

Emerging Challenges and Directions in Life Insurance Sector



Insurance

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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 manifold which is at once a challenge and an opportunity for the players in the insurance sector.

1. Introduction

Two decades of economic reforms has encompassed the Insurance sector as well. 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 markets and customers. A number of companies have been able to develop global competitive capabilities and significantly expand overseas operations. Global insurance giants such as Prudential, Allianz, Standard Life, New York Life, AXA, Future Generali, ING, etc. have entered India through tie-ups with Indian companies both in the private and public sectors.

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 sold by direct mail, telephone, and internet directly to the public. However, despite its teeming one billion population, India still has a low insurance penetration more particularly in the rural segment. India boasts of a saving rate of around 25%, but less than 5% is spent on insurance.

2. Rationale for the Present Study

To be globally competitive, insurance sector will have to focus on producing world class products and services at lower prices. It has to necessarily reposition itself in terms of right strategies and competitiveness. This paper looks at the emerging challenges and future directions of life insurance sector.

3. Objectives of the Study

1. Understand the changing consumer profile in insurance sector
2. Changing life Insurance intermediaries and distribution channels
3. Emerging Challenges

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 Consumers Profile in Insurance Sector

There is presently building in India an upsurge in consumer awareness putting immense and unavoidable pressure on the life insurance industry. Instead of categorizing insurance by class, the focus has shifted to the period for which the cover is offered and the risk underwritten. There are products in which the industry underwrites pure risk and leaving investment decisions to the policy holders. The market is witnessing a wide array of products from different players. In such a global scenario the differentiators among the players are the products, pricing and servicing. Consumers are getting 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 but at integrated financial solution that can offer stability of return along with total protection

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

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 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 traditional forms of social society like the joint family system, 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 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.

In the global competitive scenario, the key focus for the insurance company would be customer satisfaction viz., quality of advice and product choice 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 must evolve 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 lasting relationship with customers. This would help to create sustainable competitive advantage not easily matched.

5.2 Life Insurance Intermediaries and Distribution Channels

Along side the tied agents for selling life insurance products, alternative channels like corporate agents, brokers and bancassurance have emerged and are playing a greater role in distribution of life insurance products and services. Firms are forging relationship with partners for strategic advantage, for example, local partners would have strong distribution channels in their line of business which can be used to sell insurance in a cost effective manner.

There has been a paradigm shift in the insurance industry from traditional individual agents towards new distribution channels creating insurance awareness and not just selling products. Qualitative selection of insurance agents by companies is therefore 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 match the need of the customers. Protection of policy holders is paramount.

To stay competitive, companies must constantly explore avenues to increase the number of distribution channels through a variety of distribution modes. The new channels like internet and telemarketing play an increasingly critical role in customer relationship. Customers can pay policy premiums on-line.

Bancassurance is another effective channel in countries like Italy, France, and Spain. Insurance companies have taken advantage of customers' typical loyalty to single banks and pattern of long term banking relationship by successfully selling their products through these banks. These banks leverage their existing resources and earn supplementary fees while widening their range of available services. Bancassurance model has become an important distribution channel in India for selling insurance products especially in the rural and semi urban sectors. Public sector banks are playing a leading role in this.

Other distribution channels like Call centers, direct marketing and the internet are growing dramatically in importance ensuring direct contact with customers. It is helping firms to acquire, retain and build loyalty among customers while lowering transaction costs.

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, for example, from on-line to face to face to on-line without disruption in service.

5.3 Emerging Challenges

The emerging challenges facing the life insurance industry are

- i) product innovation and technology
- ii) distribution channels
- iii) customer education and satisfaction
- iv) working with joint venture partnership
- v) regulatory hurdles
- vi) rural insurance
- vii) agent attrition
- viii) claim settlements
- ix) reducing insurance costs

Flexible products and new technology will play crucial roles in reducing the cost and therefore the price of insurance products. Finding niche markets having the right product mix through add-on benefits and riders, effective branding of products and services and product differentiation from competitors offerings will be few challenges faced by insurance companies.

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 service. 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.

Insurance companies will have to overcome regulatory hurdles and cope with the joint venture partner as well as satisfy some very high customer expectations. While government has announced increase in FDI to 49%, it would be a while before it becomes a reality. Further the new entrants will have to consider the insurance market as a long term investment and maintain clear cut objectives and constant monitoring at all levels.

Rural insurance should be looked upon as an opportunity and a smaller bundle of innovative products to match with rural needs and perceptions and an efficient delivery system are critical aspects that have to be developed in order to penetrate the rural markets. Life Insurance Corporation's (LICs) lion share of new business comes from rural and semi-urban markets through mass marketing strategies. Identifying the right agents and the distribution channels to harness the full potential of the vibrant and dynamic rural markets will be imperative.

6. Conclusion

Competition will continue to motivate the market to grow beyond current rates, create a bigger pie and offer additional consumer choices through the introduction of new products, services and price options. Growth in the insurance sectors is evident from a large number of innovative schemes floated by life insurance companies showing an increasing demand by the consumers.

While the industry was growing at a fast clip during the last decade, the last two years have seen moderate growth. Consumers have become choosy and look at insurance not only for providing the social security net but also asset creation as they grow in age when financial needs are higher with limited wealth creation opportunities. Insurance companies would therefore need to take a long term perspective and not look for short term gains.

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