

THE INSURANCE AGGREGATOR. IMPACT AND VIABILITY IN SINGAPORE.



Bring experience

value creation



Understand

process optimisation

Foreword.

Singapore enjoys one of the highest insurance penetration rates in Asia. Nonetheless, as at the end of 2011, the country's absolute protection gap stood at S\$462 billion¹. To raise the standards of the financial advisory industry and improve distribution efficiency of life insurance and investment products, the Monetary Authority of Singapore (MAS) launched the Financial Advisory Industry Review (FAIR). Among the recommendations to reduce distribution costs is the implementation of a web aggregator for insurance. As communicated to the public in early October, MAS intends to have an interactive aggregator by the end 2014.

The growth of the insurance aggregator ranks among the most important developments in the distribution of consumer financial services in some mature markets. In fact, aggregators have revolutionized the distribution of insurance in the UK, gained traction in Australia and the United States as well as achieved significant results in Switzerland and Germany. In Singapore, incumbent web aggregators for financial services have minimal presence, if any, in the life insurance domain. The web aggregator proposed by MAS is therefore of significant interest for life insurers active in the local market.

Solutions Providers Management Consulting has delivered consulting services on the topic of insurance aggregators in different geographical regions. Equipped with the relevant expertise and experience, Solution Providers has closely followed the aggregator development and discussion in Singapore. Recognizing that a critical success driver of an aggregator is the industry's acceptance, Solution Providers has, over the last few months, discussed the topic with a number of senior executives from the Life Insurance and General Insurance sectors.

This report collates the views and expectations of these industry leaders on the insurance aggregator. Coupled with insights of aggregator specialists and the experience of Solution Providers, this White paper addresses the aggregator's impact and viability in Singapore. It also explores how both the aggregator and insurers can adapt to each other to create value for consumers and the industry.



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¹LIA Protection Gap Study 2012

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Executive Summary.

The insurance aggregator is an inevitable development in Singapore. Though triggered by local regulatory requirements for life insurance, the aggregator has an established presence in other parts of the world where financial advisory is at a mature stage.

Senior management leaders from the local insurance industry interviewed by Solution Providers raise important issues regarding the aggregator's viability and impact on business. The aggregator's ability to accumulate a critical mass is deemed a crucial and fundamental pillar that potentially enables a narrowing of the life protection gap and facilitates cost-effective distribution. Excessive comparison can however lead not only to unhealthy price competition but also commoditization of insurance products and diversion of focus from protection to returns. The choice of the products to be listed on the aggregator is seen as a double-edged sword – it can either lead to overly complex information or create momentum to build critical mass via complementary product offerings.

Despite the challenges, a win-win situation can be created. Through its many years of project experience with aggregators, Solution Providers believes that a local aggregator can become a valued partner in the industry by being feature-driven and integrated into insurers' value chains. Insurers can also adapt by optimizing their product lines and drive traffic towards them.

A successful aggregator may shape the future development of the life insurers' individual distribution model, including the direct channel which is another focal point for regulators. As the market matures, regardless of triggers, insurers will find it increasingly necessary to perform gap analysis not only to ensure compliance but also to formulate an economically viable strategy.

1. In the Shoes of the Customer.

1.1 Who will be the likely user?

An insurance aggregator draws customers with a specific set of characteristics. These customers are driven by a conscious and typically mandatory need for insurance. Familiar with the terminology and the terms and conditions of the product, they are willing to spend time and effort to research the best and most favourable deal. In other words, the aggregator captures an audience who has the willingness, ability and capacity to initiate the purchase process.

In relation to the implications, interviewees express concerns in two main areas – protection gap and cognitive overload.

1.2 Protection Gap

Life insurance is unlike commoditized products such as motor and travel insurance, which are mandated by regulations or driven by events. Without a visible and immediate need, short of adverse selection, it is unlikely that a sizable segment will initiate the process of purchasing life insurance. This has been observed in markets where aggregators are a mature presence. Life insurance products are sold but not bought. As a result, life offerings on aggregators have by far been constrained to simple term or mortgage insurance for reasons related to simplicity and available complementary offerings such as home loans.

Hence interviewees have their reservations how the aggregator will be able to attract sufficient public interest and ultimately help to narrow the life protection gap. Therefore the success of the aggregator will be at least partially dependent on the extent of its visibility to the media and consumers.

1.3 Cognitive Overload

A few interviewees point out that consumers may not be as well versed with insurance terminology as the latter would believe themselves to be. Certainly, some products such as travel insurance are straightforward and self-explanatory. However, in the case of term or critical illness policies, an insurance aggregator will be expected to present caveats alongside product features and indicative premiums. Information, if overly complex and excessive, may confuse consumers, undermining distribution.

Marketing executives interviewed draw references to a recently published study regarding customers' attitudes toward online shopping¹. While local consumers are receptive to online transactions and browsing, they report frustrations with the massive amount of information and choices online. Interviewees however acknowledge that consumers are also increasingly willing to engage in online research before major purchase decisions. In an E & Y Global Consumer Insurance survey conducted in 2012, 73% of clients reported a willingness to do extensive research on insurance when a renewal is due. The belief that it is necessary to survey consumers on their attitudes and expectations for the life aggregator is almost unanimous among the interviewees.

¹«Digital and the New Consumer: Emerging Paths to Purchase», Havas Worldwide and Market Probe International, 2013

2. Channel Dynamics.

Half the number of interviewees believes that an aggregator will compete with existing distribution channels. Among these channels, almost all interviewees expect the insurance aggregator to impact the agency channel the most, though not too adversely, followed by brokerage. Bancassurance is predicted to be the least affected. The impact is nonetheless believed to be only moderate for both the agency and brokerage channels. Among the reasons cited is their non-substitutable human touch craved by the majority of consumers and solutions, rather than product, offerings. The E & Y Global Insurance Consumer survey echoes similar observations. 89% of its survey respondents across the region see personal interaction as essential.

2.1 Induced Selling Behaviour

However some interviewees are cautious of the aggregator's impact on the behaviour of individual FA representatives. Citing the example of a static comparison table of integrated shield plans currently on the Ministry of Health's website, interviewees worry that the aggregator may induce FA representatives to engage in comparison of competitors with their customers. This is a practice that is not encouraged in the agency channel.

2.2 Direct Channel and Access

In the course of the interviews, a paradox stands out. Although the aggregator is not expected to impact the traditional distribution channels too adversely, fear of it exists.

Interviewees relate how brokers feel threatened by the possibility of customers making purchases directly from the insurer after working through the product comparison process by themselves. Brokers will need to differentiate themselves effectively from the aggregator.

Interviewees however maintain a clear distinction between the insurance aggregator proposed by MAS and direct channels. Noting that the former has no transactional ability, interviewees feel that few consumers would necessarily transit from it immediately to a direct channel due to unfamiliarity and cognitive overload, leading to the need for professional consultation. For the same reason, more than half the interviewees do not think that the aggregator will interfere in the insurers' direct access to the customer.

2.3 Product Suitability

Expectations are, however, played out differently in the case of simple insurance product distribution. Two thirds of the interviewees expect the aggregator to have a key role in the distribution of simple products. Interviewees indicate motor and travel insurance products as being most suitable for the aggregator platform, followed by personal accident and maid insurance. Term life products, medical insurance and hospital cash are considered moderately suitable. Term life products with riders for total and permanent disability as well as critical illness, whole life products and investment-linked plans are not viewed as suitable products for the aggregator. The same attitudes apply to online offerings. These opinions are in line with the observations in markets where aggregators are mature and active.

Figure 1
Perceived Product Suitability

Candidate Products for the Aggregator and Direct Channel	Perceived Suitability
Car Insurance	
Travel Insurance	
Maid Insurance	
Home Insurance	
Personal Accident	
Medical Insurance	
Hospital Cash	
Term Life	
Term Life (with riders Critical Illness and Total & Permanent Disability)	
Investment-Linked Policy (ILP)	
Whole Life Participating	

Source: Solution Providers, Aggregator Survey 2013

3. Sustainability.

Nearly all the interviewees emphasize that the aggregator must be run professionally, otherwise it risks a negative impact on the industry's reputation. Understanding that the tool will require significant investments of time, effort and finances, interviewees reflect on its potential sustainability.

3.1 Economics

Financing of the aggregator consistently surfaces during the discussions. For it to play a viable role in the industry, the aggregator has to be built on strong and sustainable economic fundamentals.

3.1.1 Critical Mass

Traffic volume is a key consideration for the interviewees when asked to gauge the significance of the aggregator. Several express concerns about the low traffic volumes associated with MoneySense and the poor consumer awareness of the integrated shield plan comparison table. Such observations may be due to lacklustre consumer engagement in the self-informative domain of insurance. The problem is compounded by Singapore's small population size, the general lack of immediate need or desire for life insurance and the potential cognitive overload that users may face and therefore seek to avoid. In other words, the aggregator is expected to face difficulties in gathering a critical mass which is deemed a necessary milestone for it to be significant and sustainable over the long term.

3.1.2 Revenue Impact on Insurers

To build the necessary critical mass, industry players' active participation as both suppliers and advocates is essential. More specifically, insurers must be convinced of the value that the aggregator purports to give in return for their participation. Interviewees raise several concerns in the context of the aggregator's price comparison feature.

Price comparison will be overly emphasized at the expense of product benefits and service.

Insurers may respond to the need for equivalent and fair comparison by standardizing products, a trend deemed by some interviewees as taking the industry backwards. A few interviewees indicate that they would rather not participate since they feel their organizations' competitive advantage lies in their service, rather than pricing. In the UK, first generation aggregators lead to a commoditisation of certain products, offering clients lower prices but at the expense of more comprehensive solutions.

Will price comparison be based on per return or per sum assured?

The former aspect will divert attention from the need to narrow the protection gap while the latter will lead to either an over-simplification of products or an overwhelming amount of caveats to accompany the products listed on the aggregator.

Price competition may not be healthy in the long run.

The motor insurance market depicts the classic example of over-competing on price, a trend further intensified by the emergence of aggregators. Some interviewees predict that margins will be driven down, as observed in the motor insurance industry. One interviewee believes, however, that such a trend will not be sustainable in the life insurance industry. Life insurers may choose to respond to any sign of declining margins by raising premiums.

3.1.3 Distribution Cost

All interviewees agree that the aggregator will require significant set-up and maintenance costs, which are expected to be borne, in part or in whole, by insurers and consequently policyholders.

The lack of economies of scale translates into high conversion costs. Distribution costs are therefore not necessarily reduced. In fact, given the high likelihood of customers engaging FA representatives, even after using the aggregator, distributions cost can increase ultimately. Given the challenges in building a critical mass, interviewees are wary that the aggregator may not be cost effective. Solution Providers has observed that in Europe, marketing and branding tend to take up the bulk of the aggregator's cost.

3.1.4 Technology and Operations Readiness

Two third of the interviewees acknowledge deficiencies in their current online capabilities to support both the aggregator and online business. Although they do expect to enhance their online capabilities significantly over the next few years, it will still be a challenge to ensure that the information on the aggregator is consistently kept accurate and up-to-date. Most believe that they are not ready to integrate web analytics data from the aggregator with their companies' existing CRM. This means that insurers expect more costs than benefits, at least, in the short to medium term.

3.2 Value Chain Integration

Interviewees agree that the aggregator can be integrated into the insurers' value chain by being involved in the full sales cycle as an alternative distribution channel. However interviewees are concerned that the Personal Data Protection Act would have implications on the aggregator's role as a leads generation tool.

3.3 Governance

Multiple interviewees express concerns over ownership of the aggregator. They emphasize that the aggregator should be organized with a transparent structure. While interviewees do not discount the probability that the aggregator can be run by a third party or industry association, they maintain that governance should be independent and non-biased. Likewise, Solution Providers observes instances in Europe where insurer-owned aggregators have not enjoyed a positive experience with the market.

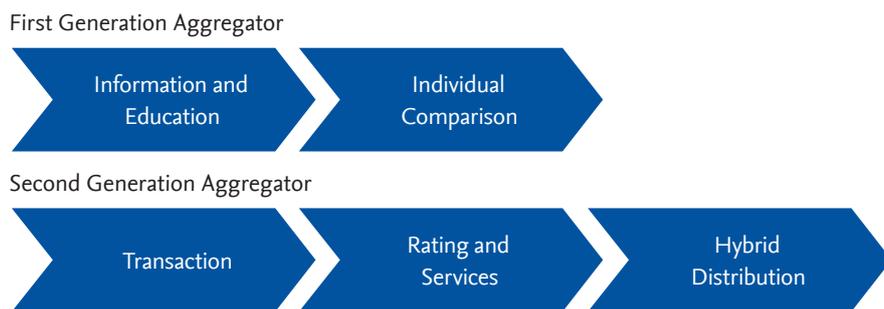
4. Rising to the Challenges.

The survey yields important insights about the industry's key concerns and challenges in both the financial and strategic aspects. Other than cost concerns, insurers must contemplate if they should integrate their existing distribution channels with the aggregator and if so, how best to do it. They must also determine if an online strategy is relevant to their business. In other words, the eventual form of the aggregator will influence insurers' attitudes toward their distribution models. Hence insurers are taking a wait-and-see approach while the format and success of the aggregator in Singapore is uncertain.

4.1 Transcending First Generation

In its first generation, the aggregator is merely an information provider with some value-add via rudimentary product comparison tools. In the second generation, it transcends price comparison by offering solutions rather than just information. It is capable of showcasing insightful information such as service quality and integrated into the value chains of partner providers. It can also offer web analytic services that help participating insurers optimize their products to suit customer needs.

Figure 2
Maturing of Aggregators



Source: Solution Providers, Internal Research

4.1.1 Feature-Driven

The aggregator can become a valuable partner in the insurance industry by highlighting competitive advantages of individual insurers.

In its project with Comparis, an insurance aggregator with significant brand visibility in Switzerland, Solution Providers created a scoring model based on coverage and service to boost the comparison tool for life and non-life products. Comparis also conducts an annual customer satisfaction survey to provide ratings of individual providers on its platform. Customer ratings are essential to ensure credibility and neutrality of the aggregator.

4.1.2 Value-Chain Integration

Other than being feature-driven, the insurance aggregator can create further value-add by integrating with its providers' value chain. Its web presence has the potential to be integrated with providers' direct channel which is also leaning towards an online existence. Duplication of efforts can also be avoided if providers are technically integrated with the aggregator. In one particular aggregator-related project, Solution Providers enabled a provider's product engine and aligned the interface design to facilitate cost-effective operations and maintenance.

4.2 Optimizing Product Line

Although the insurance aggregator may face limitations in providing comprehensive product comparisons, insurers do not necessarily have to avoid or compromise. Instead a differentiation strategy may be more effective. Solution Providers has worked with an insurer to develop a low-cost product line that is optimized for the aggregator platform. Similarly, Solution Providers has also created white label products for another client to put on the aggregator.

4.3 Achieving Critical Mass

The most important point for an aggregator is its web traffic which should ideally be optimally distributed over the year. Although interviewees think that Singapore's small population size may pose a challenge to building critical mass, it is noteworthy that insurance aggregators are successful in Switzerland where a population of 8 million resides. Hence Singapore's population size does not necessarily put the aggregator at a scale disadvantage. Traffic volumes can be driven by shaping the product suite on the aggregator and engaging positive network effects.

4.3.1 Complementary Products and Services

The product mix on the aggregator plays an essential role to build up the critical mass. Interviewees may actually have a partial solution to the critical mass challenge. Two third of the interviewees believe that multi-line aggregators covering all financial services are in the best interests of customers as such products are related. For example mortgage loans and decreasing term insurance go hand in hand due to the trigger event of a house purchase. Traffic can be driven by complementary products and information. Another solution is to leverage on a complementary and established platform. One example would be the Central Provident Fund (CPF). It enjoys high traffic volume and is predisposed to get visitors to pay attention to protection needs and retirement savings.

4.3.2 Network Effects

An insurance aggregator has essentially two customers – the visitors and the providers. Although providers, if given a choice, would rather not participate due to fear of direct competition, having complementary product offerings on the platform can help to mitigate negative direct effects among the providers. Just as important, if not more so, are the positive direct and indirect effects that have the potential to be harvested among the visitors. A leaf can be taken out of online gaming platforms where the more the online players, the more additional users are likely to join. The insurance aggregator becomes more than a passive provider of information. By engaging its visitors actively, it has the opportunity to create a snowball momentum and generate sustainable traffic volume to the providers.

5. Conclusion.

The insurance aggregator has its share of challenges and threats to the insurance industry. It also has its merits. A win-win situation is viable if efforts are expended to identify possible leverages and pitfalls. Technical readiness and operational processes cannot be overlooked either. The general insurance industry, which has long been the target of aggregators, now looks on to the development of the aggregator in the life insurance industry with interest.

A collaborative approach between the aggregator and insurers makes the aggregator a viable reality. The aggregator can showcase the competitive advantages of the individual insurer and the insurer in turn, adapts to the requirements of the aggregator with optimised or complementary products and services. Attention must however be paid to the development of critical mass in order to benefit from scale economies. A second generation aggregator that is linked to existing distribution channels contributes to the much needed critical mass.

A successful aggregator has the potential to shape the future development of the life insurers' individual distribution model, including the direct channel which is another focal point of FAIR. In fact, FAIR triggers the need for insurers to perform gap analysis not only for compliance reasons but also to formulate an economically viable strategy. The insurance aggregator may just be one of the many pieces of a complex puzzle.

6. Appendix.

6.1 Author and Contributor



Michael Gerber
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His consulting career spans close to two decades, during which he focused predominantly on the insurance and reinsurance industry. Extensively experienced in distribution and strategy, he has addressed companies' structural challenges. He is also very experienced in customer orientation, process optimization and efficiency as well as in technical realization aspects.

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Her experience in the insurance industry encompasses sales and training in distribution channels including bancassurance, local FA and agency. Prior to joining the industry, she was department head of service operations management in a systems integrator company. Her most recent consulting project involves strategy planning for an agency channel.

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6.2 Methodology

Senior management leaders from the general and life insurance industry were interviewed in person over the span of one month. These interviewees are among the key stakeholders in the local market. Surveys were also distributed and answered on an anonymous basis. Interviewees' views do not, in any way, represent company views.

6.3 Solution Providers

Solution Providers is an established, globally active management consulting company and a valued partner to renowned international financial services companies. Since its formation in 1996, Solution Providers has offered its clients excellent solutions, enabling them to generate high added value. We support our clients in the whole process from working out strategies and realising them operationally through to technical implementation.

Solution Providers' clients deserve the best. Since the quality of consultancy is closely related to the level of education, it invests approximately 10% of its financial and human resources in comprehensive further education and development as part of its «Academy Program®». Under the motto «Life-Long Learning» the program supports its ambitious consultants on their path to senior consultant, manager and partner at the company.

The trust that leading banks and insurance companies have in Solution Providers is based on experience and a conviction that its consultants are always able to form teams that are capable of and willing to achieve ambitious goals with expertise and passion.

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