Insurance Distribution in India - A Perspective

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1 Distribution - the key differentiator

It has been two years since the Indian insurance market has opened up, and the new entrants into the market have set up shop in every major city. The public sector companies have already established themselves in the market. But there are multiple challenges faced by these insurance companies, of which two are critical:

- Designing of products suiting the market
- Using the right distribution channel to reach the customer

While the companies have been quite successful in dealing with the first of these challenges using the existing product features and leveraging the technical know-how
of their partners, most are still grappling with the right channel mix for reaching potential customers.

This paper discusses the distribution channels from the perspective of the socio-cultural ethos of the market and how these channels fit into it, along with where the various companies face challenges and bottlenecks. Whenever any debate arises about the intermediaries and distribution channels, the discussion veers to technology and its impact on distribution. However, the authors believe that the basic existential problems being faced by the channels in this market needs to be looked into first, and then the question of enablers - technology, tools, training, learning etc. -- is to be taken up.

2 Challenging Scenario demanding role transformation of intermediaries

Insurance has to be sold the world over, and the Asian Market is no exception. The touch point with the ultimate customer is the distributor or the producer (as they are known in certain markets), and the role played by them in insurance markets is critical.

It is the distributor who is makes the difference in terms of the quality of advice for choice of product, servicing of policy post sale and settlement of claims. In the Asian markets, with their distinct cultural and social ethos, these conditions will play a major role in shaping the distribution channels and their effectiveness.

In today's scenario, insurance companies must move from selling insurance to marketing an essential financial product. The distributors have to become trusted financial advisors for the clients and trusted business associates for the insurance companies.

This calls for leveraging multiple distribution channels in a cost effective and customer friendly manner. For example, in the developed markets producers (brokers and agents) form the major channels of distribution, while the web as a complementary channel is catching up slowly. According to a Forrester survey, 88% of the Life insurance executives responding identified agents as the primary channel of distribution.¹

The distinction of channels in the developed markets is: personal distribution systems and direct response systems. **Personal distribution systems** include all channels like agencies of different models and brokerages, bancassurance, and work site marketing. **Direct response distribution systems** are the method whereby the client purchases the insurance directly. This segment, which utilizes various media such as the Internet, telemarketing, direct mail, call centers, etc., is just beginning to grow.
3 Distribution Scenario in the Indian market

In today's Indian insurance market, the challenge to insurers and intermediaries is two-pronged:

- Building faith about the company in the mind of the client
- Intermediaries being able to build personal credibility with the clients

Traditionally tied agents have been the primary channels for insurance distribution in the Indian market; the public sector insurance companies have their branches in almost all parts of the country and have attracted local people to become their agents. The agents are from various segments in society and collectively cover the entire spectrum of society. A person who has lived in the locality for many years sells the products of the insurance company with a local branch nearby. This ensures the last mile touch point being closer to the customer. Of course, the profile of the people who acted as agents suggests they may not have been sufficiently knowledgeable about the different products offered, and may not have sold the best possible product to the client. Nonetheless, the customer trusted the agent and company. This arrangement worked adequately in the absence of competition.

In today's scenario agents continue as the prime channel for insurance distribution in India, as is the case in most markets, supported by call centers to a small extent. Almost all the new players follow this model primarily because the regulations for other channels are yet to be put in place.

However there is great excitement in the industry over the impending broker regulations, and companies are planning possible channels in their enthusiasm to increase volumes. The belief that all these channels will grow and seamlessly integrate to bring in business seems a fallacy.

What has emerged is a much more difficult and evolving market scene with existing players, more new players coming in, and global marketing practices and ideas being tested. But none of this has changed the fundamental character of the market, which we believe will take more time than expected.

4 What should the companies look at?

Basically companies have to take a look at the intermediaries they are using, whether it is optimal to use them, and what are the alternatives?

The new companies have attempted appealing only to the middle, upper middle and elite classes in the major cities. Contrasted with Public sector insurance companies, with their offices across the country, the new companies have miles to go before they
reach anywhere. They must overcome the mindset of the customer that life insurance is Life Insurance Corporation of India (LIC) and general insurance is General Insurance Corporation of India (GIC) if they hope to grow in the market. Meanwhile, the public sector companies are going to great lengths to revamp their image to look and feel more contemporary.

Both the public and new private sector companies are fighting their own battles from the perspective of customer perception management:

<table>
<thead>
<tr>
<th>Public Companies</th>
<th>Private Sector Companies</th>
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<tbody>
<tr>
<td>Identity is well established, but the perception of &quot;poor service providers&quot; is a stigma.</td>
<td>Have to build their identity in a market where the public does not distinguish them.</td>
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<tr>
<td>Products are not attractive and flexible enough but expensive.</td>
<td>Remove the perception that anything that looks good is expensive</td>
</tr>
<tr>
<td>To retain their creamy layer clientele who are the most likely to be wooed by the new companies</td>
<td>Work against the people's mindset that they are not here for the long term</td>
</tr>
<tr>
<td>Retain and attract good intermediaries</td>
<td>Attract intermediaries especially agents with the requisite qualifications and attributes who can market the company and the product.</td>
</tr>
<tr>
<td>Match the aura created by the new companies in the urban market</td>
<td>Run the risk of tapping an already insured market for repeat insurance instead of tapping new virgin pockets in the market</td>
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In this process all are targeting the same market --the existing pie is being cut up further, but no attempt is being made to increase the size of the pie. For example, while attempts are made to complete the quota of rural insurance in percentage terms, the rural market potential is yet to be tapped, as the new insurers are not able to attract the right kind of talent into their distribution force to address this. Intelligent segmentation of distribution channels to match the market segmentation is what will help the companies to move in this direction.
5 Focus on multiple distribution channels

Though a multi-channel strategy is better suited for the Indian market as well, it is important to keep in mind that this market is really a conglomeration of multiple markets. Each of the markets within this conglomeration requires a different approach. Apart from geographical spread the socio-cultural and economic segmentation of the market is very wide, exhibiting different traits and needs. Let us look at the various insurance distribution channels and the challenges faced by them from these perspectives.

5.1 Agents

Today's insurance agent has to know which product will appeal to the customer, and also know his competitor's products in the same space to be an effective salesman who can sell his company, the product, and himself to the customer. To the average customer, every new company is the same. Perceptions about the public sector companies are also cemented in his mind. The new companies are looking for educated, aware individuals with marketing flair, an elite group who can be attracted only with high remuneration and the lure of a fashionable job, all of which may not be possible in this business with its price pressures and the complexity of selling insurance. Unable to attract this segment, they have started easing recruitment conditions as against the stringent norms they had earlier, thereby diluting the process.

While the public sector companies are able to attract agents, they continue to suffer from high attrition rates due to indiscriminate agent appointment. The most successful of these companies' tied agents are hardly of the elite variety of salesman. They are still the neighborhood do gooders -- the postman, the schoolteacher, and the shopkeeper -- who know the people and are themselves known in the community. The challenge here is the lack of knowledge of the competitive market and the inability to do intelligent comparisons with the competitor's products. Educating and training these agents is a serious challenge for the insurance company.

The relevance of this kind of agent continues even today as agents are sought or contacted by families by word of mouth. Insurance companies are advised not to follow the path of FMCG's/credit card companies, believing that a suited and booted customer care consultant or financial consultant will necessarily appeal to the average Indian customer.

Another social feature in the market is the considerable respect for age in Indian society and a belief that an older person knows better. A very young
up-market agent who is a typical salesman may not appeal to a large segment of the middle class, which is looking for a solid trustworthy person from whom they can buy insurance.

In this context it might be a rewarding exercise to recruit some older people (who have taken VRS\textsuperscript{2} from banks and other financial institutions) to sell some lines of products like pension plans, annuities etc.

Gender of agents is another relevant feature in the rural context that makes a difference, especially for the female population. Women to whom the customers can relate --e.g., nurses, gram sevikas\textsuperscript{3} -- can target the female segment of the population more effectively. What is applicable for the rural women and children health programs and population control programs is equally applicable for insurance selling also. Max New York Life has adopted a version of this strategy by appointing gram sahayaks\textsuperscript{4} to sell and service the rural customers.

With this kind of segmentation of intermediaries the challenge for the insurance company lies in training and educating these people to become effective sales persons. But this in no way diminishes the benefits of intermediary segmentation.

5.2 Banks

Banks in India are all pervasive, especially the public sector banks. Can they also become the foremost channel for distribution of insurance? Perhaps in the future. The public sector banks, with their vast branch networks, are also plagued by a rigid unionized workforce and archaic systems, and lack vision of a broader service spectrum encompassing non-banking products. The newer banks are constrained by their lack of reach and meager branch strength. For banks to become a predominant channel for selling insurance will require a paradigm shift.

But the encouraging fact for insurance companies waiting for bancassurance to take off is that bank branches are here to stay, and customers do want them. A customer survey by Deloitte Consulting\textsuperscript{5} in the western developed markets found that for banking activities, customers place high importance on having convenient branches in their banking relationships. This is good news for the Indian banks with their many branches, and also makes a strong case for taking up bancassurance.

The major lines of business that can be sold through bancassurance successfully are term insurance, creditor insurance, and non-life products like Property, Motor and Personal accident, Homeowners comprehensive insurance etc.
An example is SBI Life, which is waiting for the broker regulation to be put in place in order to move ahead aggressively with the bancassurance model. One of their major product lines is creditor insurance, and they have launched their first creditor insurance product, which covers the liabilities of the creditor in case of death of debtor. SBI Life is planning a similar product for home loan borrowers of State Bank of India. This model has high relevance in the Indian context with far-flung villages where the insurance potential is in volume and not in high per capita premiums. Some advantages and disadvantages are:

<table>
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<tr>
<th>Advantages of bancassurance</th>
<th>Disadvantages of bancassurance</th>
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<tbody>
<tr>
<td>High credibility (as trustworthy caretakers of money) with the public</td>
<td>Economic viability for the banks to take up as bancassurance is a volume business</td>
</tr>
<tr>
<td>A ready customer base</td>
<td>Training of people and lack of vision and awareness</td>
</tr>
<tr>
<td>Low cost channel for selling simple vanilla products</td>
<td>Useful for selling only certain lines of products</td>
</tr>
<tr>
<td>Extensive reach including the rural pockets</td>
<td>Initial investment in systems and processes and people training</td>
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The strategy should be to use multiple banks according to their presence in different regions. Success would come by using bancassurance where it will be most effective - i.e., selling simple, cheap products to the masses at a low cost. This awareness is growing and is evident from the fact that nearly every insurance company has partnered with one or many banks to implement bancassurance.

5.3 Brokers

With the broker regulation under review and expected any time, this could be the next hope, especially for the urban market. This will be a new experience for the insurance customer, accustomed to brokers in financial services, real estate, and travel and tourism. For historical reasons the image that 'broker' carries in the minds of the customer is not very favorable. Thus the new breed of insurance brokers face the challenge of establishing credibility.

The positives are that brokers in the urban arena can attract the elite and the upper middle class customer. Brokers represent the customer and will sell the products of more than one company. They seek to determine the best fit for the client and can effectively address the mind block faced by the public about
the various companies. This is applicable in the case of life insurance for the high-end and corporate/group segment.

In the non-life segment, broking is not entirely new, as reinsurance brokers were arranging exotic covers. For individual customers also, with a wide range of competitive products, the broker can get a good deal. The corporate broking companies will have to play a prominent role.

If NGOs based in rural areas can be attracted into the rural sector cooperatives arena, they stand a good chance of succeeding and can help the new players get a foothold in the rural market. These are the players with the potential to make the difference, as they have the trust of the people. We envisage scenarios like that in Bangladesh's micro lending growth and the milk co-operatives\(^7\) in Gujarat selling insurance in addition to milk production and distribution. It would be a new dawn in Indian insurance distribution! With the right impetus the Indian rural insurance scenario could be one with high business volume and tremendous growth potential.

ICICI Prudential Insurance and HDFC Standard Life Insurance have already partnered with NGOs\(^8\) to sell some low cost insurance in rural areas.

However, the challenge lies in establishing regulations that protect the customer and attract the right players into the brokerage market rather than creating another middlemen segment eroding the premium.

### 5.4 Work site marketing

This area needs to be tapped, as in any country one of the biggest markets is through the worksite. With changes in human resources management polices and compensation packages, group products or worksite products do have a definite market that cannot be ignored.

Here the advantages would be:

- Captive customer base
- Potential to sell individual insurance and group insurance
- High trust factor
- High hit ratio for the intermediaries

The challenges would be the cost effectiveness, product customization and efficient post sales servicing, which would determine continued business. Technology has a key role to play in worksite marketing to ensure cost benefits. Banks and financial institutions have been successfully marketing credit cards and other financial products using this channel. If not an identical model a similar approach can be used for selling insurance.
5.5 Internet

Though India is joining the fast growing breed of net users, using net for transactions has not yet caught up. Though a few banks provide online banking, the usage is still a small fragment. The insecurity associated with transactions over the net is still an inhibiting factor. At present most of the insurance companies have product information and/or illustrative tools on the web.

We do not see the web evolving into a means for direct selling of insurance in the current scenario. In the Indian market, where insurance is sold after considerable persuasion even after face-to-face selling, the selling over the net, which must be initiated by the client, would take some more time.

While the technology capability is there, improvements in bandwidth and infrastructure are needed. Also needed are simpler products where auto-underwriting is feasible. Automobile insurance, one of the segments of insurance purchased "off the shelf" in India, would be the ideal segment to start with. On the life side, term assurance for standard lives with simplified underwriting is a possibility.

These channels by themselves will not be able to overcome the mindset of the people, but rather can only be enablers for the human channels.

5.6 Invisible Insurer

In this model, the insurance company or its representative is not the entity marketing the products. The insurance cover is sold by an automobile /credit card company as an add-on product leveraging the brand of the retailer. The risk is carried by the insurance company, which underwrites it. Products like creditor insurance, automobile insurance, and credit card related insurance could be distributed using this channel. This model can be adopted in all market segments for the lines of business mentioned. It is already prevalent in some areas like credit card insurance and crop insurance for agricultural loans.

The new players are also attempting this model. The venture of Maruti into insurance by setting up two subsidiaries MIDS and MIBL to sell automobile insurance is a case in point. These firms will largely arrange insurance cover for Maruti's captive customer base. MIDS has been registered as a corporate agent with an exclusive arrangement with Bajaj Allianz General Insurance, while MIBL has linked up with state-owned National Insurance Company Limited.

What makes these arrangements attractive is the low distribution cost and captive customer base. However, repeat business or renewal of business
cannot be assured. In the life segment, group creditor insurance may be the most suitable product for this channel.

6 Conclusion

The current state of insurance distribution in India is still in flux. On one hand, insurers are awaiting regulations to be approved for brokerages and bancassurance to be truly launched. On the other hand they are trying the corporate model of intermediaries in addition to the traditional models in the market.

There is no right and wrong in all this. The success of marketing insurance depends on understanding the social and cultural needs of the target population, and matching the market segment with the suitable intermediary segment.

In addition a major segment of the Indian population has low disposable income, meaning that every penny won will be obtained after a lot of persuasion and the expected value for money is high.

All intermediaries can't sell all lines of business profitably in all markets. There should be clear demarcation in the marketing strategies of the company from this perspective. Clients should also receive price differentials for using different channels. This is not a new concept, as the Public sector Property&Casualty companies are giving discounts in lieu of agency commission. The channel composition should not be homogeneous but should reflect the larger society.

For example:

- Agents from different economic, social strata and different age and gender.
- Bancassurers ranging from multinational banks to micro credit lending agencies.
- Brokers stretching from corporates to NGOs to milk co-operatives

These intermediaries need to be empowered with the right learning, training and sales tools and technology enablers. Coupled with the right product mix, this will help the insurers to survive and flourish in this competitive market.

Let us conclude with a story of a retired postal clerk who became a success story for selling postal savings and insurance in his village in Punjab in Northern India. The person is the father of our colleague, who is a retired postal employee and took up agency for postal savings and insurance to supplement his meager retirement earnings.

Today -- 10 years later -- he is one of the top agents selling postal savings and insurance in his village, assisted by his illiterate wife and grandson (a seven year old
computer literate) doing all the administrative work from home on a small Personal computer using a package (developed by our friend who is a programmer) to handle his client portfolio!

The entire village population trusts him with the investment advices that he doles out and has no qualms in handing over small amounts of cash to him for depositing in the post office. He is their trusted customer care or financial consultant. This we feel is the essence of distribution of financial products in India.

Footnotes

1. Forrester Research "Reinventing Life Insurance Sales" by Todd Eyler with Ron Shevling, December 2001

2. VRS: Voluntary (Premature) Retirement Scheme introduced by many Public Sector banks and other organizations

3. Gram Sevikas: Village women primary health and social workers

4. Gram sahayaks: Village social worker

5. Report by Deloitte consulting.

6. SBILife- A JV between State bank of India and Cardif SA

7. Milk cooperatives: A co-operative movement, called "White revolution" which has revolutionized the milk production and distribution in Gujarat, a State in Western India.

8. NGO: Non Governmental Organization

9. Maruti Suzuki Ltd is one of the largest automobile manufacturers in India

10. MIDS: Maruti Insurance Distribution Services

11. MIBS: Maruti Insurance Brokers

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