

# A Business Model for Insurance in India

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**Abstract**— *If the dynamic changes in the general business environment teach us anything, it is that Insurance business can be no different. If the relentless shake out in other sectors, is any indication, we need to understand, that no business including insurance is immune to today's rapid and relentless shifts in technology and customer expectations. In this paper, we shall explore how new technologies and customer expectations which will shape the future of Insurance business in India, the scenario of market forces and how the business is likely to take a new shape and still come on top! The larger and longer living population, their expectations on retirement, the growing affluence of people in China and south Asian countries are but some of the challenges. As net savvy customers get used to the Apple and Amazon experience they would like to have the same accessibility, transparency and responsiveness in their customized insurance products. A new generation of smart policies that would automatically adjust policy holder's asset mix to suit his retirement age, risk profiling analytics and generally smart policies which can easily compare the present day off the shelf customized products for their benefits and quicker decision making will be in order!*

**Keywords**— *Dynamic changes, insurance business environment, relentless shake out, immune to relentless shifts in technology and way of doing business, customer expectations, market forces, growing affluence, net savvy customers, accessibility, transparency and responsiveness, customized products, smart policies, risk profiling analytics, off-the shelf products, quicker decision making.*

## I. INTRODUCTION

Insurance is not a recent origin. It has been enforced in India dated back to the Vedic period. Establishment of Oriental Life Insurance Corporation in 1818 forms the basis of present life insurance industry in India. Insurance sector constitutes as one of the important pillar of the financial market. In 2000, Government reopened the Indian insurance industry to private companies which lead to the remarkable growth (increasing trends) in life insurance business. The sector witnesses a multi-fold growth in terms of insurance density (4 fold), amount of investment (5 fold), total premium (4 fold), number of new policy issued (doubled), number of offices opened (4 times) etc. Even after a tremendous growth in life insurance industry, there is still a large portion of population who remain uninsured. It demonstrates a lot of opportunities. So, life insurers required to change their strategies and offered customized product so that the untapped market can be served effectively.

The Indian economy is in transition over the last few years leading to the initiation of major economic reforms affecting almost all sectors. The paradigm shift in organization structure has exposed all sectors to an intense competition. Insurance is one of them. In India insurance is a booming industry, with numerous national and foreign players competing to each

other to get the competitive advantage. Over the last few years, the Indian insurance industry has witnessed remarkable growth. Indian insurance business can be classified into two parts i.e., General Insurance and Life Insurance. General insurance deals with exposure of risks to goods and property whereas life insurance deals with the contingencies of physical death and economic death.

Insurance industry constitutes one of the important elements of the financial market. It plays a significant role in the process of financial intermediary. It is one of the most growing sectors all over the world. India has a lot of potential in this industry. If we talk about the proportion of life insurance industry in world insurance industry's premium, it is 56.8% while in Asian region insurance business, it is 28.9%. In world life insurance industry, India has a 2.03% share during 2012-13 as against to 2.30% in 2011-12. Within India the portion of life insurance business is 80.2% of total insurance business. India has 10th rank in life insurance business among the 88 countries

## II. BROAD OBJECTIVES

Insurance sector plays a very significant and vibrant role in the process of financial intermediaries. It constitutes as one of the important pillar of the financial market which create a lot of new opportunities. The study is carried out to know the trends and pattern of life insurance industry in India. To carry out this study descriptive as well as analytical research design has been used.

## III. METHODOLOGY AND RESEARCH APPROACH

The study is purely based on secondary data which has been collected from IRDA annual reports, IRDA journals, LIC reports, websites, Insurance Chronicle (ICFAI), publications, journal, books, published works, Internets etc.

## IV. REVIEW OF LITERATURE

Krishnamurthy S, Mony S V and et al. (2005) in his paper "Insurance Industry in India: Structure, Performance and Future Challenges" stated about the status and growth of Indian insurance industry after liberalization and discuss the future challenges and opportunities faced by the insurance sector. Nanda R (2007) in his paper "Being an Insurance Agent, the pride and the prejudice", stated that there is a huge potential of life insurance in Indian market because India is second fastest growing economy and fourth largest economy in term of purchasing power. Basavanthappa C and Rajanalkar L (2009) in his paper stated that the private insurance companies have performing well over the year. The market

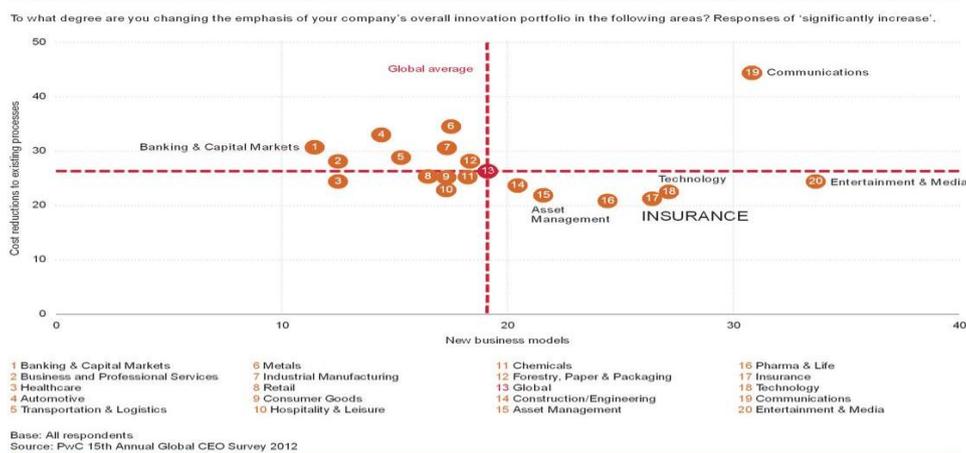
share of private life insurance companies were increasing over the year which create a lot of opportunity for them.

For a business to evolve it has to think outside the four walls of its fort; to understand what customers need and want. In the last few years, digital awareness through smart phones has taken the digital cameras out of business (Kodak) and smart phones have come in. Music stores and business have been hit hard by on-demand down loads of i-Tunes. So, it is

vital for businesses to be alert to emerging threats from inside and outside the industry. While Insurance is a regulated industry, this should not be an excuse to be tardy and slow moving! A recent global survey of CEOs found out that Insurance as a whole are just behind the Technology, Communications and Entertainment business in their readiness to innovate and evolve new business models! (See Figure 1)

Our latest global CEO survey found that insurers as a whole are just behind the technology, communications and entertainment sectors in their readiness to embrace business model innovation

Figure 1: Readiness to innovate



markets, designing the smart new products and forging the partnerships needed to capitalise on these opportunities now. You will also need to think about how to create the integrity and trust within the organisation that would allow you to respond to customers' evolving needs faster and more effectively than your competitors.

**Fresh thinking**

Many life and pensions companies are conscious of the need for fresh thinking and new strategies. Our latest global CEO survey found that insurers as a whole are just behind the technology, communications and entertainment sectors in their readiness to embrace

executives carried out for this report raises questions about how far and how quickly they're prepared to go to adapt to change and sustain competitive relevance." The uncertainty over where growth is going to come from and how life and pensions companies are going to deal with the disruptive forces they face is reflected in the generally disappointing share prices in the sector.

In 'Life insurance 2020: Competing for a future', we examine the developments that are set to have the most decisive impact over the next five years and the main opportunities for innovation, growth and competitive differentiation. This includes how to deal with the

preferences ('Distribution disruption and the customer revolution'), sharper profiling ('Information advantage through big data') and new competitive threats ('Big and fast: Evolving business models'). The aim is to help life and pensions companies assess the implications of a marketplace in transformation for their particular organisation.

1 1250 CEOs from 60 countries were polled at the end of 2011 as part of PwC's 15th Annual Global CEO Survey, published on 25.01.12  
2 150 life and pensions executives were asked to comment on the impact and likelihood of a series of social, technological, environmental, economic and political scenarios, as well as setting out their

Fig. 1. PwC annual global CEO survey.

There is a cut throat competition in this sector which would be beneficial to all. To get the competitive advantage over the competitor, companies bring out the innovative products and provide various facilities to the customer. Shendey B K and Neelkant Rao (2010), in his paper titled "Trends in Insurance Industry in India since 21st Century" opined that the privatization of insurance industry increases the growth of this sector and the monopoly of LIC has been overcome. The total life insurance premium has increased four-folds since liberalization of insurance industry. He also stated that the life insurer continuously focuses on the product innovation and new schemes to increase its policyholder base. Venkatesh M (2013) in his paper "A Study of Trend Analysis in Insurance Sector in India" discusses the history of insurance

and analyzes the life insurance industry in India. The study reveals that Indian insurance sector is increasing rapidly and trend percentages are increasing over the year. The author also focuses of insurance density and stated that in spite of higher insurance growth rate India has less insurance density as compared to world density.

Kumari Hymavathi T (2013), in their paper "Performance Evaluation of Indian Life Insurance Industry in Post Liberalization" stated that the life insurance industry has achieved a tremendous growth in the amount of premium collected after the opening of it for private sector. On the basis of financial performance analysis of insurance industry, it can be concluded that the performance of insurance business shows a favorable growth. Further, the study suggests that for

sustainable growth of life insurance industry, it is necessary to provide innovative product and better facilities to policy holder. The study also reveals that liberalization has a significant impact on the growth of Indian life insurance business.

The potential and performance of insurance sector in any country can be measured with the help of two parameters i.e., insurance penetration and insurance density. Insurance penetration is the ratio between premium underwritten and Gross Domestic Product (GDP) in any given year while the insurance density is the ratio between premium underwritten and total population of the country in any given year. Figure 3 and Chart 1 & 2 depict the density and penetration ratio of insurance industry. It reveals that the penetration ratio of

insurance industry shows an increasing trend up to 2009-10, it raise from 2.71% in 2001-02 to 5.20% in 2009-10. Due to the economic crises and slowdown, the economy found it difficult to maintain the higher growth rate, it goes down on decreasing track which result in decreasing insurance penetration ratio. The ratio decreases to 3.96% in 2012-13 from 5.20% in 2009-10. The average penetration ratio is 3.97%. The situation is same for life insurance. The penetration ratio of life insurance had continuously risen from 2.15% in 2001-02 to 4.60% in 2009-10. Afterward, it decreases up to 3.17% in 2012-13 because of economy slowdown and low life insurance premium. But for the non-life insurance, penetration ratio has been continuously increased from 0.56% in 2001-02 to 0.78% in 2012-13.

S. No.	Life Insurance Company (Insurer)	Reg. No.	Date of Registration	Foreign Partners
1)	HDFC Standard life Insurance Company Ltd	101	23.10.2000	Standard Life Assurance, UK
2)	Max New York Life Insurance Company Ltd	104	15.11.2000	New York Life, USA
3)	ICICI Prudential Life Insurance Company Ltd.	105	24.11.2000	Prudential Plc, UK
4)	Kotak Mahindra Old Mutual Life Insurance Limited	107	10.01.2001	Old Mutual, South Africa
5)	Birla Sun Life Insurance Company Ltd	109	31.01.2001	Sun Life, Canada
6)	Tata AIG Life Insurance Company Limited	110	12.02.2001	American International Assurance Co., USA
7)	SBI Life Insurance Company Ltd	111	29.03.2001	BNP Paribas Assurance SA, France
8)	ING Vysya Life Insurance Company Ltd.	114	02.08.2001	ING Insurance International B.V., Netherlands
9)	Bajaj Allianz Life Insurance Company Limited	116	03.08.2001	Allianz, Germany
10)	PNB Met Life India Insurance Company Ltd.	117	06.08.2001	Metlife International Holdings Ltd., USA
11)	Reliance Life Insurance Company Limited.	121	03.01.2002	--
12)	Aviva Life Insurance Company Pvt. Ltd.	122	14.05.2002	Aviva International Holdings Ltd., UK
13)	Sahara India Life Insurance Company Ltd.	127	06.02.2004	--
14)	Shriram Life Insurance Company Ltd.	128	17.11.2005	Sanlam, South Africa
15)	Bharti AXA Life Insurance Company Ltd.	130	14.07.2006	AXA Holdings, France
16)	Future Generali Life Insurance Company Ltd.	133	04.09.2007	Generali, Italy
17)	IDBI Fortis Life Insurance Company Ltd.	135	19.12.2007	Ageas, Europe
18)	Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd	136	08.05.2008	HSBC, UK
19)	AEGON Religare Life Insurance Company Limited.	138	27.06.2008	Aegon Netherlands
20)	DLF Pramerica Life Insurance Company Ltd.	140	27.06.2008	Prudential of America, USA
21)	Star Union Dai-ichi Life Insurance Company Ltd.	142	26.12.2008	Dai-ichi Mutual Life Insurance, Japan
22)	India First Life Insurance Company Ltd.	143	05.11.2009	Legal & General Middle East Limited, UK
23)	Edelweiss Tokio Life Insurance Company Ltd.	147	10.05.2011	Tokio Marine Holdings Inc, Japan
24)	Life Insurance Corporation of India (Public)	512	01.09.1956	--

Fig. 2. Life insurance company (Insurer) operating in India.

Year	Life		Non-Life		Industry (Total)
	Density (USD)	Penetration (%)	Density (USD)	Penetration (%)	Penetration (%)
2001-02	9.10	2.15	2.40	0.56	2.71
2002-03	11.70	2.59	3.00	0.67	3.26
2003-04	12.90	2.26	3.50	0.62	2.88
2004-05	15.70	2.53	4.00	0.64	3.17
2005-06	18.30	2.53	4.40	0.61	3.14
2006-07	33.20	4.10	5.20	0.60	4.80
2007-08	40.40	4.00	6.20	0.60	4.70
2008-09	41.20	4.00	6.20	0.60	4.60
2009-10	47.70	4.60	6.70	0.60	5.20
2010-11	55.70	4.40	8.70	0.71	5.10
2011-12	49.00	3.40	10.00	0.70	4.10
2012-13	42.70	3.17	10.50	0.78	3.96
<b>Average</b>	31.47	3.31	5.90	0.64	3.97
<b>SD</b>	16.84	0.89	2.69	0.06	0.91

Insurance Density is measured as ratio of premium (in USD) to total population  
Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD)  
**Source:** IRDA, Annual Report 2012-13

Fig. 3. Insurance penetration and density in India.

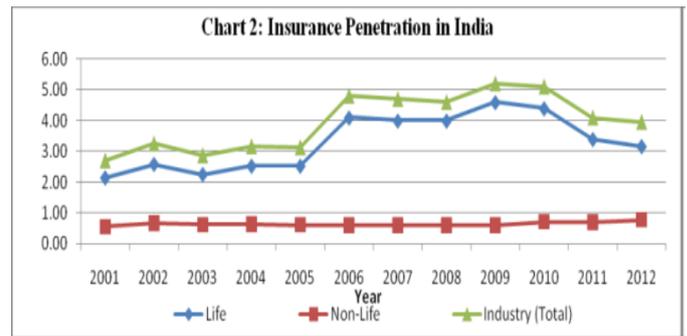
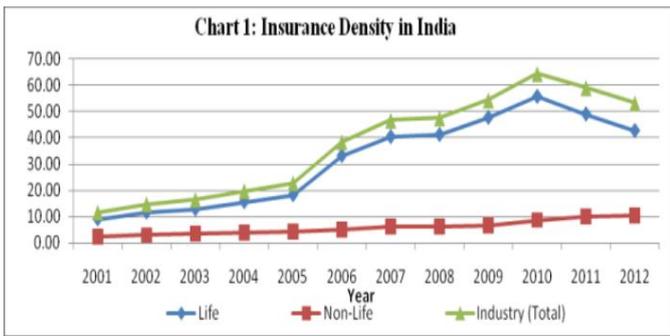
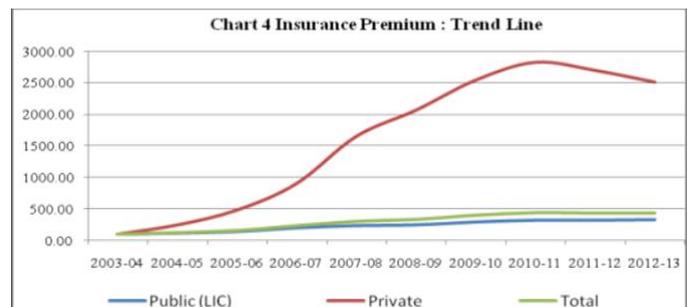
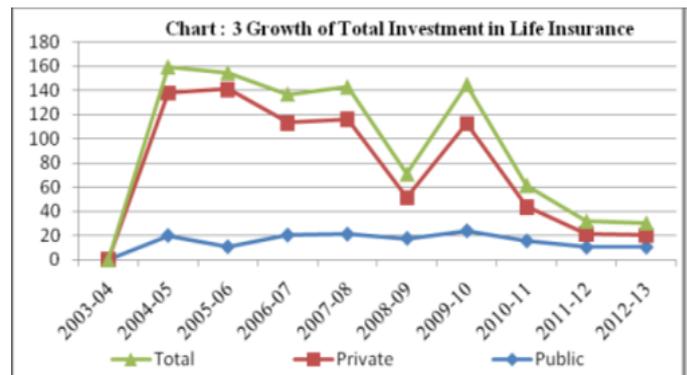


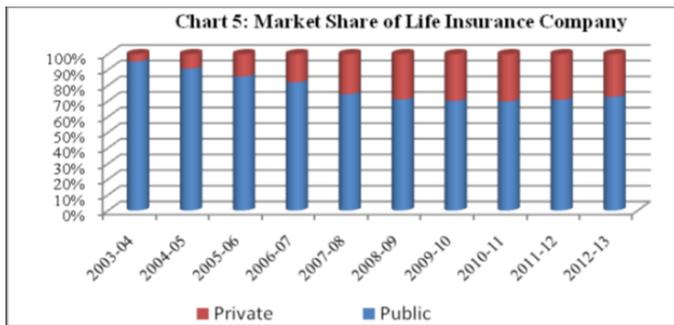
TABLE I. Total life insurance / premium (in Rs. Cr.).

Year	Public (LIC)			Private			Total		
	Prem Amount	Growth (%)	Trend Value	Prem Amount	Growth (%)	Trend Value	Prem Amount	Growth (%)	Trend Value
2003-04	63533.43		100.00	3120.33		100.00	66653.76		100.00
2004-05	75127.29	18.25	118.25	7727.51	147.65	247.65	82854.80	24.31	124.31
2005-06	90792.22	20.85	142.90	15083.54	95.19	483.40	105875.76	27.78	158.84
2006-07	127822.84	40.79	201.19	28253.01	87.31	905.45	156075.85	47.41	234.16
2007-08	149789.99	17.19	235.77	51561.42	82.50	1652.43	201351.41	29.01	302.09
2008-09	157288.04	5.01	247.57	64497.44	25.09	2067.01	221785.48	10.15	332.74
2009-10	186077.31	18.30	292.88	79369.94	23.06	2543.64	265447.25	19.69	398.25
2010-11	203473.40	9.35	320.26	88165.24	11.08	2825.51	291638.64	9.87	437.54
2011-12	202889.28	-0.29	319.34	84182.83	-4.52	2697.88	287072.11	-1.57	430.69
2012-13	208803.58	2.92	328.65	78398.91	-6.87	2512.52	287202.49	0.05	430.89
Mean			146559.74			50036.02			196595.76
SD			55207.38			33637.78			88518.85
CV			37.67			67.23			45.03
CAGR (%)			12.63			38.04			15.72

The growth of Private Insurance companies has been remarkable with the Liberalization of Policies and opening up Insurance sector for foreign participation.

Table I and Chart 3 depict the amount and growth of investment in life insurance industry. It recorded a total investment of Rs. 1744894 crores in 2012-13 as against Rs. 352625 crores in 2003-04 with the Compounded Annual Growth Rate (CAGR) of 17.33%. The LIC recorded total investment of Rs. 347959 crores in 2003-04 which has been raised to Rs. 1402991 crores in 2012-13 with CAGR of 14.96%. As regard to the investment of private company it raises from Rs. 4666 crores in 2003-04 to Rs. 341903 crores in 2012-13 with CAGR of 53.63%. The table also reveals one interesting point i.e., the Compounded Annual Growth Rate (CAGR) of private life insurance company is 3.58 time of public life insurance company which shows the success story of private companies. In spite of this, there is a big difference between the proportion of investment of public and private company. From the total investment in life insurance sector, public company (LIC) attract on the average of Rs. 808019.70 crores (84.85%) while the private company attract Rs. 144327.20 crores (15.15%) of investment. But the higher CAGR of private company will provide new opportunities to them which helped in bridging the various proportion gaps.





V. ANALYSIS AND INFERENCE

Now, insurance industry has become one of the pillars of Indian financial market and performs a very crucial role in economic development. After opening the life insurance industry to private sector, it expanded tremendously as such that it got the wings to fly up to the sky. With the new ideas and passion, insurance industry shows a remarkable growth i.e., increasing trend over the years in terms of insurance density and penetration ratio, amount of investment, total premium, number of new policy issued, number of offices opened, customer complaint redress rate, policyholder base etc. The sector witnesses a multi-fold growth in most of the insurance parameters. Even a tremendous growth in life insurance industry, there are still a large portion of population who remain unsaved or under served. So there is an opportunities to life insurer to tapped this untapped market through customized and innovative product and better facilities. But when we compared it with the international scenario, we need to think and act a lot, to improve the status of insurance industry. The Indian insurance industries don't stand in front of World insurance industries.

There is an opportunity for insurance companies to serve people when cash strapped governments withdraw welfare measures. State support for aging population in many markets is being eroded by a combination of government debt and the declining ration of people working to people retired (Dependency ratio). As governments look to insurers to help plug the gap in public pension, reputation and Corporate Social Responsibility of Business are going to become more crucial Competitive differentiators. Smart firms will look beyond short term 'transactional goals' to more enduring objectives such as Public Trust, Health and well being.

Regulatory environment is here to stay. It will be important to look beyond compliance to developments that will affect Strategy, Product design, Costs and Customer experience. Demographics of customers affect value chain creation through demographic differentiation. Internet selling, fewer direct person to person contact with customers is going to dictate the needs of cost effective products and service.

The potentially disruptive market dynamics predicted include:

1. The older population (people over 60) will be more than 60 billion by 2050, creating an extra burden to find creative solutions!
2. An increasingly wealthy global population of about 1.2 billion by 2030 and alarmingly two thirds of it coming

from India and China! creating much more wealth to protect and more demand for life cover.

3. An increasingly connected global population, of about 5 billion by 2020, changing how customers interact with your business and their expectation of speed and intuition of experience!
4. Advanced Data Analysis techniques, can give you a gold mine of information, provided you know how to use it.
5. Sensors are already being used to track health of Automobile customers and this may become the order of the day for customers to provide invaluable information to Insurance companies.
6. Cloud computing will reduce business costs by converting fixed costs to variable costs that will in turn lower entry barriers to new competition!
7. Over the next 30 years 1.8 billion people are expected to further move into cities (most of them in Asia and Africa) and increasing the metro population to about 5.6 billion

VI. CONCLUSIONS AND RECOMMENDATION

It is clear from the foregoing that Insurance business in India is becoming more and more competitive like other businesses. The entry of multinational companies through joint ventures and equity participation has already reached a stage of healthy Oligopoly and we will wait to see further intensification o competition. One thing that is loud and clear is that the competition will be on a different plane altogether with the advent of data processing technologies and the internet technology. We see today a business model for consumer products, wherein he inter-phase with the actual customer is nil and computer aided technologies with virtual images of products and services have become common platforms for sales promotion and prospecting. The one to one customer interaction, which has been the characteristic of insurance selling, is getting fast replaced by other business models with customer centric and computer savvy models for ease of doing business and contact.

The characteristics of such business models have already been identified in the data Analysis section. Computer Analytics and big data Analysis are going to play a big role in such customer friendly business models. The future is for such companies who will adapt to such methods o selling insurance products and employ computer savvy marketing personnel from the new generation of younger people!

1. The internet will change not only how the customers buy but also what products they opt for.
2. The harnessing of 'big data' developments will provide a key source of competitive advantage and increased market share.
3. Pollution levels are increasing and it may pose a threat to Life and well being of individuals. The mortality Table and premium rates will have to be revised dynamically!
4. Development of drug resistant strains of viruses will heighten the limits of risks and liabilities.

The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 per cent of the world's total insurance premiums and about 2 per cent of the world's life insurance

premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years. India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10. The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

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