Since the mid 1990s, developments in technology and lifestyle have profoundly changed sales methods and consumer behaviour. Insurance has not escaped this trend, and its various distribution networks have likewise evolved.

Thus, some modes of “traditional” distribution have had to adapt in order to survive these changes and co-exist with the rise of new networks and the emergence of new distribution channels.

Thanks to the assistance of our SCOR Global Life colleagues from around the world, along with contributions from ReMark, a SCOR Global Life direct marketing subsidiary, this 29th Newsletter examines some of the principal distribution channels in the Western European world: brokers in the United Kingdom, bancassurance in France and Europe, and direct marketing.

Your usual SCOR Global Life contact will be pleased to give any additional information you would need.

Gilles Meyer, Chief Executive Officer of SCOR Global Life

Brokers: A classic global channel - a UK view

Even though new channels appear from time to time, brokers have traditionally been the backbone of sales within the global insurance industry. In the United Kingdom, the term “advisers” encompasses several forms. Following depolarisation – the removal of previous polarisation rules requiring advisers to be either full market or tied to a single provider - the old Independent Financial Adviser (IFA) category has split into Whole of Market advisers and multi-tie arrangements, where advisers have the option of selecting from a pre-defined panel of providers. Both of these forms are referred to as Brokers. There are also single-tie advisers, traditionally the direct sales forces, which are not considered as brokers.

Sales of pure protection products by brokers accounted for over £700m of retail premiums in 2006, nearly 55% of the total protection market. Two products dominate the individual market: Life and Critical Illness. Other protection products are sold but volumes are relatively minor at less than 15% in total.

Flat Sales

Over the last five years, sales of these products have been flat. The old direct sales adviser channel has been in decline, with many life offices closing their direct sales channels. Despite this, the broker channel has not stepped in to service the clients that were previously covered.

Furthermore, along with improvements in anticipated future mortality levels, price comparison websites have helped to commoditise the market, both factors combining to lead to a significant reduction in the retail price. Competition between providers continues to be strong, to the extent that in 2006 there were over 50 price-cut rounds. One would expect lower prices to lead to increased sales.
Obstacles to Sales

Obstacles to selling more protection policies do exist and include regulation and process along with more attractive opportunities elsewhere.

The amount of time taken to go through the paperwork is significant. Once completed, the policyholder is not always immediately on risk – as underwriting decisions sometimes need to be made after referrals to doctors’ reports.

Given the above, many brokers find it quicker and more profitable to sell other products such as mortgages and investments. In fact, initial commission payments from investment sales can be sizeable and may have been a contributing factor to the FSA’s recent discussion paper (UK industry regulator and consumer protector: Financial Services Authority). This paper, the Retail Distribution Review (RDR), discusses the conflicts of interest between independent advice and provider payment.

Retail Distribution Review

The FSA published their RDR as they believe there are some serious shortcomings in the market at the present time. The key issues they wanted to address were the quality of financial advice available and the level of professional standards on the market. By targeting these they hope to build trust in the industry and prevent future mis-selling.

They are, however, aware that any solution could increase the cost of financial advice and lead to a contraction of the market. They also therefore want to find a way to deliver simple and cheap advice to more consumers.

The paper proposes the clearly labelled segmentation of the advice market, with less regulation for firms that embrace professional standards and further qualifications. It also investigates the impact of incentives and looks for more transparent remuneration systems.

Whilst the RDR paper is focused heavily towards the Investment and Pensions side of the market, it is likely to have a knock on effect for Protection.

Future

It is becoming increasingly obvious for brokers that mass marketing no longer generates the returns it used to. Clients either need to purchase protection with large sums assured, in order to generate sufficient commission, or alternatively must be willing to pay a fee for their brokers’ time.

Should the FSA’s proposals come into effect we may see acceleration towards brokers focusing on a smaller group of privileged lives – a risk already identified by the Association of British Insurers in their review of the RDR paper. With potentially reduced coverage by brokers and the old adage that protection is sold and not bought, there could be some good opportunities for Bancassurers and Direct Marketeers to move in and fill any future gaps.

“Salesladies” in Asia

While insurance saleswomen are not unique in any insurance market, the dominance of “Salesladies” in many Asian countries is special in many ways.

In Japan and Korea in particular, they still constitute the dominant channel for distribution, although their dominance is waning. Their rise can be traced back to the end of World War II and the Korean War when many widows had to support their families. The life insurance industry was one of the earliest to offer them opportunities, as it was felt that they were actually better suited than men to selling life insurance.

The daily routine of an insurance saleslady involves calling on friends, relatives and employees of local companies, using a wide variety of techniques (St Valentine’s chocolate, fortune-telling) in order to sell life insurance.

Sadly, the efforts of many less well-educated part-timers have in recent years been plagued by low
Bancassurance: evolution of a model

A geographical extension

Bancassurance has become the premier distribution channel for Life insurance in Latin Europe. In 2005, its market share reached 62% in France, 69% in Spain and 86% in Portugal. Taking advantage of this success in Latin Europe, the bancassurance “model” is expanding, to Scandinavian Europe and Latin America in particular.

Bancassurance is also experiencing a favourable evolution in certain European countries hitherto known to be reluctant to embrace it. This is the case for the British market, where bancassurers now hold 24% of the market.

Other development opportunities have also emerged over the past few years in Eastern Europe.

In Asia, despite a strong interest in the concept of bancassurance, development has been slower, due to its dependency on the evolution of the legislative framework, which is rather strict as regards practice authorization and fields of application. At the same time, some developments such as the progressive liberalisation of the Japanese market, are favourable to bancassurance.

Structural developments

The concept of bancassurance encompasses a number of different scenarios. Schematically, the distribution of insurance by banks can be conducted via:

- a captive insurance company of the banking group (the “fully integrated” model having led to the success of bancassurance in France),
- a joint-venture conducted by the bank with one or more insurance companies (this is a well-developed model in Spain),
- a distribution agreement where the bank acts as an intermediary for one or more insurance companies,
- insurance advisers in the banks (Allianz advisers in the Dresdner Banks in Germany).

The “fully integrated” bancassurance model is very efficient, but is costly and takes longer to show a profit. Many bancassurers therefore decide to choose simpler distribution agreement formulas, perhaps less profitable in the long term but less costly in capital and with a quicker return on investment. The increasingly numerous agreements between banking and insurance groups have led to the development of multiple bancassurance models.

The conquest of new markets

This trend is being reinforced by the desire of bancassurers to enter new markets in order to offer an increasingly broad range of products. This development is furthest ahead in countries that are already mature in the accident and health markets.

Recently, bancassurers have been trying to break into the P&C market. In France, their goal is to achieve a 25% share by 2025. In 2005, it was 9%. The successful penetration into P&C markets is generally more productivity and poor persistence. Moreover, competition from college-educated and commission-motivated salespeople, mostly men, has further contributed to the gradual decline of this unique distribution channel. Nonetheless while they are still around, Salesladies remain an icon special to Asia.

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<th>COUNTRY</th>
<th>FEMALE PRODUCERS</th>
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<td>United States</td>
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Source: Limra 2001 study, KLIA 2004*
difficult and costly than for Life activity. The main reason for this disparity is that P&C usually requires dedicated back offices and high-performance management systems in order to be more competitive in terms of pricing. The competition is already extremely tough for products such as household and car insurance.

Nevertheless, bancassurers have been making steady progress in their conquest of the market thanks to their experience on the Life and protection side, making use of advantages such as excellent client relations and frequent client contact, integrated information systems and training for advisers. Moreover, P&C can normally count on the quality of the existing claims management platforms and on the simplification of the sale itself: for example, the simultaneous sale of credit and household or automobile insurance means that the insurance product is sold naturally.

Bancassurance is expanding geographically and evolving in terms of both structure and products. In the mature markets, insurers are also searching for new development models, especially via the creation of integrated “insurebank” companies, in charge of selling banking packages through the insurance network.

Direct Marketing: the future of distribution?

Going Direct: Back to the Future

The realities of today’s competitive business environment are causing executives to consider how to increase the value of their operations, reduce costs, improve efficiency and maximise the embedded value in their customer base. Many are turning to direct marketing distribution strategies as effective, low cost channels for reaching far more customers without alienating the traditional agent-based channels. For many companies in the financial services industry, their future growth is dependent on value drivers such as acquiring, developing and retaining profitable customers.

Direct distribution in the form of policyholder marketing, bancassurance and affinity marketing are viable solutions for optimising customer lifetime value, leveraging brand equity and providing the differentiation needed from competitors in today’s highly commoditised environment.

A well-designed and consistent direct marketing programme deploys the right product through the right channels, at the right time, with the right technology solutions. When these factors converge, organisations leverage equity from their brand and maximize the embedded value in their customer base, ultimately creating customer loyalty, increasing satisfaction and improving reach to markets previously overlooked.

Going direct should complement - not compete

It is important to note that direct marketing does not compete with traditional intermediated sales. Direct sales reduce distribution costs by targeting a high volume of customers, thereby freeing up the agent’s time and skill to be better spent on higher unit value, more complex, face-to-face sales. With proper buy-in from within, a well-executed direct marketing programme can provide agents with benefits such as additional commissions, qualified leads and customer retention and cross selling opportunities.

Guaranteed issue and simplified underwritten products are sold best through low-cost channels such as direct mail, telemarketing and statement marketing. Ultimately, channel choice decisions come down to the product’s complexity, premium level, underwriting, channel value restrictions, channel cost, expected response/average premiums, and product profit margins.

Direct distribution marketing requires know-how and execution. The process generally involves a detailed strategic assessment, program design, planning, implementation and results analysis. It will never be the medium of choice for complex products with multiple options, tax implications and heavy underwriting – at least not by itself.
But one thing is certain: a well-designed direct marketing programme does more than just increase revenue generation. Consistent customer communication strengthens the relationship and ultimately drives customer lifetime value. Perhaps this is the new « raison d’être ».

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SCOR Global Life & ReMark: experts in distribution

ReMark is a global direct marketing and consultancy company providing end-to-end marketing and technology solutions to create maximum value for clients and partners. The company helps insurers, financial institutions and affiliated organisations to acquire, grow and retain profitable customers. Established in 1984, ReMark has implemented programmes in 44 countries and sold nearly 11.5 million policies, generating some €1 billion in total business value. In 2006, ReMark helped its clients to sell 767,000 insurance policies in 20 countries, generating €62.7 million in premiums. It became a wholly-owned subsidiary of SCOR Global Life in 2007.

The natural complementarities between ReMark and SCOR Global Life are at the disposal of our clients all over the world:

- **Worldwide presence**: Both close to their clients, SCOR Global Life has established 24 offices in 22 countries, while ReMark has 12 business units in the major Life markets.

- **Adaptability to the markets**: ReMark was created as a vehicle for exploring emerging markets and expanding business in mature markets, which is compatible with SCOR’s marketing plan.

- **Customer-oriented activities**: SCOR Global Life focuses on services and technical expertise. ReMark’s general development model offers services such as data-mining, networking, creative market involvement and reinsurance administration, all of which creates value for its business partners.

- **Long-term commitment**: one major advantage of ReMark’s business model is that it can rely on SCOR for front-end financing to ensure long term success.

By acting in synergy with ReMark, SCOR Global Life has enhanced and expanded its distribution services, creating value for its clients throughout the world.
The Future of Direct Marketing on the internet

Consumers are choosing to spend more time online as the Internet gives them the chance to search, refine, evaluate and purchase products at their own pace. The diagrams below show characteristic customer behaviour with regard to the channels used to purchase insurance (Life & General Insurance) as well as expected behavioural changes in this area over the next 3 years.

The internet will continue to gain market share. Current studies show that, in aggregate and across Life and Non-Life, 11% of policies are purchased online today. By contrast, 56% of policies are bought online by people who use the Internet to research their insurance purchasing decisions.