



## As Traditional Services Go Digital, India Post Finds New Life as an Insurance Provider

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Three decades ago, Tilak Ram was a mere part-time employee at India Post. Technically a Gramin Dak Sevak -- an "extra departmental employee" -- he has come a long way since. Today, Ram's spartan office-cum-home in rural Laksar, in the northern state of Uttaranchal, is constantly bustling with people. The 53 year-old Ram is a postal worker outside the regular cadre; there are thousands of them across India. Over the years, he has become the single-point contact for over 6,000 rural households across 12 villages around Laksar to sell mobile phone cards and postal stationery, update post office savings bank accounts, deliver pension money, and collect postal life insurance premiums.



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Ram has now logged an impressive track record in India Post's fastest growing business -- rural postal life insurance (RPLI). In the last fiscal year, Ram, who earns a monthly salary of US\$135 plus commission, sold 250 RPLI policies with a total sum assured of US\$28,000. This bull run for Ram and 300,000 other GDSs who reach out to 730 million people across 600,000 villages, has established India Post as one of the largest players in the rural life insurance business.

Today, RPLI has a corpus of US\$890 million. India Post has sold 10 million RPLI policies between their 1995 launch and 2009-2010. But most of those sales occurred after November 2009, and 40% of them are micro insurance policies where the individual sum assured is less than US\$550.

"We adopted an innovative approach to leverage our distribution reach in the pursuit of socially relevant objectives," says Uday Balakrishnan, who recently retired as member of the Postal Services Board and chairman of the Investment Board of India Post.

The RPLI numbers, say insurance analysts, makes India Post the largest micro insurance player in the US\$13 billion Indian life insurance game. The quasi-government behemoth -- Life Insurance Corporation (LIC) -- sold 1.9 million micro insurance products last year with a 2.5 million target for fiscal 2011, according to Hemant Bhargava, executive director micro insurance at LIC. "There is a growing awareness amongst different pockets of the economy that you have to carry all sections of the population together, which makes micro insurance critical," he says.

In fact, financial inclusion was one of the drivers for India Post to reinvent itself as an insurer to be reckoned with. "Earlier, people couldn't do without us," says Abhishek Singh, senior superintendent of Post Offices in Dehradun in north India. "Now there's competition and we have to reinvent ourselves to be socially relevant." Many of India Post's mainline businesses like personal mail and telegrams have been battered -- volumes are down by 40% over the last decade -- by the technological advances of the Internet era.

Today, India Post's most popular product continues to be the postal savings bank, which holds the savings of over 200 million small investors and is growing. A recently released report by the Associated Chambers of Commerce and Industry and PricewaterhouseCoopers projects household savings to reach US\$5 trillion by 2020, up from US\$330 billion currently. "The government wanted to harness these funds, which are still growing, and insurance became the ideal vehicle," notes Rashesh Shah, chairman of investment bank Edelweiss Capital, and an advisor to India Post.

Insurance was always part of India Post's portfolio: The service began with Postal Life Insurance (PLI) in 1884, aimed at government and semi-government employees. More than a century and a quarter later, PLI had covered only 10% of the eligible applicants in the category. When the RPLI was launched in 1995, it targeted women in the hinterland, with the maximum sum assured at US\$6,520. But in the 15 years since its launch, the postal department sold a mere 10 million RPLI policies, despite rural India being home to two-thirds of the country's population of 1.2 billion.

The potential to address a larger audience also became clear in the low penetration of insurance in India's smaller towns and villages, particularly among the poor. "There is a growing recognition amongst insurance providers of the need for insurance to this population," says [Shamika Ravi](#), assistant professor of economics at the Hyderabad-based Indian School of Business. A 2009 NCAER-Max New York Life survey shows that only 19% of rural households have life insurance coverage, compared to 38% of those in urban areas.

As for India Post, the agency never emphasized insurance as a major line of business and was content to promote its other products, including Speed Post (a courier service) and postal savings. It also became a distribution conduit for third party vendors. But mounting competition forced the organization to bring the insurance portfolio off the back burner, and leverage its longstanding relationship with people in the hinterland. "The postal department has a lot of goodwill and trust with rural people, which works well for insurance," notes S.C. Dash, professor of rural insurance at the National Insurance Academy, the country's apex training institute in Pune in the western Indian state of Maharashtra.

The larger idea, according to India Post's Balakrishnan, was to "help poor cohorts to organize their savings and engage them in the financial markets, to become part of the economic growth story." A majority of the cohorts were already familiar with India Post and had been using its services for years. India Post zeroed in on this captive audience for insurance. "Selling insurance to the poor was one way of locking in customers who were associated with the postal department through the savings bank," according to Edelweiss' Shah.

The trigger was largely a new government initiative to promote financial inclusion, competition from the Internet and other sources and the realization that India Post had an enviable, but underutilized, distribution channel. India Post has one of the best distribution networks in the country: There are 500,000 employees in 155,670 outlets, of which 89% operate in rural destinations, including remote and hilly terrain. They touch base with each of the 600,000 villages in India on a daily basis.

### **Battling the Private Sector**

While the public sector India Post initially underestimated the potential of this distribution muscle, private players willingly piggybacked on the channel to sell mutual funds, gold coins and even consumer products because it made sense to tie up with an entity offering a cost-effective reach into the deep interiors.

Or consider the American remittance heavyweight Western Union, which tied up with the postal department for a pan-India presence a decade ago and saw its business soar. "There is a synergistic relationship," says Kiran Shetty, Western Union's regional vice-president, about the company's association with India Post. "We have a strong global bond and India Post denotes trust, offering an emotional connect to consumers."

Western Union doesn't reveal the amount of money that passes through the postal channel daily, but Shetty states that India Post continues to be one of its largest partners. Out of the 63,000 locations, including retail and banks that Western Union transacts from, 7,000 locations are under the purview of India Post.

In the past few years, private insurers too connected with India Post to reach out to rural customers. For years, millions of rural poor shunned insurance as a product they did not need or could not afford. But it's the insurance companies that cannot afford to ignore them now. The Insurance Regulatory and Development Authority (IRDA) guidelines stipulate that rural India should account for 7% of the policies private insurers write in the first year of operation, and 20% in the tenth year. As a result, most of the country's 23 life insurers and 21 general insurance companies have been seeking to expand coverage in

rural India.

But maneuvering the rural maze is a different ballgame altogether. "Personal connections and trust built over the years play a key role in customer interaction. Local people are important to sell micro insurance and collect premiums from the poor," says Iddo Dror, director of operations at the New Delhi-based Micro Insurance Academy. India Post's Gramin Dak Sevaks hail from the same rural milieu as their customers, ensuring market proximity. As India Post is a household name in the hinterland, it became the ideal conduit for the last-mile connectivity for private insurance companies. Players like ICICI Prudential and Dabur Aviva entered into referral agreement partnerships with India Post in various states to distribute and service their insurance offerings.

The honeymoon with private players, though, hasn't been a pleasant experience for the postal department. Managers at India Post complained that selling competitors' insurance products has proved counterproductive. "We were being undermined by private players who were using our extensive reach, and subverting our product, by offering hidden incentives to our counter staff," notes Balakrishnan. After a brief romance, India Post severed ties with private insurers last year.

More recently, the IRDA has said that private insurers could use the India Post network to distribute their products. The postal department, however, is yet to make the call on whether to align with competitors. One constraint is the agency's inability to match the gifts and cash incentives that the deep-pocketed private players tend to offer to its front office people in order to "motivate them" to sell that company's products.

### Challenge and Opportunity

To beat competition, India Post is now milking its contact with the masses for all it's worth. The agency is reaching out to over 50 million participants in the National Rural Employment Guarantee effort (NREG) -- New Delhi's largest and most ambitious poverty alleviation program to increase the purchasing power of rural Indians. India Post is one of the main channels to distribute money to NREG recipients.

As the government intervention is putting money into otherwise unemployed hands, the recipients have emerged as an ideal target for RPLI coverage. "This segment, along with our relationships with large numbers of rural savings bank holders, gives us a certain customer intimacy that others would be hard-pressed to match," says Balakrishnan.

To reach out to this audience, India Post managers say they had to "examine and evaluate every process in the life insurance cycle to cut down waste." To capture the loose change spent on tobacco products in rural India, for example, the daily premium was pegged at an affordable 2 cents for micro insurance and 13 cents for larger policies. The mandatory medical examination was also waived, making it easy for the poor to warm up to insurance.

The product was backed by a compelling selling proposition -- one offering long-term financial stability to families that would provide for their children's education. "There is an aspiration out there that the next generation must do better, and people are willing to sacrifice today's consumption for children's education tomorrow," according to [Rajeev Srinivasan](#), professor of corporate strategy and policy area at the Indian Institute of Management, Bangalore.

A big issue was the lack of awareness of insurance products amongst India Post's half-million employees operating in rural areas. Today, senior officers conduct rigorous training sessions for the Gramin Dak Sevaks and other staff to motivate and educate them on the product portfolio and the business opportunities. "We are gaining momentum now, and need to constantly train our people," says Sanjay Singh, director of postal services in Uttaranchal.

The pilot project of the revitalized RPLI was held in September 2009 at Etikoppaka, a small village with verdant sugarcane plantations in the southern state of Andhra Pradesh. RPLI's "education for children" proposition clicked with people, and almost all the 2,500 village adults in Etikoppaka bought micro insurance. "More than a risk cover, I looked at RPLI insurance as part of a savings strategy," says T. Gowriamma, who sells wooden toys in the village, and dreams of putting her young daughter and son through high school and college.

Buoyed by the experience, there are plans to position insurance, which brings in 5% of India Post's revenue today, as the main revenue earner in the next couple of years, according to Shekhar Kumar Sinha, chief general manager in charge of postal life insurance. The RPLI target for 2012 is to sell a minimum of 35 million policies. To meet the goals, India Post revised the incentive structure for its staff. Earlier, every US\$2,170 sum assured policy sold fetched them a US\$5.50 commission. Since last year, they earn a flat 10% commission on every premium paid. "Now everyone wants to sell more policies," adds Sinha.

India Post may have reinvented itself to face the big boys in the insurance sector, but there are challenges ahead. Already, the work load is putting pressure on the organization's antiquated infrastructure. "Service quality on a mass scale is a terrific ... challenge," notes Balakrishnan. Unlike private players who have dedicated staff for insurance, all the India Post employees have been multitasking, doing mails, money orders, savings bank transactions and insurance. Says IIM professor Srinivasan: "The private players are more customer focused. The post office has a track record on trust, but it's onerous. People will have to be more customer-centric."

A lack of product portfolio is another issue. Once rural customers enter the system, they yearn for more sophisticated financial products like crop and medical insurance, according to Dash of the National Insurance Academy. At the moment, India Post offers only life insurance while private players are offering a bouquet of services.

RPLI's rapid growth has left India Post over extended, says Shekhar Sinha. As a result, India Post has scaled down the 2012 target for RPLI from an initial 100 million policies to 35 million policies. The growth has also magnified many shortcomings, like the lack of marketing skills of the post personnel compared to aggressive competitors. "Is the current activity sustainable in the long term? How much of this passion permeates to the bottom of the pile?" asks Srinivasan.

There are plans to spin off the insurance business as a separate entity. This could be a challenge or an opportunity, whichever way India Post looks at it.

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