



CHALLENGES AND OPPORTUNITIES OF INDIAN LIFE INSURANCE INDUSTRY

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ABSTRACT

Life insurance mechanism helps in provide pecuniary value replacement to the family members in case of unexpected happens to insured. Life insurance helps in spur the economic activity and development activities by covering the individual risks and providing funds for long term. In last fifteen years after the entry of private life insurers, Indian life industry penetrated drastically and stands one among top ten markets in terms of total premiums collected and per capita premium is at par with developed countries. The growth rate is encouraging and when it compared to potential of the market it is trivial, this is due to challenges the industry has to overcome to exploit the opportunities it had. This study discusses the nature of the life insurance mechanism, functions of the life insurance, challenges and opportunities of the industry

KEY WORDS: Insurance, Challenges, Opportunity, Technology, Customer awareness.

1. INTRODUCTION

Life insurance is a mechanism by which the loss of a few is shared by the large number of persons, who are exposed to same type of risk. Here every individual contribute small sum of money, called premium and it serves as safety net in the unfortunate event of the loss of the family income earner. The mechanism in arranged and taken care of by insurance company in the form of insurance contracts offered at competitive prices (Mishra, 2006).

Indian life industry has been growing slowly and steadily led by LIC of India and after the sector opened for private sector in 2001, many private insurance companies with their foreign partners are operating. The entry of new companies benefitted the customer with new products and services, and customer awareness towards

the insurance has been gradually moving in a positive way. The significant growth of the industry in last fifteen years and to this day covered five per cent of the population. The per capita premium is at par with developed countries, and still there is lot to do. As most of the Indian population does have bank accounts with nominal insurance coverage, and the proper risk coverage of an individual is still a daunting task and opportunity to exploit. Today, life insurance market is shared between twenty-four life insurers including market leader, public sector giant Life Insurance Corporation of India; the industry has challenges and opportunities to be explored.

The nature of insurance business is unique, compared to other financial services. It is a process, where customer shares his knowledge to buy the insurance

coverage with small sum of money, after assessment is done and suitable benefit is ensured, with auxiliary benefits provided to customer. This character makes significant effect on the business growth, which is balanced by providing insurance coverage to large number of people.

Function(s) of Life insurance industry:-

Insurance provide security mechanism to a person, from contingencies and covers the risks to obtain financial security at a lowest price. It provides a safety net in the unfortunate event of the loss of an income earner for the dependents. Risk is generally imminent, for every individual in pursuit of growth; this mechanism acts as a cushion in the process and plays pivotal role in stabilization. It is an efficient system of providing savings and security. The insurance company collects premiums from large numbers, who are exposed to similar risk. By innovative products the life insurance system are meeting various customer needs. The pooled money are used for promoting business, industries and developmental activities. The combination of insurance and capital markets play vital role in mobilizing funds and investment expertise for development of the nation's economy (Sinha, 2005)

2.OBJECTIVES AND METHODOLOGY

The main objective of this paper is to focus on the Indian life industry's challenges and opportunities.

The methodology of the study is based on secondary data from various IRDAI journals, working papers, published books, websites etc.

3. CHALLENGES AND OPPORTUNITIES OF INDIAN LIFE INSURANCE INDUSTRY

A. Challenges of Life Insurance Industry:-

1. Customer Motivation:-

Insurance is long-term promise, which is realised on contingency. Motivating customer to buy and getting valid and useful information for is itself a unique task. The insurance firms have great challenge in terms of collection of customer's information, regarding the product and to offer other required products accordingly.

2. Insurance awareness:-

Though the number of insurers' increased, financial literacy and awareness in terms of understanding of products and services by customers is huge challenge. Early years of private life insurers resulted great expectations and lot of disappointments from the customer perspective. The customer anticipation has to be meeting by innovative means.

3. Persistency:-

Various distribution channels are being used to acquire customer but persistency ratio, which says customer staying with company, to the end of expiry period as per contract still a challenge. The insurance firms are facing great challenge in terms of persistency, and in collecting renewal premiums (Krishnamurthy, 2004).

4. Right selling:-

Inadequate knowledge and unethical practices by some insurance advisors, the same portrayed in negative manner in public, plays a greatest stumble to overcome skeptical consumers. However, insurance regulator, and industry taking various measures to contain the mis-selling, insurance selling is a great challenge compared to other financial services sales (Halan et al.2013).

5. People factor:-

The people factor plays a pivotal role in the industry. Though eligible and skilled population is large, but dearth of right talent and attracting committed and quality talent for every level of management for this fast growing sector has been huge task. Availability of various jobs in different sectors and requirement of different mindset to self-motivate and perseverance for this industry is great challenge.

6. Diverse population:-

Marketing insurance products to diverse populations with different life style is major challenge. The customer mostly do not indulge in buying insurance voluntarily, in addition the evolving economic sector with new careers, short business cycles, changing food habits and morale of people are the key factors the industry to cope with (Gopalkrishna.G, 2009).

7. Information era:-

People discuss products and services on social media reviews and comments about companies and their workings. Now companies have risk of single negative review can have huge effect on theirs brand's reputation. As information is easily available at customer end, the company and its people have to be consistent and assure the customer all the way, this is a challenge to every insurance firm.

8. Rating criteria:-

Any of the Indian life insurers is yet to be rated by rating agencies, for the customer to pick one of them is a challenge. However, individually insurance firms are using reputed rating organisations to evaluate in different criteria. It may take some more time to give ratings on par with developed markets for this long-term oriented industry.

9. Advisors:-

Majority of advisors are mostly part timers, motivating them to become true professionals is a big challenge for this industry. Recent changes and freedom given to insurance firms in acquisition of advisors, the changing role of advisor from company and customer perspectives moreover continue to generate business is a daily test for him.

10. Other than term covers:-

The basic purpose of insurance is for protection but even today, most insurance sales happen with perception of tax planning and investment instrument. Indian insurance professionals to this day do not start the customer relationship with providing pure risk cover coverage, i.e., term cover, added with negative perception of customer in this product is the reality to confront with (Krishnamurthy et al. 2005).

B.Opportunities for Life Insurance Industry:-

India ranks in top 10 life insurance markets, penetration of insurance in single digit gives vast scope to penetrate and serve the customer.

1.Majority of young population:-

The majority of India will be of working population 795.5 million by 2025. Rise in number of professionals, emergence of prosperous middle class and increase in awareness leads to rise in demand for insurance. Increasing per capita GDP is a huge opportunity for insurers with their varied products in every segment.

2.Lot of potential:-

Increasing urbanization of rural areas and growth in new bankable households are of great opportunity for insurers, to offer customized life insurance products (Negi & Singh, 2012). Though increase in number of insurers over last fifteen years, and yet to insure more than 50% of insurable population of India, shows still there is lot to do.

3.Different products to offer:-

Increase in life expectancy of individual, favorable savings and employment opportunities in private sector gives greater demand for pension plans. Majority of employees have no formal pension system to choose from, thus greater opportunity to insurers.

4.Rising income levels:-

Globalisation and economic reforms in the country have the raised people's income levels

and Indians naturally good at saving for future needs, gives great opportunity to insurers. The insurers channelize the savings into innovative insurance and annuity plans.

5. Technology:-

Technology has been great boon for the insurance industry in boosting infrastructure for growth, scalability and reach in every sphere (Cummins & Santomero, 2002). New generation employee's are keen in discussing products and services on social media reviews and comments about companies and their products. Companies have lot of scope to offer their present and future customers by this media.

6. Customer expectations:-

Competition among various distribution channels leads to fall of premium and help to improve customer service standards economically. In terms of Customer service there is a lot to do by insurance firms, as increase in channels, expectations of customers will increase (Krishnamurthy & Cotham, 2009).

7. Distribution channels:-

With the spread and depth of various distribution channels would help greatly in expanding footprint of the life insurance industry. The traditional mode of selling insurance is slowly changing, today most of the insurance firms are using data collected by distribution channels and exchanged with other financial service providers to provide customized products.

8. Innovative process:-

After fifteen years of private life insurers in the field, there is drastic change in terms of people perceptions regarding insurance firms and their services. Joint ventures with seasoned insurers will help to share their knowledge; processes will help to bridge the huge gap in insurance penetration.

SUGGESTIONS/Steps needed to be initiated by Indian Life Insurance Industry:-

Indian government had taken adventurous decision, by inviting private companies in insurance sector, subsequently passed Insurance Regulatory and Development Authority Act in 1999, and IRDA listed regulations for life insurance organisation's operations. In spite of so many regulatory guidelines involve changes like downsizing the mediator commission, tightening

advisor recruitment process and mandating Plan Benefit illustrations, alas to this day industry is struggling with lot of problems. These steps are not able to bridge the gap between customer expectations and Insurance Company processes. Regulator has to take solid steps to regain the customer confidence on Life Insurance.

- **Advisors Knowledge Level:** There is no proper periodical assessment on insurance advisors knowledge levels. Currently the prospective advisors need to clear very simple exam to become a Life Insurance Advisor. After that no knowledge upgrading program is mandated for an Advisor. Very few companies are implementing regular training interventions to Advisors. It is irony, to believe some Life Insurance companies do not have Training Department at all. IRDAI has to frame stringent norms on Advisor Education program. Even mis-selling can be controlled because of this factor.
- **Simplicity of Plans:** Even today people are in confusion state on Insurance plans, and not able to understand difference between normal financial deposits in other financial services and Life Insurance plans. So regulator need to frame some norms to develop plans in a simple way.
- **SOPs (Standard Operating Processes):** Every company have their own way of designing proposal form. This leads to confusion on filling up and even understanding plan. To overcome this problem regulator can design standard format for all companies and even select some special colours for Traditional and ULIPs.
- **Leveraging Technology:** Life Insurance companies need to develop digital distribution platform to sell Life Insurance. Tab based sales, Selling through the app (Selling through mobiles) are some of innovative ways to go forward. Technology usage can helps to curb mis-selling.
- **Reaching to Rural:** Majority of India lives in rural area, to reach them insurance companies has to create simple, suitable, and affordable plans to rural segment. At present, majority of companies running behind big premiums only, and rural business limited to meeting the mandatory norms of regulator.
- **Focusing on Women Segment:** According to IRDA Insurance Report 2011, proportion of women insured among total is insured is 20%. There is lot of vacuum in women segment. Need to develop specialized plans for women. This is going to enable women financial empowerment too.

CONCLUSION

The life insurance industry consists of private insurers in their teens and public sector giant, has unique challenges and untapped opportunities to exploit, the insurers steadily getting customer's acceptance nevertheless various initiatives are expected from industry and customers perspective, the two key stakeholders of this industry. Insurance regulator can take measures viz., to monitor the knowledge levels of the advisor, the pivotal cog in the insurance process of traditional distribution channel; Simplicity of insurance products that can ease to customer to understand the deposit products and insurance plans; Standard operating processes ease the filling up and understanding the plans. The present opportunities can be optimally utilized by the industry by leveraging technology, reaching the rural India as FMCG companies strategized their business at bottom of pyramid, and focusing on women population with customized products, as aspirations and income levels are in constantly improving.

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