Views of Some Eminent Personalities on Current Developments in Insurance Sector

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The insurance landscape in India is undergoing a tectonic shift. Despite its more than teeming one billion population, India still has a low insurance penetration of 1.95 per cent, 51st in the world. Although India boasts a saving rate of around 25 per cent, less than 5 percent is spent on insurance.

With the entry of competition, the rules of the game have begun to change. The market is already beginning to witness a wide array of products from players whose number is set to grow. In such a scenario, the differentiators among the different players are the products, pricing, and service. What really increases the appeal of insurance is the benefit of protection to assets and lives from insurance products.

In this context, the distribution of insurance products is expected to play an increasingly important role from strategic (structuring of product supply), cost-efficient (reduction of intermediation costs) and/or market-oriented (customer-service) points of view.

The profile of the Indian consumer is also evolving. Consumers are increasingly more aware and are actively managing their financial affairs. Today, while boundaries between various financial products are blurring, people are increasingly looking not just at products, but at integrated financial solutions that can offer stability of returns along with total protection.

In view of this, the insurance managers need to understand more about the details that go into the formulation of insurance products to make it attractive in a competitive market. Overcoming challenges to development requires leadership, commitment, creativity, and flexibility. Besides helping in expanding the insurance coverage geographically so that "every family in every remote village in the country feels safe and secure"., this vision alone will help to bring the new ideas, as well as the capital and technical assistance, necessary to create viable insurance industry.

Sandeep Batra,
Chief Financial Officer &Co. Secretary, ICICI Prudential Life Insurance Company

The insurance landscape in India is in the process of change. Closed to foreign competition since nationalization in 1956, the Indian insurance industry was run by the government for over 40 years through the LIC that spanned the length and breadth of the country. While LIC had done a commendable job in growing the industry, the task of making an essential financial product such as life insurance available to the masses left scope for several more companies to participate in the arena.

Consider some facts. Only 22 percent of the insurable population possesses life insurance. What's more, in a country of over 1 billion people, life insurance premia forms only 1.8 percent of GDP, indicating the extent of underinsurance. Recognising the huge potential of the market and the need to make insurance, particularly life insurance, available on a wider scale, the government opened the industry to private players in 1999 and was flooded with applications. Major international insurers - Prudential and Standard Life of the UK, Sun Life of Canada and AIG, MetLife and New York Life of the US, to name a few - tied up with leading companies in India to reach out to this vast market.

Today, the Indian insurance industry has over a dozen private players, each of which are making strides in raising awareness levels, introducing innovative products and increasing the penetration of life insurance in the vastly underinsured country. The success of the efforts is noteworthy - private players have captured nearly 9 percent of new business premium income in 2 years of operations.

The biggest beneficiary of the competition amongst life insurers has been the consumer. A wide range of products, customer-focused service and professional advice has become the mainstay of the industry. We've seen a dramatic increase in customer awareness, with penetration cutting across socio-economic classes and attracting people who have never purchased insurance before. With the heightened awareness comes a willingness to evaluate life

insurance as an integral part of the financial planning kit, a significant change from the earlier attitude, where insurance was purchased as a tax-saving tool.

Not only has there been a shift in the perceptions of life insurance, but also in the way it is sold. From being a purely advisor-driven business, the sector has seen the emergence of a number of channels, including bancassurance, corporate agents and direct marketing. These channels, though very new, are quickly gaining importance particularly because they present customers multiple ways of approaching life insurers.

There's also been a huge improvement in service attitude and delivery, making the customer the focus of each initiative. Technology has come to our aid, giving us a platform, the reach and the ability to service each customer seamlessly. Multiple touchpoints have emerged -- contact centres, email, facsimile, websites, and of course snail-mail - which enable the customer to get in touch with insurance companies quickly, easily and directly.

On the products front, there are two trends that stand out. The days of high-guaranteed return products, which were unsustainable, are over. Products are now priced, flexibly, realistically and sustainably. In fact, the major reason for the decline in LIC's business FY03 is the substantial reduction in guaranteed return products, while private players have witnessed a more than a 3-fold premium growth.

First Year Premium income (Rs Cr)	02-03	01-02
Private players	982	297
LIC	11,343	14,843

The other major change is the introduction of liquid, transparent and flexible policies, with unit-linked products leading the brigade. While such products are more complex, there is a distinct segment of investors who find such products appealing. As the market matures, the demand for unit-linked and related products will only increase.

Different products require different fund-management philosophies. Fund managers today have the challenging task of going beyond simply investing in instruments with the longest maturity, to now having to develop a customized fund-management strategy for each category of liability, be it term, endowment, unit-linked or pension. Another factor that's changed the operating environment drastically is the volatility of the Indian markets as a result of the close integration of the

Indian markets with the global markets. Credible, insightful research strengthened by sophisticated asset-liability matching becomes of prime importance. And with wafer-thin margins, the need of the day is for comprehensive risk management strategies and transparent products that are priced closer-than-ever to the market.

A company might have the best products and the widest distribution, but without clear underwriting norms and guidelines, the strengths can often be eroded. Risk management and underwriting lies at the heart of the insurance business and will continue to dictate the customer profile, the way one solicits prospects and the way they are serviced for some time to come in India.

It's clear that the face of life insurance in India is changing. But with the changes come a host of challenges, and its only the credible players with a long-term vision and a robust business strategy that will make an impact. Whatever the developments, the future of this industry will surely be exciting.

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Risk Management is the buzzword of today and at the core of risk management are risk assessment, risk avoidance, risk transfer and risk retention. Management of risks requires a thorough understanding of the industry, identification of risk areas and formulation of strategies for combating such risks. One of the essential tools in managing risks is risk transfer i.e. Insurance. The opening up of insurance industry has significantly changed the dynamics of risk coverage. From the situation where policies of suit specific customer needs were either not available or available with high costs, evolution of customer specific policies has today become the order of the day.

The importance of financial acumen in risk management can not be undermined. Chartered Accountants with in-depth knowledge spanning various industries and expertise in finance are ideally suited to specialize in the field of Risk Management. CA's as Risk Management Specialist will find opportunities in the areas of Underwriting, Claims Management, Claims Negotiation, Surveying & Loss Assessment, Insurance Broking and formulation of strategies for risk avoidance, transfer & retention.

Shrawan Jalan
Manager, Assurance

Insurance in India had been under public sector for over four decades. Life insurance was nationalized in 1956 and General Insurance which was nationalized in 1972. Although, the public sector insurance companies had made significant contributions in the development of insurance sector in India, the penetration level, however, remained low. The passing of Insurance Regulatory & Development Authority (IRDA) Bill in 1999 finally paved the way for opening up of the insurance sector to private Indian and foreign players. Within a short time of two years there are twelve private life insurance & seven private non-life insurance companies have started their operations in India. Most of these private companies have signed joint agreements with foreign 26% equity partner.

With the passing of Insurance Amendment bill, multi distribution channels for e.g, corporate agency, brokerage, bancassurance and cooperative societies have also come into place and provides wider choice to the insurers. However, even now traditional channel of agency system is considered as the most effective channel of distributions.

One of the most important challenges for the private insurers is to offer products that meet ever changing customer needs. Privatisation of insurance sector has changed mindset of customers. Customers are now looking at insurance as complete financial solution offering stable returns coupled with total protection. Understanding the customer better will enable insurance companies to design appropriate products, determine price correctly and increase profitability.

The private insurance companies are adopting one or more of following options available to them to survive in the era of strong competition:

- Gaining profitability by way of underwriting good risks and better policy administration;
- Development of new products specially healthcare and pension plan to gain business growth;
- Better distribution channel (through Bancassurance & internet);
- Timely claims settlement and management;
- Adequate re-insurance management;
- Use of information technology;
- Improve customer service and retain the confidence of the clients; and
- Training of agents'.