MicroSave Briefing Note # 124

Insurance Through Bank Agents: How Can It Be Done?

Premasis Mukherjee and Jitendra Balani

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Insurance sourcing through bank agents is becoming increasingly popular.[1] Though the reason for such enthusiasm can be understood, the challenges cannot be overlooked either. In Briefing Note # 123, we argued that product and channel planning are imperative to overcome the challenges. In this Note, we detail the product and channel planning strategies.

Product Level Challenges and Need for Segments

The bank agent channel may not be suitable for all insurance product types. In insurance, product strategy is dependent on the incentive strategy for the channel. To gain from the bank agent channel, the insurer or bank will require a variable incentive model. However, if value- (premium amount) based commissions are implemented, the bank agent will be tempted to sell high premium products. High value products are often composite/complex insurance products or are savings linked. Both of these require detailed underwriting and transparent solicitation; both of which are questionable in the bank agent channel. Neither insurers nor the regulator, therefore, would be keen on this type of business model. Volume based incentive, on the other hand, can be implemented only where voluminous selling is possible, either because the underlying products are simple and easy to sell, or because the products require limited underwriting. Segmentation of the available insurance products, therefore, is an important component of any bank agent channel strategy.

How to Segment Products

Insurance products by any provider can be segmented based on two criteria:

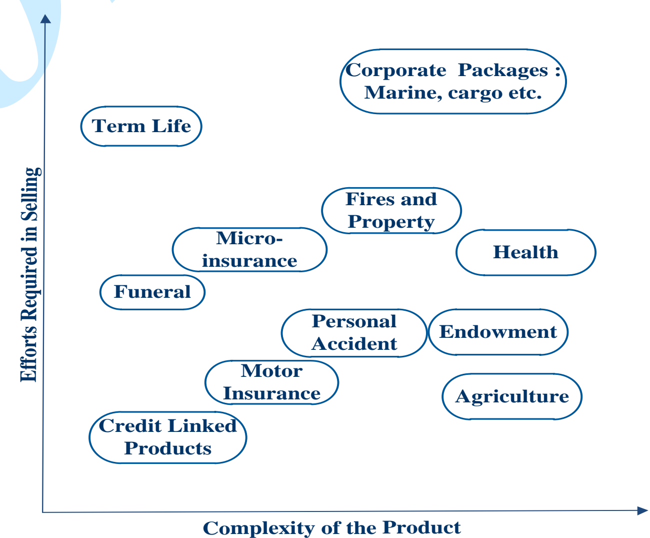
1. Ease of selling insurance is determined by:

- *Affordability of premiums for target clientele*. Less solicitation and convincing is required to sell low priced premium products, since clients' readiness often is a function of premium price.
- *Linking insurance policies with other high demand financial products* (e.g. credit-life or endowment policies). Selling is easier in products where insurance is linked (either as compulsory or attached product provision) with a financial product that is in high demand.
- *Regulatory obligations* (e.g. motor insurance). Regardless of choice or preference, people buy insurance products that are mandated by the government.
- *Tangibility of benefits*. The easier it is for clients to envision the benefits of a policy, less effort is required to sell the product. Thus, for example, a term life product is tough to sell, because the benefit is a long term possibility with a high chance of a negative emotional reaction. By contrast, people can be more easily convinced about health insurance, since the event insured is common and do not have such emotional attachment.

2. Complexity of the product is determined by:

- *Number of covered events in same policy*. Multiple coverage policies often become complex, particularly because of the covariant risks.
- *Underwriting complexity*. Certain products, for example health insurance, need careful underwriting, due to their susceptibility to moral hazard and adverse selection.
- *Documentation requirement*. KYC[2] and risk related documents required in corporate and investment products increase their intrinsic complexity.
- *Ease of claim settlement process*. The easier it is to identify the occurrence of the underlying insured event, the easier the claim settlement process becomes. This is a challenge that crop and weather insurance face.
- *Specialisation of the product*. Products that require supplementary infrastructure and specialisation are complex because of their unique parameters. For example, agriculture insurance often depends on the meteorological infrastructure and complex indexes developed from them.

In the figure below, insurance portfolio of an insurer is segmented using these two parameters.



Channel Level Challenge

Though the challenges are perplexing, providers consider bank agents to be too lucrative an opportunity to ignore. While the bank agent channel increases the outreach and potential of the bancassurance channel manifold, the expertise of the agents and their training in insurance (or the lack of it) are major bottlenecks in the model. At the same time, clients' trust in and dependence on agents (or any

[1] Over-the-counter selling of funeral insurance in South Africa, health insurance selling through mobile money operators in Ghana and the Philippines, M-Pesa based insurance servicing in Kenya (*Kilimo Salama* and CIC's microinsurance), Ezy Pesa based microinsurance in Tanzania are some examples.

[2] Know-Your -Customer

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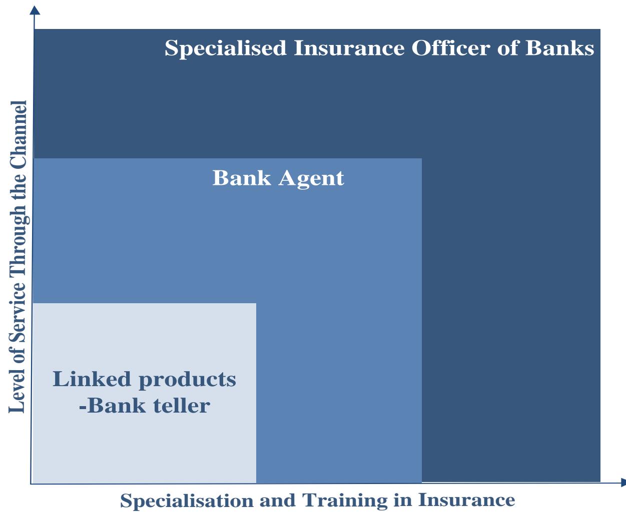
channel) will be a function of the service quality that can be achieved through them. In order to enhance the productivity of the bank agents, therefore, it is imperative to position the channels. The figure below positions different new bancassurance options based on:

- Level of service that can be delivered through the channel; and
- Specialisation and training in insurance.



The ***service potential*** of the channel is determined by:

- The frequency or potential *frequency of customer interaction with the channel*. Regular/continuous service enhances client confidence.
- *Level of personal contact*. Since mobile or internet based channels are impersonal, their potential for providing services is restricted (for example solicitation, document collection, personal verification is reduced).

The channel's ***level of specialisation*** is determined by:

- *Training in insurance*. Trained insurance professionals are adept in selling and processing complex insurance products. Training bank agents has not been a priority to date, since they are not seen as having the potential to sell high end products.
- *Exclusivity of the channel for insurance*. A channel that focuses exclusively on insurance is, by definition, specialised in selling insurance.
- *Level of investment to create the channel.* Insurers invest in traditional branch-based and tied agent channels to ensure that these channels are well trained and can sell and service a broad range of products, including those that are complex, thus optimising their productivity.

Implementation Pathway

Once the clarity on product segmentation and channel positioning is achieved, the bank or the insurer can proceed to determine how bank agent channel can be used for their insurance business.

It is important to realise that the agent channel is primarily a bank channel, and that bank-based transactions (cash-in/out, remittance, savings, loan sourcing etc.) could eventually overtake the insurance activity. Hence, to keep the agents interested in the insurance business, it is imperative that insurance commissions become a significant part of their income. It is necessary, therefore, to involve agent channels (in some capacity) in multiple products, rather than only sourcing microinsurance policies (as many are doing). Moreover, the bank agent channel will enjoy much higher credibility and traction with customers when it is perceived as the one-stop solution for clients' financial needs. Restricting customer choice to simple term products will not help achieving this perception.

Bank agents should be used not only as a sourcing point, but as referral point too, for products that cannot be sourced directly through them.

In the figure below, we have mapped the possible emerging bancassurance channels, according to their suitability sell certain product types. While bank tellers can directly deal with the credit-linked term insurance products, the banks' insurance officers need to mainly focus on corporate insurance or high value, complex products.

Bank agents can sell motor insurance, funeral insurance, simple credit-linked and microinsurance policies, since these are simple and less cumbersome policies. However, bank agents can also be enabled to refer clients for more complex products to banks' insurance officers, and should be remunerated based on converted leads.

Conclusion

Appreciating the complexities of the bank agent channel is pivotal to the success of the channel. Though this Note suggests one perspective on how to adopt the channel for insurance inclusion, it is by no means the only one.

The future will show us how different approaches to bank agency-insurance inclusion perform. The model of channel diffusion outlined in this Note may unearth the challenges of managing inter-channel conflict. Implementing organisations' management of these risks will impact the viability of this model in long run.

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