



Voice of the
Small
Business
Consumer



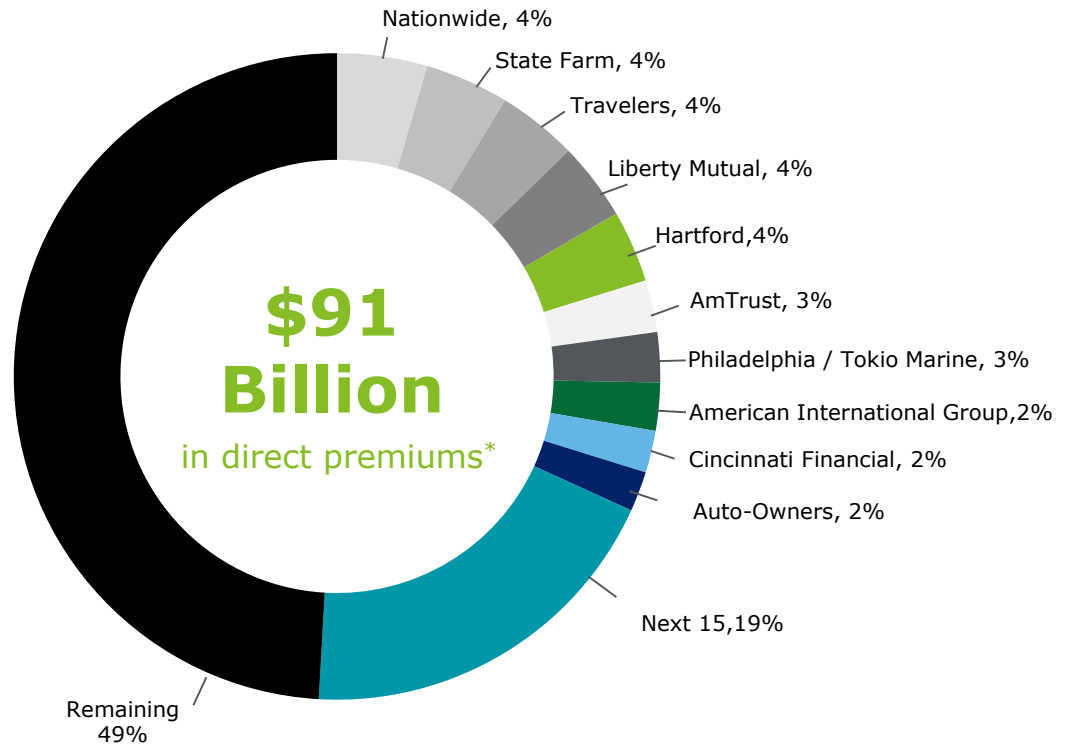
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Carriers with growth agendas see opportunity in the small commercial market

The \$91 Billion Small Commercial insurance market is relatively fragmented with top 10 insurers holding ~30% of the market

Insurer	Market Share
Nationwide	4.5%
State Farm	4.2%
Travelers	4.0%
Liberty Mutual	3.9%
Hartford	3.6%
AmTrust	2.6%
Philadelphia / Tokio Marine	2.5%
American International Group	2.5%
Cincinnati Financial	2.1%
Auto-Owners	2.0%
Farmers	2.0%
ACE USA	1.9%
CNA	1.8%
Markel	1.7%
Progressive	1.5%
QBE Americas	1.2%
Berkshire Hathaway	1.2%
Chubb	1.1%
Allianz	1.1%
W. R. Berkley	1.1%
Alleghany	1.0%
Allstate	1.0%
Westfield	0.9%
GuideOne	0.8%
CUMIS Insurance Society	0.8%



*Conning estimates in 2013 using a \$50,000/30 Employee cap.

Source: Conning, Inc. (2014): The Small Business Sector for Property-Casualty Insurance. *Market Shift Coming*; Deloitte Analysis

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Market disruptors are rapidly changing the landscape of the small commercial segment

Direct start-ups and innovators

- Hiscox entered the US market in 2010, leveraging knowledge from a mature direct-to-consumer market in the UK
- AssureStart (now Homesite) launched a direct-to-consumer operation in 2013
- Established insurers are offering policy issuing companies to help other carriers mitigate channel conflict
- Carriers are upgrading their websites and behind the scenes capabilities to get customers to their sites for quotes, even if they link them with agents

Aggregators targeting small business

- Online aggregators such as Bolt, Insureon, and BizInsure are playing a more pronounced role in the small commercial market
- Forums for comparative shopping may drive small business insurance buyers to higher levels of price sensitivity and product commoditization

Multi-line carriers could tip the scales

- Personal lines carriers are aggressively looking to up-sell into the small commercial market, and could leverage their existing direct channels
- Major multi-line carriers are strategically building out capabilities that set a high benchmark for service levels, including intermediated channels
- Berkshire Hathaway launched a direct channel for small commercial in 2015

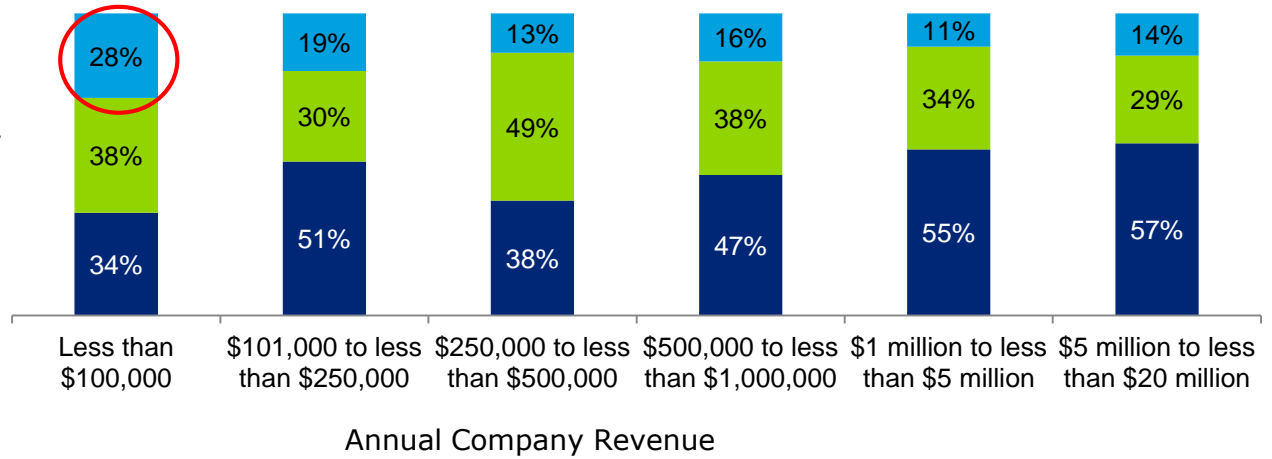
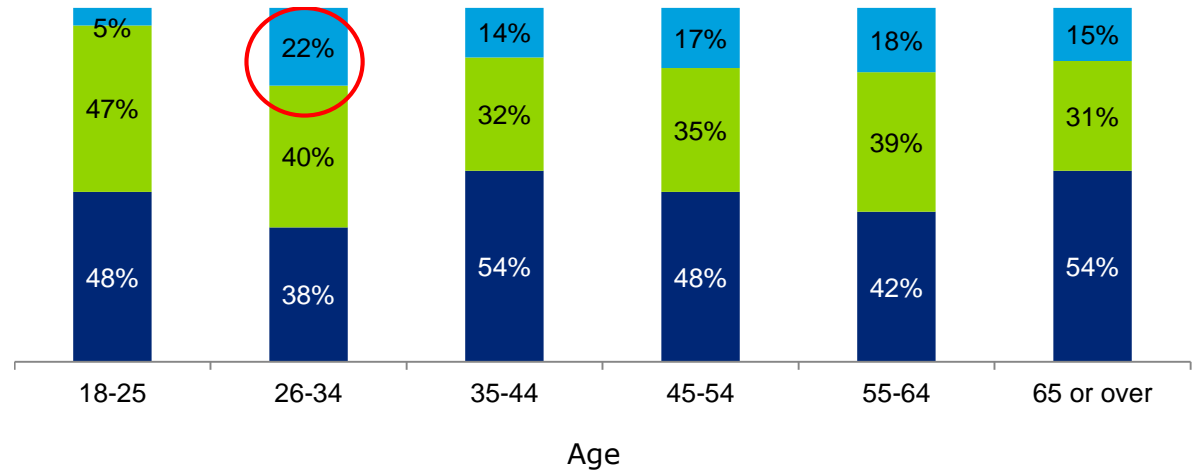
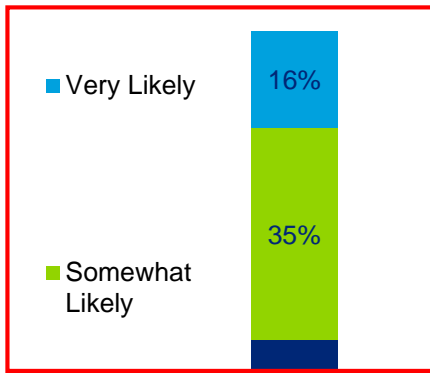
What are small business consumers telling us?

- **Hypothesis:** Given the growth in personal and commercial online transactions, many small businesses would be willing to buy insurance direct from carriers over the Web, under the proper circumstances, if given the chance
- **Validation:** To test our hypothesis, a survey of 751 small business buyers from a variety of industries (all under 25 employees) was launched in March 2013, following two focus groups in Summer 2012
- **Key Questions:** Research goal was not just to scope out the potential market, but to test a number of variables
 - What factors might convince buyers to take the leap and buy direct?
 - How might carriers create a comfort zone for online transactions?
 - What operating and marketing challenges might carriers have to overcome?
 - What lessons might be learned even by those not looking to sell direct?

Deloitte Center for Financial Services, [Voice of the small-business insurance consumer: Are buyers ready to take the direct sales route?](#), June 2013

More than half of respondents would be at least somewhat likely to buy commercial insurance online

Likelihood of buying one or more business policies direct from a carrier online



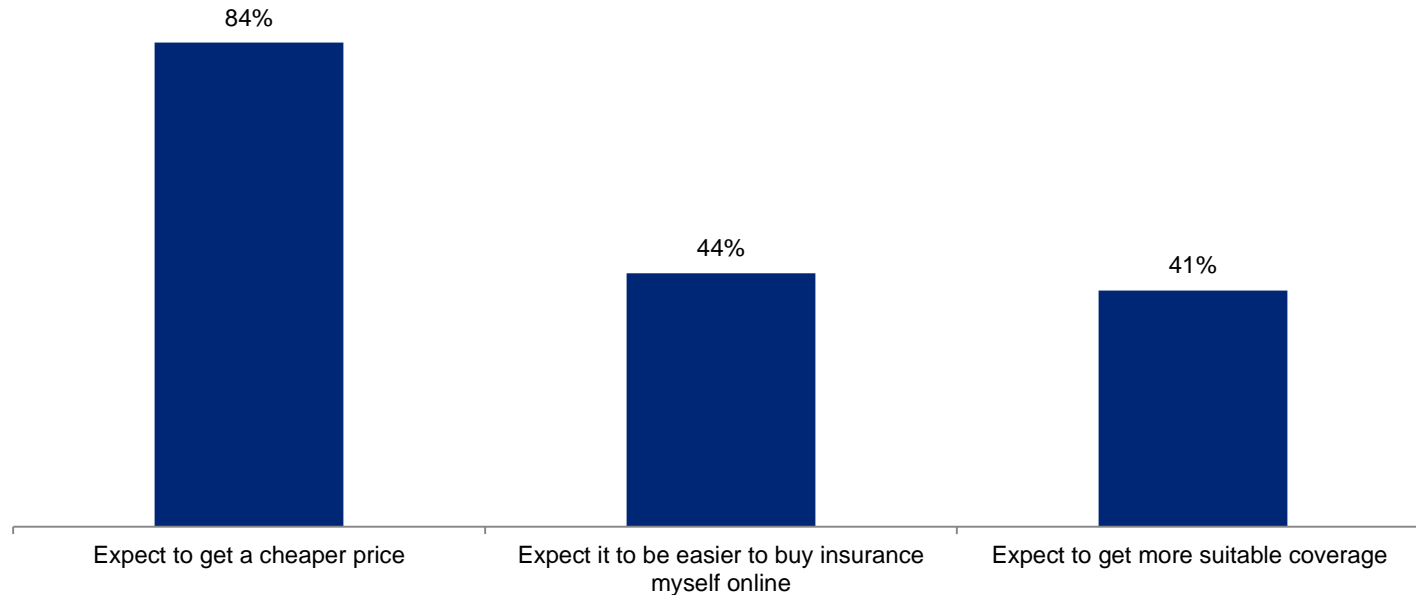
Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

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Buyers interested if the price is right...

Reasons for openness to buying online



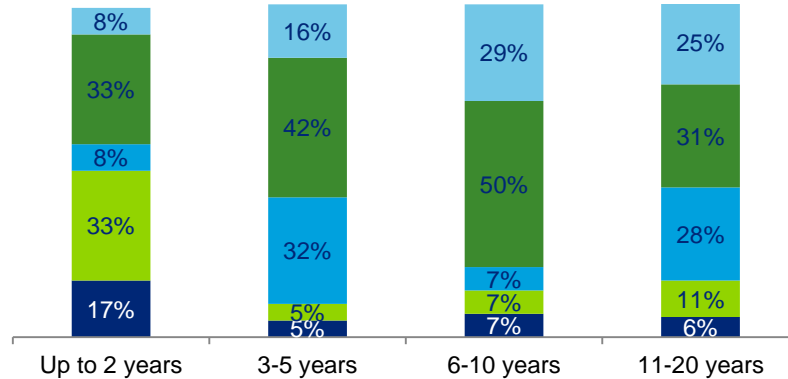
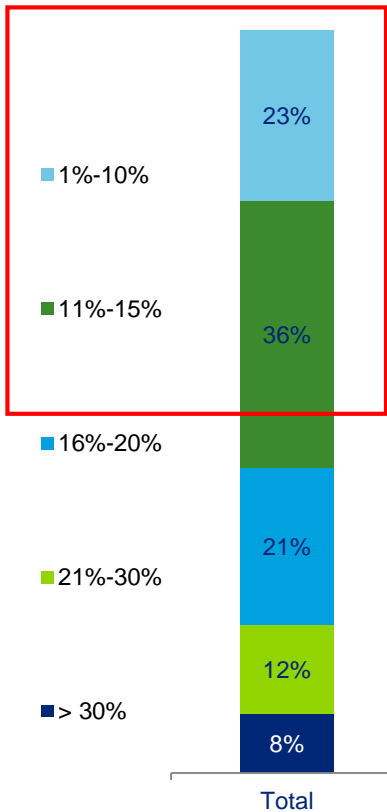
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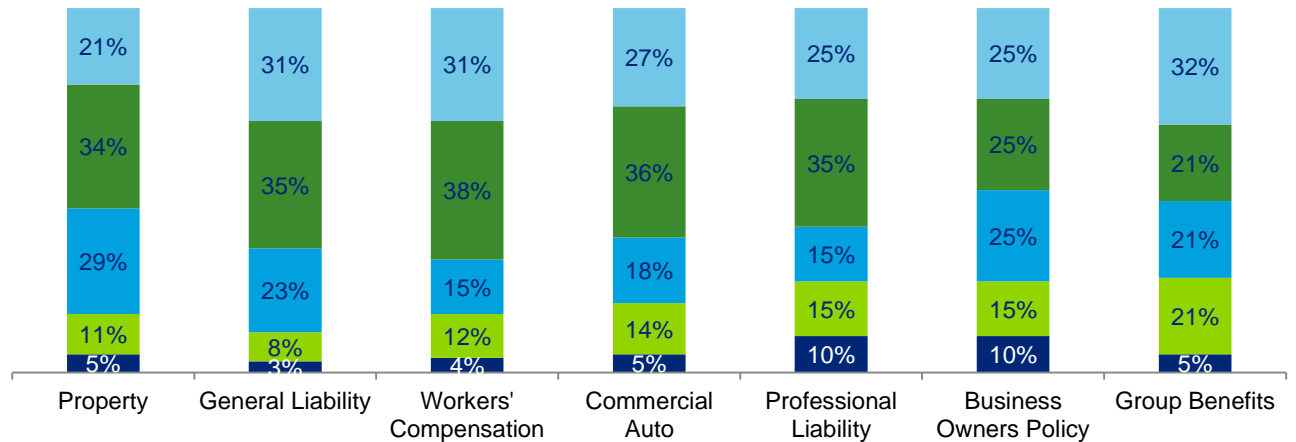
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...Expectations on discounts in line with perceived level of compensation to agents

Percentage of premium reduction expected from direct online purchase



Number of years the company has been in business

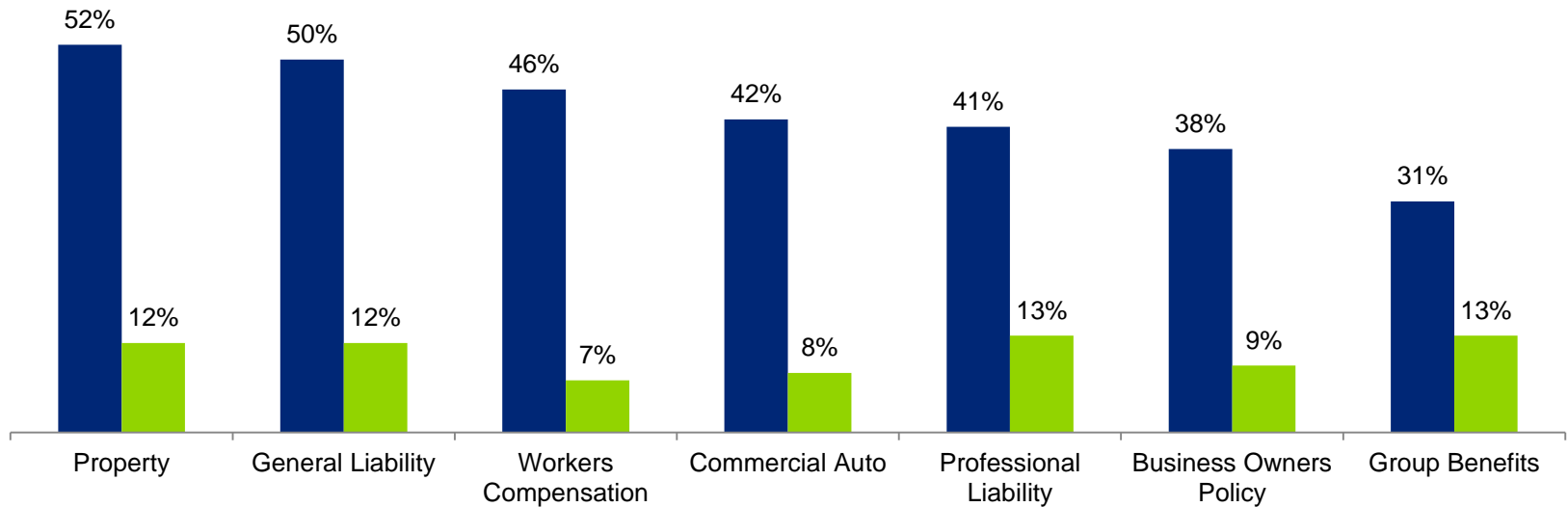


Expected discount by line of business

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

Personal lines online experience might be a gateway for commercial sales

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

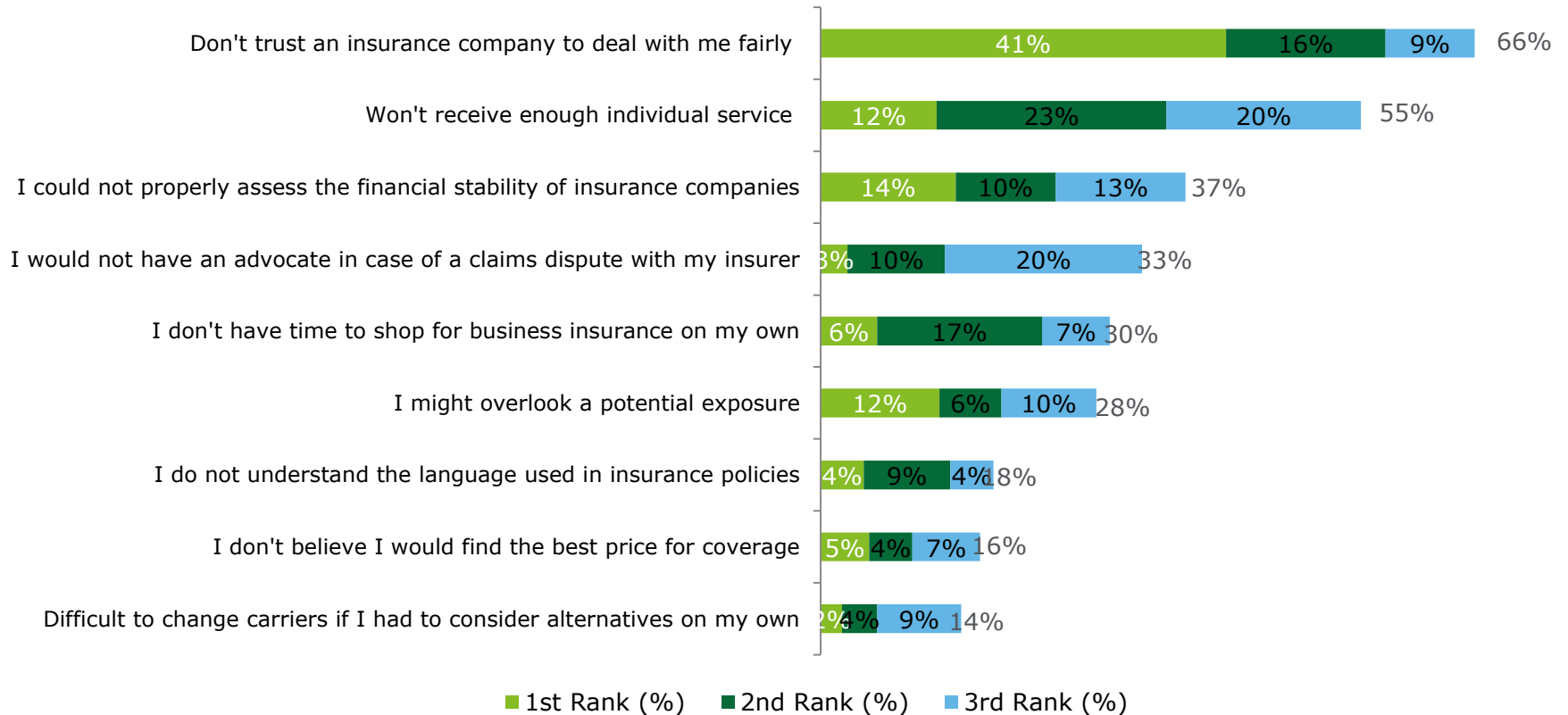
Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013

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Trust issues discourage direct sales

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

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With interest in the direct channel high but uptake low, what might break the inertia of small-business insurance prospects?

- **Follow Up Research:** A survey of 150 small business buyers from a variety of industries were interviewed by phone in 2015.
 - All were either 'very likely' (43%) or 'somewhat likely' (57%) to consider buying at least one business coverage direct
 - Employees numbered between 1 and 25
 - Annual revenue was up to \$5 million
 - 78 percent were owners; other 22 percent at least were responsible for insurance purchases
- **Key Questions:** Research goal was to dive deeper into small business owner buyer attitudes around business insurance
 - Investigate motivations, expectations, and concerns of small-business prospects willing to switch to an online insurance provider
 - Determine how insurers can convince those who say they have an open mind about bypassing their agent to actually buy direct

Many buyers seem to be open to automated sales and service, yet direct market is slow to develop

Survey data revealed a number of factors that may be discouraging small businesses from giving up their agent for a direct purchase

1. Potentially unrealistic savings expectations

While nearly half of respondents would consider online purchase for a discount, more than one-third expect savings up to 20%, while 15% expect to save over 20%



2. Intangible value added by intermediaries

- Knowing agent vouches for adequacy of coverage
- Having an accountable party for coverage gaps ("throat to choke")
- Benefitting from a claims advocate



3. Other key concerns include:

- Lack of opportunity (not many carriers selling direct)
- Inability to buy all the coverages they need direct
- Inability to understand policy language



Source: Small Business Insurance In Transition, Deloitte Center for Financial Services, November 2015

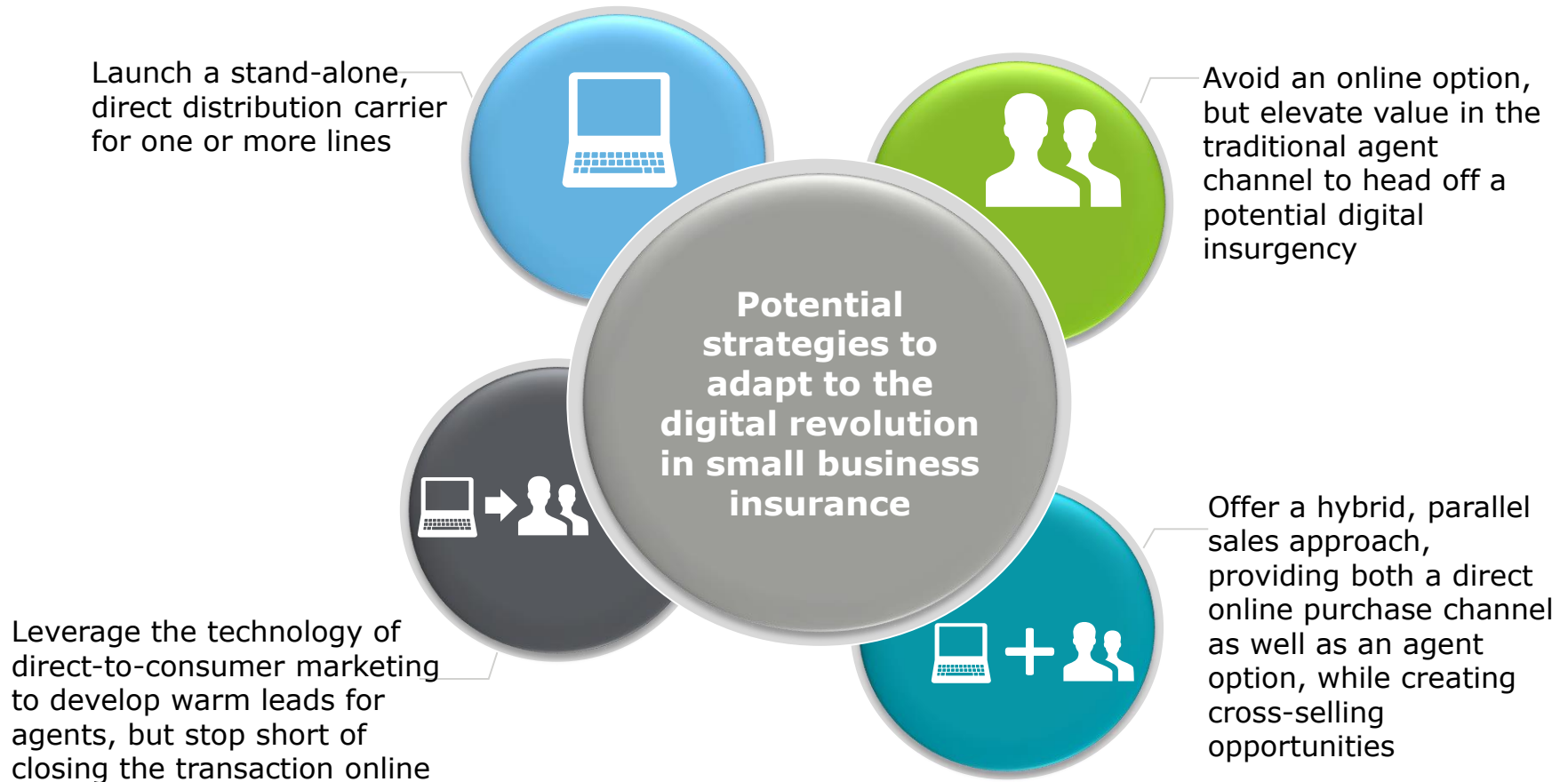
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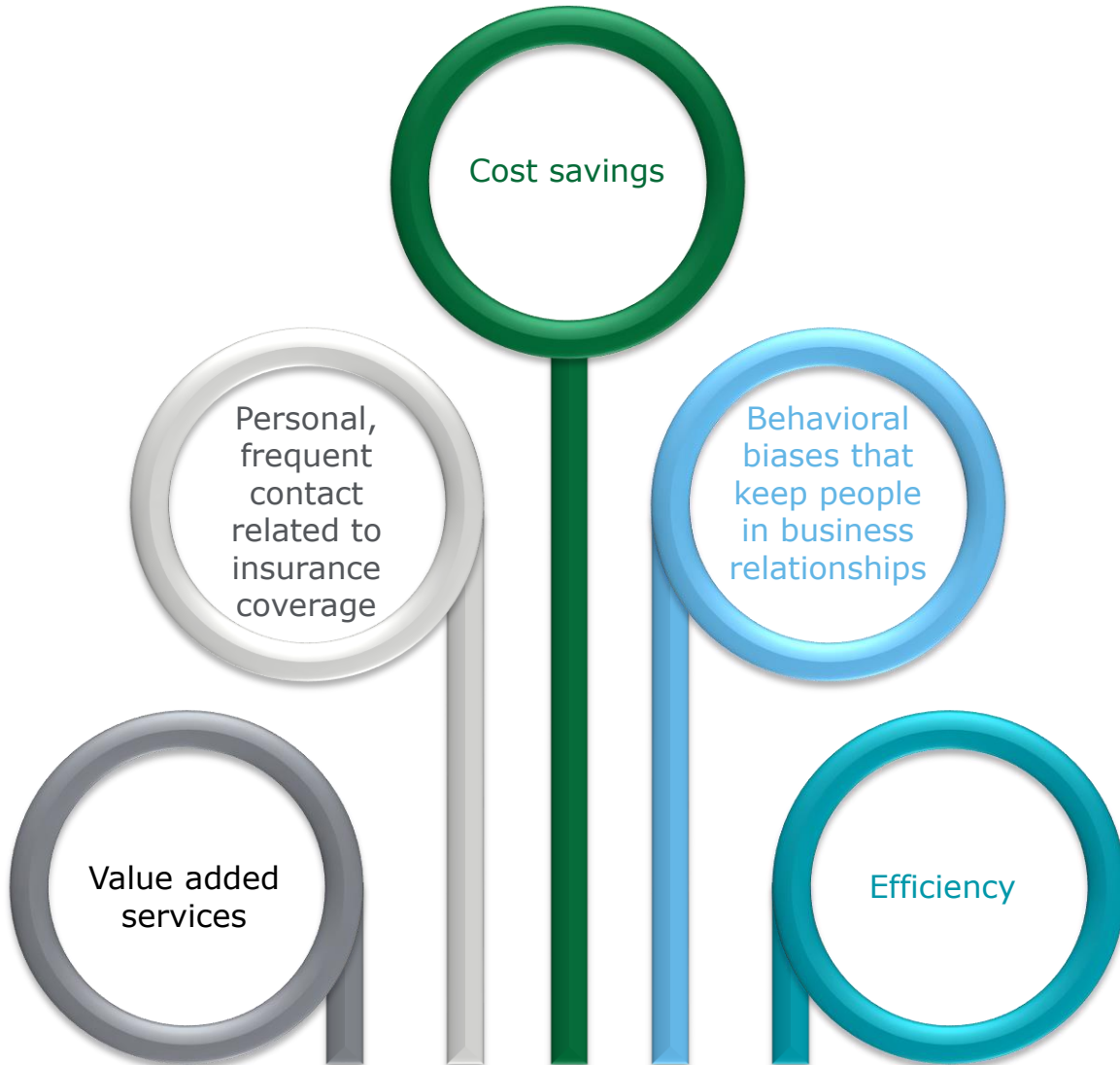
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Research indicated several paths insurers could take

Direct initiatives will be launched, albeit slowly, requiring a response from legacy agency competitors



Each strategy should incorporate evolving small business consumer demands





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