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INCREASING INSURANCE PENETRATION IN INDIA

Insurance as an industry has secured a vital position in the development of the nation's economy. An efficient insurance market is essential to achieve integration into the global economy and sustainable strong economic growth. In conjunction with the forces of global consolidation, current advances in information technology and the potential of e-business mark the beginning of a veritable efficiency revolution in the insurance industry.

One of insurance's key roles is safeguarding the financial health of small and medium-sized enterprises. In addition to the protection provided by social security systems, insurance cover is crucial for people to insure themselves against inability to work, set aside money for retirement or protect themselves against the loss of their assets.

Insurance reduces the investment risk faced by companies and the state. Many companies find it far more expensive, if not impossible, to take out a loan without purchasing the requisite insurance protection. Insured, thereby reduces the costs of raising the capital they need. By reducing investment risk, insurance can also encourage companies to think more long term and increase their risk tolerance. A lot of investments in new production facilities and newly founded companies would never happen if every company was required to have the necessary financial means to make good every conceivable loss. While arguable, it is no exaggeration that the availability of insurance is sometimes being heralded as a factor of production in itself. Hence Insurance has a huge potential to have a greater market share.

All factors are in place for the Indian insurance industry to blossom into one of the fastest growing financial services markets in the world. The still nascent market is at an inflection point—rising incomes driven by economic growth are boosting demand, and increasingly sophisticated consumers with differing needs are driving some differentiated plays. For companies wanting to address this opportunity, a "Even me" approach will prove insufficient. To emerge as winners, they must re-examine their strategies and commit to a few bold, breakthrough approaches. This will not only put them in pole position in the race for customers, but will also help them build sustainable and profitable businesses.

India's life insurance market has grown rapidly over the past six years, with new business premiums growing at over 40 per cent per year. This impressive growth has been driven by liberalisation of the sector, that enabled the entry of a host of new players with significant growth aspirations and capital commitments. These players have contributed to the sector's development by significantly enhancing product awareness, promoting consumer education and information, and creating more organised distribution channels.

In urban areas, penetration of life insurance in the mass market is about 65 per cent, and it is considerably less in the low-income unbanked segment. In rural areas, life insurance penetration in the banked segment is estimated to be about 40 per cent, while it is marginal at best in the unbanked segment. This will change as India sees strongly accelerating household income and a more favourable demographic profile over the next two decades. This will accelerate insurance penetration and per capita coverage.

Adding to the growth driven by sheer economics is the demand for long-term savings and investment products—a gap met by insurance for the Indian consumer. Consumers rank life insurance higher than other investment options because of its ease and convenience in investing, tax benefits, and protection. Among all financial products in India, life insurance enjoys the highest popularity and demand. Contrary to the conventional directly correlated risk–return relationship, Indian consumers perceive life insurance as a low-risk and high-return investment—a perception driven by high awareness of the Life Insurance Corporation of India (LIC) and its record of delivering stable returns over the years.

Multiple Markets Emerging, Needing Distinct Approaches

We can anticipate new distinct consumer segments with different needs, the rising importance of significantly wider reach, and competitive dynamics such as the emergence of new business models from some competitors changing the game. new distinct consumer segments due to dramatic demographic shifts

Rising income levels and dramatic demographic shifts will lead to the emergence of distinct consumer segments that need to be served in fundamentally different ways. Consuming classes are likely to emerge by 2012: „

- *Rising affluent.* The affluent "globals" (annual household income greater than Rs. 10 lakh) will be 2.3 million households strong by the end of 2012 and will earn almost 12 per cent of the country's aggregate disposable income. Going forward to 2025, this segment will swell to 9.5 million households earning 22 per cent of total disposable income. This segment has a relatively low need for risk protection, being self-insured with high investment balances. Insurance is viewed primarily as an investment vehicle and an estate management tool.

- *Growing middle class.* The middle class, comprising "seekers" (annual household income of Rs. 2 to 5 lakh) and "strivers" (annual household income of Rs. 5 to 10 lakh) will grow to 16 per cent of the population or 37.7 million households by 2012 end. In this segment, insurance is used largely for tax planning, retirement planning and savings, as well as for risk protection for the higher income professional class. While attractive, this segment is seeing intensifying competition, as most players are focusing on it to build volume.

- *Newly emerging bankable class.* At the lower end of the pyramid, the "aspirers" (annual household income of Rs. 90,000 to 2 lakh) will comprise 46 per cent of the population or 107.7 million households by 2012 end, representing a formidable emerging bankable class. In this segment, insurance is used for long-term savings, providing higher return at low risk, given the lack of alternative investment options. Key challenges in this segment are managing profitability due to low ticket sizes and high underwriting risk.

Need to strengthen core product schemes

While life insurance premiums have grown over the last few years, low-margin single-premium products and potentially volatile ULIPs have accounted for most of the growth. These products have proven easier to sell, but focusing exclusively on these could impair growth and long-term profitability for India's life insurers.

Scope to boost alternate channels

Of all non-agency channels, bancassurance is more acceptable to Indian customers for buying insurance than are non-bank finance companies, brokers, or direct channels such as the telephone or internet. Given the high penetration of banking products, bancassurance could be the single most important channel for insurers to rapidly acquire new customers. However, cross-sell rates in Indian banking are significantly lower than those in developed markets. In Spain, Italy and France, between 12 and 24 per cent of a bank's customers would have bought insurance through the bank. Bank employees have high variance in selling skills, and banks in the public-sector typically face low operating flexibility in creating a true sales culture. Insurers usually do not invest in systematic training, a problem compounded by product complexity. In many cases, low technological capability and lack of process integration also results in poor service.

Untapped opportunity in health and pensions

insurance players have only just begun addressing areas beyond traditional life products. There is an untapped opportunity in health insurance and pensions, where life insurance players so far have no meaningful presence: health insurance. Adjusting policy size for purchasing power parity shows that health insurance in India is about one-fifth the size of that in countries such as the United States, Germany and South Africa. Pensions. According to the Old Age Social and Income Security (OASIS report*, 1999), there will be 113 million Indians over 60 years of age by 2016 and 179 million by 2026. For this segment, longevity risks are on the rise—as advanced healthcare has improved life expectancy, it has also increased the risk that people will outlive their savings. Indians will have an expected lifespan of 80 years, i.e., live a full 20 non-earning years. Healthcare costs have outstripped general inflation, eroding retirees' purchasing power. Savings and investment risks are intensifying, with rising inflation or steep market declines. Barely 10 to 11 per cent of the estimated working population in India, however, is covered by formal old-age social security mechanisms.

*Source: *Project OASIS was initiated by the Ministry of Social Justice and Empowerment, Government of India, to examine institutional mechanisms for old-age security and recommend actions for the government.*

Three core market segments require differentiated strategies

Insurance companies have an opportunity to create targeted and tailored offerings for different segments, building a different business model and even a different brand for each of the three core segments of the market, as described below.

- "Financial advisor" to the high net worth customer. To better serve high net worth individuals, life insurers could deploy a high-quality, specialised sales force, offer comprehensive financial advice and a broad product range (including third-party products) coupled with tailored products for specific sub-segments, and set up a separate unit to serve these customers.

- tailored product and distribution model for low-income urban groups. Life insurance players could build a non-traditional, profitable business with a separate range of simple products, minimal documentation, and low-cost, highly productive affinity-group-based distribution.

- Partnerships across a disaggregated value chain for the rural population. A successful model can be built for rural markets comprising a broad, bundled product suite of microinsurance, microcredit, savings, and other similar products, using partnerships and alliances for extensive consumer access and the infrastructure needed for distributed servicing.

Distribution excellence will determine success

Success for Indian insurance players will hinge on achieving excellence in distribution by raising agency productivity while simultaneously exploring new models in non-agency distribution.

Transforming the performance of the agency force would require a comprehensive program to enhance professionalism, spanning the entire agent lifecycle. This would entail initiatives such as optimising network configuration to plan the agency footfall based on the potential of each micromarket and driving individual agent performance based on market potential, rationalising agent time allocation, moving to more sophisticated sales tracking, agent support and compensation systems.

As they craft their bancassurance models, insurance companies should ensure significantly stronger sales support, seamless integration of systems and processes between insurance company and bank partner, and simple, over-the- counter products. Finally, some Indian insurance companies may want to consider a telephone and internet-based direct selling. This will require skills such as pricing and designing for risk, sophisticated process management to provide a convenient and hassle-free customer experience and straight-through processing with minimal human intervention.

Operational efficiency becomes important as scale increases

Life insurance players in more mature markets have realised significant value from aggressively pursuing operational efficiencies. We believe some of India's life insurance players have reached the scale at which operational efficiencies do matter, and that such efficiencies will increase in importance in the future. There is a substantial opportunity to enhance core profitability by redesigning products and operating processes that affect life insurance economics. Some product ideas for the Indian life insurers are increasing ticket sizes and tenures of policies, bundling high-yield additional products with high-volume, low-profit policies and adopting a design-to-cost approach in new product development.

Further, Indian life insurance companies should explore a range of tactical actions to improve persistency ratios, such as active CRM programs, incentives to agents for retention and disincentives for lapse, and well-orchestrated, centrally driven programs to promote retention. Finally, a systematic evaluation of end-to-end processes—product development, marketing and sales, underwriting, policy processing and IT—coupled with rigorous benchmarking have resulted in savings of up to 40 per cent in life insurance operations around the world.

Capturing the health and pensions opportunity profitably

In the absence of government-funded health insurance and state-sponsored pensions (excepting those for government employees), i believe there is a huge opportunity for individual player-led health insurance and pension offerings in India. While there are obstacles and risks, life insurance players could focus on the following opportunities in the largely untapped markets:

- *Selective, risk-focused play in health insurance.* The Indian health insurance market is in its infancy, with only around 2 per cent of total healthcare expenditure covered through insurance products. We expect the health insurance market to grow significantly, driven by both increased supply and demand, but some critical challenges will have to be overcome. These include poor standardisation of treatment costs across providers, a lack of data for risk management and product design, untested demand from the individual segment, and limited bargaining power of health insurance players with providers. Life insurance players could initially focus on these segments and develop specific strategies for them.

- *Systemic reform and individual player innovation in pensions*

  India will need to provide for an ageing population in the medium term with barely 11 percent of the estimated working population in India eligible for formal old-agesocial security benefits. Only a few very first steps have been taken in Indian pension reform and there is a long journey ahead. India’s policy-makers need to leverage learnings from other countries to improve retirement benefits to those under the pensions net, and also explore creative options to bring more people from the unorganised sector into retirement schemes.

Focused play for smaller players and new entrants

The priority for smaller companies is simpler, but more urgent. They must achieve volume and build scale rapidly because most of them are operating below optimal scale and find themselves at an increasing competitive disadvantage. If this widening gap with large-scale players is not bridged, the small players will face increasing structural barriers to growth, particularly on distribution, and fewer degrees of freedom in pricing and cost management. To combat pressure from large players, small companies will need to consider one of the following approaches:

Distinctive segment or channel-specialist strategy to penetrate select spaces: Focus on one or two customer segments, adopting a tailored approach for deep penetration or build a high-quality and profitable book by becoming a channel specialist, e.g., bancassurance or direct-only player.

Supply-side innovator strategy to grow rapidly in the traditional model:

Develop and refine a best-in-breed approach to managing talent constraints - creating a large, readily accessible pipeline of agents, and managing attrition and productivity better than competitors, or introducing a new distribution alliance strategy to overcome bottlenecks in organic distribution growth.

Awareness of Insurance:

Insurance must be mandate in most of the social and political gatherings and it must be the priority in economic development during parliamentary sessions. Now, with the proposed plan of opening windows to 49% FDI, the regulatory framework can be more open to technology, compliance and global competition. The insurance penetration will certainly increase if people of India can be made aware of the various risks associated with their life, business and the internal and external environment. Nevertheless, insurance business is the art of selling promise and providing economic security which is the need of the hour to every individual is being cautiously provided through insurance, thereby strengthening the Nation's economy and growth.