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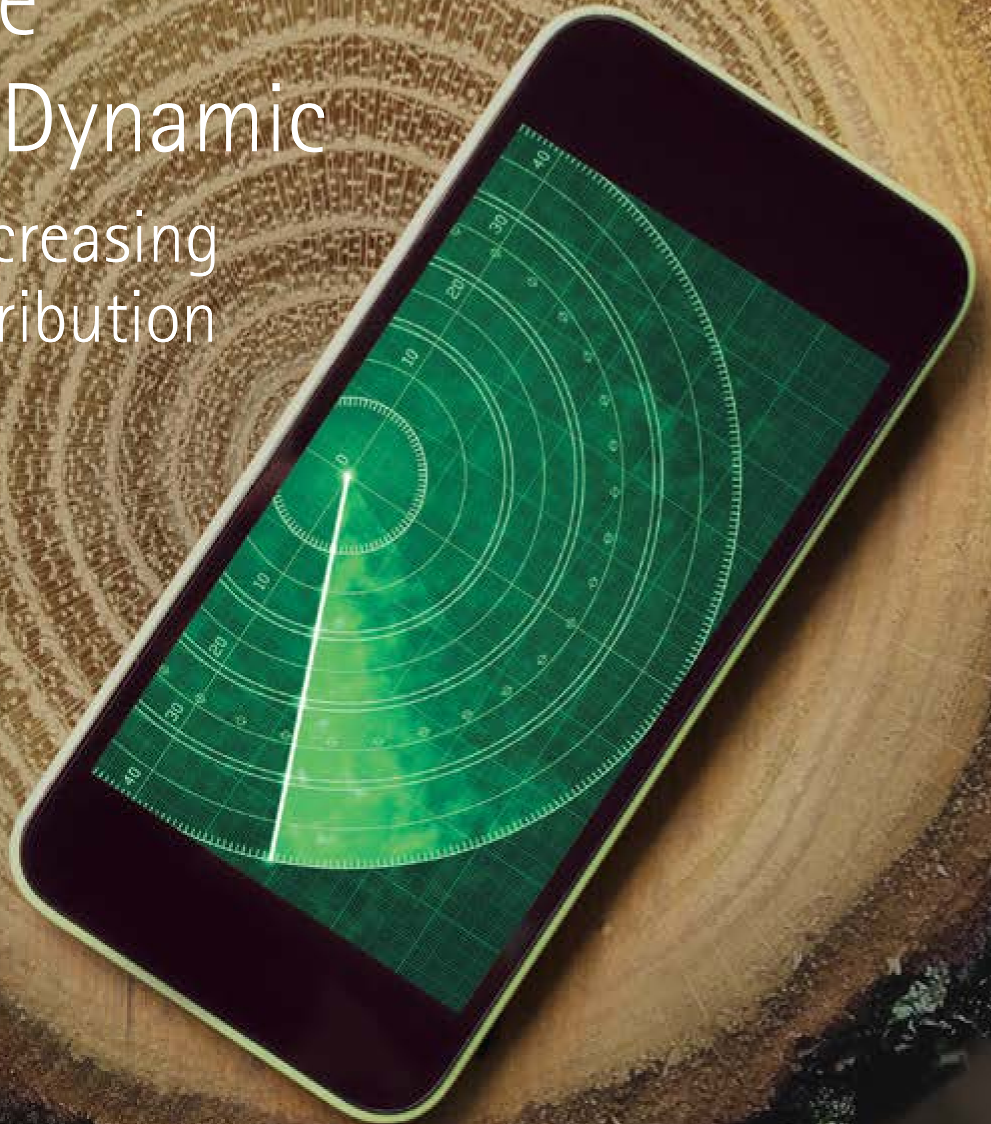
Changing the Distribution Dynamic

Strategies for increasing the value of distribution in life insurance



The life insurance industry continues to experience slow growth.

The US market is seeing the continued impact of changing demographics, with people starting households later and living longer. For the most recent five-year period, from 2010 to 2014, the industry experienced a compound annual growth rate of just 1.2%, according to A.M. Best.[1]

Ownership of life insurance has been steadily declining for decades and, according to LIMRA, the industry trade association, is currently at a 50-year low, with four in 10 US adults having no life insurance coverage at all.[2] A study by Life Happens, a not-for-profit organization, and LIMRA indicated that cost is the most common reason given for not buying life insurance (although most consumers also overestimated the price of life insurance coverage).[3] But as the effects of the economic crisis still continue to be felt in most US homes, the need for insurance and retirement products has hardly ever been greater.

Although the industry spends vast amounts on brand recognition, customer engagement is limited. Customer preferences for how they want to shop, buy, and be serviced are being set outside of the industry. Its products are complex and difficult to sell without personalized advice. But according to research from Cerulli, life insurance agents or brokers meet in person with customers less than twice a year, and the agent or broker initiates fewer than five total contacts—including both in-person meetings and phone calls—per year.[4]

The industry continues to struggle with other distribution-specific challenges. For example, many life insurers rely on third-party distributors. These independent agents typically "own" the customer relationship, making it difficult for carriers to differentiate their products from those of their competitors.

Further, the insurance sales force is shrinking—overall, it has declined by about 25 percent over the past three decades—and it is aging, with 53 percent of advisors over the age of 50 and a median age of 56. A large amount of business tends to migrate after an agent retires, highlighting the need for a succession plan, but only 29 percent of advisors have such a plan in place.[5] And the industry is not attracting fresh talent; despite an improving economy, the hiring of inexperienced recruits is down slightly, and carriers are emphasizing the recruitment of experienced hires. The compensation structure for advisors is changing, as well, with a shift away from commission-based products and towards fee-based income. Fees now represent as much as 40 percent of income for some advisors.

As far as distribution is concerned, insurers are vulnerable to digital disruptors willing to align with customers' rapidly evolving expectations, which have been shaped by their experiences with companies providing retail, media and travel services. Customers, for example, have become accustomed to greater engagement and personalization, delivered through multiple touch points. They have direct access to product information, but they also have the ability to contribute to it (in the form of product reviews) and share it via social media. Similarly, they can obtain information and advice from multiple sources.

About the Author

Patrick Lyons is a Managing Director with Accenture's Insurance Client Services Group, and leads Accenture's North America Life Insurance Transformation Practice. He has more than 25 years of experience advising global insurers in developing and implementing comprehensive business and technology strategies. Contact him at patrick.m.lyons@accenture.com.

"The opportunities in life insurance are enormous for those carriers willing to re-think their distribution models. This means incorporating the right technologies, and also means changing—sometimes dramatically—the way the sales force is selected, trained, and deployed."

The US represents the world's largest life insurance market, which is expected to grow to $766 billion by 2020.

High-Potential Growth Segments

While life insurers face these and other challenges in their attempts to achieve profitable, sustainable growth, they are operating in a US market which has considerable growth potential. The US represents the world's largest life insurance market, which is expected to grow to $766 billion by 2020.[6] However, per capita penetration of life insurance is significantly lower in the US than in other developed economies, including the UK and Japan.

Retirement planning offers another major opportunity for life insurers. More than eight out of ten consumers are worried about their financial situation after retirement. In addition, considerable wealth is changing hands from the "Greatest Generation" to Baby Boomers (an estimated $12 trillion) and, soon, from Baby Boomers to their heirs.

Within the large and diverse US market, we have identified four key "white space" opportunities for life insurers:

- **The middle market**

  There are approximately 52 million households with annual incomes between $35,000 and $100,000. This middle market has a particularly low level of life insurance ownership (just four percent) and represents a substantial untapped market.

- **Baby Boomers**

  There are 75 million Baby Boomers on the verge of retirement, and, on average, 10,000 people will turn 65 each day for the next 20 years. While estimates are that Boomers will transfer as much as $30 trillion to their heirs, 53 percent said they lack the information they need to prepare for retirement and 86 percent said they have little or no awareness of retirement products offered by insurance companies.

- **Millennials**

  There are approximately 80 million digital-savvy Millennials born between 1980 and 2000; in 2015 they are expected to become the largest demographic group by age, surpassing the Boomers. Millennials are motivated to build and pass along wealth, with 40 percent saying they have a strong determination to pass along wealth and 43 percent identifying themselves as conservative investors.

- **Small business employees**

  Businesses with fewer than 100 employees comprise 98 percent of US firms, with 42 million employees or about 36 percent of the workforce. Only 41 percent of small businesses offer life insurance to their employees, but, when they do, participation is 96 percent. And over 70 percent of small business employees have no retirement plan available through their company.

Clearly, there are opportunities for life insurers, but they are segment-specific and not monolithic. To capture these opportunities, life insurers need to optimize their distribution models to more effectively engage customers and support sustainable business building.

There is a new customer that distributors must engage through a needs-based, solution-oriented approach. We call this individual the "non-stop" customer; he or she is in a more or less continuous state of consideration and evaluation, accessing a broad range of digital channels. For insurers, it becomes just as important to attract and engage customers in the evaluation stage as it is during the purchase process. To attract and retain this customer, companies need to refine their analytical abilities, establish command of interactive technologies and, in many cases, upgrade or overhaul their operations.

Based on our research there is another emerging customer segment that is cross-demographic: "Generation D," a group of 75 million active investors with $27 trillion in assets.

The Generation D customer has higher levels of education and earnings potential than the general population, but Generation D's most distinctive characteristic is its acceptance of and gravitation toward technology. This group is multi-generational (26 percent Millennials aged 21 to 30; 48 percent Gen Xers aged 31 to 45; and 25 percent Boomers aged 46 to 70) but is united by its use of online, mobile and social technology in every facet of their lives, including the creation and protection of wealth.

A Strategic Approach to Distribution

We believe that to help keep and grow their current client base, to explore white space opportunities, and to connect with Generation D, life insurers should take a five-step strategic approach to distribution. The steps are interconnected and a comprehensive strategy would incorporate them all.

1. Move to a solutions-driven, customer-centric model

Many life insurers are locked into a transaction-based sales model that restricts rather than expands the possibilities for relationship building. Instead of a model that views the customer as a single sales transaction, insurers should focus on the whole customer, with a consolidated, single-point relationship across different products and business lines. And, instead of viewing the purchase of a policy as a "one and done" transaction, insurers should see the purchase as the beginning of a life-long opportunity to address customers' needs as they evolve over time.

Insurers traditionally think in terms of products and channels, but customers think in terms of solutions and touch-points. Insurers, therefore, should align their own channels—including advisors, mobile, online, phone and/or text—and their services with customers' needs. A product-focused approach will no longer succeed. Advisors need to learn to respond to the customer's holistic needs, and to team with other advisors with the experience needed to address these needs effectively.

Increasingly, this will mean that life insurers adopt an open architecture to present customers with an expanded portfolio, one that includes not only the insurer's products but also products outside the insurer's portfolio. In a model that is solutions and advice-driven, advisors will increase the number and type of contacts with the customer to include life-stage and life-cycle products such as college and retirement planning; health and wellness offerings; and inter-generational wealth transfer and succession planning solutions.

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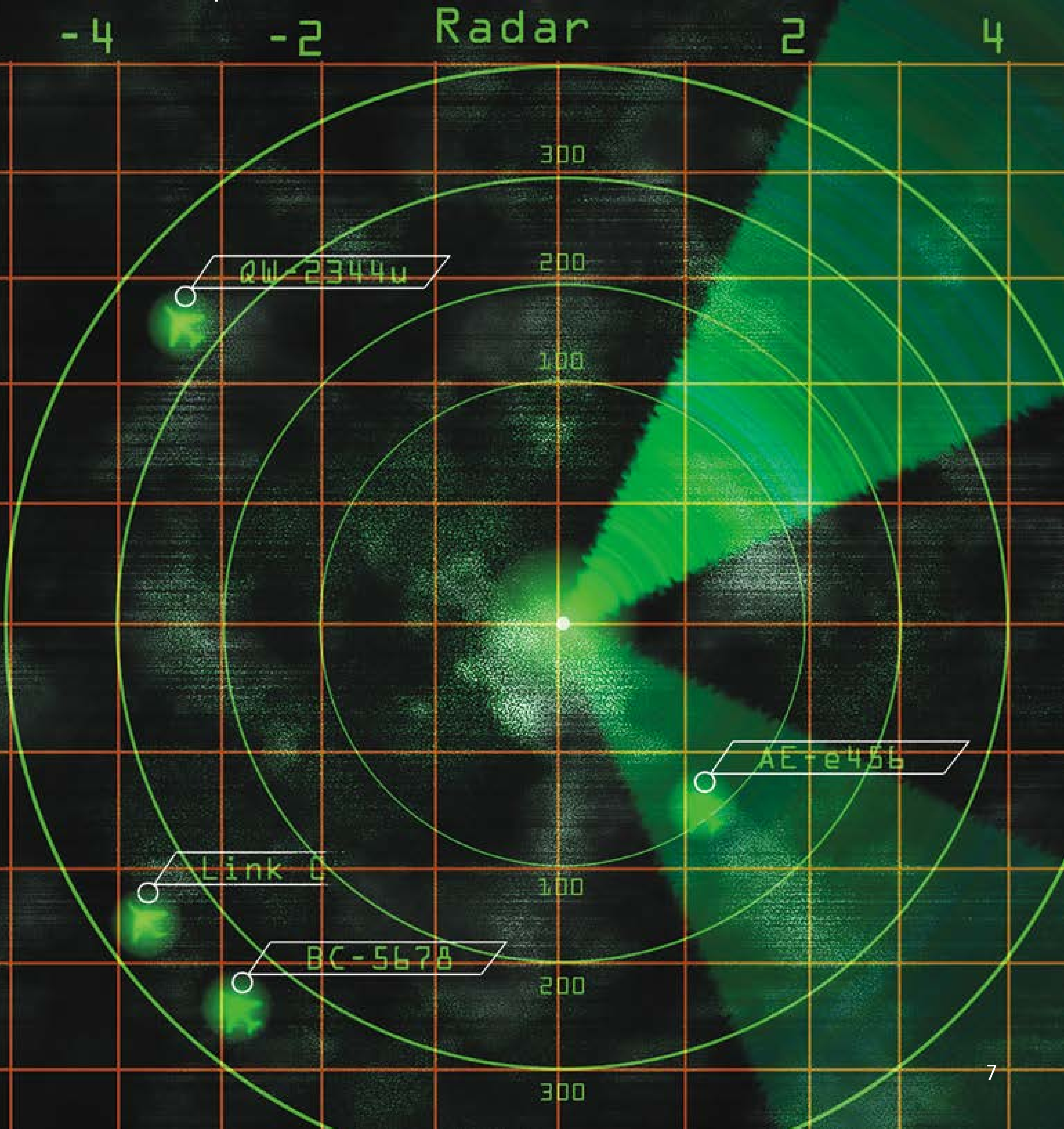


2. Consider teaming

Applying a team approach to a customer's issues generates significantly higher performance for financial advisors. This provides many benefits: It helps with the onboarding of new hires; it helps address complex customer needs through the specialization of team members; and it allows the team to engage with and manage a large number of customers effectively, as team leaders can focus on customers with complex needs while less senior financial advisors can address simpler concerns. Teaming also facilitates an orderly business transition to the next generation of advisors.

Carriers should create a team strategy with a defined structure—typically a team of four to eight advisors who function together as a single unit, with a model (product-based, market-based or skill-based) that is best suited for their targeted customer segments.
The recruiting of both experienced and inexperienced hires can be made more successful by leveraging the networks and skills of existing advisors; network-based recruiting, combined with team-based onboarding, can help accelerate productivity and improve retention rates.

Teams should develop and establish a formal agreement, including roles and objectives as well as rules for governance and for the departure and/or retirement of team members. Compensation and incentives should reflect both individual and team performance, and governance overall should combine self-governance and oversight from the agency leadership. Management oversight should also be considered for high-performing teams.

3. Create succession plans

Both independent agencies and insurers with their own sales forces should integrate succession planning into their strategy and operations. As noted, advisors working in teams are much more likely to have discussed or designed a succession plan than non-teamed advisors. Integrating succession planning with teaming provides a platform for long-term relationship development so that successors can inherit books of business.

Carriers should also establish strong processes, from pricing to transfer of books of business, and should proactively contact advisors nearing retirement to offer support and guidance using these tools.

Given the large amount of business at risk, carriers need to set up strong service capabilities to retain customers likely to be "orphaned" by the departure or retirement of an advisor; these capabilities should be integrated with local agencies to provide the personal relationship and support desired by customers.

4. Digitize the agency – treat every customer as a digital customer

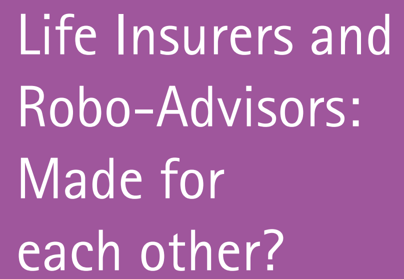
Customers prefer face-to-face contact when buying life insurance products, but agents still need the tools to survive and thrive in a digital world. The agency should be "digitized" so that every customer can be treated as digital customer; that means creating an experience that facilitates smart communication and timely, appropriate actions.

Agents, for example, should have access to collaborative tools that link the advisor, customer and home office; the customer needing advice on a specific topic such as the sale of a business should be able to talk to an advisor regardless of location. Digitization also helps automate routine inquiries and transactions, giving customers self-service options (which many prefer) while channeling more complex matters to agents and advisors.

As a first step towards digitization, carriers should identify where they are along a spectrum of key capabilities. Basic personal financial management capabilities such as electronic access to statements, mobile access, aggregated or linked accounts, and digital transfers of payments are requirements, while more advanced digital capabilities such as retirement and estate planning models, scenario analysis, customized seminars and long-term goal planning are becoming important differentiation points in customer decision-making.

Another important step is for carriers to bring their own digital strength and scale to agents' digital presence. This may mean helping agents connect with customers via social media (by providing starter kits, training, content and access to quoting and other transactional capabilities) or helping agents personalize and customize each customer's digital experience.

The next frontier in digital advancement is likely to be the "robo-advisor." We expect these automated investment services, tailored to customers' needs and objectives, to have an enduring impact in the wealth management business. Current robo-advisors' capabilities are basic, but we expect them to improve dramatically (see sidebar).



Life Insurers and Robo-Advisors: Made for each other?

The rapid rise of so-called robo-advisors–automated investing services that provide everything from sophisticated financial planning to basic portfolio management, at fees much lower than those charged by traditional wealth management firms–is a major topic of concern in the wealth management industry.

Although their share of assets under management is still minuscule–an estimated $30 billion out of a $20 trillion total–robo-advisors' assets under management have grown by more than 100 percent per year for the last few years.[7]

Life insurers are taking note. In early 2015 Northwestern Mutual purchased LearnVest, an online advice platform that also provides one-on-one financial counseling through financial advisors. At roughly the same time, John Hancock announced its acquisition of Guide Financial, a San Francisco-based company that creates automated financial planning tools.

Robo-advisors and life insurers may enjoy a bright future together, as insurance companies explore ways to attract clients' assets while allowing their agents to focus on life and annuity sales. The reduced fees and minimum balance requirements for robo-advisory services can also help attract Millennial clients to insurers with such offerings.

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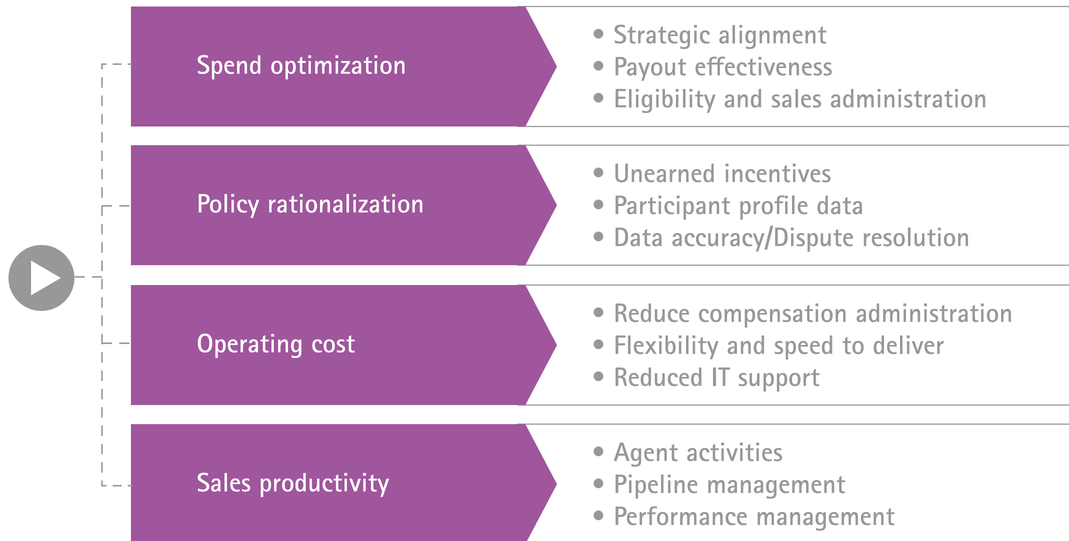
5. Modernize performance and compensation

As is true in other sales-oriented industries, the leading producers in life insurance bring in a disproportionately large share of revenues. The leading 20 percent of producers succeed because they have different skills, personality attributes, and behaviors than their counterparts.

Carriers should study the attributes of high performers so that they can "move the middle;" that is, implant those attributes on the large group that is in the middle of the performance ladder. This can lead to improved customer acquisition and retention, higher sales and revenue, and cost reductions through improved agent retention levels. The organization overall should enjoy a higher success rate in identifying viable candidates, targeting their training more precisely and bringing them up the learning curve more quickly.

Finally, carriers should undertake a comprehensive examination and re-alignment of incentive compensation. As seen in Figure 1, this review incorporates numerous elements including compensation plan participation and eligibility, earned and unearned incentives, administrative activities, and the time between lead identification and closing. The overriding objective should be to help bring compensation policies and procedures in line with the carrier's own strategic goals, such as growth in market share, growth in assets under management, or attaining and maintaining higher levels of profitability.

Figure 1. Incentive compensation alignment is a value driver



Conclusion

The changes and challenges confronting the US life insurance industry are numerous and daunting. Life insurers have little choice but to go where their customers are going; in a highly competitive market, it is ultimately the customer, not the provider, who dictates what the customer experience will look like and how life insurance and related wealth management products will be sold.

Life insurers do, however, have a wide range of strategic options available to them. They can focus on specific market opportunities. Through innovative technologies, they can match both their products and the way they are distributed to changing customer preferences.

The biggest opportunity for life insurers, however, may lie in revisiting and reshaping traditional distribution practices, in areas ranging from how successful sales people are identified and trained, and how they are compensated, to how carriers work with their agencies in mutually supportive ways.

The carriers getting these basic elements right—elements that may not be visible to the customer—can then move on to distinguish themselves through the more visible elements of distribution. This transformation will benefit both the carrier and the distributor, and ultimately the customer, whose need for insurance and wealth management products has never been greater.

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 319,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com www.accenture.com

Footnotes

1. Accenture Research analysis based on data from A.M. Best
2. "Ownership of Individual Life Insurance Falls to 50 Year Low, LIMRA Reports" LIMRA press release, August 30, 2010
3. "Insurance Barometer Study Finds Americans Continue to Overestimate Cost of Life Insurance," LIMRA press release, April 14, 2015
4. 2012 Cerulli Retail Investor Provider Relationships Study
5. Advisor Succession Planning: Managing the Retirement of Baby Boomer Advisors, Accenture study published March 2013
6. Sources of data in this section: US Census Data, Society of Human Resource Management, and Accenture research
7. Polyak, Ilana, "Robo-advisors have yet to prove their worth: Analysts" Cnbc.com, March 30, 2015

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