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Intermediary: The Vital Link

बीमा विनियामक और विकास प्राधिकरण

Statistics - Life Insurance	4
Vantage Point <i>U. Jawaharlal</i>	6
बीमा विनियामक और विकास प्राधिकरण अधिनियम: 1999	40
प्राकृतिक संकट तथा आप का घर विशेषतः भूकंप के संदर्भ में <i>सुनीता भाटि</i>	44
Statistics - Non-Life Insurance	46
Round up	47

Relevance of Distribution Channels <i>- N.M. Govardhan</i>	7
Need for Intermediation <i>- P.C.James</i>	11
On the Steady Path of Progress <i>- VG Dhanasekaran</i>	16
What Has Been and What Will Be? <i>- V Sithapathy</i>	21
Bancassurance in India <i>- Anand Pejawar</i>	23
Role of the Intermediaries in Insurance <i>- S.K. Sethi</i>	29

THINKING CAP

32 Prognosis Bright <i>- G. Prabhakara</i>
35 Emerging Risks <i>- Sanjib Chaudhuri</i>

On the Steady Path of Progress

INSURANCE BROKERS

VG DHANASEKARAN OBSERVES THAT THE INSTITUTION OF BROKERS HAS MADE A LOT OF POSITIVE DIFFERENCE TO INSURANCE BUSINESS IN INDIA, AND IS GROWING STRONGER BY THE DAY.

It has been more than five years now since insurance brokers have become a part of the fabric of the Indian insurance market. The first set of broking licenses were issued in January 2003 and expectations were naturally high as stakeholders in the industry anticipated a paradigm shift in the way Insurance was being bought and sold. In a country used to dealing with the ubiquitous “agent” (who by definition is an agent of and represented the insurer’s interests), here was a sophisticated, knowledgeable alternative - a person who worked on behalf of his clients.

As we look back at these five years, we need to do an assessment on what

progress brokers have made. Have they been able to fulfill the expectations of insurers, clients and the regulator? Where do we go from here and how do we ensure a healthy growth? This article attempts to do a sort of reality check on how the role of the insurance broker has evolved in these years.

Indian Broking Industry - Some quick statistics

Growth in numbers

If we look at the statistics pertaining to the growth of insurance brokers in India, we find that as against forty brokers as on 31st March, 2003 (when the broking industry was born), we now have 263 insurance brokers (as on August, 2008). In a little over five years, the number of insurance brokers has increased manifold. And, the party is still on with more and more adding to the numbers.

How it started: Forty insurance brokers as on 31st March 2003

- Direct Brokers: 24
- Composite Brokers: 12
- Reinsurance brokers: 4

Where it is now: 263 insurance brokers as on 4th August 2008

- Direct Brokers: 225
- Composite Brokers: 32
- Reinsurance brokers: 6

The number of new licenses issued by IRDA was 26 in 2005, declined to 22 in 2006, slightly improved to 27 in 2007 and is at 10 as of August, 2008.

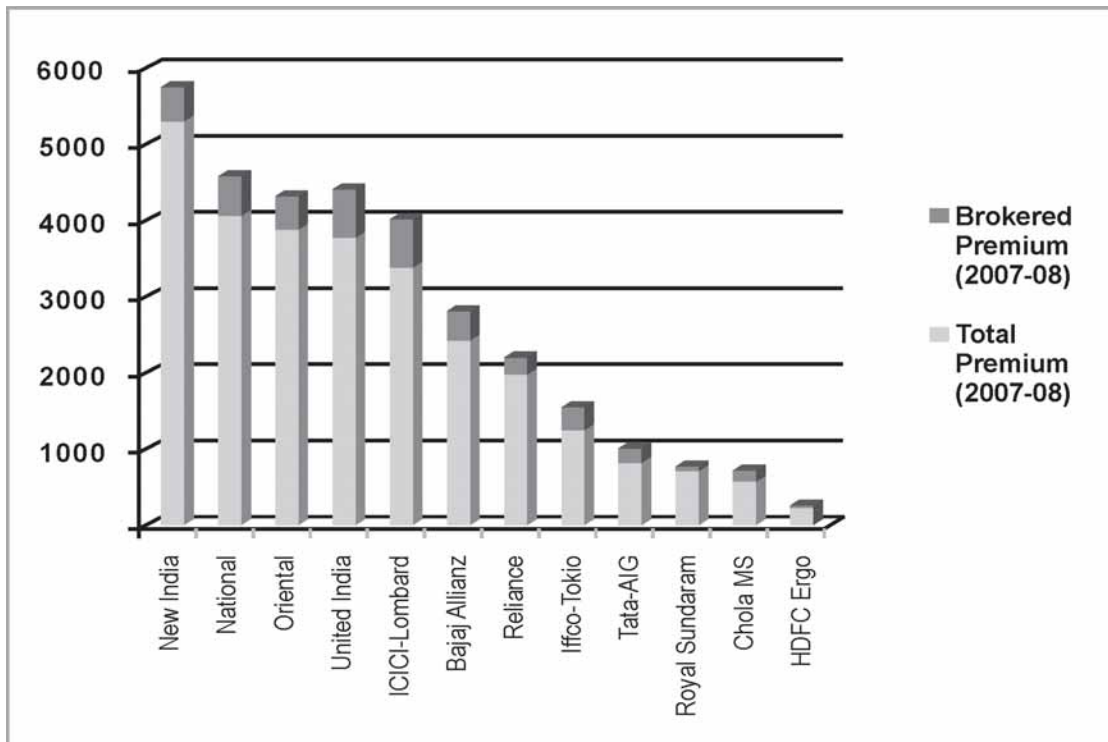
Another trend witnessed in India is the tilt that brokers have towards retail lines insurance. Worldwide, brokers concentrate more on large and medium sized commercial business while retail is left to the agents but in India it is not so. One reason could be the large uninsured retail market and its growing consumer class. Personal lines products often drive a developing economy’s initial growth in insurance penetration and India may be no exception to that.

Business Volumes

The most significant measure of any industry’s growth and presence is the volume of business it has done. For insurance broking, we could look at aggregate premium placed or brokerage as a benchmark.

On an aggregate non-life market premium of approx Rs.29000 crores in FY07-08 (excluding Agriculture Insurance Co.), brokers have been instrumental in placing business of around 4100 crores i.e. around 15% of total business. On the other hand, the brokers’ commission has increased from Rs.125 crs in FY 04-05 to approximately Rs.420 crs (official figures

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insurance marketplace, albeit with perhaps greater oversight and involvement than in the past.

We conducted a survey in June 2008 on the “Role of an insurance broker and the perception of their services”. The survey participants were a mix of corporate clients, insurers, TPA’s, insurance surveyors and others who are involved in the insurance industry. The survey results offer insights on brokers and their role in this ever-changing insurance environment.

are awaited) in FY 07-08. Definitely not a small achievement in 5 years!

The growth in numbers and business volumes indicate that insurance broking in India is slowly becoming a force to reckon with. It has been slow, but we must admit it has been rather steady and there have been no major surprises or upsets so far.

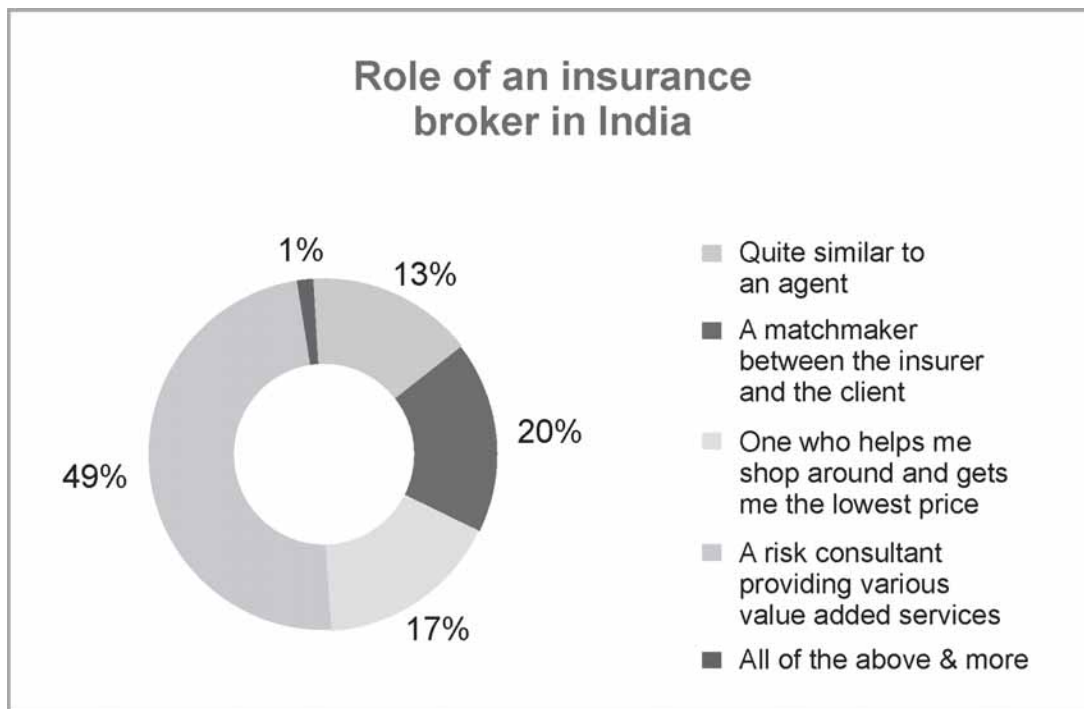
Evolution of the role of an insurance broker

When we run down the memory lane, we remember those days when a broker was considered a glorified postman delivering policies and endorsements from the insurer to the customer. As time passed, brokers realized that they needed to exceed the expectations of their customers to remain in business. Some caught on to

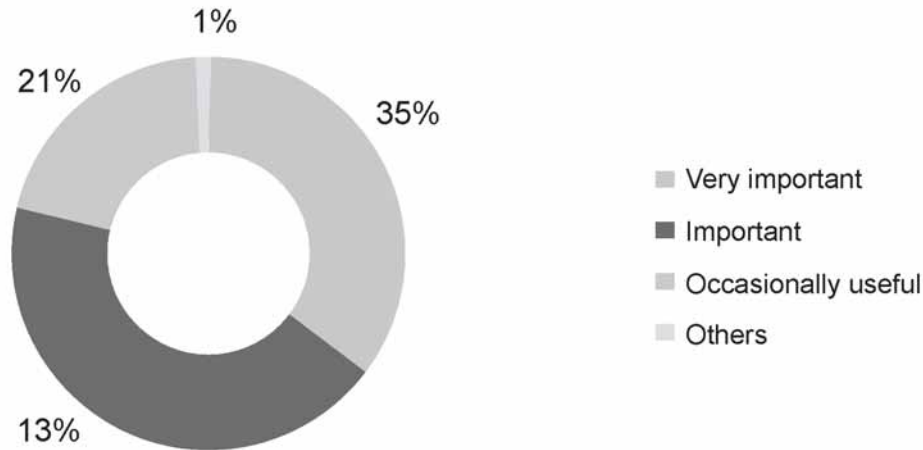
it and have become indispensable to their clientele. Large insurance buyers have also begun to rely on the qualified professionals in insurance brokerage houses to represent their interests in the

Main Findings of the Survey

- What is your perception on the role of an insurance broker in India?
A majority of the participants (49%) feel



Importance of insurance brokers in today's market



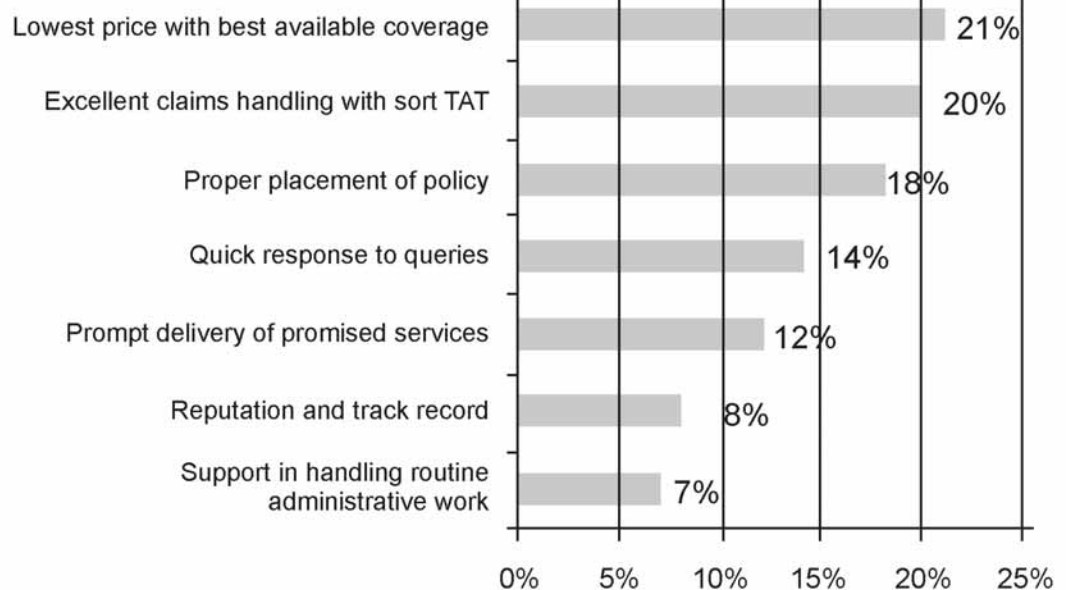
43% of the survey participants consider insurance brokers to be **important** in today's market while 35% view them as **very important**. Brokers have become important in today's market because their clients are benefitting from their clear and unbiased advice, which may otherwise be hard to come by. They feel brokers reduce the time, mind space and search costs incurred by insurance buyers when they have to look at multiple insurers for placement of the policy.

It is also observed that larger companies having insurance portfolio greater than 25 lakhs consider the role of a broker as very important. This may reflect both the complexity of larger firms and their awareness of the benefits of using a broker. Although the awareness of the concept of a broker has been increasing, different people

that *the role of an insurance broker has evolved from being that of a matchmaker between the insurer and the client to a risk consultant providing various value-added services*. These services include loss control, claims management, contract reviews, safety program recommendations and other risk management services that go beyond the structuring and placement of insurance cover. Initially, when the concept of insurance broking was introduced in the market by IRDA, most of the people considered the role of a broker very similar to that of an insurance agent. Over a period of time, their views have changed and this

evolution is in tandem with the changing risk landscape.

- How do you rate the importance of insurance brokers in today's market?



Future prospects of brokers in the Indian Market



sweeping India is coming as manna from heaven for the insurance broking community. The results of the survey reaffirm the fact that brokers are making a difference to their customers' businesses daily by anticipating trends, understanding the risks, offering choice, structuring their insurance program, extending the cover, solving problems, and management of claims; and reducing cost for a majority of commercial and retail customers who trust their brokers for expert advice and unbiased opinion.

The Road Ahead

From the matching and placing of insurance risks for their clients with insurers and reinsurers in the past, brokers

and different organizations can have a significantly different understanding of it.

- Parameters critical for deciding an insurance broker?

Lowest price with best available coverage, excellent claims handling with short turn around time (TAT) and proper placement of policy are the three aspects that were valued highly by the participants. Lowest price with best available coverage was valued most, with 21% votes for this, while excellent claims handling with short turn around time (TAT) occupied the second spot with 20% (missing the top slot by a narrow margin), proper placement of policy occupied the third slot with 18% voting for it.

- Future prospects of brokers in the Indian market?

It appears that all parties view the

future prospects of brokers as good and critical to the insurance business in India. 43% of respondents feel that they have 'very bright' prospects while 54% feel that they have 'good' future prospects. The insurance boom

There is likely to be a trend of acquisition of small brokers by the larger ones and in the end; only those brokers who learn the new rules of the game will survive.

have moved up the value chain to provide added services to remain competitive and relevant.

- They still need to keep up the learning curve - not only in understanding the developments within their clients' areas of activities but also the gamut of new potential exposures and risks their clients face. Only then, can they provide value-adding risk management and insurance advice.
- Across the globe, multinational corporations are facing an unparalleled spectrum of interrelated risks, such that the need for advice, analysis and problem solving is greater than at any time in recent history. Brokers must regularly and effectively communicate new and emerging trends and their impact to clients.
- Brokers need to recognize that their job is not to focus solely on risk transfer mechanisms through insurance but also

There is likely to be a trend of acquisition of small brokers by the larger ones and in the end; only those brokers who learn the new rules of the game will survive.

to concentrate on managing the total cost of risk. All actions taken in creating the insurance program, and managing losses and related costs, should support the reduction of the total cost of risk. Risk management is much more than loss control on insurable risks. Rather, it extends into all aspects of the organization.

- The advent of detariffing will slowly bring brokers to the forefront, as it will enable them to demonstrate their value in 'shopping around' for the best deal. With the insurance market ready to get

flooded with multiple products having various coverages and exclusions, customers will have to look at brokers to help them wade through.

- The need for training and professionalism of brokers is greater in the detariffed era as they need to help customers sift through the maze of policies. But brokers have shot themselves in the foot—trying to get short-term savings, they have cut training and education. The absence of technical knowledge is proving to be a big hurdle in the orderly growth of the broking industry. The insurance talent pool is fast shrinking; and all the stakeholders together need to do something before it becomes a full-blown crisis.
- Increased competition in the broking space will add to the pressure as brokers struggle to maintain profitability. There is likely to be a trend of acquisition of small brokers by the larger ones and in the end; only those brokers who learn the new rules of the game will survive.

Conclusion

In every industry, there are islands of excellence and large numbers of mediocre players - and insurance broking is no exception to that. The broking community still has a long way to go in meeting the needs of customers. While detariffication is changing the dynamics of the broking community, it is likely to take significant time and resources to

ensure that clients understand the full benefits brokers can bring to them. The key is to be aware of international trends, remain service oriented, flexible and sensitive to the challenges facing customers. Brokers need to exceed expectations and create surprises. After all, in business... what distinguishes leaders from laggards, and greatness from mediocrity, is the ability to uniquely imagine what could be.

Disclaimer: While we have made every attempt to ensure that the survey results are accurate, India Insure accepts no responsibility for any errors or omissions or for the results obtained from the use of this information. The survey results are provided solely for informational purposes and are not to be construed as providing advice, recommendations, endorsements, representations or warranties of any kind whatsoever.

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