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INSURANCE SECTOR : STRATEGIES FOR INTERMEDIATION AND MARKETING

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Abstract

Insurance Sector is one with tremendous opportunities for growth due to the increased awareness of general public and enhanced needs of the business. Insurance products are of two types; life insurance based and non-life insurance based. In India, when one talks about life insurance, the name that gets into the mind is that of Life Insurance Corporation of India. The success of an insurance business depends on the role played by financial intermediaries, an institution/person that acts as the middleman between investors and firms raising funds. Basically this act of intermediation is taken care of by insurance agents, brokers and insurance consultants among others. Any business is likely to be more successful when a strong marketing philosophy permeates the thinking and guides the decisions and actions of all the parties involved. The reason is simple. While any business is formed with the objective of earning profit, marketing function stands out as backbone of all business activity. One of the important elements of marketing is the satisfaction of existing customer and earning a new customer. The tripod of customer satisfaction depends on the value, cost and satisfaction of the good or service offered by the firm. This paper tries to examine some of the new trends in the intermediation and marketing approaches by insurance players in the Indian Market visa-a-vis the emerging issues and challenges.

Introduction

Insurance is defined as an act, business, or system of insuring or a means of being insured. It is a contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured. It can be summed up as: (i) Coverage by a contract binding a party to indemnify another against specified loss in return for premium paid; (ii) The sum or rate for which such a contract insures something; and (iii) The periodic premium paid for this coverage. It is a system whereby individuals and companies, concerned about potential hazards, pay premium to an insurance company which reimburses (in whole or part) them in the event of loss. The insurer profits by investing the premium it receives. Some common forms of insurance cover business risks, automobiles, homes, boats, workers' compensation, and health. Life insurance guarantees payment to the beneficiaries when the insured person dies. In a broad economic sense, insurance transfers risk from individuals to a larger group which is better equipped to pay for losses.

Philip Kotler defines a service as *any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product*. At the same time, the major features of a service are; (i) intangibility- they can not be seen, tasted, felt or heard before they are bought; (ii) inseparability- they are produced and consumed simultaneously; (iii) variability in quality- the service offerings vary from firm to firm depending upon the experience of the staff, supporting equipment and the management's philosophy; and (iv) perishability- services can not be stored.

Finance and Insurance Sectors are defined on the basis of their unique production processes. As with all industries, the production processes are distinguished by their use of specialized human resources and specialized physical capital. In addition, the way in which these establishments acquire and allocate financial capital, their source of funds, and the use of those funds provides a third basis for the distinguishing characteristics of the production process. Most of the Finance and Insurance sub sectors contain one or more industry groups of (1) intermediaries with similar patterns of raising and using funds and (2) establishments engaged in activities that facilitate, or are otherwise related to, that type of financial or insurance intermediation.

Marketing is for attracting fresh business while retaining existing customers, simply because: (i) it decides on what product or service to be marketed; (ii) how the product or service so selected shall be presented to the potential user; and (iii) how it shall be priced. This is particularly relevant for the insurance industry as insurance products are inherently more intricate and intangible, demanding knowledge and understanding beyond the common marketing mix variables.

Quality of Service : To optimize customer satisfaction, the quality of service stands alone on top of any other marketing effort, resulting in winning the customer. There are five parameters which determine the service quality as presented:

1. The ability of the service provider to infuse a sense of reliability in the minds of consumers
2. The willingness to be responsive to customer needs on 24x 7 basis, 365 days a year
3. To impose confidence in the customers by the employees
4. To enhance the capacity of providing individualized service to customers, and
5. To make the service offering as much tangible as possible with the appearance of physical equipment, work place ambience, information material, etc.

Overview of Insurance Industry

The global life insurance market stands at US $1,521.2 billion while the non-life insurance market is placed at US $ 922.4 billion. The United States itself accounts for about one-third of the US $ 2443.6 billion global insurance market and Japan stands next with a 20.62 per cent share. India takes the 23rd position with US $ 9.9 billion annual premium collections and a meager of 0.41 per cent share. Out of more than one billion people in India, only 35 million people are covered by insurance. India's life insurance premium as a percentage of GDP is just 1.77 per cent. Indian insurance market is set to touch US $25 billion by 2010, on the assumption of a 7.00 per cent real annual growth in GDP. **Table- 1.1** shows the yearly growth in insurance sector from the year 1990-2000, which is on a constant rise.

The LPG process in the early 90's has given the much needed impetus to the insurance sector as the result of the growth in industrialization, infrastructure, capital markets, savings rate and capital formation resulting in tremendous growth in the life insurance industry. LIC, unlike the private players, has launched several schemes aimed at reaching out to the rural areas and expanded the market at great speed. The company launched many group insurance and social security schemes. LIC has seven zonal offices, 100 divisional offices, 2,048 branch offices and about 628,031 agents.

Post Liberalization Era : Insurance is estimated to be worth Rs.400 billion in India and the gross premium collection is about 2.00 per cent of GDP, growing between 15.00 per cent and 20.00 per cent per annum. India also has the highest number of insurance policies in force in the world and the total investible funds with LIC alone are almost 8.00 per cent of GDP. In 1993, the Indian government set up the Malhotra Committee to suggest reforms in the industry. The Committee submitted its report in 1994, with suggestions like opening the insurance sector to private players, improving service standards and extending insurance coverage to larger sections of the population. Even though there were protests against the proposed private entry, considering the importance of the sector for social welfare and in order to provide better coverage to the customers and to increase the inflow of long-term financial resources to finance the enhancement of infrastructure, the government of India has allowed 26.00 per cent of foreign direct investment (FDI) into the sector. This has resulted in many JVs being formed in the sector, spearheaded by State Bank of India and **Table- 1.2** presents the details of private players in the sector.

However, the liberalization of the industry has witnessed competition brewing up between LIC and private players, resulting in not only lower premium but also increased products, improvements in customer service and deeper market penetration. Due to poor customer service, more than 10 per cent of LIC policies reportedly lapsed or were surrendered every year. Due to the very nature of monopoly, LIC never paid attention to market research in order to understand customer preferences, while developing new products. It was pointed out that with no proper social security schemes implemented by the Government of India, there was huge untapped potential in the pensions and annuities in India. LIC offered only one pension policy, Jeevan Suraksha (Life Protection), the returns from which contributed significantly to its revenues.

Rapid growth in insurance sector during the post liberalization period is seen as the most significant event in the financial sector history of India. Since then, lot of changes took place in the sector as it was exposed to new challenges of cut throat competition. For the first time, the private and foreign players were given entry and thus the sector saw a tremendous rate of growth in its business. A well-developed insurance sector is needed for economic development in an emerging economy like India as it provides long-term funds for physical and social infrastructure development while at the same time, it strengthens the risk taking ability. The investment requirements for India in the coming years are well known. Thus, insurance sector, to some extent, can enable investment in infrastructure development to help sustain economic growth of the country. In this backdrop, the contribution of insurance sector growth towards economic development and financial intermediation in India has gained great significance.

The new private insurers focused on providing customized products – products that contain innovative features and tailor-made– to suit the customers. Private insurers came up with need-based insurance policies such as whole life policies, term insurance policies, which are designed according to the needs of the customer. Refer **Exhibit- 1.1** for the product range offered by the industry players.

Role of Intermediaries

The success of insurance business depends on the role played by the intermediaries. In the Indian context, the role of intermediaries in insurance business is related to procurement and servicing while in General Insurance business, servicing means settlement of claims etc. Insurance companies' ability to develop a complete network of robust intermediaries is the key to success.

New Formats of Distribution Channels :

As regards the distribution of policies is concerned, all the players depend heavily on their agents to reach out (LIC has reached a figure of 850,000 agents and planned to increase it to one million by this year). They are trying out other distribution channels also like banks and corporate agencies in addition to the channels mentioned above. LIC is also exploring ways to rope in Regional Rural Banks (RRBs) across the country. The industry is poised to change the way the insurance products are sold with the entry of brokers.

Insurance intermediaries include the following formats :

* Insurance Agents
* Brokers
* Insurance Consultants
* Surveyors and Loss Assessors
* Third Party Administrators
* Reinsurance Brokers

Insurance Agents : Agents primarily work for one insurance company and their objective is to serve the needs of the company. The customer will get specialized and focused service as the retention of customer plays a key role in agent customer relation.

Brokers : Unlike agents, brokers represent many insurance companies and the customer will have wider choice to choose from. Product matching is done with ease and customer service focused at retaining the customer may not be given top priority. Brokers are customer oriented.

Co-operatives : Rural population are more comfortable while dealing with cooperatives. Many insurance companies are trying to establish marketing tie-ups with co-operatives, recognizing the key factor of rural population's confidence in them.

Untapped potential largely due to : (a) Lack of product knowledge and brand recall; (b) Absence of a customer centric approach; (c) Products not addressing the changing trends in customer needs; (d) Low penetration due to inadequate marketing / delivery system; (e) Absence of risk-cum-investment tools, resulting in low involvement buying behavior; and (f) Unattractive commission structure.

Opportunities of insurance sector are to be carefully studied and suitable intermediation and marketing strategies should be developed. Some of the drivers that are positive to insurance sector are: (a) Increased consumerism; (b) Increased social instability; (c) Higher disposable incomes; (d) Operation of law which makes insurance mandatory (d) Changing attitudes; (e) Easier availability; (f) Rural education (g) Improved technology, information and telecommunication facilities available to distribute and manage the policies; and (h) Increased medical cost.

Challenges Ahead : Insurance Regulatory and Development Agency (IRDA) insists that 7.00 per cent of the policies should be in rural areas for the first two years of operations and by the 10th year, this share should be 20 per cent of the total insurance business. That means, out of every 10 policies, two should be sold in rural areas. With increased opportunities, the threats and challenges also crop up initiating a positive and 360 degree approach by the insurers to achieve synergy. Some of the challenges of the modern insurer are presented below:

- Ø Need to develop state of the art training institutes for focusing on sales and management
- Ø Scientific selection / recruitment of intermediaries
- Ø Promote and encourage professional association of intermediaries and self-regulation concepts

- Marketing support to distribution channels
- Link business strategy more effectively with technological reality
- More personalised approach to a customer
- Speeding up of Claims Servicing
- Improving the role of the surveyor in the process of settling claims
- Cross selling of mutual funds, credit cards and personal loans with the standard products makes the offer lucrative and varied.
- Establishment of perfect system of e-insurance for valuable data warehousing mining

Marketing Strategies

In the light of changing dimensions, both the LIC and the new entrants have changed their marketing strategies to suit the customer needs. Spearheaded by LIC, all companies are engaged in designing and crafting tailor-made marketing policies and plan to retain the existing customers and gain new ones. In relation to renewed competition among industry players, almost all the companies are coming out with suitable marketing plans to dish out a product tailor-made to the specific segment/customer. Some of the marketing strategies are listed under:

i. Rural Marketing : One of the prime bases for segmentation is the division of markets into Urban, Semi-Urban and Rural Markets. Rural marketing has caught up with insurance sector as the major players like ICICI, Birla Sunlife (BSL) and LIC are vying with one another to tap this huge potential. ICICI Prudential has 250 of its 750 odd branches located in rural areas with the backing of 20,000 advisors to support its marketing effort. While Birla Sun life has promoted three unique policies to cater to this niche market; (i) Bhima Kavach Yozana; (ii) Bhima Suraksha Yozana; and (iii) Bhima Dhana Sanchay. BSL covers around 7000 villages under these policies and it plans to triple the number of villages in the next three years. Out of the total policies, around 20 per cent are from rural areas and for promoting these policies, BSL is using the services of NGOs and other village level groups who are encouraged to sell the policies. SBI Met life is also eyeing the rural market with its own marketing plan. SBI Life is encouraged by the overwhelming response in Orissa for its Micro Insurance Plan, Gramina Shakti and wishes to spread the same to other states as well. LIC has segmented its rural market by concentrating on villages with less than 5000 population and where the main occupation is still agriculture and related sectors.

ii. Product Portfolio Management : Managing the existing product lines and adding new products, form the basis for product mix strategies in the marketing arena. There is a paradigm shift in the product offerings which were originally protection and savings. Unit linked policies have started to gain the customer acceptance and they are here to stay. Almost all the players, including the LIC, have a host of unit linked polices and the market is segmented in such a way that different unit linked schemes are designed for different segments. Research is in progress on innovating new products offerings to woo the potential customer. These schemes are expected to yield better returns when compared to normal insurance schemes. As the awareness level about these unique products is much lower, the companies resort to educating the customers about the salient features of the products.

iii. Add-on Value to Customers : This is possible through the introduction of riders, which have added value to the risk cover at minimal cost. Riders are nothing but add-ons coming along with the base policies for a slightly additional premium. Riders have become the major instruments for the organizations to lure the customers away from the competitors. Riders can also be availed by the existing policyholders. This may give an indirect competition to non-life insurance players, as the insurance product segment offers the add-ons.

iv. Targeting Niche Markets : Private insurers are concentrating much on designing attractive products by investing heavily on research, studying life expectancy and health statistics across age groups, income levels, professionals and regions on their own instead of relying on data with state insurers. The products are designed with a technical team of actuaries and a product development team working closely together to target the niche market. Few examples are: (i) MetLife India Insurance Company has recently launched a Charitable Trust Policy in Kolkata, which has evoked a lot of interest, especially among the Marwari business community who want to set up a temple in their name after their death; (ii) women and children segments is another lucrative area where tailor-made products are well received. Though LIC has had a major share and it has been in this segment for a longtime, it faces stiff competition from private players in these segments; and (iii) Tata AIG General Insurance, for the first time in the country, has launched a specialized product for Accountants (after tasting success with specialized products such as Directors and Officers policy in India) in its bid to segment the market for professional indemnity policies. The policy has been designed with assistance from Bombay Chartered Accountants Society. This policy covers claims pertaining to professional negligence and wrongful acts committed in the performance of duties. It also provides for coverage of all legal expenses incurred in defending such claims.

v. Position of Insurer—Corporate Social Responsibility (CSR) : CSR- related marketing has become the order of the day in insurance industry. By creating goodwill about organizations, the insurers are making an attempt to change the negative attitude of the people towards insurance products. For instance, LIC has adopted a novel way through its Bima Grams policy. Accordingly, LIC pays 25 per cent of the premium collected from villagers or Rs.25000 whichever is lesser for undertaking developmental work in villages. Birla Sun Life Insurance has adopted 332 villages around Renukoot and actively involved in improving the lives of its residents.

vi. Concept of Cross Selling : Cross-selling could be another key strategy in selling insurance provided the restrictions on the functioning of corporate agencies are lifted. Once the curbs are removed, the market may see a wave of cross selling. Royal Sundaram Alliance may offer household insurance with Sundaram Housing Finance (SHF) and sell customers of Sundaram Finance Mutual Fund (SFMF) a whole range of insurance products. ICICI-Prudential and HDFC Standard may tie up with their parent companies to use their network.

Conclusion and Suggestions

The suggestions brought forward by this study are mixed. The contribution of insurance sector to economic development is positive but hardly affects financial intermediation. The study also fails to find any long run equilibrium relation between insurance sector and financial intermediation. Similarly, the results related to insurance sector reforms are mixed, as the reforms exert no strong relationship. But the rate of growth of reforms has a positive influence over economic development and financial intermediation. Therefore, we conclude that in order to make insurance sector a significant component of financial intermediation process, complete deregulation and increase in pace of reforms are essential.

The post liberalization Insurance Market is all set for tremendous growth and the industry players are all well equipped in the form of JVs and renewed marketing strategies to challenge the monopoly status once maintained by LIC. Niche markets, new product development, innovative marketing channels etc, are all contributing to the growth of this sector. However, the biggest challenge in front of the industry is the low per capita premium of around US $ 10. Any strategy should be linked to this important measure of customer ability to pay the premium. At the same time, by adopting proper segmentation and positioning strategies, one can be sure to capture significant share in the market for the overall benefit of organizations.

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Table -1.1
World Life and Non-Life Insurance Premiums, 1990-2000
(Figures in $billion)

Year	Non-life *	Life	Total
1990	648.4	707.2	1,355.7
1991	670.7	743.6	1,414.3
1992	697.5	768.4	1,465.9
1993	792.1	1,010.4	1,802.7
1994	846.6	1,121.1	1,967.7
1995	906.7	1,236.6	2,143.4
1996	909.1	1,196.7	2,105.8
1997	896.8	1,231.7	2,128.6
1998	891.3	1,275.0	2,166.4
1999	912.7	1,424.2	2,336.9
2000	922.4	1,521.2	2,443.6

* Includes accident and health insurance

Table - 1.2
Private Players in the Indian Insurance Market

Company	Indian Partner	Foreign Insurer	Area
Birla Sun Life	Aditya Birla Group	Sun Life, Canada	Life
OM Kotak	Kotak Mahindra Finance	Old Mutual, South Africa	Life
HDFC-Standard Life	HDFC	Standard Life, UK	Life
Royal Sundaram	Sundaram Finance	Royal Sun, UK	Life and Non-Life
ICICI-Prudential	ICICI	Prudential, UK	Life
Max New York Life	Max India	New York Life, USA	Life
Tata-AIG	Tata Group	AIG, USA	Life and Non-Life
ING Vysya	Vysya Bank	ING Insurance, Netherlands	Life
Aviva	Dabur	CGU Life, UK	Life
MetLife India	Jammu & Kashmir Bank	MetLife, USA	Life
Bajaj Allianz	Bajaj Auto	Allianz	Life & Non-Life
AMP Sanmar	Sanmar Group	AMP, Australia	Life
SBI Life Insurance	SBI	Cardiff, France	Life

Source: www.knowledgedigest.com

Exhibit 1.1
Products for Individuals Offered by Different Companies

Company	Whole Life	Term Plan	Endowment	Money back
LIC	Jeevan Rekha	Anmol Jeevan	Jeevan Anand	Jeevan Rekha Plan
	Jeevan Anand	- New Bima Kiran	Jeevan Mitra (double & triple cover plans)	Money Back Plan
	Whole Life Plan	Two year Temporary plan	- Bhavishya Jeevan	Jeevan Surabhi
	Convertible Whole Life Plan	Convertible Term Assurance Plan	New Jana Raksha	
			Endowment plan	
ICICI PRU	ICICI Pru Life Time	Life Guard	ICICI Pru Save 'n' Protect	ICICI-Pru Cash back
HDFC STANDARD LIFE	Single Premium Whole of Life	Term Assurance Plan	Endowment Assurance Plan	HDFC Standard Life's Money Back Plan
		Loan Cover Term Assurance		
ING VYSYA	Anticipated whole life plan		Reassuring Life Endowment Plan	Maximizing Life
				Money Back Plan
MAX NEW YORK LIFE	Whole Life Policy (Participating & Non participating)	-	20 Year Endowment Participating Policy	
TATA AIG		Lifeline Plans		Money Saver Plan
OM KOTAK	OM Endowment Plan			OM Money Back Plan
BIRLA SUN LIFE	Flexi Life Line (Whole Life Plan)	Flexi Term Plus	Flexi Save Plus	Flexi Cash Flow

Source : ICMR