EXCERPT FROM THE WORLD INSURANCE REPORT 2009 KEY FINDINGS

WORLD INSURANCE REPORT 2009

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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.

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