Emerging Trends in the role of Banking and Management in India

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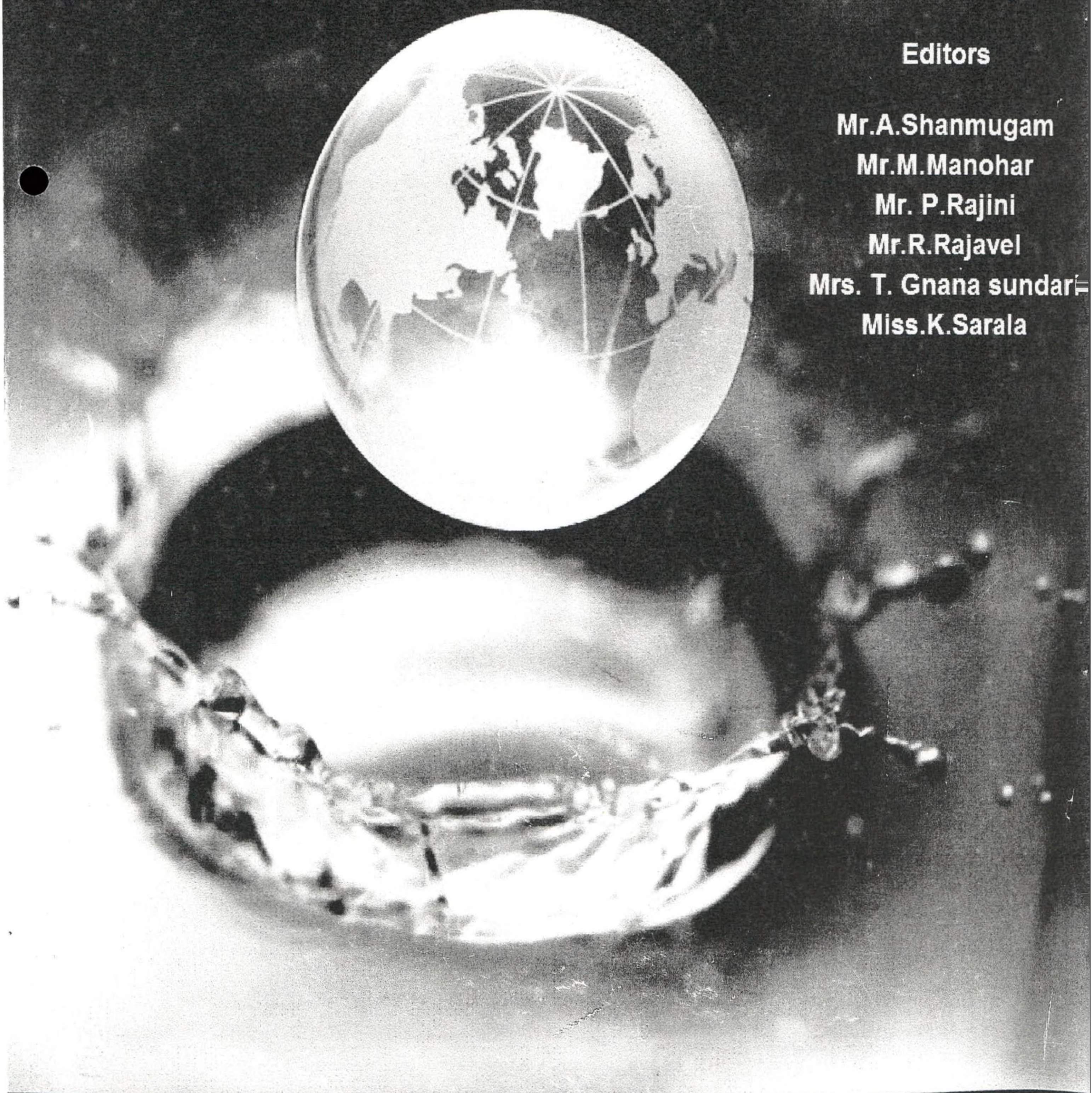

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Abstract

The Indian insurance industry seems to be in the state of volatile nature. While there has been a perceptible change in the market dynamics since liberalization and economic reforms, a considerable amount needs to be done for future growth and development of the market in an orderly and sustained manner. Notwithstanding the strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrated market. The market today is primarily dependent on push, tax incentives and mandatory buying for sales. India's ranking in the world insurance market based on total premiums collected has dropped to number 15 in 2011 from number 11 in 2010. India's share of the world insurance markets has declined to 1.58% in 2011 from 1.8% in 2010, being displaced by countries such as Brazil, Spain and Taiwan, which now rank higher than India. Globally, total insurance premiums for calendar year 2011 contracted by 0.8%, with premiums contracting in advanced economies at-1.1% and those in emerging economies growing at 1.3%; with life insurance contributing 57% at US$2,627 billion and non-life contributing the balance 43% at US$1,912 billion. Growth Drivers in the industry are growth of the financial industry as a whole, Growth of life and non-life industry, promoting innovation and removing inefficiency, competition and orderly growth, growth of specific insurance segments, rural as a major trust and growing Economy. Some of the trends in the insurance sector are Hybrid distribution channel, Difficulty in designing Marketing Mix, Regulatory trend, On line policy, Claim Management, Customer Servicing, FDI in insurance, **seeking of riskier assets to beat low interest rates, New risk management techniques and improved monitoring and adoption of data analytics to enhance underwriting profitability.**

Key Words: Hybrid Channel, Claim Management, Data Analytics, Risk management

Introduction

In day to day life every human being is engaged in some activity, it may be related to earn livelihood or household activity. The activity which provides livelihood is known as economic activity. Though there are so many economic activities like manufacturing, trading, banking, transportation and insurance and many more. Insurance means transfer of risks of an individual (unexpected and uncertain) i.e. Death, old age. Disability, illness or business risks (unexpected and uncertain) i.e. fire, earthquake, theft and liability to an insurance company.

The insurance sector is divided in two parts life and general or non-life. Life insurance deals with only human lives and non-life deals with other than human life. Insurance is divided into two segments i.e. Life and non-life/general and each segment have developed independently. In 2000, Indian insurance sector has taken U turn i.e. Privatization (private insurance companies to nationalization (Government Companies) to Privatization/mixed economy (Private/Government companies). It is said that insurance was practiced in India even in the Vedic times and the Sanskrit term "YOGAKSHEMA" in the Rig-Veda is in reference to a form of insurance practiced by the Aryans 3000 years ago. The code of Manu which prescribes the many practices to be followed by the people for social harmony and development in Ancient India had also dictated that a special charge be made on goods carried from one city to another to ensure their safe carriage to the destination.

India's insurance sector is the biggest in the world. The sector consists of 52 insurance companies, of which 24 are in life insurance business and 28 in non-life. The life insurance industry in the country is projected to increase at a compound annual growth rate (CAGR) of 12-15 per cent in the next five years. The industry plans to hike penetration levels to five per cent by 2020, and has the potential to top the US$ 1 trillion mark over the next five years. The total market size of the insurance sector in India was US$ 66.4 billion in FY 13. It is projected to touch US$ 350-400 billion by 2020.

India was ranked 10th among 147 countries in the life insurance business in FY 13, with a share of 2.03 per cent. The life insurance premium market expanded at a CAGR of 16.6 per cent from US$ 11.5 billion to US$ 53.3 billion during FY 03-13. The non-life insurance premium market also grew at a CAGR of 15.4 per cent in the same period, from US$ 3.1 billion to US$ 13.1 billion.

Digital@Insurance-20X By 2020, by Boston Consulting Group (BCG) and Google India forecasts that insurance sales from online channels will grow 20 times from present day sales by 2020, and overall internet influenced sales will touch Rs 300,000-400,000 crore (US$ 49.63-66.18 billion).Investment corpus in India's pension sector is projected to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, as per a joint report by CII-EY on Pensions Business in India.

Some of the major investments and developments in the Indian insurance sector:

- GATE Corporation has bagged its largest multi-year deal ever, worth US $200 million, in the second quarter (April-June) of 2014. "IGATE has signed a multi-year, platform-based contract with CNA Financial, which is America's eighth largest insurance company to design, implement and manage claim and policy holder administration of CNA's long-term care (LTC) business".
- Export Credit Guarantee Corporation of India Ltd (ECGC) has signed a memorandum of understanding (MoU) on co-operation with the Export Credit Insurance Agencies (ECA) of BRICS countries. The MoU will help strengthen collaboration among BRICS countries' ECA by setting up a framework of co-operation. This will help to support and promote international trade between BRICS countries.
- Indian insurance companies are expected to spend Rs 117 billion (US$ 1.93 billion) on IT products and services in 2014, an increase of a 5 per cent from 2013, as per Gartner Inc. The forecast takes into account expenditures of insurers on internal IT (including personnel), software, hardware, external IT services and telecommunications. Also, insurance companies in India are likely to spend Rs 4.1 billion (US$ 67.84 million) on mobile devices in 2014, an increase of 35 per cent from 2013.
- Kotak Mahindra Old Mutual Life Insurance Ltd has launched Kotak Assured Income Accelerator, a plan that takes into account the ever-increasing cost of living by paying an increasing annual guaranteed income in the payout phase. The product also gives the insured the convenience of three different payment and payout terms to suit their different needs.
- Future General India Life Insurance Company Ltd has launched Care Plus Plan, a pure term insurance plan. Future Generali Care Plus is a simple protection plan, which offers financial security to the family at affordable rates. The plan provides two options - Future Generali Care plus Classic Option for cover up to Rs 2,500,000 (US$ 411,366.51) and Future Generali Care Plus Premier Option for cover of Rs 2,500,000 (US$ 411,366.51) and beyond.
- General insurance companies are starting to cover pre-hospitalisation expenses such as out-patient department and wellness services, apart from the standard hospitalisation expenses. Additionally, these companies are offering several other features such as Worldwide Emergency Cover, disease-specific covers, health maintenance benefits, value-added services in the form of discounts, etc.

Insurance growth drivers in India

The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. Listed below, are the various underlying growth drivers for India's insurance industry:

employment opportunities. More over due to increase in the literacy rate awareness of various financial products including insurance is also leads the growth in the insurance industry. The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. The working population (25–60 years) is expected to increase from 675.8 million in 2006 to 795.5 million in 2026.

- **Growth of life and non-life industry:** In order to invest for a secured future for self and for family people are investing in various life insurance avenues. Huge spending in consumer goods, travel, and automobiles leads to the growth of insurance industry. More than two-thirds of India's population lives in rural areas without proper access to insurance products. Micro insurance is seen as the most suitable channel to ensure coverage in these areas. Evolving medical technology and increasing demand for better health care has resulted in a significant rise in the demand for health insurance. The Indian health insurance industry was valued at INR99.4 billion as of FY11. From the period FY03–FY10, the industry has grown at a CAGR of 32.59%. Share of health insurance was 26% of the total non-life insurance premium in FY11.Health insurance premiums are expected to increase to INR300 billion by 2015.
- **Promoting innovation and removing inefficiency:** Increasing universe of potential insurance takers – Individuals and Companies across industries, SMEs, MNCs and Expansion of the universe of insurance takers driven by professionalization of companies promotes innovation in the field.
- **Competition and orderly growth**: Increasing number of providers offering a large range of covers at competitive prices and higher level of sophistication and Regulations which are conducive for growth and expansion of industry
- **Growth of specific insurance segments such as motor insurance:** Increasing focus on micro insurance under financial inclusion , increase in demand for motor insurance, increase in costs of healthcare and govt. schemes on healthcare leads to enormous growth in the sector

Technology and Insurance Sector

The insurance industry is somewhere in the middle of the pack when it comes to digital transformation. Despite regulatory obstacles and organizational cultures that reinforce conservatism, however, insurers still have time and opportunity to get moving in the right direction. Many insurers have deep resources, strong balance sheets, enormous scale, vast quantities of data and rigorous process discipline – all assets that can help them connect with customers in a new digital environment.

- **Digital-physical blur:** The "real world" is coming online as smart objects, devices and machines increase our insight into – and control over – the physical world. This is more than just the "Internet of Things" — it is a new layer of connected intelligence that supports employees, automates processes, and incorporates machines into our lives. Intelligent interfaces such as wearable computing, home sensors, and vehicle telematric are blurring the physical and the digital. These technologies – expanding rapidly in number and dropping rapidly in price – take advantage of the cloud to share data with other "edge" devices. They can sense environmental variables and feed analytics engines and visualizations so that organizations can make smarter decisions in real time. Digital-physical blur promises to transform the industry by giving insurers usage and contextual data they can use to refine risk, redefine products and transform customer relationships. Insurers are not only integrating existing trends such as vehicle telematics into their business models, but they are considering what the next wave of disruption – dramatically illustrated by the emergence of the driverless car – will mean for their businesses. Carriers that started off with pay-per-use insurance offerings are moving toward mobile, contextual and behavioral-based products.

The future workforce will extend beyond

about enabling insurers to collaborate more effectively within the boundaries of their own enterprise; they now involve connecting insurers to smart, enthusiastic people in the outside world who have the interest, motivation, time and expertise to work with insurers to solve some of their most daunting business challenges. Few insurers, however, have grasped the idea of accessing a truly liquid workforce – pools of premier talent gathered in virtual communities and coalescing around specific business problems. This expanded workforce offers expertise that may not be available in-house, and it offers scale that can be leveraged to solve problems that may be too large or expensive to solve internally. An insurer's workforce today needn't be restricted to the people on its payroll or limited by its culture. Thanks to digital platforms such as Kaggle, InnoCentive, Elance and oDesk, insurers can tap into online resources for tasks ranging from designing a new logo to helping create the breakthrough products and services of tomorrow.

- **Data Supply Chain:** To unlock the value of their data, insurers must start treating data more as a supply chain, enabling it to be accessed and then to flow easily and usefully through the entire organization. Eventually, the data should flow to the insurer's ecosystem of partners, as well. Many insurers see data of the lifeblood of their organization; that is why they are implementing the newest big-data tools, investing in advanced analytics applications, and purchasing the latest data visualization software. Yet few insurance companies have mastered the concepts at the foundation of modern data management – the mobility and portability of data, its structure and velocity, and data as a "saleable" product to be monetized. High-performing insurers will liberate their data, generate value from it, and operationalise insights to improve strategic decision-making throughout the organization. To do this, they will manage their data, like any other core product, in the context of a supply chain. The supply chain begins when data is created, harvested, imported, or combined with other data. The data then moves, flows, and transforms through the supply chain, incrementally acquiring value. The supply chain ends with valuable insight as its output. Guiding this movement is a federated data services platform, which unifies data from multiple systems into a single view and enables business users to interact with the data in a standardized way.

Emerging Trends

- **Multi-distribution:** To increase market penetration, insurance companies need to expand their distribution network. In the recent past, the industry has witnessed the emergence of alternate distribution channels. The typical distribution channels used by insurance companies now include bancassurance, direct selling agents, brokers, online distribution, corporate agents such as non-banking financial companies and tie ups of para-banking companies with local corporate agencies (for example NGOs) in remote areas. A few alternative distribution channels have evolved in the recent years such as: (i) **Online/Internet: T**he internet penetration in India has been on the rise, whereby increased number of people have access to internet both through computers as well as through mobile phones, including population in tier-2 and tier-3 cities. **(ii) Direct marketing and Tele Marketing:** With increasing telecom penetration in India, the use of direct marketing via database marketing is growing. Direct access to the customer and savings in intermediary cost make it an attractive option for the companies and is the key in development of the channel.**(iii) NGOs and affinity Groups(SHGs)**: With IRDA allowing NGOs/SHGs to distribute micro insurance, insurers can access the "untapped" areas at relatively lower costs using the existing relationships of such entities.
- **Product innovation:** With customers asking for increased levels of customization, product innovation is one of the best strategies for c[illegible]anies to increase their market share. This creates efficiency as companies c[illegible] maintain reduced unit costs, offer improved services, can increase flexibility to pay commissions and generate high[illegible]

guidelines is likely to smother innovation if not conceived, implemented in an appropriate manner. Micro insurance is important not only from social and economic perspective prosperity and financial inclusion but also from insurers' perspective for new avenues for sustainable profitable growth in future. Even the pension sector, due to its inadequate penetration (only 10% of the working population is covered), offers avenues for innovation.

- **Claims management:** Timely and efficient management of claims is crucial for the performance of the industry. Delay in claim settlement generally results in higher claims cost. The incurred claims ratio, which measures the claims incurred to the premiums earned in the same period, stood at 97% for public insurers and 87% for private insurers in FY11 for the non-life insurance business. Some insurers have managed to limit the claims ratio by deploying in-house team of surveyors, engineers etc., stringent and sophisticated underwriting policy, geographical focus in certain segments and higher reinsurance cession especially for more complex lines of business.

- **Rise in customers' use of the internet to buy insurance products:** Easy access to the internet via computers, mobiles, and other hand-held devices has made it a part of people's everyday lives. Customers now use these devices to easily obtain information and updates on insurance products and services—a trend that is expected to continue to grow in the near future. While penetration of these devices is higher in the developed western economies, it is rising at a rapid pace in developing economies such as India and China. The online sale of insurance products has tremendous potential for distributing policies while keeping overall costs low. Insurers should focus on increased adoption of this channel to generate new product sales and also to provide related services to their customers. They should also use it to provide customer service and collect customer feedback. The online channel can also be leveraged to provide claims management and related services to customers.

- **Increased use of social media as a distribution channel:** Social media platforms such as Facebook, LinkedIn, and Twitter have witnessed rapid growth over the last few years. Many of these platforms have matured, and feature embedded functionalities that better help businesses to reach out and interact with their target audience base. At the same time, many other new social media platforms, such as Google+, are also trying to establish themselves in the marketplace. As social networking sites continue to gain ground in the insurance industry, insurance companies will need to broaden their internet-based strategies to include social media platforms. They should help their agents understand the implications of this trend on their role as advisors and how to best leverage it. Social media channels can also be used to assess the needs of customers and the standard of services being offered. This can be done with the help of focus groups and discussion forums where customers interact with each other and also with company experts. The channel can also be used to launch media campaigns—including education and new product launches—targeting the customer segment that has an extensive online presence.
- **Rise in usage of SaaS solutions to enable the insurance distribution process across multiple channels:** As the number of distribution channels used for policy sales rise, and as newer technology platforms emerge, insurers now strive to provide consistent customer experience across these channels. This requires significant investments in information technology to enhance capabilities and streamline processes across these channels. While the usage of SaaS-based solutions by insurance companies is still in its initial stages, insurers need to understand the importance and utility of the SaaS model to analyze how it can be leveraged to ext maximum value across multiple channels. Firms should also explore the possibilities arising from SaaS-based solutions to better collaborate with agents and brokers and to provide them with a robust platform for better