

SMALL AND MEDIUM BUSINESS MARKET

10 profitable opportunities for insurers

The small and medium business (SMB) market has been a gray area for years for insurers and customers alike. Not many insurance carriers have made a significant push into this space even though the market has been ripe for the taking. However, that could change in short order as digital capabilities and data become more available and prolific. As the insurance industry is starting to evolve, the SMB market becomes an interesting growth opportunity. Customer needs and wants are beginning to shift, opening new value pools.

SIZE OF THE PRIZE

The SMB market is approximately \$110 billion within the US. When putting all lines of business (LOB) together there no single player that is a dominant force (>10% share) in the market. The SMB market has also proved to be quite profitable, running a below average combined ratio over the past few years. Taking a dominant position in this space would be a sizable opportunity (more than \$5 billion) for any insurer who is willing to make the necessary investment and commitment.

WHAT DOES IT TAKE TO WIN?

To win, thrive and gain market share in the small and medium business market, the following 10 considerations should be at the top of every carrier's list.

1. Refresh misaligned definitions

The SMB market has long been fragmented and loosely defined in various ways by all participants. Carriers define the market by multiple definitions, including "premium size," "agent and broker revenues," and "customers by number of employees." This creates misalignment across the solution providers and becomes difficult for organizations to navigate across constituents. Aligning on a singular definition within the organization and articulating it eloquently to the market will significantly reduce friction across the carrier and customer value chain.

The small and medium commercial market offers profitable opportunities and advantages for insurers

2. Customize your approach — no one-size fits all

Small business is not one segment, it is hundreds of segments put together. Streamlining the experience and designing products for one segment (for example contracting) is not going to solve for issues in the retail segment. Solving for small business is a complex endeavor and requires a customized approach. Carriers often create products that feel like they are one size fits all, but that is simply not the case. For example, a Business Owner's Policy (BOP) is designed to fit the masses — meaning they fit very few.

3. Retro-fit products do not meet SMB market demands

There have been half-hearted attempts at product development to solve for actual gaps in the market, all mostly coming up short. Most products are constructed from a retrospective lens (for example, loss costs are classified by SIC codes — standard industrial classification), and prior loss experience in middle market. Some create new endorsements for additional coverages needed (for example, food spoilage for a grocery store) but most do not, leaving the policyholder with protection gaps.

Pivoting to the future, insurers must develop products intertwined with the DNA of small and medium-sized businesses (SMB) rather than the middle market. Business Owner's Policy (BOP) is a prime example of a large risk product being watered down to fit the needs of SMB insureds. Dozens of rating variables and non-related questions often leaves insureds heavily over or under-insured, confused, and frustrated.

4. Develop new products with a customer first mindset

The SMB customer profile is unique and different from middle market customers. Small business owners typically have less than three years to generate a profitable business and are more likely to go out of business than to file a claim. Most SMBs have less than five employees.

Traditional products on the shelves do not solve for current customer needs. An innovative customer-focused mindset needs to be brought to the table when developing new, innovative SMB products. Carriers need to provide simple translations of insurance products to customer interactions. Small business buyers act more like personal lines customers than middle market customers in their desire for personal relationships and emotional connections. Creating these connections and truly understanding customer needs allows carriers to create sticky and effective products.

5. Streamline the digital journey

Every carrier is on their own digital journey and the focus on customer experience has surpassed product and brand as differentiators. Unfortunately, carriers are still building this capability and the work in progress is slow. If carriers pause their systems capabilities (which works in traditional agent-facing "9 to 5" models) for regular maintenance after hours and over weekends, they lose out on a big majority of the direct submissions — as most SMB customers shop 24/7. Being able to provide a robust digital experience relies heavily on utilizing straight-through processing (STP). Today, STP rates are still low, meaning human touchpoints are still needed and present in most transactions due to legacy systems and processes. This results in a clunky experience for both the customer and carrier. The more streamlined the digital journey becomes the more of a competitive advantage the carrier will gain.

6. Improve the customer experience

The number of intermediaries in commercial insurance complicates both the buying process and the revenue model. Customers simply do not possess the confidence or the proper information to always make well-informed decisions. Some still prefer face-to-face interactions while buying because they don't have the broader information, experience or tools. They are looking for advice in what is currently a complicated process and want a personal connection that they can trust when making decisions for their business. Simplifying the value chain, reducing

The small and medium market offers carriers profitable opportunities and also supports corporate social responsibility

friction in customer experience, and building trust will enable carriers to gain market share.

7. Understand how customers shop

Historically, the independent agent (IA) channel has been the source of business flowing into insurers. They still have a very strong hold on the market as most SMB customers purchase coverage with agents within a 25-mile radius of their business. A small portion of the businesses shop direct or via digital channels, however, that sentiment is beginning to shift. According to our research and survey, in 2020, 33% of customers preferred an online experience, and two years later this same group was re-surveyed and 65% of customers preferred an online experience. This drastic change potentially presents a large opportunity for insurers who can quickly and effectively shift their distribution models.

Acquiring customers via digital channels (pay-per-click) is still currently an expensive proposition. When multiple carriers and aggregators with similar appetites compete for the same small amount of online customers, low supply and high demand increases the cost of acquisition. The typical winners in such markets are the search engine providers (such as Google and Bing) and carriers lose the unit economics battle.

8. Determine appropriate investments in technology

Legacy platforms and technology have long plagued the insurance industry — and the SMB segment is no different. Rate, quote, bind and service (policy issuance, certificate of insurance-COIs, claims) platforms within most carriers do not have end-to-end robust capabilities across all lines of business.

Carriers need to invest in building simple modular APIs (connecting insurance technology to internal systems), for each one of their capabilities to plug into any ecosystem of insurance distributors, such as agents,

aggregators, marketplaces, and price comparison websites. So, the consideration to solve becomes how carriers can deliver a personalized experience that maximizes value for customers through technology — without breaking the bank.

9. Fuel data capabilities

Third-party data when used correctly, fuels new product development, offers price transparency, improves pass-through rates, and enables customer selection and retention.

When identifying and solving for data needs in this segment, carriers need to take a holistic view. Carriers should invest more in capturing data across their multiple underwriting platforms, reporting dashboards, claims databases — with the ability to seamlessly integrate data with third-party data sources.

Availability in the small commercial sector is low given the nature of churn in the segment. Even after triangulating multiple data sets across the vendor universe, carriers often find match rates to be less than desirable. Almost all the data use cases have been around pre-fill applications and individual carrier performance.

Carriers must be careful with how much third-party data they buy upfront, so they do not damage their cost of acquisition.

10. Yes, brand does matter!

Insurance to SMB is still a price play, however, this is slowly starting to shift. Our sources show that people are willing to pay up to a 10% premium for brands they recognize and trust versus unknown brands. Carriers should consider focusing on building their brand in specific industries (for example construction) to capture a large amount of market share and to become the clear-cut option for prospective buyers.

Focusing on the small and medium commercial segment helps insurance carriers achieve growth, diversification, and cost-effectiveness

In the SMB market a handful of players make up approximately 20% of the market and the remaining players are spread thinly across a multitude of regional and sub-regional carriers. Carriers need to strike the appropriate balance between investing in brand and improving customer experience, thereby helping to boost their net promoter score and attract new business.

WHY THIS IS THE OPPORTUNE TIME FOR INSURANCE CARRIERS TO FOCUS ON THE SMALL AND MEDIUM BUSINESS SEGMENT

We believe the changing market dynamics (fragments in the competitive landscape), growing demand (increasing number of SMBs), technological advancements (artificial intelligence, machine learning, analytics), and regulatory

changes (favorable environment in certain jurisdictions) make it an opportune time for carriers to capture and increase market share in the small and medium commercial segment.

THE ADVANTAGE THE SMB MARKET BRINGS TO CARRIERS

Focusing on the small and medium commercial segment helps insurance carriers achieve growth, diversification, and cost-effectiveness. By offering tailored insurance solutions to small and medium-sized businesses, insurance carriers can contribute to the success of the small business ecosystem and support economic growth in their communities. Supporting small businesses therefore becomes an important part of carriers' corporate social responsibility.

Get started with Oliver Wyman

The small and medium commercial segment offers sizable revenue opportunities and advantages for insurers. At Oliver Wyman, we have worked with multiple CEOs and their leadership teams to make the right types of decisions, build strategy, and position their business for accelerated growth. We offer unparalleled depth and breadth of experience to insurance sector and can help your firm take a dominant position, and capture and increase market share. Please reach out to learn more.

AUTHORS

Mick Moloney

Global Head of Insurance & Asset Management
Managing Partner
Oliver Wyman Actuarial

Gaurav Garg

Partner, Global Head of P&C Insurance
Insurance & Asset Management
Oliver Wyman

Santosh Perumbadi

Partner, Insurance & Asset Management
Oliver Wyman

Damien Renaudeau

Partner, Insurance & Asset Management
Oliver Wyman

Dietmar Kottmann

Partner, Insurance & Asset Management
Oliver Wyman

Karlyn Carnahan

Head of Insurance
Celent

Michael Roscoe

Associate, Insurance & Asset Management
Oliver Wyman

Matthew McConville

Associate, Insurance & Asset Management
Oliver Wyman