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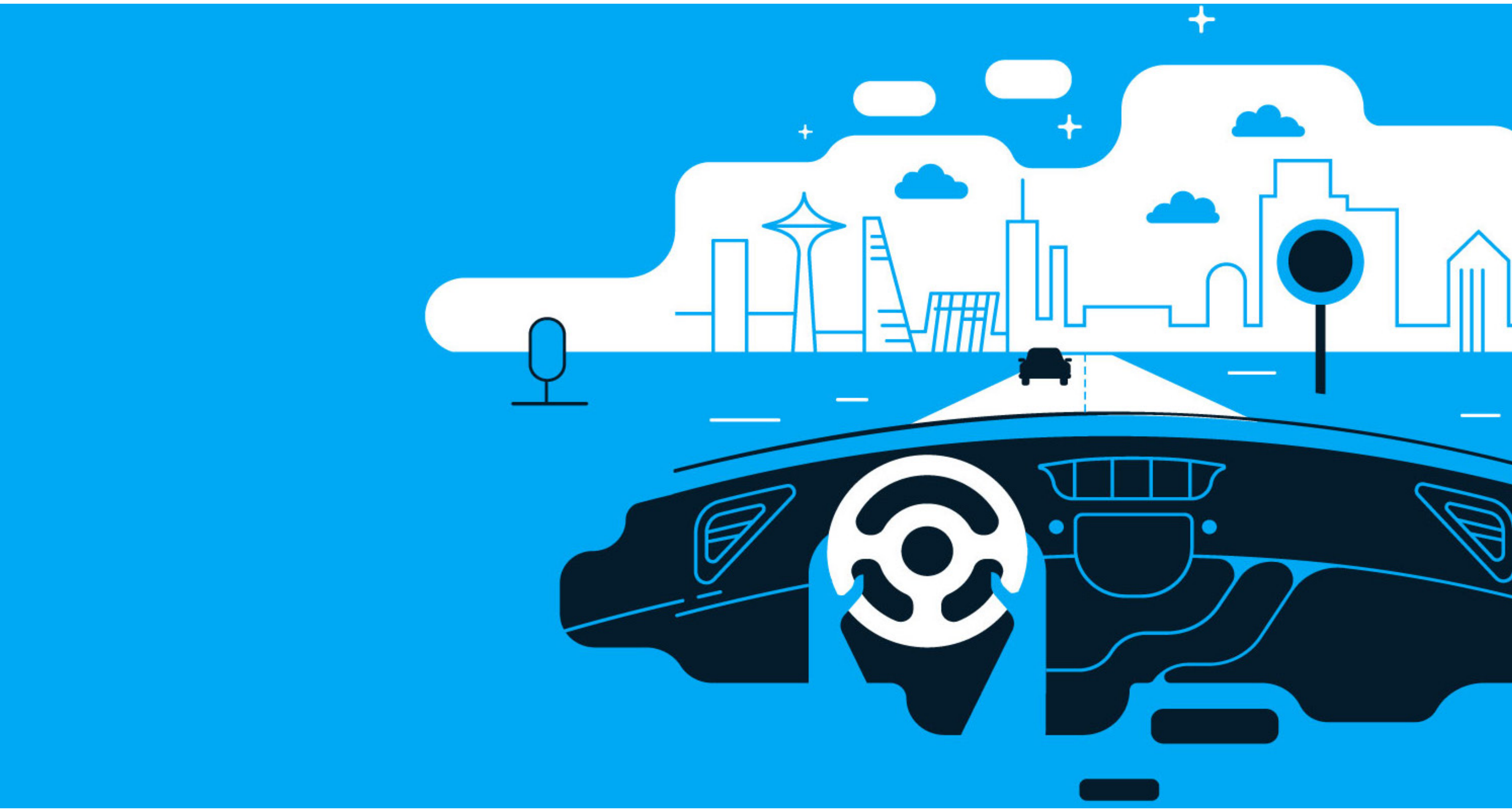
Insurance Practice

Are motor claims in Europe about to rebound?

As mobility—and insurance claim volumes—ramp back up after the pandemic slowdown, insurers can return with a stronger claims value proposition.

This article was a collaborative effort by Simon Behm, Rafał Domański, Martin Huber, Michael Müssig, Rui Neves, and Oskar Sokoliński, representing views from the Insurance Practice.



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The COVID-19 pandemic has caused unprecedented disruption to the insurance industry overall, dramatically curtailing business activity, upending the everyday lives of employees and customers, and more. However, companies that derive a substantial portion of their business from motor insurance have enjoyed stronger bottom-line results during the pandemic than in previous years. That's because when sudden lockdowns kept drivers at home and off the road (see exhibit), claims plunged by 60 to 80 percent almost immediately.[1] As restrictions began to lift, claim volumes subsequently bounced back, although they remain 20 to 30 percent lower than they were before the pandemic.[2] The corresponding drop in payouts for claims was only partially offset by the refunds on premiums that insurers paid to customers to compensate them for traveling fewer miles.

As of mid-2021, motor claims volume remains suppressed—at least for the time being. For insurers, this offers a short-term window to pursue or accelerate strategic initiatives aimed at establishing claims excellence, a key driver of profitability. These initiatives include transforming claims processes to improve customer experience, building digital capabilities, leveraging advanced analytics to improve decision-making, and reducing long-standing sources of leakage. Acting now will help insurers be prepared when vaccination rates across Europe accelerate, economies reopen, and both mobility and motor claims rebound.

Changes to the claims landscape

Even when the pandemic recedes and business returns, insurers are likely to confront three persistent challenges that can be addressed—at least in part—by transforming claims management to improve profitability.

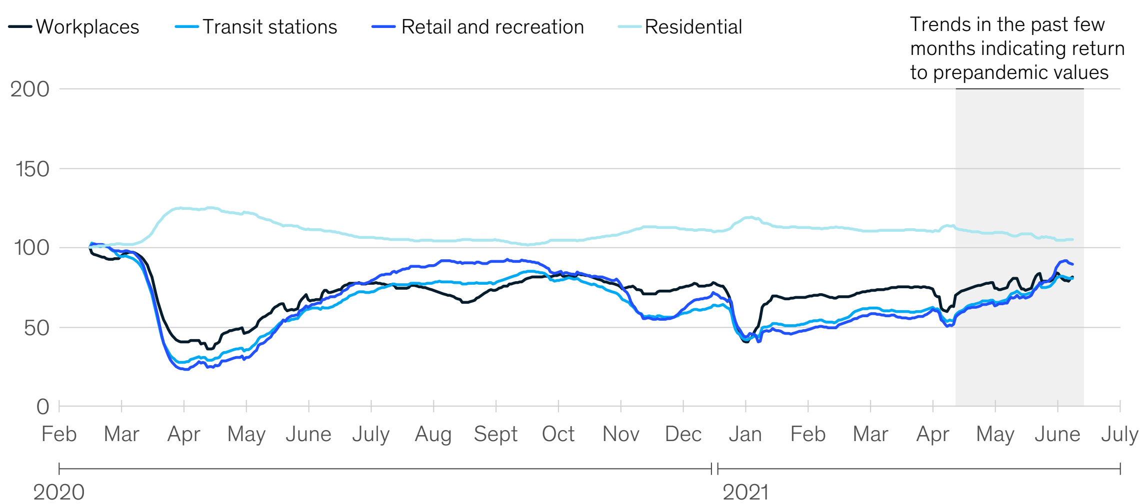
Top-line pressure will continue. Pandemic-related top-line pressure will likely continue for the foreseeable future. If history serves as a guide,

[1] Finalta by McKinsey analysis, finalta-global.com.
[2] Ibid.

Exhibit

European location data indicate a sudden drop in mobility, providing a good proxy of miles driven.

Average time spent in different location types



Note: Average for France, Germany, Italy, and United Kingdom weighted by population. Data indexed to 100 based on the 5-week period between Jan 3 and Feb 6, 2020; index smoothed to 7-day average.
Source: Google COVID-19 community mobility reports

commercial lines, which suffered from a temporary halt in business activity in the tourism, aviation, entertainment, and local business sectors, may be slow to recover. During the 2008 financial crisis, for instance, commercial lines took significantly longer to recover than personal lines. As for personal lines today, declines in everyday commuting have altered customers' perceptions of the value of insurance: if they drive less, they expect to pay less. As noted above, some insurers have proactively offered their customers premium paybacks for reduced car usage—a change that could endure.

Digital is here to stay. Because of the pandemic, people shifted many everyday activities to remote channels and adopted new digital tools. For example, across Europe 40 to 50 percent of the new e-commerce users moved their shopping online because of COVID-19, and most intend to perpetuate the new habit.[3] This shift in customer behavior extended to engagement with insurers. In the United Kingdom, claims notifications filed via digital channels doubled during the pandemic, and insurers received 30 percent more digital inquiries than in the past. However, customers' growing expectations for an end-to-end digital experience—with 24/7 service, instant feedback, and a user-friendly interface—still place most insurers in the position of playing catch-up. The large majority of customers still prefer to place a call rather than use digital self-service; in Europe, for example, more than 50 percent of claims are initiated when a customer contacts an agent. This preference could indicate that insurers have yet to fully digitize the claims handling process.

Inflation will affect claims costs. Insurers anticipate increased pressure on claims costs from multiple sources. First, car repair shops have suffered the knock-on effects of the pandemic-induced drop in claims volume. Many received government help, but they also responded by increasing labor rates and margins on spare parts. The claims inflation rate currently sits at 4 to 5 percent. Ongoing cost pressure means repair shops are unlikely to reinstate their prepandemic price levels without some restructuring in the sector. In one scenario, insurers could step into the role of ecosystem orchestrators, significantly consolidating repair volumes and offering strong incentives—including extending insurance services to include maintenance and offering negotiated prices for parts and labor—to repair shops to participate. Meanwhile, insurers can analyze increased volumes of claims data to continually assess the performance of repair shops and then use those insights to guide customers to the best deals.

Claims strategy of the future

Even before the pandemic, insurers had made strides in improving the bottom line by increasing productivity and optimizing technical excellence, particularly via pricing. Now is the time to tackle claims. Claims organizations can use this period of lower claims volume to plan their strategic investments in advanced analytics transformation, to devise new digital talent strategies, and to improve their understanding of customer needs and expectations.

A complete suite of analytics and updated process automation—prerequisites for accurate, end-to-end automation—constitute the backbone of the new claims and customer experience model. The tools are evolving, driving automated decision-making along the entire claims handling process: routing, triaging, liability negotiation, cost estimating, deciding to repair or write off damaged vehicles, cash settlements, and fraud detection. All these areas will increasingly use digital and analytics as opposed to manual labor, changing the entire claims operating model.

Responding to customer demands for a seamless claims experience is a top priority. The pandemic has proved that customers are eager for and accepting of new digital experiences. They expect full transparency throughout the claims journey; minimal effort on their part (for example, very little engagement back and forth with the agent to get the claim resolved and receive payment); faster resolution of claims, perhaps including automated payments; and the ability to move seamlessly

[3] Digital Sentiment Survey 2021.

between the digital and physical worlds.

Furthermore, insurers can work to reduce leakage and improve the bottom line. Leakage takes many forms, including replacing rather than repairing a vehicle, offering a luxury replacement vehicle rather than a car that matches the customer's vehicle class, and incurring costs for in-person loss assessments even in obvious cases for which pictures would suffice. Tackling leakage will entail enabling efficient detection of anomalies, selecting claims for detailed review, and empowering the claims organizations to efficiently close claims that cast no doubt.

Accomplishing these critical objectives will entail a shift from a scattered and often siloed approach using unintegrated digital and analytics tools to end-to-end digital- and analytics-enabled claims processes. On the front end, insurers will need to establish tools on par with the top digital services their customers use every day (for example, ride-hailing apps, social media, and digital banks).

On the back end, claims organization will need to invest in a suite of analytics engines to support automated decision-making to cut costs. The opportunity starts with claims prevention—using telematics and the Internet of Things to issue safety warnings and damage prevention tips—and continues throughout the claims processing journey, from providing customers with an easy digital first notice of loss interface and improving claims cost accuracy, to digital selection of a repair shop and automated payment processing and invoice checks. This relative lull in activity also gives insurers a good time to provide teams handling claims with the training they need to learn new processes and operate new digital tools.

Claims are already rebounding, so the clock is ticking for insurers. Building end-to-end digital and analytics solutions requires significant investment and will take substantial time. For claims organizations, it is critical to act now or risk missing the opportunity to emerge from the pandemic stronger than competitors.

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