Composite agency channel can change the insurance landscape

INSURANCE VIEW
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The industry has gone through tumultuous times in the last few years, which were brought on by various issues ranging from high charge products to mis-selling of insurance products. This has led to multiple debates and a new set of product regulations for different categories of insurance products.

While the new regulations brought in standardization of charges, they still do not address the root cause of the problem. It is not that insurance companies want to design products with high charges but that the final product bears the impact of the high cost of distribution.

One of the main reasons today for the high distribution cost is the low productivity of advisers. Getting good and productive agents in India is not an easy task. The reality is that nobody aspires to become a life insurance adviser and even at the current level of commissions, it is still difficult to find people who are ready to commit to this profession. Unless we get enough productive life insurance advisers on board in a branch, the cost of distribution does not reduce because there are fixed costs incurred in a branch. A way to increase productivity is by offering higher commission on products with shorter premium payment terms but within the permissible limits of the Insurance Act, which will ultimately bring down the cost of distribution and benefit policy holders. Though it was tried by a few insurers, there were some concerns of higher instances of mis-selling. The final outcome was a cap on commission through a charge cap in unit-linked products and an absolute cap in traditional products.

The industry needs to try something different now to increase the productivity of advisers. One way of doing this is to leverage on the synergy between the life and general insurance companies. There are multiple benefits on combining the two operations, especially if the shareholders are the same. There can be enormous amount of cost savings in both distributing and servicing the products. This will ultimately be passed to the policyholders through better products.

For companies, where the shareholders are different for the two entities, there is merit in forming a common distribution channel. Although there is a provision of a composite adviser for both industries but the results so far have not been encouraging. There are changes that need to be done in the composite adviser provision starting with creating a proper cost sharing mechanism between the two companies. Further, we will also have to address the issue of whose payroll the employees will be on. But once we formalize the structure, the potential is immense.

The composite agency channel will be able to recruit more advisers if they can offer a broad range of products ranging from motor to life insurance products. It would be easy for advisers to reach out to customers through some of the pull products such as motor and health and then up-sell the customer a higher value product. This can also help reduce mis-selling as advisers would have a wide range of products to earn from. The advantage to the general insurance companies would be to ride on the retail reach of life insurance companies, which would increase their penetration. It would also help in reducing their loss ratios in motor and health if their cost of acquisition is reduced.

The advantage to the life insurance companies is very obvious. It would become easy for them to retain their advisers and simultaneously increase productivity. This would in turn reduce the distribution cost and result in better products for customers.

The regulator and the industry should work together to create a compelling composite agency channel. This will not only reduce distribution costs but will also attract new agents as they will have a whole gamut of products to sell.

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