2016 IIZ Annual Conference

Today's Vision: Tomorrow's Reality – Managing Risk Exposure Through Innovative Solutions

Topic: Capitalize on the Agency Channel in the Changing Distribution Landscape

By

Dr. Ben Kajwang', Phd, MBA, B. Comm. (Hons), FCII, FIIU, FIIK, AIRM, Chartered Insurer and Risk Mngt Consultant, Certified Pensions Trustee Consultant

Director/CEO, College of Insurance , Kenya

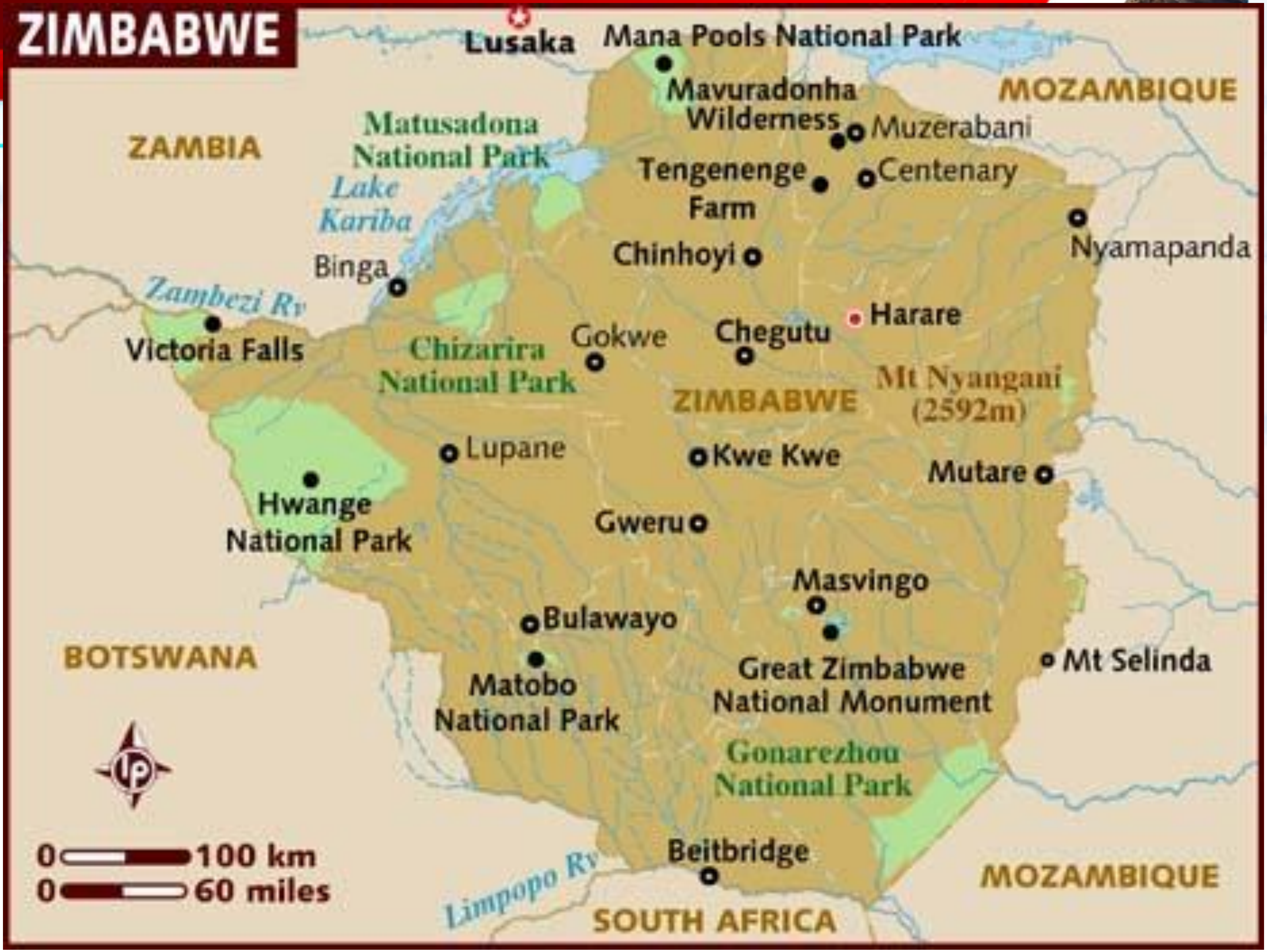
and

Chairman The Association of African Insurance Educators and Trainers (AAIET) – African Insurance Organization (AIO)

COLLEGE OF INSURANCE

Agenda

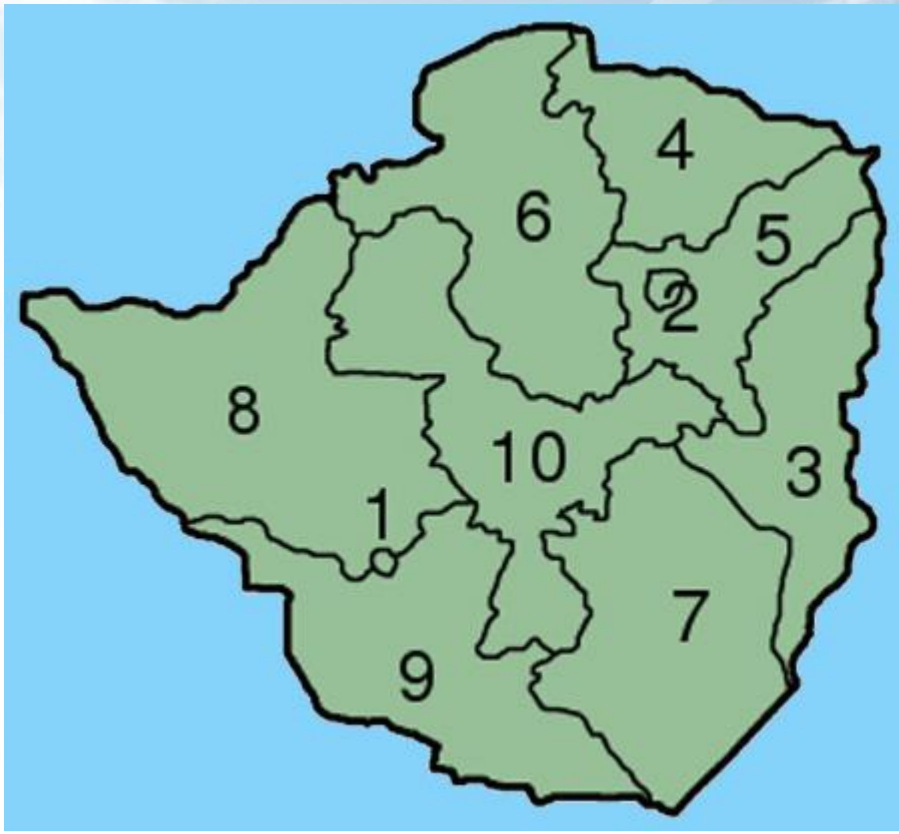
- Introduction
- International Trends in Insurance Distribution
- New Product Introduction: Business Drivers
- Overview: The Insurance Industry Today and Tomorrow
- Global market trends
- New Delivery Models
- The Internet: The Game Changer
- Empowering the next-generation workforce
- Summary


ZIMBABWE
Lusaka
Mana Pools National Park
Mavuradonha Wilderness
Muzerabani
MOZAMBIQUE
Matusadona National Park
ZAMBIA
Lake Kariba
Tengenenge Farm
Centenary
Chinhoyi
Nyamapanda
Binga
Zambezi Rv
Harare
Victoria Falls
Chizarira National Park
Gokwe
Chegutu
Mt Nyangani (2592m)
ZIMBABWE
Lupane
Kwe Kwe
Mutare
Hwange National Park
Gweru
Masvingo
Bulawayo
BOTSWANA
Great Zimbabwe National Monument
Mt Selinda
Matobo National Park
Gonarezhou National Park
0 100 km
0 60 miles
Limpopo Rv
Beitbridge
MOZAMBIQUE
SOUTH AFRICA

Population	14,546,961
Age structure	0-14 years: 37.8% (male 2,778,806/female 2,720,033) 15-24 years: 21.29% (male 1,560,833/female 1,536,110) 25-54 years: 33.86% (male 2,578,142/female 2,346,993) 55-64 years: 3.55% (male 188,851/female 327,483) 65 years and over: 3.5% (male 194,933/female 314,777) (2016 est.)
Dependency ratios	Total Dependency Ratio: 80.4% Youth Dependency Ratio: 75% Elderly Dependency Ratio: 5.3% Potential Support Ratio: 18.7% (2015 Est.)
Median age	Total: 20.6 Years Male: 20.5 Years Female: 20.8 Years (2016 Est.)
Population growth rate	2.2% (2016 est.)
Birth rate	31.9 births/1,000 population (2016 est.)
Urbanization	urban population: 32.4% of total population (2015) rate of urbanization: 2.3% annual rate of change (2010-15 est.)
Major cities - population	HARARE (capital) 1.501 million (2015)
Life expectancy at birth	total population: 58 years male: 57.3 years female: 58.7 years (2016 est.)
Literacy	definition: age 15 and over can read and write English total population: 86.5% male: 88.5% female: 84.6% (2015 est.)

Source: IndexMundial 2015

Map of the distribution of population in Zimbabwe



8 provinces and 2 cities:

Cities:

1: Bulawayo: 1,003,700 inhabitants

2: Harare: 1,974,000 inhabitants

Provinces:

3: Manicaland: 1.6 million inhabitants
4: Mashonaland Central: 998 225 inhabitants
5: Mashonaland East: 1.1 million inhabitants
6: Mashonaland West: 1.2 million inhabitants
7: Masvingo: 1.3 million inhabitants
8: Matabeleland North: 700 000
9: Matabeleland South: 650 000
10: Midlands: 1.5 million inhabitants

Source: IndexMundial 2015

Introduction

- Some insurers have adopted an alternative distribution strategy based model, concentrating on drivers such as banks, corporate agents, and insurance brokers to fuel their business growth, while some have concentrated on the traditional direct channel model comprising of individual agents, direct mail, company websites (internet based selling) and every such activity that involves the insurer directly.
- We have explored these channels in depth and come to a conclusion that no insurer can afford to be adamant in its distribution strategy, and stick to a few favourite channels, and that the need of the hour is to be competitive, by adopting a multi-channel distribution strategy; while being flexible in adopting the modern tools of technology and the internet in widening the boundaries of the distribution box.

- In short, innovative ideas of distribution may be the new mantra and insurers need to align their business strategy in line with changing consumer tastes and preferences.

- The product needs to “be there” readily available for the customer, whenever he decides to buy, and at the right price bands, and with the right marketing mix.

- Changing lifestyles and buying preferences will decide the future models of distribution, while maintaining the equilibrium for the traditional patterns of distribution as well.

- Thus, internet based buying may be preferred in the coming years, but the agent may still be available for the ‘warm’ smile and social networking potential that adds value to the prospective buyer of life insurance. Not surprising, since in India the traditional and modern have always survived together.

- A quiet revolution is underway, with technology re-configuring the traditional insurance distribution model.
- The internet and mobile devices are impacting distribution, but the overall share of e-commerce sales is still low.
- Nonetheless, new technology is fundamentally changing how consumers and firms interact with insurers
- Combined with Big Data these developments are prompting far-reaching changes in insurance

- The direction is clear: new technology will eventually enable customers to arrange most of their insurance through remote digital channels
- Intermediaries can still play a key role, but will need to adapt to their customers’ changing needs and preferences
- As competition intensifies, insurers with strong brands and technological know-how will thrive.
- The road to successful innovation in distribution requires a culture that fosters experimentation and accepts failure during the design process.

An evolving distribution landscape

Distribution relates not only to sales but also a wide range of additional activities

Preliminary information search
- Marketing
- Basic search/ information gathering
- Product design

Other pre-sales activity
- Assessment of risk/ underwriting
- Advice
- Personalised quote
- Negotiation

Completing the purchase/sale
- Contract signing
- Policy issuance
- Premium payment

Post-sales activity
- Policy administrati on
- Claims management
- Risk management

Source: Swiss Re Economic Research & Consulting

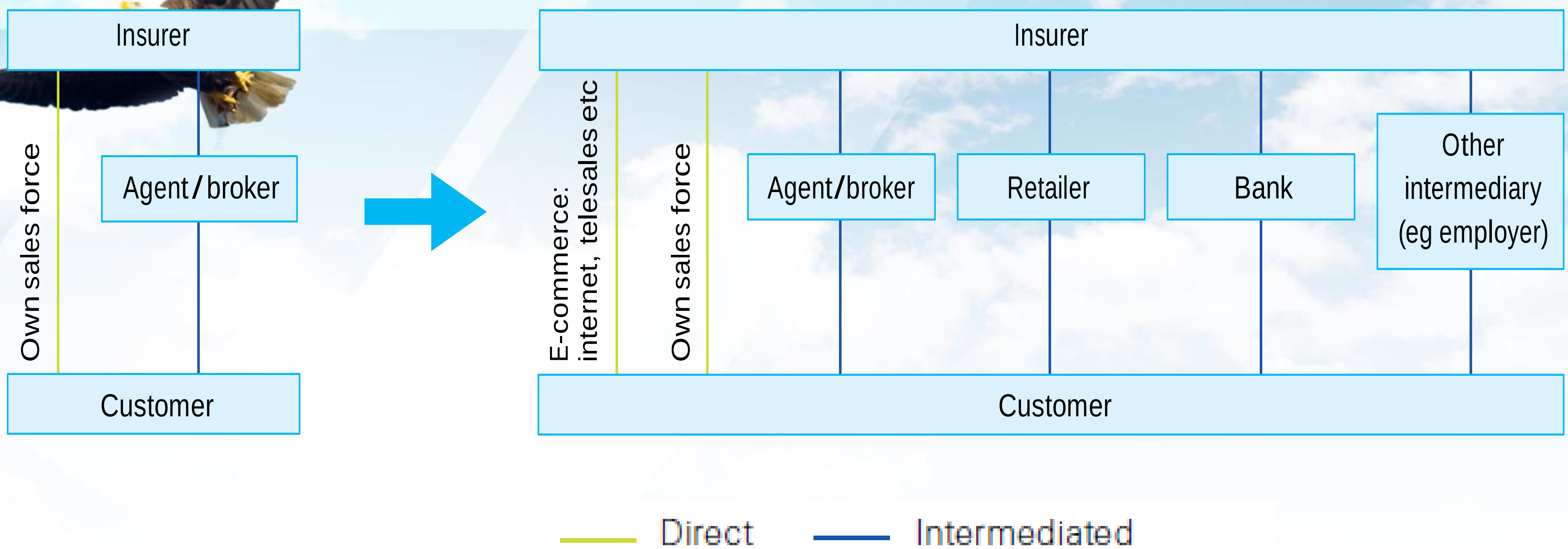
Activities in the insurance distribution process

Role of insurance intermediaries

- These activities have traditionally been bundled together by specialist intermediaries such as agents and brokers.
- Intermediaries continue to play the dominant role in distribution in most insurance sectors
- Alternative intermediaries are nevertheless becoming more prominent
- Direct sales have also increased as the distribution model has widened to include multiple sales channels.

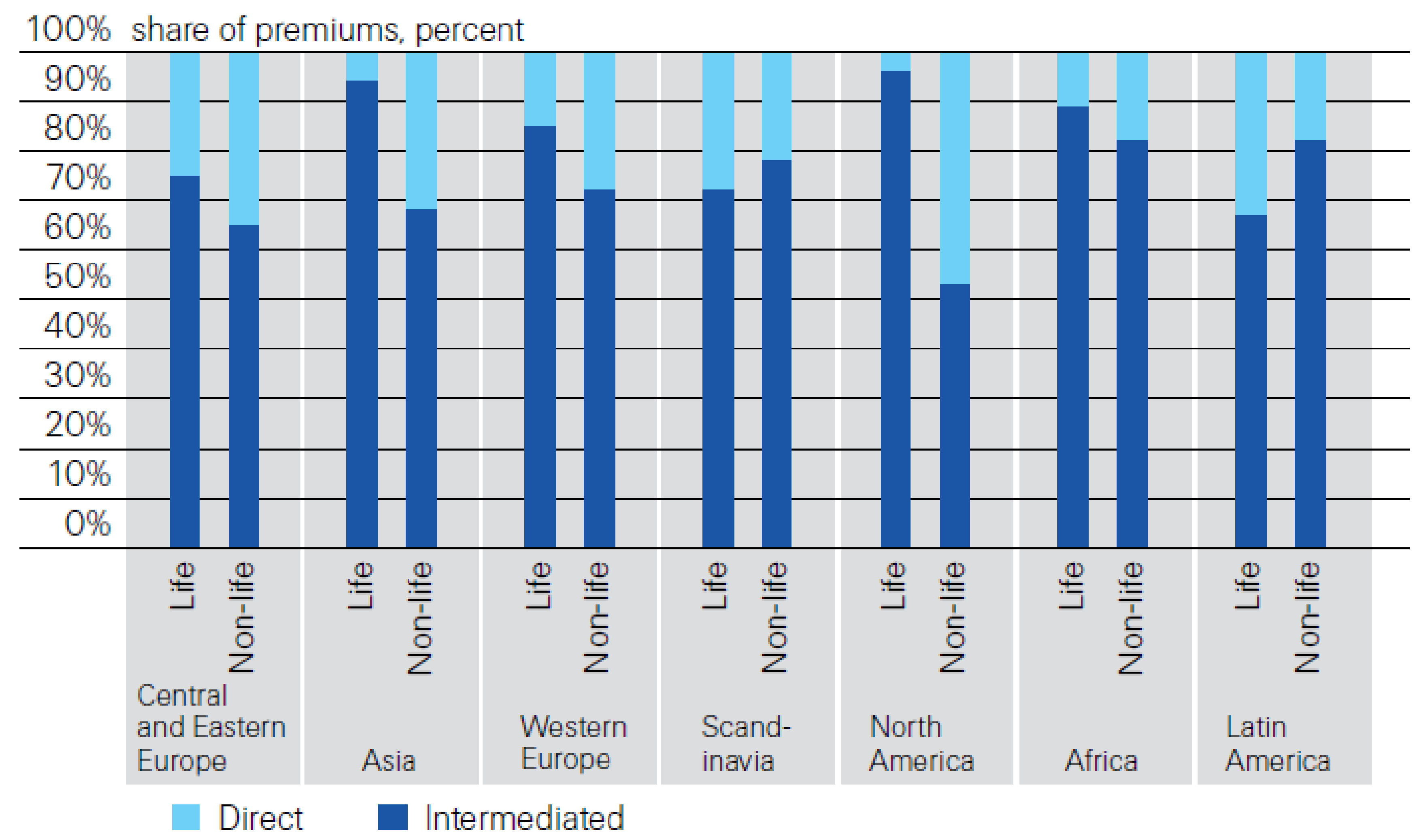
Traditional vs modern distribution channels in insurance

Traditional model / **Modern multi-channel model**



Source: Swiss Re Economic Research & Consulting

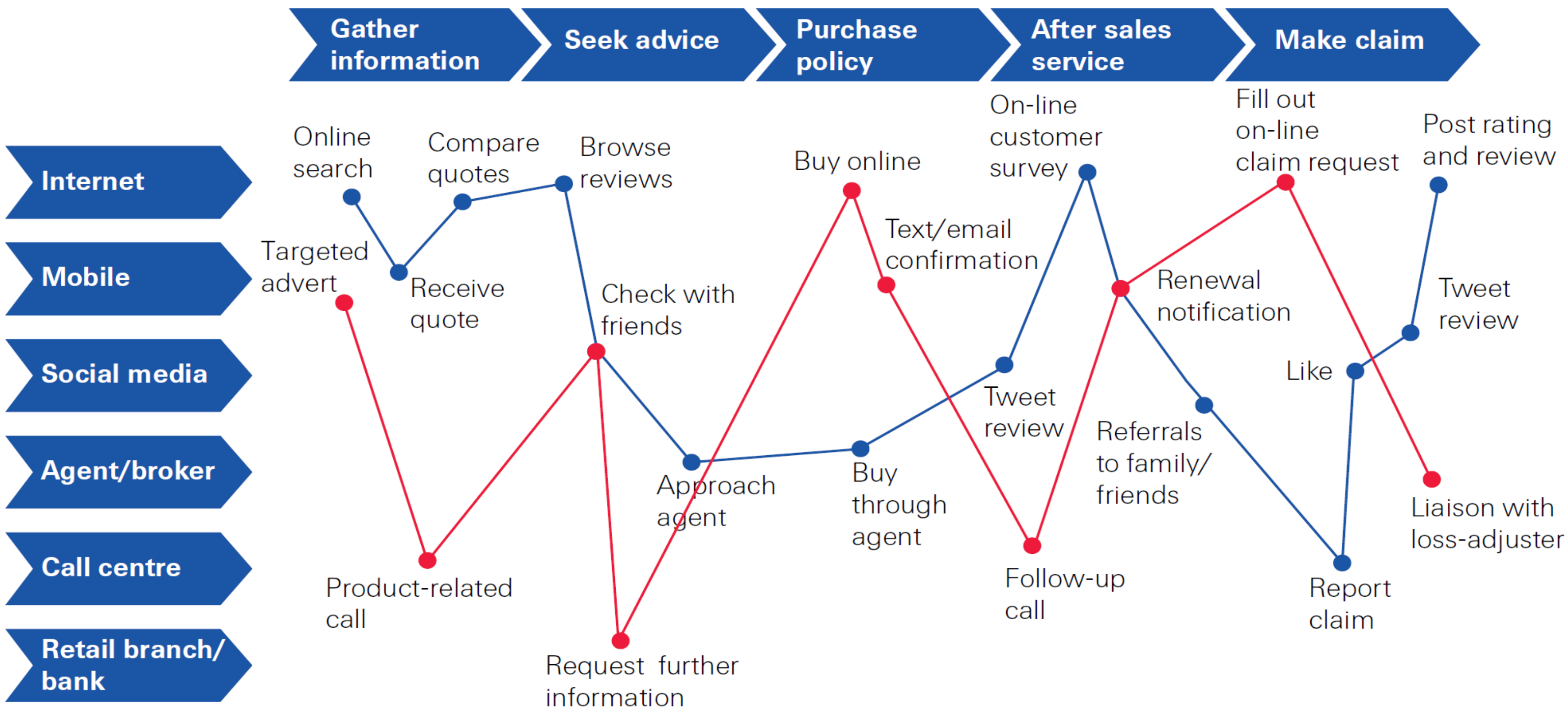
Intermediated vs direct insurance sales, by region



Growing importance of multi-channel, multi-touch interaction

- E-commerce sales are increasing, although they remain modest.
- The internet has transformed motor insurance distribution in the UK.
- Taken together, e-commerce channels account for around two thirds of UK personal motor insurance distribution
- New technology is increasingly fragmenting the purchasing process
- At the same time, insurers now have more information on customers which they can use to react quickly to changing demand.

The increasingly complex buying journey for insurance: multiple touch-points



Note: The red line shows an example buying journey initiated by a mobile advert, and the blue line a purchase experience via online search.

Source: Swiss Re Economic Research & Consulting based on insights from "Powering the Cross-Channel Customer Experience with Oracle's Complete Commerce", Oracle (2012)

Insurance on the Web

- The internet is transforming nearly all stages of insurance distribution.
- Gathering online information is often a key step in the pre-purchase process although there are regional and country-level differences driven by factors such as regulation.
- Price comparison websites (PCWs) have in some cases been the catalyst for internet search
- The market penetration of PCWs varies widely across countries but they are becoming more important the world over.
- The internet is also increasingly becoming a trusted source of advice and online insurance information can be more easily matched to consumers’ specific needs.
- Similarly, information and advice is available online for small businesses
- Comparison websites are sometimes also seen as a destination for advice.

Social media

- Social media is playing a growing role in pre-sales activities, including the dissemination of advice as well as the sharing of risks and negotiation of better and cheaper cover for members of a social network.
- Social media are fostering peer-to-peer initiatives for personal insurance
- Some schemes allow individuals to share possible losses up the level of the deductible in a standard insurance policy
- Others appear to be more closely based on mutualising insurance losses across members of a social group.
- On the commercial side, risk pools may also receive a boost from technology
- Insurers themselves are increasing their use of social media
- Overall, digital pre-sales interaction is expected to increase considerably
- There is currently still some reluctance to purchase insurance online in most regions of the world.

- Complex products are more likely to be sold through intermediaries but standard insurance products are becoming more readily sold online, especially motor and domestic property cover.
- Even some commercial markets are seeing increased internet sales
- Online reinsurance solutions for simple risk classes are also being developed.
- Sales of relatively straightforward life insurance products are also migrating to the internet.
- Additionally, online reverse auction platforms are starting up.
- Internet purchasing seems set to grow further, although in some markets, institutional factors limit online penetration.
- Younger generations are more likely to purchase insurance on the
- Web, although consumers of all ages are becoming more comfortable online.

THE MOST DISRUPTIVE DEVICE EVER

Map
Album
Encyclopedia
Doctor
Cinema

Phone
Wallet
Translator
PA
TV

Bank
Camera

Notebook
University

Book Library
Video Library

Music Player
Alarm
Social Life
Key
Newspaper

Email Device
Tutor
Games Console
Watch/Timer

Dictionary
Diary
Travel Guide
Scanner
Taxi Service

AND HERE COMES INSURTECH

- Reach
- Instant micro-insurance
- Premium collection
- P2P insurance
- Digital brokers
- Customer relationship management
- Driver risk assessment via smartphone and black box
- Health monitoring via wearable sensors

Mobile devices

- Mobile technology allows customer interaction anytime, anywhere.
- Telematics technology is mobilising the data collection process, and has enabled innovations in usage-based insurance, particularly in auto, where premium rates are linked to driving behaviour.
- Telematics can foster risk-reducing behavioural change.
- Telematics could move beyond auto to life and health and property lines.
- Distribution via smart devices requires understanding user needs “on the go.”
- Smart mobile access is greater in the developed world but it is increasing in emerging markets.
- Smart mobile phones can increase traffic to online portals.
- Mobile devices allow both passive and active data submission by consumers.
- Smart phones also facilitate distribution via social media.
- However, effective distribution via smart phones requires tailored design.

Potential role of Big Data in distribution

- Big Data refers to the application of analytic techniques on often large, complex data sets.
- Like the internet and mobile telecommunications, Big Data is a source of disruptive innovation.
- The term Big Data is not well defined, but at its core combines the collection of large amounts of varied information, often rapidly updated, which can be both structured and unstructured and analysed to extract useful business intelligence.
- Big Data can generate valuable insights into consumers' buying behaviours.
- Big Data can facilitate a holistic, consumer-centric approach to distribution.

Micro market segmentation

- Traditional marketing approaches rely on relatively broad market segmentation
- Big Data enables a more granular assessment of the customer base
- Non-insurance firms are leading the way in using Big Data for targeted marketing
- Insurers are also active; for example, using web and social profiling to identify the uninsured, combining information on customers' retail shopping habits with claims histories to target prospective customers, and employing telematics to improve auto underwriting and customer engagement.

International Trends in Insurance Distribution

Beyond face to face insurance distribution

- The costs of sale for many insurance products are significantly out of line with the value provided to consumers, according to a new research by Deloitte.
- The research, a result of a six month review of the UK insurance industry's sales and distribution channels, looked at the root cause of emerging problems in insurance distribution cost structures, particularly around face to face sales and examined the likely impact these challenges may have on future profitability.
- The research showed that the industry as a whole became competitive, cutting operating costs by 50% across the past decade.
- However, distribution costs moved up and accounted for 38% of total operating costs, an increase of 29% in 20 years.
- Coupled with low persistency (poor customer loyalty), current face to face models, primarily IFA's, are running counter to underlying economics and value.

- This may account to some of the apparent pressures on Independent Financial Advisors.
- As product providers consider their strategies around their own direct sales force, telephone and internet channels become more popular.
- The underlying economics that drives this theory is that the lapsation of policies that pay high commissions to the agent is quite high, with nearly 50% of the policies lapsing after 4 years, meaning that they come nowhere to making money.
- Traditional face to face sales in 2006, accounted for 72% of retail insurance sales in the UK, and in some product groups such as pensions they account for almost 90% of sales.
- In personal lines insurance, just 39% of sales were face to face, down from 84% 15 years ago. In 1999, 96% of life insurance sales were made face to face, today it is 62%.

- The decline of face to face distribution in the UK, was seen across personal lines insurance as direct channels such as telephone, direct mail and internet emerged.
- Personal pensions and annuities distribution may be the next to follow suit.

Reasons behind the symptoms:

- Insufficient customer segmentation and targeting together with some continued operational inefficiencies means the cost of face to face advice is out of line with industry revenues and growth, driving up sales costs as a percentage of overall operating costs.
- The question is whether current face to face distribution models cost more than the value they provide.
- While higher net worth individuals may value the advice they receive for longer term insurance products, certain consumers may be paying for a service they don’t want or can’t really afford.

- Since there is a value mismatch between the customers and the agents, an increasing number of customers will turn to other channels (phone, branch, internet) to make their insurance purchases.
- The solution is that insurers have to adopt a multi-channel strategy that develops new alternative channel formats and drives out efficiencies in traditional channels.
- These channels must be supported by simplified products and unbundled advice.
- Allied to these changes will be a greater understanding of both the true costs of serving customers via various channels, so that the cost of sales can be aligned to their value, and the real needs of consumers.

- In spite of a remarkable reduction in operating costs over the last decade, in the UK; the business economics of distribution and product threaten the future profitability of the industry.
- Face to face insurance sales do have a place — there are products that require advice but the present economic structure does not support providing fully-bundled advice to all customers; but can be used strategically for particular customer segments.
- Trends prevalent in the insurance industry today run in parallel with the confluence of the financial services as banks, capital markets, and insurance combine distribution channels.

- This confluence is occurring on an unprecedented global scale causing massive growth in emerging markets and an increase in affinity group distribution such as Islamic finance, microfinance, retail outlets, post office, work site marketing, and banc Assurance.
- This industry is seeing the need to distribute these affinity groups over device type channels such as kiosk, PDA, mobile phone, digital TV.

The following Channels are used by life insurers either in limited manner or on full scale, or a combination of all or most of these channels; making it a multi-channel strategy.

- Broker
- Individual Agents
- Corporate Agents
- Micro-Insurance
- Bancassurance
- Cell Phone/PDA
- Kiosks
- Internet
- E-commerce
- Work Site Marketing
- Direct Marketing – INTERNET
- Islamic Insurance – Takaful
- Digital TV/Satellite Selling
- Supermarkets and other retail outlets
- Affinity Channels and Groups
- Insurance specific debit/credit cards
- Call Centres

- It is estimated that insurers will spend approximately 25% of their development budget to improve and streamline the distribution process. Distribution costs affect insurers' profits, and it is difficult for insurers to find economic value from them.
- For insurers to realize the highest value from distribution, they must improve operations and agent-based support for key distribution segments.
- This includes enhanced operations to support a multi-product, multi-channel distribution model that compliments an insurer's revenue objectives and profit margins.
- Insurers can realize the highest value from their agent distribution channels by developing an integrated suite of services oriented to driving sales and reducing servicing costs.

- Distribution costs continue to escalate, and it can spread an insurer’s organization thin to support a burgeoning network of distributors such as captive, career, and independent agents; banks; broker/dealers; and alternative channels.
- Agent-based sales will certainly continue to dominate the distribution of insurance.
- However, this distribution model is often the largest expense for insurers to manage cost-effectively in terms of resources, capital, and operational capabilities.

- Distributors want to do business with the best insurance companies.
- Agents define those types of insurers as ones that are easy to do business with and that can facilitate improved services to their shared customers.
- Insurers can take advantage of the present opportunities by managing distribution as a core part of the business and not just a cost of doing business.
- They can achieve this goal via the strategic use of technology and offer ample support to distributors in information reporting, improved operations, sales and marketing, as well as performance tracking to a large network of agents and brokers.

- Focus on Profitable Segments Insurers enter into distribution agreements for various reasons, and certain distribution partners deliver advantages over others.
- Partnerships with distributors can expand an insurer’s reach to customers of all levels of affluence.
- They can decrease customer acquisition costs, improve retention, and increase opportunities for cross-selling.
- It is imperative today, however, to maintain strategic partnerships with a select group of distributors and build loyalty with profitable partners.
- Insurers that identify “partnering” as a core skill can manifest long-term competitive advantage.

- Developing and maintaining strategic partnerships pose challenges for both insurers and distributors to achieve mutual success.
- Successful manufacturer/distribution partnerships typically entail the following characteristics:
  – Commitment from both entities to build a profitable business model with fair and equitable revenue sharing arrangements in soft and hard markets
  – Shared goals and objectives with mutual support, respect, and cultural compatibility
  – Alignment of products and services to brand and customer demographics
  – Performance monitoring to include sales and marketing and customer service level agreements
  – Timely and accurate dissemination of business information to manage financial and business risks Insurers that administer their distribution partnerships with these guiding principles often find it easier to manage conflicting objectives that may arise.

- In addition to these principles, insurers must employ strict financial discipline to current and future distribution partnerships to maintain profitable operations.
- Blanketing the market to fully extend the insurance distribution network poses many problems, because not all distribution partnerships deliver the same economic value.
- Some insurers may find that, over time, they have acquired unprofitable partners with unprofitable customers.
- Insurers may also support high-value partners that drive revenue and demonstrate a propensity for future growth with little overhead expense.
- Profitability pressures for these partners may include hard costs, such as revenue sharing arrangements and marketing allowances, or soft costs, such as wholesaling coverage and customer service.
- For insurers to derive economic value from all of their distributors, they must segment profitable distributors from unprofitable ones and direct resources to profitable areas of the operation.

Q & A

END

Thank you