2022 TRENDS RESHAPING PERSONAL LINES INSURANCE IN NORTH AMERICA

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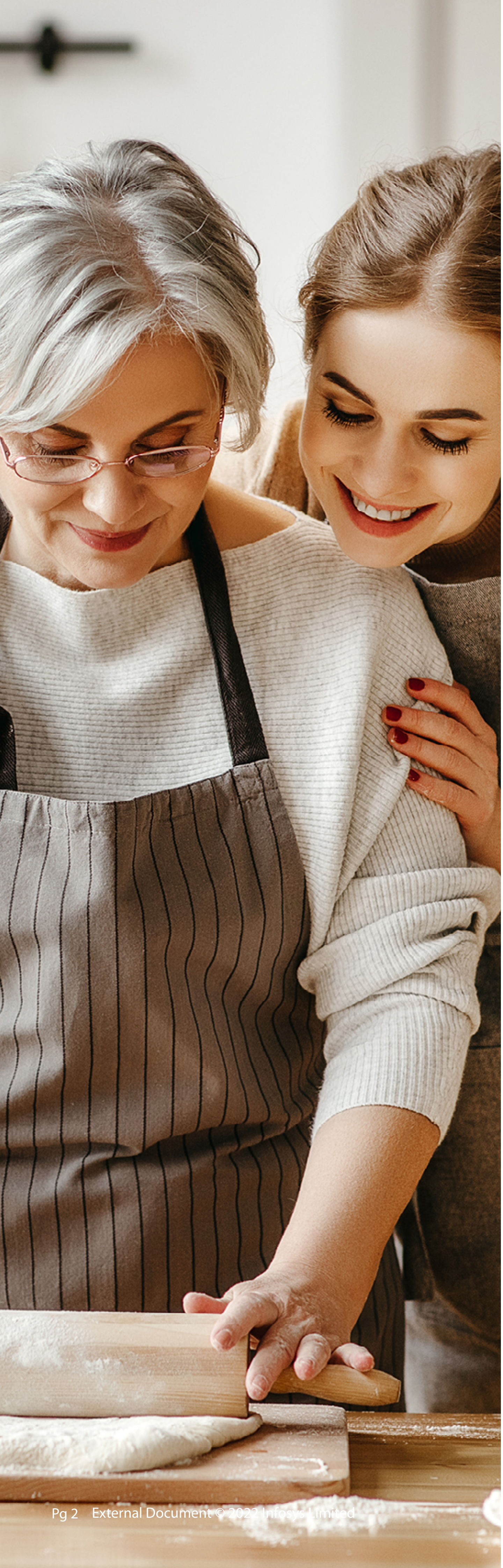

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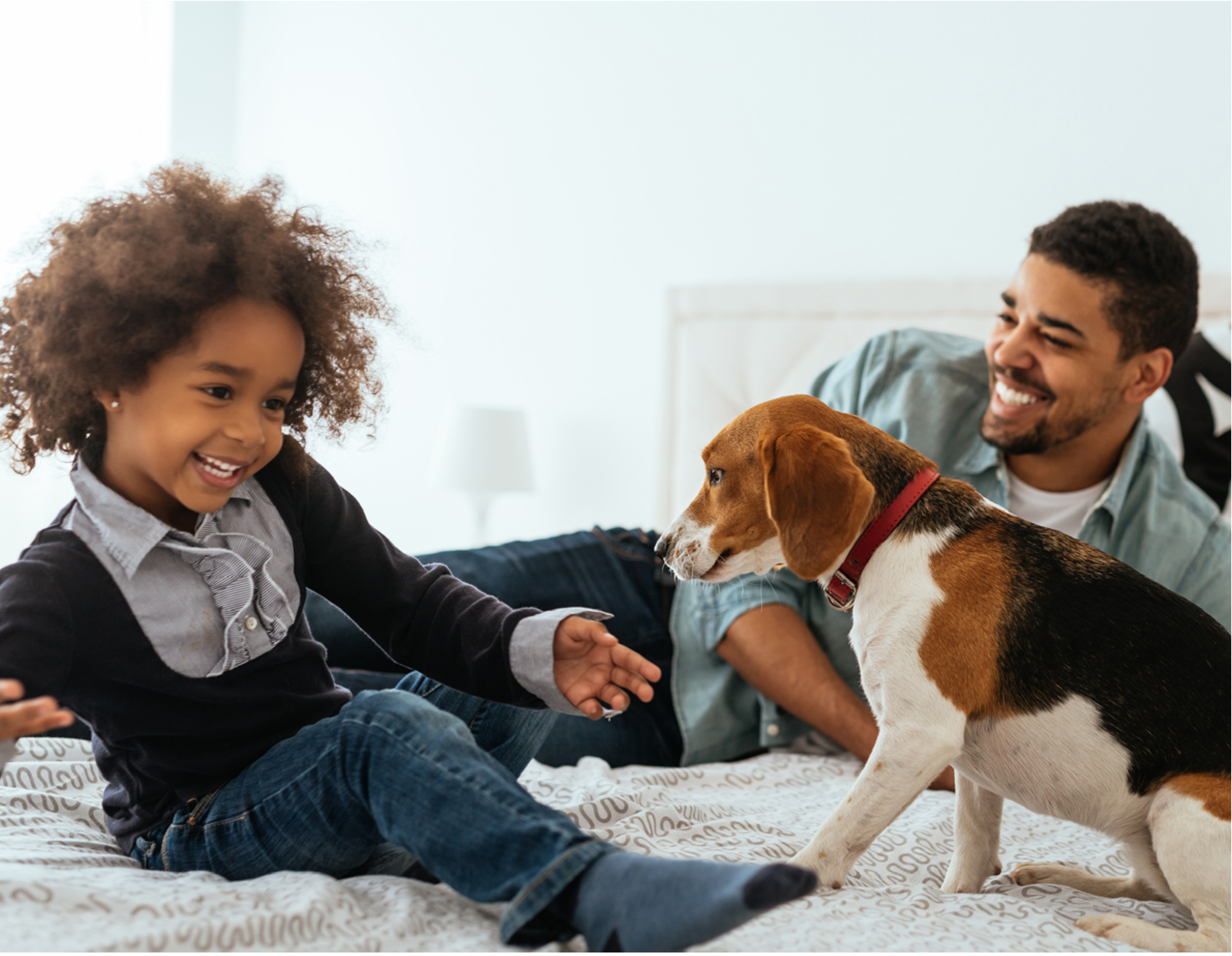

The personal lines insurance industry was hit hard by the COVID-19 pandemic. People across the globe adapted to the new normal, making modifications to their lifestyles. But unpredictability in business and markets is expected to persist for some time. Economic development has been limited by a lack of activity in all sectors; personal lines insurance is no exception.

In North America, price-sensitive commodity products have long ruled the personal lines insurance market, which is largely made up of home, vehicle, and renter's insurance. Until recently, the industry was operating in a conventional manner. Most insurance customers purchased combined coverage, stuck with their existing plans, and did not switch providers frequently.

The emergence of InsurTech firms is changing this.

As per recent studies, customers are eager to change their purchasing habits as traditional silos between home and vehicle insurance dissolve. Customers are expressing a strong desire for personalized products with customized prices, premiums, and coverage. They are also getting comfortable with online and virtual interactions with insurance providers in the aftermath of COVID-19.

Insurers are experimenting with new methods to satisfy customers and preserve their market position. Let us look at some key trends that are reshaping the North American personal lines insurance market.

TREND 1: SHIFT IN THE VALUE CURVE TOWARDS PERSONALIZED EXPERIENCES

To succeed in today's competitive market, these non-traditional insurance products must be re-engineered and refactored for premium rates, coverage plans, and deductibles.

Manage premiums and improve customer retention

Offering equitable premium rates has become a big challenge for insurers. Policyholders are concerned about escalating premiums for auto and home insurance. The latest annual report from the National Association of Insurance Commissioners reveals that most auto premiums have increased by 4-5%. The pandemic placed further strain on policyholders: Many lost their jobs but had to continue to pay premiums. Others who worked from home felt they were paying too much for their vehicle insurance.

Industry experts think it is time for auto insurers to change how they price premiums. Many customers could be paying more than needed. In fact, a recent poll among citizens in North America reveals that many customers sought out cheaper premiums and changed providers.

Clearly, retaining customers is becoming difficult for insurers. The situation will remain grim unless insurers find better ways of offering products at lower rates while maintaining their margins.

Product innovation and digital agility

The personal lines insurance industry is being disrupted by technological advancements. As consumers look for usage-based and demand-based insurance rather than a one-size-fits-all policy, there has been significant shift in the value curve.

In automobile insurance, policyholders are increasingly demanding the option to modify coverage depending on how they use their automobiles. Those who work from home report driving less frequently and want to move away from standard policies to usage-based ones that give them greater control over their premiums based on actual usage and driving habits.

There is also a strong desire for comprehensive coverage to protect all the vehicles driven, not just what is owned. Recent climatic disasters in North America such as floods and earthquakes have changed the outlook of both policyholders as well as insurance companies, particularly in the homeowner segment.

Premiums are on the rise, particularly in states that are vulnerable to natural calamities. This is a double-edged sword for insurers since they must deal with policy cancellations and non-renewals, which add to their expenses. Thus, there is a strong need to offer innovative products for home insurance.

Innovative concepts are being discussed, such as the idea of a home concierge. With this, policyholders will automatically receive coverage through their banks or real estate agents who also provide access to on-demand services like need-based repairs and maintenance. Another new product being tested in the market is the 'parametric policy', which insures homeowners against specific events and pays a pre-determined sum depending on the severity of the covered event without waiting for actual loss assessments. This insurance product is appealing to policyholders living in areas prone to earthquakes, floods, hurricanes, and other natural calamities. It could be be sold as a standalone policy or as an addition to other insurance products.

To succeed in today's competitive market, these non-traditional insurance products must be re-engineered and refactored for premium rates, coverage plans, and deductibles. It should come with simplified claims procedures to ensure market viability. The bottom line is that policyholders want individualized solutions to meet their changing needs.

TREND 2: INSURERS INVEST FOR TECHNOLOGY TRANSFORMATION

Big data and analytics

The property and casualty (P&C) insurance industry, both for personal as well as commercial lines, is ahead of other insurance segments with respect to adopting technology. The advantages are apparent. P&C insurers are fast embracing self-service, business intelligence, big data, and advanced analytics. They are modernizing core platforms and gaining a significant competitive advantage over the laggards. Data and analytics are essential for insurers to use information to their advantage. This edge is complemented by technologies such as IoT, telematics, and drones.

Here are some technology trends for personal lines insurers:

Predictive analytics technology has evolved and can now capture data from many types of sources. These include internal, external, industry sources, agent and customer interactions, telematics and connected systems, smart devices, and smart homes. It can simulate consumer behavior and improve pricing accuracy, thereby accelerating decision-making. Dataset connections can also generate detailed insights for individual risk profiles. A British insurance business, for example, uses predictive analytics to replicate complicated consumer behaviour and enhance price accuracy while cutting turnaround time by 90%.

Blockchain, a type of distributed ledger technology that records transactions without having to rely on middlemen or a single authority, can help automate insurance business processes. It can ensure that policies are updated automatically, thereby reducing costs. It also improves customer experience through seamless claims processing and fraud mitigation.

Artificial intelligence (AI) and machine learning (ML) can help manage customer relationships and improve pricing, underwriting, and claims. These are particularly advantageous for personal lines insurance companies dealing with high transaction volumes, fierce competition, and price wars as well as a tendency towards direct consumer interactions.

Telematics is helping personal lines insurers in North America offer better pricing terms to clients, resulting in significant cost savings for customers.

Agile analytics are being used to develop customer behavior models, understand pricing expectations, optimize operational models, and identify growth areas.

Impact of technology and core system rationalization

There are tools & technologies, beyond data and analytics, that also play a role in insurer ecosystems either directly or indirectly.

Digital-savvy customers want technology-inspired seamless experiences, and personal lines insurers are becoming innovative in delivering these.

Some influential technologies here are Internet-of-Things and telematics, InsurTech applications, drones, and wearables. Data from these devices can help insurers adjust their premiums for hyper-personalization.

The connected devices industry is expanding; P&C personal lines insurers should tap into this and gather precise data in real-time to anticipate customer behavior, gauge risk exposure, and respond faster to change.

Personal lines insurers are using artificial intelligence, machine learning, automation, and natural language processing to help them better manage their risk profiles. North American personal lines insurers are better positioned than ever before to benefit from high-resolution imagery in property valuations and damage assessments. The integration of data, cloud, and artificial intelligence into the personal lines insurance value chain can boost the value proposition at each connecting point.

There is also greater consolidation and rationalization of core policy administration systems. Off-the-shelf products are being increasingly deployed on the cloud for price benefits, quicker time to market, higher scalability, and reduced IT and operational costs. As cloud computing grows, the shift to microservices is more apparent. Microservices will help insurers become more efficient, allowing them to adapt, upgrade, and focus on individual capabilities rather than the whole system.

Blockchain technology is also drawing the attention of personal lines insurers who see it as a potential tool for data security and management across multiple channels and platforms. Reduced cost is one of the primary benefits offered by blockchain. Another is efficiency gains, particularly in areas like underwriting, claims, identity management, and fraud management. Blockchain has the potential to improve insurance administration through decentralized autonomous organizations and smart contracts. This explains why insurers are migrating toward this technology.

TREND 3: IMPROVING INTERNAL EFFICIENCIES IN BUSINESS FUNCTIONS

Innovation in claims and billing

Customers are constantly on the lookout for quick and personalized service. P&C personal lines insurers want to transform claims processes as customers demand speedy and dependable claim settlements via digital technologies.

Contemporary claims management systems and add-on solutions such as data analytics, IoT, and telematics can help personal lines insurers better manage claims in terms of prioritizing claims, gathering data, and claims settlement. Customer-facing portals and applications are being developed to promote faster claim resolution including triaging and disputes.

Predictive analytics helps insurers better handle high-cost claims or outlier claims. They can establish trends by looking at past claims experiences and gauge avenues for process improvements. This could include capabilities like sending alerts to claims experts and adjudicators for proactive claim resolutions, a process that used to be quite time-consuming to resolve.

This will also allow insurance companies to use historical data to improve decision-making and efficiency.

> Technologies like AI and analytics are changing how carriers do business, and one of the critical focus areas is the claim process.

Billing is another area where insurers want to better serve their customers. This is due to industry-wide recognition of the necessity for more user-friendly billing solutions that can be integrated with core systems. End-to-end integrated billing and settlement solutions are extremely rare among insurance firms. Therefore, some of the most well-known insurers in the business are eager to bring such services to their customers.

ACE American Insurance (AACE) has developed a personal lines billing system that covers all client channels – phone, internet, and mail. It introduced the Online BillPay system more than five years ago and now provides coverage for over 10 million policies through it.

The system has a tool called 'Agents Online' that allows agents to see the same information as underwriters when it comes to premium rates, policy provisions, and conditions.

Underwriting is changing

Personal lines insurers want to unify their underwriting processes and enhance underwriting efficiency. This is an area that is seeing significant interest from the industry.

Underwriting and risk management remain the cornerstones of the insurance value chain. Personal lines insurers are investing in innovative ways to improve these two processes. With cutting-edge analytics workstations that include a comprehensive range of sophisticated tools for data management, structuring, modelling, and data visualization and simulation, these insurers are developing a highly advanced analytics system. Underwriters today are aided by digital technologies that give them better insights and improve their decision-making abilities.

They can use insights generated from simple and accurate information in a more precise and controlled manner. Owing to data solutions, underwriters are now better equipped to manage evolving risk models that incorporate new and ever-changing risk factors based on company sectors. Underwriting is becoming more efficient and underwriters are focusing on prospects, validating coverage and exposure, and determining policy pricing in ways that meet or surpass customer expectations.

Personal lines insurers are increasingly employing segment-based modeling with cutting-edge technology such as machine learning models and generalized linear models to better assess risk and obtain accurate pricing. As a result, more and more cases are being underwritten without manual review, and this is expected to rise in the future.

TREND 3: IMPROVING INTERNAL EFFICIENCIES IN BUSINESS FUNCTIONS

Innovation in claims and billing

Claims fraud and fraud management have been an age-old problem for insurance companies. Personal lines and P&C insurers have often failed to prevent this. According to the Coalition of Insurance Fraud, US $80 billion in fraudulent claims are filed every year in the United States alone.

Further, in North America, 5-10% of insurance companies' expenditure is on fraudulent claims. With the advent of predictive analytics and blockchain technologies, personal lines insurers are now able to address the problem of fraud by either preventing it or taking corrective action using data collected from a variety of sources and, most importantly, past claim experiences. Analytics can be used for predictive modeling to identify mismatches between the insured party and the third parties participating in the claim. Analytics for insurance fraud (such as risk assessment) can successfully reveal anomalies and warning signals that suggest possible fraud conspiracies.

CLAIMS FRAUD AND FRAUD MANAGEMENT

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These indicators assist data analytics teams in producing high-quality fraud response recommendations. These methods can also highlight where fraudulent activity is prevalent, an important criterion to consider in the fraud risk analysis.

Customer experience

Excellent customer experience is the most important service that insurance companies can provide in today's digital world. Customer engagement is becoming a key ask for personal lines insurers as well as other insurance segments.

Carriers are implementing intelligent analytics and CRM solutions that capture customer data from numerous touchpoints in order to understand consumer behavior. Insurers can use predictive analytics to combine data quickly and precisely to generate new insights on a variety of customer patterns.

For instance, it can throw light on customer interests, purchasing habits, risk tolerance, and the need for additional coverage. While insurers have traditionally been able to predict these questions and estimate the responses, now they can effectively and efficiently use data to serve customers and improve the bottom line. Furthermore, analytics and CRM solutions can predict which consumers will require greater attention such as in the case where a customer is dissatisfied with the coverage or premium and requests an adjustment for the same.

Having this data will put carriers one step ahead of the competition, allowing them to contact customers on time and offer specific help before issues become critical. If insurers do not utilize the capabilities of digital technologies to detect and address customer concerns, they risk losing customers to the competition.

TREND 4: BUSINESS ENVIRONMENTS ARE SHIFTING

Dynamic regulatory environment

The regulatory climate is becoming increasingly stringent. State and local legislations govern coverage as well as other policy conditions. Reparation laws are being used to resolve claims. Local accident and theft rates, as well as state differences, influence the cost of insurance. Overall, regulations are becoming tighter to make the insurance business more transparent. This is needed to guarantee that customer interests are well-protected.

It also ensures financial transparency. Regulators, insurers, and other member organizations must consider customer needs while simultaneously ensuring that the industry stays competitive. Despite the slew of insurance reforms in recent years, personal lines insurance companies are well-funded and robust in their safety and financial well-being. This is a testament to their good management and long-term financial stability.

Regulators, insurers, and other member organizations must **consider customer needs while simultaneously ensuring that the industry stays competitive.**

Partner with InsurTech companies

InsurTech firms are gaining popularity in areas such as vehicle insurance, home insurance, and cyber insurance. Traditional insurance firms are being forced to either acquire technological knowledge or partner with InsurTech businesses to keep up with this rapid progress. These types of collaboration will become increasingly important with the growing number of gen-Z consumers seeking customized products and services. Such collaboration will foster a culture of innovation. It will drive new business models and open up new revenue streams with greater profitability and lower operating costs. Many InsurTech firms such as Next Insurance, Metromile, and Lemonade are revolutionizing the insurance industry.

In the long term, we can expect InsurTech firms to continue to grow across North America, with approximately 10 new companies debuting each month.

The LMI Group claims that there are now at least 600 InsurTech operating in the North American region.

Changing patterns of distribution

Distribution channels in insurance are shifting. Personal lines insurers are tying up with financial institutions, banks, aggregator sites, car dealerships, and other third parties to reach prospective policyholders and improve their direct response capabilities.

The development of new distribution channels is fueled by several factors. Intermediary elasticity, rising buyer expectations, and the growth in direct networks are propelling channel standardization. Previously, personal lines insurers had structured their plans such that they could adapt to new circumstances. But the COVID-19 epidemic disrupted many long-term policies. Customers began avoiding face-to-face encounters and turned to digital technologies. With the exception of a few carriers, many businesses were unwilling to take risks because of fear and the inability to embrace change. Now, customer attitudes towards risk have drastically changed, thanks in part to their technical and business agility.

It must be said that COVID-19 merely accelerated the pace of change of these industry shifts. The insurance business has been established on a foundation of personal connections through agents and producers. While such relationships are still important, the emphasis is on newer distribution possibilities. With the pandemic bringing activities like prospecting to a near standstill, many brokers are enhancing customer relationships by offering unbiased expert advice on emerging risk management issues. Broking agents have been quick to adapt to a digital-only world, and they have assisted carriers weighed down by challenges of adopting digital or servicing clients or finding digital distribution channels.

New hybrid models are surfacing all the time and everything is changing rapidly. The lines between traditional and digital channels are blurring as new methods of connecting with consumers emerge.

Conclusion

COVID-19 gravely impacted the personal lines insurance industry. Insurers in North America are in the recovery phase, but they must adapt quickly to post-pandemic trends. Customers want customized solutions tailored to their needs and insurance firms should re-examine their product portfolio and pricing models to meet customer expectations. Customers also want timely service, transparency, and digital engagement. To stay profitable, personal lines insurers must understand the changing dynamics, map these to new technologies, and adapt their strategies accordingly. They should consider new distribution channels, and offer multiple options where customers can choose from a selection of policies to suit their needs.

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