CHAPTER - 5

SUMMARY OF FINDINGS
CONCLUSIONS AND
SUGGESTIONS
5.1 Introduction

The insurance industry in India has witnessed paradigm shift in a relatively short span of time since liberalization (1999). Since liberalization there has been surge in premiums, players and outreach in Indian insurance industry. Post liberalization and favourable regulatory environment put in force by the regulator (IRDA), has given fillip to insurance penetration and insurance density. The insurance industry, like many other industries, has also become competitive with insurers offering multiple products and with continued product differentiations. Combinations of these factors, along with strong economic growth during last decade or so, have positioned India as a regional insurance hub, and now aspire to become an international financial centre.

In Post liberalization scenario insurance industry has changed significantly because of several factors. Channel innovation has ensured that insurers are able to reach to a wider customer base and technology innovations have enabled the industry to leapfrog over developed markets. The liberalization has also been extended to pricing by way of de-tariffication and in future may further be extended to product terms and structure. New business segments such as micro and health insurance have also grown very fast. However, given the global economic scenario and its fallout on the Indian economy, the Indian insurance industry has also witnessed the negative impact of the economic meltdown during the last one and a half year. A slowdown in premium growth rates was seen in the year 2009, which is expected to continue during the coming one or two years (Ernst & Young, 2010). The recent change in the market environment has forced players to revisit their expansion plans as well as their overall business strategy. Several players are seeking to undertake cost efficiency measures, process re-engineering, and are reviewing their organizational structure etc.
5.2 Purpose of the Study

It is now more than a decade since the country threw open its insurance sector to private investors. It is time to take stock of the work done by the insurance companies. This is the purpose of this empirical study.

5.3 Methodology Used

The survey and analytical method has been adopted for this study. Both secondary and primary data was collected. Secondary data was collected from reputed journals, magazines, the financial press and annual reports of the insurers and house journals of IRDA, FICCI and CII. Primary data was collected from the respondents, viz, Insurers, Financial Advisors, LIC Agents, Policy Holders, Non - Policy Holders and Others.

Interview schedules specially designed for the purpose were used to collect the said data. In addition, the Researcher interacted extensively with the other stakeholders associated with the life insurance sector, notably the senior management of LIC, the sample private insurers, IRDA, the Insurance Institute of India (III) and trade bodies like CII and FICCI to elicit their views and comments on the topic under study.
5.4 Findings

Private Insurers

In the following paragraphs, the Researcher’s findings and conclusions are presented in a summarised form in respect of private insurers:

1. Product customisation can be easily achieved by private insurers by adding a few riders or withdrawing a few riders in line with the customer’s requirements, given the way insurance products are structured these days. This ensures cost-effectiveness for the customer. Further, product innovation is possible around emerging risks like terrorism, tsunami and risks arising from legal consequences (such as the recent cancellation of 122 2G licences by the Supreme Court) in the days to come.

2. A majority of the respondents believe that the financial health of the insurers has no bearing on the product portfolios they offer.

3. The unanimous view of the respondents is that competition influences product innovation.

4. Caps on foreign equity shareholdings, retention of talent, absence of benchmarks for costing, outdated risk tables, regulatory intervention, poaching of underwriters by larger players, liberalisation of investment rules, terrorism, inflation, bargaining power of corporate clients, tweaking of solvency regulations, availability of product/service substitutes, legal risks, possible entry of new players and climate change have been cited as the challenges faced by private life insurers.
5. End of LIC’s monopoly, under-penetration of life insurance into rural India, a higher proportion of youth in the population, India’s growing reputation as an investment destination, the ability to market insurance products in rural India in association with banks and the ability to create jobs in rural India in particular are the opportunities available to private insurers.

6. During 2004-11, private insurers have incorporated more flexibility into the product, simplified the associated procedures, ensured transparency, made the products more user-friendly and enlarged the product category.

7. To promote the product, private insurers highlight the financial security provided by the product, the succour provided by the product during a critical/terminal illness and the tax sops provided by the product.

8. To price the product affordably, private insurers have avoided bells and whistles, marketed the ‘no frills’ version of the products and covered only those risks that the customers wanted to be covered.

9. Private insurers periodically upgrade the interpersonal skills of their people, gauge their ability to satisfy the customers and require them to undergo accreditation in the area of customer service.

10. Private insurers digitally deliver the service, wherever possible or door-deliver the service, with the help of state-of-the-art-driven processes; they define the process that governs the transmission of the service to the customer, before introducing the said product or service.

11. Private insurers provide a serene and positive ambience at the office so customers feel comfortable and confident; customers get to surf the Internet when they visit the office. Insurers provide user-friendly brochures on all products and services and on the tax aspect of products provided to customers.
when they visit the office; insurers install user-friendly signage which helps
the customers to save their valuable time when they visit the office.

12. Private insurers rate the potential for growth of business as ‘good’.

13. Private insurers agree that the success achieved by them is a function of the
degree of rural penetration achieved by them and the extent to which they
have networked their offices, like the LIC.

14. Private insurers believe that there is an association between the exploitation
levels of the huge untapped insurance market and the challenges and
opportunities they are faced with.

Financial Advisors

In the following paragraphs, the Researcher’s findings and conclusions are
presented in a summarised form in respect of financial advisors:

15. A majority of the respondents believe that their insurers’ financial health has
no bearing on the product portfolios they offer.

16. A majority of the respondents believe that competition influences the product
innovation efforts of the insurers.

17. The respondents rate the potential for growth of business of private insurers as
‘good’.

18. A majority of the respondents believe that the success achieved by their
insurers is a function of the degree of rural penetration achieved by them and
the extent to which they have networked their offices like the LIC.

19. A majority of the respondents believe that there is an association between the
exploitation levels of the huge untapped insurance market and the challenges
and opportunities the insurers are faced with.
LIC Agents

In the following paragraphs, the Researcher’s findings and conclusions are presented in a summarised form in respect of LIC agents:

20. The respondents have rated the product portfolio of private life insurers to be as good as that of LIC.

21. The respondents have rated the product promotion strategy of private life insurers to be better than that of LIC.

22. The respondents have rated the pricing strategy of private life insurers as being similar to that of LIC.

23. The respondents have rated the people / HR strategy of private life insurers as being better than that of LIC.

24. The respondents have rated the service processes strategy of private life insurers as better than that of LIC.

25. The respondents have rated the potential for growth of the business of private life insurers as ‘poor’ relative to that of LIC.

26. The respondents have rated the strategy of private life insurers in respect of customer service as better than that of LIC.

27. A majority of the respondents believe that the financial health of the insurers has a bearing on the product portfolios they offer.

28. The unanimous view of the respondents is that competition influences product innovation.

29. The respondents unanimously believe that the success achieved by the insurers is a function of the degree of rural penetration achieved by them and the extent to which they have networked their offices like the LIC.
30. The respondents unanimously believe that there is an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the insurers are faced with.

Policy Holders

In the following paragraphs, the Researcher’s findings and conclusions are presented in a summarised form in respect of policy holders:

31. An overwhelming majority of the respondents are satisfied with the service processes put in place by their insurers.

32. Respondents rate the private life insurers as better than LIC, on the whole.

33. The potential for growth of business of private insurers has been rated by the policy holders as being the same as LIC.

34. A majority of the respondents believe that their financial health has a bearing on the product portfolios they offer.

35. The unanimous view of the respondents is that competition influences product innovation.

36. A majority of the respondents believe that the success achieved by insurers is a function of the degree of rural penetration achieved by them and the extent to which they have networked their offices like the LIC.

37. A majority of the respondents believe that there is an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the insurers are faced with.
Non Policy Holders

In the following paragraphs, the Researcher’s findings and conclusions are presented in a summarised form in respect of non policy holders:

38. It was found that 44.17 percent of the respondents cite the non-availability of the ‘no frills’ version of the products for rejecting the proposal; 34.17 percent cite inflexible terms for rejecting the proposal; 27.50 percent cite inadequate product categories for rejecting the proposal; 25.83 percent cite coverage of unwanted risks for rejecting the proposal; 17.50 percent cite involved documentation for rejecting the proposal; 15 percent cite inadequate transparency for rejecting the proposal.

39. The respondents rate the private life insurers as being similar to LIC, on the whole.

40. The potential for growth of business of private insurers has been rated by the respondents as being the same as LIC.

41. A majority of the respondents believe that the financial health of the insurers has a bearing on the product portfolios they offer.

42. The unanimous view of the respondents is that competition influences product innovation.

43. A majority of the respondents believe that the success achieved by insurers is a function of the degree of rural penetration achieved by them and the extent to which they have networked their offices like the LIC.

44. A majority of the respondents believe that there is an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the insurers are faced with.
Others

In the following paragraphs, the Researcher’s findings and conclusions are presented in a summarised form in respect of ‘Others’:

45. An overwhelming majority of the respondents are satisfied with the service processes put in place by their insurers.

46. According to the respondents, all the insurers, by way of strategy: digitally deliver the service, wherever possible or door-deliver the service, with the help of state-of-the-art-driven processes; define the process that governs the transmission of the service to the customer, before introducing the said product or service.

47. The respondents have rated the private life insurers as better than LIC, on the whole.

48. The potential for growth of business of private insurers has been rated by the respondents as being better than LIC.

49. A majority of the respondents do not believe that their insurers’ financial health has a bearing on the product portfolios they offer.

50. The unanimous view of the respondents is that competition influences product innovation.

51. A majority of the respondents believe that the success achieved by insurers is a function of the degree of rural penetration achieved by them and the extent to which they have networked their offices like the LIC.

52. A majority of the respondents believe that there is an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the insurers are faced with.
5.5 Conclusions

The following are the Researcher’s suggestions in the light of the findings and conclusions arrived at by analysing the primary data:

1. Most of the products offered by insurers these days lend themselves to customisation – customisation in terms of the risks covered, in terms of the period for which coverage is required, etc. All it takes is addition of a few riders (to increase risk coverage) or withdrawal or deletion of a few riders (to reduce coverage) if the buyer of the insurance product is convinced that the said coverage is superfluous. In the circumstances, buyers of insurance products can buy customised products almost off-the-shelf. Insurers need not go the extra mile to deliver such customised products. However, new risks have been emerging – for example, the Supreme Court of India recently cancelled the 2G licences issued by the government of India to 122 telecom players. Amongst others, foreign investors like Norway’s Telenor who invested jointly with India’s Unitech in Uninor have been put to a huge financial loss. Insurers can develop products to cover such risks. Risks posed by such acts as terrorism and such natural calamities as tsunami have been becoming more common these days. It is around such evolving risks that the insurers should develop new products and services in the interest of the welfare of all stakeholders. It will prove to be a positive sum game.

2. Financial health of the insurers cannot have any bearing on the product portfolios offered by them because the stringent prudential regulations enforced by IRDA ensures that there are no weak insurers around. Prudential norms like minimum start-up capital, capital adequacy ratio, etc ensure that the insurers are in the pink of health all the time. Once their financial health
takes a beating IRDA will come to know of it immediately since the prudential indicators will betray the insurer concerned to the regulator. In the circumstances, such a situation where an insurer is financially sick and still underwrites business cannot exist. The prudential norms prescribed by IRDA and adhered to by the insurers are adequate enough to permit the insurers to market all the insurance products they want subject to prior approval or ratification by IRDA, as the case may be.

3. Competition does influence product innovation because as a management Guru famously said “successful people do the same thing that others do but they do it differently. “ With every insurer worth its name offering more or less the same suite of products and services, it is but natural that one has to achieve product differentiation and service differentiation in order to succeed with customers. Either they innovate and succeed or perish.

4. The cap on foreign equity has to be raised at the earliest since many insurers are presently falling short of capital to underwrite new business. Unless fresh capital infusion occurs, they cannot underwrite new business. Mobilisation of additional capital from the local market having become difficult owing to a variety of reasons, insurers have been hoping for quite some time that the government will raise the cap of 26 percent in respect of FDI in insurance. Unfortunately owing to reasons which are not based on merit, the government has not yet raised the cap. Foreign investors who are in a position to invest capital have been prevented from doing so by the cap of 26 percent. This is a challenge that the insurers have to overcome.
5. Retention of talent is a challenge that every industry is facing today. With the mismatch between demand and availability of talent widening by the day, it is but natural that retention of talent has snowballed into a huge issue. Insurers have to dangle carrots like pay rise, ESOP, etc, to retain talent. It pays to capture the talent during the formative years, hone it and retain it. Thus it needs investment upfront to minimise the adverse fallout of talent flight. If insurers try to skimp here, they may have to pay a heavy penalty later.

6. Absence of benchmarks for costing, outdated risk tables, etc, do pose a challenge to insurers considering their indispensability for the insurance industry. They can mar the economics underlying the insurance products / services that insurers propose to introduce from time to time. Insurers should take up the matter with the regulator and the government of India through their industry body / association. The matter brooks no delay.

7. It is unfortunate that larger players poach underwriters from smaller players. This can be overcome only by persuading individual players to sign a ‘non-poaching agreement’. The matter should be taken up by the insurers with their industry body / association. Such competitive poaching has eventually hurt everybody if history is anything to go by. Hence insurers should take up this matter with their trade body / association immediately and ensure that the unhealthy practice or malpractice is discontinued forthwith.

8. It is true that LIC’s monopoly has come to an end but the end of the behemoth’s monopoly need not necessarily translate into an opportunity for the private life insurers in the near term, the reason being the sovereign guarantee that every policy issued by the LIC carries. This is something which will be set right over the longer term, hopefully. This factor has led to
the playing field not being level in the life insurance industry. This something which the private insurers have to grin and bear until such time as the playing field is levelled. However, the well-informed segments of the population are not likely to be swayed by the *sovereign guarantee factor* alone. There are other factors like quality of service and promptness in settlement of claims which they consider. Hence private insurers will do well to focus on such areas so the absence of sovereign guarantee in respect of the policies issued by them is not given undue importance by the said segments of the population.

9. A higher proportion of youth in the population also works to the insurers’ advantage. This proportion of the youth which is actively into income generation will desire to secure its future by opting for life insurance products. However, being younger, this segment will demand product innovation in terms of coverage of risks, provision of tax sops, etc even if it warrants payment of a higher level of premium. Hence the private players should design niche products and services that appeal to this segment of the population – a segment which is demanding but ready to loosen its purse strings all the same. This is definitely an opportunity the private players cannot afford to miss out on.

10. Rural India has not taken to life insurance the way it should have. The reasons are many – partly historical, partly traditional and partly monetary. This explains the poor penetration of life insurance into rural India. This is not to say that insurance products cannot be a success in rural India. But the products need to be rural economy-specific. Rural India thrives on agriculture and allied agricultural activities. When agriculture takes a beating owing to the failure of monsoons which happens fairly regularly in the country, the rural
economy heads for uncertainty and even subsistence becomes difficult for certain sections of the people like agricultural labourers. Life insurers should design products which take these idiosyncrasies of the rural economy into account. Single premium products and products which permit payment of premium in line with the seasonality of rural income, products which condone delayed payment of premium owing to reasons beyond the control of the insured and the like should be designed and marketed in rural India. With the government of India’s National Rural Employment Guarantee Scheme (NREGS) already in force in many parts of the country, life insurers can prevail upon the relevant beneficiaries to insure their lives at least minimally against the commonest risks. They can involve the government concerned in the process. Apart from generating business for the insurers, the strategy will provide some security to the vulnerable sections of rural India. Something is after all better than nothing. Over a period of time, insurers can thus ensure that life insurance gains momentum in rural India. Given the size and potential of rural India, our insurers are sitting on a goldmine.

11. Tying up with banks to market insurance products is a viable proposition for insurance players with the government recently deciding that every village with a population of 2,000 should have a bank branch. This decision is already being implemented and given the rapport bankers enjoy with the local villagers, it should not be difficult for the insurers to convince the bankers to sell their insurance products too. For the bankers, selling will not impose any additional burden given the infrastructure that they already have put in place. This could prove to be a win-win situation if insurers can convince the bankers at the village level to sell their products by offering them a lucrative
commission on the products sold. Insurers should not let go of this opportunity.

12. There is surely an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the private life insurers are faced with. As said, the rural economy is a different ball game characterised by uncertainties. The monsoons fail or the harvest suffers or the prices fall, thus affecting the rural economy. So the challenge for the insurer lies in designing and marketing products which are rural economy – friendly. But designing such products is easier said than done – after all, insurance is business and unless backed by sound economic principles, the business may run aground. Fortunately for the insurers and bankers, the government of India launched negotiable warehouse receipts in April 2011 which will help the farmers gain access to loans from banks and avoid distress sale of agricultural commodities. This will raise banks’ interest in lending in respect of farm goods deposited by farmers in the registered warehouses. The receipts will increase liquidity in rural areas and encourage scientific warehousing of goods translating into business for insurers because an insurable interest comes into the picture. Some international collateral managers prefer to issue their own, non-negotiable receipts as part of "guaranteed total performance" packages, which they back with liability and indemnity insurance. This is another business opportunity for the insurers. Hence the untapped insurance market is bound to engender certain issues which if handled with ingenuity will work to the advantage of the insurers.
13. It is not surprising that LIC agents have rated the potential for growth of the business of private life insurers as ‘poor’ relative to that of LIC. Presently the dice are loaded in LIC’s favour given that every policy issued by LIC carries a sovereign guarantee. But before long this is bound to be withdrawn to ensure a level playing field. In the circumstances, the LIC should not allow itself to be lulled into a false sense of security. It is time the LIC realised this fact and readied itself to face competition once the playing field is levelled.

14. There is scope for the private insurance players to fine-tune the delivery of their products / services going by what some of the non-policy holders say in defence of their decision to reject the products offered by the insurers. Their statements should not be dismissed by describing them as statements coming from the lunatic fringe. Some non-policy holders complain that the insurers do not make available the ‘no frills’ version of their products; some declare that the terms attaching to the policy are too rigid; some allege that unwanted risks are covered; some cite involved documentation; yet some cite inadequate transparency.
5.6 Suggestions

None can deny that rural India’s potential has not been exploited by life insurers, private or public, for various valid reasons. India's 6,00,000 plus villages are spread over 3.2 million sq km; 700 million Indians may live in rural areas. Given the poor state of roads, it is a challenge to regularly reach products to the far-flung villages. Insurers must trade off the distribution cost with incremental market penetration. They can emulate corporates like Unilever to penetrate rural India.

For example, over the years, Unilever has built a strong distribution system which helps its brands reach the interiors of the rural market. To service remote village, stockists use auto-rickshaws, bullock-carts and even boats, especially in the backwaters of Kerala. Coca-Cola, which considers rural India as a future growth driver, has evolved a hub-and-spoke distribution model to reach the villages. To ensure full loads, the company depot supplies, twice a week or more, large distributors who act as hubs. These distributors appoint and supply, once a week or more, to smaller distributors in adjoining areas. LG Electronics has defined all cities and towns other than the seven metros as rural and semi-urban market. To tap these unexplored country markets, LG has set up many area offices and many rural / remote area offices.

Hence the Researcher suggests the design of a robust, profitable rural business model around new, tailored products and services for rural customers and customers in the hinterland. Admittedly, it is a challenging task. The model should help the insurers figure out how to help their rural businesses reach the right level of scale so that their products can be sold economically and efficiently. Rural consumers too
believe in saving for a rainy day but hassles like arranging documentation for opening SB accounts and tackling other day-to-day challenges distract them from taking precautions. Rural Indians are not averse to buying insurance products per se but need products which are easy to understand and do not warrant regular payments even as they allow them to withdraw their money for emergencies (with little or no penalty) and provide investment opportunities alongside guaranteed life protection. Hence it is suggested that a research be taken up to develop such a model.
5.7 Directions for Further Research

None can deny that rural India’s potential has not been exploited by life insurers, private or public, for various valid reasons. India’s 6,00,000 plus villages are spread over 3.2 million sq km; 700 million Indians may live in rural areas. Given the poor state of roads, it is a challenge to regularly reach products to the far-flung villages. Insurers must trade off the distribution cost with incremental market penetration. They can emulate corporations like Unilever to penetrate rural India.

For example, over the years, Unilever has built a strong distribution system which helps its brands reach the interiors of the rural market. To service remote village, stockiest use auto-rickshaws, bullock-carts and even boats, especially in the backwaters of Kerala. Coca-Cola, which considers rural India as a future growth driver, has evolved a hub-and-spoke distribution model to reach the villages. To ensure full loads, the company depot supplies, twice a week or more, large distributors who act as hubs. These distributors appoint and supply, once a week or more, to smaller distributors in adjoining areas. LG Electronics has defined all cities and towns other than the seven metros as rural and semi-urban market. To tap these unexplored country markets, LG has set up many area offices and many rural / remote area offices.

Hence the Researcher suggests the design of a robust, profitable rural business model around new, tailored products and services for rural customers and customers in the hinterland. Admittedly, it is a challenging task. The model should help the insurers figure out how to help their rural businesses reach the right level of scale so that their
products can be sold economically and efficiently. Rural consumers too believe in saving for a rainy day but hassles like arranging documentation for opening SB accounts and tackling other day-to-day challenges distract them from taking precautions. Rural Indians are not averse to buying insurance products per se but need products which are easy to understand and do not warrant regular payments even as they allow them to withdraw their money for emergencies (with little or no penalty) and provide investment opportunities alongside guaranteed life protection. Hence it is suggested that a research be taken up to develop such a model.