

# Small-business insurance in transition Agents difficult to displace, but direct sellers challenge status quo



# Contents

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Direct sales slow to develop, but market primed for automated service	1
Preparing for the potential shift to direct distribution	3
Option 1. Move forward with direct sales	4
Option 2. Eschew an online channel, but boost agent value	8
Option 3. Leverage direct-connect technology to develop warm leads for agents	11
Option 4. Implement a hybrid, parallel approach	12
Next steps: Which way should insurers go?	13
Contacts	15

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# Direct sales slow to develop, but market primed for automated service

The self-service purchase of auto insurance over the internet without involving a personal agent or broker has been a well-established option for at least a decade now. A number of small-business insurers have started to follow the lead of their personal auto counterparts, seeking to establish a direct connection of their own with customers, rather than dealing with them exclusively through an intermediary.

When we first studied the small-business customer segment a few years ago, there appeared to be a sizable direct marketing opportunity available for those carriers willing to take the initiative. Half of the 751 small businesses surveyed online in March 2013 by the Deloitte Center for Financial Services said they would be at least somewhat likely to consider buying one or more insurance coverages straight from a carrier, without an agent or broker to shop for them or advise them—especially if cutting out the intermediary meant saving them money on their premium. Nearly one in five went so far as to say they were very likely to go this route under the right circumstances.<sup>1</sup>

However, the greater complexity of some commercial policies, the insecurities expressed by prospects about dropping their agents, and the personal touch more common in the small-business relationship introduce obstacles not encountered in commoditized and simpler personal lines. As a result, the direct sale of small-business insurance in the United States has been slow to develop, accounting for less than 1 percent of market share.<sup>2</sup>

How might insurers crack the code to sell insurance directly to more small-business consumers? And what lessons might agency carriers learn from direct selling pioneers to bolster their existing distribution system while minimizing attrition?

To answer these and other lingering questions about the potential risks and opportunities of selling direct, Deloitte launched a follow-up study in 2015, contracting with an independent research firm to interview 150 small-business

insurance buyers from a wide variety of industries and company sizes, topping off at no more than 25 employees. The respondents were prescreened to include only those who were at least somewhat likely (57 percent) or very likely (43 percent) to consider buying direct. The purpose was to dive deeper into the motivations, expectations, and concerns of small-business prospects, as well as determine what insurers might need to do to convince those who say they have an open mind about bypassing their agent, to actually buy direct.

The data we gathered revealed a number of seemingly conflicting and problematic views among many of the respondents. For example, a vast majority (83 percent) said they were satisfied with their current agent, yet close to half indicated they are ready to eliminate the intermediary for a relatively small discount. On the other hand, there may be a limit as to how far a direct carrier could go to financially incentivize a client to buy without an agent. More than a third of respondents would expect savings of up to 20 percent before eliminating their agent from the transaction, which might not be realistic given the commission levels paid on such policies.

Respondents indicated that offering additional services online might make them more likely to buy direct, which is not surprising given that six in 10 of those we most recently surveyed say they receive no particular service from their agents beyond shopping for coverage. Yet these respondents also acknowledge a lot of intangible value provided by intermediaries that could be hard to replicate with a direct purchase experience—such as the peace of mind that a professional has vouched for the adequacy of their coverage, providing someone to hold accountable should a gap be exposed by a loss, as well as the confidence that they'll have an advocate in their corner should a claim be filed.

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<sup>1</sup> "Voice of the Small-Business Insurance Consumer, Are Buyers Ready to Take the Direct Sales Route?" Deloitte Center for Financial Services, 2013.

<sup>2</sup> Deloitte analysis of data from SNL Financial

These hurdles—psychological and practical—may be particularly difficult to clear, if only for fear of the unknown. Few buyers have ever had an alternative purchase option to consider, given that the independent agency channel has long dominated this market. However, the status quo will likely be difficult for agency insurers to maintain, given the growing commoditization of small-business insurance policies and the increasing tendency among consumers in general to shop for and buy more of their products and services online.

In any case, carriers deciding to try a direct approach will still need to overcome the considerable entry barriers uncovered by our survey, most likely with a combination of discounting and additional self-service capabilities. The ultimate challenge will be to accomplish that while making a direct sales operation worth the risk to the consumer, as well as economically feasible for the insurer.

### Is selling small-business insurance directly worth exploring?

While the shift from agency to online sales will likely continue to be both slower and more challenging in commercial insurance than it's been in personal lines, the stars are aligning to threaten the prevailing agency-centric model.

With little economic incentive for intermediaries to offer additional services, along with the growing commoditization of small commercial products and greater demand for 24/7 service, small-business coverage appears to be ripe for automation—at least for a significant part of the market, especially among smaller, younger buyers. Therefore, with the increasing momentum of advanced analytics, artificial intelligence, and “robo-advisors,” we've likely witnessed just the proverbial tip of the iceberg when it comes to self-service in this mainstream line.

Indeed, our research indicates that a growing number of small businesses will be open to the idea of buying at least one coverage directly from carriers, as more such opportunities become available and direct-approach models are tested and modified to meet evolving customer expectations.

This phenomenon could be closer to realization than many carriers anticipate, as companies with proven capabilities in direct distribution in other lines expand into

150 small-business insurance buyers were interviewed:

- Employees numbered between 1 and 25
- Annual revenue was up to \$5 million
- Variety of industries represented
- 78% were owners; 22% were non-owners responsible for insurance purchases
- All were either 'very likely' (43%) or 'somewhat likely' (57%) to consider buying at least one business coverage direct

About this survey



the small-business market. Note, for example, the recent announcement by Berkshire Hathaway, owner of GEICO, that it will sell workers' compensation coverage direct to small businesses in 2016, to be followed by direct sales over the web of business owners liability policies and other lines over time.<sup>3</sup> Other insurers may also choose to offer a direct purchase option in parallel to their agent distribution system.

Carriers should therefore step up efforts to reexamine their existing and prospective customer bases, and prepare themselves to implement new or enhanced distribution strategies to expand market share as well as defend the business they already have on their books.

### Can insurers have it both ways?

Given the conflicting signals offered by respondents in our latest research, it is unlikely that agents and brokers will be significantly disintermediated in the small-business market any time soon. However, additional direct initiatives will likely be launched, requiring a response by their legacy agency competitors. While there may be growth potential for insurers that choose to embrace the internet for direct sales, there will also be space for those more comfortable leaving the “pioneer” role to others and fortifying their agency force instead. This could perhaps be accomplished by adapting some of the technology solutions employed by emerging online players, such as establishing more information-rich, interactive websites and mobile applications to supplement but not replace the agent's role.

In fact, carriers could, in effect, have it both ways by considering the feedback we gathered from small-business consumers in choosing from among a variety of options to respond to the emerging online challenge.

<sup>3</sup> Tim Zawacki, “Berkshire Hathaway targets 2016 for direct-to-small business insurance platform launch,” Oct. 12, 2015, SNL Financial LC.

# Preparing for the potential shift to direct distribution

Deloitte's latest survey produced several insights for insurers looking either to sell coverage direct to small businesses or at least learn how to leverage the direct approach to elevate the value proposition of their agency channel so they can compete with this alternative distribution model.

Not surprisingly, we found that much like in personal lines, cost is paramount to the small-business consumer, particularly given the relative dearth of service and lack of value they say they see being provided by their current intermediaries. While this bodes well for online insurers that can pass on savings from eliminating agent commissions, it turns out that added value is also highly prized—at least in theory—in this consumer segment. Therefore, in an increasingly commoditized line of business that is poised for transformation, price may be a catalyst to switch channels, but additional services may also be needed to retain such customers over the long term, regardless of whether they buy through agents or direct online. In short, the annual once-and-done sales/renewal proposition may be sufficient to entice, but not necessarily to retain, the customer.

The customer segment Deloitte most recently surveyed craves more personal and frequent contact related to their insurance coverage. Running the gamut from updates on changes in their industry to risk-management advice on how to limit exposures, small-business consumers say they covet personalized services to adequately fulfill their insurance and loss-control needs. Therefore, whether an insurer chooses

to transform by adding an online option, remain devoted to the agency channel, or bifurcate their distribution system to accommodate both target segments, an increase in the real or perceived value proposition provided is emerging as a fundamental strategy to help safeguard client retention.

Analysis of the survey results by Deloitte's subject matter specialists points to at least four potential strategies, or combinations thereof, that small-business insurers could deploy to adapt to the digital revolution in distribution. The first would entail fully embracing a web-direct option, the second rejects disintermediation outright, while the other two facilitate experimentation with direct outreach without necessarily undermining the agency status quo. The options are:



1. Move forward with direct sales distribution as a stand-alone launch.



2. Eschew an online option altogether, but elevate value in the traditional agent channel to head off a potential digital insurgency.



3. Leverage the technology of direct-to-consumer marketing to develop leads for agents, but stop short of closing the transaction online.



4. Offer a hybrid, parallel sales approach, providing buyers with both a direct online purchase channel as well as an agent option.

In establishing or fortifying their distribution channels, insurers should take basic behavioral-economic theories into account when it comes to reassessing customer relationships. For example, while all of those we surveyed this year say they are at least somewhat likely to buy without an agent, psychological factors that often prompt people to remain in business relationships whether they are ideal or not may ultimately impede a switch in channels. To remove such barriers, direct carriers will need to clearly communicate the value they're offering while addressing the concerns expressed by respondents, even though the prospects may say they are predisposed to buying without an agent.



# Option 1. Move forward with direct sales



Since Deloitte's original survey and report was released over two years ago, growth in the number of small-business insurance consumers who have actually made the switch to buy direct has been slow to develop. While consumers say they are willing to change channels, it hasn't yet translated into any widespread action. Our 2015 follow-up survey was launched to delve more deeply into the specific enticements buyers may require to break this inertia and help carriers move more online prospects from interest to action.

The majority of respondents to our latest survey agreed that the most obvious influence in prompting a switch to a direct distribution channel would be cost savings, with 57 percent citing the anticipation of reduced pricing as their primary motive to buy direct. Yet this expectation is fairly modest for many, with four in 10 looking to save 10 percent or less. However, 15 percent of those surveyed expect to save more than 20 percent by going direct.

Therefore, on the surface, lower pricing seems the most intuitive strategy for insurers implementing a direct option. By cutting out the intermediary and their commissions, savings can theoretically be passed on to entice the client to shift channels.

But there are other factors in play. The second-most prevalent motivation cited for buying direct was the greater convenience and efficiency afforded by an online channel. The allure for one respondent was "... [having] one less person to deal with... As long as I have good information, it would make the purchase easier." Another opined, "Most of the time, if I have any kind of claim, I have to go directly to the insurer anyway, so I don't really find a lot of value in an agent. It just tends to add an extra step that isn't necessary."

Some additional rationales for making a switch included the desire to "try something new," "having greater transparency," and potentially "receiving better coverage"—but these factors were cited much less frequently.

However, respondents cited a number of concerns that might discourage them from giving up their agent, regardless of the added cost or lack of personalized service they currently receive.

A foremost concern was trepidation over relinquishing a number of tangible and intangible benefits offered by agents—most importantly an agent's expertise in assessing coverage options. Several respondents were skeptical about the ability of direct carriers to provide access to business coverage experts. When asked what their biggest apprehensions were about switching to direct, one respondent replied, "The lack of [an insurer's] understanding of your business to know if there are additional coverages you need. They may not mention something to you that you need and you may not find out that you're lacking something until there's a problem." To offer greater comfort with a direct purchase, another respondent suggested that online insurers have available a live contact for consultation who has "expertise with the cost, the risks, and with my industry specifically."

Two-thirds of respondents said they would be concerned about overlooking a potential exposure if they went direct—with one in five citing this as their biggest worry. One respondent felt anxious about "not having enough coverage or misinterpreting the coverage," along with a fear that "I would buy something I didn't need, couldn't use, or that I'm already covered for somewhere else."

Moreover, throughout the survey there was apprehension that one direct sales insurer would not be able to offer the range of coverage needed to meet all of their specific business needs, with several respondents hesitant about splitting up their insurance purchases among multiple carriers on their own, without an agent to coordinate their portfolio. This factor may make it more difficult for a direct insurer selling just one coverage online to break a buyer free from an agent placing multiple lines of business for them.

Many respondents also largely understand that in buying coverage direct, they may lose out on personalized service and one-on-one contact in exchange for more (and cheaper) automation. Nearly two-thirds said one of their concerns with going direct was no longer getting enough individualized services through an agent. One president of a health club said an important factor to consider in switching to direct "would be developing a personal connection or feeling. I want a trust feeling and to be able to trust their professional opinions."

Insurers should also consider prevalent psychological barriers to switching from one business service provider to another. Such barriers were documented in a 2012 study by a quartet of academics conducting qualitative research into “Why customers feel locked into relationships,” which found several elements contributing to consumer “stickiness” with service providers. Among them were the length of the relationship (68 percent), as well as the perceived procedural costs associated with switching (57 percent). But most important was the customer’s satisfaction with the service provider (86 percent).<sup>4</sup> Given that 83 percent of respondents in the latest Deloitte small-business survey cited satisfaction with their current agents, the challenge facing direct writers looking to disintermediate might be considerable.

In addition to analyzing both the motivating influences and potential barriers to an online purchase, small-business insurers should also consider incorporating strategies that Deloitte’s 2015 survey respondents say could

increase the comfort level of customers in an automated purchase (Figure 1).

For example, one of the most often-cited elements respondents look for in a direct-purchase scenario is the ability to compare prices and coverage offered by different insurers on one website. Ninety-four percent said the ability to do so would make them more apt to take the plunge and buy direct. One partner in a lending business said a disadvantage to going direct would be “... no competitive price shopping. Dealing with a direct company would be biased to their own products, and I am looking for an unbiased opinion in coverage.” Therefore, designing products for or partnering with online price-aggregator websites that enable customers to compare rates of different small-business insurers, or offering that capability on their own website, may potentially be a critical component in an insurer’s direct-channel strategy.

Figure 1: Circumstances that could make buyers more comfortable switching to a direct online purchase, %



Note: Percentages may not add up to 100% due to rounding.

Source: Deloitte Center for Financial Services, “Voice of the Small Business Insurance Consumer Survey,” 2015.

<sup>4</sup> Mary P. Harrison, Sharon E. Beatty, Kristy E. Reynolds, and Stephanie M. Noble, “Why Customers Feel Locked into Relationships: Using Qualitative Research to Uncover the Lock-In Factors,” *Journal of Marketing Theory and Practice*, Vol. 20, No. 4, Fall 2012, pp. 391-406.

Respondents also indicated they would expect less complexity from direct writers in small-business policy language. The exposures they say they would be most likely to purchase online exemplify this point. For example, over a quarter were comfortable buying workers' compensation—likely the most straightforward and commoditized commercial insurance line—through a direct channel, but only 2 percent were likely to buy business interruption coverage direct (Figure 2). For insurers to make buyers comfortable with direct sales across a wide spectrum of risks, simplifying products and clarifying policy language to make it understandable to a layperson will likely need to be part of the overall strategy.

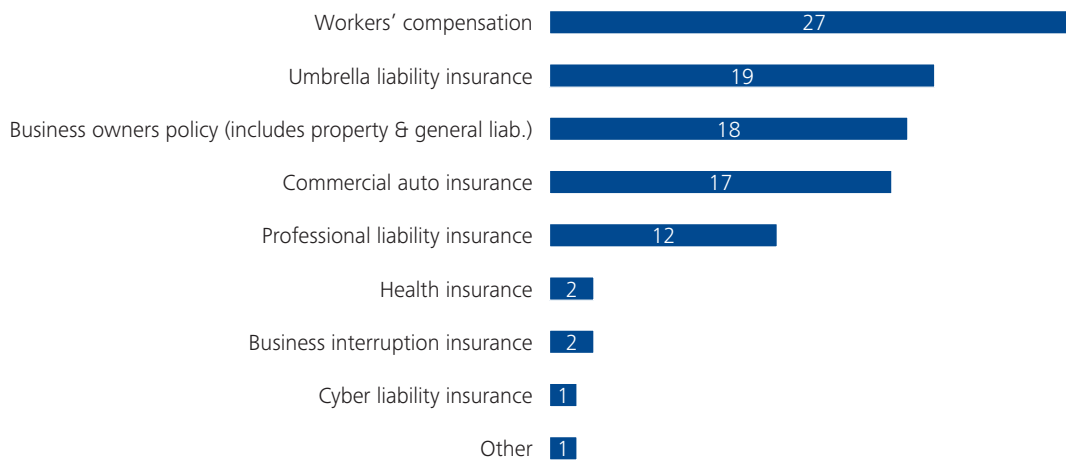
Online insurers may also need to address the desire for coverage tailored to specific industries, as well as protection against policy gaps, as nearly 90 percent of respondents agreed such benefits would make an online purchase much more attractive.

Moreover, while most respondents said they would like an option to connect with a licensed agent working for the direct writer in case of questions during or after the

purchase process, they were less enthusiastic about the prospect of contacting a call center than they were about the ability to speak to someone via instant messaging or video chat at the insurer. This potentially highlights the desire for real-time communication in online purchases, while eliminating the hurdles presented by automated-response telephone mechanisms.

Insurers may be able to alleviate some of these information concerns by providing something akin to the robo-advisor services rapidly infiltrating the investment management space. Robo-advisors provide automated financial portfolio selection guidance and management online with minimal human intervention. This may potentially alleviate concerns related to immediacy of advice, while still moderating the costs associated with agent-consumer interaction. For each specific industry, a robo-advisor could assess the type and amount of coverage clients typically need, and adjust coverage levels accordingly when advised of business developments from a specific client (such as additional employees or locations) or a new exposure facing their industry.

Figure 2: Type of coverage most likely to buy direct, %



Note: Percentages may not add up to 100% due to rounding.

Source: Deloitte Center for Financial Services, "Voice of the Small Business Insurance Consumer Survey," 2015.



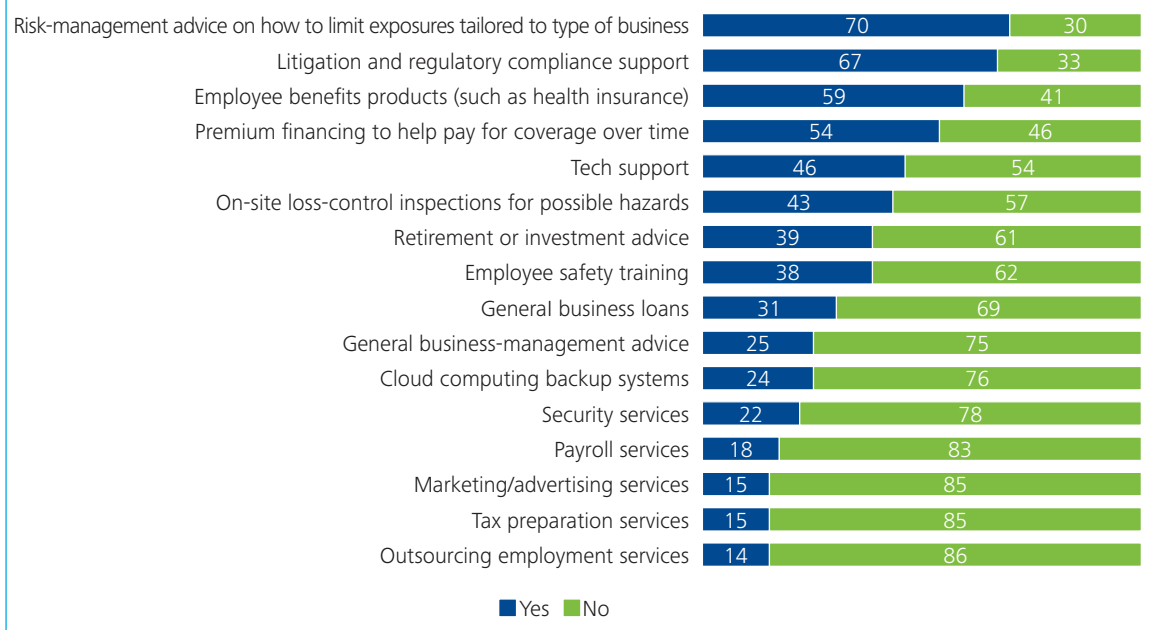
The Deloitte survey also queried respondents on which supplementary business service options might further incentivize an online purchase (Figure 3). For example, seven out of 10 respondents would appreciate risk management advice from their direct insurance carrier, while nearly as many would value litigation and regulatory compliance support. This indicates that insurers looking to sell direct may have to offer one or more of these services to differentiate themselves beyond discounting, by providing added value that most clients do not currently receive through their agents.

The bottom line is that both of Deloitte’s research studies found that a number of prospects are open to buying their coverage direct. The challenge will be for insurers to convince prospects to actually make the leap of faith by

giving up their agent or broker. Insurers seeking to sell direct to improve their profit margin as well as their retention rates will be tasked to find the formula that convinces business-insurance buyers to step out of their comfort zone and relinquish their adviser for a more self-service-driven, online-purchase experience.

It may take more supportive tools or real-time online contacts, add-on services, rewards or rebates, or some combination of these elements. But in any case, it appears that the value of a direct distribution option will likely need to go beyond price reductions and efficiency improvements to include reassurances and protection against perceived downside risks, while offering broader, longer-term value to the buyer.

Figure 3: Additional business service options sought through an online insurer, %



Note: Percentages may not add up to 100% due to rounding.

Source: Deloitte Center for Financial Services, “Voice of the Small Business Insurance Consumer Survey,” 2015

# Option 2. Eschew an online channel, but boost agent value



As some small-business insurers begin to test the waters of direct sales, others not yet interested or ready to fully commit to such a transformation will likely need to consider the dynamics required to raise the value of their traditional agency channel to avoid losing market share to online competitors offering lower-priced coverage.

Given the cost consciousness of this consumer segment, agency insurers will be hard put to match the discounts of direct writers operating without commissioned intermediaries. However, while most respondents said they would welcome the prospect of lower premiums by eliminating the intermediary, there were also several aspects of working with an agent they would likely be reluctant to give up (Figure 4). It will be these components—the barriers to a switch to direct purchase—that the agency model should capitalize on to stave off the attrition a lower-priced channel might prompt.

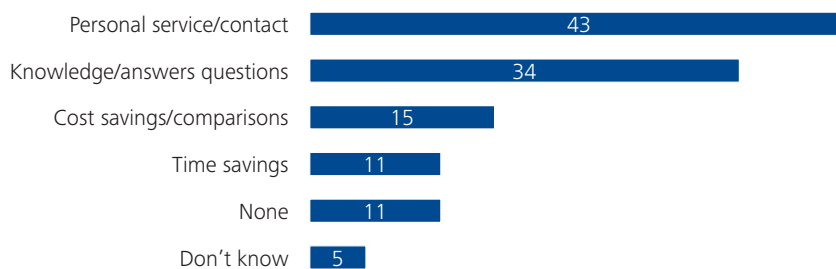
The most pronounced element the survey uncovered is the extent to which small-business insurance buyers value the personalized service provided by agents. In fact, a number of respondents indicated they would keep their agent if they received more personalized service from them, even though they recognized that doing so likely means paying more in premiums. One respondent said: “Most [insurance] companies operate only within the rules, but agents are always looking to help their customers—especially with small businesses.” Several said having a local contact with whom you could meet face-to-face might be a game changer in determining whether or not

to buy direct. Therefore, agency-driven carriers would be wise to accentuate the prominence of personalized, local service and leverage it to promote their value over the direct channel.

Because of the complexity of some business-insurance coverages, the comfort of having an agent’s expertise to rely upon is another significant benefit to promote among current and potential clients. One president of a furniture business said: “The advantage [of remaining with an agent] would be that your agent would probably be more in tune to you leaving something out. They would make sure that everything is covered and you don’t leave things out by accident.” Moreover, several respondents said they would be more comfortable having one agent arrange for all of their policies rather than needing to purchase multiple coverages separately on their own from various insurers.

Entrusting an agent to find the best price and coverage options is another benefit respondents cited in using an intermediary. Fifty-seven percent did not think they would be able to adequately comparison shop on their own, using the direct channel. When asked what an agent could do to better serve them, one owner of a tech business said: “Make me feel like she is working hard to find the best price and policy for me. That’s my biggest issue. [I] need someone to dig deep and find out what’s going on.” Another suggested, “I would hope they would have the power to negotiate, explain my situation to the insurance company, and get me the best price.”

Figure 4: Advantages of continuing to buy through an agent, %



Note: Percentages do not add up to 100% because respondents could choose multiple options.

Source: Deloitte Center for Financial Services, “Voice of the Small Business Insurance Consumer Survey,” 2015.



Having someone to advocate for a small business throughout the most anxiety-inducing part of the insurance lifecycle—the claims process—may be another advantage an agent can invoke to retain clients. Sixty-one percent of respondents said not having an agent as a proponent in case of a claims dispute would be a concern in buying direct.

When queried on what an agent could do to serve her better, one owner of a small craft business said: “I guess be more proactive about stuff. I just feel like if they would contact me more, I would feel more comfortable with them. I feel like if all I am going to get is a [renewal] letter every year, then I can basically save money and do it myself.”

While most respondents emphasized the importance of service beyond insurance placement in choosing a distribution channel going forward, the majority said that other than peace of mind, they are currently not getting much more than initial coverage and renewal quotes from agents. Six of 10 said they receive no other services from their agent over and above shopping for their policies (Figure 5). Yet despite this one-dimensional service experienced by most respondents, 83 percent said they were either very or somewhat satisfied with their agent (Figure 6).

This disconnect can likely be partially explained by the results of the 2012 qualitative study of service-provider relationships cited earlier, in which respondents revealed a number of intangible attributes keeping them “satisfied,” including about two-thirds citing special treatment benefits (such as, “They go out of their way for me”) and social benefits (such as, “We are friends,” “We have a lot in common,” and “They know me”).<sup>5</sup> Most independent agencies are small businesses just like their clients, and often operate in the same communities, creating a personal relationship that’s difficult for another agent to disrupt, let alone an insurer looking to sell direct to consumers.

While this may provide a level of security for agents, to an extent insulating some of them against online-channel attrition, the cost savings dangled in front of a highly price-conscious segment should continue to concern intermediaries and the insurers that sell exclusively through them. If online sellers provide value-added self-services in addition to discounts, there may be a growing risk of disruption and disintermediation unless agents and their carriers respond in kind. That said, given that client stickiness apparently results from strong relationships, an annual renewal touch-point may no longer suffice to assure retention for agency carriers as direct distribution options and capabilities expand.

<sup>5</sup> Mary P. Harrison, Sharon E. Beatty, Kristy E. Reynolds, and Stephanie M. Noble, “Why Customers Feel Locked into Relationships: Using Qualitative Research to Uncover the Lock-In Factors,” *Journal of Marketing Theory and Practice*, Vol. 20, No. 4, Fall 2012, pp. 391–406.

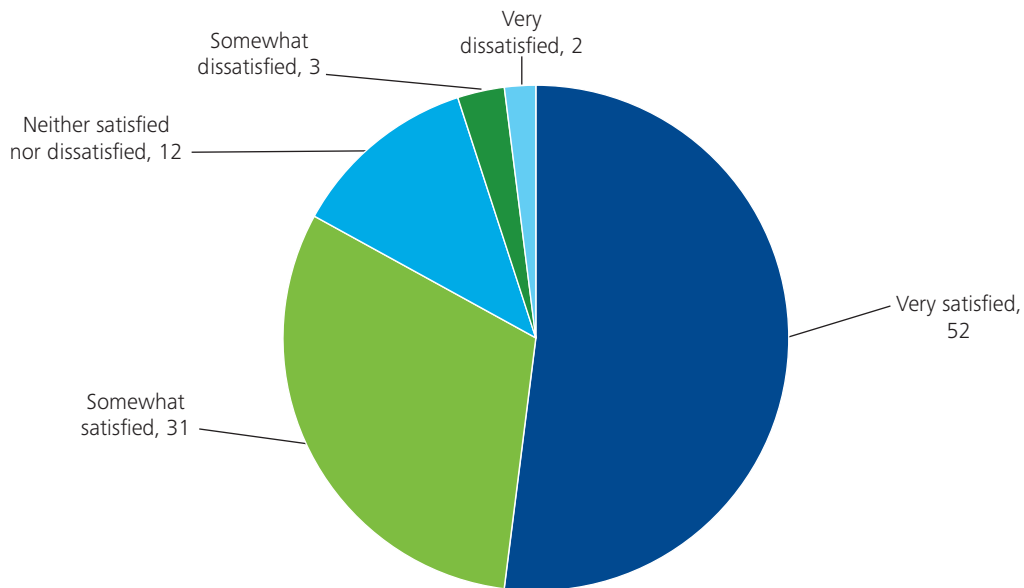
Figure 5: Services beyond shopping provided by current agent, %



Note: Percentages do not add up to 100% because respondents could choose multiple options.

Source: Deloitte Center for Financial Services, "Voice of the Small Business Insurance Consumer Survey," 2015.

Figure 6: Satisfaction with services provided by current agent, %



Source: Deloitte Center for Financial Services, "Voice of the Small Business Insurance Consumer Survey," 2015.

# Option 3. Leverage direct-connect technology to develop warm leads for agents



How might agency carriers lower the odds of potential disruption by an expanding online-distribution channel, as well as appeal to buyers expecting 24/7, real-time access and self-service options? One possibility is to try direct-to-consumer marketing and prospect screening online without cutting agents out of the equation when it comes time to close a sale and service an account.

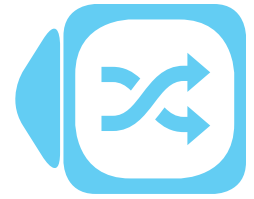
Agency carriers could utilize the technology required for online customer acquisition to obtain warm leads for their agency channel. Such a strategy could accommodate the segment of purchasers looking to “try something new” or that “desire greater efficiency” by shopping for their coverage online, while at the same time reconciling the aspiration of many survey respondents to maintain the personal relationship and specific business proficiency afforded by an agent.

This model may also have the advantage of positioning an insurer as a “close follower” versus the pioneers of small-business online channels, in case they decide to join the digital sales “revolution” by launching their own full-fledged direct-to-consumer system later on. In fact, it may help get small-business consumers more comfortable making online transactions for future purchases, potentially freeing up agents to provide value-added services to more complex, higher premium accounts.

Moreover, this hedging strategy could increase agent satisfaction by lowering client acquisition costs and growing their prospect base, while perhaps helping to avoid potential channel conflict, at least in the short term.



# Option 4. Implement a hybrid, parallel approach



Another approach insurers may consider is the option of parallel channels—establishing an online choice for small businesses ready to take the plunge and buy directly from an insurer, while preserving their agency channel for buyers who prefer to work through an intermediary. Within this option, there are several strategies insurers could contemplate:

- **Buy or build a separate, direct sales entity to reach online consumers**
  - Insurers may choose to launch a direct sales subsidiary from scratch or buy an existing direct writer to parallel their agency company, while perhaps marketing under a different brand to avoid channel conflict with their existing agency force. This could allow a carrier not only to attract those who prefer to shop for insurance themselves online, but also create cross-selling opportunities for other products being sold by their agents, once a direct connection is made on one particular type of coverage.
- **Align/partner with a company that can offer an online purchase option**
  - In such a scenario, a small-business carrier could test the waters by selling online through another direct insurer’s website, offering complementary rather than competing products.
- **Affiliate with an online aggregator site**
  - This option lets insurers target early online adopters while acquiring valuable direct sales experience. An example of a small-business insurance aggregator website is Insureon.com. This site helps connect insurance providers with small businesses searching for coverage online.
- **Sell coverage online direct to the consumer, but offer clients an opportunity to be assigned an agent for additional consultation, coverage, and/or services**
  - In this instance, a carrier would actually close a sale directly with the online customer, but provide buyers with an opportunity to contact an agent afterwards if there are any coverage questions, claims issues, or additional products required. That agent could either work full time for the insurer (perhaps out of a customer service center) or come from an outside, independent agency. The independent agent would likely receive a far lower commission on a direct sale, reflecting their lack of involvement in the acquisition process, but they could benefit from having the opportunity to cross-sell additional lines of business. This option could also alleviate concerns of those customers who feel comfortable buying a particular coverage themselves online if it will save them money, but can still tap into the independent agency channel for other, perhaps more complex or problematic risks.



# Next steps: Which way should insurers go?

While small-business insurers and their agents may not necessarily be facing an existential threat from direct sellers at the moment, the escalating ease and pervasiveness of web technology for direct-to-consumer distribution is revolutionizing the way most US industries interact with their existing and potential clients, and insurance is no exception.

As a result, the small business insurance market is in flux, with a trio of segments emerging. Based on our initial research in 2013, one segment, representing about one-fifth of the market—most prominently those between the ages of 26 and 34, and those generating less than \$250,000 in annual revenue—appears to be eager to save money and time by purchasing coverage themselves online. A second segment, representing about one-third of the market, is hesitant to give up their agent, but is at least open to the idea of buying direct from the carrier. The third segment, accounting for close to half of buyers we surveyed, is comfortable enough with the status quo to stand by their intermediary, even if it costs them more.

Insurers serving this diverse small-business community are therefore being challenged to balance the opportunities and risks of either becoming a pioneer in the online market or positioning themselves as a potential fast follower. They could also remain steadfast as a dedicated agency distributor, or even try to have it both ways by creating a hybrid model featuring an online as well as an agent channel. Each company will be tasked with emphasizing their chosen channel's strengths, as well as eliminating any barriers that may alienate a potential customer.

For example, an online provider can accentuate the advantage of price and self-service convenience, while an insurer remaining dedicated to an agency channel will likely need to stress the benefits of personalization, business expertise, and the value of insurance beyond pricing considerations—and then deliver on those propositions.

Conversely, online insurers will likely have to simplify policies sold online to make them more palatable, readable, and comprehensible to a layperson, as well as address the loss of a personal relationship by offering additional automated services and sources of information.

As purchase options multiply, competition among distribution channels will only increase, exacerbating the difficulties of client retention. It is therefore becoming critical that providers and agents reexamine their approach to small-business customers. A direct-to-consumer sales and service initiative is one option that could prove to be disruptive, regardless of whether a particular carrier bypasses agents entirely or includes them as part of their value proposition.

Indeed, whether a pioneer, a traditionalist, or some model in between, insurers will likely need to take action to avoid losing market share to digital-driven competitors. The key will be listening to the voice of the small-business consumer, resolving their conflicting needs, and addressing what is most important to them in their insurance relationship—regardless of whether they deal with an agent, directly with a carrier, or both.





## Calls to action

In considering whether to sell direct to consumers, small-business insurers need to:

- Re-examine customer segments to evaluate direct purchase potential
- Prepare themselves to implement different, perhaps multiple distribution strategies
- Choose a dominant distribution strategy
  - Four options:
    - Go all direct
    - Stick with agents, but bolster their value proposition
    - Leverage direct-sales lessons/systems to generate leads for agents
    - Develop a hybrid approach combining elements of two or all three options

Consider offering automated, value-added services to get closer to your customers, regardless of your distribution channel:

- Risk management advice tailored to the client's industry
- Litigation and regulatory compliance support
- Technology-enabled coverage guidance and explanations (robo-advisors)
- More frequent, proactive, meaningful touchpoints, enabled by social media, mobile apps, and real-time communication technologies



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