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e-INSURANCE: The Future Of Life Insurance Distribution In India

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Introduction:

The insurance industry is a significant player in the global economy. In 2007, 19 insurance companies ranked among *Fortune* magazine's 500 largest corporations. The insurance industry is a key influencer of—and some might point out, an area of relative stability in—the turbulent capital markets. And, as an industry, it employs millions of people and touches many more as policyholders. As such, the insurance industry has considerable exposure to social, political, and economic dynamics that will shape the next 10 years to 15 years. Global dynamics are forcing change on an industry rooted in time-tested practices and traditional business culture. Sophisticated customers are demanding more choices, increased transparency in areas such as rates and claims, and greater convenience. Governments and markets are demanding transparency and adherence to strict safeguards related to data, risk and reserving, sales, and other business practices. Competition is emerging from new players with new business models and non-traditional delivery processes. In addition, long-held assumptions about the place of insurance companies in the value chain are suddenly open to question.

Insurance is sold not bought, it is the distributor who makes the difference in terms of thequality of advice for choice of product, servicing of policy post sale and settlement of claims.The distributors have to become trusted financial advisor for the clients and trusted business associates for the in surance companies. Some insurers have adopted an alter native distribution strategy based model, concentrating on drivers such as banks, corporate agents, and insurance brokers to fuel their business growth, while some have concentrated on the traditional direct channel model com prising of individual agents, direct mail, company websites (internet based selling) and every such activity that in volves the insurer directly. No insurer can afford to be adamant in its distribution strategy, and stick to a few favourite channels, and that the need of the hour is to be competitive, by adopting a multi-channel distribution strategy; while being flexible in adopting the modern tools of technology and the internet in widening the boundaries of the distribution box. In short, innovative ideas of distribution may be the new mantra and insurers need to align their business strategy in line with changing consumer tastes and preferences. The product needs to "be there" readily available for the customer, whenever he decides to buy, and at the right price bands, and with the right marketing mix. Changing lifestyles and buying preferences will decide the future models of distribution, while maintaining the equilibrium for the traditional patterns of distribution as well. Thus, internet based buying may be preferred in the coming years, but the agent may still be available for the 'warm' smile and social networking potential that adds value to the prospective buyer of life insurance. Not surprising, since in India the traditional and modern have always survived together. The question is: How do insurers control the high costs associated with a multi-channel distribution strategy? This unit explores the changing requirements of life insurance business, the international trends in insurance distribution, the role of technology and the distribution models that may become the drivers of life insurance businessinthefuture.

This paper discusses the distribution channels from the perspective of the socio-cultural ethos of the mar ket and how these channels fit into it, along with where the various companies face challenges and bot tlenecks. Whenever any debate arises about the in termediaries and distribution channels, the discus sion veers to technology and its impact on distribution.

Trends In Insurance Distribution:

The costs of sale for many insurance products are significantly out of line with the value provided to consumers, according to a new research by Deloitte. The research, a result of a six month review of the UK insurance industry's sales and distribution channels, looked at the root cause of emerging problems in insurance distribution cost structures, particularly around face to face sales and examined the likely impact these challenges may have on future profitability. The research showed that the industry as a whole became competitive, cutting operating costs by 50% across the past decade. However, distribution costs moved up and accounted for 38% of total operating costs, an increase of 29% in 20 years. Coupled with low persistency (poor customer loyalty), current face to face models, primarily IFA's, are running counter to underlying economics and value. This may account to some of the apparent pressures on Independent Financial Advisors. As product providers consider their strategies

around their own direct sales force, telephone and internet channels become more popular. The underlying economics that drives this theory is that the lapsation of policies that pay high commissions to the agent is quite high, with nearly 50% of the policies lapsing after 4 years, meaning that they come nowhere to making money.

Trends prevalent in the insurance industry today run in parallel with the confluence of the financial services as banks, capital markets, and insurance combine distribution channels. This confluence is occurring on an unprecedented global scale causing massive growth in emerging markets and an increase in affinity group distribution such as Islamic finance, microfinance, retail outlets, post office, work site marketing, and banc Assurance. This industry is seeing the need to distribute these affinity groups over device type channels such as kiosk, PDA, mobile phone, digital TV.

The following Channels are used by life insurers either in limited manner or on full scale, or a combination of all or most of these channels; making it a multi-channel strategy.

- Broker
- Individual Agents
- Corporate Agents
- Micro-Insurance
- Bancassurance
- Cell Phone/PDA
- Kiosks
- Internet
- E-commerce
- Work Site Marketing
- Direct Marketing – INTERNET
- Islamic Insurance – Takaful
- Digital TV/Satellite Selling
- Supermarkets and other retail outlets
- Affinity Channels and Groups
- Insurance specific debit/credit cards
- Call Centres

It is estimated that insurers will spend approximately 25% of their development budget to improve and streamline the distribution process. Distribution costs affect insurers' profits, and it is difficult for insurers to find economic value from them. For insurers to realize the highest value from distribution, they must improve operations and agent-based support for key distribution segments. This includes enhanced operations to support a multi-product, multi-channel distribution model that compliments an insurer's revenue objectives and profit margins. Insurers can realize the highest value from their agent distribution channels by developing an integrated suite of services oriented to driving sales and reducing servicing costs. Distribution costs continue to escalate, and it can spread an insurer's organization thin

to support a burgeoning network of distributors such as captive, career, and independent agents; banks; broker/dealers; and alternative channels. Agent-based sales will certainly continue to dominate the distribution of insurance. However, this distribution model is often the largest expense for insurers to manage cost-effectively in terms of resources, capital, and operational capabilities. Distributors want to do business with the best insurance companies. Agents define those types of insurers as ones that are easy to do business with and that can facilitate improved services to their shared customers. Insurers can take advantage of the present opportunities by managing distribution as a core part of the business and not just a cost of doing business. They can achieve this goal via the strategic use of technology and offer ample support to distributors in information reporting, improved operations, sales and marketing, as well as performance tracking to a large network of agents and brokers.

The Internet: The Game Changer

It has been said that the Internet will do for services what the production line has done for goods. What does this mean for insurance? Some commentators have proclaimed the Internet as the final solution to the insurance distribution problem. Such a simplistic answer could hardly be further from the truth as it only addresses a small part of the question. Yes, the Internet will become a strong distribution channel for simpler products but no one should underestimate the power of the agent or adviser. The bottom line is that customers will always self-select distribution. In an Internet world no one can own the customer; the customer is empowered by knowledge. As far as distribution through the Internet is concerned, there remain many unanswered questions. How to deal with channel conflict? How to prevent margins from being eroded? And most fundamentally, if you build a Web site, will customers find it and buy from it? The good news about the Internet is that its real

power is as a driver for complex business models that integrate all methods of distribution, as a facilitator of straight-through processing in policy administration and claims management, and as a reducer of procurement costs. Business costs will fall dramatically; for example, financial services group AXA has estimated that policy management costs will drop by 98 percent. All the major global insurance companies are spending billions of dollars on their e-business strategies. The winners will be those that target their spending most effectively. As Bill Gates put it in his book, Business @ the Speed of Thought, "we always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten." For most insurers, the priority should be to use the Internet first to re-engineer business processes, and second to enhance existing distribution channels. Only after that should it be used to create new distribution models. Traditional insurers with large, often part-time, agency forces face particular challenges in channel enhancement but also have much to gain. A more professional and productive agency force will be a logical outcome of insurers adopting modern Internet-driven business models. Although regulators and customer reluctance may restrict cross-border selling, national borders are already becoming increasingly unimportant as a result of the Internet. One effect will be that we can expect to see labor-intensive tasks being performed in low-wage countries. Claims management, policy administration, accounting, and underwriting are all suitable for relocation.

e-Insurance-

e- Insurance or we can say Dematerialisation of insurance or 'Demat' allows a policyholder to create a portfolio of insurance policies and store them in an electronic form with an insurance repository. It has been introduced by IRDA as a similar facility to the one available for stocks. You can have only a single 'e-Insurance Account' (eIA) with an insurance repository of your choice. An eIA is inclusive of all life insurance policies of the account holder.

Today, more customers expect to perform most types of transactions either online or using mobile devices. Insurers are slowly pushing greater capabilities onto their Web sites to allow customers a higher degree of control and flexibility. Some online insurers provide links to live service representatives (perhaps outsourced to a specialty service provider), who stand ready to assist by text chat, videoconference, voice over IP, or shared application. Providing interactive features in emerging markets may be critical to adoption and success of these direct-writing sites while still providing a low cost channel as compared to physical offices. Some companies offer comparison quotes as a value add for customers and a way to build trust and social capital without the mediation of agents. Insurers can simplify payments and authentication by implementing new developments in secure biometrics and using credentials such as fingerprints, voiceprints, and retinal scans in combination with unique account information to improve the security of online transactions and build confidence. Biometric capture devices are now becoming main-stream, and they are

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found in an increasing number of portable and desktop computers. Insurers can capitalize on the spread of mobile devices and embedded telematics in vehicles by providing targeted promotions and offers, short-duration coverage (such as travel insurance that can be purchased by mobile phone), and specialized incentives for supporting data gathering or demonstrating low-risk behaviour.

SUMMARY

Changing lifestyles and buying preferences will decide the future models of distribution, while maintaining the equilibrium for the traditional patterns of distribution as well.

Insurers have to adopt a multi-channel strategy that develops new alternative channel formats and drives out efficiencies in traditional channels.

For insurers to realize the highest value from distribution, they must improve operations and agent based support for key distribution segments. This includes enhanced operations to support a multiproduct, multi-channel distribution model that compliments an insurer's revenue objectives and profit margins.

The best economic value for insurers is in partnership with distributors that demonstrate a high propensity to drive sales and manage their business with high-tech services and self-service outlets such as the Internet.

Today, more customers expect to perform most types of transactions either online or using mobile devices. Insurers are slowly pushing greater capabilities onto their Web sites to allow customers a higher degree of control and flexibility.

The relationship between people and technology is one of the key drivers in empowering the next generation workforce. It is an issue that insurers should consider as they position their organizations to meet the challenges ahead.

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