Winning the Insurance Battle

An integrated multichannel approach to meeting customer needs

After years of little to no change, the property and casualty insurance industry's decades-old business model is being threatened by recent economic trends, technological and demographic changes, and changing customer expectations. Today's customers are not interacting with insurers solely by visiting an agent—they're also phoning, texting, tweeting and surfing. To succeed these days, it's not enough for personal-line insurers to excel at merely one of these channels—they must be able to serve customers across an ever-expanding landscape.

The go-to-market model for property and casualty (P&C) insurance is evolving with an urgency not seen even a few years ago. The agent-dominated business model of the industry's past 50 years is under siege today, as channel interaction has become a multifaceted challenge and customers become savvier about getting the right price and service. The future winners in P&C insurance will be those firms that understand how to relate to their target customers—whether it's fielding questions on Twitter, building relationships on Facebook or accepting a claim via iPhone app—and align their business models to meet their needs seamlessly.

Direct insurers—companies such as GEICO that sell insurance directly to customers, through call centers or on the Internet, for example—have helped accelerate the changes in recent years, capturing market share with a focused service model and compelling pricing. They have forced leading agent-based insurers (such as State Farm and Allstate) to invest in expanding their channel portfolios for engaging and serving customers, from improved call centers and websites to better-connected local agents and extensive mobile capabilities.

However, we believe long-term success will be about far more than offering cheap insurance online. The vast majority of shoppers use several channels when shopping for insurance, and the industry's highest-value customers—the ones who hold multiple insurance lines and stay loyal to one firm—want a strong relationship along with a good price. In short, the industry's winners won't simply dominate one channel: They'll connect with their customers across many channels.

Of course, the challenges of operating in multiple channels—the unique capabilities and limitations of each one, inconsistent performance, cross-channel conflict, operating complexity, investment costs and internal resistance—can stymie even the best-laid plans. A successful multichannel model will require insurers to undergo a fundamental transformation that addresses all business objectives and customer needs with an integrated solution. By clearly redefining channel roles and realigning resources and incentives appropriately, companies can create a highly effective, customer-centric operating model that creates new opportunities while meeting customer expectations.

Price Is Not the Only Thing

The rapidly proliferating array of consumer choices has already had an effect on other consumer-facing industries. Retailers and banks are offering customers more personalized, flexible and valuable shopping experiences across numerous channels—in a way that maintains the consistency and strength of their brands for the consumer. In addition, numerous studies have shown that more than a third of retail customers today use at least three different channels when shopping, and these multichannel shoppers spend up to 50 percent more—even when they were initially lured to shop by a great deal *(see sidebar: Lessons from Other Industries).*

The insurance industry faces similar pressures as consumer expectations continue to evolve with developments outside the industry. More than 40 percent of insurance shoppers used two or more channels in 2008. In 2009, the J.D. Power Insurance Shopping Study found that while two-thirds of insurance shoppers requested at least one quote online, more than half purchased their policy through an agent. While some of this channel switching is due to limitations in online purchasing, a sizeable portion was because of

Lessons from Other Industries

The experiences of other industries offer ways to respond and embrace new channels.

Financial services. Banks maintained their margins by creating a seamless cross-channel experience. They responded to the challenge of new online banks by targeting customer segments across lines of business and offering them a range of innovative, bundled products and services. At the same time, they upgraded their bricks-and-mortar branches and integrated the new direct capabilities within those branches. They aggressively reduced distribution costs by realigning their operating models to customer preferences and cutting out non-value-added activities.

Retail. Multichannel success in retail has started with understanding the complex relationship among channels, then giving customers consistency, simplicity, reliability and value. Consumers have accepted multiple channels, understand the value and role of each, and respond well when their experience is consistent across all channels. A single point of contact and effective sharing of information across channels has proven key. Nordstrom has seen dramatic results by linking its in-store inventory to its website, allowing customers to purchase items for in-store pick-up or as part of an online purchase. Ineffective tactics include excessive differentiation across channels and the forcing of substitutes on consumers.

Travel. Changes were slower and more difficult for the travel industry, where economics shifted sharply and the industry had to undergo massive change. Limited improvements in agent channels, high overhead and commission structures led to massive industry consolidation that drove down costs and increased completion with the direct players. Eventually, agent-based players built the Web channels that complemented local presence and began to offer innovative, bundled products and services. These firms created true multiline, multichannel models that worked in equilibrium with the direct players, whose market share topped out at 35 percent.

consumer preference. Just as an automobile shopper may browse online before going into a dealership for a test drive, today's insurance customers appear to prefer to do their research online before "sealing the deal" with an agent. Online channels provide a cost-effective way to educate and attract the potential consumer.

However, we believe that the means by which people shop, buy, explore and educate themselves will continue to evolve as technology improves, changing the reliance on binding with an agent. Accordingly, a multichannel approach must include more than a spectrum of channels—its true value will be in the ability to engage customers and build relationships through multiple means at different points in the customer lifecycle, all while demonstrating knowledge of the customer as an individual. In addition, a multichannel model creates flexibility as insurers continue to adapt to future shopping and servicing trends. A true multichannel model incorporates fundamentals that will deliver flexibility in the future.

A successful multichannel model addresses all business objectives and customer needs with an integrated solution.

Price is a major factor for insurance shoppers—more visible and transparent thanks to Web aggregators and the like—however, it is far from the only factor driving an acquisition decision. Today's typical consumer begins by creating a "short list" of potential insurers based on favorable perceptions of price—but also trust in the brand, availability of coverage, and anticipated customer and claims service. Once a consumer determines that they have achieved an appropriate level of savings for the value they are receiving, they buy. Again, multichannel leaders will draw in customers most successfully by demonstrating that they have the capabilities to generate true value for their consumers (both price and service).

Price is also a factor in retention—but only one of several. While perceived price parity will keep people from shopping, for most consumers the choice to renew is a factor of customer experience: If they get the right service, particularly with claims, they will stay. If they have a negative encounter during the relationship, they may start to shop. An insurer's primary task must be to prevent shopping, and online channels (such as social media and email) are cost-effective ways to maintain contact and build relationships when the right strategies are deployed. Agents are also critical to deepening the relationships with the highest-value customers through customized coverage evaluations. An effective and integrated contact strategy makes the best use of all channels to deliver coordinated messages while driving more frequent interaction to build loyalty.

We believe companies that most seamlessly integrate multiple channels will gain the advantage in the future—particularly in forging the multiproduct relationships (such as a customer with home and auto insurance) that are this industry's "holy grail." These leaders will meet customer expectations, even in the most complex transactions, regardless of channel.

Converging on a Common Battlefield

Service differentiation and affordability remain the dominant factors in how consumers select insurers. We believe these two dimensions will converge on what we envision to be the industry's future battlefield for new customers *(see figure)*. All insurers will have to make changes to their traditional business models to attract and retain customers that are increasingly price-conscious while seeking better, more customized service.

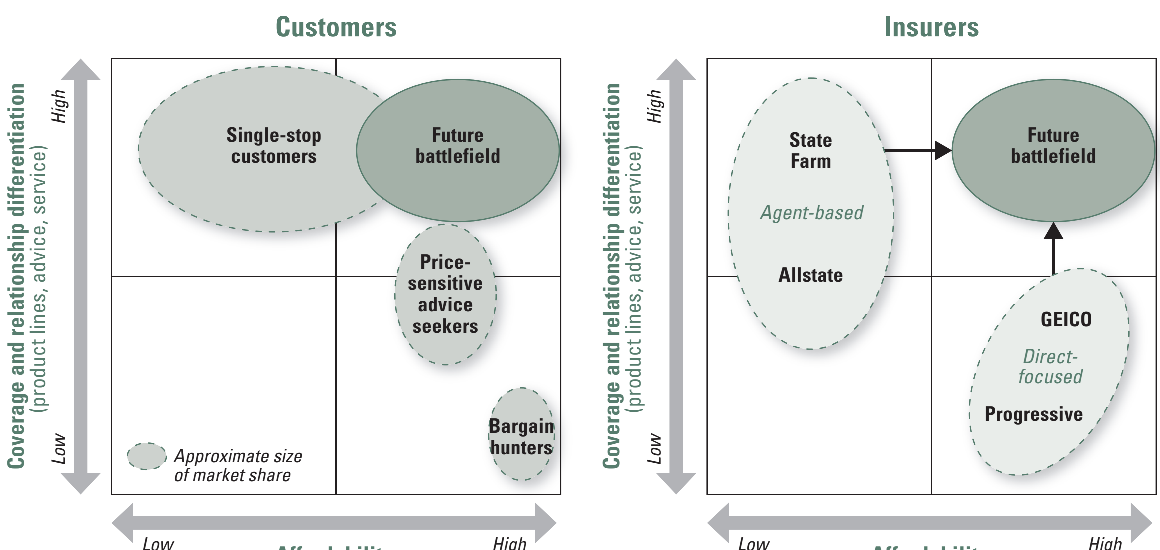
Understanding the major customer segments will help insurers understand where on the battlefield to attack.

Bargain hunters. These customers are a paradox for insurers. While they usually account for the greatest number of insurance shoppers at any given time, they also shop as often as they think they can find a better price. They look for the best-priced solution they can find for their coverage needs, whether home or auto, and they bundle only if it offers the best value. They do not represent the largest share of the market, and they are not expected to be loyal for any significant period of time, so their long-term value is low.

Single-stop customers. These customers value the ease and simplicity of doing business with one company, and by bundling services they believe they will get the best service at the best value. They're seeking a comfort zone and a relationship with a provider that can offer home, auto and life insurance under one umbrella. While the number of potential customers may be smaller than the bargain hunters, single-stop customers account for much more revenue—nearly half the lifetime

Figure

On the future industry battlefield, buyers will seek the best combination of affordability and service



Source: A.T. Kearney analysis

value of all customers. Once these customers purchase a policy, they are loyal, shopping only when they feel compelled to do so—when their price becomes an issue, or when they receive poor service. As a result, insurers must take care of this group to ensure that it is being treated fairly. When they do that, these customers stay put.

Price-sensitive advice seekers. A subset of single-stop customers, price-sensitive advice seekers—who desire comprehensive coverage at a lower price—represent a growing opportunity in the insurance market. A multichannel system that melds service and price benefits will draw these customers. Current direct players stand to gain the most by not only broadening their product set, but also providing the relationship and advisory services these customers crave. Agent-based insurers that can cut their costs and prices could also make a move.

Following the Customer's Lead

Direct players have been a rising force for the past decade, creating economies of scale and low-cost structures to offer lower prices for price-sensitive consumers. While the position of the more established agent-based firms is under threat as consumers reevaluate their coverage needs to fit tightening budgets, these companies retain some built-in advantages, including their substantial market share, well-established brands and extensive distribution networks. The nearly ubiquitous television and Internet advertisements that tout an insurer's ability to save customers money while protecting and serving them demonstrate that this multifaceted battle and the tug-of-war between saving money and protection are far from over.

To capture more customers, a shift to a multichannel insurance will combine the service and access flexibility of direct insurance with the advice and relationship aspects of the agent-based model, breaking down many of the industry's old boundaries. This shift has already begun. Farmers Insurance, once nearly 100 percent agent-based, has added direct offerings to its model through the purchase of 21st Century from AIG. Its website recently took third place in a customer experience survey, where panelists indicated a significant increase in brand perception after exploring its online presence. Meanwhile, direct giant GEICO has quietly expanded its agency presence. Today there are more than 150 GEICO agencies across the United States, situated within 10 miles of 25 percent of the U.S. population. In addition, GEICO is aggressively expanding its product suite, now advertising the benefits of shopping and switching homeowners insurance for significant savings, a move which allows it to access the single-stop shopper segment.

Future growth in insurance depends on capturing customers in adjacent segments, not on extending single-channel dominance. Leading players are developing integrated multichannel strategies in which channel roles and the value of each are clearly defined. By enabling deeper relationships and service while managing the overall cost of delivery for target customer segments, insurers will be able to capture new customers while deepening their relationships with existing customers.

As we are seeing, these players from divergent channel backgrounds are inching closer to one another in terms of channel capabilities, effectiveness and efficiency. Settling for the status quo will hamper future growth.

Rising to the Challenge

In short, insurers must transform their go-to-market models away from a channel-centric one that focuses on traditional areas of strength. Future leaders' goals will be customer-centric. Research has found that the quality of interaction is overwhelmingly the greatest driver of customer satisfaction and loyalty. Those insurers that invest in educating their customers at every interaction reap much higher customer loyalty, with over 70 percent of consumers saying they are "willing to stay and recommend." The average driver has an accident only once every 10 years, so increasing the frequency of positive, quality interactions is vital to a loyal relationship. An integrated, multichannel model creates the opportunity to take advantage of the unique capabilities of each channel to drive interaction in a cost-effective manner. Current industry economics are highly dependent on a few channels. It is not surprising that insurers are wary about making too many changes too fast *(see sidebar: Channel Challenges).*

However, the task is not impossible. There are several ways insurers can improve their models.

Understand what the customer needs. Considering that the highest-value customers are rarely in the market for insurance, knowing what they want is vital for successfully attracting them. The leading insurers do more than just come out ahead on customer satisfaction surveys—they make an effort to understand what customers need in varied situations across many different touchpoints. They ensure that their customers don't go back into the market by meeting their expectations.

Make channel roles complementary. While one channel may have dominated in the past, leaders in the future will combine all appropriate channels into a strong, seamless customer experience. For example, how do you link your agents to your call centers? Creating this type of connection is undoubtedly a tall order. Insurers are still trying to achieve peak performance in their existing channels, and they are justifiably leery of adding complexity. Insurers can meet channel requirements by pinpointing their target customer segments and determining through which channels those customers want to interact. The Hartford has made significant investments in this arena—their "click to call" capabilities effectively introduce personal access to their target AARP segment, encouraging web-to-phone transitions to make the sale. As we noted earlier, most insurance customers are not wedded to one channel—they

Channel Challenges

Adopting a multichannel approach will mean significant changes to existing insurance industry business models, skills and technology. What are some of the greatest barriers to success?

Internal resistance. This is perhaps the greatest issue as insurers go multichannel, especially in agent-based models: Agents may feel threatened by new approaches that could hamper their traditional business model and take a large chunk of their business. Strong leadership is needed to align everyone in the organization behind a multichannel program.

Lagging capabilities. Adding a new channel is one thing; doing it well is another. Most insurers achieved their current market position by focusing on a single dominant channel; in the future, they will have to excel in several areas.

Investment costs and complexity. All business transformations require implementation and infrastructure costs coupled with new-found complexity. This is particularly difficult for the longer-established insurers.

Inconsistent business systems. A transition to a cross-channel sales and service model will expose outdated and inconsistent business systems.

will pick the one best suited to their needs. Thus, they may buy insurance from an agent but file claims using their iPhone and make referrals via Digg.

Reassess incentive systems. How much is the new cross-channel experience actually worth to the company, its employees and its customers? Few insurers will know what additional revenues and costs come from undertaking major cross-channel integration without evaluating underlying economics. New channel roles require new incentives to support them and create the best economic model.

Ensuring company-wide alignment can be particularly difficult, especially if long-established agents feel their position is threatened. Therefore, a top-down mandate that constantly evaluates the full range of options for rewards, recognition and support, including such "sacred cows" as agent compensation, is mandatory. A winning approach guarantees that everyone—from agents to their channel partners and customers—is getting value.

Reevaluate your organization. A successful transformation ensures consistency from an end-to-end, customer-centric perspective. Processes, technologies and channels must cut across organizational and channel silos. This means that direct players will have to know how to run an agent-based system, and vice versa—and all sides must collaborate to capture, access and use the information. The leaders will create uniform and complementary capabilities across their operating model to allow for a consistent customer experience

Anticipating a Changing Landscape

A truly customer-oriented business model meets customer needs, regardless of which—or how many—channels they use. The P&C insurance industry's future winners won't simply be direct players or agency behemoths—they will be the insurers that capture, service and build relationships with their target customers in all channels—whether at the agent's office, on the Internet or on an iPhone—and understand how to use each channel's unique capabilities and economics for greatest effect.

As insurers integrate more channels, change will be difficult but essential. As insurers introduce new channels—mobile phones, company stores, car dealerships or Twitter feeds—the complexity of channel responsibilities, product portfolios and operating models will only increase.

As customers converge on the new battlefield of affordable yet better and more customized service, there is no choice but to act. The future leaders in industry will harness the changes of a multichannel world and turn them into a competitive advantage.

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