

# *fs viewpoint*

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02

Point of view

18

Competitive  
intelligence

21

A framework  
for response

29

Country analysis  
examples

36

How PwC  
can help

42

Appendix



***May the distribution  
forces be with you***

Developing the right P&C  
insurance distribution strategies  
for international markets

**pwc**

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## *Point of view*



**Many international insurers are searching for ways to secure their growth investments. Competitive advantage hinges on developing relevant and impactful distribution strategies.**

**The global market for non-life insurance is rapidly diversifying, increasingly influenced by emerging markets.**

From 2006 to 2011, total premiums worldwide rose 27 percent, with the majority of that growth driven by emerging markets. The “E7” emerging markets (China, India, Brazil, Russia, Mexico, Turkey, and Indonesia) registered a 140 percent increase in property and casualty (P&C) gross premiums written from 2006 to 2011, whereas the total written in G7 countries (US, Japan, Germany, UK, France, Italy, and Canada) grew by approximately 10 percent over the same time period.<sup>1</sup>

*Due to the ongoing development of several demand drivers, we expect this global diversification to continue.*

A rising middle class in these emerging markets is fueling the growth of insurance by demanding new cars and modern housing. Local businesses are seeking out property and liability coverage to secure new investments and protect against increasing litigiousness.

The persistence of these trends implies that the future growth of insurers will increasingly depend on their ability to reach a broader set of customers across more countries.

**The ability of insurers to compete successfully in these growing markets depends in large part on how they approach distribution.**

Fundamental differences in the evolution of channels across countries argue against attempts to export home-country strategies.

In our experience, insurers that do not innovate their distribution models across borders tend to struggle to capture new customer segments which include fast-growing middle class and middle-market firms. These firms risk falling back into niche markets and missing out on a huge wave of growth.

*Winning distribution strategies are designed to recognize the opportunities—and limits—of the channel landscape in each country.*

In our experience, the ability to reach a broader set of customers depends on deploying the right strategy for each market. However, developing effective distribution strategies requires cultivating an intimate knowledge of local supply and demand dynamics.

This publication will show how international insurers can incorporate global, regional, and local perspectives to design and implement effective distribution strategies.

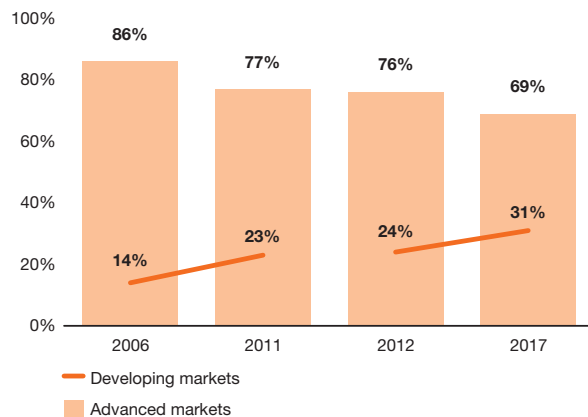
**Insurers’ international distribution strategies should be designed to not only reflect corporate objectives and capabilities, but also to address the unique set of opportunities and constraints in each country.**

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<sup>1</sup> PwC analysis based on information from Business Monitor International.

**Global insurance revenues are increasingly moving away from traditionally developed economies and toward emerging markets. The leading driver of this trend is the rise of the emerging-market middle class.**

Share of P&C premiums (2006-2017)



Source: PwC analysis based on information from Business Monitor International.

Note: Percentages are based on the 60 largest economies, including 39 developing economies.

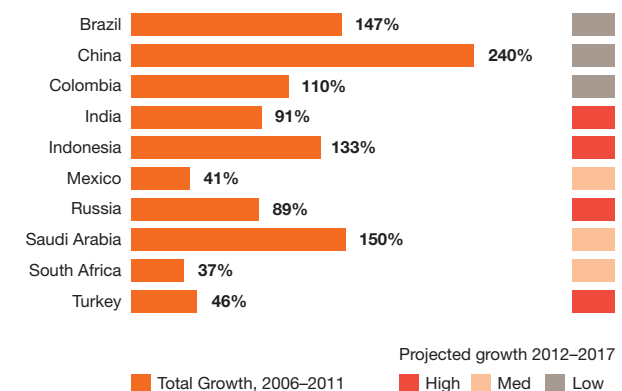
Among the four BRIC countries (Brazil, Russia, India, and China), an estimated 800 million people<sup>1</sup> now are considered middle class, which is creating new demand drivers for insurance coverage.

- **Growing car ownership.** The new middle class desires cars, specifically low-cost models from auto makers located in India and China. This desire will continue to accelerate car ownership.
- **Modern housing.** The new middle class is also buying modern housing via mortgages—a product that requires the purchase of home insurance in most countries.
- **Travel.** Investment in infrastructure and the rise of low-cost airlines in Europe, Latin America, and Asia are adding tens, if not hundreds, of millions of international trips.
- **Litigiousness.** Due to stronger property rights, more open political systems, and stronger and more efficient judicial systems, litigiousness is rising in many countries.

Just as the middle class is boosting personal lines growth, a mix of other factors is contributing to the growth of commercial lines products in emerging markets.

- **Globalization of financial markets.** The regulatory norms of the United States and European Union are now being imposed on multinational firms based in emerging markets.
- **A surge in physical infrastructure spending.** Increased government spending on infrastructure has created a construction boom that is having an impact on various types of coverage.
- **Privatization.** Numerous large companies, formerly owned by the state, are now taking out insurance policies.

Recent and projected P&C premium growth in select emerging markets (2006-2017)



Source: PwC analysis based on information from Business Monitor International.

<sup>1</sup> Goldman Sachs, "BRICS Monthly," May 2010, [www.goldmansachs.com](http://www.goldmansachs.com), accessed February 7, 2013.

*To diversify their portfolios, leading insurers are making investments in the high-growth markets of Asia, Africa, Eastern Europe, and Latin America.*

Number of foreign-majority owned companies among leading global insurers, key emerging markets (2010)

5-7	4	3	2	1
Chile	Argentina	Brazil	Egypt	Kazakhstan
Colombia	Peru	Malaysia	Indonesia	Philippines
Czech Rep.	Russia	Poland	Taiwan	South Africa
Mexico	Turkey	Romania	Ukraine	Thailand

Source: Insurer websites and financial statements, PwC analysis. Based on market positions of 16 leading P&C or multi-line insurers. Excludes branch and other operations that may exist in the country but have negligible presence in terms of locally-attributed premiums.

Note: Estimates based on competitor research and public data.

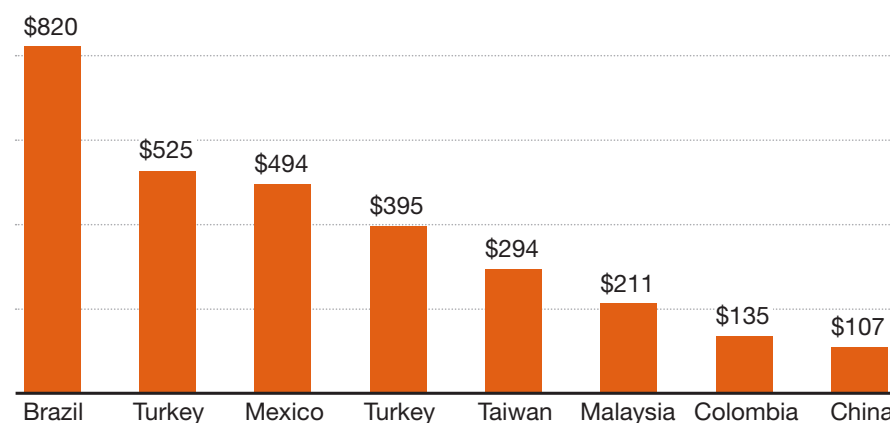
*However, given that these new markets are often quite different from insurers' core markets, the success of each insurer will depend largely on its ability to implement distribution strategies that reflect local market conditions.*

Many of the leading global insurers have diversified their global footprints through acquisitions or organic growth:

- **Acquisitions:** Some companies have emphasized acquisitions of large local companies in countries around the globe.
- **Organic growth:** Others have sought to invest in and expand the scope and business of existing operations.

For the most part, insurance markets now feature hybrids of foreign and locally owned companies. In a majority of the larger emerging markets—including Brazil, Russia, India, and China—sophisticated local companies have emerged as competitive players.

P&C insurance mergers and acquisitions in emerging markets  
Top single transactions (2005-2010) US \$million



Source: PwC analysis based on Thomson M&A Database.

Note: Includes only M&A involving non-emerging market players. Therefore, this chart does not include deals involving two or more locally owned players based in the same country.

*To ensure a return on international investments, insurers should focus on developing innovative distribution strategies that are designed to address the unique needs of their markets.*

Map of core insurance functions



Insurers, in their quest for future growth, often focus on competitive differentiation by focusing on investments in products or in back-end insurance functions.

Insurers often pursue a competitive edge by making investments to differentiate themselves, the objective being to bolster their competitive positions around the world by developing innovative offers and capabilities and exporting them to many markets.

This innovation imperative was reflected in PwC's 15th Annual Global CEO Survey, published in 2012. Between one-fifth and one-third of all respondents reported the creation of products specifically designed for important markets. Insurance CEOs were more likely than those in other industries to emphasize innovation. But despite this focus on innovation, we observe that many forms of competitive advantage can be fleeting, as good competitors are able to replicate innovative products and back-end functions.

Distribution can offer insurers a more secure path to sustainable competitive differentiation because it directly strengthens customer relationships, improving the ability of insurers to both acquire and retain customers.

In our view, developing innovative distribution strategies better positions insurers to acquire new customers while locking in existing customer relationships. Distribution's direct link to the customer makes it well positioned to drive revenue and profitability.

To develop innovative distribution strategies, insurers should first lay the groundwork by using structured market analysis to gain an appreciation of the opportunities and constraints in each local market.

By understanding the types of markets in which they operate and then developing strategies based on local market dynamics, insurers stand to improve global performance and profitability while reducing the likelihood of forcing the wrong channel decisions.



**Developing innovative distribution strategies begins with assessing the potential channel options. While options vary across countries, most feature a mix of agents, brokers, bancassurance, affinity and retail, and direct to consumer.**

P&C channels	Description
<b>Agents</b>	<ul style="list-style-type: none"> <li>Agents may be independent, exclusive, or employed by insurers.</li> <li>Independent agents typically represent two or three insurers, while exclusive and employed agents work specifically for a single insurer. Exclusive agents are commission based; employees may receive salary and other benefits.</li> <li>Agents typically sell consumer and small- and medium-enterprise lines. Occasionally, they may sell to larger businesses.</li> </ul>
<b>Brokers</b>	<ul style="list-style-type: none"> <li>Brokers are independent intermediaries who may work with multiple insurers.</li> <li>The brokerage industry is led by global players that dominate the business of most major multinational corporations. These players are present in most countries.</li> <li>Medium (tier 2) and small (tier 3) brokers tend to focus domestically, and on smaller businesses. In some markets, such as the United States, smaller brokers also compete for consumer lines.</li> </ul>
<b>Bancassurance</b>	<ul style="list-style-type: none"> <li>Bancassurance is the use of banks as distribution channels by insurance companies.</li> <li>While this is typically done by bank employees, in some cases banks may host third-party agents in branches.</li> </ul>
<b>Affinity and retail</b>	<ul style="list-style-type: none"> <li>Three broad types of affinity programs are commonplace: company-to-employees, association-to-members, and bank-to-account holders, such as credit card marketing.</li> <li>Retail refers to distribution of insurance tied to retail purchases. Common offerings include travel insurance by airfare websites and extended warranties by cell phone carriers and appliance stores.</li> </ul>
<b>Direct to consumer (D2C)</b>	<ul style="list-style-type: none"> <li>D2C channels include e-commerce, telesales, mobile/SMS, direct response TV (infomercials), and direct mail.</li> </ul>

*Insurers should pay close attention to how these channels are used around the world.*

Gaining an understanding of when a channel “works,” and when it does not work, can help inform distribution strategies in new countries. For example, if agents are flourishing in Country A, but have lost market share to direct channels in Country B, then what can be learned to support channel decisions in countries X, Y, or Z?

**Global, regional, and local organizations should all participate in developing distribution strategies. However, most insurers have struggled to effectively integrate all three perspectives.**

Most insurers have instead adopted the tactic of delegating authority to only one of the organizations: global, regional, or local.

In particular, regionally led distribution strategies have been adopted by some of the largest international insurers. The rise of “regionalism” reflects a desire to avoid the obvious limitations of globally or locally driven organizations.

However, regional approaches also have their shortcomings. Regionalism forces insurers to make comparisons with nearby countries, yet overlook comparisons with remote countries that have potential similarities and may warrant comparison.

*Based on our observations, we believe insurers should make every effort to avoid a predominantly regional perspective. Instead, they will benefit from adopting a perspective that marries the international diversity of markets with each market’s unique local characteristics.*

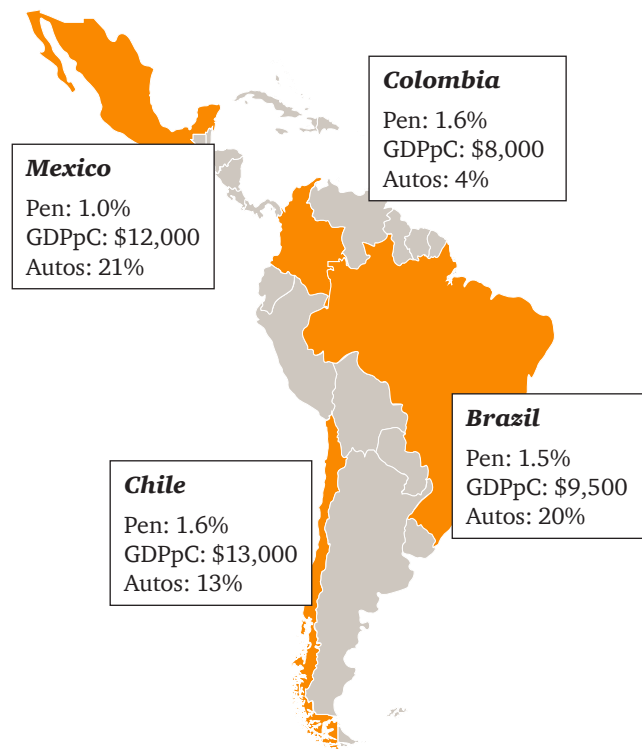
Each of these three individual approaches carries potential risks.

Approach	Description	Potential flaws
<b>Global</b> (corporate headquarters)	A few have pursued highly centralized strategies, seeking to export home-market strategies to other countries.	This approach works only if the new markets are very similar to the home market. If not, the company’s existing strategy may not fit well in the unfamiliar markets.
<b>Local</b> (country)	Others have adopted locally driven approaches, delegating channel strategy to far-flung country operations.	This approach can be viable if the local operation has sufficient talent and resources and if scale is not paramount. Otherwise, it will fail to leverage the global parent’s supposed competitive advantage: its ability to tap into knowledge, talent, and resources from other markets.
<b>Regional</b> (geographic business unit)	Many insurers have sought to find a balance between local and global, resulting in strong regional organizations. Often, these organizations take the form of autonomous regional business units, each holding responsibility for its own distribution.	<p>This approach often results in a business model where distribution successes and failures in one region are not shared with other regions.</p> <p>Some regions are very diverse. Within East Asia, for example, it can be much easier to find differences than it is to find common ground among the markets of China, South Korea, Thailand, Malaysia, Indonesia, and Vietnam.</p> <p>Even in similar regions, such as Western Europe, different countries have taken different paths. Germany, for example, is notable in the region for organizing most commercial lines business directly rather than using brokers, while insurers in Spain have relied heavily on bancassurance.</p>



***Our experience is that companies following predominantly regional operating models are more likely to force flawed strategies on individual countries.***

#### Latin America



Key: Pen = Non-life penetration (Gross Premiums Written [GPW] as % of GDP); GDPpC is GDP per capita; Autos is auto ownership (% of population with cars).

Sources: Non-life Penetration: Swiss Re, "World Insurance in 2010," 2011; GDP per Capita: World Bank, *World Development Indicators*; Autos: UN Statistical Yearbook.

The example of Latin America serves to highlight the potential risks of a regionally driven approach to distribution.

Because key metrics such as insurance penetration, GDP per capita, and auto ownership are similar across Latin America, insurers may be tempted to force regionally driven strategies on these countries.

#### Case study: An international auto insurer approaches Latin America with a regionally defined distribution strategy.

Let's take the case of a hypothetical auto insurer that assessed the Latin American market at a glance and, seeing that the independent-agency channel was robust in most of the region, decided to implement that as its distribution strategy. But by assessing the region only as a whole (ignoring the country differences within it), our insurer would likely find itself looking at the lowest common denominator in the region.

As a result, the auto insurer's selected distribution strategy may fail to reflect a number of key country differences:

**Mexico.** A strong local competitor uses a large branch network to lead the market. To compete effectively against a smart local rival with a far greater retail presence, the insurer could be forced to lower its prices, thereby putting profitability at risk.

**Colombia.** Given Colombia's decentralized population (six major cities spread across different regions), success would likely require more investment in training and oversight than would be necessary in other medium-sized countries.

**Brazil.** Because regulations have pushed the market toward captive brokers and bancassurance, a pure focus on independent intermediaries could result in increased expense ratios.

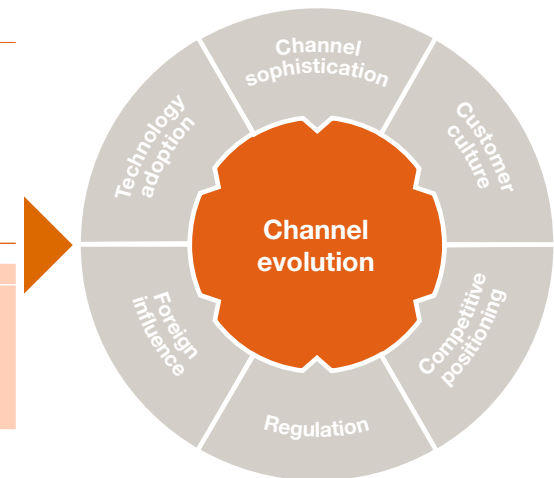
**Chile.** Although Chile has a strong base of independent agents, it is the region's most mature market and might be ready for a differentiated 100 percent e-commerce play. If so, the Chilean market's maturity profile could end up being closer to that of Europe than to those of countries in any other part of Latin America.

**We see leading international insurers devising successful strategies by using a structured process to integrate global, regional, and local perspectives.**

*First, leading insurers analyze the market maturity of countries in their portfolio with an eye to gaining a basic understanding of the potential channel options for each country.*

Sample market maturity metrics	• Non-life premiums: % of GDP <sup>BM1</sup>	• GDP per capita (GDPpC) <sup>WB1</sup>	• Corruption perceptions index <sup>TI</sup>	
	• Non-life premiums per capita <sup>BM1</sup>	• Human development index (HDI) <sup>UNDP</sup>	• Ease of doing business <sup>WB1</sup>	
	• Financial market development index <sup>WEF2</sup>	• Road density (Km per 100K population) <sup>CIA</sup>	• Transparency of regulation <sup>WEF1</sup>	
	• Business sophistication <sup>WEF1</sup>	• Fuel consumption per capita <sup>WB1</sup>	• Regulation of securities exchanges <sup>WEF1</sup>	
	• Car ownership (% of population) <sup>UN</sup>	• Fixed broadband Internet penetration <sup>WB1</sup>	• Investment freedom index <sup>IEF</sup>	
	• Outstanding loan to buy a home <sup>WB2</sup>	• Bank branches per 100K population <sup>WEF2</sup>	• Restriction on capital flows <sup>WEF1</sup>	
	• Institutions index <sup>WEF1</sup>	• Account at a financial institution <sup>WB2</sup>		
Market maturity quartiles, based on sample metrics	Nascent	Early emerging	Late emerging	Mature
	Egypt Algeria Vietnam Philippines Indonesia Pakistan Nigeria	Venezuela Thailand Russia Colombia China Peru Kazakhstan	Poland Hungary Malaysia Brazil Saudi Arabia South Africa Chile	Switzerland France Canada United Kingdom Denmark United States Singapore

*Then, leading insurers analyze the local distribution forces to evolve the preliminary understandings from market maturity analysis into nuanced, localized strategies.*



**Market maturity analysis allows for an understanding of one country relative to others, while distribution forces analysis fosters the knowledge to define distribution strategies to effectively serve the country.**

*Market maturity analysis helps insurers to:*

- Recognize the level of development of each market.
- Identify and compare similar markets, without being constrained by the geographic boundaries.
- Recognize the presence of exceptional circumstances—such as e-commerce in a low-income country—so as to inform tailored strategies for those markets.
- Track a single market over time: As a market matures, new channel options may become worthy of consideration.
- Hypothesize which channels will be most effective in enabling product and customer strategies.

*Distribution forces analysis helps insurers to:*

- Test and refine hypothesized channel strategies acquired from the market maturity analysis. While market maturity provides the foundational knowledge for hypothesizing local strategies, local market analysis allows for the elaboration of these ideas.
- Understand and assess potential challenges such as competitors' positions, specific regulations, or consumer attitudes toward different channels.
- Develop go-to-market planning considerations to guide implementation of the channel strategies.

## Market maturity analysis provides a global framework for assessing markets, thereby enabling insurers to move past regionally driven perspectives.

### Defining market maturity for P&C insurance

The maturity of an insurance market may be estimated by aggregating into a single score metrics such as insurance spending per capita and insurance spending as a percent of GDP with metrics that may predict the demand for insurance, such as auto ownership, mortgage adoption, and an efficient legal system.

Key: BMI *Business Monitor*, WB1 World Bank, *World Development Indicators*, 2012. WB2 World Bank, *Financial Inclusion Report*, 2012. WEF1 World Economic Forum, *Global Competitiveness Report*, 2012. WEF2 World Economic Forum, *Financial Development Report*, 2012. TI Transparency International, UNDP UN Development Programme (UNDP), CIA CIA World Factbook, UN UN Statistical Yearbook, IEF Wall Street Journal + Heritage Foundation, *Index of Economic Freedom*, 2012.

Note: Countries shown in the table are a subset of the 59 economies with a GDP over \$100 billion. For full table, see slide 23.

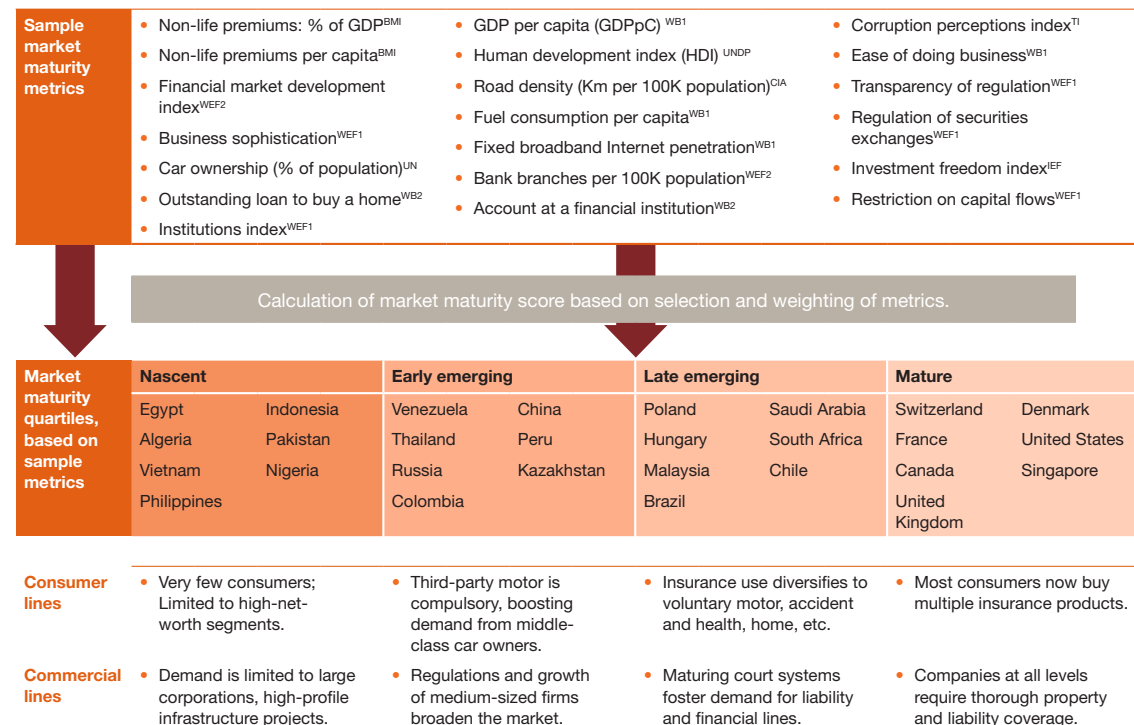
There is no single definition of “market maturity.” Insurers should devise customized market maturity scores according to their product focus and growth strategy.

For example, a personal lines carrier may favor metrics such as auto ownership, size of the mortgage market, and depth of retail financial services distribution networks.

Meanwhile, a commercial lines insurer may be interested in metrics such as the sophistication of local firms, the ease of getting construction permits, and the ability of the legal system to process lawsuits.

By devising a systematic way to quantify market maturity across countries, insurers will be positioned to make hypotheses about channel opportunities across diverse markets.













































**Global in scope, market maturity analysis allows insurers to avoid the trap of focusing on intra-regional comparisons.**




**Market maturity analysis allows insurers to make initial assessments as to which types of channels may be most effective in different markets.**

The diversity of channels increases as an insurance market matures. Many factors, such as technology adoption and the emergence of new customer segments, drive the development of new channel options.

**Nascent** markets offer few insurance products and therefore few channels. Channel options increase in **early emerging** markets due to the growth of auto insurance. The diversification of products in personal and commercial lines drives the emergence of new channels in **late emerging** markets. Competition and technology adoption combine to further swell the range of channel options in **mature** markets.

P&C distribution-channel options	Channel potential by market maturity profile			
	Nascent	Early emerging	Late emerging	Mature
<b>Agents</b> <ul style="list-style-type: none"> <li>Independent</li> <li>Captive</li> <li>Employed</li> </ul>	  	  	  	  
<b>Bancassurance</b>				
<b>Affinity and retail</b> <ul style="list-style-type: none"> <li>Affinity marketing</li> <li>Retail</li> </ul>	 	 	 	 
<b>Direct to consumer</b> <ul style="list-style-type: none"> <li>Call center</li> <li>E-commerce</li> <li>Mobile</li> </ul>	  	  	  	  
<b>Brokers</b> <ul style="list-style-type: none"> <li>Global brokers</li> <li>Tier 2 and 3 brokers</li> </ul>	 	 	 	 

 High potential
  Medium potential
  Low potential

Market maturity analysis can be a useful framework for establishing a global understanding of what types of distribution-channel opportunities will likely exist in different countries.

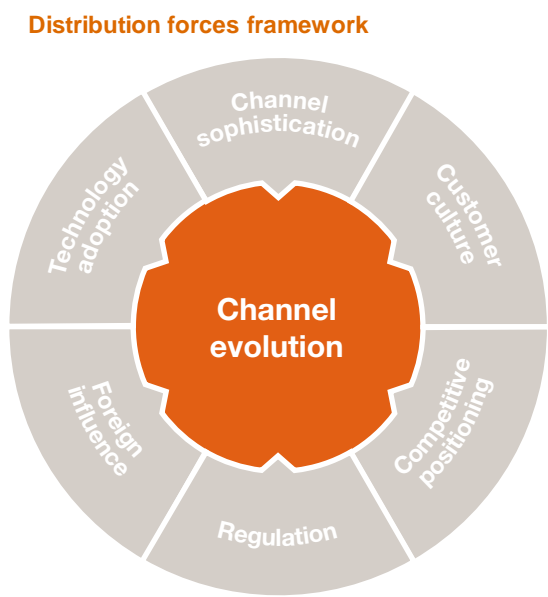
However, market maturity analysis does not provide the level of local insight that is necessary to inform local strategic decisions. Ultimately, the character of each distribution market will be driven by local factors, ranging from regulation to the structure of business groups.

*To develop strategies adapted to local conditions, insurers must follow market maturity analysis with a second, deeper analysis of the local forces that can impact channel landscapes in each country.*

**Distribution forces analysis helps insurers dive into individual markets, devising strategies adapted to local conditions with a high probability of success.**

We have observed leading insurers working to improve their distribution by understanding how local market dynamics—such as channel sophistication, technology adoption, and competitive positioning—impact distribution-channel landscapes.

In our view, there are *six critical distribution forces*. International insurers can apply distribution forces analysis to assess the current state and potential future trajectory of the distribution-channel landscape in each of the countries they operate in now or plan to enter.



Channel sophistication	A channel's sophistication indicates its underlying capabilities. Disparate factors such as rule of law, education, geography, and technology can impact sophistication.
Customer culture	In some countries, certain patterns of customer behavior may persist. Types of interactions that may seem antiquated in some countries may still be the norm in others.
Competitive positioning	If competitive positioning imposes constraints on certain channels, then non-incumbent players should seek or develop other viable channel options.
Regulation	Regulations establish constraints. Regulations may favor some channels and discourage others, creating—or removing—opportunities for different players.
Foreign influence	Over time, foreign influence, such as heavy foreign direct investment from neighboring countries, may bolster the use of channels that are favored in foreigners' countries.
Technology adoption	Adopting today's technologies creates new opportunities that may rapidly impact the channel landscape. New business models may topple current modes of distribution.

Collectively, the six distribution forces shape the evolution of insurance channel options in a country. By understanding how these distribution forces impact their markets, insurers can implement channel strategies that not only reflect current market characteristics but also anticipate the market's evolutionary trajectory. Market maturity is a dynamic concept, and distribution forces analysis provides insurers with a tool for projecting when and how channel landscapes will evolve.

*By adopting market maturity and distribution forces analyses, insurers will improve their decision making around global investment allocation and operating models.*

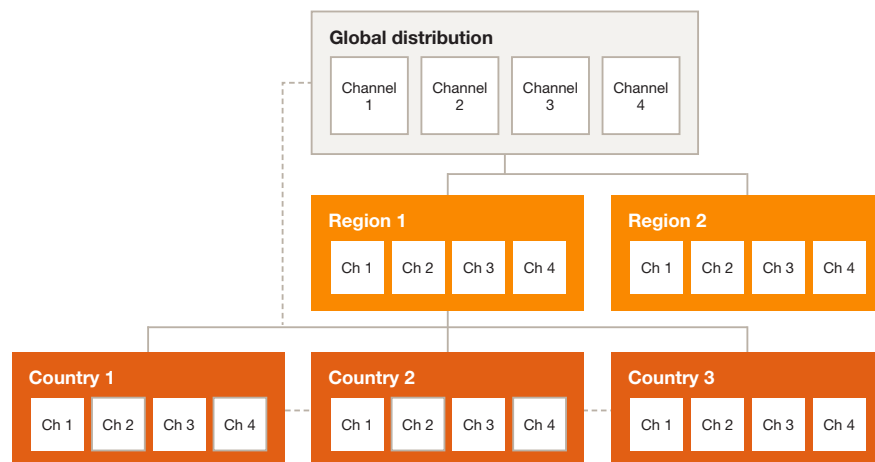
Understanding which channel strategies are likely to work in different countries will better position insurers to make broader strategic decisions, such as how much to invest in each country and what operating models to pursue.

Implications	Description	Example
Decision to invest	Market maturity and distribution forces analyses drives different distribution strategy options in different countries. Companies deciding <b>whether to invest</b> in a given country can base their decisions on how well local channel options align with their goals and capabilities.	A European insurer wanting to export its captive agency strategy analyzes several Latin American countries. Distribution forces analysis helps to identify five countries in which a strong captive agency force would be a competitive advantage for the insurer.
Definition of budget	And when the decision to enter is “yes,” distribution forces analysis can drive answers on <b>when and how much to invest</b> . The evolutionary path of a country’s channel landscape may argue for immediate or delayed investments. The distribution forces analysis may also generate insights into whether selective or aggressive investment will yield better returns.	The insurer’s analysis further suggests that two of the five Latin American countries are likely to face increased competition, perhaps through foreign mergers and acquisitions. If it is to build a competitive advantage by growing a disciplined, captive agency force, the insurer should act quickly.
Review of operating models	Finally, especially when applied across multiple countries, distribution forces analysis may inform <b>changes to global operating models</b> . Insurers may be able to create value by redefining the interaction models between global, regional, and local organizations. Or perhaps the insurers will identify a need to invest in new support organizations, such as specialized centers of excellence.	Upon making the decision to acquire assets in Latin America, the insurer must determine how to evolve its organization, which also includes assets in Europe and the Middle East. The insurer decides to create a new “international” group to unify non-European assets and facilitate information sharing among them.



**To implement market maturity and distribution forces analysis, insurers should cultivate smooth interaction between their global, regional, and local operations.**

Most leading international insurers split management of the distribution function across global, regional, and local organizations.



Typically, however, market analysis and strategy definition are concentrated at the global, regional, or local level.

To get the best results out of market maturity and distribution forces analysis, insurance organizations should be designed so as to facilitate information sharing across countries and regions. The most effective organizations will ensure truly global knowledge sharing.

Insurers already struggle with the trade-offs of allocating decision-making authority across global, regional, and local organizations. To best apply market maturity and distribution forces analysis, insurers should take steps to foster deeper strategic and operational collaboration across these three levels, as well as across different geographic regions.

*To reiterate, insurance companies must avoid over-concentrating distribution authority at the global, regional, or local level, given that each model has its flaws.*

However, the nexus of power will tend to gravitate toward one of these three poles, so insurers should be aware of the trade-offs.

#### Globally driven distribution models

**Globally** driven models make it easier to standardize capabilities such as agent training. They also provide for more seamless management of international partners such as global brokers. Nevertheless, a global organization can risk becoming overwhelmed by being responsible for too many diverse countries.

#### Regionally driven distribution models

**Regionally** driven models offer a solution to global complexity by narrowing the focus to a set of countries with geographic (and perhaps cultural) proximity. But because limited diversity within regions may work against market maturity-based insights, regions would be wise to learn from the experiences of other regions.

#### Locally driven distribution models

**Locally** driven models are likely to evolve distribution strategies and capabilities that are more attuned to local market needs. However, a failure to build strong links with regional or global organizations could result in the duplication of functions, processes, and systems, raising operating costs relative to other global players.

***Tactical and operational factors will also impact the successful development and implementation of market maturity and distribution forces analyses.***

**People**

Potential conflicts will arise between global, regional, and local management. Local leaders may feel they have better insights about the market than their regional and global contacts. While channel strategies certainly should incorporate local leadership's expertise, they must also reflect the organization's growth and profitability objectives.

**Process**

Strategies for each channel assume or require certain processes to support growth. These processes should align with the internal culture and capabilities of the local operating unit. Whether it be local customs for relationship building or the general work culture, the strategy and implementation should reflect what the local team is able to execute.

**Technology**

Executing on distribution strategies—whether deploying new channels or improving the capabilities of existing channels—will require technology upgrades and investments. Total costs for new systems, integration of new and old systems, and migration of customer records, for example, can quickly complicate growth objectives.

***Challenges to implementation***

***Overcoming the challenges***

**Early alignment**

To be successful, distribution strategies should be designed with consideration of the local office's ability to adopt and execute these strategies. To this end, it is important to have a deep involvement of the local and regional offices at an early stage in the strategy definition process. Alignment activities may include interview, in-person visits, and the integration of client personnel on the strategy team.

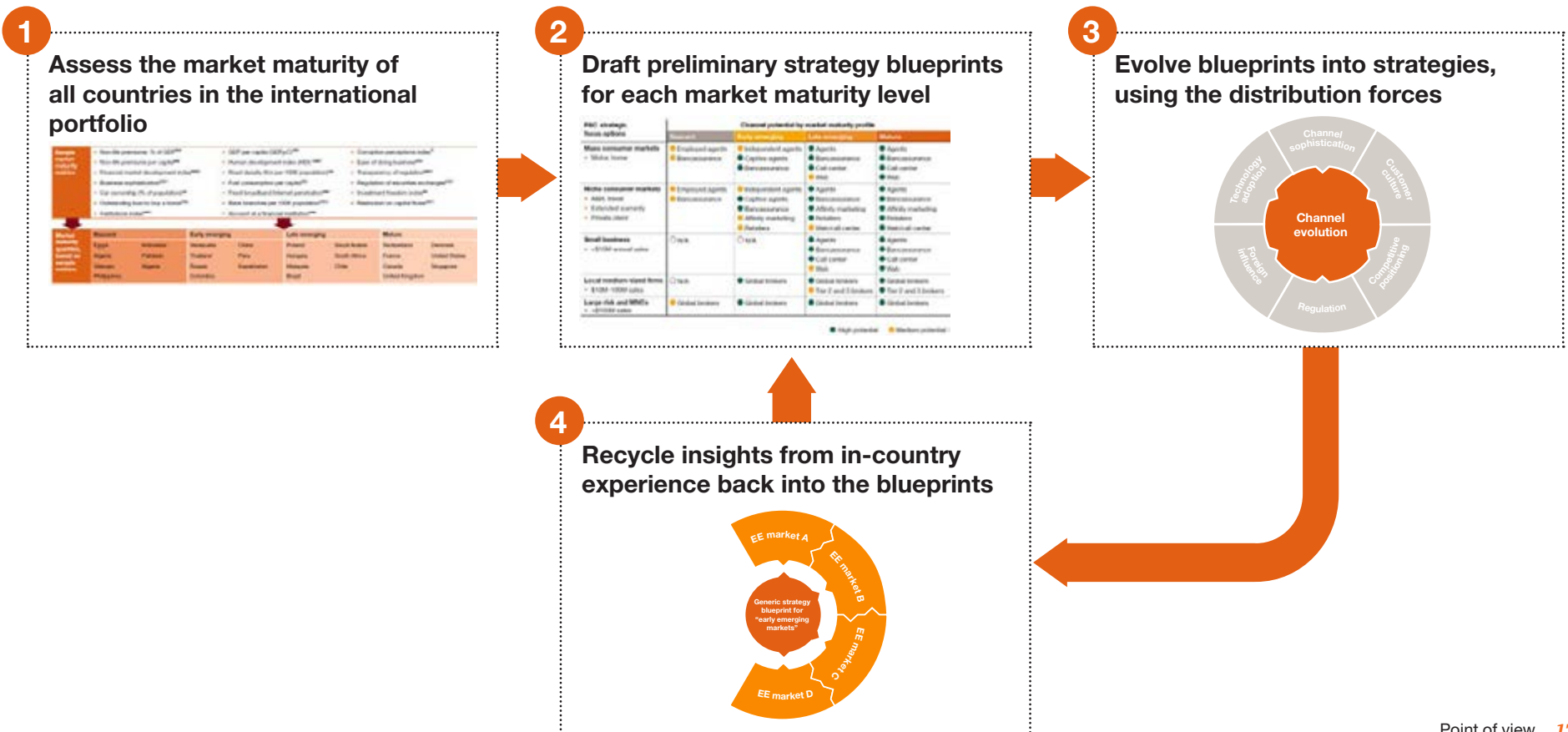
**Collaborative roadmaps**

Well-designed roadmaps are critical to outlining the path from current state to future state, including key operations and should be collaboratively developed with participation from in-market, regional, and select global personnel. This approach will help prevent future disagreements over business-case assessments or budget requests.

**By following four steps, insurers can harness the power of market maturity analysis, which will internalize a process for developing successful distribution-channel strategies.**

Our four-step approach defines the path from market maturity assessment to local market analysis and, ultimately, localized channel strategies. It calls for cultivation of a virtuous cycle of market insight and strategy development based on the structured sharing of individual country learnings across borders, especially among countries of similar market maturity.

By failing to execute a comprehensive approach, insurers run the risk of developing strategies that are poorly suited for individual markets. In a period marked by aggressive foreign investment and by rapidly strengthening local competitors, this is a recipe for competitive disadvantage. To protect and grow their competitive positions, insurers must adopt a comprehensive approach to international distribution.









## ***Competitive intelligence***









*Our observations of  
industry practices.*

**Insurers have applied various strategies to extract value from the agency and broker channels, and some approaches have been more successful than others.**

<b>Agents</b>	 <b>Russia:</b> Despite various experiments with employed and independent agents, this insurer failed to gain traction in consumer lines. Because of the relatively low level of professionalism of agents in Russia, an agency strategy would have always been a challenge. The insurer did not invest in other options, such as direct channels, even though e-commerce usage was already high in key cities.	 <b>China:</b> This insurer has developed a large captive agency force. It uses intensive, centralized training programs and procedures to ensure a consistent level of service by having its agents operate across China's vast market. Tools include common e-sales and performance-management systems, as well as a national agent university capable of training 1,000 agents at a time.	 <b>Mexico:</b> This insurer has a rapidly growing market share in Mexico's underpenetrated market, gained by focusing on mass-market personal lines and developing strong retail distribution capabilities, including a national network of branches that can be used to train and support agents. The insurer is now exporting its distribution model to other countries.
<b>Brokers</b>	 <b>Global:</b> Traditionally focused on large commercial risks, this insurer sought to grow its book with medium-sized firms. To that end, it focused on building relationships with select regional brokers. This outreach helped the insurer to better tailor its products to fit the needs of medium-sized firms. As a result, the insurer saw its revenue in this segment grow rapidly.	 <b>Global:</b> To more efficiently manage its global broker and large-risk relationships, this insurer set up a distinct operating group. The group features a globally centralized team that directly handles global-level relationships. But for regional and local subsidiaries, the insurer coordinates decision making with country-level organizations.	 <b>Emerging markets:</b> Many insurers and brokers failed to recognize the latent demand for insurance resulting from the rapid growth of medium-sized firms in emerging markets. Brokers were slow to expand beyond their traditional domain in the large-risk segment. As a result, local insurers have sold directly much of the smaller and medium business market.

**Insurers have devised many strategies to leverage bank, affinity, and direct-to-consumer channels. The most successful approaches were designed to reflect local market factors.**

<b>Bancassurance</b>	 <b>Indonesia:</b> This insurer acquired vast distribution access across thousands of communities by partnering with established banks. In much of Indonesia, insurance is a relatively new concept; therefore, mature agent or broker channels did not exist outside of Jakarta and a few other major cities. Also, low fixed phone and Internet penetration limited other options, such as direct-to-consumer channels.	 <b>Latin America:</b> This insurer signed a long-term partnership with a large bank that is licensed to distribute insurance from its branch network in a large Latin American country. The insurer is also building a network of retail branches. This move is calculated to boost the insurer's brand in the country and to provide training sites for the bank's employees.
<b>Affinity and retail channels</b>	 <b>United Arab Emirates:</b> This Western insurer developed a strong affinity channel focused on work-site marketing targeted both to executives and blue-collar hotel sector employees. A majority of UAE residents are expatriates, so distribution through employers was an effective way to reach these segments.	 <b>Chile:</b> After setting up banking operations, a large retailer realized that it was also well positioned to offer insurance services. The retailer obtained a brokerage license and proceeded to set up relationships with several insurers. It has since emerged as one of the top channels in the Chilean market.
<b>Direct to consumer</b>	 <b>South Korea:</b> This Western insurer successfully built a new consumer lines business from the ground up, by exploiting new direct-to-consumer channels, including direct response TV. The insurer rejected the option of incumbent channels because local competitors tended to dominate the established agencies, while other agencies were not seen as reliable.	 <b>Argentina:</b> Because this Western insurer had enjoyed success with a direct web-based channel in other countries, it expected to have similar results when it set up shop in Argentina. However, Argentines continue to prefer face-to-face interactions when buying insurance. As a result, the web channel has been used primarily to generate quotes.



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## *A framework for response*

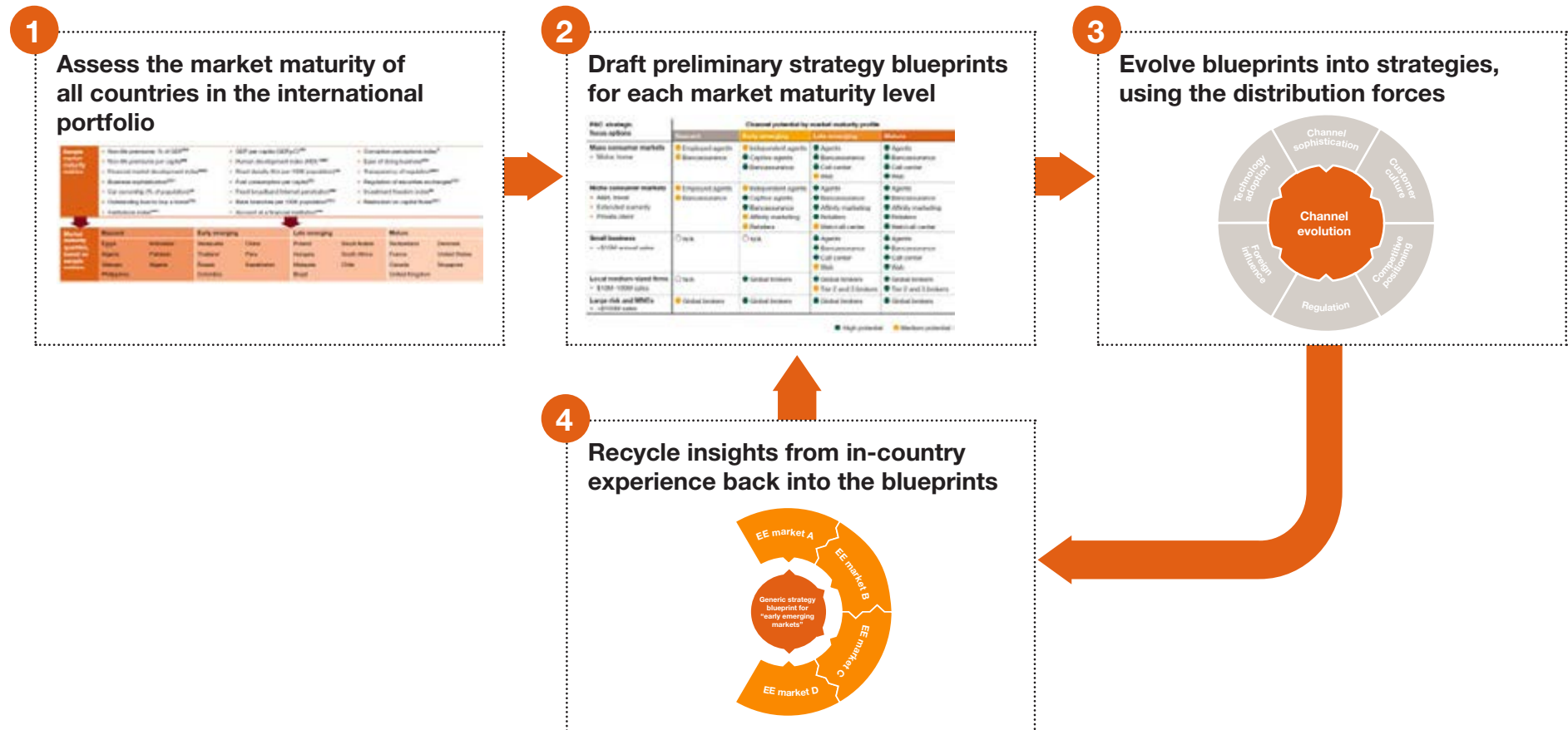


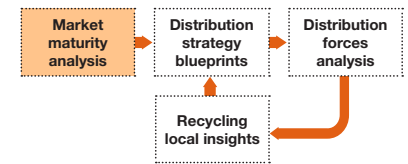
*Our recommended approach  
to the issue.*

**Market maturity and distribution forces are the analytical foundation of a larger, cyclical process to draft, design, and refine distribution strategies.**

We use a four-step process to define effective distribution strategies for insurance operations around the globe.

1. The first step is to assess the market maturity of countries in the international portfolio.
2. After market maturity analysis, the second step is to draft “preliminary strategy blueprints” to help frame the potential strategic options for the different maturity levels.
3. The third step uses distribution forces analysis to evolve these preliminary blueprints into localized strategies and go-to-market plans.
4. After implementation, insurers should carry out the final step, channeling insights from their experiences back into the blueprints.



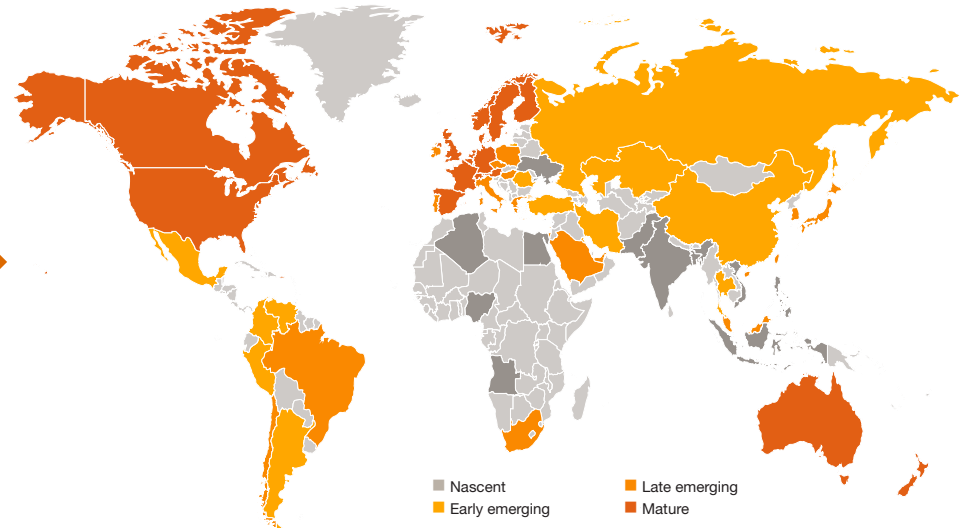


## The first step is to assess the market maturity of all countries in the international portfolio.

For example, an international insurer maps its portfolio to the market maturity levels ...

... revealing groups of countries that transcend geographic or cultural classifications.

Nascent	Early emerging	Late emerging	Mature
Ukraine	Kuwait	Portugal	Switzerland
India	Turkey	Israel	France
Egypt	Romania	UAE	Netherlands
Algeria	Argentina	Japan	Austria
Vietnam	Venezuela	Hong Kong	Canada
Philippines	Thailand	South Korea	United Kingdom
Bangladesh	Mexico	Ireland	Belgium
Indonesia	Russia	Taiwan	Australia
Pakistan	Colombia	Italy	Denmark
Nigeria	China	Czech Republic	United States
Angola	Peru	Poland	Germany
	Iran	Hungary	Norway
	Kazakhstan	Malaysia	Sweden
		Brazil	Singapore
		Saudi Arabia	New Zealand
		Greece	Spain
		South Africa	Finland
		Chile	



Source: PwC analysis (based on custom-weighted score of 20 metrics on slide 11). This is a sample analysis, as market maturity definitions will vary depending on an insurer's target market.

Note: Scope is the 59 economies with GDP >\$100 billion. Ordering is by score from top to bottom.

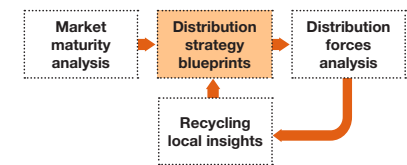
## The market maturity framework is a quick tool for assessing the maturity levels of countries. There are three simple steps to the analysis.

- Identify all countries in the international portfolio.
- Evaluate and score countries based on a set of predetermined maturity metrics, such as GDP per capita, non-life penetration, or auto ownership.
- Designate countries by their market maturity levels—nascent, early emerging, late emerging, or mature.

### If the market maturity coordinates do not produce definitive results, insurers should add other considerations.

For some countries, it may be difficult to definitively determine the level of market maturity. For example, in the market maturity chart above, Argentina or Malaysia could be considered early or late emerging, depending on the underlying considerations.

In such cases, insurers may apply other considerations, such as per capita income, the status of neighboring countries, the relative consumption of other lines of business, the quality of the regulatory environment, or the presence of foreign competitors.



## The second step is to draft preliminary strategy blueprints to serve each of the market maturity levels.

Market maturity analysis should be followed by an assessment of the potential distribution-channel options at each maturity level.

For example, in early emerging countries, captive agents tend to be a better option than independent ones.

P&C distribution-channel options	Market maturity profile			
	Nascent	Early emerging	Late emerging	Mature
<b>Agents</b> <ul style="list-style-type: none"> <li>Independent</li> <li>Captive</li> <li>Employed</li> </ul>	●	●	●	●
<b>Bancassurance</b>	●	●	●	●
<b>Affinity and retail</b> <ul style="list-style-type: none"> <li>Affinity marketing</li> <li>Retail</li> </ul>	●	●	●	●
<b>Direct to consumer</b> <ul style="list-style-type: none"> <li>Call center</li> <li>E-commerce</li> <li>Mobile</li> </ul>	●	●	●	●
<b>Brokers</b> <ul style="list-style-type: none"> <li>Global brokers</li> <li>Tier 2 and 3 brokers</li> </ul>	●	●	●	●

● High potential ● Medium potential ● Low potential



Once channel options are understood, insurers can draft preliminary strategy blueprints that unite the potential channel options with the types of strategies that they wish to pursue.

Examples of strategic focus areas include mass-market consumers and local medium-sized firms.

P&C strategic focus options	Market maturity profile			
	Nascent	Early emerging	Late emerging	Mature
<b>Mass consumer markets</b> <ul style="list-style-type: none"> <li>Motor, home</li> </ul>	● Employed agents ● Bancassurance	● Independent agents ● Captive agents ● Bancassurance	● Agents ● Bancassurance ● Call center ● Web	● Agents ● Bancassurance ● Call center ● Web
<b>Niche consumer markets</b> <ul style="list-style-type: none"> <li>A&amp;H, travel</li> <li>Extended warranty</li> <li>Private client</li> </ul>	● Employed agents ● Bancassurance	● Independent agents ● Captive agents ● Bancassurance ● Affinity marketing ● Retailers	● Agents ● Bancassurance ● Affinity marketing ● Retailers ● Web/call center	● Agents ● Bancassurance ● Affinity marketing ● Retailers ● Web/call center
<b>Small business</b> <ul style="list-style-type: none"> <li>&lt;\$10M annual sales</li> </ul>	○ N/A	○ N/A	● Agents ● Bancassurance ● Call center ● Web	● Agents ● Bancassurance ● Call center ● Web
<b>Local medium-sized firms</b> <ul style="list-style-type: none"> <li>\$10M–100M sales</li> </ul>	○ N/A	● Global brokers	● Global brokers ● Tier 2 and 3 brokers	● Global brokers ● Tier 2 and 3 brokers
<b>Large risk and MNCs</b> <ul style="list-style-type: none"> <li>&gt;\$100M sales</li> </ul>	● Global brokers	● Global brokers	● Global brokers	● Global brokers

● High potential ● Medium potential

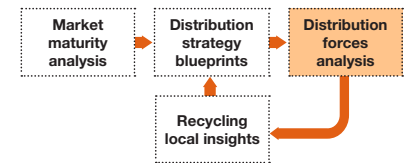
Based on our experience, this table depicts the assessment of major channel types across maturity levels.

The determination of channel potential by maturity level should be a structured process that accounts for factors such as the viability, effectiveness, and cost of channel types.

This type of evaluation should consider not only the countries where the insurer has operations, but also those countries where it does not have a presence. This will help drive a more nuanced understanding of the channel options associated with each maturity level in each country.

**Case study:** An insurer pursuing a mass-market consumer strategy based on products such as a motor, home, and accident and health (A&H) is seeking to develop a preliminary blueprint for early emerging markets.

**Approach:** Global analysis identifies two “green” channels with a broad record of success in early emerging markets: captive agents and bancassurance. The analysis also reveals that yellow-coded channels (independent agents, affinity marketing, and retail) have been applied successfully in few early emerging markets. As a result of this input, the insurer’s blueprint outlines the potential application and success requirements of each channel option, citing specific considerations resulting from its own experience as well as from research into other early emerging markets.

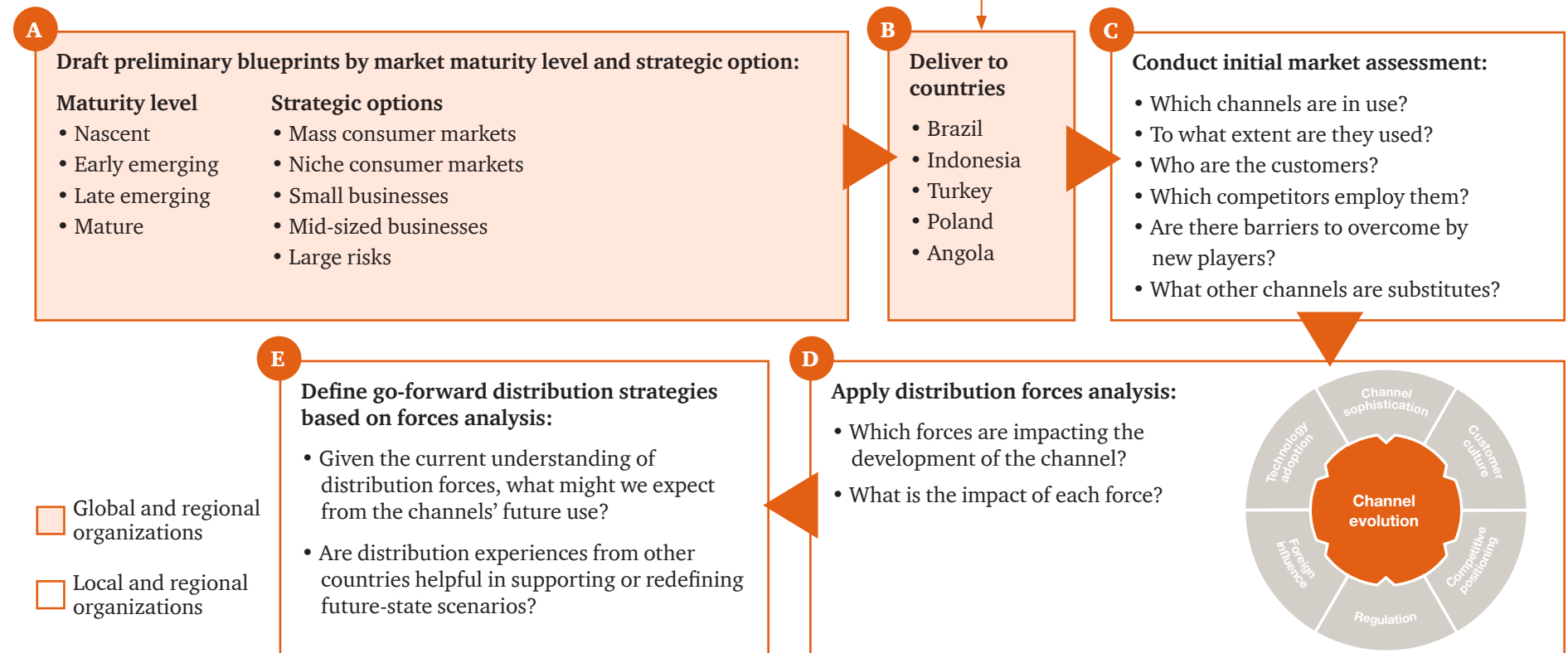


## The third step evolves blueprints into country-specific strategies using distribution forces analysis.

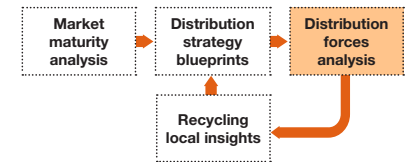
Transforming preliminary blueprints into actionable, localized strategies requires coordination among global, regional, and local organizations.

Generally, global organizations have responsibility for drafting the blueprints, although they may do so in close coordination with regional groups. The task of defining local strategies should be driven by local management in partnership with regional organizations.

## From blueprints to strategies



## Distribution forces analysis is a framework to help insurers understand how channels evolve in different markets.



By analyzing each of the six distribution forces, insurers will develop a rich understanding of how the distribution-channel landscape is evolving in a country.

*The forward-looking perspective of the distribution forces may also help insurers to arrive at different decisions from those supported by static, traditional analyses.*

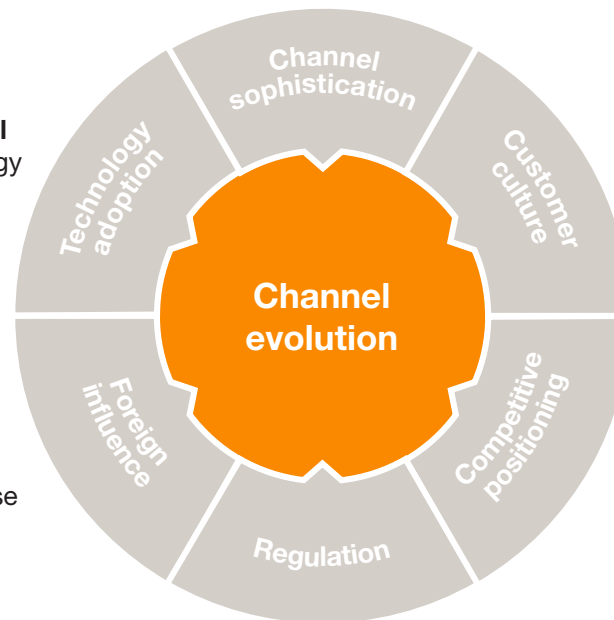
Insurance channel landscapes are changing rapidly in many countries. Channels that are currently effective may see their utility decline as other channels emerge, either organically or through investment by competitors. Through distribution forces analysis, insurers can understand the how and why of channel evolution, and what it should mean in terms of local strategic and investment decisions.

The distribution forces address key questions about channel evolution ...

**Impact of technology on channel capabilities**—How does technology expand or limit channel options?

**Impact of competitors and neighboring countries**—How are foreign influences impacting the use of channels?

**Maturity of channels**—Does the channel routinely and predictably fulfill its expectations?



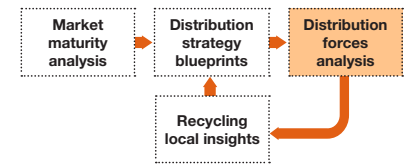
**Customers' cultural attitudes toward buying insurance**—How well does the culture align with various channels?

**Competitors' current channel positioning**—Are incumbent players occupying widely-used channels?

**Regulatory policy, attitudes, and stability**—Is the regulatory environment affecting channels?

...enabling insurers to develop informed local strategies and business cases.





**By providing insurers with a structured path for understanding local channel dynamics, distribution forces analysis assists in the creation of effective strategies.**

Will independent agents in South Korea be displaced by e-commerce? Can brokers in Russia produce business from local middle-market firms? Is bancassurance truly the only viable model for reaching Indonesia's far-flung towns?

These are the kinds of questions that distribution forces analysis can answer.

**Technology adoption:** Technology will disrupt insurance distribution models. However, the degree and pace of disruption will vary across countries.

- In developing countries, mobile phones are broadly used while computers are found only in net cafes, and direct-to-consumer strategies may focus on m-commerce.
- In other countries, lack of consumer data may result in a switch from risk-to-telematics-based pricing for auto insurance. The need to distribute and maintain telematics sensors will have implications for channel strategies.

**Channel sophistication:** Defined by its capabilities, a channel's prospects are tied to its maturity relative to what exists in other countries.

- Depending on the country, the definition of "agents" may range from highly trained professionals in sales offices to part-time, door-to-door salespeople with only basic training or product knowledge. The latter may prove less competitive compared with rising channels, unless they are also adding capabilities.



**Foreign Influence:** Foreign business practices may insert themselves into local insurance markets in a variety of ways.

- Direct influence emanates from global insurers that acquire local insurers in emerging markets. These global insurers will either slowly or rapidly implement their way of doing business.
- Indirectly, established modes of doing business in more advanced, neighboring countries may be imported over time. For example, Korean insurers replicated the Japanese practice of selling commercial lines without broker assistance.

**Regulation:** Regulation impacts all aspects of the insurance business, including distribution.

- Regulators may distort the channel landscape by explicitly mandating or prohibiting the sales of insurance through certain channels.
- Regulation's effect may also be unintentional. An absence of qualification requirements, for instance, may allow for the growth of semi-professional agents.

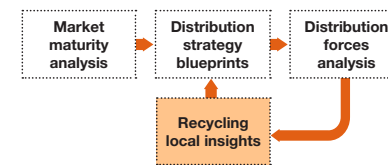
**Customer culture:** Social or cultural practices may drive preferences for different types of channels.

- In some countries, consumers favor in-person communications. This may be due to cultural traditions or to a lack of familiarity with insurance products.
- In contrast, in some developed markets, consumers favor the efficiency of remote channels such as the web.
- Similarly, traditional business practices may persist. In post-Communist countries, firms may be used to buying insurance directly, rather than from brokers.

**Competitive positioning:** Incumbent players may be controlling scarce distribution resources, thereby limiting the range of opportunity.

- Securing bancassurance deals can be difficult if competitors already have exclusive agreements in place.
- In many emerging countries, most agents are captives. Few independent agencies have the necessary professionalism to be reliable channels for insurers.
- High rates of direct (non-brokered) commercial business may limit openings to non-incumbent insurance firms.

**The fourth step is to channel insights from distribution forces analysis back into the strategy blueprints.**



**By applying distribution forces analysis across a range of countries, insurers will collect a variety of insights on how and when specific countries deviate from market maturity expectations.**

For example, web and mobile channels are typically not used to market or sell insurance in early emerging (EE) countries, but exceptions may exist, such as a competitor in Indonesia pioneering a text messages billing model.

By collecting the findings from exceptional countries and feeding them back into the strategy blueprint for EE markets, the insurer will provide its management teams with a rich set of intelligence on the conditions that may favor digital-channel opportunities in other EE countries.

By structuring a process for sharing this intelligence, insurers can overcome traditional hurdles to sharing leading practices across countries. Such initiatives often fail because they are not supported by a clear framework for organizing communications among global, regional, and local parts of the organization.



**“Recycling” insights from local analysis back into global strategy blueprints creates strategic advantages:**

**Truly global approach to distribution strategy:** The recycling of insights feeds market understanding and opportunity assessment along the full array of countries at each maturity level. Learning is no longer confined to the experience of specific countries or regions.

**Ability to understand exceptions:** Some markets will be more advanced along certain channel types than others in the same market maturity level. By recognizing exceptions, insurers may be able to identify drivers of unique channel developments.

**Ability to observe—and predict—channel evolution:** By repeating distribution forces analysis in subsequent years, the insurer will continue to improve its understanding of how quickly distribution-channel landscapes mature under varying sets of conditions. Insurers can then feed this knowledge back into the blueprints, supporting critical business decisions such as when to invest in emerging channels in different markets.

**Formalized sharing of leading practices:** Insurers struggle to share learning across borders, and especially across regions. By institutionalizing this process, they will have a structured pathway for sharing insights that can be rapidly reapplied to new markets.

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## ***Country analysis examples***



**Five case studies of property and casualty (P&C) insurance plays in emerging markets illustrate how distribution forces analysis can drive informed strategic decision making.**

Each case study uses the example of an insurer with a specific strategic goal and applies the distribution forces analysis to indicate which channel(s) may best serve that particular goal.

**Brazil**

**Maturity profile:**

Late emerging

**Strategic focus:**

Full suite of consumer lines

**Indonesia**

**Maturity profile:**

Nascent

**Strategic focus:**

Non-motor consumer lines

**Turkey**

**Maturity profile:**

Early emerging

**Strategic focus:**

Consumer lines and SMEs\*

**Angola**

**Maturity profile:**

Nascent

**Strategic focus:**

Entry suite of consumer lines

**Poland**

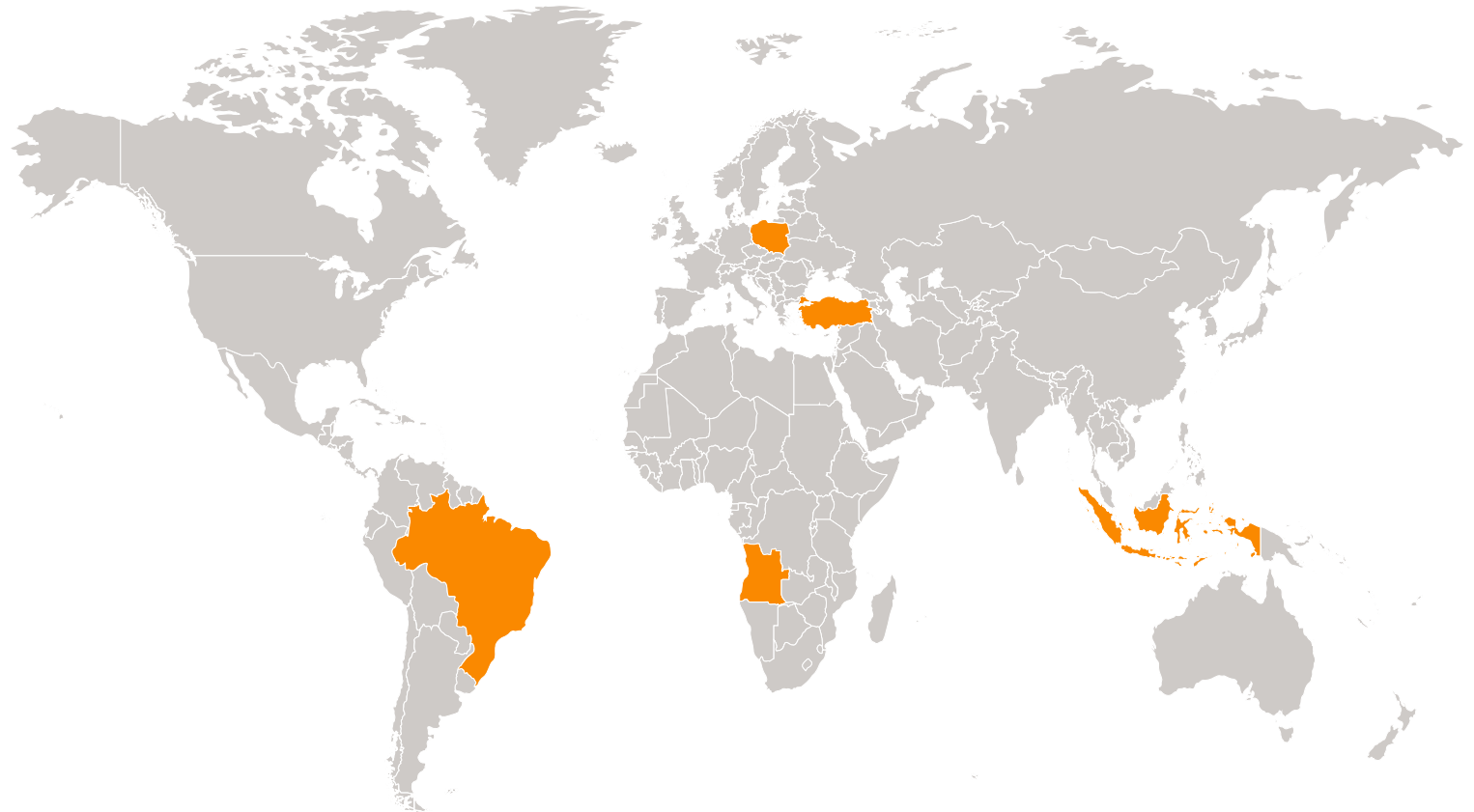
**Maturity profile:**

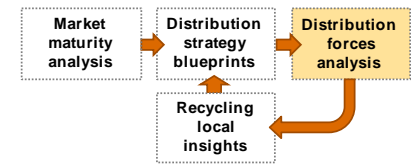
Late emerging

**Strategic focus:**

Middle-market commercial lines

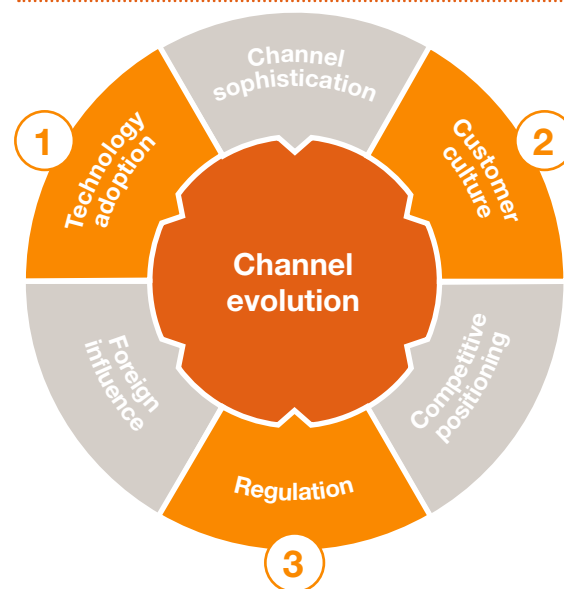
\*small to medium enterprises





Case study: Brazil—  
consumer–lines distribution  
***The forces of customer  
culture, regulation, and  
technology adoption  
support the business case  
for new e-commerce and  
call-center channels.***

#### Distribution forces framework



#### The current situation

Brazil is the fifth largest country in terms of population and land area. Scale, coupled with poor infrastructure, challenges distribution.

Brazilian banks, which have thousands of branches, dominate Brazil's insurance sector.

Over 52% of Brazil's population now has middle-class income (R\$1,000 - R\$4,000 annual household income)<sup>1</sup> and 46% are Internet users.<sup>2</sup>

The strategic goal is to effectively distribute a range of products to middle-class consumers, while managing the cost of geographic expansion.

#### Analysis of distribution forces

- 1. Technology adoption:** After a slow start relative to rich countries, Brazilian e-commerce is booming. Supported by a growing middle class, Brazilian e-commerce spending totaled US\$11 billion in 2011, up 26 percent from 2010. Some 32 million consumers bought at least once via the web in 2011, and the average online order was US\$210.<sup>3</sup>
- 2. Customer culture:** Brazilian consumers still prefer the personal touch in their commercial transactions. A total of 65 percent of online customers reported dissatisfaction with the lack of contact with their merchants.<sup>4</sup>
- 3. Regulation:** Brazilian law requires all insurance to be sold via brokers. However, direct-sales agents can be licensed as captive brokers. As a result, brokers dominate the market, accounting for 70% of auto insurance distribution, according to a local study.<sup>5</sup>

#### The implication for insurers' distribution strategies

Based on these distribution forces, we expect to observe key changes in distribution strategies by the end of the decade:

- Brazil will develop a strong direct-to-consumer (D2C) insurance channel.
  - Brazil's strong e-commerce showing will pave the way for web-driven insurance sales, but the web will function primarily to generate leads, with sales being closed by call-center agents.
  - The web-driven strategy will be led by foreign insurers that do not have bancassurance partnerships with Brazil's major banking groups.
- D2C will help expand insurance's geographic reach.
  - D2C opens access to far-flung consumers. Banks that have monopolized distribution in some districts will face new competition.

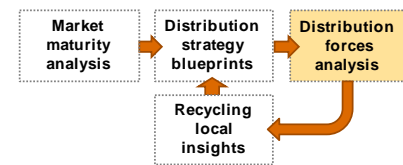
1 Government of Brazil, "Brazilian Middle Class Reaches 95 Million." [www.brasil.gov.br](http://www.brasil.gov.br), accessed February 28, 2013.

2 InternetWorldStatistics: Brazil. [www.internetworldstats.com](http://www.internetworldstats.com), accessed February 27, 2013.

3 Ricardo Geromel, "Brazil's e-commerce is booming: record-breaking figures in 2011," *Forbes*, March 23, 2012, [www.forbes.com](http://www.forbes.com), accessed February 8, 2013.

4 Manuela Artigas, et al., "Make it social with Brazil's digital consumers," McKinsey & Company, March 2012, [www.cmsforum.mckinsey.com](http://www.cmsforum.mckinsey.com), accessed February 11, 2013.

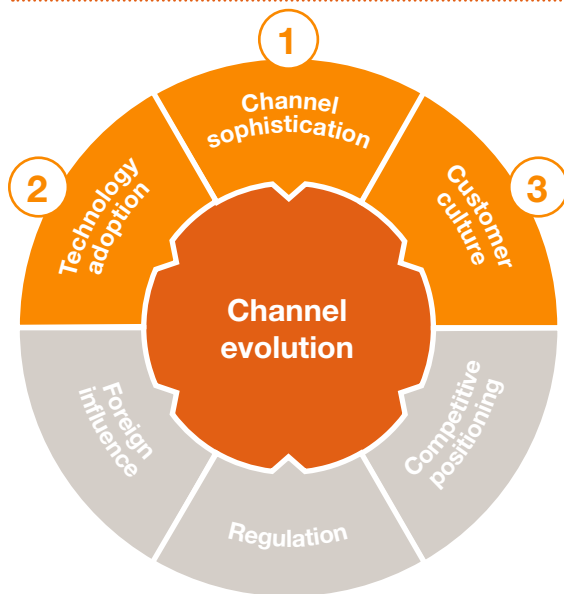
5 "Brokers expand lead over banks in auto insurance in Q1." *Business News Americas*, May 22, 2009.



## Case study: Indonesia— consumer–lines distribution

### *The forces of channel sophistication, customer culture, and technology adoption will pave the way for alternative channels.*

#### Distribution forces framework



#### The current situation

In Indonesia, distribution is challenged by the vast island geography, poor infrastructure, and relatively low per-capita incomes. Outside of the major cities, non-life insurance is not yet commonplace.

Traditional channels, such as agents and brokers, have little reach. While bancassurance is an option, complete dependence on banks can hinder the ability to develop customer relationships.

The strategic goal is to cost-effectively expand reach, focusing on accident and health, travel, and niche products without depending solely on banks.

#### Analysis of distribution forces

- 1. Channel sophistication:** Due to large geographic distances, it is harder to provide effective ongoing education and monitoring of agents. Bancassurance is an option, but the absence of an agent alternative may put insurers at risk of being overly dependent on bank partners.
- 2. Technology adoption:** Only 60-70 percent of Indonesians have a mobile device.<sup>1</sup> Indonesia has 91 mobile phone subscriptions per 100 people, while only 4 percent of households have fixed Internet access.<sup>2</sup> Last year, mobile surpassed Internet cafes as the primary method for accessing the Internet.<sup>3</sup> Further, 77 percent of Indonesian mobile users are accessing social media sites, such as Facebook.<sup>4</sup> In fact, Indonesia has the fourth largest number of Facebook users.<sup>5</sup> Most access is via mobile phones.
- 3. Customer culture:** Very low per-capita spending for insurance—only US\$18—indicates low awareness of insurance by most people.<sup>6</sup>

#### The implication for insurers' distribution strategies

Based on these distribution forces, we expect to observe key changes in distribution strategies by the end of the decade:

- Bank partnerships will remain necessary for reach.
  - No other channel offers the reach of banks, and low PC ownership (only 8 percent of households)<sup>1</sup> will likely result in a limited D2C strategy.
- However, mobile devices and social networking will allow insurers to acquire more influence over their customer relationships.
  - Insurers can take advantage of Indonesia's high mobile usage to gain control of post-sales interactions, including payments.
  - To grow share of wallet over time, insurers can engage social media channels to educate consumers about the need for insurance.

<sup>1</sup> Soumitra Dutta and Irene Mia, editors, "The global information technology report, 2010-2011," World Economic Forum, [www.reports.weforum.org](http://www.reports.weforum.org), accessed February 11, 2013.

<sup>2</sup> Soumitra Dutta and Benat Bilbao-Orsorio, editors, "The global information technology report, 2012," World Economic Forum, [www3.weforum.org](http://www3.weforum.org), accessed March 21, 2013.

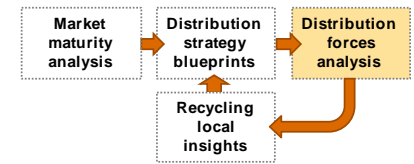
<sup>3</sup> "In Indonesia's Cities, Mobile Boosts Internet to No. 2 Media Spot" January 30, 2013, [www.emarketer.com](http://www.emarketer.com), March 21, 2013.

<sup>4</sup> "New mobile social surfing stats from Opera," *M2 Presswire*, May 24, 2011.

<sup>5</sup> Socialbakers.com, [www.socialbakers.com](http://www.socialbakers.com), accessed February 21, 2013.

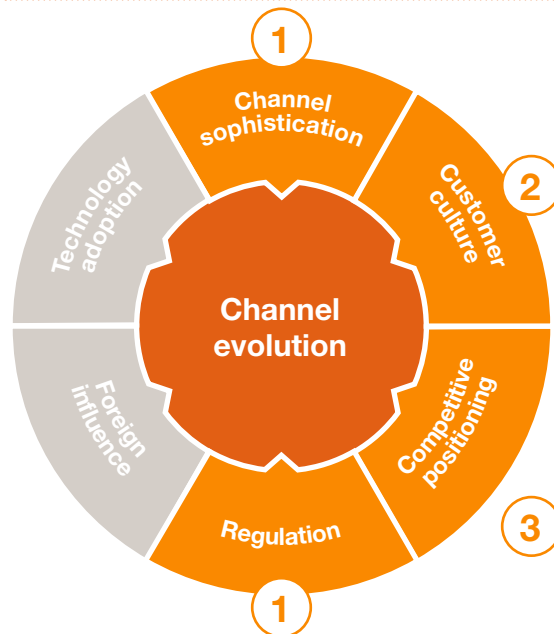
<sup>6</sup> PwC analysis based on *Business Monitor*, "Indonesia insurance report," 2011.





Case study: Turkey—  
consumer-lines distribution  
***The forces of regulation,  
channel sophistication,  
customer culture, and local  
business practices will fuel the  
rise of independent agents.***

#### Distribution forces framework



#### The current situation

In the last decade, Turkey's economy has strongly expanded. Per-capita income has more than doubled, feeding the rise of a new middle class.

With people buying more cars and taking out more mortgages, P&C insurance premiums have surged.

Turkey has a skilled, independent agency force. In contrast, bancassurance is complicated by cross-ownership between banks and insurers.

The strategic goal is to identify the most attractive channels for accessing both middle-class consumers and small businesses.

#### Analysis of distribution forces

- 1. Channel sophistication and regulation:** Agents are already the dominant channel for personal lines,<sup>1</sup> and the recent insurance law (passed in 2008) helped to clarify rules and regulations concerning agencies.<sup>2,3</sup>
- 2. Customer culture:** Similar to Brazil, Turkish e-commerce is growing rapidly and accounted for US\$12.5 billion in 2012;<sup>4</sup> however, no major Turkish insurance firm is using a D2C strategy. Consumers and businesses continue to place value on face-to-face interactions.<sup>5</sup>
- 3. Competitive positioning:** Historically, the commercial market was dominated by direct placements, which favored local insurers, as they had the relationships. Now, brokers' share of business is increasing, as major brokers are expanding their presence in the market.<sup>6</sup>

#### The implication for insurers' distribution strategies

Based on these distribution forces, we expect to observe key changes in distribution strategies by the end of the decade:

- Independent agents will become a critical channel.
  - Agents are better positioned to direct channels to grow rapidly and help insurers meet the demand for new policies.
  - Insurers may be able to capitalize on the growing e-commerce market by using the web channel to generate leads to agents.
- As a channel, independent agents have the necessary capabilities to add commercial lines for small business to their portfolios.
  - Agents will be able to capitalize on their broad geographic footprint to reach SMEs, many of whom have not previously purchased insurance.

1 Towers Watson, "Insights: Turkey Insurance Bulletin," January 2012, [www.towerswatson.com](http://www.towerswatson.com), accessed February 12, 2013.

2 IFLR1000, "Turkey: The New Insurance Law," 2009, [www.iflr1000.com](http://www.iflr1000.com), accessed February 12, 2013.

3 Guner Law Office, "Insurance Law in Turkey," 2009, [www.mondaq.com](http://www.mondaq.com), accessed February 12, 2013.

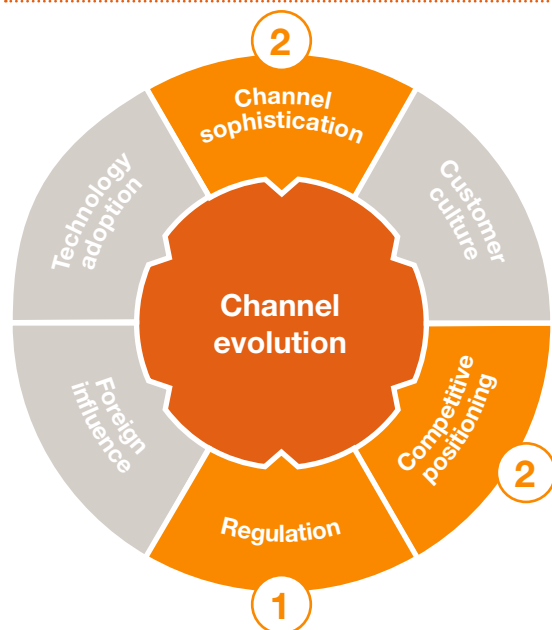
4 "eCommerce Turkey: International Insights and Consumer Confidence," News Aktuell, October 10, 2012.

5 Kwantessential.co.uk, "Doing Business in Turkey," [www.kwantessential.co.uk](http://www.kwantessential.co.uk), accessed February 12, 2013.

6 PwC, "Insurance in Turkey: Opportunities and Challenges," 2009.

Case study: Angola—  
consumer-lines distribution  
***The forces of regulation and  
channel sophistication may  
indicate a relatively strong  
business case for hiring  
employed agents.***

#### Distribution forces framework

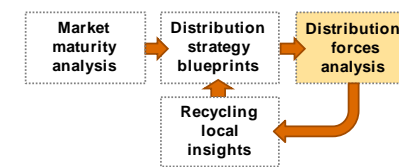


#### The current situation

Angola's long civil war (1975-2002) left it as one of the world's poorest countries. As a result, it did not have a functional insurance industry until recently.

Angola's massive oil reserves are rapidly boosting economic prospects. By 2010, its foreign direct investment (FDI) stock reached close to US\$11.9 billion, and GDP per capita is now among the highest in sub-Saharan Africa.<sup>1</sup> Rising incomes are expected to drive the demand for insurance, but Angola still has very few viable physical channels.

The strategic goal is to develop the market for consumer lines, starting with high-income segments.



#### Analysis of distribution forces

- 1. Regulation:** In 2000, Angola's government passed a new insurance law, opening up the sector to competition for the first time. Previously, state-owned ENSA was the only company allowed to write insurance. In the last few years, new decrees, such as regulation for workers' compensation, have added depth to the regulatory framework.<sup>2</sup>
- 2. Channel sophistication and competitive positioning:** The former state carrier remains the dominant company and has the benefit of an existing distribution network. The sector's early stage of development means there is no job force of independent or captive agents. For other insurers, the option of bancassurance is less appealing due to the limited bank branch infrastructure outside of the capital, Luanda.<sup>3</sup>

#### The implication for insurers' distribution strategies

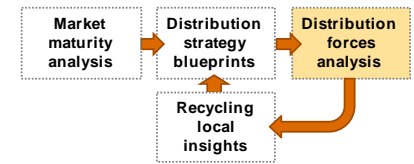
Based on these distribution forces, we expect to observe key changes in distribution strategies by the end of the decade:

- Given the lack of other options, insurers that are seeking to profit from Angola's emerging market will "build their own" agents.
  - As the economy continues to expand on the back of oil income, we expect foreign firms to enter the Angolan insurance market. South African, Chinese, and Brazilian insurers may be the first investors.
  - Since insurers will not be able to depend on local infrastructure, they will build their own channels from scratch. In essence, this means developing their own agency forces. The cost of training and employing agents requires that insurers invest with a long-term perspective.

<sup>1</sup> PwC analysis based on information from UN Conference on Trade and Development (UNCTAD).

<sup>2</sup> Vitor Carvalho & Associados, "New insurance premium scheme regarding accidents at work," December 2011, [www.vca-angola.com](http://www.vca-angola.com), accessed February 28, 2013.

<sup>3</sup> ENSA, "Numeros ENSA," [www.ensa.co.ao](http://www.ensa.co.ao), accessed April 15, 2013.



Case study: Poland—  
commercial-lines distribution  
***The forces of local business  
practices, regulation,  
and foreign influence  
will support the growth  
of brokers in commercial  
lines.***

#### Distribution forces framework



#### The current situation

Insurance brokers were not traditionally established in Central and Eastern Europe. Under communism, both companies and insurers were owned by the state. Since placements were done directly, there was no need for brokers; direct handling remains commonplace.

That said, a number of changes may be fostering an environment beneficial to brokers.

The strategic goal is to grow the commercial lines portfolio beyond the current base of large risks, counting on brokers to produce business.

#### Analysis of distribution forces

- 1. Customer culture:** In the more than 20 years since the end of communism in Poland, the country has modernized and diversified its economy. Formerly state-owned companies have declined in importance, causing a corresponding decline in direct purchases of insurance.
- 2. Regulation:** Polish regulations have become more complex as they incorporate EU standards, such as the Solvency II Directive.<sup>1</sup> For businesses, brokers are becoming more attractive as they have the know-how to support risk management in accordance with regulations.
- 3. Foreign influence:** Foreign direct investment in Poland is rising, with US and UK firms topping the charts for new investment projects.<sup>2</sup> Firms from these countries prefer brokers for their insurance needs.

#### The implication for insurers' distribution strategies

Based on these distribution forces, we expect to observe key changes in distribution strategies by the end of the decade:

- More Polish businesses will opt for brokers.
  - Companies will opt for brokers in order to get better advice on risk placements and compare quotes from multiple insurers.
  - As a result, commercial non-life insurance brokers will be well positioned to record revenue growth.
- Brokers will contribute to their own growth by providing industry expertise and value-added services.
  - Global brokers will import their best skills and tools from the US, UK, and other advanced markets to improve their value proposition.

1 Polish Insurance Association, "Insurance in Poland: Law," [www.piu.org.pl](http://www.piu.org.pl), accessed April 15, 2013.

2 Warsaw Business Journal, "Foreign investment up," December 2011, [www.wbj.pl](http://www.wbj.pl), accessed February 12, 2013.

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## *How PwC can help*



*Our capabilities and  
tailored approach.*

## ***What makes PwC's Financial Services practice distinctive***

<b>Integrated global network</b>	PwC's Financial Services practice consists of more than 34,000 industry-dedicated professionals worldwide, including more than 4,500 in the United States. They serve large and multinational banks, insurance companies, investment managers, broker-dealers, hedge funds, and payments organizations. The US Financial Services practice is part of the PwC global network of firms, which has clients in more than 150 countries.
<b>Extensive industry experience and resources</b>	PwC serves more of the largest and most complex financial services companies than any other firm. We understand from personal experience the wide variety of business issues that affect the industry, and we apply our knowledge to our clients' individual circumstances. Moreover, our large, integrated global network of industry-dedicated resources enables us to apply this knowledge on our clients' behalf whenever and wherever they need it.
<b>Multidisciplinary problem solving</b>	The critical issues that financial service companies face today affect their entire business. Addressing these complexities requires both breadth and depth of experience, and PwC service teams include specialists in risk management, compliance, technology, business operations, finance, change and program management, data and business analytics, economics and analysis, internal audit, tax, forensics, and investigations.
<b>Practical insight into critical issues</b>	In addition to working directly with clients, our practice professionals and PwC's Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients with new intelligence, perspective, and analysis on the trends that affect them.
<b>Focus on relationships</b>	PwC's size, financial stability, and 150-year history all contribute to our long-term view of client relationships. We help clients translate strategy into action by helping them address their challenges in finance, tax, human resources, operations, technology, and risk and compliance.

***PwC's in-depth understanding of channels covers the full spectrum of analysis.***

Channel driver		PwC insights and approach
Channel sophistication	➡	PwC has helped clients to develop strategies across a variety of traditional and emerging channels. Our experience has helped us to acquire valuable insights into channel trends, degrees of sophistication, and economic drivers.
Customer culture	➡	Our proprietary methodologies and tools, such as PwC's Customer Experience Radar™ and Customer Experience Navigator™, provide distinctive perspectives on the evolution of consumer behavior as it applies to the insurance industry.
Competitive positioning	➡	PwC serves more of the biggest and most complex financial services companies than any other professional services firm. While protecting client confidentiality, we have an understanding of competitive dynamics and positioning that is unparalleled.
Regulation	➡	The critical issues insurers face affect their entire business, requiring both breadth and depth of specialized experience and knowledge to resolve those issues. PwC service teams comprise specialists in risk management, actuarial, and compliance.
Foreign influence	➡	PwC's global, integrated network of insurance experts equips us with a base of local and regional knowledge from which we can devise solutions tailored specifically to clients' objectives, market positioning, and risk profile.
Technology adoption	➡	PwC's experience in identifying and analyzing technology trends—ranging from “big data” management to social media marketing—allows us to develop valuable insights that can support client decision making and business planning.

## PwC can help insurers to develop or improve their international distribution strategies.





	Step 1: Customized market analysis	Step 2: Opportunity definition	Step 3: Strategy articulation and roadmap
	4 weeks	4 weeks	4-6 weeks
Key outcome	Market and channel analysis by focus country	Specific opportunities to increase assets and capabilities	High-level roadmap and market approach
Strategic questions addressed	<ul style="list-style-type: none"> <li>Which markets are the best fit for profitable growth objectives?</li> <li>What market and competitive drivers most influence our potential to realize opportunities?</li> </ul>	<ul style="list-style-type: none"> <li>Which strategic distribution opportunities will help us to achieve our growth objectives?</li> <li>How will we prioritize these opportunities?</li> </ul>	<ul style="list-style-type: none"> <li>What market capabilities are necessary for effective performance?</li> <li>What is the high-level roadmap for market and channel entry?</li> </ul>
Core activities	<ul style="list-style-type: none"> <li>Confirm client's international growth goals. Assess distribution strategies and capabilities.</li> <li>Assess market maturity of international portfolio. Use distribution forces to frame analysis of select countries.</li> <li>Leverage and customize PwC's global research and analysis for client-specific focus areas.</li> </ul>	<ul style="list-style-type: none"> <li>Using findings from market analysis, identify growth opportunities in distribution across applicable markets.</li> <li>Define opportunity evaluation criteria with input from the senior management team.</li> <li>Develop a business case for proposed channel strategies; include sensitivity analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Confirm required capabilities to implement strategies.</li> <li>Produce high-level cost estimates and implementation implications; tie qualitative and quantitative benefits to capabilities.</li> <li>Prioritize initiatives across channels and markets.</li> <li>Develop a business plan to guide decision making and action.</li> </ul>
PwC tools	Global Growth Radar™ to support objective evaluation and comparison of international markets.	Global Growth Navigator™ to drive nonlinear opportunity forecasts based on multiple interacting factors.	Global Growth Pursuits™ to design business case evaluation and implementation roadmap.



*Our proprietary frameworks and tools—including Growth Radar™, Growth Navigator™, and Growth Pursuits™—help insurers define and execute their international growth strategies.*

Sample of key features			
	Growth Radar™	Growth Navigator™	Growth Pursuits™
	<ul style="list-style-type: none"> <li>Country attractiveness evaluations and scoring.</li> <li>Prioritization of countries based on attractiveness, opportunity sizing, and risk evaluation dimensions.</li> <li>Catalog of “data rich” scorecards for all countries.</li> </ul>	<ul style="list-style-type: none"> <li>Projection of current size and future growth curve of markets (defined as segments, products, or entire industries).</li> <li>Estimation of firm-specific opportunities, including revenue, profit, and other metrics.</li> <li>Industry-specific “cockpit” user interface for scenario planning.</li> </ul>	<ul style="list-style-type: none"> <li>Market analysis “deep dives” for prioritized countries.</li> <li>Profile cards for innovation concepts.</li> <li>Detailed strategy for each market (defined at the segment or product level).</li> <li>Financial models.</li> </ul>
Differentiators	<ul style="list-style-type: none"> <li>Multi-dimensional yet flexible methodology that facilitates accelerated decision making.</li> </ul>	<ul style="list-style-type: none"> <li>Powerful analytical tool to simulate testing of market scenarios.</li> </ul>	<ul style="list-style-type: none"> <li>Up-front reflection of business and technology readiness in market entry decision making.</li> </ul>

***Our customized analysis results in effective, executive-ready deliverables for accelerated decision making.***

Sample deliverable	Description	Sample view
<b>Customized channel analysis</b>	<ul style="list-style-type: none"> <li>Analyze and articulate the potential of all relevant channels across focus countries.</li> <li>Summarize channel trends within and across countries and regions, and inform opportunity identification.</li> </ul>	
<b>Opportunity validation and sizing</b>	<ul style="list-style-type: none"> <li>Identify and evaluate the opportunities; articulate the most attractive in terms of overall size.</li> <li>Include identification of distribution channels, target segments, applicable lines of business, growth drivers, risks, competitive considerations, feasibility, and constraints.</li> </ul>	
<b>Distribution organization design implications</b>	<ul style="list-style-type: none"> <li>Along with identifying the capabilities needed for specific market-facing outcomes, the analysis will provide insights into future organizational design requirements.</li> </ul>	
<b>Strategic roadmap</b>	<ul style="list-style-type: none"> <li>We take a unique approach to developing a growth strategy, integrating analysis of the operational and technological implications for growth into the development of a business plan.</li> <li>This high-level roadmap improves the comparison of the portfolio of options with return on investment (ROI) estimation.</li> </ul>	

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## *Appendix*



*Select qualifications.*

## **Designed global distribution market analysis— Leading global property and casualty (P&C) insurance company**

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### **Issues**

This global P&C insurance company was in the process of defining a strategy to drive its migration from a product-driven organization to one that would be more sensitive to customers' needs and expectations. But while management had gathered information around competitors' approaches, they lacked an organized vision of what those companies were actually doing and were also not clear on what constituted leading practices among industry players. To better understand the options currently available to them, and to inform future business decisions, our client needed to gain a rich and analytical understanding of how its competitors structured their distribution systems and other customer-facing functions.

---

### **Approach**

To that end, PwC helped the client design the following series of detailed analyses:

- **Channel landscape assessment** of 17 channel categories across 21 markets, designed to discern how distribution environments vary among countries in different regions and with different maturity levels.
- **Distribution leading-practices profiles** of 15 competitors, with findings synthesized into 20 key themes, and with each profile including details on product strategy, customer focus, channel focus, global organization structure, etc.
- **Distribution success-factors analysis**, including benchmarking eight competitors along seven success factors.
- **Top-competitor distribution model benchmarks** involving detailed mapping of the distribution organizations of three competitors, based on industry interviews and research.

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### **Benefits**

The findings drove the definition of the company's target global-distribution organization. The client was able to modify the proposed organization structure to better accommodate its key business goals: building an effective process to guide the sharing of leading practices across countries, regions, and global headquarters; pooling cross-border resources to drive complex activities such as customer analytics; and accelerating plans to expand IT systems from pilot countries to the broader regions.

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***Developed a strategic approach for investing in new markets leveraging PwC's proprietary Growth Radar™ and Growth Navigator™—  
Leading global insurance company***

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**Issues**

This top global insurer has a direct presence worldwide, its presence in some markets having begun several decades ago. Historically, the client followed a relatively unstructured growth strategy whereby entrepreneurial country managers sought out and developed profit centers in their respective markets. The company had been engaged in cross-border coordination of strategies or of investment planning when two events—the 2008 financial crisis and the boom in emerging insurance markets—convinced management that a globally coordinated approach to investing in new markets was necessary. The company turned to PwC for insight and assistance.

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**Approach**

Collaborating with the client, PwC created a highly structured, holistic approach designed to organize and quantify considerations spanning multiple levels—macro, industry, and corporate—the goal being prioritization among 150 developing countries. To that end, the approach included:

- **Use of filters** to tighten the focus to 60 countries that merited deeper analysis, then filtering further to identify 30 additional countries for distribution and internal operational analysis.
- **Design of a country-scoring methodology** that integrated quantitative metrics and a qualitative analysis to produce a single country score on a five-point scale. Scoring keys allocated metrics to scores based on underlying values, whereas the qualitative analysis was distilled into positive, neutral, or negative “outlooks” based on highly structured scoring criteria.
- **Prioritization of countries** based on attractiveness scores, risk scores, and projected market opportunities.

Not only did our analysis integrate overarching factors such as macroeconomic, political, demographic, and industry measures, but it also included more intricate analyses of products, distribution, and client-specific data to drive a structured prioritization.

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**Benefits**

The resulting country catalogs enabled the client to make objective comparisons of various emerging market opportunities. Additionally, the analysis served as a solid foundation on which to build a strong business case for increasing investment in emerging markets. Finally, the client used the country findings to prioritize emerging market investments in approximately 10 countries that were identified as delivering the best return for a given dollar of investment.

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***Established globally coordinated go-to-market strategies using PwC's Growth Pursuits™ that were co-developed locally—Leading US insurance company***

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**Issues**

Historically, this insurer's business planning had been done at the local level, but country managers were often limited in their abilities to counter the risk thresholds set by product-line executives in the distant global headquarters. Given that the company was drawing less than 10 percent of revenue from emerging markets at that point in time, management recognized the need to substantially increase investment in select emerging markets. However, the client first needed to establish locally driven, well-coordinated go-to-market strategies. Without such a global-local approach, the "think-big" goals for these markets were at risk of being compromised by existing institutional biases toward risk-taking in emerging markets.

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**Approach**

Working collaboratively with the client, PwC designed a consistent approach to evaluate market opportunities; define strategic goals; estimate the business case, including required investments and expected outcome; and draft actionable roadmaps. The approach comprised these elements:

- **Deep-dive market analysis of opportunities** across segments, products, and channels, as well as constraints stemming from competition and regulation.
- **Go-to-market strategic planning** based on global, regional, and local considerations; deliverable included a definition of country-specific strategies spanning products, segments, and channels for both personal and commercial lines.
- **Business case** based on calculation of five-year opportunity and return on investment, resulting in a high-level roadmap for each country based on investment inputs.

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**Benefits**

Based on a full investment in all 10 countries, the business-case analysis projected an incremental revenue of more than US\$2 billion and profit opportunity of more than US\$350 million after five years of investment. This translated into a much stronger exposure to emerging markets. Further, the client's emerging-markets leader employed the recommendations to secure senior leadership's commitment to increasing the company's investment in emerging markets—both generally and specifically—in the 10 countries identified by the business-case analysis.

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**Defined a global customer  
and channel experience  
strategy—  
Leading global P&C  
insurance company**

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**Issues**

To enhance its competitive position in today's dynamic global marketplace, this insurer sought to assess its relationships with customers around the world. Over time, the company had built its operations organically in dozens of far-flung countries, but now management sensed that various inconsistencies among its worldwide locations, coupled with a lack of cross-border sharing of industry leading practices, were affecting the company's ability to vie competitively in certain regions. Believing that a systematic, globe-spanning review of its customer relationships would enable the company to gain a customer experience advantage in today's increasingly competitive international markets, management turned to PwC for assistance in gaining a clear picture of the current state, creating a target experience, and defining the capabilities required to deliver a new distribution vision.

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**Approach**

PwC first separated the client's customers and partners into nine distinct segments. Then, combining interviews and research, we helped the client employ the following methodologies to define the current and target customer experiences for each segment:

- **Definition of nine key customer types** such as large firms, global brokers, agents, small and medium enterprises, and consumers.
- **Use of customer life-cycle analysis** to identify opportunities to interact with customers, a process supported by analysis of customer types and by interviews with the client's global and country managers.
- **Development of core customer experience themes for each segment**, based on the analysis and interviews.
- **Definition of target customer experiences**, including required capabilities for each customer type.

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**Benefits**

The client incorporated our customer experience recommendations into its new worldwide organization structure, wherein global "customer experience managers" were given authority for defining and developing the relationship with each of the nine customer types. Additionally, the client's global and regional leadership employed our capability gap analysis to identify high-priority development and/or investment areas.

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***Designed the target organizational structure for proposed global distribution organization—Leading US P&C insurance company***

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**Issues**

This P&C insurance company needed a strategy to drive its migration from a product-driven organization to one that would be more focused on customers' needs and expectations. The client's proposed vehicle for this goal was a global distribution organization that would own all client and channel management functions, including marketing, sales, and service. The new global distribution organization was envisioned as mirroring the existing management structure in that it, too, would operate at the global, regional, and local levels. Since the client had no internal or external precedents to help define the new organization, management sought PwC's specialized insights and assistance on the project.

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**Approach**

PwC collaborated with the client to map the global distribution organization and define its interactions with other organizations. To accomplish this complex task, PwC helped employ two key methodologies:

- 1. Target functional organization maps.** Based on market research, including competitive benchmarks and interviews, designed functional organization maps at the global, regional, and country level, with each function supported by descriptions, reporting structures, and resource requirement estimates.
- 2. Target interaction model.** Developed maps and rule books to guide interactions among the target global organization and other elements of the client's organization, such as product groups, claims, operations, systems, etc., with interactions defined at each level of the organization, from leadership to account managers.

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**Benefits**

The client used the target functional organization maps and interaction guidelines to steer the evolution of its global customer-facing organization. The outputs from the project directly impacted several aspects of the client's business, such as the balance of authority between product groups and customer-facing groups, and the division of responsibilities among local, regional, and global managers.

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*Helped to develop and institutionalize a complex analytical methodology and capabilities—  
Global insurance company*

Issues	Despite having long-standing operations in nearly all of the world's top 50 economies, the client continued to rely on just three markets for much of its business. As part of a broader effort to diversify business globally, the client wanted to enhance its customer and partner segmentation capabilities. However, the client had never developed a global view of segmentation; all such efforts were defined locally (and only in a few countries, to varying degrees). The client sought PwC's help to develop a segmentation capability from which it could execute cost-effectively across many markets.
Approach	<p>Drawing on its extensive customer segmentation and analytics experience, PwC helped the client develop an approach linking segmentation strategy with organization design.</p> <p>Deliverables included:</p> <ul style="list-style-type: none"><li>• <b>Segmentation handbook:</b> Detailed, step-by-step communication of the approach to segmenting each of the following: consumers, businesses, agents, brokers, and affinity marketing partners.</li><li>• <b>Prototype segmentation:</b> To prove the methodology, a pilot segmentation of brokers in the US market.</li><li>• <b>Segmentation center of excellence design:</b> PwC helped design an international segmentation Center of Excellence (CoE) for the client. The design covered organization structure, funding needs, and relationships with other parts of the client's organization.</li></ul>
Benefits	The client used the methodology and CoE organization design to guide its go-forward strategy for segmentation. Once a largely overlooked part of its business, market analytics and segmentation was now seen as being core to its global growth prospects.

**[www.pwc.com/fsi](http://www.pwc.com/fsi)**

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***To have a deeper conversation,  
please contact:***

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Marie Carr	marie.carr@us.pwc.com +1 312 298 6823
Mark Purowitz	mark.purowitz@us.pwc.com +1 646 471 9983
Jamie Yoder	jamie.yoder@us.pwc.com +1 312 298 3462
David Gates	david.gates@us.pwc.com +1 512 867 8723

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"May the distribution forces be with you: Developing the right P&C insurance distribution strategies for international markets," PwC FS Viewpoint, May 2013. [www.pwc.com/fsi](http://www.pwc.com/fsi).

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