THE BATTLE FOR P&C MARKET SHARE:
WHO WILL WIN?

BOLT

Watching the rise of InsurTech disruptors has instilled a sense of unease across the property and casualty insurance industry. While it's natural that 56% of incumbent executives would feel nervous about the competition in an industry where new entrants are rare,[1] it's starting to look as if their fears may be unfounded. Today, the newest stars on the P&C horizon seem to be losing their shimmer.

Regulations have proven difficult to navigate for a band of renegade rebels intent on shaking up the industry, slowing proliferation of the disruptors' land grab. Customer satisfaction has been equally dim, a surprise considering the number of new entrants established on the simple ideal of transforming the consumer's insurance experience.

As existing insurers move toward gaining digital competence, it's becoming increasingly clear that they're gaining an edge, and InsurTech disruptors are tarnishing in the limelight.

On Unfamiliar Ground

Regulations in the insurance industry govern how insurers market, sell and underwrite their products. Stringent and strict, they exist to ensure the profitability of individual entities and to protect consumers. Existing insurers know better than to run afoul of these complex tenets, but the new breed of disruptors seem to have a much higher tolerance for tempting fate and a bigger appetite for paying the price.

Consider the new startup who was ready to go to market, slick new app in hand, only to find themselves outside the window of compliance on nearly everything from format and pricing structure to lack of disclosures.[2] It took weeks to revamp their product, pushing back the launch date and costing them in revenue before they'd made a single dime.

Marketing is another area where new entrants could easily become embroiled in regulatory battles. According to Heidi Lawson, **member at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC, regulators have questioned some new marketing claims such as Lemonade's "killer prices" and Assured Risk Cover's "immediate claims payments" for hurricane coverage.[3]**

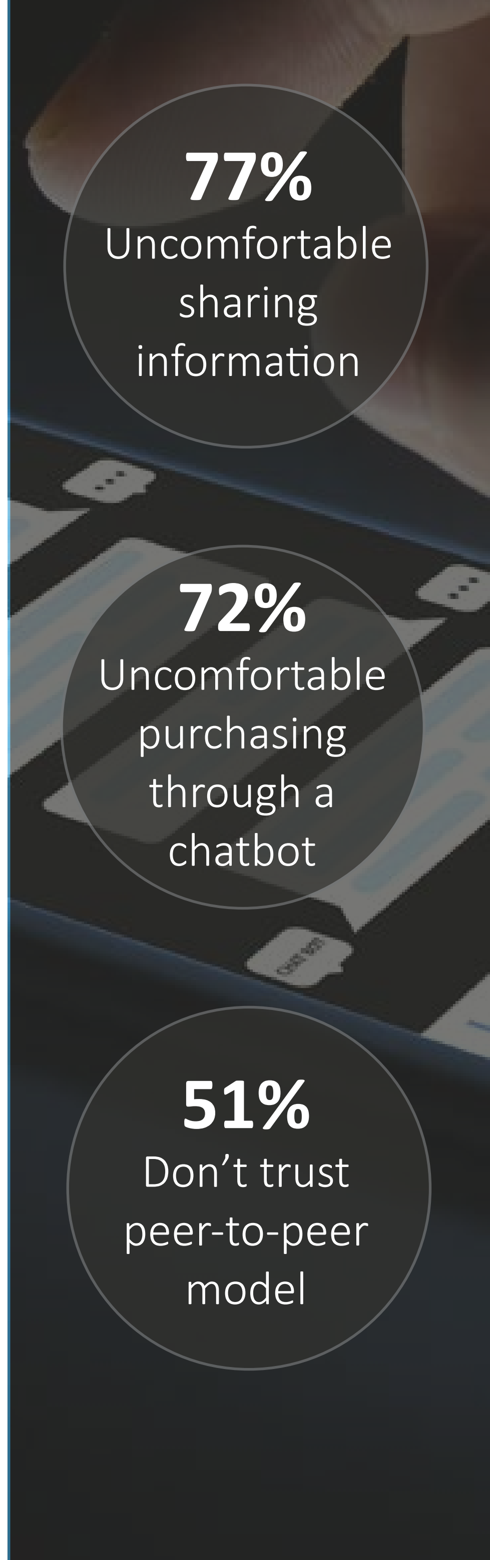
As time moves on, regulators aren't the only one batting an eye at the disruptors. Consumers aren't feeling confident either.

Banking on consumer preferences for digital interactions, InsurTech disruptors have digitized the entire buying experience. Consumers are expected to put their faith and trust in a virtual world where chatbots run the universe and transactions take place largely without the option to ever speak to a living breathing being.

While 74% of consumers have obtained online quotes for coverage,[4] and over half have made a purchase,[5] the emerging InsurTech experience isn't what they signed up for:

- 77% of consumers are uncomfortable sharing their personal information with an InsurTech disruptor.[6]
- 60% of consumers worry that the artificial intelligence running the show might automatically deny them coverage.[7]
- 72% of consumers are not comfortable making an insurance purchase through a chatbot.[8]
- 51% don't trust the peer-to-peer model.[9] In fact, 75% don't even understand what peer-to-peer insurance is.[10]

How do consumers feel about working with the disruptors?



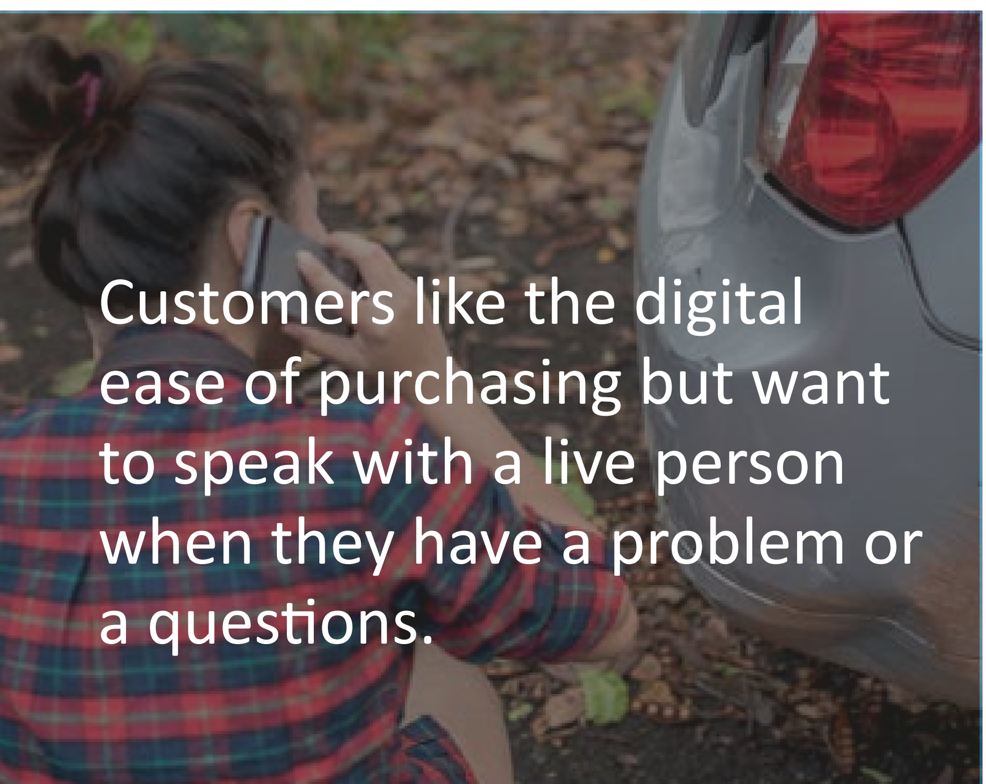
One reason for the lack of confidence in the InsurTech disruptor operating model may stem from the fact that consumers alone don't always understand their coverage. For instance, in a recent study by Insurance Information Institute, 43% of consumers incorrectly believed that their standard homeowners policy covered them in the event of heavy flooding due to rain, and 29% assumed they would be covered for earthquake damage when they were not.[11] Policies are not written in common, every day jargon, and when a customer has a question, they want the ability to call an actual person and get a real, trusted answer.

Are InsurTech Disruptors Getting Anything Right?

Recent negative customer reviews about a leading InsurTech disruptor all centered around the lack of human interaction. "...They do not have a phone number, so you are stuck dealing with bots and sending messages through their app," said one frustrated customer.[12] Another noted, "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." This reviewer gave a one-star rating.[13]

Nerdwallet noted that another disruptor had more customer complaints to state regulators than "other companies of a similar size".[14] Looking up the company with the Better Business Bureau reflects customer frustration through a slew of complaints ranging from troubles with claims to poor customer service. One customer said, "I don't want to wait on the phone for 10-20 minutes every time I want to resolve an issue with my car insurance company, only to find out that the person on the other line is effectively unable to help."[15]

So, what are InsurTech disruptors getting right? One gets five stars for ease of purchasing.[16] Consumers love the digital simplicity of buying coverage online. Said one satisfied customer, "It took me 60 seconds to buy a policy at half of what I used to pay...",[17] but a number of reviewers expressed dissatisfaction with claims payouts, so positive reviewers may change their minds once they experience a loss.

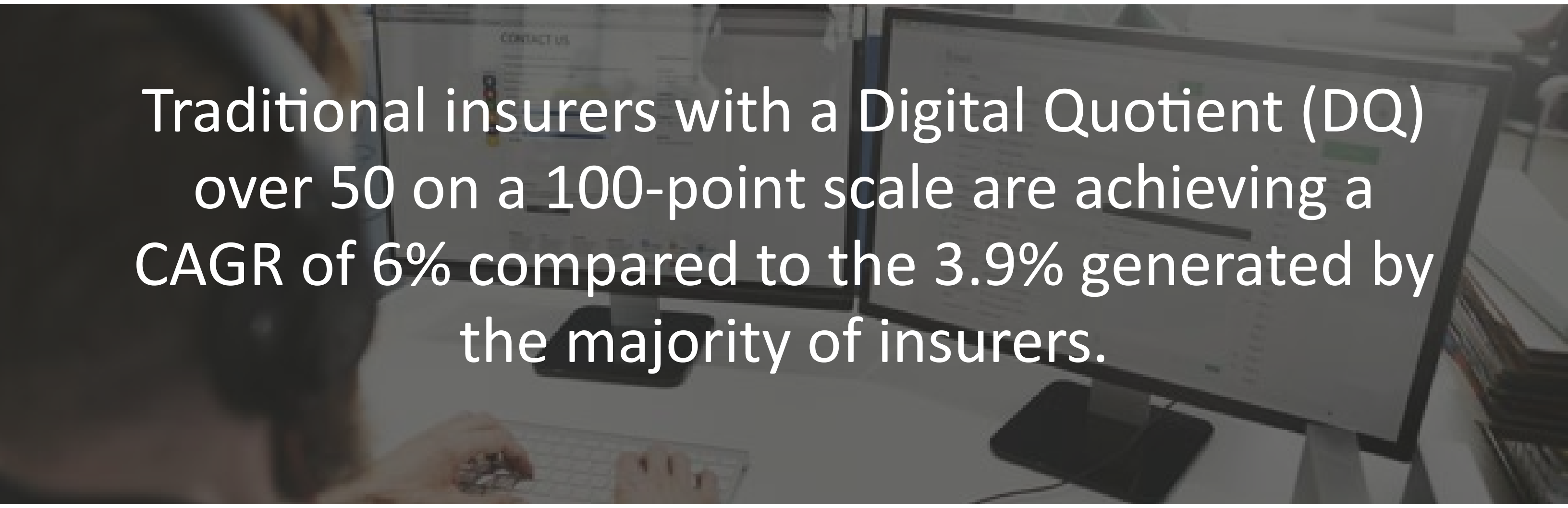


Positive reviews for another insurer all stemmed around price. "I'm now only paying for as much car insurance as I need in proportion to how often I use my car," said one customer.[18] However, reports of bogus charges stemming from the device the company used to track miles driven and difficulties with the device draining car batteries when the vehicle sits idle for days, may outweigh the pros for some, especially when combined with the inability to speak with a live agent to resolve the situation.[19]

BOLT

When you compare the new disruptors to incumbent insurers, you see a startling picture emerge. Insurers with top-tier digital capabilities rank high in affordability, ease of purchasing and customer satisfaction. Take a Top 5 U.S. based insurer as an example. The company has been busily ramping up digital competency over the past few years. As a result, they receive five out of five possible points for affordability and nearly 4 points for customer satisfaction.[20]

This is the direction of the industry, as winning insurers use the advantages of digital to improve the customer experience and empower their agents.



Why Digitally-Enabled Incumbents Will Prevail

While InsurTech disruptors are struggling to gain a command of the industry complexities and deliver the service that consumers want, traditional insurers with top-tier digital capabilities are realizing a different reality in the new customer-centric environment. According to McKinsey, insurers with a Digital Quotient (DQ) over 50 on a 100-point scale are achieving a CAGR of 6% compared to the 3.9% generated by the majority of insurers. They also operate at a reduced cost, with a combined ratio that is 4 points lower than those in the bottom three-quarters of digital performance.

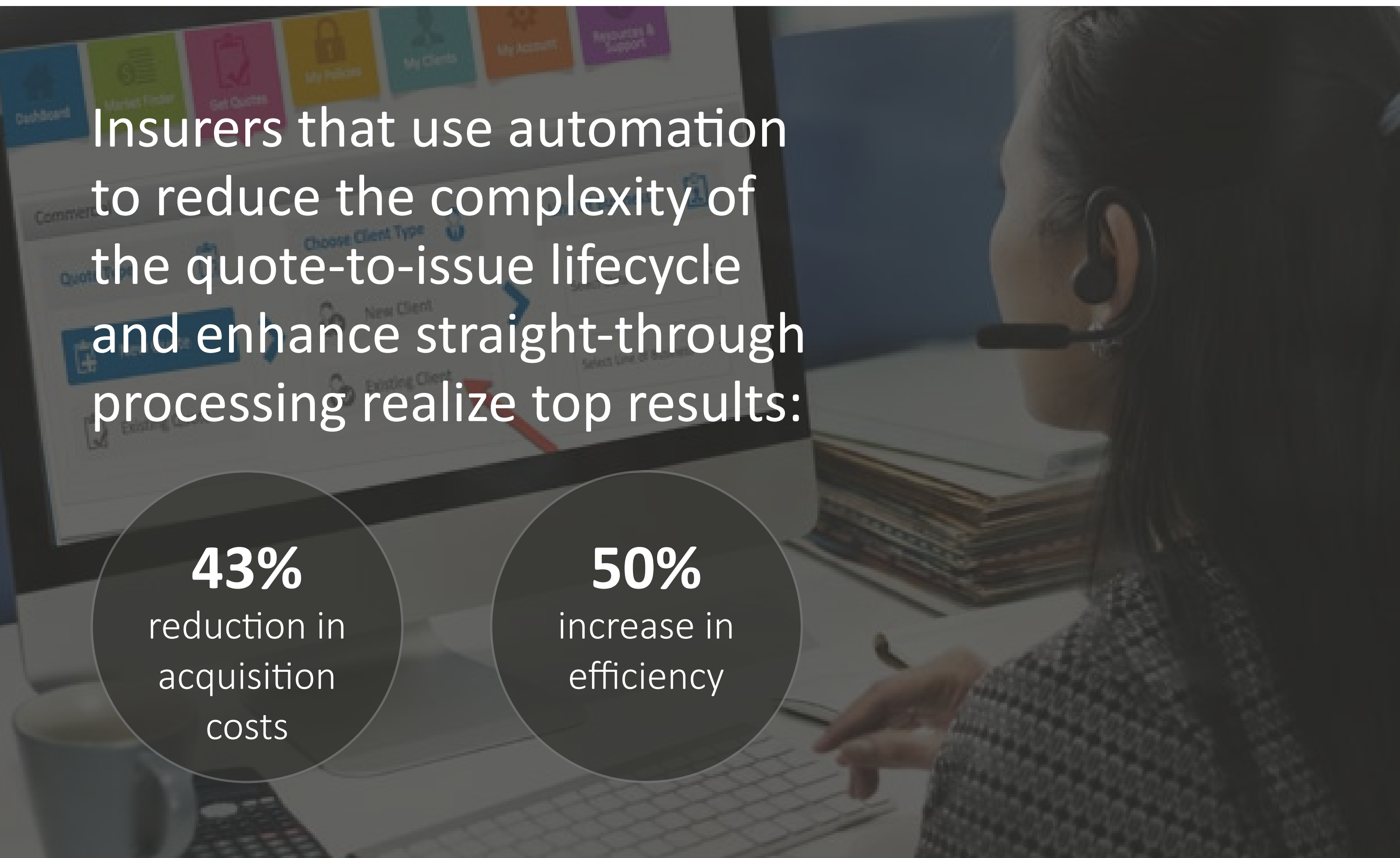
In our experience helping leading insurers adapt to the changing environment, the best outcomes are achieved when digital capabilities are used to improve performance across the following objectives:

- **Improve customer interactions:** If the InsurTech disruptors are proving anything, it's that customers want to interact through a variety of channels. Fast, efficient online purchasing is essential, but customers aren't willing to abandon agents yet, especially when they have a question or concern. However, they do expect those agents to be equipped with the digital competence they need to expeditiously quote, bind and issue coverage or answer questions without requiring customers to provide large amounts of information, particularly if they have already provided the same data through another channel.

- **Break down product silos:** Most InsurTech disruptors and incumbents alike are stymied when it comes to meeting consumer's needs for bundled solutions. Disruptors, in most cases, lack product selection, but incumbents are unable to quote, bind and issue multiple products without requiring separate applications or sending consumers to different webpages, websites or agents for each product they'd like to purchase. Incumbents, however, can use top-tier digital capabilities to unite their siloed products and create a seamless customer experience, allowing consumers to bundle coverage in a single transaction without interacting with multiple agents or filling out separate applications. They also capitalize on the benefits of automation, increasing efficiency by as much as 50%.[21]

- **Reduce Costs:** According to McKinsey, high DQ scorers use automation to reduce the complexity of the quote-to-issue lifecycle and enhance straight-through processing, realizing 50% lower costs per gross premiums written (GPW) than lower quartile players.[22] Bain echoes similar sentiments, indicating that digitization can reduce the cost of acquiring customers by 39% to 43%.[23] Consumer satisfaction with the low cost of the policies they purchase from InsurTech disruptors has for the most part been positive, demonstrating how important premium pricing is to customer acquisition.

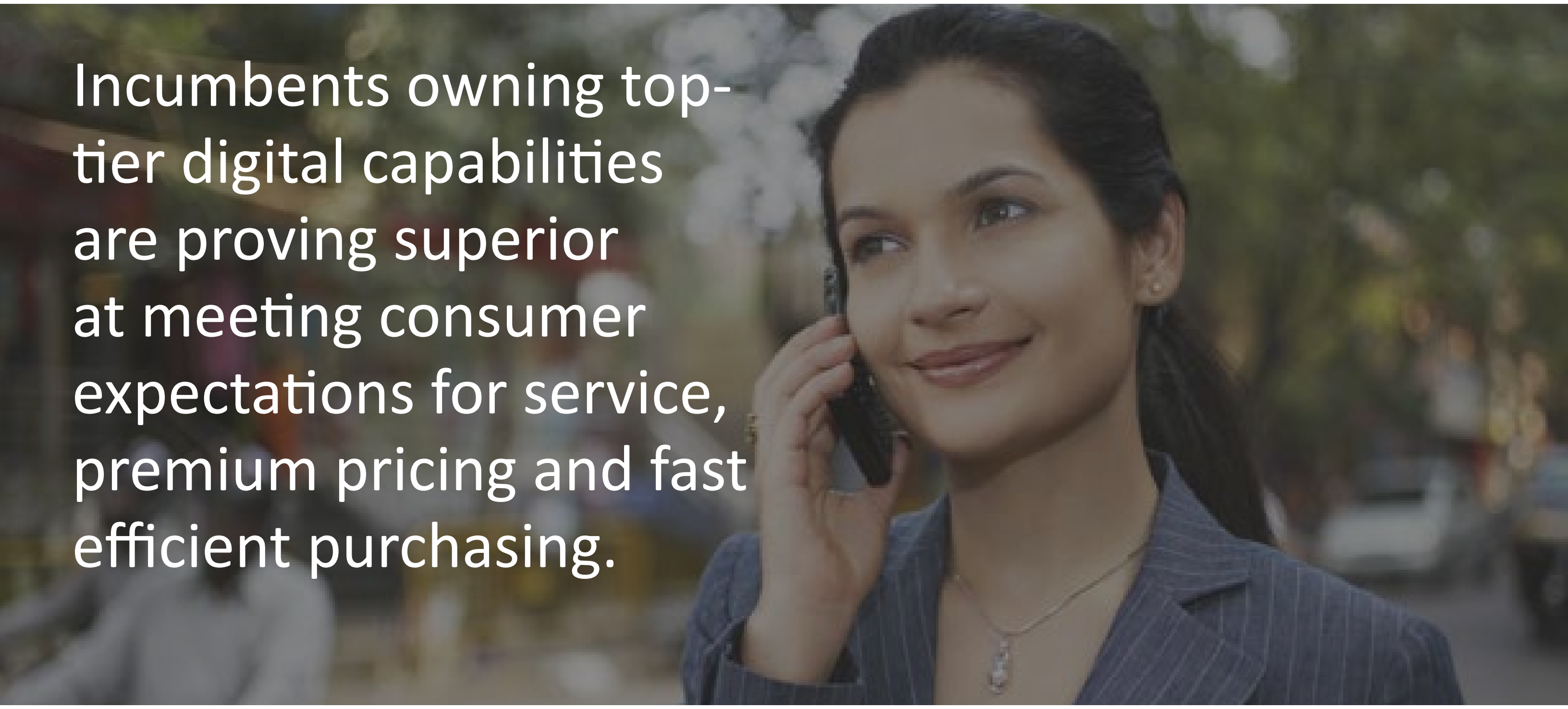
  Established insurers who use digital to reduce distribution costs and pass these savings on to the consumer are well-positioned to win against disruptors as they power agents to respond efficiently to customer needs. Additional benefits are geared toward satisfaction. Automated smart applications reduce the amount of time consumers



and agents spend in data entry by gathering much of the necessary information from verified third-party sources, allowing for a faster, more efficient purchasing experience.

As InsurTech disruptors and traditional insurers battle it out for market and wallet share within the changing P&C environment, it's becoming clear that disruptors don't have the advantage they once assumed. Incumbents owning top-tier digital capabilities are proving superior at meeting consumer expectations for service, premium pricing and fast efficient purchasing. They understand the regulatory environment and can provide both the digital experience and the human touch that customers prefer. As insurers continue to ramp up their digital capabilities, the gap between incumbents and disruptors diminishes and traditional insurers have a significant opportunity to pull ahead.

To learn more about the fate of InsurTech disruptors and how InsurTech innovators are helping insurers to gain ground in the current market, download our infographic: Staying Ahead of the Game.



[1] "Insurance's New Normal: Driving Innovation with InsurTech." PwC Global InsurTech Report 2017. PwC, 2017. Web. [2]Heidi Lawson. "How Insurtechs Maximize Profits and Competitive Advantage." Law360. LexisNexis, Jun 20, 2017. Web. [3] Heidi Lawson. "How Insurtechs Maximize Profits and Competitive Advantage." Law360. LexisNexis, Jun 20, 2017. Web. [4] Joseph Dobrian. "2016 U.S. Insurance Shopping Study: Insurers lean on Online Presence to Grow Premiums." J.D. Power, May 1, 2016. Web. [5] Henrik Maujoks, Camille Goossens, Gunther Schwarz, Harshveer Singh, Andrew Schwedel and David Whelan. "Customer Behavior and Loyalty in Insurance: Global Edition 2016, Sept. 14, 2016. Web. [6] Robert Philips. "Exploring the InsurTech-Consumer Disconnect." Vertafore, Mar. 21, 2017. Web. [7]Robert Philips. "Exploring the InsurTech-Consumer Disconnect." Vertafore, Mar. 21, 2017. Web. [8] Robert Philips. "Exploring the InsurTech-Consumer Disconnect." Vertafore, Mar. 21, 2017. Web. [9] Robert Philips. "Exploring the InsurTech-Consumer Disconnect." Vertafore, Mar. 21, 2017. Web. [10] Robert Philips. "Exploring the InsurTech-Consumer Disconnect." Vertafore, Mar. 21, 2017. Web. [11] "Homeowners Insurance: Understanding Attitudes and Shopping Practices." Insurance Information Institute, February 2017. Web. [12]"Lemonade." Customer Reviews. Supermoney, June 13, 2017. Web. [13]"Lemonade." Customer Reviews. Supermoney, June 29, 2017. Web. [14] NerdWallet. "Metromile Insurance Review 2017: Complaints, Ratings and Coverage." *NerdWallet/blog/insurerreviews*. NerdWallet, 16 Mar. 2017. Web. [15]"Metromile, Inc." *BBB Business Profile | Metromile, Inc. | Reviews and Complaints*. Better Business Bureau, May 30, 2017. Web. [16]"Lemonade." Customer Reviews. Supermoney, June 26, 2017. Web. [17]"Lemonade." Customer Reviews. Supermoney, June 26, 2017. Web. [18]"Metromile Reviews - What Our Customers Are Saying." *Metromile/customerreviews*. Metromile, 2017. Web. [19]"Metromile, Inc." *BBB Business Profile | Metromile, Inc. | Reviews and Complaints*. Better Business Bureau, May 30, 2017. Web. [20]Credio. "Progressive Car Insurance." *Progressive Car Insurance | Quotes, Reviews & Ratings*. Credio, 2017. Web. [21] Global Insurance CFO Survey Providing Insight to Support Growth. EY, 2017. Web. [22] Bjorn Munstermann, Georg Paulus, Ulrike Vogelgesang. "From Transparency to Insights: McKinsey's Insurance Cost Benchmarking 2016." McKinsey & Company, June 2016. Web. [23] Henrik Naujoks, Florian Mueller and Nikos Kotalakidis. "Digitalization in Insurance: The Multibillion Dollar Opportunity." Bain & Company, Mar. 20, 2017. Web