Indian Insurance Industry: Distribution Channel Analysis

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The direct sales channel continues to be dominate group business, while for the individual business bancassurance has risen to the fore alongside the agency channel, while alternative channels are still in nascent stage.

Marketing of insurance services is critical and complex due to the elongated time span, periodicity, claims and higher brand switching costs that affect the buying behaviour. Consequently, distribution is one of the key determinants of success for insurance companies. A variety of distribution channels are currently used to sell insurance products.

These channels can broadly be classified into internet-led channels, company-led channels, bank-led channels, and agent-led channels. Insurance is provided either directly (direct selling, contact centres) or through various distribution channels such as individual agents, corporate agents including bancassurance and brokers.

Operational and technological changes have led to a substantial shift in the channel mix of the Indian insurance sector from the earlier agency-focused model to a diversified distribution mix.

Due to rising commissions in traditional channels such as agents and banks, insurance companies are developing alternate channels to drive growth at lower costs. This has led to the emergence of additional channels such as call centres, mobile, internet (web aggregators, Insurance Marketing Firms (IMF) and websites of insurance companies) and insurance marketing firms which are not tied to single insurance company but can sell policies of multiple insurance companies.

Development of alternative channels is also being driven by changes in customer behaviour, product preferences, and processes. Agency, direct selling, and bancassurance channels continue to remain the dominant distribution channels of the life insurance companies and are expected to contribute substantially going forward. However, the alternate distribution channels are just starting to contribute and are expected to increase their share of the distribution pie.

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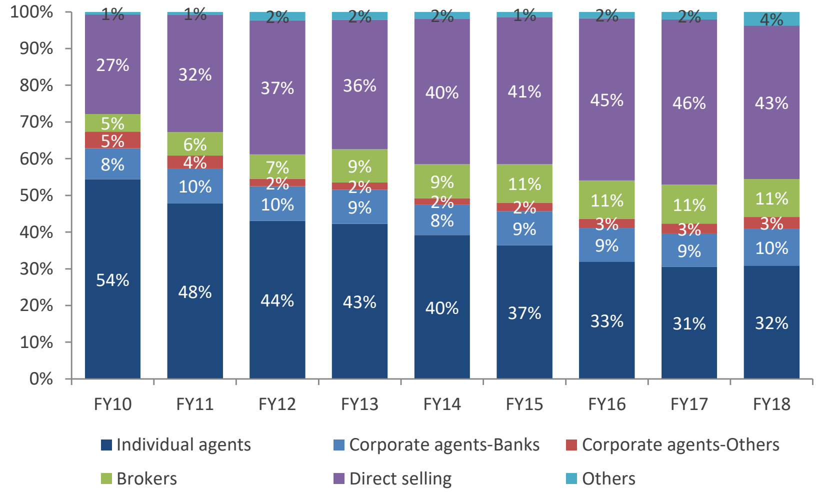
The following chart highlights the trend in channel mix for the industry:

Chart 1: Business Performance (Life + Non-Life) – By Channel (Premium in Rs cr)



Note: Life: New Business Performance; Non-Life: Gross Direct Premium
Source: IRDAI

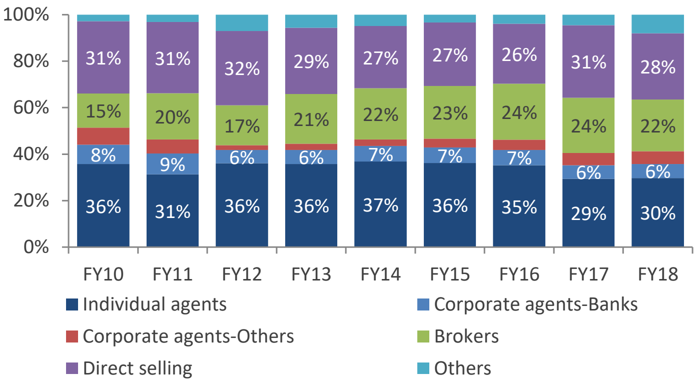
The contribution of the Agency channel to the premium decreased from 54% in FY10 to 32% % in FY18. On the other hand, the share of banks in new business has gone up from 8% in FY10 to 10% in FY18 and direct selling channel's share has increased from 27% in FY10 to 43% in FY18, primarily on the basis of group business being sourced directly by the companies. This is also indicative of an increasing share of private insurance companies in the new business premium as these companies have leveraged these channels more effectively as compared to the public sector firms. The cap on ULIP charges, introduced in 2010, led to a rationalisation of owned agency network and introduced a shift towards third-party channels. The well-developed banking sector in India and the nationwide presence of banks resulted in the increase of bancassurance's contribution to total insurance business.

The report can be divided into the following sections

I. Non-Life Insurance Distribution Channels
II. Life Insurance Distribution Channels
III. Analysis of the Bancassurance Channel with a focus on Life Insurance

I. Non-Life Insurance Analysis of Distribution Channels

Chart 2: Business Performance – By Channel (Premium in Rs cr)

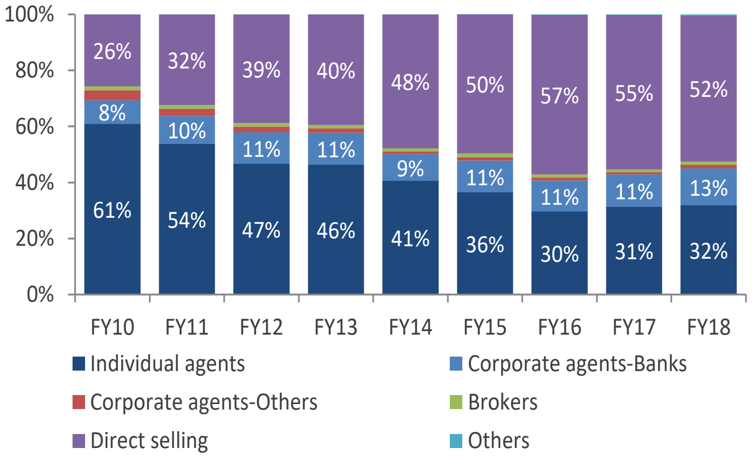


Note: Based on Gross Direct Premium
Source: IRDAI

The contribution of the Agency channel to the business premium decreased from 36% in FY10 to 30% % in FY18. The share of corporate agents has gone up from 8% in FY10 to 10% in FY18. Direct selling channel's share has decreased marginally from 31% in FY10 to 28% in FY18, basis the group business being sourced directly by the companies. Additionally according to the General Insurance Council, rural premium accounted for approximately 25% of the total premium in FY18. Due to rising commissions in traditional channels, insurance companies are developing alternate channels to drive growth at lower costs. This has led to the emergence of additional channels such as call centres, mobile, internet (web aggregators and websites of insurance companies) and insurance marketing firms which are not tied to single insurance company but can sell policies of multiple insurance companies. Development of alternative channels is also being driven by changes in customer behaviour, product preferences, and processes.

II. Life Insurance Analysis of Distribution Channels

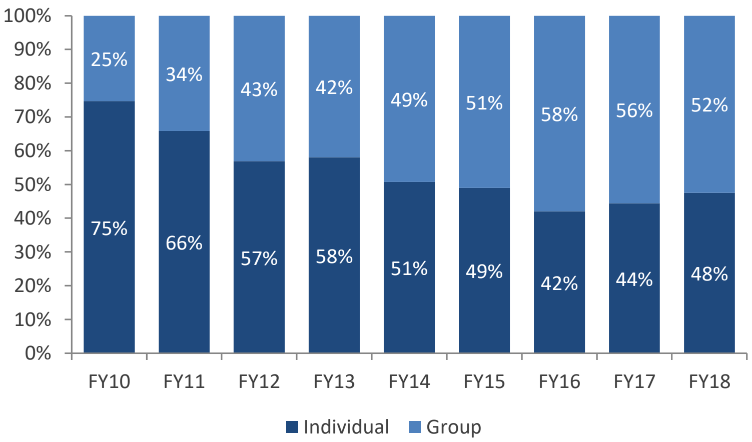
Chart 3: New Business Premium (Rs cr) by Channel



Source: IRDAI

The contribution of the Agency channel to the individual new business premium decreased from 61% in FY10 to 32% in FY18. The share of banks in new business had gone up from 8% in FY10 to 13% in FY18. The cap on ULIP charges, introduced in 2010, led to a rationalisation of owned agency network and introduced a shift towards third-party channels. The well-developed banking sector in India and the nationwide presence of banks resulted in the increase of bancassurance's contribution. Direct selling channel's share has increased from 26% in FY10 to 52% in FY18, primarily on the basis of the group business being sourced directly by the companies. Agency and bancassurance channels continue to remain the dominant third party distribution channels of the life insurance companies and are expected to contribute substantially going forward. However, the alternate distribution channels are just starting to contribute and are expected to increase their share. Domestically, over a 15 year period, the market share of the private insurance companies has reached 31% (FY18) from 2% (FY03) driven by 1) usage of multiple distribution channel, 2) expansion in metros, and 3) faster technology adoption.

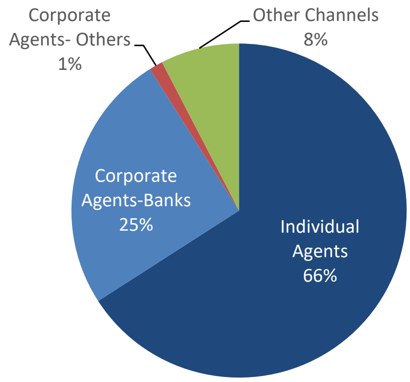
Chart 4: New Business Premium (Rs cr) by Category



Source: IRDAI

In the earlier part of the period, individuals accounted for a substantial portion of the new business premium. Studying the charts 3 and 4 together, it can be observed that group insurance's share rose with a corresponding rise in the share of the direct selling channel.

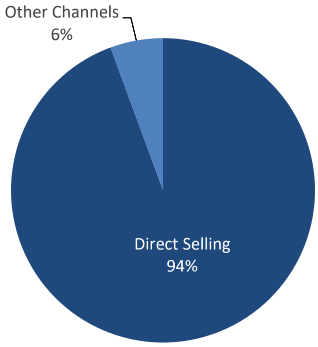
Chart 5: Distribution Channels for Individuals (FY18)



Source: IRDAI

In the individual insurance segment, the Agency channel has continued to be the largest distribution channel, while bancassurance has come to be a driving force for increasing premium especially by the private sector. Alternate methods of distribution such as online, internet marketing firms which currently have a small share of the distribution pie continue to gain traction.

Chart 6: Distribution Channels for Group (FY18)



Source: IRDAI

On the other hand, for the group insurance segment, direct selling continues to account for a lion's share of the new business premium.

Table 1: Movement of New Business Premium in Alternative Channels

Channel Wise - New Business Premium (Rs cr)	FY15	FY16	FY17	FY18
Common Service Centres (CSCs)	0.32	1	1.5	2.2
Web-aggregators		0.03	46.4	68.5
IMF		0.03	14.5	40.7
Online		302.8	418	498.9
Point of sale				30.8
Channel Wise-New Business (No. of Lives Covered) (In Lakhs)	**FY15**	**FY16**	**FY17**	**FY18**
Common Service Centres (CSCs)	0.02	0.08	0.06	0.24
Web-aggregators		0	0.19	0.6
IMF		0	0.03	0.05
Online		2.05	2.6	2.92
Point of sale				0.14

Source: IRDAI

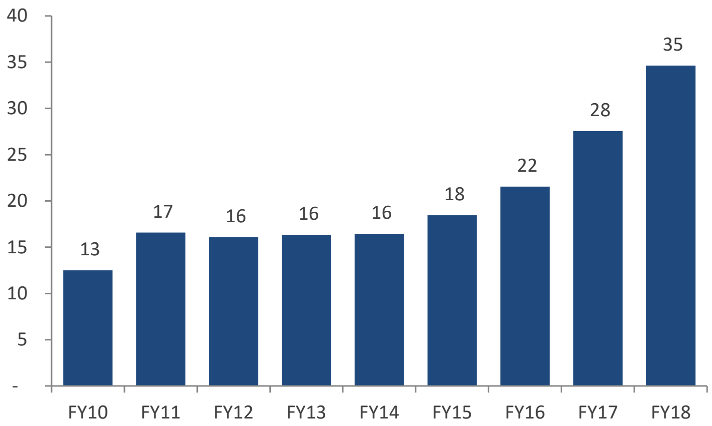
As can be seen in the table 1, alternate methods of distribution such as online, internet marketing firms which currently have a small share of the distribution pie continue to gain traction rapidly. In individual insurance, the Agency channel has continued to be the largest distribution channel, while bancassurance has come to be a driving force for increasing premium especially by the private sector. On the other hand, the group insurance, direct selling accounts for a lion's share of the new business premium.

III. Analysis of the Bancassurance Channel with a focus on Life Insurance

Bancassurance refers to the selling of insurance products through a bank's distribution channel to the bank's customers. The term 'bancassurance' first appeared in France and the concept spread across the globe as the insurance industry looked for new channels of distribution to grow their customer base.

In India, the sectoral reforms in 2001 not only triggered the opening of insurance sector for private participants but also brought about substantial changes to product design and innovative ways of marketing and distribution. Several banks promoted insurance companies, either singly or jointly, in India prompted by the global success of the bancassurance model In India; insurance companies were able to access the bancassurance channel in 2002 after RBI released relevant norms for banks to operate as corporate insurance agents. The spread of bancassurance has been one of the most significant developments in the retail financial services sector in India. Many banking institutions and insurance companies have found bancassurance to be an attractive - and often profitable - complement to their core businesses.

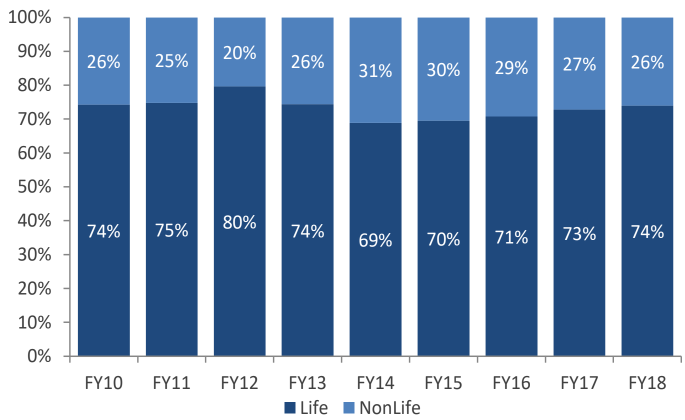
Chart 7: Growth in premium (Rs '000 cr)



Note: Life: New Business Performance; Non-Life: Gross Direct Premium
Source: IRDAI

Growing at a CAGR of 14% during FY10-18, the insurance premium amount sourced under bancassurance channel reached Rs. 34,617 crore in FY18. Private life insurance players are the most active via this channel. Cooperative banks and regional rural banks are seen by private insurance companies as a cost-effective vehicle for insurers to tap into rural communities and fulfil their rural sector obligations.

Chart 8: Life vs. Non-life Share in Bancassurance



Note: Life: New Business Performance; Non-Life: Gross Direct Premium
Source: IRDAI

Similar to the overall premiums, Life insurance dominates the bancassurance channel and has consistently on an average maintained a three-fourth share of the channel premiums.

The key drivers that have contributed to the growth of the bancassurance channel include 1) banks with their geographical spread and large captive customer base provided a quicker opportunity to life insurers for increasing market penetration and enlarging customer base, 2) insurance sales also provided banks with additional fee-based income and assisted with increasing customer loyalty, 3) bancassurance provides an alternative and cost-effective mode of distribution for insurance firms, compared to costly agency channel, and, 4) deregulation of banks and bancassurance policy has allowed banks to form multiple partnerships with insurance companies, driving increased adoption of bancassurance.

The number of bank branches has grown at a faster pace over the last decade while over the same period the number of individual agents has stayed flat. The insurance companies especially those with bancassurance tie-ups leveraged this higher growth to expand their reach and increase their growth by a higher than the industry level. Consequently, the benefits have been restricted to a few players who have successfully reduced their dependency on agency and other third party channels and improved their cost to premium ratios significantly while gaining scale and market share.

Bancassurance in Non-Life Insurance

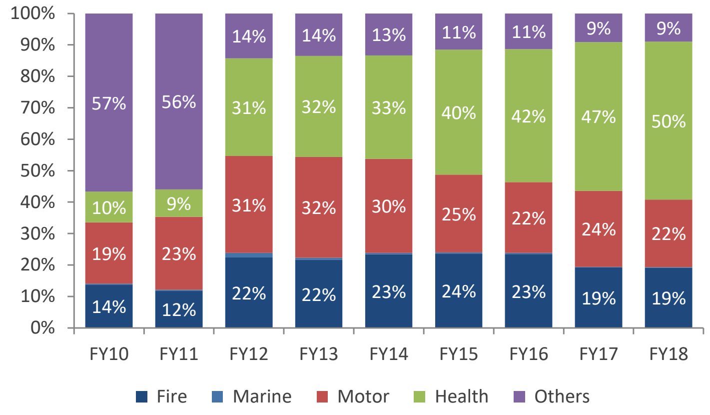
Table 2: Bancassurance as a % of Segmental Premium

Segment	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Fire	11.3%	10.7%	13.4%	13.4%	16.1%	16.5%	17.0%	15.1%	16.0%
Marine	0.4%	0.5%	1.7%	1.0%	0.8%	0.7%	0.8%	0.5%	0.5%
Motor	4.1%	5.3%	4.2%	4.5%	4.5%	3.7%	3.3%	3.6%	3.3%
Health	3.4%	2.9%	6.9%	7.9%	8.6%	10.0%	9.7%	10.3%	10.8%
Others	24.2%	25.2%	4.2%	4.6%	5.0%	4.8%	4.8%	2.2%	2.3%
Total	**8.4%**	**8.9%**	**5.6%**	**6.1%**	**6.6%**	**6.6%**	**6.5%**	**5.9%**	**6.0%**

Source: IRDAI

Generally, the reliance of non-life segment on the bancassurance channel has been low as the channel's share in the gross direct premium has actually reduced from 8.4% in FY10 to 6% in FY18. Within non-life, only Fire and Health segments have reported double digit bancassurance share and an increasing reliance on this channel. The health segment in particular has witnessed significant growth in this channel. Others accounted for a significant chunk of the channel in FY10 and FY11 due to crop insurance which in later years moved to the direct channel i.e. with the insurance companies themselves.

Chart 9: Segmental share as a % of Bancassurance Premium

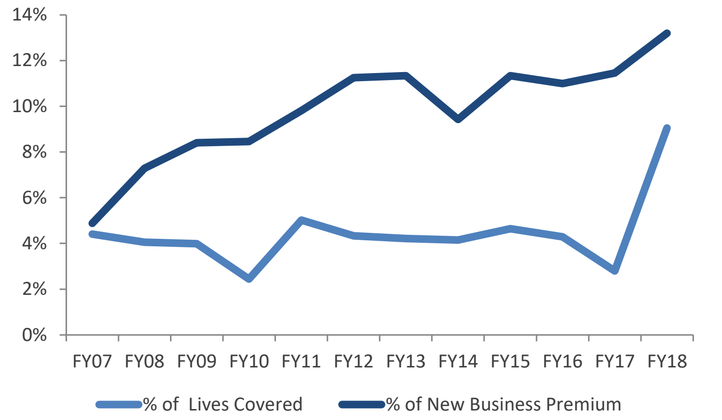


Source: IRDAI

The earlier table looked at the share of bancassurance in overall non-life insurance premium; however, the chart 9 examines the share of individual segments within the bancassurance channel. As mentioned the earlier years were skewed due to crop insurance in Others segment, however it is noticeable that the Health segment has been consistently increasing its share and has reached 50% in FY18, while both Fire and Motor segments albeit having significant share have witnessed a decline in their share.

Bancassurance in Life Insurance: Share of New Business - no. of lives covered and premium

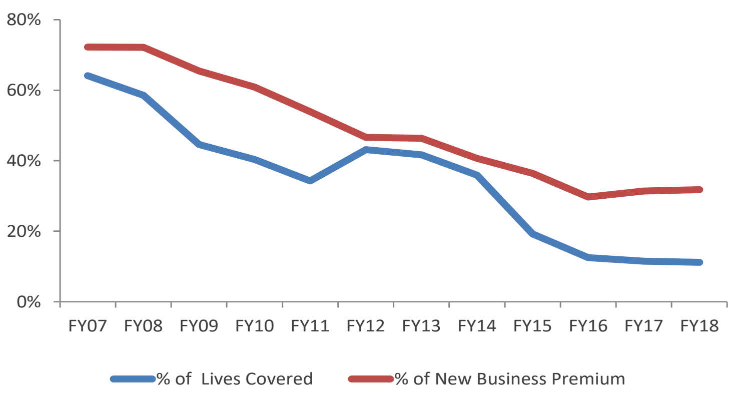
Chart 10: Via Bancassurance Channel



Source: IRDAI

The share of banks in the number of new policies issued has risen from a low of 3% in FY07 to 9% in FY18. On the other hand, the share of new business premium sourced through this channel has been on an uptrend, rising from 5% in FY07 to 13% in FY18, indicating that the premium per life covered has risen significantly.

Chart 11: Via Agency Channel



Source: IRDAI

The opposite trend can be witnessed in the agency channel which has lost market share in both, proportion of lives covered as well as proportion of new business premium generated. Contribution of Agency channel to the number of new policies issued has declined from 64% in FY07 to 11% in FY18. LIC continues to lead the agency channel with its strong agency franchise. As of March 31, 2018, LIC's agency franchise alone had a 55% share of the total individual agents in the industry.

LIC vs. Private Sector: In FY18, LIC generated 95.6% of its individual new business premium through Agency channel while the share of Agency channel was 27.9% for the private sector. The proportion of individual new business premium sourced by LIC through Agency channel has remained steady at a high of over 95% for more than the last decade indicating significant reliance on this distribution channel. While the share of Agency channel for private sector has reduced from a high of 65.8% in FY07 to 27.9% in FY18. The industry's reliance on agency channel has reduced from 88.6% in FY07 to 65.9% in FY18 indicating both the rise of alternate distribution channels and growth of private insurance companies in the sector. The new business premium for group business is dominated by the direct selling teams in LIC and in the private sector.

Table 3: Individual New Business premium (% Share of Distribution Channel) – Agency Channel

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
LIC	97.3%	98.4%	97.3%	97.8%	97.5%	96.6%	95.9%	96.0%	96.0%	96.5%	96.0%	95.6%
Private	65.8%	59.8%	54.9%	50.7%	46.9%	44.1%	39.7%	40.1%	35.7%	31.9%	30.1%	27.9%
Industry	88.6%	83.8%	79.6%	79.6%	79.0%	78.7%	77.5%	78.4%	71.4%	68.3%	68.8%	65.9%

Source: IRDAI

The contribution of the agency channel has declined gradually over past decade. The commission pay-out to agents declined significantly after the IRDAI cap on commissions and ULIP charges. This resulted in a significant drop in the agency force for nearly all private insurance companies. However, as a part of developing a balanced channel mix, the private insurance companies have started to focus on scaling up the agency distribution channel.

In FY18, LIC generated 2.6% of its individual new business premium through banks while the share of banks was 54.2% for the private sector. The proportion of individual new business premium sourced by LIC through banks has doubled from 1.2% in FY07 to 2.6% in FY18, the channel's contribution remains quite meagre to LIC's premium income. On the other hand, the share of banks for private sector has increased more than three times from 16.6% in FY07 to 54.2% in FY18. The industry's reliance on banks has also increased more than three times from 5.5% in FY07 to 25.2% in FY18. The share of bancassurance in overall life insurance is at a lower level of 13% on FY18 due to insurance companies preferring to deal with group insurance business directly i.e. the direct selling channel instead of utilizing a third part distribution channel.

Table 4: Individual New Business premium (% Share of Distribution Channel) - Bancassurance

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
LIC	1.2%	1.3%	1.7%	1.6%	1.8%	2.6%	3.2%	2.8%	2.6%	2.2%	2.4%	2.6%
Private	16.6%	18.9%	20.8%	24.9%	33.2%	39.0%	43.1%	43.6%	47.4%	51.7%	53.5%	54.2%
Industry	5.5%	8.0%	9.7%	10.6%	13.3%	15.0%	16.2%	15.6%	20.8%	23.8%	23.5%	25.2%

Source: IRDAI

Private insurance companies with a strong bancassurance channel benefited most from the improving macro environment, while insurance companies dependent on the agency channel have not been able to fully capture the improvement. The bancassurance channel is expected to grow even faster after the new regulations which permit banks to partner with more than one insurance company. This would enable banks to offer multiple options to its customers and earn additional fee income. Individual insurance companies could witness an erosion of premium from this channel.

There is a need for both owned channels such as Agency Distribution and third-party channels such as bancassurance to be equally placed to reach out to a larger audience and sell a variety of insurance solutions. Further, with direct sales through proprietary sales force or through internet becoming increasingly important, insurance companies would have to invest significant efforts to strengthen their direct sales channel and technological capabilities to maintain strong control on their cost ratios.

The Indian insurance industry has been growing at a fast clip with both rising premiums as well as number of policies. The future looks encouraging for the insurance industry with several changes in regulatory framework which would lead to a further change in the way the industry operates and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning are expected to support the growth of Indian insurance. The industry to ensure a sustainable and profitable growth via its distribution channels is expected amongst others, to develop an integrated multi-channel distribution network and focus on increasing digital capabilities.

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