Deloitte.

Insurance re-imagined:
Unlocking the small business opportunity to help Canadian insurance carriers grow

Contents

Introduction	1
Defining the ambition	4
Where in the market should carriers play?	6
How can carriers position themselves to win?	13
Seizing the small business opportunity: Four options	18
Concluding thoughts	21
Appendix: Survey methodology	22
Contacts	24

Introduction

Small businesses are a critical market for insurance carriers, but the current system isn't fulfilling its promise to this market and is failing to serve the small business customers' needs.

Competition among Canada's insurance carriers is intensifying as the Canadian insurance landscape evolves in response to changing customer preferences and disruptive forces. As carriers look to grow their market share in this competitive environment, Deloitte believes carriers should seize the significant opportunity to grow their portfolios with a focus on the small business market. But carriers will have to change how they serve that market to do so, which means it's going to be increasingly important for carriers to focus on who these small businesses are and how best to serve them.

Small businesses make up a significant portion of the Canadian market. Ninety-eight percent of Canadian businesses are small businesses, and these 1.14 million small businesses employ over 8.2 million people[1].

Deloitte set out to better understand small businesses' needs, perceptions and desired experiences when it comes to their commercial insurance. In 2016, we conducted 30+ hours of in-depth interviews with small businesses, and administered a survey to 550 small businesses across regions and major industries. These findings inform our discussion of how carriers can take advantage of the small business opportunity and win with in this segment.

30+ Hours of research interviews conducted with 8 small business owners representing diverse industries and sizes

550 Canadian small business surveyed across all geographic regions and major industries

[1] StatsCan – Key Small Business Statistics – 2016

The small business segment has been traditionally served through intermediaries. It demands a relatively high-touch and low-cost model to cater to small business customers' needs while remaining attractive to carriers. As a result, small businesses that would like personalized, high-touch service find themselves underserved by brokers who have little incentive to provide such service—leaving small businesses owners struggling to make sense of the array of risks facing their business.

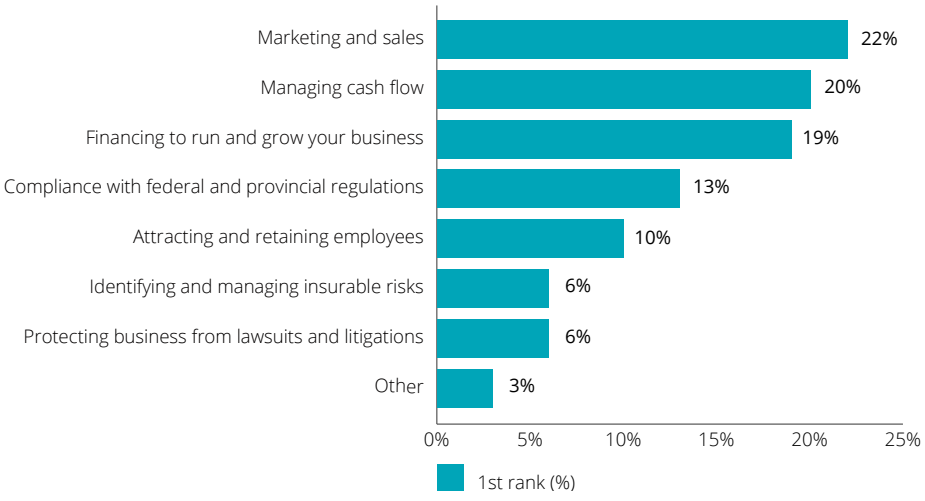
Commercial carriers have the opportunity to address this issue—and create a winning combination for this segment—by leveraging distribution and technology-enabled capabilities such as advanced analytics, automation, and artificial intelligence. These two critical levers can be used to provide the personalized, high-touch service delivery model small businesses demand and support the required operational efficiencies to make this a profitable market to pursue. Rethinking distribution and building a mix of technology-enabled capabilities will allow carriers to grow the market by insuring the uninsured, providing tailored advice to help "right-size" small business customers' coverage, and closing any coverage gaps.

Based on our research, the opportunity for commercial insurance for Canadian small businesses represents a CDN$8.8 billion[2] market, or approximately 38 percent of the total commercial lines market in Canada.

Yet we also estimate that the small business market is underinsured by at least CDN$2.2 billion—which means carriers are leaving considerable value on the table.

Managing cash flow remains a top priority for small businesses, one that makes commercial insurance essential in the event of an accident, damage or theft (Exhibit 1). However, Deloitte's research has uncovered fundamental issues in the current system that mean carriers are failing to serve the most basic needs of their small business customers. Addressing these basic needs will be a vital aspect of any carrier's strategy in this market segment.

Exhibit 1. Marketing & sales and managing cash flow are top priorities for small businesses
Ranking of priorities when running a small business



[2] Deloitte Analysis - Small businesses defined as businesses with less than CDN $5M in annual revenue

Note that the subsequent themes will be referenced throughout this point of view using their corresponding icons.

Educating the customer

Small business owners care deeply about protecting their business, but most don't have a good understanding of their risks or required coverage (e.g., business interruption, key person, or cybersecurity/ privacy insurance). They seek insurance solutions customized to fit the unique character of their business. While the most common reason for buying insurance is to fulfill a legal requirement, small businesses desire peace of mind and an understanding of the risks their business faces through their insurance product.

Intermediary value

Currently, four out of five small businesses use a conventional broker/agent channel to research and buy commercial insurance in Canada[3]. However, these intermediaries lack an incentive to invest time and effort needed to educate small business customers, due to the small transaction size that is typical in this segment. This current high cost-to-serve model has created an advisory gap in the marketplace—and resulted in small businesses being underinsured, incorrectly insured or uninsured altogether.

Speaking their language

Insurance policies are complex financial products written in legal language that isn't easily understood by small businesses, especially the micro-sized businesses (1–10 employees). On average, only one in four small businesses has a strong understanding of their commercial insurance policy. Hence, the system of selling complex products to a market that is not proficient in insurance is failing.

Building trust

Trust and transparency are the foundation of a strong relationship between insurers and their customers. Small business owners believe the incentive structure of the current system doesn't serve their best interests. They want a partnership that works with them, not against them.

"As carriers define their strategy to seize the opportunity that exists in the underserved Canadian small business segment, they will need to explore and make decisions around an integrated set of choices. They will need to define their ambition for the small business market, determine where in the market they want to play and position themselves to win."

[3] The statistic includes respondents who purchased insurance by completing an online quote / application form, followed by an in-person conversation as well as respondents who "don't remember" or "don't know" how they got their insurance

Defining the ambition

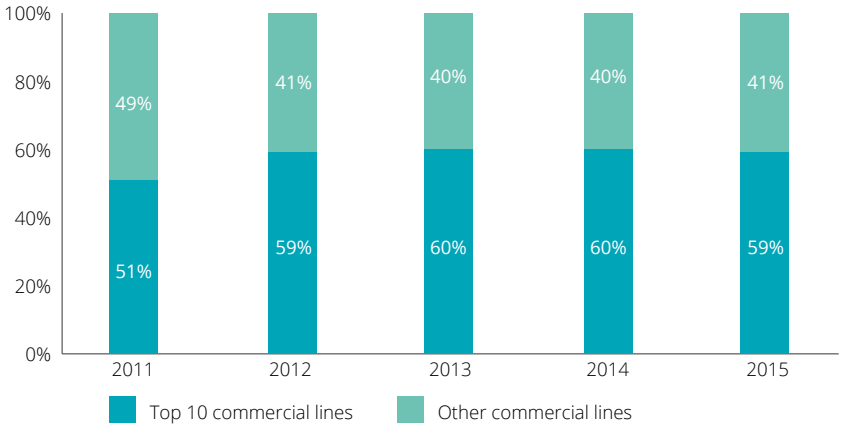
Carriers must clearly define their goals and aspirations for the small business segment to determine their path forward.

Commercial lines:
An attractive, hard-to-grow market

Canada's insurance industry is mature and consolidated, and the top 10 players capture a majority of the commercial lines market[4]. Yet while the commercial lines market is attractive, many carriers find it challenging to grow their market footprint. Intense competition among the largest P&C commercial carriers has left them with virtually flat market share growth in recent years. In 2011, the top 10 Canadian carriers by commercial DWP made up 51 percent of the market (Exhibit 2)[5], rising to just under 60 percent after Intact's $2.6B acquisition of AXA Canada later that same year[6]. It has remained at that level ever since.

Commercial lines remain an attractive source of profitable growth for carriers. Commercial carriers reported loss ratios 6 to 14 percent lower than those in personal lines from 2011 to 2015[7]. During the same period, commercial DWP grew 5.4 percent annually, outpacing 3.7 percent annual growth in personal lines. Finally, growth of direct channels outpaced the growth of brokered channels in the commercial lines market, reflecting a shift in the underlying consumption patterns of commercial customers[8].

Exhibit 2. Commercial direct written premiums of Canadian P&C carriers
Top 10 Commercial Lines refers to the top 10 P&C carriers by commercial DWP; other refers to the remainder of the commercial market



[4] Source: MSA Research, Deloitte analysis.

[5] "Top 10 Commercial Lines" refers to the market share of the 10 largest carriers by commercial direct written premiums (DWP) in Canada: AIG Insurance Company of Canada, Aviva Canada Group, Chubb, Economical Group, Intact Financial Corporation, Lloyd's, Northbridge, RSA, The Co-Operators Group and Zurich Insurance Company. "Other Commercial Lines" refers to the remainder of the commercial market underwritten by Canadian insurers. Source: MSA Research, Deloitte analysis.

[6] https://www.intactfc.com/English/media/press-releases/press-release-details/2011/Intact-Financial-Corporation-to-Acquire-AXA-Canada-for-CDN-26-Billion1125483/default.aspx

[7] "Top 10 Commercial Lines LR" refers to the cumulative loss ratio of the 10 largest carriers by commercial DWP in Canada: AIG Insurance Company of Canada, Aviva Canada Group, Chubb, Economical Group, Intact Financial Corporation, Lloyd's, Northbridge, RSA, The Co-Operators Group and Zurich Insurance Company. "Top 10 Personal Lines LR" refers to the cumulative loss ratio of the 10 largest carriers by personal DWP in Canada: Allstate, Aviva Canada Group, Desjardins, Economical Group, Intact Financial Corporation, RSA, TDI Group The Co-Operators Group, Traveler's Canada Group and Wawanesa Mutual Insurance. Source: MSA Research, Deloitte analysis.

[8] Source: MSA Research, Deloitte analysis.

Small businesses are a sizeable portion of the commercial insurance marketplace, but carriers must explore bold strategies to pursue them.

Canada is a country of small businesses, so it is no surprise that they represent a large proportion of commercial insurance premiums. Deloitte estimates that the small business segment accounts for $8.8 billion in commercial insurance demand, more than one-third (38 percent) of a $23 billion market. However, because so many small businesses are underinsured or uninsured, the small business market is likely much larger. According to our research, up to 25% of Canadian small businesses are underinsured or lack commercial coverage completely. This suggests the total addressable market is at least $11 billion; commercial carriers that can unlock this value have a significant opportunity to grow their footprint.

But to realize that opportunity, carriers will need to be bolder and determine their ambition in terms of financial performance, customer experience, and increasing market footprint. Carriers have traditionally focused on growing their books and market share, but current market dynamics make it difficult to achieve these ambitions in commercial lines. As well, the current model of delivering insurance to small businesses is high-touch and, mainly because of distribution and servicing, high-cost. As competition intensifies, delivering an undifferentiated, commoditized insurance product through a high-cost model will not be a sustainable strategy.

We firmly believe that a significant opportunity exists for carriers to grow by earning incremental value from small business customers. To succeed in this segment, carriers will need to deliver an enhanced customer experience, adopt a low-cost, scalable delivery model, and embrace bold new strategies to serve the unmet needs of small business customers.

Where in the market should carriers play?

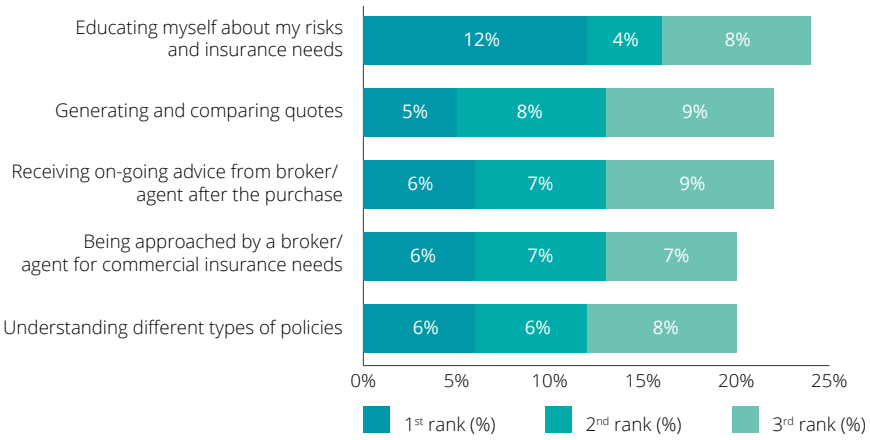
Driven by their ambitions, carriers must identify their target customers, product offerings and channels.

Once carriers have settled on their ambitions for serving the small business market, they must decide which segments to serve, products to offer and distribution channels to leverage. These decisions will guide the go-to-market strategy to create a distinctive competitive advantage.

Determining which small business market segments to target

Small businesses are generally price-sensitive, and they value advice specific to their businesses and an understanding of their risks. They are highly interested in getting the right coverage within a certain budget and they want to understand their options and risk exposure.

Exhibit 3. Respondents find educating themselves about business risks and insurance needs to be their greatest pain point
Ranking of greatest sources of dissatisfaction in the insurance process



Despite their desire for information about their risks, we found that small businesses are highly misinformed insurance customers, and feel inadequately educated about the risks they face. It comes as no surprise that small business customers are often disenfranchised and struggle to obtain relevant information about their business risks. In fact, they consider educating themselves about their business risks and insurance needs to be one of the biggest pain points of the current process (Exhibit 3).

With a limited understanding of business risks and a lack of educational material, there is often a mismatch between small business owners' perceived risks and their coverage. For example: 70 percent of respondents indicated that a loss due to interruption of business operations is relevant to their business, yet 65 percent of those same respondents lacked coverage for this risk. Our research suggests that a substantial proportion of small businesses are not adequately protected against the risks they consider most relevant, potentially exposing them to significant legal action and monetary loss.

Targeting underinsured small businesses offers a great opportunity to Canadian carriers. Realizing this opportunity will require carriers to invest in helping these small businesses better identify their risks and selling products that fill any coverage gaps.

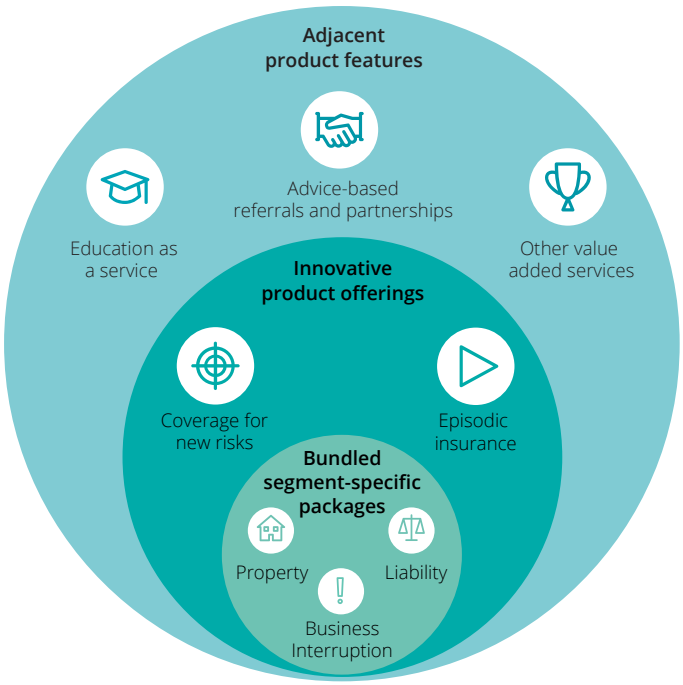
Carriers pursuing the small business market will also need to decide which sub-segment(s) to target. There is considerable potential in targeting specific sub-segments with offerings tailored to that market's unique needs. Carriers can segment businesses based on coverage needs, claims history, size, number of employees or industry. More than half of Canada's small businesses in Canada are concentrated in the real estate, professional, scientific and technical services, construction, healthcare and retail industries.

Offering conventional products vs. embracing product innovation

In serving small business customers, carriers can choose to offer their existing products, develop new products or embed additional value-added features (Exhibit 4).

When choosing to maintain their existing product shelf, carriers can bundle their products to create simplified, one-stop solutions for small businesses. Furthermore, the bundles can be tailored to target businesses in certain industries by addressing their most common risks. Using an existing product self also allows carriers to go to market faster and minimizes investment in new underwriting policies.

Exhibit 4. Carriers have a series of choices to make when deciding on their product offering for the small business market



When choosing to maintain their existing product shelf, carriers can bundle their products to create simplified, one-stop solutions for small businesses. Furthermore, the bundles can be tailored to target businesses in certain industries by addressing their most common risks. Using an existing product self also allows carriers to go to market faster and minimizes investment in new underwriting policies.

As small businesses face new risks from the digital economy and new entrants explore innovative models for delivering insurance, traditional commercial carriers are coming under pressure to develop innovative products of their own. One option is to develop tailored insurance products that address small businesses' new risk exposures. For example, as businesses sell more products and services online, their concerns about cyber and internet-based risks grow; offering products like cyber and privacy liability insurance allows insurers to raise awareness of these risks and build trust with the customer.

Another core product innovation is episodic insurance, which allows small businesses to pay for insurance protection on-demand. Episodic insurance has become popular in personal lines insurance for electronics and other high-value items, but it hasn't been explored to any great extent by commercial carriers. This sort of policy would provide small businesses with unparalleled flexibility in addressing temporary business-specific insurance needs, while unlocking a new revenue stream for carriers.

Carriers can also deliver product innovation through pre- and post-purchase value-enhancing features offered alongside core coverage. Building an advice-based offering with an extensive referral network is one example: the network would allow small businesses policyholders to seek professional advice in areas such as online marketing, cyber security, and legal assistance from third-party vendors at a discount. Other carriers may opt to incorporate these services into their small business offering at no extra charge. To provide these features in a low-cost, scalable way, carriers will need to build and leverage a partnership ecosystem; however, this will require finding an optimal value sharing arrangement with partners that delivers sufficient benefits to the carrier.

Carriers may also offer education in risk identification and prevention and other areas as a service to their policyholders; such solutions could help uncover a small business' risk exposures, assess current coverage and recommend products to close gaps. This would address a major pain point that small business customers have with the existing commercial insurance system.

While considering product innovation, the key will be to offer simple, customer-centric products designed to address the pain points small businesses face on an ongoing basis. This way, insurance can be viewed less as a grudge cost of business and instead as a purchase that delivers ongoing value.

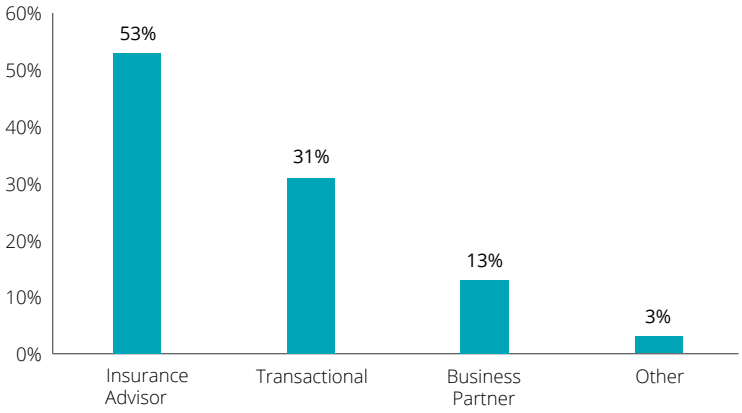
For many small businesses, broker/agent interactions are short-lived and infrequent. The majority of small businesses see their broker/agent as either a transactional party or an insurance advisor: acting as a price comparator to find the lowest cost for coverage, or providing multiple coverage options and comparing several parameters including price, coverage terms and limits and claims reputation. Only 13 percent see their broker/agent as a business partner that provides comprehensive advice not just on commercial insurance, but risk identification and claims as well (Exhibit 5).

Carriers must serve the small business market through trusted distribution channels

The vast majority of small businesses use a broker/agent to purchase commercial insurance. Brokers/agents aren't only meant to facilitate the insurer-customer relationship, they're also meant to provide a deeper understanding of risks and policies and act as the customer's advocate when filing a claim. While small business owners value having a strong and trusted broker/agent relationship, they're not confident that their broker/agent understands their business and is incentivized to serve them properly.

Exhibit 5. Respondents are most likely to view their broker / agent as an insurance advisor

How do respondents view their insurance broker / agent



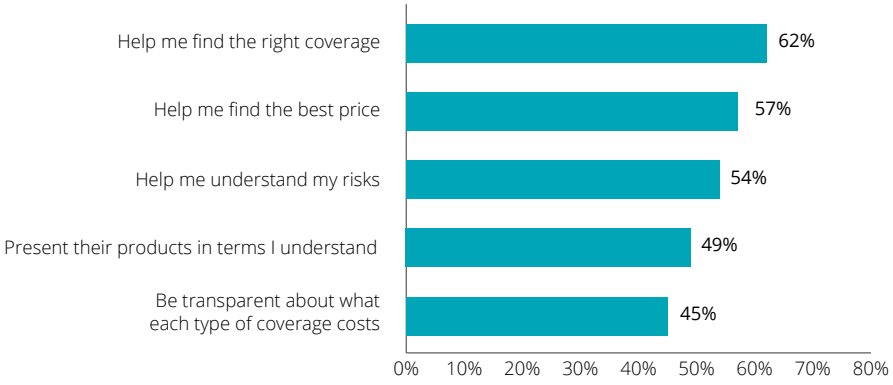
Going direct may present carriers with an opportunity to differentiate themselves, reach more customers and control the front-end experience for small businesses.

To gain small businesses' trust, carriers will need to undertake several actions (Exhibit 6), including:

- Help small businesses understand the risks they face
- Help small businesses find the right coverage
- Help small businesses find the best price
- Present their products in terms small businesses understand
- Be transparent about what each type of coverage costs

What's clear from these findings is that small businesses won't be content with direct insurance offerings that function as a low-touch, discount channel. They expect carriers to be a trusted partner in the insurance buying process—providing advice as well as the best price for the right coverage.

Exhibit 6. "Help me find the right coverage" is the top action respondents said insurers could take to build trust
Actions insurers could take to build trust and provide value



While some carriers may focus on enhancing the level of service brokers/agents provide to small businesses, others may choose to serve small business segments directly, likely through a digital offering. More and more business owners purchase everyday products and services online, and our research found 70 percent say they're likely to quote and buy insurance online. However, only 6 percent have done so, likely because there are relatively few digital direct channels for commercial insurance in Canada and limited awareness of them.

How can carriers position themselves to win?

Carriers must strike a balance across considerations for customer experience, brand and price.

Once carriers have decided on where they want to play in the market in terms of their customer, product and distribution channel choices, they must construct a winning value proposition that positions them for success. To do so, carriers must think about the combination of customer experience, brand and price choices that will be effective in serving small business customers.

Small businesses expect a personalized, convenient insurance experience

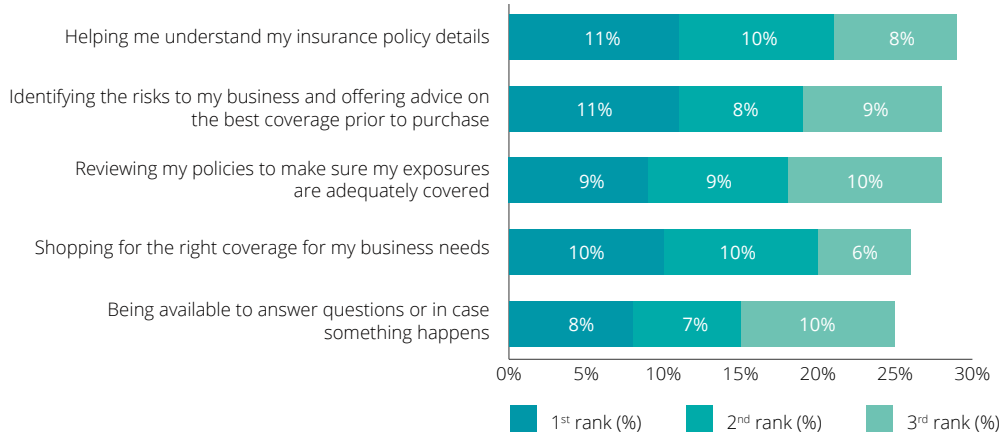
To better serve the small business market, carriers will need to deliver a better level of service. Small business owners often feel marginalized by the current commercial insurance market. They're busy, they value products that are easy to understand and convenient to service, and they strongly believe their businesses are unique. As a result, they want an insurance experience that reflects this. For carriers, delivering the right combination of personalization and convenience could be a powerful differentiator in the small business segment.

Personalization

When buying commercial insurance today, the majority of small businesses value a personalized experience that provides business-specific advice around understanding policies, identifying risks and ensuring coverage is adequate (Exhibit 7).

As small businesses grow in size and complexity, finding the lowest-cost insurance coverage becomes less of a priority, while identifying business-specific risks and receiving personalized service become more important. Whether carriers continue to serve small business customers through traditional intermediaries or directly, personalization needs to be part of the customer experience.

Exhibit 7. Respondents value a personalized approach to their policy and risks from intermediaries
Ranking of most valuable services provided by a broker/agent



"For carriers, delivering the right combination of personalization and convenience could be a powerful differentiator in the small business segment."

Convenience starts with offering small business owners a variety channels through which to buy and service insurance policies. The current market's options are largely limited to brokers/ agents, and the vast majority of small businesses must still turn to these intermediaries for their insurance needs. Some carriers may choose to offer an omnichannel experience that provides seamless interactions across digital direct and traditional broker channels; small business customers would be able to select whichever channel they wish based on their specific needs and interaction preferences.

Designing a convenient buying experience for small businesses also requires carriers to ensure that policies are framed in terms of the customers' needs and expressed in a way that is easy to understand. Almost 9 out of 10 small businesses believe understandable policy language is important, yet only 1 in 4 find it very easy to understand their insurance policy. Providing clear, easily understood policy language not only makes it easier for small business owners to quickly understand their policy and coverage options, it makes the value of the product clearer.

Convenience

Small businesses also want a convenient insurance buying and servicing experience; today they feel the system is cumbersome and difficult to navigate. Carriers need to deliver a convenient experience through all parts of the customer journey, including pre and post-purchase.

Designing a convenient insurance servicing and claims experience is also essential for carriers serving small businesses. Eighty-seven percent of small businesses believe it's important to be able to make changes or cancel their commercial insurance policy when they want. A similar proportion say it's important to be able to easily file claims. For carriers, this means they should look at providing convenient options that enable small businesses to take care of simple policy changes and be in control of the customer experience.

"Trust and brand recognition presents a strong case for carriers to market a small business insurance product under an existing brand."

Trust and recognition are key brand considerations

Traditionally, brand and marketing haven't been a core competency of Canadian insurance carriers. However, building a strong brand will be a core strategic consideration for carriers looking to better serve the small business customer—especially those who choose to explore direct-to-customer or other alternative distribution models.

In developing a brand strategy targeting the small business market, carriers face a trade-off. Some may opt to leverage their brand equity and launch their offer under an existing brand; others may choose to establish their offering under a new brand to avoid conflict with their broker/agent channel. Whichever route is taken, carriers' ability to be seen as a trusted partner to small businesses will be a major determinant of success.

Trust and brand recognition presents a strong case for carriers to market a small business insurance product under an existing brand. This is especially true for carriers with a direct-to-consumer channel for personal lines insurance, because it gives them greater public exposure and brand awareness. As well, carriers that take this route have an opportunity to cross-sell commercial products directly to their business-owning personal lines customers.

Other carriers—particularly those with limited brand recognition, such as mid-sized carriers or those who traditionally rely on brokers—may decide that launching an entirely new brand to serve the small business market is a viable go-to-market brand strategy. Carriers undertaking this strategy will likely choose to develop a digital offering to go direct to customers and cut out the broker. However, the cost and resource requirements involved in building a new brand are significant and must be weighed against the benefits of leveraging existing brand equity.

The good news is that small businesses do trust their carriers on various aspects of service: 79 percent of respondents, for example, trust their carrier to show an understanding of their business and provide advice prior to purchase. This sentiment should be tempered by the fact that many small businesses have little experience dealing directly with their carriers, and their perspective may change at the point of sale.

Small business' expectations for price discounts are modest

As small businesses are often budget-constrained, it's not surprising that cost is an important consideration during the insurance purchase process. Yet despite this, the current pricing of commercial insurance isn't seen as a major pain point for small businesses. Of small businesses who said they don't have commercial insurance, only one in five cite affordability as a reason (Exhibit 8). That said, small business owners do expect some cost savings if they buy commercial insurance online.

While 30 percent believe obtaining a significant discount on their premium is an important factor when buying insurance, their actual discount expectations are modest. The majority (60 percent) of respondents want to save between 1 to 15 percent on their premiums; a mere 4 percent expect to save more than 30 percent (Exhibit 9). Competitive pricing is obviously important, but carriers who go online don't need to substantially undercut existing offerings to promote conversion.

Exhibit 8. Only 1 in 5 small businesses cite affordability as a reason for not buying commercial insurance

Reason for not having commercial insurance

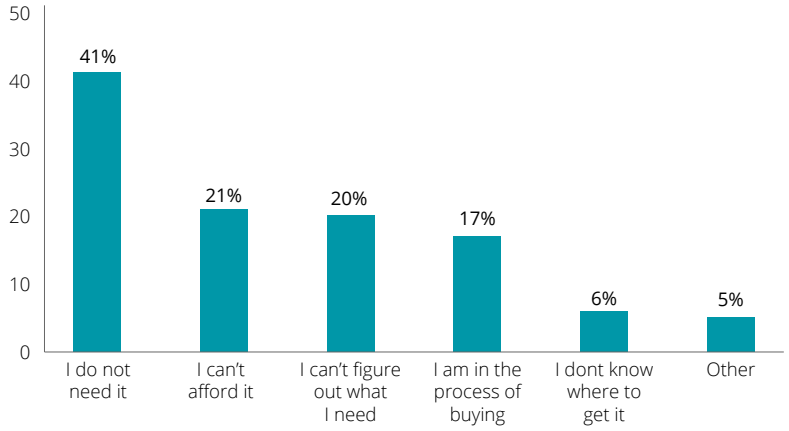
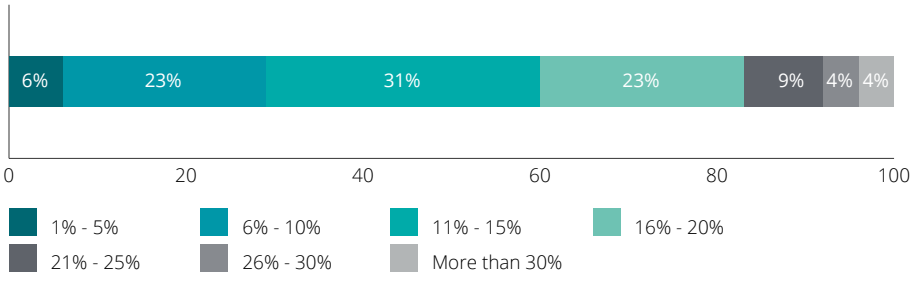


Exhibit 9. Respondents have modest discount expectations when buying commercial insurance online

Premium discount expected when buying directly from a carrier online



Since commercial brokers often charge a commission rate between 15 to 20 percent, carriers who go direct online could offer a premium discount to increase demand, or maintain their existing pricing model and capture the benefits. The latter approach would enable carriers to increase their investments in marketing and brand-building for their digital channels in the short-to medium term and add to their bottom lines over the long term. Pricing decisions could also strategically position a carrier's product as a premium offering, especially if it encompasses value-added services such as advice-based referrals.

Seizing the small business opportunity: Four options

Strategies to help carriers better serve the small business customer.

Deloitte's research reveals four high-level potential options that take advantage of emerging technologies to provide an enhanced customer experience for small businesses. There is no one-size-fits-all choice for carriers—the strategy or strategies chosen greatly depend on a carrier's ambitions. All can be tailored to create a distinctive value proposition.

Option 1: Empower intermediaries to better serve customers

While some carriers are beginning to consider using a direct channel to serve small business customers, others have invested heavily into building extensive broker/agent networks. Those in the latter group could empower broker/agents to better serve customers by providing them with digital tools to facilitate risk identification and policy analysis. These important value-added services would help augment carriers' core insurance offerings. While most small businesses report being at least somewhat satisfied with their current broker relationship (Exhibit 10), this doesn't necessarily mean they're receiving a level of service that provides them with the best access to information about their risks and coverage options. Going direct can help carriers improve in this area, but those that maintain existing intermediary channels can also succeed.

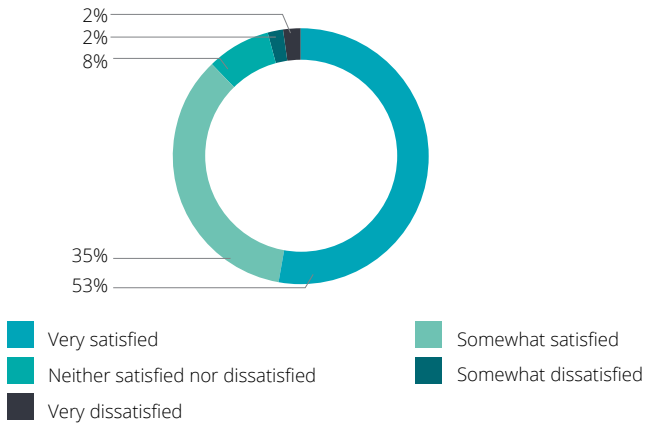
Carriers possess a wealth of underwriting data that provides deep insight into small businesses' risks and costs. As a result, they're well positioned to use this information to develop powerful white-label tools and solutions that improve customer service on several dimensions, including risk identification and education. These tools have several benefits for carriers, brokers, and small businesses: since they can be designed to provide detailed information about a small business's insurance needs, brokers/agents can reduce the time they spend on client discovery and focus instead on building their pipeline.

The solutions above are particularly well suited to "next-generation" brokers—those aiming to differentiate their customer value proposition by challenging market orthodoxies, actively using technology to serve and grow their customer base, and leveraging digital channels to build scale. Carriers could provide considerable value to next-generation brokers by integrating their white-label tools and solutions directly into brokers' own digital channels to create a unique customer experience.

Such tools would also enhance next-generation brokers' sales processes by helping them proactively seek out warm leads insured elsewhere, build trust, and present a compelling offer to address their coverage gaps. During this buying process, small businesses benefit from a deeper understanding of their business-specific risks, contributing to a personalized insurance buying experience.

Exhibit 10. The majority of respondents are satisfied with their existing broker relati onships

How satisfied are respondents with their broker / agent



Option 2: Compete head-to-head with intermediaries

Small businesses are ready to take the plunge and buy insurance directly through digital channels. While there have been many new entrants in the online commercial lines market in the U.S. and U.K., Canadian players have been slow to adapt to these trends. This has left an opening for a major carrier to develop a powerful strategic advantage in the marketplace by being among the first to go direct.

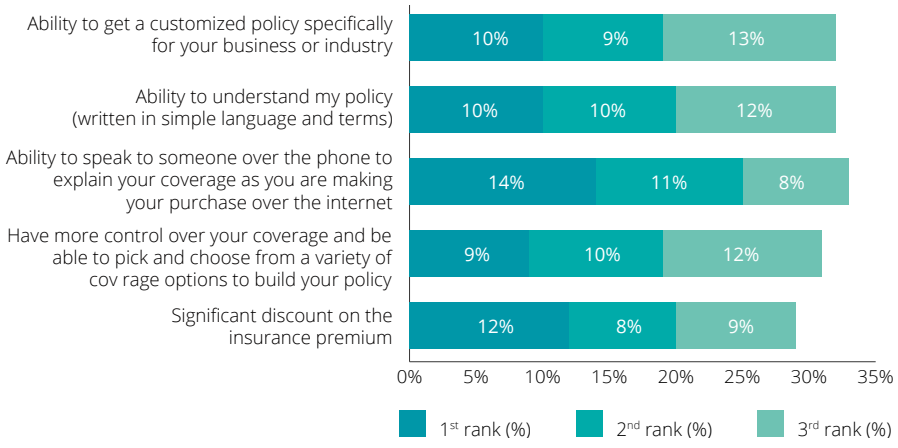
As a whole, small businesses are quite open to the idea of going online. Younger owners and those who have bought personal home, auto or travel insurance online tend to be more willing to quote and buy commercial insurance the same way. In addition, as small businesses grow in size, their willingness to quote and buy online increases significantly, particularly among those with 41 to 99 employees.

Serving small businesses with a direct online offer gives carriers two major advantages. First, it allows carriers to skip intermediary commissions and realize significant savings, boost profitability, or offer more competitive insurance rates—though initially carriers may choose to invest these savings to market their digital offering for better uptake. Second, it enables carriers to maintain full control over the customer experience, designing and delivering a standardized value proposition across each customer.

Serving small businesses with a digital direct offer comes with several key considerations. Small businesses expect to be able to customize their coverage, understand their policy clearly, and have access to a customer service representative over the phone (Exhibit 11). Small businesses aren't willing to sacrifice a personalized experience for the convenience of a digital channel alone; they want to buy products configured specifically for their risks and have access to high-quality customer service in the process.

For carriers, the challenge in building a direct channel is balancing a product that's intrinsically designed for scale with the segment's desire for personalized experience. In response, some carriers may provide comprehensive risk identification and ongoing risk management services in an effort to create a more bespoke level of service; for example, a carrier might offer a service that shows customers what similar businesses are buying to give them confidence that they're obtaining the correct product. Others may try to win on price alone by offering substantial premium discounts. Regardless of the carrier's approach, offering customers a high level of convenience alongside an attractive insurance product will be vital.

Exhibit 11. Respondents still value a human touch when buying insurance online
Ranking of factors most important when buying commercial insurance online



Option 3: Build a complementary hybrid delivery model

Carriers may see launching a new small business product as a chance to build a hybrid distribution model, which leverages a direct-to-consumer channel to support the existing intermediary network. Brokers/agents would continue to be the primary point of contact in the relationship for sales and major policy changes, but a direct channel maintained by the carrier would be used for lead generation and digital self-service. This would allow the carrier to deliver greater personalization as part of the customer experience.

Using this model, a small business would first interact with the carrier over the phone, online, or through social media or some other channel. The carrier could provide tools to help small businesses with education, risk identification, and policy analysis—circumventing the need to first visit a broker/agent. Small business owners are very busy and unlikely to purchase insurance after a single interaction with a carrier. Using technology and analytics to identify warm leads and follow up later to close the sale could significantly reduce customer acquisition costs.

Once a small business is ready to purchase a product, a broker/agent would take responsibility for closing the sale and become the main point-of-contact for ongoing service. Carriers could also make available a simple, easy-to-use digital channel to fulfill basic service requests like policy renewals/cancellations, filing small claims, and viewing claims status. This would reduce the time brokers spend on routine customer service tasks, freeing them to focus on driving sales; however, this would likely lead to lower sales commissions, as brokers/agents would have less accountability for ongoing customer service.

Option 4: Create an omnichannel experience

Finally, carriers could choose to develop a complete omnichannel experience for small business insurance customers, with seamless interactions across channels. This provides customers with the ability to engage through the right channel at the right time, embedding choice and convenience into the journey.

Building a true omnichannel experience can be a cost-intensive investment. Not only does it require carriers to maintain a strong broker/agent network to deliver an in-person, personalized buying experience, but it also requires them to build a direct channel that shares the same core information about the customer, communicated in real-time. Customers expect that information about their risks and insurance needs will be available in all future interactions, no matter which channel they use.

Concluding thoughts

To win in the potentially lucrative small business insurance market, carriers can choose from several options depending on their ambition and appetite for investment.

The four options we've presented are high-level explorations of the strategies we believe carriers can use to win in the marketplace. While each has its own set of distinct features, there are many choices that remain, including operating structure, branding and marketing, and product features and pricing. These choices will need to align with the carrier's objectives, business model, and experiences, and they shouldn't be taken lightly.

Regardless of the direction carriers choose, it's clear that we're beginning to see a fundamental shift in the service expectations of small businesses in Canada, driven by their experience with high-quality service from financial institutions, technology companies, and online retailers. For carriers that can mount a well-designed strategic response to these changing demands, marketplace success awaits.

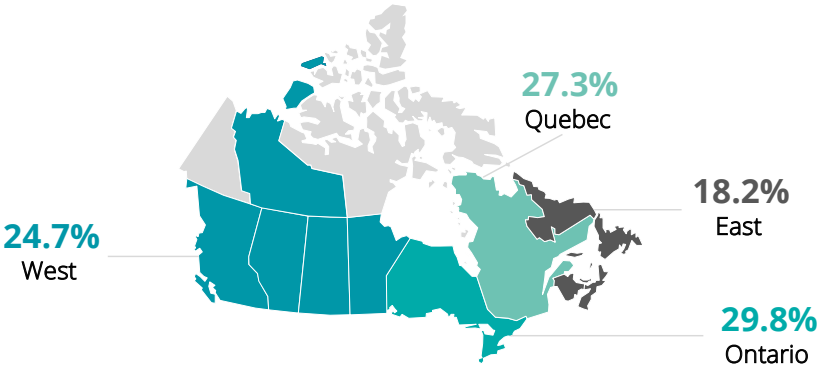
Appendix: Survey methodology

Deloitte contracted with a research firm to conduct an online survey of 550 Canadian small businesses in September 2016. The objective of our survey was to understand the insurance needs, experiences, and purchasing behaviors of small businesses. The survey was designed following more than 30 hours of one-on-one interviews with 8 small businesses conducted by Deloitte. As with our survey, the participants in these interviews represented a diverse set of industries and sizes, in terms of both revenue and number of employees.

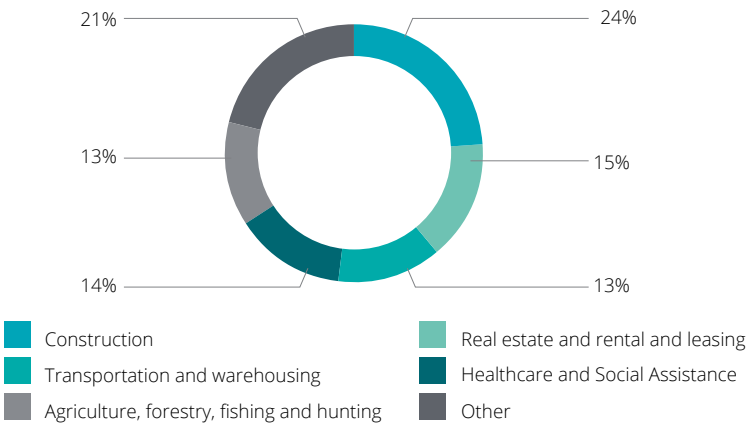
Our survey was open to small businesses with less than 100 employees. To qualify for the survey, the respondent had to be either completely responsible or share responsibility with others for insurance purchasing decisions on behalf of a small business. All non-qualifying responses were discarded.

The information gathered was taken "as is" and not validated or confirmed by Deloitte.

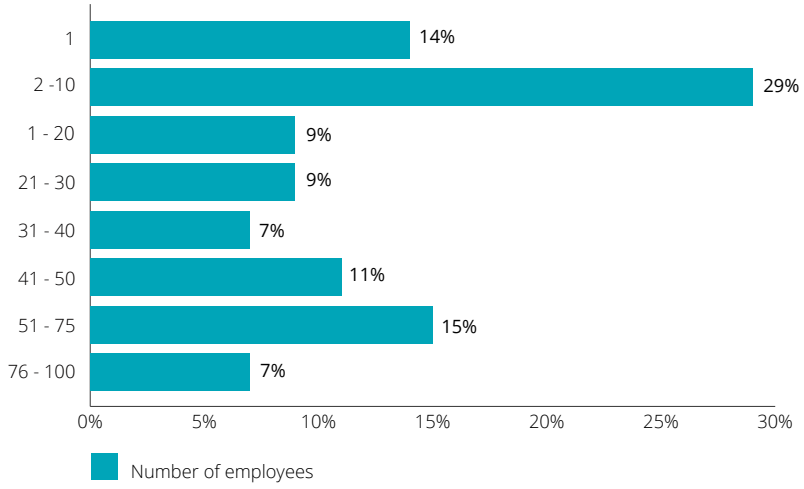
Breakdown of respondents by region



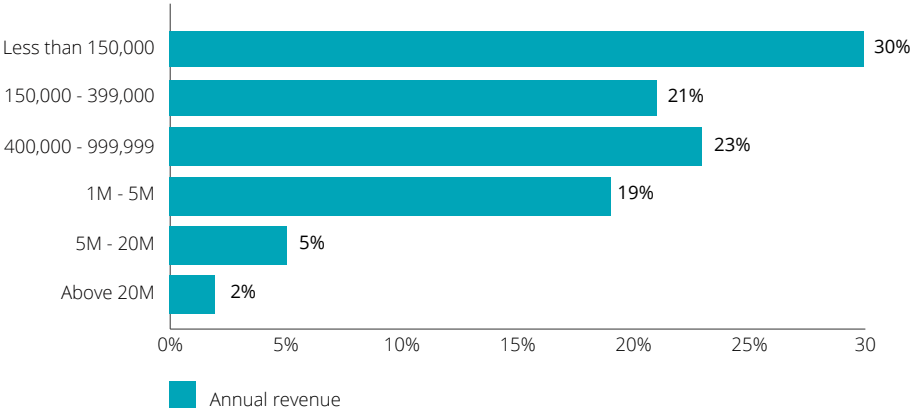
Breakdown of respondents by industry



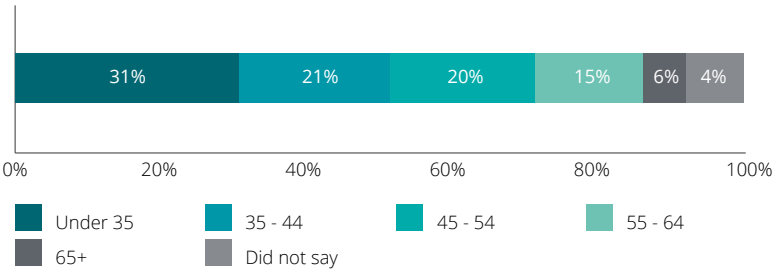
Breakdown of respondents by number of employees



Breakdown of respondents by annual revenue



Breakdown of respondents by age



Contacts

James Colaco
Partner
jacolaco@deloitte.ca
+1 416-874-3152

Mukul Ahuja
Senior Manager
mukulahuja@deloitte.ca
+1 416-903-4350

Namrata Shergill
Manager
nshergill@deloitte.ca
+1 647-383-7322

Alexander Carbone
Consultant
acarbone@deloitte.ca
+1 416-607-1041

Deloitte.

www.deloitte.ca

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights and service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 264,000 professionals—9,400 of whom are based in Canada—make an impact that matters, please connect with us on LinkedIn, Twitter or Facebook.

Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte LLP and affiliated entities.
Designed and produced by the Deloitte Design Studio, Canada. 17-5323V