Chapter 6

Conclusion and Suggestions

6.1 SWOT Analysis of Insurance Industry in India

6.1.1 Strengths/Opportunities of Insurance Industry

The intense competition brought about by deregulation has encouraged the industry to innovate in all areas; from underwriting, marketing, policy holder servicing to record-keeping.

The existence of stringent licensing requirements ensure that only adequately capitalized and professionally managed companies are eligible to carry out insurance and reinsurance.

The Insurance Regulatory Development Authority of India’s (IRDA) emphasis on quarterly reporting/monitoring of insurer solvency has enhance capital adequacy and transparency.

Aggressive marketing strategies by private sector insurers will buoy consumer awareness of risk and expand the markets for products.

Competition in a deregulated environment will allow market forces to set premiums that are appropriate for exposure and push insurers to differentiate their products and services.

Innovations in distribution and improvements in market penetration will follow as public and private insurers compete to market their products. Allowing insurers to issue their own policy wordings and set their own rates will enable underwriters to tailor products to meet client needs. Range of available products will increase because foreign companies bring with them a wide range of products and product development expertise.
Licensed brokers are very much part of the intermediary structure and only those with adequate capital, professional experience and expertise will be licensed by IRDA.

Capital structure of entire insurance industry will improve as foreign companies bring fresh capital with them.

Market efficiency will improve due to information dissemination, global operating knowledge and increased competition.

Management efficiency will increase because foreign companies bring with them global experience and management innovation.

Customers’ service will improve competition, which will finally benefit the consumers.

Globalization will also improve Regulatory and Governance system. It will also improve market conduct and Ethical Business Standard.

### 6.1.2 Weaknesses/Challenges of Insurance Industry

Premiums rates will remain under pressure due to intense competition on more profitable lines. Falling premium income without a corresponding reduction in claims is likely to drive down profits.

Public and private sector insurers’ greater reliance on their investment portfolios to generate sufficient income and gains for net profits would subject them to the volatility of the financial markets.

Private insurers need to raise more capital otherwise growth could be constrained since reliance on reinsurance for capital relief is not always viable or available.

Traditional distribution channels, especially tied agents, need to improve to match the new product offerings.
There is general lack of transparency as financial and operational data for insurers are not readily available as none of India’s insurers are directly listed on stock exchanges.

Like all developing economies on a fast track, the shortage of trained insurance professionals and technicians at all levels cannot be remedied in the short term.

Natural catastrophes will always be present; the Indian sub-continent is vulnerable to cyclones, floods, hurricanes and earthquakes, and until there is a national capacity (similar to the terrorism pool) to manage losses, dependence on overseas reinsurers will continue.

6.2 CONCLUSION AND SUGGESTIONS

The life insurance density of India was 9.1 percent in the year 2000-01 when the private sector was opened up. It increased to 52.2 percent in 2009-10. India’s life insurance density is very low as compared to the developed countries and developing countries, inspite of India being the second most populous country in the world. This shows that there is much scope for life insurance sector to develop in India.

The life insurance penetration of India was 2.15 percent in the year 2000-01 when the private sector was opened up. It increased to 4.90 percent in 2009-10. Since opening up of Indian Insurance sector for private participation, India has reported an increase in both life insurance density and penetration. But compared to UK, France, South Korea, Japan and South Africa, India is way behind. Among developing countries it stands second to South Africa. There is much scope for the life insurance sector to develop in India.

The prediction of new business and total premium for both private and public sector life insurance companies in India for the year 2015 also shows an upward trend which signifies that there is a lot of scope for life insurance business in India.
For over a century, the United States has been the largest economy in the world but major developments have taken place in the world economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants India and China. Economic experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century. India, which is now the fourth largest economy in terms of purchasing power parity, may overtake Japan and become third major economic power within 10 years. Life insurance will grow very rapidly over the next decades in India. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness.

**LIC’s Challenges**

India opened its insurance market to the private sector in 1999 when Parliament passed a new law establishing an independent regulatory body to oversee the insurance market. The law opened the door for participation of private insurance companies and a limited participation of foreign insurance companies through joint ventures with Indian companies. Since then, the life insurance markets have grown impressively. Since 1999, IRDA has licensed 22 new private Indian insurance companies, who have global insurance companies as their partners. Due to globalization of financial services and liberalization of economy, the Life Insurance Corporation of India has been facing intense competition from the new entrants. The new private players with their aggressive penetration strategies are creating insurance consciousness in the minds of a wide cross-section of customers.

The twenty two private insurers in the life insurance market have already grabbed nearly 30 percent of the market in terms of premium income. The new business premium of the twenty two private players was 34.92 percent in 2009-10. Meanwhile, LIC's new premium business has fallen from 99.93% in 2000-01 to 65.08% in 2009-10. Unless Life Insurance Corporation of India is alive to
the emerging trends, its performance may decline further. Hence, Life Insurance Corporation of India has to work with renewed vigor and enthusiasm so as to retain and improve its market share. In this regard, Life Insurance Corporation of India has to focus on key result areas such as improving the productivity of agents; marketing high sum assured policies and also the introduction of customer friendly plans or products. Also Life Insurance Corporation of India has to focus on unit linked plans, which are fast becoming popular in the current life insurance market.

The financial performance of Life Insurance Corporation of India is better than private life insurance companies in India. In a business driven by competition, the high rising costs is due to huge commission expenses by private life insurance companies. Most of the private life insurance companies are making losses. It is necessary for them to cut their operating costs. Also private life insurance companies have to improve their actuarial efficiency, liquidity position and long term solvency position.

Customer Education

Insurance is a unique service industry. The key industry drivers are related to life style issues in terms of perceiving insurance as a savings instrument rather than for risk cover, need based selling, quality of service and customer awareness. In the present competitive scenario, a key differentiator is the professional customer service in terms of quality of advice on product choice along with policy servicing.

Product Innovation

Innovative products, smart marketing and aggressive distribution—That's the triple whammy combination that has enabled fledgling private insurance companies to sign up Indian customers faster than anyone ever expected. Indians, who have always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative
products on offer. The private companies are coming out with better products which are more beneficial to the customer. Among such products are the Unit Linked Investment Plans which offer both life cover as well as scope for savings or investment options as the customer desires.

The growing popularity of the private insurers shows in other ways too. Life Insurance Corporation of India is still dominating segments like endowments and money back policies which are traditional plans. But in the annuity or pension products business, the private insurers have already wrested over 30 percent of the market. While in the popular unit-linked insurance schemes they have a virtual monopoly, with over 90 percent of the customers. The private insurers also seem to be scoring big in other ways. They are persuading people to take out bigger policies.

**Distribution Network**

While companies have been successful in product innovation, most of them are still grappling with right mix of Distribution Channels for capturing maximum market share to build brand equity, building strong and effective customer relationship and cost effective customer service.

In India Insurance is sold and not bought. The agents / Advisors by using various strategies sell the product by convincing the customers. Moreover, they push policies with the highest premium to pocket a higher commission. The consultative approach to selling is the modern approach, which helps customers and prospects to buy.

While the traditional channel of tied up advisors or agents would be the chief distribution channel, insurer should innovate and find new methods of delivering the products to customers. Corporate agency, brokerage, Bancassurance, e-insurance, co-operative societies and panchayats are some of the channels, which can be tapped by the insurers to reach the appropriate market segments. Now days, the urban masses are tapped with the new
techniques provided by Information Technology through internet. Rural masses should be attracted by the consultative approach adopted by the Insurers.

New private insurers have used innovative distribution channels to reach a broader range of the population. Private insurance companies are also using banks, microfinance institutions and co-operatives to increase their market share and compete with well-entrenched state-owned insurance company. There is huge potential in the largely undeveloped private pension market. Insurers have to develop new products addressing the new challenges in society. Companies will need to constantly innovate in terms of product development to meet ever-changing consumer needs. Understanding the customer better will enable Insurance companies to design appropriate products, determine price correctly and to increase profitability. Since a single policy cannot meet all the insurance objectives, one should have a portfolio of policies covering all the needs. Product development is made possible by integrating actuarial, rating, and claims. Moreover, with increased commoditization of insurance products, brand building is going to play a vital role. The rural sector has potential for life insurance. To realize this potential, designing suitable products is important. Insurers will need to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products.

Legislation now allows insurance carriers and other financial institutions, such as banks and securities firms, to sell each another’s products. More insurance carriers now sell financial products such as securities, mutual funds and various retirement plans. This helps access each other's client base and geographical markets.

**Foreign Direct Investment**

Insurance is a capital-intensive industry. It is also a long-gestation business. India's insurance industry needs capital, and a major source of capital would be from foreign investors, who are now limited to 26 percent ownership. India
needs to raise the cap on Foreign Direct Investment (FDI) to attract capital for the industry. For some time there has been an understanding that the FDI cap will be raised to 49 percent, and many companies entered the Indian market with this expectation. Leading foreign companies will bring in more capital to the insurance industry if the cap on FDI is raised.

**Role of IRDA**

IRDA should also seek to create a regulatory regime that promotes the most efficient use of capital, eliminates avoidable micro-management of business practices, allows companies to price their products prudentially, and level the playing field between private and state-owned insurance companies. When markets are competitive and responsive to consumer demand and preference, it is the consumer that benefits in terms of lower cost and increased ability to manage risks.

**Information Technology**

Private Insurance companies have discovered that the Internet is a powerful tool for reaching potential and existing customers. Most carriers use the Internet simply to post company information, such as sales brochures and product information, financial statements, and a list of local agents. New technology gives the policyholders / insured better, wider and faster access to products and services. The impact of Information Technology in Insurance business is being felt at an accelerating pace. In the initial years IT was used more to execute back office functions like maintenance of accounts, reconciling broker accounts, client processing etc. With the advent of “database concepts”, these functions are better integrated in an administrative efficiency. The real evolution has however emerged out of Internet boom. Internet has provided brand new distribution channels to the Insurers. Technology has enabled the Insurer to innovate new products, provide better customer service and deeper and wider insurance coverage to them. Insurance companies should give customers a distinct claim id to track claims on-line, entertaining on-line
enrollment, eligibility review, financial reporting, billing and electronic fund transfer to benefit clan customers.

In addition to individual carrier-sponsored Internet sites, several “lead-generating” sites which have emerged in the developed countries should also be used in India. These sites allow potential customers to input information about their insurance policy needs. For a fee, the sites forward customer information to a number of insurance companies, which review the information and, if they decide to take on the policy, contact the customer with an offer. This practice gives consumers the freedom to accept the best rate.

**Quality Service**

In the global era, Insurance companies are increasingly willing to spend more on the customer satisfaction and brand building exercises. Though it is one of the highly regulated industries, it still provides lot of scope for creativity and innovations. As this industry is predominantly dominated by personal selling and personalized services, many a time the service standards vary based on the intermediary involved in the process. In order to achieve the competitive edge over others, it is necessary to standardize the process and bring about quality improvement and get feed back from the customers regarding the quality of services rendered. This will result in customer satisfaction, customer retention, customer acquisition, employee retention and cost reduction. Servicing focuses on enhancing the customer’s experience and maximizing his convenience. This calls for effective Customer Relationship Management system, which eventually creates sustainable competitive advantage and enables to build long lasting relationship.