Lecture 1

INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Class: MSc

Subject : Insurance

Subject Code:

Chapter: Unit Chapter 4

Chapter Name: Distribution channels

Today’s Agenda

1. What is a distribution channel?

2. Different types of distribution channel
    1. Direct channeks
    2. Intermediary channel
    3. Direct response marketing
    4. Peer to peer channels
    5. Internet

3. Market share of distribution channels

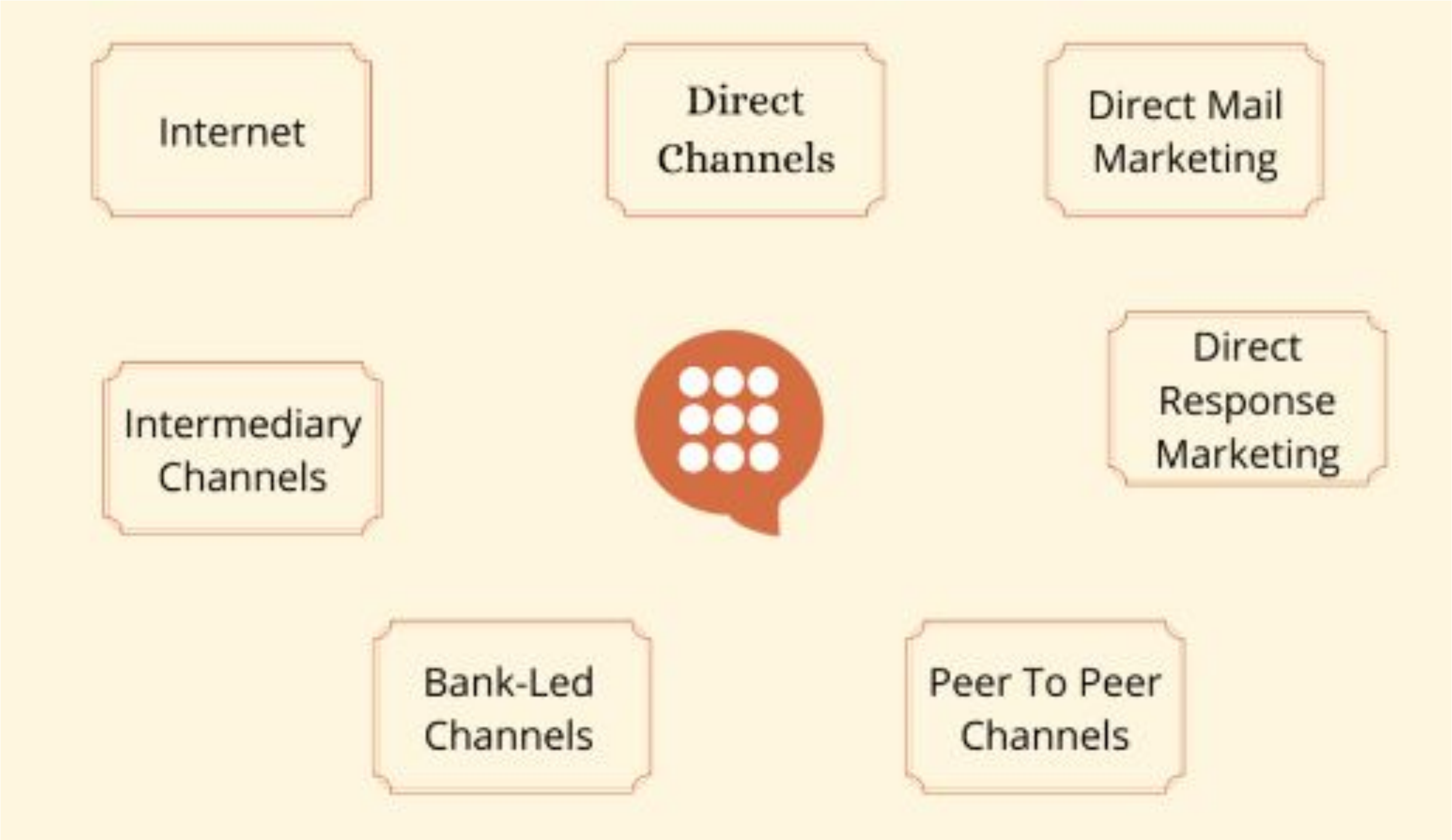
1

What is a Distribution channel?

A distribution channel is a method used by insurers to sell their products to customers.

2

Different types of Distribution channel

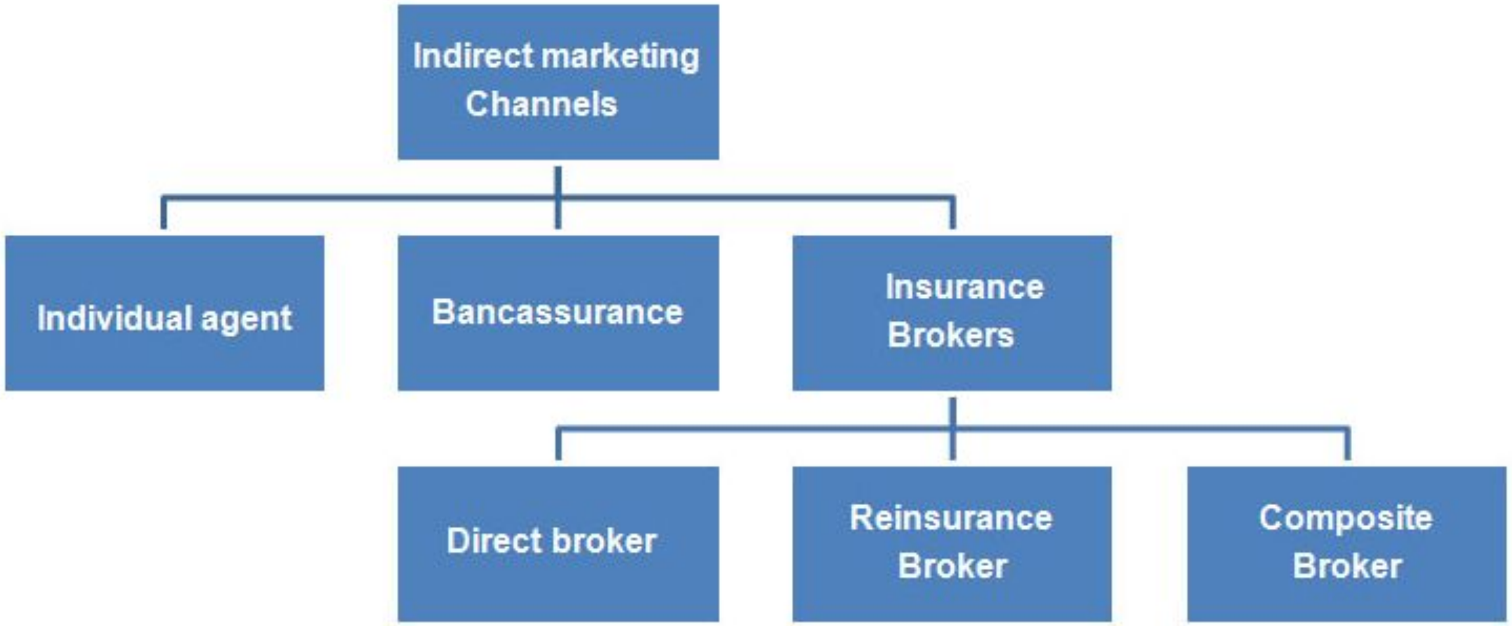


2.1 Direct channels

- Direct insurance distribution channels or self-directed channels allow insurance companies to sell their products without the interference of an intermediary.
- Insurance companies operate direct channels through e-commerce, internet, telesales, etc., and own sales force.
- Agencies that can afford to avoid intermediaries and directly sell to consumers often have an established brand in the market and are likely to be seen as trust figures and experts in their field.

2.2 Intermediary channels

- As their name suggests, they bridge the gap between insurance companies and consumers. When using intermediary insurance distribution channels, there is no link between insurers and end consumers.
- Intermediary channels include agents, brokers, banks, retailers, broker networks, aggregators, peer-to-peer channels, and more.



2.2 Intermediary channels

1. **Individual Agents :** They are the major contributors of insurance sales in India. It is the agents responsibility to meet up with prospective customers, understand their needs and provide solutions accordingly. We shall discuss the role of agents in more details as we go along.

2. **Bancassurance :** Bancassurance which means selling insurance through banks is increasing becoming a very important channel of distribution for insurance companies. Many banks have joined with insurance companies to cross-sell insurance products to their customers. Insurance companies benefit from the wide network and loyal customer base of banks and the banks benefit by the fee income they get from insurance companies for selling insurance products. The banks are also able to increase their product basket (by adding insurance products) for their customers.

3. **Insurance brokers :** Insurance Brokers are allowed to sell products of more than one or many insurance companies. They have the advantage of being able to compare the insurance products of various insurance companies and then offer a plan that best suits the requirements of the customer. The plus with brokers is that they can keep the interest of the customer in mind and offer him the product that best suits him, cutting across company lines.

2.3 Direct response marketing

- Unlike other distribution channels, direct response marketing does not require the interference of banks or intermediary channels. Instead, the insurers themselves use mass media to generate leads and sell their insurance policies and products.
- They deal directly with applicants and consumers through phone, text, or email.
- What differentiates direct response marketing from direct channels is the use of mass media in the former. Direct response marketing aims to solicit a response immediately from the customers by using very specific, time-bound calls-to-action

2.4 Peer to peer channels

- Peer-to-peer channels are a type of social insurance that is relatively new in the market. It involves family, friends, and relatives with a similar mindset who pool their premiums together to insure against risks.
- In case of a loss, the members of this group pay to cover it. It reduces the risk involved with traditional insurers who may take premiums but refuse a payout when the time comes.
- With its increasing popularity in the US, insurance providers are seeking ways to make this model available and commercially viable for their customers and themselves.

2.5 Internet

- The latest but slowest growing distribution channel among insurers has been the internet. Often overlooked, it is THE channel that customers are shifting towards.
- Many customers report going online to compare insurance products and make decisions independent of an agent or broker.
- While life and health insurance products might take some time to become popular as online products, motor or house insurance, for example, are already gaining traction online. The difference is in how personally the insurance product will affect the consumers. Instead, they would ask questions and know more about life insurance directly from a broker for increased trust compared to motor insurance.

2.6 Market share of distribution channel