

Journal



Reaching Out

... Far and Wide



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The Broking Profession

- Road Ahead and Challenges

Radhakrishna C. opines 'It is commonly believed that de-tariffing will be a blessing for Brokers and the market will become "broker-dominated" overnight'. He hastens to add 'it is naïve to assume that this will happen almost magically and overnight'.

The role of a broker in the growth of the Indian Insurance industry has been a subject of debate among stakeholders ever since the first licence was issued by IRDA almost 4 years ago. 'Our position dictates our view' - therefore, there are various view points ranging from 'brokers are indispensable' to 'brokers add no value and are nothing but a hindrance' depending on who you are talking to.

The truth, as usual, lies somewhere between these two extreme statements. Unlike the developed western markets, Brokers in India have neither proved themselves indispensable to their customers (and/or insurers) nor have they been a total hindrance (as some would have you believe). Among broking circles, it is often discussed (in a tone of awe and some envy) that, in countries like the United States of America, when a client approaches an insurer directly (rarely), he is invariably directed to a broker first. While this surely sounds like a win-win-win scenario for the client, the insurer and the broker, we in India are quite a distance away from such a scenario.

The market is still evolving: while the share of brokered business has certainly gone up substantially since 2003, clients

have yet to accept a broker as readily as they would, perhaps, an internal auditor and insurers still prefer to deal direct for various reasons.

What then does the immediate future hold for the Broking industry? Will de-tariffing prove to be the magic mantra for broking as it is held out to be?

INDIAN BROKING INDUSTRY - SOME STATISTICS

Among broking circles, it is often discussed (in a tone of awe and some envy) that, in countries like the United States of America, when a client approaches an insurer directly (rarely), he is invariably directed to a broker first.

Before we proceed further, it may be of help to capture some statistics at this point.

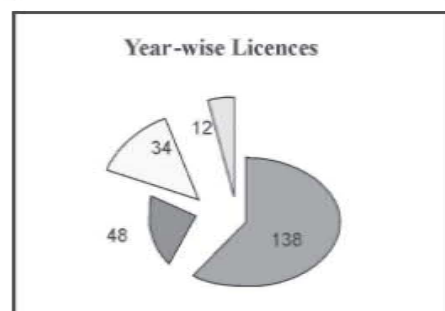
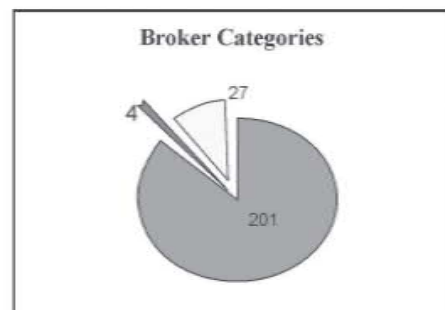
- There are a total of 232 licensed brokers operating in the market today
- This number breaks out into:
 - ♦ Direct Brokers - **201**
 - ♦ Composite - **27**
 - ♦ Re-insurance - **4**

- Significantly, the year-wise number of licences issued by IRDA has been dropping steadily as can be observed from the statistics given below.

♦ 2003	-	138
♦ 2004	-	48
♦ 2005	-	34
♦ 2006 (till date)	-	12

This could be an indication of the fact that:

- a) the market has stabilized to some extent and
 - b) IRDA is getting more stringent on licensing norms.
- Unlike other markets where Brokers focus on Commercial / Institutional



business - leaving the retail (including life) market to agents, a large number of Indian brokers have ventured into the retail space - perhaps to exploit the burgeoning market and/ or due to the restricted size of the "tariff-driven" commercial market.

DE-TARIFFING

It is commonly believed that de-tariffing will be a blessing for Brokers and the market will become "broker-dominated" overnight. With the opening up of Pricing and eventually Forms (i.e. wordings) to market competition, the wider choice created for the customer, coupled with his lack of specialized market knowledge and time, would mean more dependence on a trusted and knowledgeable partner to help him navigate the choppy waters.

But it is naïve to assume that this will happen almost magically and overnight.

There are several challenges which lie ahead for the industry to overcome - the biggest among them being absence of trained manpower and inability to attract the best of talent from other industries.

THE MANPOWER CHALLENGE

Unlike boutique services like consultancy or agency businesses, broking works best when it is scaled up across locations and across a wide range of clients and industries. The cross-pollination that occurs is beneficial to the entire process of risk management, coverage enhancements, price-negotiation and claims handling for the client.

The immediate implications of scaling up any business model are:

- Need for a larger team
- Need for the owner-manager to delegate some of his functions to his team
- Loss of the personal touch normally maintained by owner-managers with clients

The broking industry's biggest challenge is to manage this scaling up challenge and grow their businesses without compromising on professional service standards as laid down by IRDA and as demanded by clients.

Unlike boutique services like consultancy or agency businesses, broking works best when it is scaled up across locations and across a wide range of clients and industries.

This is especially so in a market where supply of trained manpower is scarce and a career in broking is not considered the best of career options by the crème de la crème. A dipstick survey of all broker-teams across the country reveals the following:

- there are only a handful of Chartered Accountants and IIT/ IIMs in this industry even today
- only a handful of brokers participate in the campus recruitment exercises of the premier management institutes - and that too only in the 2nd rung institutes like ICFAI, NMIMS, Amity etc.

The broking business is an interesting mix of 'sales' and 'consultancy'. A broker is both an intermediary working for a commission and a professional consultant giving technical advice (like a doctor or lawyer); and seeking professional indemnity protection. As such, what we need is a mix of soft skills (marketing / relationship building / negotiating/ deal closing) and technical (read: insurance product knowledge). It is highly unlikely that a big-ticket corporate customer will feel comfortable handing over his Rs.200 Lac insurance portfolio to a person lacking in any of these departments (eg: a marketing whiz kid who thinks a CAR - Contractor's All Risks - policy can be used to cover the CFO's 4-wheeler OR a technical genius who refuses to accept that even a claim repudiation can be done without hurting egos).

While the entire industry is convinced that the Broker's role will be dramatically different post-April 2008, there seems to be an ostrich-like tendency to ignore the fact that none of these brilliant results can be achieved without an abundance of fully trained and competent set of people. Deeper penetration of insurance usage; understanding of the client's risk profile, designing an appropriate product and coverage for him; guiding the client on loss control measures, adding value and making comprehensive underwriting submissions to insurers (thereby reducing their work load); and skillfully handling large and complex claims - all these require a certain set of skills. Ignoring this need can only lead to short



term measures to gain market share (including unethical practices).

SOME IDEAS

The general insurance industry has still not woken up to the fact that all its constituents need to work together for the growth of this fledgling industry. We have outstanding examples of at least two industries which grew at an exponential rate by adopting a collaborative rather than confrontationist approach - **the mutual fund industry** (during late-nineties) and the **private life insurance industry** (recently). We would be better off building the right talent pools and the knowledge resources rather than cribbing about each other's deficiencies and practices.

- For starters, the industry can form a loose association covering all its organized constituents - insurers, brokers, TPAs, corporate agents and banks. This would be in addition to their specific associations - primarily for advancement of knowledge and skills sets.
- IRDA and NIA (National Insurance Academy) should take the lead and

work with insurers and leading brokers to design courses and training inputs for specific product lines and specific needs of all its constituents.

- They should work with colleges offering Insurance courses and assist in preparing practical and user-friendly syllabi.
- They should encourage more colleges across the country to start courses in insurance
- The 100-hour training agenda (which is a one-time intervention and not sufficient to meet ongoing training needs)
 - ♦ Should be made more accessible - currently it is available only in Mumbai, Delhi and Chennai.
 - ♦ Should be supplemented by several more short-term courses of 2-3 day duration on specialized topics
- NIA could consider setting up satellite Academies in other cities - co-sponsored by all the General Insurers and perhaps the Insurance Brokers Association of India. These

Academies would conduct training programmes both full-time and part-time so that talent from outside the industry could be brought in and trained.

Frankly, building a responsible, competent and versatile talent pool across all levels and segments of the industry is definitely as important, if not more, than worrying about where brokerage rates would stabilize after Jan 1, 2007.

After all, as SEBI maintained during its recent 'disgorgement' order on Depository Participants (November 22, 2006) - the intermediary has a more responsible role to play in the efficient functioning of markets than any other player.



The author is Director, India Insure Risk Management Services P Ltd. The views expressed in this article are the author's personal views.

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