J.D. POWER
INSURANCE INTELLIGENCE

THE FIVE FORCES
Influencing P&C Insurance Shopping

The pace of change in the P&C industry has been increasing for years. Once considered a staid industry, largely rooted in past ways, internal forces within the industry have been motivating change at an ever-increasing pace. More recently, external factors (the COVID-19 pandemic, inflation, and others) have increased the scale and speed of change in the industry. At J.D. Power, we last looked at the trends influencing P&C Insurance shopping in 2018. Naturally, now is a great time to revisit the forces driving insurance shopping as the landscape has shifted considerably in the last five years.

In this report, we consider **five forces and trends** that are creating a very different insurance shopping environment than what we saw just a few years ago.

1. Inflation is driving rates and rates are driving shopping
2. UBI is taking a larger role in shopping and may break the "bundling mold"
3. Insurers are increasingly targeting the most profitable consumers ("Robinsons")
4. Insurers are pulling back as more consumers are shopping
5. Less satisfying claims experiences are beginning to influence more consumers to shop

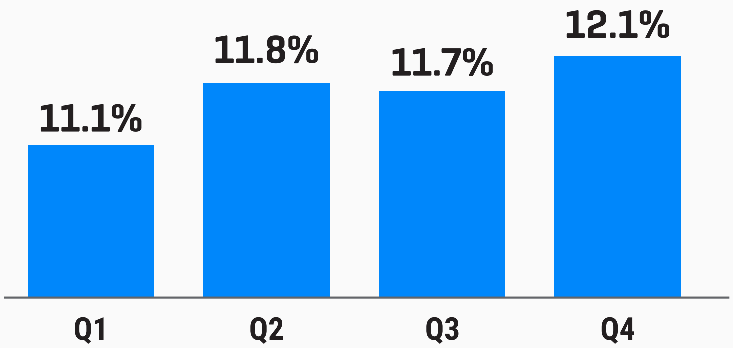
INFLATION IS DRIVING RATES AND RATES ARE DRIVING SHOPPING

After lying mostly dormant for decades, inflation has returned with a vengeance and has had profound impacts on several industries, P&C Insurance being no exception. The rising costs of replacement vehicles, vehicle parts, medical claims, and essentially all other loss-related costs, have placed substantial pressure on insurers' bottom lines as rate adequacy has rapidly become a challenge across the industry. Insurers have responded quickly, both by reducing the cost side of the profit equation (reducing ad expenditures, shuttering acquisition channels, etc.) and improving the revenue side of the equation (through a series of rate increases not seen in decades).

Beginning in Q4 of 2021, the industry quickly shifted from the premium relief efforts of 2020 to a hard market characterized by significant rate increases. Now, more than a year after these rate increases began in earnest, consumers have experienced at least one renewal cycle in which their insurer was taking rate, and many consumers have seen their insurance premiums increase as a result. As we noted in the *J.D. Power 2022 U.S. Insurance Shopping Study*SM, these premium increases are "adding insult to injury" as consumers were wrestling with the effects of inflation in other areas of their lives for a year or more before seeing their insurance premiums increase at renewal.

Consumers are now taking action. Data from our *J.D. Power Loyalty Indicator and Shopping Trends (LIST)*, which tracks auto and home insurance shopping on a daily basis, revealed that shopping for auto insurance increased in Q2 of 2022 (from an 11.1% rolling 30-day average to 11.8%) and more consumers cited recent rate increases as their main reason for shopping. After plateauing in Q3 (11.7%), shopping increased again in Q4 (12.1%) as even more consumers mentioned a recent rate increase as their main reason for seeking auto insurance quotes. Early indications are that this renaissance of consumer shopping will likely continue into 2023.

2022 AUTO INSURANCE SHOPPING RATES



SOURCE: J.D. Power Loyalty Indicator and Shopping Trends (LIST)

UBI IS TAKING A LARGER ROLE IN SHOPPING AND MAY BREAK THE "BUNDLING MOLD"

The implementation of vehicle telematics to track driving behaviors is hardly new, as Progressive and others have been innovating in this space since the 1990s. Usage Based Insurance (UBI), as it is now known, is increasing in popularity, especially following the changes in driving behaviors many consumers experienced by way of the COVID-19 pandemic. According to the *J.D. Power 2022 U.S. Auto Insurance Study*SM, 16% of auto insurance customers in the U.S. are currently enrolled in a UBI program and another 32% say they have either participated in the past and/or would participate if it were available.

According to the same study, about one-in-three consumers who participate in UBI do not currently receive a discount on their premium whereas the other two-thirds do receive discounts (13% report a discount of 20% or more on their auto insurance premium). Interestingly, even those who are not receiving discounts for their participation are more satisfied with their insurance carrier than those who do not participate, and these customers are presumably more likely to renew with that carrier in the future.

UBI is making waves in the insurance shopping space as 28% of recent auto shoppers say they were offered UBI by their current insurer, according to the *J.D. Power 2022 U.S. Insurance Shopping Study*SM. This is up from 20% in 2020. Adoption is also increasing as 17% of shoppers said they purchased a UBI-based policy and received a discount when they did so, compared to 12% in 2020. Satisfaction with the new buyer experience increases substantially when UBI is offered, whether the consumer elects to participate or not.

In this environment of increasing premiums in both auto and homeowners/renters insurance, UBI has the potential to threaten the bundling relationship many carriers have with their insureds. As noted above, more shoppers are entering the market than in the past, and they are more often motivated by price concerns. Insurers can adjust mileage rating factors faster and with more confidence for drivers who participate in a UBI program.

Perhaps the offering of UBI (with sufficient discounts) could compel a shopper to move their auto insurance policy to a new carrier, even if they elect not to move the homeowners policy. This has the potential to shift the conversation from saving via bundling to saving overall by placing these policies with different carriers. The implications for insurers in terms of retention and profitability are clear.

> "Satisfaction with the new buyer experience increases substantially when UBI is offered, whether the consumer elects to participate or not."

INSURERS ARE INCREASINGLY TARGETING THE MOST PROFITABLE CONSUMERS ("ROBINSONS")

Along with reducing costs and increasing rates, in an effort to drive down combined ratios, insurers have placed more emphasis on targeted marketing to the most profitable of insureds, i.e., those who bundle auto and homeowners policies with the same insurer. Popularized recently by Progressive, the "Robinsons" segment are these highly profitable customers who represent more premium to their insurers and are less likely to shop and switch carriers than their counterparts.

According to *2022 Q3 J.D. Power Loyalty Indicator and Shopping Trends℠ (LIST)* data, Robinsons represent almost one-half of U.S. insured households. Robinsons are less than half as likely to switch insurers as "Wrights" (those who have auto and homeowners policies with different carriers which represent 15% of insured households) or "Dianes" (those who have an auto and renters policy with the same or different insurer(s) which represent 31% of insured households) and less than one-third as likely as "Sams" (monoline auto customers without a renters or homeowners policy which represent 8% of U.S. insured households).

Many insurers focused their 2022 marketing efforts and sales channels on acquiring more of these Robinsons households. Some agency sales forces have seen changes to compensation plans that make it even more attractive to acquire a Robinsons household, relative to a Sam, than it was in the past. This strategy is being employed in the hopes that customers who are acquired during these trying times are more likely to help profitability both today and into the future.

J.D. Power LIST has been tracking the auto and homeowners/renter policy shopping of these customer segments since June of 2022. Interestingly, Robinsons were only slightly more likely to shop for auto insurance in Q4 than in Q3 (9.7% vs. 9.5%, respectively) and a bit more likely to shop for homeowners insurance in Q4 than Q3 (5.0% vs. 4.9%, respectively) – all numbers presented as rolling 30-day averages. On the other hand, Sams, who are presumably less attractive to many insurers today, were even more likely to be shopping for auto insurance in Q4 (15.1%) than Q3 (14.7%). Wrights were much more likely to shop in Q4 than they were in Q3 (15.1% vs. 13.3% respectively). Insurer strategies to win Robinsons have not brought more Robinsons out to market, setting up a zero-sum game in winning these coveted prospects.

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"GEICO closed all 38 of its California agents' offices and stopped taking calls to its sales call center for drivers in California..."

INSURERS ARE PULLING BACK AS MORE CONSUMERS ARE SHOPPING

The increased profit pressures, along with delayed reviews of rate submissions, have caused many insurers to pull-back on new customer acquisition. To avoid writing even more unprofitable business in states where pressures are the greatest, many have decided to take steps such as reducing or eliminating advertising, closing sales offices, and requiring payment in full from new customers in these states instead of offering a payment plan.

As a case in point, GEICO closed all 38 of its California agents' offices and stopped taking calls to its sales call center for drivers in California in response to what appears to be rate inadequacy in the state and the DOI not reviewing rate submissions over the last few years. Likewise, Progressive has stopped advertising in California and State Farm no longer offers quotes via call center agents in the state. Such tactics are not limited to California. GEICO stopped selling policies via phone in more than a dozen states in August of 2022.

As noted previously, more consumers are shopping for auto insurance than a year ago. How will these consumers react to a market that is more difficult to navigate with sales channels closed, payment options changed, reduced ad spend, and other such tactics employed by insurers of late?

The *J.D. Power 2022 U.S. Insurance Shopping Study*℠ shows consumer awareness of the average auto insurer dropping, with some insurers seeing a 3-percentage point, or greater, drop in consumer awareness from 2021 levels. Carriers that are best positioned in this new reality will distinguish themselves from the competition by understanding what matters most to insurance shoppers and customers and formulating an action plan to meet those needs.

P&C insurers had spent more than 20 years increasing ad spend in an arms race to inspire more consumers to shop for insurance and to capture those who do shop. Will an insurer soon figure out how to profitably acquire the increased mass of new shoppers, return to increased ad spend, and open the throttle on sales channels for new customers? Only time will tell, but insurers who can manage this difficult challenge stand to gain a sizeable number of new insureds. On the other hand, will insurers buckle to pressure (seeing all these consumers out shopping for insurance), throw caution to the wind, and write this new business, profit pressures notwithstanding? What is certain, is 2023 will be a very interesting year in the underwriting, marketing, and sales departments of auto and homeowners insurers.

LESS SATISFYING CLAIMS EXPERIENCES ARE BEGINNING TO INFLUENCE MORE CONSUMERS TO SHOP

Insurers and consumers have faced any number of challenges in the area of claims. Inflation has driven new and used vehicle prices skyward while supply chain issues and other market difficulties have reduced the supply of many of the replacement vehicles total loss claimants need. Even with insurers writing larger settlement checks than in years past, many consumers have struggled to find replacement transportation. Repairable vehicles are not only costing more to repair, the cycle time of these repairs is increasing, from an average of 12 days in 2020 to 17 days in 2022, according to the *J.D. Power 2022 U.S. Auto Claims Satisfaction Study*SM. The study also finds satisfaction with auto claims has declined since 2021 at an overall level as well as for all aspects of the claim journey other than the rental experience.

The claim is the "moment of truth" in the insurer-carrier relationship, when the promise to make things better when something goes wrong for the consumer is delivered upon. More than twenty years of syndicated research in the auto insurance industry at J.D. Power has shown that a poor claims experience is a powerful trigger to shop for a new carrier and also increases the rate at which those who do shop decide to switch insurers. Carriers know this all too well and have spent generations honing their claims experiences to not only indemnify their customer (as is contractually obligated), but to build a stronger relationship with customers via an exemplary experience. Many factors outside of their direct control are now harming those experiences.

REPAIR CYCLE TIME

	2020	CHANGE	2022
	12 days	+5 days	17 days

There are indications that this diminished satisfaction with auto claims is causing more consumers to shop. *J.D. Power LIST* shows that Q4 had the highest rate of customers citing a poor recent claim experience as their main reason for shopping in the more than two years we have collected LIST data. While many consumers recognize their insurer is not responsible for broad inflation or supply chain issues and have remained loyal despite a suboptimal claim experience, the tide may be turning. Leading insurers will need to redouble efforts to overcome these extraneous challenges and deliver on the expectations of their insureds to keep them from straying to a new carrier as we progress through 2023.

SUMMARY

While P&C insurers represent a sizeable portion of the domestic economy, they certainly do not drive the global macroeconomic forces shaping the world over the last few years. Insurers do, however, own the customer experience. **Those insurers who orient their business around the customer have always outperformed those who place less emphasis on the needs of the customer.** J.D. Power is helping leading insurers maintain a laser focus on customers and deliver on their needs better than the competition. We look forward to helping our clients navigate these forces and many others in the years to come.

AUTHOR

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Stephen is responsible for intelligence around new customer acquisition, sales, and marketing for the property/casualty industry. Leveraging his more than 20 years in marketing research and consulting, Stephen has helped to launch many of the syndicated research studies in property/casualty insurance at J.D. Power and has worked with dozens of insurers to use these studies and other business intelligence to improve business results.

Learn more about Stephen>

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