

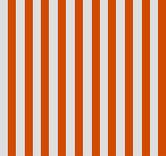


India's insurance vision: Challenges and the way forward

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Foreword



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The Insurance Regulatory and Development Authority of India (IRDAI) is committed to enabling 'Insurance for all' by 2047.¹ As one of the many steps taken to translate this vision into a reality, the IRDAI, in a recent amendment, increased the maximum number of insurer tie-ups by three times for corporate agents and international monetary funds. The objective is to make insurance accessible by solving inadequate distribution reach using bancassurance channels.

While the outreach in this sector may have increased from 3.69% in 2018 to 4.57% in 2022,² there is still considerable ground to cover to transform insurance from a precautionary tool to a tool of empowerment and preparedness.

A pervasive trust deficit coupled with inadequate financial literacy still acts as a formidable barrier to insurance penetration. The absence of trust erodes the confidence of potential policyholders, deterring them from engaging with insurance products and services. There also remains a glaring protection gap, which is an outcome of a complex interplay of factors such as lack of accessibility and affordability, and poor financial literacy. Mis-selling and unsatisfactory settlement experiences have also been recurring grievances, underscoring the urgent need for a recalibration in insurance practices. The lack of personalised digital channels also act as an impediment in achieving seamless engagement with the customers.

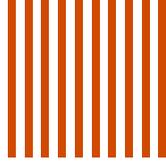
These challenges trigger the imperative for transparent, customer-centric approaches that engender trust and resonate with individual needs. Herein lies an opportunity for insurers to harness the prowess of data analytics and artificial intelligence (AI). By leveraging these technological advancements, insurers can reengineer policies and craft hyper-personalised products which resonate with individual preferences and life stages – all the while ensuring ethical data consumption across the insurance value chain.

Tailored products and innovation, then, are key to unlocking under-penetrated segments, especially among the younger population. Embracing innovation allows insurers to create value-driven, customer-centric offerings, while industry practitioners focus on maintaining product simplicity, transparency in communication across all touchpoints, robust fraud management system and superior claim settlement experience. Our paper underlines both the challenges and myriad opportunities in the insurance ecosystem and provides insights into how a strategic collaboration between insurers, governments, intermediaries and regulators can result in the sustainable growth of the industry.

¹ <https://irdai.gov.in/web/guest/document-detail?documentId=1624671>

² Economic Survey, 2022-23, Ministry of Finance, Govt. of India

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Introduction



According to Economic Survey, 2022–23, India is poised to emerge as one of the fastest growing markets in the coming decade. Important government interventions and a conducive regulatory environment have supported the growth of the insurance market, which has seen increasing partnerships, product innovations and vibrant distribution channels.³

With a vision of insuring everyone by 2047, the IRDAI aims to provide every citizen of our country with an appropriate life, health and property insurance cover and to ensure that every enterprise is supported by an appropriate insurance solution.⁴ To realise this vision, the IRDAI has taken commendable measures to increase awareness about insurance, and to make insurance affordable and accessible to the people of the country.



³ Economic Survey – 2022-23, Ministry of Finance, Govt. of India

⁴ <https://irdai.gov.in/web/guest/document-detail?documentId=1624671>

Challenges for the insurance sector

According to Economic Survey 2022–23, Insurance penetration in India has increased from 3.69% in 2018 to 4.57% in 2022, with life insurance penetration being twice that of the emerging markets and marginally higher than the global average.⁵ However, in spite of demonstrating a healthy compound annual growth rate (CAGR) across lines of insurance business, the protection gap remains around 90%.⁶

Considering the demographic and geographic diversity of India, the challenge of low protection gap cannot be viewed in isolation. The problem stems from challenges such as low awareness, limited understanding of products, complex processes, low affordability of products, lack of trust, delay in claim settlements and inadequate distribution channels.

From the perspective of a prospective policyholder

In India, insurance sales is driven by the fear of loss of financial independence which makes it a push product. At present, 60–70% of life and health products are being sold via offline channels due to the complex nature of the product.⁷

Mr. BD Banerjee, Ex MD of GIC, commented, 'Being a push product, eagerness to sell somehow reduces the professional approach. As a sequel, understanding the product's technicalities and efficacies are forgotten.'

It is easier to sell a guaranteed return product which offers instant returns rather than a pure risk term product. However, this leads to inadequate cover for the policyholder. Economic Survey, 2022–23, highlights that 'most life insurance products sold in India are savings-linked with a small protection component. Hence, Indian households remain exposed to a significant risk in the event of the premature death of the primary breadwinner.'⁸ Mis-selling of products without analysing the customer's needs and poor claim settlement experience, which are the leading categories of grievances reported by policyholders, are also the main challenges of the insurance industry.

In spite of the challenges listed above, India's performance during the COVID-19 pandemic claims garnered praises worldwide. The life insurance industry paid benefits of INR 5.02 lakh crore in 2021–22, which constituted 73.1% of the net premium collected. According to the IRDAI, 'In case of individual life insurance business, the life industry's death claim settlement ratio increased to 98.64 per cent in 2021–22 from 98.39 per cent in the previous year and the repudiation/rejection ratio decreased to 1.02 per cent from 1.14 per cent.'⁹ However, improving the last mile connectivity in the country and developing customised offerings as per the evolving needs of the customer is still a challenge for the industry.

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It is a general perception that insurers do not settle claims. However, number speaks otherwise. For every INR 100 that industry collects in the premiums, there is an outgo of about INR 118.

– Tapan Singhel, MD and CEO, Bajaj Allianz General Insurance

⁵ Economic Survey, 2022-23, Ministry of Finance, Govt. of India

⁶ <https://www.pwc.in/research-and-insights-hub/bridging-gaps-in-the-india-insurance-sector.html#sources>

⁷ PwC analysis

⁸ Economic Survey, 2022-23, Ministry of Finance, Govt. of India

⁹ Economic times, 22nd Dec, 2022



Trust is fundamental for insurance, and insurers, regulator and the government clearly have a greater role to play than merely protecting the risks and interests of the policyholders. According to the 2023 Edelman Trust Barometer, only 59% of respondents trust the financial services industry, eight percentage points lower than the industry average. The trust deficit, combined with lack of access and poor financial literacy, has led to wider protection gaps and higher economic losses.

Figure 1. POV: Focus areas of improvement from a customer's lens¹⁰

From an investor's lens

In the year 2000, India allowed private firms entry into the insurance sector and set a limit on foreign direct investments (FDIs) to 26%, which was increased to 49% in 2014 and further increased to 74% in 2021.¹¹ At present, 100% FDI is allowed for insurance intermediaries.¹² However, as commented by G. Srinivasan - Ex CMD, The New India Assurance and United India Insurance, and Director, National Insurance Academy. 'Investors today are apprehensive about the return on investments (ROI) and insurance companies need to work hard to make the industry profitable if it must attract more investors.' In a price sensitive market, distribution and underwriting costs remain on the higher side due to low demand for insurance as a product. Inefficient assisted channels further increase the customer acquisition cost. For insurance providers to succeed in this dynamic market, they should focus on factors such as lack of personalised digital channels, inconsistent return on capital employed, opaque business models and headwinds due to regulatory and compliance risks to attract more investments.

Embedded insurance is trending in Asian markets, due to its simplicity of offering, affordability and low distribution costs. Embedded insurance has seen strong traction in India with healthy growth in gross written premium (GWP).

To increase adoption and popularise embedded insurance as a product within the Gen Z community, the insurance industry has launched multiple new offerings such as buy your own product (BYOP), friction free digital journey and zero/negligible underwriting.



¹⁰ Edelman Trust Barometer: <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1693902>; 100% FDI allowance link

¹¹ <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1693902>

¹² <https://www.livemint.com/politics/policy/government-notifies-100-fdi-for-insurance-intermediaries-11582703068028.html>

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Achieving the IRDAI's vision



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In a country like India, affordability is the key to accessibility when it comes to insurance. With the population and geography this diverse, there is an increased need to make products that are financially viable and accessible by all. Also, complex products will have a few takers, so there is a need to innovate but not at the expense of simplicity.

– Sarvbir Singh, MD and CEO, PolicyBazaar

Figure 2. Catalysts for the growth of the insurance sector to achieve the IRDAI's vision 'Insurance for all' by 2047

Key government interventions to promote ease of doing business

To realise the dream of 'Insurance for all' by 2047, insurance regulators are taking many progressive steps like BIMA SUGAM, BIMA VAHAK and BIMA VISTAAR amongst others.¹³ These steps signify the regulators' commitment to revolutionise the insurance landscape. In a recent amendment, the IRDAI increased the maximum number of insurer tie-ups by three times for corporate agents and insurance marketing firms – a forward-looking step towards making insurance accessible by solving inadequate distribution reach using bancassurance channels.

¹³ <https://irdai.gov.in/web/guest/document-detail?documentId=1624671>

The Digital Personal Data Protection (DPDP) Act, 2023¹⁴ will also be advantageous for the insurance industry as it will help insurance providers to enhance data protection in the insurance sector. However, insurers must be ready to reimagine how data will be consumed across the value chain of insurance business. Establishing a robust data governance framework within the organisation should be one of the key strategic priorities for insurers.

Financial inclusion programmes like Pradhan Mantri Jan Dhan Yojana, Jeevan Suraksha Bandhan Yojana and Pradhan Mantri Suraksha Bima Yojana, Atal Pension Yojana have played a pivotal role in bringing under-penetrated segment under the umbrella of insurance and therefore establishing a financial safety net for the most vulnerable segments of society.

IRDAI's recent amendments including single expense management limit,¹⁵ 'use and file' regime for product launches, expanding the scope of sandbox mechanism encourages the industry to introduce innovations and collaborate with InsurTech players.

Adoption of Ind AS 117 accounting standard and the implementation of risk-based capital and supervision frameworks would further align the Indian market with the bold vision of the IRDAI.

With rapid developments in the insurance sector due to the adoption of innovative technologies and regulatory changes, there is a need to ensure the availability of an adequate talent pool, not only for core insurance functions but also for emerging departments such as technology and innovation. Though the industry is an exciting space to work in and offers diverse range of jobs and learning opportunities to entry level professionals, it is important for the insurance companies to retain the trained workforce by offering training and development opportunities and other initiatives.

The state insurance plan launched by the IRDAI is increasing the awareness about insurance and making it accessible across states and in under-penetrated areas.¹⁶ Under this programme, the insurance industry will collaborate with the IRDAI and state governments to uplift insurance penetration to the last mile. Lead insurers are being appointed across states and various activities are being undertaken including increasing the number of offices, conducting various awareness campaigns and ground level activities to take insurance education to the grassroots levels. Furthermore, adopting an academic approach of fostering financial literacy will also act as a catalyst to increase the adoption of insurance and the insurance sector must collaborate with the government and the academia to devise a roadmap to improve the financial literacy of the people of the country.

From a practitioner's lens, product innovation to cater to the last mile will require a tailored approach to bring everyone under the purview of insurance. While hyper-personalised offerings might be suitable for Gen Z and tech savvy customers, protection with a broader umbrella to cover through embedded insurance will be a prudent strategy to enter the under-penetrated segments of the country. Multilingual product descriptions and adopting innovative technologies into various aspects of insurance operations will also impact how policies are designed, bought and serviced.

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Evolving landscape in data privacy regulation will require insurers to reimagine their data strategy for decision making. According to Abhay Tiwari, MD and CEO, SUD Life, insurers must 'adhere to heightened security standards, utilising encryption and advanced cybersecurity measures to safeguard customer data in compliance with evolving privacy regulations.'

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Product innovation is paramount for companies seeking competitiveness and relevance. It serves as a strategic tool for insurers to distinguish themselves, address emerging risk, meet evolving customer needs, and enhance operational efficiency – all contributing to heightened customer satisfaction and loyalty.

– Saurabh Galgati, Director,
Oracle Applications



¹⁴ <https://irdai.gov.in/web/guest/document-detail?documentId=1624671>, Ministry of Electronics & Information Technology, Govt. of India

¹⁵ Single Expense management limit, IRDAI

¹⁶ Business line article - IRDAI – State Insurance Plan with lead insurers

Given the highly transactional nature of the insurance industry, technology is essential for deepening the reach, launching scalable business models and enhancing processes and cost efficiency. Customer behaviour has undergone significant changes in recent years, prompting insurers to adopt digitisation to shift away from traditional approaches and address customer requirements.

While traditionally, the insurance companies offered standard insurance products, customised solutions tailored to the unique requirements of the customers is the norm in current times. The adoption of generative AI tools will further influence the need for hyper-personalised solutions and services for customers. Engaging with Gen Z through social media platforms can enhance communication and build a sense of community, reinforcing the reliability of the insurance provider. As we stand on the cusp of this paradigm shift, the future of insurance is bound to be characterised by unparalleled customisation where customers will be at the centre of all innovations. According to Sarbvir Singh, MD and CEO of PolicyBazaar, 'With better operational efficiency and ability to leverage the omnichannel approach, last mile distribution and mitigation is a lot easier now.'

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Emphasising digital accessibility is paramount, as Gen Z are highly tech-savvy and have high affinity towards 'do it yourself' platforms; thus, offering user-friendly and AI-powered mobile apps and websites for easy policy management and claims processing is crucial.

– Ritesh Kumar, MD and CEO,
HDFC Ergo



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Looking ahead



As customer experiences evolve, insurers will need to innovate product offerings and help the IRDAI achieve its vision 'Insurance for all' by 2047.¹⁷ Embracing a digital-first approach to sell insurance through omnichannel, multilingual platforms should be leveraged to achieve sustainable business growth. Insurers who anchor their strategy to address the fundamental issues of the industry – awareness, affordability, accessibility and trust – and transform their business model to address the increasing customer needs through a tech-powered, human-centric approach will create distinct competitive advantage as opposed to other players in the market. Industry practitioners should embed maintaining product simplicity and transparency in communication across all touchpoints, robust fraud management system and superior claim settlement experience in their enterprise's vision. Strategic collaboration between insurers, governments, intermediaries and regulators will be the way forward to realise the full potential of the insurance ecosystem and drive businesses towards achieving a sustainable growth of the industry.



¹⁷ <https://irdai.gov.in/web/guest/document-detail?documentId=1624671>

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