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Banks may solve insurance puzzle

CONSUMER VOICE

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We welcome your comments at **mintmoney@livemint.com**

Some analysts say it's I who first introduced bancassurance in India. I don't know if it's an accolade or an accusation. Yes, I sold the first policy through a bank in India way back in 2001; now that's somewhat clumsily called bancassurance. We may not find this word in common parlance yet, but then this is typical of the insurance business, where terms are used more from the manufacturers' viewpoint than the customers'. Take death benefit for example. I guess death can't be a benefit to the bereaved family, unless it's premeditated. But for a life insurance company, every claim paid is a death benefit, an accelerated death benefit, a maturity benefit or survival benefit and so on. A customer wants simple language, clear benefits and an easy way of doing business. But we hurl at them business models and policy conditions that are primitive if not preventive. Bancassurance comes as a waft of fresh air.

Your friendly neighbourhood agent may be good. But it would be great if your personal banker manages your entire individual financial life cycle, assesses your insurance needs and offers the right solution. This is the premise of bancassurance—that the customers would be confident and find it convenient to get a value-added service from their banks. Banks can bundle insurance with other personal financial services and give a single reference point for customers' financial security.

The premise is great but the practice is not. Apart from the fact that they have to attend to a perennial flow of transactional banking, retail banks do not have the systems, skills or inclination to understand a complex product like life insurance. They hardly take time to sit with customers, discuss their financial goals and suggest a suitable solution. Even savvy banks with ultra modern offices staffed with wealth managers in smart business suits do not find it easy or essential to decode the maze of insurance policy conditions to provide the right advice. It's easier to ask the insurance companies to send their own staff to meet banks' customers, sell them insurance, but pay the banks full commissions. The tied agency agreements that they had with insurers helped them demand manpower, marketing and other promotional support over and above the lucrative commissions.

Enter the reform in insurance regulations. Wave after wave amendments came along that were desirable but left insurers gasping for breath. First, the customer charges were reduced, then the fat incentives paid to the banks, and then the fanciful features, charges and conditions to streamline product design. The direction of the reforms was good and was in the overall long-term interest of both the customer and the industry.

Distribution reform: The third wave

There is a maxim that insurance is never bought but sold. If a product is needlessly complex, benefits are not clear, charges are high and selling process is pushy, customers intuitively ignore it. Rather than hunting for the averse customers through an incentive-centred sales force, the industry should pause and understand why customers do not care for this most critical component in their family financial plan. To see things from the customer's point of view, the industry will have to move away from its habitual mindset.

Simplicity, fair price, efficient service and a delightfully different pitch would bring vigour into this ageing business of life insurance. Critical to this strategy is to change the sequence of priorities—from distributor to customer. Banks can fill this gap well. Till now, insurance brokers who are supposed to take the customer's side never managed it well, at least in retail sales. Either they had little opportunity, skills or financial incentives to do an honest sale based on clear insight. Large insurance broking houses in the retail life space consequently worked more as corporate agents and pushed the product of the insurer that offered the best deal at a particular point of time. No one, not even the web aggregators, looked seriously at customers' interests. Apparently price comparing Web portals either got carried away by the side revenue of sponsored advertisements or naively focused on premium rates without realizing that premium is not the price and price is not the benchmark on which a family's financial security depends.

As customer interests were side stepped, a secular decline in business revenues of many companies took place, till the third wave of reforms hit the shore.

Potentially the strongest wave of reform is happening in the distribution space: to create a fair and cost efficient access to insurance products. Banks have a wonderful opportunity to step into the vacant space of true advisory and become insurance brokers in spirit and deed. Look at mutual funds when they were first distributed by banks. The initial customer charges were as high as 7% for open-ended funds. The disclosures were minimal and each fund operated in its own closed circuit. Other than the offer document, investors had little information on the funds' future strategies and benchmarked performance. UTI, the country's largest mutual fund at one point, essentially sold through thousands of agents and representatives. While mutual fund regulations were evolving, banks entered the distribution space and the transparency improved. It's a different matter that institutional distributors reduced the role of individual agents and fund houses tried to attract them with higher payouts till regulators intervened. Thankfully insurance broking has checks and penalties in place upfront.

A potent combination

Banks have a natural advantage over insurance brokers in taking the customer's side. They are well regulated, have process rigour and governance structures. But when the Reserve Bank of India announced the draft guidelines permitting banks to go open from a tied environment, why has the response been muted?

There is no proven data that from a mere revenue point of view, a genuinely neutral broker would earn more than a tied agent for the same volume of business. Neither is there data to validate that volume of sales would increase if banks go multi-tier as brokers. Apparently, the stringent compliance rules, lack of product specific incentives and multi-product training needs may affect bank staff's focus and productivity in insurance sales. But that is a short-term view. In the long run, when banks pay performance-based incentives and performance is equated to customer delight, they would be sure winners. Systems integration, simplified product pitch, bundling insurance into an integrated financial solution, service through multiple touch points of Internet, mobile and automated teller machine banking is something that only banks can do. They can offer access, convenience and exceptional value addition. Add right advisory capability to this and insurers as well as customers can truly bank on this life-saving reform. Perhaps, when one day I move away from this industry, I can entertain a thought or two that I was a crusader and not an accused.

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