**Key Emerging Trends In Insurance Industry: The Way Forward**

**Dr. Nisha Jain\***

**Dr. S. K .Sahoo\*\***

**Abstract**

*The Insurance industry in India has undergone transformational changes over the last 12 years. Liberalization has led to the entry of the largest insurance companies in the world, who have taken a strategic view on India being one of the top priority emerging markets. The industry has witnessed phases of rapid growth along with spans of growth moderation, intensifying competition with both life and general insurance segments having more than 20 competing companies, and significant expansion of the customer base. There have also been number of product innovations and operational innovations necessitated by increased competition among the players.*

*Over the last few decades, continued environmental, operational, and technological changes have led to the development of multiple distribution channels in the insurance industry. Insurers no longer rely solely on traditional channels such as agents and brokers, but have developed new alternate channels to drive growth at lower costs. As competition in insurance markets is intensifying, cost savings and customer retention has become critical, forcing insurers to look for ways to drive sales and customer convenience while keeping costs low and maintaining profitability. The paper discusses about the insurance sector in India and the emerging trends that would shape the future growth and profitability of the industry.*

**Keywords:** Strategic Innovation, Insurance channels, Competitive Strategies P2P Insurance, Mobile-based Insurance

\*Lecturer, Department of Commerce, Ravenshaw College, Cuttack

\*\*Reader, Department of Commerce, Ravenshaw College, Cuttack

**INTRODUCTION:**

It is argued that strategic innovation is a crucial driver of growth, performance, and valuation. That is why an increasing number of financial institutions have put ‘innovation’ on the top of their corporate agenda. But research has revealed that there is a wide gap between the aspirations of executives to innovate and their ability to execute, especially when it comes to strategic innovation. In particular, established insurance firms find it difficult to translate their innovation ambitions into successful projects and new businesses. Nevertheless, some financial institutions have changed the rules of the game in the Insurance industry. Today Insurance companies are also effectively using technology to better meet customer demands by better integrating technology with the whole policy sales cycle. They are focusing on speeding up the complete insurance distribution process while also identifying processes that can be automated—improving efficiency and profitability. These initiatives are enabling insurance firms to scale up their business models by strengthening their internal processes with a goal of better customer service.

This paper is an attempt to understand and discuss the various issues that the Indian insurance industry is dealing with, and to bring to the fore emerging trends that will shape the growth and profitability of the industry in the near to medium term future.

**OBJECTIVES OF THE PAPER:**

1. To take an overview of the global insurance industry

2. To take a look at the scenario of the Indian insurance industry.

3. To understand and discuss various issues in the Indian Insurance sector.

4. To study the new alternate channels and innovative models to promote Insurance.

**THE GLOBAL INSURANCE INDUSTRY:**

Global insurance industry premium volume returned to positive growth in 2010, after declining for two years during the financial crisis. Total premium volume rose to US$4.3 trillion in 2010, a growth of 5.6% over 2009. The rise in premium volume was aided by the overall improvement in the global economy in 2010, with growth witnessed across both life and non-life insurance. While the growth has been higher in Asian and other emerging markets, it was relatively lower in the U.S. and Western European markets. As per the World Insurance Report, published by the reinsurance major “Swiss Re”, the global direct premium during 2011 dropped by 0.8 per cent against a surge at 2.7 per cent growth witnessed in the previous year. Globally, life insurance premium accounted for 57 per cent of total insurance premium. This share is higher in advanced economies than in the emerging markets. During 2011, global life insurance premium dropped by 2.7 per cent to USD 2627 billion. The premium volume fell in Western Europe, China and India, whereas, it rose in Middle East and Latin America.

On the other hand, the premium in non-life insurance business grew by 1.9 per cent. Latin America reported remarkably high growth. However direct premiums reached a record high of USD 4597 billion in 2011 in nominal terms increasing 6% over 2010 as the US dollar depreciated against the major currencies. The Report mentions that the year 2011 witnessed exceptionally high catastrophe losses in Japan, Australia, and the United States, while European countries generally enjoyed low catastrophe claims. In 2011, total economic losses to Society due to disasters (both insured and uninsured) reached an estimated USD 370 billion, compared to USD 226 billion in 2010.

The earthquake in Japan, the country’s worst on record in terms of magnitude, alone accounted for 57 percent of global economic losses. The insured losses from natural catastrophes appeared to be to the tune of USD 110 billion.

GRAPH 1: Global Life and Non-life insurance Premium Volumes(USD bnd) 2008-2010

Source: Capgemini Analysis, 2012; World Insurance in 2009, 2010, Swiss Re

**INDIAN INSURANCE INDUSTRY: OVERVIEW**

In 1818, a British company called Oriental Life Insurance setup the first insurance firm in India followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. Though all this companies were operating in India but insuring the life of European living in India only. Later some of the companies started providing insurance to Indians with approximately 20% higher premium than Europeans as Indians were treated as “substandard”. Substandard in insurance parlance refers to lives with physical disability. Bombay Mutual Life Assurance Society was the first company established in 1871 which started selling policies to Indians with “fair value”. Insurance business was subjected to Indian company act1866, without any specific regulation. In 1905, the slogan “Be Indian-Buy Indian” declared by Swadeshi Movement gave birth to dozens of indigenous life insurance and provident fund companies. In 1937, the Government of India setup a consultative committee and finally first comprehensive ‘insurance act’ was passed in 1938.

In Oct.2000, IRDA (Insurance Regulatory and Development Authority) issued license paper to three companies,which are HDFC Life Standard, Sundaram Royal Alliance Insurance Company and Reliance General Insurance.At the same time “Principal approval” was given to Max New York Life, ICICI Prudential Life Insurance Company and IFFCO Tokio General Insurance Company. Today total 22 life insurance companies including one public sector are successfully operating in India. After opening up of Insurance sectors, the capital requirements for starting a general or life insurance company is equity paid-up capital of Rs.100 crore and for starting a reinsurance company it is Rs.200 crore. As at end-September 2012, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in non-life insurance business. In addition, General Insurance Corporation (GIC) is the sole national reinsurer.

The life insurance industry recorded a premium income of 2, 87,072 crore during 2011-12 as against 2,91,639 crore in the previous financial year, registering a negative growth of 1.57 per cent as shown in table 1.While private sector insurers posted 4.52 per cent decline (11.08 per cent growth in previous year) in their premium income, Life Insurance Corporation (LIC), the fully state owned insurance company, recorded 0.29 per cent decline (9.35 per cent growth in previous year), in its total premium underwritten

In the non-life segment, the insurers underwrote gross direct premium of 54578 crore in India for the year 2011-12 as against 43842 crore in 2010-11, registering a growth of 24.19 per cent as against an increase of 22.98 per cent recorded in the previous year (Table 1). The public sector insurers exhibited growth in 2011-12 at 21.50 per cent; as against the previous year’s growth rate of 21.84 percent. The private sector general insurers registered a growth of 28.06 per cent, which is higher than 24.67 percent achieved during the previous year.

**Table 1: Table showing the Premiums underwritten by Life and Non-Life Segments ( in Crores) from 2008-2012**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Life** | **Non-Life** | **Total** |
| 2008 | |  |  |  | | --- | --- | --- | | 201351.41 |  |  | | 28805.6 | 230157.01 |
| 2009 | |  | | --- | | 221785.47 | | |  |  | | --- | --- | |  | 31428.4 | | |  | | --- | | 253213.87 | |
| 2010 | 265447.25 | 35815.85 | 301263.10 |
| 2011 | 291638.64 | 43841.84 | 335480.48 |
| 2012 | 287072.11 | 54578.49 | 341650.6 |

Source: Compiled from various reports of IRDA

**PENETRATION AND DENSITY:**

The potential and performance of the insurance sector is universally assessed with reference to two parameters, viz., insurance penetration and insurance density. These two are often used to determine the level of development of the insurance sector in a country. Insurance penetration is defined as the ratio of premium underwritten in a given year to the Gross Domestic Product (GDP). Table 2 below shows the penetration and density of Insurance in India. The insurance penetration in India, which surged consistently till 2009-10, has slipped since 2010-11 on account of slowdown in life insurance premium as compared to the growth rate of the Indian economy. Life insurance penetration had consistently gone up from2.53 per cent in 2005 to 4.60 in 2009, before slipping to 4.40 per cent in 2010, further slipping to 3.40 per cent in 2011 and 3.17 in 2012.

However, penetration of the non-life insurance sector in the country has remained near constant in the range of 0.55-0.78 per cent over the last 8 years (0.70 per cent in 2011 and 0.78 in 2012).

Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison)( Per capita premium). India has reported consistent increase in insurance density every year since the sector was opened up for private competition in the year 2000. However, for the first time in 2011, there was a fall in insurance density. The life insurance density in India has gone up from USD 18.3 in 2005 to USD 42.7 in 2012 though it reached the heights of USD 55.7 in 2010. The Insurance density of non-life sector reached the peak of USD 10.5 in 2012 from its level of USD 4.4 in 2005.

**Table 2: INSURANCE PENETRATION AND DENSITY IN INDIA**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | Life | | Non-Life | | Industry | |
| Density(USD) | Penetration(%) | Density(USD) | Penetration(%) | Density(USD) | Penetration(%) |
| 2005 | 18.3 | 2.53 | 4.40 | 0.61 | 22.7 | 3.14 |
| 2006 | 33.2 | 4.10 | 5.20 | 0.60 | 38.4 | 4.80 |
| 2007 | 40.4 | 4.00 | 6.20 | 0.6 | 46.6 | 4.70 |
| 2008 | 41.2 | 4.00 | 6.20 | 0.60 | 47.4 | 4.60 |
| 2009 | 47.7 | 4.60 | 6.70 | 0.60 | 54.3 | 5.20 |
| 2010 | 55.7 | 4.40 | 8.70 | 0.71 | 64.4 | 5.10 |
| 2011 | 49.0 | 3.40 | 10.0 | 0.70 | 59.0 | 4.10 |
| 2012 | 42.7 | 3.17 | 10.5 | 0.78 | 53.2 | 3.96 |

1. Insurance density is measured as ratio of premium (in US dollar) to total population.

2. Insurance penetration is measured as ratio of premium (in US dollar) to GDP (in US dollar).

Source: Swiss Re. Various issues

**GROWTH AND PROFITABILITY TRENDS IN THE GENERAL INSURANCE INDUSTRY**

While the Indian general insurance industry has evolved significantly over the past decade or so, the insurance penetration (Graph 2) and insurance density levels (Graph 3) are significantly lower than the developed as well as comparable developing countries. The under-penetration is driven by lack of overall financial awareness, lack of understanding of general insurance products, low perceived benefits, and propensity to purchase insurance based on reactive drivers such as insistence by financers, statutory requirements, etc. Apart from macro-economic, social, and demographic growth drivers, the evolving regulatory landscape had a significant impact on the growth and profitability trends in the industry. The most notable of them was the price detariffication in 2007 which significantly impacted the premium rates and growth for commercial lines and health insurance. The insurance penetration statistics may not represent the true perspective on coverage of the underlying risk due to changes in the premium rates across segments which were significantly influenced by the regulations.

GRAPH 2: General insurance penetration in percentage (Ratio of Premium to GDP)

Source: Swiss Re, Sigma Volumes 2/2011 and 3/2012,

Note: Data for India pertains to FY12 whereas for other countries, it pertains to the year 2011

GRAPH 3: General insurance density (Ratio of premium in USD to population)

Source: Swiss Re, Sigma Volumes 2/2011 and 3/2012,

Note: Data for India pertains to FY12 whereas for other countries, it pertains to the year 2011

**COMPETITIVE STRATEGIES**

Competitive strategies adopted by the insurance players would have considerable impact on the growth and profitability trends in the general insurance industry. Different competition segments have different strategic imperatives based on the historical business performance, capabilities developed over the period of time and strategic objectives of the promoters. Some factors are discussed below:

* **New entrants targeting broad based presence**

New entrants focusing on high growth across segments are likely to have low profitability in the initial years as their aim would mainly be on price or channel payout-based competition. These players may rapidly replicate the industry best practices since they would have limited legacy operating structures and assets. The same could enable profitability and growth for these players in the medium term.

* **New entrants with niche focus**

New entrants who are currently focusing on niche product-market segments may bring the international best practices in products, managed care models, ancillary services such as wellness and disease management in the medium to long term. Product as well as operating model differentiation vis-a-vis multi-line players may help these players to develop a profitable growth model.

* **Large private sector players**

Large private sector players pose the biggest threat to public sector insurance companies due to more efficient operating models, highly capable talent pool, and significantly higher usage of IT at a scale comparable to the public sector insurers. These players would drive the focus on operational effectiveness, channel productivity, enhanced pricing approaches in order to derive profitable growth.

* **Mid-sized private sector players**

Mid-sized private sector companies would need to select the areas of focus in terms of products and markets for pursuing long term growth. These players may actively seek inorganic routes in order to rapidly gain scale and leverage synergies to create competitive pressure.

* **Public sector companies**

Public sector general insurance companies enjoy key advantages as against competition in terms of balance sheet strength, physical infrastructure, reach, channel strength and experience. Transformational initiatives addressing the HR challenges, IT capabilities, operational effectiveness, and enhanced pricing approaches may lead to substantial growth and profitability benefits.

**KEY EMERGING TRENDS IN INSURANCE CHANNELS**

Customers are also using multiple channels for buying insurance products. While online channels are gaining prominence—though somewhat less than initial industry expectations—in many markets, customers still tend to approach agents when looking for life insurance policies. A common trend witnessed across regions is that customers now search for information on insurance products online before approaching their agents or insurers. Customers are also leveraging social media platforms to obtain product feedback from others. As such, insurers are now striving to provide a consistent consumer experience across all of these channels. Increased competition and noticeable changes in customer behavior and preferences paved the way for the growth of newer channels for policy sales. Many of these channels evolved as a result of insurers’ efforts to improve their operational efficiencies, aided by technological advancements. These channels now help insurers directly reach their target customers, bypassing traditional intermediary channels.

With these new developments, customers’ methods of researching and buying insurance products also changed over time. With the increased penetration of the internet and smart phones, customers now prefer to gather information on various products and services offered by multiple insurers and tend to compare before making a final decision. The internet has developed into an important channel to gather information on insurance products, and the increased popularity of social media is also expected to affect how customers buy insurance products. Many customers now seek feedback on insurance products on social media sites and include the feedback in their decision-making process.

**#1: Increase in Customers use of Internet to buy Insurance Products.**

Easy access to the internet via computers, mobiles, and other hand-held devices has made it a part of people’s everyday lives. Customers now use these devices to easily obtain information and updates on insurance products and services—a trend that is expected to continue to grow in the near future. While penetration of these devices is higher in the developed western economies, it is rising at a rapid pace in developing economies such as India and China.

With the rise in penetration of the internet, there has been a gradual change in customer preferences around buying insurance products. This change has been both behavioral and attitudinal in nature, and is more prominent among younger customers. Customers currently use the internet primarily to research and compare various policies, view policy details, make policy changes, pay premium bills, and contact agents/brokers. Most of their activities are focused towards interacting, communicating, and transacting with insurance providers. Such behavior signifies tremendous growth opportunities ahead for this channel as customer penetration increases and as more insurance-related activities is carried out via this channel. The internet also helps insurers provide a robust self-service portal for its customers, which serves the dual purpose of increasing customer satisfaction while reducing operational workload.

However, trends in internet usage vary across life and non-life insurance products. While customers still value agents’ advice when buying life insurance products, they are increasingly using online channels to buy non-life products. Market segments like motor and home insurance have become commoditized and require less advice when buying these products, making them more suitable to be sold over the internet. While sales via online channels have been slower than initial expectations, they are still expected to continue growing in the future

**#2 Rise in the use of Social Media as a Distribution channel**

Social media platforms such as Face book, LinkedIn, and Twitter have witnessed rapid growth over the last few years. Many of these platforms have matured, and feature embedded functionalities that better help businesses to reach out and interact with their target audience base. At the same time, many other new social media Platforms, such as Google+, are also trying to establish themselves in the marketplace.

The initial focus of insurers’ social media strategies has been aimed at low-level communication and marketing of new products and services. While many insurers now relate social media to a mass marketing tool, there are many other applications as well including: gaining customer feedback; resolving queries in real-time; providing product updates; and as an information source for insight generation and fraud investigation. Social media platforms along with the online channels can also help remove geographical limitations that agents face when serving their clients.

As social networking sites continue to gain ground in the insurance industry, insurance companies will need to broaden their internet-based strategies to include social media platforms. They should help their agents understand the implications of this trend on their role as advisors and how to best leverage it. Social media channels can also be used to assess the needs of customers and the standard of services being offered. This can be done with the help of focus groups and discussion forums where customers interact with each other and also with company experts. The channel can also be used to launch media campaigns—including education and new product launches—targeting the customer segment that has an extensive online presence.

**INNOVATIVE MODELS**

In times where it is important to conserve capital and allocate capital to resources that will deliver sustainable returns, no insurer can remain rigid in their distribution or operating model. Changing lifestyles and buying preferences will constantly dictate the future models of distribution. Although Banc-assurance and Micro-Insurance are in use new models need to be developed by the insurers. However, they would also need to decide on the resources that need to be deployed to build these future models. While the urban market today might be comfortable buying online insurance products, they might not resist the ’warm smile’ of an insurance agent.

**Peer-to-peer (P2P) insurance or social insurance**

This draws its influence from P2P lending which is the practice of lending money to unrelated individuals or ‘peers’ without going through the traditional financial intermediary such as a bank or other traditional financial institution. The lending takes place online on peer-to-peer lending companies’ websites using various lending platforms and credit checking tools. Many such platforms exist today in the United Kingdom and United States with the first one in India being the Bangalore-based DhanaX. In the UK, the first and most successful P2P lender is Zopa which was founded in 2005 and has issued loans in the amount of GBP 278 million with over 500,000 customers.

**Direct delivery model**

The direct-to-customer approach means that the life insurance companies have to focus on four key levers:

i. Customer segmentation and analytics for targeted approach to marketing

ii. Multi-channel strategy that creates value for the direct customer

iii. Product offerings need to be simple and easy to understand; most importantly easy to explain

iv. After sales support that should be technology-driven in order to remain cost-effective

**Mobile-based insurance model**

There are over 865 million mobile users in India as of December 2012 of which around 535 million are urban users while 330 million are rural users. (TRAI Press Release No. 08/2013 dated 7 February 2013 – Highlights of Telecom Subscription Data as on 31 December 2012) This means that it has become a necessity that there is a proposition to be offered to the mobile customers. Extending the business capabilities to mobile devices has quickly become a fundamental requirement for companies. Customers increasingly expect it and business partners and employees have become more comfortable with communicating and sharing information anywhere, through any device. In the same manner in which banks had taken to mobile banking applications a few years back and offering a mobile proposition, insurers might have to do the same.

**CONCLUSION:**

While the insurance industry still struggles to move out of the shadows cast by the challenges and uncertainties of the last few years, the strong fundamentals of the industry augur well for a roadmap to be drawn for sustainable long-term growth. The available headroom for development, sustainable external growth drivers, and competitive strategies would continue to drive growth in the gross written premiums. However, insurance companies would need to address the key concern around losses that continue to be a drag on the capital and on the shareholders’ return expectations. In order to achieve profitable growth for long term sustainability, insurers have two key imperatives. Firstly, they would need to conserve capital and optimize the existing resource deployment and distribution networks. Secondly, they would need to innovate not only in terms of value propositions but more importantly in terms of operating models in order to develop sustainable competitive edge.

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