

Web Enabled Channel Rationalization

The challenges faced in conventional product distribution require innovative technology solutions to optimize cost, rationalize channel structures and enable more targeted customer segmentation. In this article, two forward-looking solutions are recommended.

By Satyashree Sai Rout & Manik Vinnakota

The global insurance industry is facing serious challenges with respect to the traditional policy distribution process. Insurance distribution is undergoing a structural change, with commoditization of insurance products and fragmentation of consumer segments. Insurers spend approximately 25% of their development budget to improve and streamline their existing distribution process, but achieving suitable economic value from that investment remains elusive. Moreover, distribution-related costs are rising over time, as can be observed from Figure 1 on the following page.

For insurers to realize the highest value from distribution, they must reexamine how they refine key functional areas. Also, insurers must approach distribution with a technology solution that is flexible and cost-effective.

In this article, we will discuss e-wholesaling and enhanced agency portals as two potential options to streamline operations using Web-enabled solutions.

E-wholesaling

Insurers have been working to get advisors to consult and sell better, but returns on these investments have not materialized. In fact, the increased expenses in the layers of wholesalers and advisors are undermining insurers' profitability. At the same time, customers -- mostly in the high net-worth individuals (HNI) segment -- are not able to find any differentiation in services offered to them.

In the conventional mode (Figure 2A), internal wholesalers of the insurer share knowledge and key details about the products only with designated external wholesalers. External wholesalers, in turn, spend most of their time in field visits to educate consultants and brokers (i.e., financial advisors) on various available products.

Figure 2B on the following page presents a distribution model where internal wholesalers are equipped with Web-enabled communication tools and are actively involved in providing product information to financial consultants with speed and convenience. This, in turn, frees up time for the external wholesalers to work more efficiently and exclusively on improving relationships with current and potential producers. It also saves travel-related costs. These external wholesalers can also reach out to the HNI customer segment in conjunction with financial advisors and thus play a key role in improving customer management.

To develop an effective e-wholesaling strategy, the firm must first finalize its distribution objectives. It also requires adopting an IT strategy that is more holistic in nature and allows functions across the supply chain to access technologies that work in conjunction with each other.

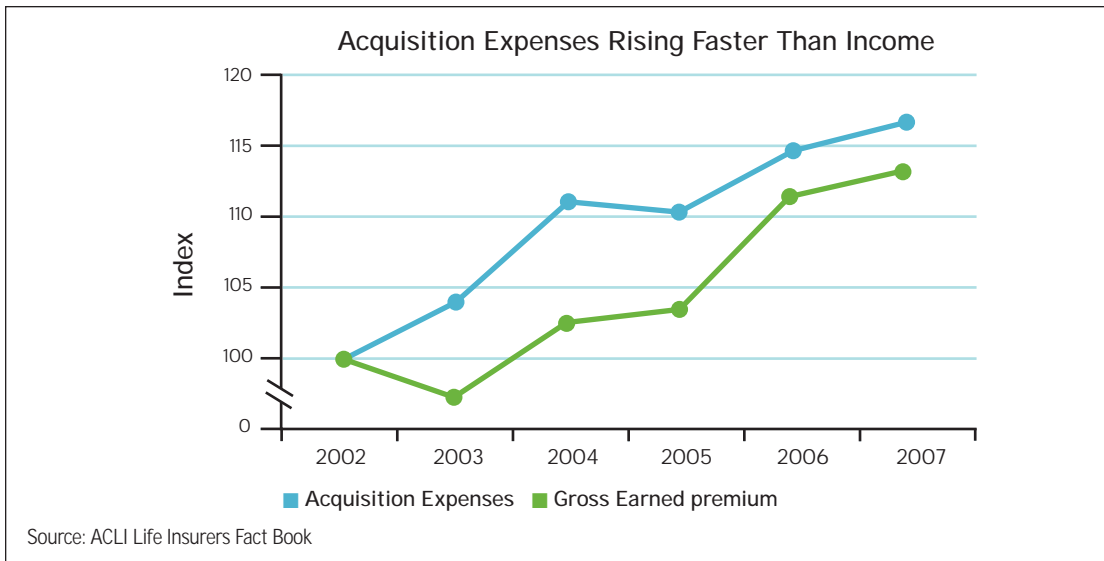


Figure 1: US Life Insurance Market Distribution Cost Analysis, 2002-07 (2002 Baseline Year)

E-wholesaling: Level 1

An e-wholesaling solution should be developed and implemented in a phased manner to target customer needs in different segments. Level 1 should be geared toward strengthening marketing channels for the mass market of retail investors that account for 90% of investors but 10% of the assets. At this level, e-wholesaling will provide speed and access to a mass market that does not require a high degree of sophistication in support of commission sales. It will comprise the following elements: collateral (e.g., prospectus, marketing materials, etc.); call desks (webcasts, PowerPoint presentations, e-mail communications, more timely and robust performance updates, etc.); sales desks (targeted customized sales support, etc.) and Web-enhanced conventional wholesaling.

E-wholesaling: Level 2

The next level of e-wholesaling should be more focused on the advisory practice. It should be geared toward 10% of the investors who have 90% of the assets and who are far more discerning and sophisticated. These tools will greatly reduce the labor intensity for high-level comprehensive expert advice. Moreover, the barriers to entry for financial advisors to provide high-level advice will be removed. It should comprise the following tools: Electronic Asset and Liability Study; Estate Planning Optimization; Electronic Investment Policy Statement; and Electronic Performance Monitor.

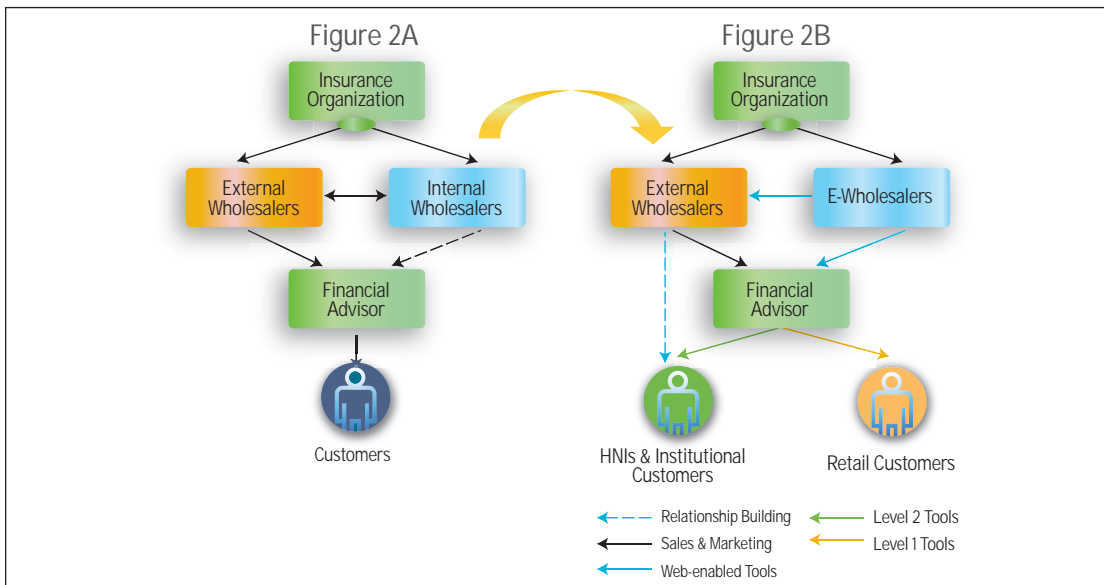


Figure 2: E-Wholesalers integrated into the insurance distribution channel

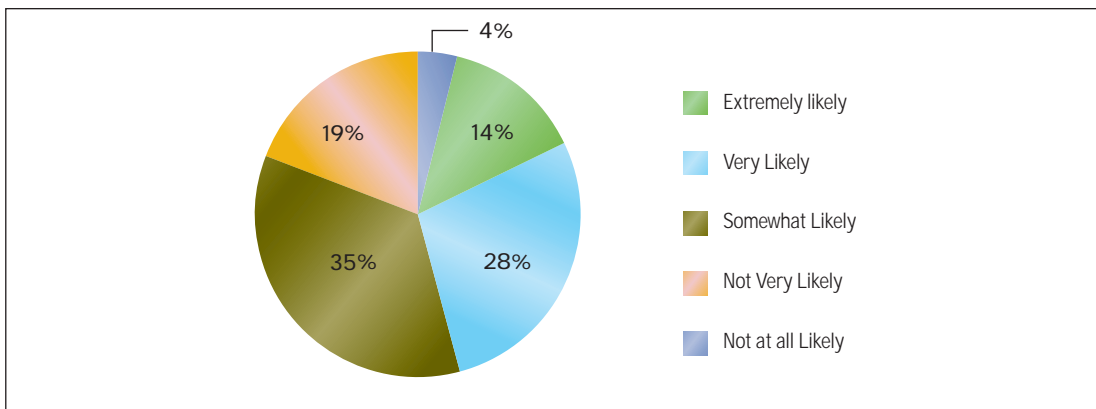


Figure 3: Intermediaries preference to choose a carrier whose systems are built on open industry standards

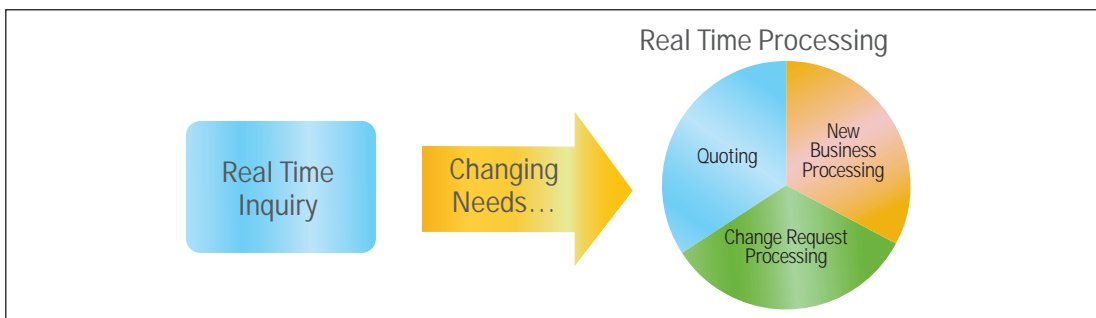


Figure 4: Real Time Processing Focus areas

A study by Financial Research Corp. that examined 19 mutual fund houses in the U.S. found that e-wholesalers average three times as many sales contacts with banks and broker-dealers per week as field wholesalers. The average cost per presentation for an e-wholesaler is \$44, versus \$372 for a field wholesaler.

Agency Portals

The next tool available to insurers to optimize operations using the Web is agency portals. Carriers have to take their agency portals to the next level. Technology advances are showing financial professionals that it is possible to make business processes more efficient. This has led to a new set of “needs” from agents and brokers on carrier-sponsored portals.

Easy integration through open standards

The top area that causes anxiety among many distribution partners is dealing with proprietary company systems or Web sites. Agency and brokerage professionals yearn for the ease of doing business. It's become an increasingly important factor in their decision to place business with a carrier. As the 2006 AUGIE (ACORD-User Groups Information Exchange) Agency Technology Survey results point out (Figure 3), insurers need to build their agency portals on open industry standards.

Real-Time Processing Capabilities

As real-time inquiry capability has matured, and more and more agents and brokers are taking advantage of it, the industry needs to focus on real-time processing that includes new business processing, change request processing and quoting (Figure 4).

Quoting or sales illustration systems should become more than just a tool to help life insurance agents meet regulatory “truth-in-selling” rules. Many carriers still use standalone sales illustration tools as a part of their sales presentations to customers. Going forward, quoting systems should be able to integrate new business modules with advisory components to provide customers higher levels of insight during the decision-making cycle. The same solution should be integrated further with other policy administration systems for comprehensive customer management.

Overall, the real-time processing should be in line with straight-through processing (STP) norms to ensure that resulting systems are based on industry standards and achieve paperless transactions. Going paperless will drive considerable benefits to the

producer and insurer in a number of ways, including but not limited to customer service, sales focus, time savings and increased productivity.

Technology-aided solutions such as e-wholesaling and new-generation agency portals provide ample opportunities to rationalize the distribution channel. The real challenge is how quickly insurers sense changing business dynamics and re-align their business objectives to introduce the right solution at the right time. It is not recommended to bring in every possible solution to achieve some competitive advantage; a certain amount of deep introspection at each layer of the supply chain is required to identify which one(s) should be targeted. The solutions described above should be approached in a phased manner, keeping the IT and operations strategy in mind. All solutions may not be economically viable for medium- or small-level enterprises.

Collaborative capabilities brought in through Web technologies in information, operations, sales and marketing can establish distinct distribution advantages over competitors. This will help insurers build a rationalized distribution channel and realize higher value through:

- Improving operational efficiencies.
- Decreasing distribution channel management costs.
- Expanding into new markets quickly.
- Reaching new distribution channels easily.
- Increasing agent retention (captive agents) and distributor loyalty (independent agents).
- Driving more revenue to agents and insurers.

Satyashree Sai Rout is part of the Cognizant Business Consulting group with expertise in the Life Insurance domain. He has been part of a number of consulting and business analysis engagements for North American clients. Apart from Insurance, he has good knowledge in ITIL framework and IT Infrastructure Management. He holds certifications from LOMA and AAPA in addition to a Masters degree in Management.

Manik Vinnakota is part of the Cognizant Business Consulting group with expertise in the Life Insurance and Annuities domains. He has carried out a number of technology and process consulting engagements for North American insurers and has wide knowledge of insurance operations, policy administration, annuities, retirement plans and business analysis. His areas of interest are Distributor/ Agency Management, Requirements Engineering and IT Transformation. He holds certifications from LOMA, AAPA and IBM Rational, in addition to a Masters degree in Management.