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Life Insurance Sector in India and its Post Recession Challenges

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Abstract—*India saw the onset of modern Life insurance industry in the financial year of 2001 with the introduction of private sector institution in this field. Industry has just blossomed and this is the challenging phase in any product life cycle. If one looks back, the path of this industry has seen lots of ups and downs. Still it has been segmented in two different phases with a span of five years starting from financial year 2003 to financial year 2008 and other from financial year 2008 to financial year 2013. Annualized Premium Equivalent for the insurance sector increased approximately five times in the first phase of life cycle. From then it has shown no growth. With the increase in penetration of Insurance companies, it increased from 2.4 percent of GDP in financial year 2003 to 4.2 percent in financial year 2008, it went back to 3.2 percent in financial year of 2013.*

1. INTRODUCTION

The span in between the financial year 2003 to 2008 was featured by tremendous growth and showed positive trending graph. The industry was heading towards being the flag bearer of liberalization era. Next five years saw a dip that very few expert could have predicted. The sharp dip in the growth had a negative impact on credibility of the sector.

2. FACTORS INFLUENCING GROWTH OF THE SECTOR

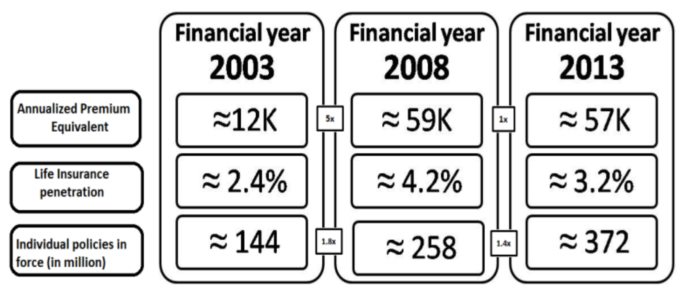
The immense difference in the productivity in the life insurance industry over such a short time pops an obvious question in all minds that which factors actually are responsible for this flat transition graph[Fig. 1]. After assessment, the few factors which shows up which has affected the Life Insurance sector over these years.

1. India reducing Gross domestic product.
2. Regular and drastic changes in regulatory policies.
3. Insignificant operating industry model.

2.1 India's Economic Growth

India was affected in parallel with the global economic slowdown of 2008. The average growth rate of India's GDP went down by 2 percent from 8.7 percent in 2004-2008 to 6.7 percent within the span of over five years. Investors morale was adversely affected by the economic slowdown and static domestic stock market. These factors had a significant effect on the portion of house hold savings. The amount of house hold savings which was at 52 percent till financial year 2008 reduced to 36 percent in the year 2012 which was lowest since the year 1971.[Fig. 2]

Physical assets like gold and real estate started gaining share instead of stocks, bank fixed deposits, insurance etc. Mind set of common house hold started shifting from life insurance products. Unit Linked Insurance Plans(ULIPS) sales went down from Rs. 70,000 crore in 2008 to almost Rs. 10,000 crore in 2013[1] . Equity mutual fund schemes too went under loss and the Total Assets Under Management (AUM) with equity mutual fund declined by almost 27 percent i.e. from Rs. 192,000 crore in 2008 to approximately Rs. 141,000 crore till 2013.

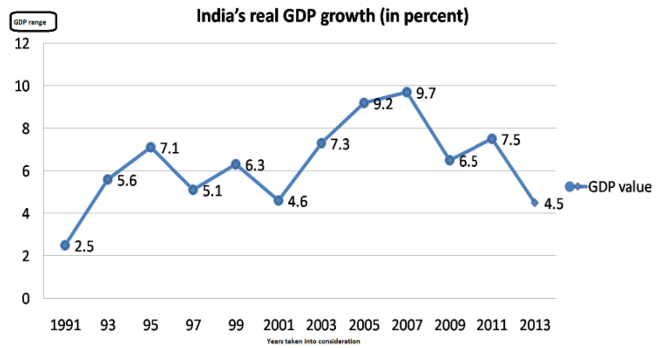


Source: IRDA, BCG analysis, FICCI document

Fig. 1 :Growth of sale of Life Insurance in India in phase of FY 2003 to FY 2008 with a five times growth and almost no growth after the FY of 2008 in Annualized Premium Equivalent (APE) in CRORE.

2.2 Effect of regulatory changes

Changes related to policy also proved to be a hindrance in the growth of Life insurance sector in the recent years. Regulatory measures adversely impacted the up growth of Life insurance industry. Working commission structure for channels in India is the lowest when compared to world. This makes the intermediaries less interested in selling insurance products. Lower insurance commission is an another reason making it unattractive for the intermediaries.



Source: FICCI document, RBI, BCG analysis, EIU,MOSPI Oxford Economics

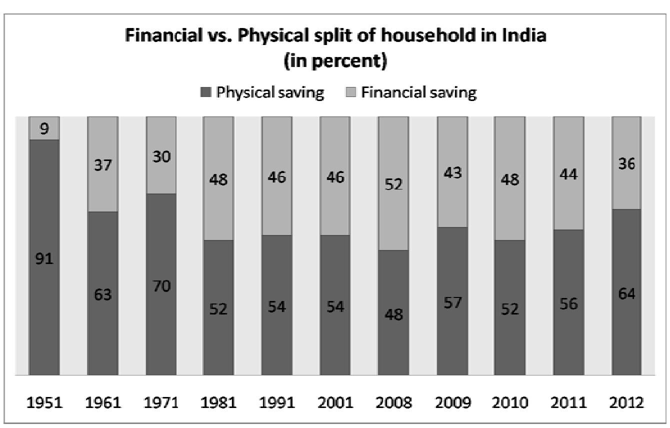
Fig. 2: The fluctuating real GDP of India. After the year 2008, it showed a drastic dip to 4.5 percent. It can be one of the major reasons for the drop in growth of Life insurance industry.

2.3 Operating industry model

The insurance sector is not only affected by external factors of economies but also its own working models are checking its growth. The insurance players are basically looking into short term development and overlooking customer value, post sale services and sustainable profit making policies. Some of the challenges of this model are being highlighted here.

2.3.1 Fixed cost agency model

This model was framed for the agency structure in India and it focused on expansion and scale. It lacked the constraint of efficiency. Most of the private players that started the business since financial year 2001 tread on the same policies of LIC model. They followed the same fixed salary to the agency managers, kept the sales management on top of the pyramid. Part time agency who work for the company are paid at very less rate which make those agency less proactive while performing their duties.



Source: FICCI document, IRDA, BCG analysis

Fig. 3: Distribution of physical saving and financial saving from the year 1951 to 2012. Initially after independence physical saving was more in trend which inclined to financial saving after 1971 till 2008. after 2008 i.e. recession stage, mindset changed back to physical saving in search of more stability and security.

2.3.2 High cost infrastructure model

Many companies at its initial stage only opted for a heavy infrastructure policy. they took their regional and head offices, branches abroad. They started their domestic offices in costly areas and on the ground floor. It was common to have large square feet branches, expensive meeting rooms and furnishing. All they needed were agency platforms, reach to niche market and common people.

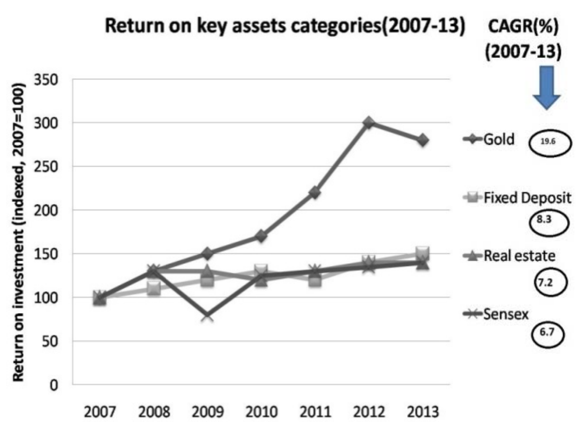
So we come to know that industry was far away from reality and should have compromised on infrastructure and concentrated on increasing customer base.

2.3.3 Bancassurance model

Bancassurance with private players was considered a success and distribution channel accounted for approximately 45 percent[2] of the private life insurer annualized new business premium in FY 2013. Insurance sector has been driven basically by private banks which includes both Indian and foreign banks. Tie up with PSU banks lead to limited success with insurance sector. Insurers have treated bancassurance almost same to agency.

3. INDUSTRY RESPONSE TO THE CHALLENGES

Industries are keen to grow along with the market and trying to overcome these challenges and shortcomings. They too have come up with some measure to be back in the market.



Source: FICCI document, RBI, BCG analysis

Fig. 4: Compound annual growth rate(CAGR) is the year over year growth rate of an investment over a specified period of time. Gold, real estate has showed up a stronger character of CAGR in recession phase. Investors were more interested in investing in physical assets.

3.1 Reduction in sales force

In order to overcome the pressure of the industry and shareholders, industry have took a step to reduce the cost of force of agency and sales. The number of agents have reduced by almost 500,000 for past 5 years and from 1.5 million[5] in 2009 to 1 million in 2013.

3.2 Reduction infrastructure cost

The companies too are looking to reduce the operating cost by optimizing their expenses. The number of branches have reduced drastically by the private insurers from 8,800 in 2009 to 6,700 in 2012[5].Their main aim is to reduce the ratio of total cost of operation to total premium. [Fig. 5] shows the change in operating cost in both financial year of the top 10 insurance companies in the present market.

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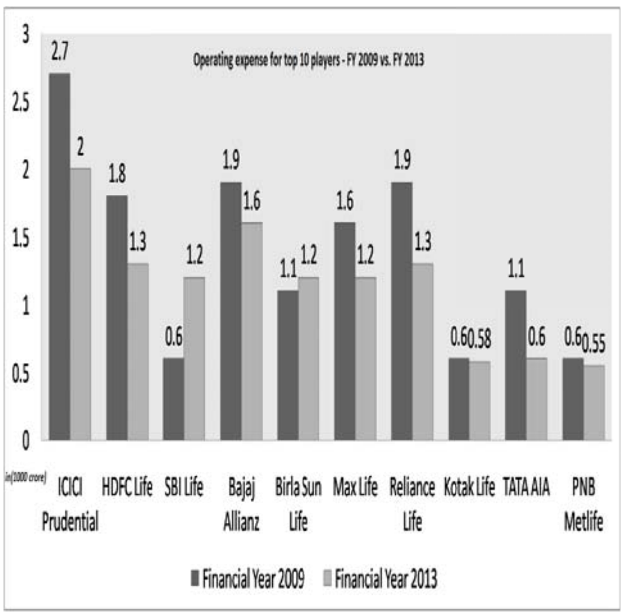

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Fig. 5: Compound annual growth rate(CAGR) is the year over year growth rate of an investment over a specified period of time. Gold, real estate has showed up a stronger character in recession phase. Investors were more interested in investing in physical assets.

4. IMMEDIATE EXPECTATION FROM THE EVOLVING MARKET

The sector has embraced some key features to evolve themselves.

4.1 Growth opportunity

India's GDP expansion and high rate of saving will be the key factor for growth in insurance sector. The point of focus is to divert the attention of investors from the physical saving to financial saving. There is a estimate that there is opportunity to grow 2 to 2.5 times by 2020.This estimate is based on the assumption saving rate will be around current ration which is approximately 25 percent of GDP, share of financial saving to physical saving will remain between 35 to 40 percent and life insurance accounts for 20 percent of financial savings.

4.2 Digital enforcement

It is one the major trends having impact on all aspects of business and industry. Internet connectivity is accessed by nearly 160 million[6] people across India and this Fig. is expected to double within four years. Mobile penetration is likely to increase from over 600 million[7] to 800 million by next four years.

4.3 Customer service

The customer is becoming demanding, aware and tech savvy day by day. In order to satisfy their need and provide a customer delight, the industry should provide customer centered product, cheaper service, fast service, reducing the turnaround time and multi channel access to service for investors.

4.4 Attract new talent to insurance industry

Most young and experienced corporate no longer see life insurance as an attractive profession and growing sector. So it is a challenge for the insurance industry to stretch out hand to the intelligent brain which may help in the growth rate of the industry and bring back the lost glory of the sector.

5. FUTURE SCOPE OF INDUSTRY AND RESEARCH WORK

The industry can rediscover the growth by realizing the full potential of bancassurance. A customer centric approach can be adopted to attract the general mass. It can be done by identifying the customer segment and a end to end service delivery model. Adopt the digital world completely in order to make the customer access more conducive.

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