

**Conference Proceedings**

**DOKBAT**

**14th Annual International Bata Conference  
for Ph.D. Students and Young Researchers**



International Bata Conference

**Tomas Bata University in Zlín  
Faculty of Management and Economics  
Mostní 5139 – Zlín, 760 01  
Czech Republic**

# INSURANCE DISTRIBUTION IN THE FUTURE

*Alexander Fichter*

## **Abstract**

The article investigates the changes in the insurance distribution that have happened over the past years, and the changes that tend to come in the future. The article shows the consequences of the changes for insurance market and explores the future development of it. The research is a result of a six months review of the insurance industry's sales and channels of distribution, looks at the root cause of emerging problems in insurance distribution cost structures, around face-to-face sales. Despite a majority of insurers are aware of the changes in the industry, many insurers still have to adapt to coming challenges. The author evaluates the peer-reviewed articles of leading scientists in this field of study and examines the impact these challenges may have on future profitability of insurance business.

*Keywords: insurance distribution, insurance market, customer expectations, technological progress, digital distribution, sale models, future sales.*

## **1 INSURANCE DISTRIBUTION IN THE FUTURE**

Nowadays, insurance distribution has been facing the biggest changes over the past decades, and these are triggered by numerous factors with the profound consequences, such as:

- changes in customer expectations due to experiences from other areas of life;
- technological progress offers new opportunities, but also increases the requirements for the process efficiency of insurers;
- new digital competitors who are stepping up the fight for the access to customers;
- demographic changes: “the world is getting older and more urban”;
- increasing regulation, requiring more transparency and process security;
- omnipresent pressure of the costs that will result in a drastic reduction in the volume of commission and comprehensive reduction in sales overhead costs.

Together, these factors unfold an explosive effect that has to be defused by reorganizing the sale models. All models rely on offering tailor-made “customer journeys”, the various contact points of a potential customer with the insurance at different points in the sales process, and offer digitally supported, frictionless and cost-efficient processes” (Sommer 2017). The main purpose of the article is to investigate insurance distribution in the future and to identify how insurance market will change in the nearest future. In the research, I used a method of peer-reviewed evaluation to investigate the topic.

## **2 LITERATURE REVIEW**

Mayers indicated six main changes in insurance distribution such as customer expectations, technologies, new digital competitors, regulations, demography and cost pressure (2017). Nowadays, customers expect to have twenty-four hours interactive options to deal with the insurers as they are used to in other areas of the life. Insurers do not benefit enough from modern technologies that could help to satisfy customers' needs. Increasing regulation and greater importance of consumer protection require complex, transparent and comprehensible consultation and sales processes as well as the necessary qualification of sales staff. Traditional business models suffer due to increased process requirements and high costs. The increasing demands will increasingly lead to the channel share shifts. The demographic developments cause an aging society, which is reflected in the customer and intermediary structures. The

reduced cost-bearing capacity of the products due to the low interest rates, the regulatory requirements and the decreasing commission income require a higher cost management in sales than is often the case today (Meyer 2017).

Olins indicates (1995) that future-oriented design of the sales mix must not only focus on profitability and efficiency. Sales will only be successful in the future, if it fully aligns with customer needs. Customers expect they will be able to transfer the positive experiences from other digitally oriented industries to their interactions with insurance companies. Customers choose many different ways to access insurers using the most convenient or effective channel for them. For example, insurance agents inform half of the customers about the insurance online that is more convenient way for both. Despite that, the share of online accounts is still not more than twenty percent of all accounts on the market (Harrington 1997). Online accounts help to make the process of insurance easier and quicker than in manual mode. The changes in the customer journey force insurers to develop sophisticated and integrated solutions to interact the customers. The Customer Journey describes the various contact points of a potential customer with the insurance at different points in the sale process. When designing the future sales structure, the offer of individual customer journeys must therefore be in the foreground (Ettner 2017). In the research, Ettner indicates that a tailor-made customer journey is possible because of the three key-elements of the sale models of the future such as the networking of sale channels and services, the consistent optimization of process and the corresponding technological support of the sales process.

Gunter (2001) claims the importance to enter into effective partnerships in the design of the service offering. Furthermore, while planning the model of insurance, the question must be clarified as how the future sale success will be defined. However, insurers must determine which key figures can be used to measure and manage the performance of the sale organizations. Karten (2017) also indicates that the costs of sale for many insurance products are another challenge for insurance companies in the future. Companies, which can optimize the cost, are able to survive in a very high competitive market. Expanded direct sales, where the communication with the customer either online or via call center runs and is combined with systematic advice, for example by video telephony. Ecosystem experts specializing in offering insurance as an integral part of existing or emerging ecosystems (such as smart home systems) (Beenken 2010). This requires building and deepening cross-industry partnerships with other companies. Specialists for third-party, broker and partnership sales, who sells insurance integrated into the (online) offer of other business systems without direct customer contact. Digitized exclusivity distribution focused on personal sales, utilizing all the technical possibilities to increase efficiency and providing a strong integration of online and offline. Fully integrated multi-channel distribution geared directly to the needs of the hybrid customer, a smooth customer journey, and complete channel integration (Beenken 2010). The research, a result of a six months review of the insurance industry's sales and channels of distribution, looked at the root cause of emerging problems in insurance distribution cost structures, around face-to-face sales and examined the likely impact these challenges may have on future profitability.

### **3 METHODS**

In the research, I investigated what changes are about to happen on the insurance market in the future, and how these changes will affect the market. I used peer-reviewed evaluation as a scientific method in the study of the issue of the changes on the insurance market in the future. I used the researches of leading economists that work at the topic.

For example, the research of Karten (2017) shows that the industry as a whole became competitive, cutting operating costs by 50% across the past decade. However, distribution costs

will move up to 38% of total operating costs, an increase of 29% in 20 years. Daniels (1997) also claimed that insurance companies will change the way of service and will focus on online customer relationship that can make the process of cooperation easier and more convenient. Insurers want to improve the mobility of the business, and companies will develop new models of business. Potential clients will be able to buy insurance while shopping for other things, for examples, from a car dealer or at the supermarket (Shwarcz 2010).

However, Harrington (2007) indicated that insurance market experienced short-term increases of the price because of catastrophe losses. The effects of catastrophe losses cause revision of price policies by a majority of insurance companies, and the cost of raising capital will be significant because of the information about the past claim costs. Without regulations on the catastrophe insurance rate changes, insurers may reduce voluntary coverage supply.

### **3.1 Results**

According to the peer-reviewed method of investigation, I have come to conclusion that most insurers are aware of the changes that are necessary, and effective change is often hampered by a variety of hurdles, such as the complexity of the distribution model, inadequate IT expertise, and legitimate fear of losing business. Especially against the background of these hurdles, the necessary process of change takes time. Therefore, insurers must start to work out a new strategic direction and initiate the necessary transformation process. Otherwise, they run the risk of missing out on the current strategic window of change” (Kim, 2017). Absent regulations on catastrophe losses policies lead to the revision of the price policies, and it discourages insurers to voluntary supply insurance coverages. Moreover, the market will focus on online cooperation with clients in order to be available twenty-four hours, and insurers expect the increase a share of the distributional costs in the total costs (Shwarcz 2010).

### **3.2 Discussion**

The research stated that the evidence conflicted with other data examining the changes in the insurance distribution, and this statement is supported by discussion. The analyzes and discussions with sales partners as well as sales managers and executives show that the quality of inventory management varies greatly between the individual sales partners and that there is often a considerable need for optimization. This means, on the one hand, that traditional distribution channels do not sufficiently exploit the existing potential. On the other hand, new high-tech companies are using such gaps in inventory management to specifically lure customers and stocks. Digitally consolidate the "insurance folder" of the customer and also offer analysis and optimization functions, in effect so the digital replacement of today's insurance broker want to effect. There are other offers on the market, in addition to a complete transparency on commission figures and the repayment of commissions, depending on the Interpretation of the commission tax prohibition, or to provide for the donation of parts of the commission.

Central process specifications and controls, data mining and data analytics as well as digital information provision for distribution partners for targeted inventory processing should be the focus here. If we think about inventory management consistently, we also have to ask ourselves whether the current system can simply be "only" optimized - or whether new types of allocation and distribution mechanisms are more effective: for example, the agreement of rules that stipulate that there are insufficient In extreme cases, it would also be conceivable that all stocks are assigned centrally and all distributors process the stocks according to defined rules and a processing fee for the respective sales or support activity.

## 4 CONCLUSION

Consequently, sale models of insurance companies are complex, interlocking systems, and, it is important to look at all elements of the sale models and at the changes that are necessary to reorient the strategy (Dixon 2011). In order to avoid overburdening the organization, it is important to organize the design and change each element of the system step-by-step. The biggest challenges in building a new sale model lay in the networking of the individual elements, the control of interactions and a meaningful sequential implementation (Hilker, 2017).

Insurance companies have already made significant changes in recent years. However, due to the further increase in pressure for change, a fundamental redesign of the current sales models is to be expected. The basis of the transformation process should be an individually determined strategic objective and the corresponding implementation path. Both have to be shared by the sales management and the entire board, as soon as there is clarity about the strategy, the necessary operational changes can be aligned with it and defined with the necessary depth of detail. I recommend a multi-stage process that systematizes this process, specifically avoids the hurdles described above and ensures sustainable results.

### References

- American Banker. (1997). Electronic Insurance Distribution Could Aid Sales: Kiosks Enable Consumers to Analyze Product Offerings. *American Banker*, 162(109).
- Beenken, Matthias. (2010) *Vertriebsmanagement: Fach- und Führungskompetenz für die Assekuranz*. Munich, Germany: Proximus.
- Daniels, Mark. (1999). Insurance and the Future of Financial Services. *Canadian Speeches*, 13(1).
- Dixon, Mathew, and Adamson, Brent (2011). *The Challenger Sale: Kunden herausfordern und erfolgreich überzeugen*. Munich, Germany: Redline Verlag.
- Ettner, Susan. (2017). Adverse selection and the purchase of Medigap insurance by the Elderly. *Journal of Health Economics*, 16(5).
- Gunter, Bernd, and Helm, Sabrina (2001). *Kundenwert: Grundlagen - Innovative Konzepte – Praktische Umsetzungen*. Wiesbaden, Germany: Betriebswirtschaftlicher. [/https://doi.org/10.1007/978-3-322-94626-3](https://doi.org/10.1007/978-3-322-94626-3)
- Harrington, Scott. (1997). Insurance Derivatives, Tax Policy, and the Future of the Insurance Industry. *Journal of Risk and Insurance*, 64(4). <https://doi.org/10.2307/253894>
- Hilker, Claudia. (2017). *Social-Media-Marketing am Beispiel der Versicherungsbranche*. Dissertation.
- Karten, Walter. (2017). *Einführung: Grundlagen der Versicherungsmärkte*. Wiesbaden, Germany: Springer Gabler.
- Kim, K. (2016). An International Analysis of Life Insurance Demand. *The Journal of Risk and Insurance*.
- Meyers, D. (2017). Guaranty funds and risk-taking evidence from the insurance industry. *Journal of Financial Economics*.
- Olins, Wolf. (1995). *The New Guide to Identity: How to Create and Sustain Change Through Managing*. Aldershot, England: Gower Publishing.
- Shawarcz, Daniel. (2010). Insurance Demand Anomalies and Regulation. *The Journal of Consumer Affairs*, 44(3). <https://doi.org/10.1111/j.1745-6606.2010.01184.x>
- Sommer, D. (2017). The Impact of Firm Risk on Property-Liability Insurance Prices. *The Journal of Risk and Insurance*.

**Contact Address**

Alexander Fichter

Department of Management, Comenius University in Bratislava the Republic of Slovenia, 820  
05 Bratislava 25, Odbojarov 10

Email: [fichter@alexander-fichter.de](mailto:fichter@alexander-fichter.de)

Phone number: 016090813697

ORCID: 0000-0001-5439-3557

DOI ID: <https://www.doi.org/10.7441/dokbat.2018.06>