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Customer > R&D > Procurement > Production > Sales > **Services**

# Completely carefree

## No Car Without Insurance

More and more insurers are offering products containing extended service warranties to their customers. When a problem occurs, insurers generally send the vehicles to independent garages, a development that is costing manufacturers and dealers service-department business. By packaging insurance, financing, and other services, manufacturers and dealers can hold onto their service-department customers. Offering insurance policies at the point of sale has a good deal of expansion potential.

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When HUK-Coburg began to offer a package of liability and collision insurance that also contained an extended service warranty in 2004, the company became the brunt of competitors' jokes. But while overall policies in force grew only by 0.9 percent annually between 2004 and 2007, HUK-Coburg achieved a growth rate nearly twice as high. Today, there is hardly an auto insurer that does not offer its own warranty rate.

### Comprehensive service is well received

Customers are content to let the insurer select the garage because that can lower their premiums. At Axa and HUK-Coburg, for instance, customers save nearly 15 percent. When a liability claim is filed, the insurer selects the partner garage to handle the repairs and manages the claims management itself. Customers benefit in multiple ways, not only do they receive a premium reduction, they get pick-up, drop-off, cleaning, and replacement-vehicle services. As a

consequence, dealers and manufacturers lose out as they see their profitable service-department business slip away.

### Volkswagen succeeds with insurance

Given the surge in garage programs, the sale of insurance at the auto dealership has become a key component of earnings for manufacturers and dealers. The issue for them is not new, but most attempts to address it have fallen short in the past.

However, Volkswagen's product solutions such as the "Carefree Maintenance" program show that insurance policies can be successfully offered at the point of sale. In the past three years, Volkswagen Bank has increased its portfolio of policies in Germany by about 30 percent a year. It has also achieved annual growth of about nine percent in other European countries. Through comprehensive accident management, the automaker provides complete coverage for necessary

services. Volkswagen Insurance Service, the partner network with its own accident specialists, and the VW customer hotline, provide an easy first contact for claims. With its "Clever Repair" program, VW offers customers the option of conducting complete repairs with original parts or the repair of only damaged components. Mobile so-called "Clever Repair" units fix problems on the

spot. Hence, VW's comprehensive services are increasing customer satisfaction and, as a result, the image of individual dealers.

### Agenda for a successful insurance business

In light of these market changes Oliver Wyman has identified seven courses of action for automakers and dealers that will determine their success in the insurance business.

## Agenda for a successful insurance business

**Innovative and simple products.** Auto sales representatives need simple products and need to bring forward convincing arguments in order to sell insurance to customers. Standard products offered by insurance firms rarely fulfill these requirements. A product bundle tailored to the dealership and its target customers is required.

**Integrated sales process.** To sell insurance products, sales representatives need a simple, integrated process with good technical support.

**Bonuses for sales representatives.** The growing importance of insurance must be reflected in the remuneration and incentive systems of the sales representatives. Setting minimum penetration targets and/or linking bonuses to the service-department business can be good first steps in this direction.

**High penetration rates.** Individual auto dealerships need a high penetration rate to allow for tailored insurance products such as fixed-rate premiums for special offers or model-

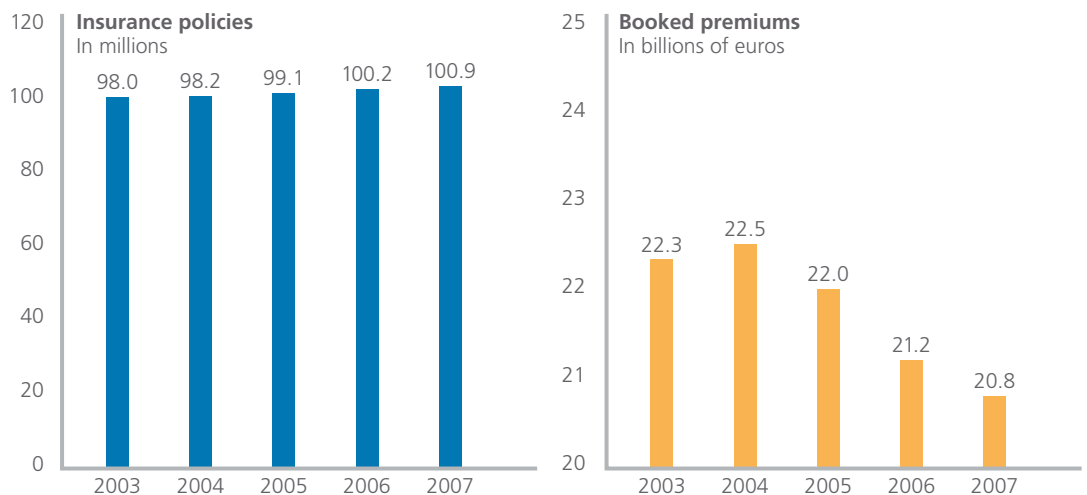
related rate options with special discounts. Only a sufficiently large number of policies can build a balanced risk mix that forms the basis for attractive insurance premiums.

**Subsidized premiums.** For the individual insurance product or for integrated bundles, the actual insurance premium should be subsidized. This will boost the number of sold policies and form an attractive mix of customers.

**Joint profit model.** As a result of an increasing number of customers and an improved risk mix, manufacturers and insurers will benefit from a joint profit model. Insurers can let manufacturers and dealers share in their higher profits instead of just paying them commissions.

**Systematic portfolio management.** Systematic management of the existing client base prevents customers from migrating to other insurers. This approach can include special offers, like a free winter inspection, when policies are renewed early.

## Slightly increasing policy portfolio and decreasing premiums for car insurance



Explanatory note: Includes liability, collision, comprehensive and bodily injury insurance  
Source: GDV (Association of the German insurance industry), 2008