CONSUMERS, CLAIMS AND KEY CONCERNS

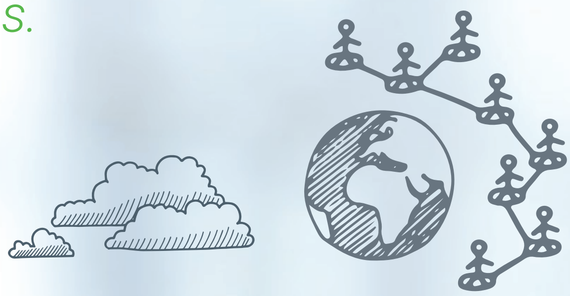
What role does technology need to play in insurance claims?

DST

MASTER COMPLEXITY™

Executive summary

For the second year running, DST have commissioned independent market research to gain insight into the current insurance market and the trends around claims. Using market research specialists OnePoll to survey 2,000 insurance customers who have made a claim. The company also then surveyed 100 UK insurance business staff in order to draw comparison and highlight trends, similarities and disparities in the views of the two groups.



68% of consumers *say claims are dealt with quickly enough*

Each day UK home, car, life, protection and other insurers pay out tens of millions of pounds in claims.

These are the industry's greatest expense. Despite this, the claims process is also one of the few opportunities for insurers to develop relationships with clients, and to differentiate themselves in a competitive, commoditised market.

DST's survey of policy holders and insurance industry managers shows many are failing to do so.

Insurers are, for the most part, avoiding pitfalls in the claims process. More than two thirds of customers, say their claim was dealt with quickly enough, for example, and satisfaction with the claims process remains high. Seven out of ten customers who have claimed are happy with how it was handled. The same proportion say dealings with their insurer overall have been good or very good.

This is welcome news, but it is not grounds for complacency (of which there is perhaps some evidence in our survey of insurance managers).

For a start, there are still challenges in ensuring an efficient process for all claims. More than one in ten are not happy with the speed of claim processing, for example, and roughly one in five policy holders has changed insurers, either mid-term or at renewal, as a direct result of being unhappy with how a claim was handled. That rises to about a quarter for the 18-24 year olds and the 25-34 year olds.

More importantly, large numbers of customers who successfully claim on their policies and profess to be satisfied with the experience nevertheless switch their insurer not too long after.

Satisfaction is not translating into retention, and customer loyalty across the industry remains worryingly low. The survey finds that one in five of policy holders stay with their insurance company for a year or less; another third switch providers every two or three years. Only 15% stay for five years or more.

Some of those who switch do so because they have a claim denied. Many others, though, are simply looking for lower premiums. Almost nine out of ten customers shop on price, more than double the 35% swayed by brand. Seven out of ten say they use a comparison website.

Insurance is, for many, a commodity. This is what the claims process must seek to change, if it is to differentiate the provider and build customer loyalty.

To do so, insurers must tackle customers concerns and the factors other than a refusal to pay that prompt customers to leave: slow claims processing, a lack of empathy from claims agents (12%), and probably most importantly, poor communication during the claims process. The last of these is only going to grow more important: More 18-24 year olds say a lack of communication would be the most likely factor to prompt them to switch suppliers than say the same about a refusal to pay a claim (20%).

To not only meet expectations but surpass them in these areas and build loyalty, insurers must address their technology. A quarter of consumers overall and more than a third of those aged 18-34 said their insurer seemed to be using old technology and that a lot of the claims process was done manually. Moreover, the younger of these millennials (those under 25) are also less likely to shop on price and more likely to look at service levels than average.

Many insurers recognise the challenge. Keeping up with developments in technology is the key priority for improving the claims system, with a quarter of insurance managers naming it as the single biggest area of potential improvement. This puts it ahead of tackling brand risks, training, claims costs and leakage. More than half say claims will see significant investment or at least some focussed on technology in the coming five years. In the last 12 months, though, 60% have not upgraded their claims processing system.

The evidence suggests that delays addressing out-dated technology are already costing insurers. In some cases, it leads to cases of poor claims handling and dissatisfied customers. In many more, it simply fails to capitalise on the opportunities insurers have to build firmer, longer, more valuable relationships with their clients.

Hopefully the information in this paper will enable the industry to make a start on addressing these issues.

Introduction

Claims are insurers' biggest expense.

Each day, the industry pays out £40 million in motor and property claims, £7 million on pet insurance policies, and £9.4m for protection policies, including income protection, critical illness and life insurance.[1] It pays another £1 million a day to travellers in trouble abroad.[2]

As we enter the winter season, it is worth remembering that insurers paid out £1.3 billion for the damage done by storms Desmond, Eva and Frank last December and New Year alone.[3]

Claims are also customers' priority. Only a minority of policy holders claim each year – 10% of car insurance policyholders, 4% of house insurance holders, and 2% of travellers[4] – but claims are the reason people buy insurance.

They are also one of the few "touchpoints" insurers have with the customer.[5] After the sale and other than renewals, the claims process is likely to be the only contact a customer has with their insurer. The experience, therefore, matters. Claims are a cost, but also an opportunity.

Balancing the two – trying to make the claims process smooth and painless for the customer while reducing claims leakage – is made both more pressing by the challenges insurers face.

These include continuing low interest rates and tight margins putting pressure on profitability. Motor insurers, for example, made a loss in 2015, and net combined ratios are expected to decline in 2017.[6]

Insurers face intense competition, both from within and outside the industry. Almost half of insurers in a recent survey said they feared losing up to 20% of their business to financial technology companies within five years.[7] Two thirds of consumers say they would consider buying insurance from organizations other than insurers; a quarter would buy from Google or Amazon.[8]

At the same time, insurers face increased regulatory scrutiny of their claims process. From the FCA's 2014 claims management review to the Consumer insurance Act 2013 reducing the scope to refuse claims in the retail market (and for commercial claims from this August as a result of the Insurance Act 2015), pressure to treat customers efficiently and fairly has never been greater. Finally, insurers face the ever-present risk of fraud, with £1.3 billion in bogus claims detected in 2015 alone.[9]

To gauge how well insurers are striking the balance to grasp the opportunities as well as control the costs of claims, DST once again has commissioned a survey of insurance buyers. We asked 2,000 people who had claimed on a range of insurance policies about their experience, their preferences and their views of the industry. We also asked 1,000 insurance companies managers about their views and strategies. We compare some of these findings, with results of a similar survey we conducted last year.

The results provide a valuable insight into how customers' think, and, we hope, valuable guidance on how insurers can structure their claims processes to make this crucial aspect work better both for the customer and their business.

71% of consumers *are happy with how claims are handled*

Part one:
Claims satisfaction

Steady as she goes: broad satisfaction.

The insurance industry, by and large, does a fair job on claims. Our research found seven out of ten customers, 71%, say they are satisfied (45%) or very satisfied (26%) with the overall claims experience – an identical finding to last year. Moreover, the same proportion say that, in their dealings with the brand overall, they'd rate their insurer as good or very good. This was an improvement over last year (63%).

These are encouraging findings, and they are fairly consistent across insurance types. Satisfaction with the claims experience ranged from 73% for those claiming on home, contents, travel and life insurance, to 68% for income protection and 69% for pet insurance claimants. Of their treatment overall, travel, contents and mobile phone policyholders were the most complimentary, rating their insurers as good or very good in almost three quarters (73%) of cases. Funeral insurance and critical illness policy holders were less successful. Nevertheless, even there more than two thirds (67%) said the insurer did a good job.

If anything, the survey suggests progress has been made since the FCA's review of household and retail travel claimants in May 2014. It showed 64% of claimants satisfied or very satisfied with their experience – a finding the FCA described as "broadly positive".[10]

This is all the more impressive when one considers that the results include many who have had claims rejected. More than a quarter (26%) of those questioned have had some or all of their claims rejected (a little lower than last year, when the proportion was 31%). Indeed, there's a strong similarity between the proportion who have had all their claims paid (74%) and those with a favourable view of the claims experience (71%). It's tempting to view remaining dissatisfaction as the unavoidable consequence of filtering out invalid claims.

It would be wrong to do so.

Claims issues

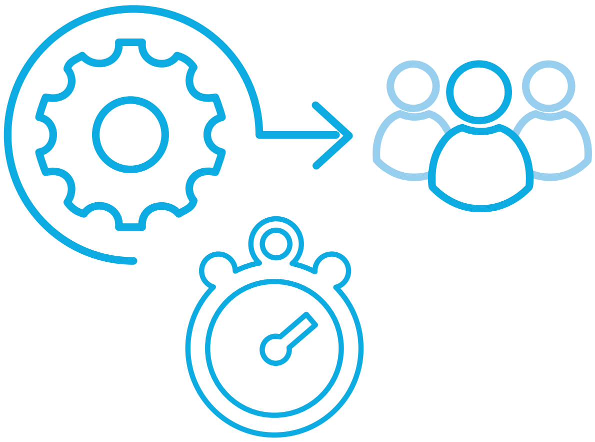
For a start, it's notable that overall claims satisfaction slightly trails the pay out rate.

For some age groups, it trails it significantly. Among 45–54 year olds, for example, satisfaction is about average, with 69% satisfied or very satisfied with their experience, despite 80% of this group saying they've never had a claim turned down.

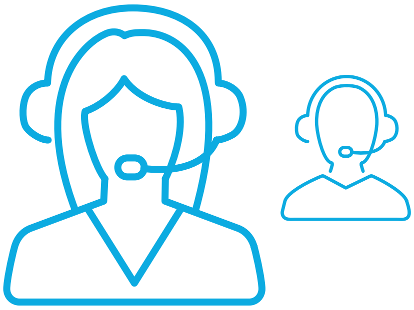
Refusal to pay *is* the claims issue policyholders say is most likely to prompt them to leave their insurer. But it's not the only issue that could do so. In fact, overall, only 41% said a refusal would be the most likely reason to change insurers, a rise of 11% on last year. However, just as in 2015, lack of communication during the claims process (17%), slow processing (13%), and a lack of empathy from the claims agent (12%) were also make-or-break issues for significant numbers. Among 18–24 year olds, lack of communication (28%) would be more likely to prompt a switch to another insurer than a refusal to pay (20%).

Communication is also a bigger issue for women (20%), than men (14%).

This does not mean insurers are falling down on these areas, of course. On speed at least, insurers are doing relatively well: More than two thirds (68%, against 70% last year) say they were satisfied (41%) or very satisfied (27%) with the speed with which their claim was resolved. Again, though, expectations vary. Both younger (18–24 year olds) and older (25–34 year olds) millennials are less impressed with insurers' speed, with 60% and 61%, respectively, satisfied or very satisfied, while those over 55 were happier (74%).



12% of consumers *are not happy with the speed of claims*



***71% of consumers** say dealings with insurers are good*

Overall, the survey finds that more than one in ten are either dissatisfied (8%) or very dissatisfied (4%) with the speed of claims processing. Other surveys have also showed similar frustrations with the speed, as well as with communication.[11]

Among insurers, there may be a level of complacency here. The survey of insurance managers found 87% insurers think their customers generally feel satisfied or very satisfied about their overall claims experience, and a similar proportion – 84% – that customers are satisfied or very satisfied with the speed with which their claims are handled.

There is some recognition of the importance of communication: asked what areas of the claims process customers would most want to see improved, almost a third (31%) named communication, just ahead of those who named the speed of response (28%). More than one in five (21%) said they didn't know, however.

In any case, the consequences of getting it wrong are significant. Roughly one in five (19%) policy holders have changed insurers, either mid-term or at renewal, as a direct result of being unhappy with how a claim was handled. That rises to about a quarter for the 18–24 year olds (26%) and the 25–34 year olds (24%).

Claims handling clearly matters, and claims managers agree. In total, almost all (with the exception of 1%) say it's important to customers, even if a majority (55%) say it's only important to customers when they come to claim.

Part two: Loyalty and retention

Short-term relationships.

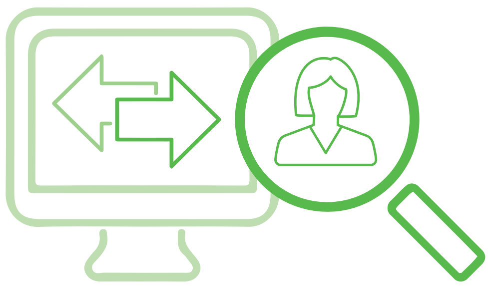
The biggest problem facing the insurance industry is probably not the minority of customers it leaves dissatisfied when they claim, however. Rather it is the failure to capitalise on pay outs to those who say they're happy with the experience.

It is one thing to lose a customer whose claim has been turned down or who has had a disappointing experience. It is another to lose happy customers who have been paid. Yet insurers do so with alarming regularity.

Customer loyalty is low across the industry. Close to one in five customers (18%) say they typically stay with their insurance companies for a year or less; another third (35%) stick with their insurers for a policy for two or three years. Only 15% stay for more than five years – despite, as we've said, seven out of ten rating their insurer favourably.

This fits with other findings. Insurers generally compare well with businesses in other industries on the soft measures of customer satisfaction, yet fall behind on the hard numbers of customers they keep. As one review of another cross-industry survey puts it: "Despite customers rating insurers relatively highly for most measures, they fell behind on customer loyalty and retention."[12]

This lack of brand loyalty shows itself in the number of different insurers customers use for their various policies. The majority use 2–3 (48%) or 4–5 (32%) different companies. Fewer rely on a single insurer (7%) than use six or more (10%). Given that many insurers offer a wide portfolio of products, opportunities for cross selling must often be missed.



***19% of consumers** have changed insurers over the way a claim was handled with **26% of 18-24 years** having done so*

This is all the more surprising when one considers that those who have made a successful claim must count themselves lucky: Asked what percentage of claims they estimate insurers pay out each year, 44% of customers said between 51% and 75%. Another third (32%) said insurers probably pay more than a quarter but no more than a half of claims, and more than one in ten (12%) estimate insurers pay no more than a quarter.

Only 12% guessed that insurers pay out on more than three quarters of claims each year. The actual figures are 99% for motor insurance claims, 87% for travel and 79% for home insurance claims, according to the Association of British Insurers.[13] Yet it seems likely that millions of policy holders who have never had a claim refused leave their insurer every year. For many insurers, reliably paying out claims is doing little to strengthen their reputation or brand.

Were insurers to be obliged by law to display the annual percentage of claims paid out, 12% of customers said they would go with the insurer with the highest pay out rate, regardless of other factors (a decline from 20% last year), and 9% said it would make no difference either way. The majority of buyers (60%, against 64% last year) would take it into account, but only alongside other factors.

Shopping on price

Prime among those other factors is the premium.

Asked what they look for when choosing an insurer, 88% of buyers named the price of the premium – more than double the proportion prioritising companies' reputations for customer service at 43%, much more than those mentioning the product features, including the excess (59%), and more than double, again, the proportion sold on the insurers' brand (35%).

The numbers shopping on price are reflected in the reliance on price comparison websites. The survey finds that 71% – an identical proportion to those

> ***71% of consumers*** *rated their overall experience with their insurer as good or very good.*
>
> *However* ***74% of the managers*** *interviewed said their company does not list on comparison websites.*

satisfied with their claims experience and rating their overall experience with their insurer as good or very good – use a comparison website to find the best offers on insurance on a regular basis.

This commodisation is fairly consistent across products. In fact, in many cases it's higher – and for classes of insurance where there are significant variations in cover: For travel (76%), life insurance (75%), and critical illness (77%) the numbers using price aggregators were above average by more than a couple of percent.

More than three quarters (77%) also say they shop around and compare insurance providers each year at renewal.

Again, there are signs insurers are not facing up to this. Many insurance managers seem to over-estimate the longevity of their customer relationships. Asked how long customers stay with their company on average, more than a third of insurance managers (35%) but fewer than a fifth of buyers (19%) said four to five years, and almost a third (31%) of managers said customers stay 10 years or more. Only 7% of policy holders said the same.

> ***60% of consumers*** *also say their company will not typically provide a lower quote to a customer who has a better quote from another company.*

Similarly, on the one hand, there is strong recognition of the importance of price, with a majority of managers (59%) saying the premium was the most important factor in the choice of insurer. On the other, many seem reluctant to accommodate buyers' desire to shop on price. Three quarters (74%) of the managers interviewed said their company does not list on comparison websites. Six out of ten (60%) also say their company will not typically provide a lower quote to a customer who has a better quote from another company. By contrast 63% of customers say they have gone back to their existing insurer with a lower quote in an attempt to secure a better offer.

Overall, the evidence suggests insurers are reluctant to see their products commoditised, competing solely on price. At the same time, there is little evidence they are successfully differentiating their products or promoting retention through the claims process.

Part three: Addressing the technology gap

In the mail.

If insurers are failing to use the claims process to promote loyalty, there is a strong argument this is largely down to their technology.

On the one hand, inflexible legacy systems can prevent insurers from competing on price: For some at least, boycotting comparison websites is not a matter of choice, but of necessity; their existing systems do not allow or enable them to interface with the sites. Likewise, customer data spread across the organisation may prevent insurers identifying high value customers when they call in with a quote from a competitor, or make it impossible to determine what price they could profitably offer in response.

On the other, it seems likely a lack of technological sophistication prevents insurers from using the claims experience to differentiate themselves in other ways.

The survey plainly illustrates that any solution must be multi-channelled. Eight out of ten (80%) claimants in the survey used the phone to process their claim, while a quarter (23%) used email (many use more than one channel), one in five (20%) an online form, and a similar proportion (19%) the post. A few (1%) used some form of web-chat service.

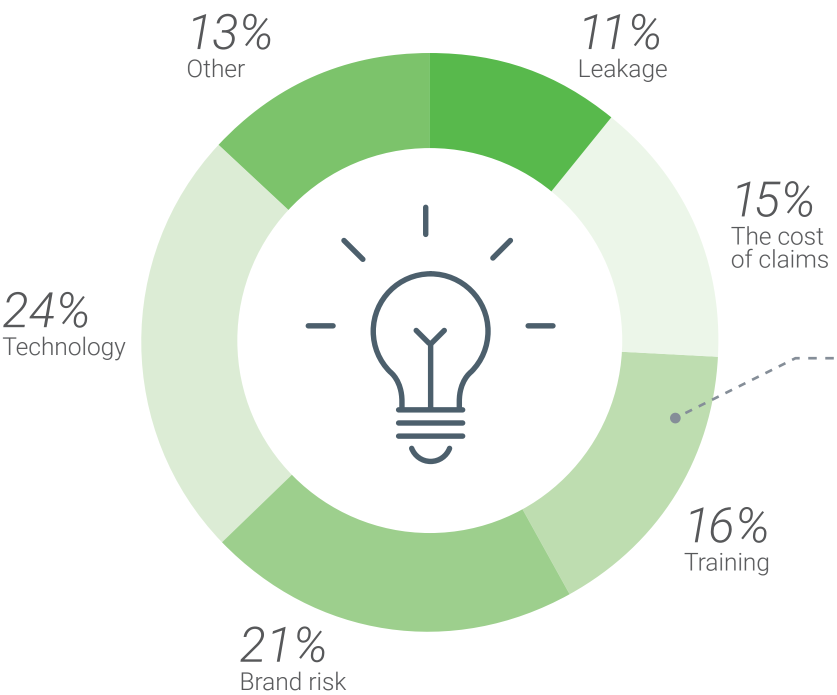
A couple of things should be noted about this reliance on "old" technology. First, it reflects what customers did – determined in part, no doubt, by the facilities the insurer provided – not what they would choose. Asked what single channel they would prefer to use to make a claim, the portion opting for the phone is just half (50%), with 28% preferring an online form, and 15% email. Only 3% would naturally choose to use the post.

Second, it varies significantly by age. Preference for the phone is 60% among the over 55s (although even among them, only 3% are keen on the post), but only 42% among the millennials (the 18–34 year olds). Three in ten or more (30%–33%) of those in all age groups between 25 and 54, meanwhile, would prefer to use an online form to make their claim, while the youngest cohort is keen on both online forms (24%) and email (22%).

Insurers are closest to meeting customers' preferences when it comes to pet insurance, where 26% of claimants actually used an online form to claim, mobile phone insurance (28%) and income protection (37%). In all these cases, however, about one in five (19%–23%) used the post. Asked what channels they offer consumers to process a claim, fewer than half (48%) of insurance managers said they offer an online form, 70% offer email, 80% phone and 60% post. Almost one in ten (9%) offer a web chat service.

When insurers contact customers for renewals, meanwhile, they typically use the post (54%), email (51%) and phone calls (33%). Just 5% contact by text.

INVESTMENT PRIORITIES FOR INSURANCE COMPANIES:



Over 47% of firms say claims will see some investment, mainly in technology.

Losing the millennials

This is a more serious problem than it may seem for insurers.

For a start, while only a few policy holders overall say that insurers forcing them to use communication channels other than their preference would be the principle reason for leaving an insurer (4%), that rises to almost one in ten (9%) among 18–24 year olds.

Added to that, while the claims experience is leaving the majority satisfied, it is also leaving many underwhelmed.

More than a quarter (26%) of consumers who had claimed said their insurer seemed to be using old technology with a lot of the process done manually. That rises to more than a third among the 18–24 and 25–34 year olds (36% and 35%, respectively). Moreover, in areas where more are using online forms – impressions are not really any better. In fact, in the cases of pet insurance and mobile phone insurance, the proportion who think their insurer's technology seemed antiquated was actually higher than average (at 30%).

The failure to meet millennials' expectations is particularly significant not just because they are more likely to leave if insurers don't meet their demands to communicate in the way they prefer; they are also, perhaps counter-intuitively, less price sensitive. A little over two thirds (68%) of those aged under 25 say the premium a key factor when choosing insurance – against 88% in the population overall and 91% of the over 55s. At the same time, younger buyers are more likely than average to prioritise a reputation for good customer service: Half (50%) said they looked at this when choosing an insurer, compared to 43% overall.

The survey suggests that the risks but also the opportunities of presenting millennials with a compelling claims experience are substantial.

MILLENNIAL DIFFERENCE OF WHAT'S IMPORTANT WHEN CHOOSING AN INSURANCE COMPANY:

The premium as a key factor when choosing an insurance company:

+55 year olds

91% specify the premium as a key factor when choosing a company
[88% is the national average]

Vs.

25 year olds

68% specify the premium as a key factor when choosing a company at the same time, half (50%) said they looked at customer service when choosing an insurer
[compared to 43% overall]

Technology investment: always tomorrow?

If this has yet to be addressed, it's possibly because some insurers are too generous in assessing the current state of their technology.

More than half of insurance managers, say the effectiveness of their claims technology is good (36%) or very good (16%). Four in ten say it is okay. Only 8% classify say their claims technology is not good.

Even so, this does show declining confidence in technology: last year's survey found a similar proportion confident their claims technology was very good, but a much greater proportion – 55% – rating it as good. The difference is reflected in the doubling of numbers now saying their technology is only "okay", 40% this year, against 20% last year.

There is also increasing awareness of the challenge the pace of change in technology represents. Asked for the single biggest area of potential improvement in their claims process, only 11% of insurance managers last year named staying up to date with technology. This year that more than doubled to 24%, making it the most common priority ahead of tackling brand risk (21%), training (16%), the cost of claims (15%) and leakage (11%).

Over the next five years, 16% of insurance managers say claims will see significant investment, and another 47% say claims will see some investment, mainly in technology. Asked if their company had upgraded their claims processing system in the last 12 months (to digitally optimise it, for example) six out ten said they had not, however.

***18% of consumers** switch insurers every year*

*and only **15% of consumers** stay for five years or more*

Conclusion

A satisfactory claims process isn't enough.

There are precious few opportunities insurers have to engage with their customers to build loyalty and lifetime value – and fewer still where the customer reaches out to them. Insurers need to grasp these opportunities with both hands. Claims handling excellence is the standard insurers need to aspire to if they are to differentiate themselves in an increasingly commoditised market.

Current claims processes mostly fail to meet this high bar. A rigorous claims process inevitably disappoints some whose claims are rejected. Some others are disappointed even when their claims are paid, due to a lack of speed or poor communication. Many more, however, are satisfied but underwhelmed, and – despite the outlay to pay the claim – no more loyal to their insurer at the end of the process than before.

In both cases – whether disappointing customers or failing to extract value from those whose (minimal) expectations are met – technology is a big part of the problem. Customers, increasingly used to flexible, tailored communication across a range of channels from providers of goods and services in other industries, do not find the same level of service from insurers when they come to claim. To many, the industry seems stuck in the past.

To its credit, the industry increasingly recognises this challenge and plans to invest in future. Its intentions are good, but the delay in acting on them to date is already preventing it from building stronger, longer-term relationships with customers.

As competition from inside and outside the industry increases, further delay could have even more serious consequences.

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