Distribution Management: Connecting the Dots to Build Future Market Success

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Executive Summary

Growth and retention are a top priority for all insurers, regardless of segment or product focus. Growth is focused on developing innovative new products and services, addressing new risks that have emerged, entering new markets, expanding into new channels, and seeking ways to adapt to the changing demographic and lifestyles of buyers – both consumers and SMB owners.

While insurers are expanding to new distribution channels, agents and brokers remain the dominant channel for all segments. Interestingly, agents and brokers are likewise experiencing the need for digital transformation from their customers and as such, have increased expectations of how insurers must support them and their customers. A simple customer or agent portal is only the start of the foundation needed because they all expect much more digitalization.

Too many insurers are reacting instead of proactively meeting these new market demands and customer expectations. Insurers must rapidly adapt to the changing marketplace by assessing their distribution strategy and go to market efforts to ensure solutions address the entire distribution value chain.

Insurers' growth focus is influencing IT investments in distribution technologies including digital support of multi-channel options while continuing to support agents and brokers. Increasingly, investments are focused on next-generation SaaS distribution management, digital and data solutions that can move beyond just automation to more effective management of a rapidly growing channel environment, and innovation focused on new channels such as embedded insurance and the licensing and compensation needs for these channels.

As the industry shifts to growth as well as retention of existing customers, insurers must increasingly distinguish themselves with every channel they work with --- capturing the shelf space of those channels. This report, based on a roundtable with industry leaders, will assess why and how insurers must rethink their distribution management operations to meet the rapidly changing marketplace and ensure sustainable growth. Insurers need to assess where they stand on the distribution management maturity curve, then assess if the enterprise is ready for distribution transformation.

Market Trends – Connecting the Dots

Growth without engaged customers and distribution channels is challenging. Adding to this, technology continues its relentless advance, and a new ecosystem of players is emerging, threatening traditional market assumptions of who, where, what, and how insurance products are sold, bought and serviced. At a macro level, the key market trends driving change include customers, technology/innovation, and distribution. Connecting the dots between these three areas is crucial in setting forward a strategy that will enable distribution management operational maturity and help accelerate growth.

Customers

The viability of the insurance industry is vitally connected to customer demographics, needs, and expectations. If an insurer loses touch with their customers, both current and future, the insurer loses business. Customer needs, expectations, and behaviors must be met in both **what** is offered (products, value-added services), and **how** it is offered (channels) to create an overall enhanced customer experience.

Most importantly, the next generation of buyers is here today with high expectations on multi-channels and digital engagement. At the same time, the older generation has accelerated their expectation of other channels and the adoption of digital. The result…insurers must quickly update their distribution strategy, channels, and technology, or risk being left behind in a state of irrelevance.

As customer needs change and products evolve, an insurer's distribution management solution needs to align with these changes to meet potential growth opportunities. This enables their distribution partners to grow without fear of misalignment in compliance, commission calculations, and payment information. The ease in which a distribution management solution can align with their distribution partners' growth efforts should assist with capturing a broader customer segment.

Changing Demographics

The Gen Z and Millennial generations are vastly different than the older generations, both in terms of their lifestyle but also their digital savvy, and life journey. However, both still want digital and multi-channel options. How they want to buy insurance and what channels they want to work with is a big shift from previous generations and the technologies used by insurers.

While this applies to them as customers, it also applies to them as distribution channels.

The inclusion of next-generation technologies will attract and retain both the younger generations of customers to serve, as well as the younger and more technology-savvy distribution channels, including agents and brokers. A multi-channel model inclusive of the traditional agent and other digital distribution channels will provide a better customer journey and experience.

Shifting Expectations

For decades, agents and brokers have been the channel of choice. This decades-long choice and channel landscape, however, is rapidly shifting and changing, driven by several factors.

Underpinning the landscape shift are major changes in customer behaviors and expectations. Specifically, among the next generations of insurance buyers, Millennials and Gen Z. Customer expectations are shifting to a multi-channel world, challenging insurers to provide channel options and choice across the entire value chain. In addition, new channel options are rapidly emerging, such as marketplaces, embedded insurance in other businesses, comparison sites, and direct distribution. These options are evolving and maturing out of Greenfields and InsurTech startups.

> *"What's often forgotten is just the efficiency that is needed for operations and back-office, and then not even thinking about it."*
>
> Roundtable Participant

Technology and Innovation

As the insurance industry accelerates its digital transformation, technology is an increasingly important element to optimize operations and engage externally with distribution channels. Different channels have different needs. The traditional main street agent has different needs than a large broker, who has different needs from an aggregator, Managing General Agent (MGA), platform, embedded channel, or other digital channels. Insurers must create new distribution strategies to capitalize on trends and implement cutting-edge business operations that can strengthen their operations as well as distributor and channel relationships. Part of these strategies includes a seamless distribution management solution for various channels with the alibility to plug and play with a broad section of distribution partners.

Effectively managing and responding to the spectrum of channels requires a robust set of technology across distribution, digital, and data. This highlights the need for next-gen distribution management and distributor capabilities and experience, including onboarding, licensing, servicing, and commissions.

> *"Throwing headcount at everything is not the answer. We must focus on the technology and the base solutions. One of the unique things we experienced from our growth and multiple distribution channels is that it was not one system that we had to change. It was all our systems. We are reengineering and developing to keep the growth of the company moving forward."*
>
> Roundtable Participant

A new technology foundation can drive innovation to meet new customer expectations and distribution channel options. It can meet agent expectations for more digital capabilities that provide a different and better way of doing business while creating an ease of doing business.

As an example, the mundane process of licensing and compensation turns out to be important for insurers, not only for agent and broker channels but also for new channels. Simply handling this on a spreadsheet just does not work anymore. Celent research commissioned by Majesco that surveyed all generational groups of agents and agencies across both P&C and L&A showed that more than 70% of principles, producers, and CSRs indicated easy automated onboarding and self-servicing of licenses was what companies should be investing in, and almost 50% cited self-service onboarding and electronic licensing.

Unfortunately, too many insurers are simply focused on building efficiencies into the existing process to avoid the "heroics" that takes place on the back end. However, future winners will use technology not only to enable agents to place business more efficiently but also to help them service their customers more effectively. Those that can use analytics to best match producers and customers, provide insights around the "next best action," and more effectively target compensation and services will be best placed to earn an agent's business.

> *"It is no longer just simply thinking about a system that manages your hierarchies and commission structure. It is about efficiency, effectiveness, and innovation. You must think about operational efficiency, adaptation, and trying to stay ahead of things, and that is a whole different ball game than it was 25 years ago."*
>
> Roundtable Participant

Finally, if you want to manage your distribution channels strategically, you must be able to look at production across a broad set of businesses that may not all be processed in the same system, and you may want to have very different levels of data that you are capturing. Knowing who your most profitable channels and producers are is increasingly important so that you ensure they want to do business with you. You may know how you are performing today, but you must also think about your future potential based on the data and analytics you can apply to determine different segments, commissions, and more.

Distribution

During the last two years of the pandemic, social distancing protocols and prolonged lockdowns accelerated the digitalization and expansion of distribution channels. Insurers have increasingly adopted digital technologies to meet new customer and agent expectations for engagement. While agents remain valuable and critical to the insurance ecosystem due to the trust placed in them by customers, they are expecting a broader array of channels that meet them on their terms, when, and where they need insurance. Another aspect is that distribution partners are rapidly consolidating for economies of scale, instead of experimenting with greenfields. With consolidation, the number of traditional distribution partners is shrinking, while individually they are growing. While formal technology consolidations are underway, distribution partners will want to confirm that their revenue streams are updated appropriately for commissions and accurate hierarchy/entity reporting structures.

Agency, Broker Consolidation

Insurance agency mergers and acquisitions (M&A) continue to occur in the market. According to OPTIS Partner's 2021 report, activity expanded by 30% in 2021, with 1,034 deals – up from 795 in 2020[1]. The underlying drivers of the M&A activity included aging owners concerned about the increase in capital gains, lack of perpetuation/succession plans, and significant capital in the market for M&A activity. The activity is a combination of consolidation with larger organizations as well as Private Equity firms looking to consolidate agencies to enter the market.

> *"Within those agencies, they were started and run by principles who are Baby Boomers, and who are getting ready to retire. Department of Labor says that nearly 30% of all agency employees are over the age of 55 and 15% are over the age of 65. That represents many agents and service staff who will be retiring in a few years, dramatically changing the agency operation."*
>
> Roundtable Participant

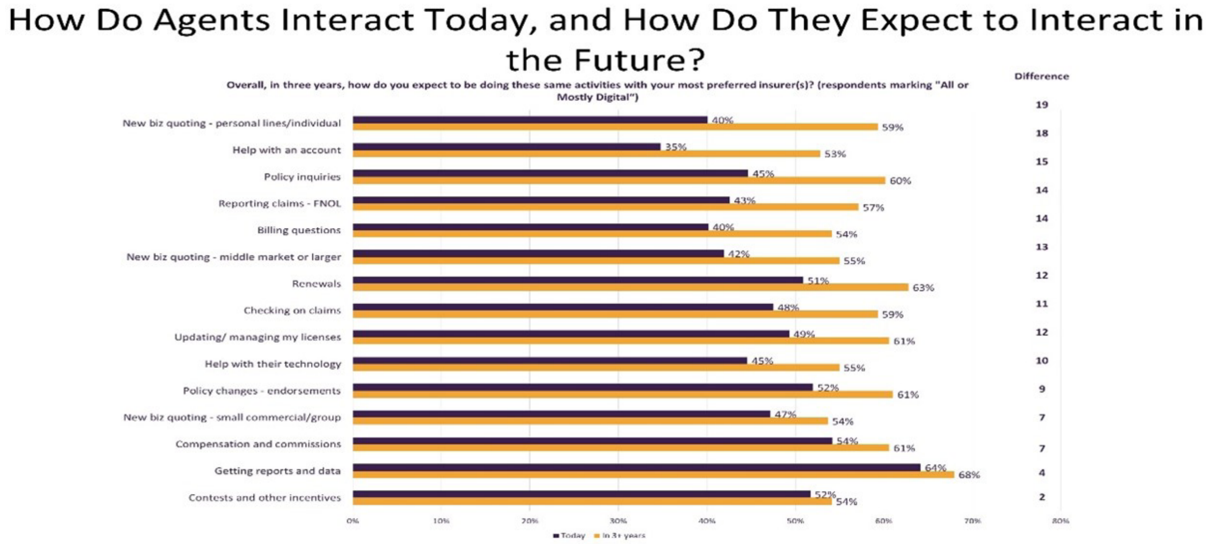
Within this rapidly shifting business landscape, insurers must rethink their distribution strategy and execution. In this changing and competitive marketplace, improving distribution is critical to growth. Designing, developing, and managing productive channel relationships is crucial to creating a sustainable competitive advantage. Insurers and distributors must move to a digital, multi-channel strategy that includes both the front and the back office. They must consider an ecosystem of options and partners across an array of distribution channels.

Demographics

The Celent research mentioned previously found that to become the preferred insurer, they must have great services, good pricing, differentiated products, as well as policies, procedures, and technology that make it easy to do business. Furthermore, it found that all agents have similar levels of digital interactions when it comes to managing licenses, compensation, and reporting. Interestingly, they expect to significantly increase their digital interactions in the overall agency/insurer relationship with increased expectations for digital commission management, self-service onboarding, and electronic licensing. The figure below assists in providing further insight into how agents expect to do business in the future years.

> *"We're doing business today with a partner that looks very different from a partner that we were doing business with 20 years ago. From an operations perspective, it is added complexity."*
>
> Roundtable Participant

Figure 1



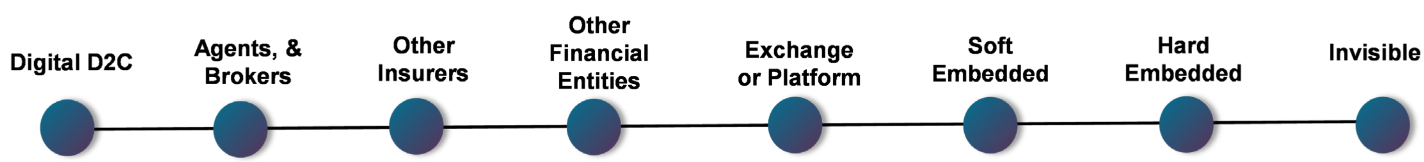
"We're looking for advisors whose value proposition matches our distribution and value proposition, where there's a good complement there."

Roundtable Participant

Expanding Channels

While the agent and broker channels remain dominant and vibrant, the expanding array of channels to reach customers on their terms is creating an increasingly complicated, multi-channel world, as shown below.

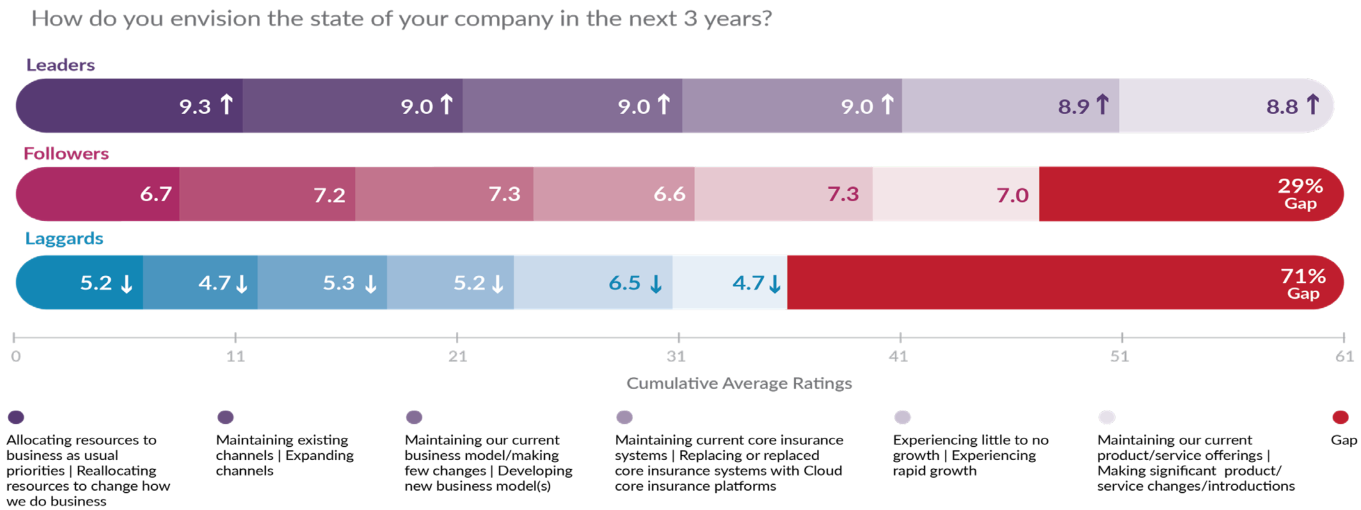
Figure 2



Insurers are increasing the use of ecosystems and partnerships to expand beyond the traditional agent/broker distribution channel. This creates a win-win-win for insurers, their ecosystem partners, and most importantly, their customers. Insurers and their partners taking this approach can quickly tap into new markets; both potential and current customers benefit from more purchase and service options.

Distribution options fall across a spectrum of channels, including direct-to-the-customer, agent/broker, other insurers, marketplace exchange or platform, and embedded.

Figure 3



With the new and growing spectrum of channel options now available, especially the exciting opportunities for embedded insurance, innovative insurers and their partners will have tremendous opportunities for growth, with new markets, new offerings, satisfied and loyal customers… and growing books of business. In Majesco's 2022 Strategic Priorities research, Laggards (4.7) are significantly behind Leaders (9.0) with a gap of 91% and Followers (7.2) have a gap of 25% in expanding their channels over the next three years as shown above.

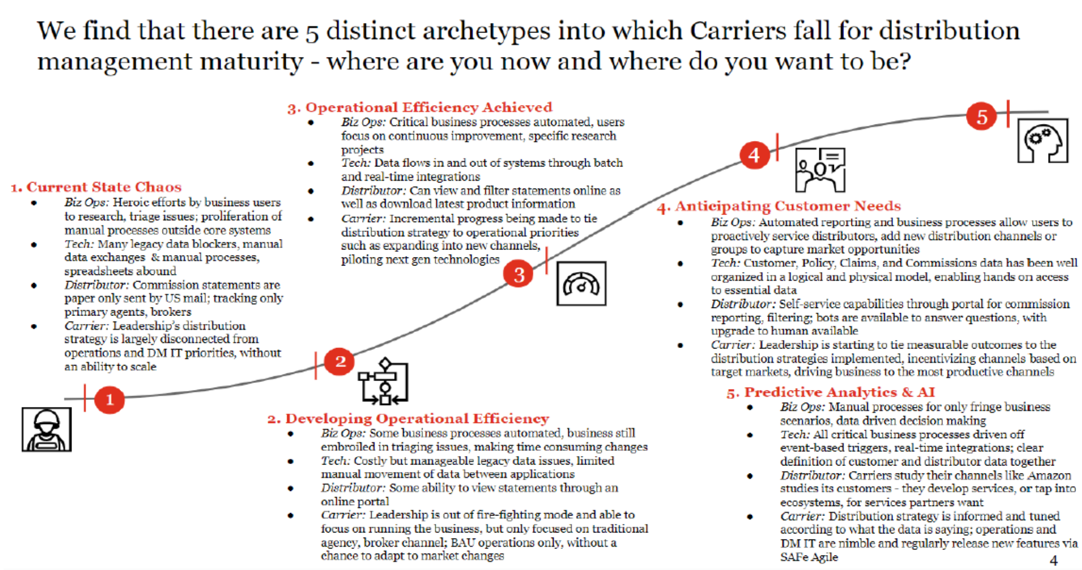
> *"I think one of the struggles that we have is the customer who is coming through a platform probably does not look like the traditional small business customer who works through an independent agent. So now you have rather traditional agencies who are working through digital platforms and comparative raters. But agents want the same level of underwriting support, and compensation, creating a more complicated model for distribution. We are kind of bifurcating agency relationships across what you bring in from a traditional channel and what you bring in from a platform."*
>
> Roundtable Participant

Distribution Maturity – Building Future Success

The viewpoint of distribution management spans the entire distributor lifecycle using a simple maturity model that reflects how insurers should frame distribution management. This maturity curve starts in a state of chaos, defined by manual processes and heroic efforts to keep the lights on for day-to-day operations. But as insurers gain maturity, connective tissue across operations, technology, distribution leadership, and distribution strategy are brought together, leveraging next-generation capabilities.

As insurers increasingly look to transform their distribution management operation and capabilities, it is necessary to understand where they currently stand on the Distribution Management Maturity Curve reflected in Figure 4 below. Transformations deliver value across three dimensions: improved productivity and distributor experience, increased operational efficiency and effectiveness, and improved ability to adapt to change.

Figure 4



The 5 Stages of the Distribution Management Maturity Curve

At the Beginning - Chaos

The earliest stage of the Distribution Management Maturity Curve, referred to as "Current State Chaos," reflects why insurers must move up the maturity curve to add value to their distribution channels and business. Based on the roundtable discussion, these key areas were found as the areas for the insurer's distribution operations that are most impacted in the Chaos stage:

- Business Operations: Manual efforts abound and are never ending
- Tech: Data is strewn about everywhere
- Distributor: Distributor relationships can be rocky

This stage is noted by the herculean efforts insurers and agents' staff must overcome to deliver value for their distributors.

Manual Efforts Abound and Are Never Ending

> *"The person who led our team had a Manila folder on her desk that captured all the exceptions throughout the course of the year."*
>
> Roundtable Participant

Manual efforts are the primary characteristic of this stage in the maturity curve. The above quote reflects the changes conducted outside of core systems in excel spreadsheets, or even on paper based on conversations with the agent's back-office staff, which are not uncommon at this point. This leads to an extensive research and triage process that requires team members not only to cross-reference the data stored within their systems but in multiple other locations, anytime a question arises from their field force.

Extreme de-centralization of data and documentation means users need to be able to navigate numerous systems and have a clear idea of what information they are looking for. This increases the need for business users to have extensive knowledge of where relevant data is in offline documents, tables, and siloed spreadsheets. A high amount of time and energy is needed to perform administrative tasks like document storage and organization. This is time and energy that the insurer would be better off investing elsewhere, but this is not possible at the earliest stage. Any need for data management will also drain the time of experienced, knowledgeable employees as they are the only ones capable of addressing any data issues.

Unless insurers are willing to let certain business users spend most of their day jobs on menial organizational tasks, there will be a centralization of knowledge in a few long-tenured employees who are only able to navigate the chaos through "hard-earned experience." This results in inconsistent service quality, as newer employees will spend a disproportionate amount of time simply trying to track down data and documents. Insurers are at risk with this centralization of knowledge because replacement cycles of employees are long, due to the time it takes to gain the right experience. This is exacerbated by the fact that many insurers have key employees close to retirement age.

One key driver with this is how insurers go to market. Gone are the days of single distribution channels because the business has evolved rapidly. In the past, manual workarounds and processes were enough. That is not the case anymore.

Data is Strewn About Everywhere

At this stage in the process, the business looks to IT to help. The cost and time associated with solving the problem through technology is often prohibitive enough to prevent an insurer from undertaking the necessary enhancements. In today's world of expanding distribution channels and partners, the amount of time just to add a new commissions schedule, let alone roll out a new product or channel, does not give insurers the type of scale they require, leading back to manual workarounds to help stop the bleeding and achieve the business' objectives.

This often leads to the propagation of different sources of truth for information outside of core systems. As disputes arise or exceptions must be made to satisfy preferred producer needs, back-office staff often resort to their own Access databases or spreadsheets pulled from the system to meet their needs for the field. While this helps stop the bleeding in the short run, unraveling these changes made to data outside of controlled, shared systems going forward makes reconciling these changes challenging, if not impossible, for moving into the future.

This state of the business being beholden and limited by the capabilities of their current systems and what enhancements to that existing technology can be made, creates a vicious cycle within the insurer that becomes a challenge to break.

Distributor Relationships Can Be Rocky

From the distributor's perspective, "ease of doing business" with insurers is nonexistent. Any changes that take place will be time-consuming, and there is no predictability in terms of when they would take effect. This leads to a problematic lack of transparency and a demand for more information, which in turn results in a skyrocketing call volume. All parties must invest time identifying the root cause for any problems, and more time is spent troubleshooting than coming up with a solution. Due to the nature of these troubleshooting activities, there is a constant need to address and correct past mistaken transactions, with little to no ability to improve the processes to avoid the same mistakes going forward.

Given the enormous amount of effort it takes to simply identify mistakes, and the associated lack of transparency, distributors are not put in a position to grow. This leads to many distributors being dissatisfied with their relationship with the insurer, and ultimately low retention rates. Insurers may be forced to focus their efforts on only a small group of preferred producers to attempt to retain them and their books of business, further stifling any opportunity for growth. This occurs while most of their staff's time is spent servicing a small number of producers who are already confused why it takes so long to answer what in their mind feels like a basic question or need.

The onboarding process is another key inflection point where producers are demanding improvements from the insurers they work with. Agents expect to interact with insurers differently today compared to five years ago.

> *"Agencies have different expectations of us. They may not want to fill out a PDF file, a handwritten application, or a new producer appointment. It is not just about the efficiency; they cannot produce business for you until they are onboarded. So, there is an actual revenue impact and that creates a new perspective. You put all those in a pot and stir and it creates a real opportunity to create a different level of infrastructure, but more importantly a different strategy."*
>
> Roundtable Participant

Moving Up the Curve: How to Begin Developing Operational Efficiency

At this point insurers start to think about controlling the chaos and moving up the maturity curve to the next stage, Developing Operational Efficiency.

At this stage, it is very likely time for insurers to begin considering a distribution management transformation. Without this, the vicious cycle of pushing to deliver new technology solutions to existing problems on existing legacy technology, only to fall back on manual processes or workarounds outside of controlled systems, will continue to hamper insurers' growth potential into new channels, products, or partnerships.

By taking a step back and assessing not only their technology needs, but most importantly, their desired end-user experience goals as well as business capabilities to be delivered, they can start to build a future state vision for their organization. Along with this, they start to see a roadmap to begin marching up the maturity curve as a company.

> *"I really feel that we are in the second leg of the distribution maturity model. We have acknowledged we need to change. We have acknowledged what systems need to be updated."*
>
> Roundtable Participant

Developing Operational Efficiency

As insurers increasingly look to transform their distribution management capabilities, it is necessary to understand where on the Distribution Management Maturity Curve they currently stand.

Based on conversations with insurers and other industry experts, the following areas are where insurer distribution operations are most impacted as they continue to operate at the second stage of the maturity curve:

- **Business Operations:** Simple, yet fractured automations that break up the monotony of manual heroics
- **Tech:** Complex issue management due to data structures
- **Distributor:** Friction in distributor relationships

While there is some automation, insurers still endure significant manual effort to overcome challenges in the three areas above and to deliver value for their distributors.

Simple, Yet Fractured Automations that Break Up the Monotony of Manual Heroics

This stage should be viewed as a steppingstone, rather than a landing spot.

Assessing evolution from chaos to operational efficiency, insurers must demonstrate how processes are optimized via automation and have a basic agent portal with foundational capabilities. Automations in this phase is in a nascent stage but are critical to moving away from day-to-day manual heroics. They are simple but provide a minor lift for executing tasks and providing some cost savings because there is still a reliance on manual processes for most areas.

Employee knowledge remains vital in this phase. Due to the low level of automation, most execution will fail without key employees. The knowledge gap is prevalent and felt by both internal and external stakeholders. The focus is more on operational processing rather than training the next generation of distribution management navigators.

To improve operations, insurers need to develop a mantra of "if in a perfect world, I would want distribution management to…", paving the way for defining enhancements that move away from day-to-day manual tasks to automation. Leadership and organizational support are crucial to prioritizing and executing on enhancements that will deliver value for both internal and external stakeholders.

This is not easy as it takes time and investment in a new distribution management solution. Unfortunately, many insurers plateau at sub-levels between developing and achieving operational efficiency, lacking momentum or direction. Avoiding this pitfall requires a well-defined plan, alignment internally, and leadership commitment to overcome roadblocks and achieve success.

Complex Issue Management Due to Data Structures

Issue management is complex, partly due to automation, legacy data structures, and unknown errors. Data structures, or lack thereof, are often central to issue management.

Many insurers have decentralized systems, siloed business units/shared services, paper files, legacy systems, lack of data management, irrelevant historical data, and more. The lack of centralized data structures, aligned/relevant data, and ease of data navigation make issue management a laborious task operationally. This results in higher costs. Unknown errors and downtime are common, often due to legacy systems. As a result, friction is felt both internally and externally, creating frustration and a lack of a positive experience.

Having a plan, breaking down silos, and leadership commitment can help overcome these challenges and establish a foothold in the transformation, bringing order to some of the chaos, and creating positive momentum forward.

Friction in Distributor Relationships

> *"Certain channels do not want to fill out the forms that other channels have been required to fill out for years, especially in the bank world. They ask to mass contract thousands of agents and appoint them with no paperwork. From a compliance, service, and legal standpoint we need you to fill these forms out. We are not where we want to be and trying to accommodate what is asked of us, but it is not sustainable. We must standardize how we are going to do business in the future and spend money in developing that, rather than trying to do everything for everybody."*
>
> Roundtable Participant

While developing operational efficiency, insurers' agent portals are basic with simple online capabilities including onboarding and basic information queries. The result is that distributors still need insurer support for a broader array of areas including commission statements, reporting, and more. Little friction dissipates at this phase.

Customers and agents can access insurance quotes from insurer sites to marketplaces and more. With nearly everything digital at their fingertips, portals must offer similar digital experiences, seamlessly. This creates an "ease of doing business" approach that influences who distributors want to do business with.

This also requires a "customer-centric" approach that incorporates their input into the overall transformation plan. Creating an intuitive portal for onboarding, agent management, bespoke reports, financials, and other aspects will strengthen distributor relationships. It will also ensure "top-shelf space" for insurers to grow their business. Reaching the next phase will require continuous enhancements and integration of the insurer's portal to enhance distributor relationships.

The Developing Operational Efficiency phase is a starting phase, rather than the endpoint. Taking lessons learned from this second phase, assessing the automation impact, and developing customer-centric plans for distributors, provide the initial foundation to build on and then achieve operational efficiency, which is the third level of maturity. It is the third level that offers a solid foundation to accelerate distribution management maturity based on operational results. The real value is the shift in resources focused on manual work to more strategic areas that provide deeper value to distributors and throughout the organization.

Operational Efficiency Achieved

As insurers increasingly transform their distribution management capabilities, they will move to the Operational Efficiency Achieved maturity level. The operational impact at this level includes:

- **Business Operations:** Enough automation is implemented to provide lower operational costs and efficient use of user's time
- **Tech:** Further evolution of centralized data structures and storage
- **Distributor:** Relationships move from transactional to meaningful partnerships

At this level, distribution management solutions provide robust automation that streamlines and optimizes the operation while delivering continued value for distributors.

Automation Drives Lower Operational Costs and Efficiencies

"How do you build these multiple workstreams of human enabled and digital enabled? How do you blend those things? And this is not just the new business quoting and servicing, it transcends all aspects of the business. A very, very interesting conundrum for us."

Roundtable Participant

Further enhancements based on lessons learned and operational gaps are built into the distribution management solution. While automation remains important, the hallmark of this maturity level is the shift to digitally enabled self-service capabilities. This shift allows the operation to move from reactive to proactive while improving overall efficiency and reducing errors through automation.

No longer is there constant troubleshooting, endless spreadsheets of fractured data, employee retention risks, or never-ending information wrangling. As operational efficiency is achieved, manual and redundant tasks are limited. This leads to improved operational results including lower costs, decreased lag times, and enhanced distributor relationships due to an improved flow of relevant, accurate information. Return on Investment (ROI) increases as the foundational work is operationalized. Further enhancements and uses of data are identified to drive proactive business value.

Insurers can focus on hiring and grooming the next generation of talent who will drive future priorities to achieve new maturity levels. At the same time, distributor priorities also shape insurers' plans with a focus on distributors' profitable growth, reducing their manual efforts, and seamlessly integrating with insurers to streamline the operation and flow of information. Insurers focus on making the distributor experience more meaningful, leveraging data to effectively run the operation, and preparing for what is next in the transformation.

The combination of employee and distributor priorities coupled with insurer strategic priorities converge to ensure that the current business is optimized with digitally enabled capabilities while preparing for the future, recognizing that market shifts and demands will continue to challenge today's business.

Evolution of Data Structures and Storage

Operational efficiency leverages data more effectively within and across the organization. As the business shares and uses data, efficiencies across platforms start to manifest. While data structures are more accessible, siloed data still exists. The need for distribution management must be part of an enterprise data strategy and the groundwork for data mastery across the organization.

This maturity level focuses on aligning and leveraging incoming and outgoing data to transform the business. Further integration of siloed data to data stores is defined based on priorities to support operational and strategic needs across business intelligence, reporting, and some predictive analytical needs. An example is assessing a distributor's book of business to determine who they should focus on to drive growth.

> *"You've already alluded to it; dancing around is the concept of making better-informed decisions based on data. How we are seeing it come together is with enterprise data strategies including distribution management solutions so that you can obtain, harness, and utilize data as it pertains to distribution to make better decisions."*
>
> Roundtable Participant

Distributor Relationships Transition from Transactional to Meaningful Partnerships

At this maturity level, insurers transition from transactional focus to developing meaningful partnerships with distribution channels that support growth strategies for both. With less chaos and more automation, insurers are more focused on strategizing with distribution partners to expand and grow their business, profitably. Distributors have access to more robust portals that provide meaningful and seamless experiences rather than transactions. With access to more accurate and robust data, distributors have access to comprehensive commission and production statements, new product information, regulatory updates, and more. This leads to laying the foundation for meaningful partnerships that help distributors grow their book of business.

Anticipate Customer Needs and Predictive Analytics & AI

In the Anticipating Customer Needs maturity level, distribution management operations transition to "how can we make a better distributor and customer experience?" New capabilities emerge and distribution channel strategies crystallize as conversations shift from "how to enter" to "where to enter" different market segments. These discussions lead to new product opportunities that address specific market and customer needs and how they will be distributed to meet customers, along with when and how they want to engage with them.

> *"Let us start with our strategy and go back to some key questions. Where is the agency force going? Where is the market going and how are we going to have to be set up internally? Admittedly, when we started this journey, we were not even thinking about the agency experience. We were just thinking about internally if we can get better at this that will ultimately impact the agency, and so I think those conversations are really important."*
>
> Roundtable Participant

As insurers continue their distribution management transformation, these two maturity levels begin to consider the opportunities and aspirations of an insurer in an ever-changing marketplace. There are three areas of focus:

- **Business Operations:** Automation spans across platforms to proactively serve distributors
- **Tech:** Breaking down the silos and organizing systems in a logical and physical way
- **Distributor:** User experience is intuitive, leaving little to be desired

With the groundwork laid through the third level of maturity, the path forward expands to leverage new technologies that help identify customer needs to drive future growth opportunities. Insurers' culture shifts to a "customer first" approach, moving from a simple service provider to a trusted advisor.

Automation Spans Across Platforms to Proactively Serve Distributors

The key attribute in this stage, is "intuitively." With optimized operations through advanced distribution solutions, insurers can go on offense to proactively engage and support distributors.

The business can readily identify new distribution channels or groups and are able to capitalize when new market opportunities present themselves. Leveraging Customer, Policy, Claims, and Commissions data together provides both efficient and intuitive access to essential information. The ROI increases with a focus on next-gen enhancements, and long-term sustainability, rather than business as usual, keeping pace with the continued market shifts.

Employee roles evolve into distribution management strategists. They leverage data and solutions to anticipate customer needs to help shape strategies at the top of the enterprise. Automation would alleviate internal friction between processing and execution as the days of nebulous issue management would be replaced with seamless automation. The Herculean data retrieving efforts of employees are a thing of the past.

Once reaching the customer needs maturity level, insurers begin to strategize and consider the role of ecosystems operationally and strategically. From leveraging predictive analytics to alert potential broker compliance issues (e.g., incomplete trainings, etc.) to changes in hierarchy and bank details, they provide speed and richer insights to manage the business.

Breaking Down the Silos and Organizing Data

> *"Really, to be real on getting to that place of Utopia is hard, and I think that's kind of the big challenge. Every insurance company has a lot of data, and companies can make better decisions. We can be a more efficient organization. We can write more business; we can retain more business, but we need to harness that data. But getting that data all into one repository and getting it consistent and getting it in a way that can be utilized is big. It is a big mountain to climb."*
>
> Roundtable Participant

This maturity enables insurers to become master storytellers by leveraging aligned data to create impactful business intelligence reports and dashboards for internal operational use as well as for distributors. For distributors in particular, the insights provide details and compelling insights on why they should place more business with the insurer versus others.

Accomplishing this means organizing and validating the data from formats to taxonomy, terminology, and more, that create alignment between business processes and systems with automation and defined rules. This becomes a critical turning point in an insurer's data integrity process.

As insurers move to the fifth level of maturity, they use data with APIs to align information across the enterprise. They also use external data to anticipate events, changes, or needs before they happen. Data will work harder for the insurer and transform the organization into a master of strategy.

> *"Predictive analytics and data are talked about in every aspect of the future of distribution. How we make decisions about omnichannel and how we talk about lead flow. How you think about holistic distribution partner management and having the right data is critical."*
>
> Roundtable Participant

User Experience is Intuitive Leaving Little to be Desired

The agent portal is transformed to encompass a broader, holistic set of capabilities and needs. From onboarding to servicing, online commission statements, lead generation, marketing materials, training, product information, and more, the focus is a platform that not only makes it easy to do business with the insurer but incentivizes them to.

Pipelines would be generated based on matching the right leads with the right distributors to drive growth. Gamification and bots would provide information for frequently asked questions, keeping the difficult or complex ones for the distribution support team. The overall experience would be intuitive and seamless, eliminating the need for lengthy training.

> *"There's a great deal of investment going into simplifying the portal because having human intervention is extremely expensive if you must have a person explaining things and so folks are looking at things like hover over help and chat and automating some of the processes so that people do not have to think about it. It is inherent in the way that you get there. A lot of effort is going into thinking through the simplification, so questions do not have to be answered."*
>
> Roundtable Participant

As insurers move to the fifth level of maturity, the digital experience embeds predictive analytics to optimize portal capabilities. API integration with other solutions, such as agency management systems, would be seamless. The agent portal moves from an operational-only platform to a strategic one that helps agents optimize their business today while positioning it well for the future.

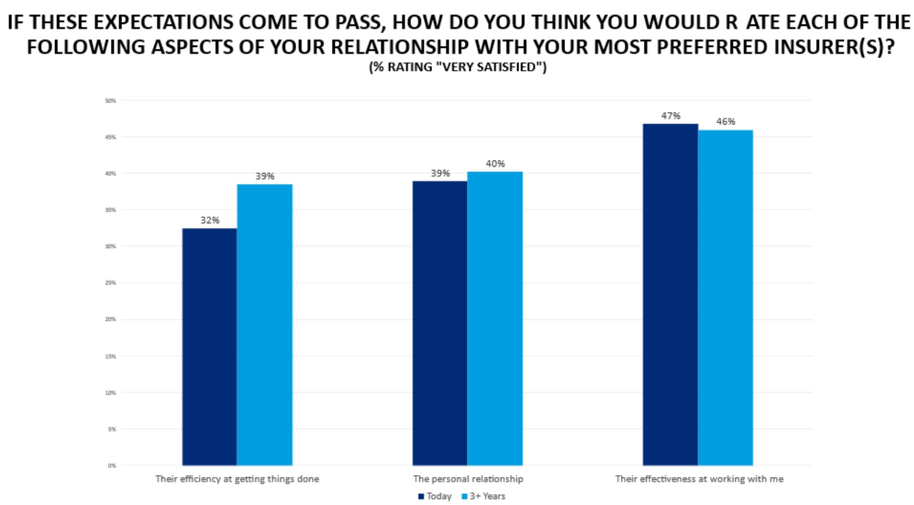
With predictive analytics and AI, distribution management is at the doorstep of a new future.

Agent-Insurer Interactions: Today and Tomorrow

Distribution is rapidly evolving and impacting channel strategy and management. A growing number of insurers are examining how they engage with agents and brokers, taking a strategic approach to assessing their operational capabilities that will give them a competitive advantage in a consolidating market that will create a fight for “shelf space” within agent and broker businesses.

At the same time, a new generation of agents is entering the business with an expanded set of expectations. Their first impression with insurers is during the onboarding process, which will set the tone for the relationship. These new digital-first agents want digital capabilities that accelerate the process and make it easy for them to do business. Self-service capabilities across the business process, as well as access to the information they need to manage their business, become crucial to the agent-insurer relationship.

Figure 5



The Celent research highlighted agent expectations for today and in the future, as seen in Figure 5. Expectations increased, particularly for making it easier to do business with the insurer. So, the challenge for an insurance company is, where do you spend your time to support the agent channel? Where do you spend your money? Which of these things matter the most to your business? And which of these things are enabling business?

Leading insurers are moving to platforms that offer a broader set of capabilities and can connect to multiple different insurers for comparative rating, streamlined workflow for quotes, proposals created from multiple quotes, access to onboarding and commission reporting, and much more. Distribution management is critical for these new platforms and their ability to rapidly address distribution partners’ needs.

The Future - Embedded Insurance

As traditional distribution channels consolidate, and new entrants begin to capture business, insurers must look to differentiate themselves. One way this is happening is through embedded products, where insurers are placing big bets to appeal to shifting channels and consumers by offering new products to keep existing customers, appeal to potential new customers, and drive new revenue streams and diversification amongst their products.

In the traditional distribution model, insurers need to fight for a share of mind, so people think of them when a life or business event prompts them to think about insurance. Large personal lines insurers like GEICO, Progressive, and State Farm are famous for spending millions of dollars on advertising – not to cause people to drop what they are doing and begin the buying process, but to stay top of mind for the times when important events cause people to think about the need to buy or update their insurance.

In the embedded approach, the customer receives in-the-moment top-of-mind awareness because the offering is placed directly in the path of purchase of another product or service…at the right time and in the right place. This is a great strategy for well-known brands and new startups alike. A startup insurer will not have the same brand equity as one of the major advertisers. However, it can get some "rub-off" equity as a featured option from a trusted ecosystem partner from whom the customer is purchasing the product or service, or it could be white labeled with the partner's brand.

"Embedded insurance is the new strategy word. Everywhere you look in P&C it is embedded insurance. There is going to be excessive competition for this area. Companies that do it best and produce results, not just the B to B, but the actual tangible results and can make the experience better, will be the ones to win out."

Roundtable Participant

Embedded insurance is among the newest options, and numerous interesting examples of partnerships between insurers and other industries are popping up on this end of the spectrum, including GM, Ford, Tesla, SoFi, Petco, Airbnb, Uber, Intuit, and more. Insurance can be "soft" embedded, offered as an opt-in option during the purchase of another item; "hard" embedded, included as an opt-out option with the purchase of another item; or "invisible," included in the purchase of another product without the option to remove it (e.g., bumper-to-bumper warranty with a new car). The benefit for insurers is that it expands market reach.

More importantly, there is a major benefit for customers. Customers find the traditional insurance process to be difficult, lacking transparency, complex, and time-consuming. Distribution ecosystems help solve this by meeting customers where and when they want to buy, creating friction-free experiences, and evolving insurance from something that had to be sold to something people want to buy. Thus, distribution management solutions need to evolve to play in these rapidly developing ecosystems.

"It will continue to take off and the trusted piece is huge because you know these people do not have long-standing relationships, necessarily with an insurance company. So, they do trust brands that they are associated with, probably more than they do general insurance companies."

Roundtable Participant

Distribution Management Transformation Success

Distribution management transformations are difficult and vastly different from other core transformations. While all transformations have similar problems, such as getting the right sponsors, having a cohesive delivery/PMO structure, and having the right mechanics to run successfully, distribution management transformations are different.

They are dependent on the maturity and robustness of key inputs and structures of other systems. For example, to execute an effective transformation, the following key areas need to be well established: agent/agency onboarding, license and appointments, compliance checks, distribution, commission calculations, agent/agency payments, and back-end accounting. Due to the dependencies of these key areas, costs, and time required by key stakeholders makes distribution management transformation readiness more difficult than other types of transformations.

However, while different, a distribution management transformation that is executed effectively will provide dividends. These transformations present opportunities to add value to an organization through three key dimensions: improved productivity and distributor experience; increased operational efficiency and effectiveness; and improved ability to adapt to change. A successful transformation will lead to noticeable positive change for business units, the technology organization, and distributor relationships. There are four key considerations insurers need to keep in mind while assessing their readiness for a distribution management transformation:

- Institutional Knowledge
- Commitment and Alignment from Leadership
- Identifying the Appropriate Solution
- Legacy Compensation Rules

Institutional Knowledge

The search for knowledge and talent applies to the insurance industry. However, like in the insurance industry, there exists a centralization of knowledge among a few long-tenured employees whose tacit knowledge enables them to navigate the chaos. While these employees are critical to current operations, their invaluable experience is needed for a distribution management transformation.

Only a select few long-tenured employees have the experience and know-how to provide reliable service or access relevant data and information in a timely manner. This issue becomes compounded, as many insurers do not have key processes, data sources, and documents well organized or documented in accessible formats or locations. This results in a “key employee” risk. An insurer with this risk runs into operational issues when trying to implement a transformation, as it will likely demand the time and attention of these experienced employees. For example, in the short- and medium-term this may result in sacrifices in the service quality, as lesser experienced employees will have to carry the load, and they may spend a disproportionate amount of time trying to play “catch-up.”

For an insurer to determine if they are ready for a transformation, from an institutional knowledge standpoint the following questions should be asked:

- Are rules, guidelines, and calculations clearly defined and represented?
- Are any processes missing from the insurer's current distribution management system or viewed as "magic" from the current software vendors or internal insurer system?
- Is there enough day-to-day employee representation to provide enough information to clearly articulate a streamlined distribution management system process?
- Which employees are key, and are proper backups in place while key employees are assisting in a distribution management transformation?
- Is the process of intake, compliance, processing, and output clearly defined with upstream and downstream impacts?

Having a clear understanding and next steps detailed will help an insurer determine if their organization is ready for a distribution management transformation.

Commitment and Alignment from Leadership

The key question leadership needs to ask is, why is a distribution management transformation required?

Unlike core transformations, distribution transformations require multiple areas of input and multiple areas of output, resulting in potentially a greater effort and large organizational impact. There needs to be commitment and alignment on the vision of what constitutes success for such a transformation, with alignment from all stakeholders from different organizational business units and shared services. This includes alignment and agreement of the maturity of the company's current distribution functionalities.

This is critical, because the investment in a transformation, in terms of human and financial capital, will be greater the more immature an insurer is, as measured by the Distribution Management Maturity Curve. Without a commitment to a successful transformation, the investment may become siloed, and ROI will be lessened, making the transformation an ambiguous burden rather than a platform to streamline business processes. Each marginal progression along the maturity curve comes with its own set of prerequisites for success, and leadership needs to know success is measured differently at different points along the curve and continue to commit even if problems arise at a certain stage.

For a successful distribution transformation at the leadership level, there needs to be alignment and commitment from leadership, with a well-defined current state, target state, and understanding of where on the maturity curve the insurer currently lies.

Identifying the Appropriate Solution

Insurers should perform a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis of their current/past distribution management transformation(s) each vendor has provided, and the success rates of the most similar transformations. There are a limited number of vendors offering solutions for transformations, and some of them serve niche capabilities.

Insurers need to have a clear understanding of the full scope of the transformation they are aiming to achieve. This allows the insurer to understand what approach is more important because there will likely be a debate about using an Out-of-the-Box (OOTB) solution provided by a vendor versus pursuing insurer-specific customizations. Most distribution management solutions will require both OOTB and insurer-specific customization.

Understanding their past/current vendor will help assess what will be required for a distribution management transformation. Insurers need to focus on the overall system and discuss internally if all processes are to be carried over to the future state via a transformation. For example, if vendor A is known for bank transfers this will solve this area, but unless looking at the distribution transformation holistically, other areas where vendor A struggles may be overlooked. If a vendor offers a close enough solution, it may be worth considering accepting and implementing that solution in the future, versus investing extra resources in customization that may not be optimal in a future state.

Once there is an alignment-based review of past experiences and systems and a clear vendor to execute the distribution management transformation, the sustainability of the program needs to be assessed. From day 1, once the system is live, what is the insurer expecting? Clearly, a functioning distribution solution, however, with upgrades and system enhancements, are there lingering questions about the solution's sustainability once the system is live? Having a clear roadmap from the vendor for the sustainability of the system will provide further reinforcement to the solution for the insurer.

Understanding the appropriate solution will assist the insurer in finding a vendor that will align with the target state of the insurer's distribution management. The best place to start is with past distribution data and experiences.

Legacy Compensation Rules

Many insurers have their own legacy compensation rules that they consider unique to their organization, but that are similar enough to other insurers to fit into existing vendor solutions. Like the concept of the broader vendor solution discussion, can insurers frame their compensation rules in a way that fits into existing solutions, or do they want to invest extra to maintain existing rules without alteration?

Considerations need to be made regarding current calculations, commission types, bonuses, etc. In many cases legacy compensation rules need to be intact unless there are ways to streamline them. Due to the nonlinear nature of Life and Annuity commissions, it further compounds the importance of confirming legacy compensation rules are still valid and working appropriately.

Implications & Call to Action

Distribution is evolving, from changes in customer needs, technology, and distribution channel options. Insurers need to evolve their distribution management solutions to align with movements in the value chain. Distribution management transformations are significant investments, and often take place over the short- and medium-term. However, when executed properly, they are well worth the investment. But insurers need to begin transformations with a clear definition of success, comprehensive documentation of current state processes and data sources, commitment from leadership, and requirements for a successful vendor selection process. Without these, a transformation may fall short of expressed goals, or go off the tracks in the middle of the transformation.

In the short-term insurers should confirm that they have a clear vision of their desired future state, as well as thorough documentation of the operations of their organization. In the medium-term, they should maintain an awareness of vendor solutions in the marketplace, as well as possible system integration partners to improve the odds of a successful transformation. It may not always be clear what success in the short- or medium-term looks like, and that is where strategic partners can help navigate short- and medium-term goals.

Distribution management transformations are different than core system transformations. Success is seen in carriers that have a clear understanding of the three dimensions and four aspects, and will signal if an insurer is ready for distribution management transformation. Insurers that require a distribution transformation, but are not ready, should establish phase gates to assist them with their level of readiness. For the insurer that has a clear understanding and is ready for the investment, this will position them when they are ready to begin the transformation process.

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[1] Menzer, Daniel, "North American Agent & Broker 2021 Year-End Merger & Acquisition Report," January 17, 2022, https://optisins.com/wp/2022/01/dec-2021-ma-report/

Meet the Authors

Denise Garth

Chief Strategy Officer, Majesco

Denise Garth is the Chief Strategy Officer responsible for leading marketing, industry relations and innovation in support of Majesco's client centric strategy, working closely with Majesco customers, partners and the industry. She is a recognized Top 50 InsurTech Influencer and industry leader with both P&C and L&A insurance experience as CIO and business executive with deep global ties.

Brad Denning

Advisory Services Principal, PWC

Brad Denning is a partner with PwC's Financial Services Advisory practice, combining more than 25 years of industry and consulting experience. He has spent his career working as a strategic adviser and managing a wide variety of organizational, process and technology initiatives for his clients. Denning is PwC's partner sponsor for the producer management and compensation practice.