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Research Paper | Insurance

Trends and Challenges in Indian Insurance Industry

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ABSTRACT

Insurance Industry is not an exception to the changes that are taking place in the Indian Economy due to globalization and liberalization processes. The industry has opened up and there are more players in the field particularly in the private sector. The global giants have tied up with Indian Insurance companies and offer a variety of services and products to the Indian consumers. Simultaneously, the awareness among the Indian people has gone up mani-fold which is at once a challenge and an opportunity for the players in the insurance sector.

To be globally competitive, insurance sector will have to focus on producing world class products and services at affordable prices. It has to necessarily reposition itself in terms of right strategies and competitiveness. This paper focuses on the insurance sector, its emerging challenge and transformations in the international arena.

Rural insurance is a big challenge and should be looked upon as an opportunity. Success of the insurance industry will be measured by the extent of its rural penetration.

KEYWORDS: Insurance, Bancassurance, Distribution Channels, Consumer Behaviour

1. Introduction

The opening up of the Indian economy has encompassed the Insurance sector as well. The entry of private insurers and foreign players in the field intensified competition and growth in insurance sector in India. Not only did the Indian consumers benefit by the availability of wide range of insurance products and services from across the globe, the Indian insurance industry gained access to international market and customers. A number of companies have been able to develop global competitive capabilities and significantly expand overseas operations. Global insurance giants have entered India through tie-ups with Indian companies both in the private and public sectors.

Life insurance is essentially an investment of savings that offer a tax free sum to the beneficiaries at some point in the future and at the same time provide sum assured to the dependent beneficiaries in the event of the death of the insurer.

Life insurance was once sold primarily by career life agents, captive agents that represent a single insurance company and by independent agents who represent several insurers. Now life insurance company products are also sold by direct mail, telephone, and the internet directly to the public.

In addition in the 1980s insurers began to market annuities in term life insurance through banks and financial advisers, professional organizations and work places.

2. Rationale for the Present Study

Insurance industry has awakened to the deregulated environment in which several private players have partnered with multi national insurance giants. Despite its teeming one billion populations, India still has a low insurance penetration. However, the industry is witnessing changes and the study aims at examining these emerging transformations.

3. Objectives of the Study

i) Changing customer expectations
ii) Key Focus Areas of Insurance Companies
iii) Insurance intermediaries and distribution channels
iv) Future challenges
v) IRDA and its Code

4. Research Methodology

Data and information for the research study were collected and analyzed from secondary published sources viz., books, newspapers, web sites and research studies.

5. Findings of the Study

5.1 Changing Customer Expectation

There is presently building in India an upsurge in consumer awareness putting immense and unavoidable pressure on the insurance industry. Consumers are increasingly more aware and are actively managing their financial affairs. Today while boundaries between various financial products are blurring, people are increasingly not just looking at products and services on offer in different verticals but at integrated financial solution that can offer stability of return along with total protection. With lifestyle changes they look at insurance not merely as life cover but as an investment option.

To satisfy the myriad needs of the customers, insurance products would need to be customized. Customers today seek products that are offering flexible options, preferring products with benefits unbundled and customizable to suit their diverse needs.

The trend in developed economies, where people no longer retire earlier, is now emerging in India, where once the fear was dying too earlier, now with longevity the fear also is of living too long and outliving one's assets. With the breakdown of joint family systems, consumers are now concerning themselves with a need to provide for comfortable retirement.

Today consumers are increasingly interested in products to help build wealth and provide for retirement income. This necessitates a demand for insurance products. While sale of traditional insurance products like individual whole life and term will remain popular, sale of new products like single premium, investment linked, retirement products, variable life and annuity products are on the incline. Insurance companies will have to constantly innovate in terms of product development to meet ever changing customer needs.

5.2 Key Focus Areas for Insurance Companies

In the global competitive scenario the key focus for the insurance companies is customer satisfaction encompassing quality of advice, product choices along with policy servicing and claim settlement. Service should focus on enhancing the customer experience and maximizing customer convenience. Long term growth in the business will depend greatly on the distribution network where the emphasis would change from merely selling insurance to acting as financial advisors, helping customers plan their finances depending on life stage and personal requirement. This calls for a strong focus on training of the distribution force to act as financial consultants and build a long a lasting relationship with customers. This would help to create sustainable competitive advantage not easily matched.

5.3 Insurance Intermediaries and Distribution Channels

While tied agents will continue to play an important role in distribution, alternative channels like corporate agents, brokers and bancassurance will play greater role in distribution. Insurance firms will need to forge relationship with partners for strategic advantage, for example, local partners may have strong distribution channels in their line of business which can be used to sell insurance also in cost effective manner.

There has been a paradigm shift in the insurance industry from tradi-

tional individual agents towards new distribution channels creating insurance awareness and not just selling products. Qualitative selection of insurance agents by companies is imperative to gain the cutting edge.

Work site marketing, relatively inexpensive and easy to launch, is one potential distribution channel. In this scenario the sale of financial products and other services to employees is through work place participation and is entirely on a voluntary basis where the employee pays for the products generally through a payroll deduction. Products must match the need of the customers with protection of policy holders paramount.

New channels like internet and telemarketing have started playing an increasingly critical role in insurance products marketing and customer relationship.

Bancassurance has emerged as another strong and effective marketing channel.for insurance products. Banks leverage their existing resources and earn supplementary fees while widening their range of available services. In the face of strong profitability pressures in their traditional banking services, banks expand their offerings by including insurance products. Banks with cutting edge technology already have an edge in selling insurance products. Rural and semi urban sectors could be serviced extensively by the bancassurance model.

Other distribution channels like Call centers, direct marketing and the internet are growing dramatically ensuring direct contact with customers. They help to acquire, retain and build loyalty among customers while lowering transaction costs.

5.4 Future Challenges

The future challenges facing the industry are

i) product innovation and technology
ii) distribution channels
iii) customer service satisfaction
iv) insurance as investment
v) working with a joint venture partnership
vi) regulatory hurdles
vii) constant monitoring at all levels
viii) rural insurance

Personal insurance products must find greater acceptability with rising customer awareness about customized, personalized and flexible products. Flexible products and new technology will play a crucial role in reducing the cost and therefore the price of insurance products. Finding the niche markets having the right product mix through add-on benefits and riders, effective branding of products and services and product differentiation from competitors offering will be the few challenges faced by the new companies.

In today's highly competitive financial services environment effective organization will have to employ technology in a strategic role to achieve competitive edge. Technology will play an increasing role in aiding designs and administering of products as well as in efforts to build life long customer relationships.

At the same time insurance firms will have to find the right people with the right attitudes, values and ethics, commitment to excellence and focus on customer services. The critical success factor is a top down emphasis on exceeding customer expectations with quality people, excellent products and legendary services. This would also result in growth of insurance sector and extending the reach of insurance across the country.

Bundle of innovative products to match rural needs and perceptions and an efficient delivery system are critical aspects that have to be developed in order to penetrate the rural markets, For example, LIC's lion share of its new business comes from rural and semi-urban markets through mass marketing strategy. Identifying the right agents to harness the full potential of the vibrant and dynamic rural markets will be imperative.

To make multiple channel delivery work all channels must be integrated tightly to deliver on the promise of service any time anywhere. Information gathered by each channel must be combined to provide a consolidated view of the customer relationship and identify likely financial needs. A customer accessing any channel should be recognized as client and not required to provide information again. A client should be able to move easily from one mode of service to another without disruption in service.

5.5 IRDA and its Code

Insurance Regulatory and Development Authority (IRDA), the regulatory authority in insurance has issued the Life Insurance Regulatory Standards of conduct and sound practices which requires life insurance companies to follow a uniform code of conduct to allow more transparency. Illustrations, assumed rate of return and projections must contain warnings that these are not guaranteed. In addition fund management, policy changes, costs, etc. must be clearly stated and agents will not force customers to purchase riders.

6. Conclusion

Insurance today has emerged as attractive and stable investment alternatives that offer total protection to life, health and wealth. In terms of returns, insurance product today offers competitive returns ranging from 7% to 9%. Besides, returns what really increases the appeal of insurance is the benefit of life protection from insurance products along with critical illness cover benefits.

The intermediaries in the insurance business and the distribution channels used by the insurance companies will perhaps be the strongest drivers of growth in the sector. Multi-channel distribution and marketing of insurance products will be the smart strategy for Indian markets.

Competition will motivate the markets to grow beyond current rates, create a bigger pie and offer additional consumer choices through introduction of new products, services and price options. Growth in the insurance sectors is evident from a large number of innovative schemes floated by private insurers and public sector giants showing an increasing demand by the consumers. For insurance industry to be truly successful, the thrust should be on rural India where the life insurance penetration is abysmally low.

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