Selling Life insurance in new era of digitalisation: A study in Indian prospective

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Abstract

Selling life insurance has always a challenging task for companies. With the new players coming in the industry and liberal policies of FDI capping life insurance industry in India has going ahead with sea of changes in marketing strategies .According to the latest findings of the Digital Advertising in India Report, the online advertising market in India is projected to reach Rs 3,575 crore by March 2015, a growth of 30 per cent over last year. With the drastic increase in internet user within past few years life insurance companies and intermediateries like web aggregator has understood the opportunities. This paper highlights the changes in selling environment in the digitalisation era and also analyses trend and challenging issues regarding this.

Keywords: Online marketing, life insurance selling, web aggregators

Introduction

Insurance density (ratio of total premium to population) is still low in India insurance density for life insurance is $49, whereas global average is $378; Insurance density for general insurance is $10, whereas global average is $283. The new guidelines are likely to have a positive impact on financial inclusion by increasing the reach of low cost distribution channels such as web aggregators to remote corners of the country. The web aggregator industry is more mature in developed countries. In India, Life Insurance has been an unsought product so far where it has been sold not bought. In UK, more than 25% of distribution takes place through web aggregators. In India, less than 1% of new business sale take place through web channel. The next few years would determine if the new guidelines would help in bridging the gap. Insurance companies mostly relied on traditional channels of distribution like agents and bancassurance who normally push the highest commission products. This in turn leads to post purchase dissonance and hence lapsed policies. These distribution channels normally dint provide a genuine comparison with other companies' product. No entity besides the regulator has an incentive in making the customer understand the contract he is actually entering into, as the focus is clearly on making the transaction happen. As a result, not only, there often is a mismatch between what a person needs and gets but also she/he doesn't get to exercise an informed choice option of price and insurance product by comparing neutrally various insurance policies of different companies. In a sense, she/he gets exploited for this lack of comparative information data. The digital revolution and the Internet offer exciting possibilities for companies that are bold and ready to leverage digital technologies to develop new products and services. New Distribution channel emerge in this era of change that is Insurance web aggregators. The insurance aggregator has its merits as well as challenges and threats to the insurance industry. A successful aggregator has the potential to shape the future development of the life insurers' individual distribution model, including the direct channel.

In Digital Innovation Survey 2014 by Accenture finding suggest that in insurance industry digital transformation features high on the agenda for the next five years. Digital initiatives expected to generate additional growth. Majority of insurers are Digital Followers, focused on incremental rather than transformative change. Insurers expect to invest >$40m in digital. **DIGITATION** is the use of new technologies to improve existing channels and processes and **DIGITALIZATION is** the use of innovative technologies and strategies to create new revenue by becoming truly customer-centric. In the insurance industry: Digitations could mean introducing new online sales channels or making it easy to buy an existing product via mobile phone. Digitalization involves rethinking what the carrier does, and working with a range of non-insurance partners to deliver a solution; for example: offering remote security monitoring bundled with building and contents insurance, or location-based offers in combination with auto insurance.

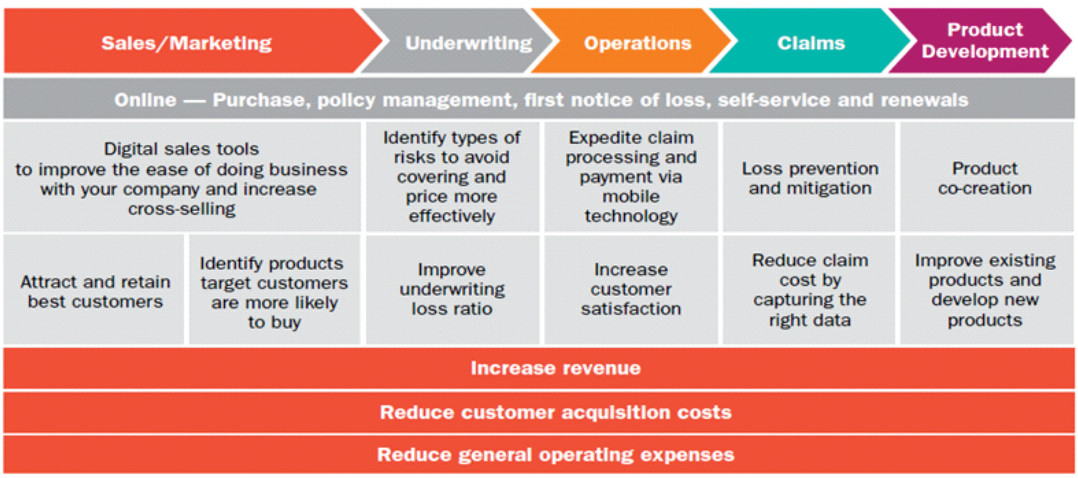
Technology has created favourable selling environment for life insurance nowadays agents and sales staff are equipped with tab and laptop by their respective companies. It creates positive and intelligent impression on their clients. Figure 1 shows how digital opportunities benefits insurers not only in sales but in other department too. Due to increasing competition, Companies like Max New York Life can boast of a professionally qualified and well –trained agency force. Still some of the insurance organizations are reluctant to automate their product offering to the consumer for fear that such complex products cannot sell with out a traditional human interface.

Research Objective:

To understand current regulations and environment for selling life insurance online in India

Research method: Secondary research

Figure 1. Transformational digital opportunities and benefits for insurers



Source: towerswatson.com; Emphasis 2015 - Name Two Transformative Disruptors If You Answered Digital Revolution and the IoT, Two Points:By Nicholas Chen

Online insurance in India:
With the increasing penetration of smartphones, the number of mobile Internet users in India has reached 213 million in June 2015, a 23% jump over six months, according to the ***Mobile Internet in India 2014*** report released. There were 173 million mobile Internet users in India in December 2014. According to the report by the **Internet and Mobile Association of India (Iamai) and IMRB International (a market research firm),** the number of mobile Internet users in rural India is set to grow at a rate of 33% from October 2014 to reach 49 million by March 2015 and 53 million by June. According to the **McKinsey report,** India's base of about 120 million internet users is currently the third-largest in the world. Other then demographic and economic consideration, this growth of internet usage is fuelled by lower cost of internet access and growing influence of mobile devices. Though India's users spend less time online per capita than users in developed countries, their pattern of online behaviour is rapidly converging.

Recent advancement in technology has caused a wave of "Technology- based self-service" offerings in the market **(Dabholkar and others, 2003).** Such advancements have changed the way service firms and consumers interact. E-service is becoming increasingly important not only in determining the success or failure of electronic commerce but also in providing consumers with a superior experience with the interactive flow of information **(Santos, 2003).** Online service delivery is distinct from service delivery through other modes like, bricks and mortars stores, as in the case for retailing. E-service can be usefully conceived as an interactive information service. The internet has made existing organisations to manage increasingly complicated actions involving many business partners. By adopting universal standards, the finance industry has made more customisation within the open marketplace possible. The internet and internet start-ups have had dramatic effects on equity markets world over; like other areas of finance have benefited from IT technologies 2015. The response to online insurance products has amazed everyone. What started as a novelty product is being lapped up by the Indian consumers. The annual online sale projections of companies have been met in less than two months. The Indian Insurance regulator, IRDA, recently came up with an application to compare ULIP products (Unit Linked Insurance Product). So much so that the public sector life insurance giant LIC has plans for coming up with a game changing online term insurance product shortly. We believe these trends suggest how the future of insurance is going to be in India. People are not just going online to check and compare insurance quotes because it is convenient, for growing number of Indians; it has now become a necessity. As with many sectors such as travel and retail, internet is now looking to transform the insurance sector in India. The regulators, and the insurers, have been trying very hard to increase the insurance penetration in India. Despite that, insurance penetration (ratio of premium to GDP) is only 5.1% (IRDA Annual Report 2010-11), which is less than the world average. With nearly 50 insurers, each having multiple distribution channels, one hoped the insurance penetration would be better. Comparing us with other countries with a more mature insurance market, one very clear difference is visible. Indian insurance has a very nascent online presence as compared with countries like the US, UK, Italy, Spain and Germany. Online insurance sales account for more than 30% of all sales in these countries compared to roughly 3% in India. The insurance industry there has seen a gradual shift from complete offline model to a more online, less offline, model. We think this is the way to go forward for the Indian insurance industry as well.

A country as big and diverse as ours has many challenges. One of the biggest challenges always, is to reach out to the maximum people at the lowest possible costs. Google is potentially reaching out to a large chunk of India's online population by providing customized searches in 10 Indian languages. Warren Buffet's Berkshire Hathaway recently opened its operations in India by 'not opening an office' – pure online model. They are selling motor and travel insurance through the internet and telephone, a model they have already proved to be highly successful. GEICO of US, a USD 28 billion company, is the 3rd largest auto insurer in that country. Online insurance may be a new and unchartered territory for many insurance shoppers in India; however it seems to be the way forward. With only 10% of the population being online, the potential is huge. India is the 3rd largest market for Face book and it expects the country to reach the 1st rank in a not so distant future. This growth of the internet, supported by the ever increasing young population of this country, has fuelled the growth of many online trends. Ecommerce is a big success story. People have less time and an increased faith in products and services sold online.

Source: Stijn Cassens, et al. Electronic Finance: Reshaping the Financial Landscape around the World.

Web Aggregation in Insurance sector in India

Insurance aggregation is a process of finding multiple quotes of various Insurance Companies at one time so that the buyer can make an accurate comparison of insurance products based on his needs and budget. Insurance web aggregation in turn is finding this information on the web. It is an easy and consumer friendly display of prices, costs, features, service levels, consumer reviews, and sometimes the opinions of experts on different insurance options to a consumer, who voluntarily looking for such information. The information required by an aggregator from a customer is usually a superset of the information required by all the insurers who provide a quote. Aggregators get traffic because customers find value in the research they can do on their own on Insurance products, saving time, and in simple to understand language. This traffic is the key differentiator for a successful aggregator, and its advertising revenue potential. This implies there is a direct relationship between the accuracy and helpfulness of aggregators' comparison charts, and their success. Aggregators are different from other channels, as they are designed to be a self-help tool for the customer. The focus is on education and information quality and richness. These results in deepening penetration of protection focused products which specifically cater to his needs some of which might be low cost products; products not typically sold traditional intermediaries. For example pure term insurance products have been largely displayed and promoted by aggregators.

Insurance Aggregation started in India in 2005 with two companies (i) Apnainsurance.com and (ii) Bimadeals.com. From 2005 to 2011 twenty other players joined this industry. Their importance can be gauged from the number of Unique Visitors to various leading insurance sites for instance the number of hits which was 344,000 in April 2010 became 1,900,000 in April 2011 for Policybazaar.com. Within a short span of time, these websites already account for over 50% of the 1st year premium collected via the Internet in India. For some companies, Aggregators can account for as much as 15% of their new business.

The eight licensed web aggregators from IRDA are:

1. iGear Financial Services (www.MyInsuranceClub.com),
2. Accurex Marketing and Consulting (www.accuratequotes.in),
3. Great Indian Marketing and Consulting Services (www.insuringindia.com),
4. Voila Consultancy Services India (www.buysmartpolicy.com),
5. I Call Soft (www.sastapolicy.com),
6. Policy Mantra Insurtrade (www.policymantra.com),
7. Deztination Insurance Solution (www.policybachat.com)
8. Mangotree Solutions (www.quickbima.com)

Regulations in India regarding Web Aggregation

Some key changes were announced by IRDA (Insurance Regulatory and Development Authority) through an exposure draft which was released on 24th July, 2013.

1. The IRDA is allowing them to collect leads, but not to charge insurers on a cost-per-lead basis.

Instead, they're mandating a Cost-per-acquisition (CPA) business model for India, and have instructed insurers that "No charges should be paid for such leads by the Insurer."

2. IRDA doesn't allowing web aggregators to have any sort of either pertaining to any product or service including insurance product or service, other financial products or service / or any other product or service advertising on their website.

3. Web aggregators can't up selling other product even display any information pertaining to products or services of other Financial institutions / FMCG or any product or service on the website.

4. Web aggregators cannot operate the websites of other Financial / Commercial / marketing or sales or service entities.

5. Web aggregators cannot use "Social Media sites etc. for comparison of products etc."

6. This must be the only business they do: but not be a licensed insurance agent, corporate agent, micro-insurance agent, TPA, Surveyor, Loss assessor or any insurance intermediary.

7. No referral arrangement with an insurer.

8. The Insurer can only pay for conversions. The IRDA has asked them to "refrain from reimbursing expenses incurred by web aggregators towards maintenance of data base, infrastructure, training, entertainment, development, communication, advertisements, sales, promotion and towards any other expense", "not pay any fee or remuneration, by whatever name called, on any type of renewal premium / policy payable from the second year and the subsequent years, to web aggregators."

9. The insurer is not allowed to pay any advance to a web aggregator

10. Web aggregators have to have 'Insurance Web Aggregator' or 'Insurance Web Aggregators' in the name of the Insurance Broking Company to reflect its line of activity and to enable the public to differentiate IRDA licensed insurance Web Aggregator from other non-licensed insurance related entities." They are "not permitted to use any other name in their correspondence/literature/letter heads without the prior approval of the Authority

11. Web aggregators are not allowed to operate multiple websites, except if they use the same domain names with suffixes such as .com or .in or .co.in for the primary website of the Web Aggregator. Even then, "The Web Aggregator should inform the Authority in writing about the date of Registration and also date of launching of domain names of such websites or mobile sites in the application for grant of license and thereafter within 15 days from the date of Domain Name Registration and Date of launching respectively in case of any change in the name(s) of the existing websites or new websites.

12. Web aggregators shall not display ratings, rankings, endorsements or bestsellers of insurance products on their website. The content of the websites of the web aggregators shall be unbiased and factual in nature; they shall desist from commenting on insurers or their products in their editorials or at any other location in their websites. The IRDA has also defined a web aggregator must categorize insurance products, and which features can be compared by web aggregators. Web aggregators shall display product information purely on the basis of the information furnished to them by insurers. Web Aggregators can use published data for "Additional Information to Customers" based on IRDA Data.

13. Foreign Direct Investment in web aggregators "should not exceed twenty-six per cent paid-up equity capital of Web Aggregator at any time."

14. The Web Aggregator licenses are on a renewable basis, only for three years at a time.
15. Only use a Lead Management Systems, which data should be shared with insurance companies with whom web aggregators have signed agreements. Web Aggregator should provide an option to select up to three insurers by the visitor, to whom the lead can be transmitted simultaneously. If the Prospect evinces interest in buying insurance but does not prefer any Insurer, web aggregator shall not transmit the lead to more than three Insurers in the same class of insurance business. Web aggregator shall transmit the data of Prospects to Insurer not later than three days of visit to the web site.
16.In the circumstances where the Authority feels that the establishment of a Web Aggregator is only to divert funds within a group of companies or their associates, it can after due enquiries made by it cancel the license granted to the Web Aggregator."
17.The Web Aggregator shall not register any transfer of shares or contribution, as the case may be, without the prior written approval of the Authority where after the transfer the total paid up equity holding or contribution of the transferee is likely to exceed five per cent of their paid up capital or contribution. The Shares of a Web Aggregator held as capital as per provisions of this section cannot be pledged in any form or manner to secure credit or any other facility and at all times should be an unencumbered capital. Similarly, where the nominal of the value of shares intended to be transferred by any individual, firm, group, constituents of a group or a body corporate under the same management jointly or severally exceeds five per cent of the paid-up capital or the contribution, prior written approval of the Authority shall be obtained.
18. IRDA has allowed certain activities (schedule IX of exposure draft) that can be outsourced from an insurance company to a web aggregator. These activities include premium collection (through online mode) and policy services (such as issuance of policy document, of name and/or address, revival or cancellation of policy among others). The outsourcing of activities will help insurers and web aggregators in providing a better service to the end consumers.
19. IRDA has also allowed web aggregators to function as telemarketers; albeit with certain conditions such as registration as a telemarketer with TRAI (Telecom Regulatory Authority of India), eligibility of tele-callers, restriction of selling ULIPs through telemarketing channel etc.
20. The authority has also removed the cap on payable commission (25% of first year commission payable). The payable commission will now be governed by limits prescribed in section 40A of the insurance act.
21. New regulation will increase the cost of compliance and operations because of regulatory requirements to have principal officer, more frequent audits etc. IRDA has also brought down the display fees (upper limit) from Rs 1,00,000 to Rs 50,000 per product displayed. Also, no charges will be payable for leads by the insurers.

Reaction to new guideline

PolicyBazaar has moved away from being primarily a web aggregator now 85% of their revenue now comes from their call centre operation, even though they have a web aggregator business, and a subsidiary which does insurance comparison. There are various interest groups in Insurance and some more influential than others, and everyone believes digital is a long term answer for the problems that plague the industry. Digital is a means used for "Pull" or educated insurance which is a miniscule part of the industry. Here the problem starts. If you do a "Pull" purchase, you are less likely to buy a "Poor" product, while in the push channel you can still push

"Poor" products. Everyone in the industry now understands this problem, but everyone has their interests. There are strong lobbies led by some insurance companies that do not wish aggregation, remember comparison stops sales of bad products, and allows sales on merit.
Unfortunately need to make rules on that. They rightly would not believe everything Web aggregators say as we are an interested party, and perhaps biased towards our interests.
There are two killers though. One 26% FDI, who will invest if FVCI's cannot, we are already at 38%. Insurers are already barred. The 2nd and one you have missed is, every three years, even if you apply for renewal in time, if the IRDA cannot approve your licence in time, you will need to stop business. If these two can change, we will survive and grow, but yes, its not what IXIGO had to go through for sure, but they may have had other challenges. As per Alok Bhatnagar, Founder, EasyPolicy.com new guidelines will impact the business positively as the core of the business – sales commissions (that web aggregators stand to make out of sale of Insurance policies) have been made at par with other forms of intermediaries. This was not the case in previous guidelines. The renewal/trail commissions that other intermediaries get have also been provisioned in the form of outsourced services charges. Not only this, lead sales have been allowed on CPA mode and it will definitely be healthier than the Rs 10 limit that was earlier defined as the lead sales price. This makes for an awesome combination and encourages the single-company structure that is more investment friendly. Under the earlier regulations, it was permissible for any website to fetch rates from other licenced intermediaries and to thereafter deal with them in a manner that was outside the purview of the regulator. This route has now been effectively plugged as the new regulations make it mandatory for any website dealing with insurance products to be licenced in its own right – either as an insurance broker or as a web aggregator. This change might induce a better regulated and structured insurance environment which will lead to better practices and will benefit for the public at large in the longer term. IRDA did consult existing web aggregators and insurers before coming with an exhaustive set of guidelines. The methodology has been correct but we do think that some interaction with core internet professionals on a regular basis would help the regulator understand Internet dynamics better.
The 4 things that they want IRDA to re-consider are as following:
1. Removing 26% cap in FDI as that restricts a lot of international investors from investing in Indian insurance intermediaries
2. Allow Tie-up with other websites for display of product comparison
3. 3 year renewal period should be increased for all insurance intermediaries
4. Advertising for non-insurance products and services should be allowed
According to Deepak Yohannan, Founder, MyInsuranceClub.com these guidelines are a lot more forward looking than the existing rules which were not clear earlier. Online Sales, Direct Marketing and Outsourcing activities are allowed and it covers most of the areas where an aggregator could add value to the customer and to the insurer.Very often people do not understand the policy completely and purchase a plan based on trust or recommendation of others. Equity, MFs etc have this freedom and hence people can make some intelligent calls based on the recommendation of various ratings on sites. activities.

Conclusion

Indian insurance market which used to be predominantly agent (including brokers and corporate agents) driven is changing with newer mode of distribution channels such as Bancassurance and web based individual insurance cos portals coming to play increasing role. The importance of web aggregation for insurance cannot be ignored. World over, especially in mature markets, majority of insurance policies in Motor, health and property insurance as well as life insurance are bought online through web aggregation. This is yet another effective and neutral platform providing comparative information on various insurance products of different companies to the intended customers and enabling them making an informed choice based on their specific need and budget. Web aggregation thus needs to be encouraged and shouldn't be curbed down with some short sighted ill-informed regulations. People have suffered tremendously since 2006-07 on account of large scale mis-selling and a time has come when they should "buy" insurance products rather than being "sold". The likely reach of internet in Indian scenario in the coming years is going to be phenomenal. Almost 50% of the total population will have access to internet in the next five years and we will thus be missing out in a major way if we ignore the power of internet and continue to stifle it with some short sighted guidelines. We need to look into the future and create an enabling environment which provides prospective customers a neutral unbiased web based platform to compare insurance policies and make a judicious choice. IRDA has rightly put conditions to monitor the content of what's displayed by a WA to ensure against misinformation and to maintain neutrality.

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