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The Making of **A Perfect Storm**

Seven Modernization Trends
in Insurance Distribution

White Paper

Executive Summary

The insurance market is over 330-years old and has not changed fundamentally all this while. Certain forms of technology trickled into the industry but had no lasting effect on the core activities of the business. Insurance companies now find themselves in a place where their very survival depends on abandoning legacy practices and leveraging technology to modernize their distribution networks.

The forces that have traditionally shaped insurance distribution: legacy technology platforms, rising customer expectations, and lack of scale in direct channels now require insurers to pace their distribution and brace themselves for future requirements of sudden and unexpected upgrades.

As the insurance industry looks to modernize its distribution channels, these are the top seven trends that it must consider:

1. Facilitating **self-service agent portals**
2. Setting up a **digital agency and customer portal**
3. Enabling an **integrated experience in sales and service**
4. Empowering **distribution connectivity intermediaries**
5. Modernizing **distribution and commission management system (DCM)**
6. Leveraging **cloud computing** in insurance distribution
7. Incorporating **next-gen technologies such as AI and ML**

Insurance distribution: A case for disruption

Globally, various service-based markets have fragmented to make way for platform-based models that provide end-users with a localized, and near-infinite supply of service providers. This has played out most prominently with ride-hailing, food delivery, tourism, etc. This phenomenon of commoditizing services via digital platforms, known as 'uberization' is now knocking on the door of the insurance sector.

The proliferation of digital platforms has shaped customer (read "policyholder") expectations to the point where they expect speed, convenience, and customization across all services. As with many industries, insurance distribution was predominantly driven through field agents, who were trained to perform risk-assessment on potential customers and sell differentially priced policies in a bid to spread risk. This trend, which has worked till date, stands the risk of being outmoded by widespread digitization.

For insurance companies, decades of reliance on an agent-based framework meant that growth was always a function of both agent and policyholder satisfaction. For prospective customers to experience insurance delivery and distribution via modern methods, companies will have to first build a technology-driven solution to manage their agents, which will then have to be extended towards customers. Distribution networks take center stage in this exercise and this paper studies how the industry is responding to the need for transforming insurance distribution.

The following pages describe in detail, the seven factors influencing the modernization of insurance distribution.

01

Agent Portal:
Empowering field agents via self-servicing

Given the importance assigned to agent satisfaction in this industry, one of the most glaring areas of improvement for insurers is the level of autonomy and empowerment that they allow their agents to exercise. A self-serviced agent portal, a highly customized software solution for agents, has been touted as a viable solution to promoting agent empowerment. By design, such a portal would allow its users (i.e., agents) to have a firmer grasp over their operations. This is mostly due to capabilities such as:

- Tracking licensing information
- Instant access to sales and commission reports
- Team management for improved performance
- Advanced analytics

Simple features such as the ability to pull transaction records of customers can go a long way in enabling them to better serve their customers and would act as a micro-CRM for an individual agent.

This proclivity towards establishing an agent portal was confirmed by a Novarica report, which revealed that implementing such a portal was among the most important digital strategies for insurers, over and above their customer portals and end-user experience. The same report found that nearly 75% of insurers have pegged the agent portal as their primary strategic objective, while around 90% of insurers have an agent portal as either a primary or a secondary strategic objective.

02

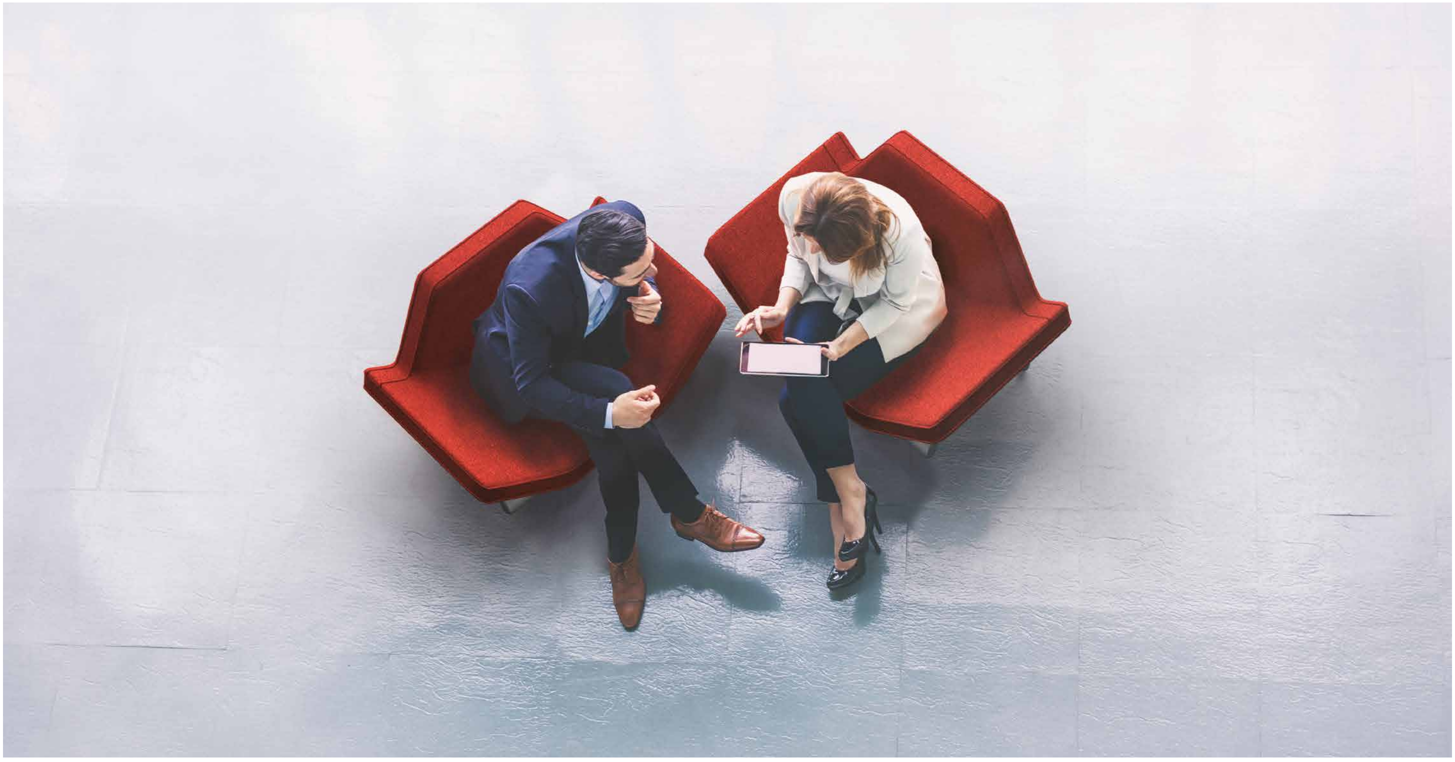
Digital Agency:
Architecting better customer experiences

If agent satisfaction assumes top priority amongst insurers, it's because they see it as the vehicle through which customer satisfaction can be improved upon. Unparalleled customer experience is the endgame for most of these insurers, and a key enabler of such experiences is by employing a 'digital agency'.

A digital agency and an agent portal are two sides of the same coin. While the latter carves out an independent operational unit for the agent, the former connects policy holders with the agents through their Agency Management System (AMS). It's important to note that this is different from the standard customer portal, which puts policyholders in touch with the insurer, as opposed to the agent.

A digital agency serves as the front-end interface for customers, i.e., it enables them to file applications, access policy, and transaction-related information, etc. Such a portal ideally ought to be a self-servicing portal with omnichannel capabilities, location, and time-independent access, along with a quick, robust customer-oriented interface.

When implemented correctly, such a setup would result in a vastly superior end-user experience while accruing an increase in operational cost-efficiency. The underlying architecture of such a system would have low latency, which in turn eliminates the problem of 'staleness' in data altogether. Being able to extract relevant insights from perennial data streams in real-time would enable the company to tweak its customer service with increased speed and efficiency. Finally, increased incidences of customer touchpoints would translate to more customer-centric information that can be used to build a more effective CRM.



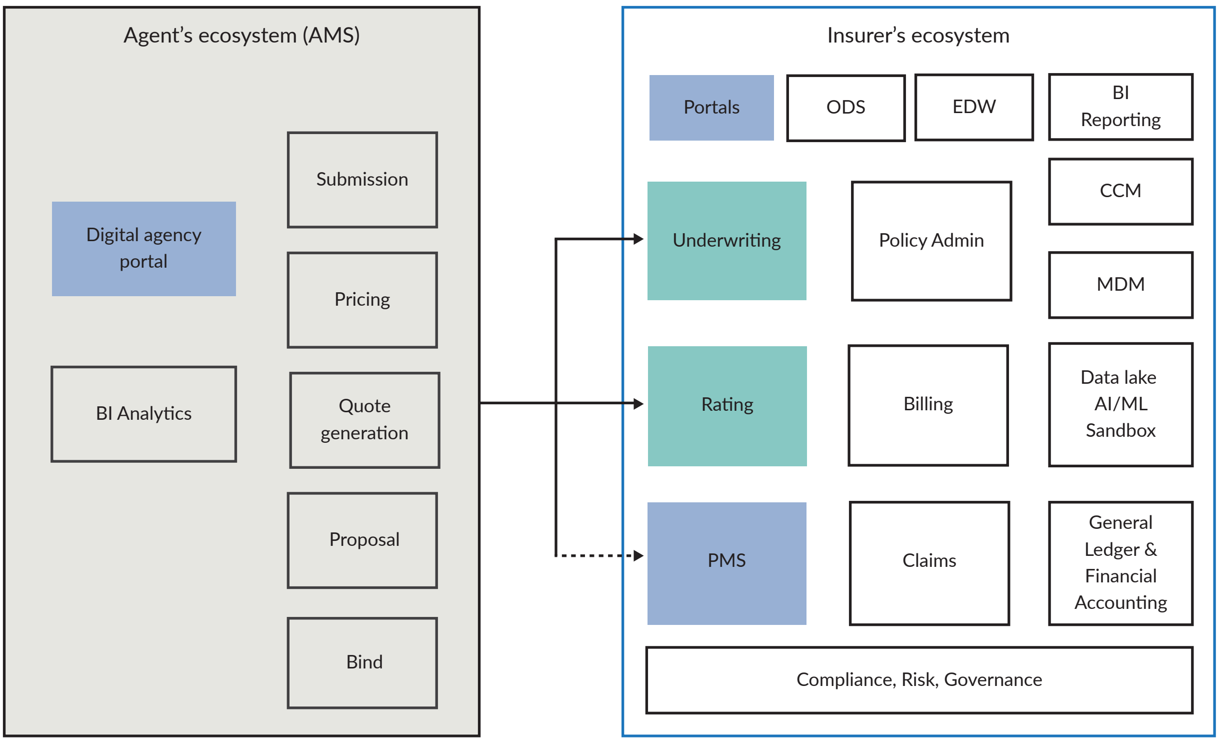
03

Integrated agent experience:
Reducing operational costs

Insurers often tend to work with independent agents to fulfill their distribution requirements. While this solves for reach, it ends up being exorbitantly expensive due to the lack of integration between the individual agency management systems (AMS') and the insurers' core systems. This makes for a non-linear distribution process that is riddled with latencies and inefficiencies along with multiple points, ultimately impacting the customer experience adversely. Needless to say, it is also accompanied by higher operational costs owing to the amount of grunt work and poor resource utilization that such a setup encourages.

The insurer-agent integration would require the AMS platform to be directly linked to the Insurer's Underwriting and Rating systems. Additionally, integrating with the Distribution and Commission Management (DCM) would invite a broader set of features for the agents. While this is a general description of what an ideal Insurer-agent integration system would look like, the exact framework of integrations is highly contextual and would depend on several parameters such as application architecture, the scope of the agent's role, etc.

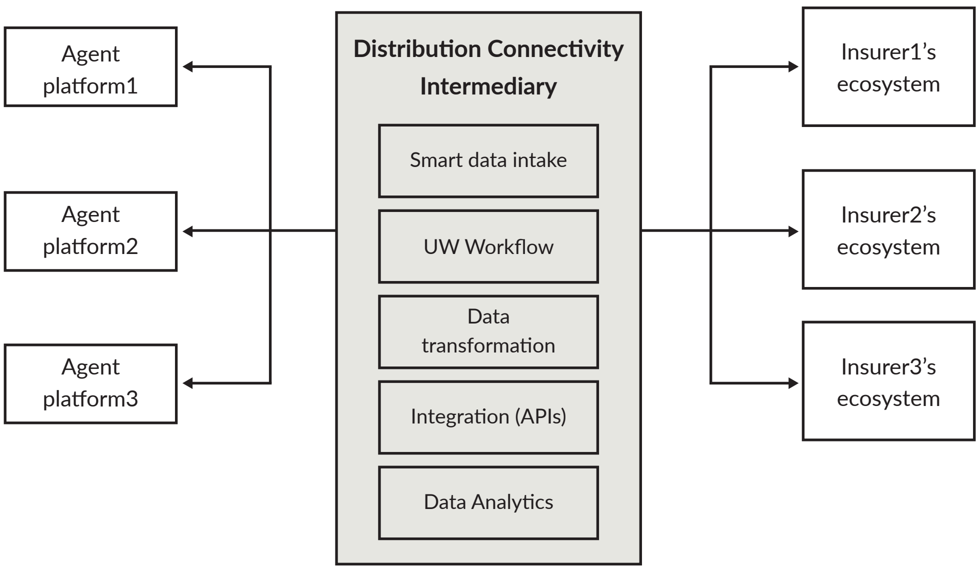
By removing the hiccups that plague the bridge between the insurer and the agent, the path taken by a policy to reach a prospective policyholder has fewer obstacles. This frictionless exchange between an insurer and a policyholder would mean that policyholders will get seamless deliveries, and be able to get their queries resolved just as quickly.



04 Distribution intermediaries:
Enabling seamless integration of insurers and agents

Distribution connectivity intermediaries refer to a suite of cloud-enabled applications that effectively create a platform economy within the insurance industry. By connecting insurers with agents in a free-market model, the insurer-agent relationship ought to mature, which in turn will improve the policyholder's experience.

The usual method of establishing siloed relationships with independent agents was fraught with scalability and cost issues. The platform model does away with this by ensuring both parties (agents and insurers) have access to more of each other, ensuring that the policyholder is spoilt for choice.



Apart from helping insurers with modernizing their legacy systems, these platforms also enable seamless integration, smart data absorption, reliable operational workflows, data transformations, and advanced analytics. More importantly, all of these advantages come with the best practices that accompany cloud technology: a flexible pricing model and WAF (Web application firewall), to name a few.

A distribution intermediary would solve for submission streamlining, risk-appetite transparency, comparative rating systems, digital agency, and data brokers. On many counts, the distribution intermediary platform addresses nearly all of the digital transformation priorities that insurers currently have.

05 Modern Distribution and Commission Management (DCM) platform:
Augmenting the core with advanced features

A distribution and commission management (DCM) system forms a part of the insurer's core systems and is used to perform several basic functions that relate to agent and sales management. Most DCM systems that are in use today are part of the old guard of technology and are severely limited in their capabilities and flexibility. These archaic systems don't lend themselves to integration either and are barriers to industry-wide modernization efforts.

Modernization advocates of DCM systems cite two reasons for an overhaul: introducing advanced (read: contemporary) capabilities within the DCM and improving agents' experience through the implementation of self-service portals. These reasons have given emboldened insurers, who now expect DCM systems to come with a wide array of capabilities.

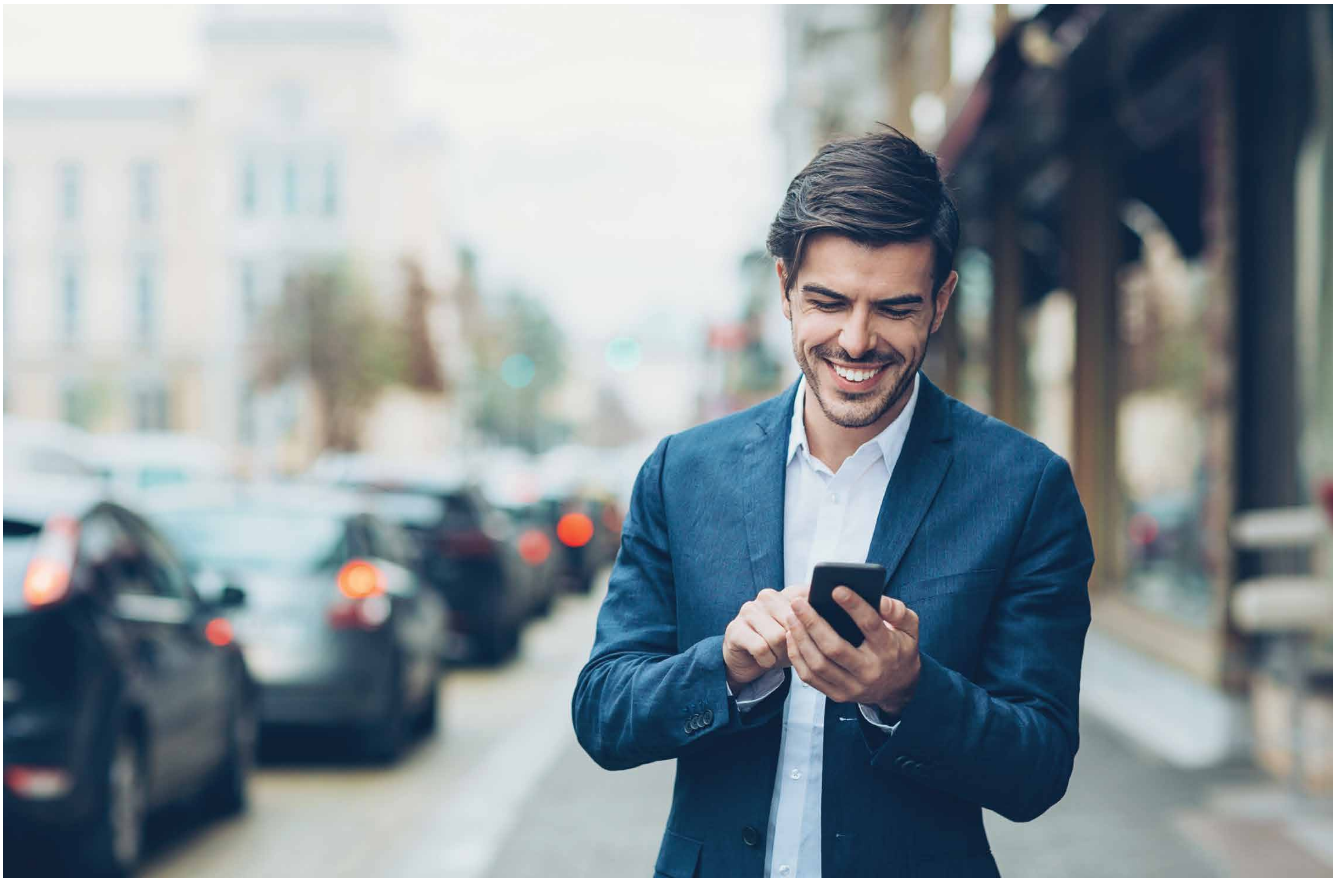
Demands range from nuanced performance monitoring, demand analysis, market penetration analysis, innovative commission strategies, quicker agent onboarding, and other advanced analytics features. Existing legacy platforms make it twice as hard to implement these features, and for most insurers, the most straightforward way to approach this is to opt for commercial DCM solutions to circumvent the time and effort needed to build a modern DCM from scratch.

06 Cloud in distribution:
Scaling digital transformation with minimal costs

The distribution woes that insurance companies grappled with found the ultimate solution in cloud technology. As replication costs of products are effectively zero, going cloud-native enables them to achieve a level of scale that was not possible before the advent of the cloud.

Any enterprise-grade platform that needs modernization will have to shift to the cloud if it seeks to fulfill the digital transformation priorities that insurers have. For starters, cloud platforms' well-architected framework (WAF) serves as a solid base for new-age business capabilities, particularly in the realms of customer experience and data utilization. It also enables faster time to market and offers a flexible pricing model without requiring any investment on the insurer's part.

Opting for a cloud-native service would mean that application ecosystems would be bulletproof across DevOps, systems integration, IT security, networking infrastructure, and a slew of other functional and non-functional requirements. All public cloud platforms also provide Cloud Adoption Framework (CAF) as standard guidelines for adoption and migration to the cloud.



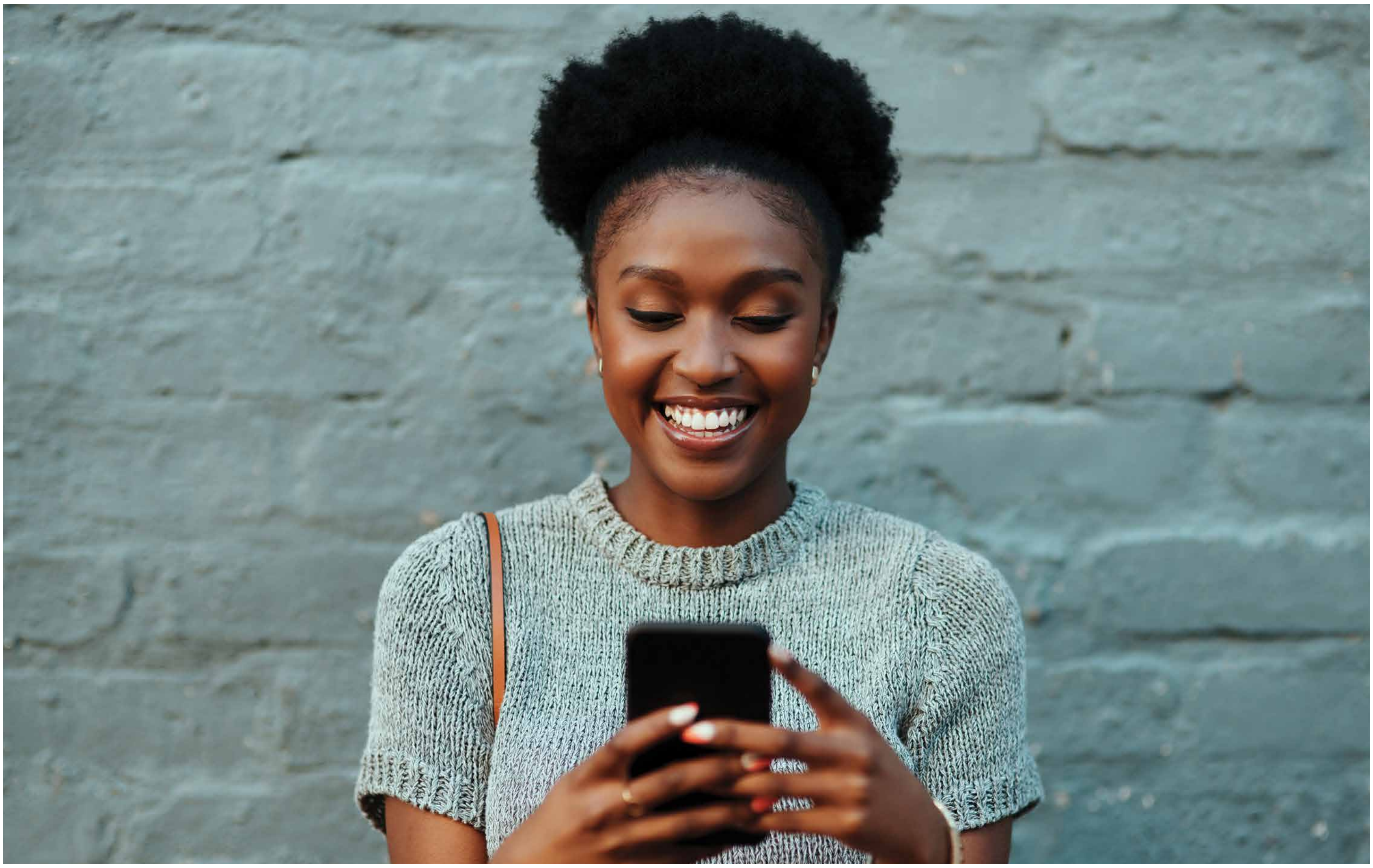
07 AI/ML: Ensuring competitive advantage through next-gen technologies

In the insurance sector, success lies in managing and spreading the risk over the entire customer pool. Enhanced actuarial capabilities provided by AI/ML technologies would mean that companies can get bolder with their strategies and adopt different risk models without compromising on speed.

Apart from enabling basic business process automation, AI/ML can also be applied to sentiment analysis, call center automation, customer behavior analysis, etc. Effective deployment of AI/ML technologies would serve as an added competitive advantage for insurers, who operate in one of the most saturated markets on the planet.

Cloud-enabled platforms enable better data utilization, while API integration allows for the possibility of building multiple bridges to alternate data sources. This ensures that in-house ML models never run out of data, and the accompanying storage and computing costs help sustain the creation of accurate ML models at cheap rates thanks to cloud providers.

Other applications include conversational AI and chatbots, and AR/VR technologies. Novel applications such as Reinforcement Learning (RL) enable accurate business process optimization even in the absence of historical data in this post covid era. NLP enables text analysis for sentiment/mood analysis, document mining, and many more.



How can organizations manage the change with minimal disruption?

Three main barriers are preventing insurers from modernizing their distribution frameworks. These are:

- Legacy systems
- Compliance concerns
- Lack of expertise

All of these problems can be overcome by opting for an external cloud provider, thereby doing away with steep setup costs and the compliance requirements that are difficult to work around individually. A more collaborative approach with agents would address concerns surrounding the modernization of DCM and AMS systems.

Reaping the benefits of digitization

Digitizing the operations would mean that insurers will no longer have to be bound to the constraints posed by legacy systems and can focus on adapting software to their needs instead of doing it the other way around. This would also mean that agents and insurers will no longer have to interact in narrow terms and can widen the scope of their interactions to enable a better experience for policyholders.

Fortunately, these trends have been recognized by the incumbents in the insurance industry, and many have begun the arduous task of rethinking what it means to be an insurance company in the 21st century. Digital transformation now assumes greater importance amongst insurers, and many have already begun investing heavily in new-age solutions to modernize their internal (and external) infrastructure.

The future of insurance: Emerging paradigms

If these trends are anything to go by, then it is highly likely that insurers will find themselves in a position where they can revamp their businesses by adopting a Direct-to-consumer (D2C) approach. D2C approaches were elusive for insurers as they were constrained by limitations across multiple fronts. A post-pandemic world has accelerated the penetration of technology and has thus opened up new possibilities for customer interaction and satisfaction.

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