

Voice of the small-business
insurance consumer

Are buyers ready to take the
direct sales route?



Introduction: What should small-business carriers be thinking about in terms of direct sales?

Direct sales of auto insurance to consumers has been a prime distribution platform for a number of years, keeping the heat on agents and brokers to demonstrate their added value if they want to retain or expand their market share. However, a day of reckoning for intermediaries on small-commercial business might similarly be looming sooner rather than later, as carriers begin to seriously explore the potential for reaching buyers directly via a one-stop, Web- or mobile-based transaction.

It would be understandable if many are skeptical about the potential for disintermediation in small-business lines, if only because it simply hasn't yet been attempted to any great degree here in the United States. The conventional wisdom is that such consumers probably don't have time to shop for coverage on their own – and even if they do, their lack of an insurance background, the complexity of coverage, as well as their service requirements would likely keep them solidly entrenched in the agency camp for the foreseeable future.

However, our hypothesis is that given the growing proclivity of individuals to live their personal and business lives online, many buyers of small-business insurance might indeed be ready, willing and able to conclude a transaction on their own, whether through their desktop, laptop, tablet or perhaps even their smartphone.

We tested that hypothesis in two primary research projects conducted by Deloitte's Center for Financial Services – first in a pair of focus groups over the summer of 2012, and then following-up with a much broader online survey during the winter of 2013.¹ Deloitte found that as much as half of the small-business insurance market might be quite willing to buy direct from a carrier over the Internet, without having an agent or broker to shop for them or advise them, given the proper circumstances.



But what are the “proper” circumstances that might convince a small-business prospect to take the leap and discard their intermediary to buy one or more of their insurance policies over the Internet? What incentives, reassurances and educational material might have to be provided to create a comfort zone for online shoppers? And what marketing and operational conundrums might carriers encounter if they choose to go direct to consumers? Could carriers still face many of the same challenges even if they decide not to go the direct sales route?

Deloitte launched its research initiatives and tapped the experience of in-house subject matter specialists in part to scope the potential market for direct small-business insurance sales. In addition, we looked at what it might take for carriers to do business directly with increasingly tech-savvy and Web-centric consumers, concluding that such efforts are likely to require a group of enhanced capabilities across the insurance company value chain. And we suggest that many such upgrades might be required regardless of whether a carrier opts to explore direct distribution or to stick with its existing agency channel.

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¹ Please see page 15 for details on our research methodology

Deloitte's "Voice of the Small-Business Consumer" online survey of 751 respondents in March 2013 – representing a wide array of industry groups as well as different company sizes (both in terms of the number of employees and annual revenue) – asked a variety of questions about the small-business customer's insurance purchase experiences and expectations, including:

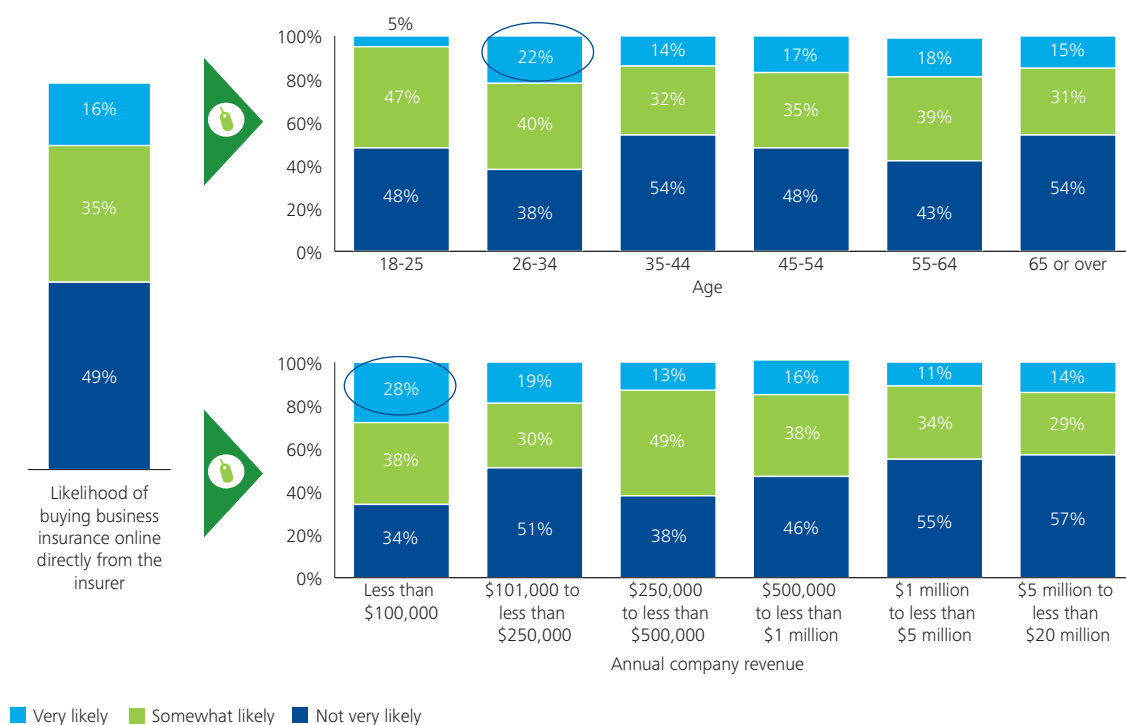
- Whether the respondents had ever shopped for commercial insurance online.
- If they would be willing to buy such coverage direct from a carrier over the Web without a personal agent to guide them.
- What factors might cause them to hesitate or shy away from buying direct online.

- Which, if any, conditions might convince them to conclude a transaction over the Web, with or without the assistance of someone in a licensed service center.

The survey found that while the direct purchase of small-commercial coverage might not be attractive for all small-business insurance buyers – anymore than it is for those buying personal lines today – about one in five are actually eager to take the plunge, with another third quite open to the notion (see Exhibit 1). The question is how an insurer might reach such prospects, as well as how to effectively sell to and service them once a carrier makes a direct connection.

Exhibit 1. How open are small-business respondents to purchasing direct online?

Likelihood of buying one or more business insurance policies over the Web, direct from an insurer



Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

Survey findings: Who is open to buying direct over the Internet?

While relatively few opportunities exist today – outside of commercial auto and professional liability – for someone looking to complete a purchase of small-business insurance coverage on their own from a carrier online, Deloitte’s survey found that many consumers have already begun moving in this direction.

Among buyers of property, general liability, business-owners policies and professional liability coverage, nearly one-in-five surveyed had initiated their purchase online, either via their insurance company’s website or through one of the aggregator sites that help shoppers solicit and compare quotes from multiple sources. Small-businesses have also gone to the Web to shop for other coverages, including workers’ compensation, albeit in smaller numbers.

It should be encouraging for those considering direct sales to find such a significant segment of respondents testing the online shopping experience – even though, as noted earlier, direct transaction capabilities offered by commercial insurers are limited.

To confirm this limited capacity, we shopped for coverage on the websites of 14 leading small-business insurance carriers, as well as six aggregator sites, and found only one from each category allowing consumers to enter their risk information, receive a quote, and conclude a transaction in a single sitting online. The other insurance company sites refer prospects to an agent in their ZIP code, offer to have an agent call them with a quote, or provide an opportunity to speak with someone at a call center. The other aggregators either refer shoppers to relevant carrier websites or arrange to have an agent contact them to complete the process.

However, the fact that so many respondents are already going to the Web to proactively shop for small-business insurance on their own, rather than passively waiting for an agent to shop for them, indicates that a segment of the market is likely primed to take the next step and complete actual transactions on carrier and aggregator websites, if given the chance.

Indeed, the survey results suggest that there may be an early-mover advantage to be had here, with carriers that

build this capability positioned to connect with those already indicating an openness and desire to purchase at least one of their small-business coverages directly from an insurer over the Web.

What do you think about the possibility of buying your small-business coverage direct from an insurer, without an agent or broker to shop for you or advise you?

“If you can easily compare coverage and prices online, why not?”

“I would want to be sure the insurer has the resources to hire qualified [customer service representatives] to provide the help we would need without our brokers.”

“Insurers could offer concierge service to its best customers, especially those with multiple policies, in return for handling all of my business.”

“If the insurer gives you a one-on-one internal agent within their company – someone knowledgeable about your business and dedicated to your account – it might make a difference.”

“There are not enough brokers to handle all of these small businesses economically.”

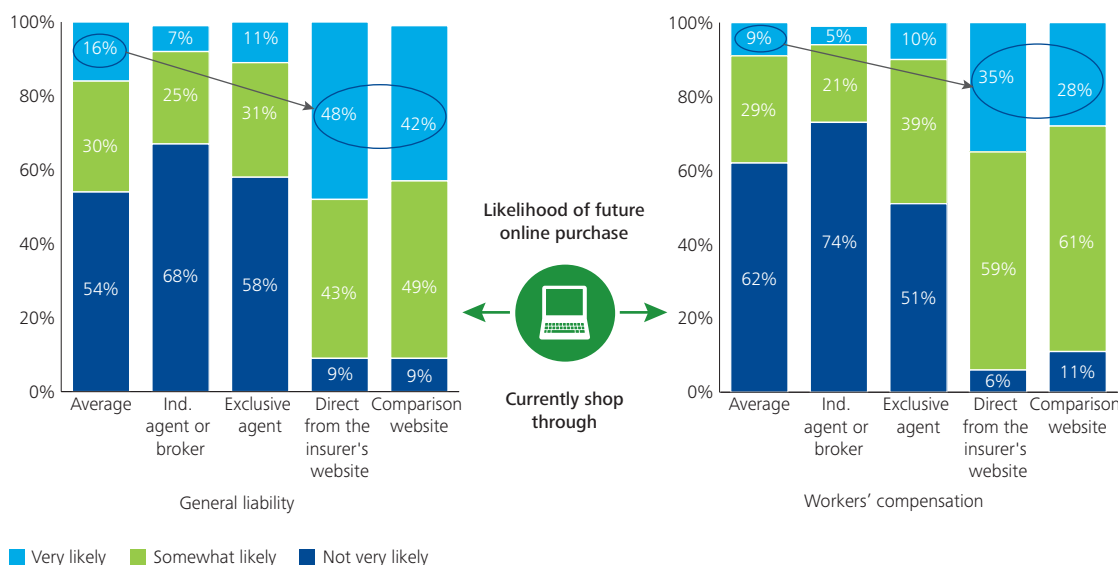
“With the Web, there is so much information at your disposal.”

Source: Small-business insurance focus groups, Deloitte Center for Financial Services, June 2012

Thus far, despite the limited transaction capabilities available, about three out of four respondents who have initiated a purchase online are satisfied with their Web shopping experience, both on the price they eventually received as well as coverage terms and conditions – with a slightly less enthusiastic response among online shoppers for workers’ comp and commercial auto.

Exhibit 2. Current online shoppers most likely to stick with the web

Likelihood of buying one or more business insurance policies online, directly from an insurer



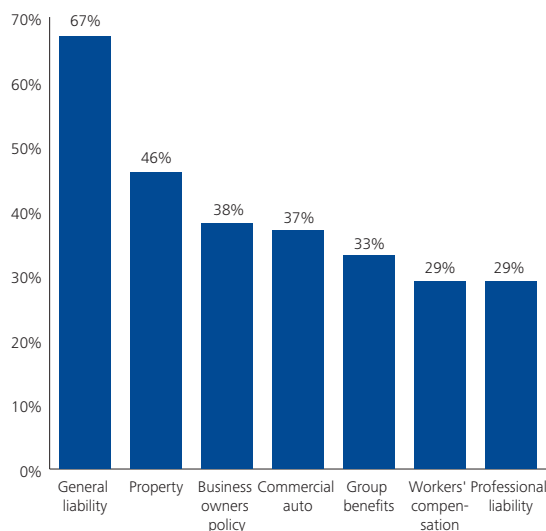
Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

With generally high satisfaction rates, it's not surprising that those who've tried shopping on the Internet for commercial insurance were far more likely to say they would conduct business that way in the future (see Exhibit 2).

However, beyond the 16 percent of all respondents who said they would be very likely to buy one or more of their coverages direct from a carrier online – which is around the same percentage of those who have already shopped for insurance on their own, electronically – an additional 35 percent of respondents said they would be at least somewhat likely to buy direct over the Web.

General liability appears to be the most likely candidate to draw direct-to-small-business purchases, as two-thirds of those who are very likely, and half of those who are somewhat likely to buy online made that coverage their top Web target – followed by property (chosen by 46- and 38 percent, respectively) as the clear second choice (see Exhibit 3). Less popular with online buyers was workers' compensation (attractive to 29 percent of those very likely, and 22 percent of those somewhat likely to buy over the Internet).

Exhibit 3. Likeliest direct buyers state their preferences by line



Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

Why the hesitance with this particular line? The idea of buying workers' comp without an agent might give some buyers pause because the coverage tends to be the most costly part of their commercial insurance portfolio, and is generally shopped by agents annually. The survey found that buyers also tend to highly value loss control and risk management services arranged by their agents, which can have a big impact in lowering workers' comp expenses and premiums. Carriers going direct in this line should therefore consider the potential for offering such mitigation services, beyond trying to compete on price alone.

What role do demographics play?

Going into the survey, Deloitte anticipated a generation gap, based on our "Voice of the Personal Lines Consumer" research,² showing younger respondents generally more open to direct online purchasing than their older counterparts. But while those between 26- and 34-years old were indeed the most likely to say they would buy small-business insurance online (22 percent are very likely, and 40 percent are somewhat likely), the difference with older respondents turned out not to be all that dramatic. Eighteen percent of those between 55- and 64-years-old said they were very likely to shop online, along with 15 percent of those 65 and older.

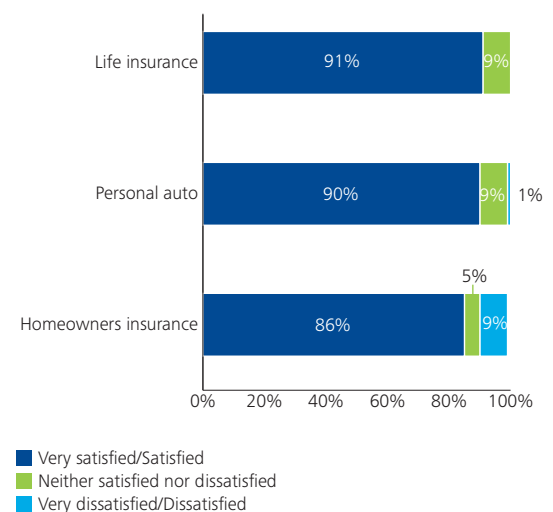
Size of business was a much more distinguishing factor, however. Smaller businesses appear more interested in going online for commercial insurance, with 28 percent of those generating under \$100,000 in annual revenue describing themselves as very likely to buy direct, along with 18 percent of those with revenue between \$100,001 and \$250,000. On the other side of the spectrum, only about one in 10 of those handling insurance for companies with between \$1 million and \$5 million in revenue said they were very likely to buy online.

This data suggests there might be a business complexity factor at play. Higher-revenue respondents are likely to have a more complicated business to cover, as well as much more to lose if a mistake in coverage is made, thus arguing for the involvement of an agent or broker. This could also indicate that agents perhaps pay closer attention to, and provide more value-added services for higher-revenue accounts, making them less likely to be disintermediated with a direct transaction option.

Another interesting finding is that roughly half of the 21 percent of respondents who had purchased individual auto, homeowners and/or life insurance directly from a carrier online also at least had shopped for commercial insurance on the Web as well. What's more, nine out of 10 of these direct personal lines buyers were satisfied with their individual purchase experience (see Exhibit 4).

Exhibit 4. Respondents buying personal lines direct are highly satisfied

Purchase experience of buying personal lines insurance online

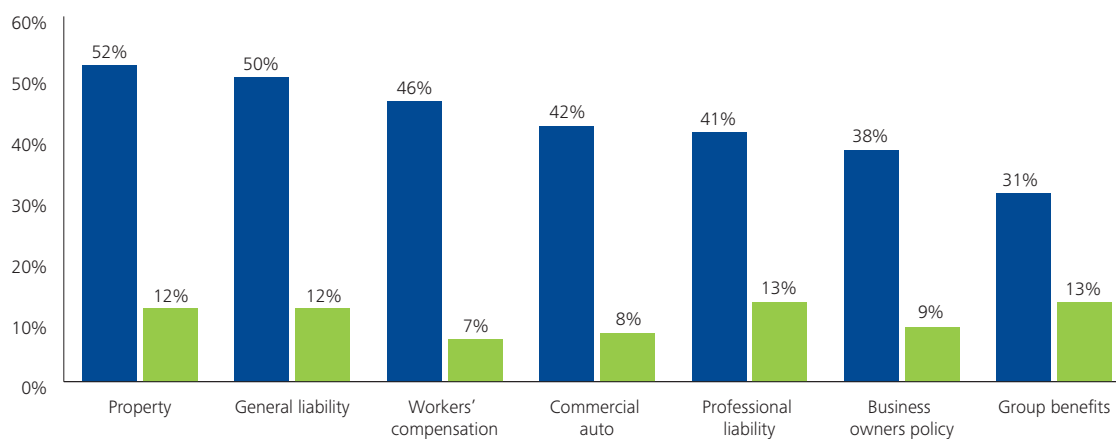


Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

² "Voice of the Personal Lines Insurance Consumer: Buyers in the Driver's Seat." Deloitte Development LLC, 2011.

Exhibit 5. Respondents who have bought personal insurance online are more likely to also buy commercial insurance online

Likelihood for buying commercial lines insurance online



■ Likelihood of buying commercial lines online among those who have bought personal lines online
 ■ Likelihood of buying commercial lines online among those who have not bought personal lines online

Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

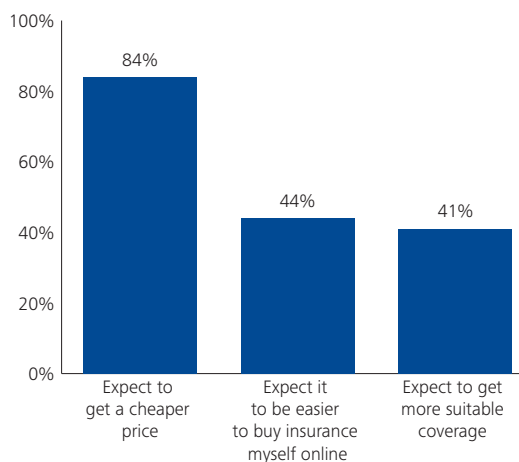
Once again, the data indicates that if consumers go through the direct online insurance transaction process – even if it is to meet their personal insurance needs – they have generally found the experience to be satisfactory, which might explain why they would therefore be far more likely to buy their small-business coverage direct from carriers over the Internet as well (see Exhibit 5). The question becomes how to incentivize prospects to try the direct-purchase option.

Playing out the 'Price is Right' scenario

Price can often be the prime motivator in insurance purchase decisions, and small-business buyers are no exception (see Exhibit 6). When asked why they would be so open to buying online, 84 percent of those who were very likely to do their insurance business over the Web said it was because they expected to get a cheaper price – twice as many as those who said they thought it would be easier to buy online themselves, or to get more suitable coverage.

Exhibit 6. If the price is right!

Reasons for openness to buying online



Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

Of those who said they were somewhat likely to buy online, half said they would do so if they received a discount. While about the same percentage cited the option to speak with an agent or someone at a call center, as well as the ability to compare quotes as attractive features, getting a discount was the top reason picked among one-in-three respondents in this group, compared to one-in-four for a personal consultation, and only one-in-10 for comparison quotes.

Deloitte's survey also found that while respondents may expect a price discount for cutting out the middleman, that expectation is not necessarily all that high (see Exhibit 7). Indeed, of those very likely to buy online, 23 percent only expect a discount of 10 percent or less, while 36 percent anticipate savings of between 11- and 15 percent. In Deloitte's focus group research, attendees also generally

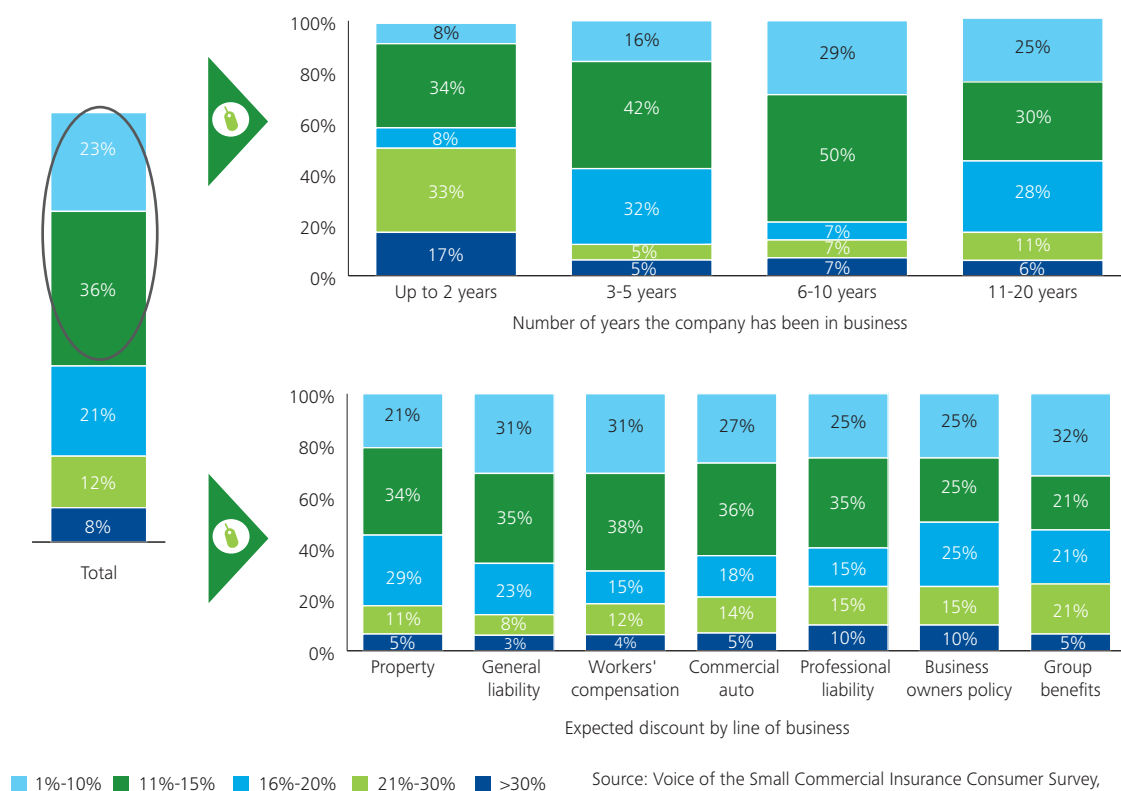
said they expected a cost-savings of no more than 15 percent, with many citing this as the level they thought their agents earned in commissions.

We found the same trend among the "fence-sitters" – those who said they were somewhat likely to buy direct online and who cited discounts as a prime motivator. Thirty percent of this segment expects a savings of 10 percent or less. (However, older buyers in this category put much more importance on price discounts – 73 percent among those ages 55-64 – compared to younger buyers, who placed a higher value on being offered additional services, such as customized loss control and risk management advice.)

In any case, even a relatively modest savings of 10 percent on their premiums could be significant for many small-businesses, which often operate on very tight margins.

Exhibit 7. Respondent expectations fairly modest on discounts

Percentage of premium reduction expected from direct online purchase among those very likely to buy online



Policy language hurdle may not be as formidable as first thought

One key finding in the survey is that the complexity of policy language might not discourage most buyers from purchasing small-business coverage directly from carriers online after all. In our earlier focus groups, this was a major sticking point for many of the participants – few of whom said they even bothered to read their business insurance policies because they could not understand the documents without expert help. Even the handful of those who were diligent about regularly checking their coverage complained they had a hard time making heads or tails of their policies.

“It’s written by lawyers for lawyers,” said one focus group participant. “Why can’t they communicate in plain English?” complained another, who said the language in his policies was so incomprehensible that they “might as well be written in Greek.” He added that he hoped his coverage wouldn’t end up being a Trojan horse, with unpleasant surprises come claims time. Indeed, a number of the focus group attendees said they feared being left exposed without an agent to reassure them about their coverage (and to sue if a gap was uncovered during a claim later on).

However, in Deloitte’s much broader online survey, most respondents did not raise this as a significant hurdle. Just one-in-four said insurance policies were difficult to understand, compared with 35 percent who rated them as easy to comprehend. The rest were neutral on the matter.

Even among those surveyed who don’t regularly read their policies, only 27 percent said it was because they couldn’t understand the language. The main reason respondents cited was lack of time (46 percent), along with 40 percent who said they didn’t need to read them because they had summary coverage statements provided by the insurer.

In addition, even among the “naysayers” – those surveyed who indicated they wouldn’t be likely to buy coverage directly online – 82 percent did not include an inability to understand policy language when asked to rank the top-three reasons why they would take a pass on this option.



Are you able to understand your policy language, and would that factor discourage you from buying your small-business insurance direct over the Web?

“Insurance policies are written by lawyers for lawyers.”

“[Insurers] are looking for a way out [of paying claims], so they leave lots of escape hatches.”

“Why can’t they communicate in plain English?”

“The policies are so incomprehensible they might as well be written in Greek.”

“Without an agent, I wouldn’t have anyone to sue if I find out there’s a gap in my coverage because I didn’t understand the policy.”



Source: Small-business insurance focus groups, Deloitte Center for Financial Services, June 2012

One of the reasons Deloitte decided to do a wider quantitative survey was to test the conclusions drawn from the earlier focus group research – which, while useful in identifying potential trends, often cannot supply definitive takeaways because the number of participants (in this case, 20) is relatively small. But as it turned out, feelings about policy language in terms of whether to buy direct was the only major discrepancy between our focus group and survey research participants.

How about the naysayers?

That brings us to a discussion of the 48 percent of those surveyed who said they were not very likely to buy small-business insurance direct from a carrier on the Web, without their own agent or broker to shop for them and advise them.

Lack of trust seems to be the major hurdle by far with this segment, as 41 percent said the biggest reason they wouldn't be likely to buy online is that they don't trust an insurance company to deal with them fairly (see Exhibit 8). No other response was even close, including concerns about their ability to properly assess the financial stability of a carrier on their own (14 percent), not receiving enough individual service (12 percent), and the possibility of overlooking a potential exposure (12 percent). Few (six percent or less) cited lack of time, concern about finding the best price, or having an agent to advocate for them in a claims dispute.

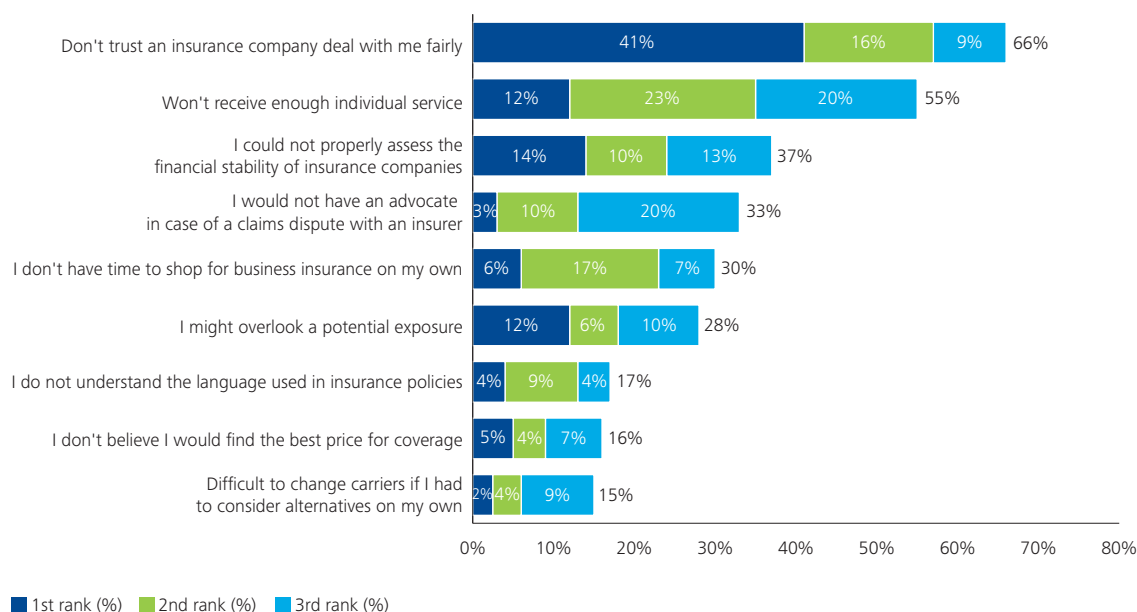
Whether this lack of trust is limited to the possibility of making a direct purchase online from an insurer, or reflective of a more general distrust of insurance companies identified in Deloitte's earlier surveys of personal lines and life insurance consumers, is not clear.

However, the positive takeaway here for those interested in selling direct to consumers is that while trust may not be easy for an insurer to develop, this skeptical segment appears to have virtually no other major hesitations holding them back from taking the plunge and attempting a direct purchase. One way to rise to this challenge might be for carriers to make the online shopping and purchase process as simple, fast, transparent, and intuitive as possible.

In any case, carriers intrigued by, or already committed to the idea of selling small-business insurance direct to consumers should take a number of marketing and operational factors into account when performing their due diligence.

Exhibit 8. Trust issues keep respondents from buying direct

Ranking of reasons for those not very likely to buy online, directly from an insurer



Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

Reality check: What operational factors should carriers consider if they are interested in selling direct?

The direct sale of commercial insurance to small-businesses – without a personal agent or broker to help buyers shop or to advise them – is no longer just a theoretical concept. Opportunities to buy such coverage direct over the Web may be limited today, but that is likely to change as more carriers experiment with the concept.

Since a change in the distribution dynamic is already underway, the question facing carriers is how they might adapt – whether they intend to sell direct or merely seek to brace themselves against those who come after their market share via a direct channel.

One leading concern is ease of doing business, with certain core technological capabilities likely to be table stakes for direct sellers. Asking buyers to shop for insurance, solicit quotes, and complete a transaction on their own calls for an intuitive, straight-through policy administration platform. Such systems are often fueled by third-party external data, synthetic data³ as well as advanced analytics – including predictive modeling for lead generation, customer segmentation, underwriting and pricing.

From a service perspective, agency carriers tend to think in terms of agent expectations – get the producer a quote and wait for hours, or even days, to learn whether a sale might go forward after the intermediary confers with the client and perhaps shops the risk around. But when selling directly to consumers, while some may be willing to fill out an application online and wait to receive a quote within a reasonable period of time, many prospects might expect turnaround time to be nearly instantaneous – as it often is with personal lines insurance purchased on the Internet.

Direct writers should therefore at least be prepared to transact business in real-time. That means providing a quote, collecting credit card information, issuing the policy, and closing the sale – all while the prospect is engaged on the insurer's website. It is also important to augment the insurer's web capability with an effective call center to support the customer and allow them to engage in conversations they might otherwise have with an agent.

The question facing carriers is how they might adapt, whether they intend to sell direct, or merely seek to brace themselves against those who come after their market share via a direct channel.

But while processing efficiency is important for would-be direct sellers, in some ways tech concerns are relatively straightforward to address because they involve foreseeable, manageable components. A number of other pieces in the direct-writing puzzle are less predictable and potentially more problematic to resolve. This means that insurers considering direct sales should look beyond a “build it and they will come” mentality when setting up their direct sales infrastructure, as they may face bigger, more fundamental challenges in “softer” areas.

Marketing challenges

To make direct sales of small-business insurance a viable enterprise, carriers will need to identify and target the appropriate prospects, and then convince them to purchase coverage without a personal agent or broker to hold their hands throughout the process. A key question to consider is how a direct writer can quickly create awareness of the direct purchase option, and do so effectively enough to convince prospects to give the direct channel a shot.

How might a carrier get the attention of prospects, gain traction, and build momentum in this new channel without agents or brokers to make their case?

- Mass advertising – an option leveraged by direct writers in personal lines – might be one way to go. Carriers can advertise not only to create awareness about the possibility of buying small-business insurance directly from a carrier online, but to build brand awareness about the individual company offering a direct purchase as well.

³ “Synthetic data” is any data not obtained by direct measurement, but instead is an algorithmic creation of new meaningful predictive variables using a company's internal data and data provided by an external source

- Carriers could also “go viral,” spreading the word through social media initiatives and Web-search sponsorships. This is a logical choice, given that those already doing online business transactions for other types of purchases are likely to be more open to prompts involving the same channel when it comes to buying small-business insurance.
- A third possibility might be affinity marketing through a large entity that interacts often with small-business buyers. Investing in a wholesale channel relationship with a group that naturally intersects with a direct insurer’s target prospects could involve a large supplier of retail or wholesale products, or perhaps an association endorsement.
- Another option might be bundling the direct sale of commercial insurance with the delivery of other small-business needs, such as accounting and tax services, alarm systems, office supplies, human resources and group benefit services, health insurance, waste disposal and the like.

- Given that respondents who have bought individual auto, homeowners and/or life coverages direct from carriers appear to be more open to going the same route for small-business lines, perhaps multi-line carriers might leverage their personal lines relationships by offering those who own or manage a small business the opportunity to also buy their commercial policies direct.

Another factor in trying to solve the marketing equation involves determining which incentives might be employed to persuade a prospect to drop their agent and buy direct. As seen in Deloitte’s survey results, price will likely be a prime motivator, as it often is with traditional, agency-driven insurance purchases. But a lower cost alone should not necessarily be the only competitive advantage direct writers offer.

Accessibility and convenience could also be important selling points, in that agents are generally not available to sell coverage 24/7. Small-business owners are often hands-on with many aspects of their operation, and therefore don’t have much time to spare for insurance issues during ‘normal’ business hours. Some prospects might not want to take up ‘prime’ time dealing with an insurance intermediary, especially if it’s relatively easy to shop for and buy coverage online after hours, at their leisure.

Meanwhile, a number of participants in Deloitte’s focus groups complained about the lack of personalized service from their agents. Given the relatively modest premium generated by the average small-business account, it is often not economically viable for an agent to provide much in the way of value-added support beyond shopping for the best price or issuing certificates of insurance on demand.

Therefore, additional service capabilities could conceivably offer another potential competitive edge for direct writers. Providing self-service options might be very helpful, such as the ability to store policy documents online so they can be easily retrieved electronically, downloading insurance cards or certificates of insurance as needed via a tablet or smartphone app, or processing endorsements when required over the Web.



In addition, “concierge” service (such as providing a dedicated account handler) or perhaps offering customized information on loss control, safety or other business management issues – tailored specifically to the buyer’s particular industry – might be another important attraction to direct buyers.

What if channel conflicts arise?

Once these marketing and service issues are resolved, carriers going direct may also need to come to grips with the potential for channel conflicts. An insurer’s existing agency force might resent seeing their carrier effectively competing with them for clients, especially if some customers end up dropping their agents and buying directly from the insurance company online – while getting a cheaper price for the same coverage without an intermediary involved. (As a consequence, some business sold through the new direct online channel might represent cannibalization, rather than organic growth.)

One concern is that some independent agents might consider moving their books of business to another carrier they feel is more committed to their channel. Therefore, as part of the due-diligence process, those contemplating selling directly to small-businesses should assess the potential for a negative reaction by their agency force and how to possibly mitigate the damage.

Those looking to add a direct sales option while maintaining their existing agency relationships might try to ease any resulting friction by treating current policyholders who choose to buy direct as sourced through their former agency – at least for a transition period.

In addition, carriers adding a direct sales capability could launch such an initiative under an entirely new brand that targets another market segment, or perhaps offers different products than those provided through the agency company.

However, such options to resolve potential channel conflicts should be weighed against the advantage of marketing a new direct sales option under a carrier’s established brand, which provides name recognition to the emerging channel that could potentially make the difference among those shopping online on their own.

As part of the due-diligence process, those thinking of selling direct should assess the potential for a negative reaction by their agency force and how to possibly mitigate the damage.

Some prospects might simply be more comfortable buying direct from a carrier whose name they recognize, particularly if that brand has a good reputation. Thus, if a carrier does not co-brand with its direct sales delivery system, that might help resolve channel conflicts, but make for a harder sell among those prospects leery of doing business with an insurer of which they have not heard.

Regardless of how an agency carrier chooses to go direct, channel conflict should not be taken lightly. Indeed, it is likely to be an ongoing balancing act. Insurers should therefore consider whether they might lose more business than they are likely to gain if they end up alienating their agency force.

Of course, those starting a direct-selling insurance company from scratch don’t have these legacy channel conflict issues to deal with, potentially giving such newcomers a competitive advantage to partially offset their lack of name recognition.

Regulatory and liability considerations

Last but not least, carriers looking to sell direct to small-businesses face regulatory compliance and liability concerns.

To address regulatory issues, a direct writer must be licensed to operate as an underwriter in each target state. In addition, those client-facing individuals working in a direct writer’s call center should also be licensed agents.

Meanwhile, selling direct brings with it potential errors and omissions (E&O) exposure. Without an independent agent or broker to hold responsible for any coverage gaps that arise, disgruntled policyholders might instead pursue the insurance entity itself for a redress of their grievances. Carriers therefore should look into acquiring E&O insurance to cover their customer-facing staff.

One model that might help direct writers avoid E&O exposure is to offer a full-package of coverage options to applicants, with an opt-out provision for the prospect to check off if they want lesser or cheaper insurance.

For example, on property policies, flood insurance could be automatically included with an opt-out provided, as a high percentage of businesses found themselves without coverage for such losses after Superstorm Sandy hit in October 2012.

Broader lessons learned: What about those not looking to sell direct?

Selling small-business insurance direct to consumers might not be for every carrier. Some may shy away from the risk of alienating their current intermediaries, fearing they could lose more business than they will gain by going direct. Others may simply determine that this is not the way they want to do business.

However, those that decide not to sell direct, for whatever reason, should be aware that maintaining the status quo when it comes to distribution could pose risks as well.

Just as insurers often target certain distinct customer segments while passing on others, there are segments of consumers who base buying decisions on their preferred purchasing method. Therefore, carriers that decide against selling via multiple channels may risk leaving a large group of potentially lucrative prospects on the table who might want to buy insurance online without bothering with an intermediary, creating an inherent competitive disadvantage.

In any event, those carriers dead set against selling direct to consumers can still learn valuable lessons from direct writers. The reality is that even those not interested in adding a direct sales channel should still consider taking many of the same steps in terms of upgrading their marketing, sales, and service capabilities, along with adopting the technologies to support a more efficient and productive operating model. This can help insurers compete not only with newly-emerging direct writers, but also with more traditional agency distribution carriers.

Indeed, some carriers may choose to support, rather than supplement or even replace their agency channel by making it easier for prospects to apply for coverage on their websites, but then refer such leads to a nearby agent – as many are already doing now. In addition, carriers can test the waters of direct sales and mitigate any potential competitive disadvantage by gearing up to work with aggregators who offer comparison shopping on their websites.

However, the bottom line is that no matter how an insurer currently sells their products and services – either via agents or direct to consumers – those targeting the small-business market would be wise to consider improvements in their core operational and technological capabilities so they remain competitive when facing off against both traditional and emerging distribution systems.

Conclusion: Where do small-business insurers go from here?

Back in 2009, Deloitte conducted a survey of independent agents in conjunction with *National Underwriter* magazine. Nine out of 10 cited “increased comparison shopping by existing policyholders” as one of the biggest challenges they saw on the horizon, while eight of 10 were worried about “increased competition from alternative channels.” Three out of four said “carrier direct sales” was a major concern going forward, along with seven of 10 who cited the threat from “online quoting services.”⁴

It appears these concerns, expressed just four years ago, are beginning to materialize for agents and brokers in the small-business space, as well as for those carriers selling exclusively through the agency channel.

No one is suggesting that direct sales of commercial insurance will do away with the agency system anytime soon. Indeed, agents are likely to remain a force in the property and casualty insurance market – particularly among the small-business segment – for the foreseeable future.

However, Deloitte’s latest research suggests that there is a potential market for carriers looking to sell small-business coverage direct to consumers over the Internet, whether via a desktop, laptop, tablet or even a smartphone. And it’s also clear that even insurers choosing not to go this route, for whatever reason, should take potential direct-sales competitors into account – if only to protect their agency market share.

At the same time, small-business insurers of all stripes should leverage the technologies and processes direct writers will likely employ to streamline and fortify their own systems, lower expenses, improve the customer experience, and ultimately bolster their bottom lines.

While direct sales of small-business policies might not necessarily be a slam dunk for carriers, our research shows that many such consumers are apparently open

Speed bump: What should Chief Risk Officers be thinking about?

While the potential to sell small-business insurance direct to consumers should be of prime interest to line-of-business managers and many members of the C-Suite, including those overseeing distribution, marketing and technology, the chief risk officer (CRO) might also be a key player in debating whether a given agency carrier should implement such a potentially disruptive innovation.

Although some in the company might be eager to test a direct initiative to expand consumer choice and get ahead of the curve with Web-savvy buyers who increasingly do their business online, the CRO could perhaps serve as a speed bump to make sure all potential scenarios are carefully considered.

Channel conflict is a main concern, for example. Can existing agency relationships somehow be accommodated without undermining the new direct sales initiative? How much business might be lost if agents are alienated and decide to move accounts away from a carrier pushing a parallel direct sales option that competes with them? Is there a tipping point at which a carrier could conceivably lose more business from their agency channel than they might gain by going direct?

In addition, what are the regulatory and liability implications, and how should they be addressed?

If such questions are not raised by the line-of-business or marketing departments, a CRO might provide an invaluable reality check as part of the strategic planning and due-diligence process.

to the idea. Agency carriers looking to head off the loss of Web-savvy prospects should realize that if their intermediaries are primarily price-shoppers and policy peddlers, they may be vulnerable against emerging competitors who cross the final frontier and sell commercial lines to customers directly.

Indeed, carriers that assume an agent will always need to be part of the small-business insurance transaction should perhaps reconsider that value proposition. Those who ignore the potential of direct sales might risk losing a chunk of this increasingly commoditized customer segment to more innovative competitors.

⁴ “Voice of the Independent P&C Producer: Growing Your Broker and Agency Channels.” Deloitte Development LLC, 2009.

Survey methodology

The Deloitte Center for Financial Services contracted with an independent organization – Exevo – to conduct an online survey of 751 U.S.-based small-businesses. The survey was deployed from late February through late March 2013.

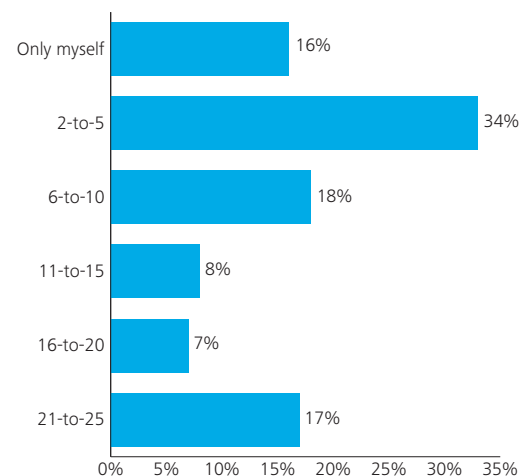
For the purposes of this survey, a “small business” was defined as one employing 25 or fewer workers, with quotas to facilitate participation among respondents representing a wide variety of industries as well as company sizes – based on both the number of employees and annual revenue. To qualify for the survey, respondents had to be either the company’s owner or a management executive – and in either case had to be responsible for commercial insurance purchasing decisions.

The information obtained during the survey was taken “as is” and was not validated or confirmed by Deloitte.

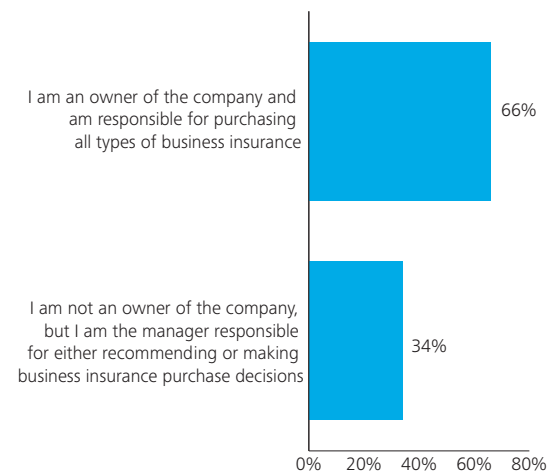
The survey was designed following research conducted over the summer of 2012 in a pair of focus groups with 10 participants each, facilitated on Deloitte’s behalf by Andrews Research Associates. The attendees were recruited so as to represent a diverse set of industries, but all were responsible for insurance purchasing decisions at their respective companies.

Who was surveyed?

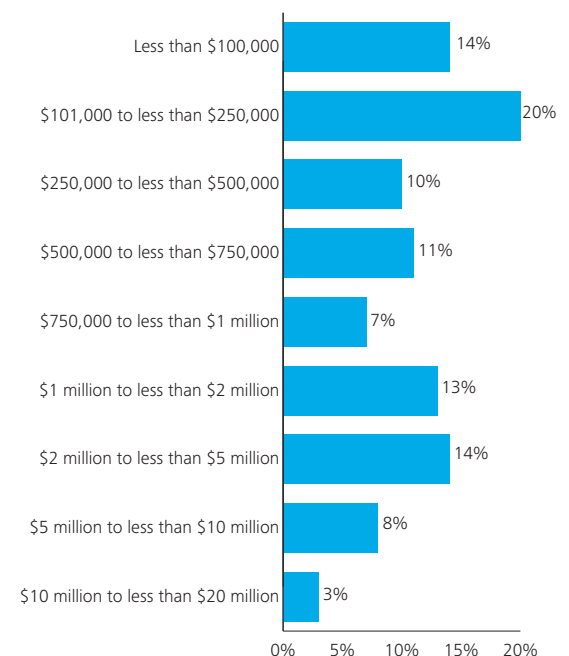
Number of employees in your business



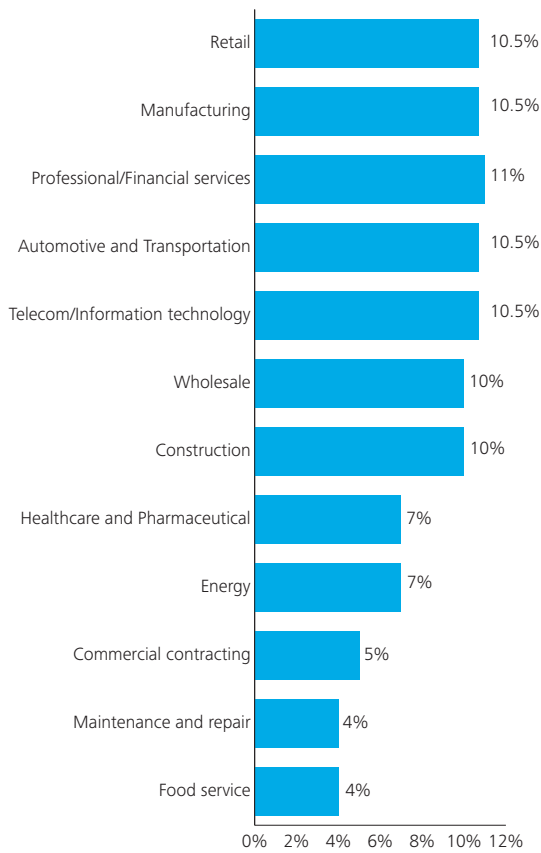
Role in buying business insurance



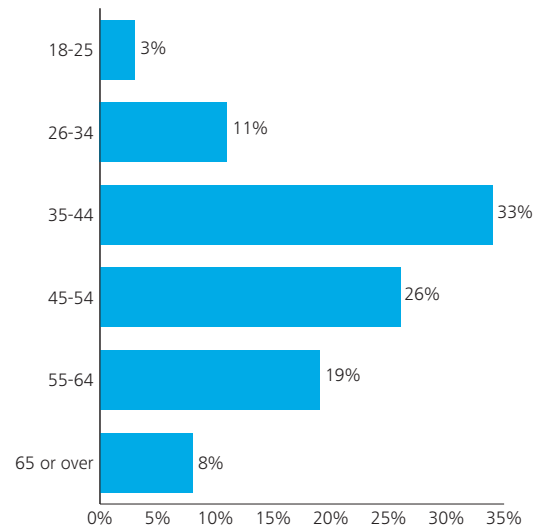
Annual revenue



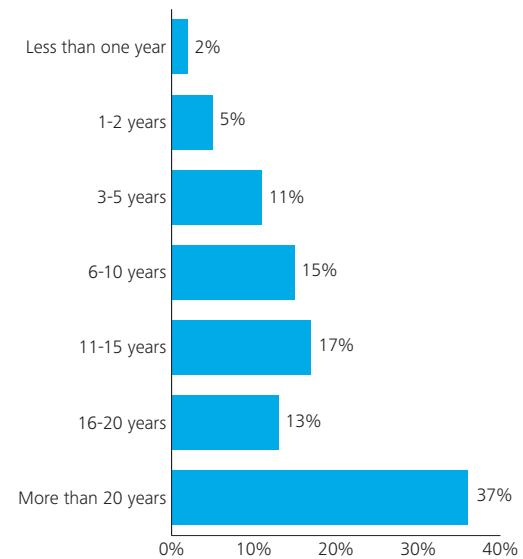
Type of industry



Age of respondent



How long has the respondent's firm been in business?



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