INNOVATIVE STRATEGIES TO CATALYSE GROWTH OF INDIAN LIFE INSURANCE SECTOR-AN ANALYTICAL REVIEW

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ABSTRACT

The global economic recession caused by the misdeeds of investment banks such as Lehman Brothers, Goldman Sachs aided and abetted by insurance behemoths such as AIG led to the collapse of the investment banking industry in the US, failure of over 60 banks and financial markets meltdown. Due to the interlinked nature of the global economy and with many central banks and institutions across the world holding securities of the investment banks, the failure of investment banks led to panic across the world and huge losses. The crisis has led to great loss of investor wealth, huge job losses, loss of investor confidence, increased risk of counter party losses, steep decline in demand and exports. Economies across the world face a bleak future in terms of GDP growth rates and trade losses. The Indian insurance industry which has enjoying healthy growth rates and being one of the fastest growing insurance markets in the world is expected to be impacted by the global economic recession. The entry of many private companies has created a paradigm shift in insurance marketing in India in terms of products, tariffs, customer service etc., and has been the prime cause of the upswing in the insurance market. Considering the fact that insurance penetration in the country is abysmally low when compared to other developing countries it is imperative that the growth momentum is sustained. This paper explore the strategies that insurance companies can adopt in order to ensure that they continue to maintain high levels of growth in order to be able to counter the negative impact of the global economic recession.

Keywords: Insurance, Recession, Innovative Strategies.

Introduction:

The global economic recession caused by the misdeeds of investment banks such as Lehman Brothers, Goldman Sachs aided and abetted by insurance behemoths such as AIG led to the collapse of the investment banking industry in the US, failure of over 60 banks, top insurance companies and financial markets meltdown. Due to the interlinked nature of the global economy and with many central banks and institutions across the world holding securities of the investment banks, the failure of investment banks led to panic across the world and huge losses. The crisis has led to great loss of investor wealth, huge job losses, loss of investor confidence, increased risk of counter party losses, steep decline in demand and exports. The Indian insurance industry which has enjoying healthy growth rates and being one of the fastest growing insurance markets in the world is expected to be impacted by the global economic recession. The entry of many private companies has created a paradigm shift in insurance marketing in India in terms of products, tariffs, customer service etc., and has been the prime cause of the upswing in the insurance market. Considering the fact that insurance penetration in the country is abysmally low when compared to other developing countries it is imperative that the growth momentum is sustained. This paper explore the strategies that insurance companies can adopt in order to ensure that they continue to maintain high levels of growth in order to be able to counter the negative impact of the global economic recession.

1.1 Need for the Study:

Though the Indian insurance sector has weathered the impact of the global economic crisis in an appreciable manner, the fact needs to be acknowledged that insurance density and penetration are very low in comparison to global standards. With more than 88 per cent of the population devoid of any form of social security, the poor spread of insurance even after nearly a decade of liberalisation is a cause of major concern. Therefore this paper was written with the basic objective of designing a strategic roadmap for kick starting growth in the sector.

1.2 Research Methodology:

This paper is exploratory in nature and explores the various strategic options that can be effectively implemented by the life insurers to improve the coverage and penetration of life insurance. The authors have used secondary data which was sourced from business journals, magazines and publications of the regulator.

Literature Survey:

Graven (2000) stated that the internet creates many opportunities as well as poses challenges to insurers. Thomas Hess (2002) stated that insurance plays an important role in the developmental process of an economy and its role is more pronounced in developing economies, Abhishek Agarwal (2003) said that E-business insurance is expected to grow significantly in the future, Jawaharlal (2003) said that the entry of private players has revolutionized the market for riders, Murthy GRK (2003) felt that Indian insurance companies need to switch over to better methods of corporate governance to create confidence in the minds of the investing public, Sreedevi Lakshmikutty and Sridharan Baskar (2003) opined that the success of marketing insurance depends on understanding the social and cultural needs of the target population and tailoring products and services according to target market requirements, Mony SV (2003) said that in a service like insurance which promises in return for payment upfront, redemption of commitments has to be perfect at all times, Sharma NC (2004) stated that even after liberalization the growth of the life insurance industry in India is inextricably linked to the fortunes of LIC, Mishra KK

(2004) felt that since 1999, India's insurance industry has benefited from FDI and increasing of the FDI cap to 49 per cent would further benefit the industry, Anuroop Tony Singh (2004) stated that selling insurance in India is an attractive opportunity because of the untapped potential but is fraught with challenges such as language and cultural barriers and low purchasing power, Naren Joshi (2004) felt that consumer education is the key to the growth of the insurance industry in India, Viswanadhan (2005), said that bancassurance can be sure a fire way to reach a wide customer base, Rajesh Jhampala (2005) stated that multi-channel distribution and marketing of new insurance products have been the strategy of new players and that this trend would continue in the future, Mishra KK and Smita Mishra (2005), opined that to constantly differentiate themselves, insurers have to constantly raise the bar of customer service and shredding inefficient practices, Anil Chandok (2006) stated that to have an upper hand over competitors, insurers need to adopt and implement CRM, Sridharan and Allimuthu (2009) stated that bancassurance would have a positive impact on insurance products distribution if banks and insurance companies understand each other's businesses and seize the opportunities presented.

Origin And Growth Of The Insurance Industry In India:

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India.

The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted and in 1938, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. Since there were allegations of unfair trade practices, the government nationalized the insurance business. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies and 245 Indian and foreign insurers in all. The LIC had monopoly till the late 1990s when the Insurance sector was reopened to the private sector.

The Insurance sector, which was opened up for private participation in the year 1999, has completed ten years in a liberalized environment. Since opening up of the Insurance sector in 1999, 24 private companies have been granted license by 31st March, 2009 to conduct business in Life Insurance and General Insurance. Of the 24, 15 were in the Life Insurance and 9(including a standalone health Insurance company) in General Insurance. During the last seven years capital amounting to Rs.962.5 billion was brought in by the private players, of which the contribution of foreign partners has been Rs.217.42 billion. During this period the average annual growth of first year's premium in the Life segment worked out of 47.06% and in the Non-Life segment it was 16.87%. The Industry services the largest number of life insurance policies in the world. At the time of opening up of the sector, Life Insurance was viewed as a mere tax saving device. Growth in the insurance industry has been spurred by product innovation, active sales and distribution channels coupled with targeted advertising and marketing campaigns by the insurers. The insurance companies are increasingly tapping the semi-urban and rural areas to take across the message of protection of life through insurance cover. Introduction of Unit Linked Insurance Plans (ULIPs) has been possibly, the single- largest innovation in the field of the life insurance in India. ULIPs are differently structured products and give choices to the policy holder. The following tables provide a snapshot of the insurance sector:

Table 1 Number of Registered Insurers in India (as on 30.9.10)

Type of Business	Public sector	Private sector	Total
Life Insurance	1	22	23
General Insurance	6*	18**	24
Re-insurance	1	0	1
Total	8	40	48

Source: IRDA Annual Report 2009-10

* Includes specialised insurance companies ECGC and AIC

** Includes three standalone health insurance companies – Star Health and Allied Insurance Company, Apollo Munich Health Insurance Company and Max Bupa Health Insurance Company

Table 2 Annualised premium earnings for 2009-10

Companies	Percentage
LIC	48.1
Private players	51.9

Source: IRDA

Table 3 Premium underwritten by Life Insurers (in Rs. Crore)

Insurer	2008-09	2009-10
	Single Premium	
LIC	34,083.47 (0.78)	45,337.42 (33.19)
Private sector	3,488.97 (-30.91)	3,842.27 (10.13)
Total	37,527.44 (-3.34)	49,179.79 (31.05)
	First Year Premium	
LIC	53,179.08 (-11.36)	71,521.9 (34.49)
Private sector	34,152.01 (1.29)	38,372.12 (12.36)
Total	87,331.09 (-6.81)	1,09,894.02 (25.89)
	Renewal Premium	
LIC	1,04,108.96 (15.94)	1,14,555.41 (10.03)
Private sector	30,345.43 (70.05)	41,000.94 (35.11)
Total	1,34,454.39 (24.91)	1,55,556.35 (15.69)

Note: Figures in bracket indicate the growth (in percentage) over the previous year

Source: IRDA Annual Reports

Current Status Of The Insurance Sector In India – An Appraisal:

India was ranked 9th among 156 countries in the life insurance business as per data published by Swiss Re. During the year 2009, life insurance premiums in India grew by 10.1 per cent (inflation adjusted), while the global life insurance industry contracted by 2 per cent. The share of Indian life insurance sector in the global market was 2.45 per cent during 2009, as against 1.98 per cent in 2008. Since opening up of the Insurance sector in 1999, 40 private companies have been granted license by 30th September 2010 to conduct business in Life Insurance and General Insurance. Of the 40, 22 are in the Life Insurance and 18 in General Insurance. After the opening up of the sector, the average annual growth of first year's premium in the Life segment worked out of 47.06% and in the Non-Life segment it was 16.87%.

Today, hardly 20 per cent of the population in India is insured and insurance premium (life as well as non-life) account for just 2 per cent of the GDP as against the G-7 average of 9.2 per cent. A burgeoning middle class, high per capita savings and low penetration of insurance are some of the key factors responsible for the tremendous interest foreign insurance companies are showing in the Indian insurance industry. An insurance survey by LIC and KPMG revealed that he annual growth in the average insurance premium in India has been 8.2 per cent compared with the global average of 3-4 per cent. Per capita insurance premium in India is a mere US $6, one of the lowest in the world. In South Korea, the corresponding figure is US $ 1,338, in US it is $22,550 and in UK it is $1,589. Insurance premium in India accounts for a mere 2 per cent of GDP compared to the world average of 7.8 per cent and G-7 average of 9.2 per cent. Insurance premium as a percentage of savings is barely 5.95 per cent in India compared to 52.5 per cent in UK. With the entry of private players, the market has been flooded with new products and customer service has improved. The following table brings out the low insurance penetration in India as compared to other countries, which is an indicator of the high potential for growth

Table 4 International Comparison (Insurance Penetration)

	2008-09			2009-10		
Countries	**Life**	**Non-Life**	**Total**	**Life**	**Non-Life**	**Total**
USA	4.32	4.32	8.55	4.48	4.28	8.76
Canada	3.19	3.31	6.49	3.27	3.28	6.56
Brazil	0.35	1.66	2.01	0.36	1.75	2.11
Mexico	0.82	0.86	1.68	0.86	0.85	1.72
Chile	2.65	1.13	3.78	2.92	1.15	4.07
UK	10.30	3.05	13.55	12.71	3.07	15.78
Germany	2.96	3.55	6.52	3.00	3.55	6.54
France	5.70	2.82	8.52	6.59	2.81	9.40
Russia	0.78	1.34	2.13	1.13	1.29	2.42
Japan	8.87	2.30	11.17	8.70	2.22	10.92
South Korea	8.39	2.89	11.28	9.89	3.16	13.05
China	1.02	0.61	1.68	1.12	0.67	1.79
India	1.39	0.54	1.93	1.77	0.55	2.32
Malaysia	2.16	1.72	3.88	2.13	1.59	3.72
Indonesia	0.66	0.76	1.42	0.54	0.64	1.18
South Africa	13.92	2.62	16.54	14.04	2.83	16.86
Nigeria	0.07	0.88	0.95	0.13	0.53	0.66
Kenya	0.78	2.48	3.26	0.72	1.91	2.63
Australia	6.43	3.39	9.28	6.04	3.37	9.41

Source: SwissRe

Impact of Recession:

The life insurance industry has been able to quickly recover from the negative impact of the global economic crisis which resulted in a slowdown in the global insurance industry. The growth of the Indian insurance industry was 19.69 per cent in 2009-10 as compared to 10.15 per cent in the previous year. Among the private sector life insurance companies, seven companies reported profits in 2009-10 which was higher when compared to the previous year when only four companies earned profits. The number of private sector life insurance companies reporting profits shows encouraging trends. While only two life insurance companies earned profits in the two year period 2005-07, the number increased to 4 for the next two year period 2007-09 and increased to 7 in 2009-10. Additional capital infused in the industry in 2009-10 was Rs.2,766 crore. Though many companies have achieved the premium earning targets which they envisaged during commencement of operations, the target with regard to number of years to break even has been pushed further. This is because of high operating and management expenses.

The first year premium of life insurers which is an indicator of new business secured rose to Rs.1,09,894 crore in 2009-10 from Rs.87,331 crore in 2008-09 indicating a growth of 25.85 per cent as against a decline of 6.84 per cent in the corresponding period last year. The total premium underwritten in the life insurance sector in 2009-10 was Rs.2,65,450 crore in 2009-10 as against Rs.2,21,785 crore in 2008-09 recording a growth rate of 19.69 per cent while the growth rate of 2008-09 was 10.15 per cent.

Innovative Strategies To Sustain Growth Momentum:

The global recession caused by the financial markets meltdown has led to a fall in global GDP growth and the repercussions are already felt in India. India's GDP growth which was growing at over 9 percent declined to the range of 6 to 7 percent but has smartly recovered and is expected to grow at 9 per cent plus in the coming years. In this scenario, the insurance sector has to devise innovative strategies to sustain the high levels of growth achieved. The following are some of the strategies that insurance companies can follow to ensure that they continue to grow at high levels:

(i) Launch of Islamic Insurance Products:

There are around 142 million Muslims in India and many of them have not taken insurance policies because the products on offer do not conform to Shariah laws. Shariah compliant insurance products (takaful) have been introduced in the Gulf countries and have been successful in gaining the acceptance of the masses. Indian insurance companies should also study the nuances of such products and introduce them in a phased manner. This would enable them to penetrate a hugely untapped market.

(ii) Paradigm shift in product positioning:

Insurance schemes which are basically risk coverage instruments have been marketed as tax saving as well as wealth accumulation instruments. The draft Finance Bill proposes to move from the present EEE (Exempt, Exempt, Exempt) privilege enjoyed by insurance schemes to a system of EET (Exempt, Exempt, Tax). Due to this, maturity benefits received from insurance policies which are currently tax free would become taxable. Keeping this in mind, insurance companies should devise policies which provide effective risk coverage rather than focussing on the tax benefits which would not be available in the future.

(iii) ***Modified Product Structures:***

Companies should come forward to come out with products with high risk cover with low insurance premia. Term insurance covers should be widely marketed because they provide high risk cover with lower premium payments when compared to endowment plans.

(iv) Marketing of Unit Linked Insurance Plans:

With the fundamentals of the Indian economy being intact, the stock markets are expected to grow at a sustained pace barring a few downward corrections. Therefore insurance companies should come out with growth oriented unit linked insurance plans and communicate their benefits to the investors.

(v) Ethical Marketing:

Many of the insurance products are currently being sold by agents by over exaggerating benefits and suppressing or misrepresenting vital details. Without any proper assessment of the financial needs and risk profile of the prospect, the agent tries to peddle those policies which would yield him the highest possible commission. For instance, ULIP's are characterised by high front loading. The policy holder would get decent benefits only if he pays premiums over the long term because it takes at least 5 years for the policy to breakeven. But many insurance agents hide these truths and entice the prospect by telling that premium need not be paid after 3 or 5 years. Since agents get maximum commission during the initial years, there have been instances where agents have gone back to a policy holder after three years to sign him up for another ULIP scheme. In order to create trust among policy holders, insurance companies should train their sales force to be ethical, understand customer needs and sell appropriate products and provide complete information to the customers so that they can make informed choices.

(vi) Facility to mix and match benefits:

Insurance policies should allow investors to mix and match benefits. Though riders have been introduced, they are tied to specific products. Instead, investors should be given the option of choosing the riders of their choice. This would enhance the scope for choice.

(vii) Focussing on the woman segment:

The proportion of women who have insurance cover is much lower when compared to men. With the number of women entering the work force increasing at a fast pace, insurance companies should take steps to tap the hitherto untapped segment. Policies exclusively designed for women should be introduced and marketed.

(viii) Targetting the youth:

India is the only country in the world which would have a growing population of those in the productive working age group upto the year 2035. Insurance companies should leverage the potential of this demographic advantage. With countries around the world, including China, rapidly ageing, more amount of work would be outsourced to India and there would be increased migration of Indian youth to foreign countries because of the growing employment opportunities. All these would translate into higher disposable income and greater purchasing power. Insurance companies should tailor products to the youth segment focussing on different benefits with varying terms and investment options. Instead of focussing only on the traditional channels of marketing they should use social networking sites, blogs etc., to promote their products.

(ix) Targetting Niche Segments:

Tata AIG General Insurance, has pioneered the concept of offering insurance products for professionals in different segments. In the professional indemnity space it has offered Directors and Officers policy and has also introduced a policy exclusively for Chartered Accountants. This policy covers claims pertaining to professional negligence, wrongful acts committed in the performance duties. It also provides for coverage of all legal expenses incurred in defending such claims. Likewise professional indemnity policies can be introduced for medical professionals etc.

(x) Premium charges based on potential risk factors:

People who are non-smokers and tee-totallers have higher life expectancy when compared to those who smoke and consume alcohol. Therefore insurance companies should offer plans at a lower premium to non-smokers and tee-totallers when compared to those who smoke or drink.

(xi) Tapping the potential of the rural markets:

India lives in its villages, the reason being that 70% of the Indian population still lives in rural areas. The rural segment with a market size of 700 million provides great opportunities for growth. The proportion of the rural population having insurance covers is abysmally low. To reach the rural segment, insurance companies should utilise multiple channels such as NGO's, Self Help Groups, Co-operative societies, Regional Rural Banks (RRB's) ITC's e-choupal etc.

(xii) Selling through corporate distribution agencies:

Insurance companies should utilise the services of corporate distribution agencies to market their products. Indiabulls, Karvy Consultants, India Infoline, Way2Wealth, SPA Capital Markets and other such corporate agents have wide network of clients and they can be useful for both cross selling and upselling of products.

(xiii) Thrust on bancassurance*:*

Insurance companies should increase their alliances with banks for marketing of insurance products. Bancassurance offers the benefit of low marketing spends, readily available database of clients and high conversion ratio of prospects into sales. AVIVA has been a leader in the bancassurance sphere and derives nearly fifty percent of its revenues from bancassurance. Bancassurance can become an effective distribution channel provided there is better understanding of the synergistic benefits for both the banks and insurance companies.

(xiv) Marketing through the postal channel:

The country has more than 1.5 lakh post offices, which is more than twice the number of bank branches. The postal channel can really be a channel with very great potential to market insurance products. Recently the postal department has introduced the concept of 'Shop @ Post' wherein consumers can buy gift wrappers, CD's, pen drives and calculators. It is also planning to offer a number of e-enabled services including e-post, instant money order and money transfer facilities. Such facilities can be gainfully utilised to market insurance schemes according to consumer requirements. The postmen can be trained in marketing of insurance policies and can be compensated for their efforts. They can be used for marketing of policies, collection of premiums as well as settlement of claims.

(xv) Mallassurance – An emerging channel:

The number of malls across the country is increasing at a fast pace. With malls being a favourite hangout of the young crowd, setting up insurance kiosks in malls can be an ideal way of targeting the youth. With the disposable income in the hands of the youth increasing, mallassurance can be a sure fire way to kickstart growth.

(xvi) E-marketing:

The internet penetration in India is growing by leaps and bounds. Insurance companies should utilise this emerging medium to reach a vast segment of the population at a low cost. Their websites should have easy navigation facility and secure payment options to investors. They should go in for banner advertisements to attract traffic to their site and convert prospects into customers.

Findings:

i. The Indian insurance industry has proved to be resilient and has recovered quite fast from the debilitating impact of the global economic crisis.
ii. Though the insurance sector was liberalised a decade ago and currently 23 companies are operating in the life insurance space, penetration and density is very low in comparison to other countries.
iii. Considering the favourable demographics, rising awareness of the need for insurance and growing affluence, there is vast potential for the growth of the insurance sector.
iv. Companies instead of focussing only on improving the variety of products needs to focus on targeting new segments and implement innovative strategies in order to achieve sustained growth and ensure profitability of business as well as growth of insurance coverage.

Conclusion:

The global recession has definitely had a negative impact on the financial services industry across the globe. The insurance industry is no exception and has been adversely impacted by the recession. The Indian economy though it has slowed down, still remains the second fastest growing economy in the world. Though the insurance sector is bound to feel the negative impact of the recession, it would also make the players more strong, resilient and innovative. Considering the fact that India is grossly uninsured and underinsured, insurance companies need not panic. The need of the movement is out of the box thinking and design and implementation of innovative strategies at a quick pace. Usage of multiple channels and creating varied customer touch points with focus on offering a bouquet of products and enhanced levels of customer service would definitely ensure sustenance of the growth momentum in the insurance sector.

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