A crossroad awaits

In the 15 years since India reprivatised its insurance industry, several models have been developed to optimise operations, distribution, and suitability. And serving the population's protection needs profitably, this could remain a challenge. **Mr Amit Punchhi** of **RGA** examines the three elements that are contributing to the slowing down of the life market's growth.

In the first decade of the 2000s, India's life insurance industry grew and developed quickly. Since its 2010 peak, however, the once double-digit growth has reversed. Company executives and industry observers see several elements contributing to the slowing of India's life insurance market growth.

Mis-selling and fraud

One element is India's current insurance regulatory environment, which is consumer-friendly but has elements stemming in part from the mis-selling and overcharging allegations related to insurance-sold savings products that could have the potential to place fiscal sustainability at risk.

In 2010, when the allegations came to a head, IRDA (India's Insurance Regulatory and Development Authority) put forth new rules that reduced charges for unit-linked insurance products (ULIPs) and brought their total asset management costs to a point lower than those of mutual funds. Since then, Indian consumers have benefited from the cost of new insurance products declining while quality and value rise.

Call for smaller premium policies

IRDA chairman, T S Vijayan, in a speech at the recent 16th Annual Insurance Conference sponsored by the Federation of Indian Chambers of Commerce and Industry (FICCI), told his audience he would like to see as many Indians as possible own life insurance, and encouraged the launch of a government-led Jan Bima Yojana initiative, which would have the goal of increasing awareness of the importance of insurance among rural and urban populations. To facilitate this, he suggested insurers develop policies with premiums of INR2,000 to 3,000 (US$31-$47) – the current low is INR5,000 – to meet the protection needs of more people.

Developing such policies could be a positive for the Indian insurance market. However, the market for protection products is still one in development. Most members of the middle class are still primarily focused on buying savings and endowment products. In addition, as the average ratio today of insurance coverage amount to premium paid is between 10 and 20 times, so lower-premium products could risk not providing sufficient cover to meet the needs of new consumers.

Protection products hit by fraud

Still, a clear need for protection products exists and is growing for those entering India's middle class. In the nation's fast-urbanising cities, these citizens are forming nuclear families and accumulating assets such as homes and contents, and having children, all of which will need protection.

Protection products have been hit by large and increasing amounts of fraud over the past few years, both in

terms of mis-selling and underwriting, which is yielding rising recurrent losses for insurers and also slowing the development of this market sector. The industry is currently directing resources to mitigate fraud by determining how to design protection products that do not lend themselves to today's most frequent frauds, but capital continues to be difficult to acquire.

Lack of access to sufficient capital a hurdle

On this point, the lack of sufficient access to capital by India's insurers, the second element, is extremely important.

Private insurers in India are, for the most part, jointly owned by global insurers and domestic banks or financial services conglomerates. Indian insurers are still restricted to 26% foreign ownership, and are not able to access the debt markets. This situation, according to industry observers and analysts, has been increasingly hampering the ability of insurance companies to build and upgrade their operational and administration technologies as well as to develop the innovative products the market needs.

Access to debt capital as well as increased access to equity capital could substantially buttress the ability of insurers to invest in improvements that would strengthen operations, administration and distribution. More capital would also give companies breathing space to develop the affordable and profitable protection products needed by India's burgeoning middle class.

As the cost of acquiring capital as well as of conducting business remains high while access to lower-cost forms of foreign capital remains closed, the companies with stakes in private insurers are adjusting their goals and expectations. This has resulted in one positive development: the reining in of what risked becoming a "build to sell" product development mentality on the part of insurers.

Still, that India's insurers have not been able to mature, via access to the capital markets, into profitable standalone entities so that shareholders could see long-awaited returns, is something regulators are being encouraged to rectify.

Bill is before Parliament

A bill that has been before India's Parliament for the past several years would increase the amount of foreign investment Indian insurers could accept from 26% to 49%, permit insurers greater access to the capital markets, remove the cap from agents' commissions, currently fixed at 40% of first-year premium, but would require additional commissions to come from pooled fund assets for shareholders.

The Cabinet Committee on Economic Affairs approved this bill earlier this year, and at the time of writing, it was likely to be presented to Parliament for approval.

Bancassurance a growing channel

A third element is that banks have been and continue to be the partner of choice for India's insurers seeking to enhance distribution volume.

Recent research from Towers Watson shows that banks and agents produced approximately the same volume of individual new business premium from April to December 2012 (the latest year for which a figure is available) – each about 40% of the total. On the group side, direct sales by private insurers accounted for 70% of new business premium. Agents produced less than 10%, and banks, approximately 15%.

This is generally seen as positive: as in most other countries, the sizable and growing cohort of bank customers is attractive, and in India, is being strengthened by the government's Jan Dhan Yojana initiative, which looks to increase awareness of banks and bank account penetration. Indeed, since its introduction in August 2014, more than 45 million new bank accounts have been opened. And India's private insurers are continuing to court banks actively as distributors and equity partners.

Insurers look to other channels too

There are, however, always risks in placing all of one's eggs in one basket, so to speak.

India's insurers are wisely exploring ways to strengthen and enhance their direct and Internet marketing frameworks, so as not to be completely dependent upon banks as distributors, and are creating and developing simplified products for high-volume distribution that can be priced, underwritten and sold cost-effectively.

Good growth potential for life insurance

Growth potential for India's 24 life insurance companies is still seen as strong, due to India's fast-rising insurable (ie middle-class) population and the still-low penetration rate for protection products. Individuals are entering this cohort, at 250 million today by some estimates, at a rate of approximately 25 million (2.5 crore) annually.

By 2020, industry observers believe India will have the third largest amount of purchasing power in the world, and by 2030, India's purchasing power will surpass that of China and the US, to be the largest in the world. With more disposable income, these individuals will increasingly be able to purchase life and living benefits products.

This, however, does not necessarily mean the industry's future is assured. Going forward, life insurance companies need to focus on determining how best to structure an operational and administrative framework so that innovative, low-cost and high-value products can be developed and distributed profitably while minimising fraud risk.

As distribution is generally one of the highest costs for an insurer, achieving higher distribution volumes while lowering its costs means insurers would do well to look at how to strengthen their existing high-volume bancassurance relationships and investigate and develop new alternatives.

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