculating, and communicating, a customer's propensity to recommend – or not – a product or service to others. We chose to use this approach as it is an established and well known method.

We use NPS ratings for the main insurance providers and additional non-insurance multinational brands offering a comparatively homogenous product or service and refer to the results throughout this report.

¹ The value of the personal motor segment is \$111.5 billion, equivalent to 73.6% of the market's overall value and this accounts for 73.6% of the total motor market (26.4% being commercial) Datamonitor – Motor Insurance in Europe July 2010.

² Ernst & Young has performed a net promoter score calculation to analyze results for one of the questions asked to respondents. Net Promoter, NPS, and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld. Ernst & Young are not associated with any of the aforementioned companies. "Net promoter scores" are defined as the percentage of respondents rating the likelihood of recommending their insurer at nine or ten out of ten, less the percentage rating the likelihood of a recommendation at zero to six out of ten.

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