

Expert opinion

Insurance and connected devices: bespoke, but not without trust

By Dorine Millot, Business Consulting consultant

Insurers see connected devices as an opportunity to create new products, precisely adapted to each individual. Such insurance plans will only appeal to insured parties on condition of financial gain or substantial value creation and if they're certain that any collected data is subject to powerful protection.

Insurance: from actuarial services to bespoke products

Thus far, insurance premiums paid by insured parties have depended on the associated risks on the particular category of insurance: property location, property type, car model, journey type, etc. In insurance jargon, this is referred to as actuarial services - using probability and statistics to calculate the financial cost of the insured risk.

But today, this macroscopic vision of insurance includes a new approach, focused on the insured party. These insurance plans have come about thanks to the marketing of connected devices and enable insurers to get to know their customers better and to offer more personalized products. In practical terms, insured parties agree to share very detailed information about themselves, such as their driving style, their lifestyle and their home, in return for which the insurer offers bespoke products which are cheaper and more suited to their needs.

Beyond "Pay As You Drive" products for cars or multi-risk home insurance based on domotics, which are already much talked-about, connected insurance is generating innovative approaches. The French company Willow, the inventor of "Pay When You Drive", offers customizable car insurance by means of a badge linked to the driver's smart phone; he/she only pays when using his/her vehicle. The New York-based company Lemonade has launched an ultra simple home insurance subscription system via a mobile application with redistribution of excess premiums. Another French player, FLUO, offers in-depth analysis of insurance contracts to remove duplicate coverage.

Insured parties, whether individuals or professionals, are now looking for quick, simple services which meet their needs. To keep up, insurers have no other choice but to innovate to respond to this increasing demand for personalization.

Experience and benefits: the new pillars of the insurer-insured party relationship

Connected insurance is also an opportunity to offer insured parties more interaction and additional services. For example, in the case of car insurance, this could culminate in more wide-ranging safety measures because of connected devices: preventing a driver from falling asleep at the wheel by emitting a sound via his/her smart phone, analyzing frequently-taken routes and recommending routes where accidents are less common, etc. Premiums would be adjusted in return because these kinds of services help to reduce the probability of an accident.

Lastly, connected insurance also offers the chance to improve user experience by simplifying the relationship between the insured party and his/her insurer, over the lifetime of the contract. For example, it could be possible to report a claim directly to an advisor via video conference, or to send a repairman to a car's location using geolocalization or even to use a Pay As You Drive box as a "black box" in the event of a car accident.

Be careful, though: knowing how to assist these newly "connected" insured parties doesn't mean giving up on technophobes or ignoring those who simply don't want to share their personal information. Offering bespoke products must not mean abandoning standard contracts.

Data management, the crucial issue for connected insurance

To deliver these new connected services, insurance companies are obliged to collect, process and analyze the individual (and personal) data of each insured party. Although the CNIL (French data protection institution) remains extremely vigilant and despite the new General Regulation on Data Protection coming into effect in 2018, the fact remains that the way in which personal data is managed and used can be a reason for concern for insured parties, if not outright rejection.

Beyond protecting the right to privacy, securing data is another key issue when it comes to building trust. Constant headlines reporting hacking and breaches of confidential information cause users to feel hesitant. So the entire value chain of information, from storing to accessing and processing the data, must be securely protected. This results in a system which is even more complicated to set up than with connected devices, with increasingly vast amounts of data.

This increase in data volume has also complicated data processing. The introduction of connected insurance products will force insurers to become experts in the most advanced statistical techniques linked to processing technologies, such as Machine Learning, to bolster the sense and value of their insured parties' data.

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www.hardis-group.com

Press contacts

Anjuna
Elodie Cassar
elodie.cassar@anjuna.fr
Tel. +33 9 64 15 31 27
GSM: +33 6 80 53 82 94

Hardis Group
Hélène Leclercq
helene.leclercq@hardis.fr
Tel: +33 4 76 70 98 41