Insurance White Paper:

6 Trends Influencing Profitable Growth in Insurance

New customer growth is the lifeblood of insurance. Organic (as opposed to acquisition) customer growth has become elusive as customers challenge traditional insurance distribution models.

Insurtechs continue to attract attention and investment but have only marginal gains in customer growth. The "carrier" models have unsustainable loss ratios and the comparative raters have no retention adding to their high cost of customer acquisition. Given the lack of profitability and the over abundance of speculative investors are these serious challengers to the insurance status quo or just a shell game?

Insurance is on the edge of a precipice. Technology and customer demand for lower prices are powerful forces driving new opportunities. The insurance industry is excessively inefficient (a fact), still operating on distribution models established before the invention of the telephone.

Some insurers and Top Brands can take advantage of this new market force opportunity to grow profitably. However, chance will favor early movers. With Awywi, Insurers and even Non-Insurers at any end of the digital development spectrum can gain advantage over others by acting early.

"...chance favors early movers."

This White Paper explores 6 trends influencing profitable new customer growth and opportunities for modernizing insurance distribution strategies.

Revolutionary insurance distribution strategies designed for a new customer reality holds the key to profitable new customer growth AND retention.

Doom will not befall those that don't respond to the new market realities, this is insurance, after all. Certainly not with the acquisition and merger opportunities available. However, the pursuit of profitable new customer growth is readily available for Insurers & Non-Insurers willing to challenge the status quo.

New market realities continue to diminish the value of an acquisition growth strategy because customers are **shopping and switching** insurers at higher rates. With book acquisition prices as high as they have ever been, an acquisition strategy becomes less predictably profitable.

"When consumers shop, price outperforms loyalty"

"and "50% of Shoppers expect to shop again in the next year. One in five expect to switch carriers when they do shop."

- Insurance Shopology: The what and why behind consumer insurance shopping behavior – LexisNexis – September, 2019

The information contained herein is proprietary to Awywi Insurance Services Ltd. ("AIS") within the meaning of the Canada Business Corporations Act and may not be used, reproduced, or disclosed to others except as specifically permitted in writing by AIS. COPYRIGHT © 2021 Awywi Insurance Services Ltd. All Rights Reserved

1. Customers Are Not Just Changing – It is So Much More

"…migration of customers to lower priced distribution models"

Mandatory - People don't buy insurance because they want to, they do it because they have to. A mortgage, business, car, apartment, a family all require insurance due to regulatory/legal, or through contractual/familial obligation.

Annual - It is never bought once; insurance must be purchased year after year.

Ugly - People hate spending money on things without immediate tangible benefit. Customers, in the past, dealt with insurance with indifference. Hence, insurance' not so secret weapon – apathy.

These are the main reasons why insurance has been steadfastly resilient.

However, insurance customers are changing, recently accelerated by Covid. Even as customer apathy continues to be the friend of technically challenged insurance distribution stakeholders, it isn't preventing the continuing migration of customers to more attractive and lower priced distribution models. Technology has played a significant role including:

1) Customers are savvier because they can instantly access more information via the internet.

2) Customers have a much larger voice than they once did through social networks and other information sharing portals.

3) Examples by other industries that have poured tons of investment dollars into improving customer experiences. Investments on technology including improving back-office systems, customer experience, improved processes, reduced expenses and lowered customer costs.

   2 obvious examples include the dominance of Amazon on retail and the demise of travel agents (Covid just nailed the coffin shut on the last travel agent in our area). Customers are adapting to new self-serve technology and want better shopping experiences **and above all better prices**.

Sometimes, you should listen to your professional insurance agent…

"Independent agents name their greatest threat"

"Nearly 40% of independents surveyed say they view direct online insurance sales by carriers as a "serious competitive threat." In fact, direct sales were labeled the biggest source of competition to the agent/broker channel in the survey, which asked 1,100 US producers their opinion on a range of issues."

- Accenture survey (2015)

So just what is it about direct sales that has independents concerned?

More than three-quarters say it's lower prices. A full 71% of survey respondents blamed an allegiance to the bottom line as the basis for their fears over direct sales…

The information contained herein is proprietary to Awywi Insurance Services Ltd. ("AIS") within the meaning of the Canada Business Corporations Act and may not be used, reproduced, or disclosed to others except as specifically permitted in writing by AIS. COPYRIGHT © 2021 Awywi Insurance Services Ltd. All Rights Reserved

2. Embedded Insurance Will Transform the Way Insurance is Bought and Sold

Product warranty and travel-related insurance has been continually embedded within the products that often require those types of insurance to be purchased. However, customers will challenge the traditional notion of brokers and insurers.

Now auto manufacturers are embedding insurance into their manufactured automobiles and sold with the product. This is a looming threat for the insurance industry as automobile insurance easily is the single largest P&C line of business in insurance.

Once more Popular brands realize that insurance is easy pickings with incredibly high expense ratios and a slow change adoption rate, they will leverage their more popular brands into other insurance lines. Insurers ignoring these new distribution opportunities do so at their own peril.

3. Direct-to-Consumer Has Teeth

However, there is a trend that continues to be successful in attracting new customers that favors traditional insurers – Direct-to-Consumer. J.D. Power's 2019 P&C Insurance Industry Insight says the direct-to-consumer model gained traction in 2018. According to the report, "Increasingly, those insurers who get that consumer model right are the ones who will dominate the market."

In 2018, Geico and Progressive captured $7.8 billion in direct written premiums, or 54 percent of the auto insurance industry's gains. According to J.D. Power's 2020 U.S Insurance Shopping Study, Geico and Progressive captured almost **92 percent** of the past year's premium growth.

It is with this background in mind – insurance will continue to defy change but there is at least one proven strategy that is capturing most of the new business growth that incumbent insurers should consider.

Direct-to-Consumer distribution isn't a good fit for every insurer. It requires significant investment for both customer acquisition and technology. Awywi's new D2C2.0 model reduces risk by cutting initial investment, lowering customer acquisition costs and having the experience and advanced D2C platform ready to plug and play.

4. The Unstoppable Force meets an Immovable Object – Price is Key

High distribution costs are the insurance industry's Achilles heel. The unstoppable force is customers seeking lower insurance prices with a changing tide of behavior towards shopping and switching Insurers. Until now, the immovable object has been the insurance industry resistance to change and lower pricing.

Here is how Consultants McKinsey and Company describes the insurance industry's struggle with distribution costs.

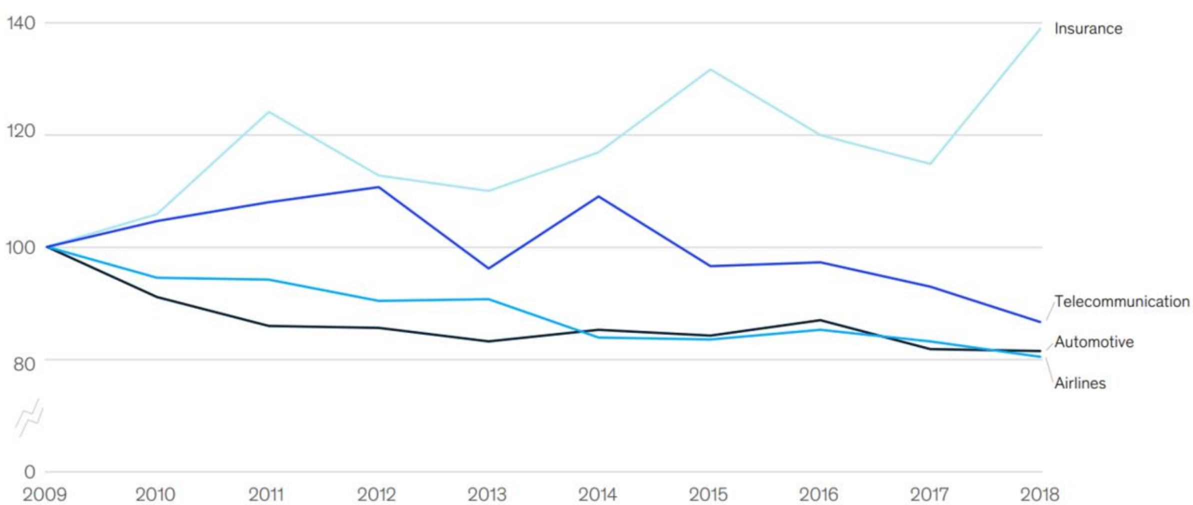
The information contained herein is proprietary to Awywi Insurance Services Ltd. ("AIS") within the meaning of the Canada Business Corporations Act and may not be used, reproduced, or disclosed to others except as specifically permitted in writing by AIS. COPYRIGHT © 2021 Awywi Insurance Services Ltd. All Rights Reserved

"Compared with other industries, the insurance industry has not yet structurally addressed operating costs."

- "The productivity imperative in insurance" by McKinsey & Company August 2019

McKinsey examined cost efficiency of P&C insurance against the telecommunications, auto and airline industries. McKinsey identified that cost efficiency, expressed as selling, general, and administrative expenses [distribution expense] as % of revenue, has improved in every industry <u>**except for insurance**</u>. The other industries have clearly become more cost efficient since 2009, P&C insurance has seen an overall increase in P&C insurance operating costs, indexed to 2009, of almost 40%.

Cost efficiency evolution per industry[1], %, normalized at 100% in 2009



[1] Indexed; expressed as selling, general, and administrative expenses as % of revenue. Based on large global players for which continuous reporting is available: 10 insurance players with composite offering, 10 telecom players (incl AT&T, China Telecom, Vodafone), 10 automotive players (incl Ford, Toyota, Volkswagen) and 10 airlines (incl Air France–KLM, American Airlines, Emirates).

Source: S&P Capital IQ, McKinsey analysis

Interestingly, they only looked back to 2009, however, the distribution expense ratio has remained stagnant for more than 30 years!

This is an unexploited opportunity as customers have long ranked price as the single biggest factor in their insurance purchasing decision.

"the price factor…has increased by 54% as a key driver of satisfaction"

- J.D. Power 2020 U.S. Insurance Shopping Study- April 30, 2020

Insurance customers are finding it easier and are far more willing to shop for a better price on insurance than they ever have in the past. This is a bit of a Bad News/Good News story. You have the bad news; the industry has a distribution cost problem. Now for the Good News – Awywi has developed a way to make it much easier to give customers what they want – LOWER PRICES.

Lower prices through lower costs not thinner margins.

5. Online Agents and Comparative Raters – An Answer?

New industry players including online agents and comparative raters have taken notice. They sell the marketing message of the power of comparison and saving money. That is the sizzle they sell, but is it reality? We studied over 20 new entrants and found that the promise is not the reality. Firstly, if their

The information contained herein is proprietary to Awywi Insurance Services Ltd. ("AIS") within the meaning of the Canada Business Corporations Act and may not be used, reproduced, or disclosed to others except as specifically permitted in writing by AIS. COPYRIGHT © 2021 Awywi Insurance Services Ltd. All Rights Reserved

website has posted a commission disclosure statement (congrats to those that do), you will find that they all take standard agent commissions. Here is the common wording of those disclosures…

Commission

We are typically compensated on a commission basis **by the insurance company** that is selected for the placement of your insurance policy.

The inference being the customer doesn't pay the commission. The flaw with this is that commissions are part of the insurance premiums - paid for by customers. This theme is consistent with one notable exception being far more explicit:

Commission

We get paid a commission by insurance companies for each sale. Insurance commissions are already **baked into the price of an insurance policy**, so you're not paying any extra for using our service (or any broker's service for that matter).

Consumers are much smarter than this comparative rater believes. Evidence shows that customers currently migrating to direct-to-consumer insurance models over traditional agency distribution (online or bricks and mortar) don't believe this statement. The same online agent offers this unusual nugget of disclosure:

Can we get you a cheaper price for insurance?

No—but neither can anyone else. Insurance rate tables and premiums are filed with and regulated by your state's department of insurance.

Insurers do file rates and premiums (rules too) that are subject to regulatory approval. **However, if you can adjust retail commissions (averaging approximately 20% per policy while reducing overall distribution processing expense), this can make a BIG DIFFERENCE in what customers pay.**

Other than comparative quoting these distribution alternatives do not cut costs. In fact, other than that they are now available directly to the customer, it is the same technology with the same issues as comparative rating used by agents 20 years ago.

"D2C2.0 cuts costs for greater profitability and growth."

Even without the dubious claims of customer savings, there are customer experience issues with comparative raters. These include initial quotes that seldom equal final quotes, additional data gathering at the insurer's websites, differing user experience between insurer websites culminating an experience resembling Direct-to-Consumer. Re-shopping on renewal requires the same painful experience as the original quote.

We are not against commissions and believe that independent advice is necessary for the best customer experience. But that advice must be available on demand when the customer needs it. Lower costs will naturally flow to lower prices for customers as D2C2.0 empowered brokers can realize greater profitability and growth than non D2C2.0 counterparts.

D2C2.0 offers comparative rating but with a much lower cost as well as user experience that includes 100% automation of ALL policy lifecycle including quote, purchase, policy change and renewals. All of this occurs in **real time** in

The information contained herein is proprietary to Awywi Insurance Services Ltd. ("AIS") within the meaning of the Canada Business Corporations Act and may not be used, reproduced, or disclosed to others except as specifically permitted in writing by AIS. COPYRIGHT © 2021 Awywi Insurance Services Ltd. All Rights Reserved

insurance platform technology specifically designed for customers. Customers can now have choice, better service and lower prices, too!

6. Adopting a New Distribution Model

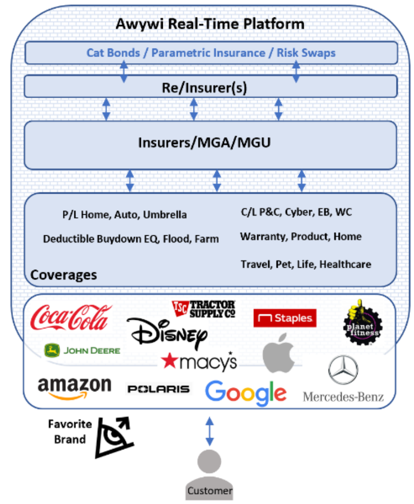
Many insurers have set up a Direct-to-Consumer (D2C) distribution model. Now any online retailer can explore D2C2.0. Given the successes by Geico and Progressive in new customer acquisition, it is worth considering a D2C strategy.

However, D2C is not new, it is old distribution strategy and technology has a way of not only evening the playing field but obliterating it. This new vision of D2C2.0 takes the costs out of insurance distribution to make insurance truly more affordable and available for customers – where they want it.

D2C2.0 makes D2C look like what it is – a cheaper less featured alternative. No choice without independent advice. With D2C2.0, there is a blending of the best of all breeds of insurance distribution. Critical customer experience flaws within current D2C distribution include the lack of product comparison, choice of insurers, independent advice, real-time processes and renewal remarketing.

If you would like to discuss a D2C strategy without the costs and risks AND get the lowest distribution cost for your products to new customers contact Awywi. New to digital, no problem! Ask us how D2C2.0 can also solve other issues besides cost including ***Choice, Product Comparison, Real-Time, Renewal Remarketing, launching a new era of profitable customer growth.***

Embedded Lifestyle Insurance



Who Can Benefit from D2C2.0?

Any insurer or popular brand that is considering a Direct-to-Consumer insurance strategy can benefit from Awywi's Insurance Fulfillment Platform. A single insurer implementation of D2C won't give customers all of the benefits that are available in a multi-insurer distribution environment.

"Insurers and now Popular Brands can benefit with Awywi's D2C2.0 Insurance Fulfillment Platform"

Stepping up to a full D2C2.0 implementation gives all the benefits of Real-Time multi-insurer distribution and spreads the cost of marketing and implementation across multiple insurers. Awywi can provide customers with on-demand advice and advocacy.

Popular brands can now leverage their brand's value and add more Value to each customer as well as increase customer engagement.

Distribution Alternative Comparison

Feature	Agency Distribution	Direct-to-Consumer	Comparative Rater	D2C2.0
Cost (Distribution Ratio)	30%	20%	30%	10%
Retention	Yes	Yes	No	Yes
Choice	Yes	No	Yes – Quote Only No – Anything after Quote	Yes
Risk Profile (AI)	No	No	No	Yes
Renewal Remarketing	Sometimes	No	No	Yes
Independent Advice	Yes	No	No	Yes
Real-Time	No	No	No	Yes

Contact Awywi to Learn More About Direct-to-Consumer 2.0: Call (833) 462-9994 or email: steve@awywi.com

The information contained herein is proprietary to Awywi Insurance Services Ltd. ("AIS") within the meaning of the Canada Business Corporations Act and may not be used, reproduced, or disclosed to others except as specifically permitted in writing by AIS. COPYRIGHT © 2021 Awywi Insurance Services Ltd. All Rights Reserved