Insurance industry is expected to reach US$ 350-400 billion in premium income by 2020, making India amongst top 3 life insurance markets and top 15 non-life insurance markets, says FICCI-BCG Report

New Delhi, April 9, 2011: A Federation of Indian Chamber of Commerce and Industry **(FICCI)** and the Boston Consulting Group **(BCG) report titled '*India Insurance – Turning 10, Going on 20*'** reveals that the insurance industry will continue to outpace the rapid economic growth to reach US$ 350–400 billion in premium income by 2020, making India amongst the top three life insurance markets and top 15 non–life insurance markets by 2020.

The report states that the total penetration of insurance (premium as percentage of GDP) has increased from 2.3 percent in 2001 to 5.2 percent in 2011. In addition there has been a vast increase in the coverage of insurance. The number of life policies in force has increased nearly 12–fold over the past decade and health insurance, nearly 25–fold. This progress has been aided by the dramatic shift in the availability of products, for example: better term, ULIPs, whole life, maximum NAV guarantee, auto assistance, auto pay per km insurance, disease management, wellness, etc.

The report will be formally released at the 14th Insurance Conference in New Delhi on Monday.

"The report highlights the importance of insurance in India's economy, the progress made in the last decade, key challenges associated with the sector and an action agenda for insurance companies and the Government", said **Sandeep Bakhshi, Chairman, FICCI's Insurance and Pensions Committee and Managing Director & CEO, ICICI Prudential Life Insurance Co Ltd.**

Progress has been made on the channel front with the emergence of five distinct channels — bancassurance, broking, corporate agency, direct and auto dealers to complement the existing third party agency and in–house salaried sales force. Along with the emergence of multiple channels, the distribution reach has increased manifold, nearly 6–fold for life, and 1.5 times for non–life. During the same time, the Indian market has evolved from a monopoly to a truly competitive market.

According to **Dr. Rajiv Kumar, Director General, FICCI**, "The report estimates the total insurance premium at approximately INR 17 lakh crores to INR 22 lakh crores in 2020 (with life being INR 15 lakh crores to INR 20 lakh crores). This massive growth will have a significant impact on India's ranking in the global insurance industry and is based on strong fundamentals."

"While the industry has come a long way over the past decade, the big challenge with the industry is profitability. Private life insurers have accumulated losses of over INR 16,000 crores till March 2010. Similarly, the non–life industry has cumulative underwriting losses of nearly INR 30,000 crores", said Alpesh Shah, Partner & Director, BCG India and author of the report.

There are multiple elements that contribute to this profitability challenge for insurers:

- Agency is looking for the elusive profitable operating model, for both life and non–life insurers.
- Economics of all other channels are also challenged, be it bancassurance, brokers, auto dealers, corporate agency or in–house salaried sales force.
- Insurers' fascination for top line growth at any cost has resulted in inefficient operating models and hence inferior opex ratios as compared to global benchmarks, in both life and non–life.
- The claims cost in the case of non–life are very high arising from four key reasons — third party liability claims, health loss ratios (group health cross subsidy), fraud in the case of auto and health and lack of supplier (hospital/garage) management by insurers.
- There is limited focus on the end customer and the intermediary is being given a more prominent position by insurers, with insufficient focus on maximizing value from existing customer.
- Lastly, the recent regulatory changes on commission caps, caps on surrender changes and minimum guarantee return for pension products have turned the world upside down and tightened insurer margins.

The report also defines a six-point agenda for life insurance companies:

1. Fix the agency operating model
2. Build strategic, long term non agency partnership
3. Incubate, experiment and develop alternative channels
4. Develop a customer centric operating model
5. Target customer / product white spaces
6. Go lean — "lean is in"

Similarly, for non–life insurers, BCG has also defined a six-point agenda for the path to a sustainable profitable business:

1. Create optimal product portfolio

2. Innovate to target product/customer white spaces

3. Move towards risk based pricing

4. Develop next generation claims management processes

5. Go direct — build alternate channels for retail products

6. Define and enhance agency sales force operating model

“The report also highlights that the Regulator/Government has a key role to play in enabling the journey of the insurance industry through the troublesome teens to sustained profitability”, added Alpesh Shah.

The regulatory / government agenda will need to cover:

1. Relax ownership norms

2. Define IPO norms

3. Enhance banca distribution through multi tie–ups

4. Enable “direct” channel

5. Refine outsourcing guidelines

6. Enable electronic statements of insurance

7. Refine investment norms

8. Define flexible norms to enable Indian insurers to go international

9. Build depth in debt / bond / derivative market

10. Ensure appropriate taxation policies

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About FICCI

Federation of Indian Chambers of Commerce and Industry (FICCI) is India's apex chamber representing over 500 industry associations and over 2,50,000 business units — small, medium and large — employing around 20 million people. FICCI works closely with Central and state governments and regulatory bodies for policy change.

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