

Digital Services Play a Key Role for Insurers and Agents

WHITE PAPER

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David Potterton
August 2009

IN THIS WHITE PAPER

In the spring of 2009, Financial Insights conducted a survey of insurance agents/brokers from the United States, the United Kingdom, France, and Germany on financial digital services. Financial digital services is defined as the distribution of content, information, or product across the Internet, mobile device, or other electronic delivery channel. The goal was to understand agents' usage of and satisfaction with the digital services provided by their insurers. In addition, insurance companies were surveyed and asked to gauge their agents' satisfaction. Comparing the results from these two parties gives insight into the digital services trends of both insurers and their agents, as well as any opportunities for improvement or increased investment.

Highlights of this document include the following:

- Insurer Trends
- Agent/Broker Trends
- Challenges/Opportunities

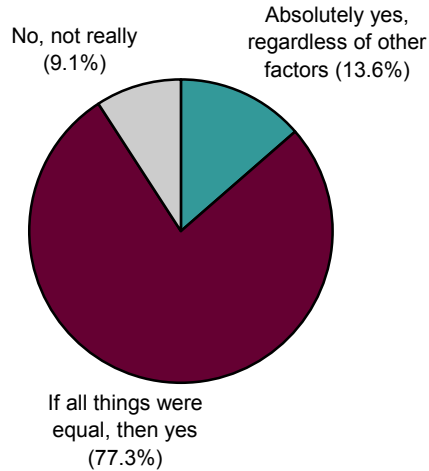
SITUATION OVERVIEW

Insurer Trends

Insurers are beginning to recognize the important role that digital services play in the relationships they have with their agents and brokers. Almost 91% of firms believe that their ability to provide "very effective" digital services influences the decisions of agencies to do business with them (see Figure 1).

FIGURE 1

Does Your Ability to Provide "Very Effective" Digital Services Influence an Agent's Decision to Do Business with You?



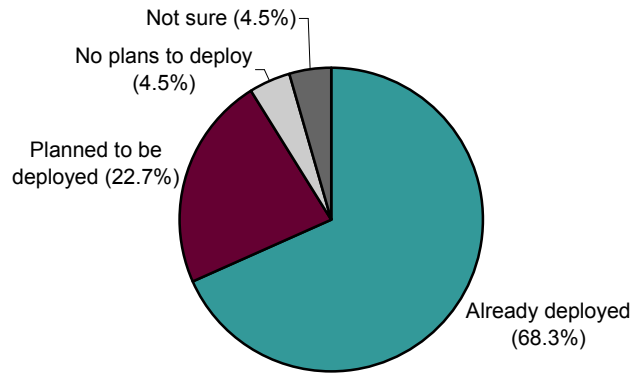
Source: Financial Insights, 2009

In keeping with this trend, companies are beginning to expand their electronic solution offerings. The survey asked firms whether or not they provide 10 specific digital activities to their agents. For all 10, over three-quarters of the firms either had deployed or were planning to deploy such a service to their agents/brokers. Automated Web site log-in, offered by 68.3% of the firms, is currently the most widely implemented service (see Figure 2). On the other end of the spectrum, only 27.3% of insurers offer electronic downloads of claims transaction data. However, a full 54.5% of insurance companies plan to deploy just such a service, making it the most rapidly growing of all the digital functions in the survey (see Figure 2). The fact that even the least used activity is slated to be deployed by so many firms shows a commitment to increasing the breadth of digital services and an acknowledgment of how important these services are to retaining agents.

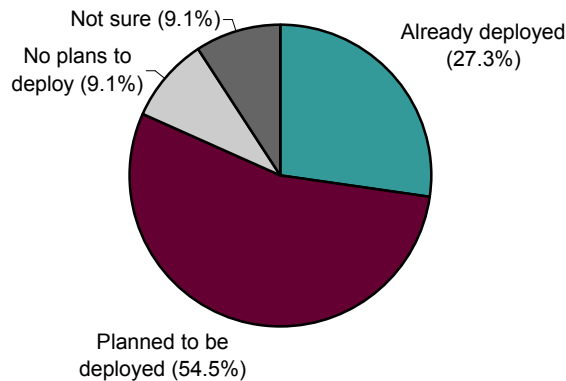
FIGURE 2

Digital Activities Offered

Web Site Automated Log-in/Password Validation



Electronic Download of Claims Transaction Data

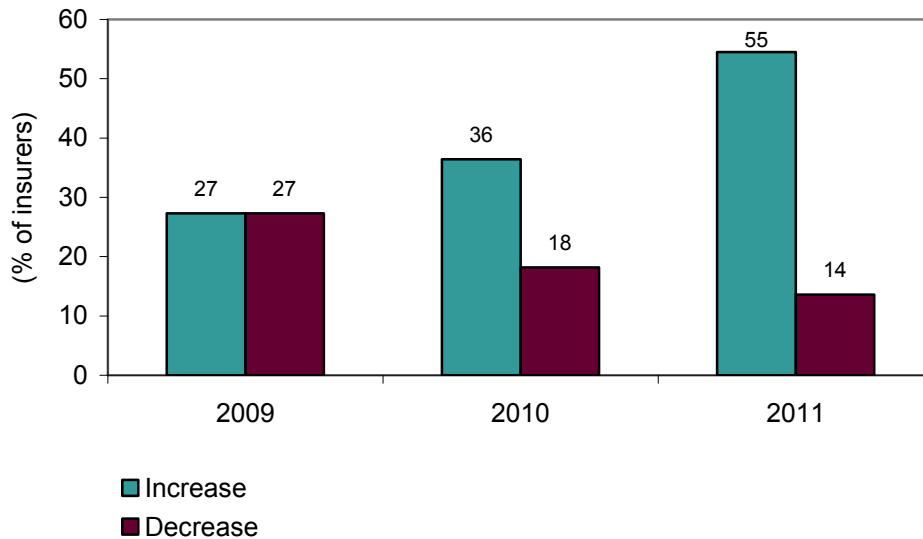


Source: Financial Insights, 2009

Surprisingly, despite what appears to be an acknowledgment of the importance of digital services, for 2009, firms are just as likely to decrease as increase their investment in digital services. However, the current economic downturn could go a long way toward explaining such a trend. By 2011, when many economic forecasts are decidedly less grim, over half the companies surveyed plan to increase their investment in digital services, while only 13.6% plan to cut back. Once the resources are available, insurance companies plan on following through with their commitment to increase electronic solutions (see Figure 3).

FIGURE 3

Investment in Digital Services to Support Agents/Brokers



Source: Financial Insights, 2009

Insurers are also recognizing the importance of digital services to their end clients. When asked about the channels through which they communicate with these clients, insurance companies ranked mail as the least important, behind digital options such as Web pages, email, and online chat. Accordingly, out of all the channels through which insurers communicate with their end clients, they plan on allocating the least amount of resources toward mail. The greatest amount of resources will go toward companies' Web sites, followed by mobile services and then email.

As far as what technologies insurers use to deliver information to their brokers, the most used platform was Adobe Reader. All responding firms use Adobe Reader to communicate with their agents through PDFs.

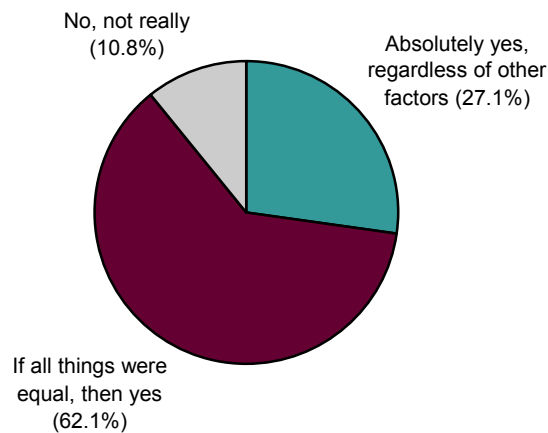
Insurers are also getting on board with their clients' agency management systems (AMS). A majority of insurers support the download of data from their systems to the agency management systems of brokers in seven out of eight business categories included in the survey. The only category not to garner a majority was direct bill commission statements, which is still supported by 50% of insurers. To a certain degree, AMS use is a two-way street. A majority of insurers also support the uploading of information to their Web sites for business transactions such as inquiring about claims information and making endorsements to existing policies. However, less than half of the firms use real-time data upload capabilities to quote and submit new business or remarket/renewal business.

Insurance Agent/Broker Trends

Insurance agents and brokers are using more digital tools and also want them from their insurers. When asked whether their decision to do business with an insurance company would be influenced by that firm's ability to provide "very effective" digital services, more than a quarter of respondents said that it was an important component of their decision regardless of other factors. Another 62.1% agreed that insurers' digital offerings were important, if all other things were equal. So, for a large majority of agents, electronic solutions are the make or break factor in their decision to do business with a company (see Figure 4).

FIGURE 4

Does an Insurer's Ability to Provide "Very Effective" Digital Services Influence Your Decision to Do Business with It?



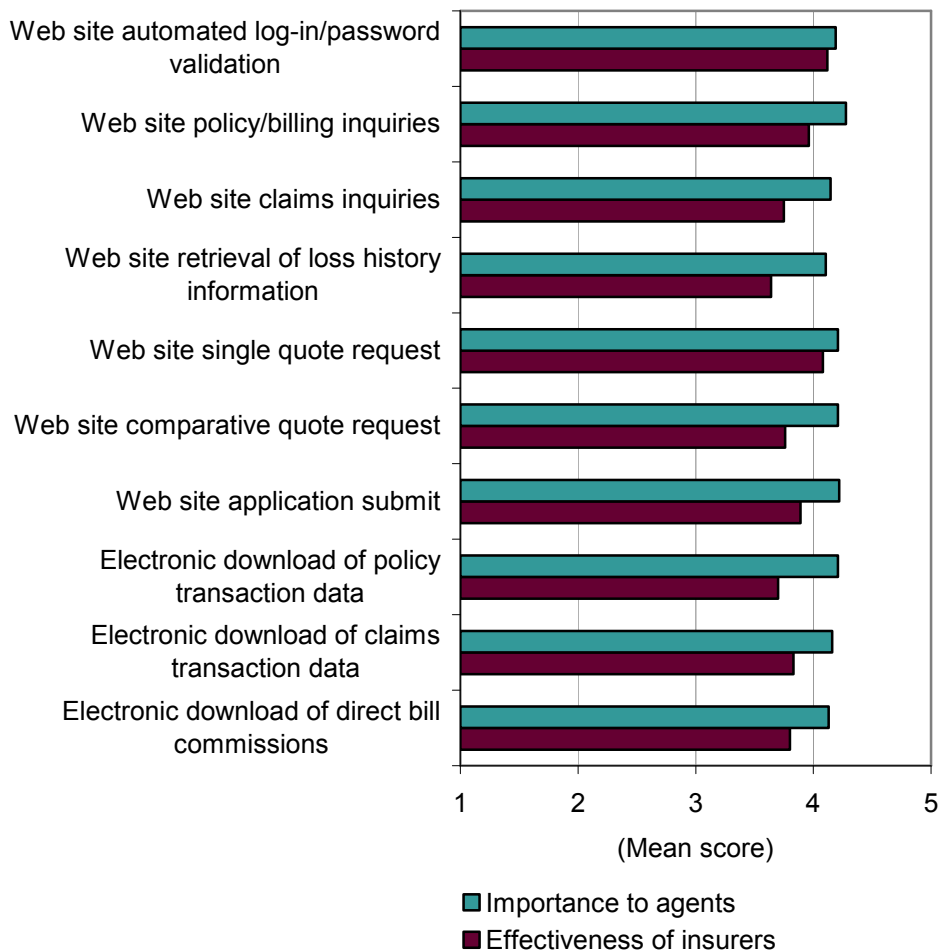
Source: Financial Insights, 2009

Agents were also asked to rank the importance of 10 specific digital activities on a scale of 1 to 5, where 1 is "not very important" and 5 is "very important." The mean ranking was above 4 for each of the activities, further validating the fact that agents highly value a variety of digital services (see Figure 5).

Agents were then asked to rank the effectiveness of their top insurers in each of the same digital activities. A ranking of 1 indicated "not very effective," while a ranking of 5 indicated "very effective." Once again, the mean scores were very high, ranging from 3.64 to 4.12 (see Figure 5). This makes sense in light of the previous question. Digital activities are important to agents, so of course their "top" insurers are those that can provide these solutions effectively. However, there is a small, consistent gap between the level of importance placed on activities and the effectiveness of insurers. Importance outpaced effectiveness for every activity, with an average gap of one-third of a point. So, from the agent perspective, insurers' solutions are not quite keeping pace with their needs.

FIGURE 5

Digital Activities: Importance Versus Effectiveness



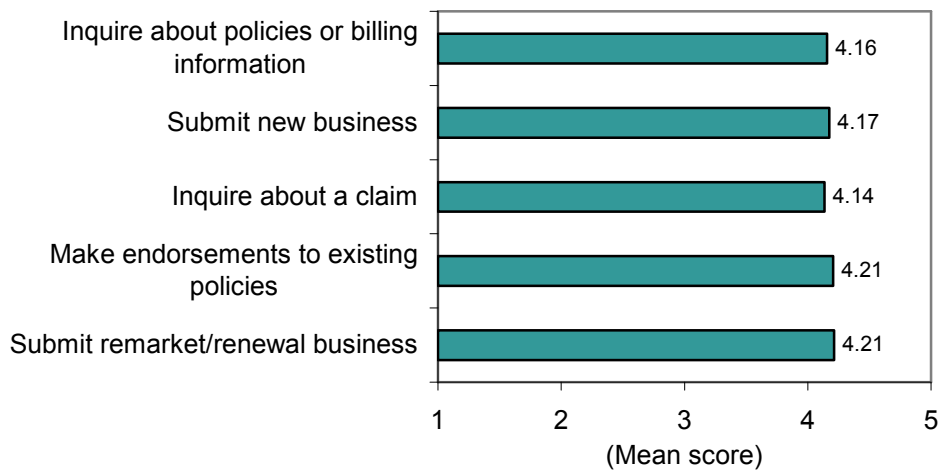
Source: Financial Insights, 2009

Fortunately for brokers, their satisfaction with their insurers' Web sites remains extremely high. Agents were asked to rank their satisfaction with five different Web site functions: submitting new business, submitting remarket/renewal business, inquiries on policies/billing, inquiries on claims, and making endorsements to existing policies (see Figure 6). Satisfaction was near 80% for all five Web site areas. When asked what characteristics determine the best Web sites, agents declared speed and ease of use as their top criteria for choosing the best site in four out of the five digital activities. Other key factors for choosing top sites included comprehensive offerings, good service, and user friendliness.

FIGURE 6

Agent Satisfaction with Insurer Web Sites

Q. Using a scale of 1 to 5, where 1 is "completely dissatisfied" and 5 is "completely satisfied," please rate your/your agency's satisfaction with insurer Web sites (in general) to...

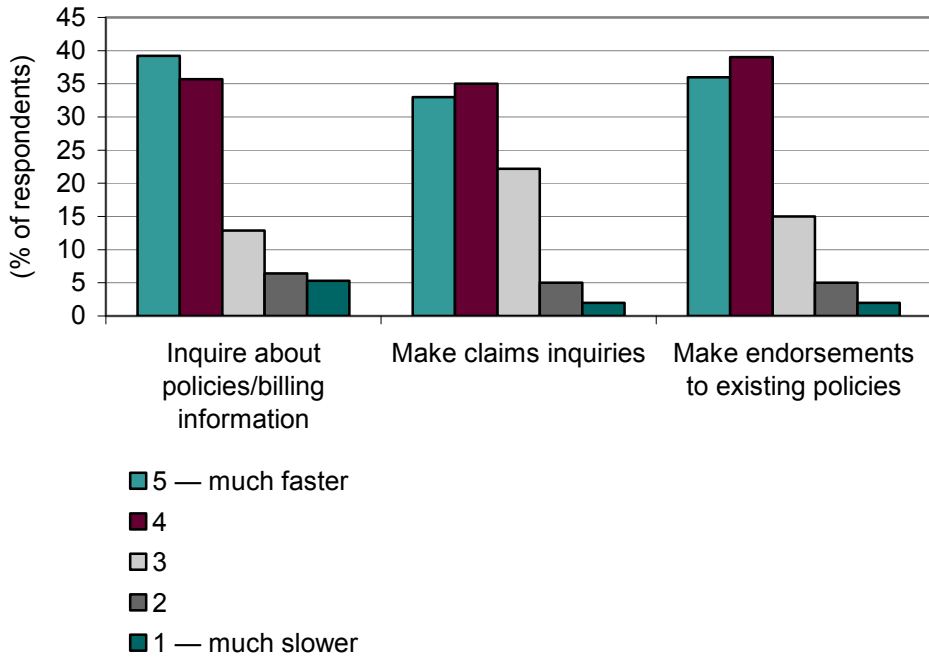


Source: Financial Insights, 2009

The reason for this overall preference for electronic tools is simple: Digital services help agents do their work faster. Large majorities of the brokers surveyed said that digital services improve the speed with which they can inquire about policies/billing information, make claims inquiries, and make endorsements to existing policies (see Figure 7).

FIGURE 7

Impact of Digital Services by Web Site Function

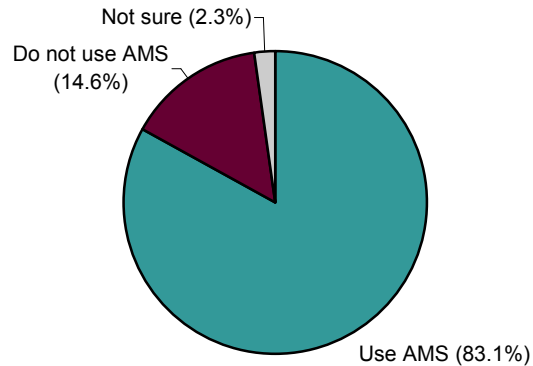


Source: Financial Insights, 2009

The abundance of brokers using AMS is another illustration of their growing reliance upon digital services. A full 83% of agents surveyed use some sort of automated procedure for quoting, rating, and submission (see Figure 8), and for the most part, these agencies are getting the support they need. Agents said that their insurance companies support the download of data from the insurers' systems in all eight of the areas mentioned in the survey. Direct bill commission statements received the least support (75.4%). Large commercial and risk management policy information topped the charts, with 93% support. Agents can also upload from their AMS. Brokers said that their insurers supported the upload of information for all four business activities mentioned in the survey, with an average of 88% support from insurers. Also, brokers said that their insurance companies use real-time data upload capabilities to quote and submit new business or remarket/renewal business.

FIGURE 8

AMS Use Among Agents



Source: Financial Insights, 2009

Although agents are interacting with their end clients in a variety of electronic mediums, traditional methods of communication seem to be holding their place. Brokers said that mail was just as important for their end-client interaction as email, Web sites, online chat, and mobile communication. In fact, call centers were ranked as the most effective communication tool. This importance is echoed in planned enhancements by agents over the next 12 months, with email garnering most of the focus, followed by mobile and then call centers. So, as much as agents rely upon digital services for their communications with insurance firms, more traditional means of communication remain the norm with end clients.

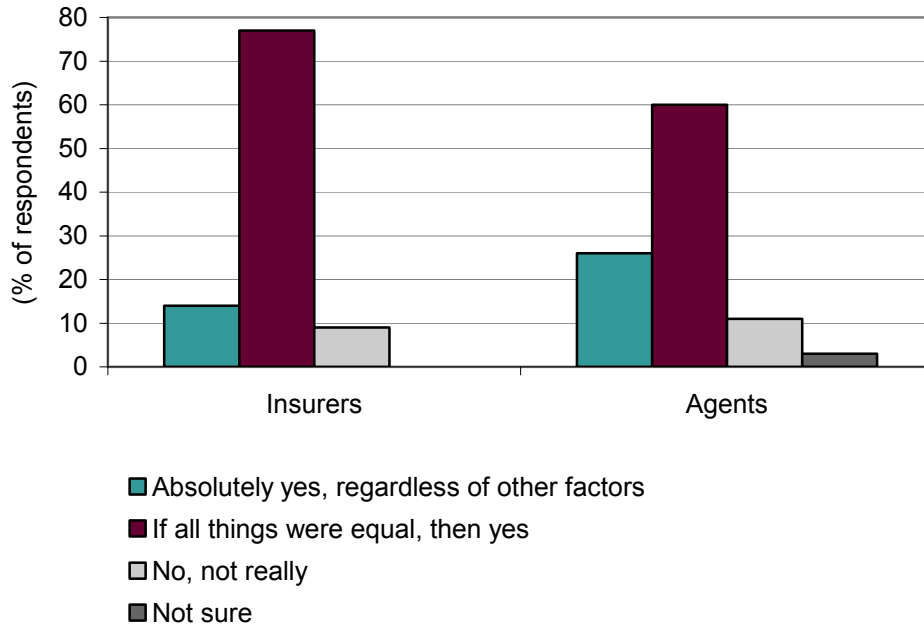
Challenges/Opportunities

In general, insurers and their brokers both recognize the positive and voluminous role that digital services play in their business. However, there were some discrepancies between responses from both groups, creating opportunities for insurers to increase offerings to their agencies in several areas.

Insurance companies recognized, for the most part, that their ability to provide "very effective" digital services to their agents can be a tipping point when it comes time to decide who to do business with. However, they underestimate the power of digital services. Insurers thought that only 13.6% of agents would use digital services as a criterion regardless of other factors. In actuality, a full 26% of agents said that this would be the case (see Figure 9). Twice as many brokers as insurers are deciding to do business with insurance companies based in large part on their digital services. To compete, insurance companies must now count digital services among their top priorities.

FIGURE 9

Does an Insurer's Ability to Provide "Very Effective" Digital Services Influence an Agent's Decision to Do Business with It?

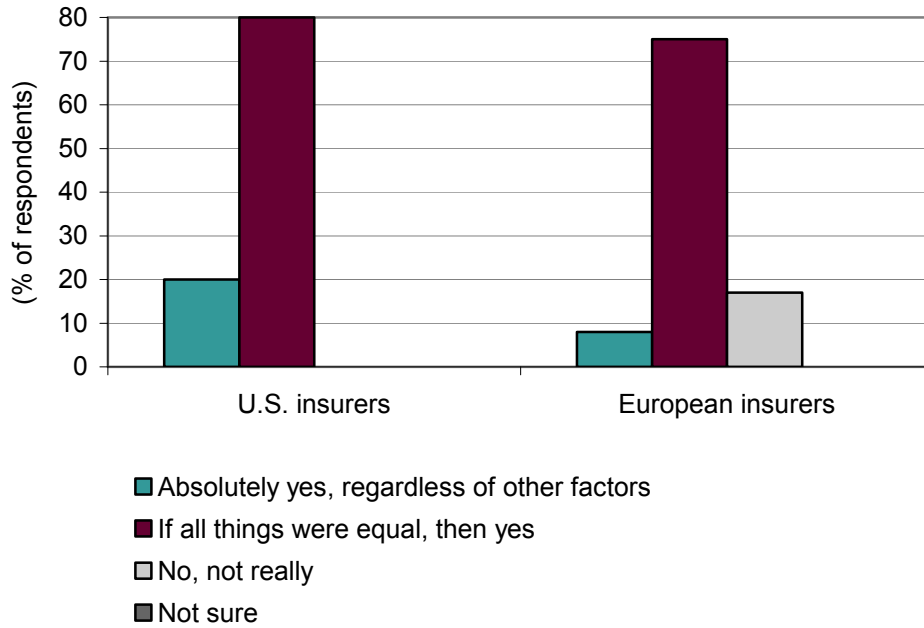


Source: Financial Insights, 2009

This discrepancy is even more pronounced among European firms. Though 23.8% of European agencies reported that digital services impacted their decisions regardless of other factors, only 8.3% of European insurance companies thought that this would be the case. In fact, 16.7% of European insurers thought that effective digital services didn't really factor into agents' decisions to do business with them. This disparate view among insurers from Europe and the United States is the main driver for the general disconnect between insurance companies and brokers (see Figure 10).

FIGURE 10

Does an Insurer's Ability to Provide "Very Effective" Digital Services Influence an Agent's Decision to Do Business with It?

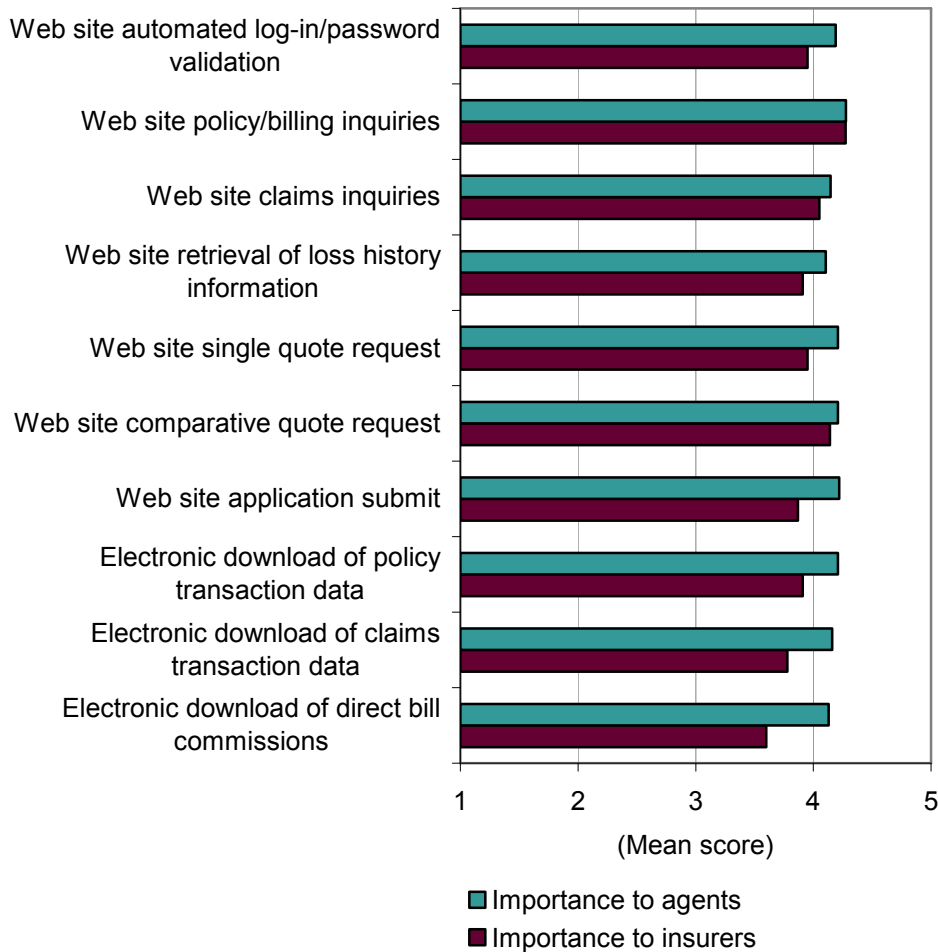


Source: Financial Insights, 2009

This same miscalculation on the part of the insurers shows through in the arena of specific electronic offerings. Insurers underestimate the importance of 9 out of 10 separate digital activities (see Figure 11). The activity that insurers underrate the most is electronic download of direct bill commissions. This activity received a rating of 4 or 5 (5 is "very important") from 80% of agents but only 50% of insurers.

FIGURE 11

Importance of Digital Activities: Insurers Versus Agents

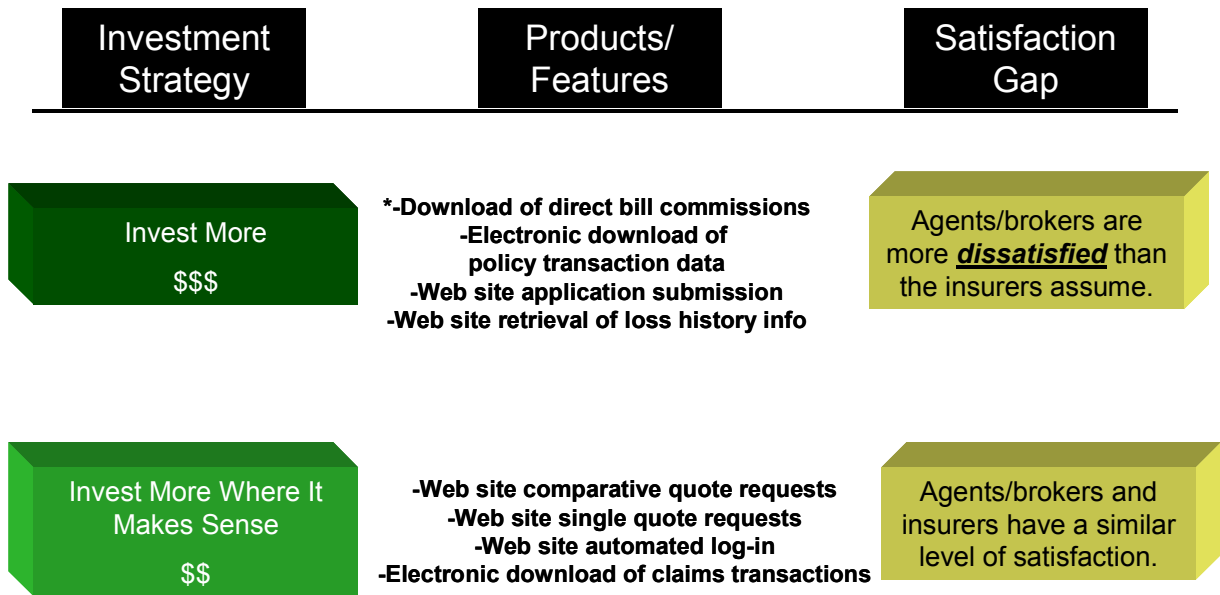


Source: Financial Insights, 2009

Such a discrepancy points to a preference on the side of the agents to use insurers that support these downloads. In other words, if three-quarters of the agents are using only half of the insurers, the half that supports downloads clearly has some advantage in attracting agents. Direct bill commission statement downloads allow agents to automatically generate financial statements itemizing the commission due to them and reconcile their data with their insurers' commission statements. This service has the potential to save agents valuable time. Clearly, the download of direct bill commissions represents a major opportunity for investment by insurance companies (see Figure 12).

FIGURE 12

Investment Analysis



* This activity has the highest level of dissatisfaction.

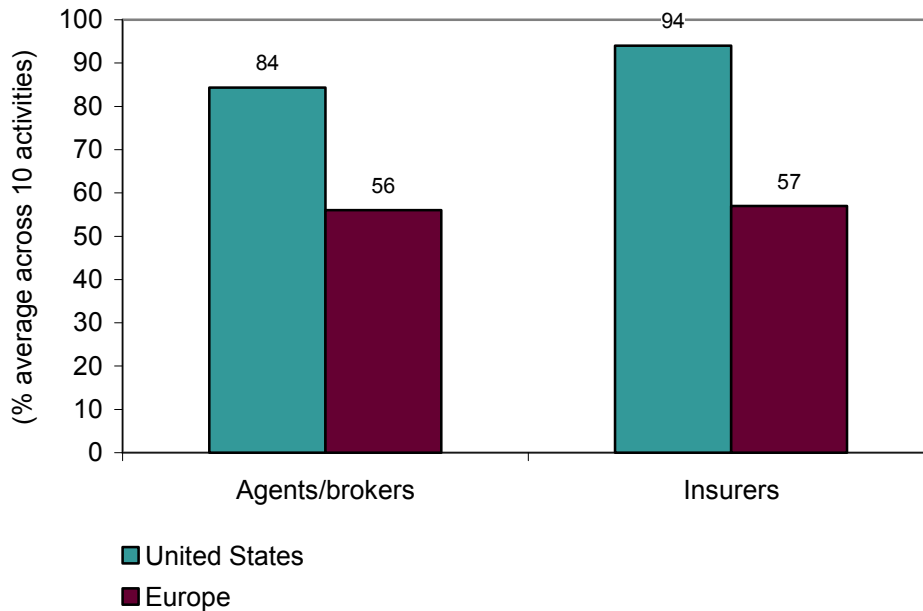
Source: Financial Insights, 2009

Similar room for improvement exists when it comes to uploading data from AMS to quote and submit new business or remarket/renewal business. While less than half of insurers support such capabilities, a majority of agents said that they use an insurer that does. Clearly these firms are capturing a large share of the agents.

As far as international comparisons, European insurers once again valued digital services far less than their U.S. counterparts (see Figure 13). Across the 10 digital services included in the survey, the percentage of U.S. insurers that rated the service as important was, on average, 38.2 points higher than the percentage of European insurers. On the agents' side, the average difference was 28.4%. In fact, the greatest degree of underestimation of the importance of direct bill commission downloads comes from Europe. Whereas 80 % of U.S. insurers thought these downloads were important compared with 83.3% of agents, only a quarter of European insurers thought they were important compared with one-half of all agents. Also, while U.S. agents, as well as agents in general, rated each service almost equally, European agents had a clear favorite. The percentage of European brokers that rated Web site single quote requests as important outstripped the percentage of European brokers that rated all other services as important by 19 points.

FIGURE 13

Firms Rating Digital Activities as Important



Source: Financial Insights, 2009

Insurers were not that successful in anticipating the challenges that agents face when digital services are not effective. Nearly a third of all insurers thought the biggest problem faced by agents in light of ineffective electronic tools would be increased time spent on policies and billing. In fact, brokers reported that the biggest problem they faced was the additional time spent on making endorsements. Only 4.5% of insurers anticipated this as the biggest problem.

CONCLUSION

The insurance industry (agents/brokers and insurers) and other financial sectors are under the same severe financial pressure as a result of the continuing financial and economic crises. To adapt and compete in this economic environment, agents/brokers and insurers are looking for strategies to help them move forward effectively. While many alternatives exist, three strategies that the insurance industry has embraced to date are streamlining processes, cost cutting, and improving customer service. From our survey results, we see the importance of financial digital services in all three of these strategies for insurers and agents/brokers alike, particularly in their interactions. While there continues to be room for improvement, digital services will be a critical element of competitive success for the insurance industry going forward.

METHODOLOGY

In the spring of 2009, Financial Insights surveyed 22 major insurance companies and 171 insurance agents/brokers from the United States, the United Kingdom, France, and Germany. The survey questioned the brokers and insurers about their satisfaction with digital services. The questionnaire responses were analyzed by Financial Insights industry analysts. Trends in digital services were established on both sides of the insurer/agent relationship, and opportunities for improvement were detected.

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