

POINT OF VIEW

# THE NAKED TRUTH

HOW PRICE COMPARISON IS POISED TO CHANGE US PERSONAL INSURANCE

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US personal insurance is at an inflection point. As digital channels dramatically change the way customers engage with companies, we believe that conditions are ripe for price comparison websites (PCWs) to alter the way insurance is distributed and with wide ranging structural implications to the industry.

In what was largely a person-to-person business as recently as a decade ago, online now represents 25% of total insurance sales transactions. Insurers like Progressive, GEICO and Esurance have become valuable online brands in their own right. Moreover, we find that many more customers shop for insurance online before ultimately buying over the telephone or in person from a local agent.

On the surface, it would appear that US personal insurance has gone through upheaval at a similar scale as travel, music or banking. However noticeable by its absence is a meaningful independent PCW presence. Customers have surprisingly limited sources for market-wide online price comparison and instead primarily navigate the product and provider landscape in a comparatively inefficient manner, accessing multiple insurance quoting websites or getting flooded with quotes from online insurance referral generators.

In this Oliver Wyman Point of View, we make the case that the US personal insurance industry is soon to be transformed. The rising number of personal insurance PCW entrants and pressure from non-insurance technology and retail giants signal that PCWs can rapidly expand and transform the market in a similar way to what happened in the UK.

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*“Obtaining a quote online continues to be the most popular auto insurance shopping method for consumers, with 67 percent of respondents who shopped in the past year saying they obtained a quote online”*

comScore 2013 US Online Auto Insurance Shopping Report

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We expect the digital channel to continue to grow at the expense of the traditional face-to-face distribution and that one or more dominant insurance PCWs will emerge: price will become a more important decision factor and consumers will increasingly value the transparency that independent PCWs bring. The traditional role of the local independent agent as navigator will give way to a more efficient digital distribution.

This has clear implications for insurers and agents alike, both of whom are likely to be competing against disruptive players. While this changes the basis of competition, it also creates opportunities.

What is clear is that insurers that do not prepare for and embrace this new reality will lose control of distribution and customer experience or, worse, find themselves amongst the many once venerable brands in other sectors (for example, Borders, Virgin Megastores, or Blockbuster) out-competed by nimbler digital competitors.

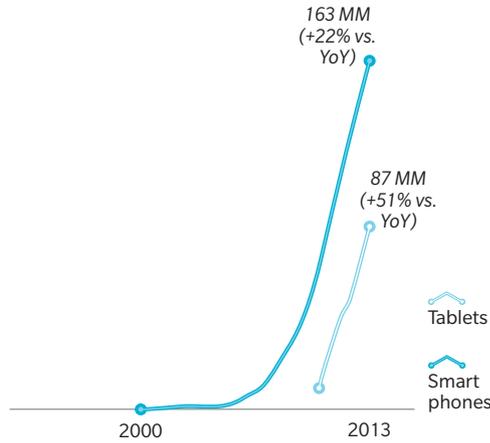
## ONLINE DISTRIBUTION IN US PERSONAL INSURANCE

Traditionally, local agents (exclusive and independent) have been the primary source for product education, price discovery and sales. However, this dynamic is rapidly changing as near ubiquitous connectivity through mobile devices and changing demographics are fueling a shift towards online direct channels. Forrester estimates that total retail sales in the US will reach \$3.6 TN by 2017; 60% of these will be either transacted directly on PCs, phones, or tablets or influenced by research on those devices.”<sup>1</sup>

<sup>1</sup> Source: US Cross-Channel Retail Forecast, 2012 to 2017, October 2013, Forrester Research, Inc.

**Exhibit 1: Fast proliferation of mobile devices is dramatically changing the digital landscape**

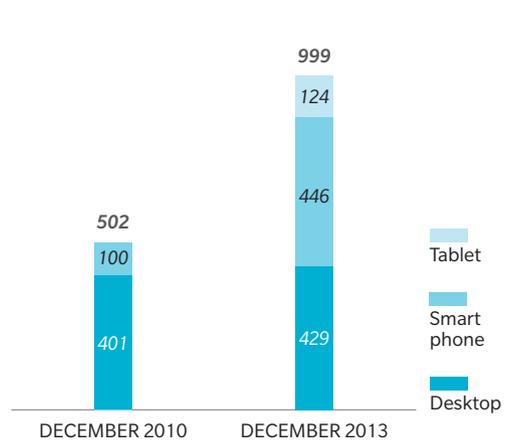
NUMBER OF DEVICE OWNERS (MM)



Source: comScore MobiLens/TabLens 3 month average ending December 2013

**Exhibit 2: Growth in digital consumption led by deep smartphone penetration**

TOTAL U.S. INTERNET USAGE IN MINUTES BY PLATFORM (BN)



Source: comScore MobiLens/TabLens 3 month average ending December 2013

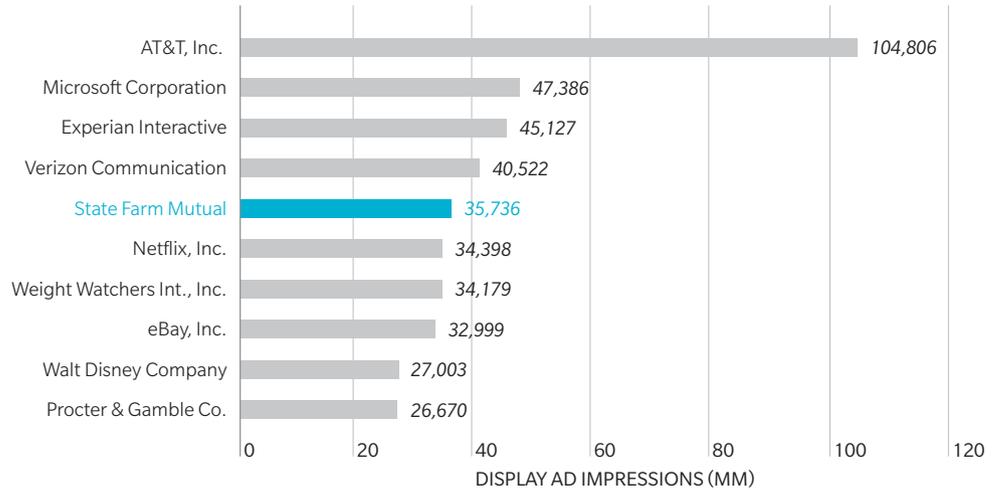
Insurers recognize this shift and the largest players have established online direct channels in parallel with their agency channels. Top insurers already heavily invest in both digital<sup>2</sup> and traditional advertising to drive traffic to their digital storefronts (see exhibit 3). As a result, the number of insurance policies sold online has grown more than 400% over the last 8 years. Two digitally savvy insurers, Progressive and Esurance, already provide an online user experience that resembles price comparison, however unlike with an independent PCW, these competitive offers typically cannot be purchased at their site.<sup>3</sup>

<sup>2</sup> For example, State Farm (\$43.7 MM), Progressive (\$43.1 MM) and GEICO (\$23.7 MM) accounted for ~\$110 MM in Google's keyword advertising revenue in 2011. Retrieved from <http://www.wordstream.com/articles/google-earnings>.

<sup>3</sup> Esurance uses Answer Financial, an online insurance agent/PCW fully owned by Allstate, to provide price comparisons from its own website. Retrieved from <https://www.esurance.com/insurance/car/compare-quotes>.

### Exhibit 3: Insurance companies are heavily investing in digital advertising

#### STATE FARM RANKED AMONG THE TOP 10 U.S. ONLINE DISPLAY ADVERTISERS IN 2012



Source: comScore, 2013 US Online Auto Insurance Report

Over this same period, several online insurance quote and referral generators entered the market. InsWeb, NetQuote and Insurance.com were pioneers, offering consumers the ability to research and request quotes before ultimately passing the warm lead on to local agents to compete for and close the sale. More recently, independent PCWs such as The Zebra (see case study below) and Cover Hound entered the market and provide customers with the ability to anonymously shop and receive comparison quote information and, importantly, instantly fulfill policies. That is, the ability to move from a quote to purchasing the coverage and receiving an electronic copy of the policy within a single session. In April of 2014, Walmart (\$10 BN in online revenues in 2014)<sup>4</sup> and Overstock (\$1.3 BN in online revenues in 2013)<sup>5</sup>, launched personal insurance PCWs within the same week. However, Google's expected move into the PCW space in early 2015 is potentially the most significant of such entrants. Google has had a US banking products comparison engine operating since 2011<sup>6</sup> and now Google Compare Auto Insurance Services Inc., its online auto insurance shopper, has obtained licenses to sell insurance in 26 states<sup>7</sup>.

#### CASE STUDY: TheZebra.com<sup>8</sup>

Launched in 2012, The Zebra compares car insurance across 50 states, covering 1,700+ products among over 200 insurers, including leading companies such as State Farm, Geico, Allstate, Nationwide, and Travelers. The Zebra's quoting engine provides first estimates in approximately one minute.

Unlike other PCWs and lead generators, The Zebra does not require any personal information to provide quotes and requires less than 20 data points to provide final auto insurance quote comparisons.

4 Source: Internet Retailer 2014 Top 500 Guide.

5 Source: Overstock.com annual report 2013.

6 Retrieved from <http://googleblog.blogspot.com/2011/05/making-financial-comparisons-easy-with.html>.

7 As of January 2015, Google Compare Auto Insurance Services obtained licenses to sell insurance in 26 states and was testing its PCW service. Retrieved from <http://www.reuters.com/article/2015/01/08/us-google-autos-insurance-idUSKBN0KH2CS20150108>. Google has been comparing auto insurances in the UK since 2011, when it acquired BeatThatQuote.com. Retrieved from <http://www.theguardian.com/technology/2011/mar/07/google-buys-beatthatquote>.

8 Retrieved from <https://www.thezebra.com>

## Exhibit 4: Personal insurance price comparison models in the US

	 <b>FULL SERVICE PCW</b>	 <b>QUOTE AND REFERRAL GENERATOR</b>	 <b>COMPANY TRUST PLAY</b>
<b>Description</b>	Combines attributes of both traditional agent and online referrer, providing significant coverage of the market and ability to buy online instantly	Attracts prospects to its site by providing access to multiple rates, providing leads to agents and insurers	Attracts prospects to quoting engine through advertising and provides comparative rating feature to build trust/credibility
<b>Economic model</b>	Revenue is generated by commissions for placed business	Revenue is generated by either selling leads to insurance agents/insurers or charging commissions for placed business	Direct sales
<b>How it works</b>	<ul style="list-style-type: none"> <li>• Offer price comparison from a wide number of insurers including national and regional carriers</li> <li>• Allow online fulfillment or option to speak to a call center agent</li> <li>• Consumers can manage the life of the policy through these websites</li> </ul>	<ul style="list-style-type: none"> <li>• Lead passed along to agent or carrier for follow-up</li> <li>• Consumers receive quotes from multiple agents/insurers (and some turning into persistent spam)</li> <li>• Some sites redirect consumers to select insurers' websites for fulfillment</li> </ul>	<ul style="list-style-type: none"> <li>• Consumers drive the quoting process and are provided the ability to compare the quoted rate to a select group of other insurers</li> <li>• Quotes from select competitors are estimates</li> <li>• Some sites redirect consumers to select competitors' websites, however the quoting process needs to be restarted</li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>• Overstock</li> <li>• Walmart (white labeling autoinsurance.com)</li> <li>• Cover Hound</li> <li>• The Zebra</li> <li>• Comparenow (owned by Admiral Group plc)</li> <li>• Smartinsure.org</li> <li>• PolicyGenius</li> </ul>	<ul style="list-style-type: none"> <li>• Carinsurance</li> <li>• Comparison Market</li> <li>• Answer Financial</li> <li>• InsureMe</li> <li>• Sureinsure</li> <li>• Netquote/Insweb (now both part of Bankrate)</li> </ul>	<ul style="list-style-type: none"> <li>• Progressive</li> <li>• Esurance (through Answer Financial)</li> </ul>

Source: Oliver Wyman analysis

## CASE STUDY: CONFUSED.COM<sup>9</sup>

In 2002 Admiral Group PLC launched Confused.com, the UK's first online auto insurance PCW.

Confused.com's growth has been based on a simple formula: (1) Create greater price transparency and choice through market-wide access to insurers' best available rates. (2) Optimize the technology and CRM to improve the customer experience, conversion and renewal, hence driving up marketing efficiency. (3) Dedicate significant, smart online and offline advertising spend to build brand presence and traffic.

Traditional branded-direct insurers have found this model hard to deal with because the marketing efficiency is much higher on PCWs - as a high proportion of customers find a competitive quote. In fact, the cost to acquire a new policy outside PCWs is about 2x of those acquired through PCWs. Moreover, the extremes in insurer rating models mean that for common coverages, at least one insurer may "underprice" the risk, offering a great deal a customer. As a result, insurers face a much higher risk of not being selected through PCW comparisons, thus require more accurate and faster risk detection.

Despite the underlying growth in the use of digital channels, personal insurance PCWs have failed to gain significant market share in the US. This is in contrast to the UK market, where PCWs revolutionized the personal insurance industry in less than five years in the early 2000s. Today PCWs account for 60% of new motor insurance policies and 50% of personal insurance lines<sup>10</sup>. A similar situation is playing out in other European markets. The growth in PCWs has led to significant performance skews as the winners have grown rapidly and attract the best quality business and the rest suffer from commoditization, margin compression, higher customer churn, and limited customer contact. Historically, three main factors had slowed the growth of PCWs in the US personal insurance market:

1. Regulation: Insurance policies are automatically renewed, which inevitably results in lower churn. Also, state specific coverage options and rating plans historically made comparing the thousands of different insurer and coverage combinations difficult.
2. Limited online capabilities: Until recently, a large number of insurers lacked capabilities needed to quote and fulfill personal insurance policies online, thus limiting PCWs ability to provide market wide price comparisons.
3. Willingness to participate with PCWs: Well aware of impact and disruption caused by PCWs in other markets, insurers did not welcome a strong PCW presence. Instead, insurers prioritized investments in their online channel and features that resemble price comparison.

<sup>9</sup> Source: Oliver Wyman analysis

<sup>10</sup> Source: Timetric's Insurance Intelligence Center

However, as demonstrated by the influx of recent PCW launches, we believe that none of these factors are strong barriers anymore. In fact, leading personal lines insurers including Travelers, Progressive, Geico, Liberty Mutual, Allstate, and State Farm, have already started to let PCWs compare and fulfill their products.

*Looking forward, we ask ourselves, is there any reason to believe that PCWs will not gain share in US personal insurance as they have done in other markets?*

## FUTURE EVOLUTION OF PCWS

Growth in sales through online channels continues to far outpace the growth of traditional channels in the US. According to comScore, online consumer retail spending grew by 12% in the first three quarters of 2014 compared to the same period in 2013<sup>11</sup>. Conversely, total consumer retail spending in the US only grew by low single digits.

Increasing adoption of digital channels in the US, success of independent PCW platforms in other sectors and the UK personal insurance experience foretell a very different future for US personal insurance. We expect demand to evolve and migrate to access points that provide greater choice and price transparency.

Conditions are ripe for one or more dominant PCWs to emerge as the preferred destination for personal insurance shopping over the next 2-3 years. PCWs could conceivably concentrate over 50% of insurance quotes. Innovation in other areas of financial services driven by FinTech start-ups (e.g., robo-advise, investment management, account aggregation), increased use of public and private health exchanges that compare and sell complex financial products online<sup>12</sup>, and overall online retail shopping experiences are raising customers' expectations towards self-service and easy access to better deals. At over \$20 BN<sup>13</sup> a year in personal insurance commissions in Auto and Homeowners, the size of the prize is too big to discount a disruptive entrant progressively attacking personal insurance as a growth opportunity.

<sup>11</sup> Source: comScore press release 11/18/2014: comScore Forecasts 16 Percent Growth to \$61 BN in 2014 U.S. Holiday E-Commerce Spending on Desktop and Mobile.

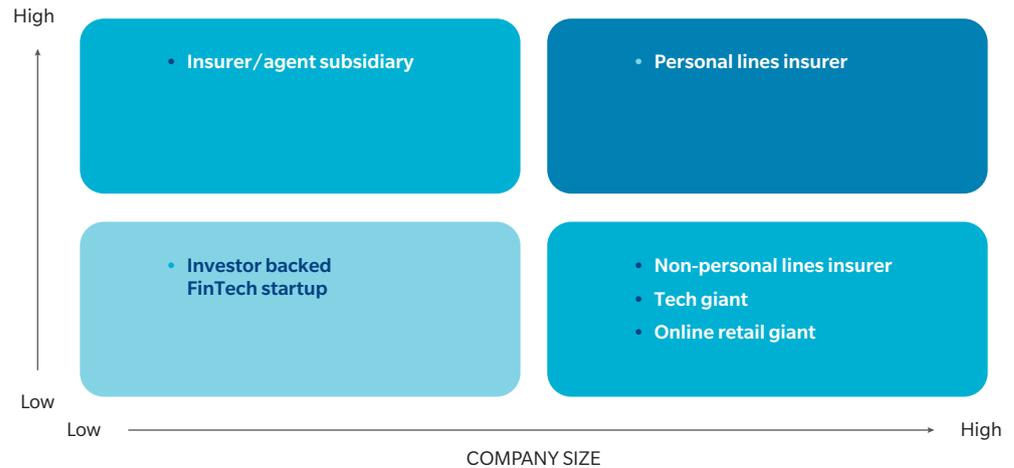
<sup>12</sup> Oliver Wyman anticipates 100 MM of customers purchasing health insurance on exchanges by 2020; Oliver Wyman analysis.

<sup>13</sup> Source: Oliver Wyman analysis; Auto: \$167.6 BN (GWP) \* 8.3% (Net commissions and brokerage expenses) = \$13.9 BN; HOI: \$67.4 BN (GWP) \* 12.6% (Net commissions and brokerage expenses) = \$8.3 BN.

In this context, we expect PCW disruption to come from several sources, driving transformative implications across customers, insurers and intermediaries:

Exhibit 5: Several potential sources of PCW disruption and their implications

EXPERIENCE IN PERSONAL LINES



PCWs implications on...

...Customers

- Easy and efficient access to broader options
- Increased price transparency
- De-mystification of insurance products through intuitive, didactic and hassle free shopping experiences
- Increased predisposition to shop more frequently given the ease of switching carriers

...Insurers

- Enhanced pricing, different product line-up, and straight-through-processing to benefit from PCW rankings
- Higher investment on brand to win on close price comparisons
- Differentiated product and service features to take the comparison beyond price
- Increased focus on service and retention to prevent customer churn

...Intermediaries

- Consolidation and specialization
- Focus on more complex and customized products
- Increased push towards digital channels (e.g. setting up their own PCWs)

## KEY QUESTIONS FOR INCUMBENTS

The emergence of PCWs has implications for incumbent players across a wide array of product, customer experience, and service model dimensions. Personal insurance executives operating in the US market should consider each of the following strategic questions:

PRODUCT/PRICING	CUSTOMER EXPERIENCE	SERVICE MODEL
<ul style="list-style-type: none"><li>• What are your sources of differentiation today and are they defensible and relevant in a world where PCWs are more prevalent?</li><li>• Are you set-up to rapidly identify and act on street pricing opportunities and to adapt technical pricing models based on new information to avoid adverse selection?</li></ul>	<ul style="list-style-type: none"><li>• Are you easy to do business with?</li><li>• In what ways and at what moments of truth do you delight your customers?</li><li>• Have you established capabilities to collect and analyze customer data in order to learn from changing preferences and to customize the customer experiences?</li></ul>	<ul style="list-style-type: none"><li>• Are you capable of providing instant service, proximity, customization, and 24x7 access needs?</li><li>• How well integrated are your quoting and fulfillment processes across products? Will your digital capabilities allow you to benefit from PCW leads?</li><li>• Is your service model cost effective (given the likely pricing pressure brought by greater transparency and competition)?</li></ul>

## CONCLUDING REMARKS

PCWs have transformed many product and service categories and we believe they are poised to reshape US personal insurance. We see this as presenting growth potential for insurers and agents who are prepared to participate with PCWs (or develop full service PCWs), and a significant competitive threat for those that are not.

Those who do participate in the PCW channel will need to bolster pricing capabilities, fine tune product and service offerings, and deliver straight-through-processing to rank high in those price comparisons they want to win and avoid those they would rather not win. The prize for doing so can be significant and key to leveraging PCWs for profitable growth. Those that chose not to participate or do so with an outdated business model and capabilities do so at their own peril.

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