Distribution Mix Paradox of Private Bank Originated Life Insurance Entities in India: The Intriguing Case of ICICI Prudential and HDFC Life

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ABSTRACT
Life Insurance distribution globally is in a transitory phase and India is no exception. A clutch of factors like regulations, inroads made by technology in the set-up, newer interventions etc. have meant that the distribution landscape is still coming to terms as far as a settled system is concerned. Dynamic as it was understood to be, nevertheless the distribution has seen a paradigm shift over the years. As a microcosm of the bigger life insurance scenario, the distribution is evolving so to say, and to figure out the best workable model in distribution is a big challenge. What makes it all the more intriguing in India, are the company ownership structures especially those involving banks as promoters of a life insurance firm. This study is an earnest attempt on part of the authors to bring to the fore, a never before highlighted conundrum, that of private bank originated life insurance firms having considerably different distribution set-ups. To that end, the study analyses the distribution mixes of two private bank originated firms – HDFC Standard Life and ICICI Prudential and explain the aforesaid paradox. The distribution trends of the above companies for the last five years have been taken. We believe that the study has serious potential to shed vital insights in the strategic decision making of companies and provide a food for thought for the practitioners.

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1. Introduction

India, for all the talk of having a flourishing middle class - and the subsequent claims of a market ripe for the taking – is still floundering in a big way as far insurance penetration and density are concerned. A look at these figures (Table 1) present a sorry state of affairs for reflecting an inability of the measures towards enhancing the insurance base and ultimately not bearing fruition. Who, then is to be blamed? As is understood, the penetration and density are an outcome of a host of factors like government support, awareness, outreach and the products. There is no deying the fact that governmental support has picked up in pace post the reforms. The product basket per se, now sports a well-rounded look, both in type as well as in the novelty. The identified segments of the company are being catered to with the product offerings. Of late many more innovative products have come up. Most companies are selling more or less the same type of products. Of course the question could be whether ULIP (Unit Linked Insurance Plan) or Traditional products are better (Srivastava, Tripathi and Kumar, 2012). In the context of the above, a pertinent question arises : if the offerings have indeed increased and if the products are certainly innovative, then why the penetration and density numbers flatter to deceive? Our suspicion is that it is the distribution mechanism -or the lack of it - of the companies which, in turn has led to dismal penetration and density numbers. The reasons are grounded in the fact that why is it that only a few companies have done well inspite of having the best in class products.

The distribution structure of life insurance companies is made up of a plethora of intermediaries like the agents, banks, brokers, corporate agents other than banks, malls, the internet and so on and so forth. With the advent of technology, the above list is seeing innovative additions by the day. Many of the traditional channels like the agency have also undergone a change, thanks to regulations and the incorporation of technology in their set up. What eventually has come up, is a system full of intermediaries, all catering to a humongous market. Therefore, it is baffling that the insurance penetration and density have not lived up to the expectations. A peek into the history of insurance would reveal that insurance used to be confined to the rich and was never an inclusive sort of a phenomenon. Since it is firmly established that life insurance penetration and density are way too low for an untapped market like India’s, it makes reasonable sense to figure out the reasons for distribution mechanisms in not being able to address the gap. While studies such as that of Lakshmikutty and Bhaskar (2005), and Sinha (2013) acknowledge that companies are having multi-distribution set ups, more recent studies (Cognizant report, 2014) stress that the distribution is
an evolving phenomenon; one which has not been consistently mastered by the companies. To that end, the same study (Cognizant report, 2014) forewarns the companies to remain ahead of the curve with regards to the future of distribution. So in such a scenario when companies are grappling with the problem of finding a suitable distribution mix and contributing thus, to the low penetration and density levels, this current study offers a lot of food for thought. Whilst it is commonly understood that distribution is a big phenomenon today in life insurance, the distribution trends even within the same (read private bank originated) type of companies offers a conundrum of sorts. To bring to the fore those intricacies, the current study attempts, in all earnest to highlight that a sound strategic decision making will go a long way in addressing the perennial problem of lack of penetration and density. A look at the status-quo of life insurance distribution would throw up many insights into a phenomenon that is grabbing all the eyeballs as companies slug it out for the larger share of the pie.

The reading of the overall distribution scenario of life insurance in India would make it crystal clear that the main fight for the pie is shared by two channels: Agency and Bancassurance. The two between them account for roughly 80-85% share of the new premium coming in (HDFC Life annual report, 2016). Others like the direct business, brokers and corporate agents are fighting for the remaining 15-20% of the premium. Out of the above 15-20%, the direct business - which interestingly includes the internet as well – has seen a meagre jump of 3% from a 6% contribution five years back (IRDA annual report, 2016 and HDFC Life annual report, 2016). During the last five years, the contribution of the corporate agents has gone down from 9% to 3% (HDFC Life annual report, 2016). According to the same report, brokers have remained static with a 5% contribution in the last five years. One standout feature of this analysis is that while agency numbers have fallen in the last five years from 47% to 36%, there has been a corresponding increase in Bancassurance numbers from 33% to 47% during the same period (IRDA annual report, 2016 and HDFC Life annual report, 2016). But the original point remains, that of the two channels being the flag bearers of the distribution set up in the last five years or more. Another striking feature is that upon closely watching the agency numbers, the fact that LIC contributes heavily to those should not be missed. Around 90% of LIC’s premium comes from the agency channel; it having embraced the multi-distribution set up eons back (Karunanidhi and Banumathi, 2012). Last but not the least; companies are exploring newer channels in addition to the existing ones, thus moving towards a multi-distribution regime. The companies have been very vocal in
admitting to the need of increasing their distribution stable and exploring newer means of reaching out to hordes of people in need of life insurance (HDFC Life and ICICI Prudential Annual Reports, 2016).

Life insurance distribution has assumed utmost significance as far as the strategic decision making of companies is concerned. The spread of technology has made distribution a game-changer in the scheme of things. The companies are eyeing technological initiatives on which they can drive their sales. Technology is playing a double role- that of a facilitator to other channels and also effecting sales through the internet. It is a common sight now to see life insurance policies being sold through the agents / managers by using tablets as also the policies being sold online. Of late many unheard of channels like mall assurance, Insurance Marketing Firm (IMF) have also come up, thus adding to the intrigue of streamlining the distribution mix (cafemutual.com). The landscape has drastically changed in the last ten years and as such distribution is now an important strategic decision companies are pondering about. Summing up all the above, it would only be apt to say that no one size fits all and companies are exploring the best fit combination for the distribution mix. The need of a robust distribution - in first place - as has been highlighted above emanates from the lack of penetration and density.

**Life Insurance Penetration:** In simple terms, life insurance penetration is the calculation of life insurance premium as a percentage of the country's gross domestic product (GDP). India’s position vis-à-vis developed economies and some other Asian nations is highlighted in table 1.

**Life Insurance Density:** In simple terms, it is the life insurance premium per capita. Table 1 shows India’s position with respect to some Asian and other economies.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Life Insurance Penetration (%) 2013</th>
<th>Life Insurance Density (US $) 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDIA</td>
<td>3.1</td>
<td>41.0</td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>5.3</td>
<td>4211.0</td>
</tr>
<tr>
<td>TAIWAN</td>
<td>14.5</td>
<td>3204.0</td>
</tr>
<tr>
<td>HONGKONG</td>
<td>11.7</td>
<td>4445.0</td>
</tr>
<tr>
<td>U.K.</td>
<td>8.8</td>
<td>3474.0</td>
</tr>
<tr>
<td>JAPAN</td>
<td>8.8</td>
<td>3346.0</td>
</tr>
<tr>
<td>USA</td>
<td>3.2</td>
<td>1684.0</td>
</tr>
<tr>
<td>FRANCE</td>
<td>5.7</td>
<td>2391.0</td>
</tr>
<tr>
<td>WORLD</td>
<td>3.5</td>
<td>372.6</td>
</tr>
</tbody>
</table>

Source: IRDA report 2014 (Author’s own compilation)
2. Objectives of Study

The major objective of the paper is to bring to the fore, the marked variations in the distribution mixes of two companies, ICICI Prudential and HDFC Life, which originate from the same source i.e. a private bank, ICICI bank and HDFC bank. The common perception is that private bank originated companies should leverage their banking strength to life insurance and hence churn out bigger numbers through bancassurance. Towards our cause, this study attempts to capture the distribution trends of both the above companies for the last five years and the anomalies therein. On a related note, the plausible role of regulation and technology in directing the distribution strategy of companies has also been tried to get highlighted.

3. Literature Review

While many studies in India (Sinha, 2013; Sharma and Saxena, 2009) and the world (Pozza and Texier, 2014; Kist, 2001) have discussed in greater detail, the distribution strategies, positioning of distribution channels, synergies between multiple channels and the regret of not having some channels for the hinterlands, none of them – more so the Indian studies in Indian context – have delved deeply into the aspect of analyzing the distribution strategies and trends within the same type of companies i.e. companies emanating from the same source e.g. a private bank. In a nutshell, distribution - while being a big phenomenon in the life insurance industry – is an even bigger and least explored phenomenon for the same type of private bank promoted companies. Extant literature provides navigation at best, but does not provide any precedent as far as the above anomalies are concerned. Some of these studies are summarized below for providing insights into distribution.

In his work on exploring the trends in distribution for leading seven private players in India, Sinha (2013) comes up with the revelation that agency continues to be the leading channel, followed closely on heels by bancassurance. He also comes up with the fact that private players are tinkering their distribution mixes by incorporating a structure with a combination of the tried and trusted old channels and newer innovative channels. He also suggests that the private players will have to keep on innovating their distribution set to meet the expected challenges of the future. Lakshmikutty and Sridaran (2005) discuss the status quo of the distribution channels in operation and also take a view on the up and coming avant-garde channels like online, tele-marketing etc. which are impersonal in nature. Sharma and Saxena (2009) have lamented the absence of channels with a focus on hinterlands and suggest that
rural centric channels like dairy cooperatives and panchayats can play a pivotal role in contributing to penetration and density. Agarwal (2004) has noted that bancassurance can emerge as a profitable venture for the bank especially in a scenario when interest rates are falling. A recent study (Cognizant report, 2014) emphasizes the need for companies to remain ahead of the preparation curve as far as the future of distribution is concerned. The said study forewarns the companies to rise up to the fact that in the future an alignment between the customer, company, and channel would be the only way to create a winning proposition. To that end, the study elaborates, the customer, company and channel perspectives to remain ahead of the curve. The report also states that technology, in particular the internet would play a stellar role in the future of distribution, both by facilitating sales and effecting online sales.

4. Research Methodology

For the study, purposive sampling has been used. Two private bank originated companies, ICICI Prudential, a subsidiary of ICICI Bank, India’s leading private bank; and HDFC Life, a subsidiary of HDFC Bank, another leading private sector bank in India have been taken for the purpose. Secondary sources like IRDA website and annual reports of ICICI Prudential and HDFC Life were used to collect requisite data about the existing distribution channels relevant for the study. In order to identify the changing pattern between the two distribution set ups, the percentage contribution from distribution channels was analyzed. The trends in premium terms were observed over a five-year period. The weighted premium has been used to serve the purpose.

**Distribution Trends in the Life Insurance Industry:** Our study in focus, attempts to explicitly bring to the finer nuances as far as the distribution mixes of two private bank originated companies is considered. The subtle and marked changes have been captured through the figures, 1 and 2 as also by the discussions that follow.
The above figure 1 has been compiled by the authors on the basis of information on distribution retrieved from the annual reports of ICICI Prudential Life Insurance. The figure shows the distribution channel composition, in terms of premium (in percentage) of ICICI Prudential and how things have panned out over the years as far as the trends in distribution is concerned. Over the years the premium contributing channels of ICICI Prudential have undergone a marked change. A strategic shift, if one could put it like that, has seen the agency numbers come down while those of bancassurance have gone up over the years.

Figure 2
HDFC Life Insurance Distribution Mix
The above figure 2 has been compiled by the authors basis the information on distribution channel set up as given in the annual reports of HDFC Standard Life Insurance. The figure shows the general composition (in percentage) of various distribution channels over the years. HDFC Life has, like many others moved on to a multi-distribution set up amidst changes galore across the landscape. To that end, the premium contributing channels of HDFC Life have also undergone a significant change in terms of the premium contribution from each channel. Thorough analysis of the trends in distribution as captured in above figure has been dealt in detail in the discussion section of the paper.

5. Discussion

5.1. Intra-Channel Mix Analysis of ICICI Prudential

Figure 1 Clearly reveals that ICICI Prudential has seen a tectonic shift in agency numbers with a big slide of around 45% - a considerably high count- from the significant contribution of 45% in 2011-12. Adding to the intrigue is the fact that these numbers have been sliding year on year. Whilst Bancassurance numbers were bound to be impressive – ICICI Prudential being a bank promoted company – what with a 36% jump in the corresponding period, Agency numbers are a matter of concern. The reasons for the same could be varied – from misselling by agents, to clamp on agents’ commissions especially for ULIP plans in 2010, or the general notion of agency being the costliest of the channels. Confounding the analysis is another major revelation, that of the contribution of corporate agents (other than banks) and brokers, because their contribution rose in the initial two fiscals only to go down in the last two. The reflected net loss was around 33% in the contribution towards total premium. Others, inclusive of the internet (online) along with mallassurance and direct channels have increased their share of the pie by around 24%. The above fact could well be attributed to the strategic decision of ICICI Prudential to leverage technology in their distribution set up and making more sales online. ICICI Prudential annual reports (2015, 2016) explicitly showcase the company as a leader in technology usage to drive sales. All in all, the final picture emerging out of a diminished role of agency, growing presence of bancassurance, the ascendancy of the internet and role of technology have helped ICICI Prudential grow over the years.
5.2. Intra-Channel Mix Analysis of HDFC Life

A look at the figure 2 would reveal that agency numbers have gone down by a whopping 54.8% in the last five years. It is on expected lines as HDFC Life is a bank originated company and with the passage of time, companies have wised up to the cost cutting requirements. The clamp on agents’ commission has also, in retrospect seems to have impacted agency numbers. Bancassurance in the same period has registered a growth of 12.3%. The interesting fact in case of HDFC Life is that it has always been a company that drives sales at the back of a robust banking system of HDFC bank. No wonder then that the premium contribution has remained in the high 60-70% bracket in the last five years, slowly and steadily increasing each year. Considering the presence of HDFC in every nook and corner of the country, the figures are on expected lines. It seems that the additional bancassurance partners of HDFC Life like IDFC bank, RBL bank, Saraswat bank (the country’s largest cooperative bank) etc. have helped it rake in premium from diverse regions. It may also be seen from the strategy perspective of HDFC Life that bancassurance is a preferred mode over the traditional agency. Another intriguing case is of the broker channel which from a low contribution of 1% has grown by 400% in the last five years after a rise and fall scenario to settle at 5%. The direct business which includes the internet has surely found ground, more so with the simpler products. Its contribution has steadily risen year on year from 3% to 8%. The striking feature of the distribution mix of HDFC Life is that unlike the industry trend of a paradigm shift from agency to bancassurance in the last few years, HDFC Life was never an agency driven company. It has merely consolidated the bancassurance numbers.

5.3. Inter-Distribution Mix Analysis of ICICI Prudential & HDFC Life

1. The private sector bank promoted companies, namely ICICI Prudential and HDFC Life have both lost out on agency numbers albeit in differing circumstances – ICICI Prudential from a considerable high of 45% contribution to a dismal low of 25%, and HDFC Life from a considerable low of 31% to a further low of 14%.

2. Sheer number crunching would reveal that on an average, the agency contribution of ICICI Prudential is around 36% over the years, which continues to slide further. On the other hand, the average contribution of agency in HDFC Life is around 19% over the years and which like ICICI Prudential continues to slide. But it is clearly evident that on an average agency operates at nearly half the efficiency in HDFC Life than at ICICI Prudential. This is
an interesting fact because being private bank driven companies, both are expected to show somewhat the same trend.

3. The premium contribution from banks is heavily loaded in favour of HDFC Life with a figure of around 71% (on average) while it is around 48% in the case of ICICI Prudential. This is intriguing in the sense that the outreach of both the companies – with their parent banks and the additional tie-ups – is more or less the same.

4. ICICI Prudential, it seems has a lot of catching to do to strengthen the bancassurance set-up.

5. Brokers and corporate agents (other than the bank) present another interesting fact: they are a minor contributor in the premium contribution of HDFC Life but they have grown at a fast clip in the last five years. Their share in the premium pie of ICICI Prudential was a considerable high of 10% but it has witnessed a sharp fall of 33% over the years.

6. The talk of ICICI Prudential being a technology driven company is manifested in decent numbers of the direct business which includes the internet. A 24% jump in the said numbers stand a testimony to the technology driven credibility of ICICI Prudential. Talking of HDFC Life, a 166% increase in direct business (internet included) numbers do not automatically give it a technology driven outlook because the rise in numbers have been from a meagre 3% to 8%. Finally, it can be said that both the companies today have more or less the same contribution from direct business.

7. What is evident from the annual reports of ICICI Prudential and HDFC Life is that both are betting big on the technological aspect in driving their sales. It might not reflect that strongly in terms of direct business (internet included) numbers but nevertheless the numbers are on a rise and lend a more rounded look to their distribution stable. Whilst it is a commonly acknowledged fact that ICICI Prudential banks heavily on technology – to the extent of being a pioneer in that – HDFC Life is steadily but surely getting into the groove. Both know that with the outreach technology and internet is making, the day is not far when sales would be dictated by the two.

8. The fact that ICICI Prudential vis-à-vis HDFC Life still has a higher agency base (in spite of the costs involved), may be attributed to its strategy of acknowledging agents as the true representatives of the company unlike the bancassurance set up where the bank merely acts as a facilitator of the sale and the onus of the sold policy still lies with the insurer.
9. The numbers can also be viewed from the perspective of cost. Both the companies – HDFC Life more so - are saving massively on the cost by shrinking down the agency. That said, the opportunity cost of dispensing with agency should also be zeroed-in.

10. As much as is the fact of a firm being influenced by its own internal set of factors, the fact remains that the external environment (read the government and regulations) can impact the strategic decision making of firms in a big way. In light of the aforesaid, the government’s push for an open architecture of bancassurance – initiating banks as brokers – to give a fillip to the sagging penetration and density numbers would alter much of the discourse above. Its impact would be most visible in some years. Hence the distribution landscape can sport a very different look than what has panned out thus far in the discussion.

6. Recommendations

- ICICI Prudential should leverage the outreach of ICICI bank to its maximum.

- HDFC Life should incorporate technology in its set up and also promote internet as an alternate channel.

- HDFC Life should concentrate on reining in the sliding agency numbers as even today a segment of population, more so the elderly are most comfortable in taking a policy through an agent. Additionally, as the product becomes more and more complex, the personal interaction with agents goes a long way in driving policy sales and customer satisfaction. So striking a balance between agency and bancassurance should do wonders for HDFC Life.

- Both the companies should strengthen the direct business (including internet) as it is where the future of distribution would be heading in years to come.

- Its tie-ups notwithstanding, ICICI Prudential should get active on the broker and corporate agent front and initiate moves to drive more sales from the two.

- It is highly recommended that in addition to their parent banks, ICICI Prudential and HDFC Life should concentrate on further tie-ups with other banks as sole reliance on the parent banking entities is fraught with danger.
7. Conclusion, Scope and Implications of the Study

It can be concluded that in spite of originating from private banks, ICICI Prudential and HDFC Life have markedly different distribution mechanisms. The perception that bank originated firms should sell more through banks has also been debunked as far as ICICI Prudential’s distribution numbers are concerned. The direct business (internet included) for both the companies need a fillip. ICICI Prudential has firmly established itself as the pioneer of technology aided selling. HDFC Life, though still not up to ICICI Prudential’s standard has nevertheless picked up momentum in imparting technological perspective to sales. Another perception that the size of the parent company should translate into subsidiary success as well does not reflect in the numbers of both ICICI Prudential and HDFC Life, more so for ICICI Prudential. ICICI bank and HDFC bank are present in almost every geographical area in India but that has not translated into super successes for their subsidiaries.

The present study comes at a time when the distribution scenario is in transition and with the pace at which technology is spreading its wings and newer regulations and interventions happening, the distribution is poised to undergo further change. The study is a reflection of how the private bank originated companies – ICICI Prudential and HDFC Life - are slugging it out in the field and the different perspective based analysis shown in the paper should get them going as far as strategic decision making for distribution is concerned. That will streamline the distribution mechanism. The outreach of technology per se should also force these companies to adopt or rather embrace technology both as an enabler to existing channels and by effecting more sales online. The study could well be further viewed (for future research) by roping in the types of customer segments these two companies cater to and through the types of product sold to those segments, and finally the selling channel thereof. That would give a more holistic and rounded view of the analysis through which many other vital and significant insights could be unearthed.

Another interesting dimension of the study could be to explore the reasons behind shrinking agency numbers for both ICICI Prudential and HDFC Life and the not so impressive bancassurance numbers for ICICI Prudential. Thus, the study could extend to many other perspectives, each distinct in its own and contributing immensely to the intriguing phenomenon of distribution of these private bank originated companies. An interesting variant of the present study could see SBI Life pitted against PNB Metlife or IDBI Federal -
the two sets of companies emanating from public sectors banks, and a thorough analysis of their distribution mixes could be done. That would be another intriguing study in the offing.

References


