EFFECT OF DIGITAL DISTRIBUTION CHANNELS ON PERFORMANCE OF INSURANCE SECTOR

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ABSTRACT

Purpose: The insurance business is critical to the growth of any nation's economy. All insurance companies rely heavily on distribution to be a part in their overall performance. As technology has advanced, insurers have begun looking into new avenues of distribution in the internet sphere. The study's goal is to assess the effect of digital distribution channels on performance of insurance sector.

Methodology: A desktop literature review was used for this purpose. Relevant seminal references and journal articles for the study were identified using Google Scholar. The inclusion criteria entailed papers that were not over 10 years old.

Findings: All insurance companies rely heavily on distribution to be a part in their overall performance. It is now feasible for consumers to acquire an insurance policy directly online, without the need for a middleman or physical distributor, thanks to a growing number of agency businesses and direct insurance writers. The insurance sector has benefited from the following new technological developments in recent years. Technology is increasingly significantly reliant on the digital channel of distribution for the purchase of insurance and policy management.

Unique contribution to theory, practice and policy: Both public and private life insurance businesses must boost Internet marketing and on-site marketing as sales platforms. Life insurance businesses in both the public and private sectors should offer tax-saving programs tailored to the needs of their consumers. Digital distribution channels should be taken into account by policymakers in their strategy formulations because of technical advancements and the predicted shift away from physical branch networks to technologically enabled insurance services.

Keywords: *digital, distribution channels, performance, insurance sector.*

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INTRODUCTION

The growth of each nation's economy is substantially influenced by the state of its insurance market. Because it offers consumers some measure of safety in the event of an unexpected occurrence that results in financial loss, a robust insurance industry encourages economic activity that involves taking risks. Additionally, it offers members of the family the essential financial stability they require in the event of a loss of life or health. As a result of the fact that the assets under management of insurance firms constitute long-term capital, these companies also serve as a pool of cash that may be invested in long-term initiatives such as the construction of infrastructure (Lee, 2019).

It is due to the ever-changing and astounding performance of numerous channels of distribution that the insurance business has experienced a robust expansion in recent years. These channels are interdependent mediums that are interwoven in the process of transporting items, services, and information from commercial establishments to individual customers. They are considered to be the most important links in the insurance industry because they facilitate an association between customers who are interested in purchasing insurance policies or products and insurance companies which are looking into various methods by which they can sell those policies or products. They are acting as a powerful mediator between the buyer and the seller, and their responsibility is to analyze the broader market, meeting the criteria of both sides, and assisting their customers in selecting the best competitive offers. This function requires them to examine the market as a whole. When it comes to carrying out business in the sector, which consists of things like the issue of policies and the collection of the premium amount, there are many different channels involved. To begin, independent agents are licensed persons who are able to offer insurance policies or other financial goods on behalf of any insurance provider. They are compensated by the company with a commission for each and every policy that is sold and maintained (Singh et al., 2020).

Distribution is an essential component that all insurance firms must have in order to be successful. In the life insurance markets, various insurance covers can be given either directly or indirectly through a variety of distribution channels. These distribution channels include individual agents, corporate agents including bancassurance, and brokers. The majority of people refer to these as the "conventional routes." As things stand, insurance agents continue to serve as the primary channel for product distribution in developing nations, and virtually all of the major companies in the insurance industry adhere closely to this primary distribution model. In spite of this, new distribution channels have been developed in a productive and speedy manner during the past few years as a result of recent shifts in consumer behavior, the introduction and evaluation of new technologies, and deregulation of relevant industries (Rexhepi, Milosevic & Mecheski, 2021).

There has been a significant shift in both the spending habits and behaviors of consumers over the past decade. Insurers are being forced to search for different ways to drive sales and customer convenience while keeping costs low and maintaining profitability as the level of competition in

insurance markets continues to gradually intensify. Cost savings and customer retention have become very critical as a result of this gradual intensification of market competition. These elements are contributing to the development of new channels, the most notable of which are call centers, mobile applications, and the internet. Alterations in customer behavior and preferences regarding products, distribution channels, and procedures are also functioning as catalysts for the progressive creation of alternative and new channels in the marketplace. As a result of significant developments in technology, insurance companies have begun investigating a variety of approaches to the development of additional distribution channels in the internet domain. Because more and more clients are coming to terms with and incorporating the usage of the internet into their day-to-day activities, the internet has emerged as an appealing medium through which insurance companies can display, advertise, and distribute their products. We are already observing and experiencing a progressive shift and change in the purchasing habits of customers as a result of their growing usage of the internet in the process of decision making and product purchasing. This is something that we are witnessing and experiencing right now. Many insurance companies are being encouraged and pressured by the changes to explore expanding or altering their adviser or broker channels in some way. The problems that traditional insurance businesses have in their attempts to go directly digital to consumers can often be slowed down and delayed by legacy systems that are sluggish and clunky, as well as by existing traditional methods of doing business (Singh et al., 2020).

Insurers began issuing coverage on the Internet in the 1990s, when it was first introduced. Online aggregators began to arise as customers became more comfortable making purchases of a wide variety of goods and services through the Internet. Consumers can readily compare the cost of risk coverage from one firm to another by using online data aggregators for vehicle insurance and term life insurance, which are among the most standardized. It is now feasible for consumers to acquire an insurance policy directly online, without the need for a middleman or physical distributor, thanks to a growing number of agency businesses and direct insurance writers. The insurance sector has benefited from the following new technological developments in recent years. Insuring oneself and keeping track of one's insurance policies have never been easier thanks to the digital channel of distribution (Liang et al., 2021).

Many people are speculating and debating about the potential influence of the Internet's rapid expansion on traditional distribution channels. In spite of India's rapid rise in internet users, online commerce has yet to take off. While internet insurance services are offered by a few major insurers, their utilization remains minimal in comparison to the overall insurance distribution system. There is still a concern about the security of online transactions. For most insurance companies, product information and illustrated tools are available online or via apps. However, in the current context, web or app services are not being viewed as a means of directly marketing insurance products and services. A client-initiated internet sale would take longer to establish in India, where insurance is still provided only after extensive persuasion, pressure and face-to-face interaction. While the Internet's adoption as a distribution channel has been minimal, the Internet's adoption as a support

channel has been ubiquitous. Insurers are using the Internet to provide general information about financial services products (e.g., insurance, investments), to provide specific information about the company and its product lines, to provide administrative support to its policyholders, and to serve as a prospecting and communication tool for its agent-led channel (Srivastava and Gupta, 2022).

Customers preferred face-to-face contacts with intermediaries in the early days of insurance because of its complexity. When it comes to insurance companies, today's technology gives them a leg up. Every insurance company has a website where customers may learn more about the goods and services they offer. Customers can also download Apps from most insurance companies. Agents are also given portable equipment to aid with the selling. The legality of agreements is a difficult problem in India because of the country's low level of internet usage. There is still a concern about the security of online transactions. In the current state of affairs, Internet sales of insurance are not yet effective (Pisoni, 2020).

Internet banking helps banks create and maintain intimate customer relationships, saves operating and fixed expenses, and improves financial performance in the banking and insurance sector. As a guarantee to their consumers that they can retain a competitive level of service, many financial institutions and insurance firms are launching online services. When it comes to delivering their products, banks and insurance businesses have long relied on digital marketing services (Teye et al., 2020).

Electronic insurance encourages the creation of a need for insurance and a recognition of that need, as well as a search for alternative information about insurance and an evaluation of those alternatives from digital information offered by insurance websites. Purchase decisions are made easier, and after-sale service is provided as well. As a result, businesses should raise their digital marketing spending in order to expand their market share. Many people are eager to acquire insurance directly from the company's website. Increasing numbers of people are purchasing non-living things online. Insurance companies are putting more of their efforts into online distribution channels, thanks to the widespread use of the internet. Online insurance in India has seen rapid expansion as a result of factors such as product simplicity, ease of use, transactional openness, and low barriers to entry for new companies (Acharya, 2017).

Statement of the problem

Digital distribution channels are expected to significantly improve performance of insurance sector. However, in reality, the rate of adoption of digital distribution channels has been poor in insurance sector. The poor implementation has been attributed to the strategic approaches used by insurance managers. This affects stakeholders and previous studies have been carried out to deal with distribution channels but still none has been done covering impact of digital distribution channels in insurance sector. The study will benefit the scholars and researchers who will gain insight on effects of digital distribution channels and their impact on the insurance sector.

LITERATURE REVIEW

Innovation Diffusion theory

First considered in 1995, Rogers came up with the notion. Five differentiating characteristics of innovations were identified by Rogers (1995), each of which played a key influence in the adoption process. Even though Rogers asserted that certain elements of a product or service influence the diffusion process, Venkatraman and Price (1990) concurred with him in saying that these aspects can play a role in whether or not consumers adopt new products or services. Because of its uniqueness in relation to other products and services currently on the market, a new product or service has a higher chance of being adopted quickly by the target market, according to Rogers (1995). The speed with which a product is adopted by the broader public is also influenced by consumer habits and routines.

As Rogers (2009) explains, the decision to adopt an innovation is driven by factors such as perceived advantages of the innovation, how compatible it is with existing systems and processes, how complex the innovation is, how simple it is to test out, and whether or not the results of adopting the innovation can be easily measured and understood. In this study, this model is useful since it provides insight into the phases involved in the adoption of digital distribution channels as well as the variables that drive insurance companies to embrace digital distribution channels. Many benefits can be gained by utilizing digital distribution channels according to Kithinji (2014). These include enhanced brand awareness, higher sales, and better relationships with customers.

The Technology Acceptance Model (TAM)

In 1986, David Fred was the one who came up with the idea of using Technology Acceptance Model (TAM) to better understand and forecast how people will react to new technology. The theory proposes that what determines usage of a new technology system is affected either directly or indirectly by the user's attitude and intentions, as well as the user's perception of the usefulness of the system and their perception of how easy it is to use. Additionally, the theory proposes that what determines usage of a new technology system is affected directly or indirectly by the user's perception of the system's ease of use (Davila et al., 2003). Due to the fact that digital distribution channels is still a relatively new occurrence on a worldwide scale, this theory is suitable for this research that is being conducted. The majority of the tactics that are discussed in this article are simple, and those who are familiar with various forms of technology should have no trouble putting them into practice (Minama, 2016). According to TAM, the rate of adoption of a technology, in this case digital distribution channels, is driven by the perspective that the user has on the utility and convenience of usage of the technology.

Empirical Review

According to Magati, (2021), an investigation was carried out to determine the impact of various distribution channels on the buying habits of life insurance customers. The research was done using a descriptive approach. The study's target audience was Britam Insurance Limited's life

insurance customers. The sample size for this study was 398 clients who were selected to participate. Google forms were used to administer the questionnaire as part of the study's data collecting. Descriptive, correlational, and regression analyses were used in the study. Direct distribution channels, bank-led distribution channels, electronic distribution channels, and agency-led distribution channels all showed a favorable link, according to the research. Customers who purchase life insurance through distribution channels are more likely to do so, according to the regression results. Britam Life Assurance Kenya's consumer buying behavior was influenced by direct, bank-led, and agency-led distribution channels, according to the study. There is no evidence that Britam Life Assurance Kenya's electronic distribution channels had an impact on consumer purchase behavior. According to the findings, insurance companies should boost their service offerings by expanding their branch networks, which would increase their access to consumers directly. Commercial banks should be encouraged to promote the sales of life insurance products by forming alliances and partnerships with insurance companies, according to the report. According to this research, insurance companies should provide their agents with suitable training and abilities in order to improve their service reliability and ease.

For the private health insurance market in Kenya, Kang'e et al., (2020) aimed to establish the impact of influence distribution models as a temporary advantage. The study used a descriptive survey approach to gather data from a group of managers, assistant managers, and overseers. Data was obtained from a sample of 308 of the 380 private health insurance companies that were targeted, with four respondents taken from each of the five divisions, namely sales, strategy, finance, operations, and customer service. Analyses of the data yielded both descriptive and inferential results. Performance may be predicted considerably by using distribution models (=-0.77, exp (B) =0.563, p=0.0360.05). To improve health insurance performance, it is advised that distribution models be re-examined to identify their flaws so that they can be improved. Instead of depending on traditional channels like agent/broker and bancassurance, the report proposes using diverse distribution methods. It is possible to use mobile applications and the internet to make insurance products more accessible to access, while at the same time reducing the cost of availing these services. There will be a requirement for R&D investment in order to do this. As a result, insurance companies must set aside funds for research and development. Saccos and other new distribution channels should also be explored. Insurance businesses should only choose distribution channels that will help them reach their profitability and market share goals.

The advising service of the distribution channel Bancassurance is investigated by Guillem (2020) as part of a study on the customer-oriented service of Spanish insurance brokers. As authorized by Law No. 26/2006 on July 17th on the mediation of private insurance and reinsurance, this study examines insurance brokers' customer orientation. An insurance broker's intermediation, which indicates a customer-oriented service and extends beyond the immediate surroundings, is the focus of this study. Insurance brokerages and banks are compared in this study, which examines the differences in customer care provided by the two organizations. To this goal, we compare the total volume of business and new production for a set of insurance products. The findings of this study

indicate that the consumer appreciates the broker's advice. However, clients are more likely to use the bank's services for a certain business segment in standardized insurance products and products related to banking assets. Results also show that the commission percentages applied by banking insurance channel firms exceed those perceived by insurance brokers. It's important to note that insurers can gain from intermediation in the development of their business, but it may not always be in the best interest of the insurer.

There was an investigation into the service delivery of selected insurance firms in Kenya by Kiprono & Kinyua, (2021). It was the overall goal of the study to look into the link between Jubilee Insurance Limited in Nairobi City County, Kenya, and distribution channels in order to better understand service delivery. The analysis was based on Michael Porter's Competitive Forces and the Service Quality Model. In the end, it was decided to go with the descriptive style. For the study's target audience of Jubilee insurance, APA insurance and GA insurance company workers. A stratified sampling design yielded a sample size of 100 participants from a total population of 338. Structured questionnaires were used to collect data for the study. In order to obtain inferential and descriptive statistics, social science quantitative data was processed using statistical software. Figures, tables, and graphs were used to display the findings. As a result of the research, it was found that channel differentiation improves the delivery of services (r=0.818, p=0.000). The study found that the distribution of insurance services in Nairobi City County, Kenya, was highly influenced by channel distribution. More needs to be done to stay up with ever-changing trends in distribution, such as using digital platforms, in order to ensure that clients are linked with the services given by insurance firms. The distribution channel should also be shortened. Other than that, it's important to maintain track of how the product is being distributed.

An investigation was carried out by Sindani, Muturi & Ngumi (2019) in order to discover the impact of financial distribution channels on the level of financial inclusion inside Kenya. There were two goals for this study: to examine the impact of internet banking on financial inclusion and to examine the impact of ATM banking on financial inclusion in Kenya. The researcher gathered secondary data for further investigation. From 2012 to 2017, the data was gathered. This study used a hybrid research approach that included both descriptive and co-relational methods. All 44 of Kenya's banks were included in the study's sample. Data from a data collection sheet was used to gather secondary information for the investigation. The research outcomes were presented in frequency tables, percentages, and averages. The categories derived from the data were depicted using descriptive statistics. In order to determine how clustered or scattered the dependent and independent constructs were, the mean, standard deviation, and variance were used. R-square (also known as the coefficient of determination) was found to be 0.899 in this investigation. According to the findings, internet banking has improved Kenya's banking sector by increasing efficiency and productivity. In addition, ATM banking has a significant impact on financial inclusion. As a result of the predicted shift away from physical branch networks and toward technologically enabled banking services, the report advises policymakers to consider online banking when formulating plans.

Banks' financial performance is examined by Ahiadorme (2018) in a research project. A multiple linear regression model is used in this study to investigate the effects of digital distribution channels on bank profit and cost performance. Most digital apps are introduced and used simultaneously, according to the research. Both ATMs and internet banking applications have been found to boost the bank's income performance and cost efficiency. Mobile banking applications, on the other hand, have less of an impact on the profitability and cost effectiveness of banks. There may be economic repercussions for banks notwithstanding the potential benefits of digital advances on bank performance. It is essential for banks to reduce the proportion of late and underperforming assets while adopting digital advances.

In SPBU SHELL Perbaungan, Ayu (2020) did a study on the impact of distribution channels and prices on customer loyalty. The study's goal was to find out how distribution routes and prices affect customer loyalty when they are both partially and simultaneously changed. These studies combined quantitative and associative methods. In order to provide an accurate estimate of the number of people who visited the Perbaungan Shell gas station, a random sample of 100 people was selected using the Purba formula. Primary and secondary data sources, data collection methods such as library research, questionnaires, interviews, and observations are all examples of research data sources. Multiple linear regression data analysis techniques are used to test classic assumptions and hypotheses. Distribution channels and prices working in tandem have been found to have favorable effects on customer loyalty, according to this research. The pricing at the Shell Perbaungan gas station has a substantial effect on consumer loyalty, but the distribution route has no meaningful effect. A moderate (not strong enough) correlation was found between customer loyalty and the distribution channels and price's coefficients of determination. a consumer's loyalty may be explained by 17 percent by distribution channel and price, and the remaining 83 percent by variables not included in the study. An R2 of 0.170 shows this.

METHODOLOGY

The study adopted a desktop methodology. Desk research refers to secondary data or that which can be collected without fieldwork. Desk research is basically involved in collecting data from existing resources hence it is often considered a low-cost technique as compared to field research, as the main cost is involved in executive's time, telephone charges and directories. Thus, the study relied on already published studies, reports and statistics. This secondary data was easily accessed through the online journals and library.

RESULTS

The results were grouped into various research gap categories namely as knowledge and methodological gaps.

Knowledge Gaps

Studies by Kang'e et al., (2020), Guillem, (2020), Kiprono & Kinyua, (2021), Sindani, Muturi & Ngumi, (2019), Ahiadorme, (2018) and Ayu, (2020) had knowledge gap. In addition, all the

mentioned studies did not establish the effect of digital distribution channels on performance of insurance sector. Therefore, the current study seeks to address these knowledge gaps.

Methodology gaps

Studies by Kang'e et al., (2020), Guillem, (2020), Kiprono & Kinyua, (2021), Sindani, Muturi & Ngumi, (2019), Ahiadorme, (2018) and Ayu, (2020) had methodological gap. In addition, all the mentioned studies did not employ desktop review methodology. Therefore, the current study seeks to address these methodology gaps.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

All insurance companies rely heavily on distribution to be a part in their overall performance. Deregulation and new innovations in consumer behavior have led to the quick and successful creation of new distribution channels in recent years. It is now feasible for consumers to acquire an insurance policy directly online, without the need for a middleman or physical distributor, thanks to a growing number of agency businesses and direct insurance writers. The insurance sector has benefited from the following new technological developments in recent years. Technology is increasingly significantly reliant on the digital channel of distribution for the purchase of insurance and policy management.

Recommendations

Both public and private life insurance businesses have a responsibility to increase their use of Internet Marketing and Worksite Marketing as channels for the generation of sales. Companies in the public and private sectors of the life insurance industry should both launch tax-saving solutions to cater to the needs of policyholders. The research suggests that policymakers should take into account digital distribution channels when formulating strategies in light of recent technological developments and the impending transition from physical branch networks to technologically supported insurance services.

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