Insurance 2030 - Direct distribution

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Insurance 2030 - Direct distribution: not an either/or proposition

Summary

Despite longstanding expectations for change, insurance distribution still looks similar to how it did 20 years ago. A personal connection is still at the heart of sales and risk assessment, especially beyond the low end of the market.

Many carriers have invested in direct channels but have struggled to properly target customers, price risk and offer customers a compelling buying experience. Online interactions, while gradually increasing, are unlikely to supplant the need for agents and brokers.

However, there's an important role for direct distribution in a human-led, tech-enabled multichannel approach. Carriers that successfully combine personal and digital experiences can see increased sales at lower cost, higher customer retention and effective risk assessment.

Direct distribution was once touted as the wave of the future because it promised insurers wide market reach and lower sales and servicing costs. More recently, in the wake of risk pricing challenges and the fact that building and promoting direct channels can actually increase acquisition costs, some insurance industry observers have proclaimed it dead.

Obviously, rumors of direct's demise are overstated. Some personal lines carriers have had considerable success with it. Moreover, by utilizing emerging technology and data, some carriers are simplifying low complexity life and small commercial offerings enough to enable direct distribution in those segments.

However, distribution is not a binary choice, and just making products available online isn't a one-size-fits-all solution for either carriers or customers. In fact, not all insurers need a direct channel.

Direct works only if you have the right economic model, target markets and value proposition to justify the necessary investments. And if the economics don't make sense, then it's usually better to invest in digital capabilities that reinforce your core agent and partner-based channels.

But if you determine that direct distribution is a viable approach for your company, then it's likely to be most effective as part of a broad, multichannel strategy that fits your economic model, enables effective risk assessment, reinforces your value to customers and agents and helps fulfill their needs and expectations.

Direct complements a broader go to market approach

Many carriers have made considerable investments in standing up, maintaining and marketing direct channels. However, they've often struggled to properly target the customer segments that are inclined to purchase online and offer them the convenience, lower prices, coverage affirmation and seamless buying experience they want. This has resulted in low volume to direct channels, low conversion rates and adverse selection. As a result, direct hasn't hit growth targets that justify up-front investments.

To do direct correctly, thereby facilitating higher policyholder retention, increased sales and more satisfied customers, you need to be disciplined, patient and engineer yourself from top to bottom to support it. This includes being very intentional about the segments you target, designing appropriate products and branding for each channel, and integrating channels into relevant stages in the buyer journey. For example, you can initially focus on serving younger customer segments that have simple needs with basic products via direct channels. Then, as their coverage needs become more complex and your direct capabilities mature, you can offer digital advice and more holistic solutions, making it easy for customers to remain online, referring them to an agent as needed.

When designing your approach, you should involve agents and brokers to help them understand how it complements their efforts to generate and retain business. As a case in point, carriers with strong multichannel distribution have the ability to take orphaned leads from direct channels and funnel them to their internal or external agent force and convert them into sales. (This also can decrease acquisition costs because carriers can adjust commissions accordingly.)

Moreover, your infrastructure will need to properly support the direct channel by:

- Incorporating it with — not separating it from — your agent model.
- Providing seamless digital interactions between the front and back ends of the business, including agent/broker portals.

We've observed that the carriers that do direct well also tend to excel at embedded insurance because they have the streamlined processes and technology that enable them to incorporate embedded products into other purchases. This also helps them redefine how they pay their partners depending on the partnership, product or value proposition, by traditional commission, up-front referral fee or revenue/profit sharing.

Case study: How channels can complement each other

One particularly effective way agents/brokers and direct channels can complement each other is by providing reinforcing consultations at significant life events and milestones.

Consider the case of buying a home. Most customers look for whatever policy helps them close quickly, rather than coverage that takes into account eventualities they’ve downplayed or haven’t considered. An insurer with a sound multichannel distribution model will offer basic coverage online while also providing opportunities for customers to consult with agents who understand risks specific to their property. This could include a review of walk-through and inspection reports and advice on filing renovation permits — a high-touch service — with suggestions for additional coverage (e.g., flood insurance) that mitigates unanticipated or poorly understood risks.

The carrier can follow up via the direct channel with automated reviews that have recurring, time-based triggers that coincide with, for example, changes in property value. Carriers can design these direct communications to nudge customers to go online for digital consultations and adjustments, chats with service reps or direct consultations with their agent. Such an approach, with a CRM system that chronicles all interactions across channels, can help both customer and carriers reassess product needs while offering a human touch that the direct channel cannot.

The ongoing importance of human risk assessment

Carriers expected the emerging technologies that underpin direct channels to perform effective risk assessment, enabling them to understand and balance risk at lower cost. But, particularly with standalone property coverage, this hasn't been the case. Carriers haven't prioritized direct home quoting and purchasing that leverages emerging technology and data to effectively underwrite in real-time, nor have they determined how to encourage preferred customers to shop online. And while useful risk data is increasingly available thanks to telematics, sensors and other sources, evaluating, understanding and explaining risk remains something that agents and brokers (i.e., field underwriters) typically do best.

As a result, distribution has an increasingly important role to play in underwriting and claims, beyond the point of sale. Considering the increasingly significant coverage challenges facing carriers and customers, we expect agent and broker advisory and risk management roles will become even more important.

Most obviously, the more valuable an asset, the more reassurance customers need that they have adequate coverage — all the more so in a time of increasing weather-related risks. They do not want to discover that they didn't check the right box on their application after a hailstorm damages their million-dollar home. In these cases, agents are a de-risking mechanism, walking customers through the application process, informing and validating their selections in a way that direct channels thus far haven't.

And just as direct channels can leave customers with lingering questions, they often do the same to carriers. Notably, individuals who know they have high risk profiles often opt for direct-to-consumer routes because they typically don't have to answer many questions about themselves. And many lower risk customers also prefer answering as few questions as possible. But if you can't fill in the blanks in these abbreviated applications, then the resulting lack of nuanced insight will hinder risk evaluation, resulting in underpricing of risk for some policyholders and inadequate coverage for others (with accompanying missed sales opportunities).

Making direct work for you: Baseline considerations

We've seen the carriers who have an effective multichannel approach to distribution thoughtfully and deliberately address the following considerations as they've built their direct capabilities.

- Determining the most viable channel balance considering their economic model, the products they offer and the customer segments they serve.
- Identifying and prioritizing capabilities that are best suited for direct customer engagement, particularly ones that facilitate agent adoption (e.g., online policy documents/ID cards and digital certificates of insurance).
- Properly implementing sales and service infrastructure. Carriers have to offer customers, employees, agents/brokers and relevant third parties seamless digital integration across channels. And the better the servicing arrangements, the more willing agents and brokers will be to pay the carrier for them because they take time-consuming administrative work off their plates.
- Maintaining effective risk assessment. Because a lack of nuanced insight will hinder risk evaluation, carriers need to:
  - Align their marketing dollars to the risks they want to write.
  - Segment pricing to avoid adverse selection.
  - Utilize robust underwriting data sources to complement customer provided information.
  - Apply underwriting rules that flag risks that may require additional customer and agent inputs, manual underwriting review or alternative processing (e.g., no real-time binding for applications containing questionable information).
  - Supplement direct risk assessment gaps with manual underwriting.
- Apply lessons from direct in other distribution plays (e.g., embedded insurance).

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