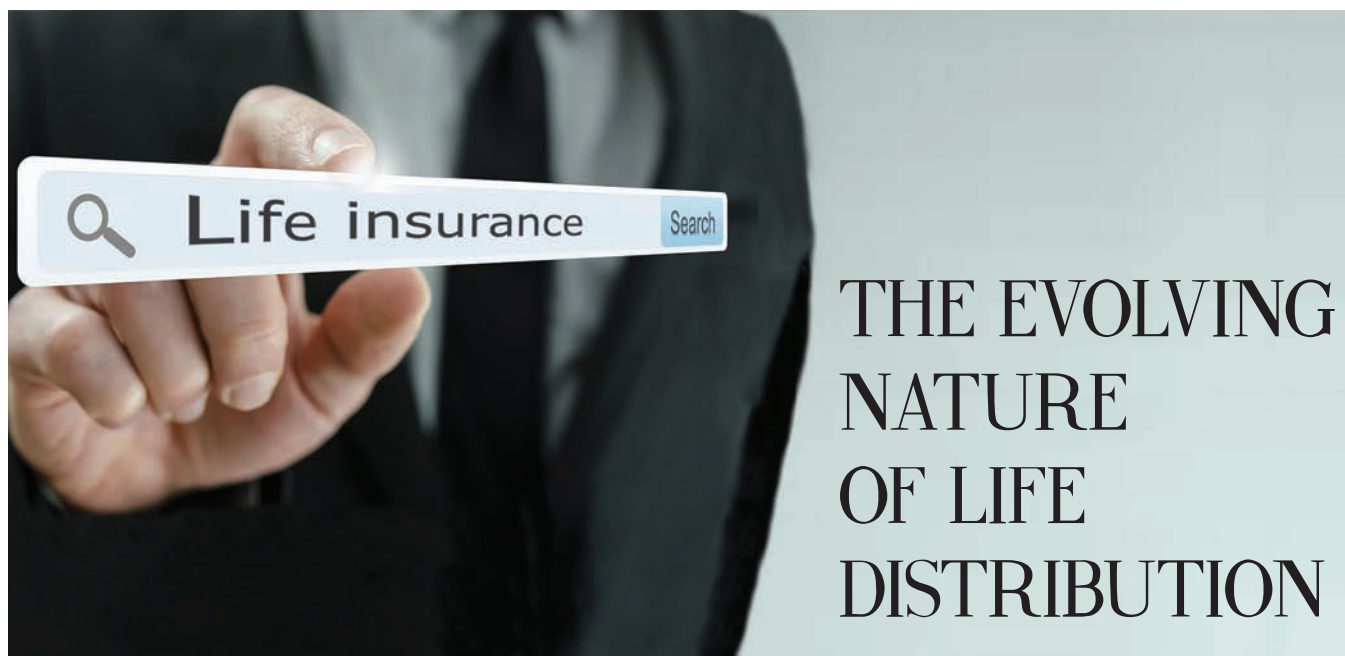


COVER STORY – LIFE & HEALTH



THE EVOLVING NATURE OF LIFE DISTRIBUTION

Distribution tools within the available models today need to embrace technology at lightning speed, say **Messrs Syed Raza Haider** of **Alinma Tokio Marine** and **Ali Asghar Bhuriwala** of **Badri Management Consultancy**.



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Life insurance is perhaps the most distribution dependent of all financial products available today. This is primarily because the need of a life insurance product is often not fully understood and appreciated, and hence the age-old cliché that life insurance is “sold” and not “bought”. This essentially means that a coherent structure is required which understands the individual circumstances of the customer, analyses the possible financial needs which are not adequately covered and maps these to a suitable life insurance product. Hand in hand with this is the need to keep up with changing consumer buying habits and behaviours vis-à-vis shifting demographics and technological advances.

It is due to such intricacies that the distribution channels of life insurance have only seen limited development beyond the traditional means. However, with the unprecedented growth and development in the financial services industry witnessed over the last 30 years, insurers have responded by innovations in the product offering to stay relevant in the rapidly changing personal finance industry.

Apart of the traditional agency model, a number of models or distribution methods have popped up over the last 30 years. Some were received with enthusiasm only to be undone by the lack of product innovations to support these. Overall, most of these have seen modest success, at best.

Bancassurance – a significant milestone

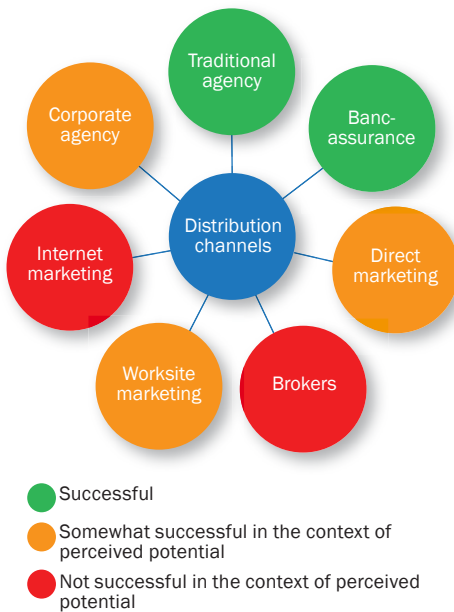
The advent of bancassurance in the 1980s in France was, however, a major change in the way life insurance products were, hitherto, distributed. But the success of bancassurance was only made possible by having clever product innovations. Bancassurance depends heavily on how neatly integrated the insurance sale is with the banking processes. This means that certain products can have high success with the “integrated model” approach, whereas, certain products (such as investment-linked and/ or savings-oriented products) will need a different approach than what is embedded in the conventional banking procedures.

In a number of economies, bancassurance is limited to selling “over-the-counter” products, which limits the real value proposition of life insurance products. It may not be off the line to say that the crux of life insurance, which is to understand, identify and cover specific needs of the customers in a rapidly changing environment, gets somewhat defeated if the products are generalised to fit the “over-the-counter” sales approach. Nevertheless, simple products do offer valuable and socially important benefits which cannot be overlooked. In many countries, the concept of wealth managers or financial planning officers working in the bank has been a success in many countries over the last 10 years, and has a strong business case for the future as well.

The biggest threat to the effectiveness of bancassurance as a model is the rapidly changing ways in which banking itself is done. Due to huge technological strides

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Figure 1: Available distribution channels with various levels of success



in recent years, the B-to-C contact has reduced substantially. This is evident if we just look at our own banking needs. The number of times we have had to visit the bank has reduced over the last few years. This reduction means that the job of wealth managers or financial planning officers depends greatly on the strength of lead generation mechanism within the bank. Despite all the challenges, bancassurance has been able to offer a reasonably successful alternative distribution channel to insurers.

The impact of technology

Consider this: a prospective buyer logs in to Google’s life insurance app via retina scan on his smartphone. The app fetches his age, marital status and other basic information through the Global Human Directory database. The health monitor app on the smartphone automatically uploads fitness records, such as daily exercise and diet routines. The doctor app pulls out his last 12 months of medical records. The

habit app provides information related to smoking and drinking preferences, amongst other things. All this feeds into an underwriting module that completes his risk rating.

Several product offers from multiple insurers that best fit his profile show up on screen, along with a summarised comparison of options. He selects the option he likes, sets up an automated direct debit that deducts the first payment, and a voice message on the smartphone from the insurance company thanks him for choosing their product. The policy has been sold in less time than what it would take to step out of the house to buy bread a quarter of a century ago.

This is improbable today, but certainly not impossible tomorrow, given the way technology is making forays. For insurers, the biggest challenge is, perhaps, to keep pace with this growth. Lifestyles have changed significantly from what it was even 15 years ago. The old-school vision that vouched for the traditional more “feet on the street” as being the single driver of success for life insurance sales has realised that its footing has been swept away by the technology storm.

There are visible signs that the customer interaction is quickly become more technology-based than interactive. The development of various smart phone apps, tablets and online portals have changed the customer preferences. A customer is increasingly becoming more comfortable “shopping” for products through virtual means than to physically approach the product provider.

Distribution tools need to embrace technology

For life insurance, it is not the innovation of new distribution channels which is important. In our view, it is the “distribution tools” within the currently available models which need to embrace technology at lightning speed. And the distribution tool has to

synchronise with the customer service and support mechanism in the insurance company.


In today’s world, the customer will not only require a hassle-free point of sale, but also an equally efficient customer service and support mechanism, based on the latest technological trends. The customer is justified in expecting that his insurance solutions will be accessible on his smart phone, along with his bank and investment accounts!

It is obvious that the growth in life insurance in the coming years heavily depends on how efficiently insurance companies are able to develop the distribution channels. There are already examples of the use of point-of-sale applications in not only selling the insurance product but also in assisting pre-sale activities, such as needs analysis, product-need mapping and financial planning tools. These tools help reduce the time it takes to sell one life insurance policy, which is increasing becoming critical. It is pertinent to understand that technology is reducing the customer interaction time for other financial products and the need to follow suit in life insurance is perhaps mandatory.

Emerging trends and developments

In a nutshell, the following trends are already emerging in life insurance:

- Innovation in products to fit evolving customer needs and buying preferences;
- Development of modern sales tools based on technology which captures the essence of customer preferences; and
- Development of coherent customer support mechanisms, in line with the developing technological trends.

Successful insurers will be those who are able to excel in the above while still maintaining competitive pricing. It is also important to appreciate that technology provides tools to the market to measure pricing competitiveness in a much more transparent way than before. Insurers must be on top of their game in all aspects of their pricing and demonstrate a tangible value proposition for the products they sell. 

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Figure 2: Role of distribution channels in purchasing life products

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|------------------|---------------|---------------------------|---------------|--------------------|
| Sales techniques | Sophisticated | | | Broker agency |
| | Moderate | | Bancassurance | Worksite marketing |
| | Simple | Internet direct marketing | | |
| | | Simple | Moderate | Sophisticated |
| | | Product | | |