2012 Insurance Shopping Study℠

THE ROLE OF THE WEB IN SHOPPING FOR INSURANCE

April 2012

Insurance Practice

Overview

The US personal auto market is characterized by a very high rate of policy retention, in part driven by consumer inertia and strong financial incentives many carriers offer to long-term or loyal customers. In the 10 years that J.D. Power and Associates has monitored annual auto policy renewal rates, retention has been remarkably stable at nearly 89%, which is dramatically higher than in many other product or service sectors. Even so, in this marketplace, which generated $169 billion in premiums in 2011, the 10% of customers who switched carriers during that time period represented an addressable market worth nearly $17 billion. This may explain in part why the industry spent a combined $5.7 billion in advertising expenditures chasing new business, compared with approximately $1.6 billion 10 years ago.

However, the marketing rules have changed during the past 10 years. According to the US Department of Commerce, the proportion of the US population with Internet access has grown from nearly 50% to approximately 80% of the population. This increase has helped bolster the sale of goods and services online, which has increased fourfold (from 1.2% of retail sales to 4.8%)[1] over approximately that same time period. Consumer purchasing behavior has forever changed as greater price transparency—combined with the convenience, speed, and ubiquity of online service—has driven many traditional retailers out of business. J.D. Power research finds that more consumers are also turning to the Web for essential services such as banking (88% of customers bank online[2]) and utilities. This management discussion will focus on the impact the Web has had on how consumers shop for auto insurance and, in particular, how it is forcing traditional agency companies to adapt.

[1]Source: US Department of Commerce Quarterly Retail E-Commerce Sales, 4th Quarter 2011; http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf
[2] Source: *J.D. Power and Associates 2012 Retail Banking Satisfaction Study*SM

How Shoppers Are Using the Web

While the proportion of shoppers visiting the website of at least one insurer or a quote aggregator to request a quote has remained relatively stable over the past 3 years, the proportion of shoppers who were able to complete all their shopping activity online (i.e. never use another channel to quote and/or purchase) has increased by more than 50%. The *2012 Insurance Shopping Study* finds that 73% of shoppers visited an insurer's website during their most recent shopping experience. While some of these visits are simply to get contact information or locate an agent, the majority of visits are to obtain a quote. This growth in the availability of online quoting and insurers responding with enhanced tools and a better quoting experience has caused a marked shift in the way shoppers are gathering insurance quotes today. More shoppers are now relying solely on online channels to obtain quotes—and the proportion of customers doing so has increased over 50% to 23% in the past 3 years alone. Additionally, the study finds more customers say they would prefer to purchase their policy online.

Channels Used for Quoting

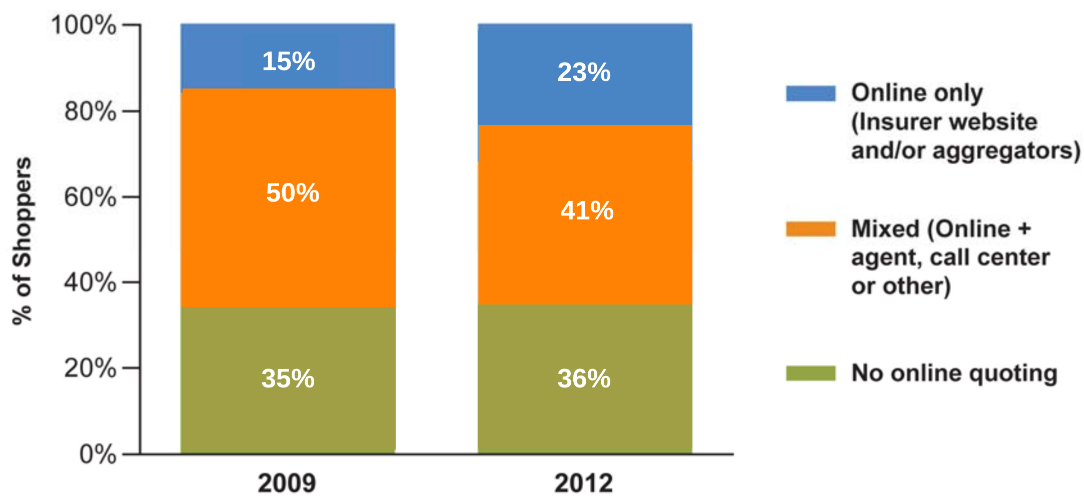

Figure 1

As more shoppers interact exclusively online, insurers and their sales agents face a real challenge differentiating their services, as fewer shoppers today speak with a person during their shopping process. Additionally, in the same time it takes for a more traditional shopper to call or visit an agency during their lunch hour to discuss their insurance needs, an online shopper is more likely able to visit three or four insurer websites or even canvas their options via an independent, third-party aggregator site.

The proportion of shoppers relying solely on online channels is even more pronounced when analyzing prospect quotes (i.e. quotes obtained from potentially new insurers). Nearly one-third of shoppers gather all of their prospect quotes exclusively online (Figure 2). The remainder of this management discussion will focus on how shoppers use the Web when gathering these prospect quotes. More than half of all online shoppers in the 2012 study indicate they visited at least one insurance company website to gather quotes from a new insurance company. About 30% of online shoppers report using one or more quote aggregators, with nearly half of these shoppers exclusively visiting aggregators and do not quote through an insurer's website. However, even among those shoppers who did not obtain any quotes online, nearly 40% visited an insurer's website, presumably to either investigate their offerings or obtain contact information. Even shoppers who are only quoting through aggregators are still visiting insurer websites, just not completing an online quote request directly with the insurer website. A combined 73% of all auto insurance shoppers visited at least one insurer's website during their most recent shopping experience.

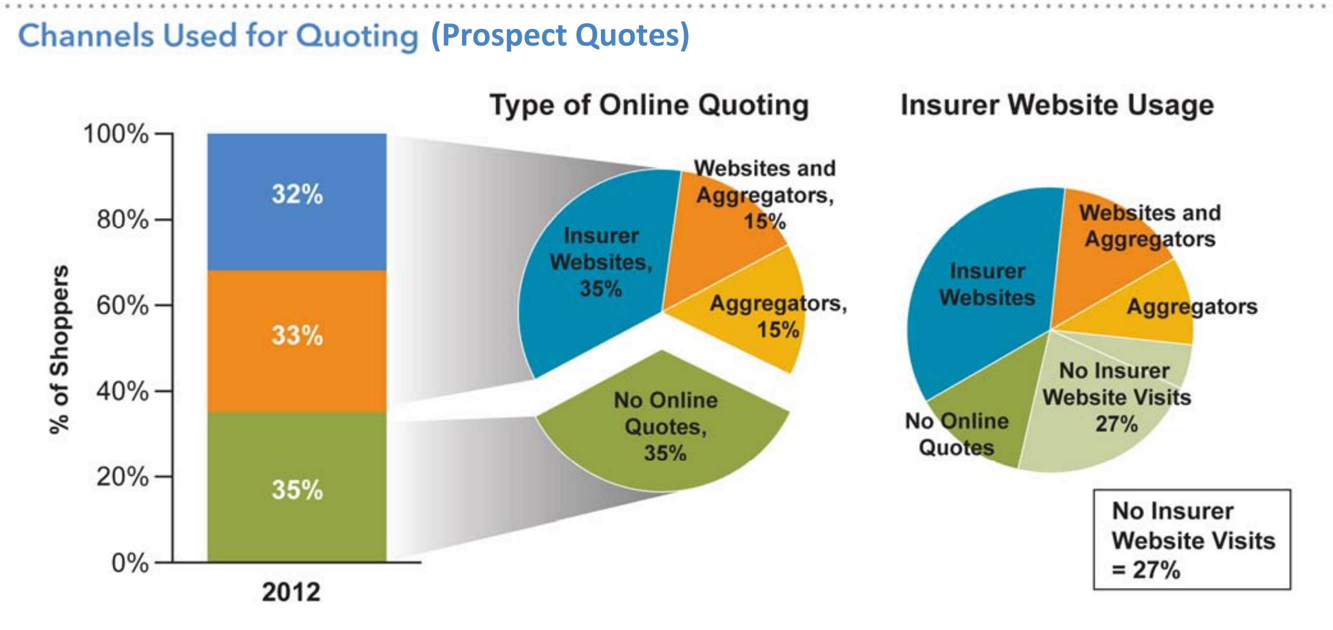

Figure 2

Exclusive Online Shopping Behavior

The Internet is not only a popular channel, chosen by a majority of insurance shoppers, but it also serves as the starting point where many shoppers begin their search for a new carrier. Therefore, it is vital that insurers have a presence on the Web as well as a strategy for targeting prospects and differentiating their brand and policies in a very transparent marketplace. The trend toward using the Web to request quotes is further emphasized by a similar trend among shoppers who would also prefer to select and bind their new policy entirely online. In the 2012 study, over two-thirds of shoppers (70%) who started their shopping process exclusively on insurer websites stayed with that channel for their entire shopping experience. This highlights the need for insurers to be able to deliver a quick, easy and informative quoting experience while also offering the ability to purchase the policy online.

Type of Online Quoting

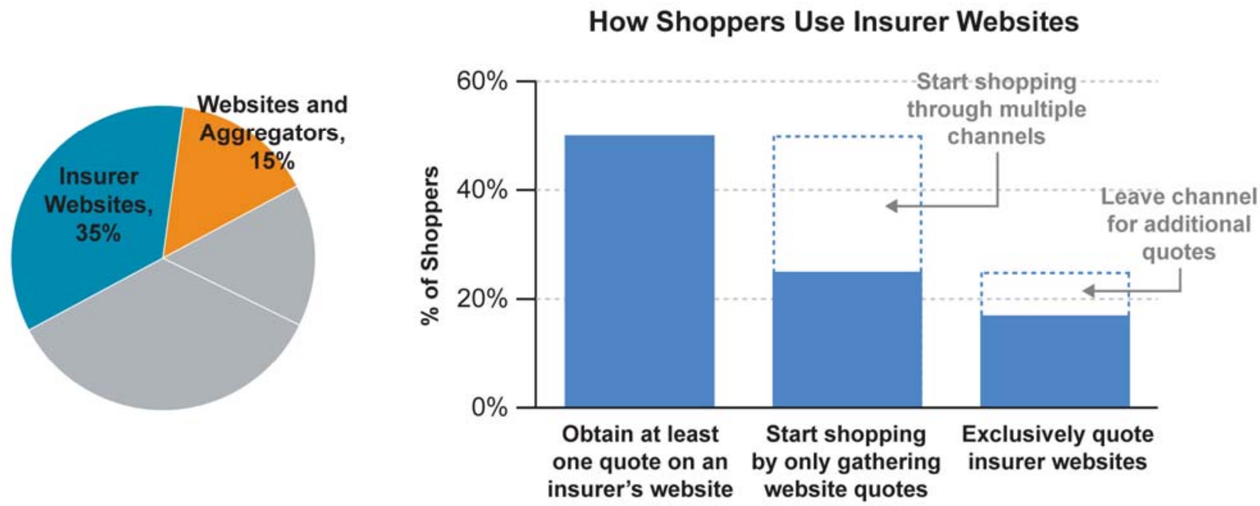

Figure 3

Integrating the Web into Traditional Sales Channels

One in four shoppers who start their search by visiting insurers' websites and requesting quotes then switch to a traditional channel to talk with either an agent or call center representative. Among these shoppers, the most common reasons given for doing so are to either confirm the online price quoted, or to try and negotiate a better price by talking directly with a sales representative. However, one in four such shoppers say they prefer to talk with a person to finalize the purchase.

Reasons for Quoting Different Channels

Top Reasons for Multiple Quotes	Initial Quote: Insurer Website
Confirm the price/quote	48%
Find a better price/quote	43%
Wanted to research/find additional information	38%
Wanted to talk to a person (e.g., had questions)	26%
Limitations of Website	20%

Figure 4

Web Perceived Failure Drives Prospects Away

Nearly one in five shoppers who first requested a quote on an insurer website opted to switch to a traditional sales channel because of limitations of the website—they found the website either too slow or incapable of providing them with a quote. This channel failure rate ranges widely by insurer, from a high of 26% for Farmers to a low of 16% among GEICO and Progressive shoppers.

Shoppers Who Switch Channels Due to Limitations of Website

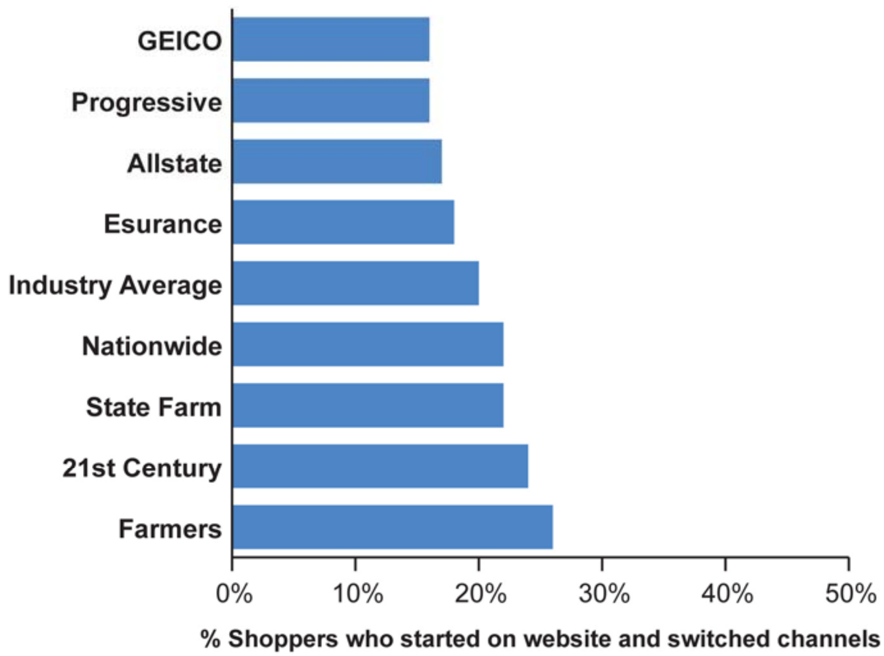

Figure 5

However, these findings only reflect the experience of those shoppers who persevered after struggling to shop at an insurer's website and crossed over into another channel to continue their search for an insurance quote. Another significant proportion of Web shoppers gives up entirely and abandons their attempt to shop online with an individual insurer. An analysis of shoppers who attempted to gather a quote on an insurer's website but failed in their attempt, and never quoted the company as a result, reveals a large variation in how successful insurer websites are in quoting shoppers. The lowest-performing insurer in this metric had 16% of all website quote applicants abandon the brand after failing to receive a policy quote. In contrast, GEICO saw only 1% of online shoppers "escape" in this manner without being presented an offer.

Which Insurers Are Capturing Online Shoppers?

While the proportion of auto insurance shoppers using the Internet has remained relatively constant during the past 3 years, the industry has improved online sales capability significantly and in 2012 meets the expectations of more than half of all online insurance shoppers who would prefer to bind their new policy online. More than one-third of recent shoppers indicate their preference would be to purchase online, an increase of 3 percentage points from the 2011 study. The next section of this management discussion will focus on this growing segment of shoppers and compare different strategies insurers use in quoting and winning their business.

Shoppers who indicate they would prefer to purchase auto insurance online are typically younger, more often single, and typically less likely to shop for multiple policies. On average, when these shoppers begin the process, they gather more quotes and are more apt to be seriously shopping rather than price checking.

Shopper Profile–Purchase Channel Preference

Shopper Profile	Preferred Purchase Channel	
	Agent / Call Center	Insurer's Website
Average Quotes Gathered	2.3	2.9
% Male	50%	53%
% Single (never married)	18%	26%
% Gen Y	26%	40%
% Bundled Shopper	51%	29%
% Price Check/Not Switch (Shop Intent)	23%	19%
% Switched Insurers	45%	45%

Figure 6

Figure 7 lists the insurers with the largest share of quotes among shoppers whose preference would be to buy online, as well as their corresponding conquest rates (i.e. proportion of business won among quotes provided). The big four brands all have high rates of being quoted by these shoppers, but Direct, online-based insurers Esurance and 21st Century are quoted by these shoppers more often than Farmers which sells primarily through its agency channel. The 2009 acquisition of 21st Century by Farmers clearly increases the company's access to this growing segment of the market.

To-date, Agency-based insurers have not had the same appeal among Web-preference shoppers who want to interact online with their insurer. GEICO has the highest close rate among this segment at 23%. The large Agency-based writers all average conquest rates around 10% of shoppers, substantially lower than their comparative conquest rates among shoppers who prefer to purchase through agents.

Shoppers Who Prefer To Purchase Online

Top Insurers Quoted	% of Shoppers Quoting	Conquest Rate
GEICO	50%	23%
Progressive	45%	18%
Allstate	40%	10%
State Farm	34%	10%
21st Century	19%	15%
Esurance	18%	13%
Farmers	18%	8%

Figure 7

Online Quote Aggregators—The Third Option

In addition to traditional or website sales channels, a third option many insurers also utilize to find prospects online is to purchase leads from Internet quote aggregators. Aggregators can be a good lead-generation tool for companies without an established Web presence or those looking to expand their online footprint to reach more shoppers online. Among consumers who shopped in the past 12 months, 30% indicate they obtained quotes via one or more online aggregators. While half of these shoppers make a quote aggregator their first stop in gathering insurance quotes, the remainder indicate they have used aggregators but not exclusively, also reaching out to some insurers directly to start the quoting process.

Prospects who seek the convenience of using an aggregator's website appear to be more often price-checking rather than committed to switching insurers, as nearly 60% never follow up on any of the quotes they receive through aggregator sites.

Type of Online Quoting

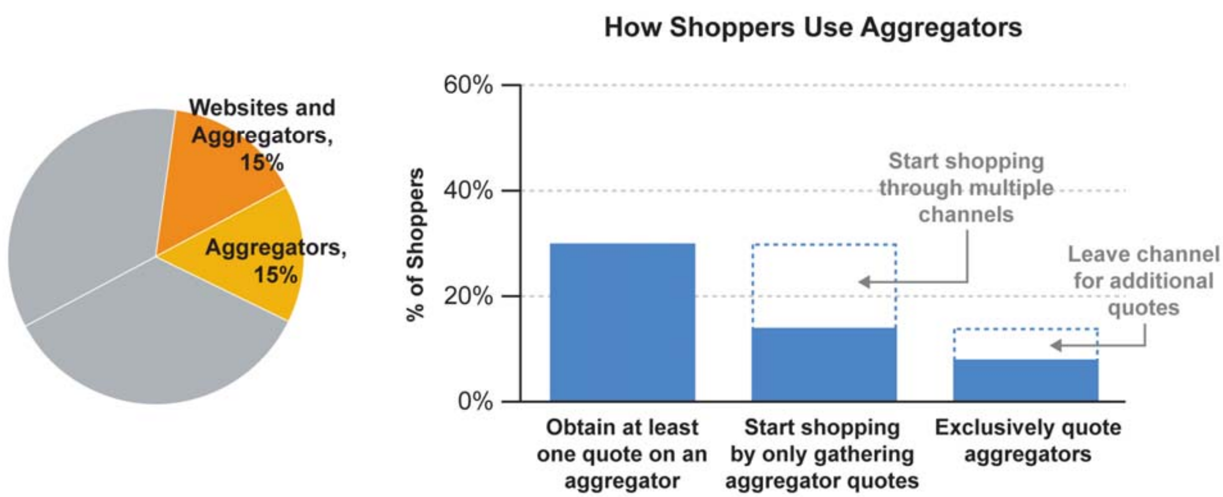

Figure 8

Brand-level performance of aggregator leads varies significantly. For example, Travelers leads the industry in getting 33% of aggregator prospects to also obtain a quote from an agent or directly through Travelers. In contrast, less than 20% of shoppers who received an aggregator quote for The Hartford went on to obtain another quote from The Hartford directly.

Insurers Quoted Most after Aggregator	
Travelers	33%
USAA	33%
Liberty Mutual	29%

Insurers Quoted Least after Aggregator	
The Hartford	19%
Nationwide	21%
American Family	22%

Figure 9

Conclusion: Strategies for Using the Web to Win Business

While the Internet is by no means a new sales channel for insurers, the share of new buyers through this channel has steadily increased, and the impact of websites and mobile applications is now pervasive across the industry, not merely for a handful of direct writers. Many companies today are struggling to adapt both their sales and service business models to this new self-service paradigm. While this management discussion investigates the adoption and efficacy of the Internet sales channel in personal auto insurance shopping, the management discussion for the *J.D. Power and Associates 2012 National Auto Insurance Study,*℠ scheduled for release in June, will separately examine the impact of the Internet on policy servicing.

There are a number of Internet strategies evident in the marketplace today for US insurers, each with inherent advantages but also limitations. The challenge for insurance companies is to craft a brand-relevant mix of these strategies that maximizes the return on investment via new business production, yet is balanced against cost. The primary choices among the various Web options include:

1. Purchase Leads from Quote Aggregators

For many smaller insurers, this is the least expensive option and often the starting point for the Web marketing strategy, since it requires minimal investment in website functionality and sales support. Partnering with quote aggregators can be quickly integrated into existing sales infrastructure in that leads are purchased based on insurer preferences and then relayed to existing sales channels. As has been shown in this management discussion, this strategy, if used exclusively, will not present a brand to a majority of online shoppers since less than one-third visit an aggregator. Furthermore, aggregators typically attract a higher proportion of shoppers who are only checking price since most quotes are ignored and not pursued directly with the insurer. Since the aggregator business model is maximized by selling individual leads to as many agents or insurers as possible, the conquest rate tends to be lower for these prospects. The study finds that on average, approximately one in four quotes is pursued further by shoppers. Clearly, insurers will only invest in aggregator leads if the cost per lead is low enough to still be profitable at the conquest rate that each insurer achieves.

2. Launch or Acquire an Affiliate (Online) Brand

There have been two significant acquisitions of direct brands by traditional agency companies in the past 3 years—Farmers acquiring 21st Century, the AIG Direct brand, and, more recently, Allstate Insurance purchasing the Esurance brand. These two Agency-based insurers have continued to market and support these separate, Direct brands, both targeted more toward younger online shoppers. Certainly this is one strategy that is working for both Farmers and Allstate, as both are getting another chance to capture these policyholders through their preferred channel and are more successful in achieving this outcome. However, the cost of supporting multiple brands in the marketplace can be substantial, potentially putting this strategy beyond the reach of smaller, regional insurers. Indeed, Progressive abandoned its own Direct vs. Agency brand strategy in favor of focusing on developing two channels under a single, combined brand marketing strategy to great effect, gaining 4.8% premium growth[3] in 2010 alone.

Long-term, it also remains to be seen whether the younger 21st Century and Esurance customers will be loyal to these brands, or will mature into the parent company brand, or defect to competitor multi-line writers as their insurance needs change over time. This is a challenge experienced in the automotive industry, with vehicle manufacturers questioning how to maximize customer retention—for example, whether to migrate a Scion customer to the Toyota brand, or to develop a full vehicle lineup within a brand division, which has more typically been the case for domestic manufacturers GM and Ford Motor Company.

For insurers, perhaps the biggest challenge is not in developing online quoting capability but rather in building the online brand presence and ultimately building a sales and service capability to handle prospects once they visit an insurer's website. Esurance, for example, was obliged to establish a customer contact center to service customers who were not comfortable handling every service transaction via the Web.

3. Establish a Website "On Ramp"

If the second option of essentially building or acquiring an insurer with a strong online presence represents a larger investment than is feasible, a third alternative is to expand the capability of the insurer's website and market it to shoppers, but then quickly redirect them to established sales and service channels. This approach would certainly expand the addressable market for traditional insurers, increasing the odds that a shopper who begins their selection process online will become aware of and potentially consider a brand. However, the study finds that as many as 16% of online shoppers who visit an insurer's on-ramp website will abandon that insurer before completing a quote application, and a further 20% are frustrated over limitations of the quoting process online; while some shoppers may cross over into other channels, others may leave to consider brands with more capable websites. Minimizing the number of these escaped shoppers in the future will depend on ensuring that shoppers are afforded the option to bind via their personally preferred channel, rather than the channel dictated by the insurer.

To illustrate this point, Figure 10 below compares shoppers who wanted to purchase their policy online and considered GEICO and State Farm. A significant proportion of shoppers for both companies indicate they started at the insurer's website (61% and 45%, respectively). GEICO conquested 28% of the shoppers who started at their website, which is more than three times the rate of State Farm. Furthermore, GEICO actually completed more than 80% of these sales online, while two-thirds of the business State Farm closed, based on online quote requests, did so through an agency.

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[3] Source: NAIC statutory filings based on DPW from 2009 and 2010.

Shoppers Who Prefer To Purchase Online

	Initial Quote on Website	Conquest Rate	Purchased Policy on Website
State Farm	45%	9%	33%
GEICO	61%	28%	82%

Figure 10

Obliging shoppers to cross channels in order to complete their purchase appears to be costing State Farm business, because while the insurer is only winning 9% of online prospects, an additional 48% go on to purchase a new policy from another insurer, and almost two-thirds of these escaped shoppers do so online with a competitor. While price is a primary driver of purchase decisions, the second leading reason these shoppers gave for selecting another company was the ease of using the website (48%).

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