Trends in Insurance Channels

Key emerging business and technology trends across channels to better reach your insurance customers and improve operational performance

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Contents

1 Highlights

Over the last few decades, continued environmental, operational, and technological changes have led to the development of multiple distribution channels in the insurance industry. Insurers no longer rely solely on traditional channels such as agents and brokers, but have developed new alternate channels to drive growth at lower costs.

As competition in insurance markets is intensifying, cost savings and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. These factors are leading to the emergence of additional channels such as call centers, mobile, and web.

Changes in customer behavior and preferences around products, distribution channels, and processes are also acting as catalysts for the development of alternative channels. For example, insurers are now partnering with banks and affinity groups to help drive policy sales. While these trends began in the more mature insurance markets, developing markets have been following suit.

With advancements in technology, insurers have started exploring ways to develop newer distribution channels in the online space. As customers continue to integrate the use of the internet in their daily lives, this has become an attractive medium through which firms can advertise and distribute insurance products. We are already witnessing a gradual change in the buying habits of customers as they make use of the internet in the decision making and product buying process.

Insurance companies are also effectively using technology to better meet customer demands by better integrating technology with the whole policy sales cycle. They are focusing on speeding up the complete insurance distribution process while also identifying processes that can be automated—improving efficiency and profitability. These initiatives are enabling insurance firms to scale up their business models by strengthening their internal processes with a goal of better customer service.

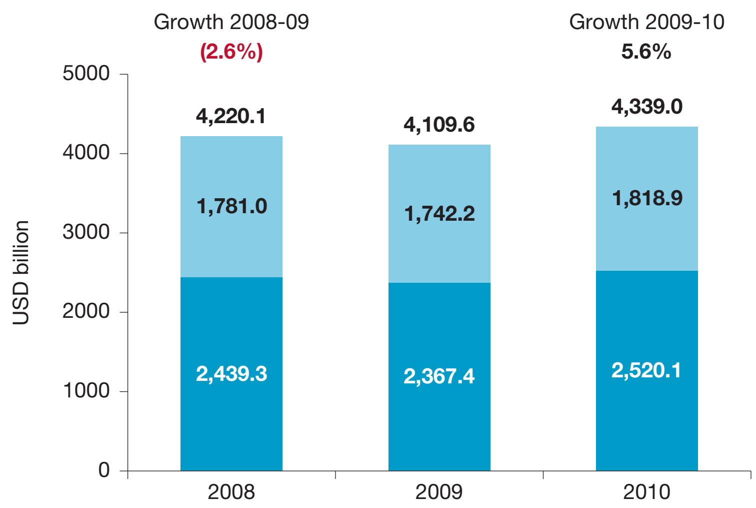
2 Introduction

In 2010, the premium volume of the global insurance industry returned to positive growth after two years of decline during the financial crisis.

2.1. Financial Performance and Background

Global insurance industry premium volume returned to positive growth in 2010, after declining for two years during the financial crisis. Total premium volume rose to US$4.3 trillion in 2010, a growth of 5.6% over 2009. The rise in premium volume was aided by the overall improvement in the global economy in 2010, with growth witnessed across both life and non-life insurance. While the growth has been higher in Asian and other emerging markets, it was relatively lower in the U.S. and Western European markets. However, the insurance industry once again faced difficult market conditions in 2011 and this trend has continued in 2012, as global financial markets have turned volatile and the future macroeconomic scenario looks uncertain.

Exhibit 1: Global Life and Non-Life Insurance Premium Volumes (USD bn), 2008-2010



Source: Capgemini Analysis, 2012; World Insurance in 2009, 2010, Swiss Re

2.2. Key Developments across Insurance Channels

Insurers today leverage multiple distribution channels to reach and engage with their customers. While insurers have traditionally sold insurance products through brokers and agents—company-employed as well as independent—other distribution channels such as call centers, bancassurance, internet, and mobile have been rapidly gaining momentum.

Insurers are leveraging multiple distribution channels to reach out to customers and provide them with a consistent, positive experience.

Evolving customer preferences and intensifying competition in insurance markets have led to the emergence of multiple low-cost distribution channels. Growth in these channels has also been aided by recent technological innovations that facilitate the ability to illustrate product benefits, shorten customer response time, and simultaneously serve multiple customers. The new channels also allow advisors and customers to compare multiple products without much effort, helping them choose the product that best suits their profile. Penetration of these new channels has been the highest in mature insurance markets such as Western Europe, though emerging markets in Asia-Pacific and Latin America are fast catching up.

The new channels have provided insurers with opportunities to increase sales while keeping costs low. They have also increased customers' convenience when buying insurance products. Direct sale of insurance policies using new online channels is relatively higher in Europe when compared to other regions, though the existing maturity of the overall online infrastructure and household internet penetration reflect differences even within Europe's markets, such as the U.K. and Poland.

While the general trend has been a declining market share for agents except in a few regions such as some Middle and East European countries, they still hold a dominant position in the industry. In certain segments of the insurance markets in the U.S., Europe, and also in Asia, agents still hold the highest market share which signifies their importance. Insurers are therefore taking care to reduce channel conflicts with agents when developing their own direct channels.

Bancassurance has also emerged as an important channel across different regions, and is now among one of the most important channels in Europe. Success of the bancassurance channel in some products and markets may have been aided by banks. Facing a challenging operating environment of their own, banks have been motivated to generate additional non-interest income by selling additional risk-based/wealth management products and services like insurance to their customers. Insurance firms are also focusing their efforts on the development of alternate channels by partnering with supermarkets and affinity groups in the form of joint-ventures or in-store sales. Insurers benefit from these relationships by being able to reach a wide potential customer base at reduced cost, and also by being able to leverage established brand names in the market. This pattern is more evident in the North American insurance markets.

Customers are also using multiple channels for buying insurance products. While online channels are gaining prominence—though somewhat less than initial industry expectations—in many markets, customers still tend to approach agents when looking for life insurance policies. A common trend witnessed across regions is that customers now search for information on insurance products online before approaching their agents or insurers. Customers are also leveraging social media platforms to obtain product feedback from others. As such, insurers are now striving to provide a consistent consumer experience across all of these channels.

3 Key Emerging Trends in Insurance Channels[1]

Technological innovations in the insurance industry have led to a gradual change in customers' habits of buying insurance products.

Increased competition and noticeable changes in customer behavior and preferences paved the way for the growth of newer channels for policy sales. Many of these channels evolved as a result of insurers' efforts to improve their operational efficiencies, aided by technological advancements. These channels now help insurers directly reach their target customers, bypassing traditional intermediary channels. Initially these channels were used to provide only product- or policy-related information and to advertise, however insurers now leverage these channels to directly communicate with customers and sell suitable insurance products.

With these new developments, customers' methods of researching and buying insurance products also changed over time. With the increased penetration of the internet and smartphones, customers now prefer to gather information on various products and services offered by multiple insurers and tend to compare before making a final decision. The internet has developed into an important channel to gather information on insurance products, and the increased popularity of social media is also expected to affect how customers buy insurance products. Many customers now seek feedback on insurance products on social media sites and include the feedback in their decision-making process.

On the business front, insurers are reacting to these trends and are coming up with solutions that attempt to better meet customer expectations. They are also effectively leveraging technology to reach customers and quickly incorporate their feedback. They are focusing on building an effective and comprehensive distribution network while also working to break-down the complete policy sales process to identify components that can be automated. Four such trends witnessed across insurance channels that are explained in detail in this paper are:

1. Rise in customers' use of the internet to buy insurance products
2. Increased use of social media as a distribution channel
3. Rise in usage of SaaS solutions to enable the insurance distribution process across multiple channels
4. Rise in usage of technological solutions to automate the underwriting process and increase direct sales

[1] The technology trends covered in this document are not exhaustive in nature and only current prominent trends have been analyzed

4 Trend 1: Rise in Customers' Use of Internet to Buy Insurance Products

4.1. Background and Key Drivers

Easy access to the internet via computers, mobiles, and other hand-held devices has made it a part of people's everyday lives. Customers now use these devices to easily obtain information and updates on insurance products and services—a trend that is expected to continue to grow in the near future. While penetration of these devices is higher in the developed western economies, it is rising at a rapid pace in developing economies such as India and China.

In fact, lack of proper distribution networks in the developing economies have forced insurers to come up with innovative ways to leverage the mobile and internet channels to sell their products and also to better attract the millennial generation customers. Enhanced capabilities of browsers and websites help create better product illustrations and help in easy retrieval of policy information. Also, making insurance product information available online increases transparency of the costs associated with each policy. The online channel is attracting both insurers and customers and is expected to have a long-term impact on how information is gathered and how products are sold. Even agents are now demanding better internet and mobile channel functionalities from insurers to increase their ease of doing business. Insurers are thus leveraging the online channel to help increase direct sales opportunities.

4.2. Analysis

With the rise in penetration of the internet, there has been a gradual change in customer preferences around buying insurance products. This change has been both behavioral and attitudinal in nature, and is more prominent among younger customers. Customers currently use the internet primarily to research and compare various policies, view policy details, make policy changes, pay premium bills, and contact agents/brokers. Most of their activities are focused towards interacting, communicating, and transacting with insurance providers. Such behavior signifies tremendous growth opportunities ahead for this channel as customer penetration increases and as more insurance-related activities is carried out via this channel. The internet also helps insurers provide a robust self-service portal for its customers, which serves the dual purpose of increasing customer satisfaction while reducing operational workload.

However, trends in internet usage vary across life and non-life insurance products. While customers still value agents' advice when buying life insurance products, they are increasingly using online channels to buy non-life products. Market segments like motor and home insurance have become commoditized and require less advice when buying these products, making them more suitable to be sold over the internet. While sales via online channels have been slower than initial expectations, they are still expected to continue growing in the future.

4.3. Implications

The online sale of insurance products has tremendous potential for distributing policies while keeping overall costs low. Insurers should focus on increased adoption of this channel to generate new product sales and also to provide related services to their customers. They should also use it to provide customer service and collect customer feedback. The online channel can also be leveraged to provide claims management and related services to customers.

Products that have achieved high market penetration and for which there is intense competition within the industry—leading to lower profitability—are more likely to be the ones that can be sold online. Insurers should identify these products and develop the necessary systems to sell them online. Insurers also need to study the typical profile of a customer who is more likely to use the internet to get information on insurance products, and then create targeted online sales strategies. While developing an online portal, insurers should make sure that the portal works as an integrated part of the whole multi-channel distribution network.

5 Trend 2: Increased Use of Social Media as a Distribution Channel

5.1. Background and Key Drivers

Social media platforms such as Facebook, LinkedIn, and Twitter have witnessed rapid growth over the last few years. Many of these platforms have matured, and feature embedded functionalities that better help businesses to reach out and interact with their target audience base. At the same time, many other new social media platforms, such as Google+, are also trying to establish themselves in the marketplace.

With the rise in penetration of smartphones with enhanced social media applications, more customers now carry these platforms with them wherever they go. Social media is now acknowledged as a growing phenomenon for the insurance industry. Customers increasingly use social media platforms to obtain sales-related advice from their friends, family and other contacts, and gain feedback on various products and services, including those in the insurance domain. They also expect insurance companies to have a presence on social networking sites. Customers are also having some of their insurance related queries resolved by sharing their concerns publically on these platforms, pushing companies to respond.

5.2. Analysis

Social media channels have significant applicability to the insurance industry and are likely to have a long-term impact on how insurers gain and react to feedback from the marketplace. However, there is still a need for further understanding regarding how this channel can be best leveraged to engage with customers and how to address any potential concerns that may arise such as miscommunication and regulations.

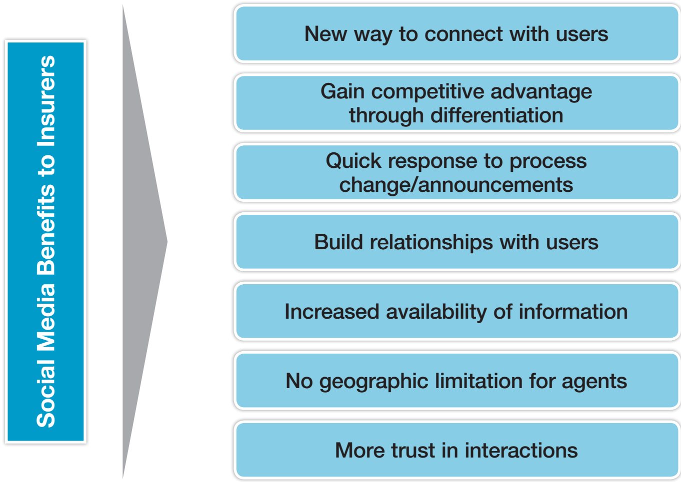
The initial focus of insurers' social media strategies has been aimed at low-level communication and marketing of new products and services. While many insurers now relate social media to a mass marketing tool, there are many other applications as well including: gaining customer feedback; resolving queries in real-time; providing product updates; and as an information source for insight generation and fraud investigation. Social media platforms along with the online channels can also help remove geographical limitations that agents face when serving their clients.

5.3. Implications

As social networking sites continue to gain ground in the insurance industry, insurance companies will need to broaden their internet-based strategies to include social media platforms. They should help their agents understand the implications of this trend on their role as advisors and how to best leverage it. Social media channels can also be used to assess the needs of customers and the standard of services being offered. This can be done with the help of focus groups and discussion forums where customers interact with each other and also with company experts. The channel can also be used to launch media campaigns—including education and new product launches—targeting the customer segment that has an extensive online presence.

As a result of the increased transparency brought about by social media channels, the insurance industry will likely be exposed to greater scrutiny by policyholders and regulators.

Exhibit 2: Social Media Platforms Benefits for Insurers



Source: Capgemini Analysis, 2012

While social media platforms provide insurers with multiple benefits, these platforms also expose the industry to greater transparency and scrutiny. Even relatively small mistakes regarding information presented on these platforms tend to be picked by the media and can bring embarrassment to the involved firms. As such, the long-term implications of increased transparency on these platforms need to be considered, and it is imperative that insurance firms understand how to best leverage their social media platform in a way that generates maximum value while avoiding risks.

To accomplish this, firms need to define a corporate level policy that outlines usage and management of social media platforms. The policy should also outline the level of disclosures that would be made available on these platforms, and how customer feedback/queries would be handled. Firms will also need to provide training for agents and employees to ensure prudent usage of social media by all stakeholders.

6 Trend 3: Rise in Usage of SaaS Solutions to Enable the Insurance Distribution Process across Multiple Channels

6.1. Background and Key Drivers

As the number of distribution channels used for policy sales rise, and as newer technology platforms emerge, insurers now strive to provide consistent customer experience across these channels. This requires significant investments in information technology to enhance capabilities and streamline processes across these channels.

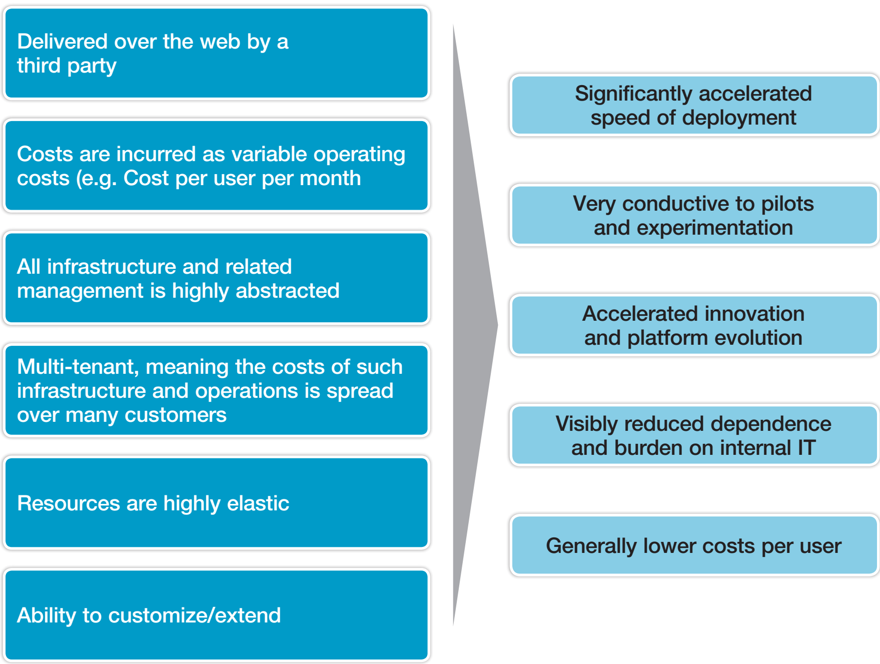
In addition, increased competition in the market place requires accelerated deployment of products and services which are possible through SaaS-based solutions. Insurance firms are therefore leveraging SaaS solutions to speed up insurance distribution processes across multiple channels. Another key driver for usage of SaaS solutions is its usability to develop pricing models that can be directly related to extent of system usage.

6.2. Analysis

SaaS-based solutions help enable speedy execution of pilot projects and faster deployment of new technology for insurance distribution. By centralizing the technology development function and distributing just the user interface and other minimal capabilities, SaaS-based solutions help reduce the burden on internal IT spending. Using a SaaS model, insurance companies can provide agents and brokers with a fee-based common technology platform which would otherwise be costly for agents to develop on their own. Such collaboration also helps reduce conflicts with existing traditional channels that may arise from increased direct sales by the insurer.

A SaaS model also assists insurers in pilot testing the usage of new technologies such as mobile and social media channels as a pre-cursor towards understanding the respective impact of these channels. Such capabilities can help design a comprehensive strategy around development of each new platform/channel. Insurance firms are now also looking to combine the capabilities of SaaS as well as cloud computing to leverage opportunities presented by both these technologies.

Exhibit 3: Benefits Provided by the SaaS Model to Insurers



Source: Capgemini Analysis, 2012; www.salesforce.com

6.3. Implications

While the usage of SaaS-based solutions by insurance companies is still in its initial stages, insurers need to understand the importance and utility of the SaaS model to analyze how it can be leveraged to extract maximum value across multiple channels.

Firms should also explore the possibilities arising from SaaS-based solutions to better collaborate with agents and brokers and to provide them with a robust platform for better customer relationship management. Delivering applications using the SaaS model while supporting it with cloud computing will help insurers provide a strong value proposition to its agents and brokers.

At the same time, insurers should also understand the data security and regulatory risks that arise from usage of the SaaS model. Currently, these serve as biggest impediments to increased adoption of the SaaS model by insurers and need to be explored as an industry.

7 Trend 4: Rise in Usage of Technological Solutions to Automate the Underwriting Process and Increase Direct Sales

Reduced cost per policy resulting from increased automation is attracting insurers towards automating the underwriting process.

7.1. Background and Key Drivers

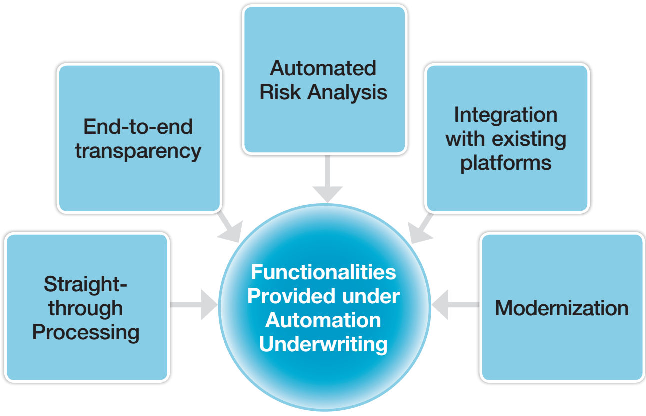
Availability of newer electronic applications and the increased sophistication of rules engines are helping insurers automate the selection and pricing of risk and reduce the distribution cycle time. Insurers are also using automation to facilitate human underwriters in improving their decision making process and make it more robust. Automated underwriting is now common in property and casualty for personal lines, and even in some lower-value, well-defined commercial lines and life/health for low-face amount policies.

7.2. Analysis

Insurance firms face the need to constantly come up with improved products in the marketplace to differentiate them from competition. At the same time, insurers also need to ensure that they are complying with existing regulations. Automated underwriting solutions help insurers achieve both these objectives while keeping overall costs low—a factor that is driving the use of automated underwriting in insurance. Insurers are currently using automated underwriting for commoditized business segments where keeping costs low is an important driver to improve profitability. Life insurers also now offer pre-underwritten products such as traditional term insurance plans and mortgage protection plans to their customers.

Under currently developed automated underwriting systems, insurers aim to achieve straight-through processing of transactions while maintaining transparency throughout the process. Insurers also prioritize integrating the automated systems with their existing systems. A critical feature to developing a successful underwriting system is to correctly assess risk and accordingly calculate pricing for each policy, a process that requires extensive historical data on similar products and policies and extensive analytical capabilities. Insurers are leveraging their proprietary data to facilitate their underwriting systems with as much data as possible to correctly asses risk in each policy.

Exhibit 4: Functionalities Embedded in Automated Underwriting Systems



Source: Capgemini Analysis, 2012; Celent Model Insurer Asia 2011

7.3. Implications

Insurers need to:

- identify additional market segments that are conducive to automated underwriting.
- create tools to aid brokers and agents in increased rule based underwriting.

To remain competitive in the marketplace, insurers need to redesign their business processes to facilitate speeding up of the automation process and also develop predictive analytics and automated underwriting solutions. Insurers would also need to collaborate with vendors to share more information and agree upon commercial risk reward models. Developing platforms that help to integrate agent and broker channels to better leverage benefits of automated insurance solutions should also be on the priority list.

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