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Distributing Differently

New technology and digital strategies are changing how insurance is bought and sold.

by Angelo John Lewis

Asked to describe how the buying and selling of insurance has changed in recent years, Mark Goodman, a partner with the Freeborn & Peters law firm, begins by giving a personal example.

Goodman has been advising insurance companies for more than 30 years. He was looking to replace his older term insurance policy with a newer one. Typical of an increasing number of consumers, he started his research by using one of the leading Web-based brokers. What he thought would be a simple process turned out to be a frustrating one.

"I'm like, look, I've had a physical, so here are the results and here's the blood work. This is just term insurance and this should be easy. They know my age, they know I'm not a smoker, they know I'm not going to die. Talk about customer experience. If somebody could say, 'Hey, you can apply online and we can tell you in four days whether it's a yes or no and what the price is,' I'm going to go with them instead of somebody else."

Two factors disrupting the traditional way insurance is bought and sold are advances in technology and the changing expectations of consumers.

The influence of technology—as evidenced by Goodman's decision to begin his research by going online—has arguably had the biggest impact on insurance distribution and sales. As late as 1996, for example, 80% of prospective purchasers said they preferred face-to-face

Key Points

What's Changing: Advances in technology and evolving consumer expectations are changing the way insurance is bought and sold.

Where It's Visible: Auto insurers have been fastest to embrace alternative distribution channels.

What's Next: Technological innovation may allow homeowners to get insurance quotes online.

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interaction when searching for life insurance, according to Limra. By 2013 that number had fallen to 50%, according to a study by Limra and the Life Foundation.

"Technology just enables providers to do things that were really hard to do in the past, or harder to do with a good customer experience," Goodman said.

Advances in technology have created what novelist Abha Dawesar refers to as "the digital now," in which today's consumers have instant access to information and, as such, demand more from service providers than ever before.

"We have seen a shift away from what traditionally was more of a delegated model, where you sat face-to-face with an adviser and the nature of that dialogue was very much what we would call 'push,' in that the consumer was only privy to whatever information or recommendations the agent or adviser pushed across the table," said Tom Kavanaugh, PricewaterhouseCoopers' insurance practice director.

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Ron Herrmann,
Prudential

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Tom Kavanaugh,
PricewaterhouseCoopers

"Today's consumers are savvier in a couple of respects," Kavanaugh said. "The pervasive nature of digital engagement, whether through Web browsers or tablets or smartphones, means that folks are becoming much more educated. We're seeing the emergence of the self-directed consumer, who is liable to go further and further and, for some products, all the way to the point of purchase in more of a self-directed manner."

The emergence of big data has enabled insurers to more efficiently reach new customer segments and target them more effectively, Kavanaugh added.

"Carriers are becoming much more sophisticated and effective in terms of the customer segments they're targeting, and the underlying value proposition they convey to those individuals, so that by the time they get to the point of quote they're converting a much higher percentage," he said.

"The other part of the equation is opportunities to differentiate. So we've seen a handful of carriers experiment with new forms of distribution like partnerships or affinity models, or even move into channels like retail. I think there is more appetite for exploring alternative means of distribution not only for competitive differentiation, but to find opportunities to reach new segments and acquire customers in a more cost-effective manner," Kavanaugh said.

Partnerships and Programs

One high-profile insurance affinity program is AARP's long-standing relationship with the Hartford, under which the insurance company offers home and vehicle insurance products to the organization's members.

Another is the Protective Life Insurance Company's relationship with Costco, in which Costco members can purchase term or universal life.

Companies that are exploring retail-based channels include MetLife, which has set up kiosks at Wal-Mart stores, and Direct Auto Insurance, which sells auto insurance in kiosks throughout the Southeast. Another player in this space is Prudential, which is piloting its MyTerm product, a simplified-issue term product, through banks including Wells Fargo.

"It's too early to tell how far we will go with it, but we're certainly learning from the experience, refining it and looking at other opportunities," said Ron Herrmann, executive vice president of distribution and sales at Prudential Individual Life Insurance. "I think it's similar to what other companies are doing. The main difference we see in offering our product through banks is that people are generally in banks to deal with financial transactions versus other purchases. It'll be interesting to see how this all plays out."

Today's tech-savvy customers expect to interact with producers and carriers through multiple channels, according to *Agents of the Future: The Evolution of Property and Casualty Insurance Distribution*, a McKinsey & Company white paper.

"Where once consumers expected to shop for insurance with their agent, and to submit claims and get answers to their questions in the same way, today they increasingly expect to interact with their insurance provider on their own schedules, at all times and through multiple channels (e.g. phone, online self-service, click-to-chat). Furthermore, customers expect a consistent, satisfying experience at every interaction," the report said.

"When you consider the impact that social technologies have had on access to information and transactions, it's natural for consumers to ask, 'Why can't I buy insurance with the same ease I buy other products?'" said James W. Kerley, chief membership officer of Limra and Loma. "Clearly, in the more transactional kinds of insurance, such as automobile policies, you've seen a dramatic shift in the way consumers purchase those products."

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Limra/Loma

Auto Leads Disruption

No segment of the insurance industry has experienced more disruption in distribution than automobile insurance, the largest line of property/casualty business by premiums, according to the McKinsey white paper.

Increasingly, the Internet is replacing the personal agent in this segment as the most common information gathering source, with 73% of shoppers using it, up from 55% in 2008, according to a 2012 McKinsey report, *Winning Share and Customer Loyalty in Auto Insurance.*

ComScore's *2012 Online Auto Insurance Shopping Report* found that more than one-third of consumers surveyed were likely to purchase their next auto policy online, up from 28% in 2008.

A.M. Best's September 2013 Special Report, *Distribution Trends Continue to Shift in the Private Passenger Automobile Market*, defined recent auto distribution trends this way:

"In the highly commoditized private passenger automobile segment, insurance carriers' product distribution and consumer interaction models continue to be significantly impacted by technological advances and their customers' shopping behavior. …Carriers of all sizes have strengthened their online presence to let policyholders perform self-service tasks and access insurance-related information. At the same time, the proliferation of sophisticated predictive models and the rise in straight-through underwriting have contributed to the more pronounced role that direct response companies…are playing in the PPA insurance segment."

Continued growth of mobile connectivity is transforming many aspects of the auto insurance industry, said Ellen Carney, a Forrester Research principal analyst who focuses on insurance and e-business and channel strategy.

"Mobile has been a huge disruptor," Carney said. "We love that anytime, anyplace, anywhere convenience of getting a quote, filing a claim, checking claim status and all these cool tools like quick photo claims from Allstate, and applications that extend the reach of adjusters with mobile video, so claimants can help stand in and act as adjusters. We're soon going to see the impact of wearables, which have generated incredible interest from auto insurers."

Distribution for some auto insurers begins at the sale of the automobile.

"Essentially what we're seeing is [that] I could stand in a parking lot and download an insurance app or go to a mobile website, get a quote, see what kind of recall notices have been on the car and then drive out of the parking lot with my insurance ID card on my phone. It couldn't be simpler than that, although not everyone is at that point," Carney said.

"But what it's doing is setting the expectations for the consumer who says, 'Gee, if I can do it to buy auto insurance, why can't I do it with my homeowners? Why can't I do it with renters' insurance, why can't I do it with other parts of my life?'"

Google Enters the Industry

A recent entrant into auto insurance is Google Compare, an auto insurance comparison site that launched in March in California, with plans to be rolled out in other states. Following its 2012 launch of a similar UK site, the U.S. site lists 14 carriers as partners and Google receives a portion of each sale. While researching the rollout, Carney sifted through state insurance filings and discovered that Google had received licenses to operate in more than half of U.S. states.

Online retailer Overstock.com has also established an insurance company. Through a partnership with Insuritas, a provider of private-label insurance agencies, the company provides quotes on vehicle, home ownership and business insurance through major carriers, including Safeco. Insuritas handles all of the agency and policy details for Overstock, including the technology, call center and policy binding.

Carney predicted that the next insurance segment to use new forms of distribution will be home insurance, which she acknowledged is a more complex product.

“Homeowners involves an infinite variety of building construction types and the stuff that people own. So, invariably, it means that someone has to come out and theoretically do a home inspection. Plus, there’s a lot of aversion to quoting online for homeowners.”

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Ellen Carney,
Forrester Research

Those difficulties notwithstanding, at least one carrier has taken the challenge, Carney said. Security First Insurance, a Florida-based carrier, allows consumers to begin the sales process online through its securityfirstflorida.com website.

“They can give a great online experience because they’re a bit more hyper-local than someone who is writing in 37 states. You can pick roof patches and slopes and match little pictures about eave types, and you might not even have to talk to anybody to get a homeowners quote. Depending on the structure, it’s incredibly easy,” Carney said.

“It’s not beyond the realm of reason to think [that] in five or six years you’re going to see a lot more progress around the digital quoting experience for homeowners,” she added. “Google has told one Florida insurer I know that after they get the car insurance up there, they’ll be looking at homeowners. Think about Google street view, which shows the outside of the house.”

Term life insurance has been the line of business that life insurers have most readily adapted to online selling. The main reason is the product’s lack of complexity.

“From a product perspective, you can look at a continuum from simple to complex, and it tends to be the simpler ones that have migrated more toward alternative distribution channels. The more complex ones invariably need to be what we would call ‘assisted.’ With whole life or annuities, the consumer population still is very much reliant on the assistance of an agent or adviser to help sort of demystify some of the complexity that plagues the insurance industry,” Kavanaugh said.

Statistics from Limra confirm the continued importance of agents or advisers in the sale of life insurance. Although an increasing percentage of consumers begin their research online or through other channels, more than half (53%) of survey respondents said they preferred to make the actual purchase in person.

Early on, the P/C industry embraced technology as a way to reach customers. “With life insurance, we’ve invested more in distribution. And that differentiation has made the industry a little bit more focused on the people side of it than the process side. Underneath that, I still see our product as sold, not bought, and so there’s been a lot of an effort to expand upon and support distribution versus how do we access more clients by giving them more access to us,” Prudential’s Herrmann said. “Twenty years ago, life insurance was looked at differently. People valued it more and there was more of a planning process where people saw the benefits of having coverage and how it could aid them in retirement. Our research is telling us that now people want to gather all the information they can so they are informed and can ask intelligent questions to understand how it fits their goals and needs and fits into their overall plan. But ultimately when they’re ready to acquire it, they want a trusted adviser that can answer the questions they have.”

Herrmann believes the core of the issue lies as much in understanding the needs of today’s consumers as in figuring out the new strategies for distribution.

“Twenty years ago, you primarily had to buy life insurance from your life insurance agent. Today you can get it everywhere,” he said. “You can get it from big box stores, or you can acquire it through your other trusted advisers like lawyers, accountants or property and casualty agents. Yet sales continue to go down and that availability hasn’t had an impact or produced a spike in results.

“I think the industry has to do a better job of understanding what consumers want. Adding riders or bells and whistles on products may or may not be what people want. We have to ask ourselves the question: Why do seven out of 10 people not own life insurance today? What are the things that would make that group at least entertain it, or make sure they make an informed decision before just deciding not to buy it?”

A recent Limra report found that 57% of financial executives surveyed believed an outside source, such as Google or Amazon, will be a disruptive force in the life insurance market within the next five years. Previous Limra research on middle-market consumers found 21% would be willing to buy life insurance online from a nontraditional source.

“I think we will gradually see more life insurance sales through direct or online services. Will it be the majority of sales? I can’t predict that, but I certainly think it’s going to increase. I also believe our member companies have more direct engagement with consumers today than they’ve ever had before,” said Limra/Loma’s Kerley. BR