

All change in motor LEI

How will products and prices evolve in motor legal expenses insurance after the implementation of the the online injury claim portal? **Edward Murray** reports on the findings of a joint *Insurance Age* and Coral Insurance Services survey



The government has pushed back the implementation of Official Injury Claim, the online personal injury portal, until at least April 2021.

The delay buys the motor legal expenses insurance (LEI) market some time to formalise its thinking around the new environment and market research carried out by *Insurance Age*, in association with Coral Insurance Services, suggests there are still some important issues for the industry to sort out.

The research canvassed opinions from 165 people across the market on topics ranging from future demand for motor LEI to consumer education and changing cost bases. The findings are discussed in detail here, with comment from some of the major players in the market.

Future demand

Most motor LEI sales are made in the shape of optional add-ons and, looking ahead, 55% of respondents said they felt demand for LEI would stay the same following the implementation of the personal injury reforms. A small number – 7% – felt demand for the cover would fall.

These responses surprised market



commentators, who generally believed that appetite for motor LEI would increase.

Explaining its view in more detail, a spokesperson for Direct Line Group, said: “Changes to the Small Claim Track (SCT)

limits will increase post-reform from £1,000 to £5,000 for most personal injury claims. This could make motor LEI more attractive to customers as legal costs will not be recoverable in most cases.” ▷

Following the implementation of personal injury reforms, do you expect consumer demand and policy sales of motor legal expenses to either increase or decrease?



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Jack Cousens, a spokesman for AA Insurance Services, was in agreement and he added: “We anticipate that as consumers become more aware of the support and value for money motor LEI provides when compared to other ways of accessing legal advice, the demand will increase.”

However, the research found only a minority (38%) of the survey respondents felt demand would increase. Breaking this down, 16% expected a rise of up to 10%, while 13% felt it would rise by up to 20%. A bullish 9% believed the increase would be in excess of 20%. (See graph on previous page.)

The proof of the pudding will be in the eating, but Will Price, of Coral Insurance Services, thinks there is an opportunity to be had that many might miss because of their pessimistic outlook.

Commenting on the research findings, he said: “There’s clearly a number of brokers who are ahead of the curve but the 55% who are not expecting change may not have thought through all the implications for their customers.

“Brokers are leaders at the end of the day and part of their role is to understand how environmental changes affect their customers and provide guidance on the kind of insurances that can help them cover evolving risks.”

He added: “The complacency is surprising, and it raises questions about some brokers’ understanding of their customers’ future needs – the findings suggest there’s a danger of customer detriment.”

“As an industry I think we need to explain to customers the value of motor LEI and the consequences of not purchasing it given the changes brought to bear in the *Civil Liability Act*”

Martin Milliner

Delivering better product education

The need for better education was highlighted very clearly in the research. It found that the two biggest obstacles to increasing the take up of motor LEI were improving consumers’ knowledge of the value it offered (cited by 70% of respondents) and educating the public on the impact of the personal injury reforms (cited by 62% of respondents). (See graph below)

Price is outspoken on the need for the insurance industry to take responsibility for improving customer education.

He said: “The industry has pushed for these changes and now it needs to ensure that everyone affected is aware of them. There is almost an abdication of responsibility from some in the industry about educating the customer, as if it is not their job but the government’s job to do the educating. I think this is the wrong approach. It cannot be someone else’s job.”

So just who should be educating customers and what should they be doing? Cousens at AA Insurance Services said: “Insurers are responsible for clearly

communicating the extent of cover a customer is buying.”

Richard Finan, director of strategic development, at insurer Arc Legal Assistance detailed the approach taken by his own firm.

“We are supporting our distribution partners on two fronts,” he commented.

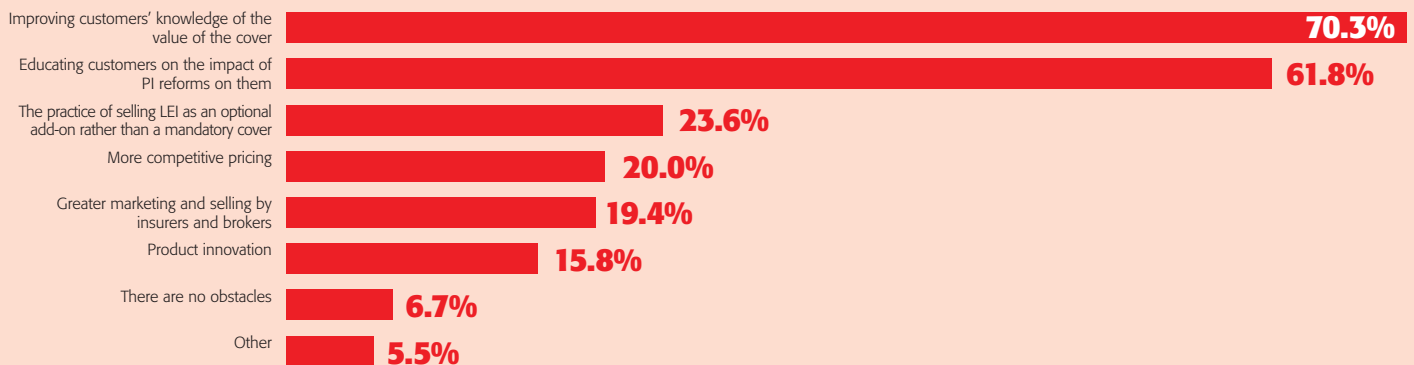
“For those with customers who already have motor LEI products, we are encouraging them to remind them of the cover they have in place and how they will continue to be protected for all legal fees after the reforms are implemented. Where they have clients that are not currently protected by motor LEI, we are helping them to communicate that after the reforms are implemented, they will be exposed to paying their solicitors costs, if they have a small claim RTA personal injury.”

Finan says that typically the insurer’s distribution partners will deliver the consumer messaging, which it is helping them formulate.

LV is another insurer that is increasing the amount of information available to customers, both online and at the point of sale. Indeed, Martin Milliner, claims director at LV, believes the personal injury reforms present the market with an important opportunity that it cannot afford to miss.

He says: “As an industry I think we need to explain to customers the value of motor LEI and the consequences of not purchasing it given the changes brought to bear in the *Civil Liability Act*.

What do you think are the biggest obstacles to increasing customer take-up rate for motor legal expenses cover?



With underwriting rates for motor legal expenses likely to increase, how will distributors respond?



The value of motor LEI is not particularly well understood by the motoring public and this is an ideal opportunity to raise awareness.”

Part of the problem is that motor insurance has become such a highly commoditised market that nothing except messaging around the lowest premium seems to get any traction.

But Price believes the personal injury reforms provide the chance to think about different engagement strategies that move beyond basic sales and claims interactions.

He says: “There’s a real opportunity to take the product beyond being just another add-on. The product is about access to justice, and engaging customers at a different level and in a different way could change the way customers feel about motor LEI. Customers will surely appreciate information about the changing market and new regulations that are going to impact the risks they face, and what they can do to better protect themselves.”

Financial considerations

While discussions continue around evolving customer engagement, any talk will have to factor in the likely impact of the changes on motor LEI pricing and whether these will be passed on to the customer.

The market research suggests there is limited appetite within the industry to absorb any extra costs and that they will simply be passed on to the policyholder.

More than two thirds (68%) of respondents said they would pass on any rise in underwriting rates on motor LEI (see graph above). Given the research also highlighted issues around poor consumer understanding of motor LEI and the value it added, asking them to pay more for the

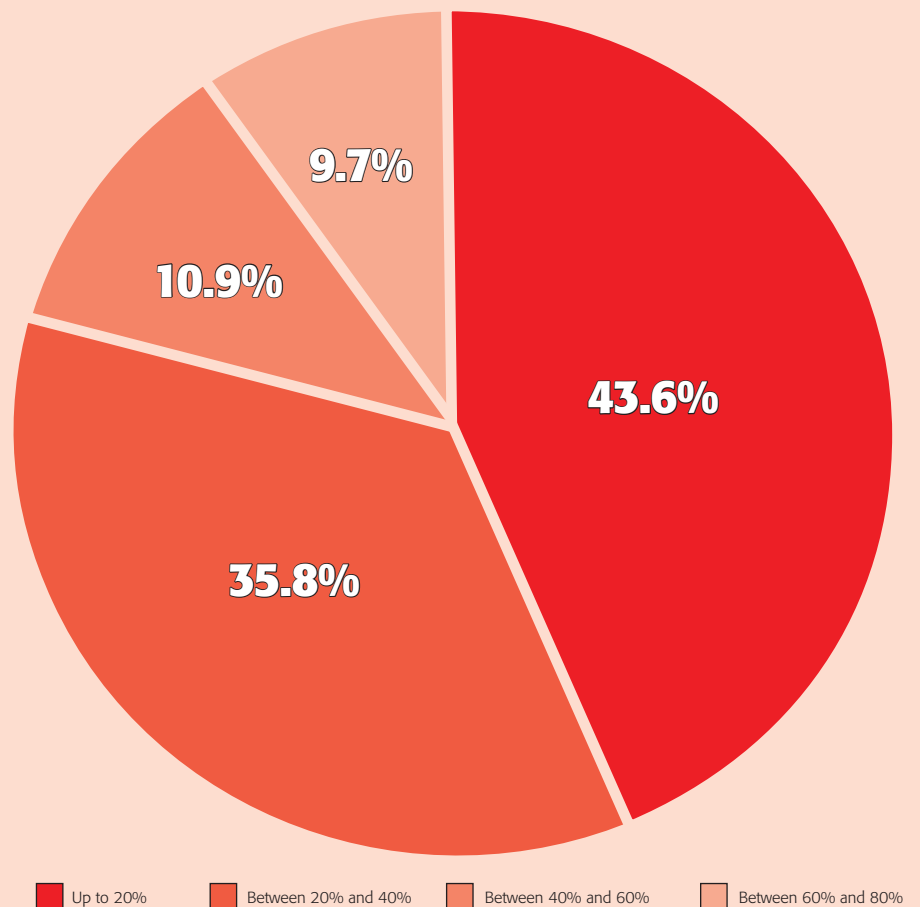
“Distributors are under constant pressure from an income perspective, but is passing the increases on the right long-term play?”

Will Price

product could sound a death knell for future sales.

Price commented: “Distributors are under constant pressure from an income perspective, but is passing the increases on the right long-term play? A double whammy of passing the increase on, coupled with not educating the customer >

What levels of commission (as a % of the retail premium) do you expect brokers to require for Motor Legal Expenses policies post reforms?



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as to the growing need for the product will decrease customer confidence and could end up with a very detrimental impact on the market as a whole.

Finan at Arc Legal Assistance agrees. He said: “We are working with our distribution partners to ensure that these increases have the least impact possible on consumers. Generally, our partners are endeavouring to absorb all or part of the increase.”

This is not an approach that AA Insurance Services subscribes to and Cousens commented: “We would expect that any increases in costs would ultimately be passed onto consumers through higher premiums. An unintended consequence of this could be an increase in uninsured drivers.”

It remains to be seen whether competitive pressure will encourage more intermediaries to absorb some of the increases with the aim of remaining competitive and being able to take advantage of a potential increase in demand for motor LEI.

But it is clear that views remain

mixed on where commission rates, as a percentage of the retail premium, will settle following the implementation of the reforms.

When asked, 44% of the research respondents said brokers would need to set commission rates at up to 20%, while more than a third (36%) felt it would be between 20% and 40%. (see chart on previous page.)

But it is worth noting there were also a significant minority of 11% that expected to see commission rates of between 40% and 60%, while a tenth of respondents thought they would need to be between 60% and 80%.

Whether the top end estimations will find any place in the market is questionable and market watchdogs have already earmarked commission rates as an area of concern.

Finan commented: “There is renewed focus on commission levels driven by regulatory scrutiny and anticipated additional oversight.”

With that in mind, insurers and intermediaries will need to be able to

demonstrate commission structures are fair, reasonable and justified if they want to avoid the attention of the regulator.

Change and innovation

Beyond pricing, it appears the motor LEI market is ripe for more deep-rooted change. Almost three-quarters of those asked (74%) felt there was some demand for new entrants with disruptive propositions.

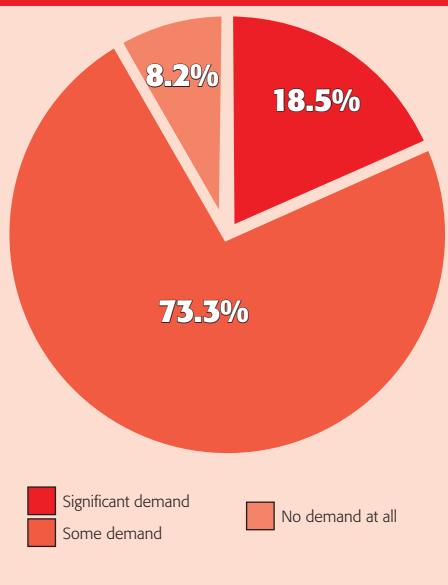
A further 62% said they were either likely or highly likely to review their legal expenses offering and/or partner in 2020, suggesting they would be open to working with new players.

Price said there were several areas where positive changes could be made to better reflect car ownership and driving patterns, such as moving away from set 12-month policies to create something more flexible.

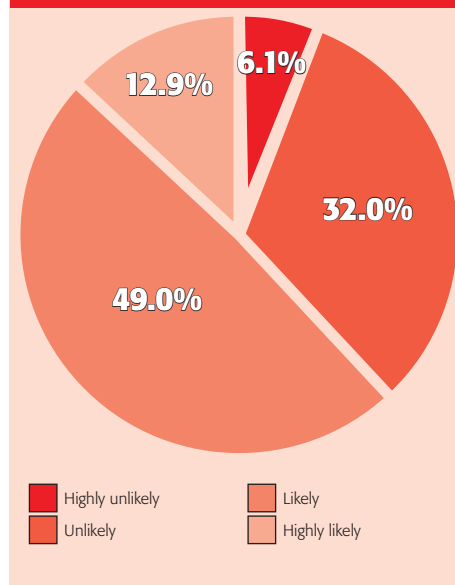
He added: “Who is going to shake it up and inject some fresh thinking? The timing is great, given the impact of the reforms and the need to engage customers.”

However, it is also true that some of the policy changes that are filtering

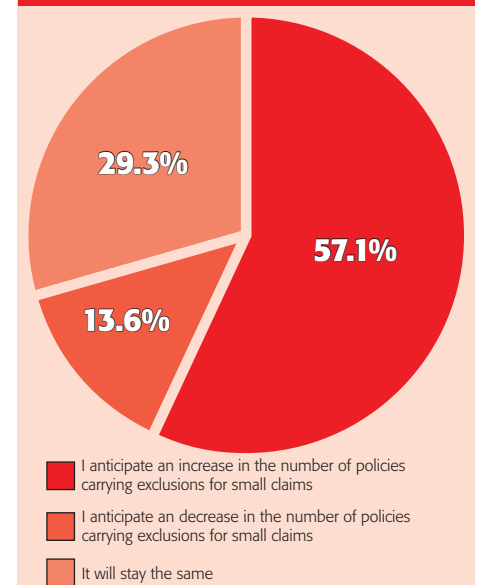
If personal injury reforms could offer the potential for innovation within the motor legal expenses market, how much demand do you think there could be in the market for new entrants with disruptive propositions?



With personal injury reforms on the horizon, how likely are you to review your legal expenses offering/partner in 2020?



With the proposed change to the small claims limit (from £1k to £5k) do you anticipate an increase or decrease in the number of policies that carry exclusions for small claims?



through have not been positive. A hefty 57% of respondents said they predicted an increase in the number of policies that carried exclusions for small claims, diminishing the cover they offer for customers.

“There have been a small number of policies that I have seen that do appear to be hollowing out cover,” said Milliner who believes this does not serve the needs of the motoring public and reduces the utility of the product.

Cousens added: “The most important challenge for the market in the immediate future is to ensure existing motor LEI policy benefits are not watered down or removed altogether if costs increased.”

While there has been plenty of discussion around the personal injury reforms and the implementation of the Official Injury Claim online portal, it seems there is still little consensus about exactly how products and pricing will evolve in the motor LEI market.

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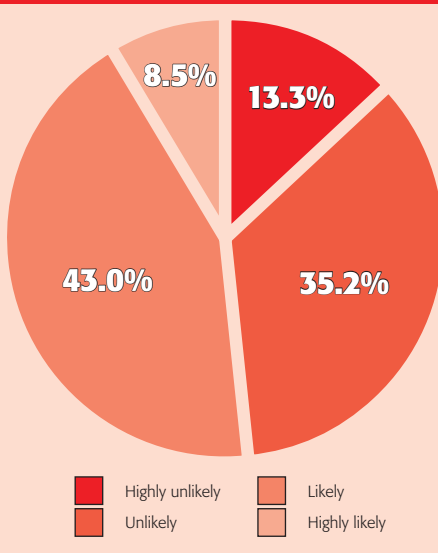
Jack Cousens

The research suggests some firms have taken positive steps to get ahead of the curve, but it also points to many others that have yet to take proactive and decisive action that would benefit the UK’s millions of drivers.

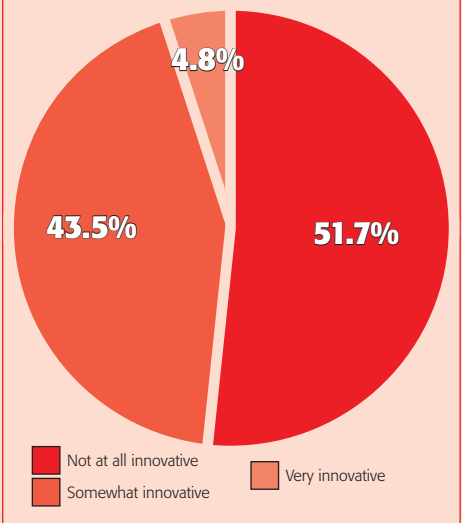
Alistair Kinley, director of policy and government affairs at law firm BLM, concludes: “The imminent whiplash and small claims reforms will present LEI providers with a real opportunity in terms of facilitating access to justice in lower value motor claims - including those under the increased small claims limit - but existing business models and pricing will have to change. Demand will rise, providers and distribution channels will have to respond, and products must deliver for consumers, especially vulnerable customers.” ■

More highlights from the survey

To encourage greater take-up of motor legal expenses cover, how likely is it that the market will move more towards a mandatory sales approach, with cover included as standard within the main motor insurance policy?



Compared to other sectors of the insurance market, how innovative would you rate the legal expenses sector?

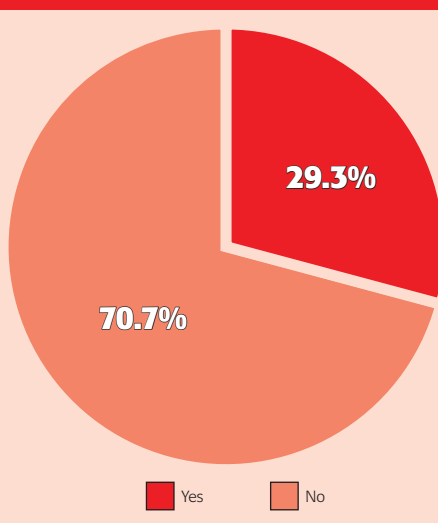


What would be your key priorities for a post reform motor legal expenses solution?

Respondents ranked options in order in significance (1=top priority, 2=second highest priority, etc)

- 1 Competitive post-reform LEI underwriting rates
- 2 Product innovation and tailoring
- 3 End-to-end solution including ancillary services (hire, repair, etc)
- 4 Guaranteed and fixed claims costs
- 5 More cost-efficient administration services
- 6 Independent oversight of legal services providers
- 7 Greater control and management of panel claims
- 8 Non-risk income generation

Does your motor legal expenses policy currently exclude cover to fund legal costs for small claims?



*survey carried out by Coral Insurance Services in conjunction with Minster Law

Beyond the add-on

Coral Insurance's **Will Price** on why the industry will need a revamped range of modern legal expenses insurance propositions

Coral Insurance, a new specialist legal expenses insurance (LEI) provider, sponsored a broker market survey earlier this year, in partnership with *Insurance Age*. 165 brokers from across the UK told us what they thought about LEI.

There are very diverse views on how demand for LEI will shift post-CLA reforms. As the full report on the preceding pages shows, just over half thought demand would remain the same or reduce, while 29% thought demand would increase by anything between 1-20%, and nearly 10% thought demand would grow by more than 20%.

The future direction of travel for LEI demand remains to be seen, especially now the launch of the small claims portal has been pushed back by at least 12 months.

Whenever the portal launches, the market needs a new range of modern LEI propositions which deliver real value to customers; customers who are largely ignorant about LEI – a factor not helped by some brokers having no more than a very basic knowledge of the product themselves.

Tomorrow's world

It's not easy to develop a product that is ready to meet tomorrow's challenges today but, as a market, we have the opportunity to ensure that consumers do not get left behind when they face legal issues, for example, needing a lawyer following an injury from a motor accident.

Old solutions aren't likely to fix new problems and, in truth, the current range of LEI products are old solutions. It's hard to pinpoint any real innovation in the last 20 years (and I'm not counting an ever-longer list of perils which often offer perceived rather than real value to customers).

Industry inertia means customers stay uninformed. Product features bear

little relation to what customers actually need, and the fragmented supply chain makes for a mediocre claims experience at best. Exclusions are rife, so value is perceived as minimal. Often, customers get stuck into unnecessary litigation that increases claims and indemnity costs.

Insurance isn't perceived to be at the 'bleeding

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edge' of innovation in technology or customer experience. Rather, insurance is often a 'fast follower'.

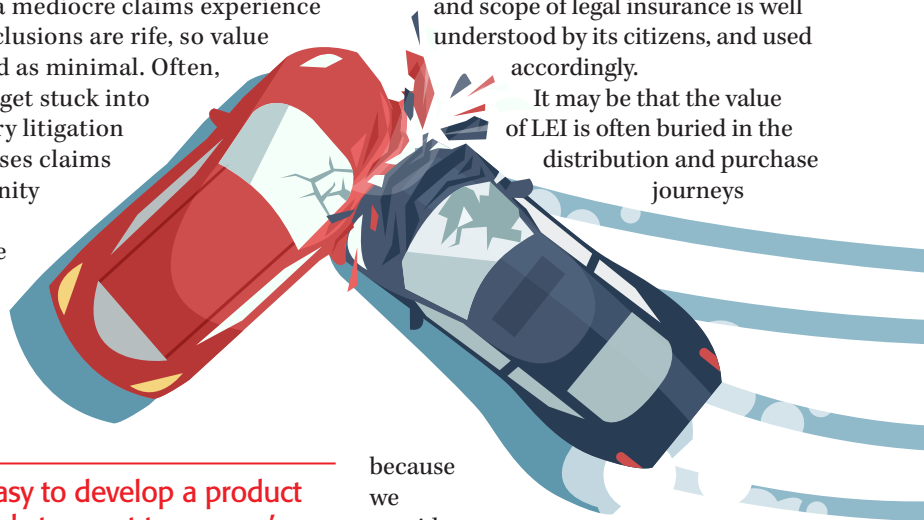
In personal lines there's now a vibrant community of tech disruptors with a mission to put customer experience front and centre in sales and claims. LEI has yet to join the party. We need to ask why that's the case.

To me, it seems that LEI suffers from a deep perception bias; while LEI often means that customers will be able to benefit from guaranteed access to justice, it remains just a simple add-on.

It's something of a paradox that affordable access to justice, at a time when the citizen's rights to justice are being hollowed out by cuts and reforms, is reduced to an add-on somewhere towards the back end of the customer sales journey.

Our UK experience is very different to that of Germany, for example, where the nature and scope of legal insurance is well understood by its citizens, and used accordingly.

It may be that the value of LEI is often buried in the distribution and purchase journeys



because we providers no longer have sufficient belief in the product. At Coral, we do have belief, and while you won't see overnight change, our first step is to bring refreshed motor and home legal expenses products to the market that are genuinely customer-led.

Moving forward

The market has a shared responsibility to move LEI forwards, in every sense. We need to invest the time needed to understand the biggest problems our customers want solving. What should the solutions be? And where should they show up in the insurance journey? After all, 70% of brokers said that lack of consumer knowledge was the biggest obstacle to customer take up. Whose fault is that?

I'm excited about re-writing the LEI rulebook, and we're appealing to like-minded brokers to work with us on proposition developments. Getting this sorted will move LEI beyond an insurance afterthought to become a valuable tool for customers to navigate their way through the civil justice system. ■