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HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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CHANNEL MANAGEMENT IN INSURANCE BUSINESS

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ABSTRACT

A channel Management or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users. In other words, it is a distribution network through which producer puts his products in the market and passes it to the actual users. This channel consists of: - producers, consumers or users and the various middlemen like wholesalers, selling agents and retailers (dealers) who intervene between the producers and consumers. Therefore, the channel serves to bridge the gap between the point of production and the point of consumption thereby creating time, place and possession utilities. Marketplace success for most organizations requires delivering a customer experience across multiple channels that differentiates an organization from its competition. Understanding the elements of experience that really excites different types of customers in a multi channel world is complex. But getting it right can significantly improve loyalty and value. In an increasingly challenging marketplace, the end-to-end customer experience has become the new battleground. Success in business today requires companies to deliver a superior, differentiated experience attuned to ever-changing customer needs and preferences. A company's multichannel strategy is critical because of the central role its channels must play in the information-rich, seamless and tailored experience customers are beginning to expect.

KEYWORDS

Channel Levels, Intermediatories, Strategies, New channels, Banc assurance, Challenges.

INTRODUCTION

A distribution channel is the route by which the product or service (or offer) prepared by the producer reaches the ultimate consumer (or buyer). The distribution channel bridges the gap between the producer (point of manufacture or generation of service) and the consumer (point of sale). They are the prime drivers of growth for any organization.[1] They are the enabling mechanism or a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user.

A company's channel decisions directly affect every other marketing decision. The company's pricing depends on the distribution channels it works with. The firm's sales force and communication decisions depend on how much persuasion, training, motivation and support its channel partners need. Whether a company develops or acquires new products may depend on how well those products or services fit the capabilities of its channel members. Distribution system can be used to gain a competitive advantage. The use of intermediaries results from their greater efficiency in making goods or services available to target markets and through their contacts, specialization and scale of operation, intermediaries usually offer the firm more than it can achieve on its own. From the economic system's point of view, the role marketing intermediaries is to transform the assortments of products or services made by the producers into the assortments wanted by the consumers. They play an important role in matching demand and supply. Members of the marketing channel perform many key functions and help to complete transactions.

- Information: Gathering and distributing marketing research and intelligence information abut actors and forces in the marketing environment needed for planning and aiding exchange.
- Promotion: Developing and spreading persuasive communications about an offer
- Contact: Finding and communicating with prospective buyers.
- Matching: Shaping and fitting the offer to the buyer's needs, including such as manufacturing, grading, assembling and packaging.
- Negotiations: Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.
- Physical distribution: Transporting and storing goods.
- Financing: Acquiring and using funds to cover the costs of the channel work.
- Risk taking: Assuming the risks of carrying out the channel work.

In dividing the work of the channel, the various functions should be assigned to the channel members who can add the most value for the cost.

CHANNEL LEVELS

Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is the channel level. The number of intermediary levels indicates the length of a channel. A direct marketing channel is the one which has no intermediary levels; the company sells directly to the customers. Indirect marketing channel has one or more than one intermediaries

TYPES OF INTERMEDIARIES

A firm should identify the types of channel members available to carry out its channel work. The main course of action can be to use company's own sales force whereby the company can expand the company's direct sales force. It can assign outside salespeople to territories and have them to contact all prospects in the area or develop company's sales force for different activities. The company can hire manufacturer's agents, independent firms whose sales forces handle related products from many companies in different regions or industries to sell the products or services. The company may find distributors including financial distributors in the different regions or industries who will carry on the activities and give them exclusive distribution, good margins, product training and promotional support

LIFE INSURANCE DISTRIBUTION

Distribution of life insurance varies from the distribution of other tangible products or other forms of insurance. Various reasons can be attributed to this, mainly being the fact that life insurance is not an immediate need for the customers and thus the concept goes that life insurance is not bought but sold. This is because the possibility of death is either ignored or not considered imminent. The requirements of today which seems to be more compelling, take over the requirements of tomorrow. There is no compulsion to under the law to buy life insurance unlike the other forms of insurance. Also superstitious beliefs and cultural or religious backgrounds often interfere with the process of considering the importance of life insurance. People need to be persuaded to take up

insurance because there is a need to be concerned about the future and that life insurance is a necessity and not an option. This need arises because there is a tendency to leave everything to fate and also there are notions that insurance is not a very good investment since the yields are low and the time period involved is much more. Insurance is a concept that has to be explained and its usefulness clarified personally to the people. Each prospective buyer has his own special needs and requires specialized solution. Personalized guidance is possible when there is a face to face contact between the agent and the customer.

INTERMEDIARIES IN LIFE INSURANCE

The role played by the distributor or the producer in an insurance market is very critical. In an insurance market it is the distributor who makes the difference in terms of quality of advice for choice of product, servicing of policy post sale and settlement of claims. In a market with distinct cultural and social ethos, these conditions play a major role in shaping the distribution channel and their effectiveness.

The channels of distribution can be grouped under two heads namely,

PERSONALIZED DISTRIBUTION SYSTEM

This includes all channels like agencies of different models and brokers, banks and work site market

DIRECT RESPONSE DISTRIBUTION SYSTEMS

This covers all channels through which the client purchases the insurance directly. This segment utilizes various media such as internet, telemarketing, direct mailing, call centers and so on and is just catching up. The traditional channels of distribution are agents and brokers.

AGENTS

The companies emphasise on building a good field force, trained to get people thinking about their family's financial security and recommend appropriate policies for their needs. Currently most of the life insurance companies follow this traditional route of marketing. The tied agency channels (agents) has yielded place to multiple distribution channels. This is to primarily ensure that the reach is increased, the customer base is enlarged, to have an adequate channel mix for different segments of market and to ultimately ensure growth in volumes.

CHALLENGES

The insurance agent has to know which product will appeal to the customer and also know his competitor's products in the same space to be an effective salesman. In the current scenario, the new companies are looking for well educated and aware individuals from elite class and offer them high remuneration which may not be possible in the insurance business with its price pressures and the complexity of selling insurance. There are high attrition rates of agents due to indiscriminate agent appointment. There is a lack of knowledge of the competitive market and the inability to do intelligent comparisons with the competitors's products and educating and training these agents is a serious challenge for the insurance companies. Apart from this age and gender poses a challenge. Notions of the elder being more knowledgeable restrict the efficiency of the young salesmen. The increase in number of insurance companies in India has failed to improve the consumers' response to the insurance products. The low consumer response proves to be one of the biggest challenges faced by the agents. In spite of telemarketing departments that takes care of marketing insurance products of companies, they have not been able to capture the attention of the customers because of their inappropriate call timings and push selling strategies. There is a lack of knowledge about insurance benefits and is viewed as a sole device of tax savings by people. They are usually found to be ignorant of the benefits and are found to have an inappropriate insurance coverage.[2] Apart from this lack of trust in private life insurance companies form barriers for effective distribution. The people have preconceived notions about private organizations of often being involved in fraudulent activities and unethical practices. The agents also suffer from the continuous pressures from the companies to achieve high targets due to intense rivalry among the private life insurance companies in India. As a result the agents vie for the numbers game without paying heed to the customers' requirements. Moreover the agents resort to push sales instead of need based selling, thereby resulting in lower customer satisfaction. Apart from this the pay packages of the employees are found to be inadequate considering the amount of pressure they have to handle on a daily basis. The agents receive a meager amount of commission based on the number of policies sold and are constantly burdened with astronomical targets to achieve. As a result the agents lack the motivational aspect, besides the financial security, which ultimately gets reflected in their abysmal performance. The lack of penetration in rural areas poses a challenge since the rural and the semi urban areas of the country remain untouched which actually have huge potential. Most of the insurance companies set up their bases in the urban areas and developed regions of the country due to availability of the infrastructural, transportation and distribution facilities. This hampers the business opportunities of private life insurance companies with respect to the maximum GDP – contributing sector of the economy. Entry restrictions and operational barriers are the two trade barriers responsible for the underperformance of the country's insurance sector. Regulatory dilemmas like entry of foreign players through joint ventures with companies and the minimum investment required and license requirements bring in more challenges. However in spite of these they still continue to be the mostly used channel.

STRATEGIES TO OVERCOME CHALLENGES

The insurance Companies need to take up a holistic approach in addressing the impediments to insurance selling, the crucial parameter in achieving success. As a result, the insurance companies must frame and/or revamp the existing strategies, while keeping the following in mind.

(a) INNOVATIVE PRODUCTS

The companies should go for need based selling and try to promote awareness, literacy and the understanding among the people to eliminate the perception of the insurance products being a sole means of tax benefits. The insurers should focus on the financial protection and long term wealth creation and have four different types of product in their kitty, commonly known as PIPS (protection-insurance-pensions-savings). They have to gauge the needs of the customers and their financial capability before offering the product that would suit their preference. As a result the companies with their innovative products may capture the huge untapped insurance market in India

(b) CUSTOMERS

The starting point of the strategy formulation is the customers who are the driving force behind much of the changes taking place in the insurance industry. The tastes and preferences of the customers are changing at a high pace and prefer alternative investments like private equity and venture capital and guaranteed investment products. They demand products any place, anytime and anywhere. They are in a constant demand of innovative and quality services and products coupled with competitive pricings and on time services. The customers usually tend to resort to brand names since there are a large number of companies and array of financial products available. The use of technology would further cater to increasingly knowledgeable clients, setting aside the traditional agent client relationship.

(c) TECHNOLOGY

New technology challenges the traditional methods of insurers in terms of changing distribution channels, facilitating customer relationship management and enhancing customer service. The issue of online claim processing through the web based software has been the topic of focus for the insurers. In addition the use of expert system is particularly helpful for the sales force of the service organization. The knowledge based expert system can be used more directly as a training tool for the sales people. The expert system can be used as a guide when interacting with the customers and assists the salesman to match various products in congruence with the customer's necessities and risk involvements. The sales force would be able to deal with more unusual and unique customer cases thereby resulting in effective selling and reduced direct selling costs through the use of expert systems.

(d) AGENT'S SKILLS

The knowledge and skills of the agents assume significance since the traditional models are giving way to newer innovative strategies in attracting and maintaining the satisfaction level of the customers.[3] The knowledgeable and skilled agents are found to spend more time with customers in building relationships. The knowledge and skill of the agent assume significance in this context. The 80-20 rule applies here i.e. 80% of the revenue comes from 20% of the sales people.[4]

(e) SELECTION CRITERIA OF AGENTS

The selection criteria used at the time of recruiting sales people help to determine the person's ability in becoming an effective salesman. Since insurance is an intangible product, the insurance firms must have a clear vision about the type of training that needs to be imparted to the salespeople. Training would make a salesperson more responsive to the pre sale, during sale, and post sale services. Technology oriented training using expert systems will be of great help.

(f) NATURE OF CUSTOMERS

This refers to the quality of customers. The strategy of the firms should not be the "law of large numbers"[5] instead they should focus on the trust between the insurers and the customers in terms of regular payment premium and continuation of policy

(g) MARKETING STRATEGIES

An innovative and integrated marketing strategy based on the customer needs and the ever changing environment would ensure sustainable competitive advantage. Traditional business models are giving way to new and more innovative strategies. This is due to variety of factors including globalization of financial markets, demands of customers who want to obtain full range of financial services from single institution, insurers seeking to acquire new distribution channels, access to better technology, entry into new markets through affiliations and acquisitions. Moreover the companies should quickly adapt to the changing demands of the customer.

(h) ALTERNATIVE DISTRIBUTION CHANNELS

The development of alternate channels like direct marketing, work site marketing etc. will create awareness about an insurance product which in turn may help the individual agents as a prospecting tool. It is a natural inclination on advice of a financial advisor before investing high amounts of premiums. And hence, the importance of their role in the financial world.[6] The emphasis has shifted from single unit sale towards multiple products selling. As part of their marketing strategy, the private life insurance companies resort to several distribution channels such as banks, brokers, corporate agents and other intermediaries to reach out to the masses through out the length and breadth of the country. The use of sophisticated and user friendly technology enabled the consumer to have a wider array of information about the financial products before going for the product.

BROKERS

Brokers are the intermediaries who represent the customer and sell the products of more than one company. The brokers in the urban area can attract the elite and the upper middle class customers very well. They help the clients to find the best product suited to them and can effectively address the mind block faced by the public companies. Insurance brokers are professionals who assess the risk on behalf of a client, advise on the mitigation of that risk, identify the optimal insurance policy structure, bring together the insurer and the insured, carry out the preparatory work to insurance contracts and where necessary, assist in the administration and performance of such contracts, in particular when claim arises. The brokers are retained by the insured and their prime responsibility lies towards the insured unlike the agents. The main difference between the brokers and the agents is the that the agent acts on behalf of one insurer and can offer what his insurer has to offer whereas broker acts on behalf of his client and is not tied to an insurer. While brokers have done well and captured a good share in the non-life business their contribution has been rather insignificant on the life side.[7]

CHALLENGES

The challenge here lies in establishing regulations that protect the customer and attract the right players into the brokerage market rather than creating another middlemen segment eroding the premium.

NEW CHANNELS OF DISTRIBUTION

BANKS

The banks (especially public sector) have become one of the foremost channels of distribution and are referred to bancassurance. The bancassurance is the distribution of insurance products through the bank's distribution channel. It is a phenomenon where in the insurance products are offered through the distribution channel of the banking services along with a complete range of banking and investments products and services. In simple terms, bancassurance tries to exploit synergies between both the insurance and banking operations. The main functions of banking can be described as resource mobilization, credit dispensation, risk management and fund management where as the main functions of insurance can be categorised as risk management, fund management and reinsurance. In particular life insurance companies deal with savings and investment and so do the banks. Thus there is synergy between the operations of the two. Banking is fully governed by RBI while the insurance sector is governed by the IRDA and bank assurance being the combination of two sectors is governed by both the regulators and each of them have given guidelines for the functioning .

RBI Guidelines for banks entering into insurance sector provides three options for banks. They are,

- Joint ventures will be allowed for financially strong banks wishing to undertake insurance business with risk participation.
- For banks which are not eligible for this joint venture option, an investment option up to 10% of the net worth of the bank or Rs 50 crores, which ever is lower, is available.
- Finally any commercial bank will be allowed to undertake insurance business as agent of insurance companies. This will be on a fee basis with no risk participation.

IRDA Guidelines for the bancassurance are,

- Each bank that sells insurance must have a chief insurance executive to handle all the insurance activities.
- All the people involved in selling should undergo mandatory training at an institute accredited by IRDA and pass the examination conducted by the authority.
- Commercial banks including the co-operative banks and regional rural banks may become corporate agents for one insurance company.
- Banks cannot become insurance brokers.

Bancassurance can be a sure shot way to reach a wide base of customers provided it is used sensibly. Bancassurance is a mutually beneficial situation as banks can expand their range of products on offer to customers and earn more, while the insurance company profits from the exposure at the branches and the security of receiving timely payments. The products that are likely to sell well through bancassurance are commoditiser term and annuity products. Also those products that combine insurance and banking needs help to create demand such as a loan cover, term assurance and simple products that can be sold over the counter at banks. Apart from this the banks with rural area network helps to fulfill rural and social obligations imposed by the IRDA.

BANCASSURANCE CONVERGENCE STRATEGIES

The success of bancassurance depends on the development and successful execution of the collaborative strategies. The strategies to be adapted should primarily revolve around the customer and be directed towards enhancing the value of the customer.[8] It implies that the strategy execution should eventually lead to customer attraction and retention. Technology adaptation is one strategy that is gaining significant coverage for varied reasons. As the level of technology is enhanced in banks, they are able to develop new operating capabilities, thereby offering unprecedented service to the customers. Data management systems enable maintenance of seamless data in an integrated fashion. Tailor made technological applications can then be used to touch the business processes in the collaboration process thereby ensuring faster execution through automated services. The reduced costs and enhanced revenues will confer competitive advantage to the technology adopters. On the Indian front, SBI life has reaped the maximum benefits out of bancassurance. Taking advantage of its branch network, it generated almost 39% of its total premium in 2006-07 through bancassurance route. Thus, bancassurance has its own share of advantages and disadvantages. If properly executed, the concept of one-stop shop for financial products is bound to be a reality.[9]

WORK SITE MARKETING

Work site marketing channel is used to tap one of the biggest markets. With changes in human resource management policies and compensation packages, group products or work sites products do have a definite market .the advantages of work site marketing are

- Captive customer base
- Potential to sell both individual and group insurance
- High trust factor
- High volume

CHALLENGES

The challenges here would be to sell customized, cost effective product with good after sales service. This will bring continued business to the insurance company. Technology has a key role to play in work site marketing to ensure cost benefits.

TABLE 1: TIE UPS BETWEEN THE LIFE INSURANCE COMPANIES AND BANKS

Insurance company	Banks
HDFC Standard Life	Union bank of India, Indian bank, HDFC bank, Bank of Baroda, Saraswat bank
ICICI Prudential	Federal bank, ICICI bank, Bank of India, Lord Krishna bank, South Indian bank, and many other cooperative banks
Birla Sunlife	Citi bank, IDBI bank, Catholic Syrian bank, Development Credit bank
AVIVA	ABN amro, American bank, Canara bank, Lakshmi Vilas bank, Centurion bank of Punjab, IndusInd bank, Punjab and Sind bank and 24 others including the cooperative banks
BAJAJ Allianz	Standard chartered bank, syndicate bank
SBI Life	SBI, BNP Paribas
Tata AIG Life Insurance co.	HSBC Bank, United Bank of India
Ing Vysya Life Insurance	ING Vysya bank
LIC	Andhra bank, Dena bank, Corporation bank, Indian overseas bank, Allahabad bank, Vijaya bank, Central bank of India
Metlife	UTI bank, Dhanalakshmi bank, J&K bank, Karnataka bank

Source: Banks and Insurance Companies' websites

INTERNET

The use of this channel is restricted since it requires a lot of face to face persuasion. The insecurity attached to the transactions over the net are another inhibiting factor. While the technology capability is there, improvements in band with and infrastructure are needed. The products need to be simpler with auto underwriting facility

CHALLENGE

These channels by themselves will not be able to overcome the mindset of the people, but rather can only be enablers for the human channels.

INVISIBLE INSURER

In this model, the insurance company or its representative is not the entity marketing the products. The insurance cover is sold by an automobile/credit card company as an add-on product leveraging the brand of the retailer. The risk is carried by the insurance company which underwrites it .This models can be adapted in all market segments for the different lines of business. The arrangements is attractive because of low distribution cost and captive customer cost

RETAIL ASSURANCE

'Insurance products are being sold at retail outlets.' This news should convey the message that Indian insurance industry is really boiling. Not only the insurance players but also their distribution partners are very much interested in this kind of game plan. The office of the chief post-master general, Chennai has mooted the idea of selling some of the insurance products through post offices. With 1.53 lakh post offices in the country, more than twice the number of bank branches, it can really be a channel with very great potential. Medicine Shoppe, a pharma chain store group and Bajaj Allianz have tied up to provide free insurance cover of Rs.2/- on every purchase of pharma products worth Rs.1/-. This scheme is open to 5-25 years age group, and distributed through its 40 outlets. Also insurance selling has gone the 'corner shop' way, with TATA-AIG's plans to sell the policies at petrol bunks.

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