

Getting smart about smart-home technology

No place like home

Technology is disrupting traditional ways of doing business and our traditional way of life. Although it's natural to perceive any disruption as a threat, we choose to focus on the opportunity: We believe a "disruptive arbitrage" is available (a chance to take advantage of disruption and gain market share) by engaging insurance customers through smart-home technology. A smart device is similar to traditional devices (smoke alarms, thermostats, etc.) but is connected to the internet and therefore able to alert users, allow homeowners to take action while away from home, and generate large quantities of data. Smart-home devices are growing in popularity, while becoming cheaper. As the smart-home market jumps from roughly USD 37bn in 2016 to about USD 112bn by 2020 (including services),¹ our industry has a unique opportunity to capitalize on where devices and consumer behavior merge with insurance.



Why smart homes?

Risk mitigation and prevention

It is estimated that the average household will have 8.7 smart devices by 2020.² This offers serious potential to gain insight into consumer behavior and risk profiles.

Although still too early to definitively conclude, the general consensus is many of these devices will reduce the severity of claims. It's not difficult to envision a scenario where a smart device automatically alerts a homeowner when danger first arises, thereby minimizing the severity of loss. Consider a smart smoke alarm that alerts a homeowners via phone

that smoke has been detected in the home, or a water-leak detector that provides a similar notification. These devices also have the ability to alert local emergency services to a situation or notify a utility provider to shut off gas/water.

Risk prevention is also a significant benefit of smart-home devices. Smart thermostats enable homeowners to remotely control the temperature of their houses and can help avoid frozen pipes when they are away. Smart bulbs can be switched on and off remotely to deter intruders by making it seem someone is home. Simple additions of smart devices can make a material difference.

Customer experience

Engaging with the smart-home industry can not only generate new consumer insight but also boost your image as a progressive insurance company. NTT research found that 2 in 3 of surveyed home-insurer customers would switch providers if they could get a discount for their devices.³ Aside from retaining or gaining technology-savvy customers, we predict that the increasing interplay between insurance and smart-home devices will result in a more seamless customer experience. This trend also offers a unique opportunity to educate insureds about risk mitigation.

Insurance companies who embrace smart-home technology may play a leading role in explaining to friends and colleagues how these devices can help reduce claims, and ultimately benefit customers through lower premiums. Along with reducing premiums, insurance companies are considering leveraging preventative services to add value and increase premiums. If consumers understand how actions can lower insurance cost, we think they may change their behaviors accordingly.

How can you become involved?

Through our research on this trend, we have identified two strategic focus areas that early-adopting insurance companies have in common. First, they actively engage in the digital ecosystem through partnerships or equity investments in insurtech companies (who are most commonly device manufacturers). Second, they drive customer take-up rates by offering discounts; this is to pursue more connection with the end user to gather data.

Partnering

Partnering with insurtech companies can be an effective way to gain access to innovative technology. That said, there are many insurtech startups and it can be challenging to find the right partner.

Common types of partnerships are:

- Partnerships with niche smart-home device startup companies. This type of partnership often provides some exclusivity for the insurer in return for market access.
- Partnerships with tech giants. The consumer insight and large customer base of tech giants can help build greater reach more quickly. However, tech giants may not provide exclusive relationships.
- Partnerships with energy/utility companies. Many energy/utility companies are also heavily investing in smart homes. A partnership between a utility and an insurance company can provide an opportunity to leverage an expansive customer base and share costs to push adoption rates.

Investing, and/or acquiring insurtech startups

Direct investments in multiple insurtech startups provide more exclusivity and allow capital-rich insurers to hedge against placing their bets on the “wrong” technology. A few large incumbent carriers have taken the plunge and created their own corporate venture fund to pursue this strategy. This is a riskier strategy with unclear returns, but is an avenue that is being pursued by a few companies in the smart-home space.

Taking stock of discounts

There are customer discounts being offered for using smart-home devices. The strategy behind offering discounts is to gain end-user access to data to improve the smart-home value proposition. These incentives are typically small, and there isn’t much information about their impact on claims. However, any discount demonstrates a commitment to rewarding consumers for risk-prevention measures. Devices tied to security, fire protection, and water-leak prevention are the most frequently offered discounts. Discounts are a short-term solution for insurers, but this is an avenue to engage with consumers now.

Type of discounts include:

- Offering a free smart-home device to policyholders
- Providing discounts on devices from partner companies
- Giving an insurance premium discount of up to 5% for using a device

What now?

In a commoditized homeowners market, going digital and enhancing consumer experience is a way to differentiate. Many companies believe they can differentiate via service and speed of claims for example, but this provides another way to differentiate. Smart homes may be the perfect place to double down and drive your company’s competitive advantage in a society that embraces technology and seeks ultimate convenience.

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¹ “Internet of Things (IoT) ... Big Brother Is Here.” RBC Capital Markets, August 15, 2016.

² “Security and utilities devices to drive smart home unit sales to 1.4 billion by 2021.” Ovum, February 14, 2017.

³ “NTT Data Study Finds 2 out of 3 Consumers Would Switch Insurers to Get Discounts for Using Smart Home Devices.” ENP Newswire, January 19, 2017.