CHAPTER 2

Indian Insurance Industry- Growth and Development

2.1 The Life Insurance Industry Profile in India

Until the early 20th century, the Indian life insurance industry was completely in the hands of LIC. In the 1950s, the industry had been nationalized in order to increase the penetration of insurance in the country and to make it available to less privileged segments of society. But even after 40 years of nationalization, only 25% of the insurable population was covered under insurance. This was one of major reasons for opening up the sector -- to allow private players to work towards extending the reach and coverage of insurance all over the country.

India’s rapid rate of economic growth over the past decade has been one of the more significant developments in the global economy. This growth has its roots in the introduction of economic liberalization in the early 1990s, which has allowed India to exploit its economic potential and raise the population’s standard of living.

Insurance has a very important role in this process. Health insurance and pension systems are fundamental to protecting individuals against the hazards of life and India, as the second most populous nation in the world, offers huge potential for that type of cover. Furthermore, fire and liability insurance are essential for corporations to keep investment risks and infrastructure projects under control. Private insurance systems complement social security systems and add value by matching risk with price. Accurate risk pricing is one of the most powerful tools for setting the right incentives for the allocation of resources, a feature that is key to a fast developing country like India.

By nature of its business, insurance is closely related to saving and investing. Life insurance, funded pension systems and non-life insurance, will accumulate huge amounts of capital over time, which can be invested productively in the economy. In developed countries (re) insurers often own more than 25% of the capital markets. The mutual dependence of insurance and capital markets can play a powerful role in
channeling funds and investment expertise to support the development of the Indian economy.

A combination of factors underpins further strong growth in the market, including sound economic fundamentals, rising household wealth and a further improvement in the regulatory framework.

The insurance industry in India has come a long way since the time when business was tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favour of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.

By mid-2004, the number of insurers in India had been augmented by the entry of new private sector players to a total of 20, up from five before liberalization. A range of new products had been launched to cater to different segments of the market, while other channels including the Internet and bank branches supplemented traditional agents. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2010. There are good reasons to expect that the growth momentum can be sustained. In particular, there is huge untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, insurance to mitigate the negative financial consequences of these adverse events is underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. Major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward.

The first year premium, which is a measure of new business secured, underwritten by the life insurers during 2010-11 was ₹1,26,381 crore as compared to ₹1,09,894 crore in 2009-10 registering a lower growth of 15 per cent against 25.84 per cent of 2009-10. In terms of linked and non-linked business during the year 2010-11, 37.38 per cent of the total premium was underwritten in the linked segment while 62.62 per cent of the
business was in non-linked segment (43.52 and 56.48 per cent respectively in 2009-10). The total premium underwritten by the life insurance sector in 2010-11 was ₹ 2,91,605 crore as against ₹ 2,65,447 crore in 2009-10 exhibiting a growth of 9.85 per cent (19.69 per cent in 2009-10).

2.2 History of Insurance in India.

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era-past few centuries – yet its beginnings date back almost 6000 years.

Protection from uncertainty and loss has been a primary goal of humans and institutions throughout history. Protecting against these risks is what insurance is all about. It actually started nearly 4,500 years ago, in the ancient land of Babylonia where, traders used to bear risk of the caravan trade by giving loans that had to be later repaid with interest when the goods arrived safely. Life insurance came about a little later in ancient Rome, where burial clubs were formed to cover the funeral expenses of its members, as well as help survivors monetarily. The type of insurance we see today owes its roots to 17th century to Lloyd's of London, of England. Lloyd's Coffee House was the location where merchants, ship owners and underwriters met to discuss and transact business deals. Insurance moved to America in the year 1735 and the first life insurance policy for the general public in the United States was issued, in Philadelphia, on May 22, 1761. Then public liability insurance made its appearance in the 1880s and gained importance and acceptance. During the 19th century, many societies were founded to insure the life and health of their members.

The insurance business made its way in India in 18th century. Life Insurance business came into existence in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta.

Bombay Mutual Assurance Society Ltd., formed in the year 1870. The Bharat Life Insurance Company in 1896 and the Empire Life Insurance of India in 1897. Following
this; the Hindustan Co-operative Life Insurance was formed in Calcutta, the United Life Insurance in Madras, the Bombay Life Insurance in Bombay, the National Life Insurance in Calcutta, the Jupiter Life Insurance in Bombay and the Lakshmi Insurance in New Delhi. By the year 1956, when the Life Insurance business was nationalized and Life Insurance Corporation of India (LIC) was formed on 1st September 1956, there were 170 companies and 75 provident fund societies transacting life insurance business in India. Later on, after the amendment to the relevant laws in 1999, the LIC did not have the exclusive privilege of doing life insurance business in India. Currently, at least 24 life insurers are operating in the market (as per IRDA Report, Nov 2012).

The history of insurance in India is deep-rooted. Since the earliest times insurance has been carried out in some form or other. Insurance in India has developed over time and has taken ideas from other countries – England in particular.

First Indian Insurance Act was passed in 1912 with re-enactment in 1938 and amendment in 1950. Despite this, when 25 insurance companies went into liquidation, malpractices and unethical business practices clouded the industry. C D Deshmukh as the then Finance Minister ushered in the era of nationalized Life Insurance Corporation of India. From then on insurance in India is mostly state owned with sovereign indemnity.

Some important dates to remember in India’s Insurance Sector Reforms

- Statutory Authority established, 19th April, 2000.

The history of insurance in India can be divided into three phases as follows:

Phase I  - Pre- Liberalisation.
Phase II  - Liberalisation.
Phase III  - Post- Liberalisation.
Phase I - Pre-Liberalisation.

1818–1829:
The First insurance company was formed. In 1818 the Oriental Life Insurance Company in Kolkata (then Calcutta) was the first company to start a life insurance business in India. However, the company failed in 1834. In 1829 the Madras Equitable had begun transacting life insurance business in the Madras Presidency.

1870:
Following the enactment of the British Insurance Act 1870, the last three decades of the nineteenth century saw the creation of the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) in the Bombay Residency.

1912:
The Indian Life Assurance Companies Act 1912 was the first statutory measure to regulate life business.

1928:
The Indian Insurance Companies Act 1928 gave the Government the power to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers, including provident insurance societies.

1938:
To protect the interest of the insuring public, the earlier legislation was consolidated and amended by the Insurance Act 1938 which gave the Government effective control over the activities of insurers.

1950:
In the 1950s, competition in the insurance business was very high and there were allegations of unfair trade practices. The Government of India therefore decided to nationalize insurance business.

1957:
Formation of the General Insurance Council (GI Council): the GI Council represents the collective interests of the non-life insurance companies in India. The Council speaks out on issues of common interest, participates in discussions related to policy formation, and acts as an advocate for high standards of customer service in the insurance industry.
1972:
The General Insurance Business (Nationalisation) Act 1972 (GIBNA) was passed. The General Insurance Corporation of India (GIC) was formed in pursuance of Section 9(1) of GIBNA. It was incorporated on 22 November 1972 under the **Companies Act 1956** as a private company limited by shares.

**Phase II – Liberalisation.**

**The start of reform**
The international payment crisis of the 1990s forced the Government to re-think its industrial policies and regulations. The Government only had enough foreign currency reserves to finance a few days of imports.

1993:
The Malhotra Committee: in 1993 the Government set up a committee under the chairmanship of R N Malhotra, the former Governor of RBI, to make recommendations for the reform of the insurance sector.

In its report in 1994, the committee recommended, among other things, that the private sector and foreign companies (but only through a joint venture with an Indian partner) be permitted to enter the insurance industry.

1999:
Formation of the IRDA: following the recommendations of the Malhotra Committee report, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body in 1999 to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April 2000.

**Phase III – Post-Liberalisation.**

As we have seen, following the recommendations of the Malhotra Committee, the insurance sector was opened to private companies. Foreign companies were also allowed to participate in the Indian insurance market through joint ventures (JVs) with Indian companies. Under current regulations the foreign partner cannot hold more than a 26% stake in the joint venture.
The key objectives of the IRDA include the promotion of competition with a view to increasing customer satisfaction through more consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA has the power to make regulations under section 114A of the Insurance Act 1938. Since 2000 it has introduced various regulations ranging from the registration of companies for carrying on insurance business to the protection of policyholders’ interests.

2.3 The Life Insurance Distribution Channel.

The LIC has traditionally sold life business using tied agents (in-house sales forces are not a traditional feature of the Indian life market). All life insurers have tied agents working on a commission basis only, and the majority of private-sector insurers have followed this approach in distributing life products. Nevertheless, as banks are now able to sell insurance products, bancassurance has made a major impact in life sales. Almost all private sector insurers have formed alliances with banks, with a few of the insurers using bancassurance as their major source of new business.

The following channels are used to sell insurance business in India.

Tied agents:
Tied agents have traditionally been the primary channels for insurance distribution in the Indian market. The LIC has branches in almost all parts of the country and has attracted local people to become their agents.

Brokers:
A Broker can be a firm, a company, a cooperative society, or any other person recognized by the IRDA. The fees payable for the licence is ₹ 25,000 for a direct broker, ₹ 75,000 for a reinsurance broker and ₹ 1,25,000 for a composite broker. A Broker can deal with products of multiple Insurance companies.

Corporate Agents:
A corporate agent can be a firm, a company under the Companies Act, a banking company, a corresponding new bank, a regional rural bank, a cooperative society, a panchayat, a local authority, a non-government organization, a micro lending finance organization, a non-banking finance company, or any organization that can be approved by the IRDA. The fee for certification is ₹ 750.
Direct Marketing:
Direct marketing in the past was mainly in the form of direct mailing by banks to their accountholders marketing insurance products provided by their allied life insurers. However, only the insurers were allowed to sell these products.

Bancassurance:
Bancassurance is emerging as an important new avenue of distribution of insurance in India. Some insurance companies like SBI Life are heavily devoting their resources to and successfully implementing bancassurance.

E-commerce:
The Internet has not been a major source of distribution for insurers. Of the population of over one billion in India, around 90.5 million people were estimated to be Internet users by 2012. All the life insurers have a website, where the services provided are mainly confined to accessing product information, premium rate quotes, etc.

2.4 Roles in the Indian Insurance Industry.
Apart from the insurer and the insured the other roles in the insurance industry include the following.

The Regulator:
The Regulator has the responsibility of ensuring the smooth running of the insurance sector. The Insurance Regulatory and Development Authority (IRDA) is the insurance Regulator in India. The IRDA grants licenses to insurance companies and makes sure all insurance companies are in compliance with the regulations at all times. It also has a responsibility to protect the interests of the small policyholders against the mighty insurance companies.

Agents:
These contribute the major percentage of insurance sales in India. It is the agent’s primary responsibility to meet the prospective client, understand their needs, and accordingly recommend suitable products.

Corporate agents:
These include banks and brokers.
**Intermediaries:**
These can be individuals as well as organisations, like firms, banks and composite brokers. Intermediaries solicit and procure business from prospective clients for the insurance company.

**Underwriters:**
These decide whether to accept or reject the insurance proposal. If the proposal is to be accepted, then the underwriter decides at what price it should be accepted.

**Actuaries:**
These calculate the standard price of products. They take into account statistical data and the past claims experience of the company. Apart from pricing individual products, they also do an overall financial assessment of the insurance company from time to time to make sure that the company has sufficient reserves to pay for future liabilities.

**Third Party Administrators (TPAs):**
These do the work of building hospital networks. They also help with approvals at the time of cashless admission to a hospital and with settling the bill with the insurer on discharge.

**Loss adjusters/surveyors:**
These do the work of assessing and certifying a loss when a claim is made on the insurance company. They have a major role to play in non-life insurance business.

**Training institutes:**
These have the responsibility of supplying trained manpower to meet the ever growing need for skilled labour in the insurance industry. The Insurance Institute of India (III), Insurance Institute of Risk Management (IIRM) and the National Insurance Academy (NIA) are premier training institutes in the field of insurance.

**NGOs – Protecting the customers’ rights:**
Non-Governmental Organisations (NGOs) play an important role in spreading awareness about insurance products and protecting the rights of the customers. The role of NGOs is more important in the rural areas where they work with Self Help Groups (SHGs) and insurance companies on deeper penetration of micro-insurance products at the grassroots level.
2.5 The players in the life Insurance sector in India.

At the end of December 2012, there are forty-nine insurance companies operating in India; of which twenty four are in the life insurance business and another twenty four in general insurance business. In addition, GIC is the sole national re-insurer. Of the forty-nine companies presently in operations, eight are in the public sector: two specialized insurers, namely ECGC and AIC, one in life insurance, four in general insurance and one re-insurance. The remaining forty one companies are in the private sector.

The Life Insurance Sector in India can be categorized into two types.

a. **Public Sector (1)**
   1. Life Insurance Corporation of India (LICI)

b. **Private Sector (24)**
   1. ICICI Prudential Life Insurance
   2. Bajaj Allianz Life Insurance
   3. Tata AIA Life
   4. HDFC Life
   5. Birla Sun life
   6. Max Life Insurance.
   8. SBI Life Insurance
   10. Aviva Life Insurance.
   12. MetLife India Life Insurance.
   13. ING Vysya Life Insurance.
   14 Sahara Life Insurance.
   15. Shriram Life Insurance.
   16 Bharti AXA Life Insurance Co Ltd.
   17. Future Generali Life Insurance Co Ltd.
   18. IDBI Federal Life Insurance Co Ltd.
19. Aegon Religare Life Insurance Co Ltd.
20. DLF Pramerica Life Insurance.
21. India First life Insurance.
22. Star Union Diachi Life Insurance.

By 2011 - 12, there are 24 private sector insurance companies operating in India, alongside eight public sector companies. Most private companies had foreign participation up to the maximum permissible limit of 26% of equity.

2.6 Recent Developments in the Insurance Industry.

Growth of Life Insurance Business in India:
In life insurance business, India ranked 9th among the 156 countries, for which data are published by Swiss Re. During 2011-12, the estimated life insurance premium in India grew by 4.2 per cent (inflation adjusted). However, during the same period, the global life insurance premium expanded by 3.2 per cent. The share of Indian life insurance sector in global market was 2.69 per cent during 2012, as against 2.45 per cent in 2011.

Importance of Agent’s Training:
The future success of the life insurance profession depends, above all, upon the knowledge and integrity of the people who advise customers – and are their first and most important point of contact. At the IRDA, the regulator’s goal is to see that life insurers are increasingly able to attract, motivate and retain outstanding people, committed to adopting a ‘needs-based’ approach to financial advice.

Agent’s Qualification:
Keeping the present market needs, the IRDA conducted a thorough review of the existing life insurance agent licensing qualification. It was decided to utilize the expertise of Chartered Insurance Institute (CII), London in enhancing the existing syllabus of IC-33 “Pre-recruitment qualification for life insurance agents” of the
Insurance Institute of India (III). All the key stakeholders worked together to realise this goal.

The IC-33 syllabus has been revised. The training in the revised syllabus has commenced from 1st October, 2011. The new course book and the revised qualification that agents will now use is a vital part of the Authority’s strategy. IRDA has developed a syllabus that is challenging in its scope and depth. It does not simply encourage agents to memorise facts and figures; but also tests their understanding of learning, and ability to apply it in a wide range of practical real-life situations.

**Need Analysis**

This is another initiative identified by IRDA as a step in curbing wrong advice and mis-selling. The idea is to require insurers to have Prospect Product Matrix that will match a product with the requirement, based on the Needs Analysis carried out. The feedback of the stakeholders on the initiative has been received and draft guidelines are under preparation. Guidelines relating to distance marketing have been issued by IRDA which address challenges relating to mis-selling using distance marketing mode, a fallout of the advancement in technology.

While the benefits of having new and faster channels need to be reaped, the loopholes created by them need plugging and this is precisely what the guidelines are aimed at.

**Persistency of Life Insurance policies**

IRDA has issued guidelines to agents for persistency of life insurance policies to ensure that servicing of policies by agents is sustained and is with a long term of objective of servicing the policyholder and not driven by an objective of just pushing sales.

**Growing importance of IT**

All insurance companies now use information technology (IT) to benefit their business and to improve convenience for their customers. Today, customers can pay their premiums and check the status and other details of their policy using the company’s website. Updates relating to the receipt of premiums or changes to their policy are sent to the customer through mobile SMS.
Bancassurance:
Many banks have joined with insurance companies to cross-sell insurance products to their customers. Insurance companies benefit from the wide network and loyal customer base of banks, and the contribution that bancassurance makes to insurance sales has steadily grown over the last few years. The banks benefit through being able to provide value-added products to their customers and from the fee income they receive in return from the insurance companies. Many banks have started their own life insurance subsidiaries.

Online sales:
Most of the insurance companies have now started selling insurance products online. This eliminates the need for an intermediary and reduces costs. This saving can be passed to customers in the form of reduced premiums.

Micro-Insurance:
Micro-Insurance guidelines were issued by the IRDA in 2005. Micro-insurance products provide insurance protection to people in lower income groups, such as self-help group (SHG) members, farmers, rickshaw pullers and others against the risks that they and their assets are exposed to. The premiums for these products may be as low as ₹ 15 and are collected on a weekly basis. The minimum life insurance cover specified by the Regulator for this category is ₹ 5,000 and the maximum cover that can be provided is ₹ 50,000. People who work in agriculture and allied activities are exposed to the hazards of nature so they need protection against risks like monsoon failure, floods etc. This is where micro-insurance can come to their rescue.

Grievance redressal:
Whenever any industry is experiencing fast growth there are bound to be concerns, and the insurance industry is no different. There has been an increase in complaints from customers about the settlement of their claims and customer service in general. The IRDA has taken several steps to protect the interest of the policyholders. It has asked...
insurance companies to set up internal customer grievance redressal cells/departments, and an Insurance Ombudsman has also been established.

The latest initiative from the IRDA is the setting up of a call centre which an insured can contact to seek the resolution of a grievance they have against their insurer. The unhappy customer can either call a toll-free number (155255) or email complaints@irda.gov.in to register their complaints.

2.7 Insurance penetration & density in India.

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density. However, the insurance penetration, which surged consistently till 2009, slipped for the first time in 2010 and further slipped in the consecutive years in 2011 and 2012 on account of slower rate of growth in the life insurance premium as compared to the rate of growth of the Indian economy.

The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 55.7 in 2012. Similarly, insurance penetration had gone up from 2.15 per cent in 2001 to 4.60 in 2011, before slipping to 4.40 per cent in 2012.

Understanding Insurance

Insurance is a service, which is sought to be co modified for better conceptualization in keeping with the other unification trends running across the world.

Insurers sell promise to pay on a future date for a predefined contingency. The function of insurance is to protect a few against the heavy financial impact of the expected loss by dispersing the losses among many who are exposed to homogenous risks.

As a child of the industrial revolution, the industry was traditionally built around the premise of financial security – where security was defined, more or less, as death protection and safety of savings. In many markets, including India, it was also positioned as an effective tax savings device. The core of the life insurer’s value proposition was given by the application of mutuality or risk pooling for addressing
mortality and investment risk. While the former was achieved through cross sectional pooling to create an immediate estate, investment risks [including systemic risks, affecting the market as a whole] could be evened out through intergenerational pooling. With the worldwide shifts in the industry"s external environment, including financial market changes, the challenge is now to locate life insurance purchase in the wider context of meeting multiple life contingent needs through alternative assets: It is, in other words, just one financial asset which has to find a place within a portfolio. In response the industry has, with some success, developed protection products to address contingencies facing the living. It has also come up with investment linked products like ULIPS, which are near look – alike of their capital market counterparts, like mutual funds. Here the insurer is less a security provider and more an efficient portfolio manager. The new investment linked products mark a retreat from mutuality. The skewed product line of most life insurers in India [towards linked business] indicates the extent to which the industry has departed from the risk pooling principle.
The moot question is whether consumers see life insurers as just portfolio managers. Or do they expect financial security? This expectation is reflected in the demand for investment linked products with embedded financial guarantees.
Which road should life insurers take? Should they continue on their current path? Should they go back to traditional life insurance, in which mutuality played a certain type of role? In answering these queries it may be pertinent to also ask a deeper question – have we really understood what mutuality means and what it can do? Are entirely new applications of the principle not possible? Can it not be combined more effectively with other principles like unitization and maturity transformation?
Perhaps far more than design of products and benefit payments is the issue of how does the life insurer relate to its constituents. Consider the consumers emerging reality: Once afraid of death, now afraid of life – plagued by dread of a prolonged hell – where one’s only companions are the demons within. How does the insurer come across? Is it a valued and trusted friend and companion? Or is it another lurking predator that one must be weary of?
Along with the demons there is hope as well – This has taken shape in the wake of mounting affluence and awareness. Consumers the world over are beginning to have aspirations – going beyond just security and investment returns – for affirmation of
values related to wellness and holistic living. Indians are no exception. Should insurers seek a different kind of brand identity that is linked with a new value alignment? Should they build a brand around a product or a company or a relationship? Should they go beyond making benefit payments and risk management and don a new mantle. The next decade may see tremendous new opportunities waiting for those willing to venture off the beaten track and think a little differently.

2.8 The Sales Paradigm:

There is an old saying that insanity is doing the same thing over and over again and expecting results to be different. The dominant paradigm in sales has been to build the sales infrastructure somehow, growth will automatically materialize. No doubt, this has happened, but at what cost?

Perhaps it is time to reflect whether growth comes only or even principally from building sales infrastructure or from enhancing selling competence. In a market where trust and assurance are the vital ingredients, the critical challenge is to move from hand shake to hand holding – from product peddling to building long term relationships. Best practices indicate that Sales Champions in the life insurance business are social entrepreneurs rather than peddlers. Building a social enterprise around community relationships takes time. Do we have the right soil for nurturing such sales champions?

The enormous levels of attrition and the sense of impermanence and living for the day that goes with it, tell the tale of a certain kind of ethos. Similarly, high levels of claims repudiation raises questions about the level of due diligence exercised, while selecting lives at the new business stage and the degree of customer sensitivity exercised while settling the claim. The question lingers – is this the kind of world a customer would be comfortable with and willing to buy?

Life insurance is an industry built on trust, protection, preservation and long term opportunity. It may flounder if based on a one sided myopic focus of “somehow getting the numbers”. There is a need for consolidation and putting one’s house in order. A starting point is perhaps to ask about the purpose of it all – is it value appropriation or value creation. Not more work but more meta-work should be the watchword of the next decade.
Insurance revolution and the way ahead.

“Mr. Customer! God forbid, if something happens to you today and you don’t come back home, will your family continue to maintain the same life style as you are maintaining today? ”

“How much money can you put aside on a daily basis to take care of your family’s financial security?”

For generations, insurance was sold around the concept of protection.

Till 1990’s insurance products were traditionally perceived to offer risk cover along with moderate return on investments (ROI’s) – between 3% to 4%. These products were also positioned to address our medium and long term life cycle needs (e.g. family’s financial security/ child education / marriage / retirement etc.)

However, things changed dramatically with the privatization of this sector in the year 2000-01. Privatisation not only brought a totally new dimension in the sales process, but also a host of new products, specially unit-linked products (ULIPS), which offered excellent solutions specially for child education / marriage & retirement.

Within a short span of 2-3 years ULIPS completely changed the definition of life insurance industry. This small initiative became so big that it quickly garnered 60-70% market share. Every insurance company started rolling out ULIP products one after another and the focus shifted from “Protection” to “Investments.”

Unit-Linked products were also responsible in enhancing Customers expectations of higher returns (15%-20%) in a short span of time (3years - 5years).

Hence, the sales pitch deviated considerably from long term products, risk cover and moderate returns to short term products, moderate risk cover and high returns. For the last 7-8 years, every constituent of insurance business i.e. promoters, product team, sales team, training team etc. have got totally swayed by this new approach. And why not it was contributing to 60%-70% of the top-line for every insurance company.

As a result, a whole generation of Insurance professionals totally missed out the core selling process of life insurance.

The sales pitch, now, shifted to:

“Mr. Customer, I have a product which will give you 20% -30% return and your money will become double in 3 years time! How much money would you like to Invest?”
Surprisingly, in this mad rush for grabbing market-share the companies completely forgot the basic reason why privatisation was encouraged in this sector! The main reason for privatisation was to create better penetration of Insurance in a Country where life insurance penetration was just 2% till the year 2000-2001.

Insurance is very critical for countries like India since we do not have the provision for Social Security in this country. Today, when something happens to the bread earner of the family, the whole family has a risk of becoming a social liability. This can impact the social well being of the complete family. Normally, in this situation, the family actually comes under immense financial pressure and can end up getting involved in various types of anti-social activities. The child’s education can be impacted. These social issues can easily be addressed by a healthy penetration of Insurance in the society.

Unlike other Sectors, Insurance sector also carries a social responsibility towards our society. This responsibility need to be evenly shared with the Regulator (IRDA), Insurance companies as well as the distributors and brokers who play a key role in making Insurance products available to end customers. Unfortunately, this was not the case as the Insurance companies went overboard in the race for market share and the distributors were heavily focusing on Commissions. This resulted in heavy mis-selling and wrong selling in the marketplace and ultimately resulted in an alarming increase in the number of lapsed policies, especially in the last 3 years. The market desperately required an intervention from the Regulators to bring the Industry back on track and not surprisingly, Insurance Regulatory Development Authority (IRDA) came up with the New Regulations & Guidelines in mid-2010 which was further revived in September 2011. Today, every constituent in the distribution channel i.e. agents, Development Officers/Sales Managers, Branch Managers, etc. need fresh mind-sets along with skill-sets to manage and excel in fulfilling various responsibilities in the present business environment.

The distribution channel needs to be re-trained, so that they can start talking the language of safety and protection along with higher returns for the customers. The agency managers require new skill sets to manage brokers and bancassurance personnel and drive business as well as social responsibilities through them.

The Industry needs to go back to the basics all over again.
2.9 Buying Behaviour of Life Insurance In India.

Life insurance is basically a risk management tool. It is an arrangement through which we can get financial protection for our near and dear ones. We are living in a risky world today and only life insurance can ensure that our family enjoys a decent standard of living and our children can get good education even in our absence. When we are adequately insured, our risk taking ability increases quite naturally. In fact, success in our personal and professional life depends to a large extent, on well taken risks and therefore we can say that the more insurance penetration there is in a market, the more its people are likely to take risks and develop economically.

From an individual’s point of view, it is very important that the precise life insurance needs be carefully assessed. If he is an unmarried young man with parents not depending on him, then he has one form of insurance need. If he is a married person with one kid and the only earning member of the family, his need is different. If he is a successful professional in his middle age, his insurance need is again completely different. But, everyone has life insurance needs because, depending on the specific nature of liabilities and future responsibilities, the nature and quantum of risk may vary, and do so continuously. A person’s insurance portfolio is hence to be regularly reviewed either by the person himself or by a consultant. As a common person is expected to pursue his own professional interest, it is necessary to depend on the knowledge and skill of a trained financial counselor/advisor/agents in the matter of reviewing and determining the risks.

However, in our country, life insurance is hardly sold on the basis of such scientific principles. Till recently, insurance was more of a “push” product, with agents selling such policies that maximized commission earnings.

In India, insurance is not just a risk management tool. Here, insurers are acting more as mobilisers of contractual savings than as providers of risk management solutions. In India, insurers in general and LIC in particular act as major financial intermediaries and contribute to the development of savings and capital markets. In fact, savings in life insurance constitutes 19.5% of India’s household financial assets (RBI Annual Report, 2008-09). The corresponding figures in some other developed countries are 29% in UK, 23% in France, 19% in Germany and 18.1% in Japan. Indians, in general should be keeping more of their financial assets in life insurance because unlike developed
countries, our country does not have any social security system and there are far more uncertainties here in life than in developed countries.

In our country, people buy life insurance policies also to save on the incidence of income tax. A lot of salaried class people buy insurance policies in the months of February and March mainly to reduce burden of income tax and this is one reason why over 50% of insurers business comes in the last two months of each financial year.

Which types of people tend to prefer life insurance more? According to the Financial Protection Survey, the people who are more educated, more prosperous and own more consumer durables tend to buy life insurance more. About 58% of people who have completed college education, own at least one life insurance policy. On the other hand, only 26% and 13% of the people with secondary school education and primary school education respectively own insurance policies. Among the illiterates, only 9% are covered by life insurance. Average sum assured per Indian household is a dismal ₹ 27,951. Among the insured households, this average comes out to be ₹ 1,14,450. We all know that even this sum is hardly enough to take care of the yearly expenses of an average Indian family. If we set aside the concept of Human Life Value (HLV) at a particular age and just see whether the proceeds of an insurance policy can take care of a family for at least five years, still we must say that the majority of Indians are grossly under-insured! Although some insurance is surely better than no insurance, the purpose of life insurance is not served by taking policies that carry so little value in real life. It is clear that Indians take insurance policies more as a long term savings tool or a tax savings tool or may be as a tool to get some access to the stock market (in case of ULIP policies) and getting a risk cover is only incidental to all these.

As mentioned, wealthier Indians are buying more insurance policies, although need for insurance is no less among the not-so-rich and the poor households of the country. Although there are special plans launched by LIC and some private insurers also for the poor people of India and although micro insurance is gaining popularity in rural India, the fact remains that most of the poor Indians continue to live without any insurance cover. According to the Financial Survey, among the top 20% families (in terms of Income) of urban India 63.4% own insurance.

Earlier, there was widespread belief that insurance penetration in the country was low because of low level of income. The experience of insurers and also the Financial
Protection Survey suggests that it is not income alone that determines the demand for life insurance. There are some other important issues, including macroeconomic factors as well. Life insurance penetration depends on the rate of inflation, the rate of interest and the rate of growth of population also. A higher rate of inflation raises the cost of living and a lot of people feel discouraged to buy life insurance policies. A rise in interest rate makes competitive savings instruments more attractive and people tend to avoid buying life insurance products, as they do not generally have high Internal Rate of Return. In our country, life insurance is projected not just as a risk management tool but as a long-term savings tool and also as a tax saving tool and now as capital appreciation tool (in the form of ULIPs). This is the reason why products launched by insurers have to compete with Fixed Deposits, PPF, NSC, mutual funds and even capital markets. When an agent meets a prospect, he has to explain a lot why it is not possible for a life insurer to provide returns that are routinely available in other instruments.

Summary of Chapter 2.

In India insurance began in 1870 with life insurance. The insurance industry in India has come a long way since the time when business were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector exclusivity in the insurance industry in favor of market-driven competition. This shift has brought about major changes to the industry.

Until the early 21st century, the Indian life insurance industry was completely in the hands of LIC. In the 1950s, the industry had been nationalized in order to increase the penetration of insurance in the country and to make it available to less privileged segments of society. But even after 40 years of nationalization, only 25% of the insurable population was covered under insurance. This was one of major reasons for opening up the sector - to allow private players to work towards extending the reach and coverage of insurance all over the country.

By nature of its business, insurance is closely related to saving and investing. Life insurance, funded pension systems and non-life insurance, will accumulate huge amounts of capital over time, which can be invested productively in the economy.

The history of insurance in India can be divided into three phases as follows:
Pre - Liberalisation (Phase I), Liberalisation (Phase II) and Post - Liberalisation (Phase III).

Life insurance companies cover risks that relate to human lives. They offer different benefits under different types of products and cover the risk of early death, as well as the risk of living into old age.

The LIC has traditionally sold life business using tied agents (in-house sales forces are not a traditional feature of the Indian life market). All life insurers have tied agents working on a commission basis only, and the majority of private-sector insurers have followed this approach in distributing life products. Nevertheless, as banks are now able to sell insurance products, bancassurance has made a major impact in life sales.

The number of insurance companies stood at 48 at the end of 2010-11, consisting of 23 life insurers, 24 non-life insurers and a reinsurer. Edelweiss Tokio Life Insurance Company was granted registration in the year 2011-12, leading to total number of insurance companies increasing to 49 as at end-December 2012.

Most private companies had foreign participation up to the permissible limit of 26% of equity. Most of these private-sector companies have foreign partners with a maximum of 26% of shares.

In life insurance business, India is ranked 9th among the 156 countries, for which data are published by Swiss Re. The future success of the life insurance profession depends, above all, upon the knowledge and integrity of the people who advise customers – and are their first and most important point of contact. At the IRDA, the regulator’s goal is to see that life insurers are increasingly able to attract, motivate and retain outstanding people, committed to adopting a ‘needs-based’ approach to financial advice.

Another initiative identified by IRDA as a step in curbing wrong advice and mis-selling is to require insurers to have Prospect Product Matrix that will match a product with the requirement, based on the Needs Analysis carried out. The latest initiative from the IRDA is the setting up of a call centre which an insured can contact to seek the resolution of a grievance they have against their insurer.

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to
population (per capita premium). Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density.

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