MicroSave Briefing Note # 123

Agent Banking and Insurance: Is There A Value Alignment?

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Introduction

Agent banking,[1] is emerging as the preferred conduit to promote financial inclusion globally. However, an agent banking network can sustain only if there is a value alignment for all the stakeholders in the digital eco-system. The banking correspondent model in India has demonstrated the need for a shift from the single product regime to create such value for banks, agents and clients. Since insurance and pension products cover a large span of clients' life-cycle and needs, the prospect of insurance inclusion through agent banking is being widely recognised by regulators and practitioners alike. Pilot programmes testing insurance servicing through agents are also increasingly becoming common and visible.

In this Note, we discuss the potential value for stakeholders in a situation where insurance products are offered through agent banking channel. We also highlight the challenges that might arise when implementing insurance products on agent banking channels.

Value chain in Insurance inclusion through agents

Regulator	Insurer	Banks	Agents	Clients
Stakeholders' concern				
Client protection, AML/CFT	Business potential, portfolio quality, brand sanctity		Earning potential, extra effort	Convenience, trust, needs fulfilment

Regulators' confidence in bank-led channels for financial inclusion is high

Agency banking is largely bank-led in most countries. The principal bank is responsible for AML/KYC[2] compliance; consumer protection; risk management; and liquidity management at the agents. Therefore, banks' agents are more trusted by regulatory and political authorities than the more loosely regulated microfinance entities or individual insurance agents. Moreover, the probability of regulatory arbitrage is also lower in agent banking since banking regulation is stronger than insurance regulation in most countries. Hence, regulators find it preferable to promote insurance through agent banking channels.

For insurance companies, banking agent means inexpensive and voluminous point of sales

For insurance companies, business economics depends on the highest possible number of sales outlets acquired and managed at the least possible cost. Banking agents, therefore, are the best alternative channel available for mass market insurance products. Since the agents are acquired and managed by the banks, the insurer does not incur high on-boarding or management cost beyond the variable costs which depend on the business sourced.

Moreover, in this channel, the insurer gets access to the existing clientele of the principal (i.e. the bank), a reason enough for insurers to prefer agent banking as a channel.

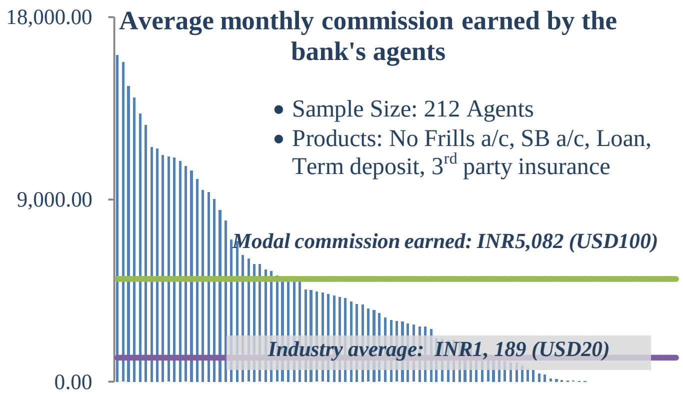
For banks, this means extended reach and cross-selling to the base of the pyramid segment

Banks consider bancassurance to be a prospective business due to the opportunities for cross-selling; competitive advantage; increased stickiness of clients; enhanced staff productivity; and fee income potential. However, bank employees are costly resources, and hence banks can only afford to sell high premium products through their bank branches. Though many banks have garnered a substantial pool of low income clientele, deputing branch staff to cross-sell insurance to these clients does not make any economic sense for the banks. A low-cost mass-market channel like agent banking opens prospects for extending the reach of insurance for banks.

Insurance sales reinforces business case for the bank agent

MicroSave's agent assessments of over 20 agent networks in India have identified a strong need for an improved business case for the bank agents.[3] Basic account opening ceases to make any significant impact on agent economics beyond a year of operation. Remittance and account transactions need time to pick-up, and in between, the agent needs to sustain his business. This can best be achieved by offering a range of products.[4]

In a recent study with a large public sector bank of India, we saw that multiple products do enhance agent's income substantially (see graph below).



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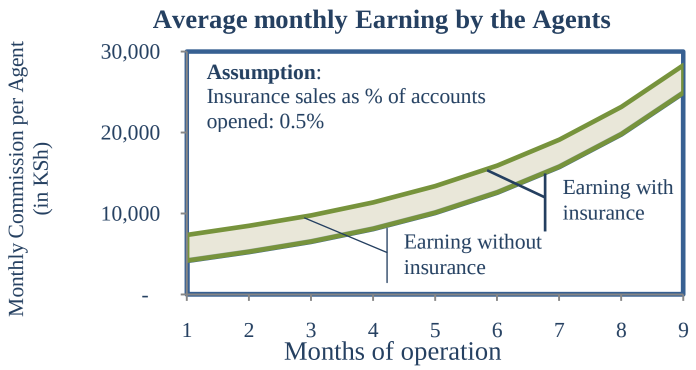
[1] Offering of financial services through bank agents often using technology such as point of sale devices and mobile phones

[2] Anti Money Laundering/Know Your Customer

[3] See *MicroSave* Policy Brief 2: The State of Business Correspondence - Agent Networks in India

[4] See *MicroSave* India Focus Note 65 "Successful Banking Correspondents Need a Compelling Product Mix"

In an African Bank, it is projected that insurance sales and servicing of insurance products (premium collection and benefit redemption) can enhance the earning potential of agents by an average 37%.



For clients, agent should be a one-stop financial solution

Low-income clients need a range of financial products in their life-cycle. Insurance and pension products help them cope with multiple shocks and old age security, which are often perceived as important needs. Demand and willingness to pay studies have also proven substantial need for insurance products in the low income segment and the clients' willingness to pay for the premium. Many clients perceive endowment life insurance as an attractive instrument for long-term savings. Moreover, there are certain insurance policies which are mandated by the government (e.g. motor insurance) and only require simple documentation. Bank agents can be a preferred channel for clients to access such insurance.

Though some value alignments are evident, there are also several concerns about insurance inclusion through bank agents.

Quality of business would be a concern for insurers

Insurance is a specialised financial product and requires expert solicitation and sales. Most countries also mandate a minimum qualification for insurance sales professionals. Bank agents are mostly mom and pop store owners who lack both qualifications and insurance expertise. This can hamper both the quality of business, as well as the potential sales an agent could achieve. Moreover, as a distant client interface (unlike tied agents of insurers), the bank agent channel would be highly susceptible to mis-selling and adverse selection. All these factors could affect both the brand sanctity and the business quality of the insurer. Hence, any insurer will be cautious in allowing its insurance products through this channel.

For bank, the challenge is in managing portfolio

Unlike European banks, where multiple bancassurance channels exist, insurance is mostly pushed through the branch staff channel in developing country banks offering agent banking. Managing the insurance business through the commission-based agent channel would require the banks to re-work their supervision, audit, performance management and incentive design in their bancassurance divisions. Managing third party products would also require the banks to assess the potential for cannibalisation (of other products by insurance or vice versa); brand exclusivity issues; and the cost benefit for each product pushed to the agent channel.

For agents, cost (benefit) must justify the effort

Insurance selling is more effort- and time-intensive for an agent as compared to account opening or mere cash-in/out transactions. The willingness of bank agents to devote time to the insurance business will be a function of the incentive structure for the insurance activities. Unless the policy acquisition is front-loaded with high commissions, agents are unlikely put effort into selling insurance through their outlets. An alternative approach could be to use agents only to sell mandatory insurance (e.g. motor insurance), which has a ready demand and requires little solicitation and underwriting.

Intangibility of agent technology might put clients off

Mobile or card based technologies have become common in most agent banking implementations. One issue with these platforms is their intangibility. Insurance is anyway an intangible product (where the value or benefit for the customer is virtual and future-oriented). This intangibility is further magnified in mobile/card based channels. This factor might dissuade customers from transacting through the agents. Moreover, the low-income clientele often prefer to diversify their financial portfolio across several different providers, because they struggle to trust any one. Hence, the extent of cross-selling potential might be less than expected in the low income category, especially through agents.

Conclusion

Despite the stakeholder value alignment, it is evident that insurance inclusion through agents requires careful planning at both insurer as well as the implementing bank level. The success of insurance sales through agent banking, would ultimately depend on:

- Product planning: decision on which kind of product could be sold through the agents;
- Channel planning: defining the roles, processes, and incentives for the bank agents and how these fit into the overall bancassurance strategy of the insurer, as well as the banks; and
- Marketing planning: to maintain brand identity and ensure that clients come to buy insurance over the counter at agent locations.