

Mechanism Of Insurance Intermediaries In India

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INTRODUCTION

The Dynamics and trend of insurance market are very much liquid in nature. After privatization of insurance industry the scope and function of intermediaries in insurance sector have been so wide, the role of intermediaries in insurance market is very important. The insurance business is a push business where the most of the business is done by different kind of intermediaries. In India the true agent culture in the field of insurance was introduced by the LIC to popularize insurance products among the general population of India. The insurance intermediaries are contributing more than 50% premium of insurance sector in India. So far as government insurance companies are concerned the contribution of insurance agent in collection of premium is around 70% of total premium collected. The Doctrine of "UBERRIMAE FIDE" means Utmost good faith is one of the greatest terms.¹ And intermediaries play a key role in between the insurer and insured as a good faith. There are several kind of intermediary which are working in Indian insurance market for example;

- 1) Insurance agents,
- 2) Brokers,
- 3) Bancassurance,
- 4) Micro agents,
- 5) etc.

KINDS OF INTERMEDIARIES

BANCASSURANCE

The "bancassurance" is a French term which means selling of insurance product with the help of a distribution channel established by a bank. We can also say that the bancassurance is the distribution mechanism of insurance products and services provided by bank. The word "bancassurance" is made of two words i.e. bank and assurance.

CHARACTERISTICS OF BANCASSURANCE

- I. The bancassurance provides another field of profit to the banking system, a bank is expected to work in finance market, bancassurance provides a bank a supplementary profitable functioning.
- II. With the help of bancassurance bank system provide better customer service satisfaction to its customers
- III. Bancassurance provides opportunity to the bank to provide sophisticated product offering

- IV. The Bancassurance service is known for its diversity and growth revenue base from the existing relationship with the customer.
- V. The bancassurance reduces the risk factor in the banking sector as one additional service of insurance is added to the function of bank system.
- VI. The bancassurance also provides the cost effective premises of banking sector.²

Bancassurance has been regulated by two different regulatory authorities, Indian banks regulated by reserve Bank of India therefore the bancassurance is regulated by RBI as well as IRDA (hereafter referred to as the Authority) in India.³

BROKER

The Insurance Regulation, 2017 was introduced by the Authority for regulation of insurance broker, by virtue of Section 42(d), 42(e) and 114 of Insurance Act, 1938 and Section 14 and 26 of IRDAI Act, 1999 the authority made the regulation with the help of insurance advisory Committee. The Authority issued the regulation to monitor and supervise the function of insurance broker in the market. As per Section 3 of the regulation the application for certificate to work as an insurance broker maybe made in the following categories:

1. The direct broker for Life Insurance.
2. Direct broker for general insurance.
3. Direct broker for life as well as general insurance.
4. Reinsurance broker.
5. Composite broker.
6. Insurance Broker.

Composite broker meaning by an insurance broker for the time being registered by the authority to Act for their client with insurance and reinsurance for their client with insurance and reinsurance India and abroad. Direct broker meaning that an insurance broker who works after being registered by the authority to Act as such for a remuneration purpose or to arrange insurance for its client with insurance. Insurance intermediaries License and renewal is being issued by the IRDA.⁴ As per the schedule 1 of the form of Regulation the Broker is duty bound to work on the instruction of client and to provide return acknowledgement and to pay premium under Section 64VB of the 1938, Act on behalf of its client. The broker is also responsible for maintaining the records of claim and to assist position of the claims of insurance.⁵

FUNCTIONS OF COMPOSITE BROKER

As per the regulation 2017 a composite broker is expected to work as per the direction of that person who appoints him. The composite broker can be appointed either by the insurance company or by any other client in insurance business.

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As per the notification of the authority the number of insurance broker till 30 June 2018 is 368, the total number of composite broker are 60 and, there are 5 reinsurance brokers in India.

INSURANCE BROKER

A broker is a newly introduced insurance intermediary which has been introduced by the Authority in the year of 2002. The insurance broker is an expert professional organization in the field of Insurance sector which deals with all kind of insurance entity and area of operation in insurance word on all India basis. There are broadly three kind insurance broker which are as follow:

- 1) **A Composite broker** is a broker who is authorized and entitled for remuneration, provide insurance for his client.
- 2) **Direct broker.** The direct broker is that person who for remuneration provides insurance contracts with the help of insurance companies or re-insurance companies.
- 3) **Insurance broker.** The insurance broker is that person who is authorized and entitled to work in the field of life insurance or General insurance or both on behalf of his client.⁶

For direct broker minimum amount of capital which has been decided by the IRDA is Rs.75,00,000/-. For re-insurance broker the minimum amount of capital is Rs.4,00,00,000/- For composite broker the minimum amount of capital as mentioned by the Authority is Rs.5,00,00,000/-.

THE CORPORATE AGENT

For the appointment corporate agents the provision applicable upon the agents is also applicable in the case of appointment of corporate agent. Though there are some additional provisions for the appointment of agents which are as follow:

- 1) Only a company or firm can be a corporate agent
- 2) Appointment of a corporate agent procedure governed by IRDA.⁷

PRINCIPAL AGENTS

Principal officer/agent is a person who is responsible for day to day function of insurance in any broking firm. In all insurance broking firms the post of principal officer is must.it has been Noticed by IRDA that the Principal Officer are engage in other activities apart from performing the duties of principal officer.⁸ There are certain criteria which need to be followed by the broking firm while appointing the principal officer.

- 1) The principal officer is required to have minimum qualification of graduation or such qualification which has been prescribed by the Authority.
- 2) It is important for principal officer of insurance broking firm that he has received the minimum theoretical and practical training from an institute which has been recognized by the Authority for that purpose as per the regulations.
- 3) Who is willing to join insurance broking firm is required to receive at least 100 hour of practical training of insurance market as prescribed by the Authority.

LICENSING OF INSURANCE INTERMEDIARIES

In the field of Insurance sector the appointments of agents are done by the Authority. All the appointments of agents are done under IRDA (Licensing of Insurance Agent) Regulation, 2000. The regulation has provisions about the training possibility and other aspects of the function of agents.⁹ The Authority has defined guidelines and norm for the appointment of agents which are as follow:

- 1) Age of the agent should be at least 18 years.
- 2) Qualification in urban area the Agent must be 12th class.
- 3) Qualification for rural area, all the agent must be 10th class.

RESERVE BANK OF INDIA GUIDELINES FOR BANCASSURANCE

1. Only a bank having net worth of Rs.1000/- Crore shall be able to enter in the insurance business.
2. A bank that is not eligible under first category to if the CRAR is less than 10%.¹⁰
3. The banks are entitled to undertake any insurance business of any company as a agent for adequate consideration which may be placed with no risk participation in the business

THE RESPONSIBILITIES OF AGENTS

- 1) Insurance agent is duty bound to disclose his identify as and his insurer.
- 2) Insurance agent is bound to disclose his license.
- 3) The agent is required to have necessary information in respect of insurance product being sold by him to the consumer.
- 4) The insurance agent is also subject to the obligation to disclose the amount of commission with relation to the insurance policy or product which has been offered for sale. In this case the duty to disclose the fact arises if it is asked by the prospect.
- 5) The agent is to disclose the sum of premium which is to charge by the insurance company the insurance policy or product which has been offered for sale.
- 6) Agent is so responsible to the insurance company to disclose each and every information about the policy holder which of such nature that it has capacity to influence the agreement of insurance between the insurance company and the policy holder.

THE CHALLENGES AND ISSUES OF INTERMEDIARIES

In India the mechanism/ distribution channel of an Insurance sector is led by the individual intermediaries. Though, in non-life insurance section the percentage of individual intermediaries are less than the life insurance sectors. The share of individual insurance agent in non-life insurance sector are 30%, the share of agents in premium collected for Life Insurance Corporation is around 90% which is better than general insurance. Even March 2019 schedule Forming part of financial statement of LIC make a really good mark in Life Insurance Sector.¹¹ Indirect sale the insurance

companies sell their products through the company and sales forces which include:

1. Internet access,
2. Telemarketing services,
3. Company owned sale forces.

As per the Global experience the direct sale is more important and successful in case of motor insurance product and health insurance product, though it is also believed that in future the individual insurance agency will decrease in number and direct supply mechanism shall increase in the Indian insurance market.

The insurance companies have also started giving advice on internet through the video calling with the enhancement of technology the task of the Authority is also increasing; sometime it is found difficult for the Authority to cope up with these challenges. The Indian Insurance sector has been dominated by the agents intermediaries till today but figures and Trends are showing that future shall be Internet and telemarketing in, which the new kind of regulations guidelines and supervision should be established by the Authority. Several multinational companies are working in Indian Insurance sector which are using very new technology in insurance market. Which requires developing new policy and mechanism to handle these new kind of distribution channel of the insurance industry otherwise it would be hard for the Authority to protect the interest of the policyholder in India.¹²

INTERMEDIARIES AND CUSTOMERS SATISFACTION IN INSURANCE SECTOR

The role of intermediaries is most important so far as customer satisfaction and service are concerned. In all industries the customer service is prime concern. The insurance industry is based upon the trust and reliability Trust and feeling of protection are two main reasons behind the growth of insurance industry. The capable and trustworthy intermediary's mechanism is the base of this trust building. Generally the policyholders do not know the insurer, they are familiar with agent or any individual intermediary of insurance and therefore the satisfaction of customers and policyholders is directly attached to the intermediaries of the insurance sector. There are "Policyholder's Servicing" term which play vital role to provide some information by the insurer.¹³ The companies are also subject to the regulation to find out and analyses the reasons for underperformance and after knowing the reason for such underperformance the priority should be given to eradicate those reasons which actually created this underperformance. Some important facts about the intermediaries of insurance sector in India are as follow:

- 1) The private insurance companies are more focused upon the customer service and feedback program and there for intermediaries workings in the private insurance companies are more active than those who are working in the government insurance sector.
- 2) Private insurance companies are not much dependent upon the agents and individual insurance intermediaries as they use technical and e-business inputs to give better service to their customer.
- 3) Special program and services are organized by the multi-national players in Indian insurance market to

provide training and other skills to their intermediaries.

- 4) The private intermediaries channel has more scope to develop in Indian insurance market as customer feedback pattern is taken seriously in the private insurance companies.

CONCLUSION

The intermediaries of insurance industry come to the contact with the policyholder at so many points. Sometime it is not possible to providing adequate and smart service to the customer but still the points of conduct should be prepared by the insurance companies and every possible attempt should be made to give adequate and quality service to the customer or the policyholder.¹⁴ The onus of the insurance policy is upon the insurance company and intermediaries and not on the policy holder and customer cannot be held liable for any missed transaction which is not within the customer knowledge. Therefore no incorrect detail should be provided by the insurance intermediaries to the consumer. Customer Grievance Redressal machinery is also working for the welfare of policyholder's.¹⁵ In India the govt. insurance companies are mostly dependent upon the individual agents channel whereas the private insurance companies are expanding their innovative and technological intermediary's insurance channel so as to cope up the 21st century challenges in Indian insurance industry. The insurance sector is "push business" sector therefore the Authority should introduce some more innovative regulations to strengthen the conditions of insurance intermediaries channel to boost the Indian insurance sector.

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