

WHITE PAPER



## Curing consumer scepticism with technology and education

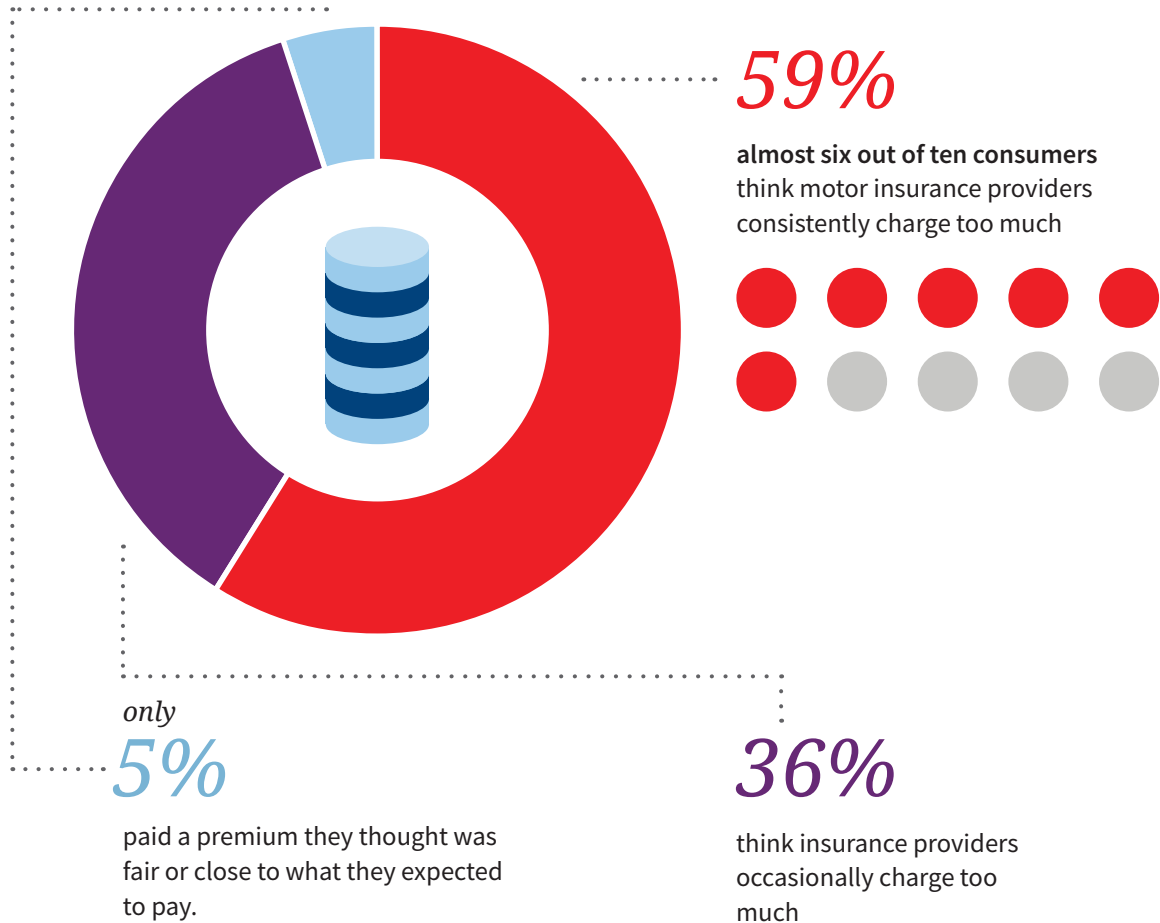
Why motor insurance providers must make better  
use of data to demonstrate value and reward loyalty

JANUARY 2019



## Introduction

Previous research published by LexisNexis Risk Solutions in spring 2018 revealed that



This portion of the study focuses on other questions we asked motor insurance consumers. We wanted to know how important the concept of customer loyalty was to insurance providers in an increasingly digital marketplace, and what they thought would happen to premiums if providers had access to more information about their driving habits and insurance history.

The following report closely examines the responses that were obtained from the questions and underlines the key steps motor insurance providers should take to improve their chances of future success in a highly competitive market. LexisNexis Risk Solutions was not identified as the sponsor of this research, which was based on a survey of 1,500 consumers who had bought motor insurance within the last 12 months and was conducted during January 2018.

## Executive summary

Our research underlines the fact that the overwhelming majority of consumers think motor insurance is always or often over priced. Our findings suggest a degree of cynicism among consumers regarding a perceived desire among motor insurance providers to find new ways to increase premiums. This is illustrated by the number of consumers who avoid notifying motor insurance providers about minor non-claim incidents, potentially because they believe that doing so could result in further increases in their insurance costs.

But this research also reveals a strong sentiment, particularly among older consumers, that actual or anticipated loyalty to a motor insurance provider should be rewarded. It also provides further evidence for conclusions outlined in our previous report *Finding (and Building) Loyalty in the Motor Insurance Market* regarding consumers' growing willingness to allow a wide range of information to be used by insurance providers to inform pricing. Our findings provide further evidence that younger consumers tend to be more relaxed about sharing data related to their previous driving and insurance histories.

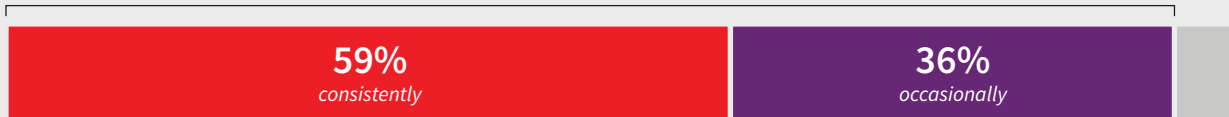
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The research demonstrates that there are opportunities for motor insurance providers to safeguard and grow market share by using technology to improve pricing accuracy and competitiveness; and to appeal to consumers' expectations that any loyalty they show to a provider should be recognised and rewarded

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## Key findings

**95%** of consumers feel that insurance providers either consistently or occasionally charge too much for motor insurance.



**85% of consumers** think discounts should be offered to customers who remain loyal to the same insurance provider each year. Older consumers are most likely to think loyalty should be rewarded.



**74% of consumers** think discounts should be offered to consumers that seem likely to stay with a provider for more than a year.



**Nearly 7 out of 10** consumers (68%) are happy for motor insurance providers to use a shared database of claims information to inform policy pricing.



**More than 6 out of 10** consumers think discounts should be offered to consumers who are likely to buy multiple products from a provider; and to consumers who buy direct from the provider.



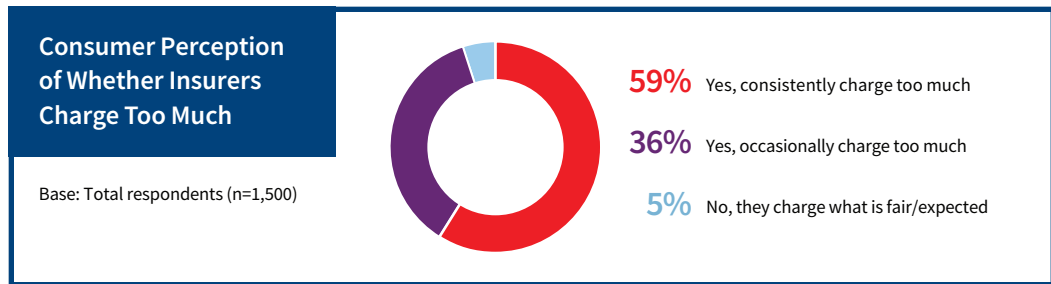
58% of consumers would definitely or probably not inform their motor insurance provider about a minor, non-claim incident involving their vehicle. Only one in three consumers would report a minor, non-claim incident involving another vehicle; almost three quarters of older consumers would not report such an incident.



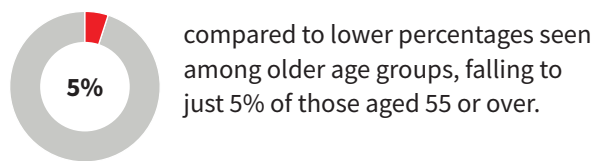
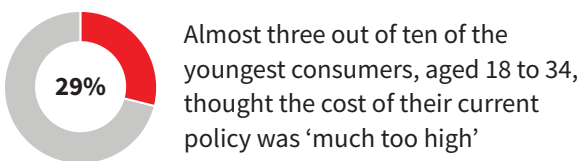
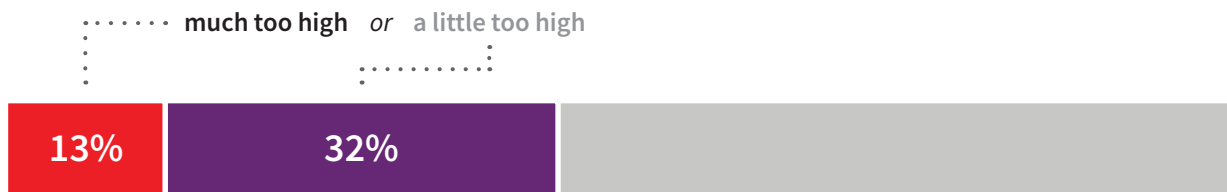
**53% of consumers** would accept use of current and historical data sources recording individual driving behaviour to help determine the cost of insurance. Approval increases if this is positioned as a means of reducing insurance fraud.

## Motor insurance is seen as too expensive

A clear majority of consumers (59%) feel that insurance providers charge too much for motor insurance, with a further 36% believing that they occasionally charge too much. Just 5% feel that the cost of the last motor insurance product they bought was fair or what they expected to pay.



**Almost half (45%)** of all the consumers surveyed feel they paid too much for their motor insurance



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The proportion of consumers in each age group who thought the price was ‘average/about right’ rose through each age group, from 38% of the youngest consumers to 66% of the oldest group, possibly reflecting better claims records and an increased willingness/opportunity for some older consumers to dedicate time and effort to finding the best possible deal.

Q.11-1 And do you feel that the price of this most recent car insurance policy that you purchased is ...?	Age 18 to 34 (n=265)	Age 35 to 44 (n=345)	Age 45 to 54 (n=352)	Age 55+ (n=538)	Males (n=716)	Females (n=784)
<i>Too High (Net)</i>	<b>62%</b>	<b>52%</b>	<b>44%</b>	<b>34%</b>	<b>48%</b>	<b>43%</b>
4 - Much too high	<b>29%</b>	<b>14%</b>	<b>12%</b>	<b>5%</b>	<b>15%</b>	<b>12%</b>
3 - A little too high	<b>32%</b>	<b>38%</b>	<b>33%</b>	<b>29%</b>	<b>33%</b>	<b>32%</b>
2 - Average/about right	<b>38%</b>	<b>48%</b>	<b>55%</b>	<b>66%</b>	<b>52%</b>	<b>57%</b>
1 - Too low	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Consumers who had increased the coverage of a policy the last time they bought motor insurance were more likely to say they felt insurance providers ‘consistently’ charge too much for motor insurance than those who had maintained their previous level of cover: 71% of the former group thought there was consistent overcharging, compared to 57% of the latter group.

While the number of consumers who had increased their cover was small, this suggests some consumers will assume that any change in coverage will result in a higher price – which increases the risk of some consumers failing to ask for the full extent of cover actually required.

Insurers Charge Too Much	Maintained coverage (n=1,229)	Increased coverage (n=227)
Yes, consistently	<b>57%</b>	<b>71%</b>
Yes, occasionally	<b>37%</b>	<b>27%</b>

More of the consumers who shop around every time their insurance is due think the price they paid for motor insurance was ‘average/about right’ (58% of this group); than is the case for consumers who rarely shop around (41% of this group). Almost six out of ten (59%) of those who do not shop around every time they renew their policy feel they paid too much for their current policy, compared to 42% of those who always shop around. This reveals the risk that for consumers who remain with the same provider, familiarity may breed dissatisfaction and perhaps contempt.

Price Perceptions	Rarely shop around (n=165)	Shop if event/price (n=317)	Shop around every time (n=1,018)
Too high	59%	49%	42%
Average/about right	41%	51%	58%

### Consumers believe loyalty should be rewarded

Consumers clearly believe that loyalty to a motor insurance provider should be rewarded. 85% agree or strongly agree with the suggestion that discounts should be offered to customers who remain loyal to a provider. 78% agree or strongly agree that “previous good customers” should be offered discounts, even if the customer has spent some time being insured by another provider. Almost three quarters (74%) think discounts should be offered to consumers that seem likely to remain customers for more than a year; while 79% agree or strongly agree that insurance providers should consider all their previous experiences with an individual consumer in order to offer a fairer, more accurate price.

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Older age groups appear to feel particularly strongly that loyalty should be rewarded: 91% of consumers in the oldest age group agreed or strongly agreed with the idea of discounts for loyalty, compared to less than 80% of consumers in both the age groups under 45.

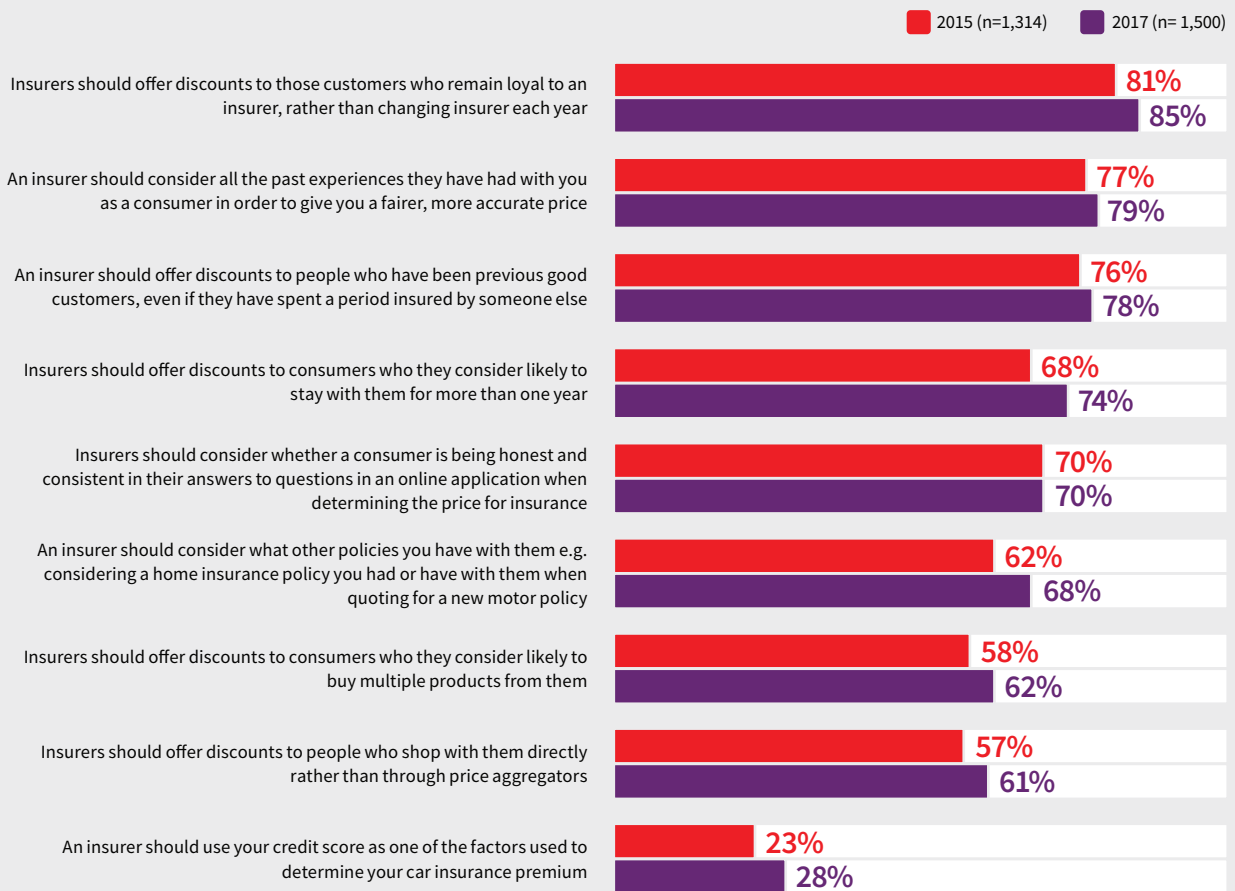
Q.41 To what extent do you agree or disagree with each of the following statements around the use of information/data in calculating your car insurance premium?	Age 18 to 34 (n=265)	Age 35 to 44 (n=345)	Age 45 to 54 (n=352)	Age 55+ (n=538)
Insurers should offer discounts to those customers who remain loyal to an insurer, rather than changing insurer each year	<b>78%</b>	<b>79%</b>	<b>86%</b>	<b>91%</b>
An insurer should consider all the past experiences they have had with you as a consumer in order to give you a fairer, more accurate price	<b>76%</b>	<b>71%</b>	<b>78%</b>	<b>87%</b>
An insurer should offer discounts to people who have been previous good customers, even if they have spent a period insured by someone else	<b>74%</b>	<b>76%</b>	<b>80%</b>	<b>79%</b>
Insurers should offer discounts to consumers who they consider likely to stay with them for more than one year	<b>74%</b>	<b>67%</b>	<b>73%</b>	<b>81%</b>
Insurers should consider whether a consumer is being honest and consistent in their answers to questions in an online application when determining the price for insurance	<b>63%</b>	<b>67%</b>	<b>70%</b>	<b>76%</b>
An insurer should consider what other policies you have with them e.g. considering a home insurance policy you had or have with them when quoting for a new motor policy	<b>68%</b>	<b>66%</b>	<b>67%</b>	<b>70%</b>
Insurers should offer discounts to consumers who they consider likely to buy multiple products from them	<b>63%</b>	<b>62%</b>	<b>60%</b>	<b>63%</b>
Insurers should offer discounts to people who shop with them directly rather than through price aggregators	<b>69%</b>	<b>57%</b>	<b>61%</b>	<b>59%</b>
An insurer should use your credit score as one of the factors used to determine your car insurance premium	<b>47%</b>	<b>29%</b>	<b>24%</b>	<b>20%</b>

More than six out of ten consumers (62%) agree or strongly agree that motor insurance providers should offer discounts to consumers who they think are likely to buy multiple products from them. About the same proportion (61%) agree with a suggestion that discounts could be offered to consumers buying directly from the provider, rather than via price aggregators.



## CURING CONSUMER SCEPTICISM WITH TECHNOLOGY AND EDUCATION

Consumers in the youngest age groups are particularly keen for direct purchasing to be rewarded, which proves to be an interesting finding, as previous research has shown that although one in three online purchases of motor insurance are made through insurance providers' own websites, younger consumers are less likely to buy direct.<sup>1</sup>

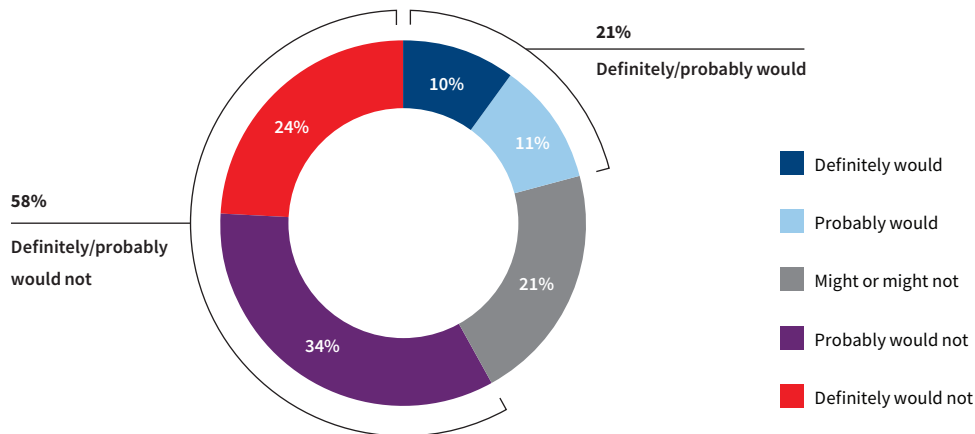


## Consumers are unwilling to report minor non-claim incidents

Most consumers would not inform their current motor insurance provider about a minor incident that required repairs costing less than their policy excess, implying that to do so would lead to an increase in insurance costs. Only 21% of consumers would ‘definitely’ or ‘probably’ report such an incident to their motor insurance provider; compared to 58% who ‘definitely’ or ‘probably’ would not report it. Consumers who have not made a claim within the past five years and those who have never made a claim are even less likely to report such an incident.

Likelihood to Report Minor Incident if Repair Below Excess

Total respondents (n=1,500)



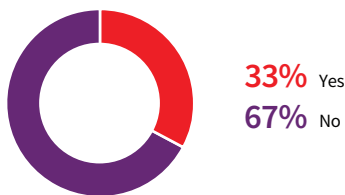
Likelihood to Report Minor Incident	Claim within past 5 years (n=432)	Claim 5+ years ago (n=589)	Never made claim (n=479)
Definitely/Probably would NOT	<b>44%</b>	<b>64%</b>	<b>62%</b>

Older consumers are less likely to report a minor incident: 62% of those aged 45 to 54 and 68% of those aged 55 and over would probably not or definitely not do so, compared to 39% of 18 to 24 year olds and 51% of those aged 35 to 44. Meanwhile, younger consumers are more likely to report this type of incident to their motor insurance provider: 42% of the younger age group would do so, compared to only 15% of consumers in each of the two oldest age groups.

A similar pattern is visible in consumers' responses when asked if they would inform an insurance provider about a non-claim incident involving another vehicle. While the youngest age group was almost equally split between saying they would or would not inform their provider, the proportion of consumers saying they would not do so rises for each of the other age groups. This rise is to almost three quarters of each of the two oldest age groups. Across the full sample, only one in three consumers would report a non-claim incident involving a second vehicle.

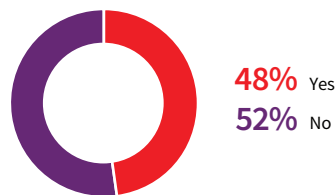
Pessimism about the likely consequences of reporting such incidents is surely a contributory factor to these results. A narrow majority of consumers say they would not expect providers to take account of a minor, non-claim incident when pricing insurance, but of those who do think there would be an impact on price, 60% expect premiums to increase and only 8% think a decrease would follow in return for 'honesty'.

### Would Notify Insurer of Incident Even if Not Filing Claim



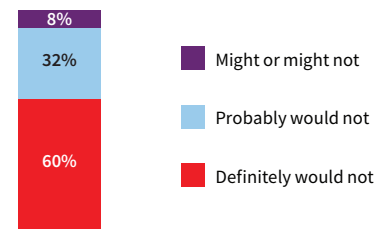
Base: Total respondents (n=1,500)

### Expect Insurers to Take Account of Non-Claim Minor Incident in Pricing



Base: Total respondents (n=1,500)

### Expected Effect of Reporting Minor Incident on Premiums



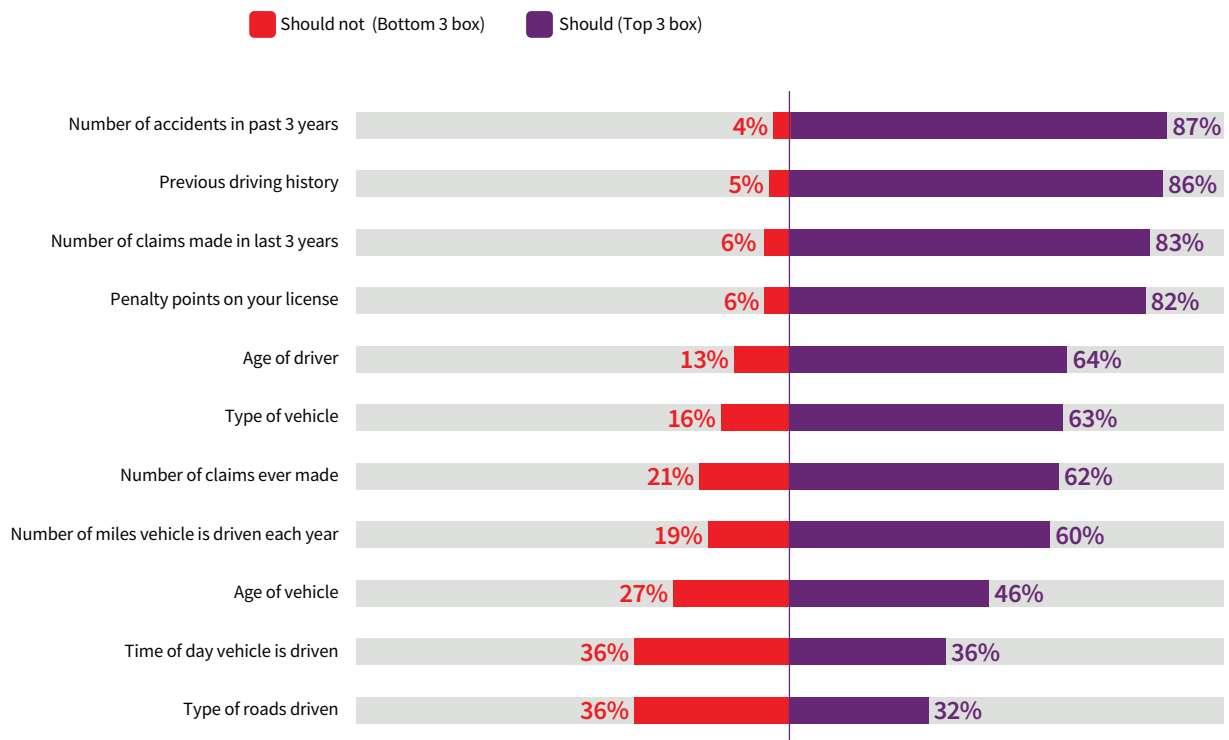
Base: Feel notifying insurer would impact premium (n=723)

## Consumers accept characteristics and driving behaviours being used in pricing

Consumers were shown a list of individual characteristics or driving behaviours that insurance providers might use to determine the price of premiums, then asked to what extent they thought each of these characteristics should impact the price of their insurance. They are most comfortable with factors that have been used for this purpose for a long time: 87% think the number of accidents in which a driver has been involved during the previous three years should have an impact, 86% agree that previous driving history should be considered, and more than 80% approve of using information about recent claims made by a driver and penalty points on their licence.

A further group of factors, including the age of a driver, the number of claims that driver has ever made, the type of vehicle and its annual mileage are all deemed acceptable by more than 60% of consumers. Comparisons between these findings and those of previous years surveys throw up some generally ambiguous results, with one clear exception: consumers are now less willing than before to accept use of information about the number of claims an individual has ever made to help pricing. The proportion of respondents in favour of using this information has fallen from 82% in 2013 to 62% today.

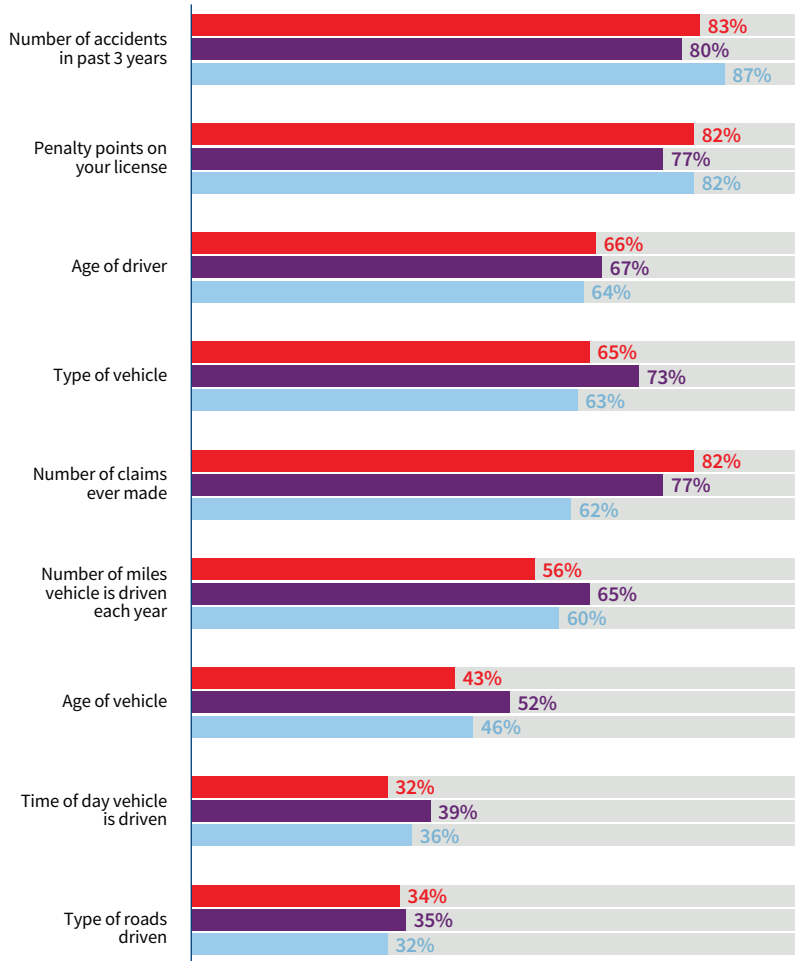
### Should/Should Not Impact Price of Motor Insurance



Base: Total Respondents (n=1,500) Rated on 7pt scale

Should Impact Price of Motor Insurance

2013 (n=1,039) 2015 (n=1,314) 2017 (n=1,500)



Base: Total Respondents (n=1,500) Rated on 7pt scale

## Most consumers endorse use of shared claims database

Consumers were asked how acceptable they find use by motor insurance providers of other sources of information to determine the cost of motor insurance. The two sources regarded as acceptable by the largest numbers of respondents are police records, acceptable to 74%; and a database of motor insurance claims information provided by previous insurance providers, acceptable to 68%.

The oldest and youngest age groups are particularly positive about use of such a database, with the approval figure rising to 74% among those aged 55 and over and 69% for 18 to 34 year olds. Older consumers might be more likely to have a more favourable claims record from which they would like to benefit, while previous research has suggested that younger consumers are more comfortable in general with sharing of previous data. Younger consumers are also noticeably more willing than older consumers to accept use of credit score data and information drawn from public sources and from other financial services providers; and to accept use of information drawn from social media to determine the cost of motor insurance.

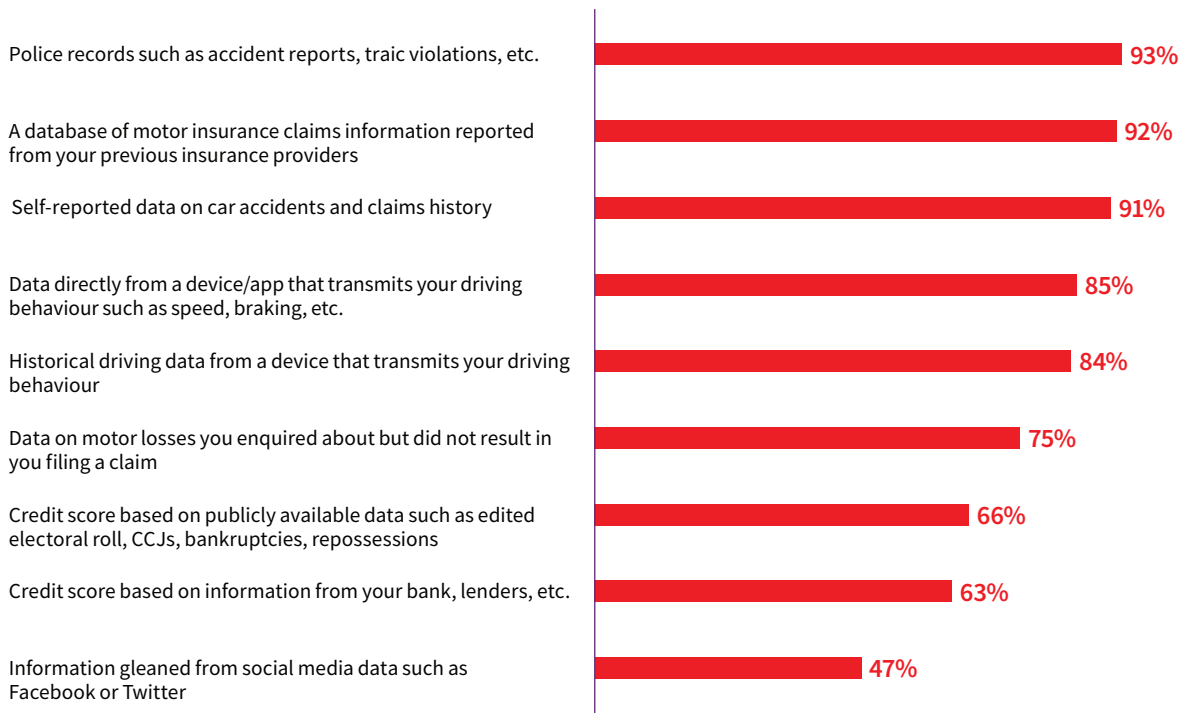
Q.35 How acceptable do you think the use of the following sources of information are in determining the cost of car insurance?	Age 18 to 34 (n=265)	Age 35 to 44 (n=345)	Age 45 to 54 (n=352)	Age 55+ (n=538)
Police records such as accident reports, traffic violations, etc.	<b>73%</b>	<b>70%</b>	<b>75%</b>	<b>77%</b>
A database of motor insurance claims information reported from your previous insurance providers	<b>69%</b>	<b>63%</b>	<b>65%</b>	<b>74%</b>
Self-reported data on car accidents and claims history	<b>64%</b>	<b>54%</b>	<b>50%</b>	<b>55%</b>
Data directly from a device/app that transmits your driving behaviour such as speed, braking, etc.	<b>63%</b>	<b>52%</b>	<b>50%</b>	<b>58%</b>
Historical driving data from a device that transmits your driving behaviour	<b>58%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>
Data on motor losses you enquired about but did not result in you filing a claim	<b>43%</b>	<b>28%</b>	<b>23%</b>	<b>15%</b>
Credit score based on publicly available data such as edited electoral roll, county court judgements, bankruptcy orders and repossessions	<b>45%</b>	<b>33%</b>	<b>24%</b>	<b>23%</b>
Credit score based on information from your bank, lenders, etc.	<b>42%</b>	<b>29%</b>	<b>21%</b>	<b>14%</b>
Information gleaned from social media data such as Facebook or Twitter	<b>31%</b>	<b>20%</b>	<b>13%</b>	<b>8%</b>

## Use of driving behaviour data is accepted — particularly if used to cut fraud

A slim majority of consumers also think that the use of some current and historical data relating to an individual’s driving record to help determine the cost of insurance is acceptable, particularly if positioned as being a means of reducing insurance fraud. For example, use of self-reported data on previous car accidents and claims is acceptable to 55% of consumers, but this rises by a further 29% if positioned as a means of reducing fraud.

Use of current or historical data from devices or apps recording individual driving behaviour attracted similar initial approval and then an additional boost of more than 20% if used to cut fraud. The acceptability of using these information sources to inform prices is also boosted, to a much lesser degree, by suggestions that it could result in lower premiums for every customer, or for that individual consumer.

### Acceptable Sources of Information to Determine Motor Insurance Costs



Base: Total respondents (n=1,500)

Consumers were also presented with a list of characteristics and driving behaviours that could be used as a factor to determine premium prices. The two characteristics that consumers are most comfortable with are the length of time an individual has been a customer of a motor insurance provider – reinforcing the feeling that loyalty should be rewarded – and use of a method that proved the driver was not using a mobile phone while driving. Both were cited by 64% of the sample.

## CURING CONSUMER SCEPTICISM WITH TECHNOLOGY AND EDUCATION

Our results demonstrate a willingness among consumers of all ages to accept use of a wide range of data sources to enable providers to make such improvements.

Moreover, our results highlight the significant value that consumers of all ages – but particularly those in older age groups – assign to service providers that they feel treat them well and reward their loyalty. The combination of technology with education enables insurance providers not to just improve products, but also to enhance the customer's experience while simultaneously making the customer feeling more valued. A combination of these two factors will be a crucial component in the future success of any insurance provider operating in this market.

### References

Finding (and building) Loyalty in the Motor Insurance Market <http://solutions.lexisnexis.com/138005>

For more information, call +44 (0) 800 130 3002 or visit  
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Insurance



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