

November 2008

Rs. 30/-  
TM

# insurance

## WORLD

POWER SOLUTION TO INVESTMENTS

45

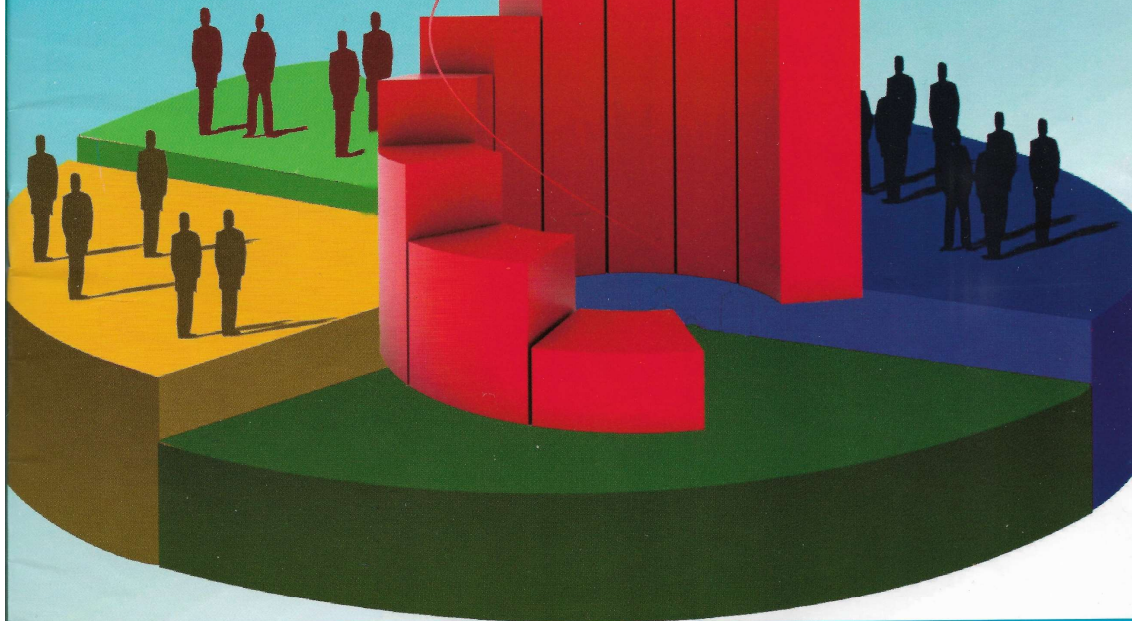
### Face to Face

Jayant Khosla  
MD & CEO,  
Future Generali India Life Insu. Co. Ltd.

48

### Personality Speak

Shailesh Mehta,  
E-learning Evangelist & Founder CEO,  
GurukulOnline Solutions



# INSURANCE MARKETING



## *Insurance Agency Business - A Lucrative Profession*

Prior to 2000, we were aware of only LIC agents who would approach us for a policy. With the liberalization of the Indian economy in 2000, doors were opened to private players, although with restrictions. Foreign investors could hold stake to the extent of 26 per cent in any joint venture with an Indian business partner. Insurance Regulatory & Development Authority (IRDA) regulates the working of the Insurance sector.

The first private company to commence life insurance business was ICICI Prudential Life Insurance Company, a joint venture between ICICI Bank and Prudential PLC UK. This was closely followed by many more players. The entry of private players, introduction of innovative market-linked investment plans and a stable economic growth has made insurance a viable investment and hence selling the same, a lucrative profession.

No doubt, insurance selling is a noble cause. But, there was a time when the "friendly neighborhood insurance" agent was avoided under the assumption that he has come to squeeze money out of our pockets. But the trend is rapidly changing and so is the quality of people joining the profession. Insurance does not imply only term plans, which cover the financial risk in case of loss of life. Today, it extends from providing financial protection due to mortality to a multitude of categories like securing children's education due to death of parent/s, morbidity cover and retirement planning and wealth creation.

### **Insurance Agency:**

Insurance Agency is one of the distribution channels of insurance companies for promoting and selling insurance plans. Although corporate agencies also come



under its purview, the emphasis here will be only on the individual agency model, commonly referred as "Tied agency". In Tied agency distribution system, individuals are appointed as agents to sell insurance products. Traditionally, an agent used to sell policies to his acquaintances. There is no tangible product or service in insurance. Insurance is a promise to compensate a financial risk. Hence the product used to sell more due to relationship skills rather than selling skills. Of late, due to the advent of market-linked plans, insurance has become an important investment/saving tool, thus requiring a thorough analysis/knowledge.

### **How to become an Agent?**

The IRDA has mandated that every prospective agent must compulsorily undergo 100 hours of training and take the IRDA pre-recruitment examination under the sponsorship of an insurance company. The examination is based on a prescribed syllabus and tests the candidate's knowledge on the basics of life insurance through multiple choice questions. On obtaining the licence, the agent is authorized to source business for

the sponsoring insurance company.

Some of the traits a prospective agent should have are as under:

- Have the desire to earn extra income
- Have time to attend training programs and to meet prospective customers
- Need to be good at social networking
- Need to have an initial contact network (commonly called natural market)

Some of the target profiles of agents are chartered accountants, housewives, retired persons, general practitioners, automobile dealers (for general insurance), medical shop proprietors and travel agents. Many of these people have become successful agents.

It is a misconception that agents can source business only until they exhaust their natural market. Many managers commit the mistake of sourcing agents who have "good contacts". There is no dispute that a good contact base helps, but nevertheless it is not a prerequisite. Smart sales persons build their customer base through the referral concept.

### **Benefits for Agents:**

Agents are perhaps the most pampered lot in any insurance company, especially the private ones. They are showered with huge commissions & rewards along with honours at national/international clubs/associations. The best part of this business is that the agents are paid commissions for renewal business as well. Commissions range from 2 per cent to a whopping 40 per cent by some companies. In the case of life insurance, commissions are paid on a continual basis, year after year, though on a sliding scale.



But to start the business, there is no need for any huge investment. Once the initial learning curve is over, the only important commitment required is that of finding time for meeting prospective clients. An effective client meeting can sometimes generate a big-ticket case, involving a huge commission on a long term basis. A single-time effort and reward year-on-year.

Table given below explains the position:

The above table assumes very conservative figures since a First Premium collection of Rs.5,00,000 works out to Rs. 41,666 per month

Particulars	Year 1	Year 2	Year 3	Year 4
First Premium (FP)	5,00,000	5,00,000	5,00,000	5,00,000
Renewal Premium (RP)	0	5,00,000	10,00,000	15,00,000
Commission on FP@12%	60,000	60,000	60,000	60,000
Commission on FP@5%	0	25,000	50,000	75,000
<b>Total Earnings</b>	<b>60,000</b>	<b>85,000</b>	<b>1,10,000</b>	<b>1,35,000</b>

which is generally a cake walk for an average agent. Also, the commission structures vary from company to company and from product to product. Market linked plans/Unit Linked Plans (ULIP) offer around 10 -15 per cent whereas health plans give around 30 - 40 per cent.

**Investments:**

The only investments required are in terms of money and time.

*Money:* Almost nil. The only investment needed is perhaps the fees for the IRDA examination and the transportation cost for meeting prospective clients. But in most of the insurance companies, even this cost is borne by the respective team managers to attract better agents on board.

*Time:* Time is the most crucial investment in this profession. A top class insurance agent spends around an hour daily on prospecting and calling people. In addition, talking to more and more prospective customers about the product is extremely essential. The next

question is about the number of prospects to be met to achieve the objectives. Of course, that depends on the availability of time and the desired income from this business.

As an illustration, suppose the agent meets 1 per cent daily, it would make 30 prospects a month. Assume the agent is successful in converting 10 per cent of the prospects as his clients, ie. 3 people become clients and pay average premium of Rs. 20,000, the total business sourced would amount to Rs. 60,000 every month. On this, the agent could expect a commission at 12 per cent, which would come to Rs. 7,200

every month.

The numbers are for an average agent with little time to spare in a day. The premium could be very much higher if the agent were to be one having wide contacts and very capable regarding marketing skills and winning over the prospective customers. Also, the number of calls could be significantly higher, in case of retired people and housewives, which would lead to higher business generation.

**Effective Meetings and Benefits:**

The analysis depicts the earning potential, assuming a minimum effectiveness in any meeting. Effectiveness means the ability to convince a prospect at least to a certain degree. Higher the agent's capability, higher is the effectiveness. Of course, beyond a certain stage, the agent's ability and selling skills will cease to have any effect on the prospect. This could be due to some external factors.

Apart from commissions and gifts, top, quality agents can also aim at becoming part of the Million Dollar

Round Table (MDRT), on reaching specified production goals. Only 1 per cent of insurance sales professionals from around the globe get an opportunity, every year, to be part of this big league. There are various categories of production goals namely the basic goal, Court of Table (COT) and Top of Table (TOT).

**Challenges Ahead:**

With the market being flooded with insurance companies, there are a vast number of agents representing different insurance companies. It is implied that prospective customers are bombarded with calls, meetings and information. Hence, it is quintessential that an agent always keeps himself updated with developments in the country at large and the insurance sector in particular. This will enable him to convince his prospects based on facts and figures rather than pure relationship skills. It will place him in an advantageous position vis-à-vis his competitors. The new-age agent is expected to be a financial planner rather than a mere salesperson. It is essential that the agent studies the customer's financial portfolio and then suggests the appropriate insurance plan that matches his risk appetite, investment goals and life/health risk coverage needs.

To summarize, insurance selling has gone beyond being just a noble cause to a lucrative profession. Insurance investments are increasingly becoming an important part of the financial portfolio. The challenges faced by insurance agents are keeping one updated with the latest developments in financial circles and suggesting the appropriate investment option to their customers.



Siddarth Baliga

Email: siddarth1981@gmail.com