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A Study of choice of customers towards distribution channels of Life Insurance Industry

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ABSTRACT
In today's scenario, Insurance Companies must move from merely selling Insurance to marketing it as an essential financial product. The distributors play a dual role – as trusted financial advisors for the clients and trusted business associates for the Insurance companies.
An insurer needs to think about the appropriate distribution channel to reach its target customer as well as the product that it is going to sell. The choice of customer and the nature of product will influence the distribution structure. However in India, joint ventures are formed such that distribution structures are often pre-determined by the nature of partners. For instance, if one of the partners in a tie-up is a bank, the focus is commonly on bancassurance whereas if the joint venture is one with a corporate house, invariably the majority business is through the agency channel. This implies that the insurer's decision on product features; pricing and target market will necessarily be influenced by the distribution structure that the joint venture is endowed with.
Keeping in mind the importance of distribution channels in life insurance industry the present research consists of a study of concept of insurance, distribution channels of life insurance and also a survey has been done by the researcher to know preferences of customers towards choice of distribution channels like insurance advisors, bancassurance, brokers, corporate agents etc. for buying insurance plans.

1. INSURANCE

1.1 CONCEPT OF INSURANCE

Definition of Insurance[1]
Insurance is a policy from a large financial institution that offers a person, company, or other entity reimbursement or financial protection against possible future losses or damages.

Insurance is something that everyone will need sometime, and it's worth understanding it before you buy.

Insurance include vehicle insurance, which includes auto, motorcycle, and boat insurance, health insurance, life insurance, home insurance, travel insurance, personal property insurance, keyman insurance, dental insurance, rental insurance, and more.

What is Insurance

Insurance is a form of risk-management which spreads the risk of many people in exchange for small payments from each individual. Specifically, insurance transfers some type of risk (accident, theft, natural disaster, illness, etc) from one person or group to a more financially-sound entity in exchange for a payment (also known as an *insurance premium*). Premiums are often annual or monthly, but depending on the type of insurance they can be at other intervals.

For example, a consumer can pay a certain amount to an insurer such as ICICI Lombard each year to insure that person's car. This sum represents the insurance company's assessment of the likelihood that the car will be damaged or wrecked. These data are normally taken from historical figures relating to the age, sex, profession, driving record, and accident history of the insured, as well as statistics concerning make and model of the car and its accident record, as well as the engine size, number of passengers, and even color of the vehicle.

Statistically, if the make and model of the vehicle in question, and/or its driver have been in numerous accidents, the insurance company will charge a higher premium in order to hedge expected losses. As the risk increases, so too do the premiums. In fact, sometimes, insurance companies will not even insure certain people and/or vehicles as the chance of them having to make a payout (in the event of an accident) will be almost guaranteed.

Definition of Life Insurance
Insurance that guarantees a specific sum of money to a designated beneficiary upon the death of the insured or to the insured if he or she lives beyond a certain age.Life insurance is meant to replace the loss of earned income on the death of the breadwinner. An individual may insure to protect the education or marriage plans of his children or to offset a home loan liability on his untimely death[2].

1.2 LIFE INSURANCE: DISTRIBUTION CHANNELS[3]

[1] http://www.economywatch.com/insurance/DOAccession 07/06/11

[2] http://www.shvoong.com/medicine-and-health/1773832-exact-meaning-life-insurance/#ixzz1RVL0qH32DOAccession 06/05/11
[3] http://www.docstoc.com/docs/53255029/6-Distribution-of-life-insurance-products-in-India-and-inherent-risks-Kunj-Behari-10th-GCA D.O.Accession 26/06/11

Two distinct forms of distribution systems may be recognised viz. personal distribution systems and direct response systems. Personal distribution systems include channels like agencies, bancassurance and work site marketing. Direct response distribution systems are methods whereby the client purchases the insurance directly. This segment, which utilizes various media such as the internet, telemarketing, direct mail, call centers etc., is just beginning to grow.

Traditionally, tied agency has been the primary channel for insurance distribution in the Indian market. Whilst this continues, there is increasing contribution by bancassurance and an emergence of other channels such as Direct Marketing/Tele Marketing, brokers, call centres and mall-assurance.

Agency, as a channel of insurance distribution involves selling insurance policies through tied agents which are hired by insurance companies on a commission basis. Prior to 2000, the Life Insurance Corporation of India ("LIC") was the only player in the Indian insurance market and it emphasised on hiring agents to sell its insurance policies. At that time, LIC had around 800,000 agents across the country. Therefore it was not surprising that agency was the core distribution channel in the insurance market, when the market was opened up to new entrants.

With over 2,000 branches and one million agents to distribute its policies at present, LIC's distribution structure is still agency dominated. It emphasises on hiring local agents in every locality, which helps build credibility of the agents with the customers and provides a sense of security to the policyholders while buying the policies.

With the liberalisation of insurance sector in 2000, many private insurers emerged in the market. This also saw an emergence of alternative distribution channels besides agency, such as bancassurance, tele-marketing, corporate agents etc.

Important as it is, tied agency is expected to continue to be a dominant channel of insurance distribution in the coming years. It provides an opportunity to develop a good distribution network quickly across the country, including rural areas. Many companies are constantly increasing their agency force in order to capture a larger market.

Even within the channel, companies are looking at innovations to improve the low productivity of agents, which has been a cause of concern for long. There have been suggestions in the media that productivity levels have been low because of companies focusing more on head count expansion rather than improving productivity as well as due to relatively lower levels of commissions. Some companies are now beginning to understand the social needs and attitudes of the consumers and are accordingly sensitizing their agents. For instance, there is a considerable respect for age in Indian society and a general belief that an older person knows better. Playing on such sentiments, there may be a case for recruiting some older people to sell products such as pensions and annuities. To increase penetration in rural areas, some companies have found it beneficial to recruit more female agents in rural areas, with whom women customers can relate, e.g. nurses, gram sevikas, and thus target the female segment of the population more effectively. Max New York Life has adopted a version of this strategy by appointing gram sahayaks to sell and service the rural customers.

Emergence of bancassurance

Bancassurance, as the name suggests, refers to sale of insurance policies through the bank's established branch network. It is basically selling insurance products and services by leveraging the large customer base of a bank and fulfilling, both, the banking and insurance needs of the customer at the same time.

With the entry of private players in the Indian insurance market, bancassurance emerged as an important channel of distribution for insurance products. Banks have emerged as the preferred alternative distribution channel in the last 3 to 4 years. India has close to 69,000 bank branches spread over rural and urban locations, offering a good network for potential insurance penetration. For the private insurers, bancassurance channel contributes about 20% to 30% of the business volumes.

Other alternative distribution channels

Many insurers, in order to gain an edge over the others and capture a larger market share are beginning to use alternative distribution channels such as corporate agency, brokers, direct mail, tele-marketing etc.

Corporate agency refers to any third party corporate/firm licensed by the IRDA as a "corporate agent" to distribute life insurance business. Current and potential corporate agents range from multi-level marketing companies to finance and Non-Banking Finance Companies ("NBFCs"), stock brokers and so on. Most insurers have tied-up with NBFCs to provide extra leverage on distribution.

Individual Financial Advisor ("IFA") is another potential channel for insurance distribution, though presently it is virtually non-existent in India. IFAs are independent professionals who offer unbiased advice on financial matters. In the UK, the term IFA was coined to describe advisors working independently for their clients, rather than representing an insurance company. As of now life insurance business written through IFAs is relatively low in India, but looking at the experience of other developed markets, this channel's potential cannot be ruled out.

Another set of channels, which are undeveloped in India are Direct Mail ("DM") and Tele Marketing ("TM"). This mainly refers to marketing of insurance policies via the mail or over the phone.

2. REVIEW OF PRESENT LITERATURE

Considering that the Indian Insurance industry relies heavily on the traditional agency distribution channel, the IRDA Chairman suggested the need to develop alternative distribution channels of independent intermediaries, Bancassurance, Direct Marketing, the Internet, and Telemarketing - all of which cost less and enable reaching a wider target market.

Though various aspects of Insurance have been studied so far, not much attention has been paid to the distribution channel analysis of the Insurance sector companies. A brief survey of the studies done on Insurance is presented briefly.

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On 19th January 1956, the government promulgated Life Insurance (Emergency Provisions) Ordinance through which it took temporary charge of the Life Insurance business of 154 Indian and non-Indian insurers and of 75 provident fund societies operating in the country (Aggarwal, 1960). On 18th June 1956, the government brought the bill in the parliament for the formation of LIC. The bill, better known as Life Insurance Corporation of India Act, 1956, came into force on 1st September 1956 through which the government took over the Life Insurance business of the country. The LIC is a monopolistic and monolithic institution, the only exception being the postal Life Insurance and a few compulsory schemes of Life Insurance for state employees managed by some state governments.

Edmister (1987) opines that Insurance is a mechanism, which involves two fundamental characteristics, viz., transferring and shifting risk from one individual to a group and sharing losses on some equitable basis by all members of the group. Insurance companies using the law of large numbers predict what percentage of persons of a group would die at a certain age and thus prepare tables containing these percentages called Mortality Statistics. These Mortality Statistics are an important aspect of portfolio management of the company because the timing and frequency of death affect the timing and amount of liquid asset that the company needs.

Bhole (1999) comments, that, historically, Life Insurance Corporation of India, and, General Insurance Corporation of India, dominates Insurance sector. The Government set up the Malhotra Reforms Committee in 1993 to make recommendations for reforms and privatization in Indian A large part of the success of the new entrants ran be attributed to the government appointed Insurance Regulatory and Development Agency (IRDA), which developed the regulatory framework. The regulations governing the Life and non-Life insurers are pragmatic and forward-looking, ensuring the customer is protected and creating an environment for thriving private sector participation and a level playing field.

Undoubtedly, the largest beneficiaries of privatization have been the customers, who now have an array of policies to choose from, a number of channels to approach insurers through, levels of customer service so far unseen in this industry, and more information about their investments than ever before.

3. RESEARCH METHODOLOGY

This research under consideration is an attempt to study the customer preferences towards life insurance among other saving alternatives, with the following objectives.

Objectives of the Study:

The study is conducted with the following objectives;

- To know about concept of Insurance
- To know about various distribution channels
- Customer preferences towards choice of distribution channels for buying life Insurance plans.
- Customer consideration of various parameters like name & reputation of the company, low premiums,

Insurance. Consequent to it, these six international Insurance chains were allowed to enter the Indian Insurance Market in early 1996 by tying up with India's leading industrial groups but this process of privatization suffered a setback when the Insurance Regulatory Authority (IRA) Bill was withdrawn.

Anand Prakash (2006) in his article, *"Revitalization of Rural Markets through Insurance",* has mentioned that awareness is the most important thing as people in poor regions are not familiar with the concept of Insurance. Insurance companies must work around this problem as a corporate social responsibility in countries like India where there is no state social security system.

The traditional agency channel for doing so may not be sustainable in the longer term in rural segment unless significant changes are made towards poor training, lower productivity, ineffective sales management, part-time sales of low quality, and high agent turnover.

Shikha Sharma, MD, ICICI Prudential Life Insurance Co. Ltd. (2009), in her article, *"Life Insurance - The Challenges Ahead",* has mentioned that Increasing the penetration of Insurance is probably the single greatest challenge before Life insurers today. Not only is it just over one-fifth of the insurable population of this country actually insured, but most of those who possess Life Insurance are underinsured - evident from the fact that in a country of over 1 billion people, Life Insurance premium until very recently formed only 1.8 per cent of GDP. In fact, it's in recognition of the huge potential of the market and the need to make Insurance, particularly Life Insurance, available on a wider scale, that the government opened the industry to private players.

rate of return, risk coverage and tax savings before buying life Insurance plans.

Scope of Study: This study is conducted in commercial location in New Delhi, which is Connaught place, regarded as Central Business District (CBD) by collecting primary data through Questionnaires.

Nature of Research: The study is of an analytical nature. It is also a hypothesis testing research, as hypothesis are developed as follows-

Hypothesis 1: - Before buying Life Insurance Plans customers considers only the name and reputation of the company.

Hypothesis 2: - Before buying Life Insurance Plans customers considers the following parameters;

- Low premiums
- Rate of return
- Risk covered
- Tax Savings

Hypothesis 3: - Customers prefer to purchase life insurance plans from insurance advisors.

Sample Selection : The purposive sampling has been used for selecting offices from the universe.

Sample Size: 500

5. CONCLUSION

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At present the distribution channels that are available in the market are listed below.

- Direct Selling
- Individual Agents
- Corporate Agents
- Brokers and Cooperative Societies
- Bancassurance

Customers have tremendous choice from a large variety of products from pure term (risk) Insurance to unit-linked investment products. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. More customers are buying products and services based on their true needs and not just traditional money back policies, which is not considered very appropriate for long-term protection and savings. There is lots of saving and investment plans in the market. However, there are still some key new products yet to be introduced - e.g. health products.

While companies have been successful in product innovation, most of them are still grappling with right mix of Distribution Channels for capturing maximum market share to build brand equity, building strong and effective customer relationships and cost effective customer service. While the traditional channel of tied up advisors or agents would be the chief distribution channel, insurer should innovate and find new methods of delivering the products to customers. Corporate agency, brokerage, Banc assurance, e-Insurance, cooperative societies and panchayats are some of the channels, which can be tapped by the insurers to reach the appropriate market segments. Now days, the urban masses are tapped with the new techniques provided by Information Technology through Internet.

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ANNEXURE
4 DATA ANALYSIS AND INTERPRETATION

1. Age of the Respondents

Table 1

PARTICULARS	NO.OF.RESPONDENT	PERCENTAGE
Less than 25	55	11%
25 - 35	200	40%
35 - 45	100	20%
Above 45	145	29%
TOTAL	**500**	**100**

ANALYSIS:

From the survey it was found that amongst 500 respondents

a) 11% of the respondents are less than 25 years old.
b) 40% of the respondents are between 25 and 35 years of age.
c) 20% of the respondents are between 35 and 45 years of age.
d) 29% of the respondents are more than 45 years of age.

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2) Occupation of the Respondents

Table 2

PARTICULARS	NO.OF.RESPONDENT	PERCENTAGE
Business man	170	34%
Professionals	90	18%
Job holders	185	37%
Others	55	11%
TOTAL	**500**	**100%**

ANALYSIS:

From the survey it was found that amongst 500 respondents

a) 34% of the respondents are businessmen.
b) 18% of the respondents are professionals.
c) 37% of the respondents are jobholders.
d) 11% of the respondents are background.

3) Average Annual Income of Respondents

Table 3

PARTICULARS	NO.OF.RESPONDENT	PERCENTAGE
Up to 1 lakh	165	33%
1 lakh - 3 lakh	215	43%
3 lakh - 5 lakh	100	20%
5 lakh & above	20	4%
TOTAL	**500**	**100%**

ANALYSIS:

From the survey it was found that amongst 500 respondents

a) 33% of the respondents have an average annual income up to 1 lakh
b) 43% of the respondents have an average annual income from 1 lakh to 3 lakh
c) 20% of the respondents have an average annual income from 3 lakh to 5 lakh
d) 4% of the respondents have an average annual income above 5 lakh

4) Percentage of Respondents Having Life Insurance Policy.

Table 4

PARTICULARS	NO.OF.RESPONDENT	PERCENTAGE
Yes	280	56%
No	220	44%
TOTAL	**500**	**100%**

ANALYSIS:

From the survey it was found that amongst 500 respondents

Only 56% have taken life insurance policy and out of these 56% means 280 respondents –

5) Percentage of respondent's towards decision influencing factors to purchase Insurance plan:

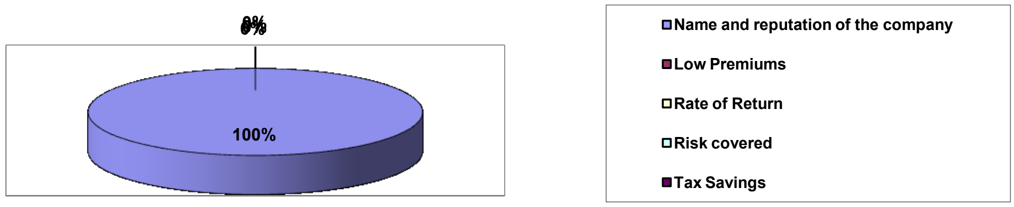
Give numbers 1 to 5: While;

a. For Strongly Agree
b. For Agree
c. Neutral
d. For Disagree
e. For Strongly Disagree

Table 5

PARTICUALRS	**NO.OF.RESPONDENT Numbers** 1	2	3	4	5	**Total**
Name and reputation of the company	**280**	**-**	**-**	**-**	**-**	280
Low premiums	**-**	**28**	**22**	**36**	**194**	280
Rate of return	-	25	185	28	42	280
Risk covered	-	180	31	38	31	280
Tax Savings	-	47	42	178	13	280
TOTAL	280	280	280	280	280	

a) Response For Name And Reputation Of Company As A Particular

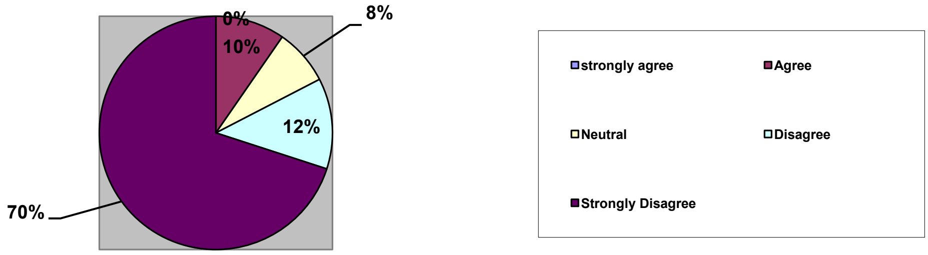


ANALYSIS:

From the survey it was found that amongst 280 respondents

100% tick for name and reputation of the company as strongly agree.

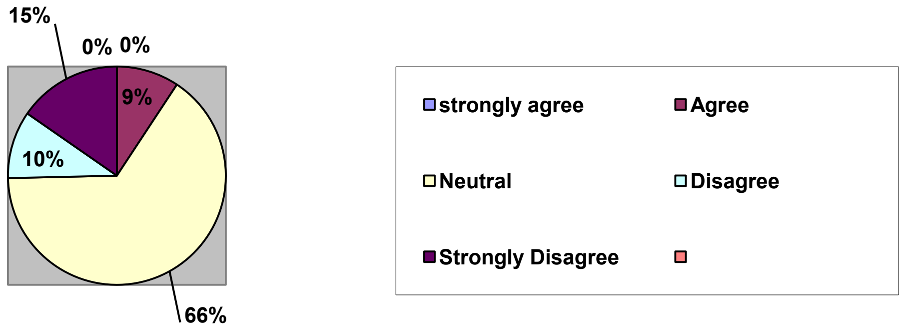
b) **Response For Low Premiums As A Particular**



ANALYSIS:

- 10% opted for Low premiums as agree.
- 8% opted for Low premiums as neutral.
- 13% opted for Low premiums as disagree.
- 69% opted for Low premiums as strongly disagree.

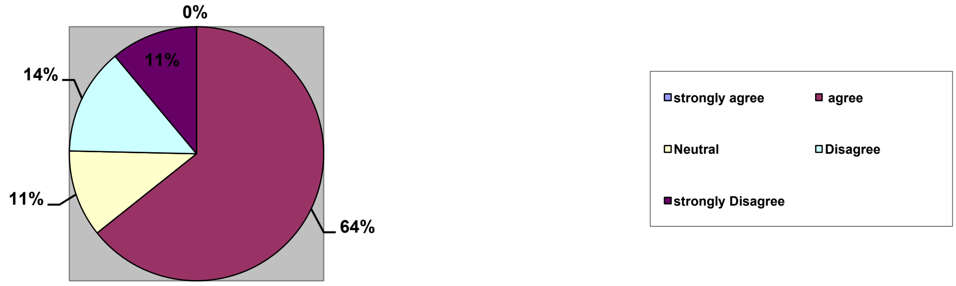
c) **Response For Rate Of Return As A Particular**



ANALYSIS

- 9% opted for Rate of return as agree.
- 66% opted for Rate of return as neutral.
- 10% opted for Rate of return as disagree.
- 15% opted for Rate of return as strongly disagrees.

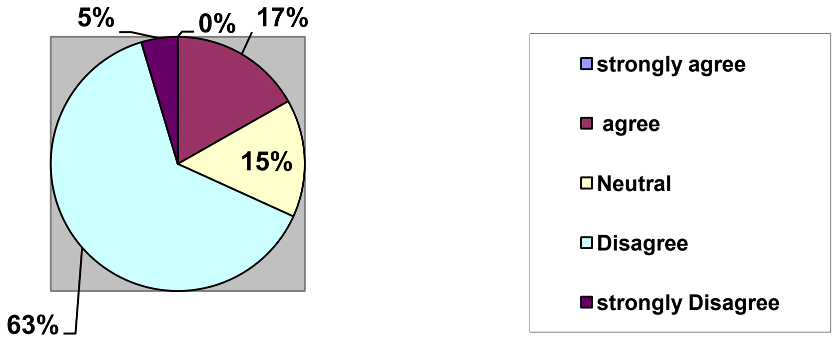
d) Response For Risk Covered As A Particular



ANALYSIS:

- ➢ 64% opted for Risk covered as agree.
- ➢ 11% opted for Risk covered as neutral.
- ➢ 14% opted for Risk covered as disagree.
- ➢ 11% opted for Risk covered as strongly disagrees.

e) Response For Tax Savings As A Particular



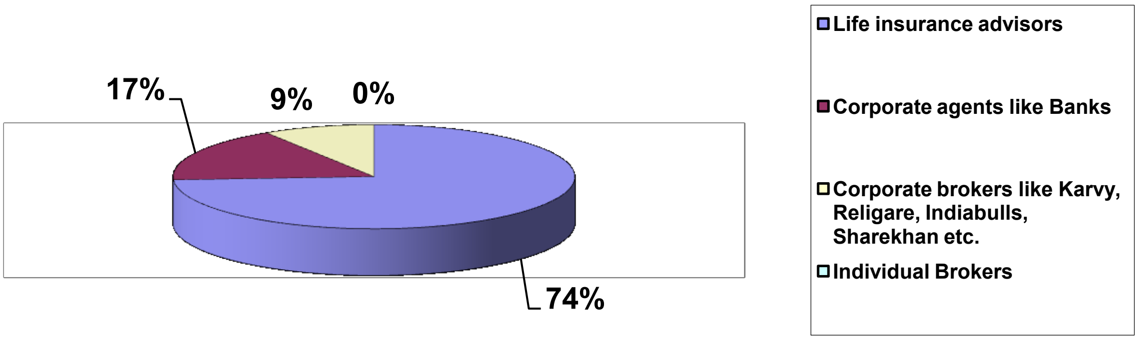
ANALYSIS:

- ➢ 17% opted for Tax Savings as agree.
- ➢ 15% opted for Tax Savings as neutral.
- ➢ 63% opted for Tax Savings as disagree.
- ➢ 5% opted for Tax Savings as strongly disagrees.

6) Percentage of respondent's approach towards distribution channel for taking life insurance policy

Table 6

PARTICULARS	NO.OF.RESPONDENT	PERCENTAGE
Life insurance advisors	207	74%
Corporate agents like Banks	48	17%
Corporate brokers	25	9%
Individual Brokers	0	0%
TOTAL	**280**	**100%**



ANALYSIS

From the survey it was found that amongst 280 respondents

- 74% respondents have taken insurance policy from life insurance advisors.
- 17% respondents have taken insurance policy from corporate agents.
- 9% respondents have taken insurance policy from corporate brokers.
- No respondent has approached individual brokers.

CHI – SQUARE TEST

HYPOTHESIS 1: - Before buying Life Insurance Plans customers considers only the name and reputation of the company.
NULL HYPOTHESIS: Before buying Life Insurance Plans customers considers only the name and reputation of the company.
ALTERNATE HYPOTHESIS: Before buying Life Insurance Plans customers does not considers only the name and reputation of the company.
Before survey, researcher thinks that 95% of the respondents consider name and reputation buying insurance plan. We use Chi-Square with 5% level of significance and 3 degree of freedom.

Observation	Expectancy	O-E	(O-E) 2	(O-E)2/E
100	95	5	25	0.26

Degree of freedom =1
Level of Significance = 5%

Result:-

At 5% level of significance and 1 degree of freedom our calculated value of Chi- Square is 0.26. But Table value of Chi – Square is 3.84 at same degree of freedom. So, our null hypothesis is **accepted.** It Means customers consider only company name and reputation before purchasing Policy.

HYPOTHESIS 2: - Before buying Life Insurance Plans customers considers the following parameters;

- Low premiums
- Rate of return
- Risk covered
- Tax Savings

Null Hypothesis

Before buying Life Insurance Plans customers considers the following parameters;

- Low premiums
- Rate of return
- Risk covered
- Tax Savings

Alternate Hypothesis

Before buying Life Insurance Plans customers does not consider the following parameters;

- Low premiums
- Rate of return
- Risk covered
- Tax Savings

Respondents Preference Towards Above Listed Parameters (Observed)

Table 7

PARTICUALRS	NO.OF.RESPONDENT Numbers 1	2	3	4	Total
Low premiums	**28**	**22**	**36**	**194**	280
Rate of return	25	185	28	42	280
Risk covered	180	31	38	31	280
Tax Savings	47	42	178	13	280
TOTAL	280	280	280	280	1120

Table 8

Expectancy Table

PARTICUALRS	NO.OF.RESPONDENT Numbers 1	2	3	4	Total
Low premiums	70	70	70	70	280
Rate of return	70	70	70	70	280
Risk covered	70	70	70	70	280
Tax Savings	70	70	70	70	280
TOTAL	280	280	280	280	1120

Note: - Formula for Calculation: Row Total X Column Total/ Grand Total

Table 9

Calculation Table of Chi Square Table

Particulars	Obs. (O)	Exp. (E)	O-E	(O-E)2	(O-E)2/E
Low Premium (1)	28	70	-42	1764	25.2
Low Premium (2)	22	70	-48	2304	32.91
Low Premium (3)	36	70	-34	1156	16.5
Low Premium (4)	194	70	124	15376	219.66

Rate of Return (1)	25	70	-45	2025	28.93
Rate of Return (2)	185	70	115	13225	188.93
Rate of Return (3)	28	70	-42	1764	25.2
Rate of Return (4)	42	70	-28	784	11.2
Risk Covered (1)	180	70	110	12100	172.86
Risk Covered (2)	31	70	-39	1521	21.73
Risk Covered (3)	38	70	-32	1024	14.63
Risk Covered (4)	31	70	-39	1521	21.73
Tax Saving (1)	47	70	-23	529	7.56
Tax Saving (2)	42	70	-28	784	11.2
Tax Saving (3)	178	70	108	11664	166.63
Tax Saving (4)	13	70	-57	3249	46.41
Total					**X2 =1011.28**

Note:- Critical Value of Chi-Square at 10% Significance Level and 9 Degree of Freedom = 21.7

Degree of Freedom (r-1) (c-1) = (4-1) (4-1) = 9
Test of Significance Level = 10%

Result: At 10% Level of Significance and 9 degree of freedom, we found that the calculated value of chi-square (1011.28) is much higher than table value of chi-square (21.7). It means, before buying Life Insurance Plans customers does not consider the following parameters;

- Low premiums
- Rate of return
- Risk covered
- Tax Savings

Hence, Our Null Hypothesis **Rejected.**

HYPOTHESIS STATED: 3
"Customer prefers to purchase life insurance plans from insurance advisors" This statement is expected to be believed 85%, and observed as 74%.

Null Hypothesis: The difference observed is significant, and the difference is due to the Sampling.
Alternate Hypothesis: The difference observed is insignificant. So, the Observed percentage should be the actual value for Customer prefers to purchase life insurance plans from insurance advisors.

CHI – SQUARE TEST
Customer prefers to purchase life insurance plans from insurance advisors
(% AGE)

(Expected)	**(Observed)**	**[(O-E) ^2]/E**
85	**74**	**1.42**

DEGREE OF FREEDOM, df = (n-1) = 1
CRITICAL VALUE = 3.84
(Value of CHI-SQUARE for 5% level for one degree of freedom is 3.84)
HERE CRITCAL VALUE IS GREATER THAN THE CALCULATED VALUE.
ACCEPT THE NULL HYPOTHESIS, i.e.
Customer prefers to purchase life insurance plans from insurance advisors". This statement is expected to be believed 85%, and observed as 74 %. And the difference is due to the Sampling.

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