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The future of insurance distribution:

New models for a digital customer

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Digital disruption is transforming established models of insurance distribution.

Today's customers, keen to receive the same levels of choice, convenience, and transparency that they enjoy across other industries, want to choose how, where and with what frequency they manage risk. What's more, agile new digital entrants are lining up to serve them—not only challenging the orthodoxies of traditional distribution channels, but also leveraging digital distribution capabilities to enhance components of the customer value proposition, such as personalization. A sign of the times: some two-thirds of all venture capital funding in insurance is going into distribution start-ups.[1]

This dramatic shift in customer expectations could put as much as 25 percent of incumbents' economic profit at risk,[2] unless they too invest in new, digitized distribution models that drive customer engagement and value. Such models are still emerging and no single model offers a panacea. Indeed, leading players will mix and match digital and traditional models to advance their learning and experience in new digital enablement, while also investing in core business improvement.

For incumbents who invest effectively in such a strategy, new, digitized distribution models promise significant new growth opportunities in a market poised for material disruption.

Two-thirds

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Anytime, anywhere

Mobility. Connectedness at points of sale. Data-driven personalization. On-demand services. As they have in so many other industries, these digital game changers are reshaping the relationship between insurers and their customers.

Customers increasingly desire new ways of purchasing insurance and managing risk—including more fit-for-purpose coverages and services and more immediate delivery—and are fuelling new sales and marketing opportunities. Trōv, for instance, offers on-demand, per-use insurance for a range of electronic household devices and appliances. Customers can procure coverage by the day via a mobile app "at home or on the move" and claims can be filed and processed through the app.[3] Another new entrant, Lemonade, promises a 90-second process from quote to bind for New Yorkers looking for homeowners and renters insurance.[4] And connected wellness devices can meaningfully reduce health insurance premiums for employers and carriers who collaborate to leverage relevant data.

New models, new growth opportunities

By embracing digital disruption, partnering with the disruptors, and/or leveraging new technologies that meet rapidly rising expectations, incumbents could engage with customers more effectively and drive sustainable new growth.

We believe five emerging distribution models are particularly promising:

Virtual insurance advisor

1. Virtual insurance advisor. Data-driven, web-based and mobile advisory platforms can make the process of buying and renewing insurance significantly easier. By combining digital, social and customer-provided data, carriers can offer customers an Amazon-like shopping experience that is personalized and transparent, thereby achieving new growth through highly targeted acquisition, cross-sell and up-sell. Consider, for example, how the New York-based investment manager Betterment provides automated, tailored advice to help retail investors diversify and rebalance their accounts at a lower cost than traditional methods.[5]

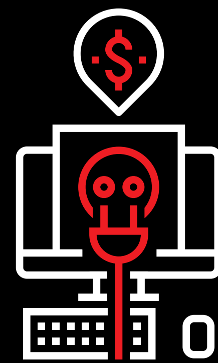
As many as 74 percent of customers are willing to receive computer-generated advice about which type of insurance coverage to purchase, while 65 percent are interested in receiving special-offer alerts based on their location.[6]

Everyday risk coach

2. Everyday risk coach. The abundance of data generated by expanding digital footprints and the Internet of Things enables the granular tracking of customers' daily behavior and habits. In partnership with device vendors and data providers, insurers can develop personalized risk profiles and thus create a holistic risk advice value proposition for customers, 56 percent of whom say they value personalized advice on reducing their risk of loss or injury.[7]

Vitality, for example, has partnered with John Hancock in the United States,[8] Generali in Europe[9] and Ping An in China[10]—among others—to encourage healthier lifestyles by leveraging connected devices such as Fitbit. Policyholders accumulate points for staying healthy, and high achievers are rewarded with discounts on their life insurance.

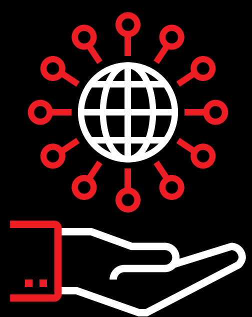
Plug and play insurer



3. Plug and play insurer. Customers are increasingly willing to consider insurance purchases while shopping for other needs. Some 40 percent would consider buying insurance from a car dealer, for instance, while 30 percent might choose a retailer or supermarket, and 29 percent would consider online service providers.[11]

By embedding insurance “point of sale” options into other shopping experiences, and partnering strategically with such online and digital vendors as social platforms, travel sites, household and small business retailers, insurers can gain access to sizeable new customer groups quickly and cost-effectively. Chubb, for instance, has partnered with Suning to distribute insurance products via the Chinese online retailer’s 230-million-strong e-commerce customer network.[12]

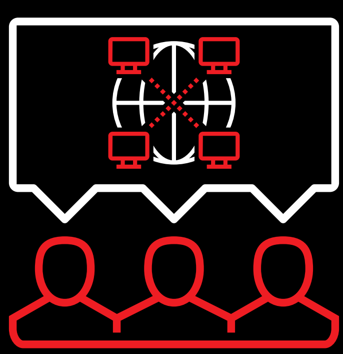
Ecosystem orchestrator



4. Ecosystem orchestrator. Digital trends present an opportunity to aggregate and offer value-added products and services that cater to the full range of financial and lifestyle needs. Through data-driven partnerships with, for example, banks, retirement planners, home servicers or wellness providers, insurers can create and manage high-touch, personalized, holistic customer ecosystems. Case in point: Google, through its planned Indian website, Bharat Saves, could position itself to become an ecosystem for all manner of the subcontinent’s financial needs, from insurance to wealth planning.[13]

Customers are already seeking to fulfill broader needs when they shop for insurance. Seventy-six percent say they would like insurers to help them (or their aging relatives) live safely for longer in their own homes.[14]

P2P network operator



5. P2P network operator. While affiliations and mutuals have long existed in insurance, today’s abundance of social and digital data is enabling new ways to identify and pool customers. Insurers can mine such data sources to create, facilitate and fund pools. They can also innovate around personal or professional affiliations to give customers greater control and transparency into claims and premiums. Bought By Many, for example, uses online search data to pool customers seeking similar coverages and negotiates with carriers to secure favorable pricing.[15]

Fifty-five percent of insurance customers say they would consider peer-to-peer coverage if it were available for life insurance, 38 percent would do the same for auto insurance, and 32 percent for home insurance.[16]

Multiple models, simultaneously

There will be trade-offs. Plug and play, for instance, delivers access to multiple customers relatively cheaply, but lacks the intimacy that would deliver new insights to grow wallet share. Everyday risk coach, by contrast, can deliver rich rewards in terms of customer retention and engagement, but can be expensive to establish and maintain.

That's why we believe that high performers will likely pursue multiple models simultaneously, while digitally enhancing their core distribution capabilities.

Take, for example, Liberty Mutual. The insurer is simultaneously pursuing an "everyday risk coach" model with a strategic focus on the connected home in partnership with device vendors such as Vivint and Nest—and an innovative plug and play strategy by partnering with Amazon's Alexa. The Alexa offering positions Liberty Mutual as one of the few insurance carriers (e.g. GEICO[17]) enabling consumers to navigate the insurance process using their voice. Users gain instant, voice-controlled access to quotes either directly or from an appointed independent agent. The partnership leverages an existing asset—the agents that have traditionally been a dominant channel for Liberty—in an innovative new partnership structure.[18]

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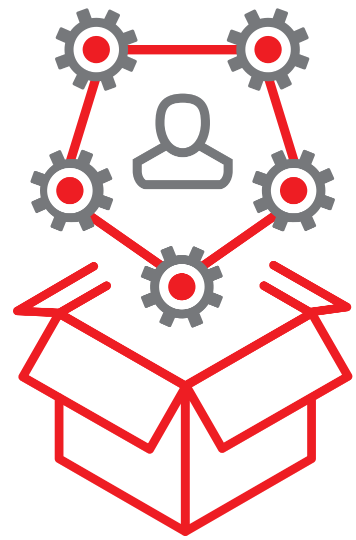

Determining which models are most appropriate requires consideration, and insurers should look beyond the existing industry models and environment; six lenses can prove useful:

- **Unorthodox.** Challenging existing industry conventions to generate entirely new business models.
- **Epicenter-driven.** Generating ideas by examining the strengths and weaknesses of the existing business model.
- **Customer-centric.** Asking if new ideas would solve customers' problems.
- **Scenario-based.** Asking if new ideas respond to disruptive industry trends.
- **Mirrored.** Mimicking "new" models from other industries, most of which are not new at all.
- **Industry economics.** Assessing how industry forces are changing the way in which value is created and distributed in the industry.

Incumbent insurers may not need a view through all six lenses, but multiple vantage points will facilitate a thorough examination of all possibilities. New model combinations will emerge from a careful examination of distribution assets, brand positioning and customer segmentation strategies. Current business strategy, market segments and existing capabilities will all play key roles. For any given carrier, the interplay of assets and positioning will determine which models are most appropriate. And all will require balancing old priorities with new ones: a multi-speed approach.

Far-sighted players are already facing the future of insurance distribution. The time to join them is now.

References

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[2] "The customer-centric insurer in the digital era," Accenture 2016. Up to 15 percent of economic profit could be lost to a combination of new digital entrants, banks, retailers, telecoms and big online players, while "production" threats from price comparison portals and telematics providers in auto, home and health could put another 10 percent of profit at risk.

[3] Trōv

[4] Lemonade

[5] Betterment

[6] Accenture research

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[17] GEICO's virtual assistant Kate intuitively answers your insurance questions

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