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RESEARCH ARTICLE

DIGITAL TRANSFORMATION IN INSURANCE DISTRIBUTION: INTERNATIONAL EXPERIENCE AND SUGGESTIONS FOR VIETNAM

*Hung Tien Nguyen

Master-Postgraduate, School of Finance; University of Economics Ho Chi Minh City (UEH), Vietnam

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*Corresponding author:

Hung Tien Nguyen

ABSTRACT

Digital technology is quietly revolutionising insurance distribution. The Internet, mobile devices, telematics and social network are all radically changing how insurers and their customers interact. Customers have greater access to information to evaluate their risk exposures and are becoming more self-directed in how they choose to fulfil their insurance needs. In this article, the author discusses the impact of digital technology on the insurance distribution process, the results and the digital transformation experience of insurance distribution in the world, thereby makes recommendations applied to insurance companies in Vietnam market...

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INTRODUCTION

Digital transformation concept: The term "digital transformation" is commonly used over the past years with various meanings. However, digital transformation is the best use of technological powers to "re-examine" business models, attract customers to new channels, and create users' essential experience. Digital transformation should start from renovation of current technology, many insurance companies have implemented programs of core transformation. Technological transformation helps insurers set foot in the digital era by using basic digital contact, digitalizing documents, inputting data online, applying mobile services and alike. The more advanced technology (Ex: Chatbot) could improve effectiveness, reduce costs; however, also requiring more potential and flexible core system. The target of digital transformation not only ends up with technological innovation, but also gives indispensable experience to customers. In the era of Industry Revolution 4.0, all activities of users are almost involved in smart devices, by which on the Internet, they are able to "touch" any goods, suppliers' services, and satisfied with contact needs in social network community. Therefore, insurance companies should exploit technology to build new "touch" points, discover, make access to potential customers, give advice, accept insurance and claims when the insured take risks within the insurance coverage. By using information technology, insurance companies digitalize businesses, computerize processes which are delaying, easily-erroneous

and costly in order to promote speed, exactness and reduce costs. Digital transformation could rationalize and simplify current performances to achieve productivity immediately, but also prepare long-term success, by continuously improving digitalization for businesses. Digital transformation strategies are not only widely applied to the whole organization but also combined with relevant branches.

Process of insurance distribution: Distribution - how insurance services are distributed, otherwise, insurers interact with their customers. Distribution model is an important aspect of business model of an insurance company. Fully defining, distribution is not only a separate sales channel attached to the trading process and selling-buying completion, but also includes other activities such as: providing and accessing information of products and prices, advising, negotiation between insurance companies and their customers (before trading process) and moreover, the management of insurance policy, settlement of claims and control of risks (after trading) (Figure 1)

Discussion of results: The trends of digital transformation in the system of insurance distribution

Transformation of distribution channels: Technological renovation is changing the traditional system of insurance distribution, restructuring functions of insurance intermediaries and steadily expanding from distribution model via agents/traditional brokers to a series of direct and indirect channels



Figure 1. Activities in the process of insurance distribution

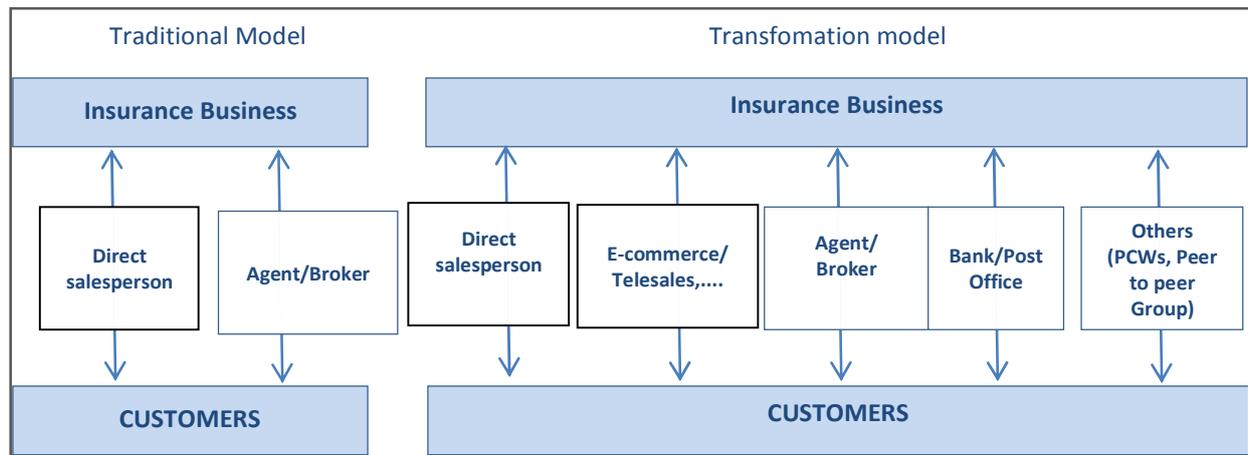
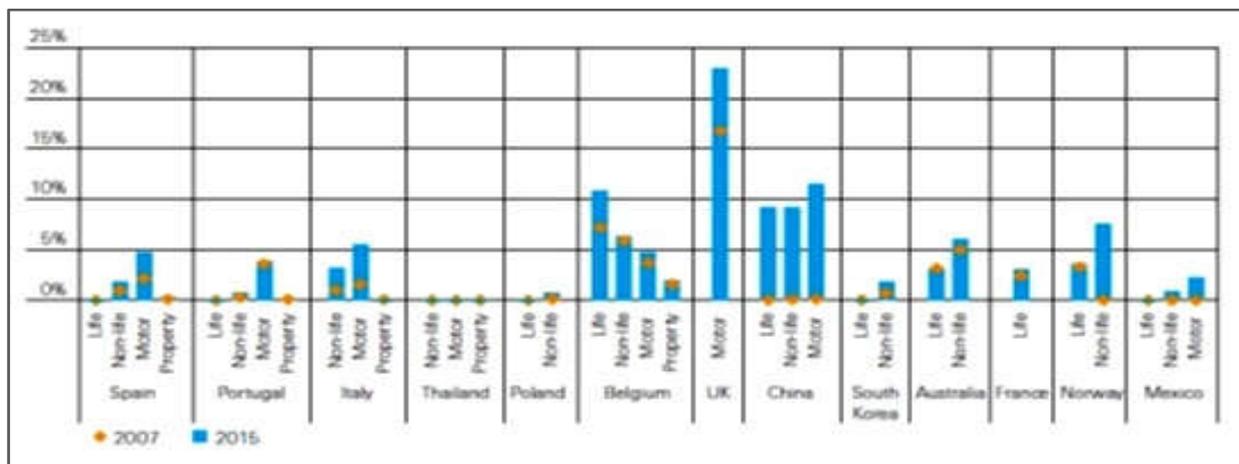


Figure 2. The transformation trend of distribution channels



Source: Sigma, SwissRe

Figure 3. The online-based premium ratio in some countries (2007-2015)

between the insurance company and both current and potential customers. The direct channels such as telesales, e-commerce along with new intermediaries including Price Comparison Websites (PCRs), peer-to-peer groups could diversify the system of distribution channels (Figure 2).

Online channels increasingly play an important role in direct distribution: The integration of Internet and social media has been promoted significantly, especially, online contacts are made with mobile devices. Not only in developed countries, but also in emerging economies, more and more people use Internet and possess a lot of hi-tech utilities.

According to the Pew Research Center, the proportion of people in developing economies who use the Internet or own smartphones has increased by 54% in 2015 compared to 45% in 2013 (Swissre No 3, 2017). Much of this growth comes from large emerging economies like China. As a result, online channels are growing rapidly in some markets. Online purchases of motor insurance in the period 2013-2015, accounting for more than 10% of the domestic market. The UK is also a prominent example of motor vehicle insurance and private home insurance. (UK Insurance and Long-Term Savings. Key Facts, 2015, ABI). In the United States, direct-to-consumer auto insurers distributing products primarily

through the Internet or by telephone, gradually gain significant market share. Traditional life insurance products are also increasingly being sold through online channels (Willis Tower Watson Survey).

Fragmentation of insurance distribution process: Digital technology will have a big impact on the entire distribution process: it's about how products and services are provided and in general how companies interact with their customers. According to the traditional model, the process of distribution process is normally carried out independently by direct channels (sales staff), indirectly (brokers, agents) for all their insurance needs. In the digital era, the stages of the distribution process are no longer focused solely on a channel but fragmented in a multi-touch (Omni-channel) distribution model. Consumers are becoming more self-directed and use a variety of sources and means to research, seek advice and ultimately buy insurance service. Digital transformation has allowed to add many different customer service channels including self-service such as website, e-mail, online chat, mobile application, text message, online forum and social media. Consumers examine online products, introduce/exchange products with friends and relatives on social media (Internet) and then buy them, claim damages not only through agents, brokers but also via web application or mobile device. Basically, consumers want more options: text, email, web chat (chat), phone and sometimes direct contact. Insurance companies therefore have to set up multiple support channels and moreover to find means to allow customers to seamlessly switch between channels or even in a channel (such as when they switch from "chat" to direct contact with personal agents). The Internet is changing nearly every stage of the insurance distribution process, most notably the preliminary collection of information that can be done entirely online. With information available at all times, individuals and businesses are increasingly researching online information before purchasing goods and services, including insurance service. McKinsey Report (2012) shows that 73% of individuals buying car insurance in the US use the Internet to collect information. Similarly, according to LIMRA (Life Insurance Research and Marketing Association), 61% of US consumers studied life products and online annuities. Other "pre-sales" activities such as consulting and negotiation have also moved to the web, although to a lesser extent. As well as collecting information about products and prices, consumers are becoming more and more comfortable with the Internet as a trusted source of advice. The European Insurance Report of Swiss Re (2012) shows that consumers trust the Internet more than any other source of advice. Price Comparison Websites (PCWs) have become an integral part of the insurance distribution system. These intermediary websites enable customers to compare insurance products of different insurers, get instant price quotation, and often go to complete insurance coverage on the provider's portal, or by clicking on the link of the selected insurance carrier. The range of insurance products introduced on PCWs has also been expanded, initially focusing primarily on motor vehicle insurance, so far there are various personal products such as household insurance and travel insurance, as well as life insurance. Recently, in advanced markets, insurance types for small business also appear on a comparison web platform. A study by Finaccord (Finaccord, 2016) indicates that more and more people in England, Germany, Italy and Spain and, to a lesser extent, France have access to insurance through comparison websites. The trend of PCWs has also increased in Latin America (Luis Chipana,

Juan Mazzini, 2014), India and some emerging economies in Asia. (IDRAI, 2017). Smart mobile devices can increase traffic to online portals. The people using mobile phones and tablets to access the Internet, have surpassed the number of personal computers (PC) users for the first time. Specifically, mobile traffic accounts for 51.3% compared to 48.7% from PC (StatCounter). Like the Internet, mobile devices are still used primarily for research and information gathering rather than insurance purchasing. (Kleiner Perkins Caufield Byers, 2012). Social networks are growing with a huge number of members whose access is mainly mobile devices. Social media therefore plays an increasing role in pre-sales activities, providing consumers with advice from friends, acquaintances, online groups and even experts. In the United States, about 35% of customers aged 18–34 indicate they are currently using or will consider using social media to strengthen their awareness of insurance products and services. and will also collect feedback from other consumers on social media sites (Accenture, July-2013). In contrast, insurance companies can collect customers' information that they can use to respond quickly to changing needs. By Internet and social media, potential customers can form and reflect their perceptions, attitudes towards coverage, premium rates (at least for standard products). The development of technology in data integration and analysis (Big Data) is providing companies with huge and potential data sources about customers, helping them to improve services and products to better suit the growing needs of their customers.

Remarks and recommendations

Digital transformation should start from changing technology platforms: Digital transformation should start from existing technological innovations, insurance companies should first implement core transformation programs. The issues that need to be paid attention to by Vietnamese insurance enterprises in their strategic planning of technological innovation are:

1. The transformation is not only to meet the immediate sales target but also to create a new technology platform for the plan to develop a long-term digital distribution channel towards multi-touch, multi-channel (Omni-channel). Moreover, technology is required to meet the integration of business activities, other supporting activities of the business, and at the same time, must be compatible with customers - end users in the socio-economic development of general technological ecosystem;
2. In order to implement technological innovation, insurance enterprises must invest financial resources, which in the immediate future causes high costs while the business performance is inadequate;
3. This process also requires insurance businesses to fund human resources for data analysis and ownership of big data resources to reach target groups of potential customers. and personalize products according to user requirements.
4. The access to digital customer data through digital technology also poses a legal problem for insurers that requires a legal environment that needs to be completed beforehand. But first, the legal framework to manage and ensure electronic transactions needs to be complete and strict to protect the legitimate interests of both insurance companies and customers;

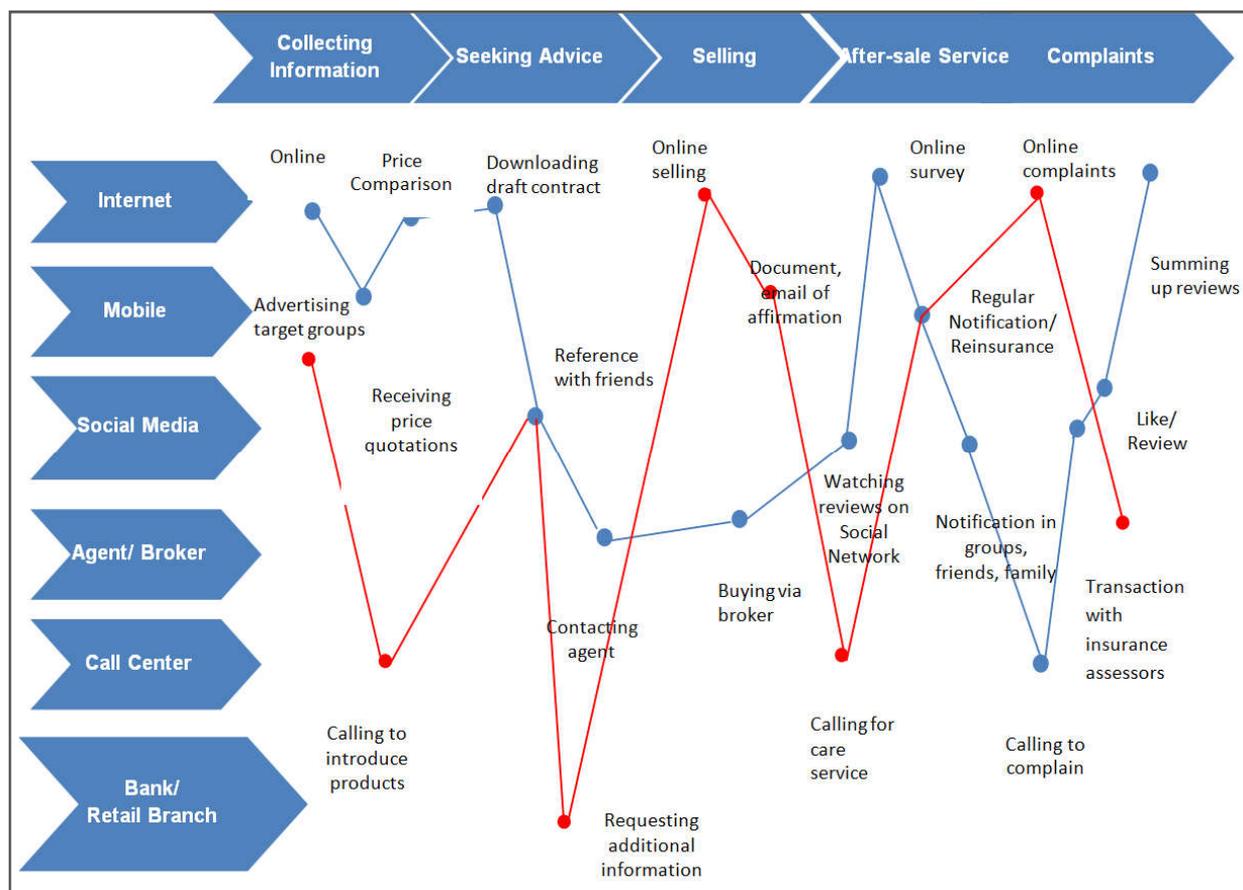


Figure 4. Multi-touch/Omni-channel

5. The new technology also causes the risk of system failure, data loss, network attacks, which can lead to financial losses, business interruptions and reputable losses. Security breaches can lead to loss of personal information - a major concern for insurance consumers.

Digital transformation and the role of insurance intermediaries: Although digital transformation facilitates access to customers and online insurance distribution, increasing online sales in original premiums in both developed and emerging markets, it can be still affirmed that insurance intermediaries always play an important role, but will need to innovate to adapt to the changing needs and preferences of customers.

1. Vietnam market in general, insurance businesses in particular need to continue to maintain traditional intermediaries: International experience shows that customers will continue to appreciate personal interaction and expert advice of agents and brokers, especially for complicated types of insurance for trade, life and health risks;
2. Traditional insurance intermediaries (agents and brokers) must renovate technology to adapt to the new business model of insurance companies, ensuring service integration in the multi-channel/Omni Channel distribution in control, meeting the different needs and preferences of customers;
3. The formation and emergence of new intermediate types create challenges for traditional intermediaries. First, banc assurance - a partnership agreement between banks and insurance businesses for cross-selling products, has become an increasingly important

distribution channel in many countries around the world. Similarly, strategic alliances between insurance companies and businesses from other sectors such as retailers, post offices and utility companies have become alternative means of distribution. Digital technology is drastically changing the operation of all those services (E-banking, Mobile Transaction, E-commerce,...), pressurize insurance enterprises to quickly switch to digital technology to maintain cooperation with the new tech protocol, thus effectively meet customer demand chain.

4. New technology has been creating new types of insurance intermediaries such as price comparison web (PCWs), peer to peer insurance group), web-based aggregators or robot advice to exploit technical advances in data collection and analysis to enhance customer commitment and satisfaction. The challenge to insurance companies and traditional brokers is to modernize the system and business model to take advantage of the opportunities of available digital technology. If not renewed, they will likely become removed from the market. Although these forms are actually present in the Vietnamese market, it is necessary to prepare a legal framework to ensure that their formation and operation in the future is most effective and managed closely.

Conclusion

The rapid progress of information technology is creating opportunities and at the same time pressurizing technology innovation for all economic sectors, including insurance. First, it shows the trend of digital transformation of insurance

distribution process. It changes the system of product distribution channels, fragments the interaction process between enterprises and customers, creating multi-channel and multi-touch systems and new forms of insurance intermediaries. Facing that inevitable trend, in order to survive and develop, insurance enterprises in the Vietnamese market need to have a suitable and long-term strategy and plan of innovation. Besides, the Government - the society manager should build a new techecosystem and perfecting the legal environment for a successful insurance market.

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