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Analysis of Distribution Channels of Life Insurance Business

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ABSTRACT

Distribution channels are systems of economic institutions through which a producer of goods delivers them into the hands of their users. Any sequence of institutions from the producer to the consumer, including none or any number of middlemen is called channel of distribution. Marketing channel is an integral part of the life insurance business. In the liberalized insurance market there are multiple distribution channels to face the competitive market. This Paper is a modest attempt on channel distribution practices used for Insurance businesses in India as well as their impact on the success of this industry.

KEYWORDS : Channel, Bancassurance, Worksite Marketing, Independent Financial Advisor

Introduction

Product distribution is a critical function in management of life insurance business. It is more critical because the product is intangible, investment is for long term and there are realisable and unrealisable benefits. Therefore, distribution of such products calls for pre distribution planning to establish a linkage between product quality product value and behavioural aspects of targeted segments of customers.

Distribution is a key determinant of success of all insurance companies. In case of life insurance, it is combination of decision regarding channels of distribution. Life Insurers market various insurance covers either directly or through various distribution channels- individual agents, corporate agents including bancassurance and Brokers. These are generally called the traditional channels. In today's scenario agents continue as the prime channel for insurance distribution in India and almost all the players follow this model primarily. However, with new development in consumer's behaviour, evaluation of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years. This paper discusses the various insurance distribution channels and the related problems.

AGENTS:

All life insurance companies have an agency-building distribution strategy under which they recruit, train, finance and supervise their agents/advisors. For decades, agency was the only distribution channel for life insurance in India. Even today more than 70% of business is carried through insurance agents. Through agency, personal contact and relationship can be established with the customer. The system of agents is a major source of both presales and post sales service to the customers, since it has the direct relationship with customers. Due to personal contact, it can provide valuable feedback about the need and expectation of consumers. However, it is now a day considered as an old fashioned channel and not fully updated with latest technologies.

BROKERS:

Insurance brokers are professionals who assess risk on behalf of a client, advice on mitigation of that risk, identify the optional insurance policy structure, bring together the insured and insurers, and carry out work preparatory to insurance contracts. Brokers represent the customer and will sell the products of more than one company. They seek to determine the best fit for the clients and can effectively address the mind block faced by the public about the various companies. The system of brokers is generally applicable in the case of life insurance for the high-end and corporate/group segment.

BANCASSURANCE:

Bancassurance in its simplest form is the distribution of life insurance products through a bank's distribution channel. Insurance companies see bancassurance as a tool for increasing in their market penetration and premium turnover. It takes various forms in various countries depending upon the demography and economic and legislative climate of the country. While bancassurance has become a success story in Europe, it is relatively a new concept in Asia. It was introduced in India when insurance industry was opened for private players. In India, a bank can tie up with one general insurance and one life insurance companies as mandate by IRDA regulation. The banking sector in India comprises of more than 67,000 branches and around 20 crores bank accounts.

Table 1: BENEFITS OF BANCASSURANCE

Benefits to Banks	Benefit to Insurers	Benefit to customers
· Sources of Revenue diversification · Reduction of operating cost · Diversification of business · Optimum utilization of infrastructure and resources · Customer Retention	· Lesser procurement cost · Easy access of customer base · Known customer and therefore easy risk assessment · Channel diversification · Increase in market penetration · Increase in volume of business · Extensive customer reach	· Low premium because of reduced distribution cost · Convenient in payment · Conveniently getting all financial needs under one roof · Double assurance/credibility · Easy and automatic renewal · Getting better service · Refined quality product

Table 1 shows that bancassurance is a win-win situation for the insurance company and the bank. However, initial investment in systems and processes and people training is considerably more. People handling insurance sometimes don't know much about the products and once they make customers they are not much bothered about their customer queries. Moreover, it will be useful for selling only certain lines of products. In India bancassurance practice is yet to be much popular.

INDEPENDENT FINANCIAL ADVISOR:

IFAs are authorised agents of insurance companies having tie-ups with more than one insurance company. They are qualified person or institution who can provide advice on financial products. Independent financial advisors are commissioned agents whose primary business is the sale of property and casualty insurance for several insurers. IFA assembles different financial products in accordance to customer needs and provide value added product by creating customised financial product. Today, IFA show their significant presence as distribution channel in both life and non life insurance business. Technically, independent financial advisors who sell life insurance policies usually do as brokers.

DIRECT MARKETING:

Insurers have also resorted to direct marketing wherein insurance companies get in touch with the customers without the aid on intermediary. A separate department has been set up and officers were deputed to solicit and administer insurance business. The advantage of this system is the reduction of the cost incurred by the agency system. Company owned sales team concept is now employed by a majority of new players and has proved more effectiveness in customer creation and retention. However, as compare to the system of agents, contribution of Direct marketing is considerably low and it was 46.40 (Public 53.96% and private 27.59%) in the year 2012-13(Table 2)

Table 2: NEW BUSINESS PREMIUM OF LIFE INSURERS FOR 2012-13 CHANNEL – WISE (Figures in %)

Life Insurers	Individual Agents	Corporate Agents	Direct	Brokers	Banks	Total	Selling New
Private Total	27.59	35.2	5.16	4.14	27.9	100	0.07
LIC	53.96	1.74	0.09	0.02	44.19	100	0
Industry Total	46.4	11.33	1.54	1.2	39.52	100	0.02

*** Any entity other than banks but licensed as a corporate agent.**
 # Does not include its overseas new business premium.
Source : IRDA Annual Report, 2012-13

WORKSITE MARKETING:

Under this strategy, life insurers send team to a target group and explain the products either individual or group products suitable to them at their place of work on a voluntary, payroll- deduction basis. The target group may be employees of a particular company, educational institute or any kind of organisation. Insurance companies will be able to sell insurance products particularly pension and health plans through this channel. One possible reason for insufficient development of this channel in India is that employers generally expect some kind of incentive to provide the facilities to the life insurers for making presentations and making arrangements for deduction of premium from salaries. With changes in human resources management policies and compensation packages, group products or work site products do have a definite market that cannot be ignored.

RETAIL CHAIN:

Another innovative distribution channel that could be used are the non-financial organizations. The Indian retail market is the most fragmented in the world and at present, organised retail channel is around 3% of total retail business. But the organised sector is expected to grow at the around 30% per annum. With the huge growth rate of retail sector it can become viable distribution channel for life insurance products. In this life segment, group creditor insurance may be the most suitable product for this channel. However, repeat business or renewal of business cannot be assured in this system. Scope of retail business in life insurance is limited as compared to non-life insurance.

INTERNET:

Initially, insurance was seen as complex product and buyers preferred face-to-face interactions with intermediaries. Now a day, the advantage of technology allows insurers' tp increase their reach into the market. All insurers have websites through which they provide information about products and services. In India internet penetration is still low legality of agreements are posing difficult problem. The insecurity associated with transactions over the net is still an inhibiting factor. Internet has not been evolved 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.

CONCLUDING REMARKS:

Traditionally agents have been the primary channel in the distribution of insurance in the Indian market. The Agency channel was the only channel catering to the needs of the market. It was generally felt that there was demand side as well as supply side gaps in the Agency channel. The Life Insurance Intermediary did not enjoy a professional image and was found inadequate and not keeping with the expectations. Finally, after privatization IRDA came out with the new regulations. The Regulations introduced composite agency enabling the agents to do both Life and Non-Life business. Corporate agency and Broker channels were opened up. The private visioned this an opportunity to get a wide reach into the market and hence started to make attempts for getting the maximum benefits from the available alternate channels. The alternative distribution channels, viz., brokers, direct field force, telesales, bancassurance alliances and the internet with the conventional network of branches offer the customers a variety to choose from keeping in mind the maximum benefits they seek from them.

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