



# Challenges and Opportunities in Insurance Sector

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## Abstract:

The objectives of this report are to explore the current state of development in Indians insurance market and enumerate the opportunities and challenges offered by this exciting market. This report begins with an overview of the Indian insurance market in Section II, which highlights the phenomenal growth experienced recently, in line with the country's improving economic fundamentals. Section III benchmarks the Indian insurance market against other regional counterparts. By comparing growth, penetration, density and other insurance variables, it can be shown that, whilst India is still an underdeveloped insurance market, it has a huge catch-up potential. There are good reasons to expect that the growth momentum can be sustained. In particular, there is huge untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, insurance to mitigate the negative financial consequences of these adverse events is underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. Major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward.

## I. INTRODUCTION

### OBJECTIVES AND METHODOLOGY

The main objective of this paper is to focus on the Indian life industry's challenges and opportunities. The methodology of the study is based on secondary data from various IRDAI journals, working papers, published books, websites etc.

### Insurance Industry in India an overview

Risk is an inherent part of business and individual lives. The insurance providers offer a variety of products to businesses and individuals to provide them protection from risk which can give financial security. They also provide support in stabilizing the markets by evening out any fluctuations. The insurance business is broadly divided into three categories, life insurance, health insurance, and non-life insurance. Individuals face many risks like premature death, depletion in income because of retirement, health risks, loss of property, risk of legal liability, etc. To cover these risks the insurance companies offer life insurance, pension and retirement income, property insurance, legal liability insurance, etc. Businesses also depend on these companies for various property and liability covers, employee compensation, and marine insurance. Therefore, insurance is considered as the backbone of a country's risk management system. The insurance sector in India has grown at a fast rate post-liberalization in 1999. In the last decade, total premium grew at a CAGR of 25% and reached a total of \$67 billion in 2010. Indian Life insurance industry (which contributes 88% of total Life and General insurance premium in India) has emerged as the 9th largest life insurance market in the world. Yet, Insurance penetration (measured as ratio of premium underwritten to GDP) was only at 5.2 % in 2010 significantly lower than Asian peers like South Korea, Taiwan, Japan and Hong Kong which boast an insurance density greater than 10%. With low insurance penetration levels, growth potential remains promising. More importantly, the pace and nature of growth will likely see a change where new

behaviors and dynamics of demand and supply will apply. On the demand side, growth is being fuelled by the growing population base, rising purchasing power, increased insurance awareness, increased domestic savings and rising financial literacy. The suppliers are correspondingly playing a market making role as competition heightens and differentiation become necessary for profitable growth. In the new order, innovating across the business lifecycle has become a necessity.

### Life insurance industry in India

According to Swiss Re, Indians life insurance market was ranked at number 9 among 156 countries in terms of premium in FY11; India's total premium in life insurance grew by 4.2(inflation adjusted) while the total global premium grew by 3.2%. The sector has grown at more than 24% CAGR over the last 10 years. The number of policies issued, declined at a rate of 22.61% to 48.2 million in FY11 from 53.2 million in FY10. The total premium underwritten by the life insurance sector was INR2,916 billion in FY11 as compared to INR2,655 billion in FY10, exhibiting a growth of 9.85% down from the 19.69% premium, which is a measure of new business secured, underwritten by the life insurers during FY11 was INR1,264 billion as compared to INR1,098.94 billion in FY10 registering a lower growth of 15% in FY11 as compared to 25.84% in FY10. In terms of linked and non-linked business during the year 2010–11, 37.38% (as compared to 43.52% in FY10) of the total premium was underwritten in the linked segment while the balance 62.62% of the business was in the non-linked segment (as compared to 56.48% in FY10).

### Non-life insurance industry in India

According to Swiss Re, India's non-life insurance market was ranked number 19 among 156 countries in terms of premium in FY11; India's total premium in non-life insurance grew by 2.1% (inflation adjusted) while the global total premium grew by 2.1%. The sector has grown at a CAGR of 16% over the last 10 years. The number of policies issued increased at a rate of 16.52% to

79.3 million in FY11 from 67.5 million in FY10. million in FY11 from 67.5 million in FY10.

#### **Opportunities for Life Insurance Industry:-**

India ranks in top 10 life insurance markets, penetration of insurance in single digit gives vast scope to penetrate and serve the customer.

#### **Majority of young population:-**

The majority of India will be of working population 795.5 million by 2025. Rise in number of professionals, emergence of prosperous middle class and increase in awareness leads to rise in demand for insurance. Increasing per capita GDP is a huge opportunity for insurers with their varied products in every segment.

#### **Lot of potential:-**

Increasing urbanization of rural areas and growth in new bankable households are of great opportunity for insurers, to offer customized life insurance products (Negi & Singh, 2012). Though increase in number of insurers over last fifteen years, and yet to insure more than 50% of insurable population of India, shows still there is lot to do.

#### **Different products to offer:-**

Increase in life expectancy of individual, favorable savings and employment opportunities in private sector gives greater demand for pension plans. Majority of employees have no formal pension system to choose from, thus greater opportunity to insurers.

#### **Rising income levels:-**

Globalisation and economic reforms in the country have the raised people's income levels and Indians naturally good at saving for future needs, gives great opportunity to insurers. The insurers channelize the savings into innovative insurance and annuity plans.

#### **Technology**

Technology has been great boon for the insurance industry in boosting infrastructure for growth, scalability and reach in every sphere (Cummins & Santomero, 2002). New generation employee's are keen in discussing products and services on social media reviews and comments about companies and their products. Companies have lot of scope to offer their present and future customers by this media.

#### **Customer expectations:-**

Competition among various distribution channels leads to fall of premium and help to improve customer service standards economically. In terms of Customer service there is a lot to do by insurance firms, as increase in channels, expectations of customers will increase (Krishnamurthy & Cotham, 2009).

#### **Distribution channels:**

With the spread and depth of various distribution channels would help greatly in expanding footprint of the life insurance industry. The traditional mode of selling insurance is slowly changing, today most of the insurance firms are using data collected by distribution channels and exchanged with other financial service providers to provide customized products.

#### **Innovative process:-**

After fifteen years of private life insurers in the field, there is drastic change in terms of people perceptions regarding insurance firms and their services. Joint ventures with seasoned insurers will help to share their knowledge; processes will help to bridge the huge gap in insurance penetration

**Challenges:** Those interviewed discussed many challenges, some of which are unique to one company or common to just a

few. However, the most widely shared, consequential challenges the industry faces now include:

#### **Technology and big data -**

Turning to the promise of new technology and big data into commercial successes. This includes capitalizing on the opportunities in mobile and web-based services, using big data and predictive analytics effectively, and overcoming the problems associated with legacy technologies..

#### **Customer focus -**

The need to create better, more comprehensive customer relationships and make it easier for customers to do business with insurance companies.

#### **Regulation -**

Operating under multiple regulatory jurisdictions and complying with changing rules with regard to such things as capital requirements, transparency and reporting, and customer interaction.

#### **Alternative investments**

Managing more complex portfolios with nontraditional assets in a low interest rate, low economic growth environment.

#### **Leadership -**

Discomfort regarding the adequacy of talent pipelines for effective leadership in the future.

#### **Modern Technology:**

New technologies investments which are totally a risk in the insurance business. More policy contracts mean technology optimal use. Hence, the usability of modern technology is essential.

#### **Work Management:**

Insurance business Comprise distinct tasks like claims settlement, policy administration, commission management and management of such is really important which is again not simple due to different clients scenario and sale teamwork.

#### **Back-office Structure:**

As it will be simple, it is more useful. Documentation, policy contracts management, endorsements need to manage in a global manner. So everyone can understand

#### **Customer Motivation:-**

Insurance is long-term promise, which is realised on contingency. Motivating customer to buy and getting valid and useful information for is itself a unique task. The insurance firms have great challenge in terms of collection of customer's information, regarding the product and to offer other required products accordingly.

#### **Insurance awareness:-**

Though the number of insurers' increased, financial literacy and awareness in terms of understanding of products and services by customers is huge challenge. Early years of private life insurers resulted great expectations and lot of disappointments from the customer perspective. The customer anticipation has to be meeting by innovative means. HR leaders naturally are at the forefront of responsibility for meeting the challenges of leadership development. We believe HR's role in the remaining challenges will be quite critical, because success will so heavily depend on attracting and managing the right human capital. Insurance has always been an industry that relies heavily on expertise and specialized skills in its workforce. And while some advancements will disembody human expertise and embed it in systems (for example, automated underwriting and web-based customer self-service), the shape of the workforce will be critical to driving innovation and adaptation to change.

## II. SUGGESTIONS

### **Steps needed to be initiated by Indian Life Insurance Industry:-**

Indian government had taken adventurous decision, by inviting private companies in insurance sector, subsequently passed Insurance Regulatory and Development Authority Act in 1999, and IRDA listed regulations for life insurance organizations operations. In spite of so many regulatory guidelines involve changes like downsizing the mediator commission, tightening advisor recruitment process and mandating Plan Benefit illustrations, alas to this day industry is struggling with lot of problems. These steps are not able to bridge the gap between customer expectations and Insurance Company processes. Regulator has to take solid steps to regain the customer confidence on Life Insurance.

#### ***Advisors Knowledge Level:***

There is no proper periodical assessment on insurance advisors knowledge levels. Currently the prospective advisors need to clear very simple exam to become a Life Insurance Advisor. After that no knowledge upgrading program is mandated for an Advisor. Very few companies are implementing regular training interventions to Advisors. It is irony, to believe some Life Insurance companies do not have Training Department at all. IRDAI has to frame stringent norms on Advisor Education program. Even mis-selling can be controlled because of this factor.

#### ***Simplicity of Plans:***

Even today people are in confusion state on Insurance plans and not able to understand difference between normal financial deposits in other financial services and Life Insurance plans. So regulator need to frame some norms to develop plans in a simple way.

#### ***SOPs (Standard Operating Processes):***

Every company have their own way of designing proposal form. This leads to confusion on filling up and even understanding plan. To overcome this problem regulator can design standard format for all companies and even select some special colours for Traditional and ULIPs.

#### ***Leveraging Technology:***

Life Insurance companies need to develop digital distribution platform to sell Life Insurance. Tab based sales, Selling through the app (Selling through mobiles) are some of innovative ways to go forward. Technology usage can helps to curb mis-selling. Reaching to Rural: Majority of India lives in rural area; to reach them insurance companies has to create simple, suitable, and affordable plans to rural segment. At present, majority of companies running behind big premiums only, and rural business limited to meeting the mandatory norms of regulator.

#### ***Focusing on Women Segment:***

According to IRDA Insurance Report 2011, proportion of women insured among total is insured is 20%. There is lot of vacuum in women segment. Need to develop specialized plans for women. This is going to enable women financial empowerment too.

## III. CONCLUSION

The life insurance industry consists of private insurers in their teens and public sector giant, has unique challenges and untapped opportunities to exploit, the insurers steadily getting

customer's acceptance nevertheless various initiatives are expected from industry and customers perspective, the two key stakeholders of this industry. Insurance regulator can take measures viz., to monitor the knowledge levels of the advisor, the pivotal cog in the insurance process of traditional distribution channel; Simplicity of insurance products that can ease to customer to understand the deposit products and insurance plans; Standard operating processes ease the filling up and understanding the plans. The present opportunities can be optimally utilized by the industry by leveraging technology, reaching the rural India as FMCG companies strategized their business at bottom of pyramid, and focusing on women population with customized products, as aspirations and income levels are in constantly improving.

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