Distribution Channel Conflict in the Life Insurance Industry of India

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Abstract :

With liberalization, a number of private players have entered in the insurance industry of India. Companies are competing fiercely to acquire customers through various distribution channels, some of whom play dubious role. Regional Director of a Life Insurance Company is intrigued with the conflicting situation of more channels not resulting in proportionate increase in customer acquisition. May be, some channels are diverting the customers to the competitors. He needs to study, analyze and formulate channel strategy to get optimum result for the growth of the firm.

Introduction : Mid May is mostly the hottest time in North India; It was 16th of May 2016 when the Regional Director of the life insurance company was ready with the strategic plan of the financial year. He scheduled a meeting with his Divisional Heads for the same. In between, he received a call from one of the Area Manager of the company regarding the conflict between the agent and the bank manager of the bank with which the insurance company has a tie up. He was tensed as these types of conflicts were arising between different distribution channels quite often. He was wondering how to tackle the intra channel competition which give rise to these conflicts given that the inter channel competition is already high with the distribution channels of life insurance companies. He thought of taking up this issue first in the meeting already scheduled by him.

Global Insurance Industry :

As per Skipper and Black (2000), the story of insurance is probably as old as the story of mankind. Today also, the modern business person wants that their assets should be secure, in the same manner, in the earliest centuries, humans always wanted to secure their assets against the perils causing losses. They also wanted to have some safety net. In those days, a formal arrangement of insurance was not there, but they had arranged it in an informal way. They had made a pool in which every one used to contribute and if someone died, or some other loss happened, the payment was made out of this contribution.

The earliest form of insurance can be associated with Marine Insurance. Marine Insurance includes insuring the goods loaded in the ship as well as the ships itself. Earlier, sea was the main source of transportation and looting was very common in the sea. Mainly, the Chinese and Babylons traders used to transfer their risk. The Chinese traders used to redistribute their wares across many vessels so that if

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any of the boats crashed against rocks or capsized in sloping down waters, then the loss is shared by all rather than falling on a single individual.

The Babylonians used to have a contract of loan with the lenders. As per the contract, the risk of robbery during transit was borne by the person providing the loan. The lender used to charge calculated interest rates which were exceptionally higher. This system developed by Babylon's was recorded in the Code of Hammurabi.

Around 600 AD, the Greeks and Romans, introduced the concept of life and health insurance. They organized guild called "benevolent societies" for the families of deceased members of the society. In this, the benefits were given to the families of the deceased members and funeral expenses were also paid. In exchange for this benefit, the members used to make regular contributions. The first historical record of life insurance came from ancient Romans in the form of "Burial Clubs".

The first Insurance Company was established in 1681, after the Great Fire of London happened. In this, millions of houses were destroyed, and to reduce the impact of this kind of disaster in the future, many laws were passed. One of these laws was to establish an incorporation to indemnify the losses due to this kind of disaster. This insurance company was named as "The Insurance Office".

Indian Insurance industry:

The earliest traces of insurance can be found in the ancient Indian history with its mention in Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). In Rig Veda, the word "Yogagshema" has been used which mentions that some form of insurance was existing in the Aryans world over 3000 years ago! In the Buddhisit period, the burial societies also existed which also confirms the existence of insurance to help the family members of the deceased person by protecting the widows and building the house, marriages of girls, educating children and helping the unemployed in business.

Indian Insurance Industry has its roots in 1818 when Europeans started the Oriental Insurance Company in Kolkata, to meet the needs required by the European Community. But, the premium charged to cover the Indians was always higher than the foreigners. In 1870, the first insurance company of India Bombay Mutual Life Assurance Society was established which covered Indians without any discrimination. The life insurance Company act was passed in the year 1912.Subsequently, National Insurance Company was established in the year 1906 which is still operating in the country. Earlier only two state insurers- Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) were there.GIC had four subsidiaries but after the privatization of the insurance sector, these subsidiaries were delinked from GIC and made independent insurance companies. These were National Insurance Company, Oriental Insurance Company, New India Assurance Company and United India Assurance Company Ltd.

Table 1.1: The important milestones of Indian Insurance Industry

Year	Significant Regulatory Event

1912	The Indian Life Insurance Company Act
1938	The Insurance Act: Comprehensive Act to regulate insurance business in India
1956	Nationalization of life insurance business in India
1972	Nationalization of general insurance business in India
1993	Setting up of Malhotra Committee
1994	Recommendations of Malhotra Committee
1995	Setting up of Mukherjee Committee
1996	Setting up of (interim) Insurance Regulatory Authority (IRA)
1997	Mukherjee Committee Report submitted but not made public
1997	The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector
1998	The cabinet decides to allow 40% foreign equity in private insurance companies-26% to foreign companies and 14% to NRI's, OCB's and FII's 1999. The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority (IRDA) Bill.
1999	Cabinet clears IRDA Bill
2000	President gives Assent to the IRDA Bill
2015	Limit of FDI increased to 49.5 from 26%

Source: Compiled by Authors

Current Status of Insurance Sector in India:

The insurance sector of India is comprised of 24 life insurance and 29 non- life insurance companies. Among these 24 life insurance companies, LIC (Life Insurance Corporation) of India is the only public sector company and the rest are in private sector. Also, there is one national reinsurer named–General Insurance Corporation of India.

Out of the 29 non-life insurance companies, five were permitted to underwrite the policies exclusively in health, travel insurance and personal accident. Export Credit Guarantee Corporation of India and Agriculture Insurance Company Ltd are two specialized insurers in their respective field

Market Size[3i]

The insurance industry had seen a growth rate of 18.3% in the financial year 2015-16 with the new premium income of US$ 15.75 billion. The life insurance sector of India was the biggest in the world with 360 million policies and was expected to grow at a rate of 12-15% in the next five years. The general or non-life insurance sector recorded a growth of 14.6 % in the financial year March ,2016 in the Gross Direct Premium underwritten.

The insurance industry of India has a huge potential as the insurance market is expected to quadruple in size in the coming 10 years from the current size of US$60 billion. The non- life insurance sector was growing at 17 percent and is currently at US$ 11.44 billion premium per annum (till March 2016).The life insurance was also expected to have a high growth in the next ten years and expected to cross US$160 billion.

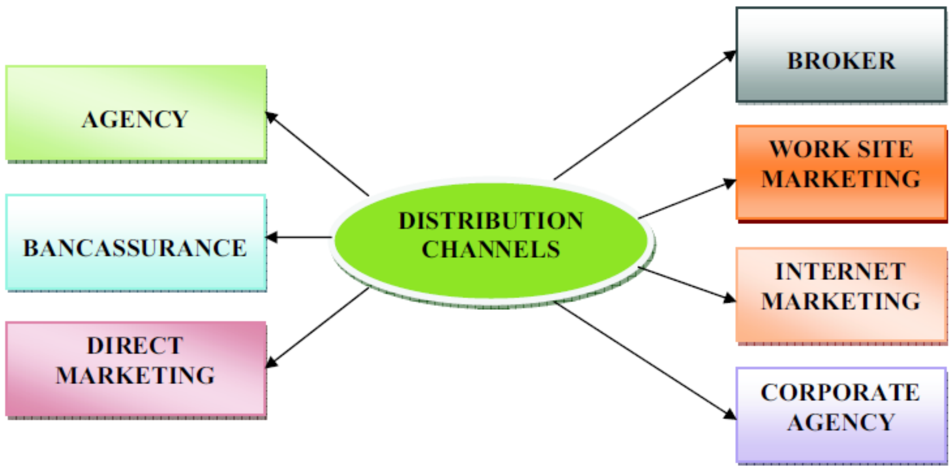
The insurance sector of country has a long way to go despite being the second most populous country in the world, it accounts for less than 1.5 percent premium of the total insurance premium written worldwide.

Distribution channels used by Life Insurance Companies:

Worldwide, employing various channels of distribution has become a major part of strategy while planning marketing of products and services (Moriarty and Moran, 1990; Frazier 1999; Webb and Hogan, 2002).The insurance industry has adopted the same strategy of multiple distribution channels to sell the policies (Wallace and Johnson et al., 2009).The major channel of distribution employed by the life insurance industry in India are agency channel, bancassurance, internet based channels and other cybermediaries (e.g. Television and TV stations) as shown in the Figure 1.1

Fig.1.1: Different Distribution Channels used by Life Insurance Industry:

[3] The information is taken from the website- http://www.ibef.org/industry/insurance-sector-india.aspx Accessed on 28th June 2016



Source: Compiled by Authors

Different Distribution Channels of Life Insurance Industry:

a) **Agency Channel:** Agency channel sells the insurance products through agents. Agents or the advisors are recruited and trained by the insurance companies so that they can serve the individual customers. Agents have to clear the exam conducted by the Insurance Regulatory and Development Authority of India-IRDAI.For many years, agency was the one and only distribution channel for life insurance industry of India. Even today, more than 70 % of the life insurance business is being placed through agency channel.

b) **Bancassurance Channel:** Insurance companies tie up with the banks to sell the insurance products through them. Since, banks already have a huge customer base and the employees required to serve these customers.

   Moreover, as India has already more than 200 million middle class population coupled with vast banking network with largest depositor's base, there is greater scope for use of bancassurance. In simple words, bancassurance has promised to combine insurance companies' competitive edge in the distribution of insurance products through their vast retail networks. Hence, it becomes a win-win situation for both the parties.

c) **Internet Marketing:** The growth of the Internet has led to a great deal of speculation and discussion regarding its potential impact on traditional distribution channels. Most of the life insurance companies were selling the insurance products through internet. But since, insurance is an intangible product; the customers still prefer to meet the company representatives-through agency or bancassurance channel.

d) **Worksite Marketing:** It is the distribution method which provides voluntary insurance products to employees at their work place with the sponsorship of their employer, the amount of premium is directly deducted from their payroll. The insurance contract for insurance is made with the employee rather than the employer.

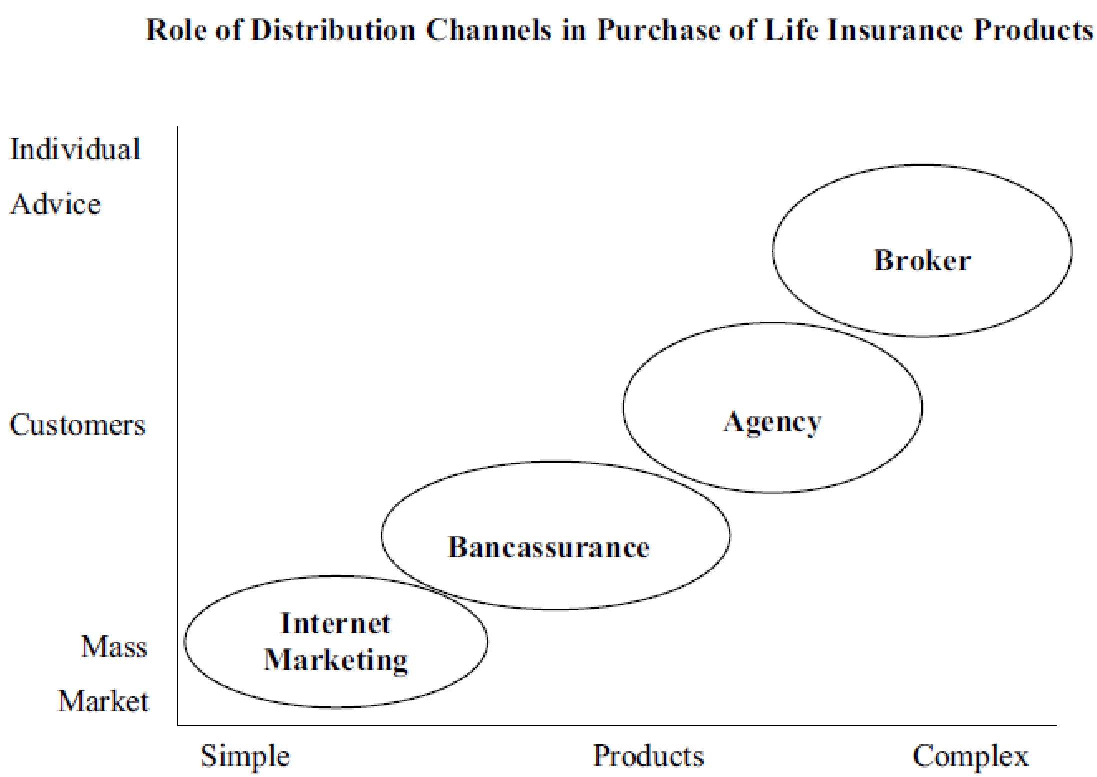
The challenges faced by these channels were the cost effectiveness, product customization and efficient post sales servicing. Technology has a key role to play in worksite marketing to ensure cost benefits.

e) **Brokers:** Insurance brokers are professionals who assess risk on behalf of a client, advice on mitigation of that risk, identify the optional insurance policy structure, bring together the insured and insurers. Brokers by definition are not tied to any one insurer and have a chance to present as many options as possible to clients. Also, brokers have a unique advantage as they can combine the life, non-life and health insurance requirements of a client.

f) **Direct Marketing Channel:** Direct marketing means selling products by dealing directly with consumers rather than through intermediaries. More recently telemarketing, direct radio selling, magazine and T.V advertising, and on-line computer shopping have been developed.

As per the type of products, customer's needs and demands, process of sales, the companies have to serve the customers with different channels of distribution. The role of distribution channels in the purchase of Life Insurance Products is different as shown in Fig 1.2

Fig. 1.2: Role of Distribution Channels in Life Insurance Products



Source: www.shodhganga.inflibnet.ac.in

As shown in the Fig. 1.2, internet marketing can be used for the mass market and only simple products can be sold but for the complex products, individual advice is required. In life insurance market, agency channel play a major role. Bancassurance channel also has a major role over the sales and distribution of life insurance products as firstly, customers trust banks, secondly mostly are the existing customers of bank and simply the staff of the bank has to sell them insurance products along with bank products.

Conflicts in Multiple Distribution Channels:

Although, multiple distribution channels have many advantages, it also provides certain challenges to the companies. Multiple channels can create conflicts and conflicting objectives for the channels and these channels may increase the cause of customer dissatisfaction and confusion. As per Rosenbloom (2007), the emergence of conflict between the different channels used for reaching customers is the major obstacle in building a successful multiple distribution channel.

Channel conflict may lower the profits for all the stakeholders as in the conflicts one party perceives that its interests are being opposed by other party.

Types of Distribution Channel Conflict:

As per Web and Hogan (2002) and Seung (2010), there are two types of distribution channel conflict- intra channel conflict and inter channel conflict. Intra Channel Conflict also known as Vertical Conflict arises when there is friction between the members of distribution channels and a firm while the inter channel conflict also known as horizontal conflict arises because of the friction between two or more channels at the same level.

There are many reasons for channel conflict. In addition to inappropriate channel structure design, targeting the same customers was also a cause of channel conflict. Because most producers sell through several channels simultaneously, channels typically compete to reach the same consumer segments. In such a context, channel conflict is virtually guaranteed (Bucklin, Thomas-Graham, and Webster, 1997), therefore reducing the sales potential of existing channels (Coelho and Easingwood, 2004).

Some of the recent conflicts in life insurance industry:

A) The sales manager of a life insurance company was pursuing the high end client to sell a life insurance policy to him. He was following him for the last three months and only recently the client had confirmed him to give the cheque for the policy. But when he called the client to collect the cheque, he was informed not to come by the client's secretary. Later, he came to know that the client was sold the insurance policy by his own company's tied agent previous day only.

The company had started a new distribution channel where they were recruiting the young graduates as sales executives with fixed salaries. But this initiative was not welcome by the tied agents as they considered this new channel as a threat to their existence.

Tied agents were giving rebates/gifts to the clients through the huge amount of commissions earned by them. With the help of their old and established friends; they were reaping the fruits of the hard work done by the sales managers. The sales manager was very much frustrated and he went to complain his branch manager with the proofs of all the mails/correspondence with the client in the last three months.

B) A MDRT –Million Dollar Round Table agent of the life insurance company had convinced his client to buy a life insurance policy and was about to close the deal. In between, the client went to the bank to know the reason for one of his cheque which got cancelled last day. While taking to the branch manager of the bank, he shared that he was about to purchase a life insurance policy. Since banker was also given targets to sell the insurance policy. He literally forced him to buy the insurance policy from him. The agent did not like this “poaching” of business by the banker. He went to his Regional Manager directly (because of his good reputation) to complain for the same.

While the insurance industry in general was stagnant; some of them even declining, they are seeing light of the day after passing the tunnel. Despite positive trend, the industry was plagued with the conflicts in the channel. The regional director, though had a planned meeting for marketing, he desired to change the agenda giving priority to the channel conflict. The industry, the channel partners and the customers are anxiously waiting for the solutio**n.**

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