

INSURANCE DISTRIBUTION MODELS OF THE FUTURE

STRUCTURE

1. Introduction
2. International Trends in Insurance Distribution
3. New Product Introduction: Business Drivers
4. Overview: The Insurance Industry Today and Tomorrow
5. Global market trends
6. New Delivery Models
7. The Internet: The Game Changer
8. Empowering the next-generation workforce
9. Summary
10. Keywords

1. INTRODUCTION

Some insurers have adopted an alternative distribution strategy based model, concentrating on drivers such as banks, corporate agents, and insurance brokers to fuel their business growth, while some have concentrated on the traditional direct channel model comprising of individual agents, direct mail, company websites (internet based selling) and every such activity that involves the insurer directly. We have explored these channels in depth and come to a conclusion that no insurer can afford to be adamant in its distribution strategy, and stick to a few favourite channels, and that the need of the hour is to be competitive, by adopting a multi-channel distribution strategy; while being flexible in adopting the modern tools of technology and the internet in widening the boundaries of the distribution box. In short, innovative ideas of distribution may be the new mantra and insurers need to align their business strategy in line with changing consumer tastes and preferences. The product needs to “be there” readily available for the customer, whenever he decides to buy, and at the right price bands, and with the right marketing mix. Changing lifestyles and buying preferences will decide the future models of distribution, while maintaining the equilibrium for the traditional patterns of distribution as well. Thus, internet based buying may be preferred in the coming years, but the agent may still be available for the ‘warm’ smile and social networking potential that adds value to the prospective buyer of life insurance. Not surprising, since in India the traditional and modern have always survived together. The question is: How do insurers control the high costs associated with a multi-channel distribution strategy? This unit explores the changing requirements of life insurance business, the international trends in insurance distribution, the role of technology and the distribution models that may become the drivers of life insurance business in the future.

2. INTERNATIONAL TRENDS IN INSURANCE DISTRIBUTION

Beyond face to face insurance distribution

The costs of sale for many insurance products are significantly out of line with the value provided to consumers, according to a new research by Deloitte. The research, a result of a six month review of the UK insurance industry's sales and distribution channels, looked at the root cause of emerging problems in insurance distribution cost structures, particularly around face to face sales and examined the likely impact these challenges may have on future profitability. The research showed that the industry as a whole became competitive, cutting operating costs by 50% across the past decade. However, distribution costs moved up and accounted for 38% of total operating costs, an increase of 29% in 20 years. Coupled with low persistency (poor customer loyalty), current face to face models, primarily IFA's, are running counter to underlying economics and value. This may account to some of the apparent pressures on Independent Financial Advisors. As product providers consider their strategies around their own direct sales force, telephone and internet channels become more popular. The underlying economics that drives this theory is that the lapsation of policies that pay high commissions to the agent is quite high, with nearly 50% of the policies lapsing after 4 years, meaning that they come nowhere to making money. Traditional face to face sales in 2006, accounted for 72% of retail insurance sales in the UK, and in some product groups such as pensions they account for almost 90% of sales. In personal lines insurance, just 39% of sales were face to face, down from 84% 15 years ago. In 1999, 96% of life insurance sales were made face to face, today it is 62%. The decline of face to face distribution in the UK, was seen across personal lines insurance as direct channels such as telephone, direct mail and internet emerged. Personal pensions and annuities distribution may be the next to follow suit.

Reasons behind the symptoms:

Insufficient customer segmentation and targeting together with some continued operational inefficiencies means the cost of face to face advice is out of line with industry revenues and growth, driving up sales costs as a percentage of overall operating costs. The question is whether current face to face distribution models cost more than the value they provide. While higher net worth individuals may value the advice they receive for longer term insurance products, certain consumers may be paying for a service they don't want or can't really afford. Since there is a value mismatch between the customers and the agents, an increasing number of customers will turn to other channels (phone, branch, internet) to make their insurance purchases. The solution is that insurers have to adopt a multi-channel strategy that develops new alternative channel formats and drives out efficiencies in traditional channels. These channels must be supported by simplified products and unbundled advice. Allied to these changes will be a greater understanding of both the true costs of serving customers via various channels, so that the cost of sales can be aligned to their value, and the real needs of consumers. In spite of a remarkable reduction in operating costs over the last decade, in the UK; the business economics of distribution and product threaten the future profitability of the industry. Face to face insurance sales do have a place — there are products that require advice but the present economic structure does not support providing fully-bundled advice to all customers; but can be used strategically for particular customer segments. In India too, face to face channel has been a major cost contributor, and all insurers are reducing their

dependency on this channel, but have been adopting multi-channel strategy of late; to manage costs well, and improve operating margins better.

Trends prevalent in the insurance industry today run in parallel with the confluence of the financial services as banks, capital markets, and insurance combine distribution channels. This confluence is occurring on an unprecedented global scale causing massive growth in emerging markets and an increase in **affinity group distribution** such as Islamic finance, microfinance, retail outlets, post office, work site marketing, and banc Assurance. This industry is seeing the need to distribute these affinity groups over device type channels such as kiosk, PDA, mobile phone, digital TV.

The following Channels are used by life insurers either in limited manner or on full scale, or a combination of all or most of these channels; making it a multi-channel strategy.

- Broker
- Individual Agents
- Corporate Agents
- Micro-Insurance
- Bancassurance
- Cell Phone/PDA
- Kiosks
- Internet
- E-commerce
- Work Site Marketing
- Direct Marketing – INTERNET
- Islamic Insurance – Takaful
- Digital TV/Satellite Selling
- Supermarkets and other retail outlets
- Affinity Channels and Groups
- Insurance specific debit/credit cards
- Call Centres

It is estimated that insurers will spend approximately 25% of their development budget to improve and streamline the distribution process. Distribution costs affect insurers' profits, and it is difficult for insurers to find economic value from them. For insurers to realize the highest value from distribution, they must improve operations and agent-based support for key distribution segments. This includes enhanced operations to support a multi-product, multi-channel distribution model that compliments an insurer's revenue objectives and profit margins. Insurers can realize the highest value from their agent distribution channels by developing an integrated suite of services oriented to driving sales and reducing servicing costs. Distribution costs continue to escalate, and it can spread an insurer's organization thin to support a burgeoning network of distributors such as captive, career, and independent agents; banks; broker/dealers; and alternative channels. Agent-based sales will certainly continue to dominate the distribution of insurance. However, this distribution model is often the largest expense for insurers

to manage cost-effectively in terms of resources, capital, and operational capabilities. Distributors want to do business with the best insurance companies. Agents define those types of insurers as ones that are easy to do business with and that can facilitate improved services to their shared customers. Insurers can take advantage of the present opportunities by managing distribution as a core part of the business and not just a cost of doing business. They can achieve this goal via the strategic use of technology and offer ample support to distributors in information reporting, improved operations, sales and marketing, as well as performance tracking to a large network of agents and brokers.

Focus on Profitable Segments

Insurers enter into distribution agreements for various reasons, and certain distribution partners deliver advantages over others. Partnerships with distributors can expand an insurer's reach to customers of all levels of affluence. They can decrease customer acquisition costs, improve retention, and increase opportunities for cross-selling. It is imperative today, however, to maintain strategic partnerships with a *select* group of distributors and build loyalty with profitable partners. Insurers that identify "partnering" as a core skill can manifest long-term competitive advantage.

Developing and maintaining strategic partnerships pose challenges for both insurers and distributors to achieve mutual success. *Successful manufacturer/distribution partnerships typically entail the following characteristics:*

- Commitment from both entities to build a profitable business model with fair and equitable revenue sharing arrangements in soft and hard markets
- Shared goals and objectives with mutual support, respect, and cultural compatibility
- Alignment of products and services to brand and customer demographics
- Performance monitoring to include sales and marketing and customer service level agreements
- Timely and accurate dissemination of business information to manage financial and business risks

Insurers that administer their distribution partnerships with these guiding principles often find it easier to manage conflicting objectives that may arise. In addition to these principles, insurers must employ strict financial discipline to current and future distribution partnerships to maintain profitable operations. Blanketing the market to fully extend the insurance distribution network poses many problems, because not all distribution partnerships deliver the same economic value. Some insurers may find that, over time, they have acquired unprofitable partners with unprofitable customers. Insurers may also support high-value partners that drive revenue and demonstrate a propensity for future growth with little overhead expense. Profitability pressures for these partners may include hard costs, such as revenue sharing arrangements and marketing allowances, or soft costs, such as wholesaling coverage and customer service. For insurers to derive economic value from all of their distributors, they must segment profitable distributors from unprofitable ones and direct resources to profitable areas of the operation.

Figure 1 illustrates the relationship of distribution channels to segments of select customers and demonstrates distribution targets based on the distributor's predisposition to attract and retain individual customers in those wealth tiers. However, a recent study in the U.S, on finding economic value in distribution demonstrates that even when insurers employ strict financial discipline and metrics, distribution costs continue to escalate.

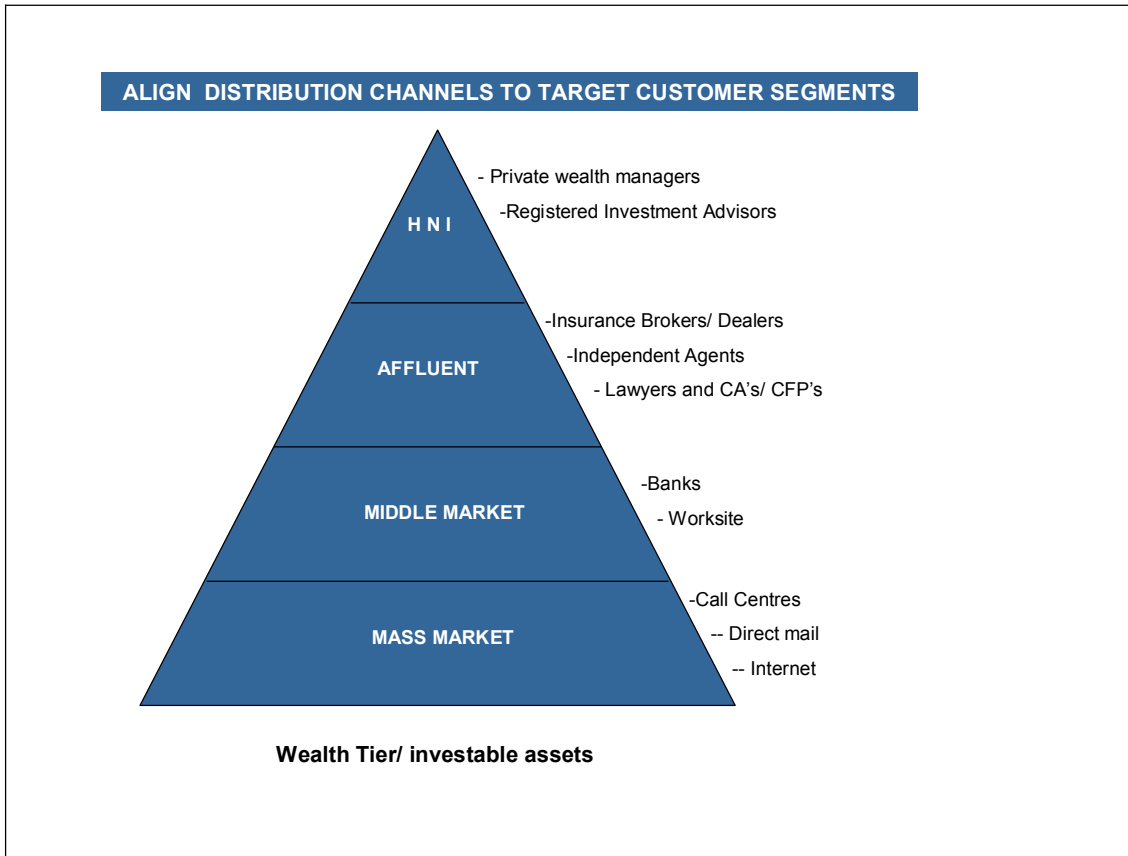


Figure 1

shows alignment of distribution channels to target the various customer segments

For insurers to realize the highest value from distribution, they must improve operations and agent-based support for key distribution segments. This includes enhanced operations to support a multi-product, multi-channel distribution model that compliments an insurer’s revenue objectives and profit margins. Insurance companies support complicated distribution processes and must continuously plan, manage, evaluate, and adjust support and services to accommodate demands from their partners. Support for distribution from a flexible and cost-effective technology environment allows insurers the leeway to readily adopt new distribution channels and adjust services without creating a profit margin imbalance.

Figure 2 illustrates how profit margins closely correlate to economic value and the operational costs associated with high-tech and high-touch support services. The best economic value for insurers is in partnership with distributors that demonstrate a high propensity to drive sales and manage their business with high-tech services and self-service outlets such as the Internet. The least profitable opportunities are with distributors that do not demonstrate the potential to grow their business and that require a high level of personalized services. Partnerships with distributors in this quadrant, as captured in Figure 13.1, are in need of remedial action. Insurers must consider alternatives for restructuring operations oriented to high-touch services for low-value customers. Otherwise, they risk high losses in the distribution of their products and services. Insurers can create competitive differentiators with a business-processes approach to increase the value of customer interactions. A keen focus on profitable

distribution segments, combined with technology solutions to drive business objectives, provides a solid foundation to reengineer the agent-based insurance distribution process. A number of viable technology options are available today for insurers to develop a flexible and cost-effective multi-channel distribution network. These solutions manifest in self service portals and customer relationship management (CRM) systems for sales, marketing, and service, among other functions. However, a major impediment to realizing the full benefit of these solutions is the lack of availability of data from core operating systems. Another means to reduce distribution costs would be the use of Web technologies to help insurers realize better savings and better revenue. Because a firm uses a Web site to allow their agents to obtain quotes and complete new policy applications online, agents can work faster and more efficiently. Sales and marketing productivity is another area that delivers better revenue growth. Distributors and their customers want insurers to provide them with their total financial profile, so that services are comprehensive but targeted according to their particular needs. The results are improvements to cross-selling techniques and retention rates of existing customers.

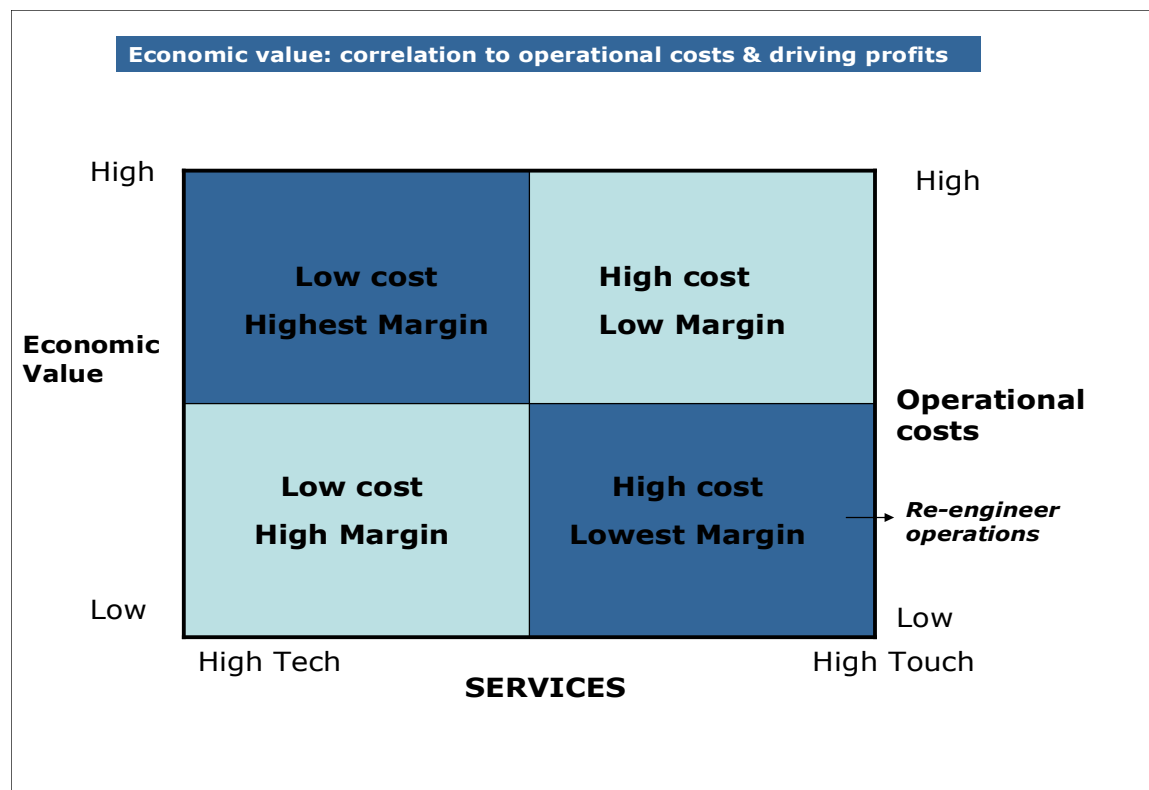


Figure 2 depicts the correlation between economic value and operational costs and contribution to profits

3. NEW PRODUCT INTRODUCTION-BUSINESS DRIVERS

The period of stable product portfolios that rarely change is long past the insurance industry. As with other industries, life insurance is being forced to respond to the ever-changing demands of distributors and customers. Insurance insurers refresh their product portfolio by either adding new products or enhancing existing ones to meet market demands. They also discontinue existing ones periodically. Most experts agree that the demand for new and creative products is going to intensify. Insurers have always

been aware of the importance of new product launches and their effect on sales and profitability. Business drivers that accentuate the need to quickly and cost-effectively launch new or enhanced products can be grouped under the following **four major heads**:

- Customer expectations
- Regulatory changes
- Distributor demands
- Competition pressure

Customer expectations: Since customer awareness is high, customer expectations are very specific and they have plenty of choices. Customer demographics are also changing. Many economic factors such as rise in incomes, stock market performances, interest rates, inflation, savings rate, etc.; also contribute to the rapidly changing customer needs.

Distributor Demands: The demands of distributors are increasing. They are looking to differentiate themselves in the marketplace and expect insurers to develop and market distributor-specific products. They are also seeking ways to increase their client's wallet share by offering additional products to address perceived gaps in coverage and investment needs.

Pressure from competitors: Insurance companies are being pressured by both insurance and non-insurance financial services competitors. As new product offerings from innovative insurance companies gain traction in the market, other companies feel the pressure to copy them. To prevent non-insurance companies from gaining further market share, insurance companies develop products that take full advantage of their unique tax and protection characteristics. The mounting competitive pressure makes it imperative for insurance companies to keep a close watch on the market and design, develop and implement new insurance products that better address the needs of the market.

Regulatory changes: Insurance is a highly regulated industry that must constantly review and adjust its product offerings to ensure compliance. In addition, the changing regulations often offer new opportunities to aggressive and innovative insurers. Regulations impact every aspect of the product design and development process – product filings, rate approvals, regulatory reporting, tax treatment, disclosures, etc.

Figure 3 shows the business drivers of product introduction, and their impact on profitability and distributor/ customer loyalty.

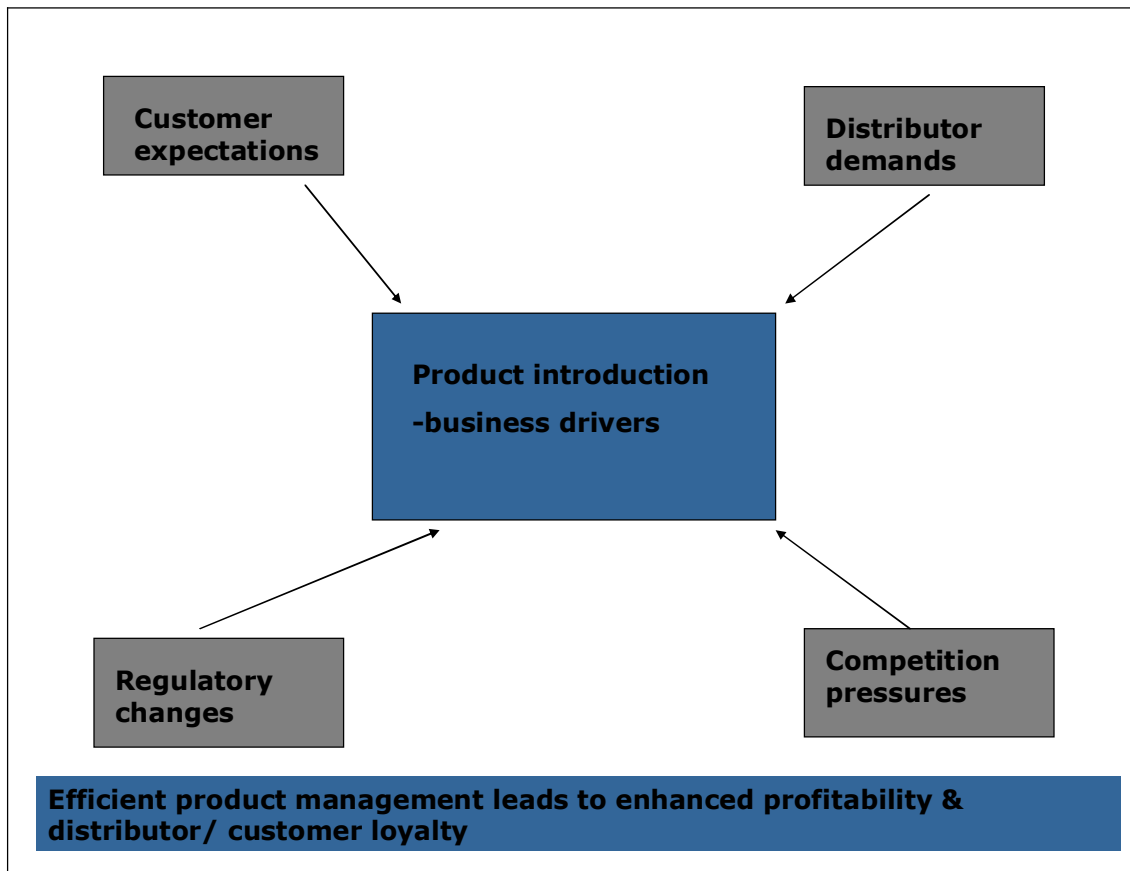


Figure 3 shows the business drivers that accentuate the need to introduce new products, resulting in increased profitability and enhanced distributor/ customer loyalty.

4. OVERVIEW: THE INSURANCE INDUSTRY TODAY AND TOMORROW

The insurance industry is a significant player in the global economy. In 2007, 19 insurance companies ranked among *Fortune* magazine’s 500 largest corporations. The insurance industry is a key influencer of—and some might point out, an area of relative stability in—the turbulent capital markets. And, as an industry, it employs millions of people and touches many more as policyholders. As such, the insurance industry has considerable exposure to social, political, and economic dynamics that will shape the next 10 years to 15 years. Global dynamics are forcing change on an industry rooted in time-tested practices and traditional business culture. Sophisticated customers are demanding more choices, increased transparency in areas such as rates and claims, and greater convenience. Governments and markets are demanding transparency and adherence to strict safeguards related to data, risk and reserving, sales, and other business practices. Competition is emerging from new players with new business models and nontraditional delivery processes. In addition, long-held assumptions about the place of insurance companies in the value chain are suddenly open to question. **Specifically:**

- The Internet has made online quoting and online sale of property and casualty (P&C) lines mainstream. These options raise some challenging questions about the continued role of agents.

- The pace of mergers and acquisitions (M&A) has accelerated in the global insurance industry, and will happen in India too over the next decade. This acceleration creates challenges for IT departments that are tasked with integrating disparate business applications, inflexible core systems, and vast yet still valuable repositories of legacy data. On the business side, managers are also faced with bringing together different business models, cultures, and work-styles. Globalization is creating opportunities for regional and national insurers to expand into new markets, where they must find ways to operate effectively in unfamiliar business and regulatory conditions. Meanwhile, the ease of operating across geographic and industry boundaries has lowered the barriers to entry for new competitors.
- New entrants to the industry and increasing customer demands are creating a need for new product development capabilities like never before.
- Evidence abounds of 10-year events, such as catastrophic weather, occurring every two years or so. These events prompt the need for better models, processes, and strategies for managing risk and interacting with customers.
- Continued advancements in technology and bandwidth, in addition to increasingly skilled workforces in emerging markets, can support continued outsourcing. But many insurers are now asking whether the outsourcing value proposition is still as compelling as it was in years past.
- Mobile devices, global positioning systems (GPS), radio-frequency identification (RFID), genomics, implanted medical monitoring devices, and telematics provide a flood of new data with enormous implications for risk and claims. But insurers are struggling with the new technologies— are they disruptors, opportunities, or both?
- The insurance industry as a whole needs to contend with the challenge of how it attracts a new generation of both workers and customers. Although the industry's business is stable, it is also stale. Despite all of these pressures, the big change in the insurance industry still has not happened yet. Centuries-old models and cultures persist at many leading firms, and strategic planning efforts remain focused on traditional sources of competition and growth. There is an enormous opportunity for those insurers who can get out ahead of the curve, through agile systems and processes that will allow them to react more quickly and effectively to unexpected change than the competition. In this New World of Work, insurers will be challenged to:
 - Create new business models
 - Turn static data into dynamic assets
 - Embrace new delivery models
 - Empower the next-generation workforce

Each of these issues has an information technology (IT) dimension, in that IT infrastructure and software can help insurers marshal the resources they need and streamline cumbersome processes.

However, IT alone is not enough. New technology must be accompanied by changes in work practices, processes, and organizational culture. These changes bring together the benefits of new systems and software with the skills, knowledge, and experience of the people whose talents drive business performance. We shall look at the issues facing the insurance industry in the next decade within the broad context of the social, economic, and demographic dynamics that are shaping the future business climate. Because it is uncertain how some of these dynamics will play out, it is important to align existing and future technology investments with an eye toward flexibility and resilience.

5. GLOBAL MARKET TRENDS

A snapshot of the global marketplace reveals trends that point in several contradictory directions. On one hand, corporate consolidation is proceeding at a rapid pace. At the same time, data networks are driving radical decentralization and virtualization. Governments are taking a more active role in regulation, even as globalization is lowering boundaries and opening new market opportunities. Emerging markets offer untapped growth opportunities, but conditions in parts of the world are becoming even more turbulent and uncertain.

Networks and Decentralization

Online insurance sales are growing. Online sales of insurance products continue to grow. Each year, more customers obtain quotes, for and even purchase, coverage over the Internet. A 2007 study by international strategy consultancy Celent predicts that by 2011 nearly 30 percent of auto insurance sales will take place on the Web. The same study suggests that 10 percent of life insurance policies and more than 50 percent of individual health policies will be purchased online.

Some insurers are providing competitors' rates to build trust through proactive transparency. In 2007, Progressive Corporation in the U.S; earned the Web Marketing Association's WebAward for "Best Insurance Web Site," due in part to its scrolling "ticker" feature that provides competitors' rates.

Network/partnership models are flourishing. Bancassurance continues to grow in Asia, Europe, and Latin America, facilitating the distribution of insurance products through retail bank branches. Examples of successful partnerships include international entity Aviva with Spanish savings bank Cajamurcia and Credit Suisse Group with Winterthur, a major life and reinsurance company. The opportunity to greatly expand the distribution channel and reach new customers through bancassurance is enormous. In France alone, banking groups have an estimated 26,000 distribution channels. India is the 6th most densely banked nation in the world, and with 90 scheduled commercial banks, 196 Regional Rural Banks, over 70,000 bank branches, 560 million accounts, and over 500 million bank customers, the potential for Bancassurance is vast.

Government Activity

Governments are taking an increasing role in regulation. As governments move to protect the interests of consumers, insurers around the globe are facing stronger regulatory schemes. Some countries are blocking acquisitions of national insurers. In August 2006 the People's Republic of China paved the way

for acquisitions of Chinese companies. But foreign acquirers must meet stringent regulations related to the status of their held shares to receive government approval for takeovers. The government of Australia has also tightened regulations for offshore acquisitions by assuming broad powers in blocking takeovers of corporations where the deal size exceeds \$100 million. Canada, Germany, and Japan have enacted similar measures.

Rising Instability and Risk

Violence threatens political and economic growth. Since the events of September 11, 2001, incidents of terrorism have been on the rise, and instability has increased in many regions of the world. Many experts predict that another catastrophic attack could lead to profound disruptions in the political and economic order, in addition to bringing conventional assumptions about growth, liberalization, and globalization into question.

Degraded infrastructure is subject to collapse. In 2005, Hurricane Katrina slammed into New Orleans, displacing tens of thousands of residents and inflicting billions of dollars in damage. The scale of the disaster, and the consequent exposure of insurance companies to huge P&C payments, was amplified by the neglect and failure of the critical infrastructure of levees designed to keep the city safe from flooding. The huge losses to life and property in the July 26, 2006 rains in Mumbai is an example of the risks faced by urban cities due to natural disasters and degraded infrastructure that includes drainage systems. Across the United States and around the world, roads, bridges, and other public infrastructure are aging, which increases risk and impedes development.

Instability continues in emerging markets. Throughout Africa, Asia, and the Middle East, local conflicts, disease, and endemic poverty continue to inhibit economic and political developments.

IT Innovations Power New Solutions for Insurance

Now, insurers have access to evolving technologies that make every aspect of their business more efficient and create opportunities for predictive modeling that lead to proactive customer service.

Among these technologies are the following:

Mobile phone technology: Access to high-speed networks remains unequally distributed around the world, although some emerging markets are leapfrogging over legacy infrastructure and moving straight into mobile and wireless technology. In South Africa, insurers are issuing micro-insurance life policies to low-income customers whose premiums are attached to their cellular phone bills. Insurance customers in India may stay in touch with insurers through text messages that deliver policy information and updates to their phones.

Radio-frequency identification (RFID): Developments in tracking technologies offer a more accurate method of assessing and minimizing risks. RFID chips in automobiles serve as theft deterrents and limit payments on fraudulent claims. Future uses of RFID could document the purchase of goods covered in

homeowner's policies at the time and point of sale. In the United States and Thailand, RFID chips are used to identify animals in the fast-growing pet insurance market.

Global positioning systems (GPS) and telematics: GPS and on-board "black boxes" in cars and trucks allow companies to track the physical location of vehicles, the speeds at which they travel, and even seatbelt usage among drivers.

Health infomatics: The ease with which relevant sections of electronic records can be shared makes it possible to underwrite lower value life policies without requiring costly medical exams. However, this simplicity also provides an example of how some technologies are not without controversy. Consumer groups cite privacy concerns over the use of patient prescription records to effectively diagnose medical conditions. Some worry that genetic profiles may be used as a barrier to obtaining life and health insurance.

Adapting to New Business Models Globalization, industry consolidation, and technological innovation are all influencing changes to traditional insurance business models. The speed and turbidity of change require insurers to consider a broad range of possible outcomes. Each of these outcomes has different implications for how insurers compete effectively. For example, globalization could either lead to increased global economic integration or trigger a nationalist-protectionist backlash that could make it more difficult to operate across regional or national boundaries. The trajectory of globalization dramatically impacts decisions about growth. In a more integrated global economy, expansion into new markets through acquisition or partnership is the obvious strategy. In a more fragmented, bordered world, insurance insurers will look to increase their share in their home markets, because the costs of penetrating new ones will be prohibitive. Compliance is another area of constant change. Privacy issues balance against transparency, anti-money laundering reporting, and other government regulations. It is a given that consumers will continue to expect insurers to safeguard confidential data and engage in fair dealing. Individual insurance regulators will continue to insist that they can best protect consumers from unscrupulous selling techniques or inappropriate products. This stance slows efforts to remove regulatory fragmentation and complexity. The subprime financial crisis that hit the U.S and Europe in 2008-09 has only increased the momentum of calls for additional government regulation at all levels.

It is possible to envision a scenario where technology innovations and the power of networks provide consumers with better safeguards, or where insurers are able to more proactively share data and promote unsolicited transparency, to preempt or hedge against increased regulatory regimes. The popular e-commerce site eBay, for example, pioneered the use of user-assigned reputation scores to help buyers and sellers decide with whom they should do business. E-Bay itself does not regulate transactions, and it only steps in when rules have clearly been broken. Insurers can influence this debate by taking steps toward proactive transparency. With these uncertainties in mind, insurers need to look at future impacts on the insurance business model across the following **five key areas:**

- New markets

- New competitors
- New partnerships
- New opportunities
- New demands for accountability.

6. NEW DELIVERY MODELS

The Internet has changed the delivery model for P&C lines, and it may soon impact other aspects of underwriting as well. Looking ahead, new social networking and other Web 2.0 technologies are not only increasing the possibilities for delivery but also driving demand for new ways to compare, buy, and manage insurance, because they are changing customers' expectations. Today's younger generations have embraced social-networking sites, and they operate and interact with friends and colleagues within portals, chatrooms, and other interactive online venues. As customers' expectations are increasingly influenced by their experiences in a networked, online world, how will these changes affect the traditional role and value of agents or brokers for their customers? Conversely, how will social-networking sites influence the expectations of the next generation of agents and brokers for their agency management system or CRM application? What other types of services can insurers offer to appeal to customers with an increasing appetite for Internet-driven information, customization, value, and convenience? We shall look at the following **four main areas** where new delivery models are making themselves felt:

- Agents as simplifiers of complexity
- Better experience for online and mobile customers
- Mass customization
- Micro-insurance products.

The broad dissemination of data enables any agent, broker, adjuster, or customer service representative within a globally distributed business—whether captive or independent—to present a consistent level of service based on standard policies and practices.

Agents as Simplifiers of Complexity

Conventional wisdom suggests that agent-led sales of P&C personal lines are on the way out, because of the disruptive effect of online transactions. Why bother with an agent when you can comparison-shop online from the comfort of your living room and purchase the right coverage with just a mouse click? This proposition is especially appealing to younger customers who are inherently comfortable with Internet technology;

who expect to research, evaluate, and conduct business online; and who would be largely guided by price and not service level when choosing an insurance provider. Despite this trend, there remain important areas where agents continue to add value. Internet sales are disintermediating simple, compliance-driven business (such as auto insurance), where price and convenience are the driving factors leading to policy issuance. But as insurers diversify their lines and offer increasingly customized policies, the value of agents as simplifiers of complexity and bearers of accountability becomes greater. Commercial and personal customers who want customized insurance products or premium service levels will not base their decisions on online quote comparisons. These P&C customers may not want to be at

the mercy of an online claims adjuster and an opaque online claims process. They will want personal interaction and someone to serve as their guide, even if all that the person does is facilitate transactions with various automated systems. Certainly in L&A lines, the insurance product is not an impulse purchase: It must be sold to someone by someone (although more transactional L&A sales might be on the horizon, as online illustration delivery and interactivity improve). If agents continue to occupy an important

position in the value chain, insurers can empower them with a complete view of the customer relationship, in addition to providing ways to quickly find and engage internal experts and resources (such as with presence, Instant Messaging, enterprise search, RSS feeds, and expertise location services). These services can be provided through either a Web-based interface, mobile device, or unified communications that span voice, e-mail, text chat, and conferencing, or integrated into role-based business applications. It is important to empower agents with the ability to improve their quality of service, because they are the public face of the insurer's brand. There is also a benefit to connecting agents closely with the decision-making centers of the business, because they are closest to the market and often the first to recognize new trends and new opportunities. In addition, systems that empower independent agents could have the added benefit of prompting those agents to write more policies with the insurer and not its competition. Mobile claims adjusters are now frequently armed with mobile devices or Tablet PCs that connect directly to business systems to speed claims processing. By also connecting claims adjusters to CRM data, insurers can position adjusters to supplement the role of agents as ambassadors of their brand and improve customer satisfaction by knowing more about the customer's history and relationship with the company. In addition, mobile CRM and unified communications capabilities could be used to link adjusters with body shops, contractors, and rental car firms, for integrated calendaring and collaboration to improve the claims experience while also shortening the claims process and possibly lowering the associated expense.

Better Experience for Online and Mobile Customers

Today, more customers expect to perform most types of transactions either online or using mobile devices. Insurers are slowly pushing greater capabilities onto their Web sites to allow customers a higher degree of control and flexibility. Some online insurers provide links to live service representatives (perhaps outsourced to a specialty service provider), who stand ready to assist by text chat, videoconference, voice over IP, or shared application. Providing interactive features in emerging markets may be critical to adoption and success of these direct-writing sites while still providing a low-cost channel as compared to physical offices. Some companies offer comparison quotes as a value add for customers and a way to build trust and social capital without the mediation of agents. Insurers can simplify payments and authentication by implementing new developments in secure biometrics and using credentials such as fingerprints, voiceprints, and retinal scans in combination with unique account information to improve the security of online transactions and build confidence. Biometric capture devices are now becoming main-stream, and they are found in an increasing number of portable and desktop computers. Insurers can capitalize on the spread of mobile devices and embedded telematics in vehicles by providing targeted promotions and offers, short-duration coverage (such as travel insurance

that can be purchased by mobile phone), and specialized incentives for supporting data gathering or demonstrating low-risk behavior.

Mass Customization

In the online world, customization and personalization are ubiquitous. Manufacturers of everything from cars to computers enable people to specify the exact set of features they want in their product. Web sites use collaborative filtering and advanced data-mining techniques to serve up individualized content depending on what the underlying systems know about each person visiting the site.

The ability to offer customized policies may require a redesign of the processes and systems that support underwriting. However, a failure to make these investments could leave insurers vulnerable to more nimble competitors who are ready to satisfy market demand for more flexible and customizable products and policies.

Micro-Insurance Products in Emerging Economies

Finally, insurers who are looking for a competitive advantage in worldwide markets where economic “hot spots” arise must devise a strategy to appeal to demographically and geographically diverse virtual communities. Developing products for small businesses and individuals to protect micro-assets for which no such protection was previously available can serve the dual purpose of creating profitable yet easily managed portfolio lines and creating acceptance and markets for insurance products in untapped regions and populations. Opportunities for entering micro-insurance markets in developing countries abound. According to The Micro-Insurance Centre in the U.S.A, just 3 percent of the low income population is covered by any formal micro-insurance. Insurers are testing products such as credit life, endowments and limited hospitalization, livestock death, and loss of homestead. These products are offered through local community groups, credit unions, healthcare providers, and cooperatives. They not only introduce insurance into the fabric of life but may also help raise standards of living in under-served markets. Some insurers are looking to match the simplicity of micro-insurance products with simpler methods of delivery. In South Africa, for example, consumers can obtain coverage using the short messaging service (SMS) of their mobile phones.

7. THE INTERNET: THE GAME CHANGER

It has been said that the Internet will do for services what the production line has done for goods. What does this mean for insurance? Some commentators have proclaimed the Internet as the final solution to the insurance distribution problem. Such a simplistic answer could hardly be further from the truth as it only addresses a small part of the question. Yes, the Internet will become a strong distribution channel for simpler products but no one should underestimate the power of the agent or adviser. The bottom line is that customers will always self-select distribution.

In an Internet world no one can own the customer; the customer is empowered by knowledge. As far as distribution through the Internet is concerned, there remain many unanswered questions. How to deal

with channel conflict? How to prevent margins from being eroded? And most fundamentally, if you build a Web site, will customers find it and buy from it? The good news about the Internet is that its real power is as a driver for complex business models that integrate all methods of distribution, as a facilitator of straight-through processing in policy administration and claims management, and as a reducer of procurement costs. Business costs will fall dramatically; for example, financial services group AXA has estimated that policy management costs will drop by 98 percent.

All the major global insurance companies are spending billions of dollars on their e-business strategies. The winners will be those that target their spending most effectively. As Bill Gates put it in his book, *Business @ the Speed of Thought*, "we always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten."

For most insurers, the priority should be to use the Internet first to re-engineer business processes, and second to enhance existing distribution channels. Only after that should it be used to create new distribution models. Traditional insurers with large, often part-time, agency forces face particular challenges in channel enhancement but also have much to gain. A more professional and productive agency force will be a logical outcome of insurers adopting modern Internet-driven business models.

Although regulators and customer reluctance may restrict cross-border selling, national borders are already becoming increasingly unimportant as a result of the Internet. One effect will be that we can expect to see labor-intensive tasks being performed in low-wage countries. Claims management, policy administration, accounting, and underwriting are all suitable for relocation.

8. EMPOWERING THE NEXT-GENERATION WORKFORCE

The most important element in the success of any business is people. The insurance industry depends on talented, able, persuasive, and well-trained people to make good business decisions, drive operational efficiency, maximize the value of customer relationships, and act on new opportunities. Demographic trends over the next 10 years to 15 years, however, point to a narrowing of the supply of skilled younger workers across the developed world. However, in India, the trend is opposite. India is growing younger, with more and more of population falling in the young and middle aged groups. It means a vast middle class and young population that is open to greater consumption. Competition for talent is already increasing, and salaries for older workers are going up, too, as organizations try to forestall the problems of knowledge loss associated with retirement and turnover. Traditionally, the insurance industry has attracted workers by offering a steady, predictable career path, stable working conditions, and competitive compensation. Increasingly, these types of incentives alone motivate the next generation of talented workers less.

The relationship between people and technology is one of the key drivers in empowering the next-generation workforce. It is an issue that insurers should consider as they position their organizations to meet the challenges ahead. *Some of the issues include the following:*

- Attracting young talent
- Motivating mid-career workers
- Ensuring smooth knowledge transfer

- Improving productivity by simplifying the information environment

Tele-work and mobile computing offer good solutions to help mid-career workers manage their work/home life balance. In some cases, compliance requirements may limit the kind of information that insurance professionals can access outside of the office, because of document custody and security rules. Tele-work also requires some training on the part of both managers and workers, because the skills and discipline required to work at home differ from the approach taken within an office environment. However, a commitment to practices and technology that facilitate the work/home life balance will be a big advantage for insurers seeking to maintain the satisfaction and motivation of their next generation of leaders.

One promising approach to knowledge retention, which also aids in recruitment and development of younger workers, is mentoring. Although knowledge-dependent companies such as consulting firms and professional services organizations have led the way in this area, mentoring programs are main-stream in many industries— including, increasingly, insurance.

9. SUMMARY

- Changing lifestyles and buying preferences will decide the future models of distribution, while maintaining the equilibrium for the traditional patterns of distribution as well.
- Insurers have to adopt a multi-channel strategy that develops new alternative channel formats and drives out efficiencies in traditional channels.
- Trends prevalent in the insurance industry today run in parallel with the confluence of the financial services as banks, capital markets, and insurance combine distribution channels.
- For insurers to realize the highest value from distribution, they must improve operations and agent-based support for key distribution segments. This includes enhanced operations to support a multi-product, multi-channel distribution model that compliments an insurer's revenue objectives and profit margins.
- For insurers to realize the highest value from distribution, they must improve operations and agent-based support for key distribution segments. This includes enhanced operations to support a multi-product, multi-channel distribution model that compliments an insurer's revenue objectives and profit margins.
- The best economic value for insurers is in partnership with distributors that demonstrate a high propensity to drive sales and manage their business with high-tech services and self-service outlets such as the Internet.
- Today, more customers expect to perform most types of transactions either online or using mobile devices. Insurers are slowly pushing greater capabilities onto their Web sites to allow customers a higher degree of control and flexibility.
- The relationship between people and technology is one of the key drivers in empowering the next-generation workforce. It is an issue that insurers should consider as they position their organizations to meet the challenges ahead.

10. KEYWORDS

- P & C: Property & Casualty
- L & A: Life & Annuity
- GPS: Global positioning systems
- IFA: Independent Financial Advisor
- M & A: Mergers and Acquisitions
- CRM: Customer Relationship Management