Distribution Conundrum of Bank Originated Life Insurance Firms in India: The Compelling Case of SBI Life and HDFC Life

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An evolving phenomenon, the life insurance distribution is poised for further disruptions in the future. Technological advances - in the way life insurance is sold, both as a facilitator to the traditional channels as well through online – have meant that the distribution mixes of companies sport a look that is very different from the recent past. A slew of regulations have further spiced up the distribution landscape and the result is an uncertain future. The underlying statement is that "no one size fits all" and the companies are more or less moving towards a multi-distribution regime in the hope of arriving at that elusive optimum distribution mix. Further, the company ownership structures involving life insurance firms promoted by a public / private bank and, non-bank promoted firms have added to the intrigue. It is in the backdrop of the aforesaid, that this paper brings to the fore a never before highlighted conundrum, that of same source originated (read: a bank) companies having distribution mechanisms as diverse as chalk and cheese. To this end, the paper analyses the distribution mixes of two such representatives, SBI Life (leading public bank originated company) and HDFC Life (leading private bank originated company) for the last five years and analyzes the distribution trends and the anomalies within and between the set ups. In addition to providing insights into strategic decision making, the paper offers inputs to the practitioners.

Key words: Distribution Mixes, Bank Originated

1. Introduction

For all the hoopla surrounding the expanding middle class in India - courtesy a rising income, and the subsequent talk of a market ripe for the taking - the life insurance penetration and density numbers flatter to deceive in a big way. The said figures don't inspire confidence especially when one takes into account the long history of insurance in India and the reforms. Even after a substantive period post reforms, the penetration and density figures remain to be improved. A look

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at these figures (Table 1) reflect the reality, that India – inspite of possessing all the attributes to post decent penetration and density figures – has some way to go vis-à-vis some of the top nations as also some asian economies. The efforts have come a cropper thus far, but who has played the role of the main antagonist in the 'could have been' wonderful life insurance tale of India post independence? A plethora of factors like governmental support, products, and distribution are responsible for increase in penetration. The governmental support, no doubt has increased post reforms. The products offerings of different companies, which are more or less the same , have the novelty factor as well. These products cater to the identified segments of the company. That said, a valid question arises as to why is it that inspite of a well-rounded product basket catering to the segments at large, the density and penetration have not increased significantly. We suspect that it is neglected aspect of distribution that could have led to dismal penetration. The reasons are not far-fetched because inspite of hving the best in class products, the above numbers have fallen below expectations.

The core of distribution today is formed by the agents, banks, brokers, corporate agents other than banks, malls, the internet etc. Technology has made inroads in most of these existing channels as well as being instrumental in springing up newer innovative channels. This has resulted in a host of intermediaries catering to a big market like India. It makes a lot of sense, therefore to gauge the reasons for the underperformance of distribution with regards to penetration and density. Sinha (2013) and Lakshmikutty & Bhaskar (2005) have described how companies have a varied distribution mix involving most of the above intermediaries. However, some recent studies (Cognizant report, 2014), while acknowledging that companies have moved to a multi-distribution regime, forewarns the companies to be prepared for further disruptions in distribution. None of the companies have mastered the art of finding the optimum distribution mix and as such, the said study cautions companies to remain ahead of the curve with regard to the future of distribution. The Cognizant report (2014) suggests that the companies inadvertently, will have to align the interests of three main players: the customer, the company and the channel. A unified view of the three would go a long way in addressing distribution woes and would contribute to sound penetration and density numbers. Thus far, we have been able to highlight the puzzle of distribution. So whilst distribution continues to be a marked phenomenon in life insurance, it is an even more intriguing and never before highlighted phenomenon within companies originating from the same source (read a bank). It is our endeavor to bring to the fore those intricacies and to that end the current study attempts to highlight that a sound strategic decision making with regards to distribution could be a possible answer to the problem of lack of penetration and density.

The overall distribution scenario in India is mainly constituted by two channels: Agency and Bancassurance. These channels share close to 80-85% of the new premium coming in (HDFC Life Annual Report, 2016). The rest of the premium (15-20%) comes from channels like direct business (inclusive of the internet), brokers and corporate agents. Out of the above 15-20%, the direct business has witnessed a meagre jump of 3% from a 6% contribution five years back (IRDA Annual Report, 2016 and HDFC Life Annual Report, 2016). Corporate agents on their part have posted poor numbers in the last five years, going down from 9% to 3% (HDFC Life Annual Report, 2016). According to the same report, the share of brokers has remained fixed at 5% contribution over the same period. A special feature of the analysis is that agency numbers have fallen from 47% to 36% in the last five years. The other main channel, Bancassurance has seen a surge in numbers from 33% to 47% in the same period (IRDA Annual Report, 2016 and HDFC Life Annual Report, 2016). Any which way, the fact remains that the pie is mainly shared between the two heavyweight channels of life insurance in India. The two remain the flag bearers of the distribution stable in the last five years or more. Another eye-catching feature props up while watching the agency numbers where LIC contributes most of the business. In spite of embracing a multi-channel strategy long back, around 90% of LIC's premium comes from the agency channel (Karunanidhi and Banumathi, 2012). The final picture that arises showcases the attempts of companies to explore newer channels in addition to the existing ones, thus making a beeline for a multi-distribution regime. The companies have vehemently expressed their need of increasing the distribution stable to reach out to the crores of people in need of life insurance (HDFC Life Report 2016).

In the strategic decision making scheme of things, life insurance distribution has gained a lot of traction. Today, with the advancement of technology, distribution has become a game-changer. The companies are keen on the technological initiatives to drive sales. As pointed before, technology wears a double hat of being a facilitator to established channels as also effecting sales through the internet. The present distribution landscape carries a vastly different look with the arrival of newer, unheard of channels like mall assurance, Insurance Marketing Firm (IMF) etc., thereby adding to the mystique of streamlining the distribution mix (cafemutual.com). The situation is such that companies have been forced to ponder a great deal about the phenomenon of distribution as a pivotal strategic decision. All in all, it would be safe to assume that no one size fits all with regards to distribution and the companies are slugging it out to explore the best fit. It is the lack of life insurance penetration and density that calls for a robust distribution mechanism at company's disposal.

Life Insurance Penetration: In layman's terms, life insurance penetration is the calculation of life insurance premium as a percentage of the country's gross domestic product (GDP). Table 1 reflects the penetration numbers by highlighting the relative position of India with some developed as also with some Asian nations.

Life Insurance Density: In layman's terms, it is the life insurance premium per capita. Table 1 depicts India's position vis-à-vis some Asian and other economies.

Table 1- Life Insurance Penetration & Density

COUNTRIES	Life Insurance Penetration (in %) 2013	Life Insurance density (in US $) 2013
INDIA	3.1	41.0
SWITZERLAND	5.3	4211.0
TAIWAN	14.5	3204.0
HONGKONG	11.7	4445.0
U.K.	8.8	3474.0
JAPAN	8.8	3346.0
USA	3.2	1684.0
FRANCE	5.7	2391.0
WORLD	3.5	372.6

Source: *IRDA report 2014 (Author's own compilation)*

2. Objectives

The major objective of the paper is to highlight a conundrum, that of the companies originating from the same source (a bank), having distribution mixes as diverse as chalk and cheese. To that end, the distribution mixes of two companies, SBI Life and HDFC Life, which originate from the same source, a bank; one from a leading public bank (SBI) and the other from a leading private bank (HDFC), will be analyzed. The two banks are the top two leading banks in India as far as market capitalization is concerned. It is a widely held perception that bank originated companies should leverage their banking strength – more so in case of SBI and HDFC, with their humongous reach – to life insurance and garner more sales through bancassurance. The paper shows the above perception is not generally true. Also the shrinking agency numbers of the industry on the whole does not necessarily translate into low agency numbers for a bank originated company. An attempt has been made in the study to capture the distribution trends of both the above companies for the last five years and in doing so, the anomalies within and between the set ups. The paper also attempts to show the plausible role of technology and regulation in maneuvering the distribution strategy of companies.

3. Literature Review

India specific studies like that of Sinha (2013), and other market studies like that of Pozza and Texier, (2014) and Kist (2001) have asserted among other things, the distribution strategies, synergies between multiple channels, positioning of channels and lack of channels for the rural areas. However, none of them have unearthed the aspect of distribution strategies and trends within the same type of companies i.e. companies originating from the same source (bank).

Whilst distribution has of late been earmarked as an area of special emphasis with regards to strategic decision making, it manifests itself as an even bigger, yet unexplored phenomenon in companies originating from the same source (bank). Studies in the Indian or the global context do not provide any precedent as far as the anomalies between the above companies are concerned. The existing literature provides at best, the navigation towards this cause. Some of those existing studies shedding insights into distribution are summarized below.

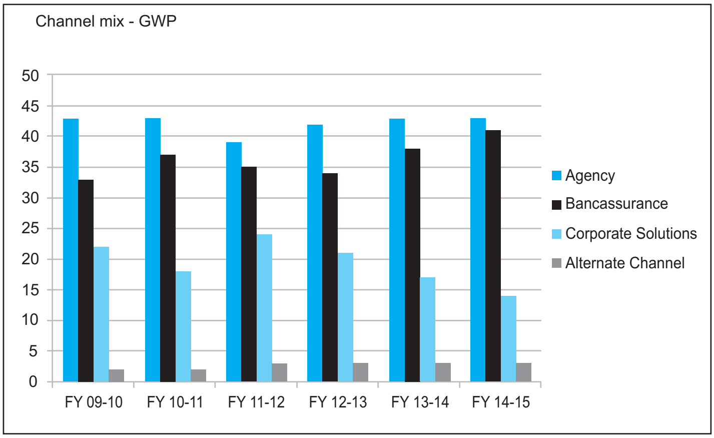
Sinha (2013) came up with the exploration of trends in distribution of seven leading private players in India. He revealed that agency continues to be the channel of choice, followed closely by bancassurance. In his analysis, private channels were found to be tinkering with their distribution mixes by having a combination of the tried and tested old channels with newer innovative ones. He also suggests that the private companies have to keep experimenting with the distribution so as to remain ahead in the curve. Of course one distinct aspect of his study was that bancassurance was slowly but steadily finding ground. Lakshmikutty and Sridaran (2005) describe the state of affairs of the existing distribution channels and also make note of the up and coming newer channels like online, mallassurance, tele-marketing etc. which are impersonal so to say. Sharma and Saxena (2009) have regretted the lack of channels for the rural areas and suggest that channels like panchayats and dairy cooperatives can fill in that void, thus contributing towards the penetration and density numbers. In light of the falling interest rate, Aggarwal (2004) opines that bancassurance can emerge as a profitable venture for the bank. Of late, a study by Cognizant (2014) stresses the need for the companies to remain ahead in their preparations as far as the future of distribution is concerned. The study forewarns the companies to wise up to requirements of the future by aligning the three perspectives of customer, company and channel, thereby creating a winning proposition. The study urges the companies to have a unified view of the customer in light of the three perspectives. The study also emphasizes the role internet would play in the future, especially in the online sales of life insurance policies.

4. Research Methodology

Purposive sampling has been taken for our study. Two representatives of the bank originated companies were taken – HDFC Life, a subsidiary of HDFC Bank, India's leading private bank; and SBI Life, a subsidiary of SBI, India's leading public sector bank. Secondary sources like IRDAI website and annual reports of SBI Life and HDFC Life were made use of in order to collect relevant data about the existing distribution channels deemed fit for the study. Percentage contribution from distribution channels was analyzed to identify the changing pattern. A five year period was taken in capturing the trends in premium. To serve the purpose, the weighted premium has been taken.

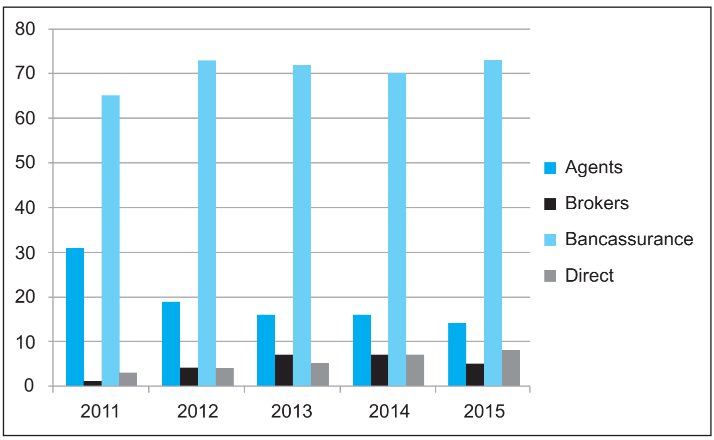
Distribution Trends in the Life Insurance Industry: To put things into perspective, the two distribution mixes i.e. that of a public bank originated company (SBI Life) and a private bank originated company (HDFC Life) have been considered. The finer nuances and subtle changes have been captured through the figures 1 & 2 as also by the discussions that follow.

Figures 1- SBI Life Insurance Distribution Mix



Basis the information retrieved from the annual reports of SBI Life Insurance, figure 1 has been compiled by the authors. The figure is indicative of the distribution channel composition in terms of premium of SBI Life and how things have panned out over the years as far as distribution trends are concerned. There has been a considerable shift in the overall distribution composition of the company.

Figure 2- HDFC Life Insurance Distribution Mix



The figure 2 has been compiled by the authors basis the information regarding distribution in the annual reports HDFC Standard Life Insurance. The composition of various channels (in percentage) has been highlighted. HDFC Life, in light of a changing landscape has moved on to a multi-distribution regime. The channel contribution also has changed over time. The discussion part of the paper throws insights about the distribution trends as conveyed through the figure above.

5. Discussions

5.1. Intra-channel mix analysis of SBI Life:

Figure 1 aptly reveals that agency has more or less remained at the same level in the last five years. This is surprising as SBI Life is a public bank originated (SBI) company. The clamping on agents' commission has had no effect on agency numbers, it seems. Bancassurance, on the other hand has moved up but not at the rate it was always expected to, a 19% growth notwithstanding. The outreach of SBI across every nook and corner of the country may be the reason for the said growth. However these numbers are not remarkable. SBI, it seems has understood the significance of the agency channel. Brokers and corporate agents have de-grown by around 36% after an interesting fall, rise and rise situation. The Internet which comes under the others' category has more or less remained static in terms of contribution to overall premium. The final picture firmly establishes that even though SBI Life has increased the bancassurance contribution, it has consolidated the agency distribution as well. The paradigm shift that the industry has seen in distribution – agency numbers going down, bancassurance numbers going up – is not apparent in case of SBI Life.

5.2. Intra-channel mix analysis of HDFC Life:

A significant 54.8% erosion in agency numbers in the last five years as revealed from figure 2, is a further vindication of the fact that bank originated HDFC Life has gone down on expected lines. Being bank promoted, it was always expected to post decent bancassurance numbers. The very idea of having a robust agency is fraught with danger that the cost involved is massive and it seems that HDFC Life has wised up to the cost cutting requirements. The poor performance of ULIP could be owed to the clamp on agents' commission, and the same might have resulted in poor agency numbers. A decent 12.3% growth shown by Bancassurance in the same period is trivial as HDFC Life has all through been an entity renowned to drive insurance sales at the back of sound banking prowess of HDFC bank. What else can explain a consistent 60-70% contribution – and constant increase each year on year - in last five years? The figures are in line with expectations given the presence of HDFC bank in almost every place in India. The other bancassurance partners of HDFC Life viz. IDFC bank, Saraswat bank (the country's largest cooperative bank) etc. seem to helped HDFC Life draw in the premium from various regions. The strong banca numbers could well be the strategic positioning of the channel by the company. The broker channel is an intriguing case because its contribution has risen by 400% (1% to 5%) but only after a rise and fall scenario. The internet driven direct business has found its footing with a contribution of 8%, rising from a contribution of 3% five years back. HDFC Life's numbers follow the industry trend in the sense that the industry has moved from an agency stronghold to a banca regime, HDFC Life has emerged as a strong bancassurance player.

5.3. Inter-distribution mix analysis of SBI Life & HDFC Life:

Both the public bank promoted SBI Life and the private bank promoted HDFC Life have defied industry trends. SBI Life has not lost out on agency whereas HDFC Life has further consolidated its bancassurance channel to show high growth.

An average contribution of 43% and remaining almost stable - in the last five years through agency, reflects a conundrum in that a bank driven company (SBI Life) has actually preserved agency numbers. HDFC Life, on the other hand has had an average of 19% contribution through agency in the last five years, which though considerably lesser than the industry average of 43%, is more reflective of the banking power leveraged through HDFC Bank.

Speaking of the bancassurance numbers, the premium contribution from banks, on average in last five years is 71% in case of HDFC Life while it is around 37% in case of SBI Life. With the industry average hovering around the 47% mark (on average) from bancassurance in last five years, the numbers from SBI Life are baffling. Given the outreach of the giant, SBI and the additional tie-ups with other banking partners, SBI Life is punching well below its weight and probably not leveraging the power of the banking set up. HDFC Life despite the relative lesser pan India presence of HDFC bank has run amok as far as bancassurance numbers are concerned.

Brokers and corporate agents (other than the bank) present an interesting tale: they are a small contributor in HDFC Life but they have grown fast in the last five years. They are a relatively major contributor in SBI Life but have de-grown by 36% in last five years.

Direct business numbers (including the internet) have risen from 3% to 8% in case of HDFC Life, thereby showing an increase of 166% in the last five years. Still these numbers do not inspire confidence as far as labeling HDFC Life as a technology driven company. SBI Life's comparative numbers have remained static and reflect a poor yield. Perhaps the image of a government bank promoted company as far as indifference to technology is concerned, is most visible in this case.

The fact that SBI Life has very strong agency numbers to demonstrate inspite of being a big bank promoted company, might actually be an acknowledgement, by the decision makers about the agents being the true representatives of the company unlike bancassurance where the distributing bank is merely a facilitator and the responsibility of the life insurance policy still lies with the insurer.

Adding further intrigue, the discussion could be viewed from the perspective of cost. Shrinking down the costlier agency would mean a lot of saving and hence SBI Life's fetish with the channel is baffling. In it lies the crux that the opportunity cost of dispensing with the agency should also be weighed in by HDFC Life while making the strategic choice of channels.

Lastly, the firm operates at a macro level and hence the external environment (government, regulations and competitors) may impact its strategic decision making. In that regard, the government's push for an open architecture of bancassurance – initiating banks as brokers – in order to increase the density and penetration numbers, would change much of the discourse above. The distribution scenario would then be very different from the one discussed thus far.

6. Recommendations

SBI Life - while continuing to defy the industry trend with regards to agency numbers – should forge a stronger than ever bond with SBI and leverage the presence of SBI's outreach to the maximum.

In a scenario when technology has changed the rules of life insurance distribution, SBI Life should embrace technology and drive more sales online. The same argument goes for HDFC Life. The two leading players can take a leaf out of ICICI Prudential's books, as to how to streamline life insurance sales on the back of technology.

The fact should not be lost on HDFC Life that even today a substantial portion of population - more so the elderly - banks on the agency channel for sake of trust and ease. Thus it should not dispense the agency channel altogether while continue drawing big through bancassurance.

Both the companies should strengthen the tie-ups with other banks as well because sole reliance on parent banks cannot become the sure shot template to success.

As the products become more complex and the mode of buying shifts to the agency channel, both companies should strike a balance between agency, bancassurance and online channels.

Both the companies should focus on strengthening the direct business (including internet) as it where a major chunk of life insurance premium is destined to come from in the future.

Finally, both the companies should constantly experiment with their distribution mixes. It is highly recommended that in addition to their parent banks, SBI Life and HDFC Life should concentrate on further tie-ups with other banks as sole reliance on the parent banking entities is fraught with danger. Also, newer avenues of distribution should be explored.

7. Conclusion, Scope and Implications of the Study

It can be fairly concluded that SBI Life and HDFC Life, two companies originating from top two banks by market capitalization, have distribution mixes as diverse as chalk and cheese. While HDFC Life has lived up to its billing of a bank promoted company, reflective of large business from bancassurance, SBI Life's numbers from bancassurance flatter to deceive. HDFC Life, though not still in the same league as ICICI Prudential has, vis-à-vis SBI Life, a relatively more pronounced use of technology in driving sales. The direct business (including the internet) of both the companies need a major boost. A well formed perception that size of the parent should dictate the success of the subsidiary, has been debunked in case of SBI Life and HDFC Life; more so in case of SBI Life. Both the banks have a marked presence – geographically as well as customer segment wise - in every part of India and yet the same has not reflected in stupendous success for the life insurance subsidiaries.

The present study comes at a time when the distribution landscape is tipped to undergo further changes in view of the breakneck speed with which technology is making inroads and also with newer interventions happening. For sake of future research, the study could be holistically analysed by comparing the types of product sold by these two companies, the customer segments those products are sold to, and finally the channel used. Such a comparison would give a more rounded approach. Many other vital insights related to strategic choice of channels could then be unearthed.

An interesting dimension of this study could be to know about the plausible reasons behind impressive agency figures for SBI Life and consistent fortification of bancassurance business of HDFC Life, at the cost of a shrinking agency. As companies move towards a multi-distribution regime, such questions beg a reasonable answer. Thus the study demands a thorough look from various perspectives in answering the enigma called “the distribution of bank originated companies”. To spice things further up, another variant of the current study could see SBI Life being compared to – in terms of distribution – IDBI Federal or PNB Metlife; two other companies emanating from leading public banks. Also, the leader in life insurance, the giant LIC could be roped in for an incisive distribution analysis in comparison with either a leading public bank originated SBI Life or a leading private bank originated HDFC Life. Those would be intriguing studies, presenting deep insights of strategic decision making of channels.

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