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Multi-agency is more expensive and complex to operate

Paving the way for open architecture in insurance distribution, the insurance regulator issued draft guidelines on corporate agents last month. These are entities, such as banks, that solicit policies on behalf of the insurer. The draft allows corporate agents to tie-up with up to three insurers from the same line of business (it was one earlier). While this is good news for insurers that aren't promoted by banks, the ones that are backed by banks won't have monopoly anymore. John Holden, chief executive officer, Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd, says open architecture may not increase insurance penetration but may increase the scope of mis-selling.

JOHN HOLDEN
Chief executive officer, Canara HSBC Oriental Bank of Commerce Life Insurance Co. Ltd

Traditionally, agents have been the bedrock of insurance distribution. So why doesn't your company have an agency channel?

We are promoted by three banks (Canara Bank, HSBC and Oriental Bank of Commerce), so we have a huge network in place. Bancassurance is a very cost-efficient channel of distribution—the infrastructure is already there with banks. Also, we belong to the same group so it's in the interest of the banks to look after our interest. Selling through partner banks is like selling online because we are able to cut out the middleman, the agent. The agents don't have a stake because they don't have to work in the insurer's interest or the customer's.

But banks also mis-sell.

A bank handles not just insurance but a bouquet of products. So if it mis-sells one product, other products suffer as a result. In fact, mis-selling is the least in bancassurance, followed by the agency channel and then insurance brokers. Brokers have multiple insurance policies and are willing to sell policies of those insurers that agree to pay more. Brokers have a higher bargaining capacity in that sense. The fact that brokers have a fiduciary responsibility is true, but the ground reality is that mis-selling also happens in the brokerage channel.

The draft guidelines on corporate agents are a step towards open architecture. This means your monopoly over your partner banks will end.

When a bank owns an insurance company the relationship is symbiotic. Mis-selling can happen when the banks are mere distributors and have no stake in the insurer. Insurers are tying up with many banks as corporate agents because bancassurance has become cost effective. We need the banks but the banks don't really need us. So, what actually happens is that banks tie up with an insurer that promises a higher incentive. Open architecture will further increase banks' bargaining power. At the same time, they will not have allegiance to any one insurer. That's laying grounds for mis-selling since banks are willing to tie up with who pays more.

South Korea, where I worked from 2008 to 2010, has multiple-corporate agency model. Often, sales got allocated to the company that was offering the month's "hot product". Low margins occur when there are lower sales and higher costs. In Korea, banks have to build systems to handle multiple insurers and the insurers have to double the field managers to support multiple banks. This increased the cost for both, leading to low margins. Eventually, this is money that doesn't go to customers in the form of better value products.

How will the draft guidelines affect your distribution strategy?

Clearly, this will have an effect on our company's distribution strategy. The obvious conclusion is that we will not be able to leverage the economies of scale by focusing on only our shareholder banks. Their resources will be split across several insurers, increasing complexity without adding customer revenue. We have the opportunity to pitch for other banks, but that means investing in additional personnel to support an uncertain income stream.

My take is that the current model already gives customers plenty of choice, and provides economies of simplicity and scale. A multiple corporate agency won't grow the market as it won't change the customer's need for insurance, or the amount of money the customer can afford for premiums, but it will increase the sales complexity.

There is a new distribution channel, insurance marketing firm, which can sell policies of two insurers. Will this help insurance penetration?

The fundamental question is whether the insurance penetration problem is solved by increasing the supply side, or the demand side, or by increasing competition between participants. Is there a situation where people are saying that they need insurance but cannot get access (insufficient supply)? Or is the problem that the insurers cannot find enough customers with the need and means to pay the premium (insufficient demand)? The need of the hour is to create demand by providing easily affordable, value-for-money products that meet customer needs. To do this, through whatever channel, the costs need to be kept low and the processes need to be simplified. This way more premium goes to work for the customer. Multi-agency is more expensive and more complex to operate for both the insurer and the distributor. They should be allowed to choose their operating model to create the maximum penetration and long-term sustainable business, as the market develops and matures.

To read the full interview, go to www.livemint.com/holden

Deepti Bhaskaran
deepti.bh@livemint.com

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