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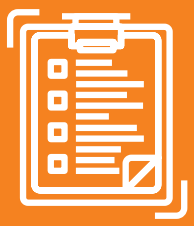
Insurance Distribution at 2025 – An Industry Outlook



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1. The Role of Distribution Channels in Insurance

The ever changing customer needs, the increasing penetration of the Internet, and the growing millennial population are the key factors that decide the different forms that the insurance distribution channels have to take. Initially, The Insurance device has been used as a risk transfer mechanism, but in the present decade, the insurance device is slowly getting migrated as a risk avoidance technique. During all these changes, the distribution channels/methods were the predominant factors that contributed majorly to the healthy metrics/ratios for the insurer.

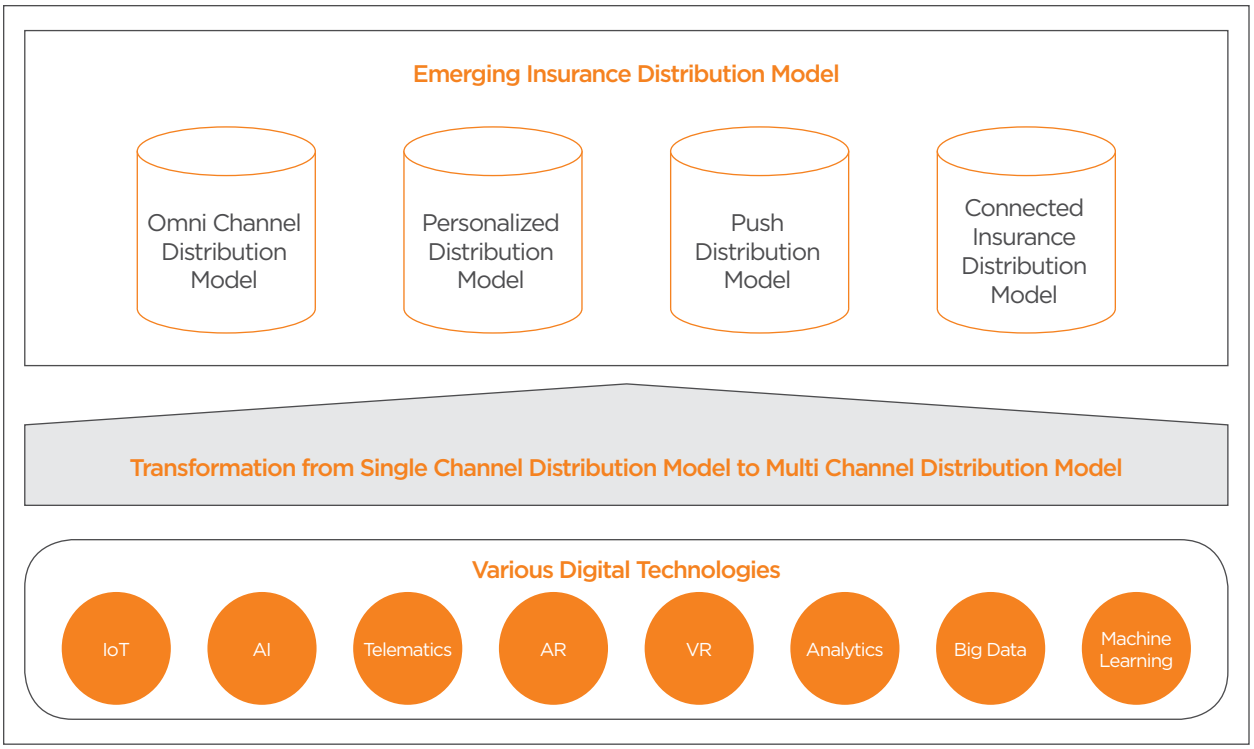
Take out "distribution" as a separate component from the insurance value-chain. It has been impacted by various factors such as changing customer behaviours, on-going regulatory changes, and also by the demographics to a certain extent.

Agency and Broker Channels – Being considered as the traditional insurance distribution channels, both of them are still dominant in their market share/contribution when compared to the various channels today. While a myriad number of potential distribution capable channels are growing up every day, the agency/broker channels are still dominating with reference to customer retention, product mapping to customer needs, etc..

1.1. The Contribution of Distribution Channels towards Insurer's Profitability

The efficiency of any given distribution channel would be derived from the healthy insurance business, the channel has acquired for the insurer. Similarly, the profitability of the Insurer would be directly proportional to the healthy insurance business acquired by any given insurance distribution channel. The customers of insurance sector were provided with very limited options such as directly visiting to the insurer's office and/or agency/broker channels during the early decades. But over the period of time, with the increased velocity of technological improvements on each business day, the insurers are exploring the new ways and possibilities to reach out to the customers. This has resulted in huge increase in the number of distribution channels.

With the overwhelming technological exploratory choices, insurers have started designing personalized distribution models that can target specific customer segments. These distribution models are based on multiple digital technologies and innovations.



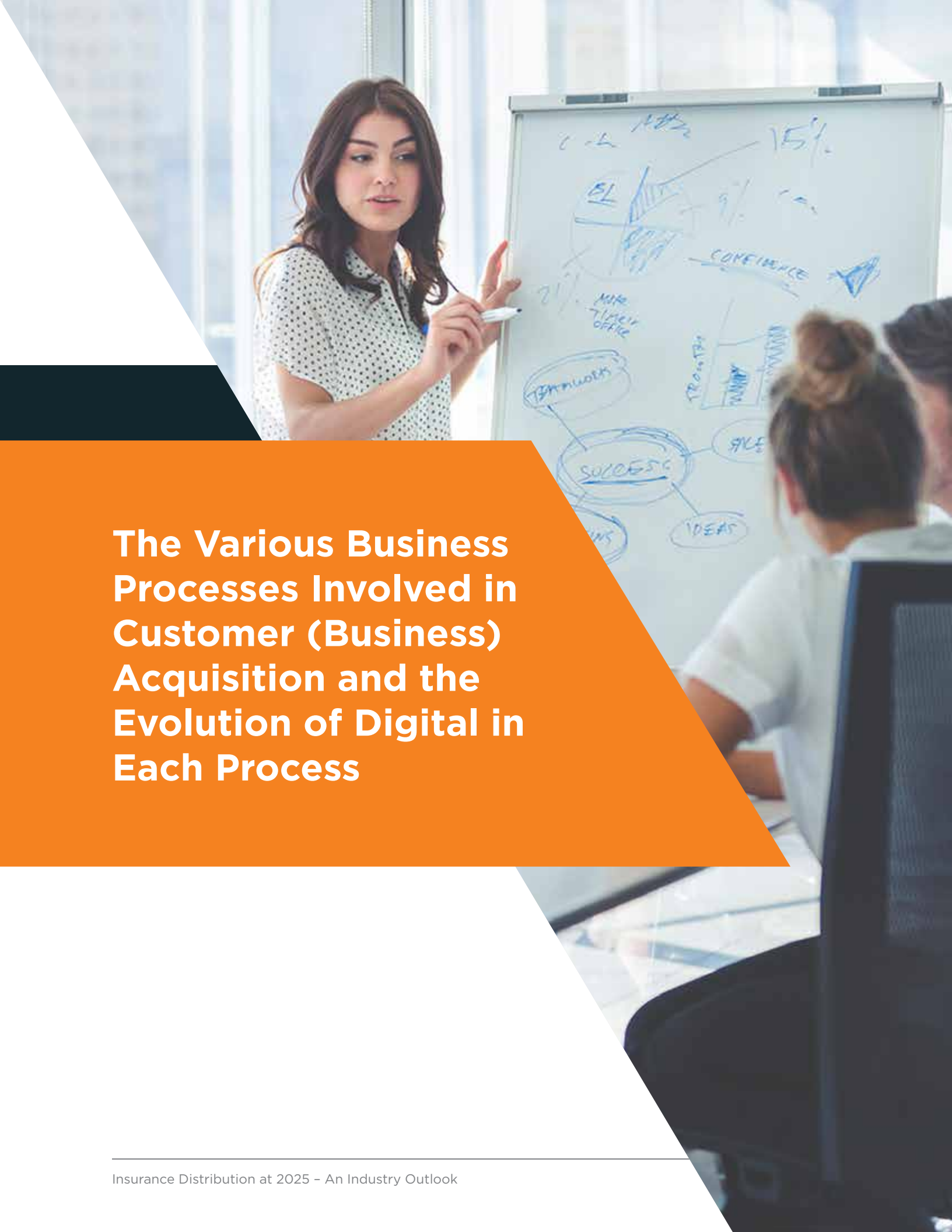
When the insurers have increased exploratory possibilities on all these newly emerging distribution models, the need for cost optimization also arises accordingly. So on a high level, cost-optimized and efficient channels are shaping the future of insurance distribution component.

1.2. The Trend of Cost Optimization

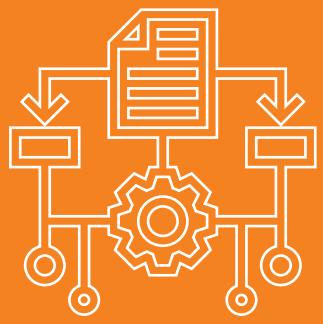
The cost to acquire an insurance business has always been on the increasing side. The business acquisition cost with reference to personal lines may look simple and straight forward because it involves few calls and few revised quotation issuance etc.. However, with reference to the commercial lines of insurance, the business acquisition process involves more steps and processes, thus resulting in increased acquisition costs. The following are the multiple processes involved in the commercial lines of insurance business acquisition:

- Single to multiple on-premises visit
- Multiple rounds of risk evaluation as and when required
- Multiple revised quotation issuance
- Multiple premium-due collections
- Multiple addition/deletion of risk element transactions
- Multiple calls/visits for risk inspection process

These on-going increases of the acquisition costs have made the insurers to think and explore about the cost optimization possibilities. Every business process within the business acquisition has been explored deeper.

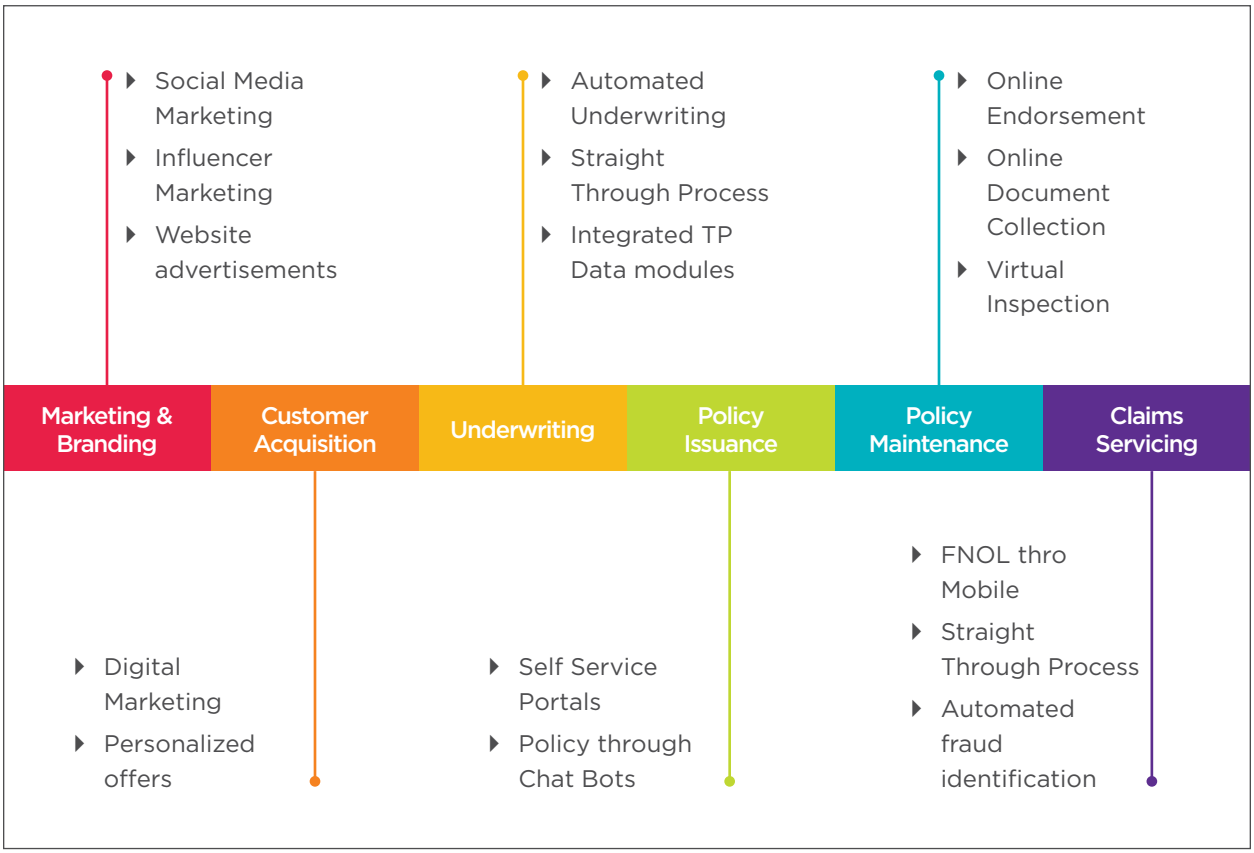


The Various Business Processes Involved in Customer (Business) Acquisition and the Evolution of Digital in Each Process



2. The Various Business Processes Involved in Customer (Business) Acquisition and the Evolution of Digital in Each Process

The business acquisition cost reduction is predominantly achieved through adoption of digital technologies for each business process.



With the increased usage of Smart phones along with Internet, Insurers could come up with the below list of digital distribution channels.

- Chat bots
- Social media messengers
- Mobile applications
- Responsive self-service portals (SSPs)
- Call centre
- Push message distribution channels
- Direct emails
- Aggregator portals
- E-Commerce websites
- Push advertisements

All the above mentioned channels have not only resulted in reduction of business acquisition costs, but also benefitted the insurer in multiple ways such as:

- Increased customer engagement
- Event-based push notifications
- Risk avoidance advices/suggestions
- 24 X 7 access
- Greater effort reduction
- Excellent level of automation in servicing the queries
- Improved customer satisfaction
- Increased insurance penetration
- Increase in micro insurance devices and products

2.1. Increased Customer Engagement and Event-Based Push Notifications

The social media applications are the significant drivers in health insurance for achieving increased customer engagement. Based on the social media posts, the life events of the insured are tracked and push notifications are sent to the insured, to opt for the need-based extra coverage.

Example: New-born baby – The baby needs to be included in the health insurance policy of that family. This event gets tracked through social media posts of the customer, and without any additional effort, based on the proactive push message received from the insurance company, the insured can include his baby in his existing health insurance.

2.2. Risk Avoidance Suggestions and Anytime-Anywhere Access

The IoT integrated mobile applications are changing the lifestyle of the insured with in terms of their health, as well as the usage of home appliances. Based on the in-built predictive analytics algorithms, such mobile apps can provide suggestions on the insured's lifestyle related activities.

Example: An insured with a smart watch can monitor his health related info (heart rate etc.) anywhere and at any time. Also the integrated mobile app can provide suggestions such as how many more steps the insured has to walk till the end of the day to complete his target, how many more calories he has taken as his intake food at a particular time, the number of hours that the person has uninterrupted sleep etc.. All these suggestions when being followed by the insured can result in an improved and healthy lifestyle and subsequently can reduce the number of claims for the insurer (risk avoidance).

Considering the automobile line of business, telematics as a concept has been introduced a few years ago. It provides extra discounts to the customers based on the categorization of driving behaviours. Later on, game-based healthy driving score was introduced. Based on the scores added in the insured's portfolio, premium discounts or other forms of rewards were offered to the insured. Though opting for telematics looked like extra expenses to the insurer, indirectly the number of claims got greatly reduced in automobile insurance and moved this line of business towards risk avoidance.

2.3. Effort Reduction and Automation

All the above said newly emerging distribution channels have resulted in great amount of effort reduction, increased reach and engagement with the customers. The level of scheduled automation of processes helped the insurers to proactively reach out to the customers without any additional efforts.

Example: Chat bots, when being used as a virtual assistant by an insurer, to interact with any potential business customer, the proactive renewal notifications, the claim notifications (FNOL) process through chat bots are producing multi thousands of hours as efforts savings for the insurer. To a greater extent of automation, the entire insurance policy can be renewed or any new insurance policy can be purchased by answering few questions through a simple interaction with the chat bot. The multiple processes associated with business acquisition and the costs associated with each of the processes have become void or negligible with the help of a single powerful trained chat bot.

2.4. Micro Insurance Products and Increased Insurance Penetration

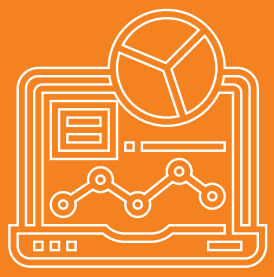
In the past decade, life insurance policies were predominantly understood as long term policies that spanned across multiple years or short term policies that spanned across few years. But in the recent years, there are micro insurance policies and products that become active on demand and expire within few weeks. Also there are life insurance riders that will just work for few weeks or few months as per the requirements of the insured.

On the non-life insurance side, there are micro insurance products that will last just for few hours for the insured's paragliding ride or trekking rides. There are other micro insurance products that will exist from the time the insured boarded on a taxi till his ride gets completed. With all these micro insurance products, the insurance penetration in the society and the awareness about all these micro insurance products have greatly increased.

2.5. Improved Customer Satisfaction

All the above mentioned digital distribution channels and their increased and proactive engagement with the insured, are positively impacting the customer satisfaction for the insurer. Being proactive in suggesting the renewal of upcoming policy to the insured, completely removing the complexities on the first notification of loss process, issuing a premium estimation/ quotation to the insured through the receipt of answers from the chat bot, are resulting in a healthy improvement in the customer satisfaction ratio for the millennial insurers.

The Industry Predictions/ Statistics



3. The Industry Predictions/Statistics

The thought process of the industry experts is directing towards increasing the insurer's engagement with the customer and increasing their profitability. But the experience that the general public has with ecommerce websites like Amazon and Flipkart, are increasing their appetite towards seamless digital experience. This increasing appetite from the customers is resulting in not only the 2K Insurer, but pushing the traditional insurers also to move towards producing multi-digital channel distribution models.

According to the J.D. Power and Associates 2018 Insurance Digital Experience study, conducted with 19 of the largest property and casualty insurers across the US region, the websites of all such insurers are not meeting the customer expectations. This study also revealed there are three key performance indicators that impact the overall customer satisfaction. They are:

- Ease of navigation
- Availability of key information
- The clarity provided in the information

Apart from the ease of navigation, the other two KPIs are due to the complex product design and the unfamiliar terms of insurance that are pronounced throughout the policy purchase/claim notification processes.

3.1. Stats At a Glance on Digital Distribution Channels

3.1.1. Chat Bots

- An industry statistic by 'Outgrow research' quotes that the chat bot market value was at 703 million USD in 2016.
- According to 'Grand View Research', the global chat bots market is expected to reach 1.25 billion USD with the compounded annual growth rate (CAGR) of 24.3%.
- Juniper Research confirms that worldwide, chat bots will generate over 8 billion USD in savings by 2022.
- A Business Insider report describes that 80% enterprises will use chat bots by 2020.
- In a survey about the channels used for conversation with the enterprises, 'Drift research firm' found out that 195 countries in the world are using chat bots for conversations.

All these industry statistics are proving that chat bots will be the most dominated customer service/distribution channel in the upcoming years. This is not limited to the insurance industry.

3.1.2. The False Threats about Chat Bots as Insurance Distribution Channel

From lot of insurance industry experts' perspective, the increased penetration of chat bots as insurance distribution channel is understood as the sunset of agency/broker distribution channels. This is a false threat due to the limited understanding of the industry happenings.

Though the chat bots are increasingly being used as the predominant distribution channel, this will never impact the agency/broker distribution channels. The market will be flooded with myriad number of micro insurance products in the upcoming years. The agents/brokers would be the key drivers to have these products penetrate the lowest level of the insurance population. Also, not all the risk profiles would be good enough to consider for the micro insurance product requirements. So the complex risks will exist in the market forever. There would be more complex risk profiles that would get evolved in the upcoming years. All these evolutions would demand for more and more agents and brokers to serve for the needy insurance population.

3.2. Statistics at a Glance on Robotic Process Automation

- The 250 million USD market size of RPA in 2016, will become 2.9 billion USD in 2021 according to the prediction by the American research organisation Forrester.
- According to Gartner, RPA software revenue would reach 1.3 billion USD in 2019.
- Deloitte predicts that by 2023, RPA will reach the stage of universal adoption by all industries and enterprises.
- From 358 million USD in 2017, Grandview Research expects RPA to grow till 3.11 billion USD by the year 2025.

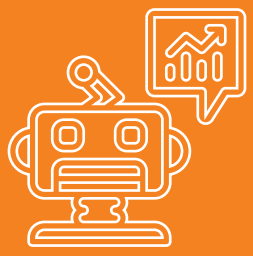
The above depicted statistics prove that most of the business processes of marketing, sales, customer acquisition, customer servicing, and claims settlement in the insurance industry would be automated in some or the other way to increase customer engagement and profitability.

3.2.1. The False Threats about RPA as Insurance Distribution Channel

Self-service portals and transactions through chat bots are the most relevant improvements in the insurance industry through the impact of robotic process automation. With the day-to-day increase in adoption of self-service portals by insurers, straight through processing of policies online and online FNOL (First Notification of Loss), online transactions are becoming the new normal in the industry. But these happenings are pushing a question about the role of underwriters in the upcoming years, as underwriting processes have got automated. This is also a major false threat to the insurance industry.

The above diagram clarifies that the role of underwriters will not sunset. Instead the underwriters would become more and more critical day by day, parallel to the technological adoption in designing and configuring insurance products.

The 2025 Insurance Distribution – A Prediction

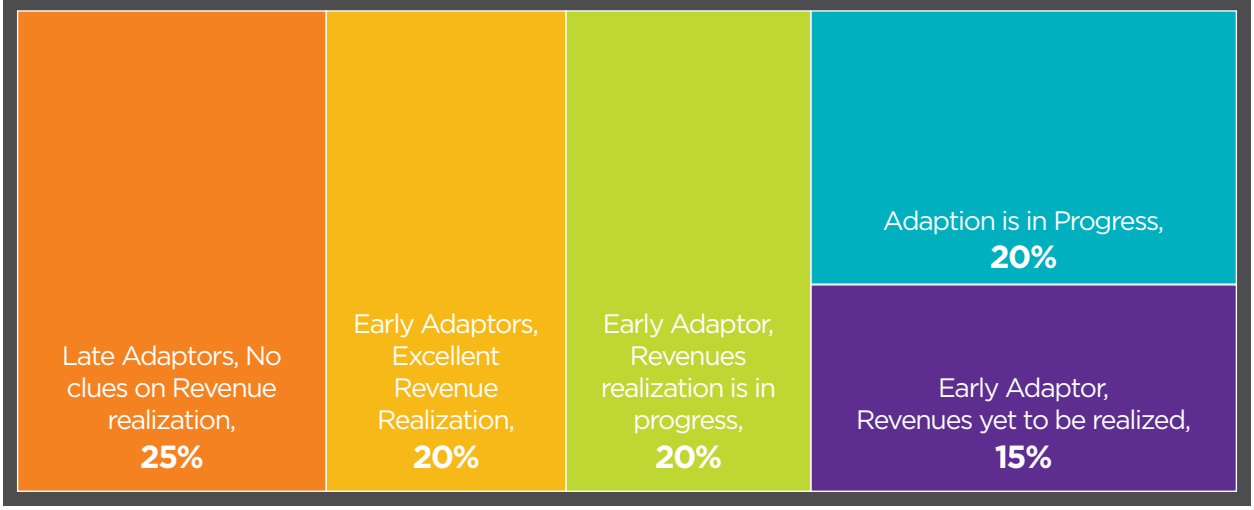


4. The 2025 Insurance Distribution – A Prediction

4.1. Digital Distribution – A New Normal

All the digital distribution channels would become the new normal in 2025 in the insurance sector. The insurers would have realized already about the need for digital distribution channels adoption for survival. Unlike 2019, there would be a finalized list of digital distribution channels that can be stable and adaptable by the insurers. Based on revenue realization by the insurers, the below categories can be derived.

Digital Distribution Channels Adaption Prediction 2025



- Major portion of the insurers in the industry would either fall under the category of early adapters of digital distribution channels, but the revenues from those channels are about to start (or) Very late adaptors and no clues on revenue realization.
- Almost equal share of insurers would have realized the revenue through digital distribution channels adoption (or) revenue realization would be under progress.
- Equal to the above share, there would be insurers who would have just initiated the adoption of digital distribution channels.

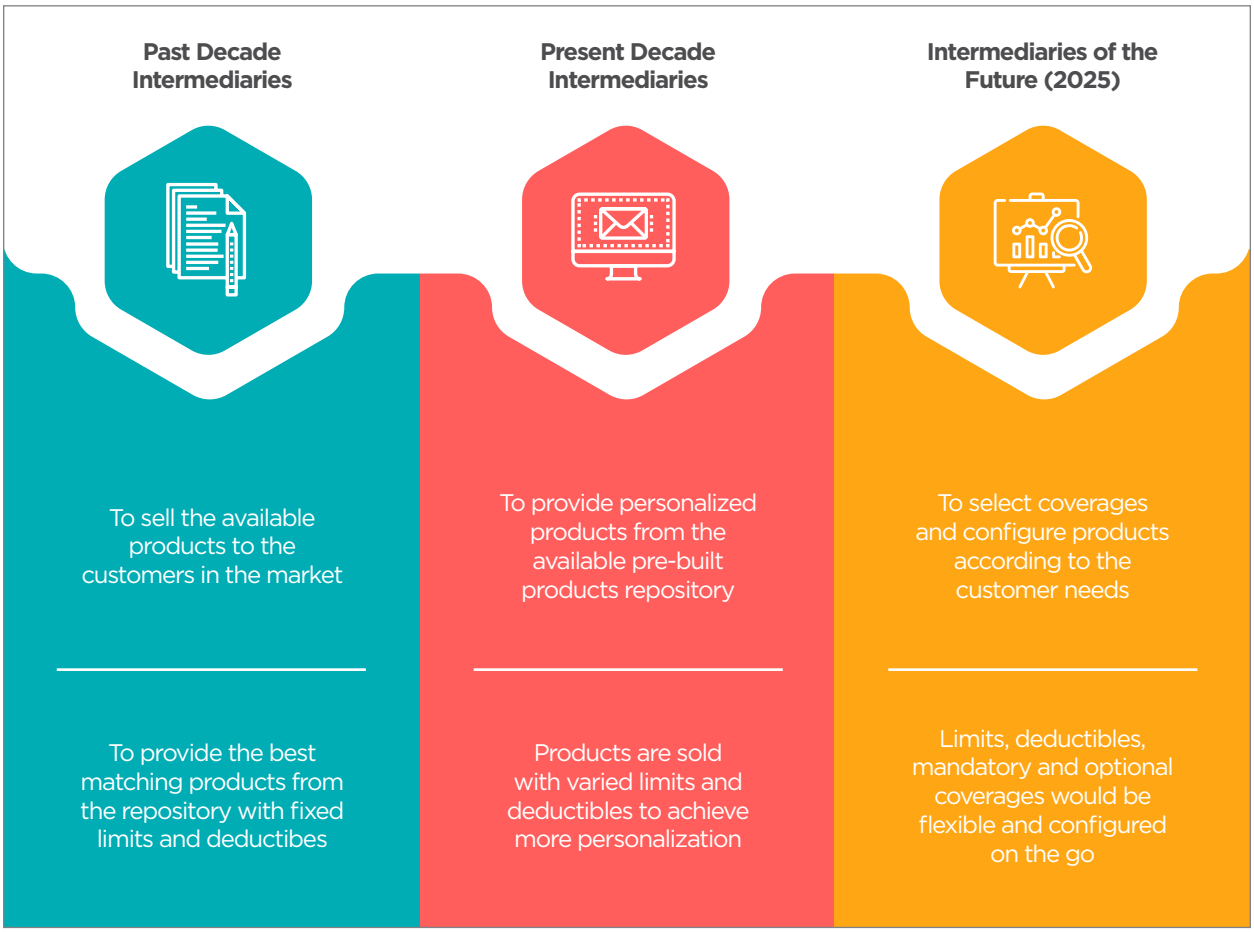
Apart from one-fifth of the insurers in the industry, all others would be in some or the other stages of revenue realization through the digital distribution channel adaption.

4.2. Deep Dive on 2025 Distribution Channels

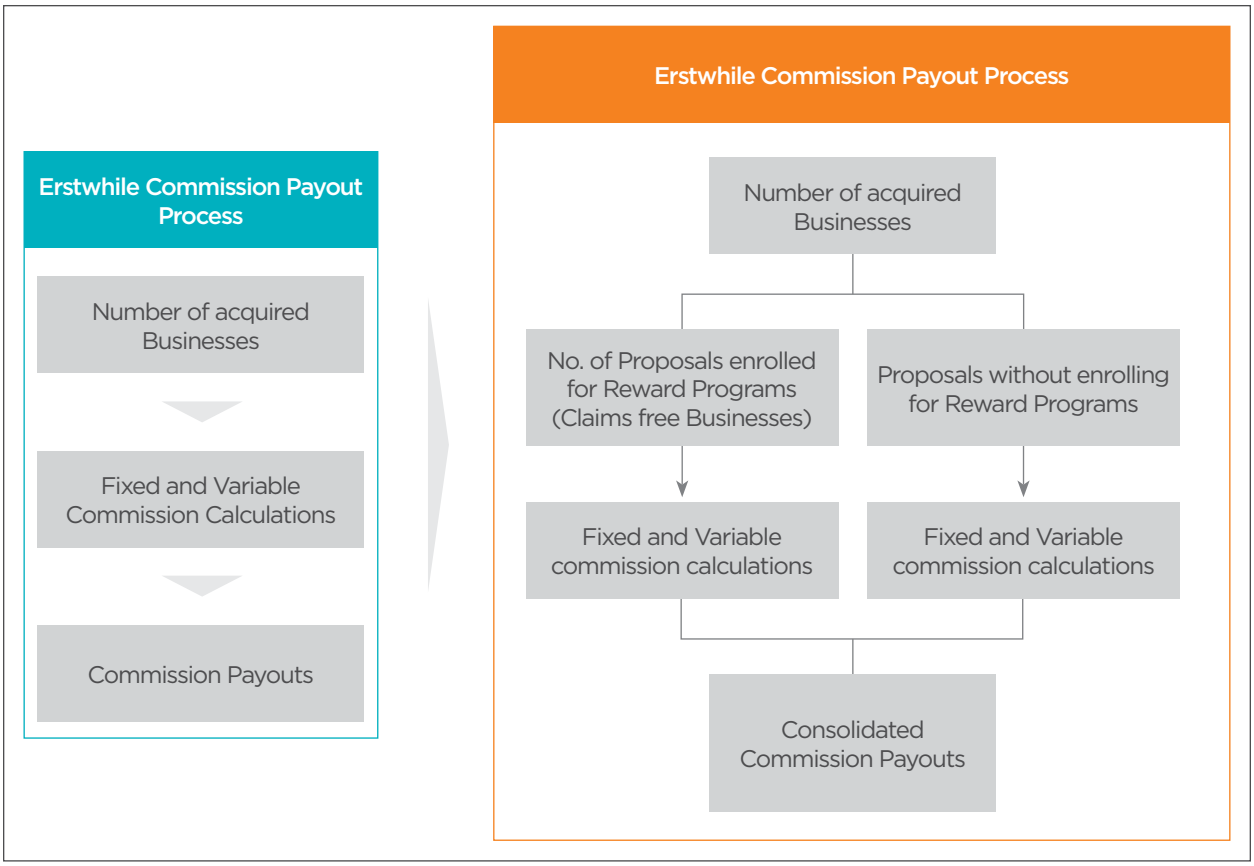
4.2.1. 2025 Agents and Brokers

The intermediaries – agents and brokers would be the key personalities in deriving personalized products according to the customer needs. On case to case basis, considering the unique requirements of the specific insured customer, the agents (or) brokers would configure the products to achieve maximum personalization for their customers. Hence the insurance companies would be receiving data from these intermediaries to regularize the product bundles, that can achieve greater amount of personalization. Instead of traditional regular insurance products, there would be coverage availables with maximum and minimum limits. The agents would be forming customized products through configuring the coverages as required.

More than the servicing, all the agents and brokers would be concentrating more on the sales and marketing part of the business (customer) acquisition. The servicing part of the agency portfolio would be automated to the maximum level and lead to maximize direct engagement with the insurers.



The commission structures for the intermediaries' vertical would be derived based on – not only the number of businesses acquired by them, but also on the health of the acquired business (number of losses from the acquired businesses).



Commission Process @ 2025 for Insurance Distributors

4.2.2. 2025 Chat Bot Distribution Channels

There would be fine-tuned insurance-intelligent chat bots in 2025. The below would be the roadmap for the chat bot distribution channels in the insurance industry.

Chat Bot Distribution Channels Today (2019)	Chat Bots of the Future (2025)
Insurance-specific concepts and terminologies need to be covered in the chat bot training. **Example:** Chat bot has to be trained to understand what is endorsement, policy expiry date, premium, etc.	There would be chat bots with insurance intelligence (bot with understanding of insurance terminologies) **Example:** There would be readymade chat bots that could understand what is an insurance policy, effective date, expiry date, etc.
Chat bots perform the FAQ conversations and enquiry conversations. **Example:** Chat bots are configured only for the frequently asked questions and enquiry conversations such as renewal, premium request, etc.	Along with FAQ conversations and enquiry conversations, chat bots will perform transactions. **Example:** Policy renewal, cancellation, etc., through chat bot

Chat Bot Distribution Channels Today (2019)	Chat Bots of the Future (2025)
Half the way left out conversations are not stored in most of the bots today. **Example:** While enquiring for the renewal premium, after providing the policy number, if the session gets disconnected, the user has to give the policy number and other required details while reconnecting	The conversations left out half the way would also be retrieved and continued when required by the end user. **Example:** While enquiring for the renewal premium, after providing the policy number, if the session gets disconnected, the conversation can continue from the previous point
Today's chat bots do not have omni-channel capability **Example:** Conversations carried out with the chat bots cannot be retrieved from any other social media messengers	2025 chat bots will have omni-channel capability **Example:** A user can carry half the way conversation as input to one chat bot and can continue the rest of the conversation through any other social media messengers provided by the insurer
Other than one-fifth of the conversations (20%), all others are redirected to human agent **Example:** If a user asks about upcoming products of the insurer, the chat bot redirects the user to a human agent	At least 80% of the conversations will be performed and closed positively by the chat bots itself as they would be well trained. **Example:** Chat bot would be capable enough to understand and do the revised calculations on premium based on user's request on coverage addition/removal

4.2.3. Self-service Portals 2025

Today, the self-service portals are capable enough to sell and process only few LOB products (mostly personal) online. The 2025 SSPs would be more capable on these lines.

Predominantly today's SSPs issue quotations based on the information given by the insured. Right after this, there are manual follow-ups to schedule risk inspections, policy conversion etc.. The 2025 SSPs would be mostly based on seeking answers for few questions and pre-assuming and validating answers for the subsequent questions.

Example:

During quotation request by an insured for life insurance, to answer a question about the lifestyle if he selects "Chain smoker", the subsequent question on "pre-existing coverage requirement" would be removed and this particular coverage would get excluded by default.

The 2025 SSPs would be more towards guided/assisted policy purchase where the insured customer will be suggested more recommendations on the coverages that he can opt for, and also on maximum and minimum limits for each coverage, based on his risk portfolio.

2025 Distribution Channels from the Insurer's Perspective

5. 2025 Distribution Channels from the Insurer's Perspective

Insurers would be more prone towards increased return on investment from each of the stabilized digital distribution channels. By 2025, as the investments on these channels would have been made few years ago, the return on investment would be the need of the hour for the insurers. Multi-digital distribution channels strategy (i.e. customer can get the quotation from a chat bot, then subsequently can get the policy through a self-service portal) would become the basic service provided by any 2025 insurer. Also, insurers would be experimenting with the combinations of digital technologies to look for continuous revenue improvement. This would also help them to reduce the number of non-converted business leads.

Combined Digital Technologies	Expected Benefits to the Insurer
Self-service Portal + Integrated Analytics	Greater engagement with the customer through achieving guided policy-purchase journey
IoT Device Data + Applied Analytics	Improved insights to the insurer to provide more personalized recommendations to the target customer groups
Integrated Analytics in the FNOL Process	Early identification of suspected fraudulent claims
Integrated Analytics in the Policy Processing	Faster underwriting process and more accurate premiums for every business proposal
Multiple Digital Wallet Payments Integration	Increased customer retention based on the various payment wallet options provided

Summary

6. Summary

This paper/Point of View elaborates the happenings in the insurance industry – specifically on the distribution channels/methods. As the digital technologies/offerings keep on emerging in the present decade, all these factors have been considered while drafting this paper. Below are the key factors that helped to derive a clear prediction about 2025 on the insurance distribution channels.

- Few industry-recognized surveys and analyst results are taken into consideration.
- The present challenges in the insurance industry and the associated impacts are considered.
- The growing millennial population and their tech expectations from the insurance industry are taken into account as one of the key driver for 2025 predictions
- The present usage, adaption, maturity, usability, and also the roadmap of each digital technology are considered and mapped accordingly to derive the insurance distribution channels – 2025 prediction.
- There is no defined prediction method/statistical method that has been used to derive the points mentioned in this paper.

Conclusion

7. Conclusion

The insurance industry is impacted with multiple digital technologies disruption. When it comes to distribution channels, the present industry is in the exploration phase. The industry is doing continuous trial and error methods on the convenient distribution channels to increase their revenue and engagement with customers. However apart from all the above factors mentioned, the 2025 insurance distribution channels may deviate from the predictions drafted in this paper – ranging from a minor deviation to a greater deviation. All of them are subject to the happenings in the upcoming years. Also the regulatory approvals and compliance procedures would play a key role in the upcoming years to have all these predictions to come real in the insurance industry. Based on geography specific changes, the claims experience, the premium income – the industry may take a decision that can entirely change the predictions listed in this paper. However as an insurer, a company should be prepared enough for quick adoption of all these digital technologies for every component of the insurance value chain, with a clearly defined roadmap. This roadmap should be based on the effective and quick ways of getting return on investment from each of the newly emerged distribution channels. HCLTECH's insurance expertise and the rich exposure towards the industry happenings across the different geographies of the world will help the digital insurer to come up with an excellent roadmap for these digital distribution channels by 2025. HCLTECH's pre-built use cases repositories and the futuristic scenarios for the 2025 insurer would help the 2025 insurer to smoothly transform from traditional channels to digital channels, with faster turnaround time and ROI.

8. About the Author

Prasannavenkadesh is an Insurance Practitioner/Senior Insurance Business Manager with HCL Technologies. He is currently a part of Insurance Practice Core Team and working for Innovative Solutions in the End to End Value Chain components of Insurance. The Key objective for Prasannavenkadesh is to work for various solutions for Insurers across Geographies. Then he also collaborates with various Digital and Analytics teams in HCL Technologies to come up with Insurance Verticalized and Innovative Digital Offerings/Solutions that can address the emerging and futuristic problems of the Insurance Industry. With his 16 years of Insurance Industry experience and It Business consulting experience for the Insurance domain, Prasannavenkadesh is currently exploring and developing proposals with Digital Concepts/Digital techs that have unique offerings in the market to help the insurers to get to the Future Ready stage. He can be contacted for Innovative Insurance Solutions, Insurance Digital and Analytics offerings and Insurtech Propositions.

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