Connected home: Get yourself connected

By Francesca Nyman

The concept of a networked home, with a number of services controlled by a smartphone, is fast becoming a reality. How can insurers capitalise on the 'smart' revolution?

For anyone imagining that the connected home – a networked home to which services such as healthcare, entertainment and security are delivered over broadband – was light years away, Google’s $3.2bn (£1.9bn) swoop for smart thermostat provider Nest Labs in January should have been a timely wake-up call.

Tech rival Apple’s foray into the ‘internet of things’ soon followed in June with the purchase of Home Kit, a tool that enables heating, door locks and lights to be controlled via an iPhone in June. Finally, Samsung brought up the rear with its purchase of Washington-based home appliance start-up Smart Things earlier this month.

But while the prospect of ever more granular personal data being made available at a click of a button will leave many insurers licking their lips, the question of how to capitalise on the smart revolution’s assault on the homestead is one many insurers are still pondering.

What is clear, according to Andy Morris, chief marketing officer for Assurant Solutions Europe, is that insurers can no longer view the connected home as something they don’t need to worry about until the future.

“Juniper Research expects the global market to be worth more than £40bn in 2018. According to Ofcom one in five homes [already] have six or more internet-enabled devices. YouGov believes one in three people consider the connectivity to other devices when purchasing a new device,” he explains.
Morris continues: “It’s a fast-moving area, and when you hear that huge players such as Samsung, Google and Apple are starting to talk about working together, it’s clear household insurers are going to have to get to grips with what this means for them and what sort of solutions they’ll need to deliver to their customers.”

**Telematics inspiration**

When looking for guidance on emerging technologies, many look to the motor insurance market’s telematics revolution as a source of inspiration. “Smart technology and telematics are already used by the insurance industry for products such as car insurance, which enables a consumer to pay premiums based on usage.

“The same could easily apply to the home – examples of this technology are already in place in terms of media, heating and appliance integration,” says Lee Taylor, chief sales officer at Allianz Global Assistance UK.

However, while much can be learned from the uptake of telematics in the private car arena, significant differences in the way the motor and property markets work mean the immediate incentive for allowing what many people still view as intrusive monitoring devices into their home – saving money – may not be as strong.

“With telematics, the major driver was around the overall cost of insurance. The idea being that if someone had a device connected to their car then potentially it could have quite a large impact on the premium,” explains Andrew Wormleighton, director of software and technology at software firm CDL.

“The household market is slightly different because premiums are a lot lower and there is less correlation between usage and the overall risk level. So, if you haven’t got as much to work with on the premiums then what is going to motivate the user? It has got to be things that bring benefits to them.”

One advantage most proponents of home telematics highlight is the demonstrable improvements in risk prevention, and it is this it is hoped will drive take-up among the more sceptical consumers. “Nobody likes being burgled, so if you can demonstrate installing this device means a lower likelihood of theft, that is very positive. Escape of water also causes huge disruption for the individual, so anything that tackles that [would be attractive],” says Wormleighton.
Taylor echoes these sentiments: “One of the key benefits has to be around providing a personalised consumer offering, which includes pre-emptive risk prevention features. These alerts can automatically notify the customer when an incident occurs, such as a fire, flood, theft or [electrical] breakdown.”

While the marketing of home telematics may be more difficult, the ultimate benefit for insurers could be substantial, particularly when it comes to smart smoke alarms and water leak detectors. These two events currently account for the majority of home insurance claims.

“Insurers could see significant improvement in their loss ratios by minimising claims occurring in the first place and – if claims do occur – being able to verify they are genuine,” says Wormleighton.

According to Bob Skerrett, UK head of telematics for RSA, one lesson that can be gleaned from the evolution of the motor telematics market is the importance of selecting partners carefully. “One of our big lessons from motor telematics is that how and who you partner with is very important.

“We’ve been speaking with the managing director of More Than about who we could partner with and it’s the usual names – telecommunications companies and our affinity partners – that come up. If I were John Lewis I would be sitting here thinking ‘This is great, I want to be involved in this’,” he says.

Much like motor telematics, the question of who will pay for the installation of connected devices is much debated. “Home insurance is a relatively cheap service, so I wouldn’t expect insurers to go it alone in terms of investing in the technology. The economics wouldn’t really make sense. But I would expect them to partner with people,” says Skerrett.

Taylor adds: “Technology companies are logical partners for insurers looking to support the connected home, but so too are the utility companies and original equipment manufacturers of household goods. This is due to the fact that both technology and utility companies have direct contact with customers and also the large customer networks that utility companies already work with.”

“Understanding consumer behaviour is critical to ensure products fit and support the consumer’s lifestyle and are relevant to their needs.”
Offering solutions

However, Morris believes that while technology companies are “the obvious partners”, insurers that have experience in mobile phone insurance will be well placed to offer solutions for this market.

He comments: “The smartphone is seen as the device that will keep people connected to their home – the remote control to the connected home if you like. We believe specialist insurers that have their heritage in mobile phone insurance like ourselves can span all markets. There will be an increasing reliance on smartphones and an increasing need for insurance products to cover them.”

“Speed of service is going to be a key consideration. By that, I mean the speed with which an insurer can get a replacement phone to the customer and the speed with which they can provide any technical support necessary to get the customer connected again as soon as possible,” he adds.

“Other things that can slow a claim down include providing proof of purchase, crime reference number or sending a handset off for repair. We’ve designed and built online and app-based systems to allow customers to upload proof of purchase and crime reference documents, and we offer a doorstop exchange capability to make the whole process as efficient and as quick as possible”

Joint ventures

The extent and manner in which firms will want to forge relationships with the device suppliers is likely to depend on the size of the firm and how big a part property insurance comprises of their overall portfolio.

“Joint ventures are probably too big a thing for Sterling to get involved in but I imagine for some of the bigger companies it would be in their interest to invest a bit more and do joint ventures,” explains David Sweeney, household and commercial director for Sterling.

“What we do is keep very close to the companies involved in the alarm systems, protection and the CCTV work and make sure our survey team keeps abreast of how the market is moving and what sort of people are buying into those systems.”
While many UK firms are watching and waiting, a number of their US counterparts have already spotted the opportunities that lie within the connected home, according to Dan White, senior partner for insurance at Ninety Consulting.

He cites the example of US insurer State Farm, which has joined up with alarm companies ADT and Lowe’s to offer homeowners and renters subsidised installation fees and discounted insurance cover if they opt to purchase one of a number of devices used to detect flood, fire, or break-in.

Allstate has a similar scheme in place with Canadian telecommunications company Rogers, which offers a 25% discount if they install its Smart Home Monitoring system, he notes.

“That kind of commercial deal would be the easiest thing for insurers to do,” says White. “Whatever insurers do, they need to get involved pretty quickly, because the requirements of the connected home are quite specific.”

While the immediate impact on pricing seen with the use of motor telematics is unlikely to be mirrored by the connected home, Sweeney believes it will eventually have a knock-on effect on home insurance premiums – although the first to see benefits are likely to be high net worth homeowners, he says.

He explains: “Initially, [connected devices] will definitely be for the higher value homes. Connectivity devices such as those used for monitoring of leaks [are] something we insist on for the very large homes that are left unoccupied for long periods of time. That can be part of the risk mitigation that people do on their big homes. It is not really reflected in premiums yet, but it’s certainly part of what we will and won’t cover.”

“It’s going to be the bigger homes first, from a risk assessment point of view. Then it’s going to be reflected in premiums on the bigger homes and then it’ll go down to the smaller homes,” he adds.

In order to do this however, insurers will need to get to grips with a data challenge on a much larger scale than with telematics, says Adrian Coupland, head of data strategy at SSP: “While black boxes in vehicles have a set number of easily comparable data points, the connected home could involve a network of dozens, even hundreds, of data points each working slightly differently in each home,” he says.
He continues: “Insurers will be expected to [look at] the risk in a home, with its fully connected security system and centralised electricity monitoring hubs, [alongside a system] which tracks the location of occupants through smartphone apps. The first insurer to collate all this data and draw meaningful comparisons from it will have a tremendous advantage.”

**Speed of change**

Although the speed of change is unpredictable, White believes the connected home could, ultimately, represent a paradigm shift in the way home insurance operates, threatening to render insurers in their current form obsolete.

Rather than the analogy with motor telematics, he believes the situation facing home insurers has more parallels with another threat facing motor insurers – driverless cars. “The insurance world is fuelled entirely by claims. If, through driverless cars, you can reduce claims to the point when there are no claims, then there is nothing to underwrite and the insurance industry disappears,” he says.

“A product [home insurance] hasn’t changed for decades and will change over the next 10 to 15 years quite rapidly. [The connected home] takes a product that is currently based on reparation and moves it much more into the preventative space. That gives the insurers a very different role in society.”

**‘Internet of things’ consortium receives government boost**

The Hyper Cat consortium, a group of 40 British-based companies, was recently awarded £1.6m by the government’s Technology Strategy Board. The funding is designed to support the consortium in developing and implementing a publically available, universal specification for the internet of things – the first step towards an open, international standard for internet of things interoperability. The consortium includes several of the major players in the internet of things space, including BT, ARM and KPMG.

The internet of things describes the situation of everyday objects connected to the internet, participating together in a system. Currently there is no standard by which these objects, or things, can communicate with one another.

Hear more on this topic at Insurance Data & Analytics taking place on 18 September at Le Meridien in London. Register your place today.