A Work Project, presented as part of the requirements for the Award of the Master's degree in Management from the Nova School of Business and Economics.

# PLANNING4LIFE FIELD LAB IN ENTREPRENEURSHIP

## Subtitle 2 (Tobias Karl Alexander Klug): CUSTOMER DISCOVERY

TOBIAS KARL ALEXANDER KLUG

Work Project carried out under the supervision of:

Prof. Euclides Major

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ABSTRACT

This individual section of the work project is focused on understanding the changing role of the insurance broker and setting the findings in relation to the perception of Planning4Life regarding the needs of brokers. It is based on a review of existing literature and a written online survey.
The results indicate that insurance brokers are facing both the necessity to offer personalized products and to use a digital toolset. Moreover, they point to the fact that the company is largely correct in its hypotheses on the broker needs.

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KEYWORDS: Insurance broker, insurance, insurtech, business model, business model innovation, strategy, tactics, digitalisation, broker needs, CRM system

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*Table 1: Abbreviations*

| Abbreviation | Term |
|---|---|
| API | Application Programming Interface |
| BM | Business Model |
| BMI | Business Model Innovation |
| CAC | Customer Acquisition Cost |
| CE | Customer Experience |
| CRM | Customer Relationship Management |
| P4L | Planning4Life |
| P4LPRO | Planning4LifePRO |

## 1.0 Analyses of Insurance Brokers as the Target Group of Planning4Life

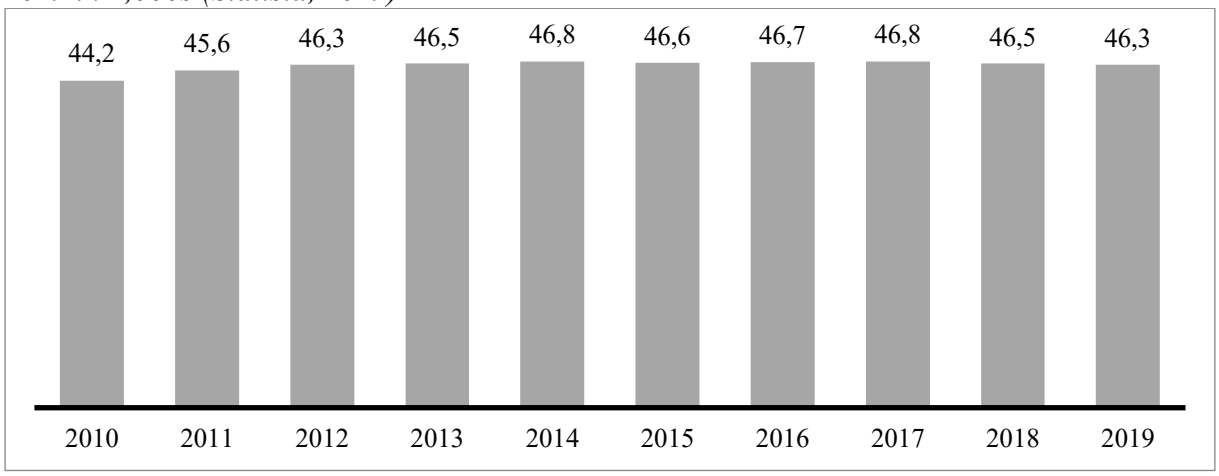
The challenge that P4L passed on to the authors, was to gain a deeper understanding of insurance intermediaries as their target group. This chapter will, firstly, provide an overview of the target group from a more theoretic perspective and then, secondly, explain the hypotheses P4L has regarding the needs of the brokers. Even though this chapter is centred around the insurance broker, most of the following insights also apply to other types of insurance intermediaries, like agents.

### 1.1. The Role of an Insurance Broker

From an economic perspective, the initial goal of insurance brokerage is to bring more efficiency to the insurance market by removing market imperfections, like the lack of transparency (Lechner and Raturo 2004, 7).

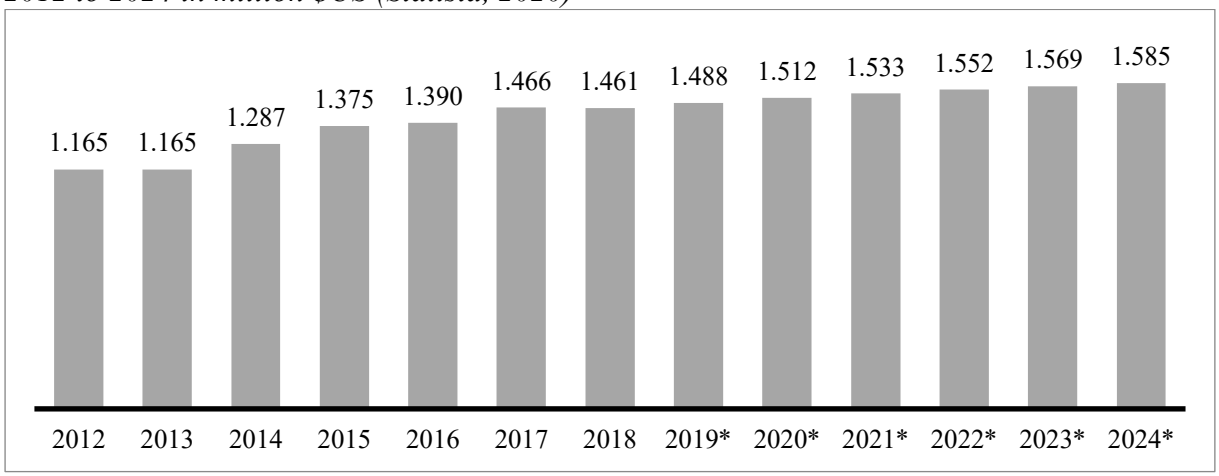
However, it could be assumed that with the global increase of information technology in the last decades, such inefficiencies were reduced, and that, hence, the demand for personal intermediation is decreasing. Nevertheless, a global McKinsey study points to the matter that brokers and agents remain important as intermediaries between insurance companies and policyholders (McKinsey & Company 2019).

*Figure 2: Total number of self-employed insurance brokers working in Germany from 2010 to 2019 in 1,000s (Statista, 2019)*



In fact, looking for example at the German market, the amount of insurance brokers is barely changing and the revenues regarding broker activities in Germany have even increased from $1.2 billion in 2012 to $1.5 billion in 2020.

*Figure 3: Industry revenue of "activities of insurance agents and brokers" in Germany from 2012 to 2024 in million $US (Statista, 2020)*




Similar trends can be observed in other western countries like the U.S. (Statista, 2019 – Appendix Fig. 4) or Spain (Statista, 2018 – Appendix Fig. 5).

This leads to the conclusion that brokers offering personal intermediation still play a relevant role. According to Cummins and Doherty (2006, 360), this is due to changes in the insurance industry, such as deregulation and the corresponding broader product differentiation, which have led to an actual decrease in market transparency.

A study published by Peter Maas (2010, 5-7) supports this argument as it finds personal consulting regarding the selection of the right product as one of the main reasons for policyholders to interact with a broker. Another supportive finding of this study is that companies seeking insurance are willing to pay a higher price to a broker that offers high-quality interpersonal services, like consulting and ongoing support (Ibid.).

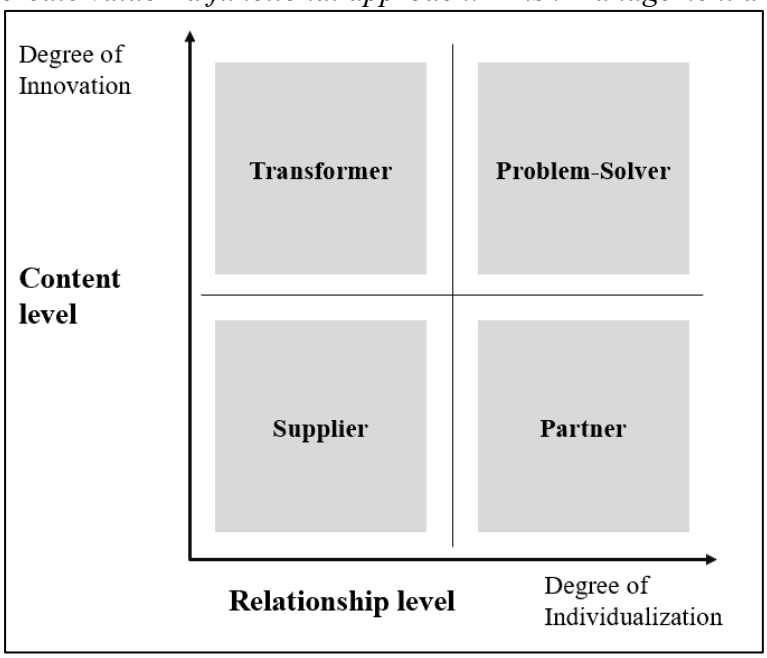
## 1.2. Types of Insurance Brokers

According to Maas, brokers can be categorized into four different types (see graphic below) (2010, 12-14). A broker acting as a

1. *Supplier* is offering standardized and cost-efficient services with little individualization;
2. *Transformer* is offering standardized but more innovative products with a low degree of individualization;
3. *Partner* is focused on a close client relationship and offers highly individualized but conventional services;
4. *Problem Solver* offers highly individualized products that are also innovative

(Ibid.).

*Figure 1: Differentiation of broker types (based on Maas, P. 2010. "How insurance brokers create value—a functional approach." Risk Management and Insurance Review 13(1))*




Based on interviews with 20 different multinational companies relying on intermediaries, Maas (12-16) comes to the following conclusion regarding the future functions of insurance brokers: only a minority of policyholders need intermediary services by the *Supplier* type of broker.

While today most companies make use of *Transformers* and *Partners*, the main services required from intermediaries in the future have a high degree of individualization and innovation (Ibid.). Hence, the main function of insurance brokers will shift from selling standardized and conventional products to the role of the above-described *Problem Solver* (Ibid.). Derived from that, the main requirements for the future insurance broker are

1. a deep understanding of specific (aspiring) policyholder needs,
2. good networking and personal relationships skills, and
3. a regularly updated knowledge on the latest and most innovative products.

(Ibid. 12-16)

This shift of the function of the insurance broker, namely that brokers must focus on providing advice on complex products, was confirmed during the qualitative interviews which are further described in a succeeding section of this report.

## 1.3 Description of Planning4Lifes' Hypotheses on the Target Group

To start with, P4L plans to sell the desktop application P4LPRO with integrated lead supply to two different types of customers:

1. Individual insurance brokers or small broker agencies that work independently.
2. Insurance companies or larger agencies that would deploy the product among their agents.

Nevertheless, the user of the tool will, in any case, be the individual broker or agent, hence, the person that sells the insurance to the future policyholder and that manages the customer relation afterwards (I. de Brito, personal communication, September 7, 2020).

To understand the hypotheses of P4L regarding the pain points of its target customers for its offer P4LPRO, the authors conducted in-depth interviews with the board (CEO, CTO and COO) of P4L (Appendix – Table 8). Resulting from these interviews, six main hypotheses have been

identified, the first three refer to the general needs of insurance brokers and the other three to the pre-conditions (that need to be fulfilled) for P4L's services to be demanded on the market:

*Table 2: Hypotheses of Planning4Life on Insurance Broker Needs / Situation*

| # | Hypothesis |
|---|---|
| H1 | Traditional Brokers will face lower conversion rates in the future.<br><br>*The start-up is convinced that it is becoming harder for brokers to generate or receive qualified leads with their current means. This is a result of the change in the lead generation process, which becomes increasingly digitalised.* |
| H2 | Currently used CRM systems do not exploit the full potential of modern data processing.<br><br>*The start-up assumes that brokers mainly use insufficient tools and often more than one at a time, each presenting data in different formats. Therefore, data silos are created, and customer management is time consuming and inconvenient.* |
| H3 | Brokers have limited digital marketing and data management skills.<br><br>*According to the start-up, most of the brokers have a lack of relevant digital knowledge, meaning they do not know how to make use of more advanced tools, for instance, to generate leads or to manage clients efficiently.* |

*Table 3: Hypotheses of Planning4Life on pre-conditions to sell their services*

| # | Hypothesis |
|---|---|
| H4 | Brokers are aware of the threat of increasingly lower conversion rates and respectively a decrease in useful leads. |
| H5 | Brokers are willing to receive prequalified leads in addition to generating their own ones. |
| H6 | Brokers are willing (and able) to change their CRM system for a more convenient one. |

Aiming to solve the main pain points of their target group, P4L is assuming to be able to build a solution (that is P4LPRO) that can hold the following promises:

1. P4LPRO can generate leads that have a higher conversion than current leads, especially as the younger generation ("digital natives") grows to an age at which they buy insurances.
2. P4LPRO can produce software that is much more convenient to use than the current CRM setups of most brokers. Furthermore, the software can easily integrate data from existing systems, such that brokers are willing to accept the switching costs.

3. P4LPRO will create an interface that is easy to learn and use without formerly being digitally skilled.

## 2.0 Insights from Broker Survey

In the following, the insights from the conducted quantitative analyses will be presented and set in relation to the hypotheses stated by P4L. The online survey was accessible for two weeks and consisted of 20 blocks of questions. As indicated in the methodology section of the case study, in total 144 complete responses were recorded.

### 2.1. Demographics and employment structure

Looking at the demographics of the sample, 83% of respondents indicated their gender as male, 16% as female, and the remaining 1% preferred not to give any indication. The average age is 51 years, with female respondents having an average age of 44 years and male respondents an average age of 53 years. In those lines, the average work experience of the surveyed brokers is 24 years. Such data confirms P4L's founder's beliefs on the predominance of older workers in the market.

In terms of education, 47% of brokers have a secondary education, 35% have acquired a bachelor's degree or equivalent, 11% even have a master's degree and the remaining 7% indicated a basic level of education. Regarding broker types, the survey led to the following results: the overwhelming majority of 67% are employed in multi-brand collective agencies that work with multiple insurance companies and 28% of surveyed brokers are employed as individual agents, who also work with multiple insurance companies. The other 5% are either employed in exclusive one-brand collective agencies, in multi-brand brokerages, or are individual exclusive agents themselves. This employment structure is also reflected in the team size: 45% are single agents without any additional employees, 25% have a team of 3-5 employees, 15% employ 5-10 individuals, and 8% employ 10-25 people. Only 7% indicated a

team size of more than 25 employees. Hence, P4L's assumption that most brokers in Portugal are organised in small teams or single agents is reflecting reality.

## 2.2. Time Usage

The survey furthermore showed that, on average, brokers use 56% of their time for administrative tasks, and 47% of their time is dedicated to sales related tasks, implying that 3% of their working time cannot clearly be allocated to one of these activities. These figures imply that insurance brokers spend considerable amounts of their time on administrative tasks. Moreover, it was found that brokers, who felt they were not using the right tools, spend more time on administrative tasks, indicating that their digital tools offer poor administrative support. This finding could support both the hypothesis that brokers have limited digital skills (H3) and that currently used CRM system do not exploit the full potential of modern data processing yet (H4).

## 2.3. Lead Conversion

Regarding the average conversion time, meaning the time needed to convert a lead into a client purchasing insurance, 67% of leads are converted within one week. Within this bucket, most leads have a conversion time of 2-4 days (36%). In 13% of the cases, a conversion takes two weeks and the remaining lead conversion time ranges between 1 to 6 months (20%). Therefore, it can be stated that most generated leads are converted quite quickly into sales. However, when other dimensions are added to the analysis, it can clearly be seen that brokers who often buy leads and who spend more on marketing report lower conversion times.

## 2.4. Tool Usage

Furthermore, the survey investigated the tools brokers use for communication, document sharing and CRM. The four most frequently used communication tools are the phone, email, video conference, and WhatsApp. Regarding document sharing, most brokers rely on emails, WhatsApp, and normal postal mail. In terms of tools for CRM, general CRM software, specific

CRM software provided by the insurance the broker/agent works with, and MS Excel are the most used ones. Additionally, many respondents indicated that they make use of digital and/or physical calendars. Consequently, it can be stated that insurance intermediaries are relying on various tools to support their work processes. However, there seems to be no solution used by brokers, which is integrating all the features needed for pre-sales to post-sales activities. This serves as a proving point for H2.

When asked about if they feel that they currently use the right tools to win customers, communicate with them and manage their data, 62% of brokers confirmed that currently used tools are appropriate. However, this is only the case for 50% of younger brokers (below 50 years old), but for 73% of older brokers (older than 50 years). Furthermore, more than 70% of all surveyed brokers would prefer to use one single tool that covers their complete work processes. Adding to that, also 70% of brokers indicated their willingness to transfer from their current systems to more efficient digital software. Hence, these statements support the approval of H6.

## 2.5. Client Acquisition

Diving deeper in the lead sources of insurance intermediaries, 29% indicated that they have purchased leads from other parties at some point in time before, but 71% stated they never purchase leads. However, the result slightly differs between age groups: 35% of brokers, who are younger than 50 years, indicated that they have bought leads before, with 7% doing this almost always. On the contrary, of the brokers aged 50 years and older, only 21% did purchase leads at some point of their career and only 3% rely on this as a frequent source of leads. These findings contribute to the confirmation of H5, as some brokers are definitely willing to receive or purchase pre-qualified leads.

Additionally, client recommendations (meaning “word of mouth”) represent the main lead source with 51% of surveyed brokers relying on it almost always. For some brokers also the

insurance companies they work with contribute useful leads: 8% indicated that they receive leads on this way very frequently. Only quite a few brokers, namely 9%, use online marketing campaigns to get leads. Thus, customer acquisition is rather focused on non-digital channels. Finally, 60% of surveyed brokers do not spend any funds on marketing, and 27% indicated they would spend up to 300€ per month on such promotional activities. Only 13% of brokers spend more than this amount on monthly marketing activities.

These results lead to the conclusion that only very few brokers make use of digital means to promote their services and products but also to receive leads. Hence, they seem to either have limited digital marketing skills or do not require them, supporting H3. Moreover, it is evident that in the future, many customers expect to search for insurances online and receive online advice (Accenture 2017). Thus, the current behaviour of the surveyed brokers could lead to lower conversion rates in the future for them, further backing H1.

Nevertheless, more than 90% of brokers stated they feel able to adapt to the digitalisation to use more sophisticated digital tools and 60% feel able to reach younger clients. Surprisingly, the judgement of this situation is very similar across all age groups.

Meanwhile, “client acquisition” was on average ranked as the biggest challenge. The second and third most important challenges are “legal compliance” and “product fit”. This result is observed across all age groups. Additionally, given the opportunity to reference other challenges, some brokers underlined digital transformation, retention of current clients and relationships with insurance companies as main challenges.

However, the customer acquisition challenge rather contradicts most broker’s statement that they feel able to reach younger customers. They might have a distorted perception of the effect of new technology on the lead conversion. In fact, these responses imply that a large number of brokers is not aware of the threat of increasingly lower conversation rates in the near future

and that they might overestimate their ability to reach younger customers and maintain the basis of their sales. Thus, H4 is to be rejected.

## 2.6. Statements on the Future of the Industry

Finally, looking at the future of the insurance industry, the following results were recorded: More than 90% of respondents agree that the digitalisation of the insurance industry is inevitable, but also 89% stated that they feel ready to face this challenge. These results are again very homogeneous across all age groups. Hence, it cannot be concluded that older brokers feel left behind or not capable of adapting to the future changes in the industry. Yet, it was concluded that older brokers have higher levels of satisfaction towards the usefulness of their current tools, pointing out once more their lack of knowledge about the potential of other powerful tools.

## 2.7. Indications for Hypotheses Validation

In conclusion, this survey generated many valuable insights about the work processes, lead generation and the view on the industry of insurance brokers. Regarding the hypotheses of P4L, the findings led to the confirmation of hypotheses 1, 2, 3, 5 and 6, but to the rejection of hypothesis 4. The table below summarizes the interim result (not considering the evaluation of the interviews yet):

*Table 4: Interim result 1 of testing the hypotheses of Planning4Life*

| # | Hypothesis | Interim Result 1 |
|---|---|---|
| H1 | Traditional Brokers will face lower conversion rates in the future. | Confirmed |
| H2 | Currently used CRM systems do not exploit the full potential of modern data processing. | Confirmed |
| H3 | Brokers have limited digital marketing and data management skills. | Confirmed |
| H4 | Brokers are aware of the threat of increasingly lower conversion rates and respectively a decrease in useful leads. | Rejected |
| H5 | Brokers are willing to receive prequalified leads in addition to generating their own ones. | Confirmed |
| H6 | Brokers are willing (and able) to change their CRM system for a more convenient one. | Confirmed |

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# Appendix

*Table 5: Definitions*

| Term | Definition |
|---|---|
| **CRM system** | With this expression the authors refer to the organized interaction between the broker and his clients. CRM systems are provided by technology companies and help to manage customer data (e.g., mail-address) and external interactions with customers (e.g., sent e-mails) in one platform. |
| **Fintech** | There is no clear definition of the concept of a fintech company. Combining the words "financial services" and "technology", fintech companies are commonly understood to be young undertakings that provide specialised and in particular customer-oriented financial services using technology-based systems. (BaFin, n.d.) |
| **Insurance agent** | In contrast to an insurance broker, an insurance agent offers the products of only one company. (insurEYE, n.d.) |
| **Insurance policyholder** | A person, a company, or group of people, who own an insurance policy. In the case where a person is seeking for a policy in the future, the term "client" or consumer" is used. |
| **Insurtech** | There are similar difficulties in defining Insure-techs as it is the case for Fin-techs. Generally, the term refers to innovative (start-up) companies, which specialize on digitalising certain insurance (or financial) services. It consists of the two words "insurance" and "technology". (Gabler Banklexikon, 2018) |
| **Lead** | As a lead the authors understand a set of data from a person that may potentially become a client. Receiving a lead means receiving the relevant contact data of a potential buyer to start a sales interaction. (Investopedia, 2020)<br>If the data set contains only the contact details of such a person, it is referred to as a cold or unqualified lead. If the data set contains more information relevant to influence the purchasing decision, it is called a warm or qualified lead. |
| **Insurance broker (broker)** | Insurance brokers are licensed to sell insurance and typically work with multiple insurance companies offering a variety of products to their customers. A broker is able to compare numerous products of the companies they work with and thus is often seen as a more consumer-friendly option when compared to insurance agents. (insurEYE, n.d.)<br>In this paper the authors refer to "Traditional" Insurance Brokers as individuals who are established on the insurance market and tend to sell their products via less digital ways than insurtechs, e.g., by conducting phone calls and sending physical letters. |
| **Insurance company** | A business that provides coverage, in the form of compensation resulting from loss, damages, injury, treatment or hardship in exchange for premium payments. The company calculates the risk of occurrence then determines the cost to replace (pay for) the loss to determine the premium amount. (Investopedia, 2020)<br>In this paper the authors refer to "Traditional" Insurance Companies as institutions that are established on the insurance market and tend |

| Term | Definition |
|---|---|
| | to sell their products via less digital ways than insurtechs, e.g., by employing a physical sales force. |

*Table 6: Contact persons at Planning4Life*

| # | Name of P4L employee | Position | Meetings |
|---|---|---|---|
| **1** | Igor de Brito | Founder / CEO | 07.09.2020<br>18.09.2020<br>22.09.2020 |
| **2** | Rui Ribeiro | CTO | 07.09.2020<br>18.09.2020<br>22.09.2020<br>Weekly Touchpoint (September – December 2020) |
| **3** | Diogo Mendonca | COO | 06.10.2020<br>03.11.2020 |
| **4** | Sonja Botelho | Broker for HiSonia | 26.10.2020 |

*Figure 4: Number of agents, brokers and service employees in the insurance industry in the United States from 1960 to 2018 (in 1,000s)*

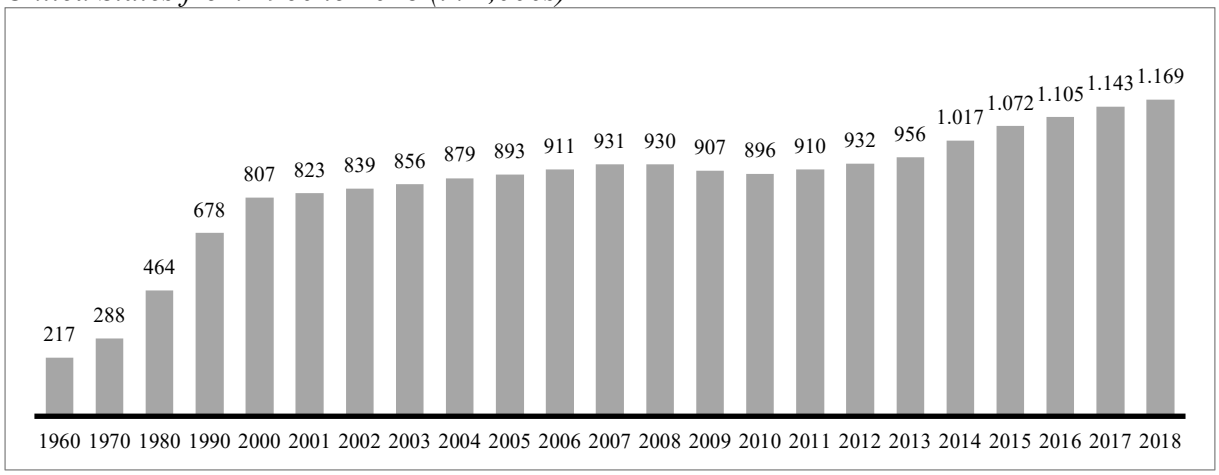


*Figure 5: Number of insurance brokers registered in Spain between 2011 and 2018*