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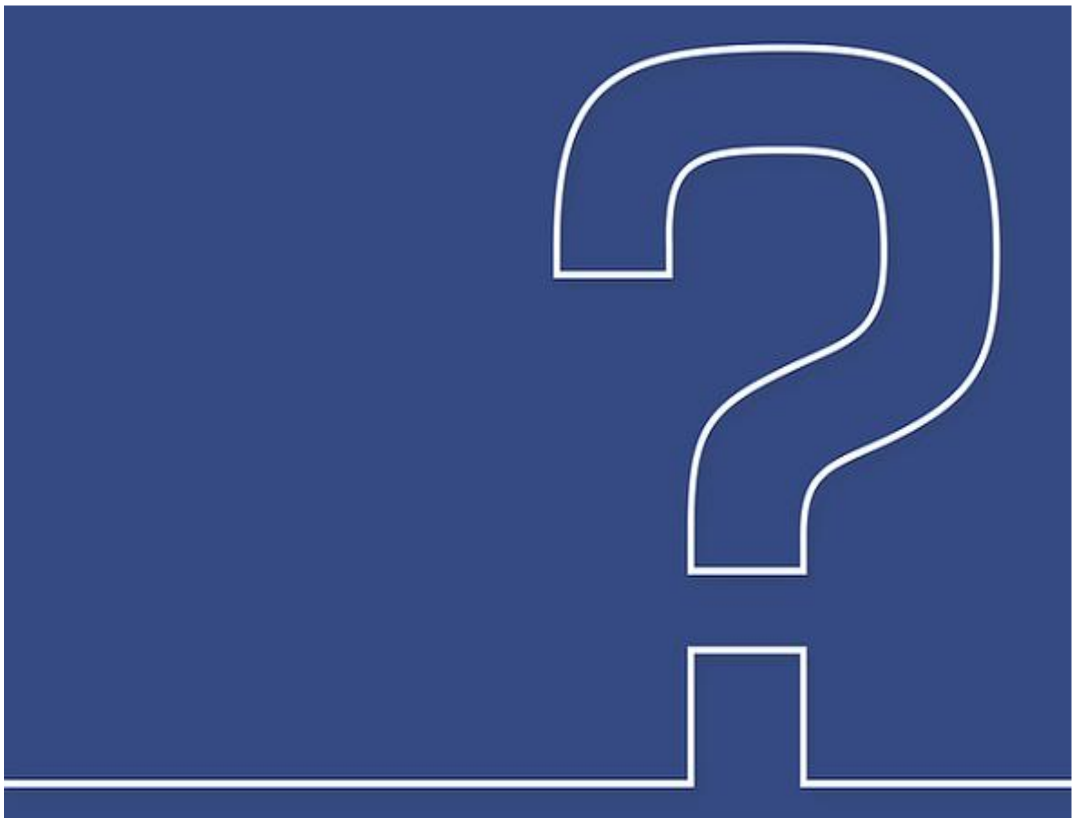
Getting Right The Distribution Conundrum



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New business premium in the life insurance industry may be growing at 15% this year, and there may be a renewed buzz about the future. But it may be time for introspection whether the life business in India is growing on a sustainable basis.

If life insurance is a long-term contract, as it is universally known, look at the situation here with low levels of persistency and huge policy surrenders year after year. In 2011, IRDA brought in a refreshing new rule that agents should be held responsible for a persistency rate of at least 50% for policies sold by them. This was quietly changed, and the insurers are now left to set their own standards of policy persistence.

Since the time the surrender rules were re-written with a minimum 5-year time horizon, insurers are facing increasing pressure on policy surrenders. On an average, persistency for all life insurance players hovers around 40 percent in the fourth year of policy term. From the fifth year onwards, it drops to 30 percent and below. This means insurers are left with just about a third of the policies initially sold by them, with the rest of the customers claiming their money back, often at a substantial loss to them.

This is sickening and even scary. It shows that the 'profits' that almost life insurers declare in the past few years come essentially from the surrender charges they earn, leaving a big question mark on their future income stream and build-up of enterprise value.

This brings the spotlight on the insurance distribution. How do the agents and bancassurance partners choose potential customers to sell life policies, how they identify the best policy that suits any individual, what kind of follow up they keep once a prospect becomes a policyholder, and what sort of customer engagement and communications techniques that companies employ to continuously draw the mindshare of customers. There is substantial work to be done under each of these to build the industry on a sustainable basis.

Take for instance the bancassurance channel, the most preferred and considered the cost effective. By all accounts, there is vast mis-selling to bank customers. The easy targets are borrowers who have taken any type of loan from the bank, and the branch tends to bank on the 'goodwill' enjoyed with the customer. This is nothing but gentle force applied by the bank manager on the customer to fulfill his cross selling target. Once the manager gets transferred, or the loan gets repaid, the customer promptly explores ways to terminate the insurance policy.

Banks hardly take any interest to analyse the profiles of their vast liability customers, identify their insurance needs and sit with their insurance partners to come up with the right product mix for the customers. They have hardly equipped their employees to undertake simple a need analysis of their customers, or how to engage customers in simple conversations on the relevance and utility of insurance contracts. There is a widespread apathy at most bank branches when it comes to cross sell of insurance.

As a result, insurers tend to go overboard, often employing hordes of their own staff to intensely cover each branch of their bank partner. Such ‘outsider-advisors’ understandably chase only high value customers, and literally beg for leads from the bank manager. Obviously their attention is to sell big ticket investment plans, either as a single premium or short payment plans. When there is a churn of these outsiders, there is disruption of customer follow up, leading to policy breaks.

The vicious cycle can be broken only when there is a qualitative improvement in distribution. In the case of bank channel, unless the bank takes over the responsibility in full and seeks to protect its customer’s interest through its own employees in every aspect, there can be no viable long-term growth. Instead of focusing on only gross commission income, banks need to tap into their wider base of customers to sell the most appropriate products that carry low as well as high commission rates. Bankers should be trained to ask a simple question: what is the rate of cross sell to my customer base, and what is the percentage of insured customers in my branch portfolio. Such assessments need to get embedded in the performance monitoring of the bank branch.

On their part, insurers need to more loudly bring the protection aspect of their products: how a long term insurance contract brings in all round security to the family and a disciplined way of saving for the future.

Like in any other industry, insurance business needs to find ways to work for the betterment of the customer and provide real value for his money. Only when this happens in a sustained manner, the long-term fortunes of life insurance business can be rosy.

About the Author

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