



The Hidden Value in an Overlooked Customer Segment

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One of the advantages of distributing insurance products solely through independent agency partners is that it allows The Hanover to develop a deeper understanding of our agents' goals, books of business and opportunities for growth.

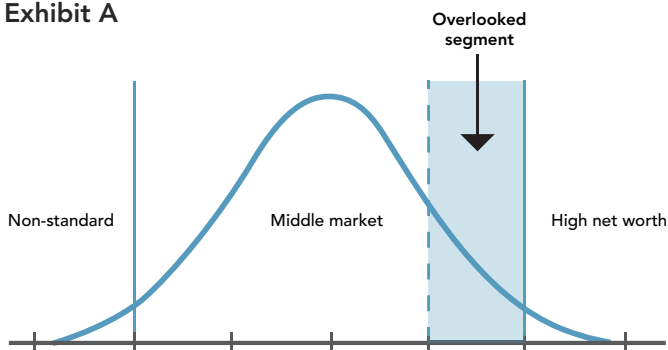
It is through our research and proprietary tools that we have observed the growth of a distinct consumer segment that has been impacted by societal and market trends – and overlooked by much of the insurance industry.

What is this segment?

In personal lines, many agents and carriers view books of business in terms of extremes, with customers falling in one of three segments: non-standard on one end, high net worth on the other and everyone in between considered middle market.

In reality, however, there are four key segments, including this overlooked segment, as illustrated in Exhibit A:

Exhibit A



This group of upper-middle consumers sits just below high net worth, and often needs more coverage than a standard home and auto package, but not necessarily a full suite of niche coverages. Unfortunately, a significant portion of this segment is typically placed with carriers that are either underserving them with coverage and service options

that are not meeting their needs or overcharging them for an over-engineered product that includes unnecessary coverages.

These consumers think and act differently than other consumers and are looking for a more specialized coverage and service experience. For independent agents looking to compete, there is a benefit to further segmenting the middle portion of their books of business to avoid generalizing – and not adequately addressing – this group's needs.

Who are they?

This segment isn't so much defined by a single persona or a generation, but more by a combination of consumer net worth and mindset. Since this can't be captured during the quoting process, the best way to identify an upper-middle market customer is through a combination of front-line underwriting and the Coverage A value of a home. The following can help identify these customers:

- **Assets:** They typically have a primary home with a replacement cost value of more than \$750,000, multiple luxury vehicles, valuables, boats or secondary/seasonal properties. With more complex asset protection needs, these customers care about having the right coverage
- **Current insurance:** They likely have three or more insurance policies per household and many have umbrella policies

- **Buying Decisions:** They tend to research companies and products online, but the majority trust centers of influence for referrals and buy from an independent agent
- **Lifestyle:** They are willing to spend more for quality products that align with their needs, and are especially looking to protect their lifestyles
- **Coverage Format:** They seek cost transparency, with the flexibility to customize coverage because price is still a consideration
- **Recognitions:** They appreciate being rewarded for their loyalty and prefer products and services that offer them exclusivity, making them feel valued. For many, recognition and status of program membership is important to the brand experience

slowing of economic growth impact the investments of this segment

- **The Amazon Effect:** More than half of all U.S. households subscribe to Amazon Prime³ and expect expedited delivery and a higher level of customer service. This level of service is now often expected of other businesses



**1 OUT OF EVERY
10 HOMES**
is worth at least \$1 million

Despite all these experiences, prosperity has increased in the U.S. One out of every 10 homes is worth at least \$1 million and since 2008, the number of million-dollar homes nationwide has increased by four million⁴.

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The number of
**million-dollar
homes nationwide
has increased by
4 MILLION
since 2016**

.....

Capitalizing on the opportunity

While independent agents are uniquely positioned to help advise and serve customers in this segment, they often are limited by the options in the marketplace. Most insurance carriers have numerous traditional, structured coverage packages, but these options are not adequate for the more

What makes this customer segment different?

Much has been written about the recent growth of the upper middle customer segment. From an insurance perspective, many in this segment of high-value, preferred accounts have homes with replacement costs of \$750,000 or more, may have a second home and may drive more expensive cars. Interestingly, however, these consumers do not see themselves as wealthy.

As agents target this promising upper middle segment, it is important to consider what experiences have shaped these customers' perceptions and values.

- **Student Loan Debt:** Today's student loan debt has approached \$1.6 trillion¹, and more than 40% of that debt is carried by borrowers over the age of 40. Many in this customer segment may still be paying off their student loan debt, while saving for their children's educations
- **The Sandwich Generation:** Almost 15% of Americans² in this segment find themselves financially supporting their growing families and their aging parents
- **Stock Market Jitters:** At the time of writing this article, the Dow Jones Industrial Average is near an all-time high, yet, markets are full of uncertainty and volatility. Geopolitical concerns, trade fears, interest rates and the potential

¹ Friedman, Z. (2019). Student load debt statistics in 2019: a \$1.5 trillion crisis. Forbes.
<https://www.forbes.com/sites/zackfriedman/2019/02/25/student-loan-debt-statistics-2019/#bb07698133fb>

² Kenton, W. (2019). Sandwich generation. Investopedia.
<https://www.forbes.com/sites/zackfriedman/2019/02/25/student-loan-debt-statistics-2019/#bb07698133fb>

³ Koch, L. (2019). More than half of US households will be Amazon Prime members in 2019. eMarketer.
<https://www.emarketer.com/content/more-than-half-of-us-households-will-be-amazon-prime-members-in-2019>

⁴ Chacon, F. (2018). Million-dollar creep: Neighborhoods crossing over. Trulia.
<https://www.trulia.com/research/million-dollar-neighborhoods-nov18/>

complex, nuanced needs of this market segment. The options commonly available today tend to overserve or overcharge this segment.

The answer? **Hanover Prestige**: a combination of powerful protection, care and service, and flexibility and choice. This offers a customizable coverage solution that has its foundation in the standard coverage package, but can be augmented with higher or lower coverages to best address the more complex needs of this demographic.

HANOVER PRESTIGE

Powerful protection

Prestige Auto provides a la carte coverage options that can be customized by vehicle, including agreed value, global rental, lifetime original equipment manufacturer parts and rental coverage upgrade up to \$6,000.

Prestige Home offers guaranteed replacement cost with a cash settlement option, water backup and ordinance or law with limits up to the full replacement cost coverage of the home. It also includes service line coverage of \$20,000 to cover electrical and plumbing lines to the street and loss of use up to the actual loss sustained.

Care and service:

In addition to strong protection, this customer segment is looking for service on par with what they are accustomed to

- outside of insurance. Hanover Prestige demonstrates this through:
- A specialized **home evaluation program** administered by an expert home inspector. This includes a **home evaluation report**.
 - A **designated claims team** that delivers an expedited adjuster response after first notice of loss with an enhanced service experience.
 - A dedicated **high-value underwriter** assigned to each agency, with expertise in handling clients with home replacement costs above \$1 million. Agents have expanded binding authority in the space and we have expanded our appetite for high value vehicles and secondary/seasonal homes.
 - **Exclusive third-party membership access and discounts** through The Hanover's Partners in Protection program.

Flexibility and choice:

This customer segment desires to be engaged in the buying process and the decisions in tradeoffs between price and coverage, unlike the blank check mentality of a high net worth client. What truly sets Hanover Prestige apart is the flexibility and choice in customizing coverage options. By providing this flexibility with the product design, agents are in a unique position to engage in the sales process in a way that resonates with this demographic.

Hanover Prestige is available on auto and/or home policies, as part of a Hanover Platinum account or for monoline business. It is also available on one car or all vehicles. Coverages for other structures and contents can be adjusted up or down based on a customer's needs and all Prestige auto coverages can be purchased a la carte.

Did you know?

18%

of homes with a **replacement cost value ≥ \$500,000** are insured as comprehensive HO-5 policies with broader protection for open perils.

2016 NAIC

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What does this mean for agents?

Our experience in evaluating more than \$30 billion of independent agency business shows approximately 8 to 10% of independent agency customers fall in the \$750,000 to \$3 million Coverage A range.

Customers in this range have a lifetime value five times higher than other account customers (\$80,000 vs \$16,000).

Why is their lifetime value higher?

- Average retention rate is 10 points higher - 95% vs. 84%
- Average account premiums are three times higher- \$7,900 vs. \$2,600
- Higher number of policies per household – an average of three personal insurance policies per household vs. two for homeowners with a Coverage A less than less than \$750,000

- More umbrella policies - 55% of customers have an umbrella policy in this segment vs. 16% of homeowners with a Coverage A amount below \$750,000

Independent agents are in a unique position to assess these coverage needs and serve as trusted advisers to these clients, helping them eliminate potential exposures and maximize the value of their insurance dollars.

The Hanover is able to help agents identify this group of consumers using proprietary tools. By applying an additional layer of segmentation to the broad middle market of their books, agents can target customers that would most benefit from Hanover Prestige.

Average retention
+10 points

Account premium
3x

Umbrella policies
55% vs. 16%

Household policies
3 vs. 2

Learn more

For more information about Hanover Prestige and how to tap into this underserved market, connect with your TSM or visit [hanover.com/agent-prestige](https://tap.hanover.com/agent-prestige) for more information.

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