



## *The Internet of Things – So What?*

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I recently purchased a new car and was struck by the tech savvy way the car interacted with my mobile phone and I am not just speaking of playing music by connecting remotely with the mobile via Bluetooth.

The mobile phone and car were two inanimate objects interacting with one another without the aid of human intervention other than turning the key in the car ignition. Ah, I can hear you saying - you still had to have human intervention by turning the key in the ignition! Yes but I imagine that this will be a temporary formality which will also soon be in the past.

Either way the experience started a train of thought about claims, their management and to coin a recent popular phrase -“The Internet of Things” (IOT)

Over the past twelve months, there has been much written about IOT and how it will affect the insurance industry and the implications for the industry surrounding risk. As such the way that claims will be managed in the future might already extend beyond our current thinking.

### **Technology innovators are changing the nature of insurance risk**

The Googles and Ubers of this world are already ahead of our industry and some are even contemplating whether motor insurance will be needed in the future; a topic which I will touch on later. Uber’s data is currently being used to support highways agencies and city planners to look for road risk and traffic hotspots. This is just one example of many that is changing the way the insurance

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industry will need to re-examine and adapt their view of risk and innovate to provide new products and income streams. On 16<sup>th</sup> September 2016 it was announced that Google is working with Axa and Allianz to provide “Nest” products which include smart thermostats to be fitted in new home developments; Googles innovators are slowly but surely moving into the insurance space.

Whether motor insurance will be needed in the future will take time, consideration and readjustment by the insurance industry, motor manufacturers, legislators and governments alike. Presently Insurers still need to overcome the privacy concerns which currently mar the take up of telematics by non Generation Y policyholders; however this will gradually shift as more of Generation Y reach maturity.

### Technology is embraced and expected by the policyholders of the future

A recent World Insurance Report found that 23.4% of Generation Y customers indicated that they would purchase insurance from a technology company such as Google if it chose to enter the insurance market. Given that Generation Y is expected to be 25% of the global population workforce by 2020 and add to this that in the next 12 months more than a quarter of customers plan to purchase or renew their insurance through digital channels this must be a huge threat to the general composite insurance market.

### How might the growth and advances in technology change the nature of claims and our approach to claims handling?

Historically the motor industry has focused on the driver and human error in order to evaluate the risk and thereon the premium charged; however with the increasing advancement of driverless cars, buses and other modes of transport, the risk will move from the driver and human error to the mode of transport itself. So if the driverless car malfunctions causing an accident it will likely be the car manufacturer where the claim will sit and not with the driver. Are we about to witness a move away from motor insurance and a huge increase in product liability claims? Time will tell and if this is the future of motor insurance and product liability insurance, not only will innovation in insurance policy wording be required, but increased skills and training in complex product liability claims management will be a necessity.

The potential changes in motor insurance and their claims management is not the only class of risk that will be affected by the IOT.





So what about other classes of risk?

It is in the property risk arena whether private, commercial, real estate and CAR where we are likely to see more rapid change; particularly new property developments of all types. Smart homes and properties occupied or unoccupied will in due course become embedded with sensors providing a connected living and working environment to prevent hazardous incidents occurring. This will drastically reduce and in some instances may eliminate the need for property insurance altogether. Like motor insurance this may be a few years away but once again like motor insurance this may lead to claims being intimated to product liability insurers due to the product failure of the environmental device/sensor itself rather than a claim to the property insurer for the operation of a peril such as escape of water from a water installation.

### Will escape of water claims become a thing of the past?

Water peril claims outstrip any other type of property claim from the simple household claim to the more complex multiple occupancy third party contractors CAR claim. The development of the smart home and its embedded sensors will lead to the monitoring of, for example, the heating boiler in the property which will notify a malfunction of the boiler in real time well in advance of an escape of water even occurring and if the escape of water does occur the notification of the claim to the Insurer or their partnered supply chain will then also take place in real time thus preventing extensive water damage to properties under such circumstances.

An example of work currently underway in this field is a major composite Insurer in partnership with a leading washing machine manufacturer to develop the idea of sensors in washing machines to alert for potential malfunctions which would lead to an escape of water from the machine itself.

This makes perfect sense, thus reducing the risk, the cost of any claim and also the disruption and stress to the policyholder and/or tenant and landlord alike. With data being collected in real time from the device automatically, this will drastically reduce the life of the claims journey.

This should result in a downward water peril claim trend, lower indemnity costs for those losses that do occur, while brokers and their clients will expect Insurers to consider reductions in premium spend for those properties fitted with smart sensors.

As it presently stands, it is likely to be new property developments and property investors involved in refurbishments on a larger scale that will initially benefit from such sensor installations as unless an





individual homeowner is provided with some incentive to have a sensor installed in their property, the homeowner will consider they will not see a return on their investment unlike the installation of an energy saving device where the homeowner is able to see on a monthly basis their energy costs reduced.

## Realising the potential of data

So bearing in mind that the sensors wherever they are installed; cars, buses, trains, machinery, buildings, water appliances etc. are continually collecting data, what are we going to do with all this information? One avenue of thought is that with “live data” Insurers will have a greater opportunity to detect fraudulent claims. I agree, however this once again is some way off as many would suggest that to some extent, Insurers have only recently come to grips with fraud in the industry.

There is no doubt however that the collection of more data will lend itself to better claims analysis, better risk investigation and tailored claims strategies rather than the one size fits all mentality. Claims and risk profiles can be better analysed allowing claims processes to be streamlined allowing for value added claims services improving loss ratios.

Insurance Brokers will need to think more and more where they can add value especially given that the more sophisticated Insured’s will have all this connectivity. Brokers will have to consider what type of advice a policyholder will actually need rather than this is what we do, this is the standard package on offer and living purely on good relationships. Brokers will need to cut through all this data collection to deliver better solutions.

The IOT in time will improve the customers overall claims experience however I leave you with this thought.

Most Insurance providers regardless of where they fall along the supply chain have been talking endlessly about claims service being their key differentiator when marketing their company. If in the future, which as far as the IOT is concerned is gaining, by the nature of the beast, faster momentum, will the insurance marketers use the differentiator that “...our data analytics are better than yours”....and this will be where the Googles and Ubers have already seen their opportunity.

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