

# INDIAN INSURANCE SECTOR IN GLOBAL ARENA

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## ABSTRACT :

Over the past decades, fundamental changes in the industry of financial intermediation, such as deregulation and advances in technology, had a visible impact on the provision of financial services. Insurance is one of the hottest sectors in today's global market, the banks are gaining more business share from insurance sector. In global market all world-class banks are happy with their customer attraction rate in the area of banking but not in case of insurance especially in india compare with world countries. India being a world second largest populated country where only 33% people have bank accounts and only 22% of people have life insurance compare with average 72% and 89% respectively of developing countries. The insurance sector in India has completed all the facets of competition –from being an open competitive market to being nationalized and then getting back to the form of a liberalized market once again. In this paper we discuss about Indian insurance sector pros and cons opportunities and threats from the customers etc.

**Keywords:** Insurance, Strategy, CAGR, Regulatory body.

## 1) OBJECTIVES :

- 1) To study and an overview of Indian insurance sector.
- 2) To know insurance players strategies in India.
- 3) To study reasons for poor performance compare with global countries.
- 4) To find out the marker share improvement strategies.

## 2) REVIEW OF LITERATURE :

A review of the literature established 26 barriers to insurance trade which are Discriminatory against foreign insurers. Some of these barriers relate to the establishment of local presence, others to operations. Many studies suggest that exporting is not an option for services, that the pure services such as insurance must invest and establish local presence right away (Boddewyn et al., 1986; Vandermerwe and Chadwick, 1989; Terpstra and Yu, 1988). Much of this literature implies that international services executives would perceive barriers to establishment as more significant than barriers to operations.

Insurance in India goes back to the time of the British. The first life insurance company to operate in India -the Oriental Life Insurance Company was established in 1818 in Calcutta. It was, however, a British company. The first Indian insurance company, the Bombay Mutual Life Assurance Society started its operations in 1871. In 1956 the Indian life insurance industry was made up of 154 domestic life insurers, 16 foreign life insurers and 75 provident funds, and was still governed by the Insurance Act of 1938. In 1956 all life insurance companies were nationalized, the story of non-life insurance in India is no different. Though Lloyd's Insurance pioneered general insurance way back in 1688, the first non-life insurance company to set up shop in India was the Triton Insurance Company of Calcutta. In 1907, the first Indian general insurer, the Indian Mercantile Insurance Company started its operations. The New India Assurance Company Ltd. was incorporated in 1919. In 1972, the non-life insurance business in the country was nationalized and the GIC (General Insurance Corporation of India) was formed as a holding company with four subsidiaries: The

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National Insurance, Oriental Insurance, United India Insurance and the New India Assurance Company Ltd. Since then, insurance in India had a protective wall built around it, to keep it local players. The above companies controlled the insurance industry for nearly 30 years or so. Current Insurance Market Structure General Insurance business in India was under complete control of four Government insurance companies for nearly three decade. After much deliberation finally the market was opened for competition from December 2000 and also Government has de-linked four Public sector companies from holding company GIC to operate as independent company. In addition to four Public Sector insurance companies the Insurance Regulatory and Development Authority (IRDA.) has issued licenses to the eight Private General Insurance Companies.

**3) INDIA POSITION ON GLOBE :**

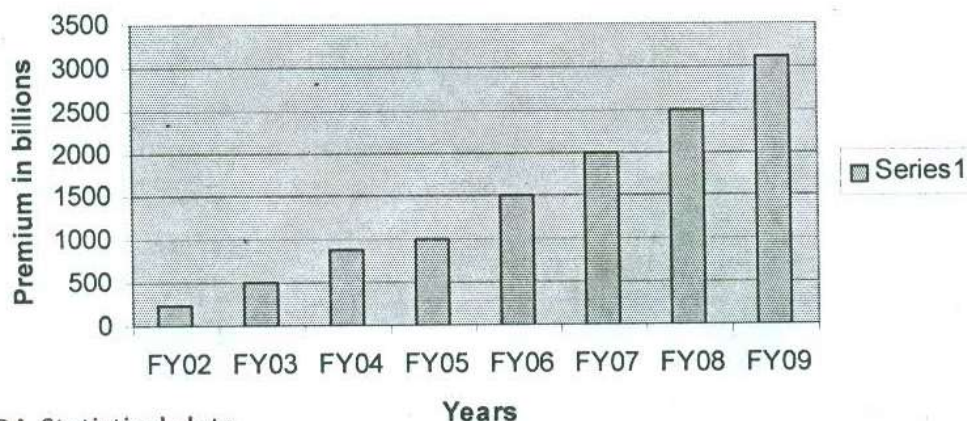
- India: Fifth largest Insurance player in Asia.
- India occupying 5<sup>th</sup> largest position in Asia with premium of INR 3127.3 Billion in FY09.
- There is a intense competition with a total of 44 players in the industry ( 22 life insurance and 22 general insurance).

**Table 1: MILESTONE’S IN THE LIFE INSURANCE BUSINESS IN INDIA**

Year	Milestones in the life insurance business in India
1912	The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business
1928	The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses
1938	Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.
1956	245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

The following figure showing domestic insurance growth between FY02 and FY 09

**Decade Performance**



Source: IRDA Statistical data.

- Total premium grew at a compound annual growth rate (CAGR) of 27%
- Penetration levels increased form 2.3% to 5.4%.Per capita income increased form 418/- to 2013/-.

Table : 2 INDIAN INSURANCE SECTOR ON RUNNING WHEELS COMPARE WITH GLOBAL

Country	General insurance '08		Life Insurance '08	
	Premium in Million USD	Penetration & of GDP	Premium in Million USD	Penetration & of GDP
Australia	34016	2.7	34060	3.9
China	31677	1	54568	1.7
India	6717	0.8	33366	4
Indonesia	2513	0.6	3821	0.9
Malaysia	3515	2	5541	3.1
Philippines	920	0.7	1204	0.9
South Korea	36388	3.8	56878	5.9
Sri lanka	279	0.9	185	0.6
Taiwan	9348	2.5	44137	11.7

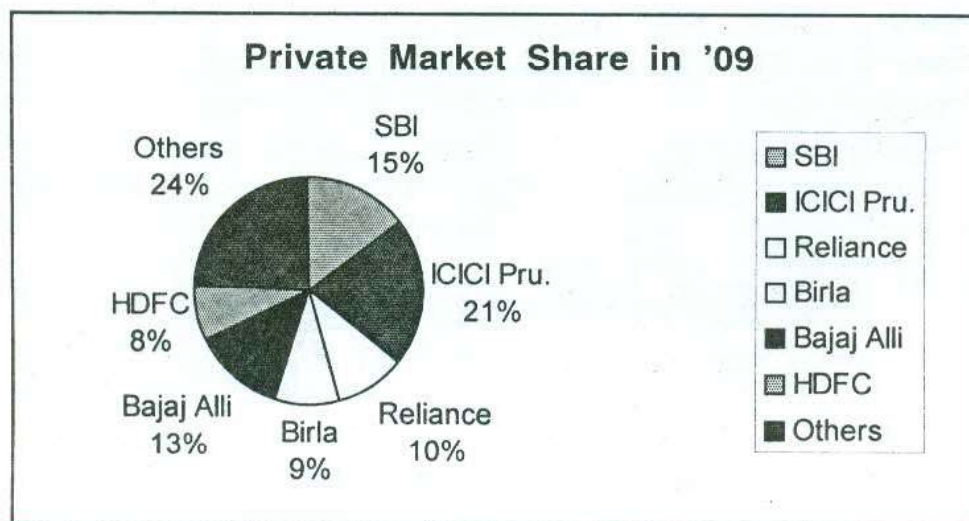
Source: E& Y, June-2009 report.

Growing consumer class rising insurance awareness ,increasing domestic savings and investment have increased insurance penetration.

Among public players LIC leading with 74% market share rest all private players captured remaining.

**4) GROWING MARKET SHARE OF PRIVATE PLAYERS :**

- The number of private sector companies offering line insurance products has increased from 3 in 2000 to 21 in 2008 because customer demand highly customized products and prompt services.
- The industry getting most fragmented as new players are eating away at the market share of larger players.
- Banks themselves have started entering alliances with insurances companies to manufacturing insurance products rather than merely distribute them.
- The existing smaller players have very aggressive plans for network expansions as the foreign partners are keep to tap into the enormous potential of the Indian life insurance market.



Source: IRDA website 2009 Report.

**5) THREE KEY CHALLENGES TO INCREASE INSURER’S AWARENESS :**

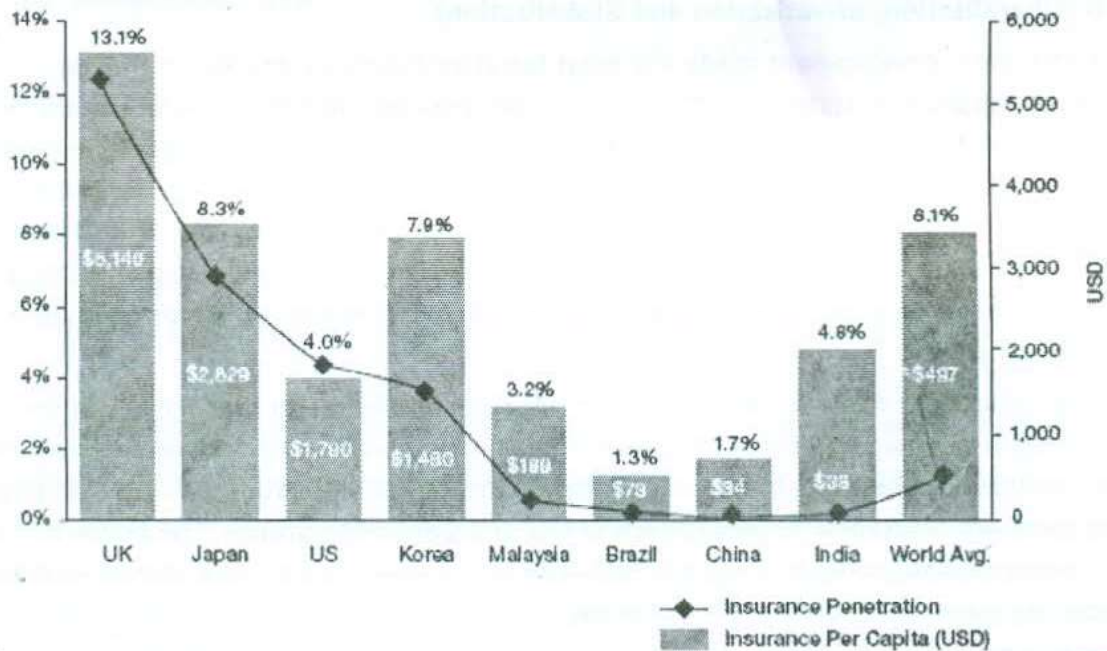
1) Insurers need to understand when to drive market evolution, and even encourage certain volatile behaviors. Those insurers that properly gauge the value/volatility stakes can define strategy more clearly.

2) Insurers will need to be more proactive than they have traditionally been in managing their interactions with and among networks and customers, and work to differentiate their brand and reputation. Optimizing customer profitability will mean optimizing network use by segment, and properly monitoring customer and network value.

3) Three main IT focus areas can help insurers to overcome these challenges. Enterprise data warehouses, analytics, and customer intelligence can enhance customer knowledge, and hone behavioral-driven customer segmentation. Technology integration and service-oriented architectures (SOAs) could allow insurers to adapt and change their distribution capabilities according to market dynamics. Next-generation customer relationship management (CRM) tools can help insurers and networks to manage customers

under a global, enterprise-wide umbrella.

**LIFE INSURANCE PENETRATION & DENSITY WORLDWIDE IN 2008 (COUNTRY WISE)**



Source: Life Insurance Council, India, 2008

**6) STRATEGIES OF PRIVATE PLAYERS :**

Insurers can implement a successful distribution strategy by understanding the preferences and needs of existing target customer segments, and catering to the new segments that will emerge from the growing base of affluence and shifting demographics. In short, insurance companies will need to understand how to respond effectively to each segment’s needs, and deliver more than price and products.

In general, customers in India value the brand name and trustworthiness of the service provider more than any other factor when purchasing an insurance product (see Figure S.3). This attitude has helped incumbent life insurer LIC protect much of its market share (it still accounts for 80% of premiums written<sup>25</sup>) even after 6 years of liberalization.

After brand, the most influential factor for customers in India is returns/fees—consistent with the perceptions of life insurance as a means of wealth accumulation, and non-life as an unnecessary expense.

This peculiar way in which customers perceive insurance in India has led many private insurers to penetrate the market by offering innovative life products with higher returns (or lower prices in the case of non-life) along with protection cover. Notably, our survey shows there are some preferences and behavior that vary significantly by customer segment. We identified three broad customer types, roughly demarcated on the basis of economic and socio-cultural differences, which display distinct purchase behavior and distribution-network usage. Insurers can most effectively cater to these segments by tailoring their approach, and adopting distinct distribution strategies for each segment.

## 7) CURRENT SCENARIO :

Global integration of financial markets resulted from de-regulating measures, technological information explosion and financial innovations. Liberalization and Globalization have allowed the entry of foreign players in the Insurance sector. With the entry of private and foreign players in the Insurance business, people have got a lot of options to choose from. Radical changes are taking place in customer profile due to the changing life style and social perception, resulting in erosion of brand loyalty. To survive, the focus of the modern insurers shifted to a customer-centric relationship.

### a) LPG (Liberalization, privatization and Globalization)

India's economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run LIC transacting life business and the General Insurance Corporation of India with its four Subsidiaries transacting the rest. In the wake of reform process and passing Insurance Regulatory and Development Authority (IRDA) Act through Indian parliament in 1999, Indian Insurance was opened for private companies. Liberalization on the Insurance sectors has allowed the foreign players to enter the market with their Indian partners. Most of the foreign Insurers have joined within the local market. India offers immense possibilities to foreign Insurers since it is the world's most populous country having over a billion people.

Insurance industry had ten and six entrants in life and non-life sector respectively in the year 2000-2001. The industry again saw two and three entrants in the life and non-life business respectively in the year 2001-2002. One additional entrant was made both in the life and in non-life business in 2004 and 2005 respectively. At present there are fourteen companies each in Life and General Insurance. The Funds earlier generated by the state owned insurers have been diversified with other new insurers. We should wait and see how the new players are going to boost up our economy.

### b) Competition:

Private and Foreign entrants in the Insurance Industry made others difficult to retain their market. Higher customer aspirations lead to new expectations and compel him to move towards the insurer who provides him the best service in time. It becomes less viable for them even to maintain the functional networks or competitive standards and services. To survive in the Industry they analyze, the emerging requirements of the policyholders / insure and they are in the forefront in providing essential services and introducing novel products. Thereby they become niche specialists, who provide the right service to the right person in right time.

## 8) MODERN MARKETING APPROACH :

Marketing strategies for insurance in the emerging scenario could be understood in terms of the following steps:

MR → STP → MM → I → C

MR = Market Research, STP = Segmentation, targeting, positioning,

MM = Marketing Mix, I = Implementation, C = Control

The process starts with market research and finalizing on segmentation, targeting and positioning the strategy would focus on the marketing mix namely, Product, Price, Place and Promotion. While determining the implementation methodology, the four characteristics viz. Intangibility, Inseparability, Perishability and Variability gives rise to certain unique requirements that deserve careful attention while formulating the marketing strategy for insurance. After implementation, the insurers should concentrate on the effective control that would enhance their business.

In India Insurance is sold and not bought. The agents / Advisors by using various strategies sell the product by convincing the customers. Moreover, they push Policies with the highest premium to pocket a higher commission. The consultative approach to selling is the modern approach, which helps customers and prospects to buy. A consultant makes calls and sells just like any other sales person. The difference is in their attitude, their approach and their commitment. Here, the customer is seen as a person to be served and not a person to be sold. It helps the purchaser to make an intelligent decision. The four-step process includes:

- \* Need discovery
- \* Selection of the product
- \* Need satisfaction presentation, and
- \* Serving the sale

This approach to selling their products requires understanding of concepts and principles borrowed from the fields of psychology, communications, and sociology and needs a lot of personal commitments and self – discipline from the seller.

Finding and understanding the needs of the customers.

- Partnering with the customers.
- Helping the customers to achieve his business and other objectives by the purchase of the product or service.
- Believing that your products / services are a great fit with your customer's needs, and
- Believing in yourself and your ability to help the customers in solving their problems.

A consultant is willing to forego short-term gains to achieve greater long – term benefit to him and to the customers he serves. He builds relationships on a foundation of trust, respect and performance. Moreover, consultants don't sell – they're specialists who make recommendations to help the prospect to buy. They act as a professional and offer real-world solutions that make sense to the customer. Today, the insurers adopt this technique and thereby go on increasing their market share.

## 9) CONCLUSION :

In the global era, Insurance companies are increasingly willing to spend more on the customer satisfaction and brand building exercises. Though it is one of the highly regulated industries, it still provides lot of scope for creativity and innovations. As our industry is predominantly dominated by personal selling and personalized services many a time the service standards vary based on the intermediary involved in the process. In order to achieve the competitive edge over others standardize the process and bring about quality improvement and get feedback from the customers regarding the quality of services rendered. This will result in customer satisfaction, customer retention, customer acquisition, and employee retention and cost reduction. This paper focuses on the marketing approach adopted by the modern insurers to withhold their existing customers and attract new ones.

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