

INSURANCE SECTOR REFORMS - A ROAD MAP TO HIGHER INSURANCE PENETRATION

The insurance sector reforms kicked off in the year 2000 as a part of globalization, of course, transformed the domestic insurance industry into a vibrant field. This field now witnesses cutthroat competition amongst the players in regard to pricing, scope and terms of insurance coverage. The situation evolved out undoubtedly provided insurers with sufficient opportunity for proper risk underwriting and for the insuring public, it bestowed the advantage of ready availability of innovative insurance covers at affordable price and with attractive value additions.

The liberalized insurance industry is now witnessing a flurry of activities. The mood in the corridor is upbeat and is full of high expectations. The entire complexion and strength of the sector have undergone significant changes by now. The domestic insurance market is no more a nascent sector as it was in the early 70's. The industry that has attained a reasonable level of maturity during post-nationalization period is now on a high growth trajectory. It now boasts

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of many innovative customized insurance covers and an army of intermediaries and insurance practitioners working in unison.

The Authorities by meticulous scanning have ensured that the sector is free from fly-by-night entities. The new players who have entered into the field are the conglomerates of high repute and majority of them also enjoy the synergy with key international insurers. The insurance sector presently has 25 Life Insurance Companies and 27 General Insurance Companies including 4 stand alone Health Insurance Companies.

Besides, more than 300 Licensed Insurance Brokers, a huge army of Insurance Agents/Advisors and Corporate Agents vie with each other to cater to the insurance needs of general public. Insurance Brokers and Corporate Agents are new entrants who were granted licences by the Authorities after the opening up of the industry. While the Agents and Corporate Agents sell the products of one non-life insurance company, one life insurance company and one health insurance company, the insurance brokers are authorized to sell the products of all insurers. In fact

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Insurance Brokers are appointed by the customers to handle their insurance portfolio. Once mandated by a customer, the Insurance Broker has the onerous responsibility of rendering all insurance related services including claim servicing and insurance education to their client. The industry also has other professional intermediaries such as Insurance Surveyors, Third Party Administrators (TPAs) and Web Aggregators who are licenced by IRDA.

The Insurance Surveyors or Loss Assessors were already in the field providing their professional services in respect of valuation of assets and assessment of losses. After the opening up, the category of professionals known as TPAs who are licenced by IRDA came into existence. TPA's responsibility is to provide efficient claim servicing on behalf of insurers in the matter of health insurance claims. Web Aggregators are another category of licensed service providers who are authorized to generate leads or act as referrals for insurers.

The life insurers have introduced a number of innovative insurance covers designed to attract diverse target groups. The different products that are sold by life insurers are (a) Term Life Insurance (b) Whole Life Insurance (c) Endowment Insurance (d) Money Back Insurance (e) Children's Insurance (f) Annuity & Pension Scheme (g) Loan Cover Insurance (h) Unit Linked Insurance, (h) Key Man Insurance, etc.

Though many of these are traditional covers, they have now innovative features such as significant value additions, attractive riders and greater cost effectiveness. For example, some Term Life Insurance covers are with riders or add-on covers like critical illness, accelerated sum assured or accident benefits. Whole Life Insurance cover has an added feature providing for payment of certain amount at agreed intervals.

The non-life insurance industry on the other hand has entered into an era of completely tariff-free régime. The advent of 2008 has brought about significant and far-reaching changes in the non-life insurance sector with the result that the industry now enjoys full freedom from administered pricing mechanism. Not less than 3000 products are already in the non-life insurance market. While Non-life Sector has been growing at a Compound Annual Growth Rate of 20% during last decade, major contribution came from Health and Motor Insurance segments.

The industry completed a premium income of Rs.69000 crores in the year 2012-13 of which 62% relates to Motor and Health Insurance premia. This is the sector where a number of customer-centric innovative insurance covers are found to be in vogue. Here are few examples:

(a) For industrial manufacturing sector, new Package Policies designed to cover various risks which till recently were covered by separate policies, have been introduced.

(b) Sales Turnover Policy is an excellent innovation in Marine Insurance segment. The policy in this case is issued for a period of one year charging the premium on the basis of Estimated Annual Sales Turnover of the Corporate. No declaration of despatches as in the case of Declaration Policy are required to be submitted to the insurer. The risk cover under this policy encompasses all transactions such as incoming raw materials (imported and indigenous), stores, spares, etc., despatches of finished goods, all inter depot/unit movements of goods and exports. Capital goods are however not covered under the policy. This policy is suitable for the business which has huge turnover involving numerous transactions. The cover is cost effective since the premium is charged on Annual Sales Turnover is only and easily manageable as there is no need to declare each and every sending to the insurer.

(c) Motor Insurance Policies now a days provide a number of additional benefits to the insured. For instance, add on covers namely, "Nil Depreciation" cover, Engine Protection cover, Return to Invoice cover, daily cash allowance, hydraulic lock cover, etc. are very popular amongst the insuring public.

(d) In the Health Insurance Category, several new innovative customized products have been launched. The policies have been designed to suit the requirements of different sections of the society. There are many value additions such as hospital daily cash allowance, lifelong renewal facility, critical illness cover, restoration/recharge of sum insured, etc. Top Up policies and Excess Policies are the recent innovations. These policies provide for payment of medical expenses in excess of the amount payable under the primary policies. These policies are extremely cost effective in comparison with that of an additional standard health insurance policies.

According to National Council for Applied Economic Research (NCAER), the Indian middle-class consisted of 57 million individuals and in 2009-2010 the number had grown to 153 million individuals. The "Great Indian Middle Class" owns 49 per cent of all cars and 53 per cent of all Air Conditioners (NCAER Report 2009-10). While life insurance sector has benefited to certain extent by the prosperity of the middle-class, in as much as the people have started accepting life insurance products as instruments for financial security, non-life insurance is yet to enter the wants list of this section of the population.

A study of the consumption pattern of the upper middle class shows that this section of the society is really reaping the dividends of country's economic reforms. In fact, this flourishing class of the society is the real growth engine for insurance industry. As per a joint Research Paper of CRISIL & ASSOCHAM, country's non-life insurance penetration is 0.7% of GDP as against world average of 2.14%. In Life Insurance sector, the number is 3.4% of GDP (source:IRDA Annual Report 2011-12). The root cause of such abysmally low insurance penetration in the country can be traced to lack of insurance awareness among the public.

Also, the fact that the activities of all industry players so far confined only to cities or big towns cannot be ignored. Indian insurance market is overly sensitive and seriously apprehensive. The blatant mis-selling of insurance products indulged in by Life Insurers causing humungous financial loss to the unwary customers is still fresh in the minds of the people. To add to this, multiplicity of products in the market and the cacophony produced by claims and counter claims by the stake holders created more confusion with

the result that an essentially unwilling customer developed a sort of negativity towards insurance products.

Nevertheless, an insurance product being what it is, it is not practical for general public to study and choose a right insurance cover without the help of an expert insurance practitioner especially in a situation where numerous products with different features are in the market. With a view to improving this situation, emphasis is now laid on issues of paramount importance such as the need for providing Product Information to the prospects, provoking proper "sales talk" before closing sale of insurance products, inspiring the idea of risk perception, encouraging informed buying of insurance products, etc.

The Authority has also taken various measures such as bringing out Policy Holders Protection of Interest Regulations, standardization of terms used in insurance policies, introduction of free look period, Health Insurance Regulations, etc. which will go a long way in building up customer confidence. The proposed hike in FDI to 49% will also give the necessary fillip to the fast growing insurance industry.

Initiatives by insurers and intermediaries are already afoot to connect to the large section of the cash-rich urban household and rural middle-class who would help achieve accelerated growth and thereby a higher insurance penetration. The insurance sector reforms will prove really meaningful when the mindset of the major, uninsured or inadequately insured but insurable population could be changed so that they show the enthusiasm to buy insurance protection as one of their necessities.

From Sashi Publications / The Insurance Times - 2014 Edition Launching by 1st Week of February 2014

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