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Advisory Services' Quality of Intermediaries in Life Insurance Industry: A Comparison of Individual Agents and Bank Employees selling insurance through Bancassurance Partner

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ABSTRACT

In the Indian life insurance sector, the products, distribution channels & strategy of the life insurers have undergone transformation, partly introduced by the new players & partly induced by the environmental developments. A wide range of structural changes are witnessed in the distribution of life insurance with the introduction of new distribution channels. There are different intermediaries operating in the market approaching the customers in their own way, so there is a strong need to compare the quality of the advisory services provided by the intermediaries. The present study attempts to compare the quality of advisory services as provided by individual agents and bank employees selling life insurance for bancassurers. A comparison was done using various input and output indicators among 100 individual agents and 100 bank employees from Chandigarh, Ludhiana and Amritsar. The results gives the evidence that indeed the insurance agents may provide better advisory services and better post purchase customer service than the bank employees.

KEYWORDS: Intermediaries, Bancassurance, Advisory Services

INTRODUCTION

The service industry forms a backbone of social and economic development of a country. It has emerged as the largest and fastest-growing sectors in the world economy, making higher contributions to the global output and employment. Today the services sector accounts for 63.2 per cent (2010 est.) of the world's GDP (World, CIA World Fact book 2011). In India, too the services sector contributes for 55.2 percent (2010 est.) in its overall GDP (South Asia: India, CIA World Factbook, 2011).

The growing demand for insurance around the world is having a positive effect on the insurance industry in all economies. The world over, insurance products are not bought, but SOLD!! These products have to be pushed into the market and not pulled. Insurance is distributed through a variety of marketing channels. Although the insurers market the life insurance products directly to buyers by mails, telemarketing, or sales representatives who are company employees, the vast majority of the life insurance products sales involve an intermediary. (Cummins, 2005) Insurance intermediaries serve as the critical link between the insurance companies seeking to place the life insurance products and consumers seeking to procure the life insurance coverage. The very important change that has occurred in the industry is the introduction of new channels of distribution and also a rejuvenation of the ancient distribution channel by reorientation of the agency force. While the agents continue to be the more dominant distribution channel, a number of new and innovative alternative channels are being offered to consumers: bancassurance, brokers, corporate agents, the internet and direct marketing. Almost all the life insurance companies are adopting the multi-channel distribution strategy which gives the consumers an opportunity to approach a life insurer through the most convenient and the more trusted channel. On the other hand, the alternate channels of distribution like banc assurance, direct marketing, internet and telemarketing have reduce the costs and enable the insurers to reach a wider customer base.

In the distribution of the life insurance products, the marketing problems are much more serious as the product/service is intangible and abstract. The touch point with the ultimate customer is the distributor, and the role played by them in life insurance markets is critical. And there seems to be certain truth in the statement often quoted, "If the institution of the life insurance has any product to sell, that product is Agent" (Machiraju, 2004). It is the intermediary who makes the difference in terms of the quality of advice for choice of the product, servicing of policy post-sale and settlement of claims. In sum, high quality information and advisory services are provided if the relevant information is given in a way that enables the consumer to choose from the range of products those that serve well and at least costs his or her subjective preferences and needs (Eckardt, 2002).

There are different intermediaries operating in the market approaching the customers in their own way, so there is a strong need to compare the quality of the advisory services provided by the intermediaries. Of the various channels introduced bancassurance has emerged as the main contributor to the new business of the public sector and the private sector life insurance companies in India as per figures provided by Insurance Regulatory and Development Authority (IRDA) (as shown in Table 1 and Table 2).

Table - 1
New Business (Life) Underwritten Through Various Intermediaries: Lic (Ratio in per cent)

Year	Individual Agents	Corporate Agents Banks	Others	Brokers	Referral	Direct Business
2005-06	98.37	1.25	0.32	0.06	0.00	0.00
2006-07	97.28	1.24	0.90	0.34	0.24	0.00
2007-08	98.36	1.30	0.29	0.05	0.00	0.00
2008-09	97.34	1.70	0.49	0.47	0.03	0.00
2009-10	97.75	1.64	0.52	0.09	0.18	0.00

Source: IRDA Annual Reports for year 2005-06, 2006-07, 2007-08, 2008-09, 2009-10

Table 2
New Business (Life) Underwritten Through Various Intermediaries: Private Sector (Ratio in per cent)

Year	Individual Agents	Corporate Agents Banks	Others	Brokers	Referral	Direct Business
2005-06	59.71	16.87	8.92	0.83	7.06	6.61
2006-07	65.80	16.58	8.41	1.05	6.77	1.39
2007-08	59.81	18.89	11.03	1.50	7.79	8.78
2008-09	54.94	20.78	10.92	2.00	9.27	11.37
2009-2010	50.67	24.88	10.28	3.44	7.85	10.73

Source: IRDA Annual Reports for year 2005-06, 2006-07, 2007-08, 2008-09, 2009-2010

In this backdrop, the present study attempts to compare the quality of advisory services as provided by individual agents and bank employees selling life insurance for bancassurers.

The hypotheses formulated for the present study are as follows:–

"The life insurance agents and the bank employees selling the life insurance products provide the advisory services of the same quality."

METHODOLOGY

The study has been conducted in three cities Chandigarh, Ludhiana and Amritsar. A total of 200 life insurance intermediaries were surveyed using structured questionnaire. Among the respondents there were 100 individual life insurance agents from the selected five life insurance companies: Life Insurance Corporation of India, ICICI Prudential Life Insurance Co. Ltd., HDFC Standard Life Insurance Co. Ltd., Birla Sunlife Insurance Co. Ltd. and Bajaj Allianz Life Insurance Co. Limited. 20 agents each from five life insurance companies were approached for the survey. And total 100 bank employees selling life insurance prod-

ucts were contacted for the study from the bancassurance partners in Chandigarh, Ludhiana and Amritsar. All questionnaires were personally supervised so as to give intermediaries clear view of the study being conducted.

Selection of Banks

The banks having tie-up with selected five life insurance companies were selected for the study. The following banks in all the three selected cities were covered for the data collection:

Table- 3
Selected Life Insurance Companies and Their Bancassurance Partners

Sr. No.	LIFE INSURANCE COMPANY	BANCASSURANCE PARTNER
1	HDFC Standard Life Insurance Co. Ltd.	Indian Bank, HDFC Bank
2	ICICI Prudential Life Insurance Co. Ltd.	ICICI Bank, Federal Bank, Allahabad Bank, Bank of India
3	Birla Sun Life Insurance Co. Ltd.	Citibank, IDBI Bank, Andhra Bank, Bank of Rajasthan
4	Bajaj Allianz Life Insurance Co. Ltd.	Standard Chartered Bank, Dhanlakshmi Bank
5	Life Insurance Corporation of India	Corporation Bank, Vijya Bank, Oriental Bank of Commerce,

Source:http://www.bajajallianz.com/Corp/aboutus/life-insurance-channel-partners.jsp, http://www.hdfclife.com/AboutUs/AboutUsBancassuranceMembers.aspx, http://insurance.birlasunlife.com/, http://www.iciciprulife.com, http://www.licindia.com

CONSTRUCTION OF THE QUESTIONNAIRE

The data was collected about attributes of the respondents, the intermediation process and general market conditions. Intermediaries' attitude and behaviour are expressed on a 1 to 5 rating scale. In the absence of any objective standard to evaluate the quality of advisory services of the insurance intermediaries, the key indicators have to be decided first. The different indicators used to measure the quality of the intermediaries' advisory services have been adapted from the research conducted by Eckardt (2002). The researcher has differentiated between two categories of variables: Variables used as the Quality indicators and Customer-specific variables.

Variables serving as Quality Indicators

Different input and output indicators are used to measure the advisory services quality of intermediaries. The Input indicators were used to study the attitude and behavioural patterns of intermediaries when they deal with their customers, like how much time they spent on different activities, which aspects intermediaries consider more important while counseling their customers.

Under the Input indicators the respondents were asked to rank the different activities on the basis of the time they spend on those activities. The higher the rank given to the acquisition of information and the counseling respectively means that the more information about the insurance products and their characteristics as well as about the specific needs of the clients can be gathered. Consequently, the advisory services of the intermediaries can be better suited to the needs of the customers. In addition, the input indicators point to the importance the intermediaries subjectively attach to the different aspects in the counseling interviews. It is assumed that they inform their clients more extensively about those aspects to which they attached more weight in the questionnaire.

The Output indicators for the quality of advisory services were measured on the basis of the success rate of the intermediary and the fulfillment rate of life insurance products sold by the intermediary. These indicate the consumer satisfaction with the information provided and the products offered by the intermediary in the consultation. The higher success rate means that the average numbers of interviews which lead to the conclusion of a contract are high, thereby, indicating that customers feel that they are better advised by the intermediary.

The respondents were asked to state the rate of contracts which were not cancelled during the first year after selling the life insurance products, as the reason for such an early cancellation of an insurance contract could be seen in miscounseling and/or mis-selling by the intermediary and product not provided according to the customers' needs. The perceived pressure of competition was also used as a variable to indicate the quality of the advisory services under the assumption that the better advisory services reduce competitive pressure.

Customer - specific variables

The paper studies about the differences in customer structure dealt by the intermediaries. If the customers of the insurance agents and the bancassurers differ with regard to their knowledge about insurance products, then differences in the processing of information and giving advice by the intermediaries would result. Therefore, the intermediaries were asked about the state of knowledge that their customers possess on an average with respect to their risks and the advantages of the insurance services versus the other investment products. In addition, they were asked about the average demand for the information of the different life insurance products. Higher demands for information would require more time spent on those issues, thus again affecting the information and counseling behaviour of the intermediaries.

ANALYSIS AND RESULTS

T-test has been used to test the significant mean differences between the quality of advisory services of the agents and the bank employees. T-test has been applied on both the input and the output indicators used to assess the quality of advisory services of the insurance intermediaries and to test the hypothesis stating that "the life insurance agents and the bank employees provide information and advisory services of the same quality.

Table 4 provides the mean values for both the agents and the bank employees along with the t-values and significant values. Most of the variables used as indicators to assess the quality of information and advisory services supplied show highly significant differences, which not only leads to a rejection of the null hypothesis, but also gives the evidence that indeed the insurance agents may provide better advisory services and better post purchase customer service than the bank employees.

The Input indicators show significant differences between the life insurance agents and the bank employees that exist with respect to their time spent on the acquisition of information about the customers, products and competitors and improvement in education/ qualification/ training. The insurance agents spent a larger amount of their working time on the search for information on customers, life insurance products of the company with which they are associated and of the competitors.

The variables used to evaluate the weight attached to the different questions of interest in the counseling interviews by the insurance intermediary differ significantly. With the exception of three variables, there is a statistically significant difference at 95% level of significance in mean values of the remaining variables used in the counseling interviews by the agents and the bank employees, that is, the significant values was 0.05 or lower for eight out of eleven items. The results indicate the mean values are higher for the insurance agents, thereby, indicating that the agents attach more weight to these aspects in counseling than the bank employees.

Table- 4
T-Test Results- For Input Indicators

Variable	Mean Value		T- Test Value	Level Of Significance
	Agents	Bank Employees		
Time spent on activities (Ranking of activities from 1 to 5)				
Acquisition of information about the customers, products and competitors.	1.28	2.05	-7.210	0.000*
Counseling, Interviews with Customers.	2.04	2.12	-0.629	0.530
Further improvement in education/ qualification/ training				
Claims settlement	2.99	2.44	3.933	0.000*
Advertising efforts	4.16	4.19	-0.245	0.807
	4.48	4.18	2.408	0.017*

Importance to aspects during counseling interview				
Advantages/Disadvantages of different security options				
Taxation policies	4.38	3.59	8.033	0.000*
Insurance and product types	4.46	3.83	6.178	0.000*
Type and coverage of the insured risks	4.47	4.33	1.511	0.132
Premium design	4.30	3.84	4.316	0.000*
Cost components	4.49	4.46	0.357	0.721
Claim settlement	4.08	3.60	3.566	0.000*
Contract period	4.24	2.94	10.420.859	0.000*
Surrender of policy (termination options)	4.36	4.27	2.986	0.392
Procedures of policy alterations.	3.81	3.44	4.970	0.003*
Costs of alterations in policy.	3.87	3.25	9.167	0.000*
	3.59	2.48		0.000*
Importance to measures in order to distance themselves from other intermediaries	3.99	3.22	5.873	0.000*
Advertising Campaigns	4.70	4.07	7.214	0.000*
Good Customer Service	3.48	3.78	-2.701	0.008*
Specialization on certain customer segments	4.29	3.93	3.461	0.001*
Professional lectures, Seminars, etc.	4.50	4.12	3.951	0.000*
Regularly update your knowledge. (About insurance products offered by your company as well as your competitors)	4.45	4.21	2.648	0.009*
Provide objective information and counseling (i.e. completely assess your client's risk and provide policy accordingly)				
None of the above	-	-	-	-
Factors according to intermediaries that play role in acquiring positive reputation				
Reputation of the insurance company whose products you offer.	4.46	4.45	0.112	0.911
Quality of the products offered	4.50	4.30	2.253	0.025
Objective and detailed information about the products				
Empathy with the customers' life circumstances	4.55	4.25	3.482	0.001*
Frequent and regular customer contacts				
Advertising campaigns	4.29	3.83	4.703	0.000*
Benign and reliable service.	4.76	3.99	8.607	0.000*
	3.70	3.26	3.437	0.001*
	4.74	4.17	6.622	0.000*
Average time for counseling interview	1.69	1.78	-0.802	0.423

* Values significant at 0.05 level of significance

As far as consumer-specific variables are considered, there is no statistically significant difference between the mean values of the variables as shown in Table 5. Only four variables had level of significance of 0.05 or lower. This implies that the customers with whom the agents and the bank employees deal are almost similar with respect to the demand for information.

Table- 5
T-Test Results- For Customer- Specific Variables

Variables	Mean Value		T- Test Value	Level Of Significance
	Agents	Bank Employees		
Knowledge of customers about				
Their personal risks	3.52	3.10	3.611	0.000*
Advantages and disadvantages of insurance products compared to other investment alternatives	3.92	3.88	0.352	0.725
Demand for information regarding				
Endowment plans	3.86	3.16	5.659	0.000*
Child plans	4.05	3.82	2.342	0.020*
Unit- linked plans	4.46	4.62	-1.871	0.063
Term insurance plans	3.25	2.83	2.892	0.004*
Pension plans	4.21	4.25	-0.361	0.718
Customers have become demanding about				
Information concerning insurance products	4.35	4.39	0.414	0.680
Free additional services	4.28	4.10	1.799	0.074
Customers want to be informed extensively about the advantages and disadvantages of insurance products and contracts.	4.37	4.36	0.114	0.060
Customers are in general not able to assess, whether they have been well or ill-advised about the advantages/ disadvantages of insurance products.	2.90	2.95	-0.115	0.679

* Values significant at 0.05 level of significance

However, the values in Table 6 show that the output indicators differ significantly. The insurance agents have higher success rates, that is, a higher proportion of their consultations lead to the successful conclusion of the contracts as compared to the success rates of the bank employees. Further, the fulfillment rate of the contracts also differ significantly, the insurance agents have better fulfillment rate, i.e. less percentage of contracts sold by the agents have been lapsed as compared to the bank employees. The high fulfillment rate implies that the customers are satisfied by the advisory services of the agents and the life insurance products sold to them meet their requirements. There were 50 bank employees who didn't know the number of policies sold by them which are still in force, thereby implying the lack of post- sale communication on the part of bank employees.

Table- 6
T-Test Results- For Output Indicators

Variables	Mean Value		T- Test Value	Level Of Significance
	Agents	Bank Employees		
Output indicator				
Success Rate (average share of interviews which lead to a contract conclusion)	3.86	3.37	5.543	0.000*

Output indicator Fulfillment rate (%age of contracts not cancelled during the first year after signing the contract)	1.15	3.21	-10.96	0.000*
Competitive pressure Pressure of competition faced by intermediaries	3.52	4.13	-5.238	0.000*
Importance of factors which help intermediary to counter competition in the market				
Additional advertising campaign	3.63	3.37	2.151	0.033
Improvement of the consultations' quality	4.56	4.25	3.757	0.000*
Specialization on certain customer segments	3.70	3.58	0.940	0.348
Attend more seminars/ training programs (to improve your knowledge)	4.22	4.27	1.311	0.191
Provide better/ detail knowledge about the product	4.55	4.15	4.464	0.000*
Better customer service	4.77	4.09	6.565	0.000*
Any Other, Please Specify	-	-	-	-

* Values significant at 0.05 level of significance

CONCLUSIONS AND IMPLICATIONS

The intermediaries serve as a critical link between the life insurers seeking to place the insurance products and the prospective customers seeking life insurance cover. The advisory services of the intermediaries help the customers in their decision making about the appropriate life insurance products according to their needs. Based on the findings of the comparison of the agents & the bancassurers the following suggestions may help the intermediaries to improve the level of the service quality.

- The intermediaries should provide detailed knowledge about the factors which may help customers in buying the life insurance products. The decision to buy a particular insurance product not only requires information about ones' preferences, needs and the risks to be covered but also about the diverse investment & insurance types available for the particular company as well as of the competitors. To compare the performance of the different insurance types, the intermediaries should inform the consumers about its costs as well as its past performance and services with respect to claim settlement. The computation of the charges and the fees should be transparent such that the customers may easily compare the costs across similar products and services in the market. The intermediaries should ensure that the particular risks inherent in certain products/services are clearly explained to the customers to assist them in making an informed decision.
- Establishing and implementing the Know your customer (KYC) norms in the right spirit will help the intermediaries build effective relationships with their customers. The intermediaries need to assess the risk profile of the customers in order to sell the life insurance products. The needs of the customers can be identified by understanding the customers' investment objectives, financial or personal situations and their attitude to the risk taking ability.
- Regular interaction is critical for the insurance intermediaries for retaining the customers in the long run. The intermediaries need to constantly monitor the level of satisfaction amongst their customers. Routine dialogue is an effective method of keeping abreast of the customers and fulfilling their need for regular monitoring. The intermediaries need to inform the customers about the new products/services being offered by the life insurers by regularly updating them with the newsletters/brochures etc. Similarly, the intermediaries need to remind the customers about their premium payments dates to avoid policy lapsation.
- The banks can be the foremost channel for the distribution of the insurance products as they can engender a great deal of trust in the wide segments of the customers. The bancassurers need to maintain personal contact with their customers besides the first-hand knowledge about the financial profile of the customers.
- Post Liberalization, the life insurers have launched new and innovative products. In the current scenario, the intermediaries need to regularly update their knowledge with regard to the products offered by the life insurers and also the knowledge of the products of their competitors. This will facilitate the intermediaries in providing the quality advice on the product choice and enhance the customer experience.
- In this competitive scenario, the key difference will be the customer experience that each life insurance player can offer in terms of the quality of advice on product choice, along with the policy servicing and the settlement of claims. It is the intermediary who makes the difference in the customer experience. The long term growth in the business greatly depends on the distribution network where the emphasis must evolve from merely selling the life insurance products to acting as financial advisors, assisting the consumers plan their finances depending on their personal requirements.

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