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Insuring mechanical breakdown in France: the example of CAAREA

| SCOR technical Newsletters

Today the motorist, who has become a sought-after and demanding consumer, expects his insurer not only to protect his vehicle, but also to offer him new products and services that will simplify his life.

The insurance of mechanical breakdown represents the first real step forward in motor insurance since the invention of assistance:

- For the insured motorist, it meets expectations of cover for an increasing range of risks;
- For the insurer, it enriches the range of products with an addition that is a logical extension of its basic business;
- For the bancassurer, it protects assets such as loaned capital, and does away with borrowers' budgetary uncertainties linked to unexpected mechanical repairs.

For example, if one looks at two million new cars insured every year in France and a national fleet of 19 million vehicles less than ten years old, motorists' desire to be covered against mechanical breakdown do not constitute a niche market, but a genuine new market for insurers and bancassurers.

CAAREA (Motor Insurance and Associated Reinsurance Company), an independent company created in June 2002, is offering insurers and bancassurers an off-the-shelf mechanical breakdown product which includes product design, marketing, setting up distribution networks, claims processing and - of course - reinsurance.

CAAREA operates as a reinsurance pool made up of Swiss Re, Hannover Re, and SCOR. The business of a reinsurer consists not only of providing ceding companies with capacity and protection, but also offering service and advice, taking care to keep clients informed of new tools and products that are available in other markets. That is why SCOR actively supports the development of CAAREA.

Yvan Besnard, Head of Non Life Treaties for Europe

Insuring cars against mechanical breakdown: a win-win situation?

An interview with Bruno Labuzan, President and Managing Director of CAAREA

How did you come upon the idea of bringing mechanical breakdown cover, initially conceived for the world of motor cars, into the world of insurance and finance?

After twelve years as an insurer covering motor manufacturers' mechanical guarantees, their networks, and their finance companies, I came to the conclusion that in France this market is mature and well understood. It was difficult to hold on to significant added value. That is why I watched and listened to other major operators - including insurers and financiers - who were looking for ways to add to their motor products.

First, one must remember that each of these markets - manufacturers, insurers, financiers - has its own place, and that each must keep its identity and its role in the distribution of a mechanical breakdown product. Under no circumstances should these operators be set one against another. That is how I came to define CAAREA's role as a new entrant in a new market.

So, for an insurer, selling cover against mechanical breakdown is a natural extension of his business?

Of course. Is not the business of an insurer to protect the property of his clients, and provide the clients with security and convenience? Today, when your car breaks down, you consider it normal that your motor insurer sends you a breakdown lorry and takes your car to a repairer. Why not take the insurer's involvement further, letting him organise the repairs and cover the costs involved? The insurer would be playing its part fully and legitimately, and under no circumstances doing the job of anyone else, to go back to my earlier remark. For the bancassurer that is financing the vehicle, such insurance is also protection against unexpected expenditure due to mechanical breakdown, as well as protection of capital and/or leasing payments.

What is the technical basis for your tariffs?

All my years in the business have allowed me to build up a significant database concerning vehicles, products, the nature and cost of breakdowns, distribution networks, as well as the process, the technical and commercial

characteristics of management systems, and their technical results. But, more importantly, even if we are looking at a short-term risk, we are dealing with a frequency risk with a well-defined average cost. The ability to manage such risks is as much the result of underwriting capacity, based on actuarial calculations, as the capacity to spot immediately any technical deviations which could be the result of a number of factors. The quality of the database and - even if this is obvious - reserving methods (which is the reason behind negative results sustained by certain insurers) remain key to technical success in this business. Put another way, they are the stock in trade of the business.

As a result, your tariff could be applied at any time in any country?

That is exactly right, with the proviso, of course, that one must adapt the matrix to local costs and local constraints, and take into account the behavioural patterns of users and repair networks. When I said a moment ago that this business needed to find fresh added value for the manufacturers, I think that it will come from the Europeanisation of guarantees. Because CAAREA is a pool of reinsurers, it is well placed to undertake this ambitious project. I do not need to add that our commitment is the same to all of our clients.

You are not the only player in the market covering mechanical breakdown...

Just as well, for to be alone in a market would be worrying!

In what way is your offer different, or more attractive?

When I was setting up CAAREA, I asked myself the following question: what extra can I bring to my clients? Today in the market for mechanical breakdown one can find a standard product, a standard price, and a classical management system, all derived from the guarantees provided by manufacturers and their dealerships. Now, our clients, insurers, bancassurers, financiers, are important players. What they want is certainly not to have the same product as their neighbour, dressed up, undoubtedly effective,

but anonymous. That is why, at CAAREA, what we offer is not standard. It can be tailored to the needs of the insurers:

- We offer an off-the-shelf solution: design and management of mechanical breakdown cover, reinsurance (or insurance if the company does not want to carry any risk). To that can be added marketing assistance, and help with setting up the distribution network;
- We also offer a customised solution, not to say custom-made, for ceding companies that have substantial motor business. We help them to create their new product, bearing in mind their limitations and requirements. This involves integrating the management of events and customer service into their own structures, that is to say creating their own system for managing production and claims of mechanical breakdown, and protecting their retention using our CAAREA reinsurance pool.

That may look like divulging our recipes, but we are counting on long-term relationships with our clients. Indeed, we would like to be involved with them in the future products that will replace their current mechanical breakdown products.

Finally, and this is an important difference, CAAREA is offering service and reinsurance at the same time: preparing an insurance product, managing claims, and providing reinsurance capacity. We are there to save time for our ceding clients and to provide technical protection. It is this that allows them to create a different product, both commercially and financially.

So the value added by CAAREA is not in the management?

Everyone agrees that if you manage badly you will not last long. This is even more true in the case of insurers and financiers, as well as for motor distribution networks. Good "classical" management is the least that one can offer, and ours is neither better nor worse than that of our main competitors. Our added value lies beyond this "classical" management. If we are proposing, among our various services, to set up our management systems by our partners and to teach them how to deal with mechanical breakdown, it is because we think that our mission also encompasses technical assistance, specifically for linking all of our

partners' business process chains together with a view to connecting and crosschecking information contained within their databases. It is also because we consider that they understand better than anyone else their relationships with their own clients and that we have to leave that in their hands. It is one more way of providing made-to-measure service and to anticipate the future developments of their accounts.

For our partners who want an off-the-shelf product, we can obviously manage the business just as readily under our own brand or under the client's brand, with the same levels of quality and customer care.

And at the level of reinsurance, what is the value that you add?

The reinsurers taking part in the pool have entrusted CAAREA with an underwriting capacity from which ceding clients can certainly benefit. It is a real support for the development of mechanical breakdown business, because the reinsurers are convinced that it is now essential in the range of products and services offered by insurers. Our reinsurance pool is made up of the leading international names, and relations between CAAREA and pool members are complementary. I would like to reiterate that CAAREA is a combination of service and reinsurance.

In practice, how does CAAREA's reinsurance operate?

There are two options:

- The ceding company may decide not to carry any risk, so the product is distributed as a complementary product under the CAAREA brand, of which the ceding company is only the distributor. This choice – rare - is made when the company wants to see how the product works, and be in a position to withdraw without any technical or commercial consequences for itself;
- If the ceding company decides to carry the risk, the product is sold under its name, and the company signs CAAREA's reinsurance treaty, under which it has the choice of ceding all of its risk or only part, with the possibility of increasing its retention in subsequent years.

Do you make use of the strong international dimension inherent in reinsurance?

Yes, certainly. When the pool was being set up, we wrote down that our strategy was European. We naturally use the European networks of our pool leaders both to export our products and to follow our customers abroad.

Are CAAREA's clients today mostly insurers or bankers?

Insurers and bancassurers, for different reasons, were among the first to join. Classical bankers have all been made aware, but since they are leaders in financing automobiles, they do not feel threatened. In addition, the size of their networks and the large numbers of products that they sell acts as a brake.

I would like to point out that the decision to introduce new guarantees into Motor insurance contracts is also a good way of integrating the reduction of road accidents by adding a cover rather than reducing the tariff.

Does CAAREA plan to develop other products and services in the months to come?

We are often asked about our automobile plans. There is no lack of players or ideas, but we wish to keep to the original development plan. Nevertheless, we are already prepared for the second generation of our products, our final objective being to offer a complete cluster of services. But let us not forget that the evolution of behaviour and transformation of distribution networks takes time. That is why our initial strategy, stage by stage, remains viable. It meets 80% of motorists' expectations today.

Specification of CAAREA's Automobile Mechanical Breakdown product

Object: organising and covering the cost of repairs, including parts, labour and all taxes, resulting from incidents or mechanical breakdown of vehicles insured under "All Accidental Damages" policies.

Eligibility of vehicles: private cars or commercial vehicles up to 3.5 tonnes (total weight) insured against all accidents, and which are not more than six, eight, or ten years old, according to the choice of the insurer.

Territorial coverage: all countries covered by Green Card.

Cover:

- First option: "Engine - gearbox - drive axle"
- Second option: "Complete". Includes engine, gearbox, differential, clutch, transmission, cooling system, steering, brakes, fuel supply, electrical circuits, suspension, casing.
- Third option: "Everything except". Intended for new vehicles.

Client service: assistance is provided, and repairs organised by telephone. The client does not need to put up the cost of the repairs, as CAAREA pays the garage directly.

Exclusions: worn parts, damage resulting from poor maintenance.

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