McKinsey&Company

Financial Services Practice

The Multichannel Imperative for Property and Casualty Carriers In Personal Lines

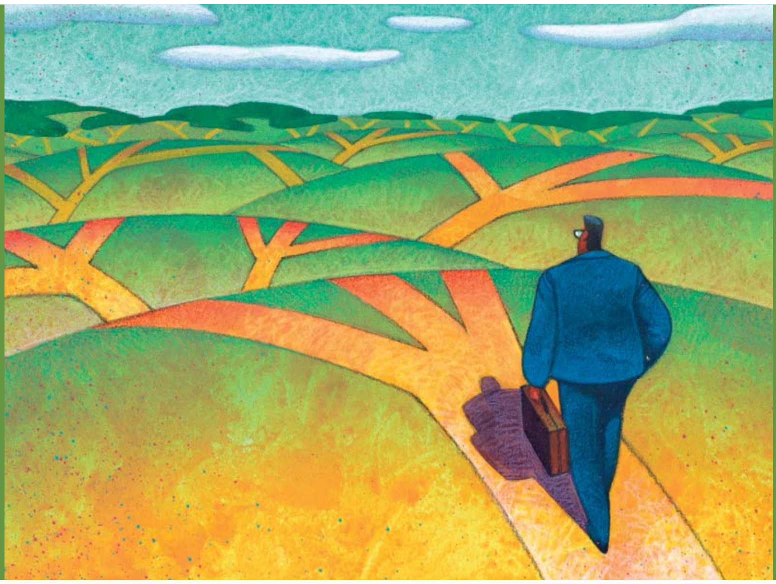
The Multichannel Imperative for Property and Casualty Carriers In Personal Lines

Across industries, shopping behavior and expectations are evolving, as U.S. consumers turn to the Internet in increasing numbers to gather information and conduct transactions. While many consumers still value the opportunity for personal interaction, they also seek the convenience, simplicity and control provided by online offerings. As a result, many are taking a "multichannel" approach to shopping.

A few property and casualty carriers have responded to this trend by adopting a direct distribution model, and as a result, have outperformed their competitors. To thrive in the new multichannel environment, these carriers will need to complement their direct channels by expanding the delivery of their products through physical locations. For their part, agency carriers have begun transforming their operating models, and pure agency-based delivery models are waning. These carriers will need to complete the transition to a distribution model that offers consumers the option to shop for and buy insurance through both direct and agency channels.

As carriers continue their journey toward a multichannel offering, they must address a set of key questions: What is the right approach to acquiring customers online? How should they present call centers or agents as additional channels to online shoppers? How should they manage the economics of the new distribution model? What is the right approach to governance and achieving organizational alignment? How can the required IT capabilities be delivered with existing legacy systems?

This paper provides a brief overview of recent trends in insurance shopping and how carriers are responding. It also outlines potential distribution models for carriers, the issues they must address in the short term to improve their direct distribution capabilities, and some of the questions they must consider to craft a winning long-term strategy.



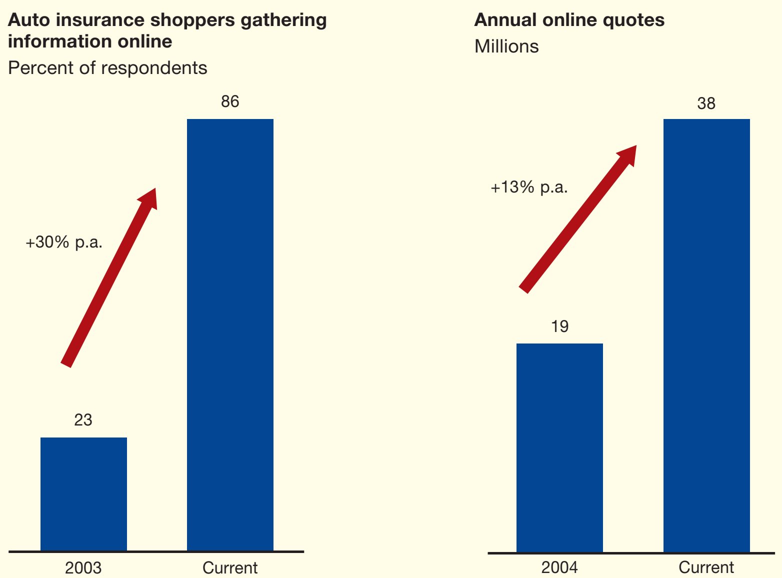
The Changing Landscape

The Internet has dramatically transformed the behavior of insurance consumers. In 2003, less than 25 percent of auto insurance shoppers used the Internet to gather information. Today, that figure exceeds 80 percent, and two-thirds of quotes are delivered online (Exhibit 1). Evident across demographic and credit-risk segments, this trend has been rapidly expanding beyond auto insurance, primarily to home insurance (Exhibit 2).

Consumers' new expectations have been shaped by their experience shopping on sites such as Amazon.com and Expedia, as well as the sites of direct carriers that have led the way in the online channel such as GEICO and Progressive. As expectations have changed, three types of needs have emerged:

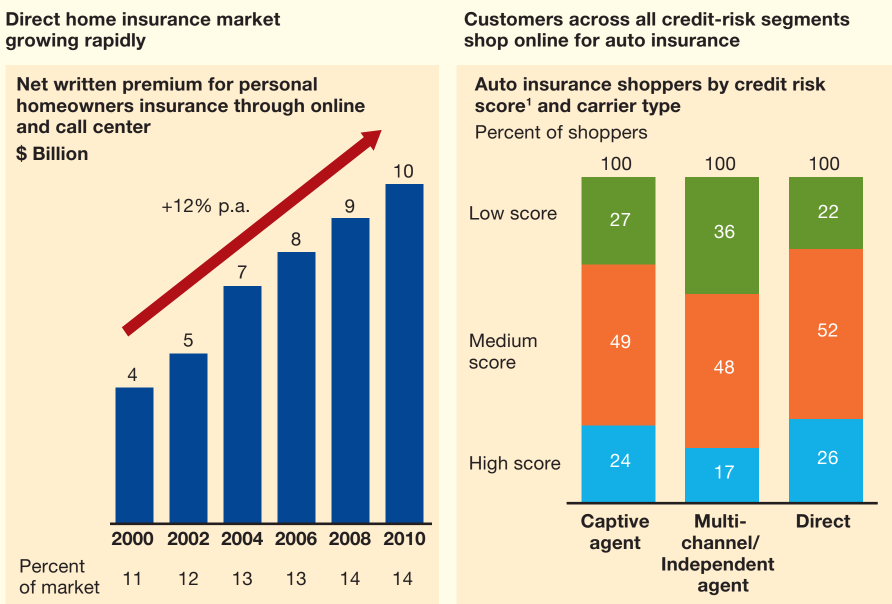
1. Consumers seek a shopping experience that offers them simplicity and control early in the process, so that they can assess their needs, gather information, compare quotes and seek referrals.
2. Consumers expect seamless and consistent access to their insurer during and after purchase, regardless of whether their initial contact point is

Exhibit 1



Source: McKinsey Auto Insurance Buyers Survey, McKinsey CDJ Auto Insurance Survey, comScore

Exhibit 2



[1] Credit risk score is correlated with, but not the same as, FICO score.

Source: A.M. Best, Lexis Nexis 2009, McKinsey analysis online, a call center or an agent. For example, if consumers initiate a transaction online, they want the flexibility to complete it either by phone or in person with a representative who can access their information and apply the same quote. Similarly, they want the ability to make the same types of changes to their policies (such as adding family members or vehicles) regardless of which channel they use.

3. Despite the widespread use of the Internet, many insurance shoppers still value a personal relationship and advice during binding and appreciate having a representative available to provide help if needed.

Different industries facing similar customer expectations have evolved along different paths. For instance, in the personal travel industry, most bookings have moved from the agent channel to the online channel. In contrast, retail banks have taken a multichannel approach. In addition to developing widely used online and mobile channels, banks have increased the opportunity for customers to conduct transactions and receive service via the phone and ATMs and have augmented their branch networks.

The Multichannel Imperative

Which path should property and casualty carriers follow? Although in recent years early adopters of direct distribution have been successful in capturing the price-sensitive market, we believe that a multichannel model will ultimately be required to meet the needs of most insurance consumers.

In the past decade, only 3 of the top 10 auto insurance carriers – GEICO, Progressive and USAA – have outperformed the market in terms of both growth and profitability. The common thread: all three were early adopters of direct distribution.

However, despite the recent success of pure direct carriers, many insurance shoppers still prefer a personal connection. For example, approximately half of auto insurance policies are bound by agents. Moreover, some shoppers need the reassurance of seeing that a carrier has physical locations to become comfortable with online binding. GEICO, for example, has responded by opening and marketing physical storefronts. For agency carriers, the enduring need of some online shoppers to speak to an agent, or simply to be reassured that such access is available, creates an exceptional advantage. Captive agency carriers, for instance, can position themselves to meet the needs of insurance consumers with "call, click or visit" access by complementing their presence in the local community with direct distribution capabilities.

In defining their distribution model, carriers must first determine the level of multichannel access that they aspire to provide. The answer will largely depend on their starting point. Direct insurers must consider whether to open physical locations to broaden their appeal beyond self-directed shoppers. Carriers with captive agents must develop a model that allows them to target shoppers who value moving seamlessly across channels. Independent agent carriers must find a way to complement their independent agents' proposition by offering distinctive online self-service options to their policyholders.

To better meet the evolving needs of consumers, carriers should consider one of four multichannel distribution and service models:

1. ***Pure direct.*** Carriers with a pure direct play could choose to focus on strengthening their direct channels, serving customers exclusively through Web sites and call centers. This would typically entail either a low-cost offering that targets price-sensitive customers or a service-oriented offering that targets customers who value a relationship with a quality carrier and do not need a local agent.

2. ***Direct with a select local presence.*** In addition to Web sites and call centers, carriers with a strong direct offering could open branches in a few strategic locations, as some leading players have already done. This would help to foster confidence among customers that value the presence of local branches.

3. ***Integrated captive and direct channels.*** Carriers could develop a fully integrated multichannel offering to target the less price-elastic segment that values face-to-face relationships but also demands the convenience of self-service. For carriers with a captive force, this would take the form of a seamlessly integrated multichannel model with consistent product, pricing and service across channels.

4. ***New independent channel model.*** In the independent channel, an innovative model could emerge in which carriers form integrated partnerships with selected independent agents (IAs). A carrier would drive traffic to IAs from its Web site or call center and offer its self-service

capabilities to policyholders online or via call centers, as well as provide back-end IT support to an IA's online channel. This model would provide a lifeline to IAs, who must adapt their customer acquisition and service strategies to accommodate customers' increasing use of the Internet and growing demand for self-service. Traditional economic agreements between carriers and IAs would need to be revised to reflect this more integrated relationship.

Winning the Multichannel Journey

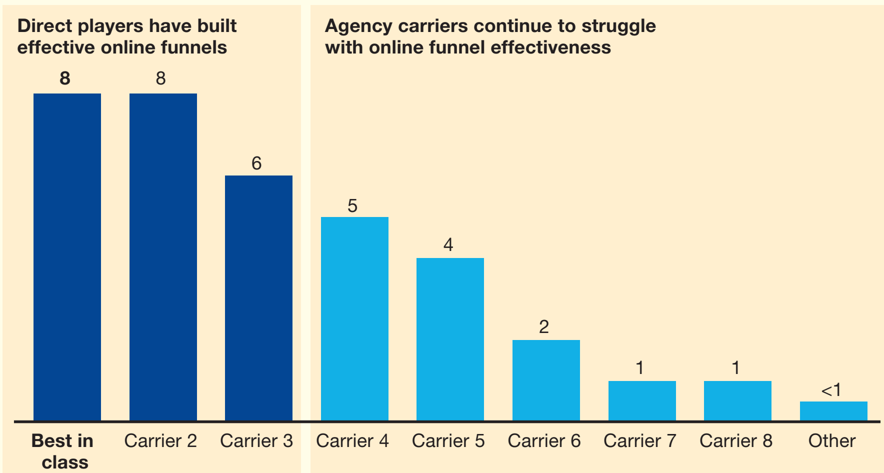
Regardless of their chosen degree of integration with captive or independent channels, carriers will need to achieve a step change in their direct distribution capabilities. For instance, traditional carriers' capabilities in acquiring customers online have not kept up with that channel's growth. Direct carriers are up to 10 times more effective than other carriers at moving customers through the online acquisition funnel (Exhibit 3).

Some agency carriers have recognized this gap and are addressing the right capabilities. However, in many cases, they are falling short of the best practices employed by the market leaders, inhibiting them from capturing the full impact of these capabilities. Exhibit 4 sets out the typical actions by agency carriers in six direct distribution capabilities, as well as the corresponding best practices of the market leaders. Agency carriers will need to raise their game in each of these categories.

Exhibit 3

Online quote initiation to policy purchase 2010

Percent

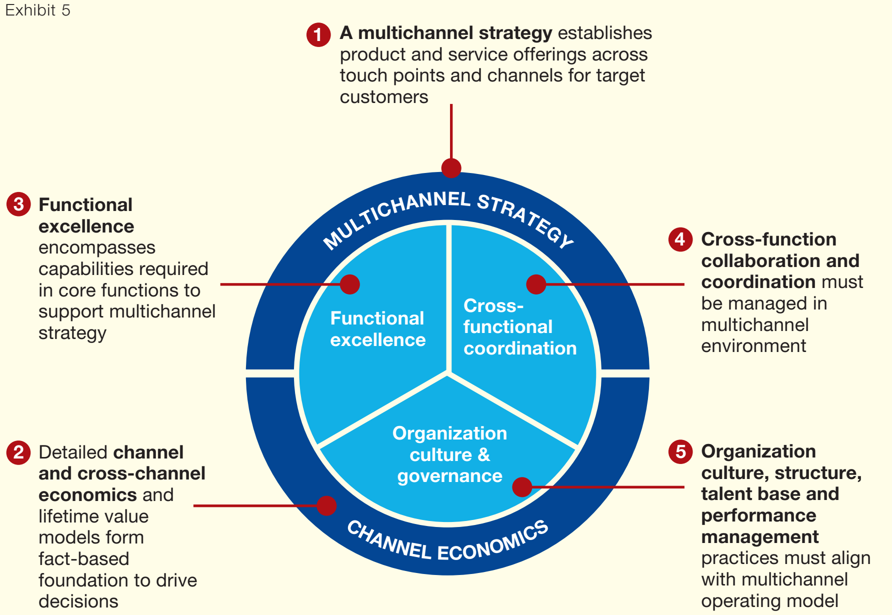


Source: ComScore data

Exhibit 4

	Typical actions	Market leader actions
1 Apply search engine optimization strategies	Limited links to Web site Higher emphasis on dotcom name versus auto insurance online quote	Ranking in the top 5 in natural search for common search terms, e.g., “car insurance”
2 Leverage social network in marketing strategy	Links to Facebook, Twitter Viral videos on YouTube	Large active subscription on forum Immediate response to negative comments
3 Increase marketing spend and effectiveness	Large spend across broad mix Focus on brand awareness over calls-to-action	Detailed lifetime value model by segment Attraction of target segments to site Customized experience by segment
4 Update Web site and add online quote functionality	Online ability to quote/bind/close auto; limited policy-servicing capability Tedious quoting questionnaire	Double-digit conversion of quotes started online into policies Double-digit cross-sell rates
5 Re-target quotes-not-taken	Limited prioritization of quotes-not-taken Use of either call center or captive agents for re-targeting	Real-time segmentation of leads by likelihood of conversion Tailored follow-up approach by segment
6 Integrate channels seamlessly	Consistent product and pricing for quotes provided by agent, call center and Web site Agent name and contact information displayed online during quote process	Intelligent routing of shopper to binding channel with highest conversion and retention Live chat or co-browsing with Web site and agent Seamless post-sales service at any channel regardless of point-of-purchase

Exhibit 5



While building direct capabilities will close the gap in the near term, carriers will need to establish five core multichannel components to succeed in the long term (Exhibit 5):

1. A ***multichannel strategy*** that establishes a product and service offering across touch points and channels for target customers.
2. Detailed ***channel and cross-channel economics*** and lifetime value models that provide a fact base for making decisions.
3. ***Functional excellence*** to ensure that core functions have the capabilities to support the multichannel strategy.
4. ***Cross-function collaboration and coordination*** to manage interdependencies among functions in a multichannel environment.
5. ***Organization culture, governance, talent and performance management*** that is aligned with the new multichannel operating model.

As carriers work through these five core components, they must answer a number of difficult questions:

- What level of alignment for products, pricing and brand should they seek to achieve across channels?

- What existing competitive advantages can they apply to win with a multichannel distribution model?
- What level of integration among channels should they offer in order to meet their customers' need for a seamless shopping experience?
- How will the roles and functions of agents evolve, and how can carriers ensure harmony across channels? How will acquisition economics be affected as a result?
- How will they deliver services in a multichannel environment?
- What changes to organization structure and management processes will be required to foster a customer-centric culture and effective cross-functional collaboration?

While it is clear that today's pure agency delivery model will change significantly, the sheer pace at which carriers must build direct capabilities and the complexity of creating a customer-centric, cross-functional organization will continue to present significant challenges for many. This market discontinuity, however, offers opportunities to carriers that can act decisively to adapt their operating models and secure their position in the new environment.

Contact

For more information about this report, please contact:

Devin McGranahan

Director
(412) 804-2745
devin_mcgranahan@mckinsey.com

Tanguy Catlin

Principal
(617) 753-2467
tanguy_catlin@mckinsey.com

The authors would like to acknowledge the contributions of Ruxandra Tentis to this report.

Financial Services Practice
September 2011
Designed by Hudspith Design
Copyright © McKinsey & Company
www.mckinsey.com/clientservice/financial_services