INSURANCE SECTOR IN INDIA: A CASE ANALYSIS

Priyanka Chaudhary*

ABSTRACT

Purpose: *An analysis of insurance sector is accomplished which leads to detection of bottlenecks in the service being provided by key players in this sector. Dual aspects of liberalisation in this sector have been outlined. In addition to these analysis, authors suggested strategies to capitalise on market potential of insurance products.*

Design/Methodology/Approach*: A framework is outlined to determine the major players leading in the insurance market through primary and secondary data.*

Research limitations/Implications: *The introduced framework should be seen as a seed for further development and refinement. It highlights the loopholes and gives recommendations that would help marketer to improve its services.*

Practical Implication*: This paper may help existing and prospective players of this sector in enhancing their capabilities and in knowing their weaknesses.*

Social Implications: *Changing market practices and customer taste and preference for product and services may enforce organisations to address STP concerns across organisations. The present practices may become insufficient and unsatisfactory from the prospective of the customers in the market.*

Originality/value*: This study makes a contribution to present an overview of Indian Insurance sector with its market structure; to present an introductory outline of major players in the sector and its market segmentation, and to analyze the comparative marketing strategies of various life insurance companies. The author believes that true learning organizations needs to realise the importance of the changing market patterns and customer preference.*

Keywords: *Market structure, Segmentation, Customer perception, Marketing Strategies.*

*Assistant Professor, Delhi School of Management, Delhi Technological University, Bawana Road, Shahabad Daulatpur

INTRODUCTION: INSURANCE IN INDIAN ECONOMY

Insurance plays a very important role in everyone's life. Insurance not only provides protection for an individual and industry through risk coverage but also mobilizes funds for economic activities, and encourages savings. Thus, an insurance cover is considered to be an important tool for economic stability and is a key sector in the economy of any country.

The thesis gives a background of the sector (with special context to life insurance sector) and proceeds to highlight the shortcomings of the existing setup and players. The benefits of a liberalised sector have been enumerated. The thesis also tries to identify the market potential for insurance products and the strategies that can be employed to exploit it.

India is a huge, diverse and complex market of which, the insurance sector was opened for private competition in 2000. Thus, insurers endeavoured to segment the market carefully. Distribution was seen to be the key of success. Regulators were made to formulate strong and fair guidelines. Private insurers were perceived to have served best by a middle-market approach, targeting customer segments that were currently untapped. Multinational insurers were observed to be keenly interested in emerging insurance markets.

It was believed that Private insurers would learn and unlearn simultaneously. New entrants with small share of a large and growing market would be profitable. The new entrants would be best served by micro-level two pronged strategies. First, by introducing innovative products; offering a right mix of flexibility/risk/return and secondly, by targeting specific markets. In a scenario where buyers look for the low prices, Brand loyalty would be at high risk. Therefore, strong marketing strategies would be needed. New players in Insurance sector, has huge opportunities awaiting. Through the devising of various effective strategies they can make a place for themselves in the insurance industry. New schemes and distribution channels have strengthened their resolve to be able to better serve its customers and contribute to the industry.

Broadening of Benefits

The large scale of operations, public sector bureaucracies and cumbersome procedures hamper nationalized insurers. Therefore, potential private entrants expect to score in the areas of customer service, speed and flexibility. They point out that their entry will mean better products and choice for the consumer. The critics counter that the benefit will be slim, because new players will concentrate on affluent, urban customers as foreign banks did until recently. This seems to be a logical strategy. Start-up costs-such as those of setting up a conventional distribution network are large and high-end niches offer better returns.

However, the middle-market segment too has great potential. Since insurance is a volumes game. Therefore, private insurers would be best served by a middle-market approach, targeting customer segments that are currently untapped.

Unrealistic - Fears

An often-voiced concern is that private players, especially foreign ones, will swamp the market, grabbing a large share. A similar threat was overplayed in the case of basic telephone services and when the private players started their operations the dominance and might of DoT has remain unaltered. This hypothesis that the private players would swamp the market has been disproved in many emerging markets worldwide not only in case of the insurance but in numerous different sectors (Power, Energy, Telecom, Insurance etc.).

Yet, multinational insurers are keenly interested in emerging insurance because their home markets are saturated while emerging countries; like India have low insurance penetrations and high growth rates. International insurers often derive a significant part of their business from multinational operations. As early as 1994, many of the UK's largest life and general insurers derived 40% to 60% of their total premium from outside their home markets. Though the global operations of the multinational insurers have an immense impact on their typically foreign insurers take only a small share of an individual country's market. For example in Taiwan the foreign companies took only a 3% share even seven years after opening up while in Korea, their share was barely 1% after 20 years. In India, therefore, the new entrants would face the challenge of playing within a small share of a large and growing market which could be possibly profitable.

Key - Innovation& Variety of Products

The new entrants would be best served by micro-level two pronged strategies. First, is to introduce innovative products offering a right mix of flexibility/risk/return depending which will suit the appetite of the customers and the secondly they would target specific niches, which are poorly served or are not served at all

The first prong of a new insurer's strategy could be to stimulate demand in areas that are currently not served at all. For example, Indian general insurance focuses on the manufacturing segment. However, the services sector is taking a large and growing share of India's GDP. This offers immense opportunities for expansion opportunities.

Being the agrarian economy again there are immense opportunities for the new entrants to provide the liability and risks associated in this sector like weather insurance, rainfall insurance, cyclone insurance, crop insurance etc.

Next, the financial sector is aggressively targeting retail investors. Housing finance, auto finance, credit cards and consumer loans all offer an opportunity for insurance companies to introduce new products like creditor insurance etc. Similarly, organized sector sale of TVs, refrigerators, washing machines and audio systems in 1998 was around Rs.110 billion. Only a negligible portion of these purchases was insured. Potential buyers for most of this insurance lie in the middle class. Existing players can also profitably exploit these areas.

In case there are products, which are not serving adequately new products many of them, which are already prevalent in different markets can be customized to the Indian markets and used to expand the markets. For example life insurance products provide a good example. Life Insurance products have to compete with savings and mutual funds hence should offer various dimensions of risk/return/flexibility so they can be linked to stock market indices, inflation etc. making them more competitive and appropriate risk/return appetite for different investors at present there are no such products.

Health insurance is another segment with great potential because existing Indian products are insufficient. Till now, LIC's Mediclaim scheme covered only 2.50 million people. Indian products do not cover disability arising out of illness or disability for over 100 weeks due to accident. Neither do they cover a potential loss of earnings through disability

Distribution – A Paradigm Shift

Since distribution will be a key determinant of success for all insurance companies regardless of age or ownership. The nationalized insurers currently have an advantage because of their large reach and presence. New entrants cannot and does not expect to supplant or duplicate such a network. Building a distribution network is expensive and time consuming. Yet, if insurers are to take advantage of India's large population and reach a profitable mass of customers, new distribution avenues and alliances will be imperative. This is also true for the nationalized corporations, which must find fresh avenues to reach existing and new customers. There would be substantial shifts in the distribution of insurance in India. Many of these changes will echo international trends. Worldwide, insurance products move along a continuum from pure service products to pure commodity products then they could be sold through the medical shops, groceries, novelty stores etc. Once communization, popularity and awareness of the products are attained then the products can move to remote channels such as telephone or direct mail. In UK for example, retailer Marks & Spencer now sells insurance products. At this point, buyers look for low price. Brand loyalty could shift from the insurer to the seller. Recognizing this trend, the financial services industry worldwide has successfully used remote distribution channels such as the telephone or the Internet to reach more customers, cut out intermediaries, bring down overheads and increase profitability.

A Framework of Life Insurance*:* This research is also aimed at understanding the life insurance sector in India and flagging issues relating to competition in this sector. The life insurance sector has a small market and cover approx. 3 % of population in India. As a growing sector, it is important that all players get a level playing field. The competition act is to provide for a level playing field to all players to encourage competition in market. This sector is highly lucrative and therefore increasing the FDI cap would be a step to enhance competition in this sector and also cover a large population. Exclusive networking, sovereign guarantee and entry barriers like limited FDI creates an anti-competitive environment in market.

In 1993 the Government of Republic of India appointed RN Malhotra Committee to lay down a road map for privatisation of the life insurance sector. While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, legislation amending the *Insurance Act* of 1938 and legislating the *Insurance Regulatory and Development Authority Act* of 2000. The same year that the newly appointed insurance regulator - Insurance Regulatory and Development Authority IRDA --started issuing licenses to private life insurers. (1) Keeping in mind the above considerations, the purpose of this thesis is to enable the marketer to understand customer’s needs and maximise wealth generation. Insurance industry is growing at a very fast pace. In this cut throat competitive era it is important for the marketers to design and deliver their services efficiently. Marketer has to understand the needs of the untapped customers. This thesis will help to understand the industry with respect to the needs, demands, preferences of the customer and the products that the company offers to cater to those needs.

Insurance can be of various types: Auto insurance, Health insurance, Life insurance, Property insurance etc. According to IRDA there are only 26% of people in India who have taken life insurance cover. The untapped Indian market provides an excellent opportunity for life insurance organisation to expand their business.

Apart from Life Insurance Corporation, the public sector life insurer, there are 22 other private sector life insurers, most of them joint ventures between Indian groups and global insurance giants. Life insurance is the largest market in India, accounting for 87.8% of the total market value.

SWOT Analysis - Insurance Sector in India:

Strength

- Patents
- Insurance having currently good market
- Premium rates are increasing and so are commissions
- The variety of products is increasing
- IT bringing new dimensions to insurance sector

Weakness

- Insurance companies are often slow to respond to changing needs
- Buying insurance policy is a cumbersome process
- Products or service similar to competitors'

Opportunity

- Technology is improving paperless transactions are available
- Busy life, customers need flexible and customizable policies
- Like mobile banking mobile insurance could be a hit
- New innovations in technology – Measuring weather variables

Threat

- Weather cycles
- New substitute product emerging
- Increasing expenses and lower profit margins will hit hard on the smaller agencies and insurance companies
- Government regulations on issues like health care and terrorism can quickly change the direction of insurance

Indian and global statistics

This section gives the users important and detailed statistics about the Indian as wellas global insurance industries. These statistics give important insights where therespective markets are headed. (2)

Year	Brazil	Russia	India	China
2000-2005	2.7	5.9	5.3	8.0
2005-2010	4.2	4.8	6.1	7.2
2010-2015	4.1	3.8	5.9	5.9
2015-2020	3.8	3.4	5.7	5.0
2020-2025	3.7	3.4	5.7	4.6
2025-2030	3.8	3.5	5.9	4.1
2030-2035	3.9	3.1	6.1	3.9
2035-2040	3.8	2.6	6.0	3.9
2040-2045	3.6	2.2	5.6	3.5
2045-2050	3.4	1.9	5.2	2.9

Real GDP growth: five year averages in four countries

Source: Neil et al. (2003)

FINDINGS FROM THE CASE ANALYSIS*:*

After conducting a survey on 500 people of Delhi and NCR through a questionnaire, the major findings of the study are:

- Public prefer private insurance mainly for the reasons such as timely service, better service, friendly approach, better communication, immediate attention, influence of friends and relatives as agents and trust worthiness.
- Aged people have more concern for economic factors compared to youngsters while studying the reasoning for private policy preference. All other factors like service, human relations, product and comfort do not vary significantly based on age though the reasoning levels are high.
- Income, gender, experience with private insurance co., do not exert any significant level of difference relating to the factors like service, human relations, economic, comfort and product.
- Respondents who are experiencing both private and government policies find that the private insurance schemes are more attractive.
- The most important means of creating awareness are agents, friends, relatives and advertisement.
- Only half the respondents are found to be willing to recommend private insurance but 80 per cent of them are willing to opt for private policies in the future.
- Customers are found to be highly satisfied with service facilities, human relations and attractive schemes.
- Age and income did not exert any significant level of difference in the satisfaction level of the customers regarding service, product, human relations, economic factors and comfort.
- Experience with the private insurance company also varies in the satisfaction level of comfort. Fresher’s too private insurance found to be more comfortable than those who are more experienced. Satisfaction level does not vary relating to the factors such as services, economic and human relations factor based on experience with private insurance company.
- Significant level of variation has not been observed in any differences relating to service and product, comfort, economic and human relations factors based on income.

- Respondents who already possess insurance from government corporations are found to be highly satisfied with the human relation aspect compared to those who have only private insurance. This factor does not contribute much on service and product, economic and comfort aspects.
- Private insurance companies have gained their momentum by focusing on better service and relationship marketing. This advantageous position is to be further retained and product varieties can also be improved to attract male customers.
- When they plan schemes for different segments the elderly people scheme must focus more on economic factor because they attach more weightage to this factor compared to younger generation.
- Private insurance companies have attractive schemes to gain the attention of the public it would be more effective if they could extend more varieties to attract.
- Though awareness level created by agents contribute much, it is necessary to increase the advertisement. This being new venture, its growth is based on the trust worthiness of the company but advertisement support is necessary till the agents gain values.
- Customers opt to buy private insurance policies in the future though all are not prepared to recommend them to others. Some motivational steps could be taken for the recommendations made by the customers.

CONCLUSION:

The Insurance industry is facing a healthy competition, which really benefits the public. Government sector should further improve their product varieties and attractive schemes to compete with the private sector and also change their attitude further towards service to survive in the market.

Insurance can provide substantial capital for investment in productive assets as well as protecting those assets against loss by Identifying a managing and transferring the risks to which their customers are exposed. By helping to generate capital from within India, a strong competitive Insurance Industry will be an important contributor towards achieving the country’s economic and social goals.

The game is old but the rules are new and still developing. Ensconced in a monopoly run from the nationalization days beginning in 1956, the insurance industry has indeed awakened: to a deregulated environment in which several private players have partnered with multinational insurance giants.

Despite the fact that general insurance business has been growing at a healthy rate of 16 per cent annually between 2004-05 and 2008-09, its penetration level is just 0.60 per cent of India's GDP against world average of 2.14 per cent, says a joint research paper on Indian insurance industry, brought out by Crisil and Assocham.
"India ranks 136th on penetration levels and lags behind China (106), Thailand (87), Russia (86), Brazil (85), Japan (61) and the US (9). The penetration of general insurance in India remains low on account of low consumer preference, largely untapped rural markets and constrained distribution channels," the paper says(3)

Consumers are increasingly more aware and are actively managing their financial affairs. Today, while boundaries between various financial products are blurring, people are increasingly looking not just at products, but at integrated financial solutions that can offer stability of returns along with total profits.

As the market moves from an emerging to an emerged, a change in approach is necessary. So in order to have good market performance, customer awareness about insurers' prices, products and financial strength should be enhanced. The company should have a clear vision and mission that should be known to all the stake holders like employees, agents, customers, business associates etc. and accordingly each one should clearly directed. The company should design the product, which should satisfy the personal needs of customers with an ample degree of flexibilities. To achieve greater insurance penetration, private sector insurance companies are to create a more vibrant and competitive industry, with greater efficiency, choice of products and value to customers.

Suggestions:

- Companies must make general public aware about pros and cons of Insurance.
- Companies must enhance the knowledge of people about their products i.e. they should do proper marketing of their products.
- Consumers must be aware of the difference between the Health Insurance and Life Insurance.
- Companies must strive to have their products genuinely priced.
- Companies must provide a wider range service to consumers.

REFERENCES:

(1) Thakur , Shilpa(2010), “Competition in Life Insurance sector in India”, Amity Law School, Noida

(2) Gupta, Hima, (2006), " The role of insurance in health care management in India", Institute of Management Studies, LalQuan, Ghaziabad, India

(3) The Economic times.com, 2009, 21st July.

(4) The Economic Times. The Financial Express.

(5) The Insurance Regulatory and Development Authority Bill, 2009.

Websites:

- www.irda.gov.in
- www. ingvysaylife.com
- www.Irdaindia.org.com
- www.omkotakmahindra.com
- www.indiainfoline.com
- http://www.birlasunlife.com/
- www.icicpru.com
- http://www.mib.com/kd/html/India_InsuranceMarket_Next.html
- http://www.einsuranceprofessional.com/artgeneva.htm
- http://www.blonnet.com/businessline/2009/08/09/stories/040941mn.htm
- http://www.transportersindia.com/exim/special_report/insurance_november2001.html ?type=special
- http://www.timesofmoney.com/insurance/jsp/insurance_news.jsp
- http:/www.aegonreligare.com

Professional Biography: I am currently associated with Delhi School of Management, Delhi Technical University, as an Assistant Professor for Management. Prior to teaching profession I was associated with Ahluwalia Contracts (India) Limited as an Assistant Manager- Finance & Accounts. My area of responsibility includes taking care of the Analysis of financial statements, documentation of Banks, Auditing of financial results etc. I did my post graduation from Punjab Technical University, Jalandhar with the specialisation of marketing as a subject. My area of research is studying consumer behaviour and market patterns of various industries and identifying the scope of improvement in that sector. I have completed my graduation in commerce stream from Delhi University.