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Insurance Governance Leadership Network

IGLN VIEWPOINTS

Evolving insurance distribution in the digital age

July 2024

Emerging technologies have the potential to transform approaches to insurance distribution, open new channels, lower costs for carriers, and adapt to evolving consumer preferences. However, for many product lines and geographies, insurers remain dependent on the expertise and customized solutions that brokers and other intermediaries provide. In this landscape, getting the right distribution strategy in place becomes critical to success.

On May 21 (in London) and June 13 (in New York), board directors, senior executives, and subject matter experts from the Insurance Governance Leadership Network (IGLN) met to discuss evolving distribution models in insurance.

For a list of participants, please see the appendix (page 11).

This *ViewPoints*[1] synthesizes the following key themes that emerged from the meetings and related conversations with network participants:

EY Building a better working world

The existing insurance distribution model is coming under stress

A director remarked, *"The landscape around how insurance companies get their products to their end customer is changing."* Participants discussed the ways in which changing consumer preferences, the evolving risk landscape, and persistent coverage gaps are driving the changes in distribution models.

> *"Customers are expecting insurance companies to work like Amazon and Netflix."*
>
> —Director

Consumer behaviors are shifting

Insurers are grappling with heightened consumer expectations. Participants identified factors driving consumer behavior today:

- **Consumers expect digital, simple, and efficient.** As technology continues to advance, consumers increasingly expect to interact with their insurers digitally and seamlessly. A director remarked, *"Customers are expecting insurance companies to work like Amazon and Netflix."* Advances in technology provide opportunities for insurers to connect directly with their customers and glean deeper insight into their needs. But generating an experience comparable to those provided by tech giants is challenging and costly. *"Customer expectations in embedded insurance are very high,"* another director pointed out. *"People want to buy things instantly on their phones, have a policy pop out the other end, and payments to be made. They want the price to be 'conceptually low' or 'observably attractive,' but the mechanics are hard, and the largest expense is software engineers. The underwriting is still challenging and not automatic."*
- **Younger generations have different financial priorities than older generations.** Younger generations tend to think very differently about what they want to do with their money. Inflation, student loans, and sky-high housing prices limit disposable income and create anxiety. Gen Z economic commentator Kyla Scanlon said in an interview, "People are just exhausted, and so if you're asking them to think five to 10 years in the future, well I can barely think about tomorrow."[2] Survey data suggest Ms. Scanlon is not alone: Intuit research found that 73% of Gen Z respondents were reluctant to set long-term goals, and 66% said they weren't sure they would ever have enough money to retire.[3] IGLN participants also noted that when they do have disposable income, younger generations tend to allocate their funds toward experiences like

travel and dining out or causes that align with their personal beliefs. One director said, *"Social responsibility is another trend. This is how younger people make purchasing decisions—by consciously bringing business to companies that align with their views on social responsibility, ESG [environmental, social, and governance issues], etcetera."*

- **Social media is increasingly affecting consumer behavior.** Intermediaries have historically been compensated partly as trusted advisers to help educate customers on complex financial issues. For younger, digitally savvy consumers, those trusted advisers are now more likely to be found on social media than in the office. An EY executive said, *"Almost 75% of people today rely on social media to get advice; 69% of consumers actually trust influencer recommendations. The rise of social media as distribution channel cannot be ignored."* An executive concurred: *"Influencers are telling me more about compounding and the rule of 72 than financial advisers are."*

"Almost 75% of people today rely on social media to get advice."

—Executive

The risk landscape continues to evolve

A shifting risk landscape is challenging traditional insurance models and leading to gaps in coverage. One participant observed, *"There are a lot of uninsured people and companies. We need to consider how the industry can be in more of a push mode versus waiting for people to come and say, 'I need to insure that.'"*

Participants highlighted two risk areas that are creating particular challenges for the industry:

- **Climate change is stressing the industry's capacity to cover weather-related losses.** *"One of the biggest challenges for the world is climate change, and the insurance industry has a huge role to play. But we are pulling back as an industry from these catastrophes,"* said one director. The nature of climate change makes it difficult for insurers to deploy a traditional approach to providing coverage. One director noted, *"The big issue is that none of the models predicted the net catastrophic losses of the last few years. We can have all these models and retrospective thinking, but there is no perfect model. How do we adapt to think about the future? We are trying to measure things 50 years into the future."* Another director admitted, *"I'm not sure if we have the data and loss experience to really predict what is needed."* These challenges are altering the economics of the insurance value chain. *"Changes in risks with climate change have created a hard market in reinsurance, which may be here for a long time, and the capital available may not be as cyclical,"* said a director.

- **Geopolitical tensions are heightening concerns around cyber risk.** Participants identified geopolitics and cyber risk as other key risks that lack sufficient protection coverage. A director said, *"I think geopolitical risk is incredibly dangerous. You have geopolitical risk in China, a country that is becoming competitive in cyberattacks."* While cyber risk has been a concern for several years, there remains a gap in cyber coverage. At a recent insurance industry forum, Coalition CEO and founder Joshua Motta "highlighted data indicating that fewer than 1 million organizations have standalone cyber insurance policies out of a potential market of approximately 60 million companies across the US and EU."[4]

The financial advice gap persists

A director said, *"Despite the best endeavors of the Financial Conduct Authority, who have done a huge amount to try to improve things, there is a huge advice gap amidst the financial advisory system in the UK. Advice is a bit of a cottage industry. The quality depends a lot on the adviser. They charge a lot, and the quality of advice is very mixed."*

> *"There is a huge advice gap amidst the financial advisory system in the UK."*
>
> —Director

The problem is particularly acute for certain customer segments and geographies where reaching customers through traditional broker channels is relatively costly. *"What's happening in the advice market is that independent financial advisers are dealing with people with tons of money, and they're not interested in smaller-ticket customers."*

Systemic issues in some markets may also be contributing to a broader reduction in interest in financial planning. A director observed, *"We discourage consumers from taking investment risk. There are loads of incentives in the system to reduce volatility and provide liquidity, yet no incentives to provide savers with a decent return. So we don't have a culture of savers wanting to invest money."*

Intermediaries will play an important but somewhat different role

Insurance has historically been an industry that has operated through intermediaries. As customer preferences change and coverage gaps grow in an increasingly digital age, the economics of the relationship between insurers and intermediaries is becoming a point of contention. A participant asked, *"If [distributors] are charging 30% and sometimes up to 60%, what have they done to earn that?"* Another commented, *"What is the value that they are bringing to insurers? Because we've seen way too many markets where we're not seeing them adding value."*

If carriers need to invest in digital capabilities and allocate capital against new risks, getting the intermediary economics right will be critical to the financial sustainability of the industry. A director predicted, *"It is just a matter of time before there is a shrinkage of the number of intermediaries sitting between a dollar of risk and a dollar of capital. Distribution must become lower in cost and simplify so that the entire system remains sustainable."*

"It is just a matter of time before there is a shrinkage of the number of intermediaries sitting between a dollar of risk and a dollar of capital."

—Director

Despite this tension, participants do not see intermediaries going away; rather, the role they play may simply need to evolve in certain business lines and customer segments. Even with the technological advancements being made, *"we can't ignore the value of human relationships,"* said one participant. There is still a preference for human interaction when making financial decisions, especially as the decisions become more monetarily significant. A director observed, *"In your stages of life, if you're online gaming and need a product, you can do that online. But as you move through your life to bigger purchases, like a person buying a house and then a second house, getting that insurance online may not be the avenue they take."*

The combination of technology and human interaction can drive superior outcomes. *"Financial decisions are personal, and consumers want to speak to humans. If you can build a tech platform that also helps an insurance company provide human expertise, you can have a massive impact on end users. There is great opportunity on the revenue side and cost savings side,"* a director said.

"Financial decisions are personal, and consumers want to speak to humans."

—Director

Participants also suggested that with the industry facing significant constraints in its ability to cover certain types of perils, brokers can play an important role in expanding the capacity to address emerging risks. One director stated, *"Where I see the intermediary going is helping identify the risk and finding alternative capital to cover that risk. Insurance companies don't always have enough capital to underwrite emerging risks. For example, we can't write all the cyber we want within the existing insurance community. Finding alternative forms of capital is another role the intermediary may need to do."* Another director agreed: *"At the end of the day, it's about matching risk and capital. With the largest corporations* *of the world, it's about finding new pools of capital to meet the constraints in the market. There is a shortage of capital wanting to cover high-hazard property risks. Somewhere, the opportunity for brokers is, How do you find ways to match risk and capital to cover the pool of coverable risks?"*

One area where participants see intermediaries continuing to play their traditional role is in commercial lines. *"Commercial lines are very capital market and data driven,"* said an EY executive. The knowledge base and experience of intermediaries remain crucial in navigating larger risk sectors. A participant remarked, *"As long as big companies are looking at insurance, they will want advice on how to look at it. They want an intermediary to do that work for them. I think the intermediary is imperative in the larger risk sector."*

"Somewhere, the opportunity for brokers is, How do you find ways to match risk and capital to cover the pool of coverable risks?"

—Director

Insurers are experimenting with alternative approaches to product distribution

Even if brokers continue to play an important role in the industry, the underlying dynamics creating friction over intermediary economics provide an impetus for carriers to explore alternative approaches to distribution. One participant acknowledged, *"Lots of traditional insurers are not meeting the needs of customers. There is a big opportunity for firms to step into that, whether fintech or traditional insurance or broker networks."* Insurers across business lines and customer segments have all experimented with new approaches, including direct channels and embedded insurance, as well as engaging with new partners and piloting artificial intelligence (AI). Results have been mixed.

Participants highlighted different areas they are exploring and some of the challenges they are confronting in the process:

- **Direct-to-consumer channels are ubiquitous in the retail property and casualty (P&C) space.** Consumer P&C has seen the most significant progress in developing direct-to-consumer channels. As one participant from the P&C space remarked, *"Direct to consumer will work if you want cheap, efficient, and convenient."* While insurtechs like Lemonade and Root are often cited as examples of direct-to-consumer models, many large incumbents utilize similar approaches. Insurers like Progressive and GEICO in the United States and Direct Line in the United Kingdom, for example, embraced the direct-to-consumer model decades ago, allowing customers to buy auto insurance directly by phone or online. More recently, Allstate acquired Esurance to strengthen its

"Direct to consumer will work if you want cheap, efficient, and convenient."

—Participant

digital platform and reduce headcount. The number of agents contracted to sell Allstate auto and home insurance fell from 9,300 in 2022 to 8,400 in 2023, while Allstate's direct sales to customers rose from 24% of total sales in 2020 to 35% in 2022.[5]

- **Embedding insurance into nonfinancial transactions can simplify the purchasing experience and expand coverage.** One participant stressed that while many people think of embedded insurance as *"selling traditional insurance in a new way,"* embedded offerings have the potential to be more transformative. Another participant noted that in auto insurance, embedded arrangements can enable insurers to better understand risks and more effectively price policies through access to more telematics data. Embedded insurance can also allow insurers to cover new risks. A director said, *"Embedded insurance—part of the way it's happened is through new products or companies that didn't exist before; for example, insuring equity crowdfunding sites against risk of fraud, which, if it happened, would damage the business model. This was an insurable risk, but we had to figure out how to underwrite it."*

  Embedded insurance could represent a potential competitive threat because many noninsurers have significant advantages over insurers, including greater brand recognition, higher levels of trust, extensive and loyal customer bases, and fewer hindrances from legacy technology.[6] However, noninsurers lack the underwriting expertise of incumbents. One participant stated, *"[Noninsurers] may know how to write but not underwrite. There are people getting into embedded insurance that don't really know insurance."* This offers an opportunity for noninsurers and insurers to collaborate to offer a seamless experience for consumers.

"There are people getting into embedded insurance that don't really know insurance."

—Participant

- **Direct digital propositions on the life and annuity side are relatively challenging to implement.** While consumer P&C has made headway, participants were skeptical about the opportunities on the life side to digitalize distribution or do embedded plays. One participant put it bluntly, *"Digital distribution didn't work in my experience. I worked on creating a new distribution model—we created a virtual esurance product for gamers. In the end, the consumer pool didn't see a real need for the life insurance product or couldn't imagine while they were playing a game why they would feel obliged to buy insurance."* Directors also shared concerns around mis-selling life insurance without direct human involvement in the process. One commented, *"Embedded insurance is easy to* *mis-sell—for example, implying when you buy a house that you have to buy a life insurance policy—so the financial literacy piece becomes increasingly important."* For some, these problems are not insurmountable. The key is finding the right point in the customer's consumer journey to introduce coverage. An executive suggested, *"If you can find the key moment of truth when people first think about life insurance, if there is a company out there who touches them, create a product"* and partner to reach the customer.

- **Partnering can enable innovation and offer access to new markets.** Through strategic partnerships, insurers can gain access to innovative solutions, such as digital platforms to boost customer engagement. *"The successful businesses of the future will be the digital businesses. Success will be driven by the partnerships in the ecosystem,"* said a director. Partnerships with insurtechs are on the rise, and both the insurtech and the insurer have important roles to play. *"What insurtechs are good at is being agile and configuring products at speed. We wouldn't say we are good at rating and pricing. That is where incumbents come in,"* said a tech executive. A director added, *"Insurtechs are successful in bringing costs down because they have greenfield [technology]. Traditional organizations have legacy tech, but they have richness of data. If they can find the right tech backed with the rich data they've got—that's where the sweet spot is."*
  Insurtechs are hardly the only partnership play; savvy carriers look for partnership opportunities with large corporates and other financial institutions as well. Chubb has partnered with Nubank, a Brazilian neobank, to provide life insurance to Nubank's customers. At the start of the partnership, only 20% of Nubank's customers had an active life insurance policy, yet more than 70% showed interest in having coverage. By enabling the bank to offer insurance to its customers, Chubb reached an untapped market for protection, selling 150,000 policies within the first month.[7]

"Success will be driven by the partnerships in the ecosystem."

—Director

- **Insurers are identifying use cases to apply generative AI (GenAI) to support distribution.** Given the hype surrounding GenAI since the launch of ChatGPT, it is not surprising that insurers are actively exploring potential use cases of the technology to enhance distribution. An executive said, *"The big conversation around distributing financial products with AI is how do we free up the adviser to do more value-add tasks."* To date, few firms are ready to unleash the technology at scale to dispense advice directly to customers. However, a director commented, *"There is an opportunity to point consumers in the right direction and identify no-regret decisions you can make. AI can help you visualize what life looks like if you put more or less into a savings vehicle and what you can do to solve that problem."* Another participant went even further: *"The tech is there. There is now the ability to have a GenAI-driven avatar that gives you regulated financial advice for simple customers."*

- **Concerns exist around AI execution risk.** Not everyone is buying into the AI hype from a distribution perspective. Questions persist about the technology and how transformational it will really be. One executive cautioned that *"most of the advantages from AI will be incremental versus monumental initially."* Some participants are also skeptical of the industry's ability to make the financial and institutional commitment needed to adopt a relatively nascent technology at scale. *"There is a real reticence in the UK to adopt digital tech solutions,"* one participant said. *"The levels of investment I see organizations prepared to make is a fraction of what I've seen elsewhere."* Other participants have seen hyped trends come and go with little to show for it; for example, robo-advising generated a lot of buzz in the wealth and planning business several years ago, but very few firms still tout their robo capabilities. An executive explained that robo-advising *"wasn't economically viable. The cost to produce it and then sell it—there wasn't a market."* Many are also awaiting further clarity from regulators on the path forward for implementation of AI technology as the current approach is disjointed. One executive observed, *"European regulators want to know how big these [large-language models] are going to be. US regulators all say quite different things and don't have a coherent view on AI. Everyone is coming at it differently. From the UK perspective, the approach is outcomes focused."*

- **GenAI should not crowd out explorations of other technologies and digital tools.** While GenAI attracts the most attention, participants also advised peers not to overlook the potential of other technologies and digital tools to support new approaches to distribution. Many remain bullish on leveraging big data to glean insights and applying machine learning to enhance efficiency. One executive said, *"We are testing algorithmic underwriting. We entered a partnership with a third party that's owned by an insurance company, but it's a tech company. We put into their platform the* *insurance we are willing to provide and our criteria for the risk we would take. We get selected if our offer is better than others, and it takes away that human underwriting. This creates efficiencies for us."* Another executive suggested that traditional financial advisers may need to embrace social media rather than GenAI avatars*: "Can our advisers start to become influencers? They need to show up in the communities that their customers are engaged in. By partaking in their space, they will gain credibility among the clients they need to engage with."*

- **More fundamental business model changes are being explored.** Some firms are looking to make more fundamental changes to their businesses to meet clients on their own terms. Insurers and intermediaries are increasingly specializing to provide expert advice and tailored solutions for various risks. An executive said, *"You need to be specialized. Twenty to 30 years ago, it was one size fits all; now we have insurance companies becoming more and more specialized in certain parts of the value chain, and we have independent agents becoming more specialized."* Other carriers are launching new product propositions, fully recognizing that those propositions may create conflict in the value chain. One participant posed, *"If you look at some of our newest products, we have risk detection, risk mitigation insurance, and everything that follows that, including a full-spectrum cyber product. Intermediaries don't like that necessarily, but there's enough business for everyone."* Another offered a case for broader adoption of parametric insurance: *"Payment happens within 72 hours; insurers and reinsurers don't like it, but delayed claims are one thing that really pisses customers off. People need money right away to mitigate further damage to their homes and lives."*

"Can our advisers start to become influencers? They need to show up in the communities that their customers are engaged in."

—Executive

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The evolution of distribution models poses a real challenge for the insurance industry. Insurers must continue to find ways to use technology to simplify the distribution process, reduce costs, and meet evolving consumer expectations. For some industry participants, that may mean taking on new and different roles. For others, the changes in a digital age could be more fundamental. A participant noted, *"We don't need a digital strategy for business. What we need is a refresh of business strategy for a digital world."*

Appendix: Participants

The following individuals participated in the meetings or related conversations:

Participants

Joan Amble, Non-Executive Director, Zurich Insurance Group

Alex Astengo, UK Country Manager, Root Platform

Michele Bang, Non-Executive Director, Reinsurance Group of America

Paola Bergamaschi, Non-Executive Director, AIG

Paul Bishop, Audit Committee Chair, AXA XL and Zurich Assurance; Chair of the Board, MetLife UK

Matt Brewis, Director, General Insurance and Conduct Specialists, Financial Conduct Authority

Stephanie Bruce, Non-Executive Director, Allianz Group

Kathy Byrne, Non-Executive Director, Just Group

Jeff Campbell, Audit Committee Chair, Aon

Amy Chou, Chief Product Officer, Addition Wealth

Anne Melissa Dowling, Finance Committee Chair, Axis Capital

Harriet Edelman, Information Technology Committee Chair, Assurant

John Fitzpatrick, Chair of the Board, Assurely

Ali Geramian, Partner, Anthemis

Shyam Gidumal, Non-Executive Director, Renaissance Reinsurance

Ashok Gupta, Risk Committee Chair, Sun Life Financial

Mike Hawker, Non-Executive Director, BUPA

Sheila Hooda, Nominating and Corporate Governance Committee Chair, Enact Holdings; Non-Executive Director, Alera Group

Penny James, Non-Executive Director, QBE Group

Matthew Jones, Head of Ventures, MS Transverse

Jane Kinney, Audit Committee Chair, Intact Financial

Tarun Kohli, Managing Director and Head of Group Delivery Services, Swiss Re

Lou Ann Layton, Group Head of Broker Relations and Marketing, Beazley

Ana Mahony, Chief Executive Officer, Addition Wealth

Trevor Manuel, Chair of the Board and Corporate Governance and Nominations Committee Chair, Old Mutual

Diana McKenzie, Non-Executive Director, MetLife

Hazel McNeilage, Human Capital and Compensation Committee Chair, Reinsurance Group of America

Andy Parsons, Non-Executive Director, RSA Insurance Group

Nimeshh Patel, Chief Executive Officer, Wrisk

Mary Phibbs, Non-Executive Director, Just Group

David Sidwell, Nominating and Governance Committee Chair, Chubb

Nick Silitch, Former Chief Risk Officer, Prudential Financial

Bob Stein, Audit Committee Chair, Talcott Financial Group and Kwh Analytics

Elisabeth Stheeman, Non-Executive Director, M&G

Patrick Tannock, Non-Executive Director, Fidelity International

Tim Tookey, Audit Committee Chair, Royal London

Khanh Tran, Risk Committee Chair, Reinsurance Group of America

Terence Williams, Chief Broking Officer EMEA, Aon

Henri Winand, Chief Executive Officer and Co-founder, AkinovA

Lizabeth Zlatkus, Non-Executive Director, Brighthouse Financial; Audit Committee Chair, Axis Capital

EY

Anudeep Chauhan, Managing Director, Digital Strategy

Ed Majkowski, Americas Insurance Sector and Consulting Leader

Fabian Seul, Partner, EMEIA Insurance Strategy and Transaction Lead

Isabelle Santenac, Global Insurance Leader

Peter Manchester, Global Financial Services Solutions Head

Sophia Yen, Senior Partner/Principal, Insurance Strategy and Innovation Leader

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Eric Baldwin, Executive Director

Tiffany Luehrs, Associate

Tucker Nielsen, Managing Director

About this document

The Insurance Governance Leadership Network (IGLN) is a group of insurance board members, executives, and stakeholders, engaged with regulators and other subject matter experts, committed to outstanding governance and supervision in support of building strong, enduring, and trustworthy insurance institutions. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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About EY

EY is a global leader in assurance, tax, transaction, and advisory services to the financial services industry. The insights and quality services it delivers help build trust and confidence in the capital markets and in economies the world over. EY develops outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, EY plays a critical role in building a better working world for its people, for its clients, and for its communities. EY supports the networks as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

Endnotes

[1] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with participants in connection with the meeting.

[2] J.J. McCorvey and Brian Cheung, "Young Adults Are Getting Used to Living on a Financial Cliff," *NBC News,* February 18, 2024.

[3] Rory Henry, "Gen Z Wealth: Soft Saving & Holistic Prosperity," Intuit Accountants Tax Pro Center, January 9, 2024.

[4] Kenneth Araullo, "How Should Cyber Insurance Evolve to Address Future Risks," *Insurance Business,* January 2, 2024.

[5] Lyle Adriano, "Allstate Agent Number Drops to Record Low Level," *Insurance Business*, February 24, 2023.

[6] David Connolly and Anudeep Chauhan, "How Insurers and New Entrants Can Take Advantage of Embedded Insurance," EY, April 11, 2023.

[7] "Case Study: NuBank," Chubb, accessed May 8, 2024.