

Insurance Broking in India – A Relationship Model Approach

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Abstract

This paper discusses the challenges in the Indian insurance industry, the market forces and, hence, the need for competitive advantage for insurance brokers. A relationship marketing approach is suggested and a relationship model is proposed for this situation, while appropriate values are discussed that should sustain such a relationship.

Keywords: *competitive advantage, India, insurance, relationship marketing*

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1. Introduction: The Indian Insurance Industry – a Raft of Challenges

The insurance industry is a major component of the economy by virtue of the amount of premiums it collects, the scale of its investment and, more fundamentally, the essential social and economic role it plays by covering personal and business risks. Together with banking, insurance services add about 5.4% to the country's GDP (Department of Economic Affairs, 2011). Interestingly, though the contribution of the services sector overall is a healthy 52 % of the GDP and growing at 8.9 % annually, India (12th) still lags behind Japan (2nd) and China (4th) in terms of ranking in service growth. There is, therefore, a need to come of age in terms of reforms as well as nourishing growth.

The Indian insurance industry is dominated by life insurance, with total premiums of US\$57 billion, compared to non life insurance at US\$8 billion for the period 2009-10, according to published figures by IRDA (Insurance Regulatory and Development Authority). The industry registered a healthy annual growth of 19.3% (Sigma Re, 2011). Inflation adjusted growth was at 7.6% .The growth is expected to slow down in 2010-11. Rising double digit inflation has been a cause for concern and has hampered growth. The current economic scenario in Europe is expected to further impact on the Indian industry. The insurance sector deployed a capital of US\$7.8 billion out of which a significant amount, US\$5.8 billion, came from the life insurance segment. Life insurance remains the main driver in the economy. Insurance penetration in percent of GDP at 5.2% remains a poor 6th compared to other Asian countries and below the world average of 7%. China is at 3.4% is 9th but has a higher GDP, lower inflation and dynamic growth factors, like liberalisation of their insurance industry (compared to India), which will bring it up the table in time.

The Indian insurance industry was liberalised in 2000 with the formation of the Insurance Regulatory and Development Authority (IRDA). This opened up the market for foreign players, although restricted in structure to joint venture (JV), with a maximum equity of 26%. Insurance broking regulations were introduced in 2002. Today, there are 25 general insurance companies, including the ECGC (Export Credit and Guarantee Corporation) and Agriculture Insurance Corporation of India, as well as two specialist Health Insurance companies and one reinsurance company. There are also 23 life insurance companies operating in the country (IRDA, 2011). There are 322 insurance brokers as at September 30th, 2011 (*ibid.*).

Further deregulation commenced in the insurance industry in 2007, when the insurance companies were allowed to fix the premiums for the tariff group of risks. These were, principally, fire, engineering and motor. These were to be based on a risk underwriting basis for each of the insurance companies. As a second step, the IRDA proposes to reduce the existing restrictions, which is eagerly awaited by the brokers.

The first step towards deregulation was welcomed by clients as premium rates plummeted because of intensive market competition among insurers. In fact, this might have contributed to a lack of capital among partners and certainly led to negative impacts on the balance sheets of at least some insurers. Today most general insurance companies are reported to make an underwriting loss, which means that their claims payout is in excess of their premium collections. In fact, measures of the losses reported were in the region of US\$1 billion (IRDA, 2010). The life insurance sector also showed accumulated losses of US\$3.7 billion, which is a figure that is expected to double in 2010-11 (CRISIL, 2011). Consequently, a consolidation phase is ripe in the insurance sector and it is expected that there will be some market-driven forces in play soon, including increase in investment for foreign players.

The regulator has also commented on the high expenses of the insurance companies and this is a matter that is being actively pursued with the insurance companies. There is now, therefore, a drive towards underwriting profits rather than depending on investment income to generate cash premiums. This is expected to drive up premiums and shore up balance sheets in due course.

The penetration by brokers into the insurance market is very poor, given that the market opened up for them as early as 2002. It is a poor 1.4% in the life insurance sector, which remains predominately agent-driven. Non life insurance is the sector in which brokers are principally active globally. In India, again as in the life insurance market, this remains an agency-dominated sector (54%), followed by the direct to the insurer segment, which measures 31%. This means that 85% of the business is determined by the insurer, leaving just 15% for the brokers (IRDA, 2010). In the current market, therefore, despite a measure of deregulation certain traditional views still prevail:

- Clients still prefer to deal with insurers directly; they are not comfortable with the concept of an intermediary. Market forces seem to encourage this behaviour and statistics further support it. This is also influenced by the long national history of regulated markets;
- Insurers also seem to leverage the situation by continuing to encourage a direct approach. They are yet to come to terms with the fact that brokers form a very efficient business channel in addition to the fact that they also help develop the market. The forces of a fully deregulated market would also ensure the need for brokers, for both clients as well as insurers.

In this scenario, insurance brokers, who hitherto have been seen as a “cost” to the client, would now be expected to subsidise further the expected hardening of the insurance market in the coming year.

Insurance broking today remains, therefore, a nascent industry with a low level of penetration as a result of market forces, including the slow pace of liberalisation of regulations governing the brokers. Purchasing of insurance today remains dependent, in the main, on the price basis alone. Consequently, brokers have little or no incentive to invest in knowledge and infrastructure. Most players would, in the main, look to similar business models already in operation, which offer similar services that lead to price sensitivity and operate on low margins. Several statistical indicators of select emerging countries have been collated in Table 1, which shows India's low competitiveness with regard to insurance growth and density. While India is ranked fourth in terms of total market premiums for both the life and non-life sectors, it is at the bottom of the table in terms of density per capita. India, therefore, has scope for growth and needs to increase its market aggressively so as to measure up to other emerging economies.

Country	Insurance premiums (US\$ million)	Density per capita in US\$	% GDP	Population in millions	GDP US\$ billion
Japan	505,956	3,979	9.9	127	5,089
China	163,097	121	3.4	1,345	4,736
S Korea	91,963	1,890	10.4	49	882
India	65,085	54	5.2	1,198	1,255
Taiwan	63,647	2,752	16.8	23	379
Hong Kong	23,201	3,304	11	7	211
Singapore	14,245	2,557	6.8	5	77
Thailand	10,460	154	4	68	264
Malaysia	8,840	321	4.4	28	199
Indonesia	7,285	32	1.3	230	541

Table 1. *Statistical Indicators: Select Emerging Countries; source: Swiss Re, 2010.*

In this current scenario, competition remains fierce for brokers in a market dominated by insurers who remain the first choice of customers, owing to their desire for dealing direct. Brokers also

remain handicapped due to the mostly undifferentiated product offerings and a not fully deregulated market.

There is, therefore, a need to create competitive advantage in the market for brokers through relationship building with a relationship marketing approach.

2. Theoretical Framework and Concept Development: the New Paradigm of Relationship Marketing

Relationship marketing (RM) arises from the core concepts of marketing, which was defined by the founder of modern marketing, Philip Kotler, as a "... social activity concerning two social units. These social units may be individuals, groups, organizations, companies or nations. There is a response or exchange which is desired and marketing is the process of eliciting the desired response through creation of values (Kotler, 1972)." RM moves away from the management school of thought of sales marketing and moves to the relationship aspect of the transaction.

RM is defined as 'the process of identifying and establishing, maintaining, enhancing and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, where this is done by a mutual giving and fulfillment of promises' (Gronroos, 1997, 2002). The traditional 4Ps of the marketing toolbox approach (product, price, place and promotion) have given way to looking at marketing more as a social process. RM is still evolving but, as Kotler (1972) concluded: "... companies must move from a short-term transaction oriented goal to a long-term relationship building goal."

RM has its origins in the Nordic school through the IMP, the Industrial Marketing and Purchasing Group, which was born in the 1970s and is still evolving today. Scholars from the Nordic countries have been prominent contributors to this field and their efforts have

been described as representing a paradigm shift in the field of marketing. According to Morgan and Hunt (1994), there is a clear distinction between 'transactional' and 'relational' approaches: "RM refers to all marketing activities directed towards establishing, developing and maintaining successful relationships." This is still not an exact science and the conceptual foundations are at various stages of construction and testing. Sheth (1996) has observed that, for a discipline to emerge, scholarly work needs to be conducted in the field to develop the foundations and build the concepts and theories which explain the observed phenomena.

Consequently, there is a move towards looking at RM as a field for sustaining long term relationships through a move from the transactional to the relational. Customer relationships must not be assumed or taken for granted but should be developed and trust earned over an extended period of time, revolving around customer relationships (Gronroos, 1990).

In the service industry, short term relationships are operationally expensive and thus long term relationships are important (Gummesson, 1987). Berry (1983) introduced the concept of RM as opposed to transaction marketing as a means of describing such a long-term approach to marketing strategy. If long term relationships are maintained through a series of continuing exchanges, it is likely that the marketing costs be lowered (Gronroos, 1990).

Berry (2002) stated the importance of RM to service sector firms in terms of the ongoing periodic desire for services, the fact that the serviced customer controls the selection process of the services supplier and that other services suppliers are available and so switching is always an option for a dissatisfied customer. This is indeed the current scenario in insurance broking. He goes on to state the need for transactional competence and the generation of a tailored approach to the relationship, together with price, before the other relational social exchanges can take hold. He also states that a "new

customer only” approach is not marketing efficient and wasteful and thus advocates customer retention as a solution.

This is especially true for an emerging market such as India where insurance is just coming of age but is as yet not fully liberalized and there is considerable churn in the youthful market. Consolidation is awaited but yet fully to arrive. In an earlier paper, Berry (2002) observes that a service company is only as good as its people. Consequently, there is also a need for employees and stakeholders to be aware of the importance of the relationships embedded in the firm. The insurance broking industry in India, in particular, needs to meet with all these conditions.

Insurance broking is cyclical in nature with the cycle starting with prospecting to mandate to maintenance and in some cases (of failure) to dissolution. At each of the stages, there is a periodic desire for service – i.e. there are certain specific critical service moments. There are 310 insurance brokers licensed as of June 30th, 2011 (IRDA, 2011) and, therefore, there is a choice for clients on the supply side of the service and switching is an option.

In India, with the liberalization of the economy and the advent of globalization and international competition, relationship management has gained importance as a key and defining factor in bidding for business and keeping customers. Gronroos (1990) and Gummesson (1987) take a broader perspective and advocate that customer relationships ought to be the focus and dominant paradigm of marketing. In fact, Gummesson (1979) provides a very powerful argument to the value of RM, which he claims provide value to the firm, to the economy and to society as a whole as well as the individual.

To the firm: value is added through increased engagement and relationship duration and, hence, efficiencies leading to profitability.

To the economy: value is added through a synthesis of all the

stakeholders which reduces instability overall. This paves the path towards further development and, ultimately, is of benefit to the consumer. To the individual: value is added by way of a joint offering customized for the client and leading to greater engagement by delivery of solutions rather than discrete products. This in turn leads to efficiencies within the social group in which people operate and, hence, overall benefit to the society.

RM is a driver to growth in a climate of intense competition in products, services and processes. This is very appropriate for an industry which is moving from a price-driven to a product-driven scenario and, as is the case for insurance broking, is gradually evolving into a solution-driven service. In some cases, clients are aligning themselves globally and, hence, are undergoing rapid change in their buying behaviour. In addition, they are now looking towards quality and integrated processes leading towards a seamless need-satisfaction continuum.

Extensive literature is available in support of a shift towards long-term relationships (Sheth and Parvatiyar, 2000) and the resulting customer profitability. Relationship marketers look at customer retention as an asset value which needs investment for longer and more sustained returns and which forms the underpinnings of RM (Ryals and Payne, 2001).

RM is distinct from Customer Relationship Management (CRM) in the hierarchy of things. If RM is the strategy, philosophy and marketing orientation emphasizing customer retention, then CRM involves management of the customer retention process (*ibid.*). Levitt (1983) likened this to a marriage metaphor in which the sale was the end of the courtship and the beginning or consummation of the marriage. Dwyer *et al.* (1987), meanwhile, extended this metaphor to one which featured an understanding of long term relationships both in industrial as well as consumer markets.

In a highly competitive environment, customer retention is more efficient than obtaining new customers. Recent research studies (e.g. Athanasopoulou, 2009) have concluded that it may be up to five times more expensive to develop new relationships than to maintain existing ones. Consequently, companies will have to strive to develop and maintain long term relationships and create customer loyalty and, thus, to increase profitability.

3. Methodology

Before considering approach the relationship model for insurance broking in India and its implications, it is important to analyse the industry structure and, also, to consider the dimensions that exist in a client-insurance broker relationship. For this purpose, it is necessary to specify a conceptual model of a client-insurance broker relationship model and then to describe the buyer-seller continuum, as well as relating this to lessons from the literature concerning how to create and sustain competitive advantage in such a situation.

In this case, the seminal work of Michael Porter and the five forces model of competitive strategy (1985) will be applied. This approach is capacious enough to accommodate the behavioural patterns evident in the Indian broking industry model, which in turn has implications for the nature and structure of the relationship of the buyer and seller. In the Indian market, this produces the following conceptual framework:

Supplier Power (impact: low)

- Low differentiation in inputs or Transactions
- Difference in relationship strengths only perceived value
- Concentration of insurance brokers hence supplier concentration
- Threat of forward integration by clients

Threat of new entrants (impact: medium)

- Capital requirement low
- Regulations restrict foreign investment only
- Domestic investment open
- Competence requirements medium

Buyer Power (impact high)

- Low switching costs
- Insurance broking perceived as an additional cost
- Perceived incentive in dealing direct
- Fear of non transparency in using an intermediary
- Price sensitivity
- Impact of quality performance

Threat of Substitutes (impact: high)

- Buyer propensity to approach insurer direct
- Insurance product differentiation limited as market still not fully deregulated
- Switching costs between products low
- Relative price performance of substitutes low
- Buyer experience of dealing with insurer direct
- Buyer familiarity with product suite (*ibid.:* 5).

When the industry structure is in flux, it can affect the profitability of the company unless the dynamic forces are properly understood. Porter's five forces model is current and applicable today as a robust approach in enunciating the nuances of the Indian insurance industry and, especially, insurance broking. A company can outperform its rivals only if it can create a differentiation through a value which it

can preserve. This will in its natural course manifest itself into financial benefits (Porter, 1996).

4. Analysis

The industry trends that are more strategic in nature in that they affect industry structure are described as follows:

Buyer Power: High

Buyers intensify competition by forcing the industry to reduce prices, extracting higher quality of services and setting competitors against each other.

Low switching costs

Insurance is a financial exercise that is recreated or reproduced every year and yet is rarely if ever felt to be a priority in terms of impact on the stakeholders of the companies. Consequently, insurance purchase is not a critical item on the list. Some purchases are lender-driven but the criteria for purchase remain generally unchanged.

There is an adequate supply of insurance services available to the buyer. These are in the main the insurers, which have traditionally been the only provider for over 50 years in the market until insurance broking came about in 2002. The expectation of a differentiated service is, therefore, low due to lack of experience of alternates.

There is also a traditional intermediary that has been hitherto unregulated: that is, the consultant, who also has a historical presence and is a little more than an evolved agent. The consultant is almost always involved in a relationship game with, often, rather negligible professional advisory on offer as a value-added service.

The standard, generic or ‘vanilla’ insurance products, such as property or casualty insurance, are today little differentiated and, hence, there is no significant domain knowledge required to run a bidding process. This will change once the definitions are opened up by the IRDA.

- Impact of quality performance

- Price sensitivity

Thus far, the product offerings are by and large neutral to the client’s needs for quality of product or service. In a few cases, such as large infrastructure industries, the client professes to have full information about the products on offer and does not see the need for an independent advisory.

In addition, insurance currently is generally involved in reducing costs where possible.

- Insurance Broking perceived as an additional cost

- Perceived incentive in dealing direct

This is a direct result of the state of evolution of a market which has hitherto been traditional in nature and this has been encouraged by a resistance to change by many of the stakeholders.

- Fear of non transparency in using an intermediary

A variety of factors have contributed to this situation, in which cause and effect have become entangled. Historically, there have been no intermediaries apart from the consultant. Hence, the dealings have been direct with the insurers for all insurance related services. The consultant acted as a facilitator rather than an independent advisory. Licensed insurance brokers in the market today do not all demonstrate the skills required for clients who want their services and are similar to the consultant of old. This problem has been exacerbated by the fact

that the insurance broker's services are packaged as all or nothing. Consequently, the client is unable to select the product or knowledge desired but must accept a package. The IRDA regulations are silent on fee-based services. As a result, insurance brokers are not pushed to upgrade their skills and so offer differential services.

Threat of Substitutes: High

All firms in the industry are competing and, hence, any price-performance substitute will adversely affect the industry. In the Indian market, there is fierce competition to survive among the approximately 320 licensed insurance brokers. The 23 General Insurers and 25 Life insurers also compete in this space. Clients perceive direct dealing with the insurers to be a viable substitute to using insurance brokers due to the reasons enumerated before. As a result, clients perceive that insurers perform the same function as an insurance broker without an appreciable marginal utility, at least at the transaction level. It is, therefore, very evident that the relational level needs to be explored thoroughly to create the differential required among the competing providers and product offerings. This should lead to the following actions:

- *Buyer propensity to approach insurer direct*
- *Insurance product differentiation limited as market still not fully deregulated*
- *Switching costs between products low*
- *Relative price performance of substitutes low*

The reasons are similar to those mentioned under the reasons for low switching costs by the buyer.

- *Buyer experience of dealing with insurer direct*

This also relates to the client's fear of non transparency when dealing with an intermediary.

- Buyer familiarity with product suite

The traditional market for insurance was serviced by insurers without any competition whatsoever until the market opened up in 2000 to foreign players. This resulted in some better practices and, in rare cases, new product offerings, though regulated. Insurers followed Adam Smith's dictum by quickly banding together to deal directly with clients. Insurance brokers were shown as being expensive and a platform set by the IRDA in a draconian regulation system which offered a discount to clients if they placed orders direct. This was repealed by the IRDA in 2007 but the practice of discouraging the use of brokers still continues.

Bargaining Power of Suppliers: Low

- Low differentiation in inputs or transactions and difference in relationship strength is the only perceived value

- Concentration of insurance brokers and, hence, supplier concentration

The insurance brokers form the supplier group. The scope of services is determined by the IRDA and a strict Code of Conduct is enforced. The IRDA has mandated commission rates for insurance brokers, which are to be paid for by insurers. This has brought to the forefront the concept of "loading" the broker's commission on the premium and, therefore, placement of business through the broker is deemed more expensive than going direct. The service package from the broker is bundled as an all or nothing package. The client often does not require the whole package and would like to pay for only the services desired. For instance, the client may need the broker to do the bidding document leading up to the negotiation or use the claims

handling services only. Here the client would rather pay a fee and would be reimbursed by obtaining a cheaper rate by going direct. Current IRDA regulations are silent on this. As a result of the mandated rates, most brokers have not worked hard to build differentiated services and sold them separately. The client, therefore, does not see any demonstrably different offering from the insurance broking firms as a group. For the purposes of this study, consideration of foreign brokers (which are JVs with Indian partners) is not considered.

- Threat of forward integration by clients

The traditional insurance market before the reforms started in 2000 was characterised by insurers being the only insurance resource in the market. As a result, many companies had to build their own insurance teams in an effort to take an independent look at the market. Many large infrastructure and manufacturing companies have acquired significant knowledge of their products through years of use and handling claims on their own. Consequently, any independent advisory needs to have a significantly robust product offering as well as service inputs to make a strategic difference to their products. Insurance brokers with this sort of embedded experience are indeed few.

Currently, survival is largely made possible through altering the level of buyer power in the future. One means of seeking to achieve this is to foster differentiation. It is here that the buyer's decision is influenced in a manner which is more than being just transactional. This is where RM takes hold and, therefore, indicates the need for a relationship-based approach.

In the context in which competitive strategy takes hold, societal expectations and values that drive an individual are critical. This is an important parameter which makes or breaks relationships and need to be factored in as a part of the competitive strategy of a firm. Industry

structure has already been discussed and the company's strengths and weaknesses are internal factors which will not be considered here. This study is focussed on a social group comprising of insurance brokers and its interaction with clients as part of another social group and encompasses such factors as the personal values of the key implementers and broader societal expectations.

5. A Relationship Model in Insurance Broking

A growing body of literature deals with long-term buyer-seller relationships as a prerequisite for competitive strategy (Beloucif and Waddell, 2000). Currently, there is no suitable model depicting the true nature of the exchange between insurance broker and client. Consequently, a conceptual buyer-seller model has been developed to set out the relationship pattern in the stages of the business-to-business relationship (see Figure 2 below). This model presupposes a three-stage relationship in terms of interaction between insurance broker and client. Most quantitative approaches to relationship have suffered from being too static, i.e. episodic and frozen and perhaps applicable to just that particular moment in time (Schurr, 2007). This approach, therefore, is qualitative in nature in terms of building a theory of relationships that caters for the need of sustainable, long-term relationships. The specifications of this model follow:

Stage 1

Like all professional services, initial prospects are usually obtained through a referral program. This is the beginning of the pre-relationship stage. The initial visit should yield sufficient information for a viable proposal for the client to be constructed suitable for the insurance broking assignment.

It is important to note here that transactional competency is demonstrated through appropriate communication, which is usually through a one-to-one meeting with the operating department of the company being targeted. Here, the scope of services is detailed and, if possible, some useful inputs which are of a strategic nature are given as an illustration of competency. The broker should through this initial contact determine the intentions of the client to engage the services offered. Consequently, the presentation and talk need to be focused and the client should get a feeling that the meeting is useful and that the exchange is beneficial.

At this stage, the client is also considering various relationship parameters, such as commitment and trust. It is important to mention that, in India, from the perspective of the transaction, insurance brokers offer the same scope of services for the standard, mandated fees. Hence, in a sense the first impression is always the lasting impression. A service such as insurance is at best a promise and can be validated only once used. The insurance broker, through this approach and the code of conduct has to show prudence in the approach to the risk posed by the client. On the other hand, the broker must also be sensitive to the client's behaviour. If the client's approach demonstrates risky behaviour, a prudent insurance broker would not be looking towards a long-term relationship. Some instances could be the client's approach to cut costs in the first instance. The client may also not part with critical information in a bid to test the acumen or integrity of the insurance broker. The insurance broker in this instance is working on assumptions which may well not be true and could result in wrong advice and result in a serious failure in service. The client may also sue for receiving the wrong advice!

Stage 2

This is a very critical stage in the relationship phase. The insurance broker at this stage makes a business presentation with a view to winning the business for submission to the decision-makers, who

often comprise both the concerned department and a representative from finance, who customarily has decision-making powers.

IMP Group researchers came to the conclusion that the cooperative model for a buyer-seller interchange was a better representation of the facts than the traditional, adversarial model. Here, the individual's goals, attitudes and experiences, influence the behaviour and outcome of the interchange episode. At this stage, interpersonal sales characteristics come into play, such as attributes like ethics, trust and commitment (Anderson and Weitz, 1998) are on view (Sheth and Parvatiyar, 2000). As stated earlier, the exchange at this stage happens at both the transactional and relational levels.

Trust is needed in situations where the buyer seeks consultation and recommendation on matters which may otherwise lead to great financial loss. Morgan and Hunt (1994) talk of reliability and integrity as a prerequisite for trust within the relationship. Reliability is generated through rational thinking, while integrity derives from an emotional response. Commitment is a related element in a buyer-seller relationship and is the desire to keep the relationship going. At this stage, it is demonstrated by, for instance, ensuring that the best human resources together with a senior representative attend any meetings. Consequently, besides presenting a successful transactional brief, it will also be necessary to demonstrate a commitment by way of decisions in support. After all, it is very common in this industry to employ local mapping with the service deliverer in a company which has multiple locations.

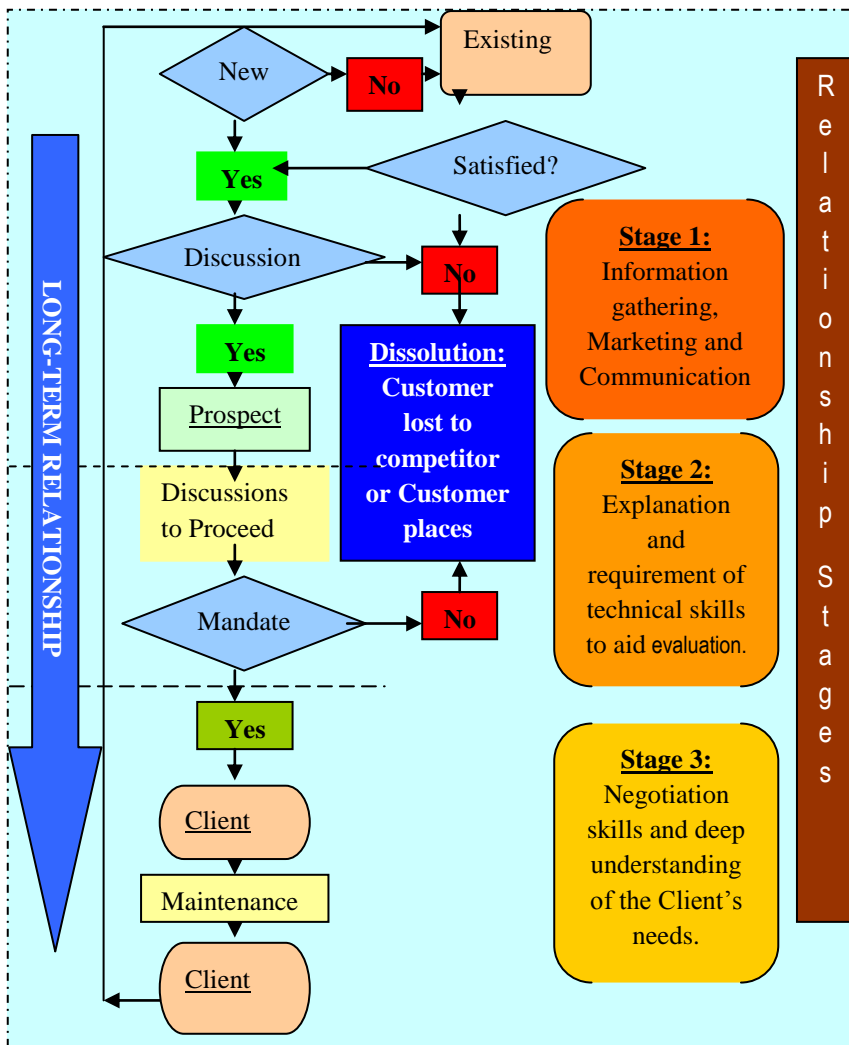


Figure 3. Stages of a Client–Insurance Broker relationship; source: adapted by the author from Beloucif *et al.*, 2004.

The individual's attitudes, goals and experiences influence the behaviour within the interchange episodes (Sheth, 2000). Content messages are not the only ones that are exchanged during this interaction, as relational statements about how the parties feel towards each other and attitudes involving one or more dimensions are also involved (Adler and Rooman, 2006).

The relevance of interpersonal interaction in buyer-seller relationships was first brought to attention by Dwyer *et al.* (1987). Relational behaviour is important when the products lack standardization, as in insurance broking solutions, and also where the risk is perceived as high (Keith *et al.*, 2004; Noordeweier *et al.*, 1990; Jap, 2001). It is suggested that interpersonal satisfaction increases buyer-seller commitment and contributes to the development of long-term inter-firm relationships.

Insurance broking as a service industry is risky and there is a high risk of misselling. This is a situation where a solution has been put together, as an example, where the broking commission is highest. Insurance brokers, therefore, need to be very ethical in their approach. As per the law they, are also required to purchase an adequate level of insurance to cover professional negligence. The client can also demonstrate risky behaviour by, for example, treating this only as a financial transaction and downplaying or ignoring options which are more in line with the company's risk profile and opting for a cheap solution. The client, therefore, remains open to risks which would otherwise be insurable.

Stage 3

The mandate is now in hand and the broker should evaluate the risk profile of the customer and approach the insurer and re-insurer markets as appropriate. The prospect has now become a client. The broker will in the first instance ask for as much information as can be obtained, including information concerning the proposal form for each

form of insurance which is sought to be proposed. Here, attributes like trust will be important for the customer to reveal the company's operating conditions. The customer is likely to be interested in determining ethical behaviour and the degree of commitment to be demonstrated. This is particularly important as there may be a need to reveal areas of risk in the company which are not documented elsewhere or perhaps have surfaced in the immediate term. All the time, there are successive meetings and exchanges of correspondence and documentation and development of the market presentation. This may take up to two to three months and involve large risks and exposure. There will be physical inspection as well of the assets which are insured or sought to be insured. The result would be a broking slip, which is an underwriting submission to insurers/re insurers, as the case may be, for them to respond. This exercise calls for persuasion and negotiation skills as well as exhibition of relational intentions, as the client as well as the insurer/re-insurer is persuaded to understand the risk profile and what can and cannot be insured. The expertise of the broker has a direct effect in creating the platform for a solid relationship (Damperat and Jolibert, 2009).

Once the market presentation is made and the result is analysed, the quotes together with the recommendations are presented and discussed with the client. If the relationship and trust and commitment are not exhibited by this stage, the client may chose to ignore the broker and talk directly with the insurer. In fact, the biggest challenge in today's market is to persuade the client that the broker is indeed working to the client's interests. This is quite often seen as a leap of faith. Market dynamics, as advised earlier, and the insurer's attempt to wrest control of the account will be seen to be at play here.

It is, indeed, regrettable if the broker has not endeared the company to the insurer or to the client due to less than correct behaviour. As mentioned earlier, this is a combination of a lack of maturity in the market and a result of the era of regulation. Consequently, it is essential to demonstrate ethical behaviour. The client would, in

essence, be looking to get the best deal and, with proper information, will be able to accept recommendations and negotiate on price. A client who does not understand the risks, which is often the case, will negotiate only on the price basis alone and opt for the cheapest deal on existing terms.

In the former case, it is ethical to discuss and disclose the commission which the broker is entitled to receive, if so requested by the client. In most cases, the client would appreciate this transparency and leave it to the broker to 'subsidise' the final cost if required. There are cases where the insurer will approach the client directly and 'offer' a lower price for a direct deal. Although this is not permitted by IRDA regulations, the market practice nevertheless exists. In such cases, clients are likely to defer to the approach of the broker in this case, since it represents a cost saving. This is, in itself, an indication of the strength of the relationship.

On the other hand, the client may personally exhibit risky behaviour by ignoring the broker's recommendations and placing the insurance direct, thereby falling prey to price subsidy. This behaviour then becomes transactional and does not build long-term relationships. This would approximate more the nature of a short-term relationship strategy in which price minimisation is the main purpose and the deal is transactional in nature. This is more appropriate for customers whose value perspectives are not affected so much by the service provider/customer relationship (Keith *et al.*, 2004).

After the placement has occurred through the broker, the maintenance phase begins. Although this is a mandated, year-long service agreement according to the law, the success of this is entirely demonstrated by how well the relationship has been handled. As detailed earlier, this implies continued success both on the transactional and relational fronts. This is perhaps the next most difficult service requirement for a broker. Clients may be service

efficient or service inefficient. The latter happens when the earnings are low in comparison to the service requirement for that client.

The reputation of a broker is cemented by the successful handling of such claims as and when they arise. This is one of the service deliverables. When a loss occurs, the client turns to the broker for support in not only handling and negotiating the claim but also from the point of view of seeking reassurance that matters will be handled in the client's best interests. Again, this is a significant time for enhancing the relationship and the broker needs to exhibit qualities such as compassion, candour, empathy, integrity, dependability and responsible behaviour. It is important to steer clear of dubious 'work around' solutions to settle claims which are not ethical and may be called to account. If the broker has performed well at the time of binding the insurance policies, it will be possible to argue clearly with the insurer in favour of the customer as to what is due. As all losses are not insurable, for example business risks, then it falls upon the broker to clearly and sympathetically enunciate this to the client. A study by Elsingerich and Bell (2006) suggests that customer education and allocation of resources for problem resolution are likely to deepen relationships.

The insurance broking relationship is cyclical and the reward for a sustained relationship is the invitation to participate in the mandate in the renewal year. It is quite clear, therefore, that a relationship exchange process, together with competitive transaction acumen, enhances the longer term relationship attributes like trust, ethics and commitment, which are the platform on which the relationship is built.

6. Discussion and Conclusions

The managerial implications of this situation include the need to bring about focus in investing in relationship-building activities in insurance broking as a means towards building competitive advantage. It illustrates some of the antecedents which need to be nurtured in terms

of relationship-building at the industry level .Trust represents an important factor here and has a role to play in marketing success.

The insurance industry and, in particular, the insurance broker is expected to benefit from this study in terms of being to apply more than a transactional approach to sustain a long term client-insurance broker relationship. This is essential in a nascent market like India, both to enhance the scope of insurance broking and, also, to protect the interests of the client. With this is a need for self-governance for which the regulator IRDA needs to transform power to the Insurance Broker's Association of India (IBAI).

The market should be deregulated soon, with regard to both wordings and price. Clients would benefit from being able to decide how much they wish to pay the broker, either by fee or by agreed commission. As a result, as the market matures, insurers would find that the brokers are a good and efficient aggregator for business, instead of a threat.

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