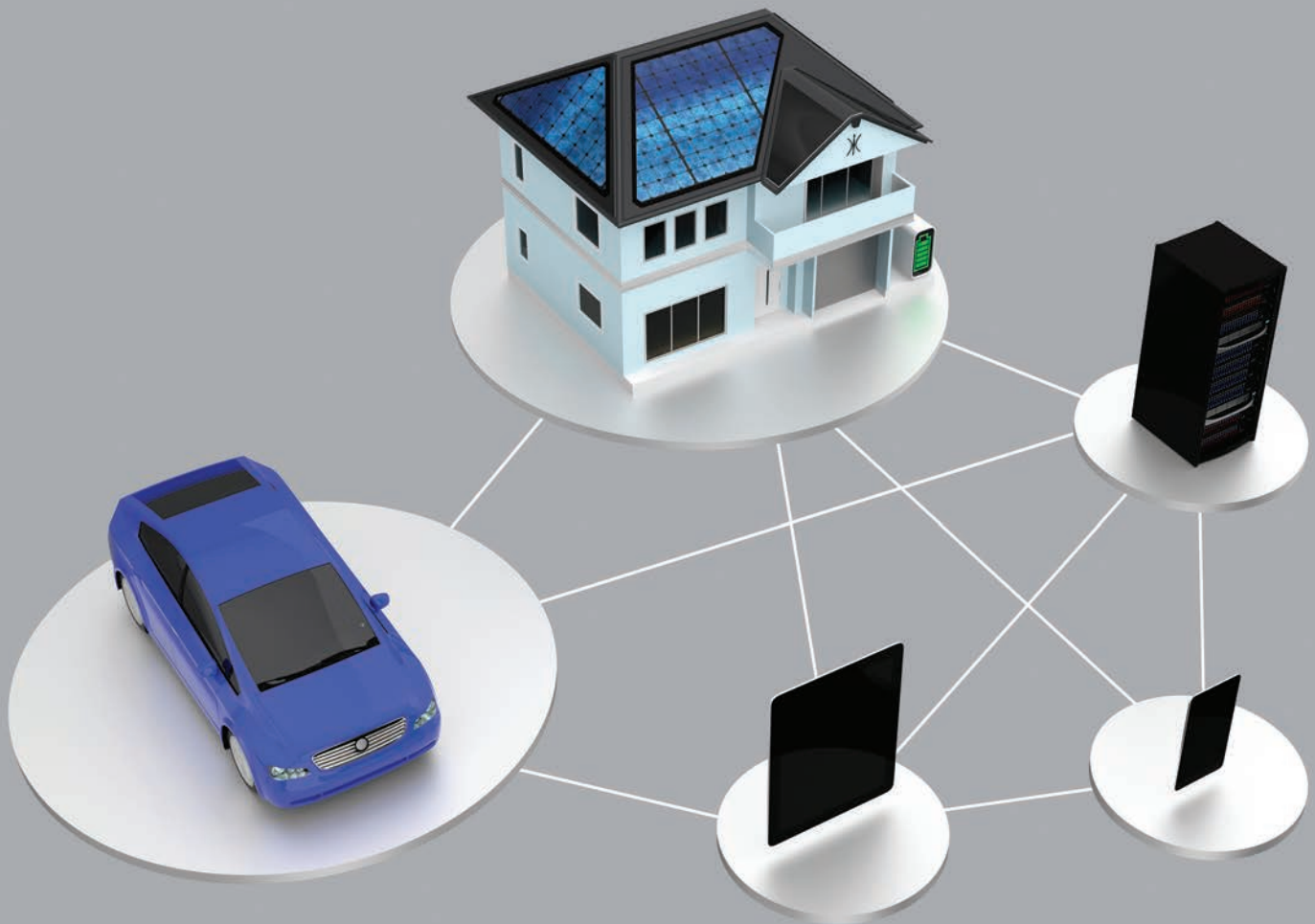
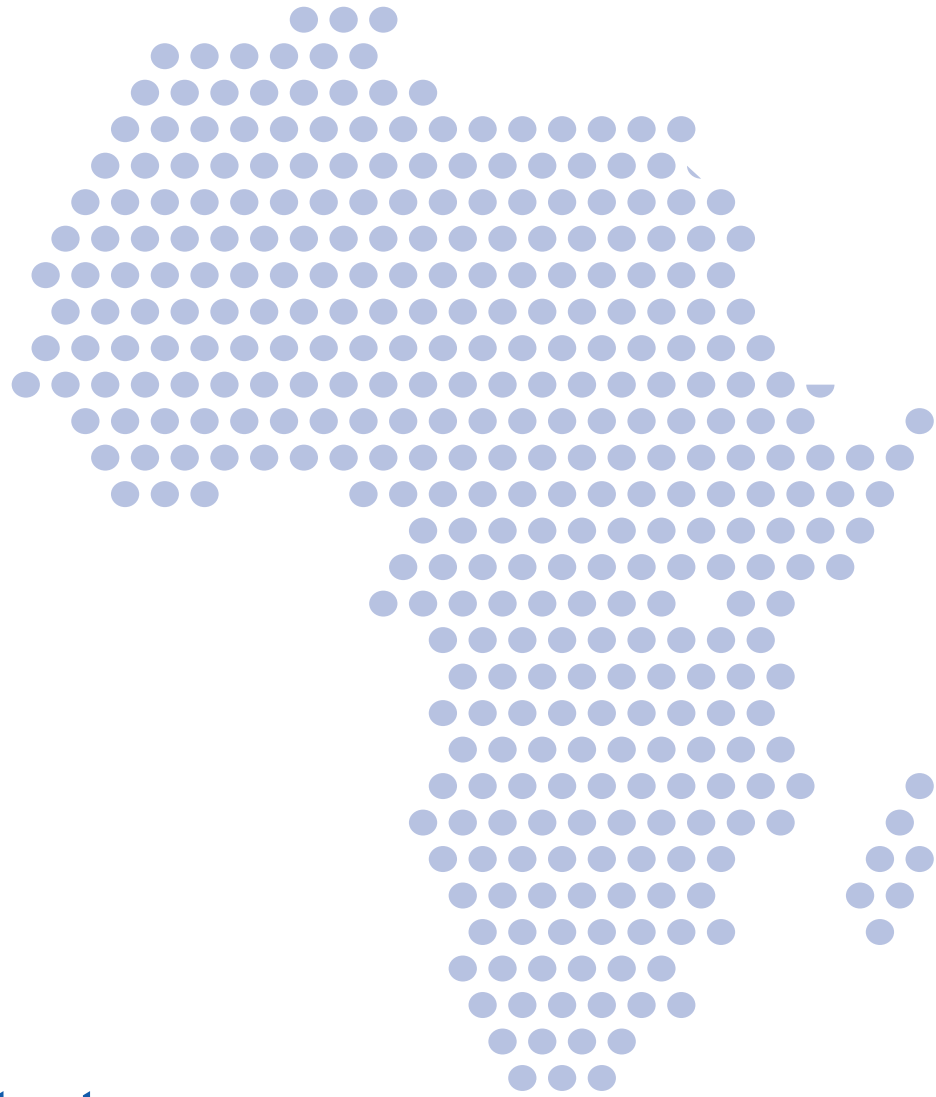


High performance. Delivered.

# Be Digital

A R115.2 Billion Opportunity  
for South Africa's Short-Term  
Insurance Industry





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# Executive Summary

The short-term insurance sector in South Africa has been slow to go digital. By leveraging digital technology, Accenture estimates that short-term insurance providers in South Africa can increase their gross written premiums (GWP) by R115.2 billion by 2020.

To understand the status and appetite of the local market for digital short-term insurance services and solutions, Accenture conducted a survey of 1,500 insurance customers across South Africa. The survey tested customer sentiments and perceptions, their behaviour and preferences in terms of communication with insurance providers, and their responses to digital offerings and insurance value propositions.

The survey showed a clear preference for digital insurance solutions, and readiness for digital engagement. However, to realise this digital opportunity, insurance providers will need to do more than just make digital an additional channel of distribution. They need to embed digital into their systems and process, in addition to dealing with key customer challenges such as lack of trust and failure to meet service quality expectations. They will have to re-imagine their business services and solutions around the customer. They will know they have succeeded when they have met five imperatives: be accessible, trusted, responsive, relevant and smart.

# Sizing The Digital Opportunity

**By 2020, R115.2 billion in gross written premiums can be unlocked by going digital.**

The short-term insurance sector in South Africa has been slow to go digital. Our research indicates that this has curtailed its growth considerably, presenting a significant opportunity to maximise existing business through cross- and up-selling. Accenture calculates\* that by the increasing use of digital, short-term insurers can increase their productivity levels as measured by gross written premiums (GWP) by R115.2 billion by 2020.

To identify this R115.2 billion opportunity, Accenture used the Cobb-Douglas Production Function's Multi-Factor Productivity Model\* to quantify the potential GWP that can be realised leveraging digital

technology to 2020. A standard Cobb-Douglas Production Function states that output (Y) is equal to a combination of capital (K) and labour (L). In order to measure productivity ( $\alpha$ ) we used what is called a 'Solow residual', which accounts for additional output that was not attributed to the capital and labour factors of production. In lay terms, the model states that output is measured by a combination of labour, capital and technology (digital advancement).

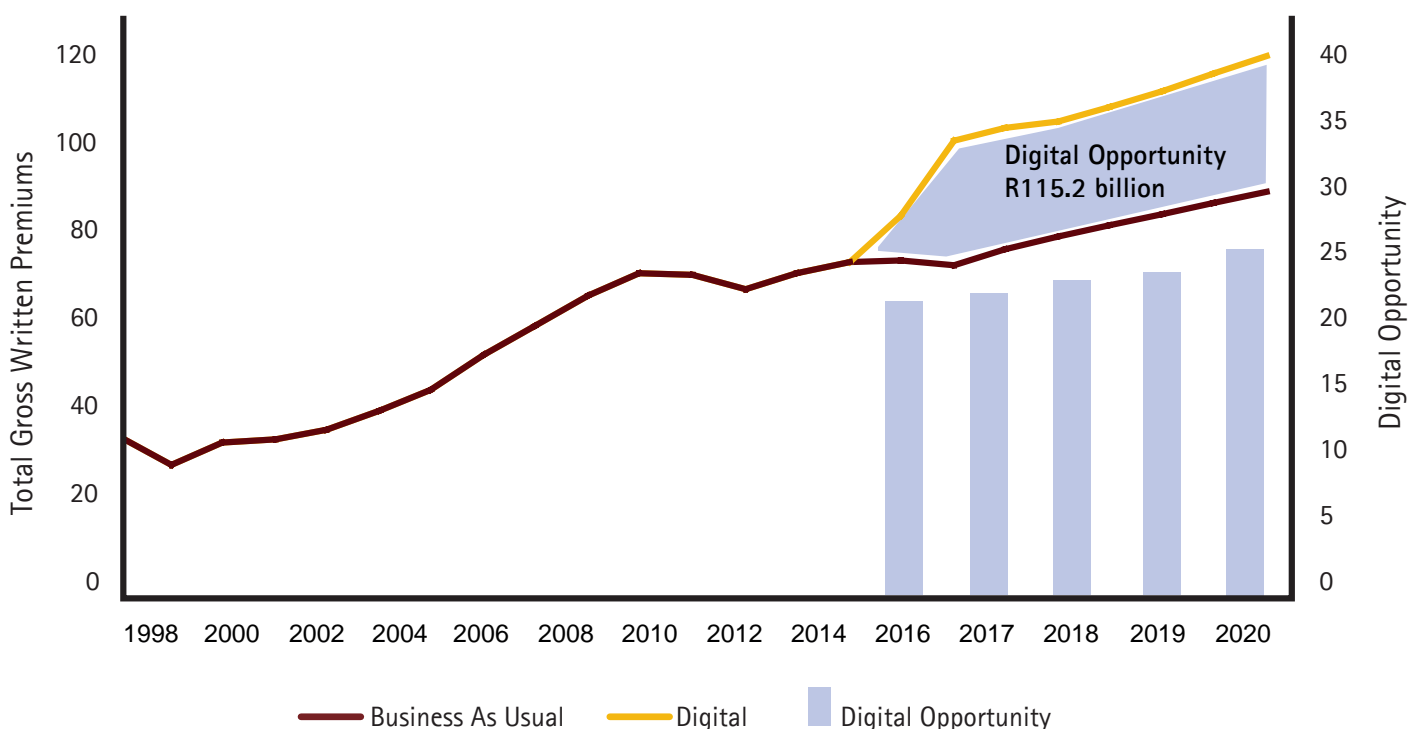
$$Y=f(K,L,\alpha)$$

The analysis revealed that output increased from 1998 but slowed down with the onset of the global

financial services crisis in 2008/9 – figure 1. In the five years after the financial services crisis (2009 – 2014), the insurance industry's total GWP grew at a compound annual growth rate (CAGR) of 0.5 percent. Had the sector leveraged digital more during this period, that growth over the same period would have been 5.9 percent.

Going forward (2016 – 2020), the digital opportunity for the short-term insurance sector is R115.2 billion in GWP growth. If the sector continues with business as usual, its GWP will grow by only R44.1 billion over the same period – a huge missed opportunity.

**Figure 1**  
Digital Revenue Opportunity  
Total Gross Written Premiums  
(Rand Billions)



\* See Methodology on page 17 for more information



# Is The Short-Term Insurance Market Ready For Digital?

Globally, digital transformation in sectors such as retail, banking and telecoms is assisting companies to increase their business agility, respond faster to customer needs and market shifts, and extend their reach into new markets, including under- and unserved segments. Digital technologies are creating an economy in which service is personalised, is real-time and is measured by outcomes.

Traditional insurance models based on pooling risk and calculating average pricing are being replaced with models that enable insurers to assess and price risk directly and individually.

However, a 360-degree single view of the customer is needed in order to personalise interactions. This requires the use of targeted strategies and the application of digital intelligence solutions to optimise channels and implement multichannel strategies.

With local short-term insurance providers slow to make use of digital technologies to engage customers, Accenture posed the question: is the short-term insurance market ready for digital? To understand the readiness for digital, we conducted a survey of 1,500 retail insurance customers across South Africa, testing customer sentiments

and perceptions, switching and retention, distribution channels, digital offerings and insurance value propositions.

The survey results clearly indicate that leveraging digital improves the customer experience and interactions, enabling short-term insurance providers to increase customer satisfaction and retention. Two key findings that support the need for digital include:

- The winning value propositions are digital, and
- Customers are already making use of digital technologies and channels.

## Winning Value Propositions

Accenture tested four value propositions: instant insurer, holistic insurer, ecosystem insurer and social insurer - figure 2.

### Figure 2

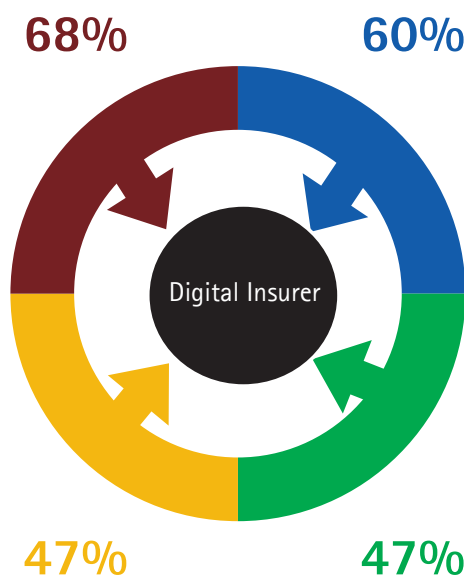
Qn. Would you consider using any of the following types of insurer?

#### Instant insurer

- Knows customer is involved in an accident.
- Provides roadside assistance.
- Assists with claims process etc.

#### Ecosystem insurer

- Offers more than just traditional insurance products.
- Has partnerships with utility companies, retailers etc.
- Offers discounts on products, benefits etc.



#### Holistic insurer

- One provider that covers car, home, travel, etc.
- Manages all policies through the same means.

#### Social insurer

- Understands customers' online and social media activity.
- Offers relevant deals, products and services.
- Insurance cover suits customers' needs.

**Instant insurer** - responds instantly to customers' needs in the event of an emergency.

**Holistic insurer** - covers all of the customer's insurance needs.

**Ecosystem insurer** - offers loyalty programmes and a range of insurance and non-insurance services.

**Social insurer** - engages customers through social media.



While more than half of the respondents want their insurer to instantly respond to immediate needs and to provide holistic solutions, almost half also want to be offered loyalty

programmes and engagement through social media. This suggests that customers are not looking for a specific short-term insurance model; they want to be able to pick and choose

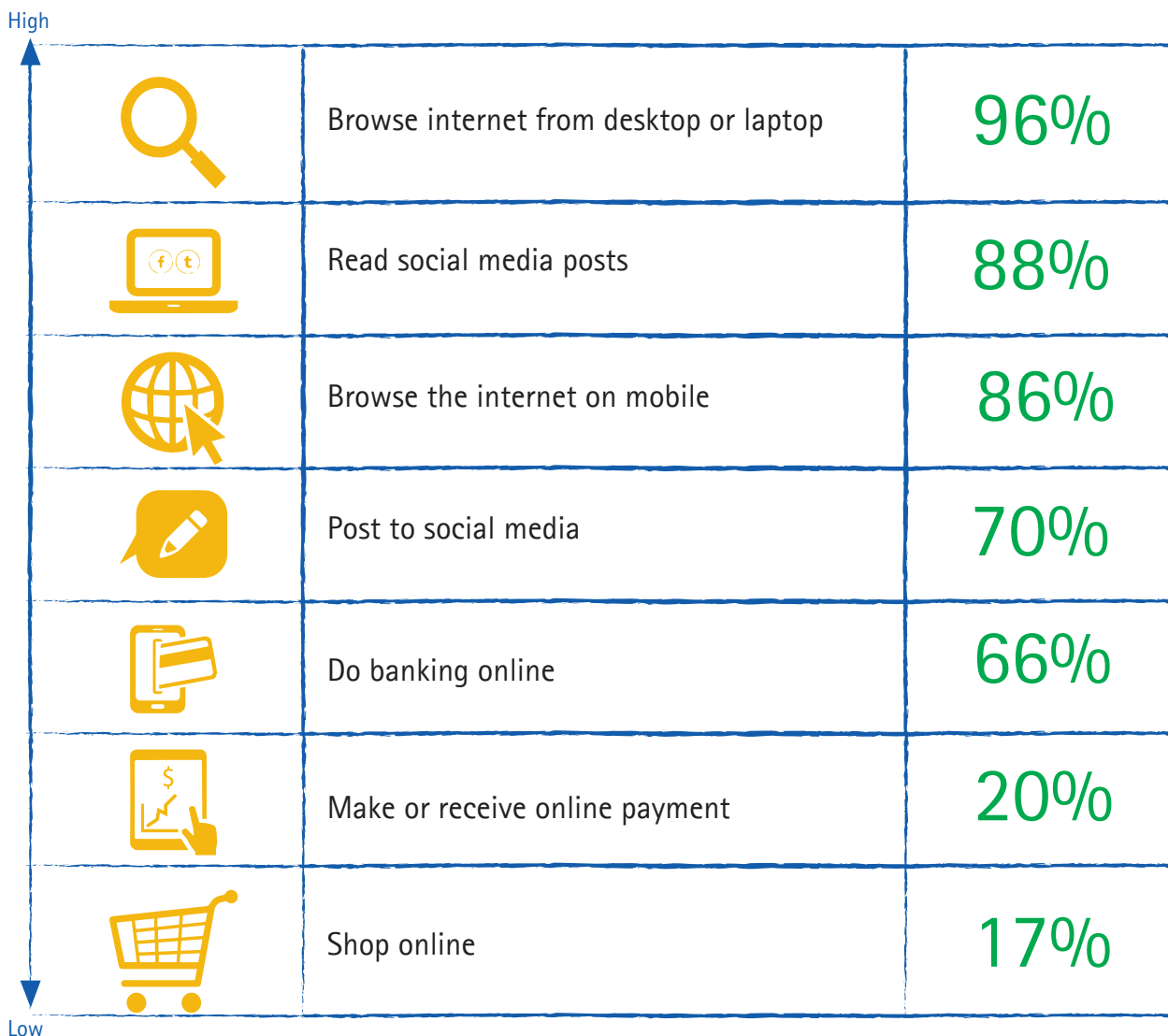
solutions that directly address their needs. Digital offers a strong advantage in catering for these value propositions.

### Customers Are Already Making Use Of Digital

The survey also shows that customers are comfortable browsing and communicating via digital channels such as social media but transacting and fulfilment are low – figure 3. Despite this, 80 percent of the respondents say they are ready to purchase insurance products online, further indicating their readiness for digital.

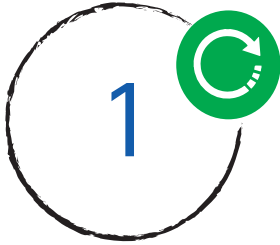
**Figure 3**

Qn. How often do you use the following?  
(At least once a week)



# Five Essentials To Re-energise Customer Relationships

Delving deeper into the findings and unpacking some of the key insights makes it clear that, to capitalise on this substantial digital opportunity, insurers have to get five imperatives right! They need to:



Be ACCESSIBLE

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Be TRUSTED

---



Be RESPONSIVE

---



Be RELEVANT

---



Be SMART

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# 1 Be Accessible

## Customers are multichannel users who that expect insurance providers to be accessible through the channels of their choice.

The survey found that customers:

- Do not find their insurers easy or convenient to deal with
- Are gradually shifting to digital channels
- Do not use social media to interact with insurers

Insurers that go digital, utilising a multichannel strategy, will position themselves well to meet customers' needs. This is an imperative as our survey results show that only 20 percent of insurance customers feel that their insurance providers are easy and convenient to deal with. In fact, across the 13 industry segments in the survey, insurance companies ranked in sixth position, behind retailers\*, banks and car dealers in terms of ease and convenience to deal with.

Customers want to interact via multiple channels, with the human element playing a pivotal role in interactions for older\*\* and middle-aged customers. While

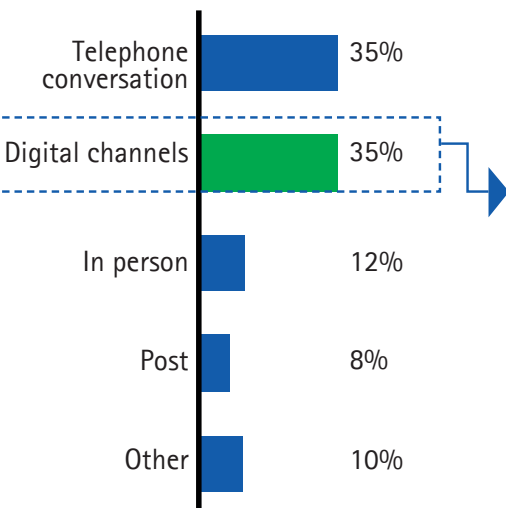
telephonic conversations remain the dominant method of interacting with insurance providers, customers are slowly shifting to digital channels. Email remains the most prevalent form of digital communication, with 54 percent of insurance customers indicating that they already communicate with their insurer this way, and more than a third indicating that they would like to do so in future – figure 4. Younger insurance customers show a preference for digital channels while older ones prefer the telephone, and middle-aged customers use a combination of channels.

Insurers can expect their customers' channel preferences to continue

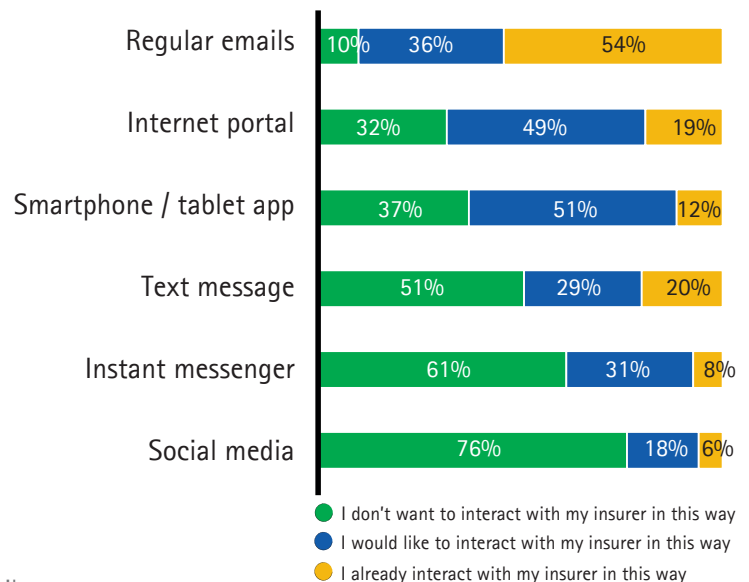
to evolve even further as digital technologies give rise to a platform economy and living services. A platform economy encompasses new ecosystems of digital partners that bridge industries and offer new models of value creation, while living services refer to sophisticated services that predict and react to consumers' changing needs and circumstances. Insurers that explore new partnerships for value creation and invest in solutions for personalised customer engagement will be well positioned to increase their customer base over their peers. CLICK2GO model offers a good example of a multichannel strategy – case study 1 – page 10.

**Figure 4**

Qn. How have you interacted with your current motor insurer in the last 12 months?



Qn. Would you consider communicating with your motor insurer using any of the following methods?



\* Retailers – supermarkets, high street retailers and online retailers

\*\* See Methodology on page 17 for age breakdown

## Trust and transparency are major concerns for insurance customers and should be given strong focus.

- Banks and retailers are perceived as more trustworthy than insurers
- Customers need reassurance that their data is secure and protected
- More than half of customers can be incentivised to share personal data

Insurers should focus on introducing strategies and business practices that ensure transparency and inspire trust. This is an important issue that remains unresolved, hampering digital uptake among customers. Despite two thirds of short-term insurance customers saying they are satisfied with their insurance providers, they rated insurance sixth out of 13 industries in terms of trustworthiness, some way behind banks, retailers and car dealers.

Asked about the sharing of data, customers made it clear they are aware of the vulnerability of their data. They also recognise that using digital services inevitably increases their exposure.

Customers are generally not comfortable to share even personal contact information, which most insurance companies already hold – figure 5. Older customers are more reticent to let insurers use personal data and almost half of these customers do not like companies tracking their online and everyday behaviour and preferences. In addition to fears about the vulnerability of their data, customers are concerned that insurance companies will use this data to increase premiums, and reject or avoid paying claims.

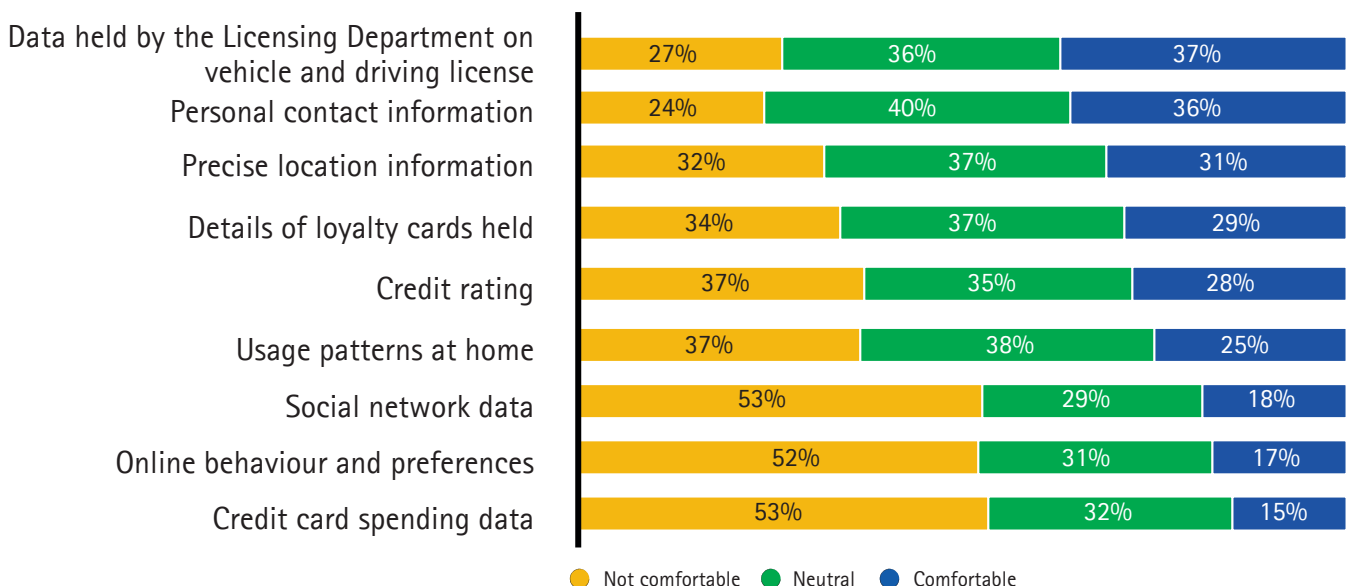
Nonetheless, the survey shows that customers broadly understand that insurers need more personal data to provide personalised services. Sixty-five percent of customers say they will share their personal information

if they feel that it is secure and they can control what, when and how it is used. It is interesting to note that almost two thirds of customers can be incentivised to share more personal data in exchange for improved products and premiums, special discounts and services tailored to their individual needs.

Digital trust is the currency of the digital age. Without access to data, insurers will not be able to directly and accurately target their offerings to customers. To secure digital trust, data management and ethics must be a core strategy for insurers. New products, services and innovations must be ethical and secure-by-design. This will improve customers' confidence in sharing personal data and completing transactions online.

**Figure 5**

Qn. How comfortable would you be sharing the following information with your insurer?



# 3 Be Responsive

Despite high levels of customer satisfaction, more than a third of insurance customers will switch to a new provider for the right price and/or benefits.

- Two thirds of customers are satisfied with their insurers
- There is nonetheless a high propensity to switch providers
- Insurers are failing to meet customer expectations in some areas

Insurers need to respond fast as lack of responsiveness, specifically failure to meet customer expectations in key areas, is a big driver of customer decisions to change providers. The survey found that there is a high propensity among insurance customers to switch providers despite high levels of satisfaction. Fifty three percent of customers surveyed say they have been with the same insurer for less than three years and more than a third report recently switching providers. At the

same time, only 17 percent note dissatisfaction with their insurance provider in the last 12 months.

Forty percent of repeat customers consciously renew their policies motivated by customer service and price satisfaction, while another third stay with their provider out of habit or as a result of automatic renewal of their policy.

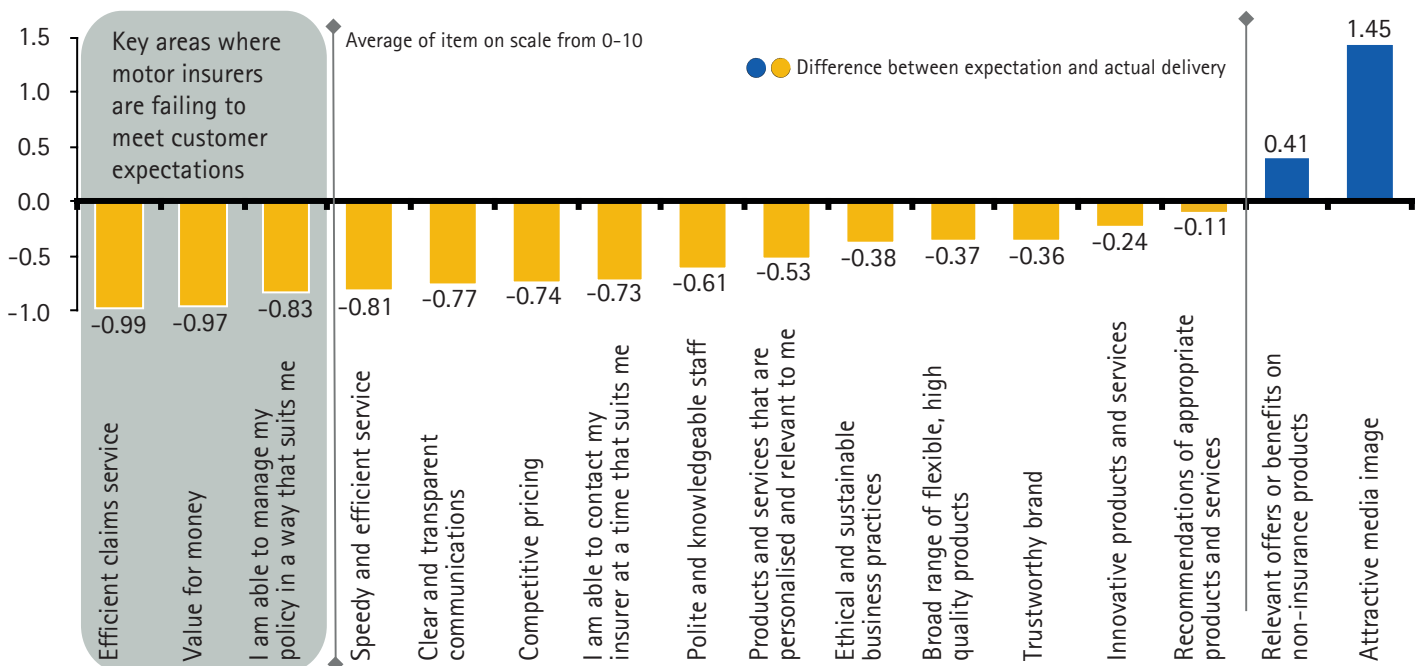
To minimise churn and drive loyalty, insurers will need to become more

aware of customer needs and be more responsive, delivering solutions that are more relevant and tailored to individual needs.

Insurers should address three key areas in which they are failing to meet customer expectations: efficiency of claims services, provision of value-for-money offerings, and the ability to let customers manage their policies in ways that suit them - figure 6.

**Figure 6**

Qn. How important is each of the factors below in your selection of a motor insurer?  
 Qn. How well does your current motor insurer deliver on the factors below?



## Case Study 1

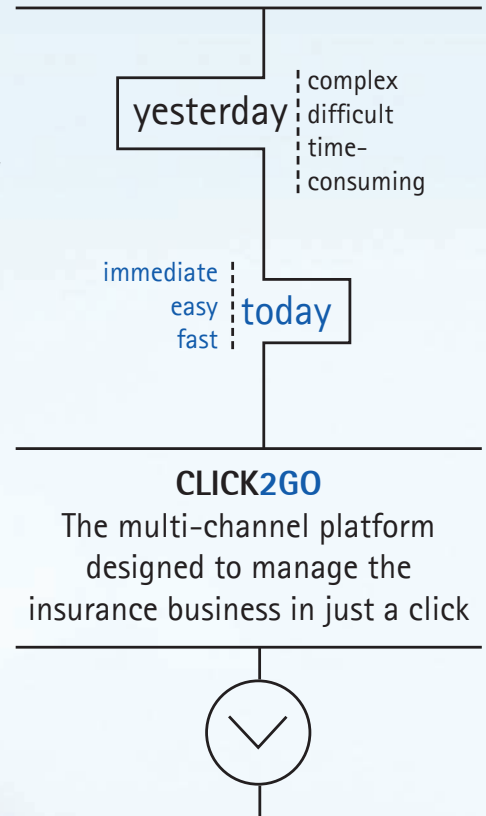
### Cattolica's CLICK2GO Offers Multichannel, Multi-device Access

Italian Cattolica Group's CLICK2GO is an innovative multichannel sales platform that enables both traditional and digital communication with the customer. By downloading the app, customers can interact with their providers at any time through a choice of Web, call centre, smartphone, or physically through an officer, agent or consultant. The customer can flexibly hop from channel to channel, unlike with traditional systems where the first channel remains the preferred one.

CLICK2GO functionality includes budgeting, issuing policies and management of after-sales service, such as claim handling and refunds.

Just eight months into its launch, CLICK2GO had more than 5,000 customers using the platform for motor insurance products alone.

The insurance policy sales process



## Case Study 2

### Discovery Insure's Vitalitydrive Shared Value Model Is Winning Market Share

Vitalitydrive makes use of the latest vehicle telematics technology to measure clients' driving behaviour and reward drivers with incentives like up to 50% of their fuel spend back each month for driving well. The technology also enables Discovery Insure to provide unique safety features like pro-active, real-time emergency assistance. The programme is a great example of how an insurer can use technology, innovation and unique partnerships and/or joint ventures to offer digital solutions that benefit both the insurer and its clients.

#### **Successful partnerships:**

To create the Vitalitydrive solution, Discovery Insure partnered with a number of specialists: Rory Byrne, a South African F1 engineering legend, who assisted with the model that uses complex actuarial algorithms to translate driving behaviour into a Driver Quotient (driver intelligence or DQ) score, that is easy for clients to understand and accurately reflects driver behaviour risks; and Ctrack, global supplier of vehicle tracking, insurance telematics and fleet management solutions,

to help develop its 'black box' telematics device, to accurately measure various aspects of clients' driving behaviour. More recently, they partnered with US-based Cambridge Mobile Telematics (CMT) to develop an application that combines mobile technology and behavioural economics with telematics to measure driving behaviour, including cellphone use while driving.

#### **Benefits for Discovery Insure, creating and sharing value:**

Vitalitydrive provides Discovery Insure with better risk assessment criteria, reduces claims costs by incentivising better driving, enabling Discovery Insure to share this created value through significant client rewards for driving well. Vitalitydrive's shared value approach encourages loyalty, and allows Discovery Insure, through big data analytics to provide innovative targeted offerings to clients based on driving behaviour. All aspects of Vitalitydrive are easily measured and tracked to ensure the ongoing effectiveness of the programme.

#### **Benefits for clients:**

Clients benefit from transparent rewards offerings, incentivised

safer driving behaviour, and rewards such as getting a percentage of their BP fuel spend back, Uber discounts and more. Clients further benefit from value adds such as ImpactAlert, which detects severe vehicle accidents, alerts Discovery Insure's 24-hour emergency contact centre and allows them to send assistance immediately. In such instances, if Discovery Insure cannot get hold of a client, emergency assistance is immediately dispatched to that vehicle's location

#### **Vitalitydrive results:**

Discovery Insure launched in 2011. Over the last five years, it has grown to cover over 140,000 cars. The telematics offering reduces claims and lapse ratios. Data collected by the insurer shows that drivers improve their skills and habits dramatically when receiving immediate feedback on their driving behaviour, promoting safer driving. Discovery estimates that Discovery Insure now accounts for more than 12 per cent of new business market share.



## Customers want personalised products and services that directly address their needs.

- More than half of customers surveyed are interested in value-added services
- Customers understand that personalised services require more personal data
- Partnering with third-party providers can help insurers remain relevant

Accenture's survey made it clear that customers in different age groups find different products relevant and attractive to them. For insurers to retain and grow market share, it will be important to understand these needs and present customers with tailored solutions via their preferred channels. To do so they will need greater access to personal customer data and partner networks.

More than half of customers surveyed are interested in value-added services such as location-based deals and regular services and/or advice. These customers are ready to part with more personal information for the right offers and incentives. Already, the majority of customers surveyed are actively using apps and devices that use location data and online activities to provide them with relevant services – figure 7.

Among others, the survey shows that:

- Younger insurance customers are interested in targeted offerings and retail loyalty propositions linked to their location.
- Middle-aged and older insurance customers are more interested in products and services that give them advice on the best ways to protect their properties and cars.

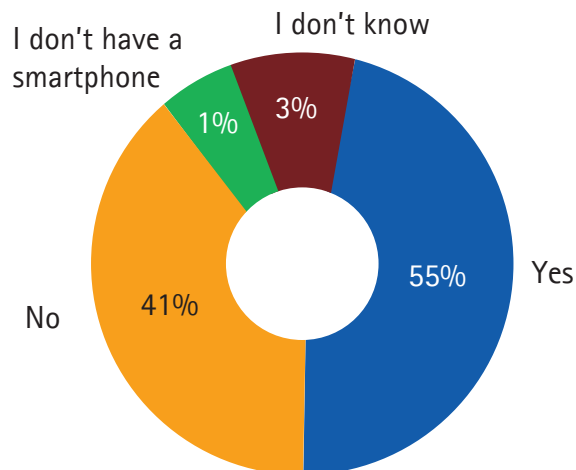
Price comparison platforms are an excellent example of how partnerships and joint ventures will help insurers develop relevant solutions and increase their reach. A quarter of insurance customers visit a price comparison website before renewing or purchasing an insurance policy. However, the majority do not complete the transaction online, with over half of customers buying the insurance policy after contacting the insurance provider telephonically or via their website. Stronger

relationships with comparison platform partners, especially those that offer a good customer experience and streamlined direct sales processes, could help insurers close this gap.

Insurers need to aim for a 360-degree single view of the customer. This will enable them to gain a deeper understanding of customers and personalise interactions. It will also assist insurers to innovate, and partner with other, often unrelated, solution providers to create a broader value-adding offering that meets customers' lifestyle needs. Achieving a 360-degree view of the customer will, however, require the rollout of digital solutions together with traditional ones.

**Figure 7**

Qn. During the last 12 months, have you allowed any apps or devices on your mobile phone to use your location data or your online activities to provide you with relevant services?



## There is high awareness of digital offerings such as telematics, but usage is very low.

- Awareness of telematics is high in South Africa
- Trust and transparency hinder telematics uptake
- Customer interest in telematics can be incentivised

Smart solutions such as connected homes, wearables, nearables and tracking algorithms, can present insurers with significant advantages. Telematics, a great example of a smart solution that can lower risk and costs for the insurer and customer, is a case in point. Awareness of telematics is fairly high among South African insurance customers (41 percent), especially when compared to UK customers (38 percent), but uptake is low.

Only 16 percent are using telematics and despite the benefits

offered, only a tenth of respondents are certain that they will switch to an insurer that offers this product. While the majority of customers say they may be incentivised to try telematics if it meant lower premiums and other incentives and benefits - figure 8, almost 60 percent say they are concerned that insurance companies will use the information to increase premiums or avoid paying claims.

These perceptions surrounding telematics offerings highlight the urgency of addressing issues of trust

and transparency in the short-term insurance industry.

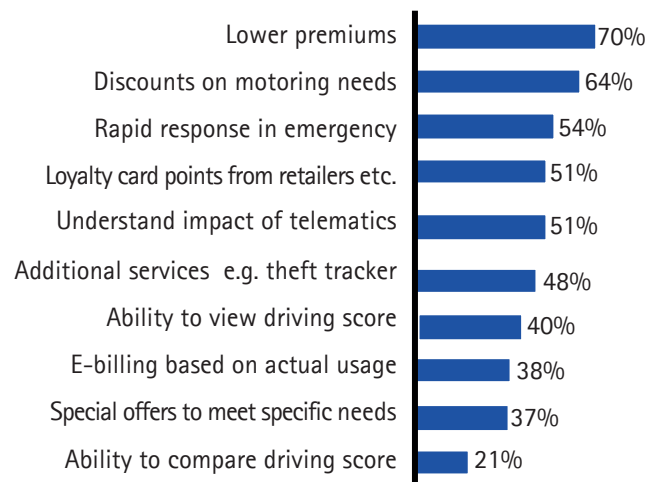
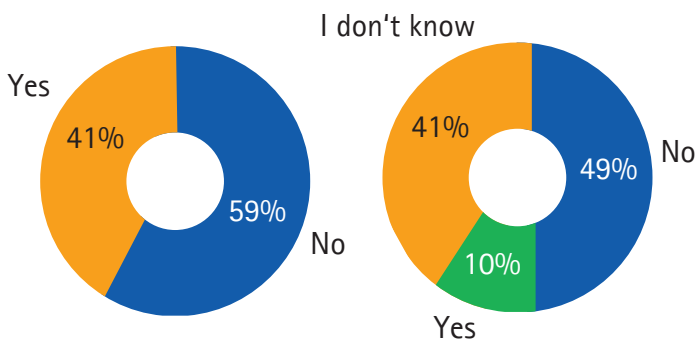
Smart solutions can present insurers with significant advantages but will require building strong partnerships and securing the trust of customers. Exploring partnerships with other players can help insurers develop differentiating smart offerings. Discovery Insure shows how Vitalitydrive wins customer trust and builds strong partnerships - case study 2 - page 11.

**Figure 8**

Qn. Are you aware of any insurers offering telematics?

Qn. Are you interested in changing your car insurance to a telematics policy?

Qn. Which of the following benefits of telematics might convince you to try it?





# Conclusion

To become insurance providers of choice, short-term insurers should harness the power of digital technologies to re-conceptualise their business models around the customer. Through a combination of information, business resources, digital technologies and innovative strategies, they can create unique customer experiences that will help them to grow.

Accenture believes that the R115.2 billion GWP opportunity is within reach for South Africa's short-term insurance providers if they digitise

their systems and apply essential strategies to address customer concerns and re-energise customer relationships.

The five strategic imperatives that Accenture has identified will not only help insurers meet changing customer demands and leverage new opportunities. They will also help create a foundation for participation in a fully digitalised business environment.



# Methodology

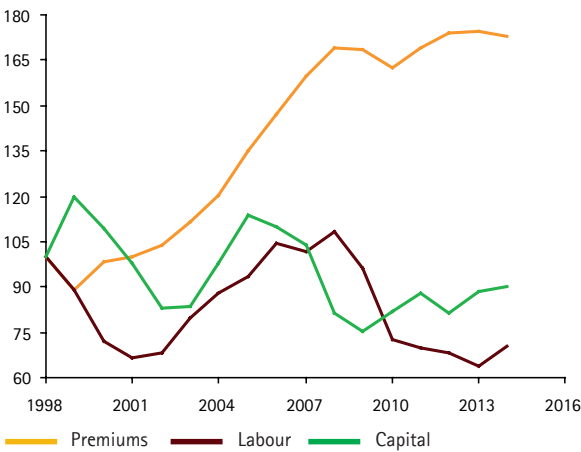
For the primary research survey, Accenture interviewed 1,500 retail customers with active personal lines insurance policies across all nine provinces of South Africa. Respondents were contacted through a panel using a third-party provider. The survey looked at sentiment and perception, switching and retention, distribution and digital

channels, digital offerings, and value propositions.

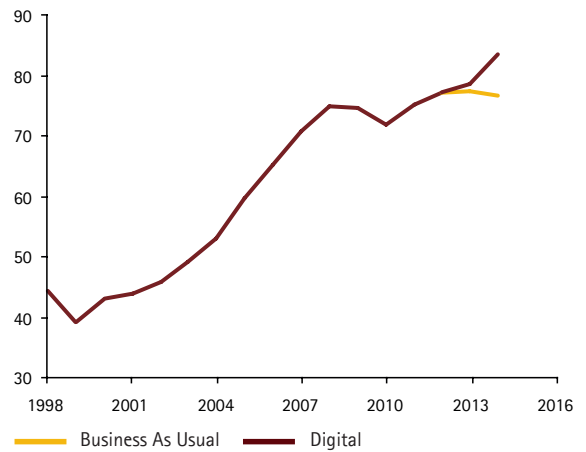
Accenture applied the Cobb-Douglas Production Function to quantify the revenue opportunity through digital by 2020. A standard Cobb-Douglas Production Function states that output (Y) is equal to a combination of capital (K) and labour (L). In

order to measure productivity ( $\alpha$ ) we used what is called a "Solow residual", which accounts for additional output that is not attributed to the capital and labour factors of production. In lay terms, the model states that output is measured by a combination of labour, capital and technology (digital advancement).

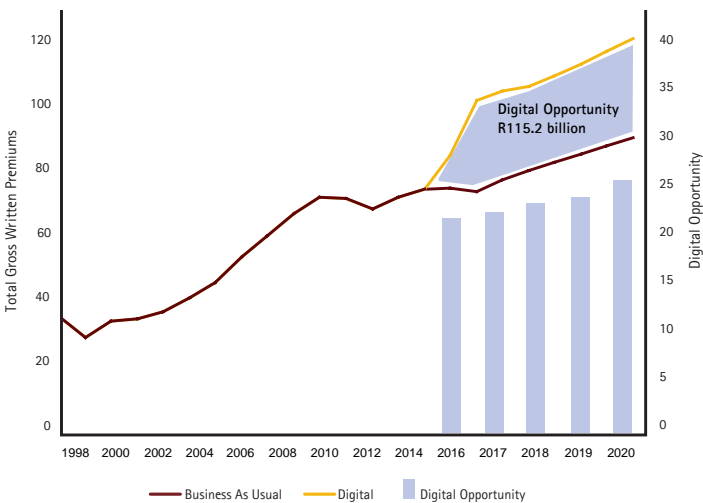
**Figure 9a**  
Input And Output, Base 1998  
(Rand Billions)



**Figure 9b**  
Multi-Factor Productivity  
(Rand Billions)  
 $Y=f(K,L,\alpha)$



**Figure 10**  
Digital Revenue Opportunity  
Total Gross Written Premiums  
(Rand Billions)



In Figure 9a, GWP increased from 1998 but flattened out after the global financial crisis, while capital and labour exhibited cyclical downward trends. In Figure 9b, productivity increased from 1998 to 2012 but declined thereafter. We then developed two scenarios, with the first analysing what would occur if 2012 productivity levels were maintained and the second scenario looking at increasing productivity in an upward trend. For this model, GWP forecasts were calculated using gross domestic product (GDP) growth projections from the IMF's World Economic Outlook database and historic GWP in an econometric model.

\*\* Young insurance customers – 18 – 34 years old  
Middle insurance customers – 35 – 54 years old  
Old insurance customers – 55 years old and above

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## About Accenture Digital

Accenture Digital combines Accenture's capabilities in digital marketing, analytics and mobility to help clients unleash the power of digital to transform their businesses. We help clients use digital technologies to deliver more meaningful and relevant customer experiences across all channels and customer segments, as well as to create new products and business models and to optimise the efficiency and effectiveness of their internal operations.

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