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Online Distribution Channel Development in Life Insurance: A Literature Review

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Abstract

Digital as a sales channel has recently received attention from several insurers and is poised for solid growth over the next few years. However, the level of digital influence, especially on people researching online before purchasing insurance, is significantly different. Although the Internet is changing how customers interact with insurance companies, traditional sales methods such as direct contact are still very important, especially for life insurance policies with great value and high security. The new trend of

consulting and marketing insurance contracts through online platforms such as social networks, phones, and websites is becoming increasingly popular among them. This study aims to review the development trend of online distribution methods in life insurance based on theoretical overview research. On that basis, analyze and synthesize the development trends of this distribution channel as lessons for the life insurance market in Vietnam in the current context.

Keywords: Online Channel, Distribution, Life Insurance

JEL CODE: G00, G02, G20

1. Introduction

Life insurance allows individuals and households to share with many others and cover financial losses from unexpected risks such as death from their basic salary (Garman and Fogue, 2006) ^[4]. Life insurance is an essential financial tool for allocating resources against uncertain life events (Yaari, 1964, Yaari, 1965) ^[28, 29] and is an essential element in long-term financial planning (Carson and Forster, 2000) ^[4]. In the world, the penetration rate of life insurance products is relatively high; however, in Vietnam, this rate is still limited. Life insurance products are often "sold" instead of "bought" in the market. Therefore, the distribution and delivery of these products to customers mainly rely on intermediaries such as personal insurance agents, corporate insurance agents, or insurance brokers. There are many reasons for this situation, but most of them stem from the complex characteristics of the product as well as customers' limited understanding and interest in life insurance. Buying life insurance online may only account for a small proportion of total life insurance sales in countries in general and Vietnam in particular. In the context of digital transformation and the strong development of information technology, forms of marketing and advertising for life insurance are also becoming increasingly diverse. Accordingly, the development trend of the distribution channel system in life insurance is also increasingly developing to adapt to new circumstances.

2. Literature Review

Online Insurance

Electronic distribution channels involve the use of technology to communicate with customers. It involves using the internet, mass media, and online presence to generate interest from customers and businesses in the market (Dumm and Hoyt, 2003) ^[7]. Kitua (2009) ^[17] notes that This distribution is effective because it can reach large groups of customers from wide geographical locations more quickly and at a relatively low cost. Mau *et al.* (2015) ^[20] note that internet ambiguity and reduced interaction costs between sellers and buyers are critical drivers for the proliferation of electronic channels.

According to this method of buying insurance, insurance businesses use web systems or application platforms to sell, introduce, and offer products. On those websites, there is complete information about the products, procedures to buy and pay for products, and settlement of compensation when an insurance event occurs, but with the advice and support of customer care

agents. This is also the online distribution channel in the life insurance business (Mayer, 2008) [21].

Development Trend of Online Distribution Channel in Life Insurance

According to Eling and Lehmann (2018) [10], digital transformation affects the entire value chain of insurance companies. For example, it enables the automation of business processes and decisions. Accordingly, it also changes the way insurance companies interact with customers. There is a gradual change in customers' shopping habits as they increasingly use the Internet in decision-making during the purchasing process. The changes drive and force many insurers to consider enhancing or changing their consulting or brokerage channels. To go digital directly to consumers, challenges for traditional insurers can often be slow and hampered by product specificity (Singh *et al.*, 2020) [26].

According to Arora (2003) [3], who studied the impact of e-commerce on the insurance industry in general and analyzed the differences between online insurance and traditional insurance sales, the most significant difference between insurance sales is selling standard insurance online and selling traditional insurance is product regulations; insurance products are unique and challenging to understand, so implementing online insurance products will be difficult compared to selling forms of insurance. Traditional insurance. Online insurance requires that traditional insurance methods be replaced by online processes similar to e-commerce ones.

Garven (2002) [12] studied the impact of e-commerce on intermediaries and its role in the insurance industry. According to Garven (2002) [12], there is a gap in insurance distribution between traditional insurance industry channels in Iran's Asian insurance companies. According to Odenyo (2018) [23], internet marketing is the most important form of distribution channel because it supports many marketing channels, including sales agents and insurance products. However, Mau *et al.* (2015) [20] argue that this distribution has yet to be fully exploited in developing economies due to inadequate technological resources and policy regulations.

Studies by Seify *et al.* (2023) [25] assessed the insurance industry's readiness for e-commerce and e-insurance Success in Iran in which the factors of Infrastructure, cultural characteristics, and legal factors impact the successful implementation of online insurance. In addition, the authors also point out that online insurance brings many benefits to insurance businesses and buyers, such as reducing the costs of building networks, paying intermediaries, and lowering fees for insurance products. Other studies by Garven (2002) [12] also discussed the impact of e-commerce on the insurance industry in general.

Like most other industries, the insurance industry is strongly affected by digital transformation (Eckert and Osterrieder, 2020) [9]. In a customer-centric age in which companies like Amazon set new standards, digital transformation is not an end in itself but a means to meet the expected changes of customers.

Over the past decade, there has been a significant shift in consumer behavior and spending. As competition in the insurance market becomes increasingly fierce, cost savings and retention have become significant, forcing insurers to find different ways to promote sales and convenience to customers while keeping costs low and maintaining profits. These factors are leading to the emergence of additional channels, such as call centers, mobile, and web applications. Changes in customer behavior and preferences around products, distribution channels, and processes also act as catalysts for the incremental development of alternative and new channels. With significant technological advances, insurance companies have begun to explore various ways to develop newer distribution systems that are channels in the online space (Eling and Lehmann, 2018) [10].

It has been suggested that the Internet will lead to fundamental changes in the structure of marketing channels (Chircu and Kauffman, 2000, Janssen and Sol, 2000) [5, 13]. Predictions include simple substitution of electronic channels for traditional ways (e.g., using Amazon.com instead of a physical bookstore), eliminating

intermediaries (e.g., buying tickets on the website airlines instead of through travel agents) and online intermediaries to replace traditional intermediaries (online travel agencies replacing traditional travel agencies) or provide new services (e.g., aggregate personal financial resources information) (Madnick *et al.*, 2009) [19]. These predictions all assume that customers will choose electronic channels over traditional channels.

As customers continue to accept and integrate the Internet into their daily lives, this has become an attractive medium through which insurance companies can showcase, advertise, and distribute insurance products (Singh *et al.*, 2020) [26]. Another challenge is distribution channel conflict in insurance businesses, transforming traditional agent distribution channels to online channels with non-customers. Going through an intermediary is a challenging transition.

Radwan and Farouk (2021) [24] discussed how insecurity related to internet transactions remains a hindering factor for life insurance products. Although most insurance companies now have product information and illustrations of tools available on web services or applications. However, web services or applications are not considered a medium to sell insurance products and services directly in the present era, where insurance products are still sold after significant advice, consultation, and support efforts.

Although the use rate of the Internet as a direct distribution channel is still low, companies have seen widespread use of the Internet as a support channel (Alt, 2021) [2]. Insurance companies use the Internet to provide general information about financial services products (e.g., insurance, investments). Besides, the Internet helps provide administrative support to policyholders and serves as a search and communication tool for the agent-managed channel.

Accordingly, initially, insurance was considered a very complex product, and buyers preferred direct interaction with intermediaries. Today, the advantage of technology allows insurance companies to increase their market presence and reach.

3. Discussion

Currently, e-commerce has been applied to all physical manufacturing and service industries, especially financial services; however, the application of e-commerce to the insurance industry still needs to be improved faster than other financial services industries. Researchers have addressed a variety of topics related to online insurance, such as the impact of the Internet on insurance organizations and markets (Eastman *et al.*, 2002, Garman and Forgue, 2006) [8, 11] and the performance of insurance companies' websites (Dorfman and Adelman, 2002, Mayer *et al.*, 2005) [6, 21]. Insurance products differ from other financial products in that they must be designed and provide appropriate services along with the product (Lim *et al.*, 2009, Vaughan, 2008) [18, 27]. Jiang *et al.* (2019) [14] point out that most life insurance contracts are long-term, requiring a commitment of capital to pay for the policy. This long-term characteristic requires careful consideration before purchasing life insurance products.

However, there needs to be more scholars, especially in the life insurance market, who research issues of online distribution channel systems (Ab Rahim and Amin, 2011) [1]. Customers can actively search for information about life products from direct channels such as social networks or various technology platforms. However, choosing and designing a suitable life insurance policy takes work for most customers. Kaguri (2013) [15] notes that the results of dealer consultation remain the main factor determining customers' purchase intentions. Therefore, to save time and costs for customers and insurance agents, combining multiple channels based on insurance agents with the support of online platforms is becoming increasingly popular and varies across countries (Khare *et al.*, 2012) [16]. However, reaching customers in the traditional way as before is quite time-consuming and costly. Accordingly, the combination of agent consulting with the online sales method of life insurance businesses will solve the weaknesses of the traditional form of buying insurance through insurance intermediaries.

In the current context, the development orientation of diversifying distribution channels of life insurance businesses is becoming increasingly popular. Therefore, combining traditional distribution channels such as agents with applications on online platforms has increasingly proven suitable for complex financial products such as life insurance longevity. Although there are no specific statistics from the Vietnam Insurance Association or the Department of Insurance Management and Supervision, in fact, some large life insurance companies in the market, such as Manulife, Prudential, FWD, etc. There have been online applications and new distribution channels deployed so that insurance buyers have many choices to get insurance in addition to the traditional channels currently deployed. Some life businesses have deployed partial or complete online channels and recorded revenue into other channel systems or attached to a specific agent code. That is also a positive sign for the field of online distribution channels, and it reflects the inevitable trend that Vietnam is catching up and getting closer to the world insurance consumption trend, especially after the pandemic period pandemic; all needs can be resolved online, including life insurance.

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