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## INSURANCE DISTRIBUTION IS EVOLVING INTO A CORE SYSTEM

Carrier Management

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With technology advancements and expansion racing one another in the insurance industry, it's becoming ever more evident that distribution is evolving into a core system. Insurers haven't said so in as many words, but the tech analysts, usually at the vanguard of identifying trends, are suggesting that this is the case.

“ Forrester, for example, states that “new distribution models and accelerated product innovation are the primary disruptive elements facing insurers today. These directly pressure core business systems.”

“ Karlyn Carnahan of Celent says that “distribution channels are exploding,” and that carriers need to “assess and address new channels.” Software comparison site Capterra cites the need for “flexible, scalable and configurable” software to “meet the business requirements of distribution.”

How has the remuneration of agents and producers become so complex and spread across so many functions as to merit core status in a company's IT strategy? To date, the two main systems essential for all insurance companies to operate, policy administration and claims, are considered core systems. Generally speaking, all others are peripheral systems that may be mission critical, but they are not as vital.

Policy Administration systems keep track of and manage all the policy information that a particular policy would require—policyholder name, address, coverage, type of risk, particulars on the risk, limits of coverage, exclusions/inclusions (endorsements). For claims, it is the claimant, policyholder, coverage, loss information (what, when, where, how, why), and so on..

The evolution of distribution systems and applications runs a parallel path with the story of regulation in insurance. Early on, knowing who the agent is was considered sufficient information. Then after the McCarran Act of 1950, some higher standards were set for agents. And, over time, a whole body of regulation evolved around the sales and service of insurance, from underwriting to claims. The heightened focus on consumer protection that began in the 1970s added a great deal of regulation to agents, carriers, and other business partners—covering claim adjusters, unfair claims practices, twisting/bait-and-switch cases, and so on.

Early distribution systems were a very basic, mainframe form of technology. Functionally, they were little more than a record-keeping system of agents, addresses, appointments, and other administrative details relevant to them. Most of the processes of distribution management were manual and not automated.

Commissioning systems, where agents were paid incrementally more on the basis of meritorious work, represented the first foray into an application designed to manage an aspect of insurance processing. Then, as national licensing standards evolved, a few other vendors such as IBM and Varicent came up with fairly complete agent management systems. Other companies also created distribution systems intended to be a part of their policy administration systems.



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### 2006 WAS A PIVOTAL YEAR

It wasn't until 2006 that an approach to managing all aspects of distribution was actually in the marketplace. And even these early applications were clunky and not very compelling. But by gradually gaining an understanding of the minutia that makes up distribution, these umbrella products began to evolve and bring much more functionality to the application. Eventually this system became known as part of an industry movement called Distribution Modernization.

This growth in functionality started looking like a core system in 2015, when these new, all-encompassing distribution systems began to command larger contracts and insurance companies gave feedback on the features and functionality they needed or wanted to see in place. In that year, distribution management systems came available on a single platform that was deliverable in various ways.

Core systems are the essential systems that an insurance company must operate to be in business. It's my belief that the agent is as much as a “core” asset as is the machine that grinds out claim payments, or sends the bills. A common data point in insurance is that agent-carrier relations are the key to growing the business. Without agents, most insurance companies couldn't exist. Hence, in terms of essential systems, distribution is as important as getting the claim paid or the bill sent out.

Agents deliver the service and the revenue without which the insurance carrier wouldn't exist. Fast forward to today, the centrality of the agent's role goes a long way toward explaining why tech analysts are suggesting that distribution is as essential as any core system, and should be considered core.

I'd tend to agree with the Forresters and Celents of this world. To me, distribution would seem to be the very first link in an insurance company's value chain. While this isn't the case for every industry, insurance still advocates for a revenue-based approach to the value of distribution systems. Little by little, distribution is gaining more acceptance from the marketplace, as it sees the old methodology to be constraining what the agents are looking for. With state-of-the-art technology that addresses the key failures of the communication/ease of doing business gap that exists between agent and carrier, the insurance market is becoming both more transparent and more ethical. And delivering an outstanding experience to agents will enable carriers to attract higher performing agents, and thus access more profitable business.

## End of Article ##

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As Vice President of Strategy at VUE Software, John Sarich serves a senior solutions architect, strategic consultant and business advisor with over 25 years of insurance industry experience. He uses his extensive knowledge of insurance operations, information technology (IT) systems, sales and marketing to develop and define operational strategies for the company's sales and marketing initiatives.

#### About VUE Software VUE Software

VUE Software is a single scalable platform built from the ground up for Insurers, MGAs, FMOs, IMOs, and Insurance Distributors who have outgrown their current tools and require greater automation for producer administration and sales processes. Founded by [CSSI](#) over two decades ago, VUE Software offers configurable solutions to meet the unique needs of the Life and Annuity, Health, and Property and Casualty markets. The company leads the Distribution Modernization movement and provides insurance organizations a solid path to revenue growth and competitive advantage, supporting multiple product types, distribution channels, and hierarchy types



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