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# *Wielding Distribution Forces for Global Growth*



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# ***Wielding Distribution Forces for Global Growth***

The numbers paint a clear picture: Growth opportunities for insurers are limited in developed markets. A relatively stagnant economic climate and the rise of new competitors are two main reasons why carriers in the G7 nations (the U.S., Japan, Germany, U.K., France, Italy and Canada) registered only a ten percent increase in property and casualty insurance gross premiums written between 2006 and 2011. However, U.S. insurers enjoy historic levels of capacity, which presents them with an opportunity to reallocate capital to the emerging economies that have a burgeoning insurance markets.

Compared to the slow growth in mature markets, the E7 markets (China, India, Brazil, Russia, Mexico, Turkey and Indonesia) experienced a 140 percent increase in property and casualty insurance gross premiums written from 2006 to 2011. This combination of push and pull factors is driving insurers to consider global diversification perhaps more than at any other time in their history.

However, leaving one's home territory is a complex undertaking. Insurers typically must sift through a mix of various internal and external research reports, presentations, and country-based business plans in order to determine a way forward. Even large players that have operations in many regions around the world can struggle to maximize opportunities and operate efficiently.

We present in this paper a straightforward, four-step framework that insurers can use to simplify the complex process of evaluating international expansion opportunities and determining appropriate strategies. This process can facilitate analysis of company goals and strengths and aid in the identification of the most attractive foreign markets.

- In step one of the process, insurers look at all of the countries in their portfolio. Economic, industry and demographic metrics can help them group nations by market maturity.
- Step two involves creating a preliminary distribution strategy blueprint for each of the market maturity groups, based on current and historical understanding of channels used in given regions. These blueprints can inform go-to-market considerations across groups of similar countries.
- The third step is to conduct a deep-dive analysis of the individual countries the company is considering entering. This step, which we call distribution forces analysis, provides a fresh look at the factors that may determine the success or failure of given channels in any given country. Insurers then can use this intelligence to tailor their preliminary blueprint to on-the-ground realities and implement it in a given market.
- Insurers will leave these first three steps with insights into specific countries and their own broader market maturity groupings. Step four involves applying these lessons to the general distribution strategy blueprints that apply to each of the market maturity groupings.

Critical to this process is distribution channel analysis. Insurers that fail to approach each individual market and tailor distribution strategies to local circumstances generally struggle to gain traction and attract customers. The most successful insurers have consistently determined the most appropriate channels based on a given country's economic and cultural development; they then have then devised distribution approaches for countries in their existing portfolios and possible future targets, accordingly. These successful companies consider all of the distribution channels at their disposal – agents, brokers, bancassurance, affinity and retail, and direct to consumer – in a particular country and then focus on a combination of the channels that make the most sense. This often includes using alternative or emerging technologies or partnerships (e.g., mobile, social media, microinsurance).

*Distribution channel innovation promotes competitive differentiation for cross-border operations. Effective distribution improves customer acquisition and retention, thereby enabling premium growth, market share gains, and profitability.*

## **Step one: Market Maturity Analysis**

The most successful insurance carriers analyze the current and target countries in their portfolio to gain an overall understanding of which distribution channels have worked best in markets at varying levels of development. Our four levels of maturity are 1) nascent, 2) early emerging, 3) late emerging and 4) mature. Based on their product focus and growth strategy, insurers may categorize markets using metrics such as insurance spending as a percent of GDP, auto ownership, and market share of foreign competitors. For instance, personal lines carriers may be more interested in knowing the scope of a nation's financial services distribution networks and fixed broadband Internet penetration, whereas commercial lines carriers may focus more on the sophistication of the legal system and ease of doing business.

By successfully categorizing countries by maturity, insurers can go beyond traditional market comparisons. One familiar but flawed approach to international distribution strategy is to lump together countries by region under the assumption that proximity breeds similarity. However, countries within a given region can be very different from each other, and some of them actually may be more similar to countries in other regions.

Latin America is a prime example. By simply viewing the widespread use of Spanish in the region, its many cultural similarities and economic measurements like GDP per capita, insurance penetration and auto ownership rates, insurers might be tempted to apply the same distribution strategy to the entire region. For example, personal carriers might note the past success of independent agents in the region and select it as their primary channel. That could be a costly mistake. A closer look at one nation, Chile, reveals why. The country has a fairly advanced economy and a level of home computer ownership, broadband access and familiarity with e-commerce that is more like some European nations. If insurers are aware of this, they may decide to develop and implement a Web-based business model as a primary distribution channel.

## **Step two: Charting channel potential**

Greater market maturity means greater diversity of available distribution channels. Nascent markets tend to have a limited number of insurance products, inexperienced distribution professionals, and low levels of technological sophistication. Accordingly, fewer channels are feasible. In contrast, one of the typical characteristics of early emerging markets is the growth of auto insurance and the appearance of new channel options such as bancassurance and independent agents. Even more product diversification occurs within late emerging markets, leading to yet more distribution options, such as affinity marketing. Finally, mature markets typically enjoy a wide variety of distribution options, including e-commerce and personal lines brokers.

With this in mind, insurers can use market maturity analysis to ascertain which types of channels tend to work – or even exist – in specific countries. They can use simple notations – such as designating different channels as red, yellow or green – to show the likely success of a distribution medium in a particular maturity grouping. These preliminary blueprints can reflect strategic objectives, including mass consumer markets, niche consumer markets, small businesses, midsize businesses, and/or large risks.

| P&C Strategic Focus Options   | Market Maturity Profiles             |  |   |   |
|---|--------------------------------------|--|---|---|
|   | Nascent                              | Early Emerging   | Late Emerging   | Mature  |
| <b>Mass Consumer Markets</b><br>• Motor, Home   | ● Employed Agents<br>● Bancassurance | ● Independent Agents<br>● Captive Agents<br>● Bancassurance  | ● Agents<br>● Bancassurance<br>● Call Center<br>● Web                                   | ● Agents<br>● Bancassurance<br>● Call Center<br>● Web                                   |
| <b>Niche Consumer Markets</b><br>• A&H, Travel<br>• Extended Warranty<br>• Private Client | ● Employed Agents<br>● Bancassurance | ● Independent Agents<br>● Captive Agents<br>● Bancassurance<br>● Affinity Marketing<br>● Retailers | ● Agents<br>● Bancassurance<br>● Affinity Marketing<br>● Retailers<br>● Web/Call Center | ● Agents<br>● Bancassurance<br>● Affinity Marketing<br>● Retailers<br>● Web/Call Center |
| <b>Small Business</b><br>• <\$10M annual sales  | ○ N/A                                | ○ N/A  | ● Agents<br>● Bancassurance<br>● Call Center<br>● Web                                   | ● Agents<br>● Bancassurance<br>● Call Center<br>● Web                                   |
| <b>Local Medium-sized Firms</b><br>• \$10M-100M sales                                     | ○ N/A                                | ● Global Brokers   | ● Global Brokers<br>● Tier 2 and 3 Brokers  | ● Global Brokers<br>● Tier 2 and 3 Brokers  |
| <b>Large Risk and MNCs</b><br>• >\$100M sales   | ● Global Brokers                     | ● Global Brokers   | ● Global Brokers  | ● Global Brokers  |

● High Potential      ● Medium Potential

### **Step three: Deep dive into distribution forces**

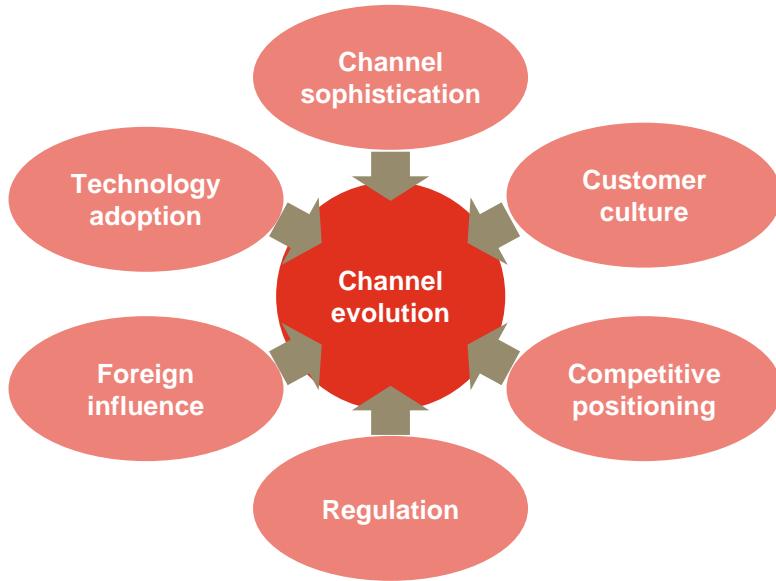
By itself, this general maturity framework will be insufficient to devise a successful distribution strategy in a new market. To define a successful go-to-market strategy, the next step is a deep dive into the local factors that shape the channel landscape.

Consider Indonesia, where insurance is a relatively new concept. Channels such as direct-to-consumer could be challenging, given the limitations of phone and Internet infrastructure that existed until very recently. Moreover, mature broker and agent networks do not exist outside of Jakarta and a few other major cities. Knowing this, one global insurer decided to partner with leading local banks.

As another example, Argentina, which is similar to its neighbor Chile in certain market maturity aspects, posed a challenge for a global insurer when it launched a Web-based channel. The company soon learned that Argentines prefer face-to-face interactions when purchasing insurance products.

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With examples like these in mind, insurers should conduct distribution analysis by focusing on the following six critical distribution forces:



- Channel Sophistication: Assess the maturity of channels relative to others in a given market, or similar channels in other geographies. Factors such as technology, education, geography and rule of law should enter into the analysis.
- Customer Culture: Examine how customers behave in different countries. What is typical in one culture may be unusual in another.
- Competitive Positioning: Research the channels market incumbents already use and determine if their market position limits channel effectiveness for new players. For example, if incumbents have locked in bancassurance agreements with a given country's leading banks, then alternative channels will be necessary.
- Technology Adoption: Assess if the adoption of new technologies in a market will create new opportunities and eventually make current modes of distribution obsolete.
- Regulation: Analyze a nation's regulations and if rules and practice favor some channels over others. Regulations can create opportunities for different types of distribution strategies, or take them off the table completely.
- Foreign Influence: Consider outside influences, such as heavy foreign direct investment, which may bolster the use of the certain channels (such as those already preferred in the investors' countries).

Armed with an understanding of local conditions, insurers can decide whether or not to invest in a given country. They can determine if local distribution options align with their strategic aims and resources. Once they decide to invest in new countries, distribution forces analysis can help them decide when and how much to invest.

For instance, if a European insurer wants to deploy its captive agency strategy to Latin America, distribution forces analysis would allow it to identify the five countries in the region in which captive agency distribution would be a competitive advantage. For the purposes of this example, the insurer also would learn that its competition most likely would increase in the near future in two countries because of foreign mergers and acquisitions. The insurer then would understand accordingly that it needs to quickly move into those countries with its captive agency force.

## **Step four: Applying and refining insights**

By applying distribution forces analysis to countries around the globe, leading insurers can develop insights into how insurance markets evolve and mature and use them to strengthen the preliminary strategy blueprints they have devised for each of the maturity groups.

For example, will e-commerce take off in China at the expense of independent agent networks? Will brokers in Russia eventually be able to produce business from local middle market firms? By leveraging distribution forces analysis from other countries, such as South Korea and Poland, insurers may be able to answer those questions. By determining how these six distribution forces may affect a given country, insurers not only can gain an appreciation for local market characteristics, but also can anticipate where the market is heading.

## **Challenges and solutions**

Needless to say, successfully implementing a global distribution strategy is easier said than done. Practical and operational challenges can arise during market maturity and distribution forces analysis.

Applying and refining insights can lead to effective transformation of the global operational model, but for the transformation to be complete, insurers should be prepared to adjust their global operating models to promote common use of best practices and other intelligence across national borders. We have observed that leading insurers continuously monitor the effectiveness of their models of interaction in, between and among their global, regional and local organizations. Based on new insights and realities afield, they redefine their models accordingly, including by investing in new support organizations or specialized centers of excellence when necessary.

Returning to the example of the European insurer above, once it decided to acquire assets in the five Latin American countries it had targeted, it then needed to determine how its new local and regional operations could best complement its existing European and Middle Eastern assets. The solution in this case was to establish a new “international” group that unified all non-European assets and promoted the sharing of information among them.

It is important to note that conflicts can arise when attempting to balance decision-making authority and facilitate interaction between and among local, regional and global management. Managers at the local level may feel that they are in the best position to provide insights into their own countries, but they may not be fully aware of the company’s overarching growth and profitability goals. Indeed, today’s international insurance companies struggle with the tradeoffs when they allocate decision-making authority. There is no single, off-the-shelf answer, and the bottom line is that collaboration is crucial among all three levels – local, regional and global – as is avoiding the concentration of power at any one level.

Insurers may encounter internal and cultural difficulties when implementing new local distribution strategies. Processes on the ground support every distribution strategy, and they must be in alignment with local team’s capabilities. The execution of new strategies and improvement of existing distribution channels also are likely to require investments in technology. These can be costly and complicated, involve the integration of new and legacy systems, the mass migration of customer records, and correspondingly large capital outlays.

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That said, the payoff is likely to be worth the investment. Through market maturity and distribution forces analysis, insurers at the earliest stages of international growth can identify the new and promising markets where they can grow and improve their competitiveness. For established international players, this approach may reveal that long-held views on specific regions may no longer hold true and that successful practices in one country may be applicable in a surprising number of other potential markets.

From a broader perspective, distribution channels retain their vital importance to the insurance industry. The most successful international insurers display their full diversity, ingenuity and creativeness in their distribution channels – not just in how they design their products. In sum, distribution is where insurers reap the rewards of their innovation.

## **Contacts**

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