PARTNER. ADVISOR. CATALYST.

Pivoting Toward a Digital Insurance World: Key Concerns Carriers Should Address

Licensed for external distribution by: Pitney Bowes

JUNE 2018

Prepared for:

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Pivoting Toward a Digital Insurance World: Key Concerns Carriers Should Address, commissioned by Pitney Bowes and ICC and produced by Aite Group, summarizes some of the major concerns carriers are facing as the insurance industry continues its digital evolution and offers some actions that can be taken to help manage those concerns.

Key takeaways include the following:

- Insurance technology can solve many P&C carriers' concerns, including four major concerns that these carriers have indicated are top-of-mind:
    - Distribution effectiveness
    - Policyholder acquisition
    - Policyholder experience and retention
    - Process efficiency
- These concerns are driven by a few fundamental environmental developments:
    - Rising customer acquisition costs
    - Evolving consumer expectations for distribution, service, and claims experiences
    - An increase in online distribution options
    - The emergence of new underwriting risks, from usage-based insurance for autos to the formation of new types of businesses
- P&C carriers can take many actions to help them manage these shifts, and thus, help them address their concerns. These actions include the following:
    - Using more robust data across the P&C insurance value chain to identify leads, conduct underwriting, process claims, and detect possible fraud
    - Focusing on providing policyholders with a more customized experience that includes underwriting, service, and claims
    - Maximizing distribution effectiveness with two actions: customer segmentation for online and traditional channels to shape messaging and offers (marketing and service), and agency segmentation for traditional channels to determine what carriers might need to elevate their agency rank
    - Seeking efficiency across all operational functions

INTRODUCTION

For the last few years, the P&C insurance world has been abuzz with talk of digital business. Technology startups flush with funding from both carriers and venture capital firms have emerged to facilitate this digital transformation. Several carriers have implemented various digital changes across their value chains and have shared their experiences at an ever-expanding roster of conferences designed to educate other carriers on the benefits of digitalization. To many observers, a complete pivot toward digital is imminent.

Despite the activity and enthusiasm for a digital pivot in P&C insurance akin to the shifts that have occurred in retail and in financial services, most carriers are still in the exploratory stages of their digital transformation. It is during this exploratory stage that these carriers have an opportunity to determine their unique concerns and identify which vendors can address those unique concerns. Many vendors offer solutions that carriers might not be able to adopt for a variety of reasons, including legacy systems, cultural resistance, and cost considerations.

While each carrier's concerns are unique, this white paper identifies four concerns that carriers most frequently cite as critical to their success. Additionally, this white paper outlines several developments that appear to have the most impact on these concerns and details actions carriers can take to respond to these developments.

METHODOLOGY

This white paper is based on over 100 interviews conducted over two years (2016 to 2018) with executives at U.S.-based P&C insurance carriers and technology vendors from North America and Europe.

FOUR BIG CONCERNS, LOTS OF DEVELOPMENTS

Discussions with executives at P&C carriers reveal many concerns, but these four seem to cause the most anxiety as they were mentioned most frequently:

- Distribution effectiveness
- Policyholder acquisition
- Policyholder experience and retention
- Process efficiency

Each of these concerns has some unique trends and shifts that need to be addressed, but some developments that impact one concern may also impact another concern. Accordingly, some potential actions can address multiple concerns.

DISTRIBUTION EFFECTIVENESS

Agency-based (captive or independent) P&C carriers have mentioned that they are concerned about their distribution model's ongoing effectiveness as the distribution landscape begins to shift toward online options. While these carriers do not believe that the demise of the traditional agency channel is imminent, they see several developments that are concerning. These developments follow:

- **Shifting consumer preferences:** Consumer demands for a purchase experience have been shaped by experiences in other industry sectors, such as retail. These carriers point to the "Amazon" experience (quick, frictionless, and convenient) as having a significant role in shaping consumer expectations.
- **Ease of distributing lower-complexity products:** Lower-complexity products, such as personal auto, are increasingly being researched and purchased online. As a result, many carriers have begun to reduce their reliance on middlemen to consummate the sale. While carriers such as Geico and Progressive have led this charge, the emergence of providers such as Esurance (Allstate) and State Farm's efforts to supplement its agents with an online offering (which frees them up to tackle more complex submissions) provide evidence for this assertion.
- **Increased nontraditional distribution options**. Beyond carriers' direct-to-consumer online options, there has been a strong proliferation of nontraditional online purchase options, such as aggregators, program managers, and online agencies. These options go beyond distribution for personal lines auto and are starting to include products such as homeowners' insurance and workers' compensation insurance.

Understandably, carriers are concerned and are becoming increasingly convinced that they will have to develop a distribution strategy in which both traditional and nontraditional distribution methods can coexist. As these carriers consider how to strike that balance, they acknowledge that doing so raises the risk of increasing channel conflict, which could result in a more alienated and less productive agency force.

For now, however, traditional agents still sell the bulk of insurance, including lower-complexity policies such as personal lines auto. This will likely continue to be the case for the near future. Even as more consumers conduct research online, they are making the actual purchase offline. For higher-complexity products such as business insurance, traditional agents will continue to be the dominant distribution channel. For these reasons, it is incumbent upon carriers to determine the best way to maximize their relationships with agents as they manage any pivot to online distribution.

POTENTIAL ACTIONS TO BE TAKEN

Carriers have several actions they can take as these developments continue to unfold:

- **Conduct prospect and policyholder segmentation:** Agents recognize that consumers have a broad set of purchase preferences and that some consumers simply do not want to work with agents. Carriers can work to identify those consumers, educate agents about those consumers' preferences, and target them for a direct-to-consumer approach. The flip side is that there are plenty of consumers who do want to work with agents. Carriers can use segmentation to identify those consumers and the agencies that have broad access to them. Using data to identify customer insights could guide any effort to this end.

- **Empower agents to succeed**: Carriers that will continue to broker through appointed agents have every interest in extracting maximum performance from their captive or appointed agencies. However, as online distribution continues to advance, carriers not pursuing online distribution options will even more urgently need to limit the impact of their policies exiting the agency channel. Perhaps the best way for a carrier to combat any policy outflow is to focus on agencies with the greatest upside (i.e., create an agency segmentation) and try to increase its agency rank (i.e., become agencies' go-to carrier for business submissions). Carriers have a variety of options at their disposal to help make this happen, including monetary and technology incentives. Some of these technology incentives could involve agencies offloading certain tasks to carriers, which would allow them to work on tasks that are more business-development-driven.

- **Mitigate the effects of reduced face-to-face interaction:** Agents have always acted as the front line for carriers regarding business submissions and could redirect those submissions as needed. If carriers are going to offer consumers the option of purchasing insurance online (either through their own direct-to-consumer option or through the various emerging online distribution options), they will need to develop strict underwriting standards and must trust their online partners to adhere to those standards when submitting business.

POLICYHOLDER ACQUISITION

If carriers pivot away from traditional distribution channels and begin to include nontraditional channels more broadly in their distribution mix, many will have to take on a new set of tasks that some agents might have historically conducted. Many of these new tasks fall within the realm of policyholder acquisition. While taking on these tasks is challenging enough, the difficulty of policyholder acquisition is further compounded by broader, environmental developments.

As noted, carriers will still likely work with agents to broker their products for the immediate future, so any pivot to online distribution would be done while simultaneously maintaining their agency-based distribution channels. Regardless, carriers believe that success in the agency channel will be impacted by those same broader, macroeconomic developments.

Carriers believe that the following developments are drivers for them to reconsider how they go about acquiring policyholders:

- **Policyholder acquisition costs have grown and will continue to grow.** Acquiring new policyholders has become more expensive for carriers when considering the costs of ramping up new systems (both internal and external), marketing, and commission payouts. Paying out commissions to agents is expensive, but at least the payout results from a policy being sold. There is far less certainty about the return on investment for new system buildouts and marketing. As online distribution continues to proliferate, carriers are concerned about how to justify those investments.

- **New types of risks are being presented.** The evolution of the economy has brought forth new risks, and carriers now underwrite policies that they have not previously underwritten (or at least not frequently). These risks include a proliferation of home-based businesses on the commercial lines side, the emergence of usage-based insurance on the personal lines side, and of course, the blending of personal and commercial into sharing economy assets (such as a home being used as an Airbnb). And then there are cyber risks, which hit all these newer risks as well as more traditional risks. Carriers pride themselves on being able to underwrite policies based on experience and accumulated data; with these new risks, that prospect becomes more challenging.

- **New competencies will be required to succeed.** Most carriers indicated during their discussions that they believe that they do reasonably well underwriting policies and paying claims. During these discussions, however, they also stated that because of the shifting environment, future success and competitiveness likely will require a broader set of competencies, such as precisely targeting prospects, accurately assessing their insurance needs, or providing clear policyholder communications (among others).

POTENTIAL ACTIONS TO BE TAKEN

Carriers have several actions they can take as these developments continue to unfold:

- **Develop more targeted, more relevant messaging.** This is important for all carriers, regardless of which distribution strategy is their focus. Pitching inappropriate coverage to prospects is not a great approach for policyholder acquisition or for any cross-sell/upsell opportunity. Any refined message or targeted pitch should leverage segmentation insights and consider geographic or demographic differences. More targeted and relevant messaging also improves lead quality.
- **Leverage a more robust data strategy to drive policyholder acquisition**. Data can be used to address a broad range of issues, but specific to policyholder acquisition, data can be used to help underwrite newer risks more intelligently and more accurately. As is the case with better messaging, data can also be used to improve the quality of leads.
- **Clearly communicate appetite to distribution partners**. Distribution partners often do not understand what carriers are looking to underwrite and submit business that winds up getting turned away or priced unfavorably. This engenders bad feelings and contributes to decreased flow from agencies, which in turn inhibits policyholder acquisition. The need for carriers to more clearly communicate appetite to their distribution partners has been heightened by these emerging risks.

POLICYHOLDER EXPERIENCE AND RETENTION

One thing at the forefront of carrier executives' minds is how to retain policyholders. Several trends and shifts within this space provide plenty of worry for executives at insurance carriers.

- **Policyholder acquisition has become more expensive and will continue to become more so**. This goes without saying: If it costs a lot for carriers to acquire policyholders, they must try to maintain persistency through the policy's breakeven point (which could be roughly seven years, depending on the carrier and the policy). The corollary to this is that if carriers do not want to spend money in pursuit of new policyholders, retention becomes more critical.
- **Policyholders experience less friction when switching.** The fact for P&C carriers is that with a few swipes on a tablet or smartphone and some basic data, policyholders can more easily compare carriers and their coverages than ever before, mostly because of the rise of nontraditional distribution options. Agents do not have to be a part of the process and will not always be present to advocate on behalf of a carrier.
- **Consumers are increasing their focus on experience versus price.** While price is still an important consideration for prospects and policyholders, an increasing number of them recognize that a low-price advantage can be superseded by a poor overall experience with a carrier. This is a broad statement, as policyholders can have a wide range of experiences with their carriers across their policyholder journeys—at the

point of exploration, the point of sale, the point of claim, etc. In some instances, a good experience can translate into higher perceived value by the policyholder.

- **Consumers demand a customized experience.** This development causes executives to cringe simply because of its breadth and depth. While some customers focus on experience in general, an increasing number of customers seek customized or personalized experiences. With such a wide array of consumer demands to meet, such as more relevant and targeted messaging, an omnichannel interactive experience, and a greater ability to self-direct and self-serve throughout a policyholder journey, carriers have plenty of options to consider.
- **Policyholders require clearer understanding/communication.** As long as insurance has been sold, policyholders have been confused by the contents of their policies. However, as transparency has become a badge of honor for many products outside of insurance, policyholders are seeking more clarity as to what their policies cover without involving lots of jargon.
- **Policyholders place a greater importance on the moment of truth.** To be clear, the moment of truth (i.e., a claim payout) has always been important to policyholders. However, there has been a decided shift toward the experience around a claim rather than simply whether a claim was paid and was sufficient to cover a loss. Even if a claim is paid, policyholders are more likely to switch carriers if the experience is less than satisfactory. Drivers of dissatisfaction with the claims process include a lengthy settlement process, lack of transparency, and lack of any control to bring about a resolution.

POTENTIAL ACTIONS TO BE TAKEN

With all of the following suggested actions, the desired end result is to increase policyholder persistency and reduce policy churn:

- **Promote more self-service.** Providing self-service options for policyholders can help carriers deliver more customized, personalized experiences along a policyholder’s journey. Successful execution of this action can come in many forms. Creating a user-friendly self-service portal that allows policyholders to conduct business at any time of day across multiple channels can be one outcome. Another can be an enhancement of the previous outcome—delivery of self-service with the guidance of an artificial-intelligence-enabled chatbot. More critically, this should not be done by guesswork, as mechanisms now exist to extract insights from policyholder data that could help shape the execution. In the end, carriers will effectively be able to develop a unique experience for each of their policyholders.
- **Create clearer policy documents.** While this is not earth-shattering, policyholders will appreciate simplicity and the clarity in a policy, a renewal form, an endorsement form, or a bill. Written documents are not the only option to execute on this; customized explanatory videos can be deployed as well when appropriate. These actions can be taken at multiple points along a policyholder’s journey, but they will likely have their biggest impact when a policyholder onboards with a carrier.

- **Deliver a better claims experience.** This is potentially the biggest opportunity for carriers to enhance policyholders' experiences and is certainly the most critical as it relates to retention. Carriers should do everything they can to reduce friction in the claims process, which may mean installing a tracking system that communicates real-time claim status, developing a better and more transparent decision-communications process, or building an element of self-service (such as deploying an automated first notice of loss intake or allowing pictures/video of damage to be uploaded).

- **Strive to create more value along a policyholder's journey.** Many of the actions noted above could serve to create more value for policyholders along their journey, but carriers can go beyond these. Most policyholders make claims infrequently, so there really are limited opportunities for carriers to demonstrate value. Thus, carriers can find other spots to help their policyholders manage their risk. Actions might include providing advice to a policyholder to avoid or minimize loss under adverse conditions, such as heavy rain, or providing gadgets such as a water leak detector that can help a policyholder mitigate or avoid loss.

PROCESS EFFICIENCY

Expense pressures always have been a part of carriers' everyday conversation, so seeking process efficiency to alleviate these pressures is not exactly a ground-breaking focus. However, a few recent shifts have required carriers to look to digital solutions to supplement nondigital efficiency initiatives:

- **Regulations:** Obviously, regulations have been a thorn in carriers' sides for quite some time, mostly because carriers in the United States have had to deal with 50 different state insurance commissioners. With different filings for different products in multiple states, carriers have a lot to contend with. It is very easy for carriers to develop processes that are overly duplicative to meet the standards set by the various regulators. This burden becomes greater when external pressures such as demand for new products or endorsements arise. So any "shift" is really more of an exacerbation of an existing issue for carriers than it is a wholesale shift.

- **Changing consumer preferences:** This shift shows up in previous areas of concern, but in this instance it is viewed mostly as a demand to develop a customized and personalized experience for each policyholder. Customization does not conjure images of scalability, so there is clearly some tension here.

- **Greater importance on the moment of truth:** As noted above, claimants want a transparent and swift claims process. Many of the shortfalls in the claims process are caused by communication breakdowns, inattention to detail, or simple human error. Elimination of these will enable carriers to meet claimants' expectations.

- **Quicker underwriting decisions:** Applicants no longer want to wait an extended length of time to get a bound policy, so carriers have to figure out a way to underwrite even more quickly than they are currently able to. To be sure, most carriers have already automated a significant portion of their underwriting mechanisms, but given the availability of new data streams, there is an opportunity to be even quicker. This ability will gain in importance if online distribution continues to grow, since expectations for an online insurance purchase experience will likely mirror those of general online retail—quick, convenient, and performed with minimal friction.

POTENTIAL ACTIONS TO BE TAKEN

With an undercurrent of cost savings, carriers can take several actions to create more efficiencies and partially address the shifts noted above. Some of these actions follow:

- **Promote more self-service.** In addition to increasing engagement, self-service can help deliver cost benefits and efficiency by either lowering the requirements for live people or by freeing up existing staff to focus on activities that cannot be performed via self-service. Intuitively navigated self-service portals and chatbots would still be the main elements.
- **Resist regulatory resistance.** Insurance involves nuance, much of which is driven by regulation. However, just because one product might require multiple policy reviews does not mean that carriers have to slow down their product development processes. It is possible to perform policy analysis via software to ensure that all regulatory needs are met. When there is commonality, this software can verify that a policy does not need a review and can expedite the review process. Overall, carriers can build policies more quickly and with more confidence.
- **Deliver a better claims experience.** This is another action that has its feet in multiple camps. Certainly, a better claims experience means that a claimant gets paid more quickly, but it also means less friction in getting to the resolution. All too often, the claims process is bogged down by miscommunication between claimant, carrier, and repair provider. This bog can be avoided through the deployment of solutions that offer real-time status checks that prompt next steps to the appropriate party.
- **Leverage a more robust data strategy to create efficiencies.** More robust data can make any process more efficient by reducing uncertainty levels. In essence, robust data can be thought of as a Swiss army knife—one tool to address many different issues. If carriers are able to source trustworthy data and apply the proper synthesis, it is possible to expedite underwriting and claims decisions, and increase their confidence in coverage appropriateness, pricing accuracy, and legitimacy (as it relates to application or claims fraud).

CONCLUSION

- Carriers have plenty of tools at their disposal to help them overcome some of the key challenges they face as the insurance industry becomes more digital.
- The single biggest resource that carriers have available to them is data, which can help P&C carriers overcome numerous challenges across the insurance value chain from lead generation all the way to a claim payout.
- Carriers must also pay attention to shifting policyholder demands and ensure that those expectations are being met. Some fixes are relatively easy, such as making communications clearer. Others require a bit more heavy lifting, such as the development of an omnichannel user portal, a chatbot, or a refurbished claims process.
- As the distribution landscape continues to evolve, carriers must ensure that they are well-positioned to take advantage of these shifts. A part of adapting is being able to understand which consumers will want to take advantage of the new distribution options and which ones will want to remain with agents. The upshot of this is that if a carrier is going to continue to focus in the agency channel, it is imperative that it focus on the appropriate agencies through which it can win the most business.
- Any drive for efficiency should be done with multiple goals in mind. While cost containment and duplication avoidance are certainly admirable, carriers also can reap the benefits of deeper policyholder engagement by increasing a policyholder’s ease of doing business with a carrier or allowing a policyholder to manage carrier interactions on a customized basis.

ABOUT PITNEY BOWES

Pitney Bowes is a global technology company that enables insurance companies to improve the customer experience through single customer view and customer engagement solutions. With a single view, insurers develop a deeper understanding of their policyholders that informs digital engagement to achieve optimal results. Additionally, the company helps insurers improve underwriting accuracy through location intelligence and risk data products. These solutions are examples of the Knowledge Fabric from Pitney Bowes in action, best-in-class software and data that surface relevant business insights by understanding the relationships between people, places and things. For additional information, visit www.pitneybowes.com.

ABOUT ICC

ICC is a technology consulting firm specializing in end-to-end digital innovation. It helps clients execute digital strategies by elevating the customer experience, transforming technology, and exploiting analytics for decisive action. Working collaboratively with its clients, it provides technology expertise, human-centered design, and industry experience to deliver real business results. For additional information visit icct.com.

ABOUT AITE GROUP

Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the web and connect with us on Twitter and LinkedIn.

AUTHOR INFORMATION

Jay Sarzen
+1.617.398.5052
jsarzen@aitegroup.com

CONTACT

For more information on research and consulting services, please contact:

Aite Group Sales
+1.617.338.6050
sales@aitegroup.com

For all press and conference inquiries, please contact:

Aite Group PR
+1.617.398.5048
pr@aitegroup.com

For all other inquiries, please contact:

info@aitegroup.com