WORLD INSURANCE REPORT 2009

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Preface

Capgemini and the European Financial Management & Marketing Association (Efma) are proud to present the third edition of the *World Insurance Report (WIR)*.

The World Insurance Report 2009 builds on the findings of its predecessor to explore the issue of multi-distribution—the sale of insurance through multiple distribution networks (e.g., tied agents, direct distributors, bank branches, brokers and multi-tied agents[1]). The report covers the retail insurance market, including both non-life (including health) and life segments.

In the WIR 2008, we identified the opportunity for multi-distribution to be a key success factor for the world's insurance companies, especially those operating in mature markets, which are nearly saturated. In this report, we confirm multi-distribution is a way to reach customers that could not be reached before, to extract more value from existing customers, and to gain significant sales productivity.

This year, in response to overwhelming requests from the industry, we focus on issues of implementation. Our research sought to answer a variety of questions, including:

- What conditions must exist for customers, distributors and insurers to reap value from multi-distribution? What are the benefits?
- What does multi-distribution offer vs. other approaches, including multi-channel models (i.e., providing multiple access points through which customers can inform their decisions, buy, and service their policies)?
- What makes distributors resistant to or enthusiastic about multi-distribution? Can insurers change the levels of distributor resistance and enthusiasm? And, if so, how?
- What capabilities does an insurer need to be an effective multi-distributor? Does the business need to evolve through specific stages? If so, is there some optimal sequence of evolution?
- What are some of the lessons learned from those insurers that are already operating as multi-distributors?

Our analysis is driven by interviews with 59 senior executives from leading global insurers and data from 2,250 distributor surveys. The data is drawn from 17 countries: Austria, Australia, Belgium, Denmark, France, Germany, India, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Spain, Switzerland, U.K., and the U.S.

Our findings confirm that multi-distribution is a powerful lever to increase market and customer access for insurers. This report offers a picture of multi-distribution maturity today, investigates key multi-distribution challenges, highlights leading practice, and proposes approaches to overcome these challenges.

We are pleased to present you with this year's World Insurance Report, and hope you find real value in its insights.

Bertrand Lavayssière
Managing Director
Global Financial Services
Capgemini

Patrick Desmarès
Secretary General
European Financial Management & Marketing Association

[1] See Methodology for definitions and terminology.

Summary of Key Findings

The *World Insurance Report 2009* discusses the implementation, opportunities and challenges of selling insurance through multiple distribution networks. Multi-distribution has emerged as a key success factor for the world's insurance companies, especially in mature markets.

The increasingly complex web of networks (intermediaries) and channels (access points)[2] has made the distribution of insurance far more competitive, but multi-distribution offers insurers a way to transform the challenge of the competitive landscape into an opportunity.

Ultimately, multi-distribution offers insurers a way to reach customers that could not be reached before, and to extract more value from existing customers. However, multi-distribution—like any evolution—involves a process of transformation for the organization. This report focuses, in particular, on implementing that transformation.

The report's findings draw on a survey of more than 2,250 distributors and in-depth interviews with 59 senior executives from leading global insurers[3]. Our research reveals new insights on the attitudes distributors have toward multi-distribution, the influence insurers have on those attitudes, the necessary steps to a multi-distribution model, and the real-life progress insurers are making in building and leveraging multi-distribution capabilities.

What follows is a summary of our key findings:

1. **Multi-distribution is a powerful growth model, especially in mature markets.** It offers the most effective way to attract new customers and increase the wallet share from existing customers, and it can increase the rate at which customer contacts are converted into sales. As a result, even if the volume of sales leads (or customer contacts) is constant, multi-distribution can generate additional revenues. Moreover, the increased conversion rate accelerates revenue generation, and thus improves sales productivity.
   - To achieve sustainable growth, insurers need to increase the number of their policies held by each customer (which we refer to as "multi-equipment"). The average share of wallet for a single insurer is currently just 1.1 to 1.5 policies, though the average mature-market insurance customer holds 5.2 policies, and typically uses 2-3 different distributor networks.
   - Insurers could also reach more customers and increase wallet share by enabling distributors to specialize in more than one type of coverage, but our research suggests the upside of that approach is limited, not least because insurers cannot sustain multi-specialization in more than 10% to 20% of distributors.

[2] See Methodology for definitions and terminology.

[3] See Methodology for more on the scope of the research.

2. **Distributors are not inherently predisposed by their existing business model to favor or resist multi-distribution.** There are conflicting views among distributors about the benefits of network cooperation, even among those with the same business model. This suggests it is not intrinsic characteristics like the type of network, incentive and commission structures or exposure to other networks that sway opinions about the value of multi-distribution. Distributor attitudes can therefore be changed.

   - We grouped our sample of distributors into four types based on their attitudes to multi-distribution: 27% could be described as Very Enthusiastic, 29% as Enthusiastic, 31% as Resistant, and 13% as Very Resistant. However, there was a relatively even spread of network types in each group.

3. **30 variables have some impact on the level of resistance toward multi-distribution. Of those, 14 have a very significant cumulative impact, led by financial incentives, the Internet and online portals.** Above all, Very Resistant distributors doubt financial incentives can persuade networks to cooperate, but they are also skeptical the Internet will help them sell additional products to their customers, and are dubious about the value of insurers' online portals and hosted Internet services.

   - Negative sentiment on those three variables alone would increase the population of the Very Resistant distributors in our sample from 13% to 51%, given the individual effect of the variables on perceptions about multi-distribution, and the impact of the variables on each other.

4. **Insurers can turn knowledge about drivers of resistance to positive effect to reduce resistance and create real enthusiasm for multi-distribution.** All of the levers identified as drivers of resistance have the potential to be used to positive effect. Since each lever has a twofold effect, it is the additive impact of the levers—not their individual strength—that determines the optimal sequence in which levers should be pulled. Arguably, it is more effective to pull levers that tackle resistance first, before trying to increase enthusiasm.

   - We grouped the most impactful levers into six "initiatives" that the insurer will need to address in order to cover the levers most likely to mitigate resistance and build enthusiam for multi-distribution. These are as follows: Incentivizing cooperation; Addressing customers ownership issues; Raising awareness about the Internet and interaction tools; Branding and Promotion; Enhancing customer intelligence; and Enabling distributors.

5. **A mature multi-distribution model develops through five distinct phases.** We developed a Multi-Distribution Maturity Assessment Framework, with which we calculated an overall maturity score, and a score for each stage, for insurers in our sample. We found:

   - ***Multi-network capabilities.*** The vast majority has developed a mix of distributors to almost full potential, i.e., scored nearly 100% on this stage.
   - ***Multi-access-point capabilities.*** The majority has built significant multi-channel capabilities, but the average score topped out at 60%-70%. The most sophisticated multi-distributors did not score any higher, suggesting they turned their focus to building other capabilities after a certain point.
   - ***Mutualization of functions.*** Nearly 20% of multi-distributors scored 100%, meaning they fully centralize and share all their operational functions (e.g., IT, HR, marketing) across all their networks. The remaining 80% scored above 55%. Executives rate IT mutualization as the most important aspect of mutualization for furthering multi-distribution, giving it a 4 rating on a scale of 1-5, but they concede it is also the most complex (3.9 rating on a 1-5 scale.)
   - ***Centralized intelligence*** is the next step, and a pre-requisite in the progression to effective cross-network cooperation. However, the scores on this stage are relatively low in all groups, even among the most mature multi-distributors, so opportunities clearly remain. In particular, insurers could be using more advanced tools and methods to gather and interpret data (e.g., about customer behaviors, propensity to defect, etc.)
   - ***Cross-network cooperation.*** Only a very few insurers can claim to have facilitated fluid cooperation among distributors, but the most mature multi-distributors overall have acquired a broad set of capabilities, suggesting insurers need at least a minimum level of maturity in all stages to excel.

6. **Today's multi-distributors use relatively simple approaches to positive effect to achieve network cooperation.** Insurers have already adopted a range of approaches to exploit the natural synergies among networks, e.g., between physical and non-physical networks or product-specialist networks. It is those synergies that ultimately create value for all stakeholders—customers, distributors and insurers.
   - Case studies on IFFCO TOKIO General Insurance, ING Belgium, KBC Bank & Verzekering, Genertel (Part of the Generali Group), and If P&C Insurance illustrate some of the lessons learned, which include the need to develop effective commission and incentive strategies, establish clear support structures and operating principles (e.g., with regards to who "owns" the customer relationship), adapt internal functions, develop workforce skills and behaviors, and establish strong leadership.

7. **We believe that moving to a multi-distribution model is undeniably a process of transformation for an insurer's entire organization.** We believe seven critical enablers form the logical components of this transformation, in which insurers: start with the customer; follow with the network; rethink organizational design and leadership; embrace technology; test and learn with cooperation pilots; monitor the value of the overall business; and manage the power of information.

These findings should offer hope to insurers that fear the path to multi-distribution is too long and arduous to pursue—especially in the current economic downturn. In fact, it is true the path has its stumbling blocks, and requires an ongoing commitment to business transformation. However, multi-distribution is arguably even more important in this tough competitive and economic environment, when insurers will need to focus more and more on generating revenue and growth from the core business of product development, underwriting and distribution.

The Multi-distribution

Imperative

CHAPTER 1

HIGHLIGHTS

- Multi-distribution is a powerful lever of growth, as it enables insurers to increase their market and customer access. It can also generate additional revenues, and increase network sales productivity.
- Multi-distribution is consistent with the underlying preference of customers to use a different specialist network for each different type of policy they buy.
- Many distributors, especially traditional ones, see multi-distribution as a threat, so insurers need to develop a multi-distribution model that distributors perceive as having a limited downside and a clear upside.

MULTI-DISTRIBUTION IS A POWERFUL LEVER OF GROWTH IN MATURE MARKETS

Selling insurance through multiple distribution networks creates a range of opportunities for insurers to attract and serve customers in a differentiated way and according to the customer's preferred combination of product, pricing, service, and channel.

In short, multi-distribution is a way to reach customers that could not be reached before, and to extract more value from existing customers. It is therefore a powerful lever to increase market and customer access, especially in mature insurance markets.

There are persistent challenges to operating in mature markets. In particular:

- To achieve sustainable growth, insurers must increase the number of their policies held by each customer (which we refer to as "multi-equipment"). Data from the 2008 World Insurance Report (WIR) shows the average mature-market insurance customer holds 5.2 policies, but our research for WIR 2009 shows the average share of wallet for a single insurer is currently just 1.1 to 1.5 policies.
- Volatility in the customer base is increasing, and certain segments are definitely at risk, and are likely to display more volatile purchasing behavior in the future. WIR 2008 explored this dynamic in detail, and discussed the potential for insurers to seize further market share by addressing the specific customer segments that display more volatile behaviors. This volatility is itself a reflection of the underlying shift in the insurance business away from the traditional model in which insurers could rely on a stable stock of long-term customers, and toward a more fluid model in which customer mobility is rising and average contract durations are shrinking (also see Figure 1.1).

To address these issues, there are three main levers of growth in mature, saturated markets:

1. **Multi-channel models** can help increase certain types of business by enabling some networks to sell additional products e.g., using Internet or call centers. However, it is primarily the networks, rather than the channels per se, that attract customer segments.
2. **Multi-specialization.** Since networks tend to specialize, and are perceived by customers as specialists in meeting certain needs, most can only sell a restricted group of products to their customers. However, a distributor can choose to acquire an additional specialty. For instance, a general agent can hire a pension specialist to sell pension products to their own customer portfolio. The distributor then becomes a multi-specialist, and can potentially attract new customer segments or sell additional types of policies to existing customers (i.e., "multi-equip" them). (See Sidebar for more on Multi-specialization.)
3. **Multi-distribution models** allow insurers to expand their pool of potential customers by appealing to a greater number of segments, and enable them to cater to a wider range of needs.

Figure 1.1 Insurance Business is Becoming Less Stable

The insurance business is shifting away from the traditional model in which insurers could rely on a stable base of long-term customers, and toward a more fluid model.

FROM A STOCK-BASED BUSINESS

- High level of equipment.
  - Average policyholder has 5-6 contracts.
- Long average policy duration in both life and non-life.
  - 9 years on average.
- Insurance is perceived positively.
  - Nearly 80% of customers see insurance as a vital way to protect their possessions.
- Customers remain loyal, even after a bad claims experience.
  - Fewer than 1 in 3 customers is ready to change insurers after a bad claims experience.
- Customers perceive value in advice.
  - 1 in 4 customers thinks advice is key when purchasing life coverage.

TO A FLUID BUSINESS

- Relatively low share of wallet for a single insurer.
  - Average share of wallet is 1.1 to 1.5 policies.
- Average contract duration is declining.
  - In the U.K. the average duration of household insurance is just 5.2 years.
- The Internet is a disruptive force.
  - 1 in 10 customers says they use the Internet to purchase insurance; 1 in 3 wants to use the Internet to purchase within 3 years.
- Customers are extremely price sensitive.
  - Nearly 2 out of every 3 customers consider price the main criterion when purchasing insurance; 3 out of 4 say a discount might prompt them to stay with their insurer.
- Distributors are proliferating, as are specialists, increasing competition.

Source: World Insurance Report 2008, Customer Survey.

Insurers Can Enable Distributors to Multi-specialize to Grow Customer Share-of-Wallet

MULTI-SPECIALIZATION IS AN ALTERNATIVE TO MULTI-DISTRIBUTION, BUT THERE ARE PROS AND CONS

Multi-specialization[1] might appear an obvious and attractive concept, but insurers need to think carefully through the various pros and cons of enabling distributors to specialize in more than one product.

The pros:

- *Fast deployment.* Since the various specialties lie within a single network in the multi-specialization model, cross-selling is easier, and is in the direct interests of the distributor. It also offers convenience to the customer.
- *Conflict mitigation.* Specialization within a network avoids the conflicts insurers experience when trying to facilitate cooperation among networks. Indeed, distributors are very likely to be enthusiastic about multi-specialization.
- *The right assets are already in place.* Arguably, from a skills and capabilities perspective, there is no reason not to multi-specialize. For example, an agent should be just as capable as a bank employee of selling the types of products that banks have traditionally excelled at promoting. An insurance group is also quite capable of manufacturing multiple products.

The cons:

- *High costs.* The investment cost is incurred by the distributor, and many indirect and non-proprietary networks may not be willing or able to bear that burden.
- *Potential for duplication of competencies.* The competencies of a multi-specialist may theoretically overlap with those of another network. In the short term, there is very little probability of any business cannibalization among networks. Nevertheless, the insurer might need to develop a multi-distribution model to position every specialty in a distinct network to minimize duplication, or decide how else to manage the potential duplication.
- *Misalignment with customer purchasing behaviors.* Customers typically turn to distinct specialized entities for each different type of insurance product, and multi-specialization requires them to modify that long-held behavior. In general, market dynamics are more powerful when pulled by consumer demands than when pushed by service providers. Multi-specialization could therefore achieve some success, but could also cause customer behavior to become more volatile—an impact that is likely to be the biggest challenge of the multi-specialization model.

INSURERS NEED TO ADOPT A SEGMENTED APPROACH TO DISTRIBUTOR MANAGEMENT

Realistically, only a small number of distributors are good candidates to become efficient multi-specialists. In fact, our research suggests insurers cannot sustain multi-specialization in more than 10% to 20% of distributors.

However, it is notable that multi-specialization can complement multi-distribution models—though it requires insurers to adopt a segmented approach to expanding customer multi-equipment. Still, fully fledged cross-network cooperation will take time to develop, so multi-specialization can be a faster option for a segment of distributors.

Insurance companies therefore need to look at their network mix as a group of “intermediate customers”, and analyze, segment and deploy them accordingly to serve the company’s economic interests in the most efficient way. This means developing significant intelligence on distribution networks. Strategic marketing can also be used for distributors as well as for customers. And in the context of growing customer share-of-wallet, and to ease execution, insurers should first target those distributors that are likely to be most receptive to the concepts of multi-distribution and multi-specialization.

[1] See Methodology for definitions and terminology.

KEY DEFINITIONS

Networks and **Distributors** (terms used interchangeably) are the intermediaries that distribute insurance products: Tied agents, multi-tied agents, direct (i.e., bank or insurance branch networks or other physical offices, mobile salaried sales forces, Internet, call centers), and alternative networks (e.g., supermarkets).

Channels and **Access Points** (terms used interchangeably) are the methods or tools through which the customer interacts with the network to research, purchase and manage their insurance policies. Note the Internet can be a distinct network or a channel used by networks. There are four forms of interaction: branch or other physical points-of-sale, mobile (door-to-door), Internet and telephone.

Multi-distribution – the distribution of insurance products through multiple networks. Multi-distribution enables the insurer to expand their pool of potential customers by appealing to a greater number of segments and catering to a wider range of needs.

Multi-specialization – refers to a distributor that has acquired an additional 'specialty'. For example, a general agent can hire a pension specialist to sell pension products to their customer portfolio. The distributor would then become a multi-specialist.

Multi-equipment – where a customer holds multiple insurance policies from a single insurance provider. Multi-distribution allows a customer to hold multiple policies from a single underwriter, but search, buy and manage them through separate networks.

Our findings for the WIR 2009 show multi-distribution is the strongest of these three growth levers, because it enables insurers to win new customers, and sell more types of coverage to existing customers. As such, multi-distribution enables insurers to expand their total customer base, and increase their share of customer wallet.

Multi-distribution also offers other benefits. In particular, Figure 1.2 illustrates how multi-distribution (especially cross-network cooperation) can increase the sales conversion rate (i.e., convert customer contacts into more sales), and therefore improve the sales productivity of networks—which consequently boosts revenues. The increase in sales conversion rate occurs because multi-distribution hones the management of value-generating leads: specific networks are set up to cater to specific customer needs, so cooperating networks can quickly and effectively direct customers to the most appropriate network, and networks are more likely to be dealing with customers whose needs they are well positioned to meet.

As a result, with a constant volume of sales leads (or customer contacts), and a therefore unchanged cost structure, multi-distribution can generate additional revenues. These revenue and productivity gains can be shared/distributed among the key participants: customers, distributors and insurance companies.

This report looks in detail at how distributors and insurers are coping with the multi-distribution imperative, but let's look first at what multi-distribution means in principle for all the stakeholders.

FOR CUSTOMERS, MULTI-DISTRIBUTION SEEMS INEVITABLE

An extensive survey for the WIR 2008 showed customers relate network specialization to the type of product being purchased, and the level of advice involved. For example, multi-tied agents, IFAs and bank branches are seen as advice-oriented networks specializing in life insurance, while Internet and direct distribution networks tend to be perceived as no-frills suppliers, most often for non-life insurance.

Moreover, the survey confirmed customers actually purchase based on these perceptions, and buy different types of insurance from different types of distributors (e.g., life from one distributor, auto from another, property from a third). On average, in fact, customers with more than one type of insurance policy typically use 2-3 different distributor networks.

In short, most customers already buy from multiple distributors, relying on a variety of specialists, rather than taking multiple types of policies from a single distributor.

Furthermore, customers believe they must use multiple networks to find a competitive price (or high return, depending on the product), high product quality, and brand/trust—the qualities they value most in an insurance purchase (see Figure 1.3.).

It seems likely then that customers will increasingly look to multiple networks to achieve their insurance goals, but it is worth noting that the approach is not without its challenges. Specifically, customers will need to be able to:

- Discern the value of the various available networks.
- Identify the best offer for their individual needs.
- Manage their various insurance providers and their entire insurance product portfolio.
- Ensure they do not have several contracts which cover the same risk.

Figure 1.2 Multi-distribution Benefits Case

Estimation of additional business created via customer multi-equipment

	CURRENT DISTRIBUTION MODEL	TARGET MULTI-DISTRIBUTION MODEL
Level of activity (i.e. number of appointments)	100	100
Conversion rate (i.e. number of deals per appointments)	1/20	1/5
Number of deals generated	5	20
Income generated (e.g., revenue, gross margin)	5 x X %	20 x X %

Multi-distribution can be achieved at a constant level of activity.

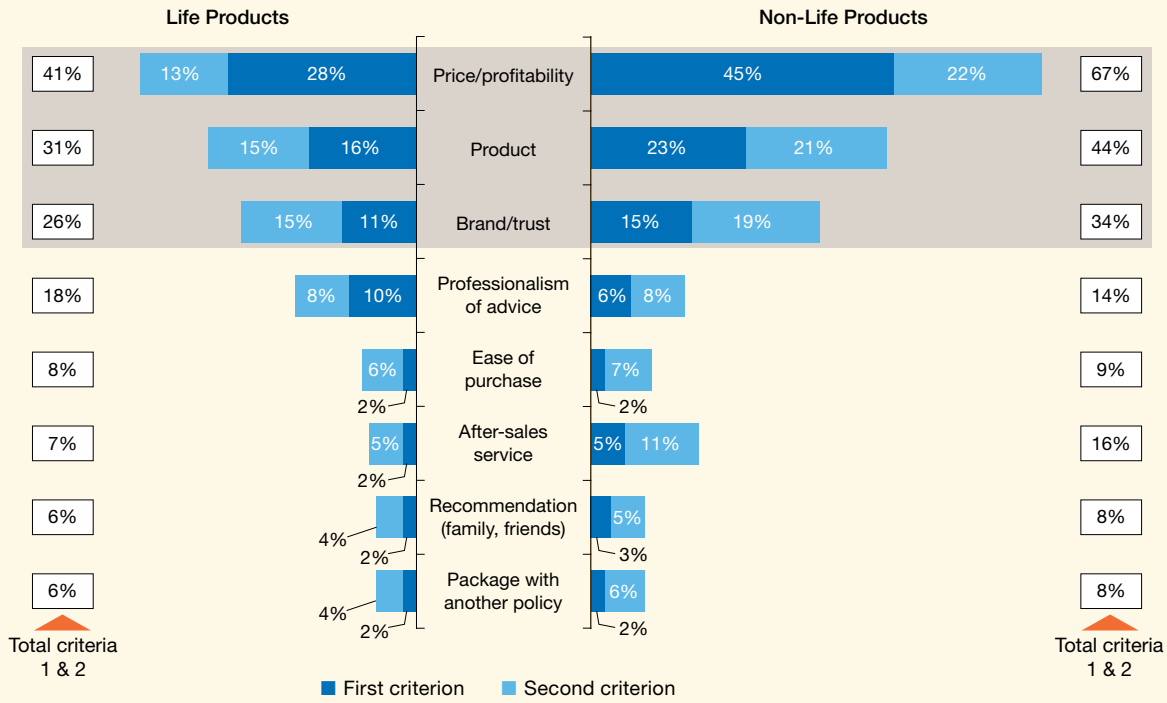
Conversion rate increases due to better targeting of deals, and increased deal closings facilitated by the right specialist.

Additional revenues that can be shared / distributed between the various stakeholders:

- Customers (e.g., via lower price)
- Distributors (e.g., in additional commissions)
- Insurers (e.g., resources to develop / invest)

Source: Capgemini analysis, 2009.

Figure 1.3 Criteria most Valued by Insurance Purchasers



Source: World Insurance Report 2008, Customer Survey.

FOR DISTRIBUTORS, MULTI-DISTRIBUTION MEANS MORE COMPETITION

For distributors, multi-distribution means fiercer competition. Especially in mature markets, traditional networks see new entrants and new distribution formats as a potential threat to their market share and positioning.

That threat has been accentuated by the development of the Internet, which has emerged as a competitor for traditional networks. The Internet provides access to a wide range of information, increasing price transparency and often forcing prices down. In some cases, customers even purchase and manage their policies online. The Internet has also contributed to the commoditization of many products, and has therefore changed the scope of advice-rich products on which most physical networks have built their reputation.

Multi-distribution requires traditional distributors to evolve and realign their value propositions to changing customer expectations and needs.

However, distributors recognize that customers with a host of insurance needs will inevitably work with one or many of their competitors, so the key for insurers is to develop a structured multi-distribution model in which distributors (especially long-established players) will be able to capture benefits and perceive limited threats (see Chapter 2).

FOR INSURERS, MULTI-DISTRIBUTION CAN DELIVER INCREASED WALLET SHARE

Insurers can employ a multi-distribution strategy to expand their specialties and capabilities, and to increase their share of total market sales both by increasing their number of customers and the level of equipment per customer (i.e., increase their wallet share).

We learned from our interviews with executives that insurers take a three-phased approach to developing a multi-distribution model, but the path of evolution often depends on whether the business objective is to win new customers, multi-equip customers, or both. Generically, the three steps are:

1. Targeting distribution networks that, if added, can deliver capabilities that are complementary to existing networks.
2. Identifying profitability specifically driven by those additions.
3. Pursuing revenue growth beyond that delivered simply by the additions.

A multi-distribution strategy initially designed to win new customers often starts with the acquisition of distribution networks or, more typically, an insurance company (i.e., with its own product factories, back-offices, and claims-management processes). However, insurers rarely integrate the different parts of the insurance value chain fully or explicitly seek to form a multi-distribution organization.

The profitability drivers (step 2) are therefore often linked mainly to the usual post-merger integration opportunities, including cost rationalization and operational efficiency (e.g., centralization).

Capturing growth (step 3) beyond the sum of any acquired revenues is challenging, but insurers can seek to facilitate the multi-equipment of customers as well as taking steps to pursue external growth (e.g., acquisitions). As we have noted, getting customers to buy more than one type of policy is a source of additional revenue for insurers.

However, to multi-equip customers, insurers need various networks to cover the same customer (see Figure 1.4), often achieved through some form of network cooperation.

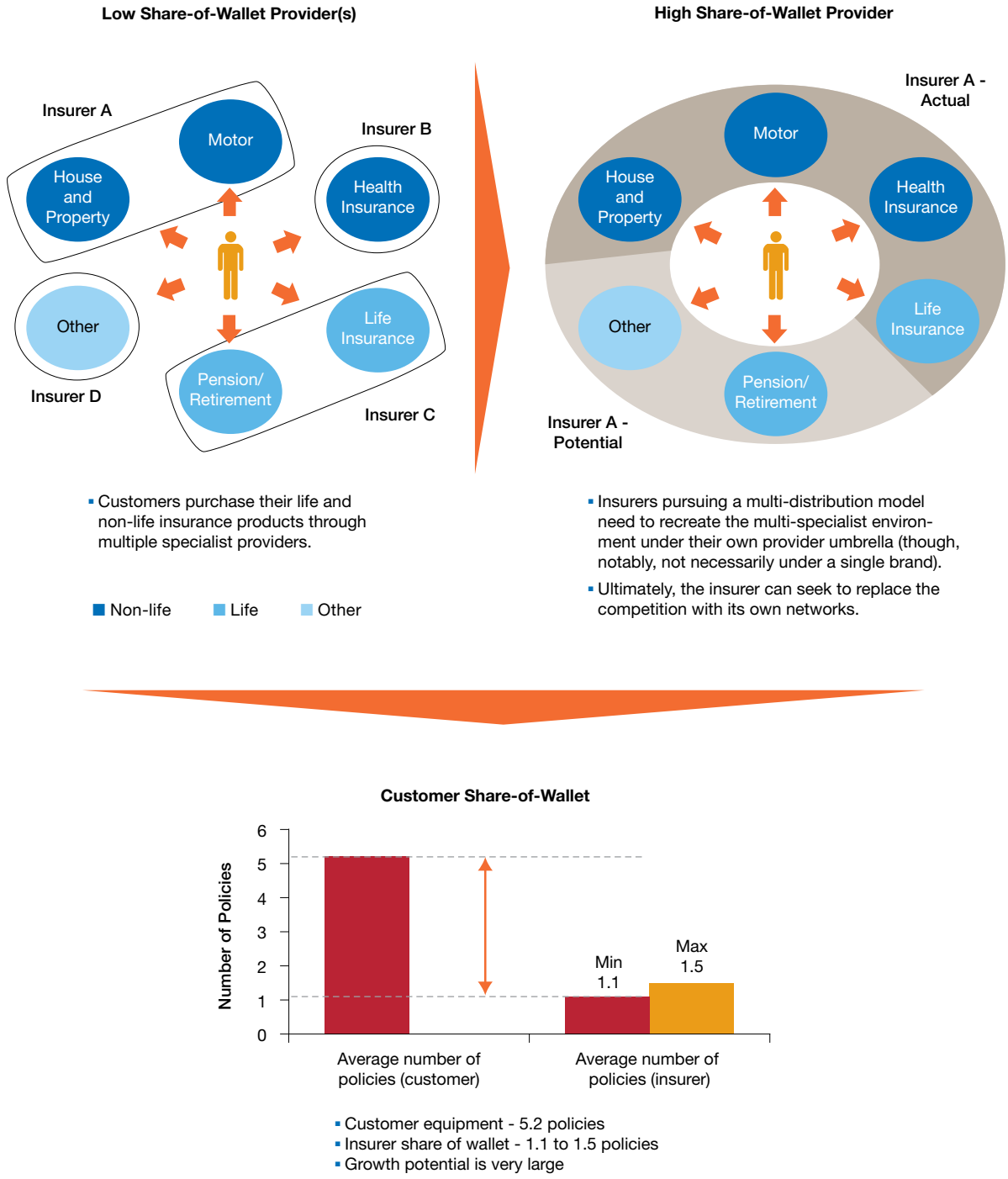
Network cooperation has its challenges, of course. For one thing, distributors and insurers may not be keen to take the kind of steps necessary (e.g., share customer knowledge, commissions) to make the cooperation effective. However, while step 3 is challenging and complex, it is much less costly than purchasing networks (step 1) and integrating them (step 2). In fact, the financial cost may be marginal; the real burden lies in overcoming the organizational and cultural challenges.

CONCLUSION

Multi-distribution has become an important model for insurance companies wanting to expand their customer base and their share of wallet. The approach is not without its challenges, but we will see in Chapter 3 that insurers are making significant progress in building their multi-network capabilities, and Chapter 4 will illustrate specifically what they have done so far.

For distributors, the equation is more complex. In Chapter 2, we discuss the perspective of distributors, and the key success factors for their participation in multi-distribution.

Figure 1.4 The Importance of Multi-distribution in Capturing Customer Share of Wallet



Source: Capgemini analysis, 2009

Getting Distributors to Embrace

Multi-Distribution

CHAPTER 2

HIGHLIGHTS

- There are conflicting views among distributors on the value of multi-distribution, even among those with the same business model.
- Insurers can change distributor opinions on multi-distribution. We identified 14 levers that have a very significant cumulative impact on resistance to multi-distribution, led by financial incentives and the Internet. Each lever can also be pulled to positive effect to reduce resistance or increase enthusiasm to some degree.
- The improvement levers can be grouped into six “initiatives” that insurers will need to undertake to capture the benefit of all the levers. They are: incentivizing cooperation, addressing customer ownership issues, raising awareness about the Internet and interaction tools, branding and promotion, enhancing customer intelligence, and enabling distributors.

FOR TRADITIONAL DISTRIBUTORS, MULTI-DISTRIBUTION WILL INEVITABLY RESULT IN FIERCER COMPETITION.

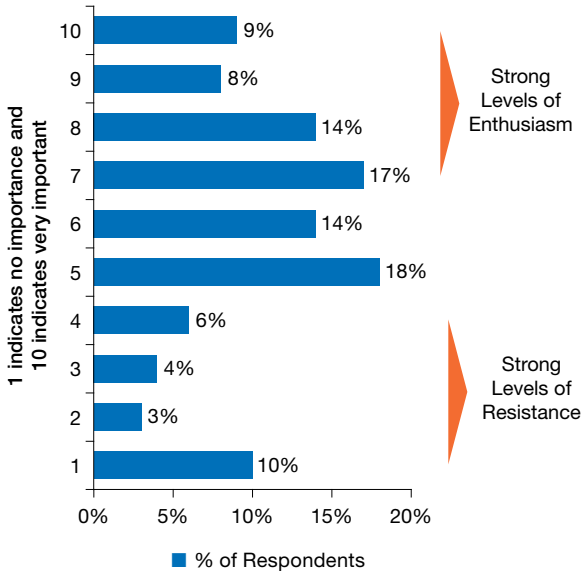
In many markets, this trend is well underway and has had a major impact on the way in which insurance is distributed, altering distribution networks' market shares quite significantly. For other markets, those effects offer insights into what may lie ahead.

For the World Insurance Report 2009 we surveyed more than 2,250 distributors from 15 countries to assess their multi-distribution attitudes and behaviors. We also assessed the extent to which distributors understand the multi-distribution attitudes and behaviors of their customers. The survey[4] was designed to capture information across the following areas:

- Distributor profiles;
- Description and perception of retail customers;
- Multi-distribution performance assessments; and
- Perceived benefits and challenges of multi-distribution.

This chapter presents our findings and provides insight into the strategies that insurers can adopt to encourage distributors to embrace multi-distribution.

Figure 2.1 Distributors are Split on the Benefits of Multi-distribution



Note: Level-of-importance figure is based on the average score given for five questions on the benefits of cooperating with other networks to achieve a specific outcome, such as attracting new customers, increasing sales from existing customers, increasing customer satisfaction, increasing customer loyalty, and the ability to focus on higher-value-added activities.

Source: Capgemini analysis, 2009

DISTRIBUTORS HAVE CONTRASTING OPINIONS ABOUT MULTI-DISTRIBUTION

We asked distributors about the benefits they see in cooperating with other networks on sales and service activities. We also sought to measure separately the level of importance that distributors associate with using multi-distribution to achieve specific business outcomes, such as attracting new customers, increasing sales from existing customers, boosting customer satisfaction and customer loyalty, and focusing on higher-value-added activities.

Notably, no clear consensus emerged among distributors about the benefits of network cooperation. Figure 2.1 shows that many are quite enthusiastic about multi-distribution, but others are less convinced of the benefits and are more resistant to its adoption.

To try and rationalize the divergence of opinions, we grouped the distributors into four distinct sub-segments based on their views of multi-distribution[5]. We labeled them Very Enthusiastic, Enthusiastic, Resistant, and Very Resistant to multi-distribution. We also looked at their attitudes, behaviors and business priorities, as well as core characteristics like network size and product specialty (see Figure 2.2).

A comparison of the four profiles reveals some notable observations, including:

- Very Resistant distributors place greater emphasis on advice and service as a means of acquiring and retaining customers—and ultimately generating new revenues.
- Very Enthusiastic distributors place greater emphasis on multi-equipment, and generally have a more balanced view toward advice—perhaps indicating a greater awareness of market dynamics and of the factors that are most important to customers.

One might imagine that different types of networks are inherently predisposed to be for or against multi-distribution—perhaps due to the differences in their business models, incentive and commission structures, and their familiarity with and exposure to other networks. However, further analysis shows that is not the case.

In fact, there is a relatively even spread of network types in each distributor profile (see Figure 2.3), and distributors of the same type can hold quite opposite views on the various aspects of multi-distribution.

However, the good news for insurers is that they can make significant progress in furthering distributors' acceptance of multi-distribution by focusing on particular attitudes.

[4] See Methodology for a more detailed explanation of the Distributor Survey.

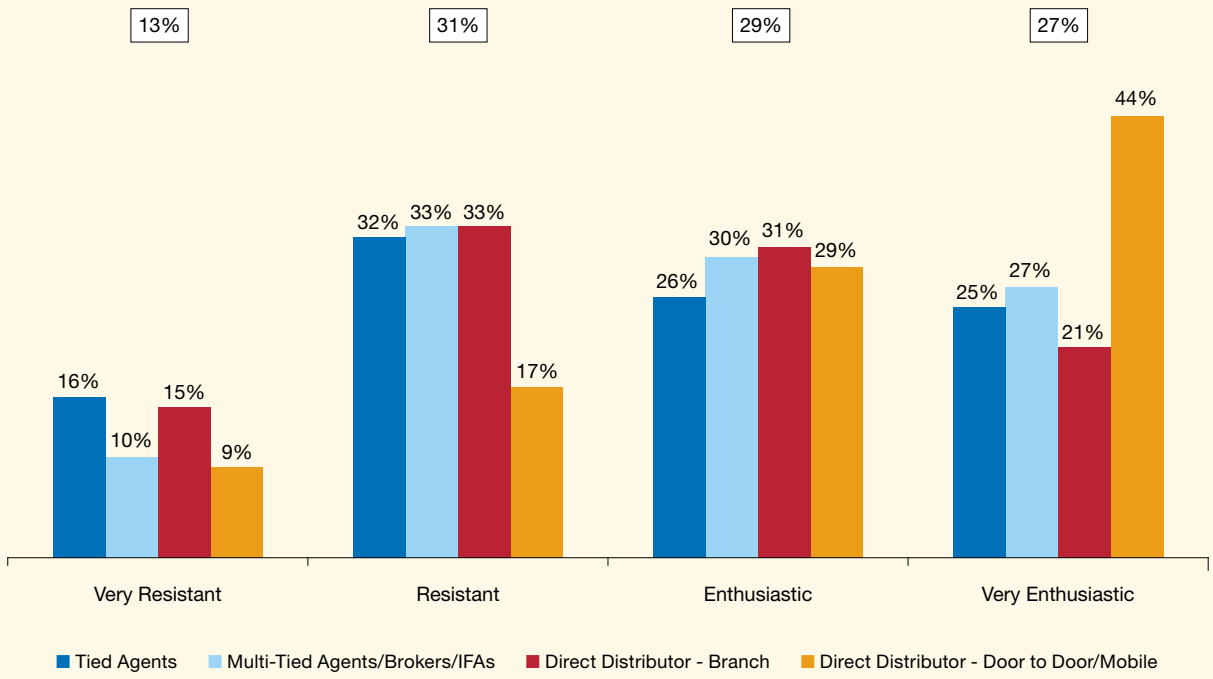
[5] See Methodology for detail.

Figure 2.2 Four Distributor Segments, based on Attitudes to Multi-distribution

	Very Resistant	Resistant	Enthusiastic	Very Enthusiastic
Network Size	▪ 13% of distributors	▪ 31% of distributors	▪ 29% of distributors	▪ 27% of distributors
Network Type	▪ 41.9% tied agents ▪ 28.1% multi-tied agents and brokers ▪ 21.5% branch-based direct distributors ▪ 8.5% door-to-door/mobile distributors	▪ 37.5% multi-tied agents and brokers ▪ 35.3% tied agents ▪ 20.5% branch-based direct distributors ▪ 6.7% of door-to-door/mobile distributors	▪ 36.2% multi-tied agents and brokers ▪ 31.2% tied agents ▪ 20.7% branch-based direct distributors ▪ 12% door-to-door/mobile distributors	▪ 34.7% multi-tied agents and brokers ▪ 31.8% tied agents ▪ 19.1% door-to-door/mobile distributors ▪ 14.4% branch-based direct distributors
Product Speciality	▪ 39% life vs. 61% non-life	▪ 44% life vs. 56% non-life	▪ 47% life vs. 53% non-life	▪ 54% life vs. 46% non-life
Customer Portfolio	▪ 26% have less than 400 customers	▪ 18% have less than 400 customers	▪ 13% have less than 400 customers	▪ 8% have less than 400 customers
Multi-Distribution Maturity Score	▪ 14.6% mature ▪ 62.6% average maturity ▪ 22.8% immature	▪ 21.5% mature ▪ 59.4% average maturity ▪ 19.1% immature	▪ 38.6% mature ▪ 45.2% average maturity ▪ 16.2% immature	▪ 54.2% mature ▪ 40% average maturity ▪ 5.9% immature
Business Focus Over the Next Three Years	▪ 71% and 64% say that quality of service and quality of advice are very important. ▪ Place the most importance on customer acquisition, but the least importance on increasing sales from existing customers.	▪ 59% and 62% say that quality service and quality advice are very important. ▪ Place more importance on improving profitability and customer retention than any other group.	▪ Only 52% say that providing quality service and quality advice are very important. ▪ Place more importance on customer acquisition and increasing sales from existing customers.	▪ 47% and 54% say that quality of service and quality of advice are very important. ▪ Are the group most focused on increasing sales from existing customers; 83% saying it is important or very important.

Source: Capgemini analysis, 2009, based on Distributor Survey. See Methodology for information on Multi-distribution Maturity Score.

Figure 2.3 Perception of Benefits from Multi-distribution, by Network Type



x% Denotes the % of total number of respondents that are: Very Resistant, Resistant, Enthusiastic or Very Enthusiastic in their outlook toward multi-distribution.

Source: Capgemini analysis, 2009, based on Distributor Survey.

SPECIFIC LEVERS CAN INFLUENCE DISTRIBUTOR PERCEPTIONS

Importantly, our research shows insurers do not have to radically change a distributor's intrinsic characteristics (e.g., network type, core product specialty, core business focus) in order to ensure a distributor sees the benefits of multi-distribution. Rather, insurers need to focus on changing distributors' perceptions and attitudes.

For this report, we used Bayesian Networks[6] to understand the link between distributors' perceptions of multi-distribution, and the many other data points we gathered about them from our survey. We were thus able to study what drives a specific attitude, and what can influence distributors to be less resistant.

IDENTIFYING THE LEVERS OF CHANGE AND BUY-IN

Ultimately, we wanted to identify which levers insurers could use to reduce resistance and increase enthusiasm. However, in order to focus in on the most influential levers, we looked first at the "Very Resistant" segment. This may seem counter-intuitive, but this group is arguably the most vehement, so we observed it had a greater tendency than others to display concrete behaviors, and articulate exactly what prompts opposition to multi-distribution.

Having identified those levers of resistance, we could then analyze how to use those same levers to positive effect (as discussed later in this chapter).

There are many factors of resistance identified by our model, but understanding their total impact can be challenging, because the levers not only have an impact on perceptions about multi-distribution (the central variable in our modeling), they also have an impact on each other. As a result, the cumulative impact and the sequence in which the levers are pulled both need to be taken into consideration.

Figure 2.4 shows that these levers, when pulled in a given sequence, represent the fastest possible way to increase the 13% of Very Resistant distributors in our sample to 100%.

More specifically, the results of our analysis reveal:

- **30 variables[7] have some impact on resistance and 14 of those have a very significant cumulative impact.** In our sample, the first 7 levers bring the Very Resistant segment to more than 80% of distributors, and the next 7 bring the segment to 100%.
- **Financial incentives top the list of levers.** Above all, Very Resistant distributors doubt financial incentives can persuade networks to cooperate. This negative sentiment, if unchecked, would increase our Very Resistant segment from 13% of the survey population to 22%. It is important to note that taken individually, the issue of financial incentives may not have the largest impact, but when this lever is addressed first, resistance expands with the speed and breadth we describe.
- **The next two levers relate to the Internet.** Very Resistant networks are not at all convinced the Internet will help them sell additional products to their customers, and are dubious of the value of insurers' online portals and hosted Internet services. If negative sentiment were allowed to prevail on both of these Internet issues, on top of skepticism about financial incentives, the Very Resistant population would grow to 51% of all distributors.
- **The next most influential levers of resistance** are disbelief over reciprocal cooperation, fears about losing customer ownership, a reluctance to offer alternative products, and too strong a focus on differentiation on advice.

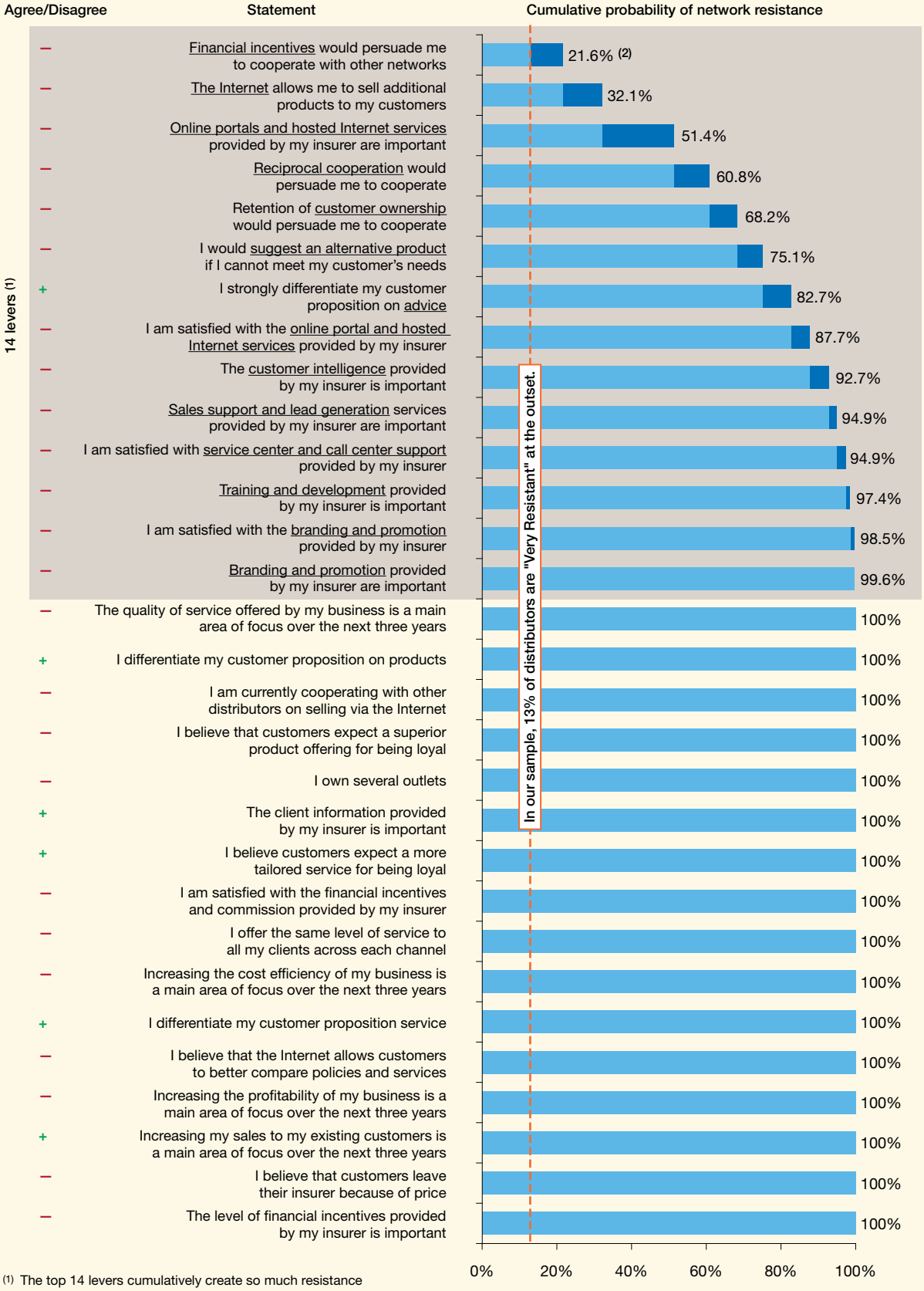
These findings are consistent with other insights from our distributor surveys, but it is helpful to explain here the wider context around a couple of these levers of resistance—in particular, the Internet, and the size of the customer portfolio.

[6] Bayesian Networks are a statistical modeling method used to understand probabilistic independencies between sets of variables—see Methodology.

[7] Our survey provided data on 186 potential variables, each of which could qualify as a lever, but 30 proved to be statistically relevant to resistance.

Figure 2.4 Which Levers will Swell the Ranks of Very Resistant Distributors?

This analysis allows us to identify the levers that, when pulled in a given sequence, represent the fastest possible way to increase the 13% of Very Resistant distributors in our sample to 100%.



(1) The top 14 levers cumulatively create so much resistance that additional variables, while influential in their own right, can barely make the resistance any worse.

(2) The top generator of resistance to multi-distribution is skepticism about the ability of financial incentives to persuade distributors to cooperate with other networks. In this sample, that skepticism would increase the population of Very Resistant distributors from 13% to 21.6%.

Note: The graph is based on maximization of the probability of being Very Resistant. Percentage values are rounded.

Source: Capgemini analysis, 2009.

The Internet
The WIR 2008 showed a clear shift in customer purchasing behavior, especially around the use of the Internet. In particular, customers said they value the Internet, because it offers wider access to information than physical networks, and allows for a better comparison of policies and services.

For this year's report, we asked distributors why they thought their customers used the Internet, and the responses (see Figure 2.5) show distributors have been slow to recognize the shift in customer behavior, and may not understand the implications for their businesses over the long term.

Most notably, distributors tend to overestimate the value offered by physical networks, and significantly underestimate the value customers place on the benefits of the Internet. In fact, our research suggests distributors generally perceive much lower value in the Internet than do their customers, and some even show signs of resistance to its rising use.

Size of the Customer Portfolio
One of the interesting levers that emerged from our analysis is the size of the customer portfolio. Our sample shows a statistical threshold at around 400 customers, beneath which a distributor becomes resistant to multi-distribution. It may not seem surprising that a distributor with fewer customers is more sensitive about sharing those customers with other networks, but the issue is more complex than that.

In reality, a distributor with fewer than 400 customers has sufficient bandwidth to dedicate significant time to each customer. Under this threshold, the distributor (e.g., a single agent) has a natural tendency to think they can address the entirety of their customers' insurance needs. As a result, they are often unwilling to cooperate with other networks. With more than 400 customers, that single agent becomes progressively unable to handle all their customers' needs, so begins to see value in cooperating with other networks to generate additional revenues and help retain existing customers.

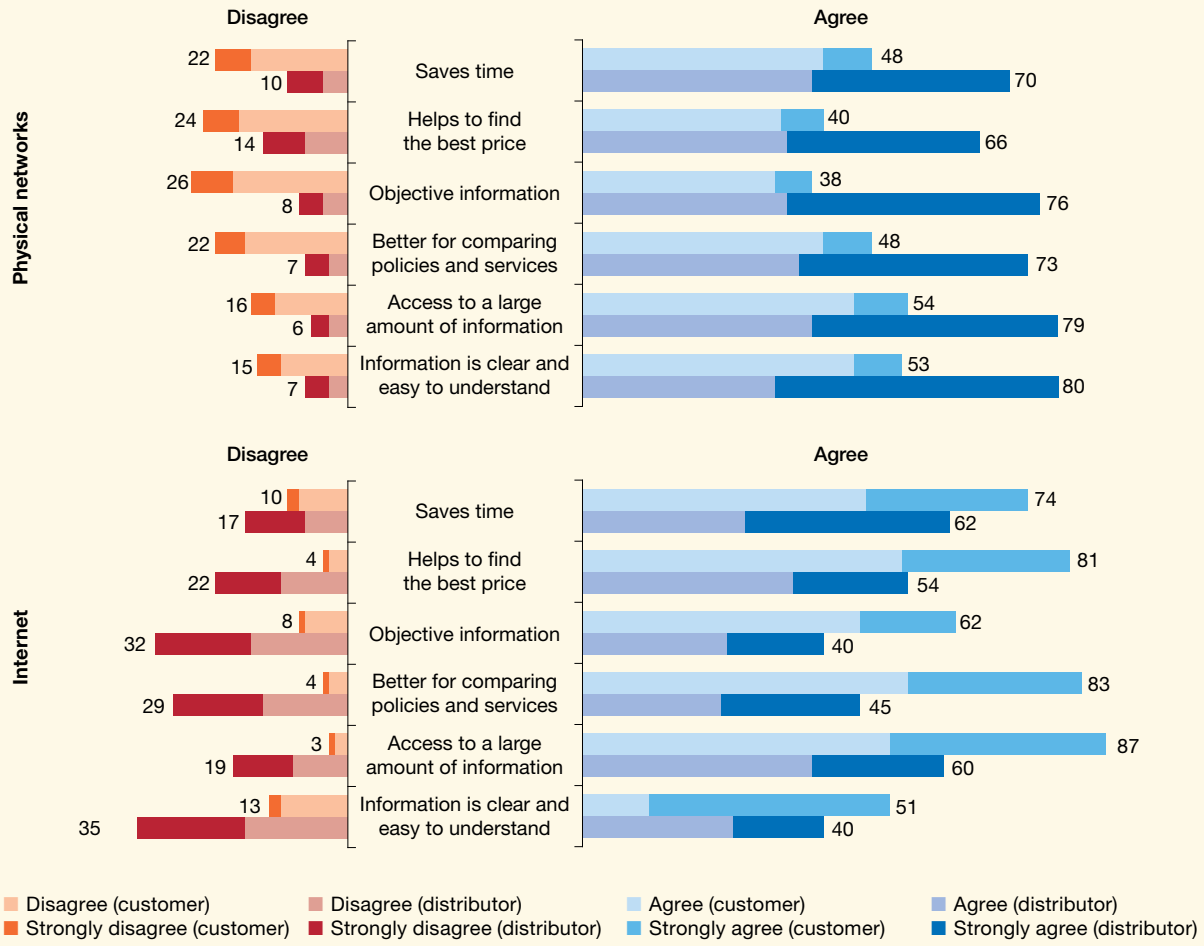
ALL THE LEVERS CAN BE PULLED TO POSITIVE EFFECT

Having built a detailed picture of the resistance levers, we quantified the potential positive impact of pulling any of those top 14 levers. We did that by modeling the extent to which the size of each of the four distributor segments would increase or decrease if an insurer pulled on any given lever.

In principle, there are two positive effects that a lever can have on perceptions about multi-distribution: The lever can increase enthusiasm and decrease resistance. Figure 2.7 plots both of these effects for each lever, revealing some important findings:

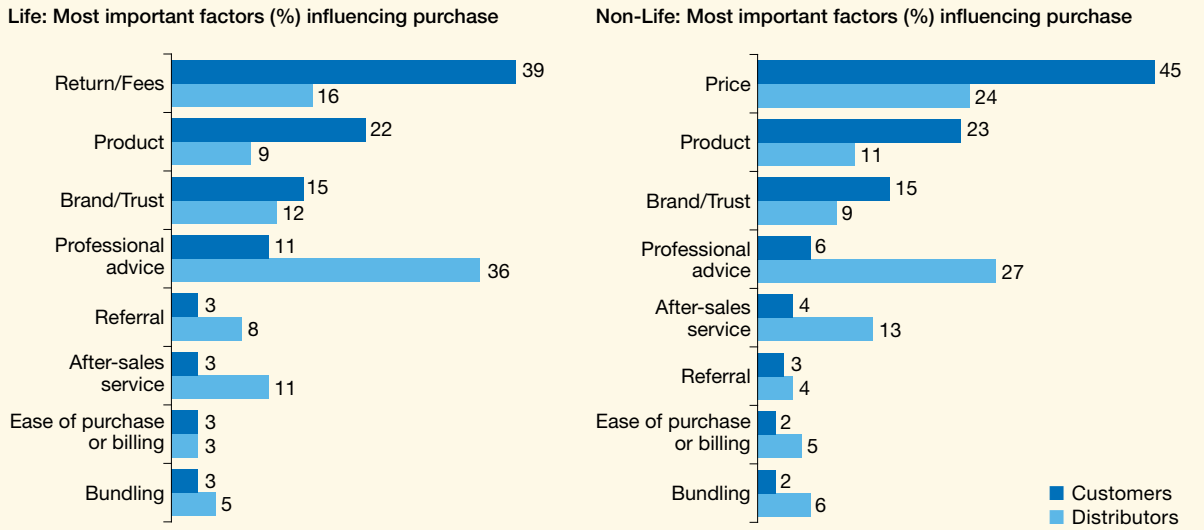
- **There is an obvious correlation between the two effects, but the levers tend to increase enthusiasm to a much greater degree than they decrease resistance.** For example, if distributors buy into the concept that the Internet will allow them to sell additional products to their customers (top-right quadrant), it will increase the size of the Very Enthusiastic segment by about 150% but decrease Very Resistant distributors by just 50%.
- **Relatively speaking, some levers are better positioned than others to reduce resistance or to increase enthusiasm.** Insurers therefore need to consider the sequence of lever pulls, and not just the strength of each lever. Arguably, it is more effective to pull levers that tackle resistance first, before trying to increase enthusiasm. For example, since financial incentives topped the list of resistance levers, Insurers will need to get financial incentives right first to begin reducing resistance.
- **Advice is a complex lever that must be pulled thoughtfully.** On Figure 2.4, we see that positioning distributors to differentiate themselves too heavily around advice is likely to increase network resistance to multi-distribution. On Figure 2.6, we see that positioning too lightly around advice also has a negative impact. The key then is to find the right balance—i.e., insurers need to make sure their networks do not take an extreme position on advice, and should encourage them to deliver targeted advice to specific customers segments, at a price.

Figure 2.5 Factors that Influence Purchasing through Physical Networks and Internet from the Customers and Distributors Point of View



Source: Capgemini analysis 2009, based in Distributor Survey and World Insurance Report 2008 Customer Survey.

Figure 2.6 Customer Needs as Seen by Distributors



Source: Capgemini analysis 2009, based in Distributor Survey and World Insurance Report 2008 Customer Survey.

Advice
Here, it is worth providing some additional context about advice. The difference between customer and distributor perceptions is particularly evident when we look at the role of professional advice in insurance purchases.

We compared the customer responses about purchasing influencers of life and non-life insurance with distributors' views (see Figure 2.7).

Distributors attribute significantly more importance to professional advice than do their customers, who are very price- and product-driven. This contrast is not entirely surprising. Providing professional advice, after all, lies at the core of the value proposition of some distributors, so they naturally hold advice in high esteem. However, the data are compelling—and suggest neither distributors nor insurers can afford to ignore the relatively low value customers ascribe to professional advice.

In addition, too strong a position on advice can create a vicious cycle working against cross-network cooperation. Specifically, some distributors may doubt other networks can provide advice that is equally as good as their own, making them hesitant to cooperate. This is more likely to be the case when distributors see themselves as highly specialized advisors.

OUR TOP LEVERS FIT INTO SIX "INITIATIVES"

Since each lever has a twofold effect, it is the additive impact of the levers—not their individual strength—that determines the optimal sequence in which the levers should be pulled. However, for simplicity's sake, we grouped the most impactful levers into six "initiatives" that the insurer will need to address to cover all the levers most likely to mitigate resistance to and build enthusiasm for multi-distribution.

The six initiatives, which will each take a different amount of time to work through, are as follows (also see Figure 2.8):

- **Incentivizing cooperation.** Many insurers are challenged to find the right commissioning system to enable cross-network cooperation. Certainly, existing systems were not designed to accommodate the flexibility and complexity of network cooperation, but incentives in cross-network cooperation do not necessarily need to be integrated into the insurers' and distributors' existing commissioning structures.
- **Addressing customer ownership issues.** Our distributor survey shows concerns about customer ownership are among the strongest inhibitors of cross-network cooperation. In Chapter 4, we look in more detail at customer ownership from the insurer's perspective, and ways to face the challenge.
- **Raising awareness about the Internet and interaction tools.** Numerous variables fit into this dimension, illustrating how multi-faceted the Internet challenge can be—and how much work insurance companies have to do to raise the level of awareness among distributors, and help them understand the benefits to customers, and to distributors themselves. For example, insurers can seek to demonstrate to distributors that the Internet is not just an information vehicle; it can be an enabler of internal interaction between distributor and insurer.
- **Branding and promotion** are important levers in the context of multi-distribution. A multi-distribution approach requires insurers to work on building brand legitimacy—validating their credibility in all direct communication with customers, and increasing their visibility among networks.
- **Enhancing customer intelligence.** Customer intelligence tools can be critical for networks to enable efficient cooperation with others. For insurers, effective customer intelligence enables them to differentiate their networks (e.g., finding the right advice focus for some networks) and enhance the value proposition they bring to specific customer segments.
- **Enabling distributors.** Distributors still believe insurers can do more to enable and support them. It is not surprising then to see some impactful levers in this area. Insurers could benefit by taking a more assertive role in the management of their networks, but this demands that they master the fundamental enablers of distributor performance (e.g., sales support and training and development).

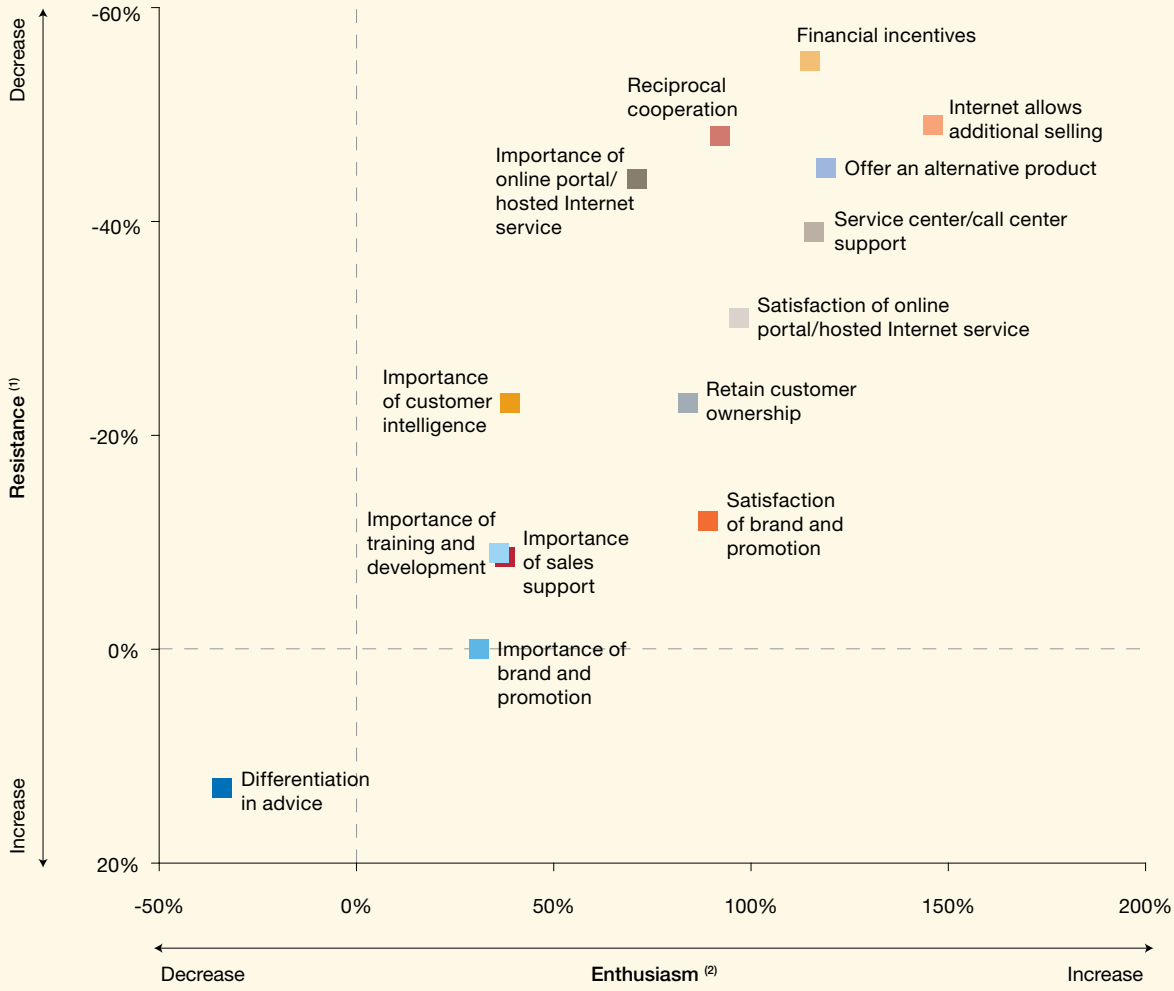
CONCLUSION

There are conflicting views among distributors about the benefits of multi-distribution, but insurers do have plenty of levers to pull to reduce distributors' resistance and increase their enthusiasm. However, the strategy takes careful consideration, and requires insurers to develop multi-distribution capabilities of their own.

In Chapters 3 and 4, we will look in detail at the state of multi-distribution among global insurers, explore how leading insurance companies have managed the challenges of execution, and look at some of the successes they have achieved.

Figure 2.7 Twofold Impact of Top Levers

The twofold impact that each lever can have (i.e., reducing resistance or increasing enthusiasm)



(1) The "Resistance" axis represents the % of increase or decrease of Very Resistant segment.
(2) The "Enthusiasm" axis represents the % of decrease or increase of Very Enthusiast segment.
Source: Capgemini analysis, 2009.

Figure 2.8 Top Levers Can Be Grouped Into Overarching Initiatives for Insurers

Initiatives	Levers
INCENTIVIZING COOPERATION	▪ Financial incentives ▪ Reciprocal cooperation
CUSTOMER OWNERSHIP	▪ Provide clarity on customer ownership ▪ Offer an alternative product
INTERNET AND INTERACTION TOOLS	▪ Internet allows additional selling ▪ Importance of online portal / hosted Internet service ▪ Satisfaction with online portal / hosted Internet service ▪ Service center / call center support
BRANDING & PROMOTION	▪ Satisfaction of brand and promotion ▪ Importance of brand and promotion
CUSTOMER INTELLIGENCE	▪ Differentiation on advice ▪ Importance of customer intelligence
DISTRIBUTOR ENABLEMENT	▪ Importance of sales support and lead generation ▪ Importance of training and development

Source: Capgemini analysis, 2009.

State of Multi-distribution among

Global Insurers

CHAPTER 3

HIGHLIGHTS

- Many insurers have already developed significant capabilities in the first three stages of multi-distribution, developing multi-network and multiple-channel capabilities, and mutualizing functions (i.e., centralizing and sharing distribution-related operational functions such as IT across networks).
- Only a few insurers have advanced to the next stages of centralizing intelligence or multi-network cooperation (i.e., attained a “mature” multi-distribution model).
- Centralized intelligence is a necessary first step to effective cross-network cooperation—and it is only a short step from there to fully fledged cooperation—but even the most mature multi-distributors can still capture opportunities at this stage.
- Insurance companies often mutualize many of their operational functions at the same time, although IT and finance are slightly more likely to be targeted. There is, however, a limit to value-added systematic centralization.

INSURERS HAVE MADE SIGNIFICANT PROGRESS ON THE MULTI-DISTRIBUTION PATH

Our analysis, based on 59 interviews with insurance executives, shows: Many are selling insurance through multiple distribution networks, can interact with customers in many different ways, and are sharing many operational functions (e.g., IT and marketing) across their distribution networks.

A few insurers have propelled their multi-distribution operations even further by integrating into their model some comprehensive intelligence about customers, products, pricing, and distribution approaches. The most sophisticated multi-distributors have also realized fluid cooperation among distribution networks on a wide range of activities.

In this chapter, we detail the five stages in multi-distribution we observed, and the business drivers behind them, and we look at how insurers are progressing in each.

Among the issues we explore:

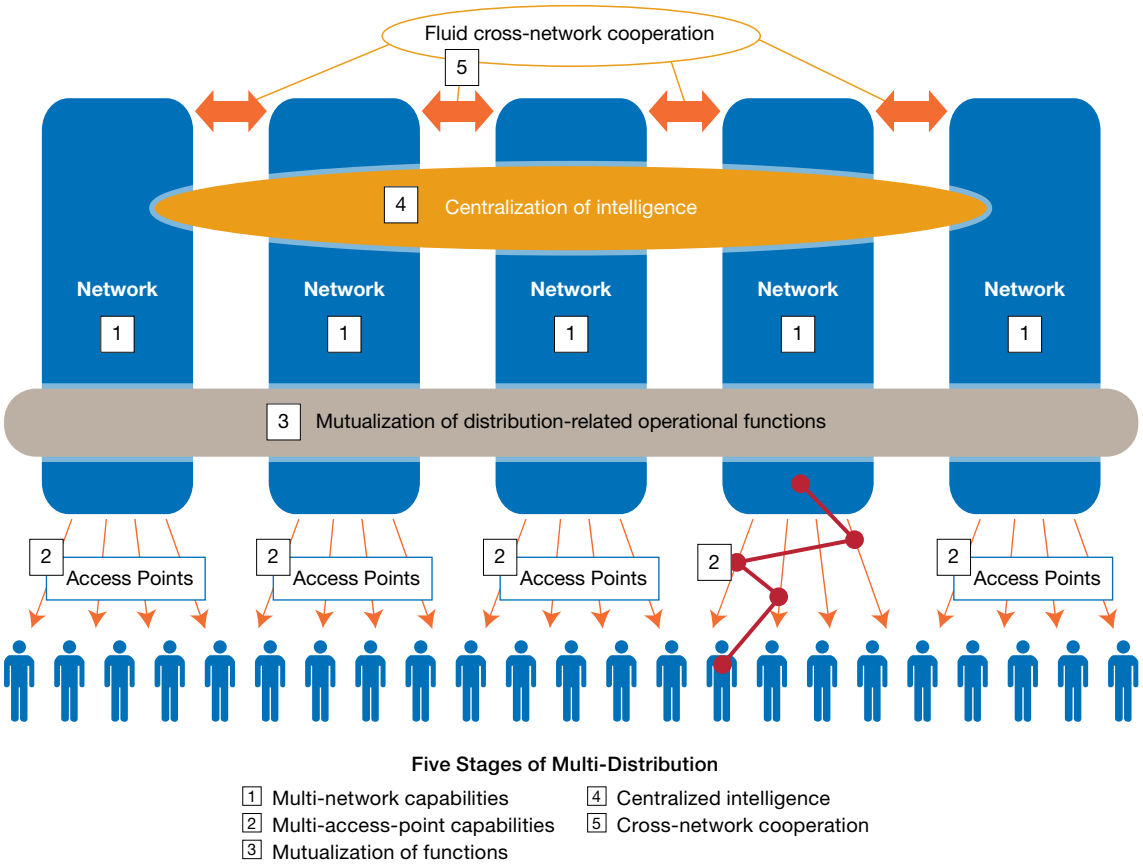
- How sophisticated are leading global insurers in each stage of multi-distribution?
- Do companies typically work on each step sequentially or in parallel?
- To what extent does progress in one stage depend on progress in another? And is a certain level of maturity in one area required before progressing to others?
- Which steps present the most challenges? And which are likely to deliver the greatest benefits in meeting the overall goal of multi-distribution?

OUR MULTI-DISTRIBUTION MATURITY ASSESSMENT FRAMEWORK IDENTIFIES FIVE STAGES OF MULTI-DISTRIBUTION

Our research[8] shows multi-distribution involves five distinct stages (see Figure 3.1), and each is driven by a specific business objective (see Figure 3.2). Those stages are:

1. ***Multi-network capabilities.*** The insurer sells its products through several distribution networks (e.g., tied agents, brokers and multi-tied agents, bank branches, direct networks, alternative networks) in a bid to widen its access to the market.

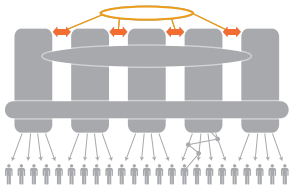
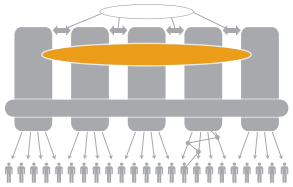
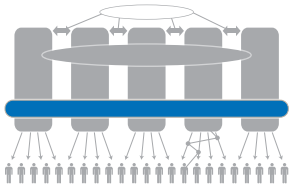
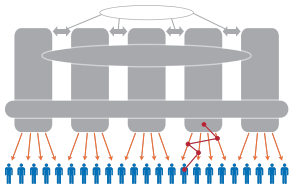
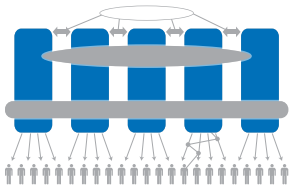
Figure 3.1 Capgemini Multi-distribution Maturity Assessment Framework



[8] The World Insurance Report multi-distribution analysis is based on multiple inputs from interviews with 59 insurance executives. See the appendix for more details on the methodology.

2. ***Multi-access-point capabilities.*** Each network employs multiple access points, or channels via which customers can inform themselves about insurance coverage, and purchase and manage their insurance policies. There are essentially four different types of access points: Internet, telephone (i.e., call center), mobile sales forces (e.g., door-to-door agents), and points of sale (an agent's office or a bank branch). A variety of access points is necessary to meet customer demand for channel choice. Ultimately, the customer can perform any type of activity through any access point at any point in the product life cycle.
3. ***Mutualization of functions.*** The company centralizes and shares distribution-related operational functions (e.g., IT, HR, operational finance, marketing, and commercial management) across networks. This "mutualization" realizes scale economies to drive cost efficiencies.
4. ***Centralized intelligence.*** The company centralizes its intelligence-gathering processes to provide a single view of customers, products, and networks. That data is analyzed centrally, and dispatched to the networks to help them optimize and differentiate their activities in order to maximize the value of multi-distribution for the insurer.
5. ***Cross-network cooperation.*** The insurer enables networks to cooperate with each other in selling activities. This approach helps to increase customer wallet share, maximizing the contribution from the networks' respective customers (rather than pursuing value from new customers, which is usually the intent when insurers establish network multi-capabilities in the first place). As explained in Chapter 1, this approach also helps to increase network sales productivity.

Figure 3.2 Five Stages of Multi-distribution: Definitions and Business Drivers

Stages of multi-distribution maturity			
5		Cross-network cooperation	▪ Definition: Fluid cooperation with distribution networks on a range of activities (i.e., informing, selling and servicing). ▪ Business driver: Increase customer share-of-wallet and networks' sales productively.
4		Centralized intelligence	▪ Definition: Centralized understanding of customers, products, pricing, distribution approaches; analyzed to formulate or align with multi-distribution strategy. ▪ Business driver: Cost and revenue efficiency. Distributor enablement.
3		Mutualization of functions	▪ Definition: Centralized and shared distribution-related operational functions, e.g., IT, HR marketing, operational finance, commercial management, across distribution networks. ▪ Business driver: Cost and revenue efficiency. Distributor enablement.
2		Multi-access-point capabilities	▪ Definition: Multiple access points for customers, integrated across the product life cycle and for a range of activities (i.e., inform, sell and service). ▪ Business driver: Meet customer needs in terms of access.
1		Multi-network capabilities	▪ Definition: Selling insurance through multiple distribution networks. ▪ Business driver: Gain access to the entirety of the market by encompassing multiple specialized networks.

Source: Capgemini analysis, 2009.

We interviewed executives from 59 insurance companies and 15 countries about their multi-distribution activities. That sample covered 7 of the world's top 10 insurance markets in terms of premiums (also see Methodology). We then looked in more detail at 35 insurers that already operate some form of multi-distribution model to gauge their current operational strength ("maturity") in each stage of multi-distribution, and to assess the path they took in implementing multi-distribution.

MOST MULTI-DISTRIBUTORS HAVE MADE SIGNIFICANT PROGRESS IN BUILDING CAPABILITIES

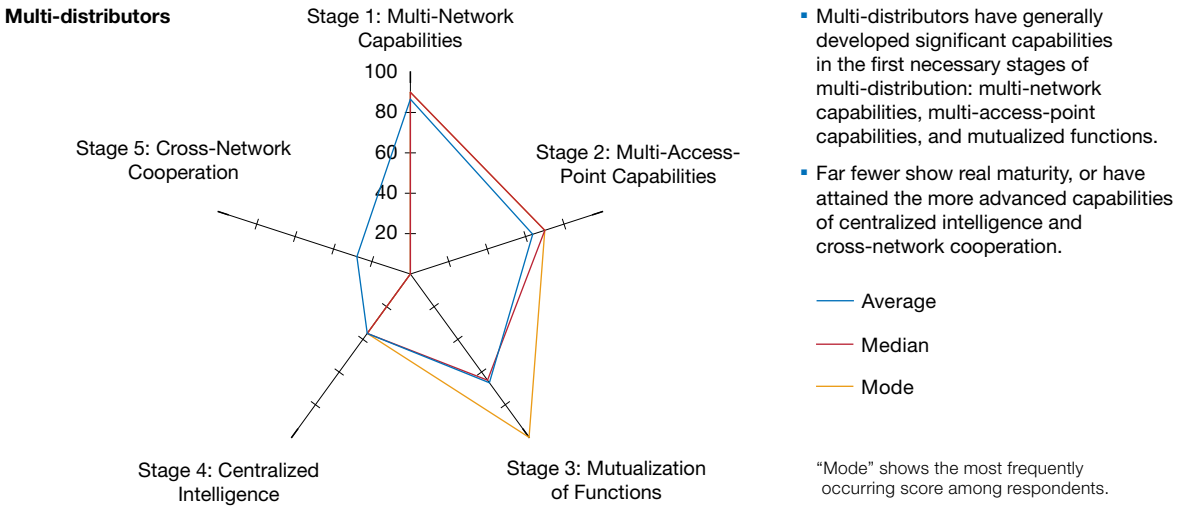
The multi-distributors we studied generate meaningful revenues from two or more networks. (We excluded, for example, companies that generate the majority of their revenues from one network and marginal revenues from another.) Our research yielded some general conclusions about how these insurers are performing on aggregate in each stage of multi-distribution (see Figure 3.3).

1. ***Multi-network capabilities.*** The vast majority has developed a mix of distributors to almost full potential (i.e., scored nearly 100%).
2. ***Multi-access-point capabilities.*** The majority has built multi-access-point capabilities, but our research shows many have yet to fully integrate those channels throughout the product life cycle. In fact, many of the more mature multi-distributors turn their focus to other stages after a certain point of multiple-channel development (see findings on interdependency later in this chapter).
3. ***Mutualization of functions*** is widespread, but to varying degrees. Nearly 20% of multi-distributors actually scored 100%, i.e., they have fully mutualized all their operational functions across all their networks. (Notably, multi-distributors with origins in direct distribution have a head-start, which explains some of those maximum scores.) The remaining 80% scored above 55%.
4. ***Centralized intelligence.*** Only a few multi-distributors have made substantial progress on centralizing intelligence. This is somewhat surprising given the benefits are potentially significant, especially in getting buy-in from distributors (see Chapter 2), and the cost is marginal once other functions have been mutualized.
5. ***Cross-network cooperation.*** Only a very few insurers can claim to have facilitated fluid cooperation among distributors, but it is notable that centralized intelligence is a strong enabler of cross-network cooperation, suggesting it should probably be a priority when developing sophisticated multi-distribution.

These findings provide a snapshot of the state of multi-distribution today, but they do not tell us the extent to which any given insurer needs to be mature in an individual area before it can hope to capture sustained returns from its multi-distribution strategy.

For example, multi-channel capabilities, mutualization of functions, and centralized intelligence are often characterized as three pillars of an effective cooperation model. So, is it possible for an insurer to establish effective cross-network cooperation without attaining a minimum level of performance on those pillars?

Figure 3.3 Multi-distribution Maturity Scores



- Multi-distributors have generally developed significant capabilities in the first necessary stages of multi-distribution: multi-network capabilities, multi-access-point capabilities, and mutualized functions.
- Far fewer show real maturity, or have attained the more advanced capabilities of centralized intelligence and cross-network cooperation.

"Mode" shows the most frequently occurring score among respondents.

Source: Capgemini analysis, 2009.

VARYING LEVELS OF INTER-DEPENDENCE EXIST BETWEEN STAGES OF MULTI-DISTRIBUTION

To get a better idea of how insurers pursue multi-distribution in practice, we first dissected our sample of insurers into groups, based on their maturity as multi-distributors[9]. Accordingly:

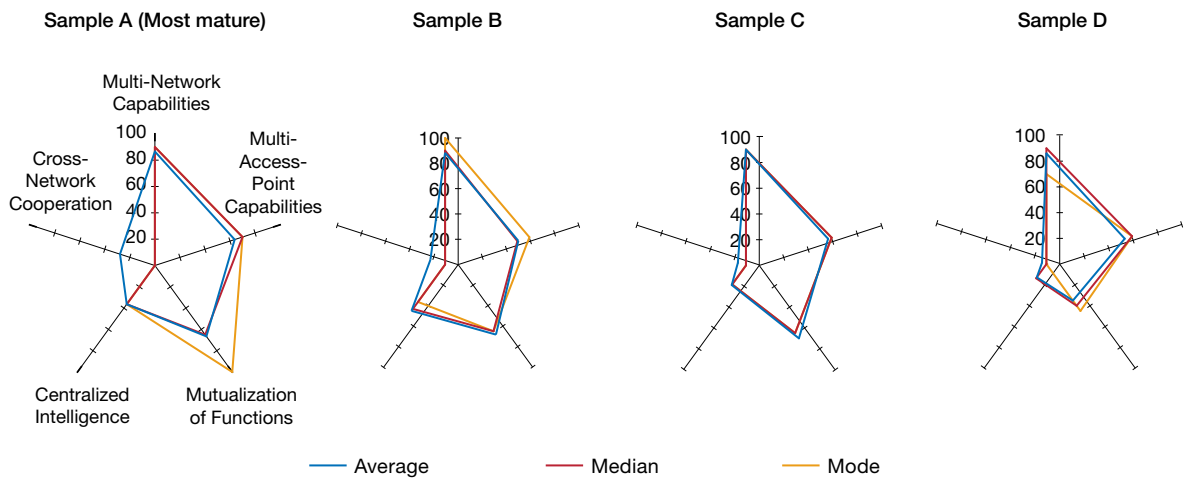
- Sample A has progressed relatively far in all stages of multi-distribution, including cross-network cooperation, i.e., they are mature multi-distributors.
- Sample B comprises companies that have obtained a relatively superior score in all stages except cross-network cooperation.
- Sample C insurers have made solid progress on multi-distribution and multi-channel capabilities, and on mutualization.
- Sample D comprises the remaining multi-distributors (i.e., those with only multi-distribution and/or multi-access-point capabilities).

We then conducted inter-dependency analyses (Figures 3.4 and 3.5) to show what steps different companies have taken toward multi-distribution at different points in their development.

Some key takeaways stand out:

- **The most mature multi-distributors have stopped investing in additional multi-channel models.** All multi-distributors have embraced the need for multi-access-point capabilities, but the most mature insurers do not score any higher than other groups (the average scores for each sample are between 60% and 70%). This suggests that while all insurers recognize they need multiple access points to please customers, the most mature multi-distributors do not continue to invest in multi-channel capabilities beyond a certain point. Instead, they turn their energies to other stages of multi-distribution.
- **Mutualization of operational functions is a discrete and early objective.** For many insurers, mutualization is an objective that is pursued from their very first forays into multi-distribution, and then on an ongoing basis. Indeed, it is quite logical to try and rationalize costs across multiple networks (especially when those networks have been acquired). However, mutualization takes time, which explains why the scores progressively increase in parallel with overall maturity. Notably, none of the insurers we interviewed has chosen to bypass this opportunity.
- **Centralized intelligence serves cross-network cooperation.** In fact, centralized intelligence is a necessary first step to effective cross-network cooperation. Nevertheless, the scores on this stage are relatively low in all groups, even among the most mature multi-distributors, so opportunities clearly remain. In particular, insurers could be using more advanced tools and methods to gather and interpret data (e.g., about customer behaviors, propensity to defect, etc.)
- **Cross-network cooperation requires broad capabilities.** The most mature multi-distributors (Sample A) have acquired a broad set of capabilities, suggesting insurers need at least a minimum level of maturity in all stages to excel. Nevertheless, it is possible to pursue cross-network cooperation while still beefing up other aspects of the multi-distribution organization.

Figure 3.4 Multi-distribution Maturity Scores by Stage of Development



Source: Capgemini analysis, 2009.

[9] The four samples were separated by looking at all maturity scores and identifying gaps in the scores on each dimension—see Methodology.

SOME MULTI-DISTRIBUTION MODELS ARE SUSTAINABLE; OTHERS ARE DESTINED TO CHANGE

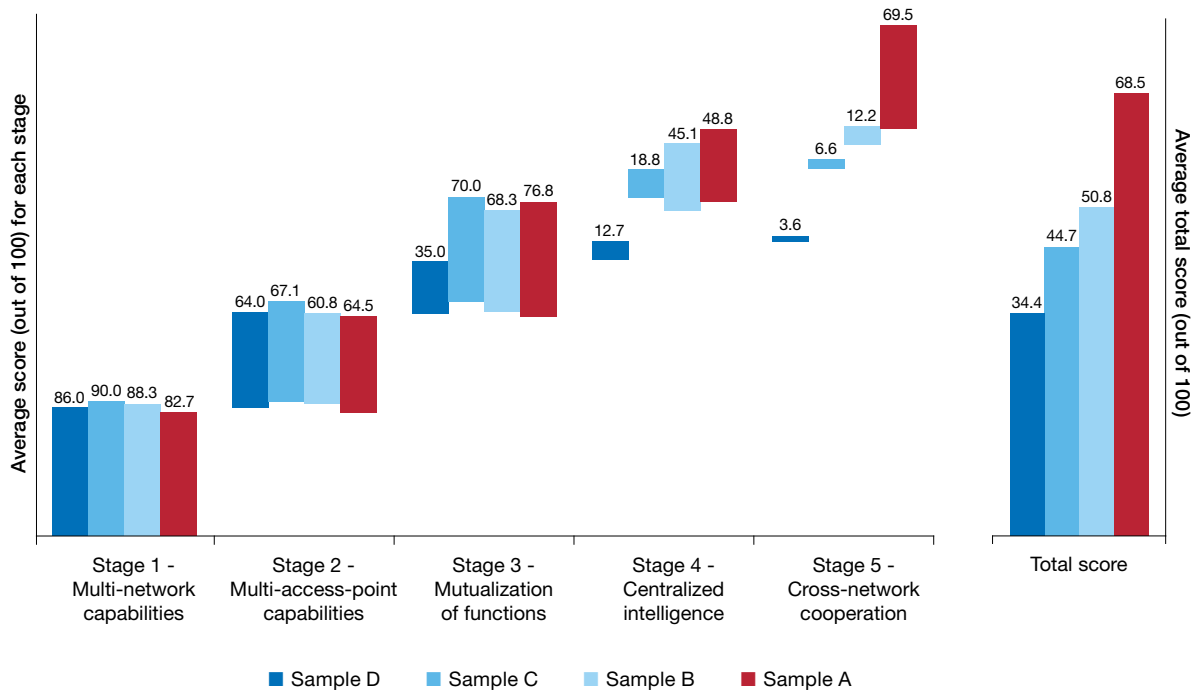
We have drawn the following conclusions from our research about the sustainability of given multi-distribution positions. In particular:

- **Insurers that do not mutualize are likely to face increasing cost pressures.** Insurers with only multi-network and multi-channel capabilities (Sample D) will increasingly need to mutualize or they are likely to become less cost-competitive than their peers.
- **We believe insurers that have acquired multiple networks and mutualized functions can sustain their business without centralized intelligence and network cooperation, but the value of their business will be limited.** Insurers that have developed multiple networks and channels, and pursued mutualization (Sample C) can operate successfully in that mode for the long term. However, their multi-distribution model will be limited to a "siloed" one, in which the insurer manufactures and caters to its networks, and their "front-offices" operate completely independently. In this scenario, the networked business can never amount to more than the sum of its parts.
- **Insurers focused heavily on centralized intelligence will soon take the next step into network cooperation.** This group (Sample B) has clearly committed to network cooperation, and is well on the way, but their transformation is far from over. In particular, this group will need to tackle challenges of execution, including attitudinal resistance among distributors, and issues such as customer ownership, and leadership and organizational design (see Chapter 4).
- **Mature multi-distributors have a sustainable model.** The focus of this group (Sample A) will be on optimizing each stage of multi-distribution, but the pillars of their multi-distribution model are in place, and the model can be highly effective in the long term.

MUTUALIZATION IS OFTEN ALL OR NOTHING, BUT FINANCE AND IT TEND TO FEATURE

A detailed look at mutualization efforts shows this stage tends to be somewhat of an all-or-nothing undertaking for insurers. Our research shows insurance companies often mutualize many of their operational functions at the same time, although IT and finance are slightly more likely to be targeted (see Figure 3.6). The level of progress does not change drastically over time, either, although IT mutualization can be more protracted.

Figure 3.5 Inter-dependency between Stages of Multi-distribution Maturity



Note: A weighting has been applied to the score of each stage to calculate the "total score".
Source: Capgemini analysis, 2009.

More important than the priorities in mutualization is the extent of the centralization. Is there, we asked, a limit to systematic centralization? Some insurers argue it is better to leave some operations distributed in the networks, and focus instead on adopting a standardized and shared approach for use throughout that decentralized model.

For instance, IT systems handle customer information, and it is critical that the data itself be standardized and shared across networks. However, the systems do not necessarily need to be mutualized—assuming a way can be found to allow those systems to communicate seamlessly, especially if that approach is more cost efficient.

As for marketing, while strategic marketing should be handled by a central team, promotional activity often requires proximity to the selling entity anyway. Empowering the entity closest to the customer, instead of centralizing marketing, could actually provide the insurer with greater agility.

Commercial management tends to be the least mutualized function, and assistance and support can certainly be kept within the networks if it makes sense to do so. Guidelines and principles can be set centrally, but carried out locally.

In short, it seems there is a limit to the necessary extent of mutualization, especially if the underlying goals of shared intelligence and efficiencies can be achieved instead via standardization and other types of process-sharing.

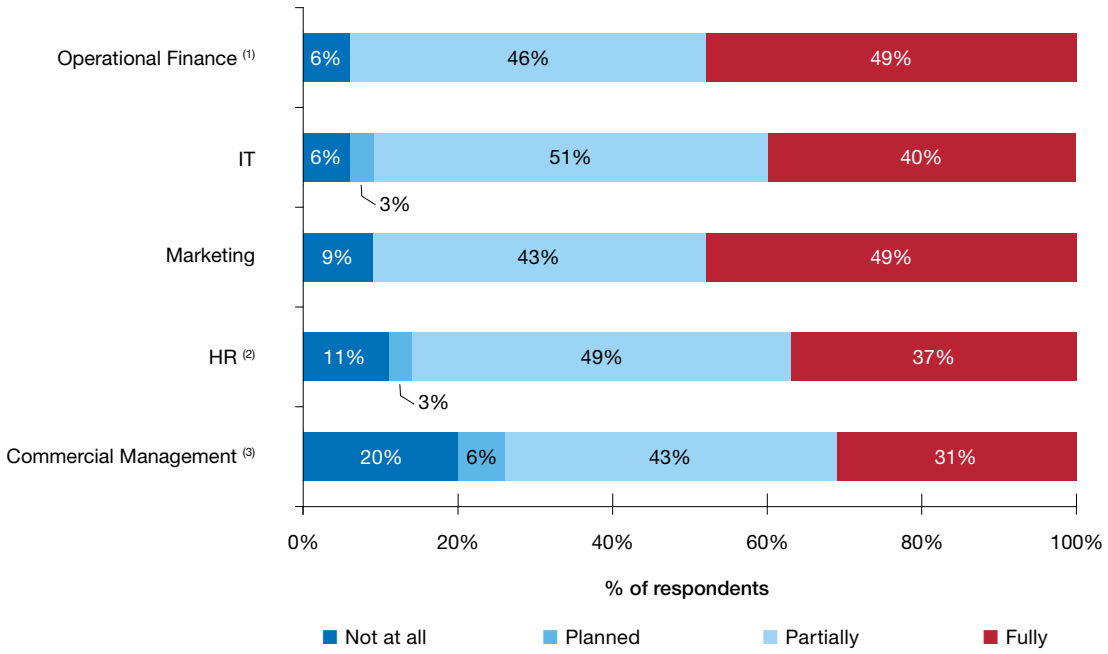
CONCLUSION

Many insurers have already developed quite robust multi-distribution models, and are in a position to reap the benefits of multi-network distribution. Fluid cooperation among distributors may seem like a distant and hard-to-reach goal, but the journey is perhaps not as long and arduous as some imagine.

Most insurance companies have already invested significant time and effort in the first necessary stages of multi-distribution and the more advanced stages—centralized intelligence and fully fledged cooperation—can be pursued at quite marginal cost and relatively quickly.

However, those additional steps do involve displays of commitment and leadership from senior management, and explicit action on potential obstacles like issues of customer ownership. In the next chapter, we looked at ways in which some leading insurers are already addressing these challenges in practice.

Figure 3.6 Precedence in Mutualization of Operational Functions



Note: Percentage values are rounded.

(1) Operational finance processes: e.g., financial results, reporting, commissions.

(2) H.R.: e.g., training, recruitment.

(3) Commercial Management: e.g., distributor sales control, assistance and audit.

Source: Capgemini analysis, 2009.

Leading Insurers

are Focusing on the Key Enablers of Multi-Distribution

CHAPTER 4

HIGHLIGHTS

- Leading insurers have acted swiftly and deliberately to build the multi-distribution capabilities they need to excel, and to become agile and flexible enough to meet emerging challenges and capture new opportunities.
- Insurers are also tackling two associated enablers of successful strategic execution: customer ownership, and leadership and organizational design. Notably, these two enablers can really propel the multi-distribution strategy if effective, but can also present significant challenges, and undermine strategy if ignored.
- Case studies show how leading insurance providers are investing in key capabilities in a bid to develop a high-performing multi-distribution business.

Figure 4.1 Case Studies—Summary

	Maturity Stage	Summary
ITGI	Multi-Network Capabilities	Formed in 2000, ITGI is a joint venture between a Japanese insurer and a leading Indian fertilizer manufacturer. The case study underlines the importance of a multi-network strategy to secure market access and growth in the diverse Indian insurance market.
ING	Multi-Access-Point Capabilities	ingauto.be was launched with a vision to be a fully integrated multi-channel motor insurer. ING recognized demand from customers for a new approach to insurance and responded with a multi-channel proposition that has enabled it to reposition itself in the Belgian market.
KBC	Mutualization of Functions	Three Belgian financial institutions merged their banking and insurance operations to form KBC to drive a more integrated bank-insurer multi-distribution model. KBC operates under a single management structure with reorganized and shared operational functions. Building on what was a highly innovative business model, KBC was able to realize synergies between the bank and insurance networks.
Genertel (Part of the Generali Group)	Centralized Intelligence	The Genertel case study provides a leading practice example of how centralized intelligence has been used to successfully align the insurers multi-network strategy, more effectively meet its customers needs, and compete on both price and service quality.
If	Network Cooperation	A key success factor in If's multi-distribution strategy is the way the insurer has used the complementary strengths of each network to support its overall distribution objectives. Each network has a clearly defined role during the customer life cycle. The relationship with the customer moves between networks over time and the value proposition is tailored to each customer segment.

MULTI-NETWORK APPROACH IS ESSENTIAL TO SECURE CUSTOMER ACCESS

As noted in Chapter 3, insurers—especially multi-product carriers—understand the importance of a multi-network presence, and have invested in those capabilities to secure wider access to markets that are becoming increasingly diverse and fragmented. In particular, insurers must now cater to customers who are rarely loyal to a single type of network, because as networks are proliferating, customers are increasingly willing to switch to secure greater choice, convenience, and benefits[10].

As a result, multi-product insurers that are targeting a greater share of customer wallet may need to rethink their network strategy, especially if they rely on a single network type. The ITGI case study shows how ITGI pursued a multi-network strategy in the Indian insurance market.

[10] Capgemini World Insurance Report 2008.

CASE STUDY

IFFCO TOKIO General Insurance: Emerging Market Multi-distributor Combines Traditional and Non-Traditional Networks

The Indian insurance market was opened up to foreign and private competition in 1999, following the introduction of the Insurance Regulatory and Development Authority (IRDA) Act 1999. IFFCO TOKIO General Insurance Company (ITGI) was formed in 2000 as a joint venture between Indian Farmers Fertilizer Co-Operative Ltd (IFFCO) and TOKIO Marine Asia Pvt. Ltd.

IFFCO is owned by more than 40,000 cooperative societies and is a leading fertilizer manufacturer in India. It has done pioneering work in the rural countryside to improve the conditions of communities across India, and the objective of the insurance venture was no different. The JV aimed to reach out to customers who have traditionally lacked adequate access to insurance coverage. The IFFCO brand name was also critical to the success of the venture. As well as being a leading fertilizer conglomerate, IFFCO had established a reputation of trust and confidence for its socially responsible approach.

ITGI adopted a multi-distribution strategy consisting of tied agents, brokers, bank branches, alternative networks and a distribution company of its own—IFFCO-TOKIO Insurance Services (ITIS). In the Indian market, a multi-distribution approach combined with a national presence is essential to penetrate the wider market. While the tied agents, brokers, bank branches and alternative networks focus predominantly on the urban market, ITIS' main focus is small- and medium-sized towns of up to 100,000 people.

ITIS developed two distinct distribution models to gain access to this market. One is the 'Lateral Spread Model' through which the company targets small- and medium-sized towns. Since the entire operation is ITIS-managed, it is a low-cost model. For instance, salaries are nominal while performance is highly incentivized. The other model is a cooperative approach known as 'Bima Kendras', and locates one or two trained local officers at IFFCO service centers where farmers buy fertilizer—a strategy that keeps infrastructure and set-up costs to a minimum. Notably, both models are also interrelated, with the Bima Kendras reporting to the Lateral Spread centers.

ITIS has faced a number of challenges, including the widely dispersed rural population, limited infrastructure for the distribution of insurance products, high start-up costs, a shortage of skilled professionals, and relatively low levels of insurance awareness among the population.

ITIS has also been particularly innovative in meeting the needs of the rural market by launching a personal accident product for farmers who are automatically covered when they purchase IFFCO fertilizer through the Cooperative Society. The sales receipt has been modified to act as the proof of coverage to simplify the insurance-sales process and minimize costs. As well as providing essential coverage for farmers and their families, the product is also helping raise insurance awareness in rural communities.

ITGI's multi-network approach and its use of innovative networks to target different segments of the market have enabled the company to develop a leading position in the Indian insurance market. Its innovative approach to distribution has also helped to deliver year-on-year profitable growth. Premiums grew from 2,133 million Rupees (€33 million) in 2002-03 to 12,350 million Rupees (€190 million) in 2007-08.

OPPORTUNITY STILL EXISTS TO LEVERAGE MULTI-ACCESS-POINT INTEGRATION

Insurers have developed a variety of new access points over time. However, they have typically responded in a fairly ad hoc manner—reacting specifically to customer demands for greater access and convenience, the emergence of new technologies, or initiatives by competitors. There is still potential for many to integrate new and existing access points more fully to realize even greater benefits from channel integration.

The opportunities in access-point integration are considerable. Integration provides customers with a greater level of flexibility, convenience, and choice, and enables them to switch between access points across the product life cycle. It also allows insurers to manage distribution in a more cost-effective way, and optimize customer profitability. For example, one Italian insurer we interviewed has successfully integrated its point-of-sale branch, Internet and call-center access points to enable customers to perform any activity on any channel.

Insurers are also being pressed to incorporate into their distribution models the kinds of new technologies now appearing in many other market sectors. For example, emerging technologies like Web 2.0, mash-ups[11] and real-time business intelligence could help insurers to respond more effectively to growing customer demand for mobility, convenience and personalization. For instance, one leading global insurer we interviewed is leveraging a new generation of browser-based user interfaces in its multi-distribution strategy. These tools, so far more prevalent in other sectors, could help bring insurers and distributors closer to their customers.

Overall, our analysis shows that while insurers have been actively adding access-points, many may still need to make sure that access-point integration and the services provided to customers are aligned with the overall multi-distribution strategy.

[11] A "mash-up" is a web application that combines data from more than one source into a single integrated tool.

CASE STUDY

ING Belgium: An Integrated Multi-Channel Approach to Insurance

Launched at the end of 2007, ingauto.be was seen as a catalyst by ING to re-position itself in the Belgian insurance market, replicating parts of the successful model established by ING Direct in the banking sector. The aim was to launch a fully integrated multi-network motor insurer and firmly position ING as a leading player in that segment of the Belgian market.

ING believed that it needed to differentiate itself from other insurers if it was to achieve its target of attracting 250,000 new customers within 5 years. Market research indicated that customers had specific requirements. In particular, customers wanted to be able to choose which channel to use at all times and not be forced to choose one channel over another. They wanted access to a personal contact for support during the purchase process, even if they had started the quotation process online, and they wanted a simple and easy-to-use website. ING also recognized that car insurance is a low-involvement product, so customers are highly price-sensitive, and expect a low price if switching providers.

ING Belgium also understood the need for a low-cost business model, which provided straight-through processing across all networks and maximized online underwriting decisions, with minimal need for back-office intervention. A new distribution platform was developed, which provided full transactional capabilities for HomeBank, ING's bank branch channel, the Internet and call center operations.

The platform was designed to provide functionality that enables the customer to obtain a quotation online, call the customer contact center with queries using their reference number, and then complete the transaction in the branch network if preferred. This flexibility immediately proved popular with customers and enabled ING to use its bank branches effectively to convert a higher proportion of enquiries into sales than it was achieving through the Internet. The multi-channel capability has also proved highly effective in cross-selling other ING insurance and banking products not yet offered through ingauto.be.

ING was able to meet its customers' price expectations by using an innovative pricing model, which was new to the Belgian market, but was based on a model developed by ING in Canada and the Netherlands. It uses different rating processes and underwriting parameters to calculate customer premiums, enabling ingauto.be to provide a more competitive price to low-risk customers.

Ingauto.be was launched with a high-profile marketing campaign that aimed to raise awareness immediately and create a new position for ING Insurance in the minds of customers in the Belgian market. Since its launch, ingauto.be's growth has exceeded expectations, attracting nearly 65,000 new car insurance customers.

The concept is a prime example of the use of synergies, actively promoted globally by ING. As a result of ingauto.be's success, the strategy has since been largely replicated at ING Postbank in The Netherlands.

IT MUTUALIZATION IS A CRITICAL ENABLER, BUT IS THE TOUGHEST TO REALIZE

"Mutualization" standardizes and shares across networks operational functions such as marketing, IT and commercial management, which previously existed in multiple but independent forms across the organization. Mutualization thus eliminates duplication and creates efficiencies to drive business performance and enable innovation.

As we noted in Chapter 3, many insurers have supplemented their networks and channels through acquisitions, evolving e.g., from a mono-network distribution model with a pure intermediary focus to a multi-network distribution model targeting both intermediaries and direct distribution. Not surprisingly, then, the propagation of new physical and non-physical networks, often with separate systems and processes, has created significant integration opportunities and challenges for insurers.

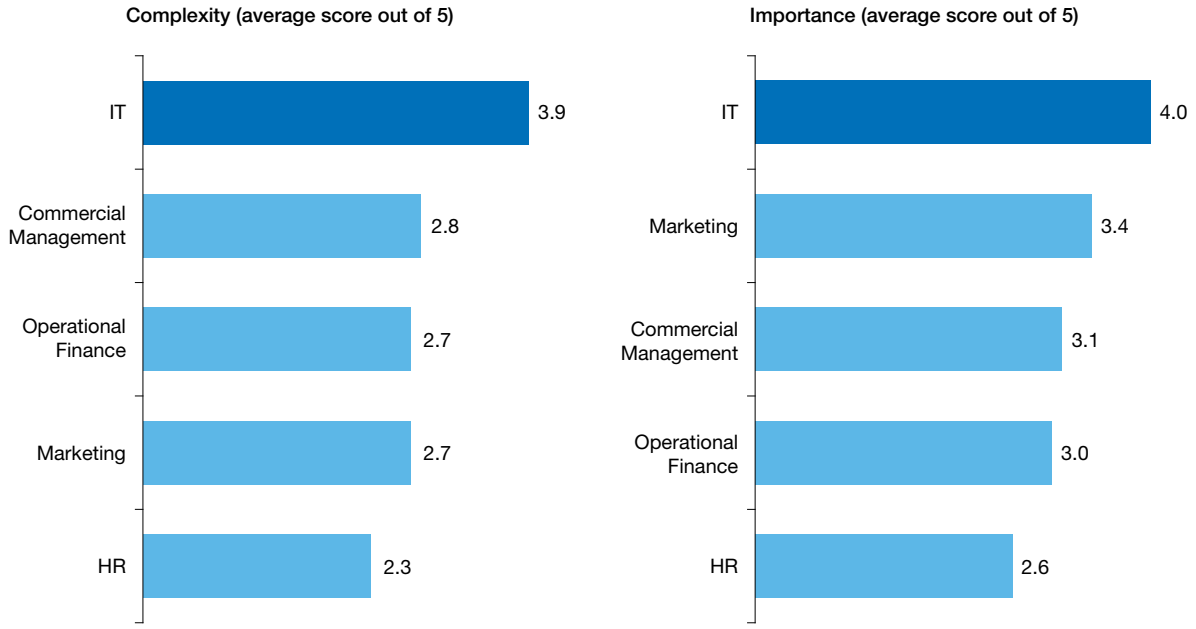
In particular, our research shows, mutualization of IT holds enormous promise for multi-distributors—especially those that have grown through multiple mergers and acquisitions—but it is also the most complex distribution-related function to mutualize (see Figure 4.2).

One leading Swiss insurer told us its multi-distribution strategy was delayed significantly by problems it encountered when trying to migrate its life insurance business onto a single distribution platform from multiple legacy policy administration systems. This example illustrates a common challenge for insurers: how to grapple with the limitations of legacy IT distribution systems and inflexible business processes, while trying to meet the increasing demands placed on them. Furthermore, it reinforces the need for an open architecture and agile IT system to support a multi-distribution model.

Many insurers also pursue IT mutualization as a discrete strategy in the on-going pursuit of a more integrated and industrialized business. For example, one leading Norwegian insurer we interviewed was faced with multiple systems across its distribution networks (e.g., tied agent, brokers, direct network), so implemented a major transformation program to move all policies to a single platform. Other support functions, such as marketing, finance and HR were also centralized to shift the organization from a federated business model to a divisional one.

Notably, our research shows that implementing a multi-distribution strategy does not necessarily mean replacing separate systems with a single distribution system that is adopted by all networks and support functions. The ultimate goal is to generate a seamless flow of information between the insurer and its distribution networks, but there is more than one way to integrate an organization's many separate systems.

Figure 4.2 Insurers See IT as the Most Important Aspect of Mutualization for Furthering Multi-distribution, but Concede it is also the Most Complex



Note: Scale 1 = low and 5 = High
Source: Capgemini analysis, 2009

CASE STUDY

KBC Bank & Verzekering: Mutualization of Internal Functions Delivers Organizational Alignment and Creates a Platform for Growth

In 1998, three major Belgian financial institutions merged their banking and insurance operations to form KBC Group. The new company had a legacy as a strong player in the Belgian small- and medium-sized corporate banking and private insurance market. The main aim of the merger was to increase the group's overall revenues and market share, and lower its cost base by utilizing the complementary strengths of the bank and insurer to propel KBC Group's multi-distribution strategy.

The merger allowed KBC to act as a single company, with the merged bank and insurance operations operating under unified governance—with reorganized and shared ("mutualized") operational functions, including finance, marketing and HR, supporting the distribution function. KBC also focused on aligning internal communications and training to help foster a common culture.

Mutualizing the IT function was an essential pillar of the bank-insurance integration. KBC conducted a comprehensive and structured post-merger due diligence process for IT, aiming to leverage collaboration between the bank and insurance teams to choose IT investments that could be shared on one common IT platform.

This collaborative approach led, for example, to the joint decision to create a unified customer database—a tool that was seen as a key success factor for the project. Furthermore, in instances where one or the other team's IT system or software was not mutually acceptable or optimal, the teams made joint decisions about which systems and software to adopt.

Bancassurance has been, and continues to be, the focus of KBC's distribution strategy, since KBC considers the collaboration between banking and agent network to be vital to the Group's long-term success.

By creating a strong vision and ensuring clear top-down management communication, KBC Group has integrated its IT systems and organization to deliver what it considers to be competitive advantage on multi-distribution. This advantage is evidenced by products and marketing strategies that are dynamic and flexible, and result in better, faster servicing of customers, and a more consistent customer experience due to the sharing of data among networks.

As a result, KBC has been able to sustain its market share and rankings in saturated markets, and cost efficiencies have been captured from all regions. KBC has also rolled this approach out successfully to other regions, such as Poland, where it has been able to retain its brand power, and increase the rate of customer acquisition.

CENTRALIZED INTELLIGENCE CAN UNLOCK THE POTENTIAL OF MULTI-NETWORK DISTRIBUTION

Insurers that have implemented high-performing multi-distribution models are more likely to score well on centralized intelligence. These insurers understand the importance of harnessing their information assets from across the organization to enhance customer understanding and develop effective segmentation approaches, tailor product and pricing strategies, and align distribution networks.

As insurers seek to shift their focus from cost efficiency to innovation and business optimization, we see clear evidence that many look to exploit their information assets. However, the low scores for centralized intelligence overall suggest many insurers can still execute on this count more fully and effectively.

In a recent Capgemini survey[12], more than 80% of senior executives acknowledged that information exploitation was a critical driver of business performance and was seen as an organizational priority. Our research shows leading insurers are addressing three key areas to develop effective centralized intelligence strategies:

- Performance Management—developing the frameworks and tools needed to define, establish, cascade, monitor and refine key performance measures.
- Information Sharing—aggregating and sharing information across the organization, including distributors, to support business goals.
- Single View—establishing processes to create a single view of information from across the organization related to a specific entity (e.g., customer, product or network).

However, our research also identified common barriers to centralized intelligence, including information systems, information quality, policies and procedures, and organizational culture. Quite often, the networks themselves are reluctant to share information. This makes it essential for insurers to demonstrate the value of information-sharing to distributors, which typically enjoy the greatest proximity and intimacy with customers.

Our research also shows insurers that achieve high scores for centralized intelligence do so because they are taking a more assertive approach to developing and applying those capabilities. For example, these insurers are using sophisticated customer segmentation strategies, based on behavioral profiling in some cases, to differentiate their distribution networks to target distinct segments and needs[13].

Also, leading insurers are increasingly looking to increase the cost efficiency of their networks and optimize customer profitability by positioning and equipping networks to fulfill different activities across the customer life cycle. For instance, physical networks are being used to service more complex products and customer requirements, while non-physical networks cater to those who prefer self-service.

Importantly, sophisticated customer intelligence capabilities can also enable insurers to determine the right access-point mix for their customer base. For example, one European insurer we interviewed uses shared information on sales costs per network to position tied-agent, broker and Internet networks to serve different customer segments.

Similarly, one European non-life insurer we spoke with differentiates the level of service available to its customers based on their lifetime value, as part of a broader strategy to increase customer share-of-wallet. It developed a new service center to cater to lower-value customers, freeing up tied agents to increase their frequency of contact with higher-value customers. This initiative reduced the average number of high-value clients served by one agent from 1,400 to 450.

Overall, the low scores achieved on centralized intelligence offer a clear indication that most insurers still have room to exploit the value of their customer information more fully to improve business performance, and potentially generate competitive advantage.

[12] The Information Opportunity Report (Capgemini, 2008).

[13] The World Insurance Report 2008 identified four distinct customer segments: *Traditionalists, Opportunists, Indifferent and Average Users*, and discusses how each segment has different purchasing behaviors and preferences in terms of network usage.

CASE STUDY

Genertel (Generali Group): Multi-Network Strategy, Driven by Customer Intelligence

Genertel is a leading direct insurer in the Italian market. Launched in 1994, Genertel was the first Italian insurer to operate directly through a call center, initially offering only motor insurance; it quickly developed a reputation for customer loyalty and innovation.

With the emergence of new competitors and new distribution networks, Genertel has evolved from a mono-channel insurer offering only motor insurance, into a multi-network, multi-product insurer, offering both life and non-life products. At the center of this strategy has been the ongoing drive to innovate in order to meet the changing expectations of its customers.

This focus has enabled Genertel to grow at almost double the rate of other Italian insurance providers. The alignment of its operating model and focus on operational efficiency has delivered a combined operating ratio that is almost 10% lower than traditional providers.

At the core of Genertel's multi-distribution strategy has been its use of customer intelligence to transform and align its business model to meet the needs of its customers continually. Genertel recognized that its customers were demanding greater product choice and higher levels of service and wanted greater choice of interaction points with their insurance provider. Genertel responded by expanding its offering from motor insurance into new product categories, first non-life and now life products through a multi-network distribution model.

Genertel's approach is underpinned by its multi-distribution platform, which supports its three main distribution networks: call center, Internet, bank branches, as well as emerging networks such as supermarkets and other alternative networks. Customer information is stored centrally and can be accessed in real time across networks. This standardized approach supports effective network cooperation, allowing customers to move among channels—call center, Internet and branch network—at any time and at any stage of the product life cycle.

A flexible rules-driven customer intelligence database ensures that new customers are offered the right product across each distribution network according to Genertel's customer-segmentation strategy. This centralized approach ensures that customer intelligence is maintained at the heart of the organization and is accessible to each distribution network. This information is also used across the organization to align product development and pricing with Genertel's customer-segmentation strategy.

Meeting Customer Needs through a Differentiated Approach to Service

Genertel's integrated model has provided the flexibility the insurer needs to position its networks to meet the different needs of its customers. The Internet is positioned as a self-service tool, offering a wide range of functionality across the product life cycle; while the bancassurance network and call center are positioned to support more complex service requests. This approach was seen as critical by Genertel in balancing efficiency and effectiveness in meeting customer service expectations.

Key to Genertel's integrated distribution model and service delivery has been its emphasis on efficient and standardized processes in the front and back office. Significantly, this has enabled Genertel to compete on both price and service quality. Genertel's multi-network model, combined with the application of customer intelligence throughout the organization and a focus on service excellence and process efficiency has enabled Genertel to grow faster than the market and its competitors, and achieve higher levels of customer satisfaction and loyalty.

ADDRESSING CUSTOMER OWNERSHIP ACROSS DISTRIBUTION NETWORKS IS A PRIORITY

Nearly 50% of insurers we interviewed identified customer ownership as the main obstacle to effective cooperation among networks. Insurers that have established cross-network cooperation have done so in part by successfully addressing the issue of customer ownership within their organization. Issues of customer ownership are especially likely to become a management priority for the many insurers that have developed from a series of relatively independent distribution networks (with separate objectives, target customers and product offerings) into distribution models designed to facilitate greater cooperation.

Certainly, we found distributor resistance to multi-distribution is fueled by fears of financial loss and concerns relating to the ownership status between the network and customer will change. Those insurers that have managed to establish cross-network cooperation have done so in part because they have established clear principles, often aligned with incentive strategies that ensure transparency and clarity across each network.

Our research revealed insurers are employing a range of incentive and remuneration strategies to facilitate network cooperation—sometimes reinforced with penalties for failing to comply. For instance, one Norwegian insurer we interviewed has achieved strong cross-network cooperation in part by penalizing networks that fail to cooperate appropriately. The penalties include lost access to existing clients and portfolios and to new-client opportunities. The insurer maintains that a tied agent must earn the right to keep a customer portfolio, and will lose that right if he fails to deliver on his network obligations.

Still, positive incentives are a more common approach to encouraging network cooperation. Insurers are using many tools, including rewarding performance based on key indicators, setting commission structures based on customer types, and offering one-time fixed payments and non-monetary rewards. These approaches can be used on an ad hoc basis, or aligned more thoroughly with the strategic objectives of the insurer.

One Polish life insurer we interviewed employed incentives to motivate agents who feared they would lose customer ownership and business under a multi-network model. The insurer offered a fixed payment to any agent that redirected customers who could be better served through the call center. In Italy, a bank-owned insurer we interviewed has taken a strategic approach by combining KPIs with short-term commissions as part of its strategy to ensure cross-network cooperation.

Ensuring clarity and consistency of customer ownership is a key enabler of effective network cooperation, so insurers will need to seek to align long-term objectives with suitable incentive structures, underpinned by clear operating principles. Our analysis shows those insurers that have adopted clear and well-communicated incentive structures score well on multi-distribution maturity, and demonstrate industry-leading cross-network cooperation capabilities.

In short, while tactical initiatives are beneficial in the short term, a more strategic approach, which is embedded into the organization's goals and ultimately its culture, will yield sustainable benefits for multi-network cooperation.

SEVERAL COOPERATION APPROACHES ARE EMERGING

To increase their customer wallet share, especially in markets where customers have high levels of equipment (typically buying multiple policies from multiple providers), insurers know they need to enable cross-network cooperation across the full range of insurance activities (informing, sales and service).

However, our research shows insurers cannot thrive by simply increasing the number of networks under their umbrella. Insurers also need to facilitate effective cooperation among networks so customers can be driven to a given network when buying a certain product or when seeking specialist advice.

Cross-network cooperation is clearly still in its very early stages (see Chapter 3), but enough insurers have made some progress for us to assess a few of the different cooperation approaches already being used.

CASE STUDY

If Insurance: A Cooperative Network Provides a Model for Growth

If P&C Insurance is a fully owned subsidiary of Sampo plc, and is a leading insurer in the Nordic and Baltic countries. It grew out of the insurance businesses of Norway's Storebrand and Sweden's Skandia in 1999. Sampo P&C's operations were integrated with those of If in early-2002. Following the merger, If's priority was to align key processes and share best practices across the distribution networks of its Nordic operations.

Having achieved this objective the focus was moved to developing a flexible distribution model that could adapt to local market conditions while retaining support functions such as product development and marketing at a Nordic level. When If moved into the new model it followed the same process in all markets supported by a matrix management and support structure to ensure successful skills transfer.

This approach has proved effective in establishing cooperation among the networks across the Nordic markets and in creating a culture that embraces re-using leading practices from across the organization. Cooperation among countries has been supported by the development of formal and informal forums, which include stakeholders from all levels across the organization.

If distributes insurance products through the contact center, franchise and local branch office center, multi-tied agents, Internet, tied agents, bank branches and alternative networks, such as motor retailers, and has positioned each network to target a different customer segment. A key success factor in If's multi-distribution strategy has been the way it has been able to use the complementary strengths of each distribution network to support its overall distribution objectives.

Each distribution network and channel has a clearly defined role during the customer life cycle. As the customer relationship develops over time, the responsibility for managing the relationship is moved between distribution networks and the customer proposition is tailored for each customer segment.

Central to the coordination and maximization of customer communication has been the development of a sophisticated contact-center model, which provides agents with the information and tools they need to develop and tailor solutions. Both technical solutions and culture-building have been central in creating an environment that rewards and encourages cooperation between distribution networks and channels.

If has been able to adopt leading multi-distribution practices, and align its organization to focus on network differentiation and network cooperation to develop innovative products and services for its customers. This enables If to maximize the value of each customer interaction.

If's move to a more integrated business model, with the centralization of support functions, a segmented approach to distribution and a greater focus on developing deeper customer relationships, has enabled the company to develop long-term customer relationships and deliver strong bottom-line performance.

In fact, our research reveals five distinct forms of cooperation currently being used by insurers (see Figure 4.3 for detail).

Most existing cases of cross-network cooperation take one of the first four forms—*Complementary, Collaborative, Gatekeeper or Trusted Advisor*—suggesting insurers are able to use relatively simple models to achieve their early multi-distribution goals. Whereas, the more informal nature of Entrepreneurial cooperation means that it is likely to exist without any direct involvement by the insurer.

The Complementary and Collaborative approaches strike the most effective balance between ease-of-implementation and value generation for the insurer and distributor, and offer the greatest potential for scalability. Furthermore, these approaches represent a more natural progression from existing network set-ups, and conflicts are potentially lower if key issues like customer ownership are clearly addressed.

The Gatekeeper and Trusted Advisor models are more situation-specific, and do not necessarily drive greater maturity in network cooperation as a whole.

Notably, our research suggests that insurers wishing to develop cross-network cooperation benefit by starting with simple and scalable cooperation approaches, combined with strong communication and incentive structures (also see Chapter 5). The right approach will depend on a range of factors, many of which will be specific to the insurer's market context. Importantly, insurers should not be afraid to test multiple approaches until they identify the optimum solution.

Figure 4.3 Network Cooperation Approaches

Type of Cooperation	Characteristics	Assessment
1. Complementary	▪ Typically direct physical networks, (e.g., call center or Internet) and physical networks, (e.g., tied agents) sharing sales opportunities and customer service activities, where one network is better equipped to service the customer. ▪ The process will often be implemented and managed through agreed principles or contracts among networks and other stakeholders.	↑ Scalable approach with which to demonstrate the upside for distributors that cooperate. ↑ Opportunities to increase share of customer wallet. ↓ Implementation of formal contracts can become complex and may prohibit effective cooperation. ↓ Customer ownership needs to be clear and transparent.
2. Collaborative	▪ Cooperation on selling activities between physical networks with a strong product specialization, for instance non-life tied agents and IFA networks.	↑ Provides clear synergies for bank-owned insurers to increase customer share of wallet. ↑ Product specialization removes potential for conflict. ↓ Traditional networks may be more resistant and need to be convinced of the value to their business.
3. Gatekeeper	▪ Where a tied agent functions as a "clearing house", directing customers to the most appropriate network. ▪ This approach is supported through the cooperation of other local networks.	↑ Customer ownership challenges can be addressed and mitigated through incentive structures. ↓ Cooperation is one-way and the potential for scalability is limited.
4. Trusted Advisor	▪ External networks that are empowered to work closely with customers on the "inform" stage, but pass customers to the most appropriate network.	↑ Network is able to develop strong customer intimacy and customer loyalty. ↓ Typically situation-specific and requires significant amount of time to establish customer relationships. ↓ Regulatory environment may not allow this approach.
5. Entrepreneurial	▪ Informal cooperation between networks, often brokers and multi-tied agents, who are looking to maximize revenue-generating opportunities. ▪ No incentive or remuneration provided by the insurer.	↑ Specific distributors already recognize the benefits of network cooperation. ↓ No consistent benefits to the insurer.

Source: Capgemini analysis, 2009

AN ALIGNED LEADERSHIP AND ORGANIZATION LIE AT THE HEART OF A MATURE MULTI-DISTRIBUTOR

Many of the insurers that score well on network cooperation have adapted their organizational models and leadership structures to execute their strategies more effectively. This ensures greater alignment with the overall distribution objectives, and helps to overcome internal barriers associated with network cooperation.

In our experience, the move to a multi-distribution model typically involves a change in the way organizations approach leadership. Many insurers choose to simplify the leadership structure, appointing a single individual who is responsible for all distribution networks. However, several executives told us multi-distribution had required a series of periodic restructurings, suggesting it can be a complicated process to define and set up the right structure. We also observed that many leading insurers pilot several organizational structures in order to progressively acquire experience as they move to the right model.

In fact, seeing as other functions, such as Product Development and Pricing, Strategic Marketing and Customer Service, also need to be adapted to a multi-distribution environment, it seems the organizational shift to multiple networks is unlikely to be minor, and can amount to a major transformation.

A Nordic insurer that we interviewed has taken several years to adapt its organizational structure slowly. A new management model was established to move the organization from a federated structure to a divisional model, with greater control at the center of the organization. This insurer asserted the move was essential to change the organizational culture and create a more integrated business.

Notably, other organizations told us that failing to adapt their organizational and/or leadership structures has been a major obstacle to developing a mature multi-distribution model. For instance, one mature European life insurer reported to us that its siloed distribution model produced behaviors that undermined cooperation.

Of insurers that told us the path to multi-distribution had not been entirely smooth, several cited a lack of senior-management involvement and buy-in as a factor. By contrast, some insurers were quick to recount the positive contribution of management. In one case, the Polish operation of one major global insurer told us management had been critical in minimizing conflicts between networks.

In short, our research shows successful multi-distributing insurers have leaders who understand which capabilities need to be developed, the levers to pull, and the correct time to do so, in order to create the right environment for developing and implementing an effective multi-distribution model.

CONCLUSION

Throughout this report, we have emphasized how insurers can respond effectively to the rapidly changing insurance market by adopting new thinking about distribution and developing new capabilities. Our research shows many leading insurers are already becoming more flexible and innovative and are positioning themselves to take advantage of market opportunities. Providers that fail to respond will increasingly be at a competitive disadvantage, putting their long-term future in doubt.

Next Steps:

Transforming the Business

CHAPTER 5 | HIGHLIGHTS

This report has described how the success of a multi-distribution model hinges on a wide and complex mix of operational and cultural factors. As we have highlighted, insurers have made significant progress—sometimes even more significant than many imagine—but the process is undeniably one of transformation for their entire organization.

A series of immediate action steps form the logical components of this transformation. These require insurers to:

1. Start with the Customer
2. Follow with the Network
3. Rethink Organizational Design and Leadership
4. Embrace Technology
5. Test and Learn with Cooperation Pilots
6. Monitor the Value of the Overall Business
7. Manage the Power of Information

1. Start with the Customer. The customer has been at the heart of the insurance market's evolution for the last 15 years, so any new change in strategy should ideally start with the customer. Insurers that excel at responding to future customer needs, and successfully align their distribution strategy accordingly stand to gain competitive advantage over their peers.

To succeed, insurers need appropriate tools and methods to improve customer intelligence. Chapters 2 and 3 talked about intelligence as a critical enabler of multi-distribution, and note that acquiring this capability may not be as costly or time-consuming as many imagine. It is not without challenges, though. Among the requirements:

- Customer databases and knowledge tools should be standardized and shared across the organization, including any existing and new distributors in the network mix. The integrated information that results must flow back to distributors so they can better serve their customers.
- Behavioral customer segmentation is needed to make sure customers are seen for how they behave, as well as who they are[14]—which is an approach rarely taken by insurers. However, this requires insurers to have an accurate assessment of their accessible market.

2. Follow with the Network. To align service to customer needs effectively, insurers will also need to segment their networks. This segmentation should be cross-referenced with intelligence on customers to determine the best network/customer fit to optimize the insurer's economic model and meet revenue, customer value, and cost-efficiency goals.

The network segmentation will also determine which are the best candidates for multi-specialization, cross-network cooperation or other approaches to optimize top-line growth. Significant work on the networks' focus may then be needed.

Network Focus
Distribution networks have naturally evolved toward specialization, largely to meet the demands of customers (Chapter 2). However, in our experience, only a minority of networks set their own core specialty efficiently. The majority has drifted into an imprecise position in which they perceive themselves as multi-specialists but are not effective in practice. For example, a tied agent specializing in property and casualty insurance sells life insurance products with P&C-skilled customer-facing resources, but does not do it well enough to be a successful multi-specialist.

Insurers therefore need to verify the strengths of their networks, and re-focus the core business if necessary. Insurers should also consider developing operating principles for multi-specialization, ensuring distributors commit to and invest in an expansion of capabilities where appropriate (e.g., getting that tied agent to hire a resource solely specialized in pensions). If distributors lack the resources for this kind of commitment, insurers can position network cooperation as their virtual access to multi-specialization.

3. Rethink Organizational Design and Leadership. Insurance companies need to anticipate the impact of multi-distribution on organizational structure. As we detailed in Chapter 4, this involves adapting people and processes literally and culturally. That type of shift cannot be achieved without executive leadership and mobilization at each level of the organization. Insurers will likely need a leader to oversee the entire distribution mechanism—someone who can be a strong advocate of multi-distribution as a key enabler of competitive advantage in today's mature markets, and be willing and able to facilitate the spread of that message throughout the organization. In each of the distribution networks, management will need a clear vision of the design and objectives of multi-distribution, coupled with a deep knowledge of the role its network will play, based on its distinctive capabilities.

4. Embrace Technology. Technology plays an enormous role in driving the maturation of multi-distribution by facilitating the increasingly complex linkage among all the entities in the model and enabling and securing the flow of information. We discovered many insurers appreciate the value of standardizing and sharing systems across their networks (Chapter 3), and have actively pursued IT mutualization in particular. However, many have yet to tap the full potential of technology as an enabler of multi-distribution, because they are still relying on legacy systems or are struggling to make the best use of newer investments in IT.

[14] For more information, see World Insurance Report 2008, Chapter 2.

Three IT opportunity levers[15] are essential to the optimization of an efficient multi-distribution model:

- *Enterprise data warehouses, analytics, and customer intelligence* together form the basis of an insurer's Business Intelligence (BI) systems. If managed properly, they can enhance customer knowledge, and hone behavioral-driven customer segmentation, as well as driving and supporting corporate performance management, real-time business decision-making, and helping to address compliance requirements (e.g., Solvency II).
- *Next-generation customer relationship management (CRM)* tools can help insurers and networks to be credible, competent, full-service players. A collaborative-network approach can only be truly achieved when distribution networks can operate effectively in their own areas of strength—and allow others to do the same. Next-generation CRM tools can enable distributors to manage customers under a global, enterprise-wide umbrella (providing opportunity for efficient cross-selling and up-selling), and help each network to develop a more honed value proposition. For example, if a physical distribution network intends to add value by offering advice and expertise, best-of-breed advisor workstations will help agents to focus on client development. These workstations can include CRM functionalities, as well as financial management applications, integrated customer profiles, customized views of customer holdings and activities, real-time alerts on trigger points for cross-selling opportunities, market intelligence, and so on.
- *Technology integration and service-oriented architectures (SOAs).* Implementing a multi-network strategy will require seamless integration of disparate systems across these networks. Collaboration and the real-time flow of information between the insurer and its networks will be critical, so an open architecture will be more effective in allowing insurers to adapt and change their distribution capabilities according to market dynamics. To create a transparent, agile and competition-ready organization, insurers may need to transform toward a more "service-oriented insurance enterprise".

The move by insurers from paper-based documentation to more efficient electronic formats will also be critical in enabling the flow of information among insurers, networks and customers. As such, the implementation of standard formats for data and electronic documentation will become an increasingly important consideration for insurers in this environment.

5. Test and Learn with Cooperation Pilots. We have shown that insurers can enable cooperation by pulling certain levers (Chapter 2), and that some cooperation approaches are already working in practice (Chapter 4). But many insurers have yet to embark on multi-distribution, so where do they start?

We suggest they need to start by first recognizing that multi-distribution will be an iterative process. Piloting cooperative initiatives can help to identify the winning and losing tactics, and determine which approaches should be implemented more widely.

For example, it makes sense to begin by finding complementary networks in terms of products to widen the offering to customers and raise their level of equipment. But interviews with insurance executives show some such ventures succeed and some fail—largely because looking at product synergies alone is not enough. Rather, there are numerous criteria to consider when analyzing efficient complementarities.

The first step is to assess network synergies on customer segments. This simple step—if the right customer segmentation is in place—takes care of many network complementarities because networks positioned on similar customer clusters should share some key areas of business focus. (Lack of alignment could make the cooperation fail. For instance, distributors tend to resist cooperation when they fear that the quality of advice they provide might not be matched by the cooperating network.)

Once network synergies have been mapped to customer segments, complementarities need to be identified first on product mix, and then on additional criteria from the network segmentation, such as price, service quality.

Insurers therefore need to take a bottom-up approach when establishing cross-network cooperation; an iterative process will ultimately result in the right cooperation model. Achieving fully fledged network cooperation can take quite some time, and insurers may need to re-adapt their distribution models several times along the way.

[15] See World Insurance Report 2008 for more detail.

6. Monitor the Value of the Overall Business. As multi-distribution changes the way operational functions are set up, and as it creates additional revenue streams, insurers will need to adapt performance management processes accordingly. Specifically, insurers will need new key performance indicators (KPIs) that look beyond the traditional measures of success, such as the growth in the number of contracts and the number of policies by network.

In particular, many insurers still cannot reconcile their customer numbers across different networks—critical information for calculating customer multi-equipment across networks. Without that data, insurers cannot fully comprehend, let alone capture, the growth opportunity presented by increasing share-of-wallet.

A new set of KPIs will also be needed to monitor network performance. Consider the changes needed in revenue-growth KPIs (an example that can be extrapolated to more complex indicators like profitability and customer value).

Traditionally, distributors monitor their number of customers and contracts, and sometimes analyze customer multi-equipment. In the multi-distribution model, insurers will need to monitor a) revenues (contracts) solely generated by the distributor and b) contracts sold through cross-network cooperation.

Both dimensions are critical to economic modeling, as they are needed e.g., to measure the commercial performance of the networks and drive incentive structures.

Incentive Schemes
We know incentives can be the single strongest obstacle to network cooperation (Chapter 2), and that insurers are still struggling to find the right approach (Chapter 4). We suspect many insurers are stalling, because they are trying to integrate cooperation features into their existing commissioning mechanisms.

Admittedly, the incentive issue presents a conundrum: Cooperation has to bring benefits to the participating distributors and the insurer, preferably without diluting the distributors' commissions or the insurer's profitability. For example, if cross-network cooperation increases customer share-of-wallet, insurers do not want to pay out a higher commission on those new revenues than they would otherwise.

So, what are the insurer's options?

Some insurers have worked on two options: revamping the entire commissioning system, or creating a supplementary system for cooperative business. Fewer have tried the third, which could be an interesting prospect: finding a solution that complements existing systems but runs independently. The principles of such a system would need to include the following:

- Minimal infringement on existing commissioning systems and agreements to avoid some of the conflicts that arise from re-negotiating commission levels.
- Rewards distributed according to the performance of the overall model, rather than the individual performance of participating entities. Many firms with a partnership-like business structure use these concepts already. That kind of structure could be imitated, and would probably generate buy-in and motivate distributors to embrace the cooperation model.

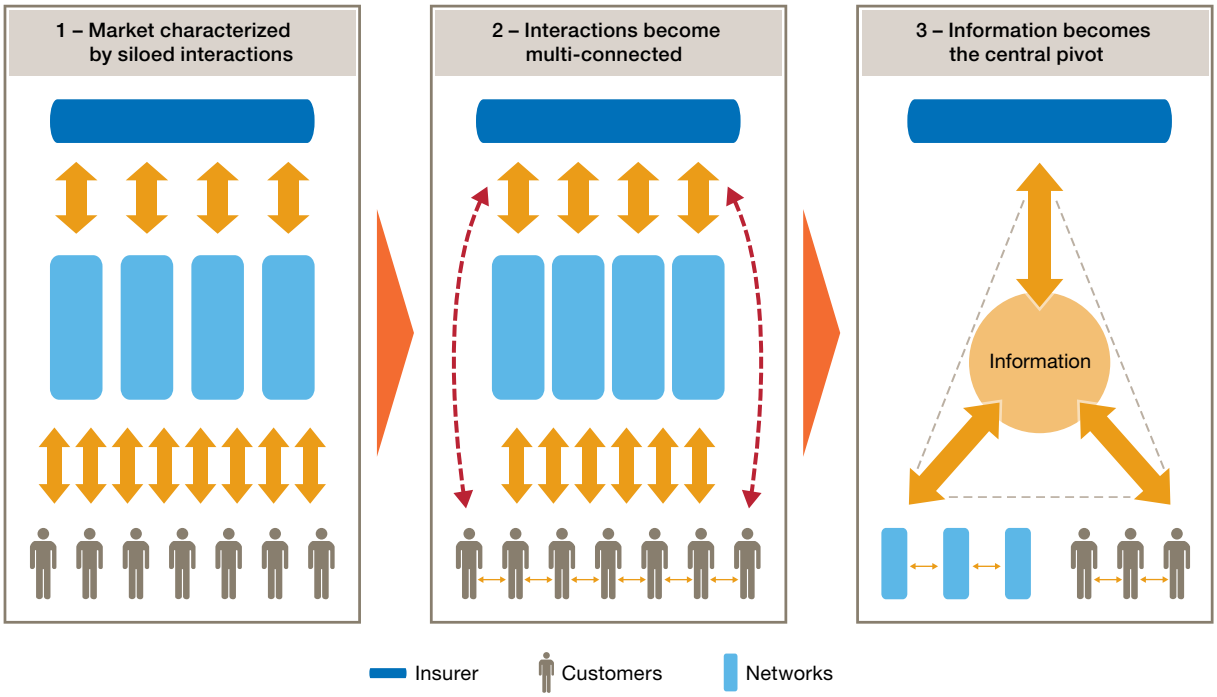
However, insurers have to be cognizant of the long-term challenges of adopting such a solution. In short, if the cooperation thrives, cooperation-based incentives could become too large a share of distributor revenues. As a result, insurers may need to modify their incentive structures as their cross-network cooperation matures. By then, distributors should recognize the value of network cooperation, but negotiating and re-negotiating incentives will nevertheless remain an ongoing issue.

7. Manage the Power of Information. In recent years, customers have used information to gain leverage in the insurance relationship, but many distributors and insurers have largely underestimated the extent to which information, and in particular its accessibility, is changing the dynamics of the market (see Figure 5.1).

Originally, interactions between insurers, distributors and customers were siloed. Distributors greatly leveraged their central position, as the flow of information had to go through them, and they retained considerable influence over the customer relationship from this position.

More recently, the rise of the Internet has allowed customers to interact and share an overwhelming amount of information, most of which had only been available to distributors previously. Insurers then began to realize their real customers were

Figure 5.1 Information Is Becoming the Single Vehicle of Bargaining Power



Source: Capgemini analysis, 2009

not the networks, but the end-customer. They also recognized they knew little about these customers, and sought to communicate with them more, and to influence their purchasing behaviors. So insurers started to acquire additional networks and sought to realize the potential of cross- and up-sell opportunities among networks—and launched their first attempts at information-sharing among distributors (but without a platform to support it).

By this time, though, customers were becoming increasingly more informed about their insurance needs and the choices available to them. And, as a result, were influencing insurers' marketing and pricing strategies, and were even able to create self-advice mechanisms through the Internet. Notably, customers were simply exploiting the capabilities provided by the Internet, but many insurers and distributors railed against the Internet as a disruptive force, and deliberately resisted its ascent.

Today, the central role of information is undeniable, although its future impact on the market is far from clear. However, given the information environment, we believe insurers will need to develop processes that facilitate the flow of information throughout their organization, and seek to invest in capabilities that generate value for the customer from information.

CLOSING REMARK

The development of multi-distribution generates far more interactions than previously occurred among and within insurers, distributors and customers. This evolution is taking insurance distribution from a linear model to a more matrixed one. As a result, most insurance firms are somewhere in the process of undertaking or implementing a fundamental transformation in their overall business model.

Admittedly, an effective multi-distribution model is challenging to implement, especially because its various facets—in particular cross-network cooperation—can be tough to initiate. But once the operating principles of multi-distribution are established and functioning, a virtuous circle is likely to ensue. However, to reach this stage, insurers will likely need to invest in the seven initiatives we highlight in Chapter 5, and finely balance their implementation.

Methodology

SCOPE AND RESEARCH SOURCES

The 2009 World Insurance Report (WIR) covers the retail insurance market, including both non-life (including health) and life segments.

This year's report expands the number of countries researched from 10 in the WIR 2008 to 17 (Australia, Austria, Belgium, Denmark, France, Germany, India, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Spain, Switzerland, U.K. and U.S.).

The report is based on a comprehensive body of research that includes an extensive survey of insurance distributors and in-depth focus interviews with insurance executives. In addition, the report draws on a large customer survey conducted for the WIR 2008.

KEY DEFINITIONS AND TERMINOLOGY

- **Networks vs. channels:** When we refer to "networks", we mean the intermediaries that distribute insurance products, as opposed to "channels", which are the methods or tools through which the customer interacts with the network to purchase and manage their insurance. For example, tied agents together form a distribution network that can use multiple channels to reach customers (such as point-of-sale, telephone, Internet). The Internet can be a distinct network, or a channel used by networks, but we primarily refer to the Internet as a network. In this report, the terms "network" and "distributor" can be used inter-changeably, as can the terms "channel" and "access point".
- **Types of networks:**
  - **Tied agents** only offer the insurance products of one company—the insurer to which they are "tied".
  - **Multi-tied agents / brokers / independent financial advisors (IFAs)** offer insurance products from multiple companies. Multi-tied agents recommend the products of a limited selection of providers, rather than just one. IFAs and brokers offer financial advice to their clients, and recommend the most suitable products on the market.
  - **Direct:** Any distribution network where insurance is sold directly by the underwriter, without the intervention of an intermediary. An example would be an insurance company that has traditionally owned its points-of-sale or an underwriter that distributes its own products through its website or call center.

    There can be four types of direct networks: a branch network (or any type of physical offices), mobile salaried sales forces, Internet, and call centers.
  - **Banks:** The distribution of insurance products by a bank.
  - **Alternative networks:** The distribution of insurance products by retailers for which insurance is not the core business (e.g., supermarkets or auto retailers.)
- **Types of channels:** There are four ways in which a company can interact with its customers: branch (or other type of physical point-of-sale), mobile (door-to-door), Internet and telephone.

- **Multi-distribution:** The distribution of insurance products through multiple networks. Multi-distribution enables the insurer to expand its pool of potential customers by appealing to a greater number of segments and catering to a wider range of needs.
- **Multi-specialization:** Refers to a distributor that has acquired an additional 'specialty'. For example, a general agent can hire a pension specialist to sell pension products to their customer portfolio. The distributor would then become a multi-specialist.
- **Multi-equipment:** Where a customer holds multiple insurance policies from a single insurance provider.

EXECUTIVE INTERVIEWS

We conducted 59 interviews across 16 countries with senior insurance executives (Australia, Austria, Belgium, Denmark, France, Germany, India, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Switzerland, U.K. and the U.S). This sample covers 7 out of the world's top 10 insurance markets in terms of premiums. Of the total, 63% sell both life and non-life insurance, 22% focus solely on life, and 15% are dedicated to non-life. Among the total: insurers have between 1 and 7 networks; 59% employ a mix of direct and indirect networks; 37% sell exclusively through indirect networks; only 4% are fully direct insurers.

CAPGEMINI'S PROPRIETARY MULTI-DISTRIBUTION MATURITY ASSESSMENT MODEL

To analyze the findings of the executive interviews, we used a proprietary model to assess the multi-distribution maturity of insurers. The model is based around five distribution maturity stages: multi-network capabilities, multi-access point capabilities, mutualization of functions, centralized intelligence, and cross-network cooperation (see Chapter 3, Figures 3.1 and 3.2). The model employs a scoring system out of a total of 100 points, weighting each stage differently. A variety of parameters were used for each stage, allowing us to generate a score for each separate stage, and calculate an overall maturity score for multi-distribution.

ANALYSES PERFORMED

We analyzed the current state of maturity at each stage, both on an aggregate level and on a country level, as well as by network type and product type. We then analyzed the progression of insurers through the multi-distribution stages—in particular to determine whether they had addressed the different maturity stages sequentially or in parallel.

Our analysis was most focused on those insurers deemed to be 'true' multi-distributors, i.e., generating meaningful revenues from two or more networks. For example, our classification excludes companies that are generating the majority of their revenues from one network and marginal revenues from another. Of insurers interviewed (i.e., the basis of our analysis), 65% (35 companies) qualified as true multi-distributors.

DISTRIBUTOR SURVEYS

2,250 telephone interviews were conducted with insurance distributors in 15 countries (Austria, Belgium, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Spain, Switzerland, UK and the US). A total of 150 interviews were conducted in each country.

The following network types were included in the survey: tied agents; multi-tied agents, brokers and IFAs; branch-based direct distributors; mobile/door-to-door direct distributors. For each country, we calculated sample quotas based on the market share of each network and the market share of each of the top five life and non-life insurers within each network.

The Distributor Survey comprised 39 detailed questions, which generated data on 186 different variables, which together captured detailed information on the following topics:

- **Distributor Profiles**—including network type, number of employees, number of retail customers, customer retention, average length of contract, business focus and products offered.
- **Description and Perception of Retail Customers**—including breakdown of customers by age, revenue and behavioral profile, insurance purchasing criteria, perceptions of why customers use physical channels and the Internet.
- **Multi-Distribution Assessment**—including a breakdown of time spent informing, selling and servicing, activities performed across different channels, use of customer intelligence tools and methods, and cooperation with other networks.
- **Perceived Benefits and Challenges of Multi-Distribution**—including perceived benefits of selling through multiple access points, sharing operational functions with other distributors, using customer intelligence tools and network cooperation.

MULTI-DISTRIBUTION MATURITY SCORE

A Multi-Distribution Maturity score was calculated for each distributor based on the answers given to a series of questions in the survey. A weighted score was given to each response, with a maximum available score of 30. Respondents that scored 0-9 were classified as Immature, 10-19 as Average Maturity, 20 and above as Mature.

ADVANCED STATISTICAL ANALYSIS—BAYESIAN NETWORKS

For the findings in Chapter 2, we applied Bayesian Networks analysis, which allows multiple variables to be analyzed to determine their probabilistic independencies. These dependencies can be estimated by using known statistical and computational methods.

Bayesian Networks allow us to answer questions like: "Which factors—out of a large given set of variables—can influence networks' perceptions of multi-distribution?" and "What is the strongest cumulative combination of variables in driving distributor behavior?"

Probabilistic models can then be created to study a variety of scenarios. For instance, we used a method called "maximization of probability" to see what would happen (e.g., to what degree any of our four segments would increase or decrease) if a specific score was given to a specific variable by all respondents.

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Efma promotes innovation in retail finance in Europe by fostering debate and discussion among the main players involved in change. Formed in 1971, Efma comprises 2,450 different brands in financial services worldwide today, including 80% of the largest European banking groups.

Through regular events, publications, and its comprehensive website, the association provides retail financial service professionals with answers to their questions about the main issues at stake in their business: multiple distribution strategies, customer approach, CRM, product and service marketing and improving profitability.

Efma is above all a dynamic association, providing a great opportunity for discussion and exchanges without any commercial constraints. It provides its members with a wide range of exclusive services as well as discount rates on non-gratuitous activities. The loyalty of its embers as well as their permanent financial support are the best proof of its efficiency.

For more information, **www.efma.com**

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Santalucía Seguros
SBI Life Insurance Company
Skandia
Swiss Life
UBI Assicurazioni
Warta

For more information, please contact:

Capgemini
insurance@capgemini.com

EFMA
patrick@efma.com

For press inquiries, please contact:

Europe and Rest of World
Emma Hedges at ehedges@webershandwick.com or +44 (0) 207 067 0512
Marion Lecorbeiller at marion.lecorbeiller@capgemini.com or +33 6 12 73 03 44

North America
Naomi Adams at naomi.adams@cohnwolfe.com or +1 312 596 3332
Karen Cohen at karen.cohen@capgemini.com or +1 516 607 9652

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