INSURANCE EXAM · IC-103

IC-103 Distribution Channels Management in Insurance

Revision book

8	2	105
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 8

CHAPTER 1

Understanding Distribution Channels: Concept and Its Progress

1.1	Meaning and gaps	1.2	Nine functions
1.3	Shifting functions	1.4	Selling approaches
1.5	B2C points	1.6	B2B2C chain
1.7	Needs and wants	1.8	Changing buyers and sellers

MUST KNOW

1. Distribution channel = chain of intermediaries between producer and customer; a bridge.
2. **A channel closes 3 gaps:** time, place, possession.
3. 9 channel functions; forward, backward and two-way flows.
4. **All channel functions:** use scarce resources; better by specialisation; can be shifted.
5. **3 approaches:** B2B (institution to institution), B2C (direct to customer), B2B2C (through another business).
6. **Insurance:** B2B = group and corporate cover; B2C = insurer's direct channel; B2B2C = bank, broker, corporate agent, marketing firm.
7. Need = basic must-have; want = personal form of a need (lifestyle, aspiration, desire).
8. **3 selling strategies:** transactional; hard (push); consultative (need-based).

1.1 Meaning and gaps

- Channel = network of tie-ups a company builds to reach customers.
- **Intermediaries named:** C&F agents, stockists, wholesalers, retailers, e-commerce portals (Flipkart, Snapdeal, Amazon, Ebay).
- **Gaps closed:** time, place, possession.
- How a channel works depends on the industry's selling approach.
- Individual agency = one of the oldest insurance channels.

1.2 Nine functions

- 1 Place orders with makers.
- 2 Agree price and terms.
- 3 Oversee transfer of ownership.
- 4 Storage and movement of products.
- 5 Gather information (customers, competitors, environment).
- 6 Promotion (persuasive messages).
- 7 Raise funds to finance stock.
- 8 Take channel risks.

- 9 Buyers pay bills through banks and financial institutions.

Flow	Items
Forward (company to customer)	Product movement from factory; title flow; promotion
Backward (customer to company)	Product return; refund
Both ways	Information, negotiation, finance, risk taking

TRAP

Information, negotiation, finance, risk are two-way, not forward-only.

1.3 Shifting functions

- **Shift to intermediaries:** maker's cost and price fall.
- **Consumer does functions himself:** even lower price (e.g. buying from insurer's website).
- **Common to all functions:** scarce resources; specialisation; shiftable.

1.4 Selling approaches

- **Selling aims:** reach the target customer; influence with the right solution to complete the sale.

Approach	Meaning	Example
B2B	Institution to institution	Group health for staff; hospital buys syringes; TV channel buys equipment
B2C	Business to end customer	Insurer's direct channel; Kent, Eureka Forbes, Amway; Jio, Zomato
B2B2C	B2B + B2C	Insurer + bank; brokers, corporate agents, marketing firms; Croma, Amazon, D-Mart

1.5 B2C points

- Direct sellers reach prospects through references and testimonials, and demonstrate benefits; hard selling may not work.
- **MLM users:** Amway, Oriflame, Tupperware, Forever Living.
- Eureka Forbes pioneered direct sales; now also uses indirect channels.
- **Other B2C:** telecom (Jio, Airtel, Tata Play); delivery (Zomato, Swiggy, Big Basket, Blinkit).

TRAP

- Group or corporate cover bought direct by a company is B2B, not B2C.
- Bank-sold insurance is B2B2C.

1.6 B2B2C chain

- Maker to large store, marketplace, hyper store, wholesaler or retailer, then to consumer.
- **White goods:** Sony, Samsung, LG, Whirlpool, Voltas via Croma, Reliance Digital, Vijay Sales.
- **FMCG (fast-moving consumer goods):** HUL, P&G, Amul, Parle, Mondelez via D-Mart, Reliance Fresh, Metro.
- Bank offers savings, FD, loans, credit cards plus life, health, asset cover of the tied-up insurer.

TODAY'S RULE

Corporate agents: up to 9 insurers per line (life, general, health).

Agents are appointed by the insurer, not licensed.

1.7 Needs and wants

- **Needs:** air, food, clothes, water; work to earn.
- Wants depend on standard of living, aspirations, desires.

FORMULA AND WORKED SUM

- **Example:** need = watch for punctuality (Rs 300 serves); want = Rolex, Omega, Swatch, Rado. Car need vs Rolls Royce, Mercedes, BMW.

1.8 Changing buyers and sellers

- **Causes:** rising consciousness of wants, more competition, technology; buyers' markets.
- **Strategies:** transactional; hard or push selling; consultative or need-based.
- **Later pages:** insurance distribution principles such as width and depth.

CHAPTER 1 (CONTD.)

Understanding Distribution Channels: Concept and Its Progress

1.1	The three strategies	1.2	Comparison table
1.3	Why consultative in financial services	1.4	Helping the client buy
1.5	Selling in other industries	1.6	Width and depth
1.7	Four Ps and four Cs	1.8	Summary points

MUST KNOW

1. **3 sales strategies:** transactional (buyer knows needs), hard or push-selling (one-sided, close fast), consultative (two-way, need-based).
2. **Communication:** consultative two-way; transactional and push one-way.
3. **Customer lifetime value:** consultative very high, transactional high, push very low.
4. Low financial literacy in India = low insurance penetration and density; so advice-led selling.
5. Pharma targets doctors and chemists; FMCG targets super stockists, distributors, wholesalers, retailers.
6. **Core principles in insurance:** width (more locations) and depth (capability building).
7. 4 Ps = product, price, promotion, place; 4 Cs = customer solution, cost, communication, convenience (same order).
8. Bancassurance = B2B2C; direct to customer = B2C.

1.1 The three strategies

- **Transactional:** simple, completes a transaction; buyer knows needs and wants; pharmacist, newspaper hawker.
- **Hard or push-selling:** most common in the past; pushes the customer; sales person talks most; close the sale at the earliest.
- **Push fails now:** buyer is knowledgeable and has many players to choose from.
- **Consultative:** consultant, collaborative, two-way; talks less, listens more; not commission-led; customised need-based solutions.
- Pharmacist filling a prescription = transactional. Talks most and closes fast = hard-selling; probes, listens and advises = consultative.

1.2 Comparison table

Parameter	Consultative	Transactional	Push
Sales person	Consultant, problem solver, well-wisher	Completes a transaction	Closes sale at earliest
Communication	Two-way	One-way	One-way
Who talks more	Client	Client	Sales person
Focus	Need-based solutions; client first	Dispensing what is asked	Benefiting self, often at customer's cost
Customer lifetime value	Very high	High	Very low

TRAP

Transactional = HIGH value, not very low. "Client comes first" is only consultative.

1.3 Why consultative in financial services

- Financial literacy low, especially insurance; so penetration and density are low versus leading countries.
- People do not plan life-stage goals (children's education, marriage, retirement) or dreams (bigger house, car, holidays).
- Needs differ by aspiration and finances; probe, then offer solutions.
- Regulators keep changing rules to protect customers; protection of policyholders is a main focus of IRDAI.

TODAY'S RULE

Policyholder rules now: IRDAI Protection of Policyholders' Interests, Operations and Allied Matters of Insurers Regs **2024** (from **1 Apr 2024**). IGMS is now Bima Bharosa.

1.4 Helping the client buy

- **Buyer knows the product (FMCG):** brand recall via advertising and promotion creates pull; seller only provides what is required.
- Buyer unaware of solution (insurance, mutual funds, direct equity, air-conditioners, cars): probe for the real need, advise.
- Modern selling = helping the client buy; sales person is a friend of the client.
- Customer-centric = customer is the pivot of all company activity; buyer markets + aware buyers.
- **Croma tag line:** "We help you buy".

1.5 Selling in other industries

Industry	Target	Method
Pharma	Doctors, chemists, hospitals, nursing homes	Medical Representatives build relationships
FMCG	Super stockists, distributors, wholesalers, retailers	Appoint, stock, serve, promotion schemes, replace defective or expired goods

- **FMCG staff:** Territory Supervisors, Area Managers; hear the voice of the customer.
- **Example:** ABC and Sons (distributor of Priya Biscuits) runs buy-one-get-one and replaces expired packs.

- HUL, P&G, ITC top management meet consumers and retailers too.

TRAP

Doctors and chemists = pharma, not FMCG. Super stockists are FMCG, not insurance.

1.6 Width and depth

- **Width:** reach more geographic locations; cover maximum stockists and retail outlets; core principle of FMCG.
- **Insurance also needs width:** agents, corporate agents, brokers, direct sales team; regulator wants higher penetration.
- **Depth:** capability building (knowledge and skills) of distributors; insurance is knowledge-based with a very long horizon.
- Insurance = width AND depth.

TODAY'S RULE

Agents are appointed by the insurer (not licensed). Corporate agents: up to 9 insurers per line (life, general, health).

TRAP

Not "reach and width", "length and breadth" or "simplicity and depth".

1.7 Four Ps and four Cs

P	C	Meaning
Product	Customer solution	Sell as a solution
Price	Cost	What the customer pays
Promotion	Communication	Messages to the customer
Place	Convenience	Distribution without hassle

TRAP

Packaging is not a P. Customer solution goes with Product.

1.8 Summary points

- Channel = network of alliances to reach customers; closes time, place, possession gaps.
- **Channel functions:** use scarce resources; better by specialisation; can be shifted.
- **Selling aim:** reach, then influence the customer with suitable solutions.
- B2B = institution to institution; B2C = business direct to end customer; B2B2C = manufacturer to an intermediary business to customer.
- Need = must-have basic requirement; want = specific form of a need we desire.