

Changing Channels: Insurance Company Sales Models



Should insurance companies embrace new sales channels, or stick with the traditional producer model?

In the old days, most insurance buyers worked exclusively with insurance agents to determine and address their insurance needs. The agent was the primary source of information, education and advice – and was also the go-to person during the underwriting process and for ongoing service. However, today’s buyers are demanding more choices in how they learn about, shop for, purchase and use insurance.

In some cases, buyers still value the professional advice and face-to-face interaction they get with an agent. But many other buyers – especially younger ones – want an approach that is more self-directed, independent and flexible. An agent may or may not play a central role in a particular consumer’s buying process, which means insurance carriers must learn how to orchestrate a mix of diverse distribution channels – including the internet, call centers, social media and/or agents – to meet the changing needs of the market. Should insurance companies redesign their sales model around these new channels? Or stick with the traditional producer model?

Here’s the debate:

	Point	Counterpoint
Focus on new sales channels <i>“Abandon the traditional producer model in favor of new channels such as web sales and captive call centers.”</i>	Selling direct to consumers is the wave of the future. Someday, everything will be done through the internet and other direct channels. Why wait?	People said the same thing during the dot-com boom (before it went bust). New channels will supplement traditional channels – not replace them.
	The market share for direct sales is already too big to ignore. And it’s getting bigger.	Don’t ignore direct sales channels – but don’t bet the farm on them either. A thoughtful and balanced approach is best.
	Insurance is a mature business. To achieve above-average growth, you need to look into the future and then get there first.	There’s a risk of guessing wrong or getting too far ahead of the market. Pioneers often end up shot full of arrows. Better to be a fast follower.

	Point	Counterpoint
Stick with traditional channels <i>“Maintain the traditional producer model, but find ways to make it better.”</i>	The traditional producer model has served us well for decades. Why change?	Consumer preferences, demographics and technology are combining to drive a sea change in the insurance business. Today’s buyers want choices and often prefer not to interact with an agent. Insurance companies have two choices: adapt or die.
	Insurance products are more complicated than other types of products. Customers need human advice and a personal touch.	Some insurance products are complicated; however, others (e.g., term life insurance) can be greatly simplified and are increasingly viewed as commodities. Producers should focus their efforts on value-added advice.
	Customers who use new channels are fickle and only care about getting the best price. Traditional customers are more loyal and willing to pay a premium for service.	To compete in the future, companies must find ways to serve a variety of segments efficiently and effectively.



My take

Rick Berry, Director, Deloitte Consulting LLP Insurance Practice

In recent years, consumers have come to expect a wide range of choices in how they purchase products and services. The insurance industry, due to the complexity of its offerings, has been somewhat insulated from this trend. But it may not be long before the industry faces a tipping point where the internet and other direct sales channels are a basic requirement for doing business. That’s not to suggest insurance companies should abandon the traditional producer model. In most cases, the right answer will be a hybrid approach that combines the best of both worlds. Here are some things to consider when developing a channel strategy for the future:

- **Understand your value proposition.** All too often, companies in mature industries are lured into shiny new growth opportunities, only to find themselves trapped in a commodity pricing game that does not allow them capitalize on their full capabilities and brand. Think carefully about your business and brand. Understand who your customers are, and exactly how your company creates value.
- **Don’t forget about existing customers.** Many companies invest in new channels in order to woo new customers. But abandoning current customers to pursue the latest growth market is a recipe for failure. Find ways to use new channels and sales models to both attract new customers and serve existing customers better.
- **Offer choices.** Today’s consumers have embraced the kinds of experiences they get from iTunes, Amazon and FaceBook, for example. They are interested in a mix of web channels, call centers, automated voice response, social media and high-touch, consultative interactions with an advisor or agent. Ideally, all of these channels should be fully integrated to provide customers with a seamless buying experience that aligns with their individual preferences.
- **Understand and manage all elements of your customer value proposition.** Simply pushing existing products into an online channel or other new channel will not necessarily work. Product design, promotion, underwriting, advice, and customer service all must be integrated and aligned – in a cost-effective way – to help make your customers’ research, shopping, buying and service experiences compelling.

- **Help producers add value.** Many small agencies worry about getting squeezed out of the value chain. And they should be worried – not because insurance companies are rethinking how they sell, but because customers are changing how they buy. Producers that don't adapt to the changing market may soon be obsolete. Insurance companies can help producers by designing sales models that reduce the burden of administration and fulfillment, so producers can focus on providing advice, which is where they add the most value.
- **Build scalable operations.** There is no point creating new sales channels if your operations can't support them. Even if you elect to take a wait-and-see approach on new channels, it's a good idea to get your operations ready now so you can act quickly when the time is right. People might argue whether it is better to be a first mover or fast follower; but almost nobody argues for being a slow follower.
- **Think offense.** Sometimes it's smart to play defense. But when structural changes are looming, it generally pays to think big. An offense-oriented mindset can help you recognize opportunities and threats on a strategic level, instead of getting bogged down in tactics and self-preservation.

Companies in mature industries don't often get a chance to reinvent themselves. Which is why this is such an exciting time to be in the insurance business. Decisions made today are likely to have a huge impact on the future. Rather than view this situation as a threat, companies might as well approach it as an opportunity and find ways to make the most of it.

A view from the insurance growth strategy perspective

Bernard Tubiana, Principal, Deloitte Consulting LLP Insurance Practice

Everyone agrees that term-life is a commodity product; yet most insurance companies continue to resist new sales and distribution channels out of fear of alienating their traditional channels. Examples abound of companies in other industries that historically distributed their products through independent sales channels but were able to successfully augment those channels with one or more direct channels. Apple, for example, initially sold its products through independent resellers but now also sells through its own company stores and website, as well as from within its iTunes and iPhone applications. Computers, software and peripherals are obviously quite complex. However, instead of using complexity as an excuse for inaction, Apple figured out how to make the complex simple – or at least how to simplify it significantly. This is an approach the insurance industry would do well to emulate.

Other industries that have successfully employed a multi-channel sales model include: the apparel industry, where all designers worth their salt have their own stores in addition to a presence in department and specialty stores; and even the candy industry, where well known companies such as Godiva and Jelly Belly sell direct and through resellers. What independent resellers in these industries have learned is that a company's direct sales channel tends to enhance the company's brand and increase overall demand for its products. This can actually increase an independent reseller's business volume, rather than cutting into it.

For a mature industry such as insurance, going direct is actually more of an opportunity than a risk. It can open new doors by connecting insurance buyers directly with sellers to help create a valuable feedback loop that never existed before. This can help insurance carriers better understand consumer behavior, lifestyles, buying patterns and so on, which in turn enables them to improve their product offerings and operations, and to develop new features and innovations that might not have occurred to them otherwise.

If Apple can sell software through its app store on the iPhone, who is to say insurance carriers can't sell new protection and risk transfer products and services from their own website – or maybe even from within an existing policy? By the time a carrier figures out how to do this, it might be too late for others to catch up. They simply won't have the first mover's multiple generations of learning, tweaking, improving and innovating. Now is the time to get ahead of the pack.

A view from the insurance strategy and operations perspective

Kevin Sharps, Principal, Deloitte Consulting LLP Insurance Practice

I agree that this challenging economy requires new levels of investment to drive growth, and that insurance companies experimenting with new channel structures appear to be succeeding. My worry is that many carriers don't have the experience to manage in a multi-channel environment, and lack the 'organizational DNA' to master the complex operational improvements necessary to succeed. The fact is most insurance companies have been built as product-centric organizations. Developing operations that are customer- and channel-centric is an entirely new paradigm that affects virtually all aspects of the business. A carrier might feel pressure to acquire a competitor in order to expedite the build-out of new channels, only to find it is ill prepared to control expenses and deliver consistent results while integrating the new business into its existing operation and management model.

Moreover, the threat of channel conflict is always looming, adding even more complexity to this growth strategy. That's why it is so important to build a broad base of support, take sure-footed action, and manage the flow of communication to minimize any distractions or defections that are likely to occur. A number of insurance companies have fallen short in this area, and no one wants to be the next to fail.

Insurance companies have a unique opportunity to transform their distribution model. But in order to increase their chances of success, they must move at a manageable pace through thoughtful, measured steps that enable them to steadily build confidence and experience.

For more information, please visit: www.deloitte.com/us/debates/Insurancechangingchannels.

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