Preparing Life Insurers for the Future of Distribution

Changes in customer buying behavior, regulatory pressure, the emergence of niche channels, product pressures and digitization mean life insurers must quickly ramp up investments in customer acquisition, marketing and demand generation and multichannel collaboration to stay ahead of market requirements.
Executive Summary

Life Insurance distribution is at an inflection point, reflected by the drastic changes in both the variety of emerging channels and transformation within channels. These distribution changes are driven by seven key market forces — the inexorable influence of digital, empowered customers, new regulations, the aging population, economic uncertainty, market diversity and accelerated growth in emerging markets.

The aging population\(^1\) and economic stagnation\(^2\) exert high cost pressures on traditional distribution channels in the U.S. and Europe. While in Asia, accelerated growth and diversity of the insurance market has meant the proliferation of channels with an emphasis on revenue generation. Although digitization, customer empowerment and regulatory pressure are global forces, they manifest as different distribution needs in different regions.

In light of these forces, we envision a permanently changed life insurance landscape that we call the future of distribution (FoD). Telltale signs of it include:

- **Customer buying behavior will be influenced by experiences** offered in other industries.

- **Regulatory pressure will force traditional channels to innovate** and increase pressure on profitability.

- **Niche distribution channels will be significant** both in mature and emerging markets alike.

- **Channels will continue to influence products** that are profitable, flexible and meet customer demands.

- **Insurers will invest in digital enablement** of channel participants for fast-growing market segments.
Without a carefully planned strategy, insurers encounter a multiplicity of challenges adapting to the future of distribution (FoD) - both within the insurer’s organization and in meeting channel and customer expectations. Understanding how to navigate these challenges will separate leaders from laggards.

This white paper characterizes the FoD capabilities life insurers need to make this transformation and highlights the adoption path required to be “future-ready.” To make the steep transition to a new distribution model and leverage it as a competitive advantage, every insurer will need to understand where it is in the path to FoD and make investments in new distribution capabilities to stay ahead of market requirements.
Future of Distribution in Life Insurance

Reliance on tied agents as the primary channel in Asia,³ the emergence of Bancassurance in key European and Latin American markets⁴ as a prominent channel, retrenchment of poor-performing tied agents in the U.S.⁵ and the rise of online aggregators⁶ globally are all indicators that signify the pace of changes occurring in distribution. Life insurance distribution has reached this inflection point following the confluence of multiple forces:

- **Digital influence and customer empowerment**: Customers’ direct interactions with businesses have changed radically due to digitization. Because many insurers remain bound to legacy systems and business practices and IT systems, this has placed numerous carriers at a severe disadvantage. Since switching costs to consumers easily swayed by digital interactions are minimal, insurers must invest in digital technologies and reorient business processes to be customer-centric to quickly address customer expectations.

- **New regulations**: New regulations are emerging in every region, aimed at protecting customer privacy, strengthening insurers’ solvency and containing fraud. Insurer investment interest in new digitally-powered distribution is often tempered by a vagueness in the regulations concerning various elements of these new models. On the other hand, profitability pressure for meeting the cost of regulatory compliance has led insurers to seek ways to reduce the distribution costs, one of the highest policy expense components.

- **Market diversity**: Highly varied product preferences exist among customers of different age groups and niche segments – with stark differences. Take the rise of Takaful insurance,⁷ which addresses the need for market diversity. It affirms that products sold and business processes are in compliance with Islamic law. For millennial customers, insurers need to ensure products are unbundled, simple to understand and ensure digital self-service for every sales or service transaction. Often, traditional channels are ill-suited for such varied market segments.

- **Aging population and economic crises in advanced economies**: Slower growth and lower premium growth has had an impact on traditional agency channels. MetLife, for instance, has reduced its tied agent force by a third in 2013 in the hope of improving profitability.⁸ Catering to the increasing older population that prefers traditional channels over digital ones is also putting insurers in tight straits.

- **Accelerated growth in emerging economies**: Insurers in emerging economies, Asia in particular, are projected to grow just by virtue of accelerated GDP rates and subpar insurance penetration in their regions. Investments in tied channels, however costly, offer the best chance to establish market-leading growth, closely supplemented by independent and digital channels.

Given the ongoing interaction of these forces, we have established five key hypotheses for the evolution of the FoD (see Figure 1, next page).

**Path to ‘Future-Readiness’**

When running the hypotheses against the existing insurance distribution model, we observed challenges across multiple industry dimensions.

From a customer perspective, key challenges include an inability to accommodate the high-touch needs of high-net-worth individuals (HNI) and the previously defined demands of the millennials. From a channel perspective, the lack of a single view of customers for participants across channels, managing cross-channel conflicts and difficulty in retaining top channel performers will emerge as key issues. Insurers will also run the risk of not having a unified view of channel activities, thereby incurring higher selling costs and grappling with product/channel/customer misalignment in sticking to the capabilities manifest in the existing distribution model (see Figure 2, next page).

The key question that arises is how insurers can identify which capabilities to invest in to prepare for the future of distribution. Below, we define those business capability areas, identify their relevance to specific FoD hypotheses and ascertain the benefits insurers stand to gain by investing in those capabilities. We will also examine examples of what would characterize these capabilities as the insurer moves from one stage of FoD readiness to the next.
The Unfolding FoD

**Forces**

- **Digital Influence** Empowered Customers

  **Hypotheses on FoD**

  1. Customer buying behavior will be influenced by experiences offered in other industries.

- **New Regulations**

  **Sign of Things to Come?**

  In the U.S., profitability pressures and regulatory costs of monitoring has forced MetLife to cut its traditional career agents by a third (2,500) in 2013. In Africa, MicroEnsure enables life insurance purchase in pay-as-you-go top-up cards. Insurers in China enable purchases through ATMs.

- **Market Diversity**

  **Sign of Things to Come?**

  In Europe, AEGON launches Facebook-based insurance initiative Kroodle for “modern, tech-savvy and social” demographic groups. Several insurers in Asia-Pacific offer special life and annuity products with unique features available only through online channels.

- **Economic Crisis** Empowered Customers

  **Sign of Things to Come?**

  IT spending increase of 24% is foreseen (E&Y) in digital initiatives globally in 2014, compared to the 4.4% increase in overall IT spending (Celent).

- **Digital Influence** Accelerated Growth

  **Sign of Things to Come?**

  Insurers will invest in digital enablement of channel participants for fast-growing market segments.

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**FoD Hurdles**

**Challenges from the perspective of distribution actors when not prepared for the future of distribution.**

- **Customer**
  - Multiple customer meetings in concluding sales.
  - Lack of connect with millennials.
  - Difficult transition to digital buying process.
  - Poor buying experience.
  - Customer high-touch needs not addressed.

- **Channel**
  - Sales conflicts between channels.
  - Lack of single customer view for channel participants.
  - Misaligned channel incentivization.
  - Poor channel productivity.
  - High operational burden for channel participants.
  - Inability to scale channel capabilities.
  - Difficulty in attracting brokers and agents.
  - Low per-policy premium and higher selling costs.
  - Channel/product/customer segments misalignment.

- **Insurer**
  - Longer sales cycle time.
  - Limited cross-selling and up-selling.
  - Lack of unified-view insights into channel activities.
  - Poor quality of digitally acquired business.
Capability Areas to Achieve FoD Readiness

Figure 3 highlights the sequence of capabilities required for a life insurer to move toward maturity in FoD readiness.

By investing in these future-ready capabilities, insurers will stand to gain multiple benefits and can better align to FoD (as seen in Figure 4, next page).

So how can life insurance companies progress across the FoD readiness curve? It comes down to having critical capabilities to move from one stage of readiness to the next (see Figure 5, page 8).

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FOD Capability Model

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Figure 3
Achieving FoD Readiness

**FoD Hypothesis**

1. Customer buying behavior will be influenced by experiences offered in other industries.

2. Regulatory pressure will force traditional channels to innovate and also put pressure on profitability.

3. Niche distribution channels will be significant in both mature and emerging markets alike.

4. Channels will continue to influence the products that are profitable, flexible and meet customer demands.

5. Insurers will invest in digital enablement of channel participants for fast-growing market segments.

**Relevant FoD Capability Areas**

- Customer touchpoints.
- Lead management.
- Customer acquisition.
- Operating model.
- Information delivery.
- Planning and performance management.
- Channel acquisition.
- Multichannel integration.
- Multichannel collaboration.
- Sales research.
- Marketing and demand generation.
- Emerging technologies.
- Channel self-service.
- Channel management.

**Benefit Measure**

- Increase in market share from millennial customer segments.
- Reduced cost of compliance and reduction in non-compliance incidents.
- Faster than market growth rates for niche channels.
- Improved market performance of channel-specific products.
- Improved channel productivity and reduced cost of channel servicing.
### Customer Acquisition Capabilities

#### Stage 1: The Foundational Insurer

This stage is characterized by heavy reliance on face-to-face interactions from the initial “meet and greet” to closing a sale. There is also a reliance on printed illustrations to convey key sales messages. Call centers and e-mails remain the primary means of customer communication. Online portals and mobile capabilities are nascent, having limited product push information and few products. There is no official social media presence. Transitioning from one customer access touch point to another is difficult, and buying experience is often varied and inconsistent.

#### Stage 2: The Formative Insurer

Face-to-face meetings still are relied upon for closing a sale. However, technology platforms such as point-of-sale mobile solutions are used for needs analysis and sales illustrations. E-mails are used to deliver only key policy communications. Customer-specific online portals are enabled for the purchase of nonmedical, simple protection policies. Mobile capabilities for customers mirror

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### Future-Ready Insurer

- Formative + seamless and integrated digital and social.
- Social listening and marketing.
- Lead success experience adjustment.
- “Once and done” NB process, end-to-end automated policy issuance in a day.
- Common customer view on sales stage, potential, preferences and personal details.
- Fast negotiation, contracting and empanelment in channel acquisition.
- Channel self-service through Web, social, mobile channels and “what-if” scenario-based selling assistance.
- “One organization” view for channels.
- Multichannel territory management for collaboration and conflict prevention.
- Channel transition is seamless.
- Metrics driven performance and planning.
- SMAC dominance with focus on differentiation in systems of engagement for channel participants and customers.
- Adaptable operating model with continuous feedback.

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### Formative Insurer

- Foundational + mobile apps, online (push and pull).
- Balanced push and pull marketing.
- Segmentation-based demand generation.
- Intelligent customer routing to channels.
- Incentives and rewards as motivators and tied to channel-specific strategy.
- Online channel self-service.
- Mobile-enabled assisted selling.
- Unified customer view for all channels.
- Transition of customers across channels enabled, but experience varied.
- Continuous planning supported by data.
- Process flexibility for channel specificities.
- Cross-sharing of organizational resources across channels.
- Online enablement for transactions.
- Modern systems of records with process automation and externalized rules.

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### Foundational Insurer

- Face-to-face, e-mails, snail mail, call center IVR, fax, online (push).
- Mass marketing for demand generation.
- Paper-based NB processing.
- Commissions sole performance motivator.
- Channel self-service through call centers and branches.
- Judgment-based channel sales planning.
- Organizational support resources, processes replicated for channels.
- System of records focus.
- Legacy technology dominance.

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### Riding the FoD Maturity Curve

Capability manifestations that characterize life insurer’s movement from one FOD-ready state of maturity to another.
online capabilities in sales and servicing. There is an official social presence in popular social media channels, but usage is restricted to branding and promotion. Customers can transition from one access touch point to another, but only in ways defined by the insurer (e.g., an online channel used to conclude a policy sale, face-to-face). There is also a loss of information when transitioning from one channel to another, leading the customer to repeat information.

Stage 3: The Future-Ready Insurer

Conceptually, the customer is enabled to close the sale in a “once and done” process. In addition to point-of-sale capabilities, advanced capabilities such as straight-through processing (STP), digital signatures, video calling and remote desktop sharing are enabled to help the customer complete the sales process without a face-to-face interaction.

Online access media are context-specific. For instance, say the insurer uses customers’ social data to construct buying and servicing needs and preferences. Through mobility, real-time agent and customer location intelligence is fed into sales-activity planning. An online customer portal then provides all capabilities of a brick-and-mortar branch - and acts as a virtual branch.

Customer transition from one access touch point to another is seamless and contextual (e.g., the customer is filling a new business form, has a query on a field and chooses to connect with a CSR or his own agent). The agent or CSR at the onset will know which step the customer is on and guide without the customer having to explain the context.

Marketing and Demand Generation Capabilities

Stage 1: The Foundational Insurer

Mass advertising is the primary mode of generating leads characterized by point-in-time communication blasts with a hit-or-miss result. Leads are primarily targeted based on demographic parameters. Leads generated are treated in isolation within channels and each channel employs intuitive decision-making to ascertain the sales conversion potential of the lead. IT solutions relied upon include e-mail marketing, data marts and Web and mobile push solutions. The insurer invests in solutions to help find prospective customers.

Stage 2: The Formative Insurer

There is a focus on one-on-one customized product targeting, which is based on demographic and behavioral parameters. There is an emphasis on fostering relationships with the leads, using continuous and relevant messages rather than just point-in-time communication blasts. Channels employ fact-based decision-making to qualify leads’ sales potential.

Insurers invest in IT solutions that help customers find the insurer for their product needs through pull marketing as opposed to push marketing alone. Search engine optimization, gamification, Web and mobile pull solutions and analytics are mostly used to generate leads.

Stage 3: The Future-Ready Insurer

The insurer approaches marketing and demand generation to promote, capture, qualify, nurture, distribute and follow up the lead-to-sales conversion process, differentiated to reflect various customer insurance needs. Segment-specific value propositions and customers’ current lifetime value are often incorporated into the demand-generation methods.

New social and digital technologies such as big data are employed to mine the wealth of information available in the public space. Campaigns are managed in the real and virtual worlds with consistent messages. Campaign success rates and ROI are continuously measured to identify improvement opportunities. Tight integration exists between organic leads generated and leads generated from inorganic sources such as aggregator sites. Demand qualification criteria are well established for all channels, with a scoring model ranking the demands generated. All generated leads are distributed to the appropriate channel based on multiple factors such as by-channel propensity to sell, product interest, geographic region, success rate for product, acquaintance with prospect, etc.
Multichannel Collaboration Capabilities

Stage 1: The Foundational Insurer
Multichannel collaboration is nonexistent. Channels operate as individual silos, often cannibalizing the insurer’s market share. Market plans lack distinguishing characteristics from one channel to another. Customers potentially stand to get multiple sales messages from various channels. There is no single view of the customer across all channels to identify gaps and position offerings that best suit the customer. There are no operating processes or technology solutions that enable visibility of operations and key metrics for each channel.

Stage 2: The Formative Insurer
Limited multichannel collaboration exists among select channels. For instance, direct channels can guide the prospect in identifying the insurance needs and suitable product; they can then hand over the thread to an agent from a tied channel to complete the sale. While receiving the request, the tied agent will have adequate details about the prospect to continue the sales conversation to closure.

There is a single view of customer details for all channels identifying the customer’s needs, product preferences and life products purchased. Technologically, multichannel collaboration is usually achieved at this stage through a common distribution portal with a unified customer and sales view. Still, niche channels continue to operate in silos. There is a strong distinction in collaboration between insurer-owned channels and brokers and independent agents. There is no unified multichannel market planning.

Stage 3: The Future-Ready Insurer
Multichannel collaboration is optimized, not only with the objective of adequate visibility of market plans and operations between channels, but also in terms of providing cross-channel consistency for customers. Cross-selling, up-selling and management of orphaned customers are key areas that can be addressed via focused multichannel collaboration.

Non-value-adding channel tasks are centralized, despite the existence of a core multichannel operations team. There is a strong culture of sharing information and transparency without jeopardizing the respective channel performance. To improve collaboration, insurers in this stage typically deploy social platforms, such as channel communities and blogs. This promotes sharing of best practices across channels, enables community creation, idea sharing and networking. For the insurer, a strong reporting process also exists to provide valuable information on cross-channel productivity analytics, which are tracked as KPIs as part of the larger multichannel collaborative framework.

Looking Ahead: Finding Your Place in the FOD Journey
Enabling key FOD capabilities will require investments in IT platforms and SMAC (aka social, mobile, analytics and cloud) solutions as well as the reengineering of existing distribution-related business processes. However, these investments should be preceded by an initial discovery to understand where your organization is in its FOD journey and to plan a detailed roadmap for future readiness internally, across channels and in interactions with customers.

Insurers will need to ask themselves the following questions to be future-ready:
- Which distribution problems should be prioritized?
- Which marketing initiatives and capabilities are differentiators?
- How does my organization envision the future of distribution?
- How should our distribution mix, structure and supporting units change?
• Which technology capabilities will be the immediate focus for our FoD journey?
• What should our future distribution roadmap look like?
• What will be the ROI and payback period for my FoD initiatives?

Answers to these questions will serve as a starting point in the journey of FoD enablement. For growth-oriented life insurers, the difference between being future-ready or not will either mean market leadership or irrelevance.

Footnotes
3 Ernst & Young, “2014 Global Insurance Outlook.”
7 Takaful Insurance refers to insurance products designed and marketed in accordance with Shariah, the Islamic law. There are different sub-variants – Mudharabah, Wakala and Waqf – depending upon treatment of capital contribution and excess contribution or profit from premium contributions among policy holders.
8 “Metlife Cuts 2,500...etc.” op. cit.
11 “Metlife Cuts 2,500...etc.” op. cit.
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