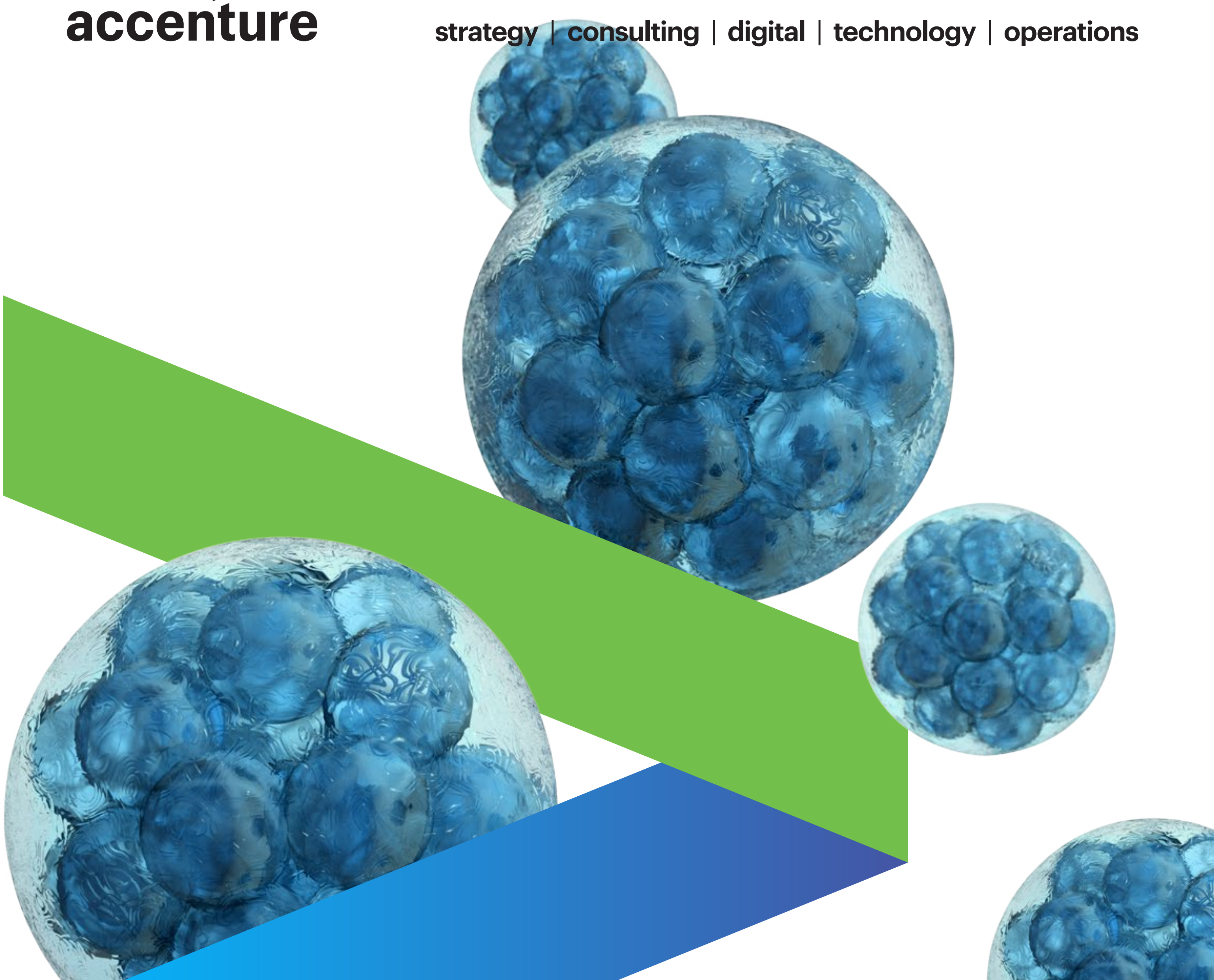
accenture

strategy | consulting | digital | technology | operations



THE FUTURE OF INSURANCE DISTRIBUTION

CHARTING THE COURSE

FOR DISRUPTIVE GROWTH

DIGITAL DISRUPTION: HIGH ON THE INSURANCE AGENDA

The insurance industry is often mentioned as a top candidate for digital disruption. Indeed, traditional, experiential, and perceptual competitors regard the industry's perceived weaknesses – such as traditionally unsatisfactory customer experiences, overly complex products, and customers' willingness to switch providers – as opportunities to gain market share. Not only will we see new offerings, we'll see entirely new distribution models.

As a result, the industry is attracting new attention and funding. Innovation driven by startups in insurance technology, or 'insurtech', is challenging insurers' traditional approaches to innovation and technology. In response, insurers have increased their investment in insurtech. Total investment in this area rose from $800 million in 2014 to more than $1.7 billion in 2016, with direct investment by insurers representing an increasing share of the aggregate amount[1]. Many large insurers have established their own in-house venture capital funds aimed at finding new ways to grow while heading off potentially disruptive threats. Artificial intelligence (AI) and the Internet of Things (IoT) account for almost half of all such investment in 2016, with insurers seeing both technologies as critical to delivering increased levels of personalization and better real-world outcomes for customers.

While new technology continues to be a disruptive force, changing customer attitudes and behaviors may provide an even more powerful impetus for altering the status quo in insurance. As evidenced in Accenture's 2017 *Financial Services Global Distribution & Marketing Study*, insurance is changing from a business-to-consumer (B2C) to a consumer-to-business (C2B) industry. The insurer no longer tells the customer how things will be; rather, customers tell the insurer what products and services they need and how they want them delivered. Distribution may take place beyond the industry's traditional boundaries.

NEW TECHNOLOGIES NEW OPPORTUNITIES

With the proliferation of new technologies – including AI, cloud computing, and analytics – and new data streams from the IoT, third-party databases, social media and other sources, insurers now have a range of strategic options for the products they offer, their distribution networks, and even their overall operating models.

These options are not 'either/or' but can be combined in novel ways to create both customer and business value. Insurers face the challenge of conducting business as usual – while digitizing and streamlining their current operations and enhancing the experience they offer customers – and at the same time exploring and experimenting with new options. The ability to invest at multiple speeds, strengthening core distribution while developing new models and approaches, is becoming a critical imperative for insurance management teams.

As noted in *The future of insurance distribution: New models for a digital customer,* high performers will likely pursue multiple models simultaneously, while digitally enhancing and otherwise optimizing their core distribution capabilities.

Choosing where to invest – and how to execute – will not be an easy undertaking. Boundaries are blurring and insurers, brokers, reinsurers, ecosystem partners, employees and customers are interacting in new and sometimes transformative ways.

"HIGH PERFORMERS WILL LIKELY PURSUE MULTIPLE MODELS SIMULTANEOUSLY, WHILE DIGITALLY ENHANCING AND OTHERWISE OPTIMIZING THEIR CORE DISTRIBUTION CAPABILITIES."

HOW INSURERS CAN BECOME LIVING BUSINESSES

Insurers need a clear map of investments in talent, data, technology and the customer experience. They need to form the right partnerships and alliances and structure these relationships in ways that benefit all parties. Above all, they need to think in terms of becoming a 'living business' that provides services designed for the changing needs of the user. These services flow through people's lives and touch them in different ways at different times.

Such services must also be designed to evolve, to look outside themselves and to change and connect with other services as appropriate. This means designing with data in mind, both to listen and collect data and to seek out, recommend and, if appropriate, to connect the consumer with third-party services that augment the core services.

Not all insurers can aspire to become living businesses, but those that do become hyper-relevant, adapting to a fast-changing environment and creating new opportunities for profitable growth. They will employ new business models that monetize data, physical space, platforms, algorithms, brand and risk. They will also provide an exceptional employee experience, nurturing a customer-centric approach and creating a culture that encourages innovation at every level.

DISRUPTING DISTRIBUTION – FIVE POTENTIAL MODELS

THROUGH OUR OWN RESEARCH AND THROUGH OUR WORK WITH INSURERS ACROSS THE GLOBE, WE HAVE IDENTIFIED FIVE POTENTIAL DISTRIBUTION MODELS FOR CONSIDERATION BY INSURERS. THESE ARE:

1. THE VIRTUAL INSURANCE ADVISOR

This model makes the insurance purchase and renewals easy by offering the customer choice, counsel and transparency through a combination of data-driven web, mobile, voice-activated, and contact-center-based advisory platforms. 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. AI, for example, will help insurance agents as they review options for customers regarding the many and complex products they represent from multiple carriers. Agents and software bots will work together to optimize quotes or provide financial advice.

2. THE EVERYDAY RISK COACH

The insurer mines customer-use and behavior data to develop insights and provide advice that reduces risk and rewards customers, transforming insurance into a living service. In partnership with device owners and data providers, insurers can develop personalized risk profiles and thus create a holistic risk advice value proposition for customers.

3. THE PLUG AND PLAY INSURER

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, and household and small-business retailers, insurers can gain access to sizeable new customer groups quickly and cost-effectively.

4. THE ECOSYSTEM ORCHESTRATOR

The insurer aggregates and presents to the customer a range of value-added products that cater to risk and non-risk related needs, leading to both increased contact frequency and engagement. 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.

5. THE PEER 2 PEER NETWORK OPERATOR

This is an evolution of the affinity group model in which insurers distribute to risk-bearing pools of customers built around personal or professional affiliations; in some cases, the insurer may facilitate the creation of such pools. Today's abundance of social and digital data is enabling new ways to support identification and pooling of peer groups.

Each emerging model has a range of potential features. Customer interaction channels will vary; depending upon the model adopted, insurers may use proprietary web and mobile platforms, apps and application programming interfaces (APIs) on customer-owned devices, e-commerce and travel sites, sharing platforms, affinity sites or social media platforms. Insurers adopting the Ecosystem Orchestrator model, for example, may deliver offerings through a proprietary connector platform linking to web and mobile channels.

SEIZING THE OPPORTUNITY

5 KEY STEPS

Insurers seeking to develop more effective and more efficient distribution models – which also offer greater potential for profitable growth – can, in our view, be guided by five key principles. They should:

1

DEVELOP A WELL-ARTICULATED AGENDA FOR BOTH CURRENT AND FUTURE OPERATIONS, INCORPORATING A DISRUPTIVE GROWTH STRATEGY.

Insurers may need separate distribution models for the ongoing business and for the new strategy. The new operation will need to manage innovation differently from the legacy business, with different criteria for funding, different standards for partnerships, and different metrics for success and failure. The insurer should also have a strategic plan that defines when and how the new operation or capabilities will be incorporated into the core business.

2

OFFER LIVING SERVICES THAT ADAPT IN REAL TIME TO THE CHANGING CUSTOMER CONTEXT.

The insurer should be prepared to provide the customer with living services that draw information from the IoT, the cloud, and real-time analytics to adapt in real-time to fulfill the needs of consumers' everyday lives. These services will learn and evolve, helping insurers offer interesting, valuable and meaningful services to their customers. To do this, insurers will need to increase the level of interaction with customers, gain access to data on their behaviors, and make tailored offers specific to their customers' lived experiences, whether for their transportation, their homes, or their health. This requires a strong data infrastructure and governance along with advanced skills in areas including micro-segmentation, machine learning and predictive model development.

3

ACQUIRE THE ABILITY TO ACCELERATE AND SCALE OUTCOME-FOCUSED AND DYNAMIC EXECUTION.

The insurer should develop a high degree of agility, reflected in the ability to rapidly recognize and respond to trends, and to check continuously on the alignment of services with customer needs. This calls for the insurer to identify and build needed capabilities, integrating closely with back and middle offices to support new and continuing initiatives. The insurer will also need an effective and sustainable innovation management program, marked by a willingness to run pilot programs, learn from them, make needed corrections and scale up rapidly once the missing systems are in place.

4

DESIGN A PARTNERSHIP STRATEGY WITH THE ABILITY TO CONNECT INTO BROADER ECOSYSTEMS TO MULTIPLY DESIRED IMPACTS.

Insurers will need to define what constitutes a 'win/win' partnership. For example, insurers pursuing the Everyday Risk Coach model will need the capacity to gather customer data through partnerships with participants in the IoT, such as home safety service providers or makers of health and lifestyle tracking devices. The partnership strategy also calls for a platform strategy, as the insurer needs to determine whether it will orchestrate its own ecosystem or 'plug and play' into others' ecosystems, for example by embedding itself within another organization's distribution network.

5

FOCUS ON PEOPLE TRAITS, SHIFT CULTURE, AND ACTIVATE (AND MEASURE) CHANGE.

In addition to technological capabilities, product and distribution strategy and the partner ecosystem, insurers will also need new approaches to attracting, retaining and developing talented teams. New distribution will mean new jobs and new competencies. Insurers should be looking to fresh sources of talent and innovation – through investments in insurtech startups, or by gaining access to talent through ecosystem partnerships – and to new ways of cultivating needed skills internally. Above all, leadership should send clear signals that change is under way and that creative approaches will be welcomed, not discouraged.

DEVELOPING NEW DISTRIBUTION MODELS WHILE SIMULTANEOUSLY MAINTAINING THE CORE BUSINESS IS A CHALLENGING PROPOSITION. INSURERS NEED TO CONTINUE TO INVEST IN THE CORE, REDUCING COSTS AND INCREASING EFFICIENCY TO REMAIN COMPETITIVE AND FUND GROWTH INITIATIVES. AT THE SAME TIME, HOWEVER, INSURERS NEED TO CREATE AND SCALE THEIR NEW APPROACHES.

While consumers are increasingly moving towards digital channels, a large number of consumers still value personal relationships and advice. The challenge for insurers is to ensure that the customer experience is consistent and seamless as consumers move across both the online and offline channels. Among other things, this requires sharing customer data across channels and ensuring that experiences are hyper-personalized based on full knowledge of context and prior interactions. The same expectations for simplicity and speed that have become norms in the digital channels should be carried forward into the physical channels.

Many insurers explore incremental, low-risk opportunities, rather than the truly disruptive opportunities that require a high degree of agility and quick response to market feedback. Insurers may need a 'phygital' approach combining digitization and enhancements to the insurer's physical presence. A focus on cost reduction through continued digitization, for example, can fund additional investment in new approaches and channels. Insurers can capitalize on customers' willingness to use automated service options to increase efficiency and reduce expenses while making the most of their physical presence by using remote advisory teams and strengthening contact center capabilities. The combination of the digital and physical experiences will be critical to increasing revenues and customer engagement and reducing costs.

Insurers will need to be more competitive in both their traditional and their emerging models. Digital startups, unencumbered by core distribution models and empowered by new technologies, are avidly pursuing traditional insurers' markets. The challenge for insurers will be to establish clear digital initiatives, balancing the requirements of current and future operations and making the right choices within each.

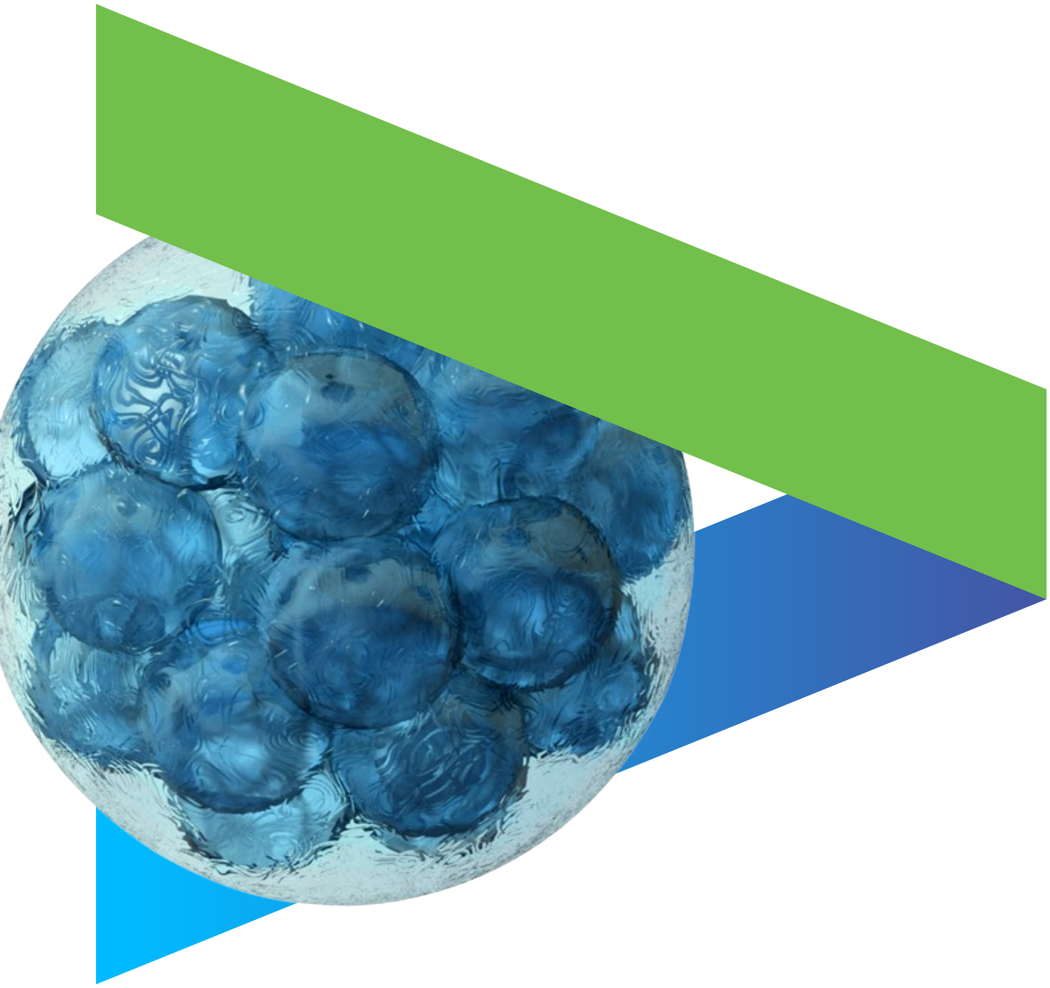
WHAT WILL IT TAKE? BUILDING INSURERS' CAPABILITIES

The matrix below illustrates the data, technology and marketing/customer experience capabilities required to implement each distribution model:

BUSINESS CAPABILITIES BY MODEL

MODEL	DATA ANALYTICS	TECHNOLOGY	MARKETING/ CUSTOMER CAPABILITIES	PARTNERSHIP OPPORTUNITIES
Virtual Insurance Advisor	• Customer micro-segmentation leveraging multi-channel data sources including digital & social • Customer data-driven decision support analytics • Intelligent underwriting • Ongoing account review capability with proactive coverage recommendation engine as customer goals, exposures & needs change	• Self-service or agent-integrated mobile & web interfaces with real-time quoting & seamless UI • Cloud-based platform • Advanced straight-through processing • Seamless integration across channels & potentially other carriers • App & web-based claims status & resolution capability • Location-based & IoT technology • Chatbots & voicebots	• Digital/ social lead generation & customer acquisition • Location-based offer generation • Personalized & event-driven up-sell, cross-sell and loyalty-related offers	• Data providers that can help generate insights into customers' lifestyles, behaviors & risk exposures
Everyday Risk Coach	• Aggregation & synthesis of data across an array of sources e.g, connected devices, social platforms, third party sources • Automated real-time risk analysis & risk prevention	• Advanced platform integration with partners, data-sharing conduits • Cyber-security capabilities • Real-time alerting through mobile	• Automated, curated & personalized messaging & alerts • Behavior-driven advice & real-time discounts and/ or rewards	• Connected device manufacturers • Data-rich financial institutions (e.g. credit card, companies, banks) • Other lifestyle sources (e.g. hotels, airlines) • Small-business data providers (e.g. claims, TPAs, inspection vendors)
Plug and Play Insurer	• Micro-segmented performance analytics (e.g. win rate predictors – lead sources, companion sales, customer attributes)	• Seamless quoting & rating with full partner integration • Back-end linkages with partner platform enabling straight-through processing, billing, onboarding etc.	• Simplified modular product & pricing • Partner relationship development & ongoing relationship management	• E-commerce, travel sites etc. • OEMs, devices & appliance manufacturers • Sharing economy platforms (e.g. Uber, Airbnb) • Affinity, lifestyle & personal finance companies (e.g Mint, Quickbooks) • Social platforms (WeChat, Facebook) • Fintech platforms
Ecosystem Orchestrator	• Analytics capabilities to drive partner success • Partner performance analytics • Ecosystem buying behavior & customer propensity analytics • Aggregation & synthesis of data across an array of sources e.g., platform partners, connected devices, social platforms etc.	• Full cloud-based platform capabilities – digitally enabled transaction, feedback & reviews, community, collaboration etc. • Integration with strategic partners • APIs • Cyber-security capabilities	• ROI-centric strategic marketing • Test & learn marketing capabilities accessible to partners • Data-driven customer experience management • Influencer management	• Complementary products & services for households & businesses e.g., banks, software providers, safety/ home protection products etc.
P2P Network Operator	• Analytics to evaluate & create customized pools through customer digital & social data • Pool funding, claims & risk analytics • Intelligent rules-based underwriting • Pool performance analytics & reporting	• Advanced, user friendly payment interfaces, advanced straight-through processing to multiple carriers, etc. • Mobile & web-based claims status & resolution capability • Self-service or agent-integrated mobile & web interfaces with real time quoting & seamless UI	• Strategic targeting, digital/social referral processes & other marketing capabilities to create minimum viable pool sizes • Customer education & engagement for loss prevention • Web & mobile claims status & resolution capabilities	• Funding sources including carriers, investors & reinsurers

Although the different approaches demand a number of new competencies, insurers should recognize that these need not necessarily be created from scratch. Resources and skills can be bought or leased from organizations that have already developed them.



THE THREE BIG TAKEAWAYS

Disruption is under way in every area and segment of insurance – particularly in distribution – and is gaining momentum. In response to changing customer demands – and aided by the rapid adoption of innovative technologies – new entrants from inside and outside the industry are quickly emerging.

Ultimately, these disruptive trends will benefit the customer by providing greater choice, improved transparency and more flexible pricing. We believe that consumers will put increasing pressure on carriers to provide a more tailored experience that not only personalizes products and services, but delights customers in ways they may not have even envisioned.

AS THEY EXPLORE OPTIONS, INSURERS SHOULD KEEP THREE PRIORITIES IN MIND:

01

They must dedicate the necessary time and talent to formulating a strategic response to disruption, informed by a deep understanding of evolving customer needs, with the full attention and commitment of senior management and the board of directors.

02

They need to simultaneously invest in both core and disruptive distribution models, and in creating a culture and environment where innovation can thrive.

03

They should exploit opportunities to reduce costs, thereby improving margins and funding additional investment in new customer experiences, products, and services.

Insurers unable or unwilling to adapt quickly run the risk of falling behind competitors from inside and outside the industry. A carefully designed investment strategy – supporting both core and new initiatives – combined with fast and effective execution can help insurers and their customers benefit from disruptive industry trends.

CONTACT

For more information:

Erik Sandquist
Global Lead, Insurance Distribution & Marketing
erik.j.sandquist@accenture.com

Steven Gunderson
NA Insurance Strategy Distribution
& Marketing Lead
steven.gunderson@accenture.com

Rohit Reddy
Senior Manager, NA Insurance Strategy
rohit.a.reddy@accenture.com

REFERENCES

1. Accenture Report: "The Rise of Insurtech" March 2017 http://www.fintechinnovationlablondon.co.uk/pdf/The-Rise-of-InsurTech.pdf

JOIN THE CONVERSATION

Read our blog

Linkedin

Twitter

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world's largest delivery network – AccentureW works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 401,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com