



## Modernizing Insurance Distribution Systems: Look Before You Leap

Your distribution is going further, faster and getting wackier

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In the pursuit of growth, insurance carriers have been focused on investing budgets, time and energy in sustaining and expanding their global footprint. To support the expansion, back-end core functions have been strengthened. However, the carriers are struggling with distribution strategies. This is because the distribution mix and mode vary to a great extent across geographies. In today's customer-centric world, distribution channels are the lifeblood of growth. They have the power to improve customer connect while enhancing the ability to acquire new customers and retain existing ones. This realization is bringing distribution under the spotlight.

Industry analysts say distribution management remains one of the critical areas that insurance carriers, across all lines of businesses, need to focus on to maintain their competitive positioning while also looking to improve financial performance.

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Carriers are recognizing that traditional channels of distribution such as agents, affinity partners, commercial brokers and retail alone cannot tap the growing potential of insurance. This is because new technology trends and customer behavior are forcing widespread change in product education, pricing and sales.

One indicator of the power of new channels such as the Web and mobile is the growth in aggregators like Money Super Market<sup>i</sup> and AgentInsure<sup>ii</sup>. Customers have gravitated toward these services because they offer choice and convenience over traditional channels.

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<sup>i</sup> <http://www.moneysupermarket.com/>

<sup>ii</sup> <http://www.agentinsure.com/>

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## Winds of change

Robert P. McIsaac, Senior Vice President of Novarica Inc. said, "Better service is now frequently defined as 'self-service.' In that light, actions that carriers take, which allow for easier and more effective on-boarding, licensing and appointment activities, can help them improve their relative position when looking to achieve increased mindshare."

The real dilemma before carriers is this: while the trend towards new channels of distribution is good for business, they are depleting the market for traditional channels and sending distribution into a state of instability.

There are two levels at which the changes have an impact:

**Customers:** The mindset of the customer has changed. Some decades ago there was no technology to assist the customer in locating insurance information. The only option for them was to go to an agent/broker and buy the closest best-fit product. Today, enabled by technology and a knowledge-driven economy, customers can research insurance products and their benefits using the new channel options. In many instances, using these digital self-help channels, they tailor products to fit their needs.

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help them improve their relative position when looking to achieve increased mindshare," said Robert P. McIsaac, Senior Vice President of Novarica Inc., which provides technology strategy research and advisory services to insurers.

**Distributors:** The self-help processes for customers are leading to business erosion for traditional distributors. This is forcing distributors to demand increasingly sophisticated products they can sell to their customers. These products cut across lines of businesses, combining term, life, endowment, or health, property, motor, etc., into a custom package. Distributors then need exclusive campaigns tailored for these products. Many broking houses are also asking for policies to be written by them to ensure prompt service to the end customer, akin to the service offered through other digital distribution modes. Further, to increase reach, distributors are banking on multi-level distribution systems, which demand a transparent and accurate commission set up and processing.

## Using COTS to transform distribution

In reality, these business needs coupled with frequent legal and regulatory changes put great stress on carriers to modify their legacy platforms. In our estimate, around 80% of the IT operation cost incurred by carriers are due to these frequent changes to be carried out.

It is possible to modernize and move legacy distribution systems from being product-centric to being customer-centric. But there is an underlying risk. Such systems are expensive and affect time-to-market. Additionally, the flexibility and scalability of such upgrades to accommodate business or regulatory changes could remain in question.

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## Caveat Emptor (Buyer Beware!)

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Our global engagements with carriers suggest that the optimal solution lies in implementing Commercial-off-the-shelf (COTS) platforms similar to the core systems modernization. The advantages of the COTS trend lie in quicker implementation leveraging industry best practices, faster ROI with scalability and periodic version upgrades.

With COTS platforms, carriers can expect faster and simpler onboarding and licensing processes based on automated workflows. This frees up the sales team to hunt for additional business. COTS enables new channels for self-service with pre-underwritten products, leading to substantial reductions in operational expenses. More importantly,

COTS implementation initiatives come with a caveat. Given that the insurance business varies across geographies, COTS product selection and implementation can go completely wrong. It is, therefore, critical to choose the right consultant and implementation partner even before selecting the product.

A partner that combines business consulting capabilities with global implementation experience is ideal. Such a partner can analyze the current business and technology landscape to design futuristic technology stacks in line with industry best practices. This results in bridging the functionality gaps between existing and proposed systems in a shorter span of time. It also ensures out-of-the-box functionality or customization demanded by a

COTS caters to the evolving needs of agents and partners to create custom campaigns and accurately calculate commissions and incentives (even in hierarchy structure involving complex customized products).

COTS platforms offer interesting features that can be unlocked, promising several benefits to carriers. We have seen carriers benefit from the ability of platforms to arrest pilferage of commissions related to free look and mid-term cancellations, distributor-wise and LOB-wise system-generated P&L reports, analytics-based campaigns designed to incentivize agents to fuel business growth, and methods to isolate fraudulent agents and cancel their licenses.

LOB or distribution channel can be met by the chosen product.

In a growing number of conversations with carriers across the world, we have noted the tendency to accelerate the process of analysis to find the right product match with or without the help of any consulting partner and a rush for implementation. This brings with it the downstream risk of roadblocks and poor product fitment, resulting in a loss of money, time and opportunity itself.

Carriers should ideally select partners who are experienced in the industry, that have the best-suited industry alliances and bring with them the right tool set and techniques for modernization. That is the single insurance required for an effective distribution upgrade.

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## About the authors

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He is a Fellow of Insurance Institute of India and possesses over 12 years of experience in business analysis, requirement analysis in P&C and health domain. He has a Post Graduate Diploma in Business Management.

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