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Traditional and Modern Distribution Channels of Life Insurance Industry in India

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Abstract

Insurance industry in India has completed one and a half century, during this journey it has gone through number of structural and regulatory changes. At the beginning it was under the fully control of private and foreign players, but after independence it was nationalised, it was further opened for private and foreign players in 1999 in view of globalisation and liberalisation. Therefore, its journey is stated as privatisation-nationalisation-privatisation. During this journey of growth, distribution channels have played significant role. Initially, there were only individual agents and direct selling, but later on bancassurance and corporate agents were engaged, but since 2014 number of other agents have been introduced in the insurance market, these agents have been named as modern channels and the distribution channels working prior to 2014 have been named as traditional channels. In the present study, performance of the traditional and modern channels have been analysed taking first year premium and number of policies issued by both the channels for the period from 2014-15 to 2021-22. Further, the performance have been analysed with the help of compounded annual growth rate and statistical tool two way ANOVA. Resultantly, it is found that there is no significant difference between both the distribution channels with respect to first year premium and policies issued. It has also been concluded that during the period of study, traditional channels are showing slow growth rate as compared to modern channels.
Keywords : Century, Traditional, Modern Channels, Distribution, Liberalization, Premium, Policies, Compounded, Performance

1. Introduction

The insurance sector in India is nearly 162 years old and since then it is experiencing various challenges and major structural changes. The function of life insurance companies is to sell intangible product as well as an investment for long term that carry realisable and unrealisable benefits, therefore distribution of such products call for pre distribution planning to establish a linkage between product quality, product value and behavioural aspects of targeted segments of customers.

Till 1999, life insurance industry was a monopoly company, private life insurance players have come into existence only from the year 2000 after passing the Insurance Regulatory and Development Authority Act, 1999. As a result of liberalization major structural changes have been made in the life insurance industry such as breaking of monopoly of Life Insurance Corporation of India, relaxation in all entry restriction for private and foreign insurance companies for the Indian market, innovative products, smart marketing and aggressive distribution. The life insurance industry has experienced substantial growth in terms of number of policies, premium, distribution network, invested capital, increase in number of life insurance companies from one public sector company and 23 private sector companies. The distribution channels function as arteries in the marketing network for delivering insurance products and after sale service to the investors. Today, distribution is increasingly seen as one of the key marketing variables (Devlin, 1995; Thornton and White, 2001), capable of providing significant competitive advantage, particularly in the financial service industry.

Initially life insurance industry covers various customers directly or through various distribution channels such as individual agents, corporate agents including banks, non-banks and brokers. These channels are called traditional channels. Under these traditional channels agents are the major source of selling insurance products. According to Desk (2013), agents have been the biggest driving force for the life insurance industry. These agents found to be typical in nature as they focus on the products which offer higher rate of commission

Since the life insurance penetration and insurance density in India is increasing since 2019, therefore, insurance market has a lot of potential for insurance products and distribution channels have key to the success of insurance companies. Till 2014, traditional agents were the primary selling life insurance products, but after 2014 due to new development in consumer's behaviour, evaluation of technology and deregulation, new distribution channels have been developed, these are micro agent, web-aggregators, common service centre, online selling, point of sale, referrals and peer to peer. These newly emerged distribution channels have been named as modern channels. Therefore, the present study aim to analyse the performance of traditional as well as modern channels in terms of business carried on by them and to find out the status of modern distribution channels.

2. Meaning of Distribution

Distribution channels may be called as marketing channel or marketing channel. The term marketing channel was used in USA in 1970. It means all the intermediaries included to bring the product from the manufacturer to the consumer, it includes the physical flow of a product from the manufacturer to the end user, but also those that have a role in the transfer of product ownership as well as other intermediary institutions that participate in the value distribution from production to consumption (Tipuric, 1993, 15-16). There are three type of marketing channels namely communication channel, distribution channel and service channels (Kotler and Keller 2008, 26). Hybrid marketing channels show that the use of only one channel is not sufficient, multichannel optimises channel coverage, adjustability and control, while the same time minimises cost and conflict. Therefore, various channels for different sized clients should be developed (Kotler and Keller, 2008, 490).
Channel of distribution provide downstream value by bringing finished products to end user, this may involve physical transfer of goods or simply transfer of title in favour of the buyer, the distribution channels may be called as distribution chain, distribution pipeline, supply chain, marketing channel, market channel, and a trade channel (Ostrow, 2009, 59). The distribution channels can be classified namely traditional channels including individual agents, bancassurance, corporate agents, direct selling whereas modern channels include micro agents, common service centre, online selling, point of sale and other misc channels.

3. Review of Existing Literature

Buzzell R.D. & Gale B.T. (1987), 'Linking Strategy to Performance' published in Simon and Schuster concluded that since the insurance service suppliers have recognized that a persistent customer satisfaction program is a most effective method of retaining customers and hence, qualitative service result in more repeat sales.

Rao G (2006), 'Brokers in Indian and other markets – A comparative study' published in IRDA Journal, concluded that the working of intermediary channels form an integral part in the success and survival of an organization and are considered as an essential element which serves as a connecting link between the insurers and customers.

Kumar and Meenakshi (2007) in their published work titled Marketing Management published by Vikas Publishing House, concluded that companies may directly contact end users without using distribution channelsor by using multiple channels. The selection of channel is dependent upon the customer requirement or perceived behaviour, so the company should consider multiple channels.

Singh, Singh and Chavan (2020) in their research titled 'Distribution Channels in Life and General Insurance: A Conceptual Analysis published in Research Gate concluded that there is significant change in the approach of consumers towards online insurance. The change is witnessed in a phased manner from curiosity to attraction and from attraction to action and online insurance distribution as a marketing revolution is a phenomenon of recent origin.

From the above it is concluded that all the studies conducted in this reference are either descriptive or theoretical, therefore, the present study will serve as a lead which is comparing the performance of traditional and modern channels of distribution.

4. Objective of the Study

1. To compare the business performance of traditional and modern distribution channels of life insurance industry in India.
2. To compare the growth rate of traditional and modern life insurance channels.

5. Span of Study

The span of the study is from financial year 2014-15 to 2021-22.

6. Data Collection

Since the study is based on historical data, therefore, all the data required for conducting this study have been collected from the secondary sources including IRDAI reports, websites, books, journals and other published work.

7. Research Problem

Whether there is significant difference between the performance of traditional and modern distribution channels working in India?

8. Research Methodology

The research paper is based upon explanatory nature and to arrive at the desired objectives data have been complied as per requirement. To compare the modern and traditional distribution channels CAGR has been calculated. To assess the performance of the channels first year premium collected and policies issued have been taken into account. To study the performance of the distribution channels premium and policies issued have been taken as dependent variables whereas time is taken as independent variable. To test the growth in premium and policies, the CAGR has been calculated by applying regression model in its exponential form. Further to test the significance of the data two way ANOVA has been used at 95 percent level of confidence and 5 percent level of significance.

9. Framing of Hypothesis

H_{01}=The amount of Premium does not vary significantly between the traditional and modern distribution channels.

H_{11}= The amount of premium vary significantly between the traditional channel and modern distribution channels.

H_{02}=The issuance of policies does not vary significantly between the traditional and modern distribution channels.

H_{12}= The issuance of policies vary significantly between the traditional channel and modern distribution channels.

10. Data Analysis and interpretation

For calculating the growth rate following equation have been used

Y=abt
After computing its log
Log Y=log a + y log b
CAGR % = antilog (log b-1)*100
a= constant term
t= time period
Log b= Regression Coefficient

Premium collection by Traditional and Modern Distribution Channels

Premium is one of the primary sources of the life insurers and their performance, consistency and survival is dependent upon the receipt of first year premium.

Table 1 Share of First Year Premium in Traditional and Modern Distribution Channels of Life Insurance Industry (figure in lakh)

Type /Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	CAGR
Traditional Distribution Channel	113167.64	136000.84	174578.34	193238.27	213145.58	256695.06	275241.42	9.46
Modern Distribution Channel	17.51	326.28	499.58	695.15	1533.50	2309.62	3102.84	8.86

(Source: Compiled from IRDAI Reports)

Both the channels received highest amount of premium during the year 2021-22 and minimum during the year 2014-15 Traditional distribution channels of life insurance are still occupying dominant position in terms of first year premium receipt as well as CAGR during the study period. Life insurance is a product which is sold by agents to the potential customers by direct contact, there are complaints of mis selling and further agents are pushing those policies where they will earn more commission than considering the policyholders requirement and paying capacity, similarly there are complaints about banks making it compulsory to buy policies while sanctioning bank loans, therefore due to the deficiencies of the traditional channels now from 2014-15 modern channels have come into existence and continuously occupying the market share of first year business with an annual growth rate of 8.86 percent.

Table 2 Number of Policies Sold by Traditional and Modern Distribution Channels of Life Insurance Industry

(Figure in lakh)

Type /Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	CAGR
Traditional Distribution Channel	401.49	247.18	252.87	242.63	263.22	266.82	201.41	206.39	-2.80
Modern Distribution Channel	5.230	8.892	19.654	10.904	11.844	15.026	18.582	22.17	0.409

(Source: Compiled from IRDAI Reports)

Number of policies sold by traditional channels is showing decreasing trend from 401.49 lakh to 206.39 lakh in the year 2014-15 to 2021-22 respectively with the CAGR of -2.8 percent, but modern channel are showing positive CAGR during the period from 2014-15 to 2021-22. Although traditional channels are showing greater share of 94.55 percent share in policies sold whereas modern channels are having 5.45 percent share only.

Table 3 Growth rate channel wise for premium and policies Issued over the period from 2014-15 to 2021-22.

CAGR/ Distribution Channel	Premium	Policies Issued
Individual Agents	2.405	-2.859
Corporate Agents- Bank	1.963	0.150
Corporate Agents- Others	1.576	-1.973
Brokers	2.473	0.593
Direct Selling	2.093	0.604
Micro Insurance Agents	1.018	-0.210
Common Service Centre	0.198	-1.000
Web – Aggregators	1.494	0.148
Insurance Marketing Firms	0.754	-0.190
Online Selling	1.588	0.191
Point of Sale	1.088	-0.039
Unspecified Source	0.742	-0.210

(Source: Author's Calculations)

Premium is the amount received by life insurance companies through their distribution channels called intermediary over a period of time on the basis of policies given to the policyholders. The table above shows CAGR of the first year premium over the period of nine years, it stay positive for all the distribution channels throughout the nine years. Brokers shows higher positive growth rate over the period of study, further new technology enabled distribution channels have been emerged during the period of study and all these channels are depicting positive growth rate over the period of time starting from 2016 onwards,

Table 4 ANOVA calculations for Traditional and Modern Channels of Distribution

Indicator	Source of Variation	Sum of SQ	DF	MSS	F-Ratio	T Ratio	Critical Value
Premium	Channel	4.1119E+11	1	4.1119E+11	5.509345	247	12.706
	Time	6.70893E+11	6	1.11815E+11	1.498163	2.55	2.306
	SSE	6.71716E+11	9	74635076206			
Policies	Channels	277374.3	1	277374.3	134.2276	247	12.706
	Time	11060.23	8	1382.529	0.669036	2.55	2.306
	SSE	16531.59	8	2066.449			
	Total		17				

(Source: Author's Calculations using Excel)

The above table reveals that calculated value of F-ratio is 5.509345 which is less than the table value of 247 with critical value of 12.706 with respect to premium and channels of distribution, similarly calculated value of F is 1.498163 and table value is 2.55 which is greater than the calculated value with respect to time period i.e. $P<P_{05,}$ 5.51<247 and 1.498163<2.55 therefore, H_{01} and H_{02} accepted and it is found that there is no significant difference between the distribution channels with respect to first year premium received and time period. Consequently alternative hypothesis is rejected. Further with respect to policies issued by different distribution channels it is found that calculated value with respect to policies issued is 134.2276, which is less than the table value of 247 i.e. 134.2276<247 and calculated value of policies with respect to time is 0.669036 which is less than the table value of 2.55 i.e. 0.669036<2.55, hence the null hypothesis H_{03} and H_{04} is accepted and alternative hypothesis is rejected. It is found that there is no significant difference between the traditional channel and modern channels with respect to first year premium received and policies issued.

11. Findings

1. There is no significant difference between the traditional and modern distribution channels working for life insurance industry in India with respect amount of first year premium and number of policies issued.
2. Both the channels are showing positive CAGR during the period of study with respect to premium, but CAGR of traditional channels showed slow growth as compared to modern channels of distribution with respect to the amount of first year premium, but traditional distribution channels are showing negative CAGR for policies issued whereas modern distribution channel are showing positive CAGR during the period of study.
3. Direct selling amongst the traditional channels and online selling in the modern channels have emerged as effective distribution channels during the period of study.
4. It is found that 94 percent of the total new business is hold by traditional channels and rest 6 percent by the modern distribution channels during the period of study.

12. Limitation of the study

The study is based upon secondary data; therefore, it is not free from the limitations of historical data.

13. Conclusions

Distribution channels play significant role in the life insurance industry, without these it is difficult to survive at present, however internet penetration in India is increasing and dependence on online digital marketing is also increasing, but insurance is subject where personal touch is required, so individual agents can play significant role in the growth journey of life insurance business. Further use of internet is increasing and the young generation who has just entered in the employment market are seeking online products and are well versed with the information technology so online selling should be promoted, all life insurance companies are selling their products through online except Sahara and Star Union Dai Ichi, Canara HSBC has not appointed individual agents and brokers for selling their life insurance products, the company is in its cost cutting mode, because individual agents and brokers cost life insurance companies heavily. Further, traditional distribution channels have reached at the grass root of the country, particularly individual agents, who have belongings with customers, but modern distribution channels are technology enabled and stay around urban and semi urban area, therefore, with the help of technology and internet penetration modern distribution channel should approach rural areas also. Micro Insurance agents have to work individually and also with the other non-governmental organisations to mitigate the risk of people living in rural area.

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