Crystalizing the Role of the Direct Insurance Broker as a Value-Adding Intermediary in the Production, Marketing and Distribution of The Insurance Production in Today's Digital Age

Introduction

The importance of insurance in today's economies is undisputed, it is a must to business activities. It is an essential means by which a loss to an individual or organization is shared or distributed by many and by which the impact of catastrophes may be reduced. Without it, the commercial sector would be unable to function and individual lives would be greatly affected. Justice Black, an American jurist in the case United States versus South Eastern Underwriters Association wrote "Perhaps no modern commercial enterprise directly affects so many persons in all walks of life as does the insurance business, it touches:

- The home
- The family
- Occupation
- The business of people

It impinges upon the public interest and vitally affects the social fabric and economic welfare of all of us."[1]

The manner in which such an important product or service is purchased is essential to this discussion. Distribution of insurance to consumers is managed in a number of ways, the most common is through the use of intermediaries and for the purpose of this paper, we shall be discussing the role of the broker as a value adding intermediary.

Crystallizing the role of the direct insurance broker as a value-adding Intermediary in the production, marketing and distribution of the Insurance product in today's digital age involves understanding the roles of brokers. The distinction between an agent and a broker lies in the manner in which they function and who they represent in the marketplace, the broker certainly represents the clients' interest. In our discussions, we will attempt to answer the following questions:

- What are the roles of Brokers in the Insurance Sector?
- What are the challenges associated with dealing with broker (information Asymmetry) vs Digital distribution?
- Cost implications
- What are the unique benefits provided by Broker?
- Does technological advancement pose threat to brokers?
- How can brokers use technology to improve their service delivery?

Providing answers to these questions we believe will provide insight on how a broker can be a value adding intermediary for the production, marketing and distribution of insurance products.

Issues Giving Rise to Digitization in Insurance

Commoditization of insurance services through digitization is the process of treating an item as a mere commodity. Commoditization of products depend on the product's attributes and has its own disadvantage in price being the main distinguishing factor.

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[1] (United States v. South-Eastern Underwriters Association, 1944)

The process of commoditization may have less or no need for a broker. With this concept, service is sold primarily on the basis of price. Clients are forced to compete on price, rather than on the features of their products and there is also lack of meaningful differentiation in the products. You would agree that this is simply price base competition and may work well with personal lines. In this process clients perceive little or no value difference in products and therefore may not need a broker.

Commercial insurance has been relatively untouched by technology innovation compared to personal lines. Larger companies tend to be concerned about a broader range of business risks than their smaller counterparts, and therefore more receptive to insuring against a range of risks, and are more likely than smaller companies to see brokers as adding value. The degree of broker involvement in the insurance purchasing process depends on the complexity of business risk and insurance products.

Research has shown that clients' businesses do not have to become very large or complex before they need and desire advice and also found that brokers miss the opportunity to turn a relationship from a transaction enabler to a risk advisor. Brokers most often times fail to make this transition.

In today's digital age, the use of technology is bringing closer the insured to the insurer posing challenges to indirect intermediation. The aim of marketing and distribution channel is to allow customers to access and purchase products in the most efficient way at a minimal cost. There are varieties of distribution channels, and the business's choice will be determined by its structure, strategy and position in the market. Each channel requires different resources to be effective and will impact the pricing structure.

Today, marketing and distribution of insurance products are also done via the direct channels – i.e. calls centers, company website, Insurance agents, appointed representatives, etc. and indirectly via insurance brokers, reinsurance brokers, and financial advisor. In order for broker to compete it must stand out as a value adding intermediary.

Role of an Insurance Broker in adding value

Brokers select from a pool of insurers they would like to represent if they meet the needs of their customers. The regulators require brokers to have access to a sufficient number of insurers so that customers can make informed choices. Brokers in some markets might be limited as a result of their specialist nature with few insurers offering specialize cover. In such circumstances, the broker will advise the customer on why only these insurers may be approached.

Brokers also offer additional specialist services to customers, for example, business continuity planning or risk management advice. In such cases, the broker charges a fee since no insurance product is provided. The provision of such services helps the broker to negotiate terms with the insurer, as the additional details supplied by customers can be used to aid the underwriting process.

When it comes to lead generation, selling insurance services comes with its own unique set of challenges. In areas such as life insurance or retirement planning, when consumers invest in such definitive products, a certain degree of reticence can be seen. And buyers are now more inclined than ever to review insurance services either online, directly on the website, or through a price comparison site. But with consumers having to navigate a ton of options and determine which coverage best suits their needs, it can be an exhaustive task to wade through all these possibilities.

A crucial role of brokers is to assist insurers in assessing the types of risks they face. Brokers can also act on behalf of and in the interest of customers. Brokers do comparative analysis among insurers in order to find the best deals and offer policies from more than one insurance company.

The following bullet points summarize the functions of direct insurance brokers:

- Obtain detailed and relevant information of the client's business and risk management philosophy;
- Familiarize themselves with the client's business and underwriting information so that this can be explained to an insurer
- Providing advice on appropriate insurance cover and terms;
- Maintaining detailed knowledge of available insurance markets;
- Submit quotation received from insurer/s for consideration of a client;
- Provide requisite underwriting information as required by an insurer in assessing the risk to decide pricing terms and conditions for cover;
- Act promptly on instructions from a client and provide written acknowledgements and progress reports;
- Assist clients in remitting premium to Insurer
- Provide services related to insurance consultancy and risk management;
- Assist in the negotiation of the claims and maintaining proper records of claims;

Most clients stay with their current broker out of convenience, loyalty and satisfaction with the service provided. However, there is a wide variation in loyalty to individual broking staff compared to the broking firm: half of clients would be happy to switch providers if their account handler left.[2] Building loyalty is therefore key in the broker insured relationship.

In a nutshell, insurance brokers are professional advisers who work on behalf of their clients, by helping them identify their exposures, by understanding the nature of their risks, by determining what needs insuring and what can be managed using other risk management tools. Insurance brokers may specialize in specific types of insurance or industries

Costs Associated with Dealing with an Insurance Broker

A broker usually receives commission from the insurance as compensation for placing the business with them. This amount intuitively does not come from the Insurer but it is a fraction of the premium their client pays. Therefore, the broker might charge the insurer additional cost for placing profitable business as well as charge the client a fee for providing extra services.

The below picture illustrate the relationship between clients, broker and the insurer. . Insurance brokers intermediate between the client and the insurer for placing the client insurable risks.

[2] Future of Commercial Insurance Broking Research Report,

As depicted above, the information flows from the clients to the broker and from the broker to the insurers. The insurer only knows what the broker tells them and will focus their pricing/servicing based on the information received from the broker. If the broker withhold information which lead to inaccurate premium charging, this information asymmetry gives rise to the phenomena referred to as adverse selection and if they withhold information during the servicing of the contract, it may amount to moral hazard. Therefore, the broker should provide all necessary information at all times and in so doing they add value to their service provision.

Challenges posed by technological advancement to insurance brokers

Although it makes business systems more efficient, Digital technology destroys value according to a McKinsey research reported in 2017. The report shows that although digital technology propels some companies to become clear market winners, for many more its impact depletes corporate earnings and the overall value of an industry.[3] Consumers, not companies, are often the ultimate winners. The traditional insurance distribution business model has proved to be remarkably resilient, but it being imparted by the digital effect. Digital channel is changing how products and services are delivered, and increasingly it will change the nature of those products and services and even the business model itself.[4]

Due to the rise in technology, customers' expectations have been transformed increasing their desire for simplicity—one-click shopping, quick access and delivery, clear relevant information about a product's features, particularly in relation to pricing, and innovative tailored services.[5]

Increasingly, technology and the availability of new data sources are having an impact on insurance broking. Information, once digitalized, is being used to improve processes all along the insurance value chain. With the rapid spread of internet-enabled sensors and ubiquitous connectivity are enabling new ways of communicating, information sharing, and insuring. New technology start-up firms are entering the industry to deliver some of the services typically provided by traditional insurers and intermediaries, and established technology giants are eyeing opportunities in the sector also.[6]

As a consequence of how the insurance industry has evolved digitally, so too have the challenges facing insurance brokers ranging from keeping up with technological advances to maintaining financial stability.

In recent years, customer experience has fast become a top priority for businesses, with some buyers willing to pay more for great customer experience. The insurance sector is no exclusion, with customer experience emerging as a 'make or break factor' for many insurers. As consumers become more informed, ultimately, they will expect a better level of service and a more personalized experience. Consumers are likely to carry out research online before making any purchasing decisions, highly influenced by online review of a business or product.

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3 Jacques Bughin, Laura LaBerge, and Anette Mellbye, "The case for digital reinvention," McKinsey Quarterly, February 2017.

4 Tanguy Catlin, Johannes-Tobias Lorenz, "Digital disruption in insurance: Cutting through the noise" McKinsey & Company, March 2017

5 Tanguy Catlin, Johannes-Tobias Lorenz, "Digital disruption in insurance: Cutting through the noise" McKinsey & Company, March 2017

6 Darren Pain, Jonathan Anchen, "Technology and insurance: themes and challenges" Swiss Re Institute, 2017

Distribution channels are responding to changes in consumer preferences. Price comparison websites are providing consumers with more information on products and costs, especially for more commoditized products like auto and travel insurance, thus selling a product directly with no agent or broker involvement. Modern consumers are more self-directed in their insurance decisions and want to interact through various channels when researching and buying insurance.

As technology is improving and changing, so is the nature of the business as well. Now more than ever before, insurance brokers need to continually evaluate how they define and manage their workflows and processes if they are to remain relevant, productive and efficient. While some actions may be trickier to automate (i.e. the qualitative analysis of an underwriter), other day - to - day actions can be easily automated, allowing time to focus on other areas.

Using Technology to Improve Their Service Delivery by Broker

Insurance brokers therefore need to work on the disconnect between they and their customers and provide each of their customers a unique, advisory and high - value experience, while at the same time maintaining their values to help customers meet certain financial requirements and overall financial goals. Whether it is a customer portal or an extensive internal platform, the ability to view the historical data of a customer will allow brokers to better meet the needs of their customers.

Automation may free up valuable time for these repetitive tasks and processes. A study from the Harvard Business Review showed that even simple digitization of existing processes could help insurance companies deliver up to 65% cost savings, a possible 90% reduction in turnaround times on key processes, and perhaps most interestingly improve conversion rates by over 20%.

A well - defined, intuitive process will allow businesses to maximize their time and ultimately their productivity in an actionable way, helping businesses to maintain make informed decisions about any bottlenecks they may have, improve efficiencies, and book more business. Leading brokers such as Aon (Inpoint), Willis Towers Watson (vGrid2.0), and Marsh (ClearSight) are using softwares to optimize risk decisions making for better service delivery to their client.

Conclusion

The advent of widespread artificial intelligence will erode the value of those brokers with weak relationships and or low expertise who sees themselves as merely access point to the insurance market. For instance, ATM Machines did not get rid of personal banking but helped banks reduce the time for withdrawing and depositing activities. As in the Case of Insurance intermediation, the combination of a new wave of thinking and newly developed artificial intelligence technology has the potential to enhance the brokers' role and completely change the customer experience to provide great service in a way that resonates with the customers.

Brokers' survival is dependent on their ever increasing professionalism. Brokers may have to become more than insurance placement implementers and give more risk advice. The future of insurance broking lies with brokers developing and maintaining expertise, non-commoditization of the process and maintaining a trusted broker client relationship. Brokers are a critical link between insurance companies seeking to place insurance policies and consumers seeking to procure insurance coverage and securing value for money. Brokers with expertise and who demonstrate a deep understanding of, and empathy with, their clients will survive and be successful. Professional qualifications are an important part of this mix and too few manage to make it through to the top levels of professional accreditation.

There are challenges to ensuring that sufficient insurance technical and risk advisory skills are available in the industry. This means that broking firms and individuals will have to take more ownership of their own training and development, and that brokers will increasingly specialize.

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