US EDITION

THE CONNECTED NOW

A closer look at what's driving connected living today

Special Report, January 2019
excerpted

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Foreword

As we enter 2019, the presence of connected products and services can feel nearly ubiquitous. Connected living is here and now! And yet, remarkably, rates of consumer adoption are still far below what they might be. It comes as little surprise that a new form of smart home control, the Amazon Echo Dot, was the best selling product – whether connected or not – over the recent holiday season. As much as consumer technology has prevailed, it has much more ground still to cover, and with no sign of slowing down.

The cycle of innovation that continuously renews our interest in the connected world will also usher in sweeping changes to how we live at home, how we communicate with one another, and how we commute to work, plus everything else.

At Assurant, we're committed to protecting the things that matter most. In this connected and quickly evolving context, that responsibility requires us to stay a step ahead of change. The findings presented in this report are one small part of how we help our partners navigate these challenging times. Thank you for reading.

Connected living is here and now. Assurant is committed to helping our partners stay a step ahead of change.

Alan Colberg
President and Chief Executive Officer

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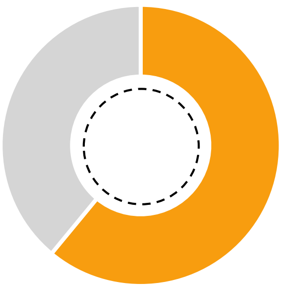
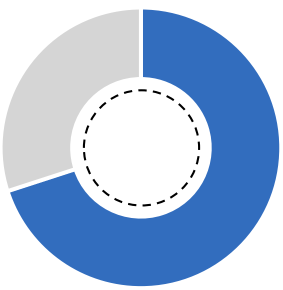
Introduction



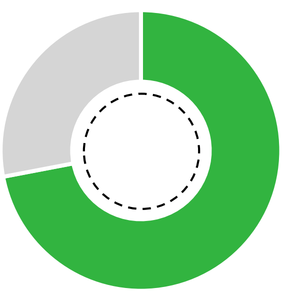
61%

of US consumers account for 90% of all connected product sales



70%

of connected products are used at least several times a week by their owners



72%

of internet-connected US households pay for a streaming video service

New Consumer Insights

In this report, we'll look at a range of topics that bear on connected living in the U.S. today.

The information you'll find is largely based on the results of a consumer survey that Assurant has conducted every November for the past three years. In the most recent survey of 2018, we collected responses from a representative sample from 1,243 U.S. adults.

We've combed the multiyear data set in search of insights that help paint the picture of connected life in the U.S. today. To provide this panoramic overview, we've divided the contents of the report into three broad areas:

1. **The fundamental services that enable our connected world**
2. **The wider ecosystem that enriches our experience of it**
3. **The consumer opinions and views that shape our responses to the connected world**

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Key Themes

Several important trends were reflected in the data from this year’s report:

1. **Consumer readiness for 5G will drive significant change across many connected tech markets.**

   For instance, 60% of consumers would be willing to leave their current ISP if they could get 5G at home for $50 a month.

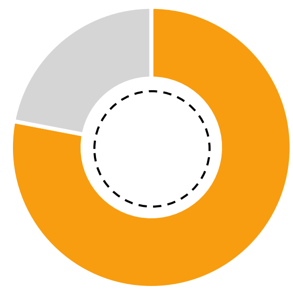
2. **Consumer segments reveal deeply uneven rates of interest and adoption in connected tech.**

   Four in 10 U.S. consumers have little to no engagement with connected life. That segment hasn’t changed in size over the last few years. However, for the top 60% of consumers, there’s a clear trend towards greater connected engagement.

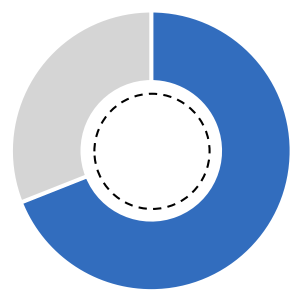
3. **Satisfaction is a strong predictor of market share in many connected tech industries.**

   Especially in highly competitive markets like e-commerce and smartphones, loyal customers can give incumbent competitors a significant advantage.

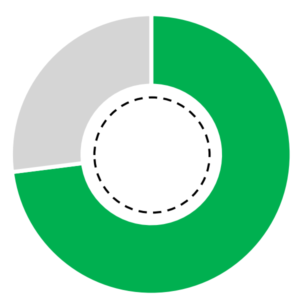
78%
of US consumers cite major frustrations with their connected products, hindering further adoption



69%
of US consumers say connected tech makes life better, not worse, in spite of frustrations or concerns



73%
of US consumers say they are more likely to buy the connected tech they want if it comes with protection and/or support services



Section 02

The Connected Ecosystem

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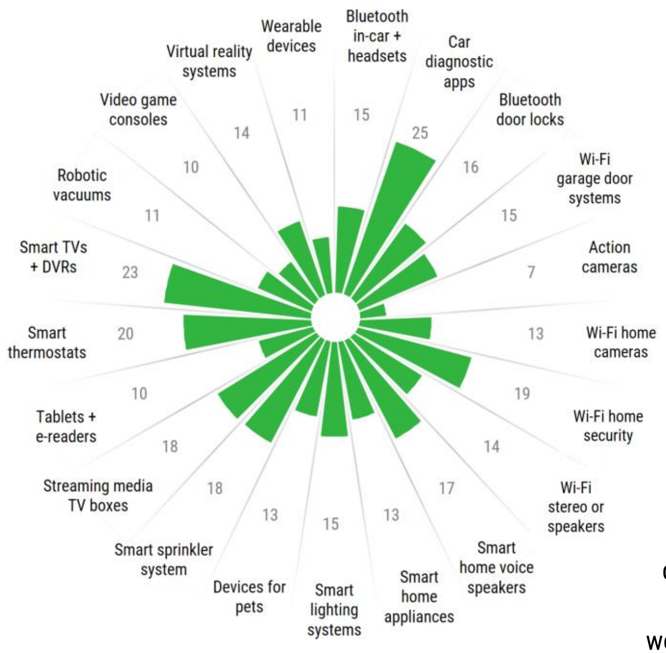
Value-added services impact

De-Risking Tech Purchases

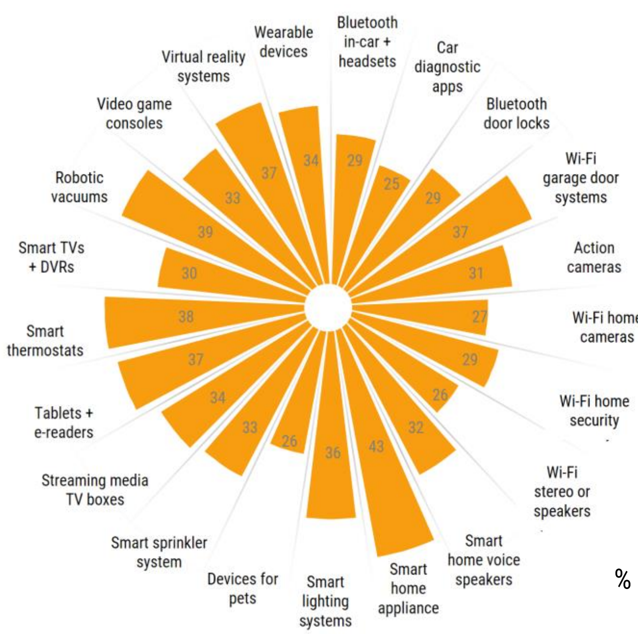
97% of consumers say they might make a first-time purchase in at least one connected category in the next 12 months.

Of these, **73%** say they'd be more likely to go through with the purchase that's under consideration given inclusion of one or more complementary value-added service shown here.

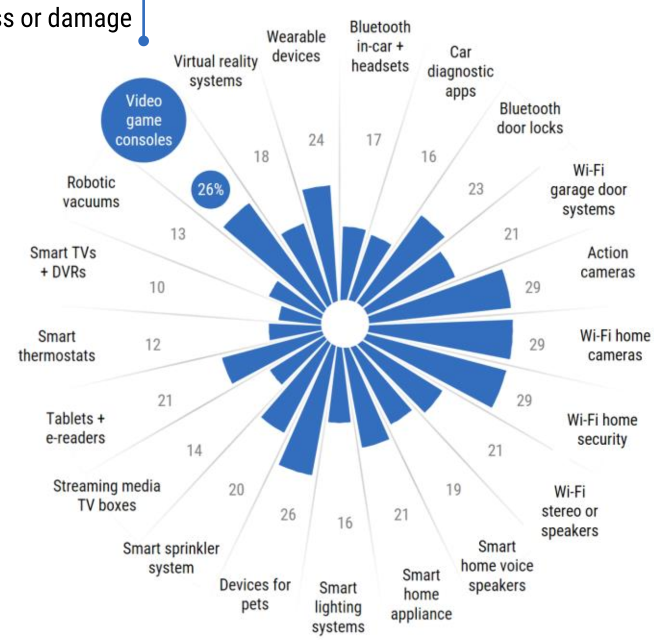


% CONSUMER INCREASE IN LIKELIHOOD TO PURCHASE IF INCLUDED: **ON-DEMAND TECH SUPPORT**

% CONSUMER INCREASE IN LIKELIHOOD TO PURCHASE IF INCLUDED: **2-YEAR EXTENDED WARRANTY**



26% of consumers considering their first video game console would be more likely to buy one if it came with protection against theft, loss or damage



% CONSUMER INCREASE IN LIKELIHOOD TO PURCHASE IF INCLUDED: **PROTECTION AGAINST THEFT, LOSS OR DAMAGE**

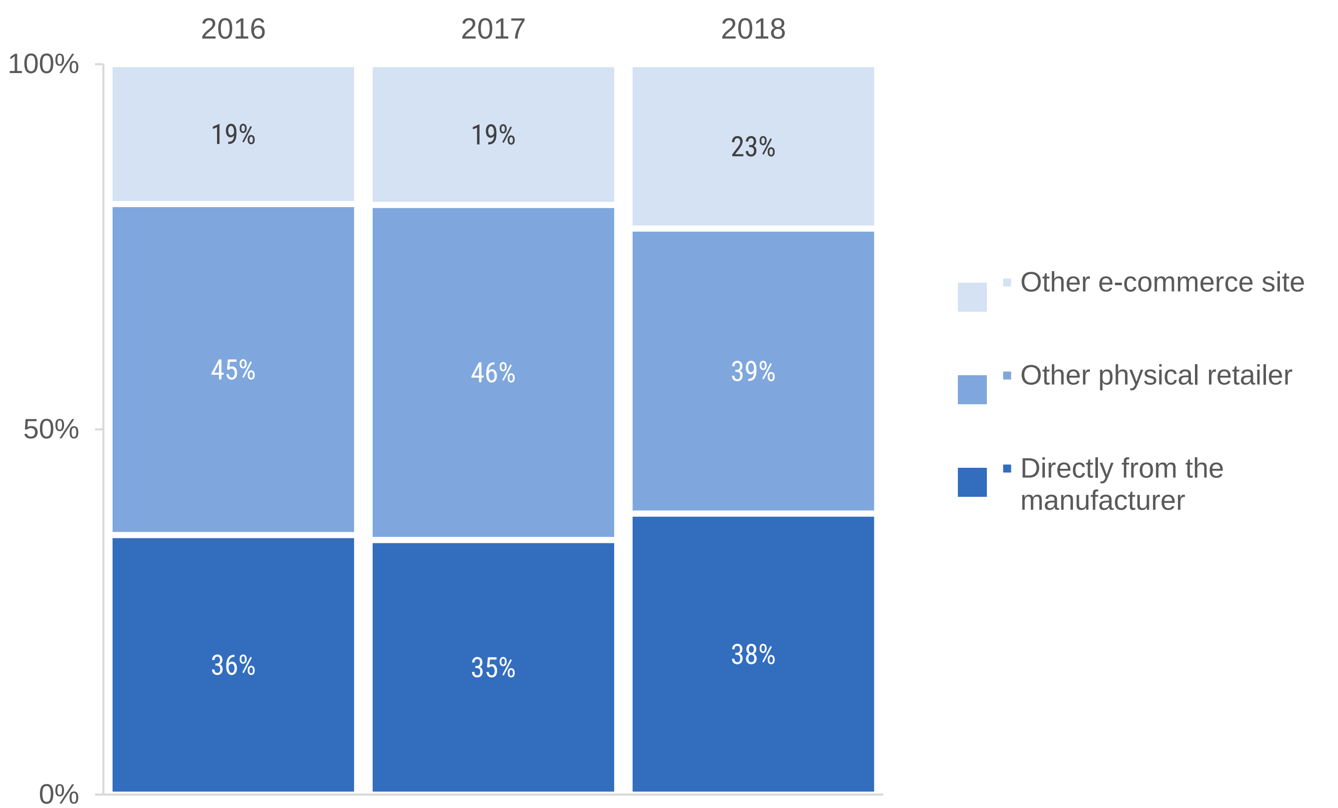
Distribution channels for connected goods

Retail Squeeze

From 2016 to 2017, the channel mix for connected products was fairly stable. Things changed substantially in 2018, however, with the share of sales commanded by retailers shrinking by 15% year over year, compared to gains of 10% made by manufactures and 17% made by the e-commerce sites in the same period.

WHERE CONNECTED PRODUCTS ARE SOLD

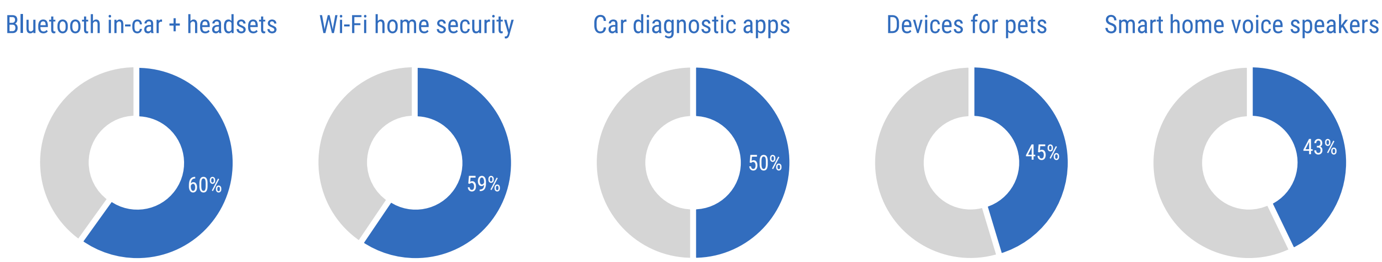
Annual share of US connected product sales by type of distribution channel*



* Self-reported by consumers

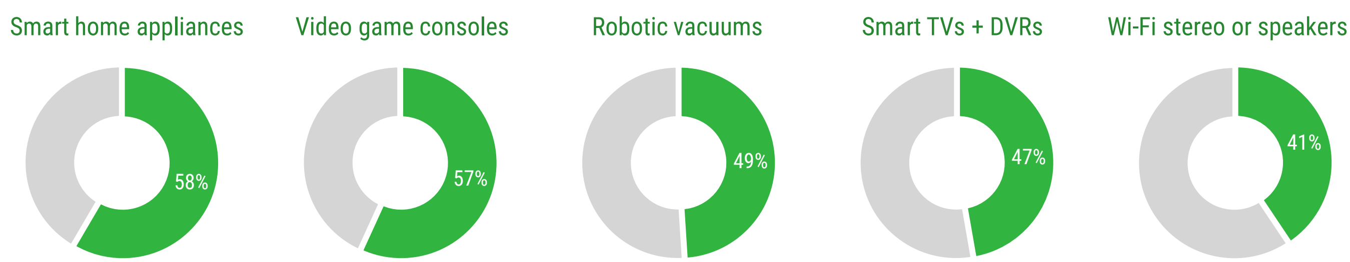
CATEGORY LEADERS: MANUFACTURER CHANNEL

Connected product categories in 2018 with the highest share of US sales by original manufacturers*



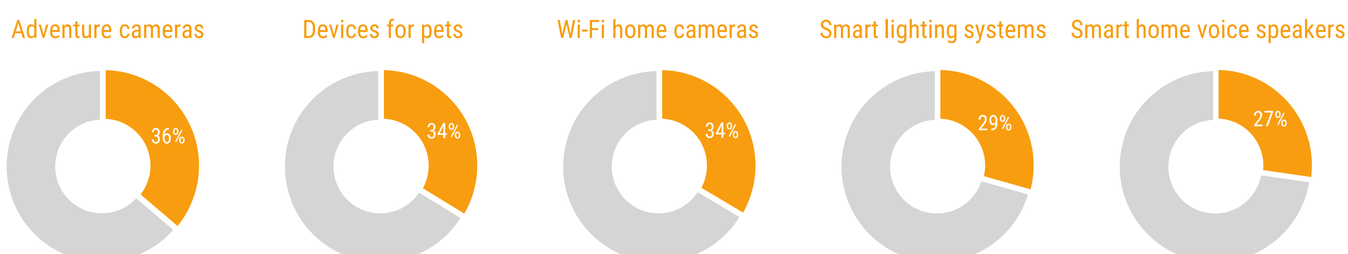
CATEGORY LEADERS: RETAIL CHANNEL

Connected product categories in 2018 with the highest share of US sales by third-party retailers*



CATEGORY LEADERS: E-COMMERCE CHANNEL

Connected product categories in 2018 with the highest share of US sales by third-party e-commerce sites*



*Self-reported by consumers

Mobile OTT Viewership Rises Significantly

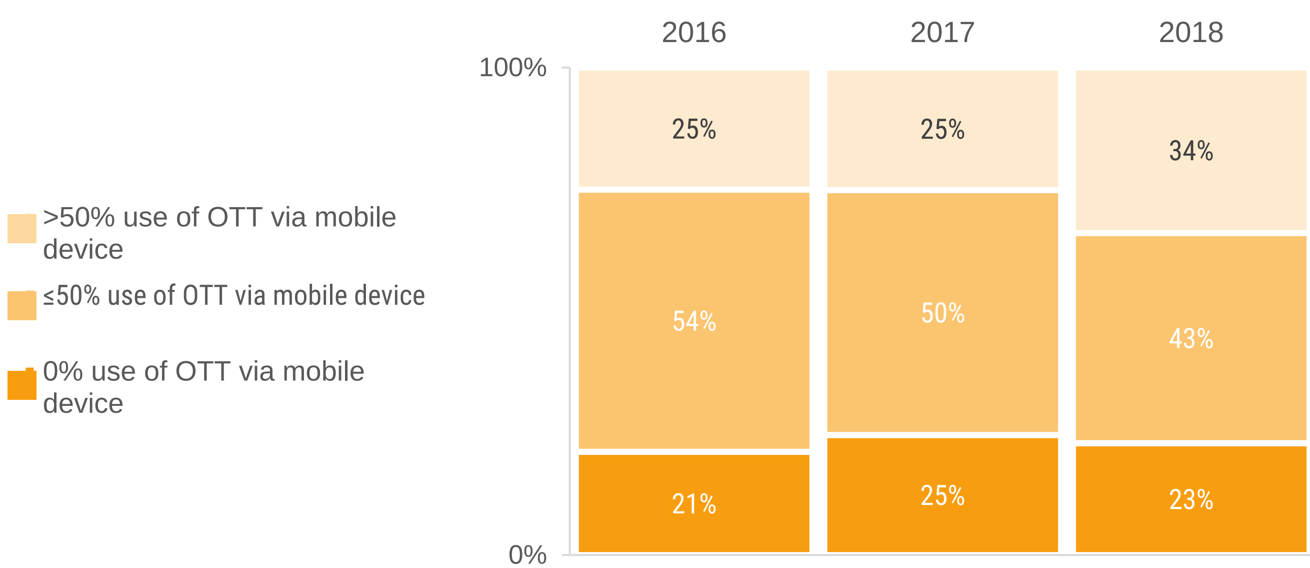
The share of consumers that only watch over-the-top video by television slightly declined in 2018. A much larger shift occurred in the ranks of mobile viewers of OTT video, with one in five increasing the share of time they spent watching OTT video via smartphone or tablet (and not TV).

Two factors likely drove this trend. First, many OTT providers have steadily improved their mobile app experience, which has meant better quality video, fewer interruptions and, in some cases, the option to download rather than stream.

Second, the average screen size of mobile devices continues to grow. This is due to the rising popularity of phablets – forecasted to become the leading form factor in new smartphone sales for 2019 – and also because of the switch to bezel-less design by manufacturers. More screen real estate obviously facilitates a superior viewing experience. With the added rollout of 5G in the coming year, we expect mobile OTT video use to continue on its present trajectory.

MOBILE VIEWERSHIP OF OVER-THE-TOP VIDEO

2018 share of over-the-top videos watched on a mobile device (e.g., smartphone or tablet) instead of TV*



Self-reported by consumers

Section 03

Market Segments

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Connected consumer segments

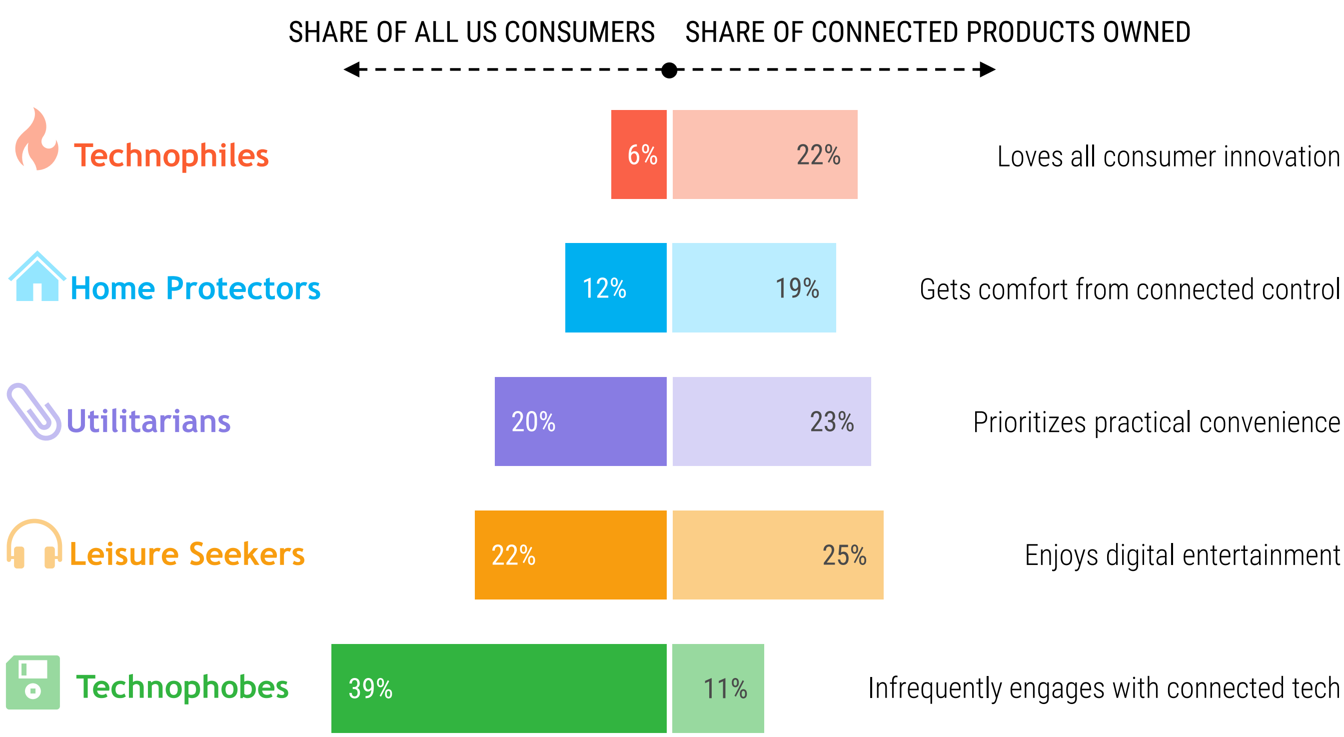
Consumer Landscape

A market segmentation is a powerful lens to aid in understanding. It provides a bridge between two extremes: on the one hand, a granular analysis of each individual consumer in a market (which is impractical); and on the other, an aggregate analysis of all consumers averaged out (which obscures key differences).

In this case, we derived five consumer segments based on self-reported rates of ownership and use for 26 different connected product categories. Every U.S. consumer could, in theory, be statistically assigned to one - and only one - of these segments.

As we'll see, there is tremendous variation in segment size and market behavior. For instance, the three smallest segments account for nearly two-thirds of all connected product purchases despite adding up to just 38% of U.S. consumers.

Over the following pages, we'll explore these segments further.



Demographic differences

Technophiles

Since 2016…

↑ 41% net change in segment share size

↑ 0.45 more products owned per member

In the last two years, the two most tech-enthused segments – Technophiles and Home Protectors – have together grown by a combined 2% points.

With the Leisure Seeker and Utilitarian segments collectively shrinking by almost the same amount, what we're seeing is a trend of steady "upstream migration" within the top half of the market.

> **16.0 average connected products owned**
Excluding computers and smartphones

> **Youngest segment**
39 years average age

> **Highest household income**
$89k average household income

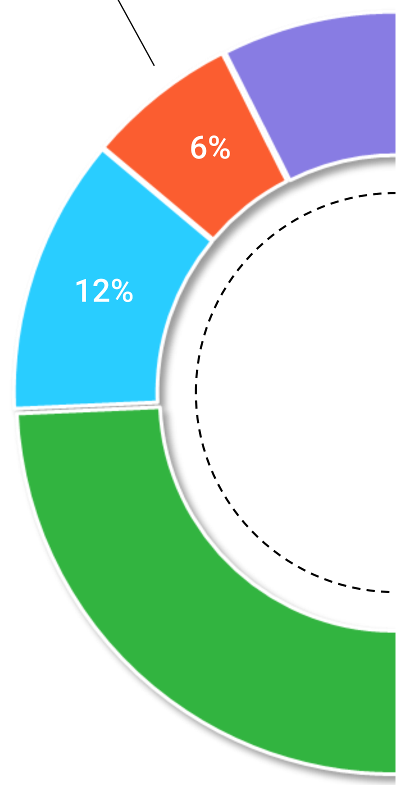
> **Highest educational attainment**
69% have at least a bachelor's degree

> **Highest sense of personal wellbeing**
8.3 average rating on a 10-point scale

> **Most children living in the household**
1.1 average children per household

> **Highest rate of full-time employment**
78% across the segment

> **Most concentration in cities**
78% live in urban metro areas



Home Protectors

Since 2016…

↑ 0.7% net change in segment share size

↑ 0.05 more products owned per member

> **7.7 average connected products owned**
Excluding computers and smartphones

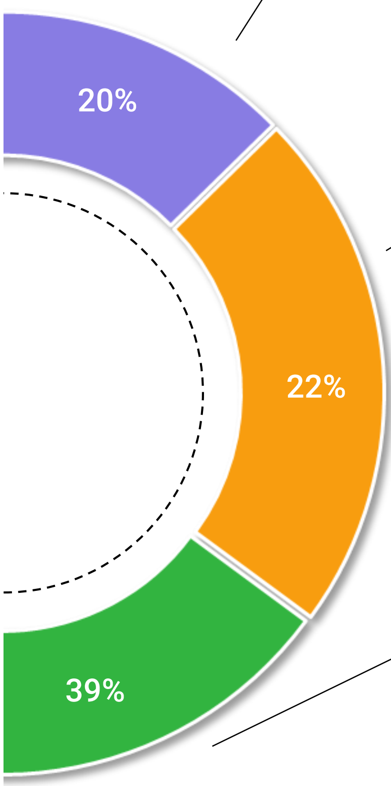
> **Most diverse segment**
35% have nonwhite racial backgrounds

> **Least likely to live in a city**
25% live in urban areas

> **2nd highest educational attainment**
51% have at least a bachelor's degree

> **2nd highest sense of personal wellbeing**
7.1 average rating on a 10-point scale

> **2nd highest rate of full-time employment**
52% across the segment



Utilitarians

Since 2016…

- ↓ -4% net reduction in segment share size
- ↓ 0.20 fewer products owned per member

> **5.5 average connected products owned**
Excluding computers and smartphones

> **Most significant gender imbalance**
58% of segment members are women

> **Most likely to live with multiple adults**
2.1 average adults per segment household

> **2nd youngest segment**
45 years average age

> **Lowest level of educational attainment**
32% have at least a bachelor's degree

Leisure Seekers

Since 2016…

- ↓ -3% net reduction in segment share size
- ↓ 0.18 fewer products owned per member

> **5.2 average connected products owned**
Excluding computers and smartphones

> **2nd oldest segment**
47 years average age

> **2nd least likely to live in a city**
26% live in urban areas

> **2nd least diverse**
30% have nonwhite racial backgrounds

Technophobes

Since 2016…

- ↑ 1% net increase in segment share size
- ↑ 0.06 more products owned per member

> **1.3 average connected products owned**
Excluding computers and smartphones

> **Oldest segment**
49 years average age

> **Least diverse segment**
25% have nonwhite racial backgrounds

> **Lowest household income**
$39k average household income for segment

> **Lowest sense of personal wellbeing**
6.5 average rating on a 10-point scale

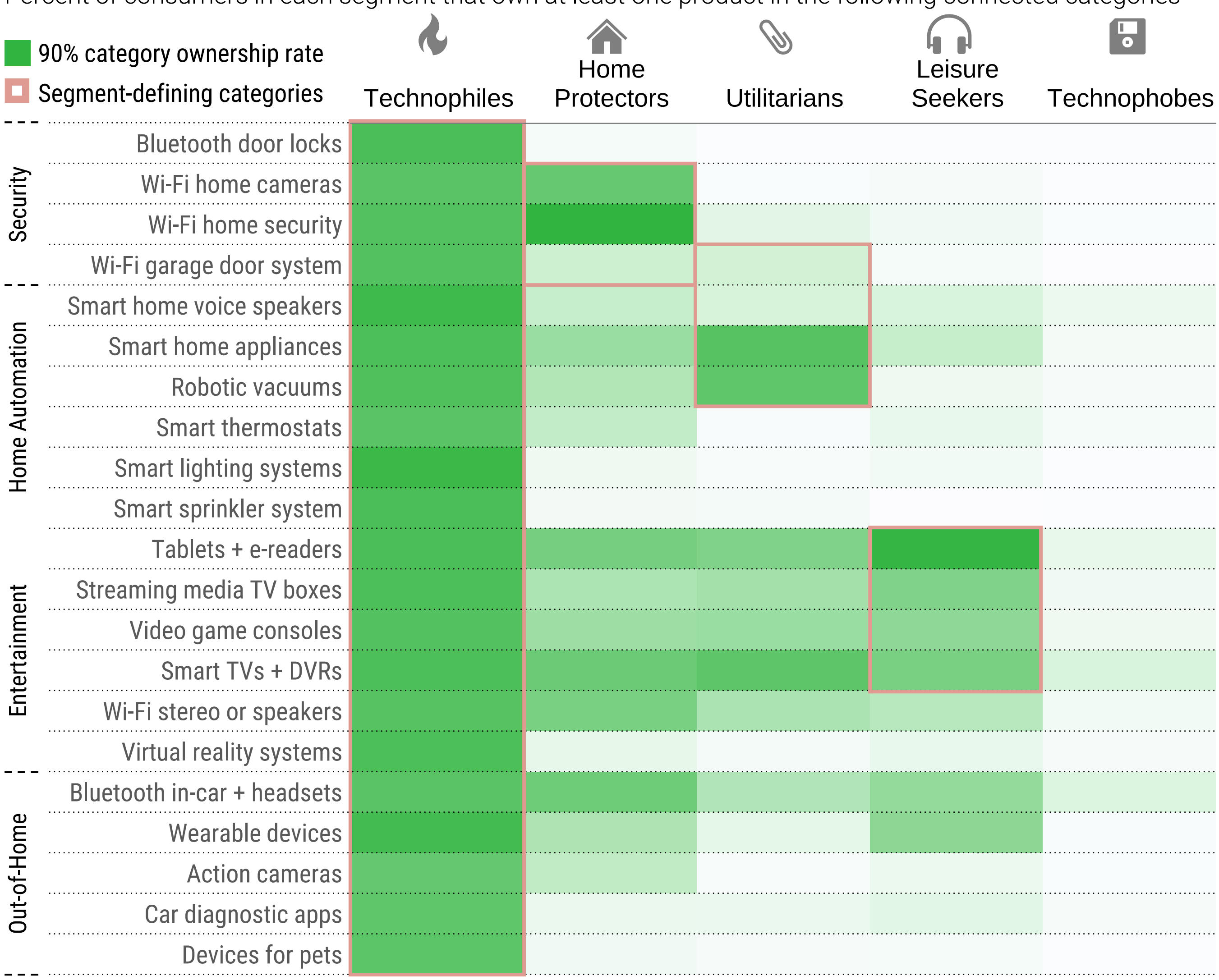
Products owned by segment

Different Technology Needs and Desires

Technophiles obviously have exceptional rates of ownership across all connected categories, but this is matched and even exceeded in a few cases: Wi-Fi home security owned by Home Protectors, smart home appliances owned by Utilitarians, and tablets and e-readers owned by Leisure Seekers.

RATES OF SEGMENT PRODUCT OWNERSHIP BY CONNECTED CATEGORY

Percent of consumers in each segment that own at least one product in the following connected categories*



*Self-reported by consumers

Connected frustrations

Dissatisfaction Mounting in the Middle

Despite having the most technology in their lives, Technophiles are nonetheless the least frustrated by owning it.

Technophobes, given the general absence of connected products in their lives, are likewise relatively at ease with the little they do own.

Instead, frustration is strongest in the middle three segments, where price and performance issues especially grate.

THE NEGATIVES OF CONNECTED PRODUCT OWNERSHIP: TOP CONSUMER FRUSTRATIONS

Percent of consumers in each segment that report being frustrated with a connected product in the past year

Frustrations experienced by the greatest % of consumers

*	Technophiles	Home Protectors	Utilitarians	Leisure Seekers	Technophobes	
25	15	28	31	26	23	Disappointing item performance
24	14	24	23	30	23	Ext. warranty too expensive
24	19	19	29	28	21	Fear of pricey item breaking
20	8	22	25	22	18	Inadequate self-help resources
18	14	22	21	17	17	Unsure how to dispose old item
16	13	19	15	16	16	Ext. warranty lacks coverages
16	24	17	16	21	12	Difficulties with installation
15	10	20	17	13	14	Return/exchange challenges
14	18	17	18	11	13	Item connectivity issues
14	21	13	14	14	13	Expensive repair bills
13	14	11	12	14	12	Ext. warranty period too short
11	25	11	12	10	9	Excessively long repair times
10	14	9	12	6	10	Item difficult to physically move

Percent of all US consumers that report experiencing the frustration

 |

Connected anxieties

Hazards Both Psychological and Real

The three leading sources of anxiety for consumers all happened to be prominently featured in national headlines last year. Critically, these anxieties are most acutely felt in the two segments with the highest degree of engagement with connected living – Technophiles and Home Protectors – which also happen to be growing in their share of consumers.

THE DOWNSIDES OF CONNECTED LIVING: FOREMOST ANXIETIES, FEARS AND CONCERNS

Percent of consumers in each segment that report being either "terrified" or "very concerned" about the issue

● Anxieties experienced by the greatest % of consumers

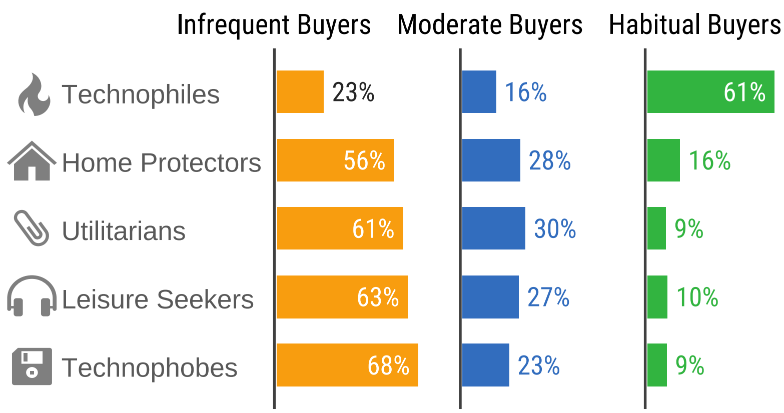
*	Technophiles	Home Protectors	Utilitarians	Leisure Seekers	Technophobes	
64	63	74	66	63	59	Identity theft
58	60	69	58	58	56	Cyberattacks on the US
57	60	63	60	56	54	Misuse of data about me
54	59	61	60	49	51	Relying on failure-prone tech
51	54	57	54	48	49	Email or social media hacking
50	56	58	53	52	45	Loss of human connectedness
48	55	57	51	46	43	Growing political polarization
48	53	51	51	44	46	Foreign govt. eavesdropping
47	55	54	52	42	45	Added upkeep, repair costs
47	49	49	53	39	48	US govt. eavesdropping
47	55	55	46	45	44	Digital blackmail or stalking
50	49	46	38	35	33	Loss of focus to distractions
34	55	37	36	24	33	Reputation slandered on web

** Percent of all US consumers that report experiencing the issue*

Value-added services bought

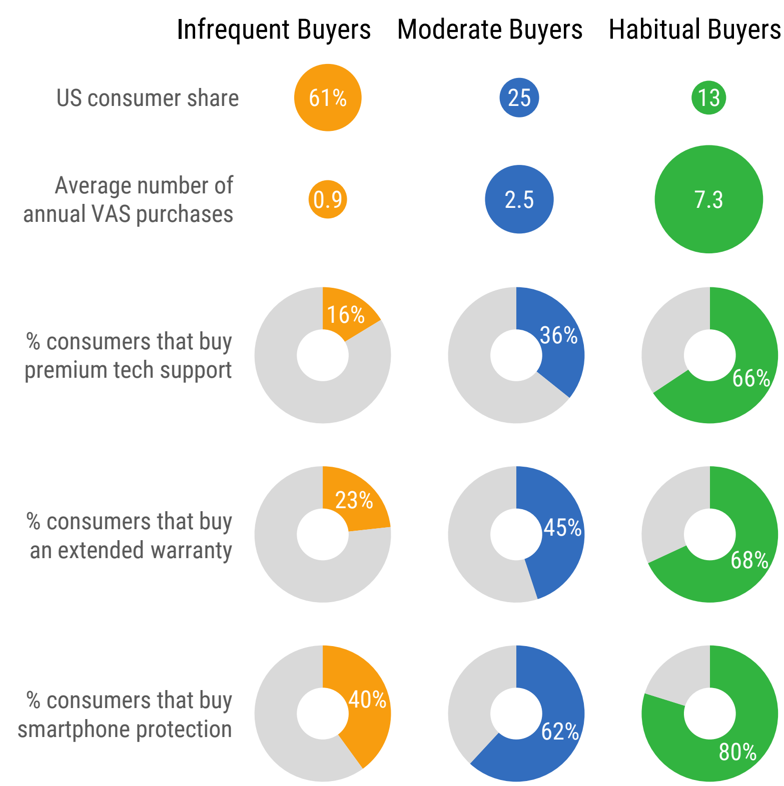
THREE PATTERNS OF VAS CONSUMER BEHAVIOR

Share of segments aligned to each VAS purchase pattern



COMMON VAS TENDENCIES REGARDLESS OF SEGMENT

Average consumer behavior* associated with each VAS pattern



Crosscutting VAS Patterns

The value-added services offered in conjunction with connected products are an important component of the wider connected ecosystem.

When we looked at U.S. consumer purchases of three VAS in particular – premium technical support, extended warranties, and smartphone protection plans – a few distinct buying patterns emerged. We classified these as “infrequent,” “moderate,” and “habitual,” according to the different VAS purchasing frequencies that each consumer pattern associates with (ranging from averages of less than one to more than seven VAS a year).

Each of these patterns is represented by buyers in every connected consumer segment. Technophiles are a notable outlier in the extent to which their members skew towards habitual VAS buying. Nonetheless, between 30-40% of consumers in all remaining segments exhibit patterns of VAS purchases in the moderate-to-habitual range.

** Self-reported by consumers*

Optimism for the connected future

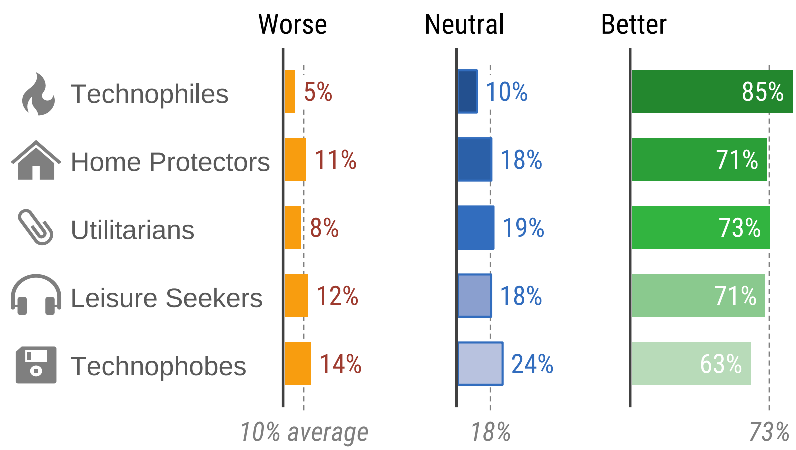
Segment-Spanning Confidence

69% of U.S. consumers believe connected technologies make life better, not worse.

This is a figure that's remained virtually unchanged over the last two years: in 2017, the share of "connected optimists" was 67%; while in 2016, it was 68%.

IMPACT OF CONNECTED LIVING

Share that believes connected tech makes life better vs. worse



More differences begin to appear when we break out attitudes according to market segment. What's most notable is the 22% "optimism gap" that separates Technophiles and Technophobes. However, as large as that gap is, what's still more significant is the finding that nearly two-thirds of Technophobes nonetheless believe connected technologies overall make life better. It's remarkable this outlook is so widely shared by the members of a group who own an average of barely more than one connected product each (excluding smartphones and computers).

Across all segments there are a few generalization we can make about connected optimists:

- **First**, they are more likely to be content with life, reporting 10% higher levels of personal wellbeing.
- **Second**, they experience half the levels of fear and frustration associated with connected technologies.
- **Third**, they are more than half as likely to cope with the risks of connected technologies by protecting themselves with extra services.

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