

Trends in Insurance Distribution

Fall 2020

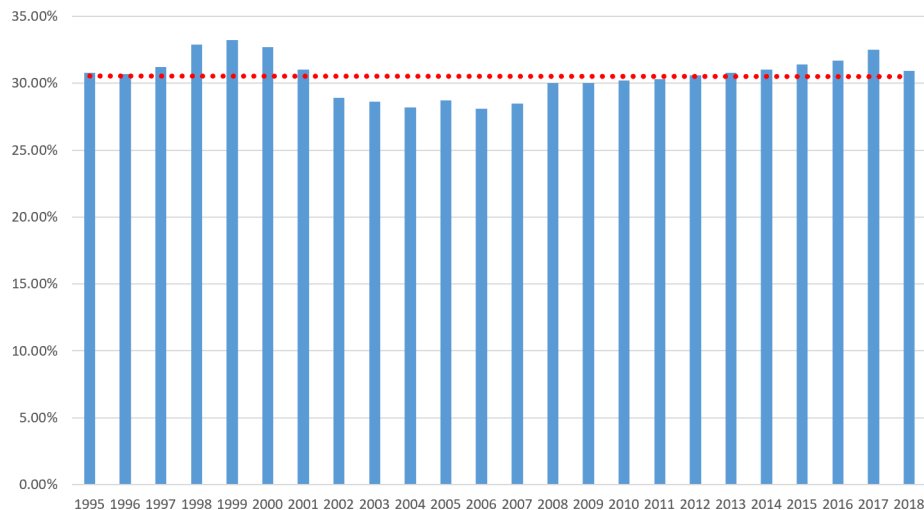
2nd Edition

Insurance Industry Failing to Innovate: Customers Pay the Price

Special points of interest:

- Insurance not improving productivity and lowering costs
- Facts about insurance commissions
- Price resonates with consumers looking for better deals
- Where do your premium dollars go?

Expense Ratio
Canada



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Despite advances in technology, insurance customers still endure the financial burden caused by lack of insurance innovation.

Productivity in other industries has continued to evolve with innovation. The chart above demonstrates that in the past 25 years there has been no improvement in insurance distribution cost reduction,

During that same period, Canada and the US have seen dramatic improvements in efficiency measured by Labour Productivity.

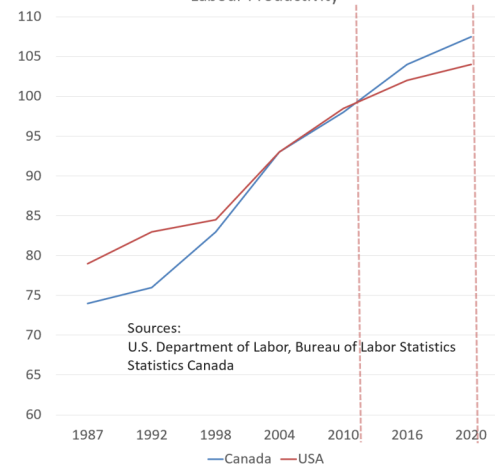
Overall productivity for both Canada and the US has improved by about 45%.

It leaves one to ponder the elephant in the room; who pays for the insurance industry's lack of innovation?

Customers lose. Our research has shown that about 75% of these expense related activities are entirely manual but could be automated.

Technology enabled insurance distribution is absolutely capable of giving customers a better insurance experience.

Labour Productivity



Sources:
U.S. Department of Labor, Bureau of Labor Statistics
Statistics Canada



The Truth about Insurance Commissions



If you ask anyone who invests, “Do you know how much commission your broker charges?”, they definitely know. Whether it is a full service broker or a discount broker. Often the service in both cases is not as dependent upon the results, it is the commission, itself, that defines the difference.

In fact, some discount brokers have far more sophisticated consumerized technology to make investing easier. Investment regulations require commission disclosure, which in large part has created opportunities for discount brokers. Likewise, the realty industry has newer competition from discount real estate brokers.

What about the insurance industry? While the industry is heavily regulated, the commission a broker gets paid is still a mystery. One of the worst sins an insurer could commit is accidentally sending a customer the broker’s copy of the insurance policy (it happens), as it shows the commission. Most people are surprised by the amount of commission paid to insurance brokers.

We see this changing in insurance. Recent catastrophic increases in the condo corporation insurance premiums in British Columbia has created a consumer interest in more transparency in insurance including commission payments made to agents.

One of the problems identified in this article; *“Controversial pricing method responsible for runaway condo insurance costs - report”* by Lyle Adriano 04 Aug 2020, was lack of commission disclosure.

In that article, Condo Home Owners Association of BC executive director Tony Gioventu identified that lack of transparency in the insurance industry has contributed to the current pricing woes. In addition to the questionable practice of “best terms” pricing, Mr. Gioventu also questioned agent commission disclosure:

“You rarely ever get to see that information,” stated Gioventu. “The brokers don’t want to disclose their commissions and how the pricing works.”

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Recently, the B.C. government has announced regulatory changes aimed at bringing more transparency to condo insurance premiums that have risen by as much as 40 per cent.

The changes, Effective Nov. 1, include a requirement for insurance agents to disclose their commission, as well as a practice that included referral fees (paid by agents) to condo property managers. Lastly, a reasonable requirement of 30 days notice of non-renewal or to make any changes.

Finance Minister Carole James said then that commissions could have been 20 per cent of the cost but ending referral charges and disclosing commissions would increase competition and may lead to lower rates.

She is not incorrect on this one, condo corporation rates as with other commercial rates are NOT filed in B.C. This means that lower commissions are possible, Thus reduced premiums overall.

HOW MUCH COMMISSION?

There are two main types of commissions;

Base commission is paid when the product is sold. In Canada, the standard base commission on **commercial** P&C is 20%. On personal P&C it can be slightly lower in many cases. Commissions can vary on new vs. renewal business.

Contingent commissions are paid after the sale usually upon the achievement of premium goals including growth, profitability or achievement of a certain sales level in category of product. These have a much broader and obviously more variable nature but generally are between 0% and 5%.

Auto insurance, in general, pays less commission for all lines. Specialty insurance (marine, difficult risks) varies both up and down.

Your insurer (not always insurance agent or broker) will disclose commission rates on their websites or if you request.

Awywi launches first zero commission insurance platform

by Awywi

SHARE    

Awywi's new Insurance Fulfillment Platform takes a bold leap into the future of insurance; Customers can have full-service insurance without paying hefty commissions. Using the latest technology, Awywi breaks down traditional insurance distribution, cutting friction that adds cost, complexity, and service failures.

Customers need a more affordable option for insurance – Any Way You Want It. Independent research also shows customers want more than price comparison but also advice, instant fulfillment, and less complexity. Using AI and RPA technologies, Awywi and partnering insurers offer customers:

1. Lowest prices - ALWAYS
2. Ability to quote and purchase insurance in real-time from multiple companies
3. Insurance matched to the customer's own risk profile
4. Automatically remarketed every year to ensure best product fit and price
5. Easy real-time policy changes as required
6. 24/7 access to all their insurance needs including personal & commercial lines to travel, health or life with the convenience managing all their insurance products in a personal "policy wallet" including quotes and policies.

Steve Kaukinen, Awywi Co-Founder, says "We wanted customers to have the best experience in insurance and found that we could do this without charging commissions." Dominik Kaukinen, Awywi's CIO and Co-Founder, "We've bet our massive investment in technology will pay off with explosive customer growth when they realize the savings they can have with this extraordinary insurance experience."

"By Awywi taking all the development costs and risks, IFP insurers gain the advantages of bleeding edge technology without the risk. Quality insurers are a key to our success. We are changing the game for a limited number of Insurers who can unlock new segments of customers and experience explosive growth opportunities.", says Steve. IFP insurers get advanced features like; intelligent fraud prevention, touchless bespoke document processing, risk profile technology, and industry first (Awywi Only) comparative analytics on quoting and campaign effectiveness.

Insurers can implement IFP without disruption to current operations and reduce policy administration costs better than any other solution. IFP can work for any insurer without regard to current technological competency.



Awywi

<https://awywi.com/>

Awywi is a new Insurtech company specializing in real-time Insurance innovation. Born to be different, Awywi's mission is improving distribution efficiency and customer experience through technological innovation in insurance delivery systems. Prospective partners seeking additional information can visit our website at www.insurer.awywi.com.

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OTHER RELEASES

- > Awywi advances insurance technology offerings with new fully automated farm insurance platform

Awywi on

Price Is a Winner with Insurance Customers

Over the past 5 years the insurance industry has seen a frenzied intensity of new entrants all vying to unlock opportunities that newer technologies represent. Yet, there has been no clear winners or losers as insurance stubbornly plods along on its change resistant path. Whether that is good or bad depends upon your perspective.

The one perspective that is very relevant is the perspective of consumers. Consumers that have been heavily exposed to other industries transformed by technology. The most successful companies have committed to embracing customers in many ways but fundamentally saving customers money. Yes, service, quality, [user] experience and access are all important, but the rubber really meets the pavement when you save customers money.

Saving customers money comes hand in hand with better user experiences. Look at the miserable shopping experiences that insurance shoppers are willing to endure for even imaginary potential savings. They are so desperate for a “better deal” on insurance that they are willing to go to a comparative rating website to get a few quotes. First they must answer all of the comparative rater questions, then if a quote entices them to continue the process, they often have to do it all over again at the insurers website.

Direct insurers have taken over 7% of the market share from agents in the past 10 years. Price does the talking as directs have a 6%-10% advantage over the agency distribution channel.

Common sense dictates that the most powerful feature of any insurance product is price. Unlike tangible goods, the intangible nature of insurance doesn't provide any post purchase satisfaction. It doesn't taste good, look good or make you feel good.

Insurance is much more like death and taxes rather than cars and candy bars. It is necessary and inevitable but the only way to make someone happy with their purchase is to pay less.

The following recent industry studies support this view.

“the price factor...has increased by 54% as a key driver of satisfaction” - J.D. Power 2020 U.S. Insurance Shopping Study- April 30, 2020

“When consumers shop, price outperforms loyalty” and “50% of Shoppers expect to shop again in the next year. One in five expect to switch carriers when they do shop.” - Insurance Shopology: The what and why behind consumer insurance shopping behavior – LexisNexis – September, 2019

“36% of [insurance customers] are willing to buy insurance from a big tech company like Amazon, Apple or Google” Nathan Golia – May, 2020

“[Insurance] Customer use of digital channels, especially mobile, is rising rapidly” - Customers Know What They Want. Are Insurers

Listening? - Bain & Company October 2018

Amazon is good example of an industry changer. It is not uncommon, for even the insurance industry, to use “Amazon like” to describe something that approaches the customer centricity of Amazon. Yet, the insurance industry is far from seeing anything that approaches the Amazon experience. This would have to include a side by side comparison of alternative products with some kind of recommender system. Price would have to be good and purchases could be made instantly.

An argument made could be that regulation prevents the industry from capitalizing on better user experiences. However, a larger factor would be reluctance to embrace technology in new ways.

Insurance stakeholders could supercharge a customer-centric focus through the expanded use of automation and artificial intelligence. Full automation can cut costs, improve service and throughput. AI, from machine learning to chatbot technology can greatly enhance the customer experience. One powerful example of what automation can do with newer technology is Awywi's new Insurance Fulfillment Platform.

Now is the time for insurers to prepare for the future by investing wisely in technology that will give customers what they want the most; Savings, service and a better experience.



“the price factor...has increased by 54% as a key driver of satisfaction” - J.D. Power 2020 U.S. Insurance Shopping Study- April 30, 2020

How Brokers Earn 20% Commission

Traditional insurance brokers have a number of tasks that they must do in order to get new or renew an account. Firstly, there is the interaction with the client and filling out the necessary applications in order to secure quotes for their account.

The information is gathered in some type of format, this can be done quite informally with the broker asking the necessary questions and that can be all. More likely, as the risk becomes more complex, a formal application will have to be completed by the client where the broker may assist.

The broker then submits the completed application to multiple underwriters who will provide quotations based upon the coverages recommended by the broker. Once the quoted applications have been returned, the broker prepares the quotes for client consideration.

If the client accepts one of the quotations, then the broker submits the request to the successful underwriter and issues a binder of cover-

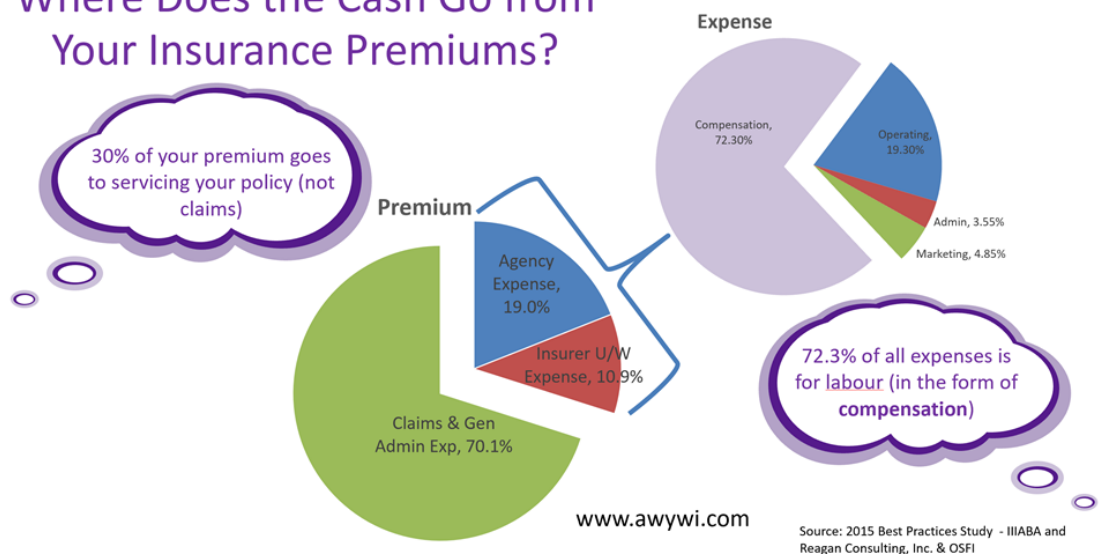
age to the client. The underwriter prepares the insurance policy with the required insurance documents and then sends them out to the broker (and in some cases directly to the consumer).

Together, Brokers and Underwriters spend almost 30% on policy distribution costs. After expenses, a broker's profit is less than 4% of the total premium dollar. However, it is obvious that the vast majority of expenses for both brokers and underwriters are in manual processes. A significant resource burden is also created through all of the

messaging between independent brokers and underwriters.

Both brokers and underwriters must maintain their own separate systems for their distinctly different tasks, which is also reflected in the almost 20% burden of Operating costs. Which leaves very little for administration and marketing costs.

Where Does the Cash Go from Your Insurance Premiums?



AWYWI'S 0% COMMISSION SOLUTION

When Awywi looked at the massive 30% combined distribution costs that insurance customers have to pay, it seemed way too high to us. The fact that these costs haven't changed in 30 years, yet the whole world has changed through technology presented us to ask why.

The truth is that insurance has resisted change in all formats. Yet, it is obvious that technology holds the promise of far lower distribution costs if implemented in a truly unique solution. The solution couldn't be a broker solution or an insurer solution but a customer solution that encompassed both broker and underwriter activities. This provides 2 important features;

1. **Lower costs**, in fact much lower costs. By automating the entire process and eliminating all of the manual tasks for both brokers and underwriters saves close to 20% (an average broker's commission). Two separate systems no longer need to be maintained and by moving all activities to the "cloud", physical location is no longer needed. In all, Awywi found that the savings were enough to eliminate commission and save insurers more money on their administrative costs as well.
2. **Superior experience**. Through a singular system using Artificial Intelligence (AI) and automation (RPA) Awywi can advise on coverage, give multiple quotes from different insurers on both new business and renewals. As well, the whole process of policy purchase, change or renewal is done in real time.

Next Publication “Trends In Insurance Distribution: Technology Issue”

“Driving Insurance Forward
Intelligently”



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HOW DOES AWYWI MAKE MONEY?

“How do you make money if you give 100% of your commission back to customers?” is the most common question we get.

Through process automation, we can save insurers at least half of their policy administration expenses, as we do the quoting, rating and issuing functions.

We charge our insurers a small fee for each policy issued, regardless of how many quotes or policy changes are made.

We believe this is a winning recipe for everyone.