



Finding growth opportunities in small commercial insurance Strategic options available to carriers

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Since 2020, the **property and casualty (P&C) insurance market has experienced significant volatility in underwriting profitability**. The commercial lines market has also experienced headwinds in loss trends, and **a more flexible regulatory environment and strong underwriting discipline have enabled profitable performance among the top-performing commercial insurance market players**—driving a 94% industry combined ratio in calendar year 2022, a better performance of 15 percentage points compared to the personal lines combined ratio of 109%.¹

Within the commercial insurance sector, the small commercial insurance market could provide an alternative **source of growth** for insurance carriers looking to expand their business portfolios.

Market trends

Increased macroeconomic uncertainty

The rapidly changing macroeconomic environment has created an aura of uncertainty around the small commercial insurance market that is affecting both carriers and small businesses. Insurers are facing profitability headwinds from inflation that are manifesting themselves in multiple directions, ranging from the increased costs of raw materials, to surging amounts per claim, to higher agent commissions. On the other hand, inflation has resulted in small businesses becoming more price sensitive and more prone to only buy insurance that meets the minimum requirements, pairing back policies to get the lowest price possible. With rising wages, workers' compensation policies have risen, adding to the overall cost of running a small business.

Growing number of small businesses

In the wake of the COVID-19 pandemic and subsequent workforce disruptions, as workers left their jobs due to layoffs or to pursue new opportunities, there have been substantial increases in the number of small business formations. In the years leading up to 2020, there were up to 3.5 million new business applications each year. In comparison, 2021 and 2022 saw more than 5.0 million applications each.² As the number of small businesses increases, so does the addressable market for insurers in the small commercial insurance space.

Greater awareness of the need for small business insurance

Small businesses have historically been uninsured or underinsured;³ however, this is starting to change, given small business owners' greater awareness of the potential risks that these businesses may face. Additionally, small business owners are seeking increased insurance protection due to a variety of emerging risks, including cyber liability and increased catastrophe exposure due to a rapidly changing climate.⁴

Gig economy blurring lines between personal and commercial assets

There is a convergence between personal lines and business lines happening at the lower end of the small commercial insurance market. This difference is especially relevant for businesses in the non-employer subsegment, many of which provide courier or ride-sharing services, or operate home-based businesses. This provides carriers with the opportunity to capture a greater share of the insured's premium by offering commercial lines coverages and service offerings. Additionally, for these customers, insurers should clearly delineate coverage of personal and business assets.

Rise in new nontraditional players entering the market

In addition to traditional mutual and multinational legacy insurance carriers, the small commercial insurance market has witnessed the entrance of players with innovative/specialty products and value propositions, such as InsurTechs and aggregators, which are already affecting market dynamics and are expected to continue to do so in the future. For example, players such as CyberPolicy are hyperspecializing in specific lines of business, and others such as NEXT Insurance and Simply Business are coming to market with an end-to-end digital experience.

For additional details on the small commercial insurance player landscape, please refer to the "Competitive landscape" section.

These market trends present P&C carriers not already in the small commercial insurance market with an opportunity to establish themselves as a player in this fragmented space and drive sustainable and profitable returns for their shareholders and policyholders.

Small commercial insurance market landscape

Small businesses (which we define as businesses having fewer than 50 employees) are the lifeblood of the US economy, making up **98% of all businesses in the United States**. The associated insurance premium volumes are estimated to be around \$113 billion. Of that, approximately \$74 billion would be classified as standard (non-specialty).⁵

A small business's **size drives significant variation in its policy needs**. Our analysis identified four subsegments of the small commercial market driven by number of employees.⁶

The commercial insurance market for small businesses **is also delineated by the industry of the insured businesses**. Although

businesses in the services industry have the largest premium share and potential, premium growth in finance/insurance/real estate and transportation and warehousing greatly outpaces other industries.⁷

The two largest service sub-industries from a premium potential are professional and technical services (\$8.8 billion) and health care and social services (\$7.6 billion). While premiums derived from small businesses providing professional services have not grown significantly over the past four years, premiums in health care and social services have been growing rapidly. The following chart illustrates estimated premium potential by industry and the associated four-year average growth rate.⁸

Figure 1. Small business sub-segment breakdown





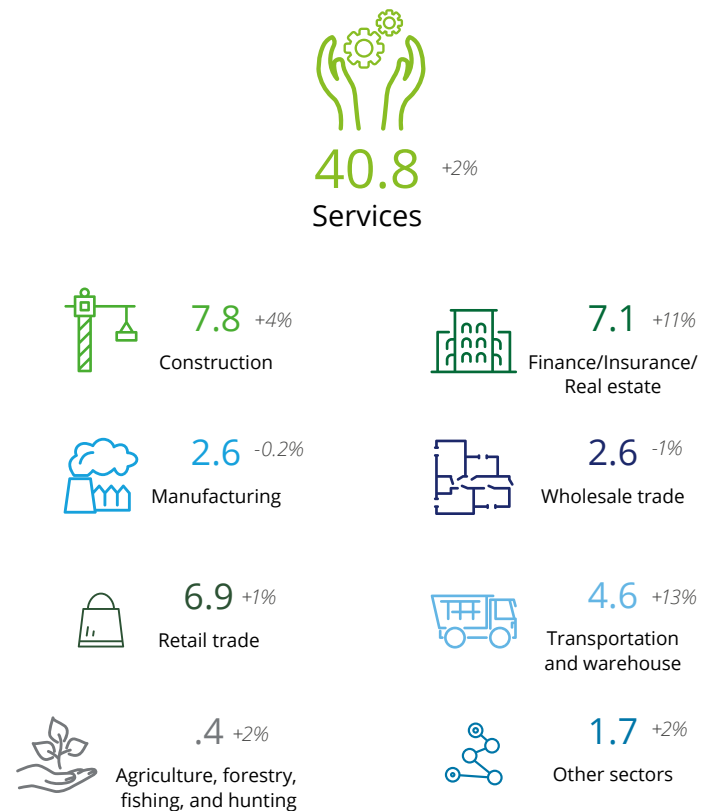
	Number of businesses	Total estimated premiums size	Average premium per business
	27.1M	\$32.8B	\$1,210
		Non-employer (0 paid employees)	
	3.8M	\$7.3B	\$1,921
		Micro market (1-4 employees)	
	1.9M	\$25.3B	\$13,316
		Principal small market (5-29 employees)	
	0.2M	\$8.7B	\$43,500
		Small-medium market (30-49 employees)	

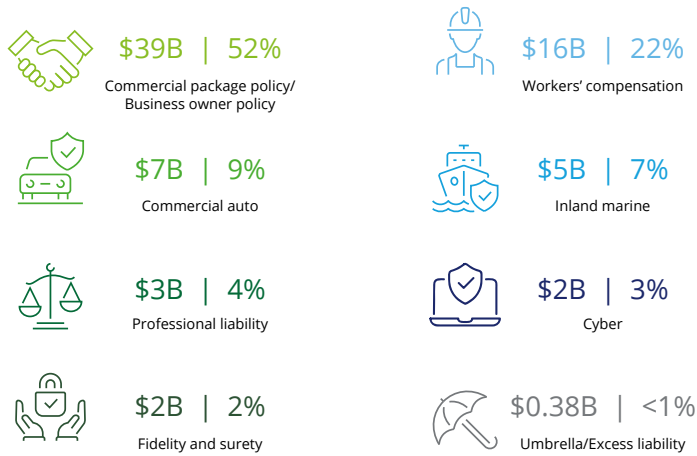
Figure 2. Breakdown of direct written premium (\$B) by industry, 2015-2019 CAGR%



The insurance market for small businesses **primarily provides commercial package policies** or business owner policies that provide both property and liability coverages that meet most or all the business owner's needs. These policies are vital, particularly to the smaller subsegments, as small business owners look for a one-stop shop for their insurance needs.

As small business owners look to insurers to meet their protection needs, significant differences in coverage needs vary by industry. A wide diversity of industries and risk profiles may also lead to additional product needs from the small businesses—allowing insurers to underwrite stand-alone policies for specific products. The highest premium volumes in stand-alone products are concentrated in workers' compensation and commercial auto, with smaller opportunities in "specialty" products, such as professional liability and surety.⁹

Figure 3. Breakdown of direct written premium (2020) by product line and percentage of total



Competitive landscape

To be successful, carriers should carefully consider the playing field and winning strategy in a highly fragmented competitive market landscape. While the top 15 carriers by premium size account for roughly 60% of the overall commercial P&C market, that number drops to 50% for small commercial insurance (which has not changed notably in recent years), presenting an opportunity for entrants with compelling offerings and value propositions to gain market share.¹⁰

Given the breadth of competition, carriers must bring a clear value proposition—the right products, industry expertise, and customer focus—to target and attract small businesses in the diverse small commercial insurance market.

Figure 4. Currently, the small commercial insurance competitive landscape is served by five main archetypes of players¹¹

Large publics	Large mutuals	Midsize	Niche insurers	InsurTech/Aggregators
Publicly listed, primarily distributing via an agent network with solutions for mass market	Mutual insurers, operating in a similar space as large public insurers but typically doing so with a higher risk appetite than publics	Midsize carriers either with a national footprint and a product/segment focus or regional footprint focused on dedicated channels	Smaller carriers, often with a dedicated product and/or customer segment focus	Technology-driven companies, leveraging data to simplify the insurance-buying journey of customers
<ul style="list-style-type: none"> • Price and scale • Agency and in-force loyalty • Experience, data, and models • Diverse capital sources 	<ul style="list-style-type: none"> • Price and scale • Increased re-investment flexibility 	<ul style="list-style-type: none"> • Exceptional customer and claims service • Strong relationships with customers and agents 	<ul style="list-style-type: none"> • Niche expertise or area of focus • Strong relationships with customers 	<ul style="list-style-type: none"> • Customer-centricity • Technology-based platform • Robust mobile app that simplifies buying and managing policies • Attractive discounts to drivers • Many are focused on serving the gig economy

Evolving small business owner needs and expectations

Small business owners have become progressively savvy about the property and casualty risks faced by their operations, particularly as the global pandemic and recent economic downturn have brought business interruption, workforce, supply chain, and technology risks to the forefront. In addition, as tailored and omnichannel buying experiences have emerged in consumer and business-to-business markets, small business owners expect the same types of experiences from their insurance service providers.

A recent Deloitte survey¹² of insureds, agents, and brokers in the small commercial insurance market highlighted three trends in small business owner insurance purchasing decisions:

Declining price sensitivity

Only 18% of small business owners said they would switch insurance coverage and carriers only to achieve a lower premium.¹³ Small business owners in the non-employer and micro markets were more price sensitive than those in the larger-size categories.

Increasing customization of coverages and services

Thirty-seven percent of small business owners said that they would update their insurance at any point during the policy period to get coverage that is better tailored to their business.¹⁴ This desire for customization and protection advice poses a challenge to insurers: to build product structures and platforms that enable customization from the customer's lens and balance cost-effective maintenance of supporting coverage forms, rating, rules, and infrastructure.

Additionally, small business owners expressed a desire for risk prevention services and other value-add services from their insurance providers. Customers value carriers that demonstrate their industry expertise and help them mitigate risk in their unique business.

Intuitive and quick insurance experience

Lastly, customers value simplicity and speed in interactions with their insurance carrier—spanning shopping for coverage, purchasing policies and services, ongoing risk prevention, and account servicing and claims handling. As small businesses are often multifaceted, insurers must deliver an experience that provides owners with the right education and confidence that they are purchasing the right coverage for their needs.

In summary, small business owners want to be empowered to focus on the core of their operations. A streamlined insurance ecosystem enables owners to focus on what they do best: managing their business.

Given these three trends in customer needs and expectations, carriers need to address three key issues in building a small commercial insurance offering and growing in the market: distribution segmentation and realignment, product and service modularity, and accelerated underwriting.

Distribution segmentation and realignment

Given the specialized needs of subsegments of the small commercial market, carriers must select specific industry and customer segments they want to target. A key challenge in accessing these customers is building the right distribution network to effectively reach these segments while maintaining bottom-line expense efficiency. Carriers should balance leveraging new digital direct-to-consumer channels with the traditional independent agent channel that still dominates the small commercial market, representing 84% of premiums sold. Consequently, carriers will likely need to map their priority customer segments to the right distribution segments.

Product and service modularity

In addition, insurers should balance between the need to customize their small commercial insurance products and service offerings by industry with the bottom-line pressure to do this in a cost-effective and maintainable manner. Small commercial insurance carriers should build the infrastructure to enable a robust, modular product offering that can flex to support different industries within the carrier's target market segments. When entering the market, carriers should make a choice on which industries and business sizes to support in their initial rollout based on their near-term product and operational capabilities.

Accelerated underwriting

As insurers strive to simplify the application and purchasing process for small business owners, they must be mindful not to destabilize valuable segmentation and risk selection practices. Augmenting a streamlined application with a blend of intelligence via internal and third-party datasets can provide insurers the robust underwriting data needed to maintain profitability while streamlining the buying process for customers. In addition, strong portfolio management capabilities, and discipline in monitoring areas such as mix of business shifts and exposure concentrations, can help with the early identification of potential risks to the book.

Winning value propositions in small commercial: Key strategic archetypes

There are **five archetypes** that we see in the market currently, and while competitors can pull different aspects of the archetypes into their strategy, they generally fit into one of these buckets.

Figure 5. Emerging strategic archetype descriptions

1	2	3	4	5
Industry specialization	Superior agent experience	Best value	Embedded/White-label partner	Direct experience
For small business owners (SBOs) looking for a carrier who knows their industry, provide the most comprehensive suite of industry-relevant products, solutions, and services required to effectively protect their businesses.	For agents looking for the best experience, provide a seamless agent portal and a best-in-class servicing experience to become their preferred carrier.	For cost-conscious SBOs, provide the best price-to-coverage ratio in the market, along with the best product and policy flexibility to suit SBO needs.	For companies serving small businesses, offer embedded or white-label insurance products to maximize the intermediary's overall value proposition to their small business customers.	Offer a streamlined insurance experience through an end-to-end digital platform, and serve as a partner that can support them through their journey.

The archetypes captured in the above illustration are explained in further detail:

1. Industry specialization: For small businesses looking for a carrier that knows their industry, provide the most comprehensive suite of industry-relevant products, solutions, and services required to effectively protect their business.

- Offer resources for intermediaries and end customers on industry-specific **insurance trends, products, benchmarking, and regulations.**
- Proactively share information on **comparable companies' risk needs**, and leverage expertise in serving similar companies for providing advice on both insurance coverage and **preventive best practices.**

- Ensure business owner policies (BOPs) provide **comprehensive coverage for a specific industry's needs.**
- Offer a comprehensive suite of **industry-specific products** (e.g., builder's risk) and flexibility (microinsurance).
- Offer **additional services** such as legal advice, financial advice, risk assessments, etc. tailored to the specific industry needs.

Case study: A large-size carrier delivers a comprehensive suite of industry-specific products and services. Its marketing materials highlight industry-specific insights and language. It also has a team of more than 12,000 people, with specialized knowledge and expertise in specific industries or products. This carrier also provides risk control services across a wide range of industries and hosts industry specific platform which offers insights to small businesses.

2. Superior agent experience: For agents looking for the best experience, provide a seamless agent portal and a best-in-class servicing experience to become their preferred carrier.

- Provide dedicated and reliable representatives who **build long-term stable relationships with agencies and agents**.
- **Offer fastest quote turnaround time** to make the agent and their end customer's experience seamless and efficient.
- **Provide a high-quality agent portal** that works seamlessly with agent systems to support placing new business and servicing existing businesses.
- **Deliver clear, proactive, and consistent communication regarding the risk and products.**
- **Offer a leading incentive program** that encourages agents to quote and write products for customers.

Case study: A midsize carrier focuses on developing and maintaining exceptional agent relationships by offering an improved in-person and portal experience. It offers personalized protection that helps agents win more business by providing exclusive coverage options tailored to specific industries, simplifying classification processes, and offering improved policies that address unique risks, ensuring comprehensive protection and better coverage options for their clients. It also provides educational materials and tools to its agents that help build customer confidence.

3. Best value: For cost-conscious small business owners, provide the best price-to-coverage ratio in the market, along with the best product and policy flexibility to suit small business owner needs.

- Offer **the best available price** for products (business owners policy, workers' compensation, commercial auto), with **significant discounts for bundling**.
- Allow for **payment cadence** (e.g., pay monthly vs. yearly) and **policy-change flexibility**.
- Enable intermediaries and small business owners to **input company information and get quotes online**, along with suggested coverages and bundling options.
- Offer **loyalty programs for customers** with good claims history to increase customer retention and raise the barriers to switch.

Case study: A niche player in the insurance space offers simple, comprehensive, and cost-effective insurance. It offers very competitive rates by owning the complete risk value chain and selling directly to small businesses across many industries. It is focused on solving for friction that cash-strapped, low margin, and relatively new businesses face while purchasing insurance.

4. Embedded/White-label partner: For companies serving small businesses, offer embedded or white-label insurance products to maximize the intermediary's overall value proposition to their small business customers.

- Provide a **seamless digital experience for the embedded/white-label partner's customers** that leverages front-end customer data to customize their experience while maintaining the embedded/white-label partner interface.
- Offer **pre-bundled products** to enable customers purchasing similar products to move more efficiently through the funnel.
- Offer a **dedicated service team** to handle interactions and issue resolution with embedded/white-label partners.
- Provide peace of mind by staying a **reliable and highly rated carrier** that the embedded/white-label partner can have faith in to provide appropriate back-end servicing experience and claims management.

Case study: An online insurance provider has an embedded insurance solution known for its digital-first approach, sophisticated application programming interfaces (APIs), easy onboarding, and excellent customer service to partners. It is known for key partnerships with other companies that cater to or interact often with small businesses, such as their partnerships with legal platforms, compliance and tax solutions, e-commerce platforms, accounting software provider, other financial services providers, business management platforms, etc.

5. Direct experience: Offer a streamlined insurance experience through an **end-to-end digital platform**, and serve as a partner that can support them through their journey.

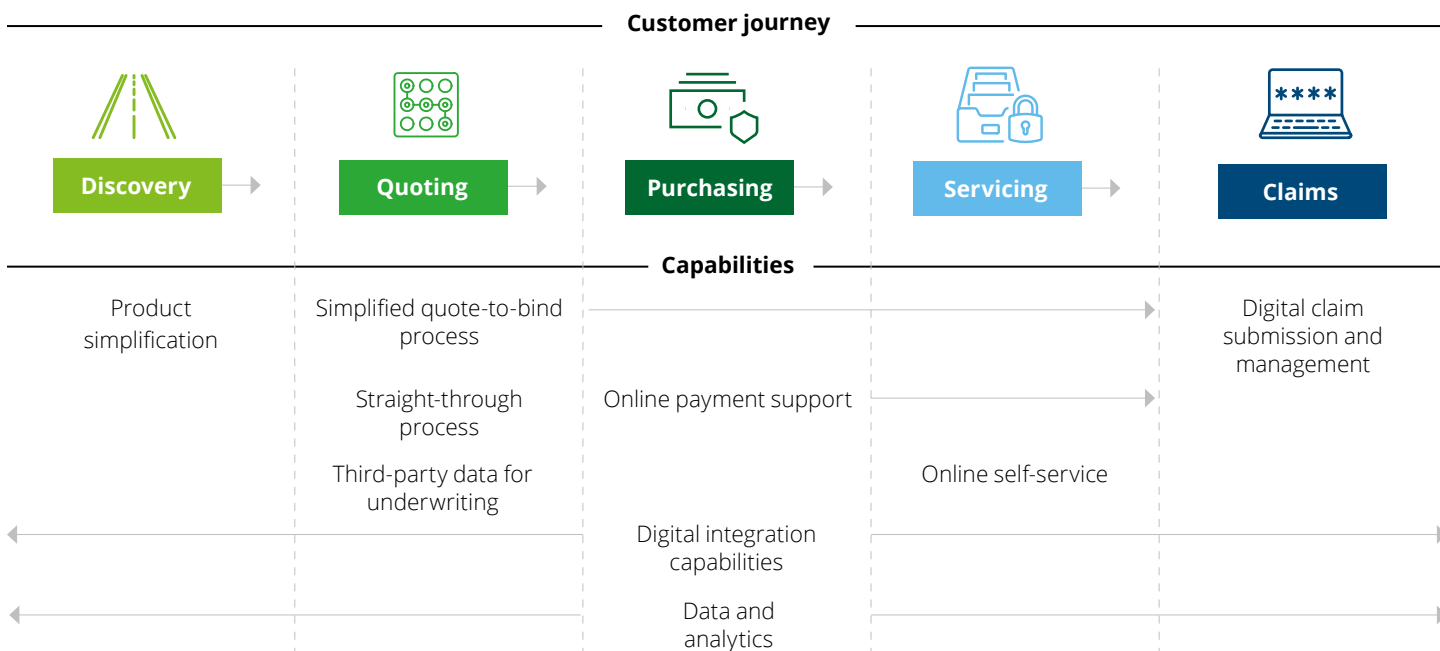
- Offer **comprehensive, simple-to-understand products and bundles** that make the purchasing process easy.
- **Create tailored digital experiences for each industry** to simplify the customer experience and to demonstrate knowledge of the customer's business and its insurance needs.
- **Offer a completely digital servicing and claims experience** that allows customers to efficiently interact with their carrier.
- **Offer on-demand informational resources for customers** to leverage to make informed decisions on the insurance needs of their business.

Case study: An international insurance provider provides an end-to-end contemporary digital customer experience with the help of a streamlined process and self-service platform catering to customer needs. It is perhaps one of the most, if not the most, sophisticated carriers in small commercial as it relates to digital capabilities and analytics. The insurance provider relies heavily on the data for what they offer throughout the insurance journey, even before the small business owner buys. It also was among the first carriers to advertise on social media.

Foundational capabilities required to succeed in small commercial

There are a few capabilities across the customer journey—from product discovery to claims submission—that carriers will need regardless of the piece of the market or the strategy they choose:

Figure 6. Foundational capabilities across the customer insurance journey



Digital integration: Back-end sophisticated and seamless API connection to agent, aggregator, embedded partners technology for all stages of the insurance journey

Data analytics:

- Analytics-driven segmentation to develop fast understanding of business profiles and needs (high volume profiling)
- Funnel analytics across the insurance journey (e.g., where do customers “drop off” or “get stuck”?)
- Voice-of-the-customer analytics on products, processes, and people across the insurance experience journey to drive continuous improvement

Third-party data for underwriting: Access to multiple data vendors and tech solutions to effectively leverage third-party data and ensure underwriting quality

Product simplification: Ability to simplify language, ensuring easier navigation and sales process for the average small business owner

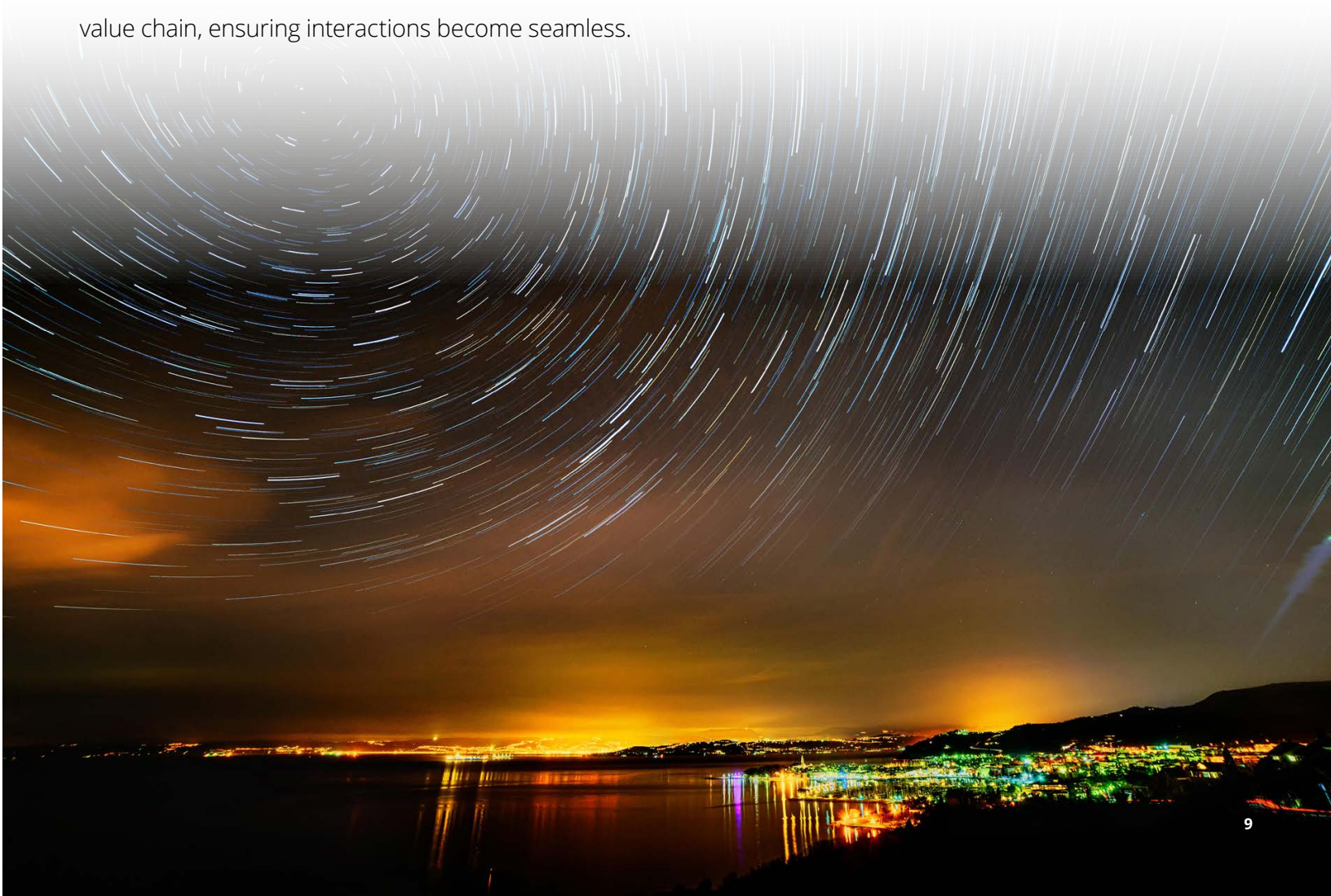
Simplified quote-to-bind process: Automated rule-based engines to facilitate and simplify the quoting and binding of insurance policies
Straight-through process: Fast data ingestion to enable high-volume quoting

Online payment support: Ability for customers to submit initial and recurring payments online or through mobile devices

Digital claim submission and management: Ability for customers and/or agents to submit and track claims digitally (including submission of documents and/or pictures)

Online self-service: Ability for customers and/or agents to service accounts online (e.g., certificate of insurance access, policy updates, documentation access)

In summary, the small commercial insurance market presents an opportunity for carriers looking to serve the small business community. Winning in this space requires carriers to stand out in a competitive landscape and keep pace with evolving small business owner and agent needs and expectations. To successfully undertake this endeavor, carriers should maintain a deep understanding of small business owners and address their specific coverage and protection requirements. Leading carriers in this space should also build agility in their operating processes across the agent and client journey, especially investing in technology, data, and analytics capabilities. Lastly, to win in small commercial insurance, carriers will need to simplify their product offering and overall business owner and agent experience across the value chain, ensuring interactions become seamless.



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