



Online Retailing Of Insurance - A Study in Reference To Policy Bazaar

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ABSTRACT

The saga of an organisation growth and development brings forth vital insights on how an organisation transforms itself from an idea to a successful reality. The current study elicits the success story of Policybazaar.com as a leading insurance web aggregator established in 2008. The study primarily deals with important features of an insurance aggregator and challenges faced by its promoters. Dahiya set up Policybazaar.com with Avaneesh Nirjar and Alok Bansal - all three first generation entrepreneurs in 2008, to make insurance purchase easy in the country and change the way insurance was bought and sold till then.

KEYWORDS : Policybazaar.com, Insurance, Web-aggregator, Policy, Financial services, Internet

INTRODUCTION

Birth of Policybazaar.com

The Indian middle class dream of securing one's financial future has made the financial services sector a hot business opportunity in India. Not to be left out of this, the digital entrepreneur has been quick at jumping on to the bandwagon. However, the insurance sector is replete with stories of many buyers being sold products not suited to their needs. It was one such story which led to the birth of Policybazaar.com. After his father was cheated by an agent his family knew and trusted for long, Yashish Dahiya, a digital entrepreneur, decided to start his company. "Every three years, the agent would sell a new policy to my father. These policies had huge premiums and helped the agent earn INR 90,000—1,00,000 as commission", he recalls (Deoras Pandey Neha and Saraswaty M., 2013).

Dahiya started Policybazaar.com with Avaneesh Nirjar and Alok Bansal—all first generation entrepreneurs—to make insurance purchase easy in the country. Before setting the company, they were part of the corporate world and worked in organisations including First Europa, a global online insurance broker and e-bookers Plc. a travel business. Given the dearth of honest investment advice for consumers, Policybazaar.com commenced operations with the idea of largely showcasing basic plans, as these were more beneficial for individuals, and providing details of investment-cum-insurance plans. These included costs and commissions, which most buyers were unaware of. "As a result, none of the companies wanted to partner with us. Then, we decided to analyse or uncode the products in the market and put these up on our website. This helped get traffic", says Dahiya. The main cause of setting up the insurance portal was the low penetration of insurance, which in turn threw up notable opportunities. Insurance penetration rate in India was around 4.1 percent in 2011.

The profit margins in setting up an insurance portal were high as more people were looking to buy risk cover at a reduced price. Typically, rebates for customers are a result of lower processing costs. Online insurance processing is nearly 70 per cent cheaper than selling through an agent or bank branch. These cost savings are shared with the customer.

Policybazaar.com is nowadays India's most prominent online life and general insurance aggregator. Policybazaar.com has made possible for the consumer to do a comparative analysis of the insurance products based on the price, quality and key benefits. However, you can only see the comparative analysis on registering your contact details on the website. The customer detail acquired by Policybazaar.com through registration is sold to various insurance sellers who work with

thousands of aggressive telemarketers. The website facilitates the members with free insurance quotes, comparison of insurance premium, and various other features alongside.

Policybazaar.com helps Indian citizens to find cheap insurance and loans across the country by comparing the features of different insurance policies. The website searches the products which are affordable and bring more cover, security, and ease. Policybazaar covers travel insurance, loans, life insurance, health insurance, and automobile insurance. The website gets little basic information from customers and within few seconds, the compatible financial products with their reviews to the readers. The website works on an easy insurance comparison process. One has to fill the necessary details about his or her requirement to get the compatible list of companies to select from. The website doesn't charge any money from its customers and comparison is provided free.

ETechAces, owning Policybazaar, got an investment of INR 20 crore in 2008 from Info Edge (India) Limited, owners of Naukri.com.

In 2011, the company received its round of funding from Info Edge and Intel Capital, the capital arm of chipmaker Intel. Intel invested INR 30 crore and Info Edge, INR 10 crore. The firm secured another round of funding of INR 27.50 crore from investors led by Inventus Capital Partners. Existing investors Info Edge and Intel Capital also participated. The company used most of the funds to consolidate the brand and augment the platform and customer services. The traffic to the site progressed steadily and according to Alexa the site attracted more than 23,000 hits in the last week of July 2013.

With about 5 million registered users, Policybazaar.com currently has a headcount of 400 employees spread across offices in Gurgaon, Delhi, and Mumbai. By the end of 2015 we hope to float an initial public offering to give our investors an exit route", said Dahiya.

Online Financial Services Industry

Recent advancement in technology has caused a wave of "Technology-based self-service" offerings in the market (Dabholkar and others, 2003). Such advancements have changed the way service firms and consumers interact. E-service is becoming increasingly important not only in determining the success or failure of electronic commerce (Yang and others, 2001), but also in providing consumers with a superior experience with the interactive flow of information (Santos, 2003). Online service delivery is distinct from service delivery through other modes like, bricks and mortars stores, as in the case for retailing. E-service can be usefully conceived as an interactive information service.

The internet has made existing organisations to manage increasingly

complicated actions involving many business partners. By adopting universal standards, the finance industry has made more customisation within the open marketplace possible. The internet and internet start-ups have had dramatic effects on equity markets world over; like other areas of finance have benefited from IT technologies (Figure 6.1).

Figure 6.1: The New World of Financial Services



Source: Stijn Cassens, et al. Electronic Finance: Reshaping the Financial Landscape around the World.

Online Insurance Industry

Worldwide electronic insurance industry witnessed a 5 percent growth between 2007 and 2012 according to the research by IBIS World. Though many consumers still like to deal with an insurance agent to buy their insurance policies, most begin the process online. Actors in the online insurance industry include independent agents and companies serving as an intermediary to liaise between insurers and consumers by websites and online web portals. Intermediary bodies can charge insurance carriers a commission, and may also charge fees for value-added services.

India's online insurance industry is showing high growth due to Internet penetration and due to a growing customer base of working middle-class professionals. The number of insurers continues to rise in India, with only four insurers operating insurance policies online in 2010. Online has been a slogan in India over the last few years. Insurance is also getting the attention of consumers and has witnessed good response from the consumers. Purchase of online policies is catching up. Approximately, 17,000 policies are sold online every month. Though the figure is 2 percent of offline sales, it grew by 200 percent in the last two years (Understanding-online-insurance-industry-in-india-past- present- and- future- a - definitive- guide-297, 2012).Over the last few years aggregating and selling online policies has been a slow journey for start-ups, facing various obstacles from regulatory bodies which drove away Venture Capitalists (VCs) and investors. Only Policybazaar was able to get funding from Intl Capital and Infoedge.

According to the latest Alexa ranking, Policybazaar.com ranked at 770 in India. Most of the players were selling online since 2010-11 and are selling more than 1,000 products online. Over 65 per cent of insurance based search is made through Policybazaar.com. Around 70 per cent sale of online insurance occurred through Policybazaar.com. Until 2011, majority of the insurance policies were bought by people in metros and tier—1 cities. By 2015, the online insurance industry would be able to capture around 25-30 per cent of the total insurance market and 50-60 per cent would be captured by third party aggregators.⁶

The Penetration of Online Insurance Business

Internet penetration in India has almost doubled in the last four years, making it the fourth largest user base in the world. Penetration levels could nearly triple by 2015, reaching out to around 19 percent of the population. Financial services accounted for over 30 per cent of non-travel e-commerce. Insurance related commerce is a major contributor at 40 percent of financial services online.⁷

Over 90 per cent of the online life insurance is accounted by term products, underlining "Protection"—the *raison d'être* of the insurance. This is the platform in life insurance that creates customer pull, is self-initiated, and allows for exercise of customer choice. While the category suffers from the maxim "Insurance is sold, not bought", the online insurance platform has been democratised through the web to generate awareness, build familiarity, and educate customers about the benefits of insurance. Experts have identified Access, Affordability, Convenience, and Service proposition as four factors that drive the insurance.

Internet and E-commerce Trends

The internet today connects more than two billion people worldwide. It has an immense impact on the global economy, contributing an estimated USD1.7 trillion, or fewer than 3 percent, of global GDP in 2010. Yet half the numbers of Internet users live outside the advanced economies, often in countries that are quickly developing, have significant economic potential, and are socially and culturally diverse. India has about 120 million people online today and offers an example of the Internet's growth potential. India is adopting the Internet at a much more rapid pace than advanced economies and many developing economies, yet 90 per cent of its population is not connected (Figure 6.2).

According to the McKinsey report, India's base of about 120 million internet users is currently the third-largest in the world. Other than demographic and economic consideration, this growth of internet usage is fuelled by lower cost of internet access and growing influence of mobile devices. Though India's users spend less time online per capita than users in developed countries, their pattern of online behaviour is rapidly converging. Internet's role in communication, social networking, and informing and influencing Indian consumers in categories such as apparel, books, financial services, and travel is already comparable to that of developed countries. As consumers enjoy the benefits of their digital environment, they expect seamless interaction with financial institutions. They demand a seamless experience regardless of channel or device. Online channels provide a key interface with customers and open up new vistas to drive customer retention, through improved service levels, and attract new customer segments. The potentiality provided to the customer should operate on their selection of device, be intuitive and provide a personalized research and financial 'shopping' experience.

Figure 6.2: Unique Internet Users in India



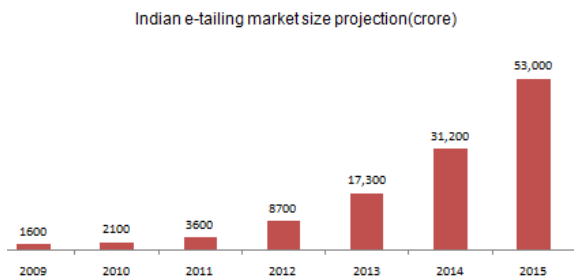
Source: Aventus Capital report titled India Goes Digital from www.ventus.com.

India has the potential to double its economic contribution from the internet in the next three years, from 1.6 per cent of GDP currently to 2.8 to 3.3 per cent by 2015 if India achieves its potential for growth, increasing the internet's contribution to GDP from USD 30 billion today nearly to USD100 billion in 2015.⁸

India can achieve broad-based internet impact by aiming for the digital inclusion of nearly 40 per cent of its population, to reach a user base of 500 million by 2015. Mostly additional 150 million to 160 million users would be individuals and small businesses in semi-urban and rural parts of the country. The total number of transacting users is expected to reach 38 million by 2015.

Till date the geographic distribution of internet user is towards Tier-1 cities. However, the numbers of users are increasing from other cities and towns. This augurs well for the e-retailing industry as 30-40 per cent of their sale comes from these cities.

Figure 6.3: Indian e-tailing Market Size Projection



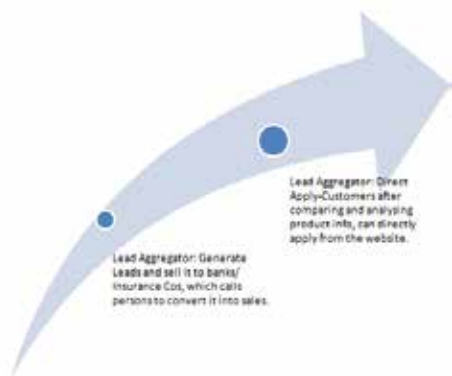
Source: Aventus Capital report titled India Goes Digital from www.ventus.com.

Online Financial Services Model

A web aggregator is an entity that can transparently collect and analyse information from different web data sources. Here the aggregator resolves the semantic and contextual differences in the information. Transparency and accuracy are two important characteristics of web aggregator.

Aggregators are equipped with new capabilities for comparisons, managing relationships, and building new intra and inter organisational data collections. Aggregators with comparison capabilities are focused on collecting information about goods and services for evaluation. *Relationship* aggregators form new information collections that enhance the services provided by the aggregator. A single aggregator may combine several capabilities for a given application (Fujii Hiroshi et al, 2002).

Figure 6.4: Lead Aggregators–A Complete Operations Cycle



Source: <http://www.rupeetalk.com/articles/general-articles/a-note-on-web-aggregation-in-india.php>

Lead Aggregators–A Complete Operations Cycle

Lead aggregator is one such model in which aggregator generates lead and sells it to banks or insurance companies. Once the lead is received by the bank or insurance company, they contact the lead and try to sell the policy. Another category of model is financial comparison model in which customer has the opportunity to compare various products and select one which suits his or her needs.

The Competition

Policybazaar.com faces stiff competition; the most noteworthy are MyinsuranceClub.com, Apnapaisa.com, and Insurancemall.in. Each claimed superior advantages.

MyInsuranceClub.com

iGear Financial Services Pvt. Ltd. launched online insurance aggregator and comparison service platform - MyInsuranceClub.com, bringing together end-consumers, insurance agents, and under-writers. The platform meets the needs of end-consumers and insurance agents or brokers while addressing the distribution challenges for under-writers. For consumers, it provides a plat-

form for independent and fair search facility across various insurance providers and directs them to the insurer that meets to their needs.

Insurancemall.in

They claimed they are the India's number one neutral insurance portal. Launched by Bonsai Insurance Broking Private Ltd., the company offers "Comparison and buy" option from various companies, insurance portfolio management, and claim assistance.

Apnapaisa.com

Apnapaisa.com is price and feature comparison portal started by Harsh Vardhan Roongta. It serves as a comparison engine for wide variety of products ranging from home loans, credit cards, investments, and general insurance.

Policybazaar.com's Strategy

Business models get dictated by current market dynamics and not the end point. Any person looking at the industry would have liked to straight away start selling insurances online. But, it not only involved getting licenses from the regulator, but also required the industry to move to the post-modern era, without going through the intermediate steps. Selling insurances online in 2007 could have meant a sales cost of INR 50,000 a policy (INR 100 a lead and a 0.2 percent conversion to a customer). And at margins of 20 per cent on a motor insurance policy worth INR 10,000 that would have led to the company folding up soon. Instead of taking that route, Policybazaar.com consciously started as a lead generation engine, which sold leads to the partner principals (Figure 6.5).

The company generated 80 per cent of its revenue through lead generation in 2009-10 (Figure 6.6 and Figure 6.7). Though the margins in a lead sales business are low but that gave them the breathing space to build traffic to their website without losing money in the process. Once the traffic started building up, the free traffic (Organic) increased, and the cost of leads started going down. This allowed Policybazaar.com to move to the next level, where they started taking ownership of the sales process to the legally permissible extent, through their call centres. The company proposes to generate no revenue through lead generation this year (Figure 6.6). This has meant better conversion rates, as the agents are well-trained to assist or persuade the customer to complete a sale. Even the call centre, which is a costlier channel than a pure-play online sale, is expected to give way to pure-play online sales engine. The three differentiators which have created a unique picture of Policybazaar.com are: 1) A platform that connect 42 insurers which allow comparing of products and buying of products online. 2) Policybazaar.com is not a lead aggregator it is a ecommerce portal where one can compare and buy product online. 3)

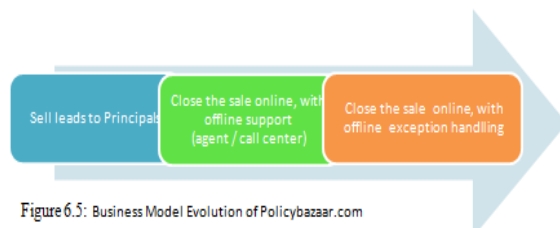


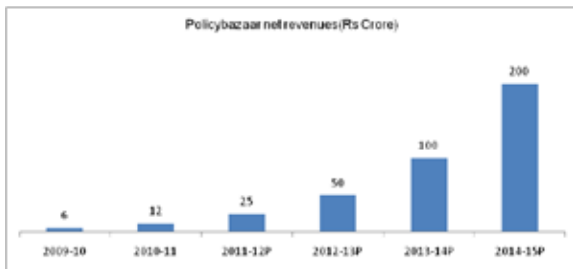
Figure 6.5: Business Model Evolution of Policybazaar.com

Source: Aventus Capital report titled India Goes Digital from www.ventus.com.

Figure 6.6: Revenue from Lead Generation Model



Source: Aventus Capital report titled India Goes Digital from www.ventus.com

Figure 6.7: Policybazaar Net Revenues

Source: Avendus Capital report titled India Goes Digital from www.avendus.com. Policybazaar.com had also got two other critical things right.

Opportunity of addressing information asymmetry

The unorganised agent network led insurance sales process was strewn with discounts and kick-backs, as the margins were huge and the sales process was informal. There was no uniformity in the discounts and commissions provided. By laying out the offers for a customer meeting requirement of the customer from most of the top insurance companies in a single screen, Policybazaar.com took the information asymmetry out of the picture. Even though a hard negotiation with an agent could sometimes get one a better deal, consumers were willing to pay a small price for the assurance they would not be taken for a ride.

Rewriting the rules to suit your strengths

All that apart, the biggest differentiator for Policybazaar.com from the traditional insurance agent is the efficiency it brings to the table. This improvement in efficiency allows them to work at a lesser margin with the principal against the offline channel, pass a portion of the benefit to the consumer as a discount, and get better quality agents.

Continue to be Ahead of the Market

Policybazaar.com continues to strive hard to be ahead of the market, even though it is far ahead of its competition already. Its latest initiatives stand testimony to this. The three things which are holding back the online insurance industry in India today are the low availability of online products, weak online capabilities of traditional insurance companies, and the lack of conviction about internet's potential among the decision makers at these companies. To tackle these effectively, Policybazaar.com has embarked on a platform development initiative, where the companies pay with no lock-ins, to tackle these problems. This has seen large-scale interest with five companies already taking it up. As Insurance Regulatory and Development Authority gears up to allow agents to sell multiple companies' products, Policybazaar.com is looking at developing a distribution platform for agents and brokers. These initiatives show that Policybazaar.com is rapidly redefining the online insurance space in India.

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