

US P&C Insurance Distribution – An Evolution Towards Synergistic Model

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Distribution Channels – An Evolution

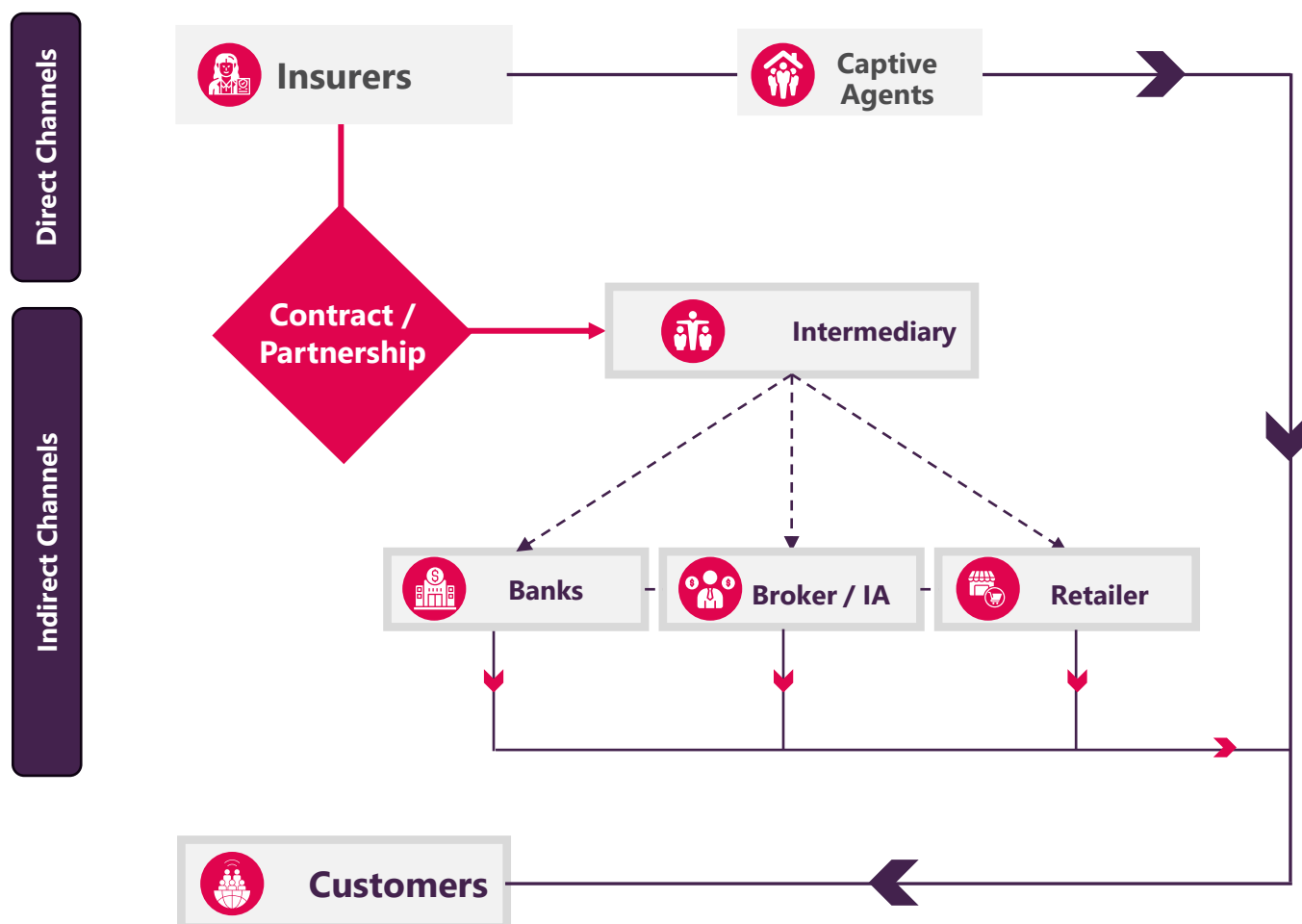
Importance Of Distribution Channels In The Insurance Sector

Distribution channels are crucial to property and casualty (P&C) insurers due to the complex and personalized nature of insurance products, unlike other sector's offerings. Insurance policies require customization based on individual needs, risks, and legal considerations. Also, the industry is highly regulated and relationship-driven — making distribution intermediaries like agents and brokers more crucial.

- Insurers are required to have a well-executed distribution channel strategy that can navigate the sector's complex environment to increase the insurer's market reach, customer satisfaction, and ultimately, profitability



A Typical Insurance Distribution Framework

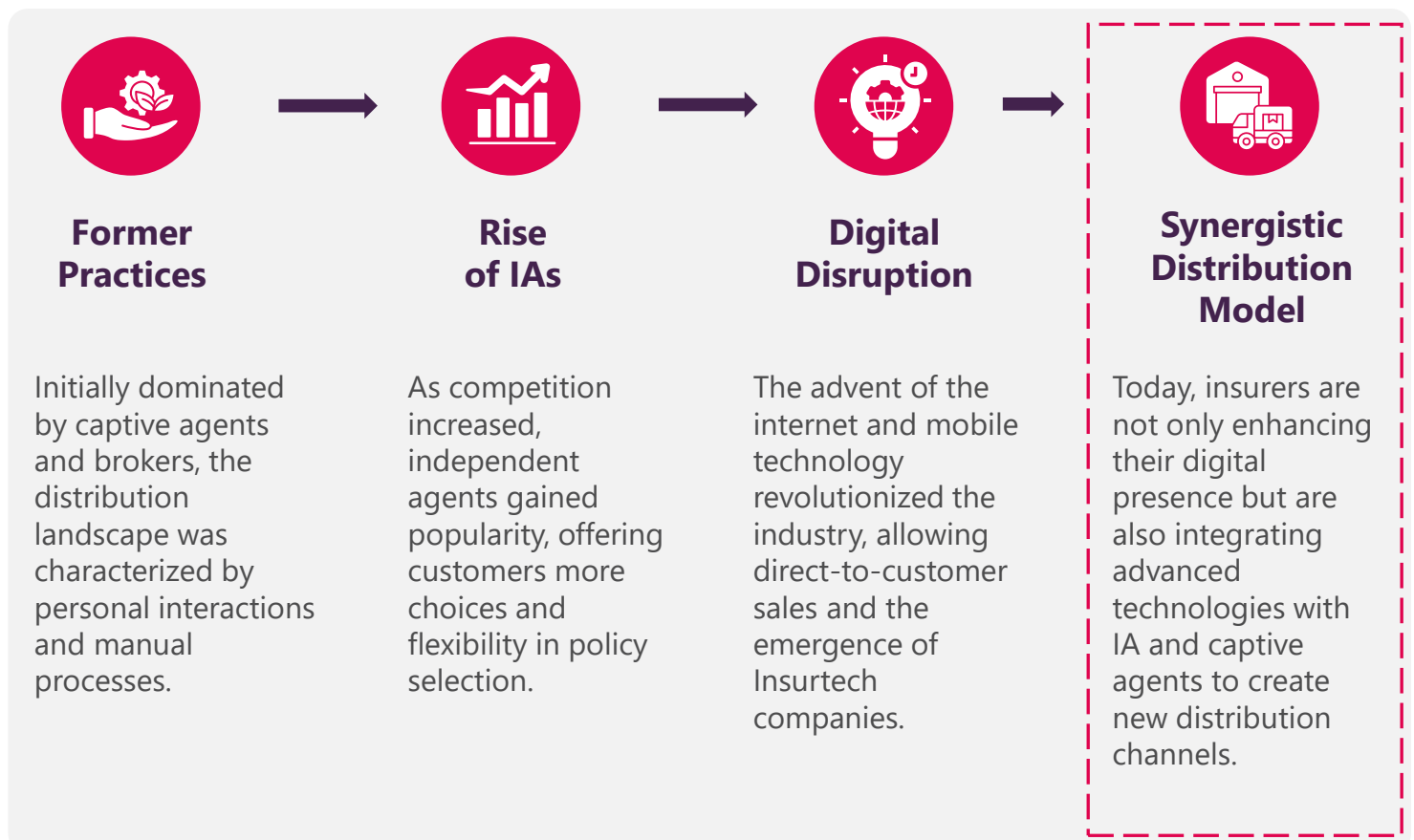


Digital Disruption Has Been A Key To Insurance Distribution Transformation...

Traditionally, insurance products have been sold through agents and brokers — providing personalized advice and services to customers. However, recently there has been a major shift toward the digital landscape across the insurance sector impacting the way products are now being distributed. With this, insurers are adopting a new approach by combining their recently developed digital capabilities with existing strong networks of IA and captive agents.

- This can be seen in the growing insurance distribution technology market, with forecasts predicting it will reach **\$261.6 billion by 2026** – underscoring the importance of technology for insurers in their distribution channel strategies

Insurance Distribution Channels Transformed By Digital Disruption



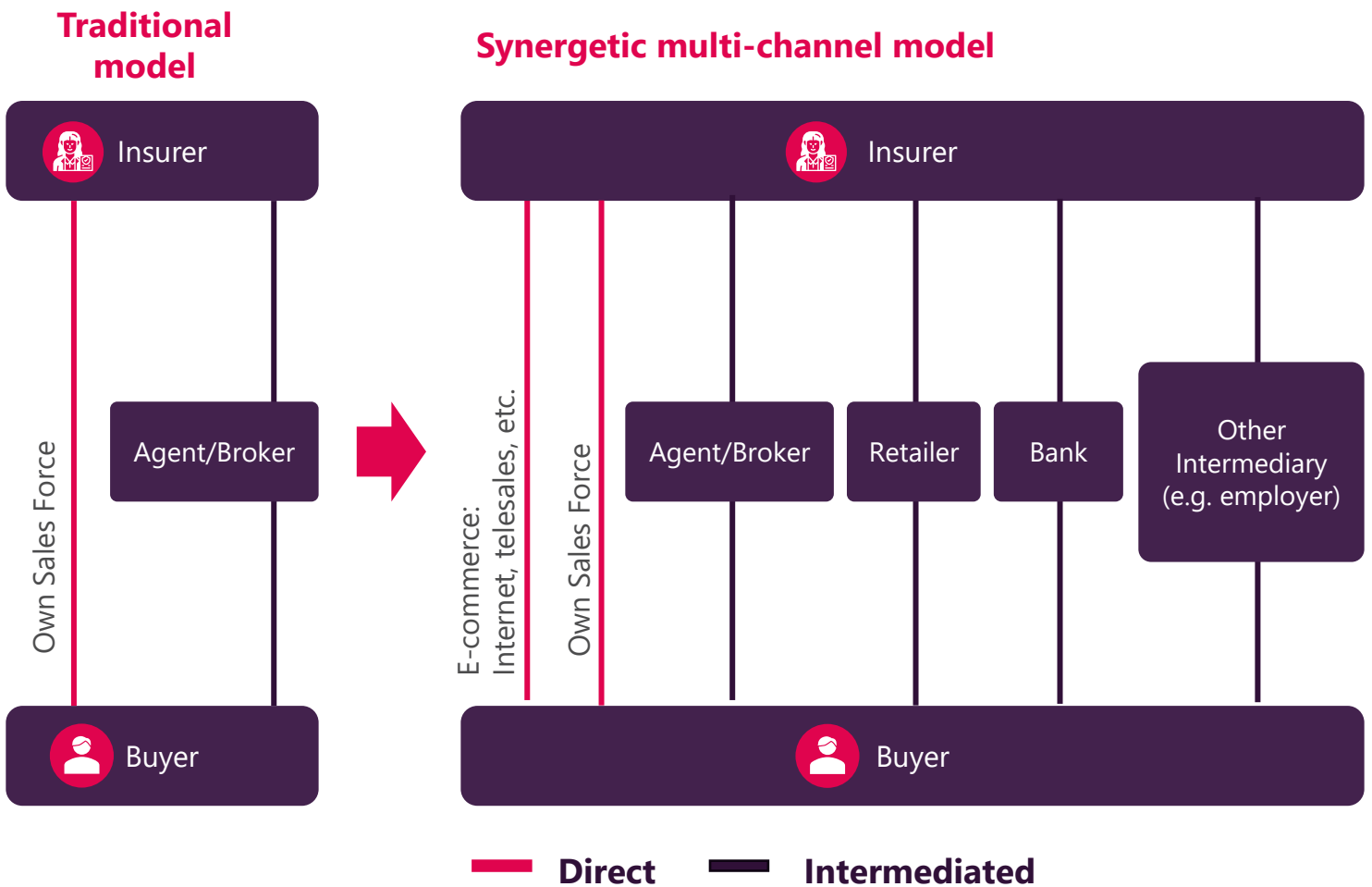
...Leading to Evolution Of Synergistic Distribution Model

With advancements in technology, insurers have expanded the range of available distribution channels. While traditional methods are still in use, synergistic multi-channels are now providing more success, and opportunities to win the market.

- These multi- channel models typically incorporates and combine, digital platforms, direct sales, third-party partnerships, IA, and sometimes their salesforce



Traditional VS Synergistic Multi-Channel Model



Credit: SwissRe



A Tech Role In Distribution Space

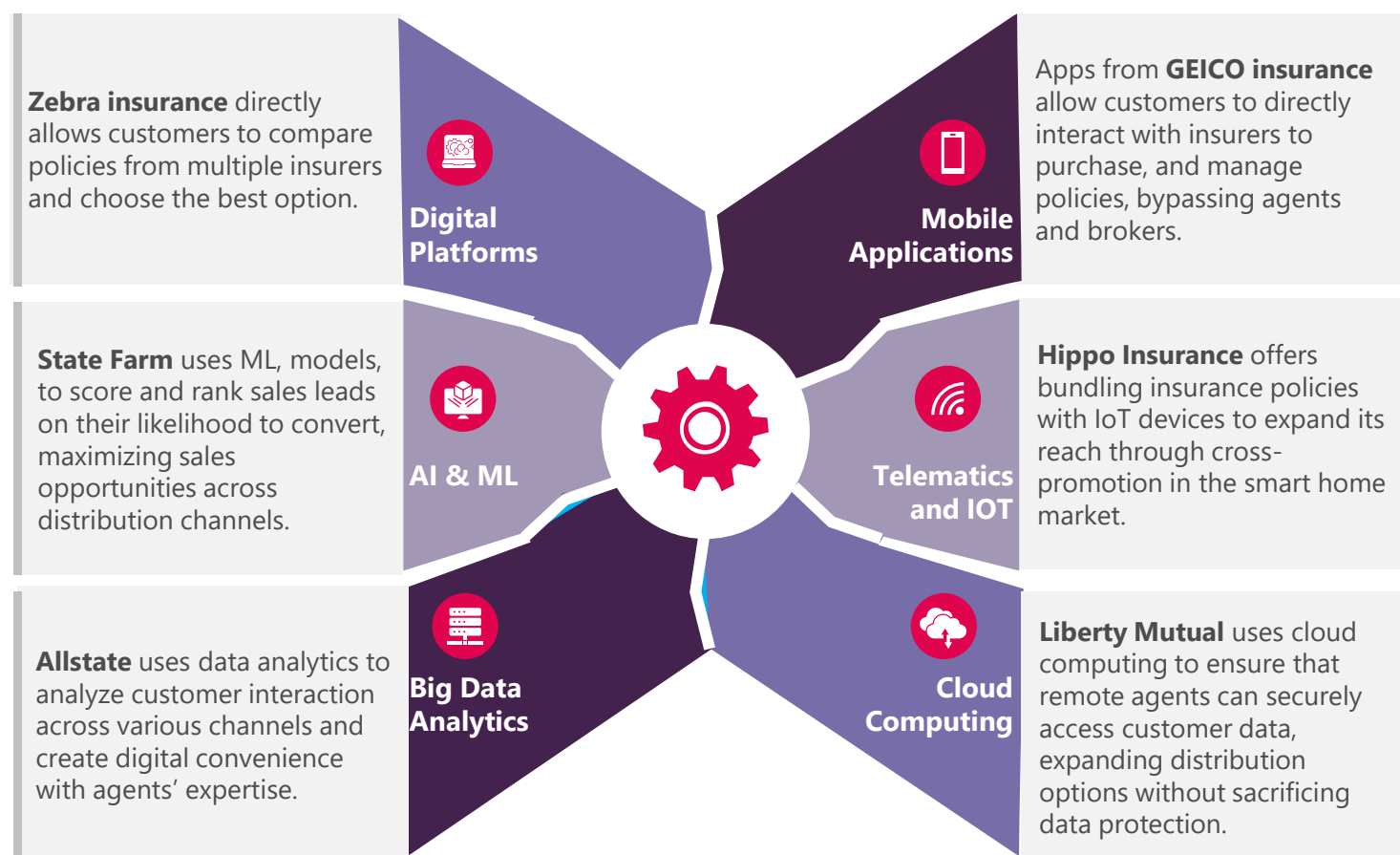
Tech Has Played An Important Role In Streamlining The Distribution Process

Technology has been behind in revolutionizing insurance distribution by developing into a more efficient, customer-focused, and accessible channel. For, instance, digital advancements have streamlined the purchasing and management of insurance policies, allowing customers to easily compare options, buy policies, and file claims online.

- These innovations have transformed how insurance is distributed — meeting customer expectations for personalization, speed, and transparency



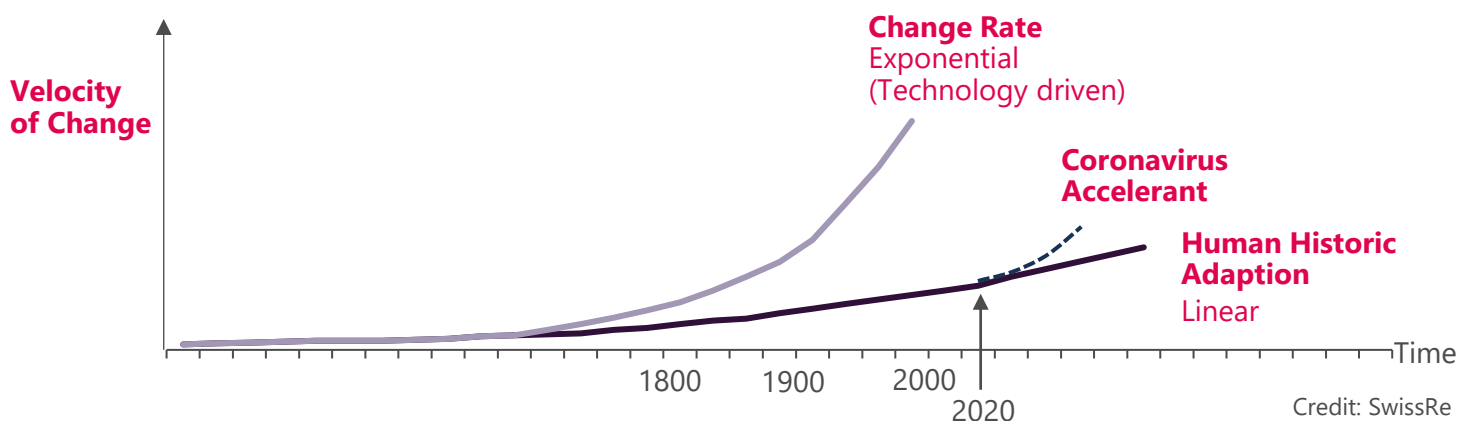
Recent Technology Adoptions In The Insurance Distribution Channels



Where COVID-19 Pandemic Expedited Tech Adoption Among Insures

The COVID-19 pandemic spurred insurers to rapidly adopt technology, including mobile apps, AI chatbots, and automated processes, enabling seamless remote services and efficient customer engagement. This shift laid the groundwork for a more agile and technological insurance industry.

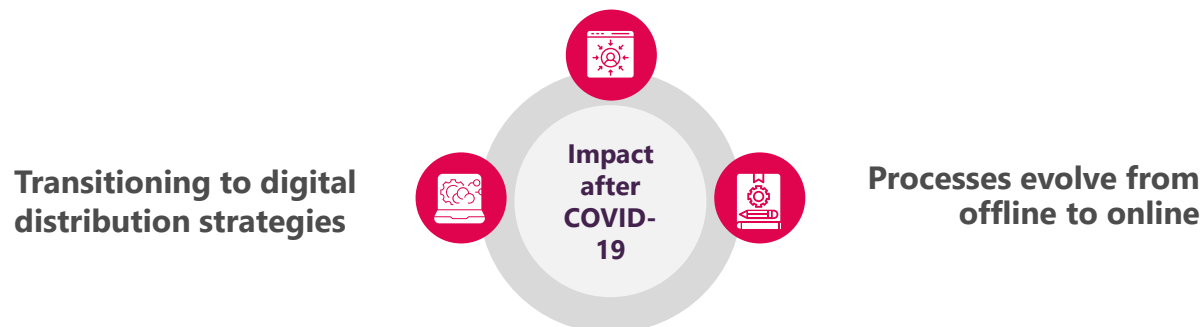
Technology Adoption Rate Post Covid-19



Impacting Rate Of Shift In The Insurance Distribution Towards Digitization

This also led to an accelerated investments in digital channels, prioritizing the enhancement of online platforms, mobile applications, and digital marketing strategies. This transformation has led to a more customer-centric and digital-first approach within the industry's product distribution.

A surge in customer-centricity



The pandemic played a major role in forcing many insurance agents and companies to quickly transit from in-person interactions to digital platforms.



Customer's Evolving Expectation

Also, Rise In The Digital Adoption Has Increased Customer Expectations

Digital disruption is leading to change customer expectations of more digital experience in the policy buying process. For instance, customers are now increasingly demanding more responsive, transparent, and personalized interactions from the insurers. Several factors, including technological advancements, and the availability of information has driven this shift.



Customer Expectations Are Rising From Insurers



95%

of customer interactions are expected to be AI enabled by 2025.

Virtual and augmented reality and 5G are new digital interaction frontiers.

>50%

of customers would buy insurance from BigTechs and non-traditional players.

New players with disruptive models are entering the insurance marketplace.

47%

of insurers prioritize innovation for new business models.

49%

of insurers want to work with ecosystem partners and co-develop solutions.

70%

of customers expect a multi-channel experience for policy research & purchase.

Today, customers want convenient access to information, 24/7 service and faster response.

The evolving risk landscape increases customer demand for insurance.

41%

of customers will shop for life insurance products post-COVID.



Resilient Independent Agents

However, Independent Agents Are Still Going Strong

Despite widespread speculation that technological advancements could replace independent agents from the insurance distribution system, the evidence suggests otherwise. Independent agents continue to play a crucial role, offering personalized advice, building long-term relationships, and navigating the complex insurance needs of the customers.

- Independent agents' expertise and human touch remain irreplaceable assets in the evolving insurance distribution landscape

Strong Market Presence



The Big "I" 2022 Market Share Report highlights the resilience and strength of the independent agency (IA) channel which remains the leading distribution method for property and casualty (P&C) insurance in the US. In 2021, IAs accounted for a substantial **62%** of all P&C insurance written, reflecting their deep-rooted presence in the market.

Industry Dominance



In 2021, total premiums written amounted to **\$765 billion**. Personal lines represented around **50%**, commercial lines over **38%**, and **12%** fell into "unclassified" coverage. Independent agents dominated commercial lines, securing nearly **88%** of premiums, placed **37%** in personal lines, and held an **85%** share in the "unclassified" category.

Ongoing Momentum

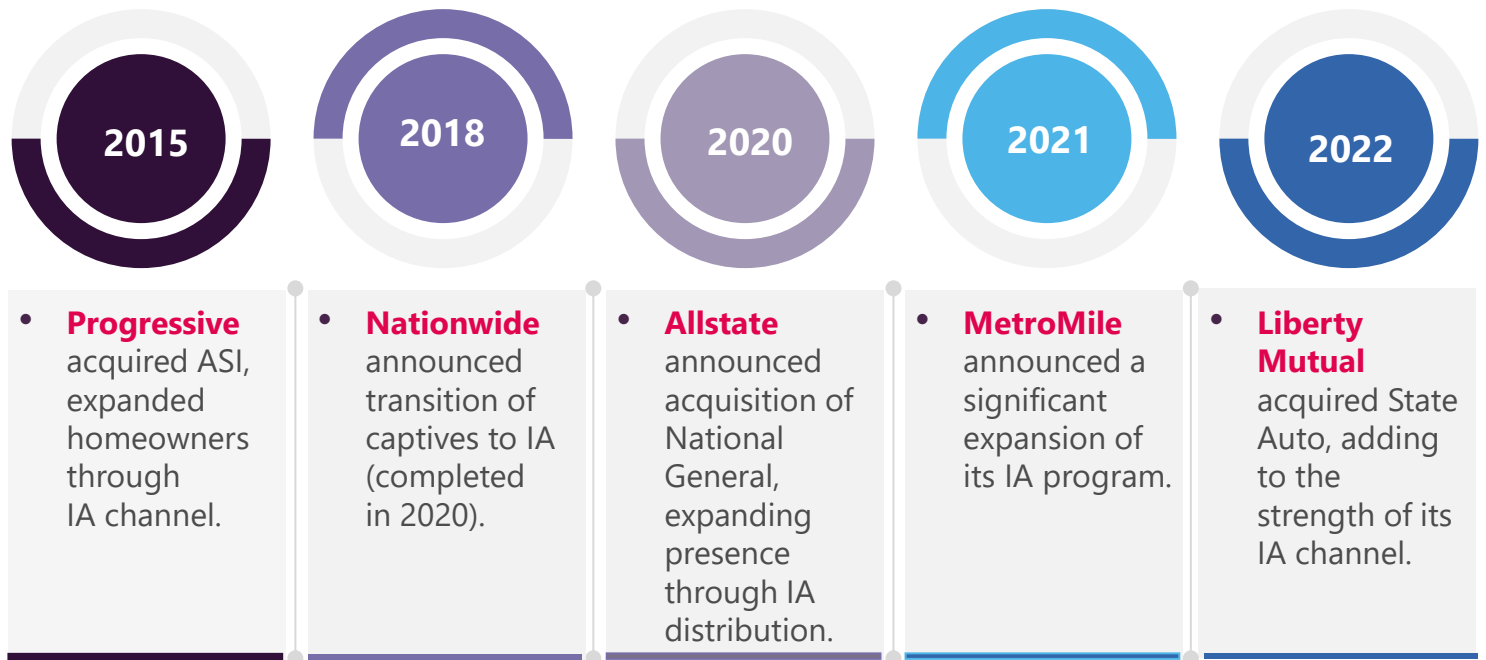


The success of the independent agent system is deeply rooted in personal relationships that technology cannot fully replace. While digital advancements may change aspects of insurance distribution, independent agents remain crucial. Their role is far from diminished; on the contrary, the positive momentum within IA distribution is expected to continue.

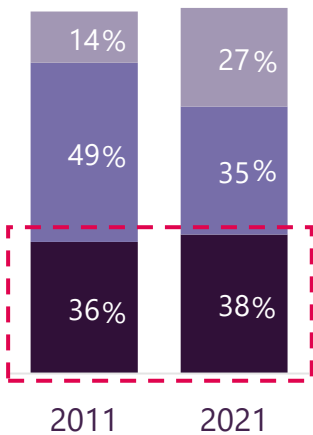
The importance of independent agents in the insurance industry remains firmly intact – where commercial lines is leading the way.

Leading To Insurers To Still Prioritize Independent Agents

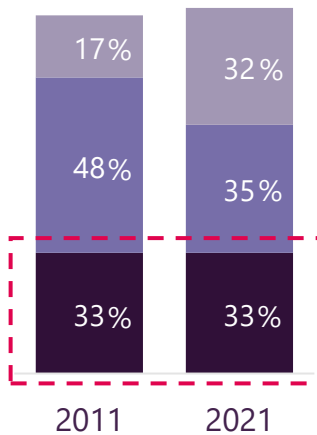
Insurers Focusing On The Independent Agent Force



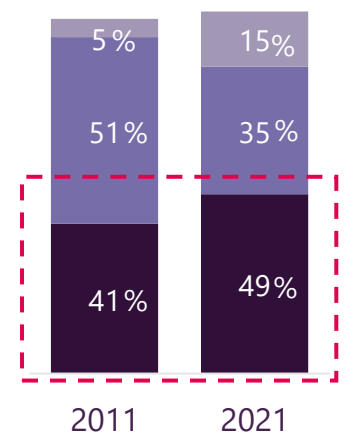
Overall personal lines by distribution channel



Auto premium mix by distribution channel



Homeowners' premium mix by distribution channel



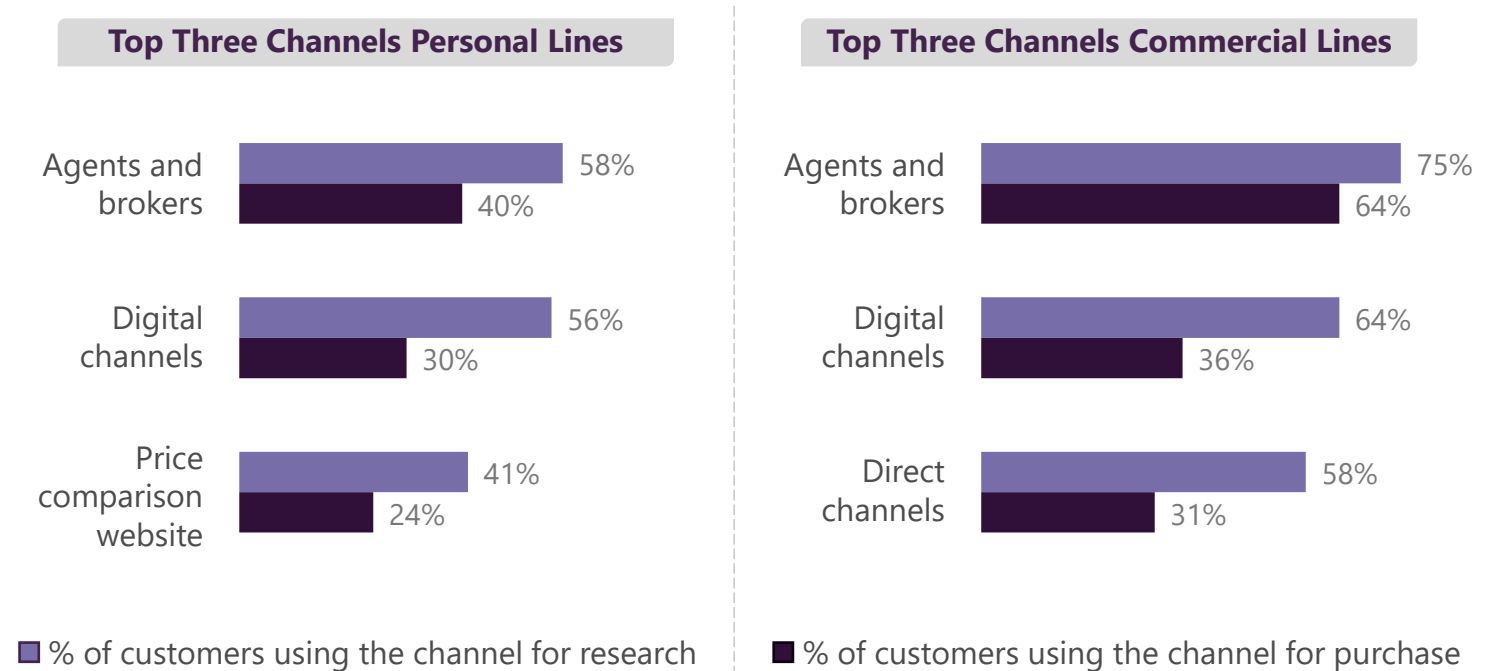
■ IA

■ Exclusive

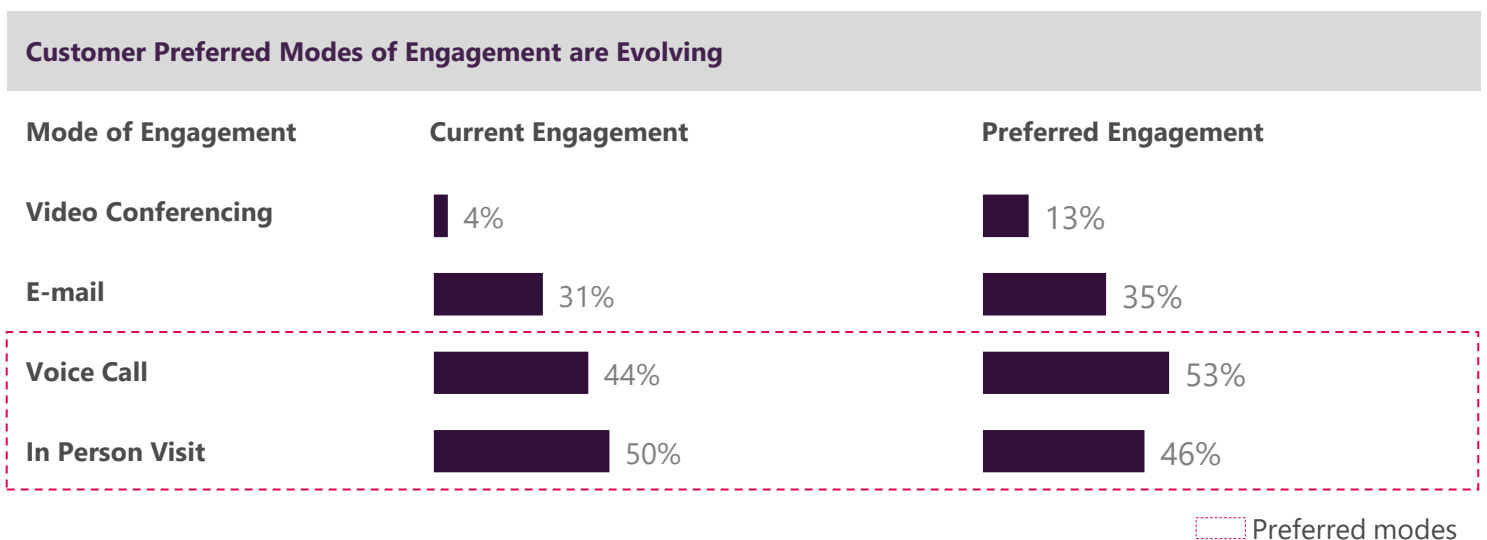
■ Direct

Also, Customers' Preferred Choice Of Purchasing The Policies Is Via Agents

Channels Used To Research And Purchase Policies (Global)



Channels Used To Research And Purchase Policies (Global)





Regulatory Changes

In Addition To Digital Disruption, Recent Regulatory Changes Have Added More Pressure On Insurers...

Regulation has always played a major role in shaping the insurance industry and now with more stringent regulatory changes targeting tech usage have also impacted insurance distribution processes. Recent rules now require insurers to provide clear and accurate information via digital mediums, ensuring customers get unbiased and complete information while buying insurance.

NAIC Model Bulletin On AI And Algorithms (December 2023)

Provides guidance for insurers on the ethical and responsible use of algorithms, predictive models, and AI systems.

- **Compliance** with market conduct, corporate governance, and unfair trade practice laws
- **Mitigates risks** of bias and discriminatory practices in underwriting and pricing
- **Insurers must document and report** the methodologies and data used in their AI systems
- **Regulators are empowered** to review AI systems to ensure compliance with laws

Florida's Legislative Changes

Florida has enacted several changes aimed at reducing insurance costs and increasing competition among providers:

- **Assignment of Benefits (AOB) Reform:** Changes to AOB laws affect how claims are handled, impacting the relationship between insurers and contractors, which can alter distribution dynamics
- **Market Entry for Insurtechs:** Regulatory adjustments encourage new entrants, including Insurtech companies, which can disrupt traditional distribution channels by offering innovative digital solutions

Michigan's Insurance Agent Licensing Changes

Michigan has updated its licensing requirements for insurance agents, emphasizing the need for continuing education and ethical training. This change aims to ensure that agents are better equipped to serve customers and navigate complex insurance products. The impact includes:

- **Enhanced Agent Competency:** Agents must complete additional training, which could improve the quality of service provided to customers
- **Potential Reduction in Active Agents:** Stricter licensing requirements may lead to a decrease in the number of agents if some fail to meet the new standards



Insurers Respond Via Change In Strategies

...Resulting Insurers To Adopt Innovative Distribution Strategies

Hence, changes in landscape led by digital disruption and regulation have led the insurance industry to significant transformation and actively strategize their distribution channels by focusing on strategies that involve:

Digital Transformation and Omnichannel Distribution



Prioritizing digital distribution models to create a seamless experience across online and offline channels. By integrating mobile apps, web platforms, and AI-driven chatbots, they aim to deliver a "Digital First" experience that meets customer demands for convenience and real-time accessibility.

Strategic Use of Insurtech Partnerships



Collaboration with Insurtech firms enables insurers to harness innovative technologies, enhancing operational efficiency and customer engagement. By integrating advanced solutions like data analytics, automation, and AI, insurers can streamline processes across various segments, ultimately delivering more personalized and cost-effective services.

Performance-Oriented, Synergistic Models



Insurers are adopting a "segment-of-one" strategy, customizing compensation models for each distribution partner—agents, brokers, or digital marketplaces—based on their specific performance metrics enabling more effective management of distribution channels, and driving enhanced efficiency and profitability.

ESG and Sustainability Considerations



ESG factors are increasingly shaping insurers' product distribution strategies, driven by growing customer demand for sustainability. By incorporating ESG criteria into underwriting processes and aligning their offerings with sustainable goals, insurers can effectively attract environmentally conscious customers and enhance their market appeal.

Talent and Culture Development



To embrace digital-first models, insurers are prioritizing talent development and cultivating a tech-driven culture within their sales teams. By implementing targeted training programs, they are upskilling employees to effectively leverage digital tools and adopt new technologies, addressing the challenges posed by an aging workforce in the industry.

Conclusion

The evolution of property and casualty (P&C) insurance distribution channels is marked by significant shifts driven by digitization, changing customer preferences, and the enduring value of personal relationships. As the industry embraces digital-first models, customer experiences are being streamlined through technology, enhancing accessibility and efficiency in service delivery. However, independent agents (IAs) and captive agents continue to thrive due to their ability to provide personalized interactions that technology alone cannot replicate.

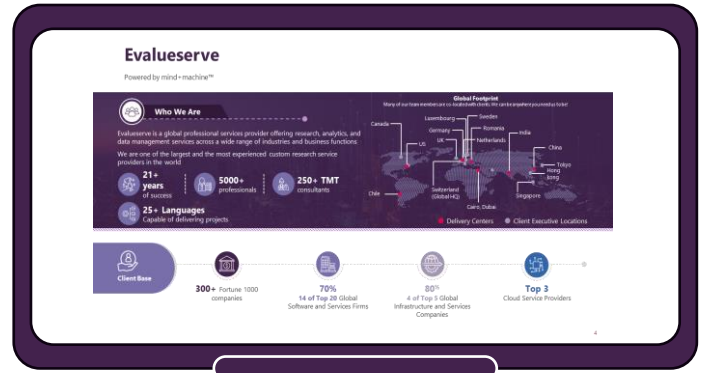
This dual approach—leveraging both independent agents and technological advancements—creates a synergistic distribution strategy that is essential for capturing market share in an increasingly competitive landscape. By integrating technology with the human touch offered by agents, insurers can develop innovative distribution channels and strategies that not only meet but exceed customer expectations.

Looking ahead, the insurance industry must focus on creating a balanced ecosystem where technology enhances the agent's role rather than replaces it. This involves investing in training programs that equip agents with digital tools while fostering a culture that values personal connections. As insurers navigate this transformation while keeping in mind regulatory changes around technology, they will be better positioned to adapt to the evolving market dynamics and cater to the diverse needs of their customers, ultimately driving growth and sustainability in the P&C insurance sector.

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Evalueserve Technology, Media, & Telecom (TMT) Practice

A trusted advisory and transformation partner for businesses operating in the IT and communications infrastructure, software services, mobile and integrated operations, security, and internet and digital services space.



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