

Trends in Insurance Channels 2012

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



People matter, results count.

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1. Highlights

Over last few years, the global financial services industry has witnessed tremendous changes across all domains, including banking, insurance, capital markets, and payments. It has been severely impacted by low growth rates, high levels of unemployment, low interest rates in key developed economies, sovereign debt crisis in Europe, and volatile equity markets in developing markets such as those in Asia-Pacific.

Recently we have also witnessed tremendous advancements in new technologies which have led to the increased processing ability of handheld devices. Devices such as smartphones and tablets have now become a part of daily life for consumers and have influenced their preferences and needs. These new and emerging customer preferences are reflected in functional processes and product offerings from financial institutions and insurers.

Insurers are improving their profit margins by leveraging newer technologies in order to lower their operational costs. With the help of advancements in technology, insurers have found innovative ways to connect with customers and serve them better. As customers continue to integrate the use of the internet in their daily lives, it has become an attractive medium through which firms can advertise and distribute insurance products. Online space has emerged as the dominant distribution channel in the past few years.

Acknowledging the change in customers' buying habits, insurers are looking for technical solutions to develop a coherent multi-channel strategy by integrating new emerging channels (such as mobile) with traditional channels. This will provide a uniform customer experience across each channel. These initiatives are enabling insurance firms to scale up their business models by strengthening their internal processes with the ultimate goal of better customer service.

2. Introduction

2.1. Financial Performance and Background

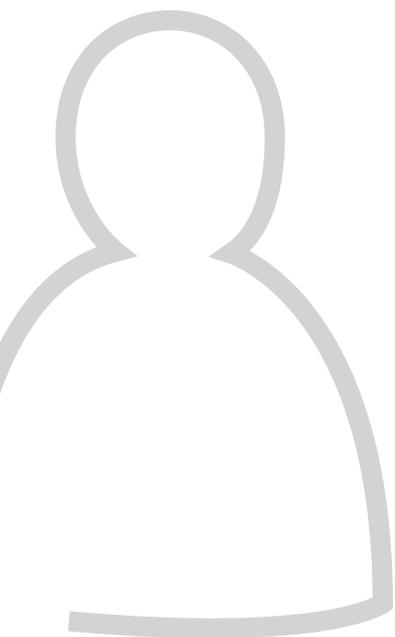
The global economy has been recovering since 2010, but it slowed down in 2011. Life insurance premium volumes fell in 2011, while they remained stable for non-life insurance. The overall premium volume growth declined by 0.8%,¹ mirroring the slowdown in growth across key economies witnessed in 2011. On top of a decline in overall premium growth, insurers were also affected by low interest rates and natural catastrophe events. All this led to reduced profitability for the overall insurance industry.

2.2. Key Global and Regional Market Trends

Insurance customers are demonstrating continuous change in their preferences-- not only for how, when, and where they shop, but also in their expectations from insurers and interactions with various touch points. This has resulted in many new technology and business trends across the insurance industry.

While most insurers have now established their own multi-channel networks, not all have been able to integrate these networks seamlessly, limiting their ability to provide a consistent customer experience across all channels and media. With the ongoing multi-channel integration, insurers have also planned significant investments in the next three years for leveraging aggregators as an important channel of distribution. Insurers want to expand their reach to customers at every level, and for this they are partnering with distributors which will help them align with the targeted customer segments.

An increase in collaborative offerings between banks and insurers has led to a steady growth of the bancassurance channel. Bancassurance creates a win-win situation for both insurers and banks as insurers gain access to a bank's large customer base and banks gain from additional revenue generated from policy sales. The internet and mobile technology are driving the growth of direct channels as customers increasingly use them to search and compare multiple policies/ products. Alternate channels will be responsible for providing personalized products and services in collaborative, customer-centric environments which will yield positive results and address top business challenges.



¹ Swiss re News release, June 2012

The following exhibit outlines important regional trends for North America, Europe and Asia-Pacific:

Exhibit 1: Insurance Channel Trends by Region

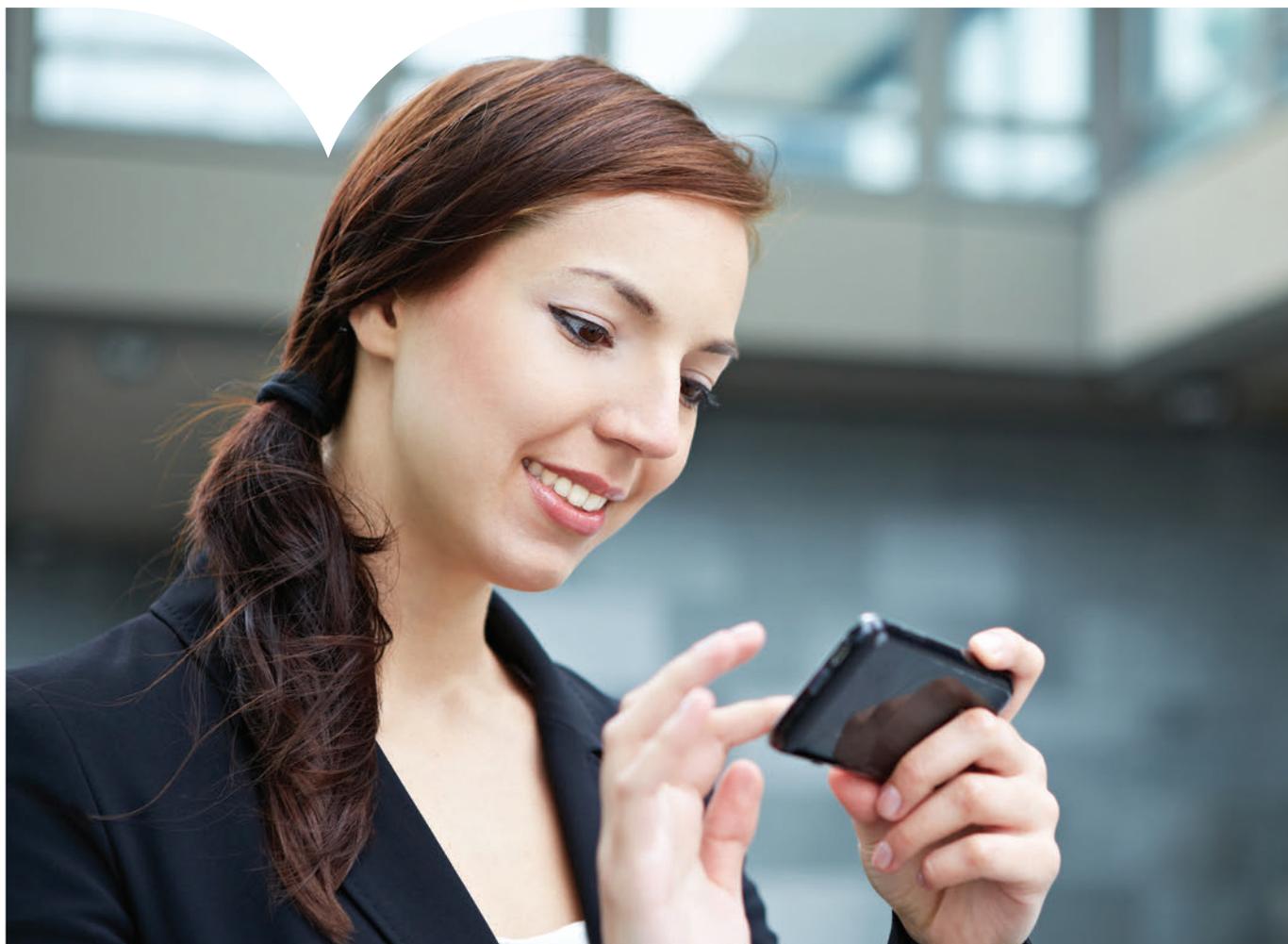
	North America	Europe	Asia-Pacific
Current Trends	<ul style="list-style-type: none"> • Consumers are using multiple channels to buy different types of insurance policies • Insurers are expanding alternate channels like supermarkets and affinity groups • Insurers are deepening collaboration with agents to reduce channel conflicts 	<ul style="list-style-type: none"> • Agents and brokers continue to dominate the non-life insurance market • Insurers are increasing sales of insurance policies through direct channels • Distribution patterns are varied among European countries 	<ul style="list-style-type: none"> • Insurers are working to establish a multi-channel network • Agents continue to dominate the life insurance market
Emerging Trends	<ul style="list-style-type: none"> • Agents are embracing technology and focusing sales strategies on web, mobile and social media 	<ul style="list-style-type: none"> • Retailers are emerging as important players in insurance distribution 	<ul style="list-style-type: none"> • Insurers are using demographic-based strategies to serve customers across segments • Insurers are expanding distribution through joint ventures

Source: Capgemini Analysis, 2012

The trends which are in a nascent stage and are expected to have greater impact in next 12-24 months are termed as *Emerging Trends* while trends which continue to impact the industry since last year are termed as *Current Channel Trends*.

Though insurance markets are facing various changes as explained above, distribution channels are also impacted by the emergence of trends across all direct and indirect channels.

3. Emerging Technology Trends in Insurance Channels



The insurance industry has become very competitive with the introduction of new technologies. Insurers are vying for the best technological tools and implementation of customer focused distribution channels like mobile, internet for expanding the customer reach and reduce iterations in processes in insurance value chain.

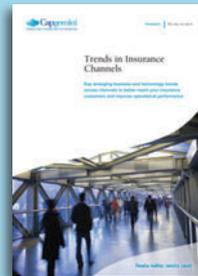
This paper analyzes technology trends that were identified in the insurance industry channels. The following trends are in the nascent stage and slowly heading towards maturity:

- Increased partnerships with distributors to target customer segments at all levels of income
- Empowerment of intermediaries (agents and brokers) with technologies
- Increased use of mobile as a new direct channel

Note that several technology trends covered in our last publication *Trends in Insurance Channels 2011*, though still relevant; have not been analyzed again here including:

- Rise in usage of technological solutions to automate the underwriting process and increase direct sales
- Increase of social media as a distribution channel
- Expanded use of SaaS solutions to enable the insurance distribution process across multiple channels

The above trends are applicable to global markets, with an aim to provide consistent customer experience across all channels and media and to reduce customer acquisition costs, improve retention, and increase opportunities for cross selling.



Trends in Insurance Channels 2011

4. Trend 1: Increased partnerships with distributors to target customer segments at all levels of income

Key Drivers and Background

Distributors such as agents and brokers have always been an important medium to reach out to newer customers and sell more insurance products. Agent-driven sales still dominate the distribution of insurance products in many matured and developing markets, they have long been considered as cost of doing business. However, armed with new technological tools, insurers are now managing the distribution of products effectively in terms of resources, capital, and operational capabilities. Insurers are also leveraging technology to devise strategies that better align themselves with traditional distribution channels, and to enable distributors to better reach and serve customers across all wealth bands, thus resulting in improved marketing and sales.

Strategic partnerships with distribution networks will ultimately help in building a loyal distributor-base. These partnerships can in turn bring long-term competitive advantages over other insurers.

Analysis

Insurers who embark on partnering with their distributors often face some critical challenges. Strategic partnerships are profitable for both the insurer and the distributor, but they can be problematic if they do not adhere to strict financial discipline based on key metrics.

For insurers to realize the highest value, they must improve agent-based support for key distribution segments and operations in a multi-channel, multi-product, and multi-distributor model that compliments the financial objectives of the insurer. Support for complex distribution processes in a flexible, cost-effective technology environment will help insurers adopt new distribution channels and adjust services without creating a profit margin imbalance.

The best value proposition for insurers is to partner with distributors that demonstrate high-sale potential while also managing operational costs through self-service outlets such as the internet. The least profitable opportunities are distributors who have a low potential to increase sales but require a high level of personalized service. Insurers should consider re-engineering options with a mix of technology and a focus on profitable segments to drive business objectives for such distributor.



Implications

Insurance firms are focusing on profitable segments by partnering with distribution channels, with the aim to expand their reach to the customers of all level of affluences. The alignment of the distribution channels to target customer segments is illustrated in the exhibit below.

Exhibit 2: Alignment of Distribution Channels to Target Customer Segments

Wealth Tiers / Investable Assets	Distribution Channels
HNI	<ul style="list-style-type: none"> • Private Wealth Managers • Registered Investment Agents
Affluent	<ul style="list-style-type: none"> • Insurance Brokers or Dealers • Independent Agents • Lawyers and CAs
Middle Market	<ul style="list-style-type: none"> • Banks • Worksite
Mass Market	<ul style="list-style-type: none"> • Call Centers • Direct Mails • Internet

Source: Capgemini Analysis, 2012; Center for Insurance and Financial Planning (CIFP), 2012

Segmentation of distribution channels on the basis of customers' wealth would enable firms to devise strategies that focus on generating revenues from each of these segments with greater overall operational effectiveness. This would also help in creating enhanced support for a multi-channel and multi-product distribution model that syncs with insurers' revenue and profit margin targets. For a successful and profitable insurer-distributor relationship, both parties should follow a few guidelines:

- Design shared goals and objectives with mutual support, respect and cultural compatibility
- Align product and services to brand and customer demographics
- Develop performance monitoring criteria that include sales and marketing and customer service level agreements
- Ensure timely and accurate dissemination of business information to better manage financial and business risks
- Make a commitment to build a profitable business model with fair and equitable revenue-sharing arrangements in both soft and hard markets

Insurers will also need to cater to increasing distributor demands of developing and marketing for products more aligned to distributors' target customer segments. This would also help to bridge the gap between client needs and product offerings.

5. Trend 2: Empowerment of intermediaries (agents and brokers) with technologies

Key Drivers and Background

A critical component in every insurance sale is highlighting the products and services that specifically address the client's needs. Increased social governance to track performance in services, products and customer centricity has led insurers to equip their distributors with updated tools/solutions that can help them access information anytime, anywhere, on any device, and help them to quickly map customer needs to relevant product offerings. Agent collaboration tools enable agents to connect more easily with customers in complex life insurance cases or financial planning scenarios.

Some of the key drivers for this trend of empowering distributors are:

- **Cross channel behavior:** Empowering agents by providing them an online presence would help capture the customer segment that starts their research online but completes the purchase in person with an agent
- **Pressure from agents and brokers:** Agents are demanding applications support in PC and mobile functionality to increase the ease of doing business
- **Increasing product complexity:** Collaboration tools are expected to increase agent productivity by making it easier to share product knowledge and to quickly answer complex financial planning questions
- **Increasing competition from other networks:** Direct and bancassurance networks are steadily increasing their market share at the expense of the agent/broker network. Empowering agents will help them address their declining market share

Analysis

Increased competition from direct and bancassurance networks, is eroding agents' share of insurance sales in most markets. The rise in sales of insurance policies through insurers' websites has also resulted in an increasing conflict between the direct and agency distribution networks. It is critical for insurers to address the network conflict between various entities by creating proper distribution governance and compensation management structures. This step in turn would increase agent network productivity. While customers are increasingly going online to gather product information, many of them are also seeking agents' advice to help reduce the complexity and better understand these products.

By investing in collaborative solutions, insurers can derive tangible value in the four key areas of top-line growth, cost-reduction, customer satisfaction, and operational efficiency. Agent empowerment has the potential to improve agent/broker productivity and generate additional revenues. However, having user friendly solutions that can streamline and accelerate the sales and service process is essential to achieving the desired results from an agent empowerment initiative.

Implications

In light of increased competition from direct distributors, customer satisfaction is critical for agents to acquire and retain customers. Currently, key differentiators for agents/brokers include:

- a multi-channel presence
- customer advocacy
- quality service,
- one-stop shopping

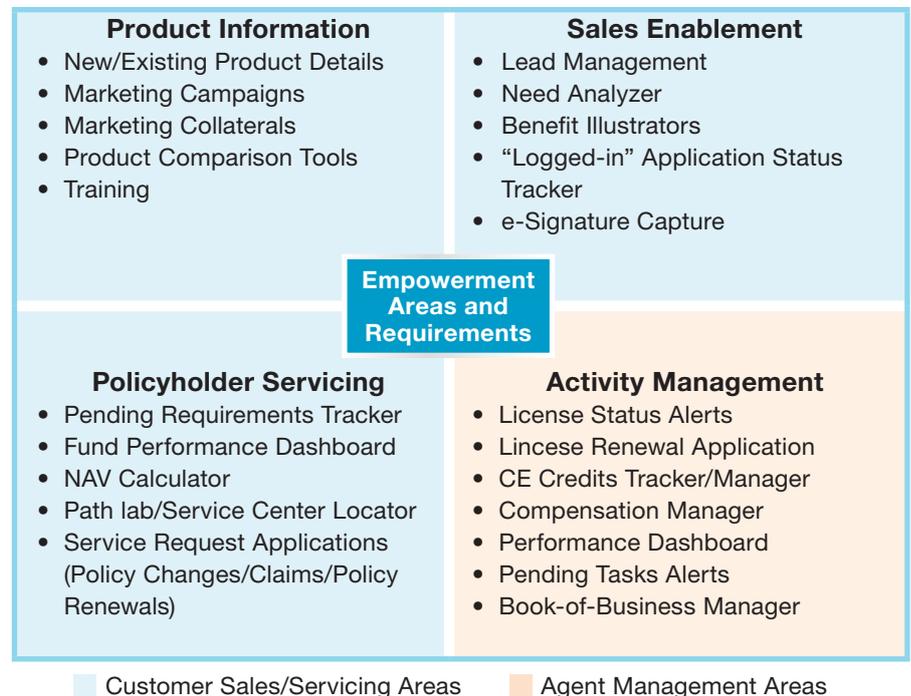
To grab market share from other networks and deliver on a value-added brand promise, agents will need to focus on enhancing the customer’s shopping experience. Insurers will need to formulate their agent empowerment strategy to provide the required support to their agency network. Recent value-added tools for customers include an online locator for surveyors and assessors, and on-the-spot evaluation.

Insurers can leverage empowerment tools to aid agents/ brokers in four main areas leading to higher efficiency:

- product information
- sales enablement
- policyholder servicing
- activity management

Having user friendly solutions that can streamline and accelerate the sales and service process is essential in agent empowerment. The sales and servicing life cycle spans from lead generation to policy servicing and many solutions/tools can be utilized during this lifecycle to accelerate sales and service.

Exhibit 3: Empowerment Areas for Agents



Technology as Enabler for Agency Empowerment

1) Web-Based Applications	3) Hand-held Device Applications	5) Cloud Based Applications
2) Business Process Management	4) Integrated Call-Centre Support	6) Social Networking Analytics

Source: Capgemini Analysis, 2012; Center for Insurance and Financial Planning (CIFP), 2012

6. Trend 3: Increased use of mobile as a new direct channel

Key Drivers and Background

As technological advancements continue to shape the way customers would like to interact with their insurers, it is important for insurance companies to proactively identify new solutions. The use of mobile phones and smartphones continues to grow in all parts of the world, and it is estimated that it will surpass desktop sales in 2013. Increased usage of such devices has changed the way consumers shop. They want anytime/anywhere access to information and advice on new products, services, and providers. Customers demand transparency and simplicity in order to understand the scope of product choices, compare product features online, and select the right product for themselves.

Beyond meeting customer preferences, insurers are developing mobile capabilities in distribution because of their low cost nature. Policies that match customer requirements influence online purchases, but customers are also seeking advice from their friends, family, and insurance agents.

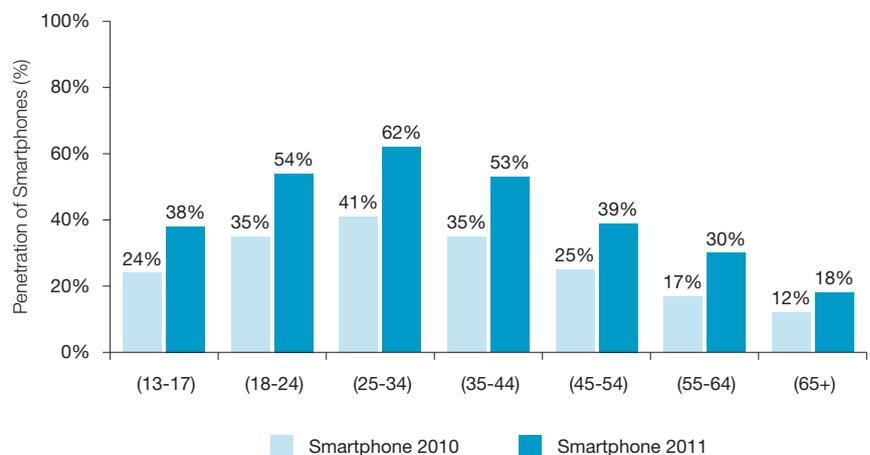
Analysis

Customers are increasingly opting for smartphones, which provide much more advanced processing capabilities. While nuances exist, age is still not a major indicator of smartphone adoption among various insurance customers in Europe and North America. According to the survey of U.S. consumers by Nielsenwire in Q3 2011:

- Smartphone penetration in Q3 2011 in the age group of 25-34 years has increased immensely from 41% to 62% as compared to the same time the previous year
- The smartphone penetration in the age group even younger that is between 18-24 years has also increased from 35% to 54% as compared to the same time the previous year

The results of the survey are shown in the following exhibit.

Exhibit 4: Increase in the Penetration of Smartphone for U.S. by Age, (2010–2011)



Source: Capgemini Analysis, 2012; Nielsen Wire: Survey of Mobile Users, Q3 2011

In other geographies, especially western European countries, the increasing use of smartphones has been very close to the U.S. trend. Smartphone adoption is gradually emerging among all age groups of insurance customers, especially in North America and Western Europe.

Implications

Insurance firms are investing in mobile solutions to expand their reach to the customers and improve their speed to market. They need to understand what customers regard as essential in mobile applications. Insurers should also help agents to understand the implications of the emergence of smartphones and how they can better leverage the information-sharing aspect to improve their efficiencies.

Insurers need to find innovative ways to personalize the purchasing experience and gain customers' confidence in the entire process. Customers also seek guidance about the purchase process and clarity over timely data availability and transparency. An insurance firm lacking in providing such insights to the customer might lead to customer frustration and ultimately customer defection.





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