4 ways personal short-term insurance will evolve in 2021

By Ernest North, co-founder at AI-driven insurance provider, Naked

The COVID-19 crisis has reshaped every industry in nearly every country in the world, and South Africa's car insurance market is no exception. While short-term insurers have benefitted from reduced claims under the lockdown due to the drastic drop in road traffic, they also face higher customer expectations.

People are scrutinising their spending more closely—putting premium pricing under pressure—and demanding more transparent, digital and convenient customer experiences. Disruptive insurance providers that are using automation to reduce costs and sharpen risk management, meanwhile, will drive down premiums and make insurance accessible to people who couldn't previously afford it. These factors will mould the sector throughout 2021.

Here are some of the fundamental ways the insurance industry will change in the year to come.

1. **The digital debate will be over**

The car and home insurance market went through a shift about 15 years ago as most people started to buy their cover directly from insurers' call centres rather than through brokers. The next major change we were all anticipating was the rise of digital insurance. The benefits are obvious: convenience, transparency and the ability to drive costs down by scaling back the expensive legacy infrastructure and processes incumbent insurers need to service their customers.

Yet, there were also barriers to adoption. Some people worried about whether it was practical or safe to buy a complex product like insurance online. Traditional insurers faced obstacles in revamping their legacy technology to power a completely online digital insurance experience. Indeed, most of those old-school insurers still cannot sell you a policy online. You may get an indicative quote from their website, but will need to complete the purchase on the phone.

The latter challenge started to be solved a few years ago when digital insurtechs started to launch into the market with a fresh start and a new approach. The lack of legacy systems and processes meant they could use the latest cloud and artificial intelligence technologies to power a pure digital customer experience – from quoting and purchasing to claims and policy management.

And now, with people who were forced to go online to work, shop and interact with others during lockdown, the concerns people had about digital insurance are starting to evaporate. People who have used the internet for everything from banking online to conferencing with colleagues now realise that digital insurance is simpler, more affordable and gives them more control than buying from a traditional call centre.

Along with other companies that offer seamless digital experiences, digital insurance providers have enjoyed a boost. Consumers are embracing the benefits of managing their policies online themselves. For example, the percentage of Naked clients actively using our CoverPause feature to pause accident cover when not driving grew from less than 5% pre-COVID to 52%.

2. **An end to opaque bundled insurance products**

Banks, cellphone stores and other retailers offer insurance as a 'value-add' for 'your convenience'. They convince many people to purchase home insurance or cover for a smartphone when they sign up for a bond or a cellular contract. The deals on offer are not always the best you can get, but companies know you probably will not get more quotes because it's a chore to phone around and because you're more focused on the actual item you're buying.

This is changing fast as digital insurance providers enable you to get a competitive quote straight from your smartphone in two minutes or less, and then immediately buy the policy if you're happy with the premium. You now have the power to check whether the insurance deal on offer is fair while you're sitting at the cellular dealer or on the car sales floor doing the paperwork. In this tight economy, we can expect to see more people look closely at insurance costs, especially now that it's so easy to compare.

Nonetheless, we will see more people buying insurance for standalone items because it has become easy to get a quote and buy online. Ecommerce companies will integrate insurance offers into their point of sale process, along with the third-party credit options many offer their customers. This differs from the old bundling approach in how transparent the pricing is.

3. Third party-only cover will take off

Around 70% of cars on South Africa's roads are completely uninsured. The result is that many drivers are exposing themselves to significant financial risk should they be involved in an accident that is deemed to be their fault. In such a case, insurance companies representing the other vehicle's owner may pursue legal action to recover the cost of the damages. This can cause financial ruin for low- or middle-income earners and their families.

One reason many South Africans don't have car insurance is that they feel it's not worth it if they're driving an old, low value vehicle. Third party-only policies are an alternative if you don't want to insure your own vehicle for accidental damage. They will not cover damage to your own car, but it will cover damage to other cars involved in an accident with you.

However, South Africans typically buy comprehensive insurance or none at all. Some are not aware that there are third-party only insurance policies, and others simply find these products too expensive. Now, however, third-pay only insurance is becoming more affordable.

Conventional insurers need to cover overhead costs, so they charge a minimum premium of about R200 a month for R5 million third-party cover. New-generation insurance providers are using artificial intelligence and digital distribution to reduce these costs to as little as R38 per month.

At this cost, many people who are tempted to cancel car insurance to save money during these difficult times will retain third-party cover. It's a better option than finding yourself on the hook for damage to a R5 million Range Rover. Plus, government has indicated that it is at least thinking about making third-party insurance mandatory as it is in many other countries.

4. Cover to become more personalised to your risk

Insurance product innovation has seen insurers come to market with more personalised offerings that are dynamically tailored to your exposure to risk. Examples include vehicle telematics solutions that track your driving behaviour or your mileage, and then reward you according to how well or how far you drive.

Another example is CoverPause – many customers did not drive at all under lockdown, hence paid much less on their premiums. However, the insurance industry still has a way to go before the premium you pay is truly adjusted to your personal circumstances. Your insurance cover will still be based mostly on factors such as your age, gender, location and claims history.

What happens if there are two women of the same age living in the same street? Let's imagine they both drive exactly the same model and year of car and have a similar accident history. The first of them drives 150 km each weekday to drop the kids off at school, go to work, and check on her parents. The second is single, works from home, and only drives 100 km a week to the shops or to visit friends.

They would both pay the same premium. If the second woman uses one of the telematics products, she might get a 10%-20% discount, rewards or cashback of around 5%-20%. But her real risk is at least 50%-60% lower than her peer down the road. Post-COVID, insurers will need to revisit how they structure their products to offer more meaningful savings based on each person's circumstances – especially with many driving less as work-from-home becomes permanent.

At Naked, we believe that the future of insurance lies in using advanced digital technology and rich data to offer an ever-more personalised offering, one that is tailored to the personal needs and risk profile of each customer. Digital-native insurance companies that are not impeded by legacy systems are best positioned to lead the transition to these next generation products in the years to come.

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