The future of distribution: insurers grapple with a rapidly changing landscape

Insurance Governance
Leadership Network

May 2017

Tapestry Networks

EY
Building a better working world

Insurance Governance Leadership Network
ViewPoints
May 2017
TAPESTRY NETWORKS, INC · WWW.TAPESTRYNETWORKS.COM · +1 781 290 2270

The future of distribution: insurers grapple with a rapidly changing landscape

Advancing technology and changing customer preferences, regulations, and market conditions are propelling significant shifts across the insurance distribution landscape. The need for insurance to be sold more directly and at a lower cost is not new; however, most Insurance Governance Leadership Network (IGLN) participants agree that the mandate for change is greater today than in recent memory. *"Distribution will change. It must change. Business as usual is no longer working,"* one director said.[1]

> *"Distribution will change. It must change. Business as usual is no longer working."*
> – Director

Most IGLN participants view the mandate for change as the result of a system where, according to one, *"distribution is simply taking too much money out of premiums."* Experts say the relative share of expenses related to distribution has been rising since the early 2000s, stubbornly resisting downward trends evident in other expense categories.[2] Participants quoted shares ranging from 15 to 40 cents of every dollar lost to distribution in the form of intermediary, acquisition, and technology fees and costs. *"Maybe that is fine if you are adding a lot of value,"* suggested one director, but participants and, increasingly, customers, agree that the current structure does not provide enough value for the money.

Although product type (e.g., retail or commercial, complex or simple) and local market conditions and customs drive variations in methods of distribution, participants in two IGLN meetings, in New York and London, and dozens of pre-meeting conversations observed a number of broad trends. See Appendix A for a list of participants. This *ViewPoints* synthesizes key insights emerging from these meetings and related discussions and centers on two themes:

- **Boards are increasingly focused on distribution strategy, impediments to transformation, and risks**
- **Insurers foresee significant shifts in distribution systems in the near future**

Boards are increasingly focused on distribution strategy, impediments to transformation, and risks

How can boards best balance their responsibilities to oversee and advise on distribution strategies without engaging in too many tactical elements that are often best left to management? Participants acknowledged that distribution is a consistent topic on the board agenda and that it needs to be managed like other strategic objectives – via quarterly reviews, strong metrics, and challenges to management. However, several participants noted that, given the nature of the topic, boards and management alike could focus too much on details. One director said this is a particular risk during times of major transition: *"When a company is going through a transformation, it requires the board to be much more engaged. Major decisions are made. You are dealing with huge investments in* *distribution networks, talent, etcetera, but you need a board that is strategic and long-term focused, not dealing with numbers and short-term issues."* Some participants pointed out that this is often easier said than done.

In an effort to achieve optimal balance, participants discussed the following topics, highlighting areas where boards can focus attention and effort and add value as groups reimagine distribution.

Evaluating changing distribution strategies and their timing and successful implementation can be difficult

While understanding strategy and implementation are obvious and essential components of each director's role, several participants said understanding distribution systems in flux, the strategies to shift these systems, and how those strategies compare to the market can be difficult. One director noted that decisions are not binary*: "It is not [a question of], 'Do you enter a market or leave?' It is, 'How much do you invest in one solution and how much in another?' 'How quickly should you migrate to digital and in what countries?' There are a lot of moving parts."* Another said, *"It can be challenging to understand how your strategy stacks up against others. Are we a leader or a follower?"* Another director said, *"Part of the solution is no longer selling insurance but selling solutions for people. How do we fit our business model with the potential hundreds of solutions out there?"* See Appendix B for a list of distribution strategy questions for boards to consider. Ultimately, it is also true that the best distribution strategies can differ by product and geographic market, so diversified insurers may have several "optimal" strategies running concurrently in different market structures.

One of the biggest challenges for boards may be sifting through the rhetoric to understand what "going digital" means for their groups. One participant charged, *"You have people saying implementing some new system means you are going digital. There is so much spin on this topic that you need to probe and go deeper."* This environment requires directors to have a heightened awareness and knowledge of advancing technology. One director said, *"It is my responsibility to move away from being ignorant. Most directors I know are actively engaged in continued learning to keep up-to-date. If they are not getting enough info, they should demand it. I'll never be an expert on these fancy things, but I better understand it because we will spend a lot of money on it."* In addition to directors' own efforts outside of the boardroom, an increasing number of boards are bringing in "digital directors" with specific skills and, in some cases, establishing technology committees to ensure efforts to digitize the enterprise receive appropriate attention.

Perhaps as important as the strategy itself is its timing and what should trigger a shift from relying on existing profitable businesses to new ventures. One director said, *"You don't want to be ahead of the game because you cannibalize your own business by going digital; you lose control of the customer relationship. But you don't want to be behind because others will eat your lunch. It is a tricky balance."* One executive said, *"At what point do we stop milking the existing cow to move to the next one? It is about the economics and when do you jump."* Another executive said, *"We always wanted a direct model, but if we have an intermediated model giving us a 20% margin, it is pretty hard to change. I wanted my business to invest, but it is hard sometimes to focus on the future model because you are trying to keep your short-term self successful."* Determining optimal timing becomes even more challenging when executive and board tenures can be shorter than the time required to achieve success in new distribution strategies,

"When a company is going through a transformation, it requires the board to be much more engaged … You need a board that is strategic and long-term focused, not dealing with numbers and short-term issues."
– Director

"It can be challenging to understand how your strategy stacks up against others. Are we a leader or a follower?"
– Director

"It is my responsibility to move away from being ignorant. Most directors I know are actively engaged in continued learning to keep up to date … I'll never be an expert … but I better understand it because we will spend a lot of money on it."
– Director

resulting in a possible mismatch between personal and organizational time horizons. Overcoming this challenge can require new incentive designs and a cultural shift that tolerates long-term strategic payoffs.

Finally, several directors acknowledged the need to focus on how successfully their groups are implementing new distribution strategies. *"We are struggling on this issue. We put quite a bit of energy into figuring out the right data to bring to the board. We will discuss these issues as a topic at a strategy session, but then we come away and we are not quite sure how to make it more of a regular health check. The strategy piece we do, but how do we ensure we achieve our objectives? That is more difficult,"* one director said. An executive encouraged directors to look at outcomes, such as sales results, rather than outputs, such as implementing a new technology platform or new app. *"[Does the investment] turn the dial and lead to a real increase in sales?"* he asked. Another executive added, *"A company can waste a lot of money chasing a model that won't win for them. The management and board have to assess where the company is going to stake its ability in the future to win."*

"The strategy piece we do, but how do we ensure we achieve our objectives? That is more difficult."
– Director

Distribution is tied to product development, and insurers must modernize offerings to remain relevant

One director concluded, *"We have heard that we are our own worst enemy. I can't help but come out of a board discussion and think we always start with the same business model. We are trying to modernize [the business model by] adding some gadgets, but we are not changing the model. It is probably not about adding another app to the equation, but a whole new way to do the business. Some of us will be risk capital, some service entities."*

"We are trying to modernize [the business model by] adding some gadgets, but we are not changing the model. It is probably not about adding another app to the equation, but a whole new way to do the business."
– Director

At a minimum, future business models are likely to include more delivery models, as well as a greater blend of products and services. One participant advocated a three-part delivery and service strategy for engaging different types of customers, offering *"do-it-for-you, do-it-with-you, and do-it-yourself"* products. This sort of approach allows insurers to access a wider variety of segments within the market, and to cater to customers more specifically and efficiently. One director suggested insurers should consider an *"all-risks policy"* as a kind of extreme *do-it-for-you* product to cater to individuals who favor ease and are willing to pay for it.

Finally, the offerings need to evolve to include services (e.g., usage-based insurance or prevention services) in addition to traditional product-only models. Whatever form the business model takes, participants emphasized the need to keep the model flexible. *"[In a rapidly changing environment] it is about trying to keep as much optionality as possible,"* one director said.

Insurers have focused on digitalizing the front end, with insufficient focus on the systems that support distribution

To enable greater direct distribution, insurers will have to continue to upgrade and modernize legacy systems. *"Digitization of sales is the easy part. What I want to understand is how firms are looking at technology that is used to upgrade the back end so you can have a successful front end,"* said one director.

"Digitization of sales is the easy part. What I want to understand is how firms are looking at technology that is used to upgrade the back end so you can have a successful front end."
– Director

Several participants noted specific challenges in retaining customers because systems could not support them across the sales experience or service them effectively after purchase. One executive noted, *"Fifty percent or more of customers who start out in a digital sale end up talking to a human."* A director said, *"Could I get the same level of service from an insurer directly [as from an intermediary]? Probably yes, if they had the right systems and processes in place, but if we want to provide that level of service, we need to improve speeds. There are so many handoffs from one department to another."* Another summarized, *"If you create a product and the customer can't get service, then you lose them."*

One entrepreneur pushed this notion further, arguing that companies need to consider which front- and back-end platforms will be dominant in the future, not simply what systems insurers should deploy today: *"It is OK to sell insurance by text or chatbot or whatever today, but how do you sell it when the physical platform disappears and you are talking to Amazon Alexa or Google Home?"* As channels proliferate and managing channel complexity becomes more difficult, challenges in core systems will become more acute.

"How do you sell [insurance] when the physical platform disappears and you are talking to Amazon Alexa or Google Home?"
– Entrepreneur

To help accelerate progress, boards seek to focus more attention on key impediments to transforming distribution systems

Participants recognize that transforming distribution systems is often a high-risk endeavor – but there are also significant risks associated with insufficient action, so they want to ensure that management does not get too complacent. One director said, *"My hypothesis is 25% of all systems transformation processes goes horribly wrong, so it is tough to take a major leap."* To overcome natural hurdles, one director suggested, *"For the board, instead of asking what can go wrong if we do this thing, you should ask what can go wrong if you don't do this. It is pretty clear if you do nothing you will become irrelevant."*

"For the board, instead of asking what can go wrong if we do this thing, you should ask what can go wrong if you don't do this. It is pretty clear if you do nothing you will become irrelevant."
– Director

Accordingly, boards are keen to focus attention on the issues that might slow progress. Beyond legacy systems, significant impediments include the following:

- **Insufficient talent.** A director asked, *"Do insurance companies have the talent to make the change? Are boards thinking enough culturally and in terms of skills?"* Participants agreed that an effective transition to modern distribution models will require new skills and expertise in an industry that is often risk averse and resistant to change.
- **Short-term investor pressure.** Several participants highlighted the dilemma of meeting short-term shareholder expectations while investing for the future. An executive asked, *"Who will take five years of lower earnings to win big in years six to 10?"* In response, participants agreed with one director who said, *"You need a migration plan and a thoughtful evaluation of where you will be in 10 years."* Even

so, several noted that a thoughtful migration plan might be insufficient to ameliorate some shareholder pressure.

- **Existing intermediary relationships.** *"People are very hesitant to upset the established intermediary network that exists, but it has to be resolved. People are starting to come to grips with that reality,"* a participant observed. For commercial insurance, one director summarized, *"The brokers have tremendous power. They own the customer right now. Fighting to change that may lead to the dislocation of the broker, which creates some pretty significant risk. You have to be extremely cautious. It starts with keeping brokers happy because without that, you are in trouble."* However, one director noted that existing agent infrastructure in simpler insurance lines can impede transformation as well: *"The more direct you become, the more you have to think critically about what you do with your agent force. There is potential for unused real estate. Certainly it is not like in banking, with branches, but you have a tremendous amount of infrastructure built up over time."*

"The brokers have tremendous power. They own the customer right now. Fighting to change that may lead to the dislocation of the broker, which creates some pretty significant risk.
– Director

Ultimately, when insurers do decide to embrace more direct distribution and reduce reliance on intermediaries, they unleash the potential for channel conflict, which becomes a risk to be managed.

Leading brokers possess tremendous market power

With regard to commercial lines, insurers are increasingly claiming that leading intermediaries use their leverage and market strength to their great advantage and, at times, to the detriment of customers and insurers. Evan Greenberg, CEO of Chubb, went so far as to suggest that some broker practices were "abusive" and "predatory:"

> Another sign of a soft insurance market is the abusive behavior on the part of some brokers who enrich themselves at the expense of both their customers and underwriters … They seek the cheapest price and broadest coverage at commission terms that by any measure are excessive … These predatory behaviors, which have shown up around the world, and in London in particular, are simply unsustainable from an underwriting perspective and will come back to haunt these brokers: there will be customer and regulator backlash, or worse. Remember, distribution can be disintermediated.[3]

Most directors agree that there is room for disintermediation, either by companies working directly with insurers or through other intermediaries with a better value proposition. One director suggested, *"At the very large end, like the Fortune 500, firms are sophisticated and have the in-house talent. They don't need a traditional broker. In fact, they are typically meeting with the underwriters anyway."* However, some counter that greater consolidation in intermediary markets could concentrate more power within the broker segment. *"We depend on intermediaries for their relationships. We are not thrilled by it, but that is how it goes. When we see an opportunity to disintermediate them, we hesitate because they control many of your key relationships. I don't think anyone in the large insurance market is forecasting the demise of large intermediaries; if anything, they are getting stronger,"* said one director.

For the foreseeable future, market dynamics will favor intermediaries over insurers. One director noted, *"The brokers with global capabilities, there are only* *really three. There are a lot more carriers. Right from the get-go the balance of power is in their favor because there are fewer of them."* However, demand for greater transparency will require intermediaries, like their insurance counterparts, to better demonstrate their value through advice, comparison, customer and product knowledge, and better use of technology.

A focus on risk areas is essential as groups explore different forms of distribution

Through careful review and challenges to management, the board can keep a sharp focus on the risks that may increase as insurers undergo changes to the distribution system. IGLN participants identified several key risks for leadership to consider.

Conduct risk

Recent events, ranging from the widespread sales fraud at Wells Fargo to the violent removal of a single passenger on a United Airlines flight[4] shine a bright light on companies' treatment of customers, and regulators and the public are watching. One director observed, *"Pre-Wells Fargo, nobody looked at sales practices in the way they do now. Nobody thought they needed to."* Managing conduct risk has always been a priority for insurers, especially for customer-facing firms, but one director observed that these days *"you see regulatory intervention happening more and more. It is spreading out of the personal lines into small commercial. Some conduct regulators are even looking at intermediaries and brokers. I'm not sure where it is going."* New regulatory requirements, especially in Europe, suggest insurers will face greater regulatory pressure with respect to sales practices and market conduct.[5]

"Pre-Wells Fargo, nobody looked at sales practices in the way they do now. Nobody thought they needed to."
– Director

In an environment of heightened conduct risk, participants highlighted the importance of closely examining remuneration, incentives, and other decisions that could increase conduct and reputational risk. One executive commented, *"Executives are heavily linked to remuneration, so there is a risk that they promote the wrong actions. When profit margins are linked to add-ons, there could be a problem."* This is particularly true when products are not transparent or are poorly understood by customers. Senior executives with increasingly shorter tenures face the dilemma of meeting shareholder expectations even if it may be better to have lower margins in the near term. Another participant asked, *"If the executive keeps saying we are doing well, when does the board say we are making too much money?"* An audit chair agreed, noting, *"As an audit committee chair, I'm more worried about a business doing well than one doing poorly. I'm more likely to unleash internal audit on them. If they are outperforming the market, then something is wrong on pricing, etcetera."*

"If the executive keeps saying we are doing well, when does the board say we are making too much money?"
– Director

In addition to compensation-related risk, one director observed potential risk in new approaches to distribution, including the advent of greater vertical integration in some markets: *"It may be good for business, but it significantly increases exposure to conduct risk."* Regardless of the cause of conduct risk, most participants agreed that the best way to address it is through more transparency.

Customer engagement challenges

In many markets, potential customers are less likely to buy non-mandatory insurance products now than they were in the past. In 2014, only 44% of US consumers owned life insurance policies, compared with 72% in 1960.[6] This trend may be related to demographic changes – including the growth of families with two working parents, who may perceive less risk – but it is also influenced by lack of education about products, lack of trust, perceived value for money, tight household budgets, and product complexity.

In addition, insurers often falsely assume that new digital distribution strategies will engage and retain customers as well as previous strategies once did. However, as one participant explained, *"It is not unreasonable to see acquisition costs rise as we work to make the systems operate better. We might initially have higher distribution costs."* One expert noted that accurately assessing the costs of new distribution approaches is difficult. Even when insurers accurately account for new technology costs, they often underestimate acquisition costs or fail to adequately plan for expenses that arise. Ultimately, participants agreed that insurers should not view technology as the silver-bullet solution to cost concerns, or fail to accurately assess the costs and requirements of customer engagement.

Partnership and outsourcing risks

Future distribution strategies will rely on a greater number of partners. This, in turn, could result in the loss of customer relationships and associated value, and could open up insurers to new security challenges.

Several participants noted that existing retailers and new entrants might prove more adept at selling products than the insurers themselves. One director said, *"We may all have voice-activated insurance bought via Amazon Echo. [In that scenario] the insurer is just somewhere in the background."* Another director elaborated, *"There is all this discussion about customer centricity, knowing the customer, connecting directly. At some point you may decide others are better at that and you cede the relationship. There is risk when you no longer own the customer."*

> *"There is all this discussion about customer centricity, knowing the customer, connecting directly. At some point you may decide others are better at that and you cede the relationship."*
> – Director

Partners can also make insurers vulnerable in new ways. Firms need to ensure their cybersecurity strategy anticipates the needs of a more digital enterprise. A director asked, *"What does data protection look like in a new world? Customers have to trust you with their data. You need to update and upgrade your controls. You will need to change access to things like data and how your systems work."* Doing so will mean addressing third-party security and liability, as well as other forms of outsourcing risk, such as poor coordination. This is especially important when insurer brands are at the forefront of a partnership.

Above and beyond customer or partner harm, many regulatory bodies are setting more aggressive cybersecurity requirements for institutions and boards. For example, the New York State Department of Financial Services recently proposed new requirements for all regulated entities. The new standards require firms to adopt a comprehensive cybersecurity program, implement biannual vulnerability tests, designate a chief information security officer, and adopt robust incident notification plans that include alerting regulators within 72 hours.[7] Similarly, companies operating within the European Union that suffer data breaches will soon be liable for fines of up to 4% of revenue, depending on the form of the breach.[8]

Insurers foresee significant shifts in distribution systems in the near future

Insurance leaders hesitate to predict the future and note that changes have been occurring in insurance distribution for decades. Nevertheless, participants believe that a number of important trends are likely to reshape distribution in the next several years.

Digitalization will spur insurers to simplify products while also facilitating the distribution of more complex products

A world of self-service and digital distribution demands simpler products: customers want ease and transparency in pricing and products. One director asked, *"How can things be made simpler? It has gotten too complex, especially in a world where people like to figure out what they are doing on their own."*

At the same time, most participants agreed digital distribution will eventually affect even the most complex products. *"Ultimately, digital will win. There will still be a need for specialty risk, but over time, digital will replace it too because the customers want it and the economics drive it all."* Another director compared the situation to the evolution of capital markets: *"It needs to go completely seamless and digitized like what happened in capital markets a decade ago. All the trading is now online, and investment banks were left to do high-volume capital trades. That will happen to insurers."* Today, most agree with one director who said, *"I don't think there will be a limit on product. The increasing power of technology will enable companies to go up the product complexity spectrum. There won't be a gap. It will go through small business and mid-commercial first, but eventually most products offered will be able to be done through technology."* One participant predicted, *"In some markets, the introduction of digital will lead to short-term immediate changes and fights, but it will sort itself out."*

"Ultimately, digital will win. There will still be a need for specialty risk, but over time, digital will replace it too because the customers want it and the economics drive it all."
– Director

The number of distribution channels and partners will increase

"Survival for insurers is about hooking up with the right partners," said one participant. Many agreed, noting that there will be far more distribution partners in the future. *"Realistically, how can we create a utility to deliver capital? I'm not sure a vertically integrated company is the way to go in the future. Maybe we should open our platforms up and join other distribution models,"* suggested one executive. *"Should we spend the money to build up a capability when others can do it much faster and more cheaply, even if we risk losing the customer?"*

"Realistically, how can we create a utility to deliver capital? I'm not sure a vertically integrated company is the way to go in the future. Maybe we should open our platforms up and join other distribution models."
– Executive

One fintech executive suggested that as insurers continue to cut costs, they will increasingly look beyond their walls for better technology: *"Large insurers aren't resource efficient. Give me a million dollars. Do you know what I could do with that? That money gets lost when it stays in the insurer, but start-ups are providing real and scalable solutions."* Start-ups may also prove more adept at sourcing existing technology and applying it to insurance problems. *"You are your own worst enemy,"* said one fintech participant. *"The technology exists elsewhere. Why is it not being applied in insurance? It is up to you to place the best technology."*

While participants believe the future will bring many new channels and distribution partners, directors were keen to discuss three specific avenues that appear to offer the greatest opportunity:

- **Fintech distribution.** One expert suggested, *"One of the benefits of insurtech [insurance technology] is it could find and attack small parts of the value chain and figure out how to do it a little better and grind through that – a series of smaller steps – before a giant leap forward."* From 2014 to 2015, investment in insurtech start-ups more than tripled to $2.6 billion dollars.[9] Experts estimate that 56% of insurtech players are focused on disrupting distribution models.[10] One fintech executive commented, *"All of the problems with distribution are obvious. No one thinks it works well. It is hard for the customer and expensive for the insurer, but it works OK for the agent – but that can't last."* New firms are flooding into this space because of the vast amount of friction in existing models, the enormous opportunity for technological and customer-focused solutions, and the fact that it is encumbered by less risk and regulation than other parts of the value chain. Even so, most participants agreed that insurtech groups will face significant challenges in scaling, bridging the multitudinous insurer and regulatory systems, and competing directly against insurers.

"All of the problems with distribution are obvious. No one thinks it works well."
– Fintech executive

- **Point-of-sale insurance.** Point-of-sale or add-on insurance is purchased in conjunction with another product or service. This distribution method is popular in several insurance lines currently, such as travel insurance. This form of bundling is likely to become more popular among existing products, and offers a model that could support sharing-economy activities where usage-based insurance is required.
- **Technology platforms with large user bases.** These platforms include the likes of Google, Apple, Facebook, and Amazon. One participant said, *"Facebook Messenger and Amazon Echo are platforms that have developed massive user bases. You could have insurance companies and other financial services providers competing along with other retailers on these platforms. There will come a time when you can get an insurance policy or file a claim through these technologies. These platforms will be the next battleground for broad commoditized products."*

Some insurers will accelerate vertical integration of the value chain

While many insurers seek new and different distribution partners, there is also a movement among some insurers to own distribution. *"The life sector is challenged, and you see several entities deciding they need to get into distribution and become vertically integrated,"* said a director. This trend is most evident in the UK but may extend to other markets.[11] One director said, *"The future will be about one legal entity owning the adviser, investment, and administration. It is an inevitable trend. The old days of everybody existing in a silo are gone."* A recent EY report on UK distribution trends rightly noted that this is not the first time insurers have explored tied distribution, and it has historically proven unsuccessful. "Observers might be justified in asking 'what has changed?' twice over – why the providers' change of heart? And why do they think it will be different this time?"[12]

"The future will be about one legal entity owning the adviser, investment, and administration. It is an inevitable trend. The old days of everybody existing in a silo are gone."
– Director

Intermediary markets will become smaller and more specialized

Directors predict that in order to remain relevant and profitable, intermediaries, principally agents and brokers, will reconfigure their roles. *"The dialogue with agents and brokers will be different and at a much higher level. The agent model is not disappearing but becoming smaller and much more specialized,"* said one director. Whether retail or commercial, insurers suggest intermediaries will focus on higher-net-worth and more complex customers, providing better advice, service, and added new capabilities such as risk prevention and management. One director noted, *"People with unusual risks will go to brokers. Same with companies with complex needs."*

"The dialogue with agents and brokers will be different and at a much higher level. The agent model is not disappearing but becoming smaller and much more specialized." – Director

Some participants suggested that compensation structures will simplify and intermediaries will shift from a reliance on commissions to fees. This will mirror the change in payment for advice in wealth management and is consistent with pressure from customers and regulators. Ultimately, agencies will face more consolidation as past underinvestment in technology catches up with those who will find it difficult to compete in a more digital world. The result will be fewer but larger agencies, fewer employees overall, greater use of technology, and more added services.

★★★

In current soft markets, insurers seek significant cost reductions to remain competitive. At the same time, customers demand better service, less friction, and lower cost. Rapidly advancing technologies offer a partial solution, but the full promise is unlikely to be met until insurers embrace new partners and updated business models. However, navigating into this uncertain future is not without significant risk. In this period, boards will continue to face important decisions regarding how best to modernize distribution, address possible impediments to change, and mitigate risks.

About the Insurance Governance Leadership Network (IGLN)

The IGLN addresses key issues facing complex global insurers. Its primary focus is the non-executive director, but it also engages members of senior management, policymakers, supervisors, and other key stakeholders committed to outstanding governance and supervision in support of building strong, enduring, and trustworthy insurance institutions. The IGLN is organized and led by Tapestry Networks, with the support of EY. *ViewPoints* is produced by Tapestry Networks and aims to capture the essence of the IGLN discussion and associated research. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, senior management, advisers, and stakeholders who become engaged in this leading edge dialogue, the more value will be created for all.

About Tapestry Networks

Tapestry Networks is a privately held professional services firm. Its mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. To do this, Tapestry forms multi-stakeholder collaborations that embrace the public and private sector, as well as civil society. The participants in these initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable, and are seeking a goal that transcends their own interests and benefits everyone. Tapestry has used this approach to address critical and complex challenges in corporate governance, financial services, and healthcare.

About EY

EY is a global leader in assurance, tax, transaction, and advisory services to the insurance 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 IGLN as part of its continuing commitment to board effectiveness and good governance in the financial services sector.

The perspectives presented in this document are the sole responsibility of Tapestry Networks and do not necessarily reflect the views of any individual financial institution, its directors or executives, regulators or supervisors, or EY. Please consult your counselors for specific advice. EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This material is prepared and copyrighted by Tapestry Networks with all rights reserved. It may be reproduced and redistributed, but only in its entirety, including all copyright and trademark legends. Tapestry Networks and the associated logos are trademarks of Tapestry Networks, Inc. and EY and the associated logos are trademarks of EYGM Ltd.

Appendix A: discussion participants

On March 14 in London and March 30 in New York, Tapestry and EY hosted IGLN meetings on the future of distribution within the insurance industry. In the meetings and in preparation for them, we conducted numerous conversations with directors, executives, regulators, supervisors, and other thought leaders. Insights from these discussions informed this *ViewPoints* and quotes from these discussions appear throughout.

The following individuals participated in these IGLN discussions:

ACPR

- Bertrand Peyret, Director of Insurance Supervision

AIG

- Ron Rittenmeyer, Technology Committee Chair

Allianz

- Tom Wilson, Chief Risk Officer

AMP

- Trevor Matthews, Non-Executive Director

Aviva

- Angela Darlington, Chief Risk Officer
- Bob Stein, Non-Executive Director

Bupa

- Lawrence Churchill, Senior Independent Director

Cedent

- Michael Ian Coles, Chairman and Chief Executive Officer

Chubb

- Michael Atieh, Audit Committee Chair
- Ted Shasta, Non-Executive Director

CNP Assurances

- Marcia Campbell, Non-Executive Director

Direct Line

- Andrew Palmer, Audit Committee Chair

Embroker

- Matt Miller, Founder & Chief Executive Officer

Illinois Department of Insurance; NAIC

- Anne Melissa Dowling, Former Director of Insurance; Former Member

Liberty Mutual

- Nick Donofrio, Non-Executive Director

LV=

- James Dean, Non-Executive Director

MetLife

- Stan Talbi, Chief Risk Officer

Mutual of Omaha

- Sheila Hooda, Non-Executive Director

Old Mutual

- Mike Arnold, Risk Committee Chair

QBE

- Marty Becker, Chairman of the Board
- Kathy Lisson, Operations and Technology Committee Chair
- Brian Pomeroy, Audit Committee Chair

RSA

- Alastair Barbour, Audit Committee Chair
- Kath Cates, Risk Committee Chair

SCOR

- Kory Sorenson, Audit Committee Chair

Sompo Japan Nipponkoa

- Jan Carendi, Senior Advisor to CEO

Spixii

- Renaud Million, Co-Founder and Chief Executive Officer

Standard Life UK

- Paul Matthews, Chief Executive Officer

State Farm

- Cathy Wallace, Chief Risk Officer

Sun Life

- Marianne Harris, Management Resources Committee Chair

Transamerica

- Doug Caldwell, Chief Risk Officer

Travelers

- Bill Kane, Non-Executive Director

USAA

- Herman Bulls, Risk Committee Chair

Zurich

- Joan Amble, Audit Committee Chair
- Monica Mächler, Non-Executive Director

EY

- Rodney Bonnard, UK Insurance Lead
- Shaun Crawford, Global Insurance Sector Lead
- Ed Jervis, Partner, Head of Insurance and Pensions Audit
- John Latham, Financial Services Partner
- Bernhard Klein Wassink, Principal, Global Insurance Customer & Growth Solution Leader
- John Vale, Principal, Global Client Service Partner

Appendix B: Key questions for boards to consider

In conversation with leaders representing the most complex insurers, several key questions emerged. These may help guide leadership as they modernize distribution systems.

- In an industry in transition, we are likely to live with the past and future together for some time. What is our coexistence strategy?
- Who are we most worried about and who are our future competitors (e.g., fintech firms, a regional carrier, an asset manager, a software platform like Quicken, an automobile original equipment manufacturer)?
- Is our value proposition suited for a direct-to-customer world? Are we ready?
- How can we ensure we are getting proper information on technological change?
- What are the dominant trends driving changes in distribution? Which are most salient in our businesses?
- What types of organizations are likely to adapt and win? How will they do it?
- How can boards best add value as groups reimagine distribution?
- Which distribution-related risks are rising to the top of risk radars?
- How are we managing existing agent forces or broker relationships? What are we communicating to them about the future?

Endnotes

[1] *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of network participants and their corporate or institutional affiliations are a matter of public record, but comments are not attributed to individuals, corporations, or institutions. Network participants' comments appear in italics.

[2] See Bridge Strategy Group, *Confronting Insurance Distribution Challenges and Opportunities* (Chicago: Bridge Strategy Group, 2010).

[3] *Chubb Limited Annual Report* (Zurich, Switzerland: Chubb Limited), 14. For additional information see Andrew Simpson, "Chubb's Greenberg clarifies criticism of wholesale brokers," *Insurance Journal,* April 26, 2017.

[4] Michael Corkery, "Wells Fargo Struggling in Aftermath of Fraud Scandal," *DealBook* (blog), *New York Times*, January 13, 2017; Mohamed A. El-Erian, "Lessons From the United Airlines Debacle," *Bloomberg View*, April 13, 2017.

[5] In Europe, new legislation, including the Markets in Financial Instruments Directive II and the Insurance Distribution Directive, which require insurers to disclose fees and act in the best interest of customers, will affect how investment products are distributed in the future. In the United States, much attention has been focused on the implementation of the Department of Labor's fiduciary rule, though insurers may find some relief if the Trump administration acts on its promise to scrap the rule. For more information see Katherine Coates, "MFiD II & IDD: The Impact on Insurance Based Investment ('IBI') Products," Clifford Chance, June 20, 2016 and Mary Childs and Alistair Gray, "Trump Team Looks to Scrap Retirement Advisory Rule," *Financial Times*, November 10, 2016.

[6] Bernhard Klein Wassink, Avril Castagnetta, and Simon Metz, *Life Insurance Distribution at a Crossroads* (New York: Ernst & Young, 2015), 1.

[7] The requirements are discussed in EY, *Cybersecurity Requirements for Financial Services Companies* (New York: Ernst & Young, 2017).

[8] Security Geek, "New European Data Protection Law: Up to €20 Mill. in Fines…!" *Corporate Encryption* (blog), May 29, 2016.

[9] Oliver Ralph, "Insurance Tech Start-up Investment Surges," *Financial Times*, April 25, 2016.

[10] Ravi Malhotra, Steven Gunderson, and Talbert Thomas, "Taking the 'I' Out of Insurance Distribution," *Insurance Thought Leadership*, July 22, 2016.

[11] Justin Cash, "How Providers Are Competing for a Bigger Slice of the Distribution Pie," *Money Marketing*, December 2, 2016.

[12] Jason Whyte, "Distribution and Manufacturing: Why Vertical Integration Is Back on the Agenda," in EY, *The Future of Distribution: Perspectives on the Life, Pensions and Investments Markets in the UK* (London: EYGM Limited, 2015), 2.