

Assistance & service offerings as a game changer in a transforming insurance industry

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Authored by:

Björn Münstermann
Christopher Mokwa
Simon Behm
Gregor Becker
Anna Güntner

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A water damage at home is always a horrible experience, but its impact can be mitigated by SOS systems that immediately and automatically help home owners with tailored assistance solutions. This service capability, which is built into the latest smart home technology, enables increased speed of emergency dispatch, assistance for post-accident logistics (e.g., organization of craftsmen), and frictionless settlement of insurance claims. This is just one example of how insurers themselves or in partnering with other players are seizing the opportunities of the emerging “insurance + service” hybrid business models. By building on insurance’s existing value proposition with the addition of closely linked services, insurers are creating value and deepening their relationships with their customers.

Insurance incumbents and innovative start-ups around the globe have recently begun launching new assistance & service offerings – in increasing numbers and in a wide range of configurations.¹ Yet, while the launches of these offerings may well be considered as first ambitious attempts of insurers to respond to a number of today’s challenges to their classic business model, there are still many more and further-reaching opportunities that have yet to be tapped.

This article aims at providing an integrated perspective on the most pressing questions concerning assistance & service offerings and explores 1) why insurers need to enhance their classic value proposition; 2) what the new offerings and their key benefits for insurers are; and 3) how individual insurers can optimally launch new offerings.

Why insurers need to enhance their classic value proposition

There are primarily five rapid and fundamental changes in the insurance market that are putting the classic value proposition and product portfolio of insurers under pressure and that make the case for expanding into assistance & service offerings:

- **Change in the structure of risks.** Over the next years, advances in technology will dramatically reduce traditional risks in several lines of business (e.g., advanced safety features in cars or autonomous driving). This will lead to a decrease in classic insurance premiums for a number of products. New assistance & service offerings provide opportunities to (at least partially) compensate this loss in premiums.
- **Evolving customer expectations.** Today’s customers are more demanding, knowledgeable, and often online 24/7. They expect fast and high-quality support around the clock as well as customization. To meet this demand, insurers are increasingly pushing online/and mobile portals but find it challenging to convince customers to actually use these portals. In light of the low number of customer interactions per year with traditional insurance offerings, assistance & service offerings can be key to increasing the attractiveness of these portals for customers and lead to significantly more customer interactions.

¹ Some illustrative examples are Allianz partnering with Panasonic to jointly provide SmartHome solutions; AIG offering CyberEdge as an end-to-end cyber risk management solution; Aegon with the retirement planning tool Retiready, or the start-up evopark that together with its partner AXA Germany brings parking solutions to the market.

- **Demographic change.** The population in most of the biggest and currently most profitable insurance markets is aging and developing specific needs that are not covered by today's classic insurance value proposition. New offerings are required to address this increasingly important target group of aging wealthy baby boomers in developed countries (e.g., assistance/services to support the elderly).
- **Digitization and the Internet of Things.** Innovative digital solutions are disrupting the traditional insurance value chain, requiring innovative solutions to keep today's customers and attract new ones. Leveraging data from sensors facilitates the development of new value propositions in connected ecosystems. However, with their classic insurance products and their current business models, capabilities, and technological infrastructure, most incumbent insurers are not in a position to provide competitive offerings in this increasingly important playing field.
- **Emergence of new attackers.** Due to the insurance market's fading borders in the aftermath of new digital business models, big data, and advanced analytics, new players such as aggregators or even those from outside of the insurance industry are entering the playing field (e.g., automotive players in the connected car, utilities in the connected home area). With assistance & service offerings, insurers can "protect" and "reinvent" their customer relationships and avoid being "commoditized."

These outlined fundamental challenges highlight the increasing importance of assistance & service offerings for insurers.

What the new assistance & service offerings and their key benefits for insurers are

McKinsey's comprehensive Compendium of Assistance & Service Offerings in Insurance provides, among other things, a systematic overview of the new offerings (Text Box 1). The assistance and value-added services landscape can be structured along two main types of services:

- (Emergency) assistance (e.g., roadside assistance, medical assistance, support in case of travel-related incidents like baggage loss, IT emergency support)
- Value-added services (e.g., coordination of regular car maintenance checks in partner network, medication reminders, IT attack prevention solutions).

Text Box 1

McKinsey's Global Compendium of Assistance & Service Offerings in Insurance

The McKinsey Global Compendium of Assistance & Service Offerings in Insurance provides a comprehensive list of assistance & service offerings, including deep dives on best practices (Exhibit 1), and is based on extensive research on the biggest players in key European markets and best practices around the globe. In total, ~ 250 services were selected and analyzed.

In this comprehensive list, (emergency) assistance and value-added services are grouped into five key categories, which are based on the main insurance lines of property & casualty, health, and life and are structured along 19 modules to allow for a high degree of granularity.

In each module, individual services are evaluated regarding “willingness to pay,” “degree of innovation,” and “customer interaction frequency.” Of course, these assessments only provide a first indication of the potential, as each offering needs to be evaluated within a insurers specific context (e.g., given the current product offering, strategic rationale).

Exhibit 1 – sample screenshot from the compendium

In each module, the ~ 250 services are evaluated regarding willingness to pay, degree of innovation, and customer interaction frequency

Individual services are structured in an overarching bibliography
For each service, the potential target groups are defined

Module	Service	Target Group	Willingness to pay	Degree of innovation	Customer interaction frequency
Mobility - Basic roadside	Breakdown service on site	Private and corporate customer	High	Low	Low
	Vehicle recovery from accident location		High	Low	Low
	Vehicle return transport to insurer		High	Low	Low
	Towing service to next mechanic		High	Low	Low
Mobility - Extended roadside	Guarantee to restore mobility within one hour at the latest		High	Medium	Low
	Financial support in emergencies by providing loans without bureaucratic burden and extra costs		High	Low	Low
	Windshield repair directly on site		High	Low	Low
	Psychological support after accident with serious injuries or fatal victims		High	Low	Low
	Recommendation of lawyer (based on lawyer network) after car accident		High	Low	Low
	Spare part dispatch in the event of car breakdown		High	Low	Low
	Dispatch of medication and seeing aids abroad	High	Low	Low	
	Organization of travel home or to next destination in the event of breakdown/traffic accident	High	Low	Low	
Provision of a replacement car in the event of breakdown/repair	High	Low	Low		

SOURCE: McKinsey

The idea behind “assistance” is organizing/providing help in emergencies (e.g., aid, support, emergency response, and problem-solving services in emergency and damage/loss situations) – through a type of service that is often closely tied to the insurance coverage. Assistance directly supports the customer in case of loss/emergency beyond the pure monetary support of classic insurance offerings. The value-added services are defined in a broader sense and are often less closely tied to the insurance coverage than (emergency) assistance. Services thus go beyond monetary support and the immediate customer support during the moment of loss and offer a value-add over time, such as the coordination and scheduling of regular car maintenance checks in a partner network or medication reminders.

Assistance & service offerings can provide four key benefits for insurers:

- **Revenue potential.** Services can be priced individually or as a package/module for an insurance product (e.g., as part of a security package). Paying for services or applications on a subscription-based model is already a proven concept in other industries, where, for instance, Apple formed a whole business model around it. For insurers, the target state could be to have modular product offerings, where additional service components can be included.
- **Cost improvement.** Service offerings can increase the use of self-service tools, improve process efficiency, and decrease claims/overall costs for insurers.
- **Customer loyalty/retention.** As customers benefit from value-added services, faster processing times, and simpler processes, etc., insurers can count on increased customer loyalty to higher customer satisfaction levels and more frequent customer interactions.
- **Data generation.** Customer data can be gathered from the services provided and leveraged internally or shared with partners.

How individual insurers can launch new offerings

There is certainly no single, standardized approach to optimally developing and successfully launching new assistance & service offerings. However, our findings reveal three critical enablers that set insurers up for success in the hybrid market:

1. Capabilities/resources for delivering high-quality services at scale
2. Partnerships that help to fulfill end-to-end service offering requirements
3. The technological foundation and interfaces for acquiring, integrating, and processing data.

Insurers can embark on a four-phased approach to launching new assistance & service offerings:

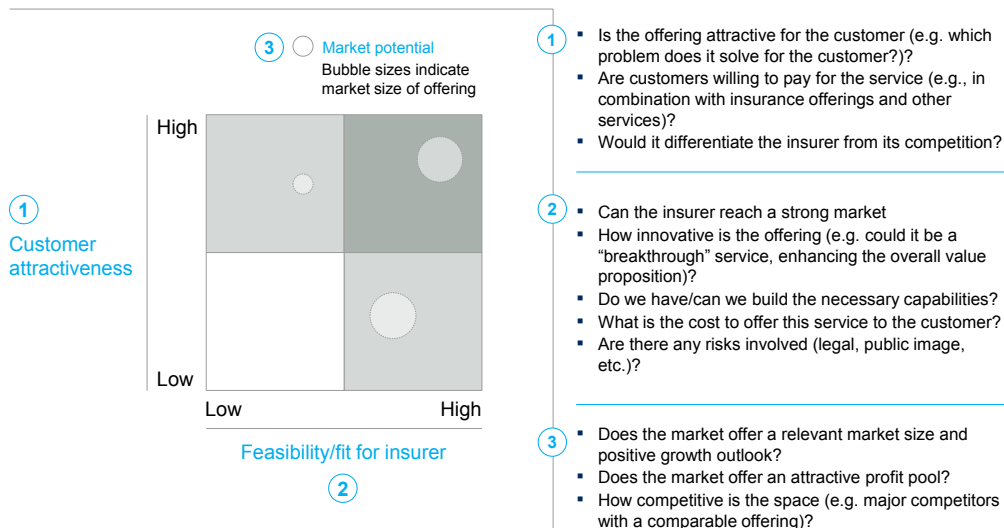
Phase I – market assessment and prioritization. In a first step, insurers can assess their respective markets by conducting a comprehensive analysis of current offerings of competitors and comparing them to their own offerings (see also Text Box 1). A gap analysis provides transparency for the insurer on potential opportunities to extend the assistance & service offerings as well as to differentiate. The identified offerings are then prioritized with regard to their customer attractiveness, market potential, and feasibility (Exhibit 2).

Phase II – detailed business model design. Based on the result of the market assessment and prioritization phase, selected offerings are further detailed in Phase II. This comprises, among other activities, setting up a project structure, conducting customer/sales force market research to validate opportunities, and detailing the business model (especially the operating model); assessing the operations and IT implications and, finally, developing the business case.

Exhibit 2

Each assistance & service offering and theme can be assessed by insurer based on 3 criteria

Initial assessment of attractiveness and fit for insurer



SOURCE: McKinsey

When designing the business model, players can learn from best practices of leading industry players (e.g., by participating in McKinsey’s Assistance Performance Insights (API) benchmarking of Europe’s leading assistance providers, Text Box 2). At the end of this phase, players decide on the most promising – in terms of profitability and feasibility – offerings and potential pilots (go decision).

Text Box 2

A strong tool for benchmarking assistance & service players

Co-developed with the leading European assistance providers, McKinsey’s Assistance Performance Insights (API) benchmarking provides a unique opportunity to compare a company’s performance against leading roadside assistance and travel insurance players.

Multiple globally and locally operating assistance providers participated in benchmarking activity.

Based on the API analyses, each participant was able to identify performance gaps with an average improvement potential of double-digit million Euros in additional operating profit per year. Also, business opportunities based on gap to revenue mix were identified.

Given multiple “drill-down” opportunities into revenue, cost, and operational KPIs, participants are able to identify the sources of performance leakage (see Exhibit 3 for an example) and initiate respective countermeasures.

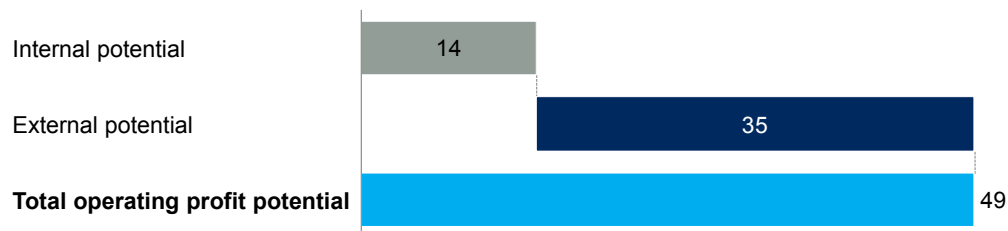
Within the first round, analyses are available for group level and for selected markets, e.g., France.

Exhibit 3

Disguised case example for improvement potential

EXAMPLE

Opportunities from closing gap to benchmark,
additional operating profit in EUR millions



Internal potential

Policy management	1
+ Claims and Assistance management	4
+ Network management	0
+ Product development, M&S	2
+ Finance	1
+ HR	1
+ General support	3
+ IT	2
= Total internal cost potential	14



External potential

External acquisition costs/commissions	7
+ External claims costs	28
= Total external cost potential	35

SOURCE: McKinsey

Phase III – pilot for selected assistance & service offerings. After the potential go decision, a pilot allows the insurer to continuously improve the offering based on actual customer feedback and helps to better assess the market potential. In parallel, the scale-up can be prepared by advancing the business model definition for the assistance & service offering, developing a detailed implementation plan for the scale-up phase, and preparing a go/no-go decision for the scale-up.

Phase IV – scale-up. In the scale-up phase, the business model is finalized and the roll-out further supported by the build-up of partnerships, an advanced operations and IT setup, and a comprehensive sales and marketing campaign. Furthermore, the assistance & service offerings might be brought to additional target geographies.

* * *

Incumbent players would benefit from drawing up a smart and robust (execution) strategy for expanding their assistance & service offerings. Those who stick with the status quo will find it harder than even to generate new revenue or even preserve their customer base with their current classic “pure insurance” business models (especially in light of new competitors). Insurers who act now and fast will be in a strong position (also in emerging connected ecosystems) to tap into new sources of profit for their organizations.

Contacts

Björn Münstermann

Munich, Partner

E-Mail: bjoern_muenstermann@mckinsey.com

Christopher Mokwa

Cologne, Associate Partner

E-Mail: christopher_mokwa@mckinsey.com

Simon Behm

Munich, Engagement Manager

E-Mail: simon_behm@mckinsey.com

Gregor Becker

Cologne, Senior Associate

E-Mail: gregor_becker@mckinsey.com

Anna Güntner

Berlin, Senior Associate

E-Mail: anna_guentner@mckinsey.com