# Transformation of insurance in India

*Editorial Team*

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Insurance is one sector whose contribution to GDP has been quite significant. Post independence, the Indian Government nationalised the private life insurance companies with a view to raise funds for the infrastructure developments, which lagged behind pathetically. The scatter of general insurance companies was brought under one umbrella - the General Insurance Company in 1972.

Nationalisation, however, brought with it the public sector bureaucracies, cumbersome procedures and inefficiencies but still these nationlised companies managed to have millions of policyholders, who had no other options. Any attempt to even suggest private participation with a view to instil healthy competition and efficient services has only met with stiff resistance. While the early 90s brought forth liberalisation on all major economic fronts, the insurance was left untouched. But before long, the passage of IRDA bill in 1999 paved the way for the liberalisation of Indian insurance sector.

The graph (on next page) shows as to how during the last three decades global insurance penetration as a percentage of the gross domestic product (GDP) has more than doubled from around 3.5 per cent in 1970. The insurance sector thus has grown more strongly than the overall economy.

**An insurance area which requires an in-depth study, is the pension segment. Indian demand for pension products is huge, keeping in mind the lack of comprehensive social security system.**

## Why open door policy became inevitable

The insurance premium in India accounted for a mere 2 per cent of GDP as against the world average of 7.8% and G-7 average of 9.2% during 90s. The insurance premium as a percentage of savings in India is 5.95% as compared to 52.5% in UK. The nationalized insurance companies could barely unearth the vast potential of the Indian population since the policies lacked flexibility and the Indian life insurance products were not linked to the contemporary investment avenues.

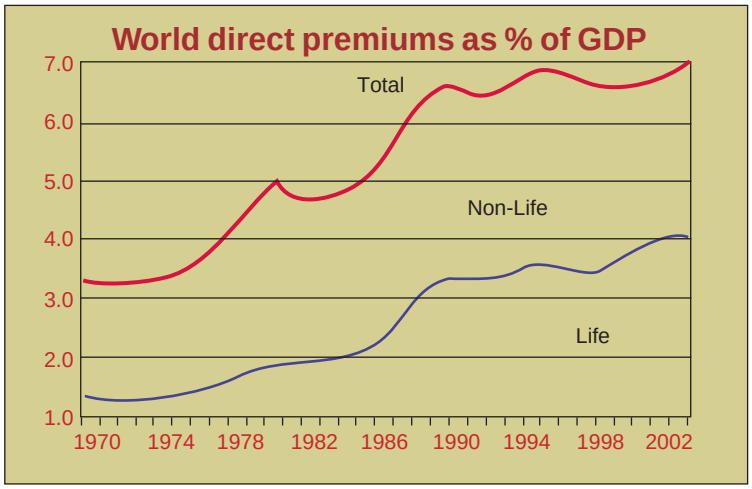
LIC had a total premium income of $1.3 billion. LIC's income has grown substantially on an average of 10% as against the industry's 6.7% in the rest of Asia. LIC has

catered its services to more than 5 million people living below poverty line with a subsidized premium rate. Claim settlement ratio of LIC stood at 95% and GIC at 74% which was much higher than the global average of 40%.

## The challenges

But the other side of the coin, say observers, gives a low picture. Large-scale operations and bureaucracies entangled in the public sector companies were the main areas of concern of the nationalized insurers. The state owned insurance companies, experts say, have not shown much initiative to venture into the rural areas to sell crop insurance or any other personal insurance.

➡ Another area, which requires an in-depth study, is the pension segment. Indian demand for pension products is huge, keeping in mind the lack of comprehensive social security system. But LIC, despite its optimal performing abilities brought in pension premium only to the tune of $22 million. Hence innovative measures to convert the pension products into lucrative saving instruments became the need of the day by which the investors would be allowed to deploy funds before the annuities commence and to invest them in different schemes that would yield a relatively higher income.





**Insurance majors are yet to venture deep into the rural areas. Other areas, which require in-depth study, are the pension segment and health insurance**

➡ Another potential area insufficiently served was the health insurance and other personal insurance products such as householders, shopkeepers, personal accident, travel insurance and professional indemnity covers, which constitute only 12 per cent on Indian general insurance premium. General Insurance Company's Mediclaim scheme serves around 3% of the total population.

The India health insurance products were not comprehensive in nature - there was no cover against disability.

More liberalised actions are needed not only to drive the Indian economy towards an annual growth rate of 7% to 8% but also to sustain the growth.

A faster growth would attract foreign direct investment (FDI) inflow of $10 billion every year as against the current FDI in the range of 3 billion.

The Rakesh Mohan Report on Infrastructure points out that 85% of investible funds for infrastructure have to be generated indigenously and the study revealed that India would require $100 billion over the next five years to meet its infrastructure needs.

### Global investors prefer Indian insurance markets

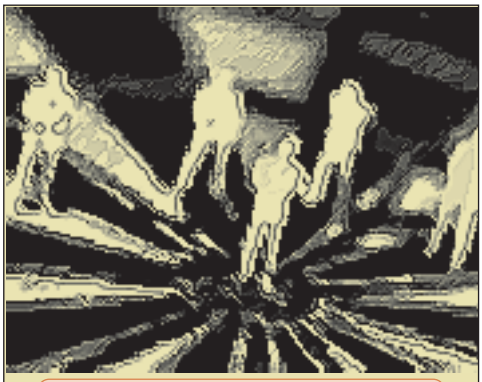
Given the saving scenario in India, there is much more growth potential and the liberalised insurance sector is likely to mobilise the long-term funds for infrastructural investments.

Multinational insurers are keenly watching the transformation of Indian insurance sector, mainly

because the domestic markets have become saturated for the respective insurers. International insurers capture a significant part of their business from their multinational operations only. UK' largest life and non-life insurers acquired 40% to 60% of their total premium from their multinational operations. The foreign investors are finding the Indian market more attractive because even a small share of a growing market looks lucrative. For examples, the Korean insurance market, the 30th largest market in the world premium volume in 1971 obtained the 6th position in 1996, the reason being its multinational operations.

The other reason as to why the global insurers are interested in investing their funds is the nature of the operations over a wide geographical area would eliminate sudden dips in earnings due to the unexpected risk spread.

The Sigma report presented by the world's second largest reinsurer Swiss Re on global insurance, reports complete saturation of international market.



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## Effects of global insurance

➡ ***More job opportunities***

Opening of the insurance sector to the foreign investors has led to a renaissance in the Indian economy. Job opportunities show bright signals. The people working in insurance sector in India are approximately the same as in the UK, which is 1/7th of Indian population. There is the new concept of 'bancassurance' that has paved the way for more job opportunities in the financial sector. There is a growing demand for specialists in the area of marketing, finance and human resource management apart from the demand for technical expertise from professionals in underwriting and claims management subjects.

➡ ***Inflow of foreign capital*** There has been a huge inflow of funds into the country with foreign capital splurging in the Indian insurance companies as start up capital.

➡ ***Indigenous reinsurance:*** Even the reinsurance sector looks for opulence with global players like Swiss and Munich Re keen on entering into insurance in India.

➡ ***The technology transfer*** Apart from the above monetary aspects there would also be revolution in the transfer of technologies and knowledge from the global participants in the fields of training, risk management, underwriting, introduction of new policies etc.

With more participants in the market, there has been a healthy competition with increased advertisement expenditure for brand building. There would be scientific pricing methods.

➡ ***Wide distribution channel***: The channel of distribution is widened once the products offered are many. For instance, the seller himself at the point of sale itself can offer insurance for durable consumer items such as a television or a refrigerator. In such cases, the non-financial sectors also join in distributing the insurance products and benefit mutually.

In the liberalised insurance era we have 13 life insurance players apart from the public sector Life Insurance Corporation of India and nine general Insurance Companies apart from the four state-owned companies viz. United India Insurance, New Indian Assurance, Oriental Insurance National Insurance Company. The private insurers have already proved their success by way of performance during the current financial year by way of 71% growth in the premium income. The investors worldwide are keeping their fingers crossed pending the announcement of the increase in the FDI investment in the Indian Insurance companies.

**Private insurers have already proved their success by way of performance during the current financial year by way of more than 70% growth in the premium income.**

## Global insurance companies opt for Indian BPOs

The launch of India's first private undersea cable enabling strategic connectivity to most nations around the world has witnessed the

upsurge of BPOs in India.

The Associated Chambers of Commerce and Industry of India had recently conducted a research on the BPO activities in India and reported 15% annual growth for indigenous BPO demand. The report also revealed that the BPO industry is growing at an astounding rate of 70% per annum with employment opportunities to over 100,000 people.

By 2008, the BPO is estimated to employ one million people with a revenue flow of $17 billion, says a Mckinsey analyst.

## Insurance sector flows IT BPOs for client servicing

The Insurance, Finance, Banking Pharmaceuticals, Telecom and Airlines are in the process of outsourcing business opportunities. Insurance and Banking sector find more potential for outsourcing business operations owing to the nature of voluminous transactions like claims processing, loan processing and customer servicing.

Insurance companies with large volumes and repetitive transactions around the world are working towards lowering the cost and upgrading the service quality to their customers and business partners.

## Insurance BPOs & India

Working towards an effective cost control management, the insurance companies are on the look out for outsourcing the service agencies for the purpose. All the related activities such as new business prospects, policy administration, claims management and customer service are carried out by the BPOs.

**Investors worldwide are keeping their fingers crossed as they make strategies, hoping the Govt will announce increase in FDIs in Indian Insurance cos.**

The insurance sector is no exception to BPOs. Norwich Union, the UK insurance company already has BPOs set up in New Delhi and Bangalore or processing general insurance claims. Aviva operates in India with 1200 employees. The time difference between the Greenwich and India provides scope for the India operations to work round the clock, 365 days. Aviva has 350 centers for servicing the British customers. 2000 employees are engaged in back office functions and for handling British insurance claims.

Claims BPO, an offshore division of the US based company GreenSnow Inc is functioning with 400 people in Nashik focusing on medical and dental insurance claims of the US customers.

Tela Sourcing LLC has set up a back office in Pune for its health insurance products with a view to reduce costs. The new companies, a joint venture of Adaptis Inc, and DIndia Healthcare Service aims at cost effective and value added claim processing services to the US customers. The highly skilled, well-educated, low cost labour along with the advanced technology and infrastructure provide a real-time link between the HQ at Baltimore, US and Pune in India.

## New trends in global insurance industry

The insurance industry has assimilated a number of changes since the last few years. All these changes were the result of certain clearly noticeable external influences. Fore one, the changing socio-economic and political scenario formed the perfect setting for these developments to take shape. The worldwide trend towards convergence, consolidation and globalisation had its impact on the insurance industry as well. Fast chang-

**According to a market intelligence report by Nasscom on the scope of BPO, after the successful experience of insurance majors such as GE Capital, Royal & Sun Alliance, Phoenix and Conseco Exl Services, most other leading insurance companies are evaluating off-shoring opportunities in India.**

ing technology, new and widening patterns of distribution and the changing profile of the customer were powerful drivers of change. The growing trend towards deregulation in many Asian countries further increased the pace of change.

## Looking beyond convergence and globalisation

All this time the insurers strongly believed that size matters as it was perceived as the key to market domination and lower costs. It was soon clear that in the globalised environment to industrial group will have the kind of capital required for global domination and no single group can emerge a winner of all business sectors. For example, by expanding their operations to Asia and Latin America, the American insurance industry found itself face-to-face with cross-cultural barriers. The local players posed a formidable challenge to the American insurers because of their understanding of the local language, culture and legislation. Besides, the cost of acquiring businesses overseas is becoming increasingly prohibitive.

## Brand building by insurers

In a marked departure from the past financial services, organizations are now focusing on brand building.

This is on account of the realization that we now live in a life style society in which the brand image is as important as the product. Global insurance majors like Allianz, AXA and ING have already done much in this direction and are building awareness about their brands.

## Internet in the insurance industry

**The Internet is often presented as the best solution to the problem of distribution in the insurance industry. There is no doubt that Internet is fast emerging as a powerful distribution channel for easy to understand insurance products. But the traditional agent will continue to dominate the insurance scene for a long time to come as many insurance products are complex and need a face-to-face meeting and discussion. Meanwhile all global insurance majors are spending billions of dollars on developing business strategies with the use of Internet in the hope that will ultimately bring about the huge cost savings.**

It is now a major challenge for the domestic brands, who have to build a global brand before the global majors take over.

## Shareholder values

In the past, insurers were giving more importance to maintenance of their solvency margin rather than making profits. American and European insurers now find its approach difficult, when they have to compete for capital with companies engaged in other industries. So the emphasis is shifting now to shareholder value and return through better capital management. Insurance companies like Swiss Re, Store brand and Chubb have proved highly successful in increasing shareholder value.

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## Further scenario

Global players with strong brands in the insurance industry today set up their back office operation in low cost countries, manage capital on a global basis, make use of their special skills world wide and use their superior managerial ability to secure leadership positions in the industry. Such companies find opportunities for growth in Asian countries where they may soon have to compete with global Asian majors in the industry.

**In this fast developing scenario it will not be enough if companies have the futuristic strategies. Implementation of the strategies, effectively adapting them to ongoing changes can spell success.**