CAN P&C INSURERS
Avoid the Apocalypse of the Retail Industry?

> “The great retail apocalypse of 2017 shows what happens to industries that don’t adapt. The bottom goes out of their industry, slowly at first — and then all at once.”
>
> Marcelo Ballve,
> CB Insights

Since 1914, department store Lord & Taylor has occupied the 676,000 square feet of retail space located at the corner of 38th Street and Fifth Avenue in New York City. In October of 2017, Hudson Bay Company (HBC), owner of Lord & Taylor, sold the iconic retail center to office rental company, WeWork. HBC plans to drastically reduce its $1.1 billion debt through the sale.[1]

Lord & Taylor isn’t the only retailer facing financial woes. Toys R’ Us, Payless, and Radio Shack have all declared bankruptcy in 2017, and according to CB Insights, there were over 6,500 retail store closings announced this year, outpacing the financial crisis of 2008.[2]

“The great retail apocalypse of 2017 shows what happens to industries that don’t adapt,” said Marcelo Ballve, CB Insights. “The bottom goes out of their industry, slowly at first — and then all at once.”[3]

Like many brick-and-mortar retailers, the insurance industry is nearing the end of its digital transformation grace period, and rapidly approaching its own apocalypse, where even die-hard traditional policy buyers will embrace digitally-enabled direct-to-consumer purchasing.

Why Digital Transformation Now

In response to the demise of traditional retailers this year, Ballve said, “The reasons driving this bloodbath can be summed up in two words: tech and Amazon. Old-line retail incumbents are being overwhelmed by interrelated trends in retail tech, online shopping, and direct-to-consumer models.”[4]

While traditional retailers are divesting assets or shuttering doors, online giant Amazon realized an operating cash flow increase of 14 percent in the third quarter of 2017 and net sales rose 34 percent.[5]

Tech and Amazon have also come to insurance. Driven by Amazon’s relentless customer-first focus, consumers are approaching the act of buying insurance with new experience standards. This is happening at a time when the industry is grappling with several complexities.

Rising Losses
Major P&C insurers across the U.S. watched third-quarter losses rise in the wake of three major hurricanes that hit the mainland or its territories in the second half of 2017.

If the hard market expected by many insurance executives materializes, insurers could replenish reserves depleted by storm claims, but analysts aren’t hopeful, predicting instead a slow recovery and a continued soft pricing environment.[6]

Evolving Product Demand
Demand for traditional products is expected to fall.

“Insurers are bracing for long-term declines in auto premiums as new and safer autonomous vehicles gain adoption,” said John Cusano, a senior managing director at Accenture and global head of the company’s insurance practice.

Accenture also says that by 2026, the autonomous trend will net the insurance industry $81 billion in new premiums over the following eight years, giving insurers the opportunity to fill in gaps created by falling demand for auto coverage, but only if they are able to capitalize on the sale of new products, such as product liability for sensors.[7]

If the retail apocalypse has shown us anything, it’s what happens to companies who fail to deliver the products their customers want through the channels they want to use.

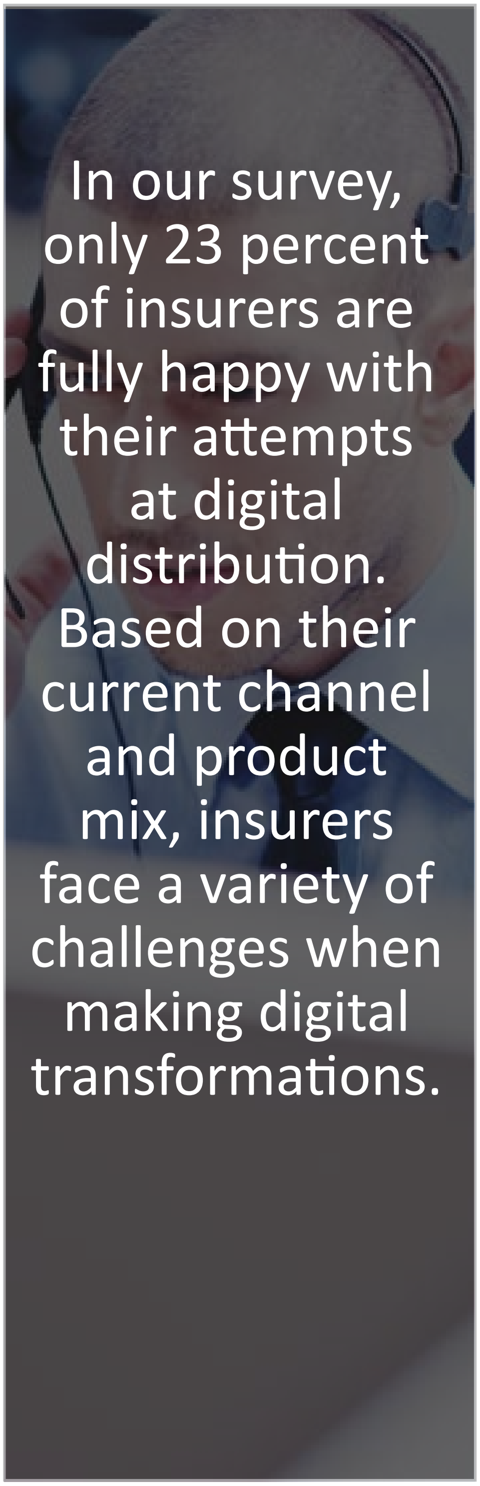
Digitally-Based Direct-to-Consumer Distribution
Our research indicates that 73 percent of carriers have experienced consumer demand for digitally-based direct-to-consumer distribution, but as the insurance industry’s own apocalypse looms near, only a quarter of insurers are selling insurance products online.[8]

As Ballve said, the bottom falls out slowly, and then all at once. To avoid the same apocalypse occurring across the retail sector, insurers need to embrace rapid digital transformation, paving the way toward lower operating costs, increased customer acquisition and a more competitive market position.

Making Digital Transformations Effective

According to McKinsey, insurers that use digital transformations to improve customer service and processing times realize increased customer retention.[9] The problem for most insurers is that they aren't readily able to meet the customer experience standards driven by digital leaders like Amazon.

In our survey, only 23 percent of insurers are fully happy with their attempts at digital distribution. Based on their current channel and product mix, insurers face a variety of challenges when making digital transformations.



Top Ten Carriers

Earlier this year, we reviewed the top ten carriers (ranked by direct written premiums). Two of these large insurers did not offer products online, and of the eight who did, only one could quote multiple policy types from a single application. Most were unable to pull data from trusted third-party sources to pre-fill consumer applications.

Many had the online storefront in place and a consumer-facing call center to answer questions encountered during the application process, but back-office product silos prevented a fast, efficient quoting and purchasing experience.

Insurers with Consumer-Facing Call Centers

Insurers with consumer-facing call centers planning to offer digitally-based purchasing have a more difficult path toward digital readiness than most large carriers. They may be well-positioned to support consumer inquiries that arise during web-based transactions, but will first need to establish an online storefront and ensure seamless engagement between the two channels.

Siloed policy admin systems are an issue here as well. Integrating products into the online storefront will need to be done in a way that provides streamlined access to all coverage types, a task that grows even more cumbersome if insurers have outside carrier appointments to facilitate.

Insurers with External Agent Forces

Insurers with external agent forces face the longest road to digital readiness. With no consumer-facing systems, digital transformations need to not only provide for an online storefront and consumer-facing call center, but also address how products are integrated into both for a seamless cross-channel experience and streamlined quote-to-issuance lifecycle.

A limited product selection is also a deterrent to growth, but even with greater product diversity, uniting their own offerings with appointments from other carriers to deliver a seamless quote-to-issue experience for consumers is a struggle.

Given the complexity of the task ahead and the major costs associated with digital transformations, they need a scalable approach that focuses first on integrating their existing products and consumer-facing call center with the online storefront, before incorporating additional product selection. As the apocalypse approaches, these are the insurers on the farthest edge of digital-readiness.

Despite the challenges insurers face, it's worth getting digital transformations right. McKinsey predicts that auto insurers, the first to make forays into the digital space, could more than double profits over the course of five years by digitizing the existing business.[10]

McKinsey believes that early adopters will see the greatest rewards, but those who fail to embrace digital transformations to improve operational efficiency and effectiveness could see profit declines between a half and one percent over the coming years as other insurers embrace digital and take control of greater market share.[11]

By focusing on the following four considerations, insurers can achieve a digital transformation that exceeds customer engagement expectations, improves operational efficiency and positions carriers to own the market.

Creating a Digitally-Enabled Online Storefront

As insurers accelerate to digitally-based direct-to-consumer distribution, the online storefront becomes their brand ambassador. Get it right, and happy customers will flock to your website. Get it wrong, and you're likely to lose consumers before they even receive a quote.

What do consumers want when it comes to online interactions? Looking closely at Amazon's example, insurers can learn a lot about developing their online storefront.

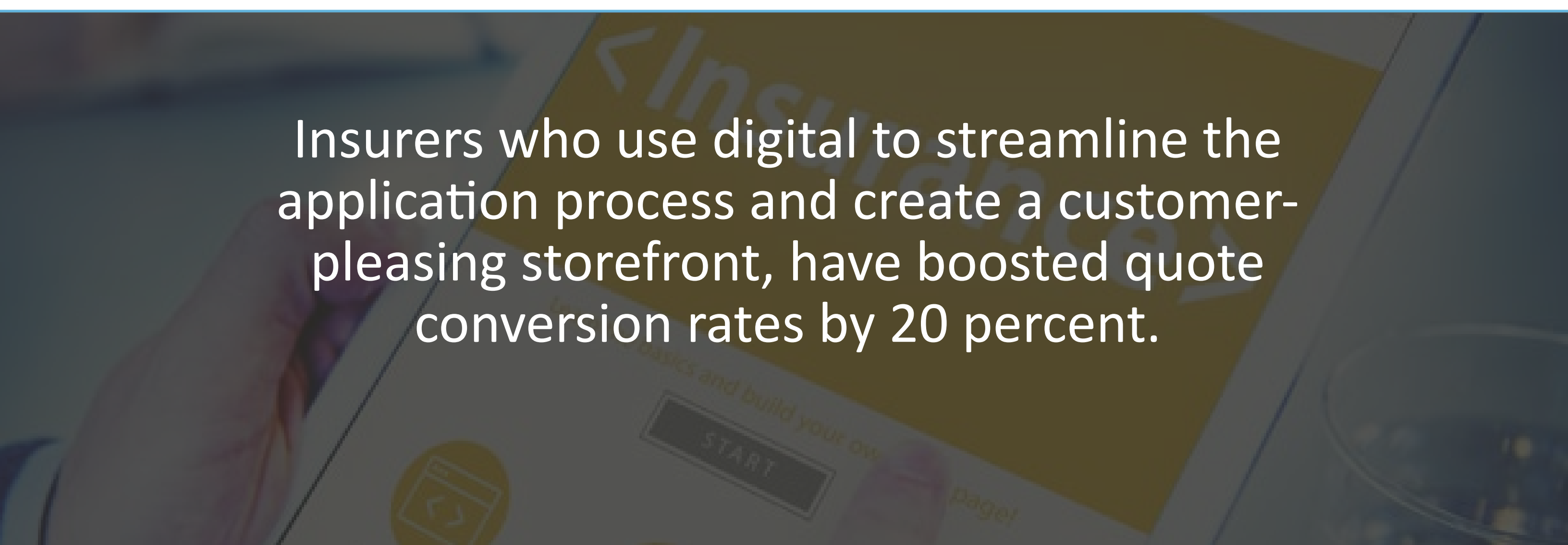
Amazon makes it simple to locate products and get pricing. When the consumer finds the exact option that meets their needs and cost requriements, they drop it in the shopping cart and move onto the next item. Once they've selected all of their products, they check out in one simple, quick transaction.
The type of experience most insurers are ready to deliver is quite different. In our evaluation of carriers' web-based storefronts, we found that the online application process for most insurers required extensive manual data entry and included questions that many consumers would find difficult or time-consuming to answer, such as what type of engine was in their car.

J.D. Power reported similar findings after surveying nearly 4,000 consumers who shopped insurers' online storefronts. Satisfaction for many major insurers was low as shoppers cited several factors such as the inability to locate contact information or difficulty in reaching the necessary policy information.[12]

According to research by Accenture, 75 percent of insurers fall into this category. By failing to fully develop their digitally-enabled direct-to-consumer channels of engagement into an experience that pleases the customer, they are forfeiting more than 64 percent revenue growth in the process.[13]

On the other hand, insurers who ranked positively in customer evaluations offered a storefront design and site navigation that made finding information a simple task.[14]

Insurers like these, who use digital to streamline the application process and create a customer-pleasing storefront, have boosted quote conversion rates by 20 percent.[15]



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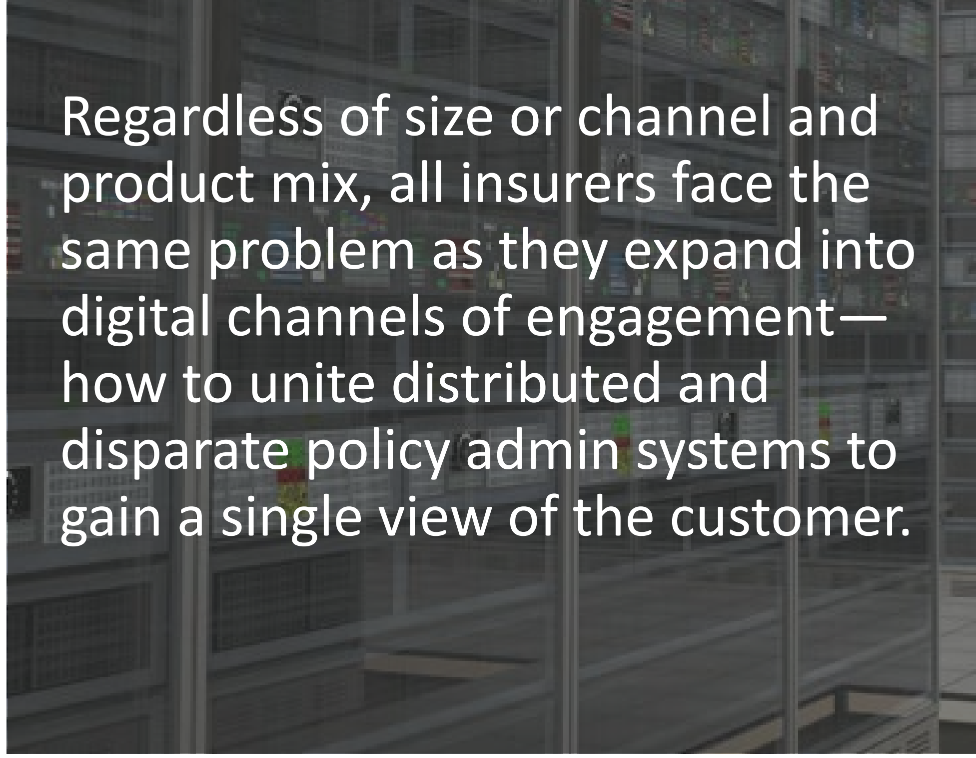
Use Digital to Unite Product Silos

At the heart of the digital transformation challenge are policy administration systems.

According to Rick Huckstep, editor on InsurTech at The Digital Insurer, each product has its own core system costing millions of dollars and taking years to implement. These core insurance systems are built to handle all of the functions related to a specific product type.

Regardless of size or channel and product mix, all insurers face the same problem as they expand into digital channels of engagement—how to unite these distributed and disparate policy admin systems to gain a single view of the customer.



According to Mark Breading, partner at Strategy Meets Action (SMA), current admin systems provide insurers with only “an awareness of the current and former products owned by the customer, the performance of those products, information related to product needs of the customer, and perhaps some relationship information like the agent involved.”[16]

To meet 21st-century customer experience standards, insurers need an approach to digital transformation that delivers a 360-degree view of the customer and a single access point to customer data. In our review of the eight top-ten insurers selling products online, we found that only one had a broad enough view of the customer to quote multiple products from a single application.

The inability to quote, bind and issue multiple insurance products without requiring customers to restart the application process is a serious deterrent to customer acquisition for insurers. Addressing the problem by replacing policy admin systems is a common approach. According to Novarica’s research, 70 percent of carriers are in the midst of implementing new core systems.[17]

While the aging systems for many insurers are approaching the end of their life span, core systems replacements won’t give insurers the digital edge they need before the industry reaches its own apocalypse. According to Huckstep, there is a better way, using digital in a two-speed model.[18]

“Simply, the logic is that, in the slow lane you’d keep the legacy policy admin as the system of record,” said Huckstep. “And for the fast lane, where the insurer needs to be agile, responsive and digital, business functionality would be built into new front-end systems.”

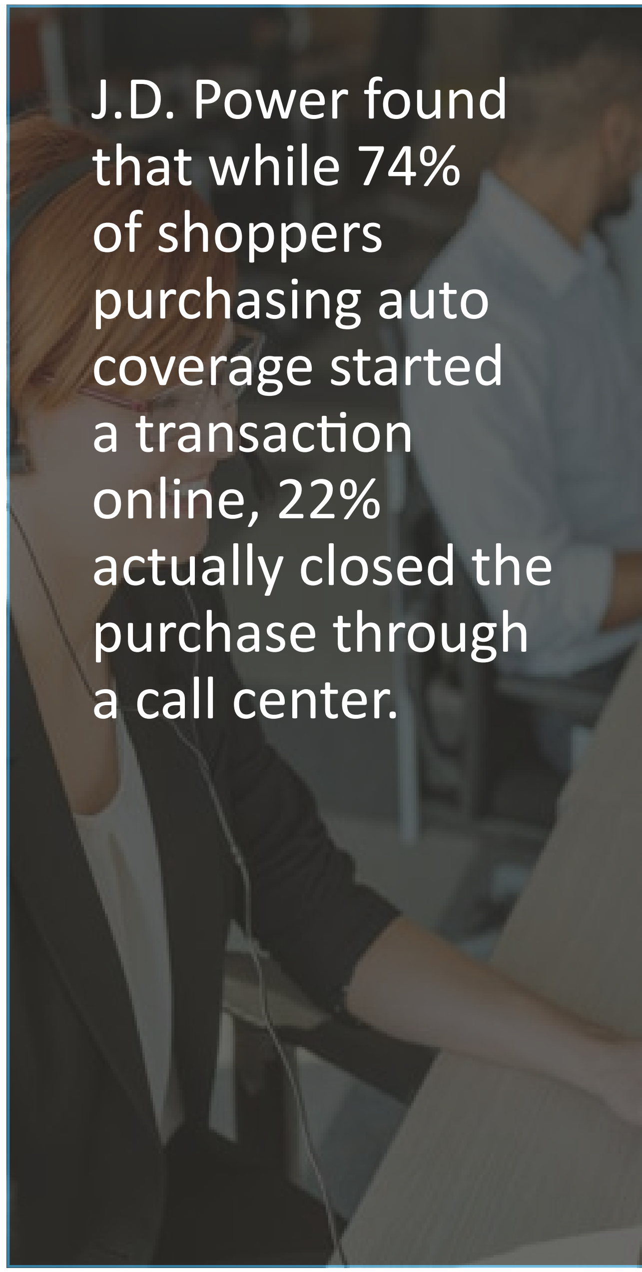
This is where he recommends business partnerships with InsurTech innovators. Platforms that unite product silos and provide insurers with a single point of access to customer data, while extending the benefits of existing technology investments, improve the performance of the quote-to-issue lifecycle and allow customers to effectively bundle multiple policy types in a single transaction.

Cost savings are another benefit of straight-through processing, saving insurers up to 50 percent in costs per gross premiums written.[19]

The Digital Agency

Carriers without a consumer-facing call center, face another side to the digitally-based direct-to-consumer movement—establishing a means to answer questions encountered during the quoting or purchasing process. J.D. Power found that while 74% of shoppers purchasing auto coverage started a transaction online, 22% actually closed the purchase through a call center.[20]

"Sometimes consumers will have a question during the application or quoting process," said Kathleen Garlasco, senior vice president of enterprise marketing, BOLT. "When they do, they want to speak to an agent, and once they are on the phone, it can be just as easy to close that purchase through the call center when insurers have the right digital capabilities."



For insurers of all sizes, that means uniting call center operations with online channels. When consumers have a question in the midst of an online transaction, they expect the agent they call to know where they are in the application process and to have access to previously entered data. Frustration ensues when agents have to ask customers to repeat information, resulting in decreased satisfaction.

All-digital startups are finding this out the hard way. "I have attempted to call them several times and each time I get a recorded message that refers me to the app. Absolutely no customer service," said a frustrated consumer after trying to contact an agent to address questions encountered during a purchase through an InsurTech disruptor's app.[21]

Connecting consumer-facing call center operations to digitally-based direct-to-consumer channels of engagement is a critical attribute for top-performing insurers. McKinsey discovered that insurers generating a consistently positive cross-channel experience realize two to four times more growth in new business and about 30 percent higher profitability.[22]

Digital Enables Product Diversity

Technology has made astronomical leaps in the last two decades, taking society from a pre-internet world of engagement to an environment of interconnected devices and services. The emerging sharing economy and autonomous revolution are creating new risks not typically covered by traditional insurance policies or the startups facilitating the services.

AirBnB, for instance, provides $1 million in liability coverage to home owners who share their property through the company's app, but the coverage is secondary to their existing homeowners coverage where commercial activities are not usually covered.

Risks like these are behind the growing demand for innovative new product types. Accenture predicts that three new business lines — cybersecurity, product liability for sensors and software algorithms, and public infrastructure — will emerge from the autonomous revolution, driving billions in new insurance premiums for the U.S. auto insurance industry in the coming years.[23]

"Forward-thinking insurers are already putting these new products at the top of their agenda as they look to capitalize on the first-mover advantage," said Larry Karp, global insurance telematics lead in Accenture Mobility, part of Accenture Digital. [24]

While carriers need product diversity, it isn't always about new product types. Accenture recently surveyed over 32,000 insurance consumers and found that 50 percent purchase coverage based on price.[25]

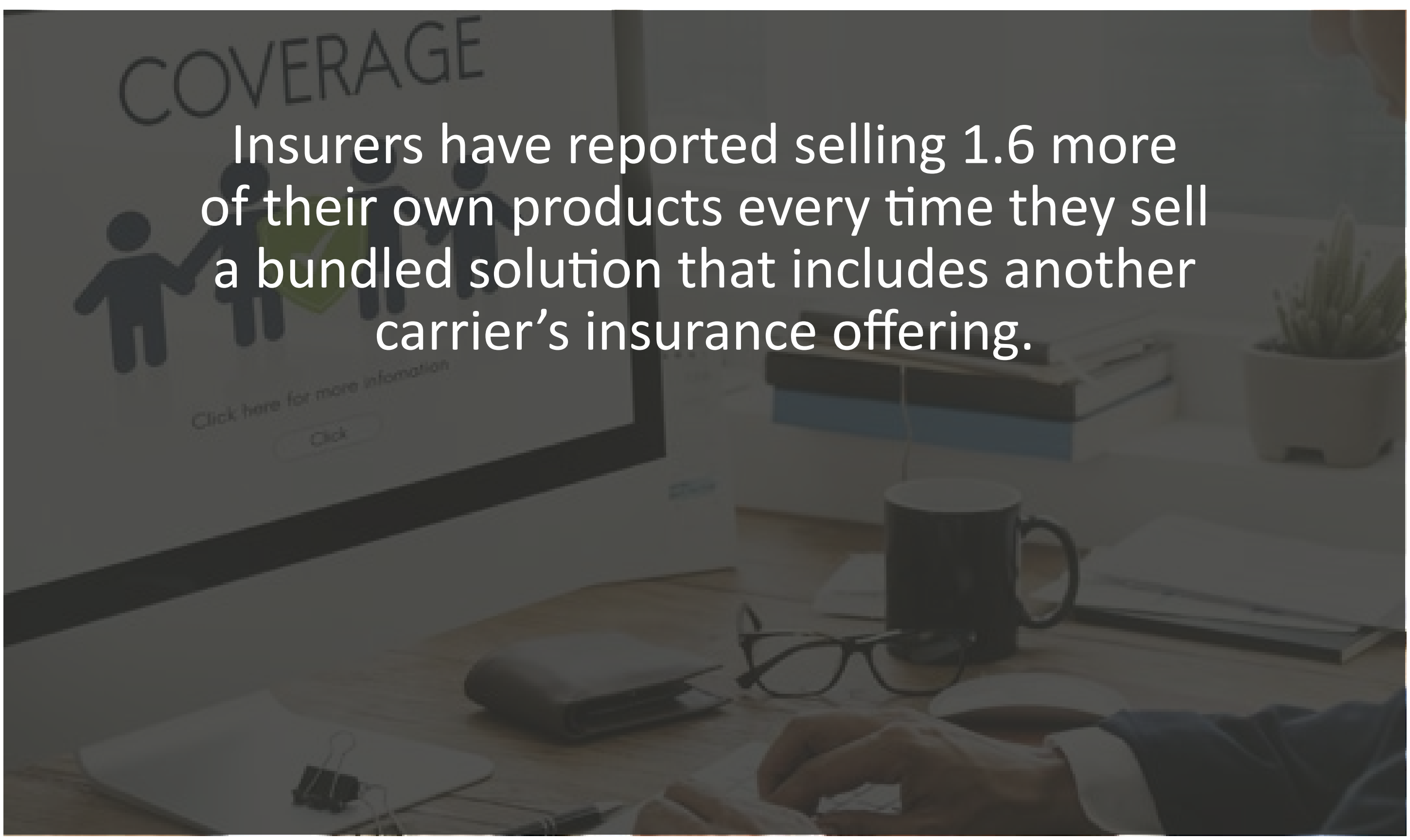
Having access to multiple product options for the same type of coverage can help carriers meet consumers' budget constraints, but it's still challenging for insurers to obtain new product appointments and unite them in their online storefront.

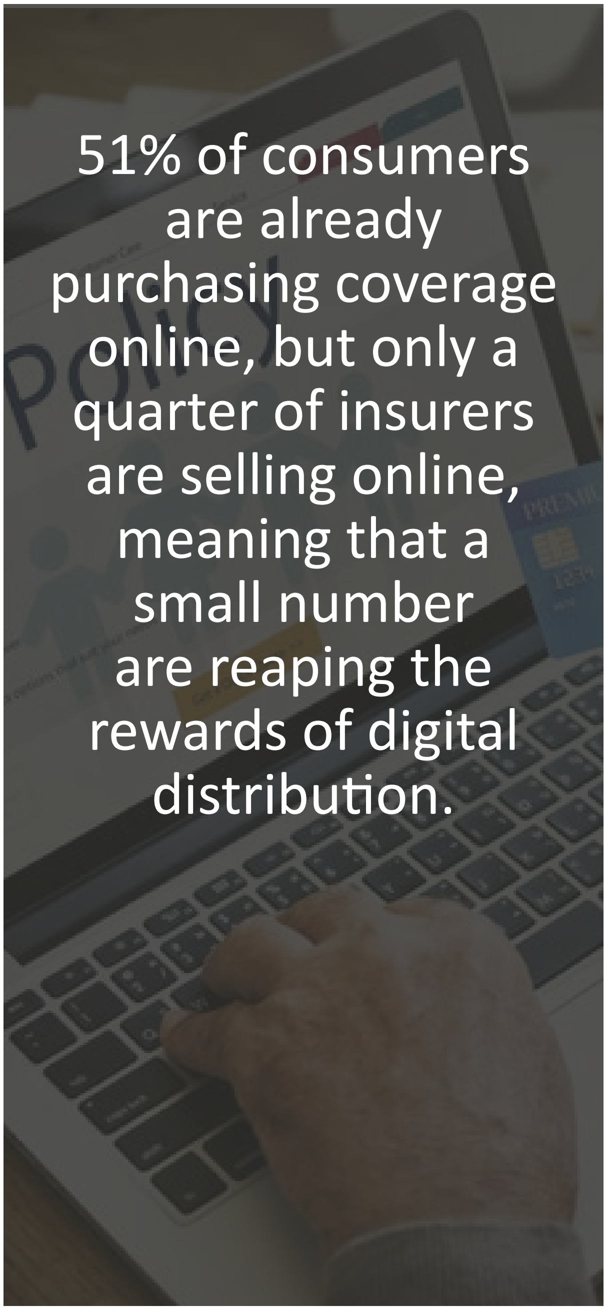
The result is a disjointed quote-to-issue lifecycle requiring multiple applications to take advantage of the available product diversity. It's another area forward-thinking insurers are addressing in their digital transformations, uniting product silos to streamline the quoting and purchasing experience for greater customer satisfaction.

Insurers are also partnering with InsurTech innovators during digital transformations, forming product ecosystems, where insurers come together to gain access to new products, such as pet, event and travel, or to expand their selection of a traditional product types, such as auto, without having to obtain appointments through multiple carriers

As insurers forge ecosystems of insurance products, it's a win for everyone. Customers gain access to the coverage they want without having to leave a trusted provider, and insurers gain a commission on the policy sold and the ability to maintain a more loyal customer.

Insurers have reported selling 1.6 more of their own products every time they sell a bundled solution that includes another carrier's insurance offering.





Surviving the Insurance Apocalypse

To avoid the apocalypse of the retail industry, insurers need to do more than develop a digital strategy. Digital transformations need to take place now, before insurers reach the same point of implosion.

Accenture's study revealed that as many as 51 percent of consumers are already purchasing coverage online.[26] Given that only a quarter of insurers are selling online, a small number are reaping the rewards of digital distribution, while others lose revenue and market share.

According to Huckstep, InsurTech platforms that build on the significant investment already made in legacy IT put insurers in the "fast lane" toward D2C distribution and outperform attempts at overhauling or moving to new policy admin systems.[27]

"The InsurTech digital implementation can be measured in months and thousands of dollars (instead of years and millions)," said Huckstep. "Speed to market ***is*** the defining characteristic for these tech-enabled platforms."

Building on strong digital capabilities and offering products from an ecosystem of insurance carriers, a leading insurer improved quote conversion rates 4 percent over a single quarter, and McKinsey has found that top digital performers realize twice the revenue growth of their less adept peers.

It's results like these that prove that insurers can survive market change, such as the apocalypse that is upending the retail industry. The key to survival is in rapid digital transformations that unite product silos, empower the online storefront, facilitate more efficient responses to consumer inquiries and enable product diversity.

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[1]Lisa Fickenscher. "WeWork Is Buying Lord & Taylor's Fifth Avenue Flagship." *NYP Holdings, Inc.* New York Post, Oct. 24, 2017. Web. [2]Marcelo Ballve. "Uh Oh Blockchain Token Fails." Received by Kathleen Hesketh, October 27, 2017. [3]Marcelo Ballve. "Uh Oh Blockchain Token Fails." Received by Kathleen Hesketh, October 27, 2017. [4]Marcelo Ballve. "Uh Oh Blockchain Token Fails." Received by Kathleen Hesketh, October 27, 2017. [5]Amazon. *Amazon.Com Announces Third Quarter Sales Up 34% to $43.7 Billion.* Amazon.com Third Quarter Earnings Report, Oct. 26, 2017. Web. [6]Lily Katz. "Not All Expect Hurricanes to Bring 2018 P/C Insurance Hard Market." *Wells Media Group.* Insurance Journal, October 30, 2017.Web. [7]"Autonomous Vehicles Will Add US$81 Billion in New Premiums for Auto Insurers by 2025, According to Accenture Report." Accenture, May 18, 2017. Web. [8]Jay Sarzen. "Disruption in P&C Insurance Distribution." Aite, Feb. 25, 2016. "Web." [9]Tanguy Catlin, Johannes-Tobias Lorenz, Christopher Morrison, and Holger Wilms. 'Facing Digital Reality." McKinsey & Company Financial Services, March 2017. Web. [10] Tanguy Catlin, Johannes-Tobias Lorenz, Christopher Morrison, and Holger Wilms. 'Facing Digital Reality." McKinsey & Company Financial Services, March 2017. Web. [11]Tanguy Catlin, Johannes-Tobias Lorenz, Christopher Morrison, and Holger Wilms. 'Facing Digital Reality." McKinsey & Company Financial Services, March 2017. Web. [12]"J.D. Power 2017 Insurance Digital Evaluation Study: Top-Line Results." J.D. Power, June 2017. pdf. [13]Jean-Francois Gasc and Bertrand Fournier. "the Digital Multiplier: Five Steps to Digital Success in the Insurance Sector." Accenture, 2016. Web. [14]"J.D. Power 2017 Insurance Digital Evaluation Study: Top-Line Results." J.D. Power, June 2017. pdf. [15]Progressive. *The Progressive Corporation 2016 Annual Report.* 2017. Web. [16]*SMA's Mark Breading on the Ultimate 360º Insurance Experience*. Perf. Mark Breading. *Vimeo*. EIS Group Ltd, 2015. Web. <SMA's Mark Breading on the Ultimate 360º Insurance Experience>. [17]Rick Huckstep. "Digital Transformation Is the Strategic Imperative No Insurer Can Ignore." The Digital Insurer, Aug. 15, 2017. Web. [18]Rick Huckstep. "Digital Transformation Is the Strategic Imperative No Insurer Can Ignore." The Digital Insurer, Aug. 15, 2017. Web. [19]"From Transparency to Insights McKinsey's Insurance Cost Benchmarking 2016." McKinsey & Company, 2016. Web. [20]Paul Lucas. "Why Auto Insurance Agents are Still Needed in the Digital Age." *Key Media.* Insurance business Magazine, Jan. 25, 2017. Web. [21]"Lemonade." Customer Reviews. Supermoney, June 19, 2017. Web. [22]Tanguy Catlin, Ewan Duncan, Harald Fanderl and Johannes-Tobias Lorenz. "The Growth Engine: Superior Customer Experience in Insurance." McKinsey & Company, April 2016. Web. [23]"Autonomous Vehicles Will Add US$81 Billion in New Premiums for Auto Insurers by 2025, According to Accenture Report." *Press Release.* Accenture, May 18, 2017. Web. [24]"Autonomous Vehicles Will Add US$81 Billion in New Premiums for Auto Insurers by 2025, According to Accenture Report." *Press Release.* Accenture, May 18, 2017. Web. [25]"The Voice of the Customer: Identifying Disruptive Opportunities in Insurance Distribution." Accenture. Accenture Financial Services, 2017. Web. [26]"The Voice of the Customer: Identifying Disruptive Opportunities in Insurance Distribution." Accenture. Accenture Financial Services, 2017. Web. [27]Rick Huckstep. "Digital Transformation Is the Strategic Imperative No Insurer Can Ignore." The Digital Insurer, Aug. 15, 2017. Web.