Life Insurance Distribution in India

The Emerging Paradigms in Intermediation.

AUTHORS

Fulbag Singh
*Professor,
Dept. of Business Management,
Guru Nanak Dev University, Amritsar.*

Sonia Chawla
*Lecturer,
Dept. of Business Management,
Malout Institute of Management and Technology, Malout*

Bhupinder Singh
*Lecturer,
Dept. of Business Management,
Malout Institute of Management and Information Technology, Malout.*

ABSTRACT

The pattern of distribution has undergone vast changes with new channels being introduced with the liberalization of life insurance market in India. In the deregulated scenario, the private players are coming out with different types of distribution channels emerged such as corporate-agents, brokers, banks, SHGs and NGOs etc to get hold of customer in the variety of ways. Intermediary has to ensure high productivity, follow code of conduct, consistent performance and ensure quality of proposals. New players may tend to favor the "creamy" layer of the urban population because of the reason that with low sum assured and small premiums, the distribution cost of rural insurance products is high compared to that of urban products. However, nodal agencies like Non- government organization / self help group play a major role in the administration of insurance schemes in rural areas. In nutshell multi-channel distribution and marketing of insurance products will be the smart strategy for the Indian market.

1. INTRODUCTION

The life insurance industry has been the most happening industry in India in the last decade. The industry has completed a full circle from being a competitive industry to a nationalized one in 1956 and once again opened the doors for the private players through passage of IRDA bill in the parliament in December 1999. Monopoly of the Life Insurance Corporation of India is over and now we have on scene, a total of fourteen players with the market share being 76:24 approximately of LIC vs. Other Players in the industry. The IRDA since its incorporation as a statutory body in April 2000 has speedily stuck to its schedule of framing regulations and registering the private sector insurance companies. Now the life insurance industry is ready to offer products to address diverse needs at different phases of life and with modern features. Besides life insurance industry is gearing up to meet contemporary needs, provide easily accessible and efficient services, hassle free transactions, similar tax benefits, safety of money, and be concerned for overall satisfaction.

As the insurance market in India has been liberalized, the pattern of distribution is likely to undergo vast changes with new channels being introduced. A quantum jump in insurance business in terms of premium, policies, and lives covered, etc. would necessitate a corresponding increase in the capacity of the distribution channels. The need for new channels can also be appreciated if distribution is approached from the point of view of the customer. Customer choice of the distribution channel is dictated by number of factors such as socio-demographic factors (education, employment, and income), ease of access, need for advice etc. On

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the other hand the insurers' choice of distribution channels is dictated by the factors like costs associated relative to the premium charged, access to customer base, complexity of the products etc. Globally, many different channels have emerged such as corporate-agents, brokers, banks, SHGs and NGOs etc. There have also emerged several variations between these like brokers liaising with banks, advisors employed by insurers working out of a bank branch, and bank as a whole acting as a broker or agent. A survey in the Indian market has suggested that 30 percent of insurance buyers would like to decide on their own giving opportunity for distribution channels other than agents

2. TYPES OF INTERMEDIARIES

The insurance industry particularly the life and pensions sector is dependent heavily on distribution. Insurance intermediary acts an interface between the insuree and the insured. It is desirable to allow various distribution channels and intermediaries to provide a greater choice to the consumer and create an environment that encourages innovation. Till few years back, the only mode of distribution of life insurance products was through agents. While agents continue to be the predominant distribution channel, today a number of innovative alternative channels are being offered to consumers such as corporate agents/ advisors, bancassurance, brokers, panchayat, post offices, NGO's & SHG's, the internet and direct marketing.

Agents/Advisors - An agent is a primary source for procurement of insurance business. Insurance agents are licensed producers appointed by insurance companies to offer their products for sale. It is a traditional route of marketing.

Corporate Agents – A corporate Agent is another intermediary in the insurance industry, which is expanding rapidly in the Indian market. The main agenda to promote corporate agents is to facilitate "bancassurance" in India. The Corporate agent is a concept introduced with a view to take advantage of the presence of a large number of firms, corporations, banks, NGO's, cooperative societies and panchayats, who are in contact with the people in the normal discharge of their activities and utilize their presence and services for canvassing the sale of insurance products. This model has the potential to reach a large section of the population in a short time.

Brokers – Insurance brokers are professionals who assess the specific insurance needs of the client, evaluate and suggest a suitable insurance cover for the clients.

Bancassurance – Bancassurance is a partnership between a life insurance company and a banking institution. Bancassurance can be defined as, "Fully exploiting the synergies between banking and insurance, so as to manufacture and distribute cost effective banking and insurance products to a common customer base." Banks can leverage their network and high-tech electronic delivery channels to offer bancassurance products through branches, ATM, network, Internet and call center etc.

Bancassurance in Asia has primarily grown slowly over the past 10 years, with past 5 years has seen spectacular development. Regulation is being gradually loosened, but still there are barriers to full development in some markets, e.g. Korea, India, Taiwan such as size of

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companies/capital outlay, channel conflict, lack of strategic drive etc.

SHG's (Self-Help Groups), NGOs- Most of the insurance companies prefer to tie-up with the groups which already operate in the rural area like SHGs to enter into the rural market. ICICI Prudential has tied-up with a spate of NGOs i.e. with BASIX, Shepherd and CASPOR to spread its wings to rural areas. However NGO managed insurance programs has limited scalability (no reinsurance). AVIVA and BASIX is one of the example of effective partnership between insurers and NGOs. In this effective partnership BASIX pays monthly premium to AVIVA and does the collection of premium from the insured.

E-Choupals - This is an internet-based co-ordination point for purchase of a product or service and a forum for information and interaction. The *'sanchalak'*, manning the interaction point, is trusted to provide reliable information/ advice and would have influence over the decision to purchase product/service and which company to choose. ITC LTD has started selling life insurance policies through its e-choupal network in 2002. ICICI Prudential is service provider to ITC e-choupals. Each sanchalak sold 1-27 in the pilot phase. At present there are 90 kiosks in the pilot phase and 1500 kiosks are proposed. The company started a pilot in Madhya Pradesh and to be expanded to other states thereafter. The revenue sharing model has to be worked out between the insurance companies, service provider and the sanchalak.

Direct Marketing - Direct marketing through mailers, pamphlets etc. require customized simple products that can be purchased through such mediums, or through the Internet. Though the unavailability of good databases in India, and the high expenses to reach the target audience through direct mailers is a cause for concern, it is definitely a problem that can be solved through better management of resources, data collection etc. lines i.e. he should possess the minimum qualification of a pass in 12th Standard or equivalent, should go though 100 hours of practical training and pass the pre-recruitment test for insurance agents which is duly recognised by the authority.

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3. ROLE OF INSURANCE INTERMEDIARIES

There are several factors that intermediaries bring to the insurance marketplace that help to increase the availability of insurance generally:

Innovative marketing - Insurance intermediaries bring innovative marketing practices to the insurance marketplace. This deepens and broadens insurance markets by increasing consumers' awareness of the protections offered by insurance, their awareness of the multitude of insurance options, and their understanding as to how to purchase the insurance they need.

Dissemination of information to consumers - Intermediaries provide customers with the necessary information to make educated purchases/ informed decisions. Intermediaries can explain what a consumer needs, and what the options are in terms of insurers, policies and prices. Faced with a knowledgeable client base that has multiple choices, insurers will offer policies that fit their customers' needs at competitive prices.

Intermediaries help insurers in the difficult task of spreading the risks in their portfolio. Intermediaries work with multiple insurers, a variety of clients, and, in many cases, in a broad geographical spread.

Dissemination of information to the marketplace : - Intermediaries gather and evaluate information regarding placements, premiums and claims experience. When such knowledge is combined with an intermediary's understanding of the needs of its clients, the intermediary is well-positioned to encourage and assist in the development of new and innovative insurance products and to create markets where none have existed. In addition, dissemination of knowledge and expansion of markets within a country and internationally can help to attract more direct investment for the insurance sector and related industries.

Sound competition : - Increased consumer knowledge ultimately helps increase the demand for insurance and improve insurance take-up rates. Increased utilization of insurance allows producers of goods and services to make the most of their risk management budgets and take advantage of a more competitive financial climate, boosting economic growth.

Spread insurers' risks: - Quality of business is important to all insurers for a number of reasons including profitability, regulatory compliance, and, ultimately, financial survival. Insurance companies need to make sure the risks they cover are insurable – and spread these risks appropriately – so they are not susceptible to catastrophic losses. Intermediaries help insurers in the difficult task of spreading the risks in their portfolio. Intermediaries work with multiple insurers, a variety of clients, and, in many cases, in a broad geographical spread. They spread the risks in their portfolios according to industry, geography, volume, line of insurance and other factors, and thus helps insurers from becoming over-exposed in a particular region or a particular type of risk.

Reducing costs : - By helping to reduce costs for insurers, broker services also reduce the insurance costs of all undertakings in a country or economy. Because insurance is an essential expense for all businesses, a reduction in prices can have a large impact on the general economy, improving the overall competitive position of the particular market.

3. STATUS OF INSURANCE INTERMEDIARIES IN INDIA

Agents were the primary channel for distribution for LIC products in India till the entry of private players. At present, LIC has more than 14,00,000 lakh agents. In the deregulated scenario, the private players are coming out with different types of distribution channels to get hold of customer in the variety of ways. New players are exploring new techniques of distribution. Some of them opt direct sale associates (DSA), other follow bancassurance or corporate agent's route for distribution. An analysis of the various channels opted by various insurance players shows that agent continues to be occupy the title of most significant channel of distribution till now.

As on 31st March, 2004, there were over 15 lakh agents and corporate agents. On the life segment 9,33,002 individual agent and 2,389 corporate agents have been issued new licenses, and 6,23,815 individual agents and 47 corporate agents' licenses have been renewed. LIC issued 733140 new licenses to individual agents and renewed 608457 licenses. LIC is having the maximum number of individual agents. Same is the case of corporate agents; LIC issued 596 licenses and renewed 6 licenses. In case of private

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companies, ICICI PRU issued maximum number of licenses to individual agents i.e. 46056 and renewed 583 licenses. Birla Sun Life issued maximum number of licenses to corporate agents i.e 511 followed by Om Kotak with 225 corporate agents.

Further, LIC issued the maximum number of licenses in both Urban and rural areas i.e., 627533 and 714666 respectively. It shows that LIC have the maximum coverage in both urban and rural areas. In case of private companies, ICICI PRU issued maximum licenses in urban area i.e. 46318 followed by ALLIANZ BAJAJ and TATA AIG with 34367 licenses and 32949 licenses respectively. ALLIANZ BAJAJ issued maximum licenses in rural area i.e. 1975 followed by AMP SANMAR, HDFC STD LIFE and AVIVA with 1522, 1069 and 656 licenses respectively.

As far as brokers are concerned, In India 154 insurance brokers are registered with the authority, of which 128 of direct brokers 4 reinsurance brokers and 22 composite brokers.

In India all the insurance companies get the maximum of its business from individual agents. In India, insurance companies through individual agents underwrite 95.32 percent of business. Insurance companies underwrite 1.3 percent business from bancassurance and 1.63 percent as direct business.

In the case of LIC, 99.78 percent of its business was underwritten by individual agents, with corporate agents (including banks) and brokers being used to the extent of 0.20 percent and 0.02 percent respectively. In the case of the private insurers, the individual agents, followed by 14.37 percent through direct method underwrote 60.39 percent of the business. Corporate Agents (including banks) and referral arrangements accounted for 17.43 percent and 7.50 percent respectively. Brokers underwrote only 0.31 percent of the business during the year 2003-04.

Some regional Banks such as Lord Krishna Bank, Development Credit Bank entered into tie-ups with insurance players such as ICICI prudential and Birlasunlife respectively. Insurance players are getting 15 percent to 30 percent of their business from bancassurance. Insurance players also get tie-ups with other non financial companies with different schemes e.g. New York provide cover to Escotal subscribers up to Rs 4 Lakh under its Club Royal Scheme.

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4. DISTRIBUTION IN RURAL LIFE INSURANCE MARKET IN INDIA

India is a predominantly rural country and will continue to be so in the near future. However the awareness on insurance in rural India is low. There is a pressing need for increased awareness, suitable rural insurance products, effective distribution systems and importantly, orientation of insurance products towards financial risk protection. With low Sum Assured and small premiums, the distribution cost of rural insurance products is high compared to that of urban products. IRDA has formulated Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) Regulations, 2002 where it made it compulsory for the insurers to undertake a percentage of the policies from rural and social sector for the first five years of their operations. However, it is to be seen whether a proactive approach will prevail on the part

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of insurers to tap Indian rural market or not.

New players may tend to favour the "creamy" layer of the urban population. But, in doing so, they may well miss a large chunk of the insurable population. A strong case in point is the current business composition of predominant market leader – the Life Insurance Corporation of India. The lion's share of its new business comes from the rural and semi-rural markets. In a country of 1 billion people, mass marketing is always a profitable and cost-effective option for gaining market share. The rural sector is a perfect case for mass marketing. Generally, smaller policy amounts in rural areas would be more than offset by the higher volume potential in these areas in contrast with urban areas. Identifying the right intermediaries to harness the full potential of the vibrant and dynamic rural markets is an imperative. Rural insurance should be looked upon as an opportunity and not an obligation. A smaller bundle of innovative products in sync with rural needs and perception and an efficient delivery system are the two aspects that have to be developed in order to penetrate the rural markets..

Rural Insurance Schemes : LIC has introduced a number of schemes such as social security Fund (SSF), The Landless Agriculture Group Insurance (LALGI) Scheme, Rural Group insurance, Janashree Bima Yojna, Krishi Shramik Samajik Suraksha Yojna etc. with the social causes such as to help insure poor agricultural workers, insure household below the poverty line. Nodal agencies like Non- government organization /self help group play a major role in the admintration of such schemes e.g. BASIX has today the experience of delivering a wide range of products in both life and asset Insurance.

Thisway, A number of opportunities exist in the rural insurance markets and insurers can get the most out of it. First of all rural population amounts to nearly 72 percent of the total population and majority of them are left uncovered. Secondly national income of country as well as the individual income level is on rise. The agriculture and allied sectors are showing steady growth rate. The rural market contributes up to 55 percent of national GDP. Thirdly Indians and in particular, rural people have high saving habits. This may be due to uncertainties and perils they are exposed to in rural areas. Hitherto, they had only a few investment avenues like post office savings or bank deposits, and insurance could be made an alternative investment opportunity with the benefit of life cover. Fourthly, with the fall in the interest rate, insurance has become an alternative investment product and insurance products can be made investment avenues, which give good returns with insurance protection. However simultaneously with the opportunities insurers have to face threats as both go hand in hand. Low literacy levels and poor general and insurance awareness is the biggest hurdle for the insurers to tap the rural market. Besides this the factors like no proper documentation, uneven distribution of population, poor health conditions, and low earnings are other stumbling blocks in the distribution of insurance to rural masses. It is pertinent to mention here that people in villages acquire rigid psychology and there perception towards there savings and investments villages, prefer saving to acquiring capital assets like gold and land. They believe in god and are superstitious to some extent. They either retain risk or avoid it instead of hedging the risk until they come out of these psychological barriers are made aware of the benefits of insurance it is not possible to spread insurance in rural segments.

6. MEASURES TO IMPROVE ALTERNATE CHANNEL OF DISTRIBUTION

Insurers have a major role to develop insurance business. They should orient themselves towards market development to increase the penetration to increase the penetration level. The penetration level has increased to 3.56% from 2.52% in last couple of years. There has been overall growth in the insurance market. The entry of new players has not resulted in the division of the existing market, but the market itself is on the growth path. Tailor-made products have also facilitated increased coverage. Customer satisfaction is further enhanced through various confidence building measures aimed at protecting the interest of policyholders.

Tie-ups with NGOs/SHGs : The non-government organizations and the self-help groups can play a major role in increasing penetration levels. These are informed groups, which provide avenue for insurance selling through the mechanism of group insurance schemes. Group insurance provides greater reach with low operation costs and fewer rates.

Extensive insurance awareness: Extensive insurance campaigns as has been launched by All India Radio (AIR) and Doordarshan can make the people really aware of the insurance. This included broadcast/ telecast of jingles and monthly phone-in programmes of 30 minutes duration. Members, officers and representatives of the Authority participated in the phone-in programmes. The programmes were telecast in eleven languages from the regional centers of Doordarshan / AIR so as to cover a wider cross section of the society. The recent initiative by the Reserve Bank of India permitting regional rural banks (RRBs) to act as corporate agents is another step in this direction.

7. CONCLUSION

Ongoing reforms in the financial sector have resulted in an increase in the number of players, range and complexity of products and emergence of new distribution channels and intermediaries. It may be necessary to evolve practice guidelines for the sale of insurance policies. Due to the deregulation of the financial services markets from direct government control and the ever widening choice of products, investors need protection from incompetent or unscrupulous operators. All the parties involved in the distribution process have roles and responsibilities towards an effective distribution system e.g. IRDA's role is to standardize, list and classify competencies into different levels, agree and define methods of delivery, execution, evaluation and certification process, redefine licensing process based on competence/vocational requirements, build and promote public awareness. Similarly the guidelines for the companies should be drawn up by consensus by the association of insurers and those for intermediaries should be evolved by the licensing authority, such as to list out the ethical practices such as free and fair competition, bar unfair practices such as price undercutting, poaching of employees and agents, outline repercussions of violating the guidelines. The intermediaries in the insurance business and the distribution channels used by carriers are perhaps be

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the strongest drivers of growth in the sector. Multi-channel distribution and marketing of insurance products will be the smart strategy for the Indian market. While tied agents will continue to play an important role in distribution, alternative channels like corporate agents, brokers, and bancassurance will play a greater role in distribution. Firms will need to forge relationships with the partners for strategic advantage.

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