Carrier Management

Why Insurance Headquarters Must Evolve

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Disruptions across the insurance industry over the past decade have been nothing short of exhilarating. We have witnessed a dramatic shift in the leaderboard thanks to the rise of companies like GEICO and USAA. Advertising spend has increased fivefold—with industrywide spending now more than $6 billion annually. More recently, we have seen carriers venture into a broader ecosystem of products and services through telematics and smart home technologies.

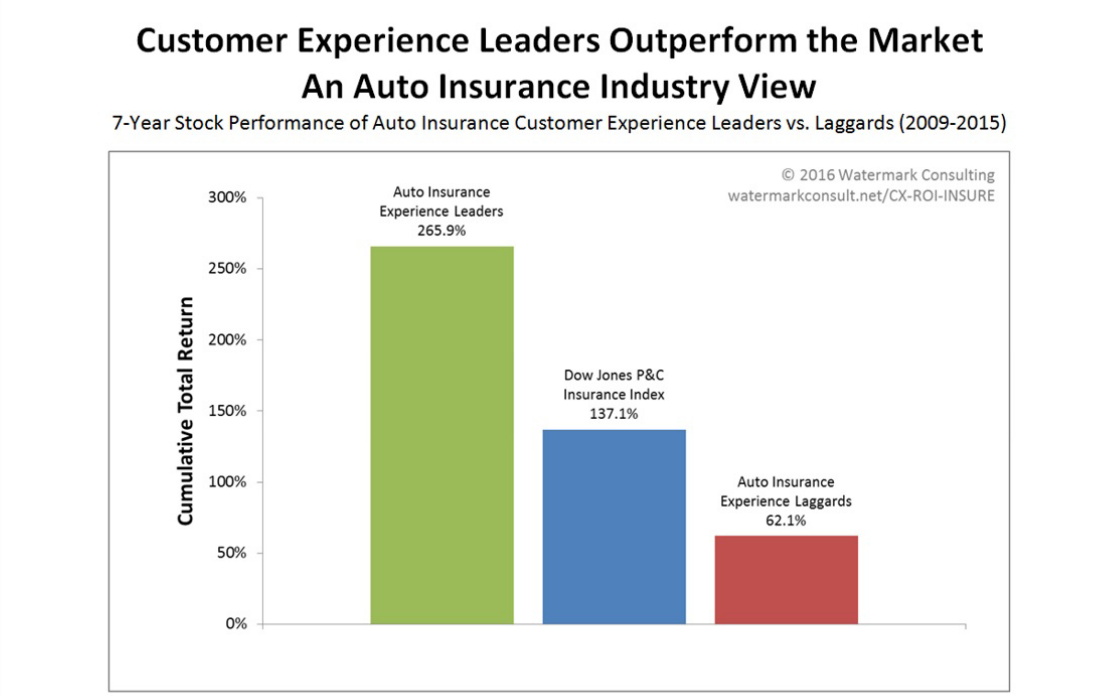
At the heart of these changes has been the industry's revolutionary shift to place the consumer at the forefront of the delivery model. An industry once dominated by channels is now being driven by consumer preferences, which is having a profound effect on the corporate core of many of the nation's leading property/casualty insurers.

So, what changed that required insurance carriers to function as consumer brands?

First, the highly competitive nature of the P/C insurance market is one of the primary factors. In an industry where growth often requires taking share from a competitor, a focus on the customer offers companies an opportunity to distinguish their brands. The two carriers cited above, GEICO and USAA, have experienced impressive growth by delivering on a clear value proposition to their chosen segments of the insurance market.

The second factor driving this trend is the rise of customer-empowered technologies in the shopping and servicing of policies. One poorly handled interaction, for example, can escalate quickly through social media outlets and put a brand on its heels.

Figure 1



Watermark defines Auto Insurance Customer Experience Leaders and Laggards as the Top 5 and Bottom 5 publicly traded insurers in J.D. Power's 2010-2016 U.S. Auto Insurance Satisfaction Studies. Comparison is based on performance of equally weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards.

The third factor, highlighted in a recent study produced by Watermark Consulting and J.D. Power, demonstrated the link between customer experience and profitability. Carriers recognize the importance that a positive customer experience has on maintaining long-term profitability and growth.

By focusing less on channels and more on the needs of the end-consumer, the relationship between corporate headquarters and their respective business units has been radically altered. For decades, most large P/C carriers relied on their individual business units to be responsible for managing day-to-day operations with

Less ← *Operational Involvement* → More

	Strategy and Oversight	Operationally Involved
Drivers of Corporate Value	▪ Value is created by business units closest to the customer ▪ Add value in the linkages between business units	▪ Value is created by corporate expertise through centralized governance ▪ Make key decisions for business units
The Role of HQ Core	▪ The strategic leadership of a collection of management entities	▪ The key managers of all business units that drive execution and commonality
Distribution	▪ Local captive and independent agents have autonomy and own the customer relationship	▪ Carrier owns the customer relationship often delivered through an omnichannel experience
Marketing	▪ Adhere to brand standards; however most acquisition and retention is delegated to the local level	▪ Use market intelligence to pursue the most attractive consumers that align with brand strategy
Products	▪ Limited data where personal credit, location, and asset type influence UW risk	▪ Big data with insights based on behaviors and preferences drive UW risk and product decisions
Services	▪ Decentralize and localize	▪ Centralize and track customer experience across all touch points

2018 J.D. Power Analysis

relative autonomy, while corporate was more concerned with the company's financial solidity.

Today, carriers are exhibiting a strong corporate brand and a high degree of commonality in core process and systems. In many ways, carriers are replicating the structure of a modern consumer goods company—investing heavily into consumer research and development, expanding their distribution networks, and venturing into new products and services—all with the end-consumer in mind. As a result, business units are now receiving significantly more operational guidance from headquarters.

The makeup of the typical carrier has elevated a fresh set of responsibilities to the agenda of the modern corporate core. Starting with distribution, traditional models had diffused most authority to their local agents—flexibility that allowed them to meet the needs of their local communities. As a result, local independent and captive agents maintained the primary relationship with the customer.

Now, that data and relationship are being centralized into an omnichannel experience that allows carriers to serve their target markets through multiple channels of support, where the definition of agent becomes blurred due to the rise of such capabilities as online chat.

Another area of adjustment has been in the management of marketing capital. Local agents had been traditionally empowered to use marketing dollars at their discretion if it met a common set of brand standards. Today, insurers are becoming much more targeted in the types of consumers they want to attract and retain.

As insurers have become more sophisticated in tracking consumers' preferences and behaviors, they are able to achieve higher utility for every dollar spent. However, no activity has been as widely impacted as the areas of products and underwriting. Big data has allowed insurers to make significant strides in risk modeling. As a result, underwriting and product innovation are now being shaped by improved consumer insights at the corporate level.

The operating model for the largest P/C insurers has clearly shifted to become more operationally involved as they realign to meet consumer expectations. Insurers that are late to evolve place themselves at a major strategic disadvantage. Not only are those carriers losing out on the efficiencies of scale that are achieved through commonalities, but the fragmented approach to the market also leaves them in the precarious position of adverse selection resulting from gaps in consumer intelligence. This unmistakable trend is requiring insurers to place big bets on where they want to succeed and the capabilities required by the modern corporate core to take them there. CM

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