



consulting | technology | outsourcing

Jack —  
Jane —  
Sonja —  
Eliza —  
John —  
Callan —  
Louise —  
Charles —  
Andrew —

The Digital Insurer:

Accenture US Personal-Lines Insurance Consumer Survey

What high-performance insurers  
are doing to achieve growth in a  
dormant market

A young child with dark, wavy hair is shown in profile, looking up towards a list of names on a wall. The child is shirtless and has a small mole on their shoulder. The list of names includes Jack, Jane, Sonja, Eliza, John, Callan, Louise, Charles, and Andrew, each followed by a horizontal line. The background is a blurred indoor setting with a window and curtains.

High performance. Delivered.

# New strategies needed to achieve high performance

When paradigms change, accepted benchmarks go out of the window. The personal lines insurance industry in the US is experiencing change on this scale, with entirely new business models being employed to meet consumers' evolving needs and preferences. While some established firms are having their market share plundered by innovative newcomers, others are transforming their products and their operating models to remain relevant. The most successful of these are dismissing the conventional wisdom that modest growth is acceptable. The question is: what new distribution strategies should personal insurers adopt to achieve high performance? More specifically: what is the role of multi-channel distribution?







# The UK insurance market has transformed. What does this mean for the US?

The general insurance market in the UK – and in particular the personal lines motor insurance market – has experienced profound change in the past 10 years. The growth in personal use of the Internet for research and purchasing, together with the advent of comparison websites and direct online insurers, has resulted in more than 50 percent<sup>1</sup> of private auto insurance sales being claimed by these innovative newcomers. Online sales of household insurance were measured at 10 percent in 2009, with the Association of British Insurers stating that this figure could double by 2011. In its 2012 "Key Facts" report<sup>2</sup> it noted that 31 percent of all P&C insurance was sold direct (on the Internet or by telephone) compared to 40 percent by brokers and 8 percent by exclusive agents.

In the light of this swing to the online channel, it is not surprising that the leading UK direct carriers have experienced strong growth. The Admiral Group, launched in 1993, has increased its revenue consistently at well over 10 percent a year while maintaining a combined ratio which, most years, has been comfortably under 90 percent. With its six brands – one of which is the popular price comparison site Confused.com – it commands 11 percent of the British auto market.

The question which confronts US insurers is how relevant all of this is for them. As in the UK, US consumers have become much more reliant on the Internet to search for information and recommendations about insurance. Geico, Progressive and USAA have enjoyed robust growth (Figure 1) and gained market share at the expense of those carriers which depend heavily on the agency channel. Yet comparison websites have not had anything like the impact they have in

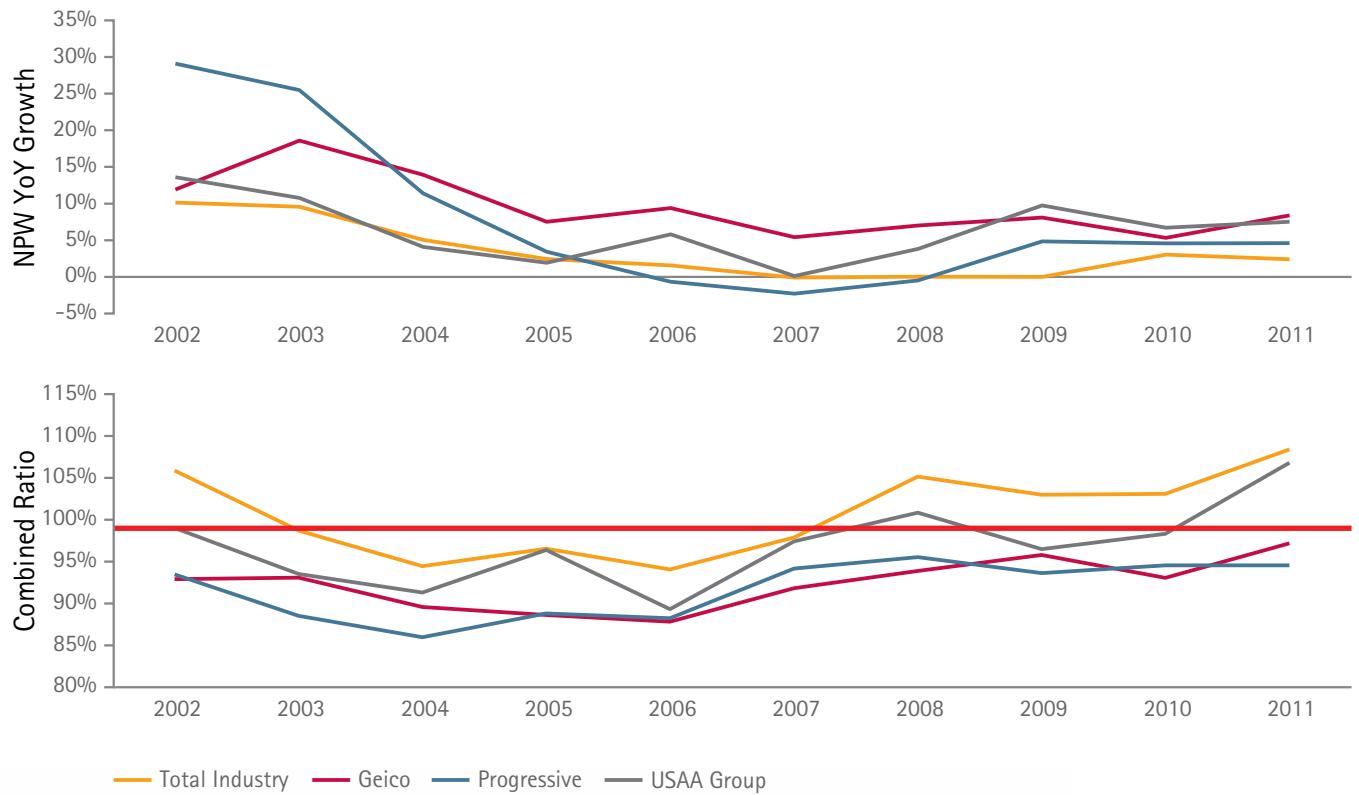
the UK, and British insurers which have tried to export their direct model to the US have to date enjoyed little success.

Few dispute that the US market is changing. Customers' preferences and behavior have shifted, and new technologies are creating new ways for them to research, buy and manage their insurance. In such a fluid market, how should insurers respond?

To gain a better understanding of this altered environment Accenture carried out a survey of 4,000 personal lines P&C customers in the US. This not only allowed us to measure consumers' attitudes and intentions regarding the purchase of insurance, but also to get a glimpse of where the market is headed. The findings have confirmed our belief that meaningful growth is eminently attainable – but the choice of distribution strategy is critical.



Figure 1: Geico, Progressive and USAA have significantly outperformed the P&C industry as a whole.



Source: Accenture Research analysis based on AM Best data, 2012



# Accenture research confirms customer preferences are changing

Accenture's US Personal-Lines Insurance Consumer Survey leaves no doubt that the online channel plays an important part in most customers' interactions with their insurer. However, it would be wrong to conclude that the Internet's gain has been agents' loss. Rather than simply switching from one channel to the other, consumers are becoming more diversified – they prefer to use different channels for different stages of the buying cycle. So as Figure 2 shows, websites are the preferred source of information for those looking to buy insurance, but when it comes to requesting a quote and purchasing a policy, agents are the most popular channel.

Much of the success of the aggregator channel in the UK can be attributed to the dominance of price within consumers' set of selection criteria. While respondents in Accenture's US survey also rated price as the most important factor, it is certainly not the only one (Figure 3).

In light of the growing reliance on the online sales channel, the question of advice

becomes increasingly important. Despite the abundance of free information and recommendations in our Google-driven world, well over one in three customers are willing to pay for advice about the insurance that is best for them (Figure 4) – and more than half are prepared to pay at least 10 percent more. The younger the customer, the greater the perceived value of good, personalized advice (Figure 5).

Much has been written about young consumers who are entering the market, and how their familiarity with the Internet, social media and mobile devices is changing insurance distribution. The fact is that age is not a decisive and consistent predictor of channel preferences. The four columns in Figure 6 demonstrate this and serve as a reminder that there are many demographic, psychographic, lifestyle and other factors which can account for differences in how customers would like to be treated.

A key part of Accenture's research was an in-depth conjoint analysis of the

results. This helped to identify segments which display similar behavior and preferences, and which could therefore be a starting point for developing and delivering differentiated insurance value propositions and treatments. Many carriers have realized, from their own experience, that crude segmentation based on demographics generally fails to deliver the results they are hoping for. Consumers are more complex than that, and a more nuanced approach is needed.

Our analysis confirms that there are no blockbuster variables, like age or Internet affinity, that split the market cleanly. It is possible, though, to define a number of basic segments which can be targeted effectively with differentiated marketing, sales and service strategies. Figure 7 contains one version of such a set of high-level segments, while Figure 8 illustrates how the different criteria which consumers use to select insurance products and providers vary in importance from segment to segment.

Figure 2: Insurance customers' channel preferences vary according to their requirements.

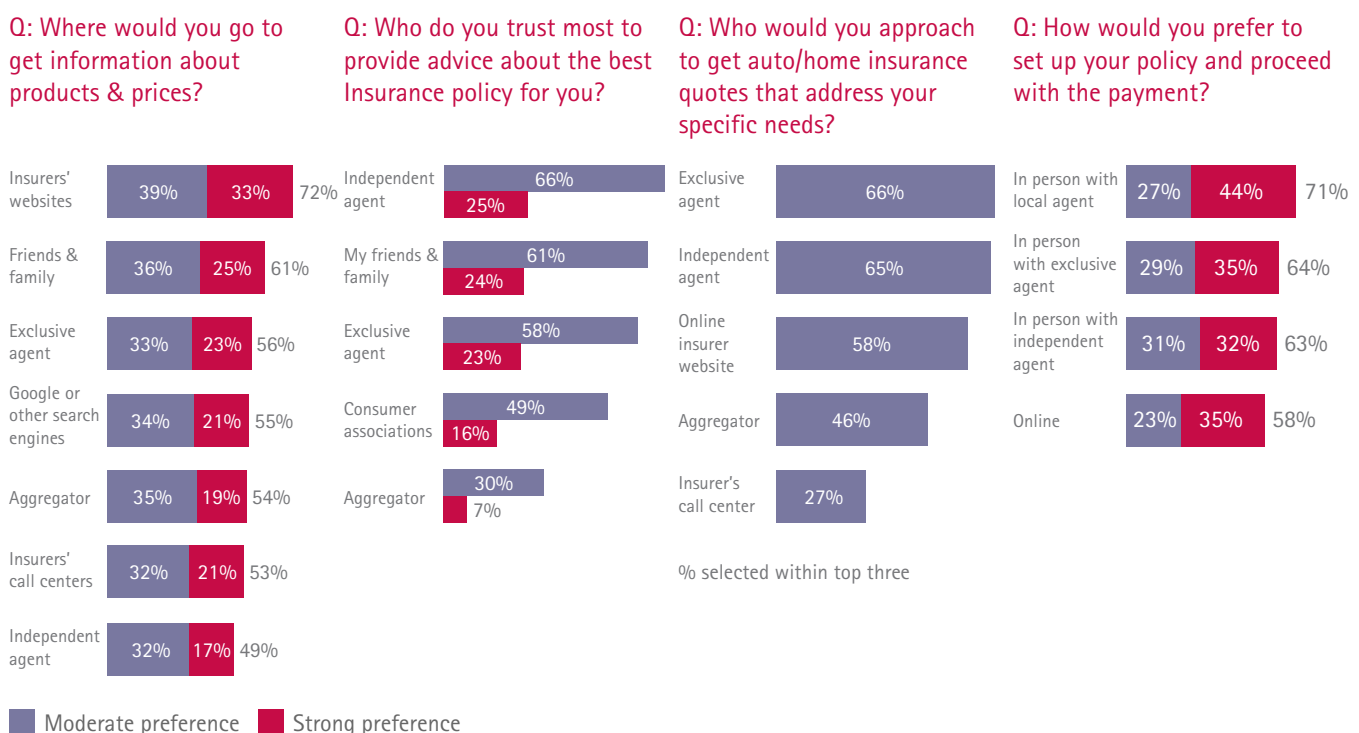


Figure 3: Price is important to insurance customers, but it is not the only factor.

Q: What are the most important factors you would consider when selecting an auto / home insurance product or provider?

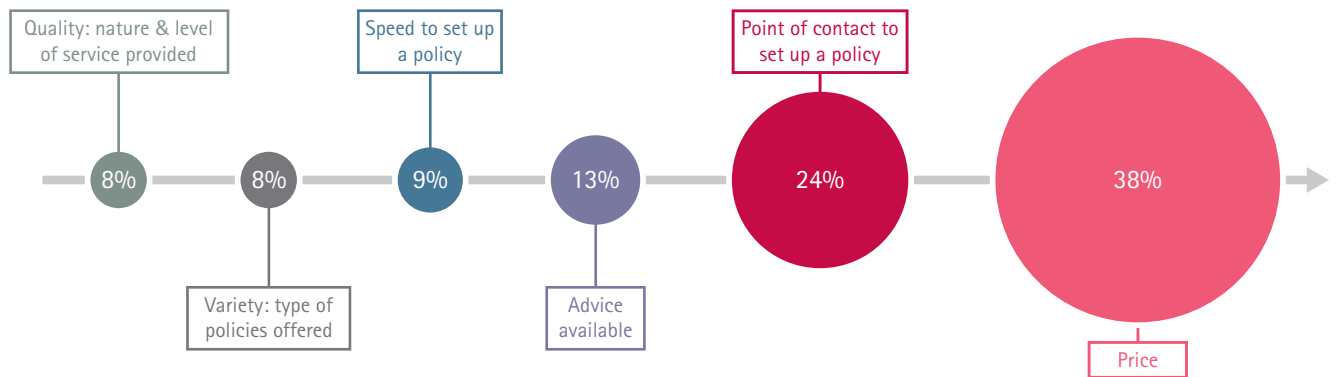
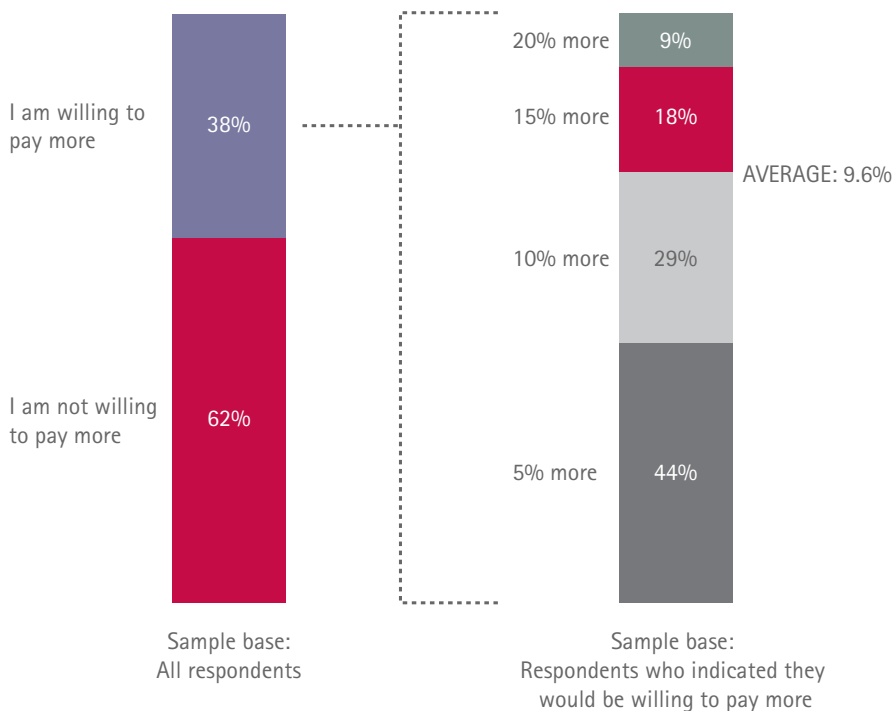


Figure 4: Customers are willing to pay more for relevant, customized advice.

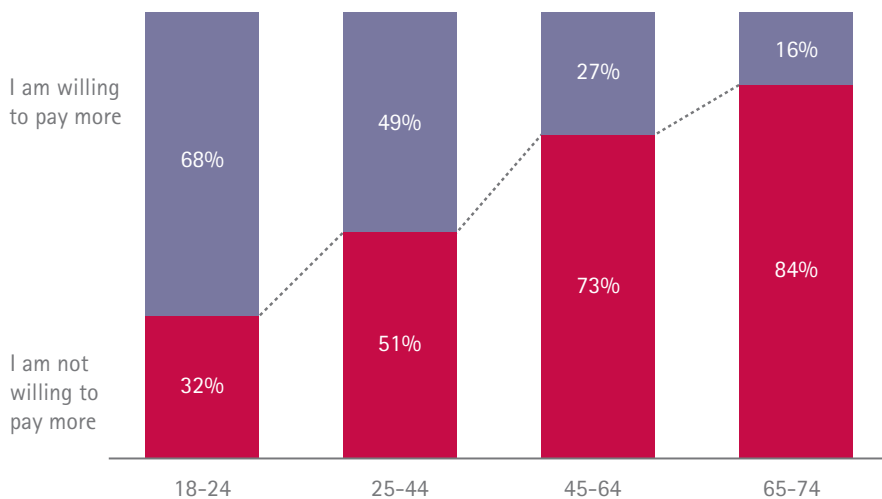
Q: Would you be willing to pay to get personalized advice or assistance when purchasing auto/home insurance? If so, how much?



Accenture's US Personal-Lines Insurance Consumer Survey leaves no doubt that the online channel plays an important part in most customers' interactions with their insurer. However, it would be wrong to conclude that the Internet's gain has been agents' loss.

Figure 5: Young consumers recognize the need for, and the value of, personalized advice.

Q: Would you be willing to pay more to get personalized advice or assistance when purchasing auto/home products or services?



Our analysis confirms that there are no blockbuster variables, like age or Internet affinity, that split the market cleanly. It is possible, though, to define a number of basic segments which can be targeted effectively with differentiated marketing, sales and service strategies.

Figure 6: While age does affect customers' channel preferences, it does not do so in a consistent way.

Q: By which channel would you prefer your quote to be sent to you?

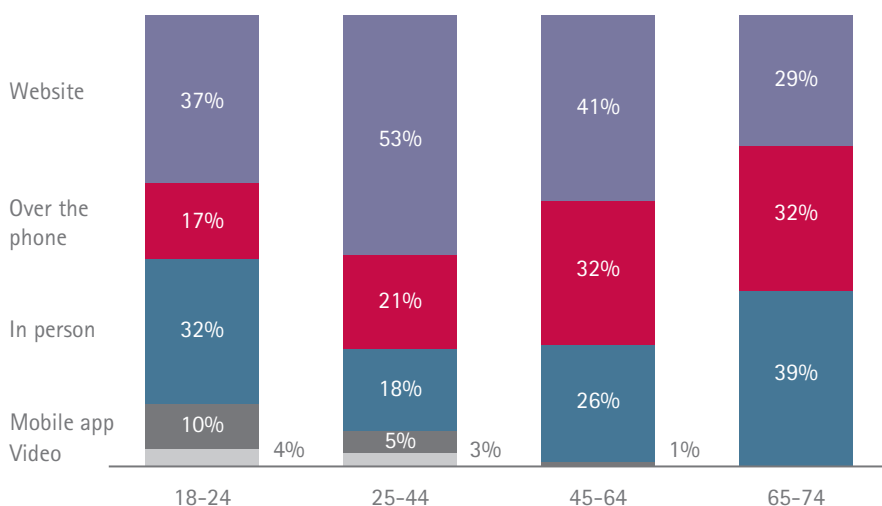
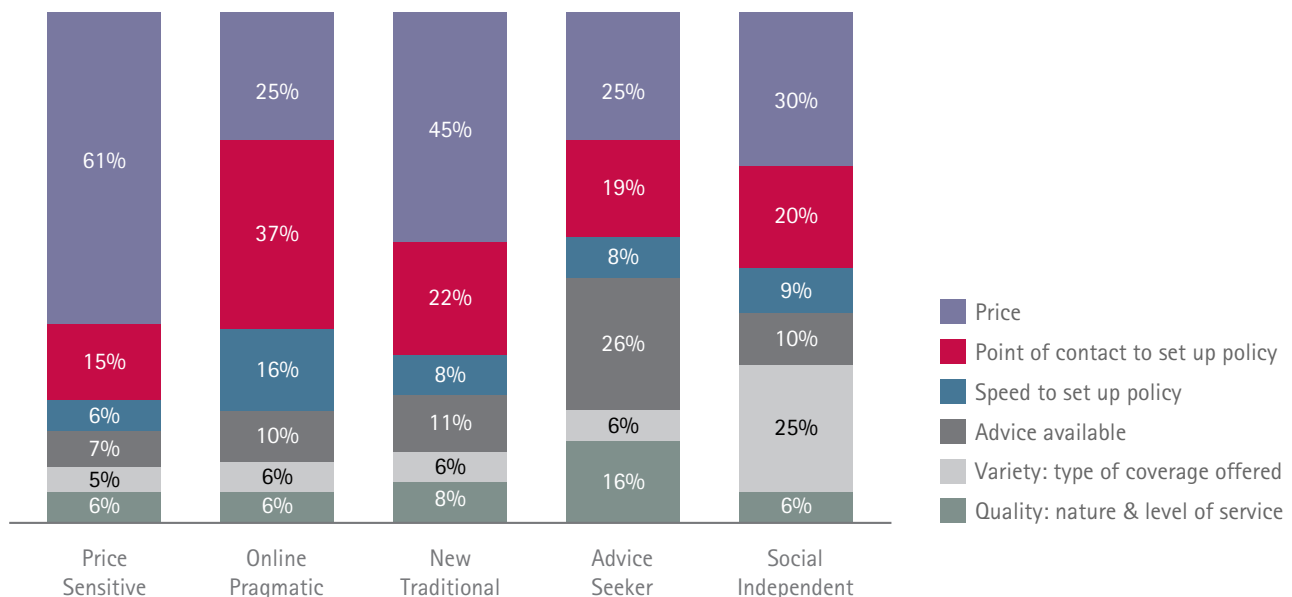




Figure 7: A conjoint analysis of the findings of Accenture's US Personal-Lines Insurance Consumer Survey helped define five customer segments which would warrant different approaches by insurers.

		ONLINE	ONLINE	AGENTS	MULTI-CHANNEL	MULTI-CHANNEL
		<b>Price Sensitive</b> "Getting the best price is most important to me."	<b>Online Pragmatic</b> "I value convenience and efficiency."	<b>New Traditional</b> "I prefer personal relationships."	<b>Advice Seeker</b> "Above all, I'm looking for the best advice."	<b>Social Independent</b> "I value diversity and want to be able to choose between various options."
Channel Preferences	Buyer values	Price	Speed, point of contact to set up policy	No differentiator	Advice, quality	Variety: type of coverage offered
	Information	Insurer websites, web search engines	Insurer websites, call centers, aggregators	Agents	Insurer websites	Insurer websites, web search engines, call centers, consumer associations
	Quote: from whom?	Insurer websites, agents	Insurer websites, agents, aggregators	Agents	Agents, insurer websites, aggregators	Agents, insurer websites
	Quote: which channel?	Website	Website	Phone, in person	Website	Website
	Advice	Agents, consumer associations, aggregators	Agents, consumer associations	Agents	Agents, consumer associations	Agents
	Set up policy	Online, agents	Online, agents	Agents	Agents, online	Agents, online
	Ongoing Payment	Insurer's website, online banking	Insurer's website	Mail, online banking, insurer's website	Insurer's website, online banking	Insurer's website, online banking
Loyalty	Time with insurer	7 years	6.5 years	8 years	7.5 years	7 years
	Plan to look around	27%	29%	18%	27%	23%
Demo-graphics		52% women	51% women	57% men	50% men	52% women
	Age: 18-24	12%	15%	17%	14%	14%
	25-54	59%	55%	45%	55%	55%
	55+	29%	30%	38%	31%	31%

Figure 8: The importance of different product selection criteria to customers in the five segments.



# Growth will depend on a focused distribution strategy and customer-centric engagement

Accenture's consumer research and our review of recent market developments, together with our years of experience working with many of the world's leading insurers, has convinced us of two things:

1. It is possible for US personal lines carriers to achieve and sustain meaningful, profitable growth in a sluggish market.
2. In order to do so, they need to focus on one of two business models – the integrated agent model or the online model – while embracing new technologies to enhance the effectiveness of these models.

The first point can be illustrated empirically (Figure 1). While the personal lines auto insurance industry in the US grew at a compound annual rate of 2.4 percent between 2001 and 2011 (and a meager 0.4% since 2006), Geico grew at 9.7 percent (6.9 percent since

2006) and Progressive at 7.7 percent (2.1 percent since 2006). It is fair to say that this growth has been profitable – the combined ratio for both Geico and Progressive, over the 10-year period, has averaged a little over 92 percent, while that of the personal lines auto industry as a whole has been 99.8 percent.<sup>3</sup> High performance is not an aberration, despite the prevailing economic conditions, but rather the predictable result of the correct strategy properly executed.

As for strategy, we have arrived at the conclusion that a channel strategy in which a carrier attempts to be all things to all people has been, and will continue to be, unsuccessful. A diversified strategy will prevent the insurer from concentrating on its strengths, and it offers few if any opportunities for synergy – the two models require entirely different sets of capabilities and impose different investment priorities.

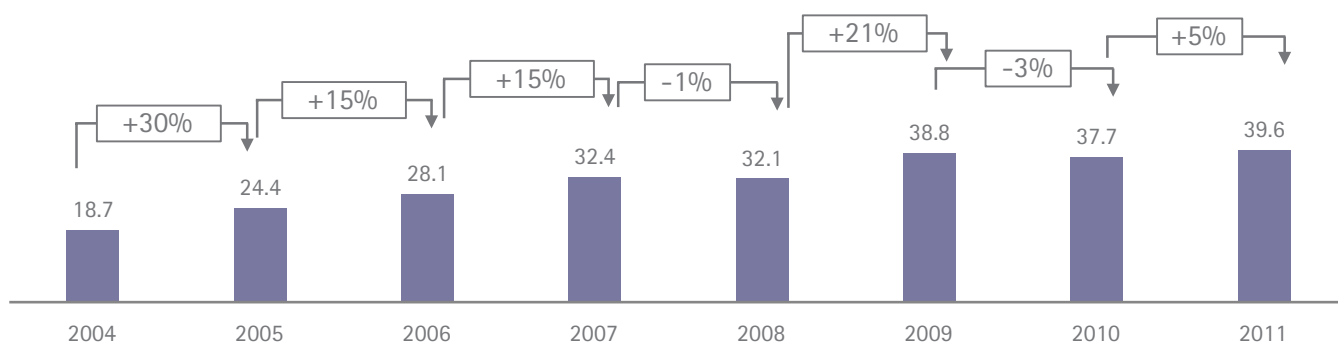
Insurers need to decide whether their primary sales channel is the Internet or their network of agents, and should surround that channel with the capabilities required for it to compete and win. The online channel is where the strongest growth can be found, and it certainly helps to be positioned in a rapidly expanding sector of the market. At the same time many customers still prefer to buy from agents, and for many carriers with an established agency network this finding is welcome news.

## The online direct model

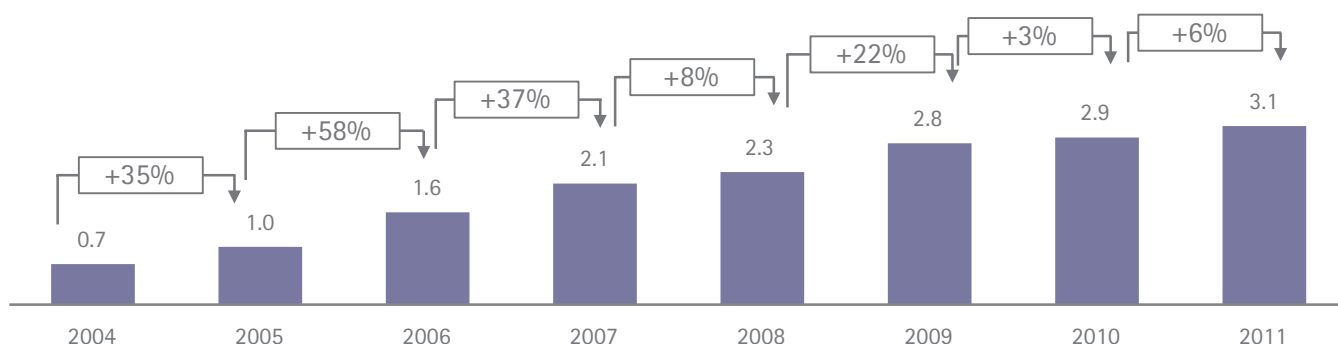
Internet sales of auto insurance have increased steadily over the past few years. They not only outstrip agent sales but appear to be unaffected by the recession – it would be difficult to tell, by looking at Figure 9, that the economy slumped in 2008. Direct insurers have gained a hefty share of the market and,

Figure 9: Since 2004 the number of US auto insurance online quotes has more than doubled, and online sales have more than quadrupled.

### Annual quotes submitted online (millions)



### Annual auto insurance policies purchased online (millions)



Source: comScore Inc. 2011 Auto Insurance Shopping Report

as Figure 1 shows, they have done so while keeping their costs low, in spite of their large investments in brand promotion. There's no disputing that, at this time, this is a sweet spot for insurers.

A large number of consumers, who are comfortable navigating the Web and transacting online, prefer to make what they regard as a straightforward auto insurance purchase without interacting with an agent. Almost three out of four would look for information on insurers' websites, and 58 percent say they would go online both to request a quote and to set up and pay for their policy. They can do this whenever is most convenient for them, they can easily compare offerings without being pressured to buy, and most importantly: they can often get better prices.

It has to be said that direct insurers have been aided by their more traditional competitors, which have mostly failed to differentiate their offerings and the value of their advice – an earlier Accenture survey<sup>4</sup> found that 75 percent of customers believe there is no significant difference between the products and services offered by insurance companies. With this mindset, it is hardly surprising that auto insurance is largely viewed as a commodity, and that price plays such an important role.

Given the downward pressure on premiums, it is essential that carriers that wish to compete in this model reduce their cost base. They need a modern platform and efficient processes. They also need an aggressive digital marketing strategy that optimizes Internet tools and channels and generates a favorable ranking when search results are presented to the user. Just as importantly, they need to simplify their products and streamline their sales process.

Once the basic policy has been sold, there is an opportunity for the carrier to engage with the customer in an effort to persuade him or her to buy relatively inexpensive but more lucrative add-on coverages such as roadside assistance or rental car coverage. Success at this stage of the sales cycle is the difference between merely enlarging the customer base and growing profitably. An inability

to up-sell on loss-leading base policies could lead to the accumulation of bad risk, which may explain why some of the more aggressive direct carriers in the UK have experienced a slow but steady deterioration of their combined ratio.

Achieving profitable growth demands a variety of special capabilities. Pricing sophistication is the first of these – the ability to operate on the right side of a wafer-thin margin while constantly adjusting prices and tracking the impact of these adjustments.

Then comes up-selling and cross-selling. Some carriers do this on their website, as part of completing the application process. Others urge the customer to phone their call center, where commission-driven agents are waiting to convert the opportunity.

Online carriers that have the highest up-selling and cross-selling rates hone their ability to constantly modify all of the elements which may influence a customer to make the call and to buy the upgrades. From market segmentation to the design of their website and the scripts which the call center agents use, each of these hundreds of factors is tweaked and stored in a perpetual self-educating, self-refining system. It is a process that never ends, partly because customer preferences are forever in flux and partly because competitor responses force the carrier to respond in turn.

To attain this level of agility requires a highly streamlined back office and automated processes that lend themselves to easy configuration and mass personalization. Insurers need advanced data analytics and predictive modeling capabilities to rapidly make sense of what is happening and to recommend an appropriate response. They also need an exceptional marketing team, one with strong analytic and digital skills but also one with a high tolerance for change and the ability to collaborate closely with the IT team.

Notwithstanding many customers' preference for the clinical anonymity of the online purchase, Accenture's research shows that expert, personalized advice is highly valued (Figure 4). Direct online insurers could broaden

As consumers have become more focused on price as a key buying criterion, some online direct insurers have shifted the focus of their promotion from their products to their prices. This has given rise to the concern that, in trading features for lower prices, customers may end up buying unsuitable or inadequate coverage. Progressive's "Name Your Price" feature caters to the price sensitive shopper while providing transparency around coverage implications. It allows visitors to the carrier's website to request a quote, and then use a "slider" to move the quoted price up or down. Changing the price affects the features included in the policy as well as the size of the deductible, and gives customers a clear view of what they are getting for their premiums.

their appeal by using emerging digital technologies to provide relevant product selection advice on their website, as well as seamlessly transitioning to a contact-center agent via video, chat or phone. By supplementing their website with other integrated communication and interaction channels, and building advice provision into the system, they could not only add impetus to their up-selling effort. These enhancements would also enrich the customer experience, differentiating the carrier and giving even the most cost-conscious customers a reason to become loyal.

## The integrated agent model

Accenture's research shows that although there is a strong trend toward direct online sales, the majority of consumers

still prefer to deal with agents. Sixty-six percent named exclusive agents and 65 percent chose independent agents among their top-three preferred channels to get quotes – insurers' websites came in third at 58 percent. Similarly, local, exclusive and independent agents made up the top three channels for setting up a policy and initiating payment, with an average score of 66 percent, followed by online with 58 percent.

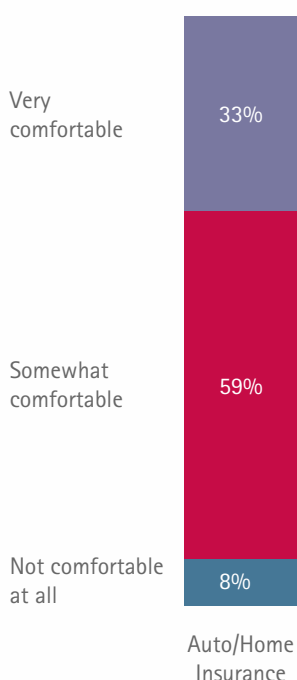
It is also important that the inroads achieved by direct insurers are mostly in personal lines auto. Although our survey respondents showed no significant differences between their channel preferences for auto and household insurance, purchasing a home policy online is generally more complex than buying an auto policy.

This complexity also makes it more difficult to compare quotes. Confronted by an array of policy terms and exclusions, and a wider selection of features, many consumers feel imperfectly equipped to make the right decision (Figure 10). In this situation the value of expert advice and a trusted reputation becomes obvious to the customer.

While young first-time insurance buyers recognize the value of the tailored advice that agents offer, many do not want to interact with them the way their parents do. They are more likely to embark on a multi-channel journey that spans Google search and social media to perform research, the carrier's website to create an initial quote, chat with an agent to seek clarity on coverage options, and then "click to call" to seek final advice from the agent before making the purchase.

Figure 10: Buying insurance policies online may be impeded by the difficulty many customers have in understanding the product details.

**Q: How comfortable are you in reading & analyzing insurance quotes/policies before selecting the best policy for your needs?**





The company's website and digital marketing campaigns that drive traffic are an important first step. The site needs to make a strong case for the value of an agent's advice and the importance of a holistic view of the consumer's insurance needs.

More effective use of customer and prospect data – both internally and externally sourced – will also be key. The data should be centrally located in a modern customer relationship management (CRM) or agency management system, making it available throughout the organization and across channels. Uses of this data should include sophisticated customer segmentation and the development of data-driven insights that facilitate

messages that are relevant and compelling to each individual customer.

Carriers also need to segment their agent base so that website visitors can be connected with agents who are most likely to make the sale, establish an enduring relationship and grow their share of the customer's wallet. These agents must be supported with a comprehensive range of marketing, prospecting, selling and office management tools. Mobile and collaboration technologies will enable them to provide more responsive service, and draw on the necessary experts whenever they can help advance or close the sale. Agents should also be trained to become expert at using websites, blogs, social networks, testimonials, mobile devices and any

other new digital media to reach and engage with customers wherever and however the customers prefer.

To achieve this integrated cross-channel vision, insurers need to develop a strategy and roadmap to dismantle the internal barriers that constrain agents, call centers, the Internet, mobile, social media and other channels from working together and meeting customers wherever they shop for insurance. For most, this will entail a change of operating models, from one supporting multiple independent channels to one which enables a seamless dialogue which has the customer at the center. Achieving this alignment typically entails difficult changes to organization design, governance, performance management, incentives, behaviors, and culture.



# Strong growth is possible, but not for all

Market data collected over the past 10 years shows that the 10 largest US personal lines insurers (by gross written premiums) grew at a compound average rate of 2.1 percent between 2001 and 2011, and at 1.8 percent between 2008 and 2011. It is our conviction that, with a clear focus and decisive measures to enhance and support the chosen sales channel, high growth rates are attainable. Carriers that fail to concentrate their efforts and resources on a primary sales channel will have limited growth opportunities.



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## Endnotes

1. The Association of British Insurers: UK Insurance Key Facts, September 2011 (quoting the Datamonitor report: UK Personal Insurance Distribution 2011)
2. The Association of British Insurers: UK Insurance Key Facts, September 2012
3. A.M. Best's Global Insurance Database
4. Accenture Consumer-Driven Innovation Insurance Survey (2011)

## About the series

The Digital Insurer is an Accenture series that provides insights on how insurers can achieve high performance in the digital age. Digital is not simply a new distribution channel—it offers an entirely new way of doing business. Insurers are learning how to provide easier access to more relevant products and services at a lower cost, and this series presents pragmatic discussions on analytics, back-office digitization, marketing, mobility, social media and more.

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- The digital insurer: Change now to get ahead (P&C and life insurance) (2012)
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