Direct Marketing Practices in Life Insurance Business in India: A Case Study of LIC

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Abstract

Increasing Internet penetration and availability of Internet services throughout India drive the role of online sales and post-sale services in the life insurance sector. While direct marketing channels reduce the distribution costs, certain intricate aspects like security/privacy of information provided and reliability of information furnished are to be dealt with efficiently by insurers. Alternative distribution channels would get further enhanced and business innovation via alternative channels such bancassurance, web portals, self-service kiosks, mobile devices, and other direct marketing models would reduce reliance on the traditional agency network. In the financial year 2009-10, the LIC, a public sector giant took a new initiative of direct marketing with an objective of "Creating new systems for business generation, sales process monitoring and business processing with a view to reach out to untapped markets and provide improved buying experience to customers." In a short span of eight months, the channel has expanded and has presence at 21 centers with 542 professionally trained Direct Sales Executives (DSEs) to provide financial advice to prospective customers. In order to gain competitive advantage, the LIC should convert its customers into clients.

Keywords: *Direct marketing, alternate channels, group business, bancassurance, corporate agents*

1. Introduction

Direct marketing includes telemarketing and Internet selling. Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible. Use of mail, telephone, fax, e-mail, or Internet to communicate directly with or solicit response or dialogue from specific customers and prospects are a form of marketing communication (Kotler, P. et al. 2007). Direct marketing removes the "middle man" from the promotion process, as a company's message is provided directly to a potential customer. It occurs when businesses address customers through a multitude of channels, including mail, e-mail, phone, and in person. Direct marketing for the life insurance sector is a marketing method used to generate leads for insurance agents. There are several benefits of using direct marketing to sell insurance services. Such direct mail marketing activities can be hidden from competitors, a great benefit in the highly competitive insurance industry where companies may battle for new customers. Direct selling is a dominant mode of selling in Group business in life insurance sector in India.

Direct distribution is not only important to meeting evolving customer needs. The declining number of agents requires organizations to reinvent their go-to-market strategies. In short, consumers are moving towards direct distribution, and companies that fail to follow will lose market share. Direct marketing is increasing its importance in business in general, and in the life insurance business in particular and is gaining share in the insurance business worldwide.

2. Review of Literature

Kundu (2002) assesses different aspects of life insurance business like distribution channels, regulatory reforms, product innovation and investments. With the entry of new players in India, new distribution channels like bancassurance and direct marketing will see increasing contribution to the industry.

Rural sector is a perfect case for mass marketing and the new private life insurance companies cannot afford to ignore this market segment. Competition will surely cause the market to grow beyond current rates and offer varied choices to customers through the introduction of products, services and pricing options.

Prakash, Jaya (2004) in his article dealt with horizontal conflicts among distribution channels. He also dealt with specific problems of bancassurance such as different philosophies and cultural differences while selling insurance products.

According to Chevalier, et al. (2005), the fantastic success of bancassurance in certain southern European countries is increasing by the year, with bancassurance premium income in France up more than 10% in 2004. The same is true in Spain and Portugal, where it is the dominant distribution channel and is becoming a strategic factor for life insurance operators. Authors have described the key success factors in bancassurance like regulatory environment, training and the different models in which bancassurance can be launched. Case studies on successful bancassurance models and practices provide information on factors behind the success.

Sukla AK (2006) reviewed the economic measures of liberalisation initiated in insurance sector. Six years into competitive market, the Indian insurance industry exhibited a healthy growth trend of new business and market share. Since opening of insurance industry, in 2003-04, private players have brought 21.87% of their new business, through referrals and direct business, a sign of harnessing the strengths of the competitive market of the respective organisation. It clearly indicates the comfort zone of operation of the players. But the real operational efficiency will emerge beyond the boundaries of comfort when they will try to expand the market share in the unfamiliar territory.

Gyanendra Singh and Jyoti Kumar (2013) studied the marketing practices of LIC with reference to Mizoram. Their study provided some useful inputs. The life insurance industry in India has excellent opportunity to grow with a huge population base and the underinsured market. The emergence of marketing in Indian life insurance industry has witnessed increased market penetration, varied mix of products, innovation in distribution channels, and significant improvement in service infrastructure and growing competitiveness of the market.

Every year, Rs. 6,00,000 crore of household savings being invested in financial assets, of which close to 20% go to insurance. India has emerged as the fifth largest market among the life insurance economies globally. The industry has grown at 25 per cent Compound Annual Growth Rate (CAGR) since the market opened up for private companies in 2000. By 2020 financial year, the Indian insurance market is projected to grow six to eight times the size of market in 2010 financial year.

3. Objective and Methodology

The main objective of the study is to identify and analyse the direct marking practices followed by the Life Insurance Corporation of India (LIC), a public sector giant.

The study relied upon the data collected from secondary sources. The Annual Reports of LIC and the Annual Reports of the Insurance Regulatory and Development Authority (IRDA) constitute the major sources of secondary data. Other sources of secondary data include *Insurance Chronicle* journal published by ICFAI University, *Insurance Times*, e-resources, reports from the Insurance Institute of India, LIC house magazines, other magazines and newspapers. In addition, data relating to the concerned insurance companies were collected by visiting their offices and by personally interacting with the managers and agents in Mizoram.

4. Results and Discussion

Direct marketing channels or zero level channels consist of a company selling directly to the final customers.

Tapping Individual Customers

In the financial year 2009-10, the LIC took a new initiative of Direct Marketing. This was started with an objective of "Creating new systems for business generation, sales process monitoring and business processing with a view to reach out to untapped markets and provide improved buying experience to customers." In a short span of eight months, the channel has expanded and has presence at 21 centers with 542 professionally trained Direct Sales Executives (DSEs) to provide financial advice to prospective customers. A state of art Lead Management System has been established to provide easy access to prospective customers to reach out to LIC to buy a policy. Such leads captured through LIC website www.licindia.in are passed on to well-trained DSEs on real time basis who can contact the customer instantly. This channel procured a new business of Rs. 25.55 crore under 8887 policies giving average FPI per policy as Rs. 28,759 (LIC Annual Report 2008-09).

Direct Selling, a Dominant Mode in Group Business

In case of LIC, direct selling continues to be the dominant channel of distribution for Group business. LIC sold 100% of Group business in 2006-07; 89.22% in 2007-08; 86.02% in 2008-09; and 91.15% in 2009-10 without depending on any agent or intermediary. Because of complexity in group products, insurers, by and large, prefer to sell them directly. In 2006-07, in case of LIC, the entire Group business was handled by itself. On the other hand, 13.49% of the Group business of private life insurers was handled through corporate agents, 85% of the Group business was handled directly (IRDA Annual Report 2006-07).

In 2009-10, when 13.63% of group new business in case of private sector was done by corporate agents, and it was only 0.37% in case of LIC. In Group business, direct selling accounted for about 90% of total business in 2009-10. LIC has adopted the direct marketing approach to market its Group Insurance Scheme in lieu of Employee Deposit Linked Insurance Scheme, Group Savings Linked Insurance Scheme and Group Superannuation Scheme. As such it has succeeded in keeping the costs ratios under group policies at very low levels (Biswasroy and Rao, 2008). On an average, direct marketing contributed 91.60% of Group business of LIC and 85.13% in the case of private insurers during 2006-07 to 2009-10.

Insurers have implemented facilities to pay premiums through non-conventional channels such as credit cards, ATMs, online payments, standing instructions, etc., in order to provide hassle-free modes of payment of premium. Automated complaints management processes, from lodging of customer complaints and tracking them till redressed, have been put in place by the insurers to handle any delay in the settlement of claims. Toll free numbers and call centres have been put in place for better customer reach.

New Channels and New Markets

An attempt is made to discuss the alternative channels developed in life insurance industry in recent times in India to expand the market size.

Alternate channels

In a fiercely competitive environment, LIC recorded an impressive performance for the financial year 2005-06 by selling 2.95 lakh policies with a Sum Assured of Rs. 2365.47 crores and an amount of Rs. 353 crore as FPI. LIC's activities have been strengthened by tie-up with banks, corporate agents and brokers who were spread across the country. While banks continue to contribute substantially by way of premium income (77% share in FPI), the tie-up with five Regional Rural Banks (RRBs) has given the spurt in sales and the contribution of banks through policies has reached a figure of 55.51% in 2005-06. The five RRBs put together have contributed 16,320 policies with an FPI of Rs. 4.11 crores. LIC's vision is to cultivate and nurture the Alternate Channels as a vibrant, cost-effective and sustainable mode of product distribution and be a significant contributor to the Corporation (LIC Annual Report, 2005-06).

LIC is putting more focus on recruitment of corporate agents and brokers. LIC is tying up with some large national banks on corporate agency as well as referral arrangement model. 1017 financial service executives were introduced to closely liaise with channel partners and to help in procurement of business (LIC Annual Report, 2008-09).

As on 31st March 2009, there were 2506 corporate agents. While 1001 new agents were added during 2008-09, licenses of 910 corporate agents were terminated. As such, there is not much increase in the number of corporate agents over the previous year. Here again, the private insurers did not perform better than the LIC as they together terminated nine times more agents than the LIC. The net addition of corporate agents is only 21 despite its large base. On the other hand, there is a net addition of 70 corporate agents in the case of LIC.

Mallassurance

Mallassurance is a new channel of insurance distribution, which involves selling insurance to shoppers frequenting malls. The emergence of diversified players in the insurance arena has ushered in the evolution of novel nomenclature, from banc assurance to shop assurance to mall assurance; the new players do not leave any stone unturned in spreading the concept of insurance for furthering their business interests. The entry of multinational players into retail segments and raising income levels has heralded the emergence of big malls, which are one-stop-sale points to all households' needs of families. Thus, the insurers are planning to put up their direct outlets in these malls to increase their market shares.

In October 2007, for instance, the Future Group's life and non-life insurance joint ventures with Italian insurer Assicurazioni Generali commenced operations, and began issuing their first policies in November 2007. Future Generali, the insurance joint venture between India's Future Group and Italy's Generali, has made significant gains through their unique Mallassurance channel. The Mallassurance delivery channel enables customers to buy insurance across the counter at over 165 Future Group retail outlets across the country. Future Generali offers 'Total Insurance Solutions' addressing customer needs across both life insurance and general insurance. Today, customers at Big Bazaar and Pantaloon outlets buy insurance like any other product they purchase in-store. This initiative has helped to create and grow awareness about insurance as a product and helping to bring in a new set of customers. It started with just 11 Pantaloon outlets in May 2009 has now expanded to more than 165 stores in 53 cities and the company is focusing on expanding the Mallassurance network to cover more Future Group retail outlets across the country. On July 15, 2008, Future Generali, acquired 100,000 customers in a record time through its Mallassurance initiative, and in December 2010, the insurer announced the launch of its first Unit Linked Insurance Policy (ULIP) called Future Sanjeevani.

Bancassurance

Bancassurance is a combination of banking and insurance business. It involves the selling of insurance products through banks. Bancassurance is suitable for the insurer if it can achieve cost effectiveness, avoid over-dependency on a single bank, increase the level of market penetration, and enhance the service quality of the marketer. The bancassurance distribution channel is currently gaining popularity in India from both insurers and banks.

The enormous trust that the banks command in the minds of public is an important reason that insurance companies seek to enter into wide ranging banking partnerships, as close knowledge of the customers' background helps banks in selling life insurance. Table 1 explains the advantages and disadvantages of Bancassurance as a new channel of distribution in life insurance business.

Table 1

Advantages and Disadvantages of Bancassurance

Bancassurance	
Advantages	**Disadvantages**
1. High credibility (as trustworthy caretakers of money) with the public 2. A ready customer base 3. Low cost channel 4. Extensive reach including the rural pockets	1. Economic viability for the banks to take up as bancassurance is a volume business. 2. Training of people and lack of vision and awareness 3. Useful for selling only certain line of products 4. Requires more investment in systems and processes and people training

Source: Lakshmikutty et al. (ed.) (2003)

Banks in India have savings bank deposit accounts with aggregate balances of Rs. 2,79,000 crore (about $59 billion), and a client base of close to 100 million. The extensive presence of bank branches and the large number of bank customers would mean that India, in some ways as in the case of Japan, is an ideal candidate to take bancassurance forward (Krishnamurthy, 2003).

Table 2 shows the performance and growth rate of bancassurance and alternate channels from 2005-06 to 2009-10. It also shows the contribution of banks, corporate agents and brokers. Bancassurance has become entrenched as a major distribution channel for the life and wealth management industry and it is increasingly being used for non-life insurance. The table shows the highest growth rate during the year 2006-07, with 69.35% of Number of Policies (NOPs) and 87.74% of First Premium Income (FPI).

In Asia, despite the disparities in rules and regulations for the different markets, the use of bancassurance around the region remains robust; and despite the global financial crisis, the lure of bancassurance has not waned.

In fact, it has brought bancassurance once again into the spotlight with banks now more actively again looking at alternative strategies and opportunities to diversify risk and earn fee income out of insurance cross-selling (Asia Insurance Review, 2010).

Table 2

Performance of bancassurance and alternate channels from 2005-06 to 2009-10

Year	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**Average**
NOPs	295,000	499,241	755,451	862,333	753,654	633115.80
FPI (Rs.)	353	662.85	806.41	1076.59	1132.92	806.35
Growth Rate per cent						
NOPs	0.93	69.35	51.32	14.15	---	---
FPI (Rs.)	1.95	87.74	21.66	33.50	5.23	---
Share of total business of banks and Alternate Channel per cent						
NOPs	---	---	2.01	2.40	1.94	---
FPI (Rs.)	---	---	1.84	3.05	1.84	---
Contributions of Banks to the total Alternate Channel per cent						
NOPs	55.51	59.05	62.54	67.29	64.9	61.86
FPI (Rs.)	77	60.41	79.47	63.70	80.82	72.28
Corporate Agents						
NOPs	---	---	245,784	---	253,371	---
FPI (Rs.)	---	---	142.56 cr.	---	174.17	---
Brokers per cent						
NOPs	---	---	4.93	3.51	1.47	---
FPI (Rs.)	---	---	2.85	17.81	3.81	---

Source: Compiled from *LIC Annual Reports* (49th, 50th, 51st, 52nd and 53rd)

NOPs = Number of Policies; FPI= First Premium Income; cr.= Rs. in crore

With regard to alternative distribution channels the following three predictions are made by IDC Financial Insights Asia/Pacific (2010).

a. Alternative distribution channels would get further enhanced and business innovation via alternative channels such bancassurance, web portal, self-service kiosks, mobile devices, and other direct marketing models will reduce reliance on the traditional agency network. It should bring new efficiencies to the distribution framework and cater to divergent buying preferences of policyholders. Insurers need to leverage off these various channel capabilities, but be able to present customers with a cohesive channel message and branding regardless of the mode of interaction selected.

b. Managing the agency distribution network would become a critical competency in future. Insurers must augment products and services offered to independent agents and brokers to enhance their productivity and allegiance. To do so, insurers need to equip distributors with easy-to-use tools and technologies; provide them with self-service marketing applications and access to product specialists and product information; and, incentivise with clear performance metrics.

c. Data integration and management would shift to high gear: Insurers need to synchronise valuable but disparate customer information files via data integration and warehousing to create a "single version of truth." Here, they are expected to make strategic investments around mining, standardising, and transforming of data into valuable information. Such improvements to data quality would provide greater confidence in business process controls, improve planning and management decisions, and helps mitigate enterprise risk (IDC Financial Insights Asia/Pacific, 2010**).**

Economists at Swiss Reinsurance predicted the increased tendency of mergers and acquisitions (M&A) within the insurance industry. The Asia-Pacific region is reliably forecast to be the focus of activity outpacing the global economy, which is expected to expand in the years to come. Swiss Re's predictions highlighted the continued strength of emerging markets in Asia, with growth significantly exceeding levels in mature markets. This follows the pattern of insurance business activity in 2010 when the premiums from life and non-life insurance in emerging Asian economies grew by 16.8% and 17.3% respectively, with the most significant contribution being generated by China.

LIC has partnership with several banks across the country. Its banking partners are Corporation Bank, Oriental Bank of Commerce, Nedungadi Bank, Central Bank of India, Indian Overseas Bank, Bank of Punjab, Vijaya Bank, Centurion Bank, The City Union Bank Ltd., and Repco Bank. Natural synergies exist between the banks and insurance companies. With the expansion plans of banks into rural areas, insurance products have a chance of being sold there (Sinha 2004).

Targeting Ultra Premium Prospects

The growth in High-Net-Worth-Individuals (HNWIs) and Ultra-High-Net-Worth-Individuals (UHNWIs) has resulted in creation of more demand for luxury and super luxury products and services across the world. The HNWIs and UHNWIs will require hundreds of products and services, which are beyond the reach of economically backward families. As per a survey conducted by National Institute of Design (NID), Ahmedabad in 2004, there were 1,40,000 HNWIs families in India and thus the number is poised to increase to 4,00,000 more HNWIs in the next five years (Kukreti, Bhishma 2006).

6. Conclusion

With the introduction of new channels and the advancement of IT, customers started opting for self-service such as online payment or knowing about a new product on the Internet. Hence, many service products are now being designed with a gradual reduction in the involvement of front office people in delivering the services. However, in a country like India especially in case of financial services like life insurance, the companies find it difficult to influence the customers to switchover from personalized service to self-service. In case the market leader LIC wants to drive its customers to the new service delivery system, it may need to educate its customers about the benefits of using the new system. Increasing Internet penetration and availability of Internet services across the country drive the role of online sales and post-sale services in the insurance sector. While direct marketing channels reduce the distribution costs, certain intricate aspects like security/privacy of information provided and reliability of information furnished are to be dealt with efficiently by insurers. In the words of Dinnelly et al (1985), customers may be nameless and part of the large segments; clients are served on individual basis by the professional assigned to them. Therefore, LIC must try to convert its policyholders as clients in order to gain competitive advantage.

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