# EMERGING TRENDS IN INSURANCE – A STUDY IN INDIAN LIFE INSURANCE INDUSTRY

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## ABSTRACT

Indian Life insurance sector is growing at a faster rate. This sun rising industry has given a platform for economic growth and employment. The great extent of importance realized after it has opened to the private players in the post liberalization period. With many players in business, the insurance regulatory and development authority of India (IRDAI) came with innovative and constructive guidelines for both products and services.

It was a period where companies were getting major revenue out of their flagship Unit linked policies. During that time, both technology and investment knowledge were the key to success. Not only it was tough to convert from traditional to Unit linked products but also it was a challenge to keep the profitability. Customer preference, stiff competition and regulatory control are acting as catalyst for innovative products and services.

When the policy is procured through advisors, internal marketing and motivation to them cannot be avoided. Also claim management along with new policies procurement need a viable and robust system.

Internet and online policy purchase is a new trend that has inspired the players to be more focused in their business. High in volume and low in margin is going to be the ways towards policy procuring. Rural, social and Micro insurance is a new avenue to be thought of.

This paper discusses the new trends and challenges that the present industry is facing. Our study is only limited to life insurance sector. The suggestion and recommendation will help both academician and industry personnel to re- engineer their thought in insurance sector.

**Keywords**: Life Insurance; Regulator; Plan; Insurance Industry

## INTRODUCTION

Insurance is one of the most important financial products in India but the fact is till date it is not demanded or bought but it is actually sold by the insurers or their representatives. Insurance as a financial product is actually designed to protect and provide financial freedom or support to the family of life insured in case of any uncertainty to life. So it is long term protection and investment option for the customers and it actually require the understanding of the human life cycle vis-à-vis financial need of the customers.

According to Mr J. Hari Narayan, Ex-Chairman of insurance watchdog IRDAI, Indian insurance industry is set for some serious changes. Speaking to students of Institute of Insurance and Risk

Management at their graduation ceremony, Mr Narayan had said the Indian insurance industry had matured from its state of childhood to early adulthood. He had said that in countries like UK, the agents have adopted themselves to latest form of marketing and very soon such changes will also be introduced in India

Indian life insurance sector is too old. Insurance in India has evolved over time heavily drawing from other countries, England in particular. 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. . 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. 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 to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

In the post liberalization era, insurance has attracted many private players from different parts of the country to start business. Today there are 28 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country’s GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

Product innovation, profitable growth, multi channel distribution and ethical practices in business are few factors to be considered. Regulation from Government and research in this sector many times a challenge for the existing players. In this situation, a brief study of the above sector is required.

**STATEMENT OF THE PROBLEM**

The study is indicated briefly to analyze the recent trends of the life insurance and its impact to the entire insurance Industry.

*Objective of the study*

- To study the present life insurance scenario and their growth drivers in India
- To study the present trends in life insurance sector
- To suggest feasible measures for improvement in the sector

**RESEARCH METHODOLOGY**

Exploratory research methodology is used here to analyze the data. Data was collected from multiple sources such as books, online survey, customer feedback records from life insurance companies and journals to understand the Life insurance industry. In this paper, I have also referred previous research articles. Apart from this, I have also studied / visited different websites and professional magazines. Some more data was collected through personal and telephonic interviews. So it is purely based on available secondary data.

## Understanding Insurance

Insurance is a financial products and quite popular in India. It is simply a contract between insurer (the company) and insured (the customer on whose life insurance was taken). Life Insurance compensates and provides financial support or freedom from the financial loss caused due to any uncertain death. This is a long term products need a careful planning in both design and implementation.

Insurance in broad is divided into two; life and general insurance. Later on health insurance has come out of general insurance. The products of insurance are normally termed as plans or policies. The money that insurer charge from its customers to offer the insurance is known as premiums and the duration is referred as term of plan. The products are various types and in nature starting from term insurance to unit linked plans.

## Indian Life insurance at a glance

Life insurance is an important financial product like banking, pension and others. Life insurance provides financial protection to dependent of human life in case of any uncertainity. As per the global re-insurer Swiss Re's sigma study on world insurance in 2013 (report published in June 2014) said India stood at 15th position in the world in terms of premium volume. In 2012, it was at 14th position. The study showed insurance penetration in India fell to 3.9 per cent in 2013 compared to four per cent in 2012. India's life insurance penetration was 3.1 per cent, while in non-life insurance it was 0.8 per cent. Insurance density stood at $52 (about Rs 3,120) compared to $53 (about Rs 3,180) in 2012. In the world average too, both insurance penetration and density saw a fall.

Globally, premiums written in the global insurance industry grew by 1.4 per cent in real terms to $4,641 billion in 2013 after a 2.5 per cent increase in 2012, said its latest sigma study.

The Indian Insurance industry gained momentum after the regulator, insurance regulatory and development authority of India (IRDAI) came into existence in year 2000. They made standard rule for all the players and opened market for international player. Apart from Life insurance Corporation, many private players have shown interest to start business in India. At present we have 24 players.

The growth of Indian life insurance sector is divided into two main periods. One from 2001 to 2010 and other from 2012 to onwards. The first 10 years was high growth with compound annual growth rate (CAGR) of approximately 3.1% new business premium. Most of the players were in good condition due to the emergence of unit linked insurance plans. From 2010 onwards, the compound annual growth rate was around 2%. Stiff competition was one of the reasons for the stagnant growth in the year of 2012.

| Insurer | Market Share & Leadership Changes | | | | Premium | | |
|---|---|---|---|---|---|---|---|
| | % share as on 31 Dec 2014 | Current Leadership Position | % share as on 31 Dec 2013 | Previous Leadership Position | For December, 2014 | Up to 31st December, 2014 | Upto 31st December, 2013 |
| LIC | 70.03104 | 1 | 77.63222 | 1 | 5858.55 | 51667.07 | 65774.47 |
| ICICI Prudential | 4.860725 | 2 | 3.021199 | 3 | 532.72 | 3586.12 | 2559.73 |
| HDFC Standard | 4.660381 | 3 | 2.980234 | 4 | 684.64 | 3438.31 | 2525.03 |
| SBI Life | 4.557097 | 4 | 3.580808 | 2 | 846.81 | 3362.11 | 3033.87 |
| Max Life | 2.295759 | 5 | 1.745917 | 6 | 320.92 | 1693.75 | 1479.24 |
| Bajaj Allianz | 2.135179 | 6 | 2.096147 | 5 | 274.67 | 1575.28 | 1775.98 |
| Reliance Life | 2.132748 | 7 | 1.680873 | 7 | 258.24 | 1573.49 | 1424.13 |
| Birla Sunlife | 1.668676 | 8 | 1.146155 | 9 | 291.97 | 1231.11 | 971.09 |
| IndiaFirst | 1.426286 | 9 | 1.223554 | 8 | 244.01 | 1052.28 | 1036.66 |
| Kotak Mahindra Old Mutual | 1.1732 | 10 | 0.935569 | 10 | 139.24 | 865.56 | 792.67 |
| PNB Met Life | 0.691773 | 11 | 0.526959 | 11 | 88.47 | 510.37 | 446.47 |
| Star Union Dai-Ichi | 0.580729 | 12 | 0.458799 | 13 | 78.75 | 428.45 | 388.72 |
| Exide Life | 0.57794 | 13 | 0.406874 | 15 | 77.26 | 426.39 | 344.73 |
| DHFL Pramerica | 0.523282 | 14 | 0.088703 | 22 | 62.24 | 386.06 | 75.15 |
| Aviva | 0.4692 | 15 | 0.348235 | 16 | 36.75 | 346.16 | 295.05 |
| Shriram Life | 0.436012 | 16 | 0.32098 | 17 | 54.44 | 321.68 | 271.95 |
| Bharti Axa Life | 0.427614 | 17 | 0.286766 | 18 | 46.74 | 315.48 | 242.96 |
| Canara HSBC OBC Life | 0.385796 | 18 | 0.503412 | 12 | 34.59 | 284.63 | 426.52 |
| IDBI Federal | 0.309332 | 19 | 0.250546 | 19 | 53.52 | 228.22 | 212.28 |
| Tata AIA | 0.223324 | 20 | 0.414719 | 14 | 23.91 | 164.76 | 351.37 |
| Future Generali Life | 0.164064 | 21 | 0.167432 | 20 | 32.15 | 121.04 | 141.86 |
| Aegon Religare | 0.145635 | 22 | 0.098215 | 21 | 18.48 | 107.45 | 83.21 |
| Edelweiss Tokio | 0.094796 | 23 | 0.055087 | 23 | 9.34 | 69.94 | 46.67 |
| Sahara Life | 0.029407 | 24 | 0.0306 | 24 | 3.39 | 21.70 | 25.93 |

Source: IRDA website (www.irda.gov.in)

## Growth Drivers of Life Insurance Industry

From the literature review and market study, it is clear that there are many factors which are responsible for the robust growth of this sector. The major are as follows:

**Growing Economy:** The economy of India is growing significantly. The second populated country has witnessed a phenomenal growth in most of the financial services. Govt of India has launched various schemes and programs in order to support the growing economy. The purchasing power of people has increased. Also increase in income has augmented the disposal income among people. Going with the Indian tradition of saving for future and awareness on various financial products has among public had compelled the insurer to design and launch products which can cater specific needs of people rather than generalized needs. On an average approximately 63% of insurance policies were purchased by people in age group of 25-40 years. It is estimated that by 2026, the working population which ranges in the age group of 25 to 40 will reach approximately 795.5 million. So it is clear that the insurance business will continuously be growing in near future.

**Increase in Education Standards:** Earlier the insurance was considered as a product for wealthy people, reason being most of the people were not even aware about the benefit of having insurance policies. But with the increase in education standards, accessibility to the technology and various consumer awareness programs and schemes launched by various state governments and central government had actually helped most of the people to understand the importance of financial products in the life. Even today more than 90% of insurance policies were sold rather to be bought by the customers.

**Rural as a major thrust:** Even today approximately 70% of population lives in rural or in semi urban areas. At the same time their consumption pattern, choice and preference has changed. Various government schemes such as ICT & CSC, e-Seva, e-Chopals etc. and their access to Technology and internet has given ample scope for rural people towards adopting new ideas. All these services provided a larger platform to insurance and multinational players to focus more on rural. After 2005, the regulator IRDAI, had come with micro insurance programs specially designed for rural people with low premium and high coverage. The pattern of distribution and pricing is also suitable for rural people with micro insurance. In order to foster growth, Govt. also made mandatory to do certain percentage of policies every year from rural area for the insurance companies. All these steps provide new avenues for the players to think beyond urban and metro cities and reach to the bottom of pyramid for business growth in rural area.

**Development of other insurance products:**

Motor Insurance: Apart from life insurance, there is strong growth in auto sector from 2003 to 2014. The no of passenger and commercial vehicles has increased incrementally. Since in India, as per the Motor Vehicle Act – Motor Insurance is mandatory, as a result, the insurance has become more popular among people.

Health insurance: Health insurance has created a separate portfolio in the last few years. People have realized the importance of this due to rise in the healthcare cost. Introduction of Technology in medical science and demand for good service is the main cause for higher medical cost. Awareness about the health due to various schemes and non-government intervention has enlarged the vision of the people about health care. Rastriya Swathya Bima yojana (RSBY) of 2007 is one of the mile stone in this area where people below poverty line are able to get minimum health service.

## FINDINGS

**Hybrid Distribution Channel**: In the life insurance industry, the prominent and flagship distribution channel was agency. Around 90 % of businesses were coming from it. Agency is a high cost model for procuring the insurance policy, which has forced the companies to develop low cost volume based model named as alternate verticals / channels which includes , Brokers, Corporate Agents, Bancassurance, Defence, Education or Siksha, DSA Mortgage, Govt Business channels etc. Recently the contribution from alternate channels is increasing. In this context, Bancassuarnce channel has grown to bigger one as compared to other channel. Todays the no of banks as insurance partner has gone up, almost all the banks ( small or Big) had partner with life insurance companies reason being promoting insurance is acting a handsome revenue contributor to banks. Some larger bank, both Public sector banks and Private Banks have come up with their own insurance companies as partners such as SBI Life, HSBC Canara OBC Life Insurance, PNB Metlife Insurance etc.

Broking and corporate agency has their own way of doing the business. Individual and institution as corporate agents has helped agency to increase the revenue. At the same time, I have also taken the help of rural development organization such as NGOs, Trust and SHG members to cover the rural area who are acting as micro insurance agent for insurance companies.

Today finding the right distribution channel for the customer is a trouble area. All these have demanded a high skill in management.

**Mis-Selling to Customers**: Mis-selling could be in multiple ways such as – wrong explanation of insurance product, explaining something else and getting signoff one some other insurance products, churning of policies, hiding of facts by agents/intermediaries declared by the customer, offering gifts against policies, pass-back of commission to customers, manipulation the facts or documents, using someone influence/pressure for selling the policy etc.

In an interview with Times of India (Titeled: Curbing insurance mis-selling a priority**),** Mr. T S Vijayan – Standing Chairman Insurance watchdog IRDAI has expressed his clear intention on controlling the mis-selling of policies to customers. As per him the lack of awareness is the root cause of mis-selling and the best way of tackling it is to create awareness about the need for insurance and the various products. The IRDAI and for that matter the insurance companies and the insurance councils have all taken a host of measures to create awareness about insurance. Against around 14 crore policies sold in a year by the insurance industry, there could be some instances where unscrupulous persons adopt malpractices for personal gains. However, wherever such instances come to the regulator's notice, they are dealt with suitably and with a firm hand. Recently, the format of the standard proposal form has been notified to draw attention to basic information as premium amount, mode of payment, policy term, premium paying term, among others. It also provides for need based analysis to ensure that the product is sold based on customer need and affordability; and aims at curbing wrong advice and mis-selling.

**Difficulty in Designing Marketing Mix**: Marketing mix refers the combination of all P's to make the market attractive. Innovation in product which has invited many unit linked policies in the past was the center of attraction for all insurers. Policies with low premium generally are generally uncomfortable for most of the players. The entire banking industry is advanced in the communication strategy. This has compelled insurance players to practice innovative communication strategy including advertisement. So is not only product, but a balanced marketing mix is required for the industry with modern trend.

**Regulatory Trend**: The Indian regulator has introduced rules and regulation many times to control the entire industry. Recent changes in the cap on ULIP charges have created havoc and the contribution of ULIP to entire policy has decreased. In order to provide better service, the regulator has come with lots changes. Servicing of orphan policy, more focus on long term are few examples where the insurer are finding difficulties. Standardization of the proposal form is another step by regulator. So the insurers are facing many challenges in the area of product, price, distribution and taxation.

**On Line Policy**: Internet and technology has helped a lot to insurer. Now policy procuring through on line model is cheaper than buying the same plan from agent. Web integrator / Online Promoters provide a deep comparison on insurance policies to customer so that they can choose from the best which meets their requirements. It's a myth that there will be problem is not getting the support for that policy from company, although agents who had not procured the policy sometimes doesn't provide correct support for the said policy but customer always have right to get in touch with the representative office or branch of the company to get the policy serviced.

**Claim Management**: From 2010, the no of advisors have decreased in the industry. The no of agents declined 29% from March 2010 to March 2013. Also it is expected that more agents will leave the industry. Under this situation, Claim management will be tougher for the companies. As people buy insurance because of the face value of agents, assistance of them is highly essential for good business. In the interest of customers IRDAI has also lay down certain rules for claim processing and reporting to regulator.

**Customer Servicing:** From the year 2013, it is very clear that traditional plans have gained more weightage over ULIP. As traditional plans are long term products, insurer need to focus more on this. New products with unique USP's (unique selling prepositions) backed by the customer retention and servicing is the key to remain in business. Even if in new pension plan, the capital protection features demands more policy servicing. Here investment and servicing are important for the companies. Above all, Policy administration is the most difficulty area to provide customer servicing.

**FDI and Growth**: Foreign direct investment and insurance industry is more debated and controversial one, the proposal to hike foreign investment in insurance to 49% instead of 26%

was passed by the government of India recently. It was pending with government from quite a long time. Because of which insurers (domestic partners) were finding it difficult to continue investing in business. This insurance bill has opened new gates for additional fund which were highly required for this capital intensive industry.

## RECOMMENDATION

From the above discussion on findings, we came across with few novel ideas. Life insurance in India is in growing stage and to maintain it, the following seven points are to be considered.

- Insurance companies must go to the basics of service marketing such as "under promise and over delivery"
- Customization and need based product offerings.
- Customer servicing has to be made quick and responsive and time bound.
- Advanced knowledge of insurance is to be imparted to the employees in Insurance industry.
- Digitalization and Relationship is to be kept in policy marketing.
- Strict action to be taken against people involved in Mis-selling.
- Remunerations should be equalized to insurance intermediator (Agents, Corporate agents, brokers etc) which need to paid based on their persistency track, this will help in increasing customer relationship and reduce mis-selling.

## CONCLUSION

Life insurance business in India needs a special care as compared to other business. Both theory and practice to be integrated so as to provide the best services to the policy holders. This industry is going to face more challenges due to change in economy and employment. More no of players around the world have planned to enter into India, looking at the potential available here. Probably understanding the customer expectation and attitude for this product is the important. There is time to re-engineer the business model.

## FUTURE STUDY

In this paper, the trend is more of general. It is important to study segment wise, may be rural & urban, unit linked and non-unit linked etc. Also the impact on the entire industry needs to be studied in a broader aspect. By and large, this industry requires more in depth research to face the challenges and business sustenance.

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