Success of domestic insurance rewards

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TO BE REALLY EFFECTIVE THEY MUST IMPROVE RISK MANAGEMENT

The need to attract new clients, retain existing business and manage sustainable loss ratios in an environment of ever increasing competition requires insurers to remain relevant to their consumer bases which, in turn, makes constant agility essential on their part. This is especially true in respect of the "Millennial Generation" consumers who want additional benefits from their insurance spend.

Rewards are a marketing initiative developed to encourage new business acquisition and retention of existing business. Rewards may also encourage clients to self-insure, ultimately resulting in a reduction of loss ratio and benefiting the client by helping to reduce the cost of insurance. A win for all parties.

Have you ever won anything in a raffle or a lottery? Wasn't it a great feeling? Wouldn't it be gratifying for insurers to recognise you for taking additional care to protect your property? A reward may also engender a feeling of loyalty toward that brand resulting in the best "word of mouth" marketing tool.

Millennials want to know how they are benefitting from the insurance grudge purchase. Whilst the concept of insurance is understood, they question why they should pay for the losses of the few if they are making an extra effort to be diligent about protecting their own assets? They want insurers to recognise their effort.

What incentive is there to buy insurance? Anything purchased via a financial loan will require full "comprehensive" cover which the lending institution will demand. Millennials may prefer to self-insure or select just the sections or items they wish to cover. No "one package fits all". With this mind set and the current economic downturn it is likely that the "pool" of premiums will diminish which in itself leads to another dilemma for the industry.

How do we encourage growth in this sector? Some insurers are already thinking "out of the box" and offering modules of minimum cover with benefits which increase over time.

Legislation prohibits certain incentives. The Short Term Insurance Act of 1998 #53 Section 44 states:

44 PROHIBITION ON INDUCEMENTS

No person shall provide, or offer to provide, directly or indirectly, any valuable consideration as an inducement to a person to enter into, continue, vary or cancel a short-term policy, other than a short-term reinsurance policy.

So no inducement may be offered, but a rebate based on performance may be given after a certain period of time.

No Claim Bonus discounts have traditionally been provided as an incentive to the client for not claiming during a certain period of time, resulting in a premium reduction. A No Claim Bonus is a "no claim" and not a "no blame" discount, which clients find difficult to accept if they perceive that they are blameless in the event of a loss.

However, pursuing a strategy of not claiming to protect a No Claims Bonus has other consequences. Consumers need to be made aware of possible dire financial implications they may face if they decide not to claim against their policy. The client becomes his own insurer for the loss. In the event of a Motor claim, a 3 year prescription period could mean that our unsuspecting client may receive unwanted third party legal approaches at any time during this period and the insurer will not offer legal assistance.

Perhaps the most effective strategy is to reduce the incidence of claims, lowering the probability of the sudden and unforeseen events insured by encouraging improved risk management on the part of insured clients, rather than by encouraging clients to not claim after such an event.

A highly successful example of that strategy is the application of telematics to monitor driver behaviour and lower loss ratios by improving driving standards rather than by leaving poor driver behaviour uncorrected and encouraging the insured to not lodge a claim for a loss resulting from such poor behaviour.