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Changing the Channel

Agents and carriers need to embrace the new technology of selling and distributing insurance products.

by Frank Petersmark

Insurers are under increasing pressure to leverage both existing customer relationships and the corresponding business intelligence and analytics needed to create new markets for their products and services. This will continue to result in insurers developing and exploiting alternative channels for product and service distribution.

Nontraditional channels, such as cross-selling e-commerce platforms (for example, with banks for life insurance) and customer-facing portals are all part of an attempt to shift the sales focus from all-inclusive products for the masses to a tailored, focused approach matching products to specific market segments. These emerging consumer segments, such as the millennials, have different expectations about how they want products to be sold to them.

More often than not, these expectations no longer include a face-to-face visit with an insurance agent. Instead, they include the ability to access everything online, including research and cost comparisons, just like when buying securities and managing financial portfolios.

These new approaches to downstream growth via existing or alternative sales and distribution channels have significant technological implications for carriers and agencies. The business implications of such approaches often translate into a reconstituted business technology portfolio requiring at least three process-and-technology imperatives: flexibility, agility and scalability.

Traditionally, insurance distribution channels and the technology

Key Points

- **The Situation:** Consumers expect choices for researching and buying insurance through various channels, including online.
- **The Issue:** Many insurance carriers and agencies are behind the curve in addressing this new consumer reality.
- **The Next Step:** Insurers need systems and processes that use flexibility, agility and scalability to meet changing consumer demands.

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underlying them employed a lowest-common-denominator approach. That is, the system and data underlying and supporting the sales and distribution cycles were designed and organized to support the broadest possible audience with the broadest possible product set. Likewise, the user interface for both the carrier's business analysts and the agency's customer service reps typically limits the amount, scope and quality of data available to enter into any underlying customer-information system.

As a result, most insurers are handicapped when trying to serve new-channel customers, since they lack the ability to gather and aggregate consumer information in their customer-facing systems.

One of the key drivers for carriers and agencies in the new world of virtual distribution channels is the ability to quickly and proactively identify new and emerging channels, and just as quickly provide a product or service solution that addresses the channel need. Savvy carriers and agencies will work together to strike the right balance between supporting longtime customers who prefer a more traditional sales-channel approach (face-to-face with their agent), and having a well-conceived, modern channel infrastructure that offers choices to new, more technologically adept consumers.

Three imperatives are involved in new sales channels and technology:

Flexibility

Increasingly, the insurance distribution channel no longer begins and ends at the agent's door. While agents will continue to play a key role in the insurance product distribution process—particularly in property/casualty insurance—consumers have become comfortable conducting sales transactions over the Internet.

Many newer consumers have grown up in a world of flexible sales channels, with many different ways available to purchase products and services. Carriers and agencies need to build that same kind of flexibility into their distribution channels and offer customers (personal and commercial) various ways to gather information about a potential purchase. From a technology perspective this will require carriers to implement systems that are based upon Service Oriented Architecture and Web 2.0 concepts.

Such an approach will allow the carrier's technology partners to create systems composed of discrete components that represent specific system functions, making integration with back-end systems and consumer flexibility on the front end more manageable. One can even imagine carriers offering agent and/or consumer access to their portals or front-end quoting or inquiry systems via mobile applications that can be accessed through a PDA, smart phone, iPad or other tablet-like device from almost anyplace where Internet access is available.

The insurance distribution channel no longer begins and ends at the agent's door.

The paradigm shift is from the carrier or agency controlling the distribution and sales process to the consumer controlling that process. In the recent past, most insurance purchasers worked entirely through their local agents to identify and determine their needs and shop around for the best deal if the agent represented multiple carriers. The agent was the subject-matter expert and the customer's best (and often only) source of information and counsel for any potential purchase.

Increasingly, consumers will demand alternative ways of obtaining the same information. Certainly, some purchasers will continue to value the agent as the subject-matter expert. Conversely, there will also be purchasers—think 70 million millennials—who have grown up in a world where self-service is the norm and expectation. They don't react well to "It's my way or the highway."

In the near future, the ability to address this paradigm shift will be more than a nice-to-have; it will be a must-have. Consumers will see an inflexible channel process as a disqualifier for their business. And to support flexible sales processes, insurers will need flexible systems.

Agility

From a systems perspective, this emerging world of virtual distribution channels will require a rethinking and potentially a redesigning of carrier and agency business technology platforms. Customer-facing portals, self-service information gathering, interactive chat and consumer-experience blogs will all be required as a starting point to serve future consumers of insurance products and services.

Carriers have two choices: to design such platforms on top of or next to their existing and legacy platforms, and then manage the required (and no doubt problematic) integration required; or to create entirely new architectures and platforms that are Web-aware and can be deployed on a variety of computer, PDA, tablet and netbook platforms.

One significant challenge for carriers, particularly those that take the latter course, is whether their existing organizational talent has the experience and perspective to make such a transition from a technology and a consumer-experience standpoint. Many carriers rely heavily on seasoned information technology and business professionals who know their organizations' legacy systems and data stores intimately. But they are often much less adept at envisioning and designing for the new distribution-channel revolution that's already begun.

A potential strategy for carriers is to target technology talent from industries that have already adopted alternative channel approaches—the apparel

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and consumer electronics industries come to mind—to jump-start their advances into this consumer-centric world. Both carriers and agencies need to rethink their current business technology approaches and move toward the agile development methodology approach. The agile approach for designing and implementing customer-facing systems has been proven in other industries but has been slower to catch on in the insurance sector.

This methodology encourages tight collaboration between business and technology resources, and has a much shorter development and implementation cycle. Both characteristics will allow carriers to get from opportunity to implementation much more rapidly than traditional development methodology—a must-have in the new consumer dynamic.

Scalability

Carriers and agencies need to build processes and systems that can easily be scaled to support multiple distribution channels. Imagine the frustration of a young consumer who cannot drill through a carrier's or agency's portal or social media-based platform to complete a transaction, speak to somebody, go into a chat session or use Apple Face Time or Skype to discuss their potential purchase.

Today's young insurance consumers will be tomorrow's risk managers, employee benefits professionals and small-business owners.They will expect instant access to their carrier's information about their policies, insureds and claims, and the ability to self-service all of their insurance needs if they so desire. Carriers will need to implement and manage systems and e-commerce platforms that have the ability to support and service everything from individual business owners to large multinational customers.

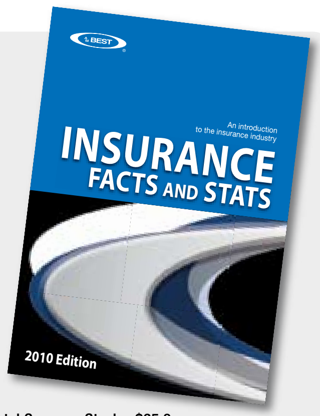
This will require processing platforms and technology infrastructures, be they in the "cloud" or elsewhere, that can dynamically adjust their performance characteristics to satisfy the response needs of many different-size consumers.

Building and fine-tuning the required cadre of virtual channel-support processes may be even more challenging than building the systems themselves, particularly for carriers. While carriers have experienced product specialists and the processes to support them, they generally do not have the organizational talent and processes required to support a diversity of channels and sales approaches.

That means that carriers, and to a lesser degree agencies, will need to build, borrow, or "steal" the required process sets and talent from elsewhere. Going forward, an updated set of business processes that supports varied and virtual distribution channel technologies will be an essential part of a modernized carrier's or agency's business marketing approach. BR

INDUSTRY SNAPSHOT

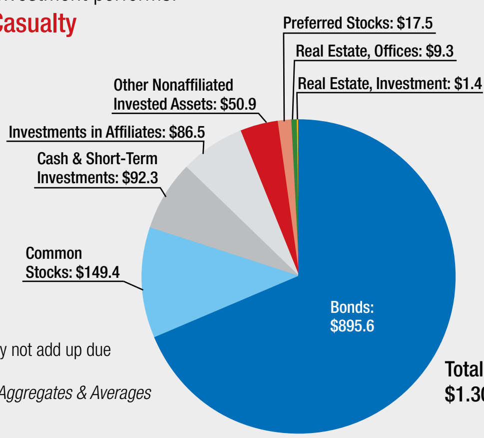
A quick glimpse at the insurance industry.



Asset Distribution

THE "FLOAT" CYCLE: The interval between when the insurer receives a premium and the time a claim against that policy must be paid. During the cycle, the insurer invests the premium, making a profit or loss depending on how the investment performs.

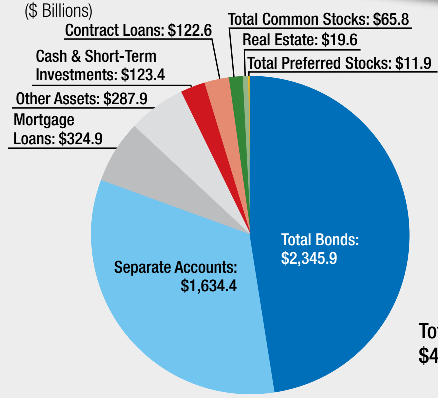
Property/Casualty
($ Billions)



Total (2009): $1.30 Trillion

Note: Totals may not add up due to rounding.
Source: Best's Aggregates & Averages

Life/Health
($ Billions)



Total (2009): $4.93 Trillion

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