Research Insights

How to jumpstart India's insurance industry through a customer-centric strategy

IBM Institute for Business Value

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Talking points

Ready for takeoff

After decades of tight government monopoly over the sector, the Indian insurance market has enormous potential for growth – if it can overcome its constraints and inherent legacies.

Increasing penetration

The key to the industry achieving its potential is a change in mindset from an inward-facing focus on products to a customer-centric strategy focused on outcomes for India's vast groups of uninsured and underinsured populations.

Learn from the best

For inspiration, insurers can look beyond India's borders and learn from global best-in-breed examples. At the same time, they need to be responsive to new technologies that drive business model innovation for better customer experiences and increased customer trust.

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India's insurance industry is truly at a turning point. Once sheltered by regulation and protected from global competition, insurance in India is finally poised to catch up to – and perhaps even exceed – innovations occurring elsewhere in the world. Not only do these developments bode well for the growth and success of Indian insurers, they will inevitably have significant benefits for India's populations. By focusing on improved customer outcomes, India's insurers can provide consumers access to new and advanced life-enhancing insurance products and services.

There is enormous potential for innovation and growth for insurers in India. But this was not always the case. India's insurance industry has a unique and volatile history. Until the late 1990s, consecutive governments maintained tight control over the country's insurance industry, which was largely nationalized. Competition and innovation were effectively squashed. This led to low levels of understanding of insurance products in the mass market and much lower rates of insurance penetration compared to other countries.[1]

Since initial deregulation in 1999, however, the industry has experienced a new spurt of market growth both in life and other lines. In 2001, India's insurance industry collected nearly INR 35,000 crore in life and slightly more than INR 45,000 crore in overall premiums. Over the past 17 years, the industry has seen annualized growth of 16.5 percent, with non-growth lines growing at an even faster rate of 17 percent.[2] (See Figure 1.)

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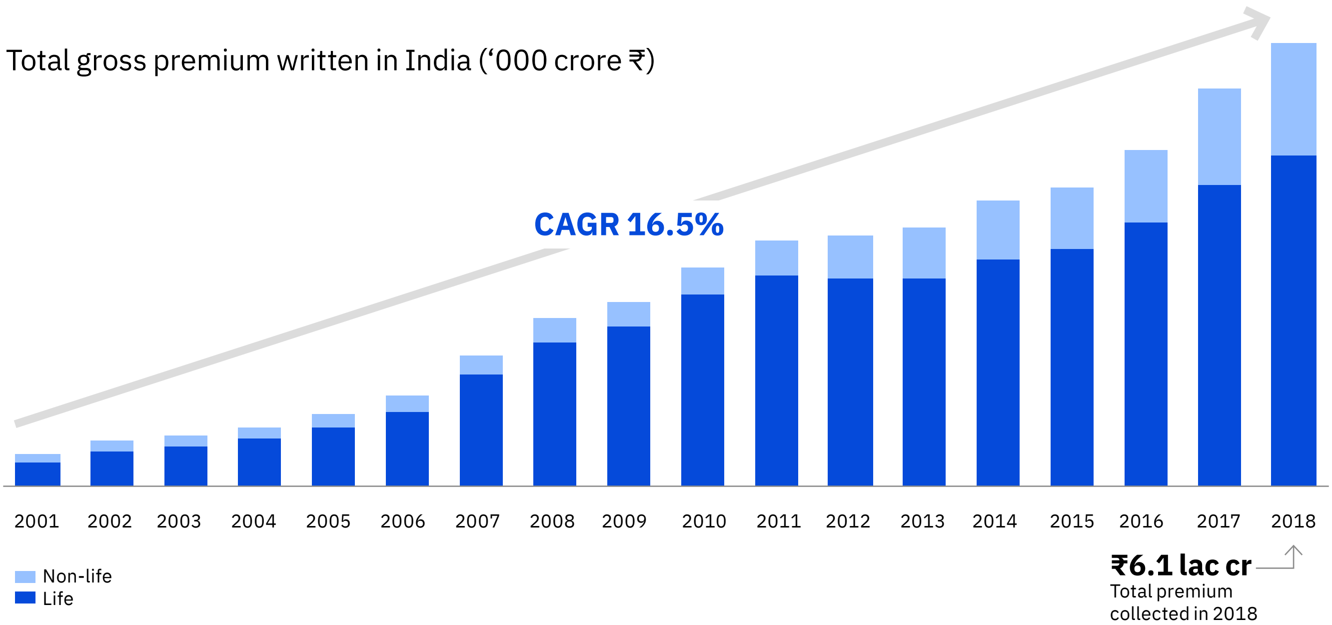
Figure 1

Since deregulation, India's insurance industry has seen steady growth



Source: IRDAI annual reports and handbooks. IRDAI website, accessed January 2019.

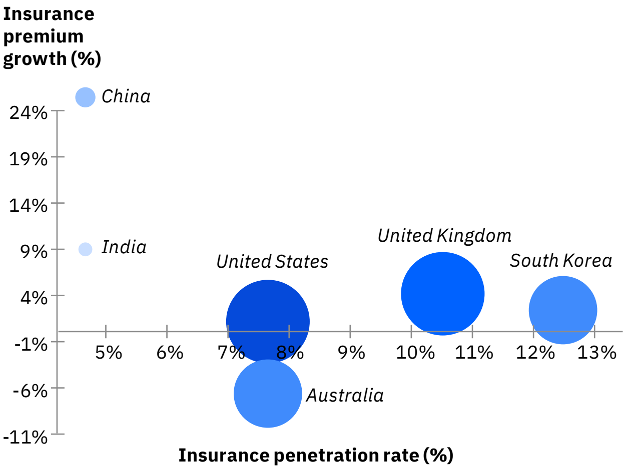
Yet despite deregulation and subsequent growth, a handful of players continue to dominate the Indian insurance market. In 2017, state-owned Life Insurance Corporation of India comprised more than 70 percent of the life insurance market. The next largest competitor, partly state-owned SBI Life, held less than 6 percent market share. The largest non-state-owned life insurance business in India, HDFC Life Insurance Company, held only 5 percent life market share. The much smaller non-life market has become more competitive, with several specialist insurers; however, the largest five non-life insurers still hold a combined 55 percent market share.[3]

As a result of its highly regulated history, the insurance industry has not grown on par with the country's economy. In 2017, India was ranked as the world's seventh largest economy, up from twelfth largest in 2007 and fifteenth in 1997.[4] Despite this economic growth, the country's insurance industry continues to lag behind more mature markets in terms of insurance penetration and other emerging markets in terms of total premium growth and insurance density (see Figure 2).[5]

But there is reason to believe that India's insurance industry is at a tipping point. The combination of relatively solid macroeconomic foundations, rapid technology adoption, expanded government programs aimed at financially underserved populations, and the possibility of renewed efforts to expand privatization creates an environment that could spark unprecedented levels of industry growth.

Figure 2

India lags behind in insurance penetration



Note: Size of bubble represents insurance density (=premium per capita)
Source: "World insurance in 2017: solid but mature life markets weigh on growth." Swiss Re Institute, Sigma Research. July 2018.

Making of an Indian insurance market

Statistics related to the potential market for insurance in India are astonishing. Until recently, almost 1.1 billion people had no form of health insurance.[6] And more than 50 percent of those who do have health insurance are underinsured.[7] Despite third-party motor insurance being a statutory requirement, more than 60 percent of vehicles in India are uninsured.[8] In addition, less than a quarter of cultivated land has any form of crop insurance, and only 30 percent of homeowners in India have insurance for either their home or its contents.[9]

Challenges to redress low insurance penetration appear to be systemic among major population groups. Many low-income rural populations live in areas that lack social and economic infrastructure, increasing the cost of insurance sales and servicing. These cost factors combined with relatively low margins make this segment especially unattractive for agents, and lower levels of digital penetration and education compound access constraints.[13]

Although India has the 7th largest economy in the world, insurance penetration is merely at 4%[10]

Most Indians are underinsured – until recently, almost 1.1 billion had no form of health insurance[11]

And even when they have accessed insurance products, only 53% of Indian insurance consumers trust their insurance company[12]

India's insurers tend to be more focused on products than customer needs.

While low-income urban populations are not nearly as geographically dispersed as their rural kin, they typically remain unaware of the advantages of insurance products and mistrustful of insurance agents. Poor or non-existing credit histories also make pricing policies for these populations challenging.[14]

Despite expanding in size and income, India's middle class typically lacks a deep understanding of either insurance products or the concept of insurance as a risk mitigation device. To the extent to which the middle class is open to discussions around financial strategies and planning, many agents are ill equipped to offer holistic financial advice, focusing their attention on selling insurance products rather than financial outcomes.[15] And although mobile telephony is widespread, a sizable proportion of the middle class population limits use of mobile to communications through WhatsApp or similar tools, rather than more sophisticated activities such as financial planning or management.[16] Even digitally savvy populations among Gen Y and Gen Z tend to remain unconvinced of the benefits of insurance. Young populations often react negatively to insurance products' lack of immediate applicability or customization to their needs. They also hear stories of friends or colleagues experiencing difficulties or even roadblocks when making insurance claims.[17]

Just like their Western counterparts were 20 years ago (and some still are), Indian insurers tend to be more focused on products than customer needs, with bureaucracy and cumbersome processes that can make it hard to conduct business.[18] In addition, the agent-based distribution system tends to push products with the highest commission based on paid premium rather than those that best fit customers' insurance needs; as a result, many Indians distrust the insurance industry.[19] According to a 2015 IBM Institute for Business Value survey on trust in the insurance industry, only 56 percent of respondents in India trust the insurance industry (down from 65 percent in 2008), and even less, 53 percent, trust their own insurer.[20]

Insurance regulators in many other countries are actively liberalizing regulatory environments to encourage accelerated innovation across the industry. The Monetary Authority of Singapore (MAS), for example, encourages innovation through adoption of a regulatory sandbox approach – an environment that allows innovators in the insurance space to conduct live experiments in a controlled environment under a regulator's supervision.[21] As early as 2014, the UK Financial Conduct Authority (FCA) launched Project Innovate, designed to make insurance more customer centric by encouraging disruptive innovation. To date, the FCA has received more than 500 applications from firms seeking support in tackling regulatory barriers to innovation.[22]

India's insurance regulator, the Insurance Regulatory and Development Authority of India (IRDAI), has been more cautious in loosening the regulatory reins. IRDAI has been criticized for insufficient transparency and slow response times, limited encouragement of industry innovation, and high levels of regulatory vigilance that can negate innovation.[23] In response, the IRDAI recently announced a new initiative to establish a regulatory sandbox for innovation in the fintech and insurance space. As a first step, it has formed an oversight committee whose members include leaders from both IRDAI and the insurance industry.[24]

Times, they are a-changing

Globally, the insurance industry is experiencing what could be its greatest transformation thus far. We noted the significance of this evolution in our 2018 study "Friend or foe? Insurtechs and the global insurance industry":

"The global insurance industry is at a watershed moment. Insurance leaders have witnessed the growing impact of fintechs – financial technology startups – on traditional banking and heavy investment in insurance technology (insurtechs). They are consequently attempting to identify the best approach to working with these potentially threatening technology innovators. Insurers are galvanizing themselves just in time."[25]

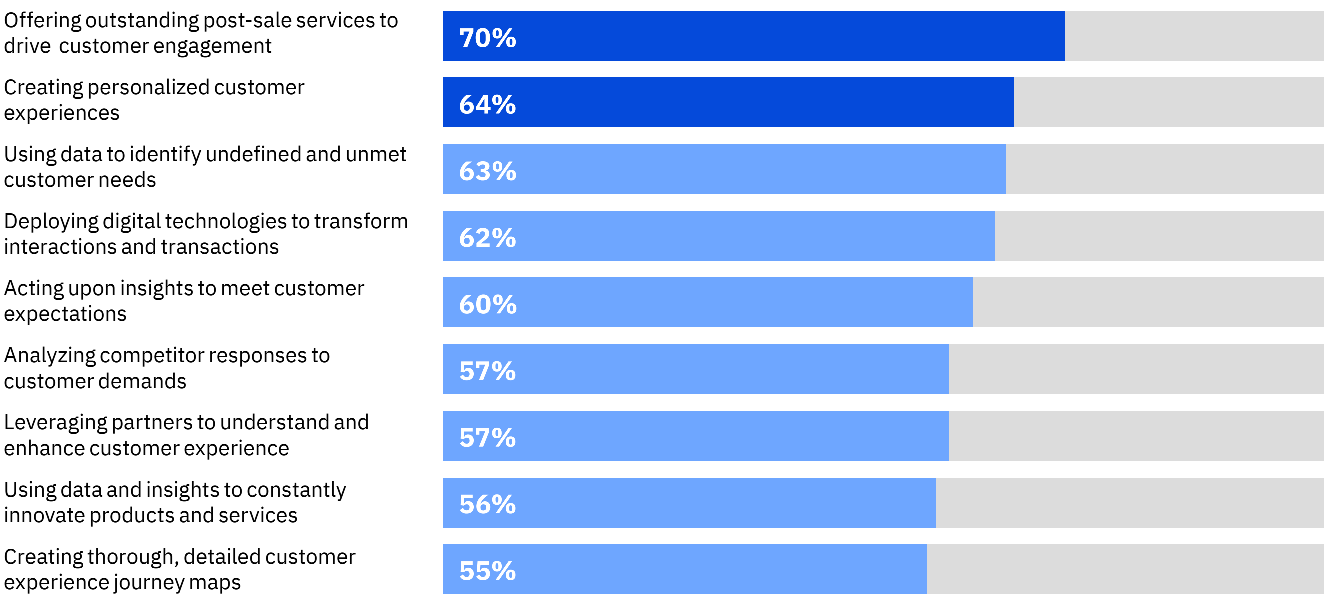
Insurers are moving away from product-centered business models and toward a customer-centered mindset. They are collaborating to a higher degree with partner networks across ecosystems to dramatically improve personalization. Insurers are using data far more effectively to address previously unidentified and unmet customer needs, improving pre- and post-sale support and engagement, and making innovation a constant process rather than an occasional event (see Figure 3).

Technology continues to accelerate innovation across the global insurance industry. In particular, the confluence of several game-changing technologies holds the promise not only to dramatically improve customer experience, but also enable new and sustained operational efficiencies, and even fundamentally change the understanding and management of risk. The rise of artificial intelligence (AI), next-generation cloud computing, blockchain, high-capacity mobile services, ubiquitous mobility, and the Internet of Things (IoT) supports – and even necessitates – fundamentally rethinking how insurance is created, packaged, purchased, and deployed. And insurance leaders tell us they are making big investments commensurate with the big opportunity. According to our most recent C-suite survey, 57 percent of insurance leaders globally are making significant strategic investments in IoT, 61 percent in cloud computing, and as many as 80 percent in new applications around mobility.[26]

India's insurers can look to their global peers for inspiration. For example, the Italian subsidiary of French insurer Groupama SA has invested heavily in telematics to

Figure 3

Globally, insurers create compelling customer experiences through service and personalization



Source: IBM Institute for Business Value Global C-Suite survey. 2017.

Like their global counterparts, India’s insurers need to shift their mindset away from products and toward customer – or policy-holder – outcomes.

improve the customer experience. Groupama leverages data from 400,000 connected cars to help improve the claims process and offer a range of expanded services. These services include alerting emergency teams after an accident, locating a stolen car, and providing risk prevention measures such as alternative routing suggestions for frequently traveled roads.[27]

To help customers minimize property damage and claims, Quebec-based insurer Desjardins has created a smart alert program that detects leaks and frozen pipes in homes and also offers personalized weather alerts.[28] As another example, consider Germany’s largest health insurer TK, which launched a new digital healthcare platform. The platform, TKSafe, includes personalized electronic health files that give members complete access to and control over their data. In addition to offering a centralized digital repository for personal data, TKSafe also provides policy holders seamless access to an ecosystem of healthcare providers including doctors and hospitals.[29] And Shanghai-based Zhong An established a fully online insurer with more than 150 million policy holders and 630 million policies.[30]

Taking the high road

To succeed in the new technology-enabled, client-centric insurance environment, established insurers and other industry players in India need to accelerate development to launch themselves on a similar trajectory as the rest of the world. For India’s insurance market and industry to thrive, insurance needs to cease being an afterthought and become central to everyday life for Indians. Like the more innovative of their global counterparts, India’s insurers need to shift their mindset away from products and toward customer – or policy-holder – outcomes.

This multi-faceted shift requires changing strategies and operations. Established insurers will need to avoid continuing to let traditional models dictate their strategy and start thinking like an insurtech. Insurers can move toward outcome-based customer engagement by considering their market approach from customers’ perspectives, fundamentally addressing their desires and aspirations in addition to their needs.

Insurers need to build an organizational culture that is sensitive and responsive to the potential of new technologies to drive business model innovation and differentiating operating models. Experimental use case implementation is the starting point; insurers need to move beyond that to make innovation a central focus. This will help make their channels far more digitally enabled and harmonized to offer seamless user-defined touchpoints. Insurers in India can look beyond their country’s borders to learn from best-in-breed or newly disruptive industry examples.

Traditional insurers should also explore emerging platform business models that are evolving rapidly in other major markets. Existing public and private platforms such as IndiaStack can help make customer journeys more efficient and comprehensive. And like many of their innovative international peers, Indian insurers can participate in or build ecosystems to facilitate a disruption in the market while partnering with fintechs and insurtechs. They also need to find effective ways to advocate the benefits of insurance among the many uninsured and underinsured Indians.

For its part, the insurance regulator can look to learn from and collaborate with leading regulators around the world to identify strategies that accelerate innovation while avoiding potential pitfalls. And fundamentally, for traditional insurers, insurtechs, and regulators alike, increasing the potential for India’s insurance industry remains all about people. It involves helping them think more strategically, embrace innovation, and expand the life-improving and potentially life-changing benefits that a dynamic, efficient, and accessible insurance market can bring.

Key questions to consider

- How can you make insurance more customer centric, and how can you better use data to create individual and compelling insurance experiences?

- How might you better reach unserved and underserved populations, and how can you better use technologies to broaden your customer base?

- In what ways can you increase or enhance your organization's ecosystem and platform involvement, and what partners – both inside and outside the industry – can you work with to accelerate and improve innovation?

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Maturing markets, tight capital, increasing risk, and technologically sophisticated customers are just some of the pressures the insurance industry faces today. As a result, insurers have to work faster, more efficiently, and – above all – smarter. Those that do can thrive, but others will fail. Insurers need to be more nimble, innovative and connected with their customers. The IBM Global Insurance team has reinvented itself, providing solutions to help clients meet the demands of today's insurance business. From enhanced customer service to greater efficiency in the back office and improved risk management, there's a smarter solution for you. For more information about IBM Insurance solutions, visit ibm.com/insurance.

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