FICCI

India General Insurance "Vision 2025"

Towards an inclusive, progressive and high performing sector



October 2013

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Foreword



Dear General Insurance practitioners and interest groups,

The General Insurance industry in India is at a critical juncture of its evolution. We have grown at close to 20% over the last 5 years and reached an annual premium of ~₹ 70,000 crore in the fiscal year 2013. However, penetration levels are low, leaving much scope for growth.

The business environment for the industry has been challenging, given the overall slowdown in the economy, weak investment stream and the changes accompanying the de-tariffed regime. The industry is burdened with growing underwriting losses as claims ratios are well above international benchmarks.

However, a number of positive developments have also taken place during these turbulent times. Retail lines have seen strong growth in the recent past as customers are becoming increasingly aware of the benefits of general insurance. With companies already having weathered the impact of Motor Third Party Pool, the outlook for the industry in the future is largely positive.

The road to profitability would require players to reassess all aspects of their business models from pricing, products, risk management, customer acquisition and distribution. Progress would undoubtedly require concerted efforts by the players to become globally competent in claims and operations.

With this backdrop, we embarked on an exercise to define a long-term vision for the General Insurance industry in India.

For the industry to become inclusive, progressive and high performing in the future, we partnered with McKinsey & Company to build a fact-based view on the current state of the industry, the key trends that will shape it in the next decade and, therefore, its potential evolution. As an industry, we have also laid out an aspiration which is true to our potential and the path that we will take to get there.

I would also take the opportunity to thank key supporters without whose help the report could not have materialised. I thank each of my CEO colleagues for taking time out and sharing their views on industry evolution and the key changes required. We also received tremendous support from our distribution partners, the provider network, our reinsurers and the regulatory bodies. Specifically, I would also like to thank the IRDA for their valuable inputs and support in the development of the industry vision.

We hope you find this report insightful and engaging.

With best regards



Bhargav Dasgupta
Co-chair, FICCI Insurance Committee

Executive summary

The General Insurance (GI) industry in India has evolved significantly over the last decade and is now at a watershed in its development. From a ₹ 12,000 crore top-line industry in 2001–02, today it is worth ₹ 70,000 crore, clocking an annual growth rate of 17%. The industry today provides a cover of ₹ 1,000 lakh crore, which by itself is a huge testament to its importance to the economy.

While the last few years have been challenging for the industry's profitability, the industry holds significant potential, both from the perspective of growth and value creation. However, to meet its full potential, India's GI industry will require a concerted effort by all the stakeholders. This report paints a picture of the aspirations of the GI industry and what it will take to realise the vision.

Role and importance of insurance

GI is a major contributor to the country's economy. It effectively pools and transfers risk from individual and corporate consumers, thus encouraging investments and driving GDP growth. It supports the government and society by reinvesting funds and sharing the cost of catastrophes. The industry is also a major contributor to employment.

- Detailed analyses show that GI is a strong driver of GDP growth. A one standard deviation increase in GI penetration induces a per capita GDP growth of 0.39%. This is superior to the growth induced by private credit (0.34%) or life insurance (0.37%).
- GI industry in India employs around 7 lakh people both directly and indirectly.
- The industry supports the government and society by reducing the financial burden of social welfare and sharing the cost of catastrophes. The insurance sector contributed 11–12% of total losses over the string of natural catastrophes in India (e.g., it contributed ₹ 10–12,000 crore across floods in Mumbai in 2005, Surat in 2006 and Uttarakhand in 2013). Further, the sector as a whole has invested 35% of its total assets in government securities.
- The GI industry has also played an unparalleled role in creating access to financial services and to protection. Supported by the largest health insurance programme globally, the industry prides itself on having added over 300 million beneficiaries in a short span of 4 years. Further, a majority of the beneficiaries are from the below-poverty-line segment, which goes a long way in contributing to the policy objectives of universal financial inclusion.

Current position of General Insurance in India

The GI industry's performance is influenced significantly by the interplay between various related elements—customers, the individual insurer's capabilities, the industry acting in collaboration and external stakeholders such as policy makers/regulators and other related stakeholders (e.g., reinsurers, third-party administrators, healthcare and motor insurance providers). This interplay shapes industry performance and determines how it fares on its three core objectives–providing universal access and coverage; returning value to shareholders; and ensuring a superior experience for customers. An assessment of the current position of the industry indicated that it has some way to go in terms of performance against these three core objectives.

1. Providing universal access and coverage

A detailed micro-analysis of underlying needs and risks indicates substantial scope for improvement in penetration and access across segments. For example, home insurance penetration is less than 1%; there is significant underinsurance in segments such as two-wheelers and personal health; corporate (property and indemnity), SME and rural risk coverage is substantially lower than global benchmarks. Further, the total economic losses due to underinsurance are estimated to be close to ₹ 150–200,000 crore.

2. Delivering returns to shareholders

India has the highest combined ratio compared across developed and developing economies and time periods. This has been largely driven by

substantially higher claims ratios. As a result, the industry has delivered poor returns to shareholders. Barring a few exceptions, the returns have been lower than 15% (i.e., below cost of capital) even in the tariff era. Returns post detariffication (2007) have largely remained in a single digit even after adjusting for TP (motor third-party) pool losses. While the average economics have been poor, there is huge spread in industry performance, with a few players earning substantially higher returns than the rest of the industry, driven almost entirely by superior underwriting performance.

3. Ensuring superior customer experience and building loyalty

GI industry in India has shown considerable improvement on customer service and experience (while only 60% of claims were settled in 1 month, customer grievances have dropped significantly from 2,800 per million policies in FY10 to 1,100 per million policies in FY12). Even on a relative basis, the industry has performed better than other financial services. Complaints are lower compared to banking (~3,500 complaints per million SA), asset management (~1,800 per million folios) and life insurance (~1,200 per million policies).

Even on this dimension, there is substantial dispersion in performance across players, with the best players performing up to 5 times better than the industry average, and about 30 times better than the bottom quartile performers.

The 'report card' of various inter-related elements which influence industry performance reveals mixed results:

- **Customers:** Customer awareness and involvement is increasing. However, there remains a trust deficit between the customers and the industry participants, leading to relatively low loyalty and highly transactional price-driven relationships. This behaviour is also leading to underinsurance, particularly among SME customers, who may buy a risk cover of as low as 20% of asset value to bring down their upfront insurance spend.
- **Individual insurer capabilities:** Players have significantly improved the operating model and made progress in upgrading their product and distribution capabilities; however, there is a large gap vis-à-vis the desired best practice on core "technical" capabilities (claims and underwriting), with significant spread across players.
- **Industry conduct:** Over time, the market has opened up and seen the entry of new players, which has increased competition and choice for customers. However, competition has largely remained price driven, with limited focus on creating new capabilities. As an industry, there has been a high degree of collaboration in areas like dismantling pools, articulating the need for more consistent product and distribution reforms and creating entities such as the Insurance Information Bureau (IIB). However, there is opportunity to do more in terms of raising the industry profile, defining common standards and self-regulation mechanisms, and building more industry-wide utilities.
- **Regulatory interventions:** Over the last decade, regulatory interventions have helped open up the industry, foster more competition and largely benefited the industry. However, there remain several areas to be addressed—particularly on issues of distribution, product, pricing and solvency reform.
- **Other industry participants:**
  - **Reinsurers:** India continues to attract capacity from global reinsurers, particularly on casualty and specialty lines of business (while witnessing a reduction in higher rated capacity on property lines); however, the lack of local presence of global reinsurers has inhibited the market from getting access to the best talent and expertise.
  - **Providers:** Relationship of insurers with motor and health stakeholders (i.e., OEMs/ repair shops and providers) is relatively poor, with limited progress made in some pockets.
  - **TPAs and surveyors:** Capabilities of the Third Party Administrators (TPA) and surveyor industry are low and remain a big area of concern.

Key trends shaping General Insurance over the next decade

The GI industry in India will be shaped by trends and discontinuities across four themes over the next decade. These themes are—global forces; consumer behaviour and expectations; demand–supply dynamics in related sectors; and macroeconomic factors.

1. Global forces impacting India's insurance industry

- Emerging Asia—mainly China, India and Southeast Asia—is expected to become the most important playing field for global insurers. These countries will account for around 35% of total growth. This will result in heightened competitive interest from a range of foreign insurers, who look to India as a major source of growth.
- Continued high bar on "technical excellence" with "winners" pulling away further and capturing disproportionate share of industry value.
- Technology discontinuities (Big Data, Mobility, Social Media, Cloud) which will allow for more sophisticated business models to emerge.
- Increasing complexity of risks driven by an ageing population, lifestyle changes, climate changes, new types of coverage.

2. Changing customer behaviour and expectations

- Increasing consumer awareness and involvement.
- Blurring boundaries between the online and offline world, with demonstrated multi-channel behaviour, e.g., 60–70% of online users conduct digital research before purchasing any financial services product; two-thirds change their mind about the product and brand after online research.
- Emergence of various segments of customers with different needs and expectations, requiring the development of a finer customer centric approach. Customers increasingly expect a solution oriented approach rather than a claim-linked transactional approach, e.g., cover for entire healthcare needs and not just IPD claims.

3. Shifting demand–supply dynamics in related sectors

- **Healthcare:** Rapid increase in healthcare spend and formalisation and corporatisation of provider space will lead to new opportunities.
- **Auto:** Pressure on core sales margin and ageing of car PARC will result in heightened focus of OEMs/dealers for insurance pools.
- **Corporate sector:** Globalisation, organised retail and infra spending translate into significant GI opportunities; continued importance of SME.

4. Macroeconomic factors

- Uncertain and volatile macroeconomic outlook will temper near-term growth and investment return; it will necessitate building resilient business models.
- Wage cost squeeze and talent crunch (especially for technical skills), compounded by increasing attrition.

Scenarios for the future

The future direction of the industry will be shaped by the interplay of various stakeholders —the individual insurers' efforts to upgrade their capabilities, industry conduct and level of collaboration, and external influence, in particular the policy actions.

In this context, there are three potential evolution paths/scenarios for the industry:

Status quo: In the "status quo" scenario, a few insurers will focus on initiatives to build holistic capabilities across the value chain. However, capabilities for a large part of the industry would continue to be low and industry conduct will remain

poor. Further, the policy environment would be largely conservative, with few enabling actions. As a result, in this scenario, the outcome would be one of "unfulfilled" potential. The industry would grow at a CAGR of 13% and reach a size of ~₹ 3,00,000 crore by 2025. However, the industry CoRs would remain high (~110%), resulting in single digit RoEs and value creation will continue to be negative.

As a result of underperformance, the industry as whole will require fresh capital to the tune of ₹ 40–45,000 crore, with a bulk of this required to recapitalise a few weak players.

In the scenario above, if economic recovery is accelerated over the next 2–3 years, the industry would benefit from both higher growth and higher contribution from investment income. However, due to limited effort to build skills and capabilities and improve industry conduct, the impact would still be moderate – 14–15% growth to reach a GWP of ₹ 3,50,000 crore by 2025; RoE in low double digits, continued negative value creation and high capital requirements of ₹ 25–30,000 crore.

Gathering momentum: To break out from this cycle and control its own destiny (as against being dependent on external economic conditions), the industry will require a combination of individual insurer efforts to upgrade capabilities and significant improvement in industry conduct and collaboration. Accordingly, the "gathering momentum" scenario will help the industry realise significant improvement in outcomes—growth CAGR of 15–16% translating into a total industry GWP of ₹ 3,90,000 crore by 2025; improvement in CoRs to 103–104% resulting in a total industry RoE of 13–15%.

In this scenario, the industry would require fresh capital infusion of ₹ 20–25,000 crore to fund the higher growth requirements.

Inclusive, progressive and high performing: For the industry to realise its true potential and achieve its vision of becoming an "inclusive, progressive and high performing" sector, there will need to be significant enabling policy actions to complement the industry and individual insurer actions. The upside of these actions will be substantial—GWP of ₹ 4,80,000 crore by 2025; substantially higher penetration levels (over 85% of motor vehicles covered; about 1 billion health lives covered; overall GWP to GDP penetration of 1.4%); industry CoR of 99–101% translating into RoE upwards of 20% and incremental value creation of ₹ 35–40,000 crore.

In this scenario, the additional capital infusion will be ₹ 10–15,000 crore primarily driven by significantly higher volume and growth. Further, the industry will witness significant demand for technical talent—over 1 lakh underwriters, claims assessors and surveyors will be required.

Agenda for action to build "inclusive, progressive and high performing" industry

Industry stakeholders will need to take a coordinated set of actions to help the industry unlock its full potential and realise its ambitious vision

1. Individual players need to drive initiatives across three axes of innovation:

- Build distinctive granular customer insights to capture high potential growth opportunities and enhance engagement across the customer lifecycle.
- Upgrade to next generation technical capabilities (claims, underwriting, analytics, and actuarial capabilities).
- Build world class operating models to achieve gains in efficiency while strengthening the human capital.

2. Industry-level initiatives required to further performance:

- Raise the profile of general insurance in the Indian ecosystem.
- Contribute in defining industry standards and protocols.

- Co-sponsor the building of common infrastructure (in concert with policy makers/ regulators) for fraud detection, claims management, skill building, etc.

3. Policy and regulatory initiatives that will help complement individual and industry-level actions:

- Foster innovation and deepen penetration through product and distribution reform, and create an environment to attract capital.
- Strengthen the industry structure through focused regulatory intervention and supervision.
- Enable and guide efforts towards a common industry infrastructure.
- Strengthen targeted initiatives to ensure consumer protection.

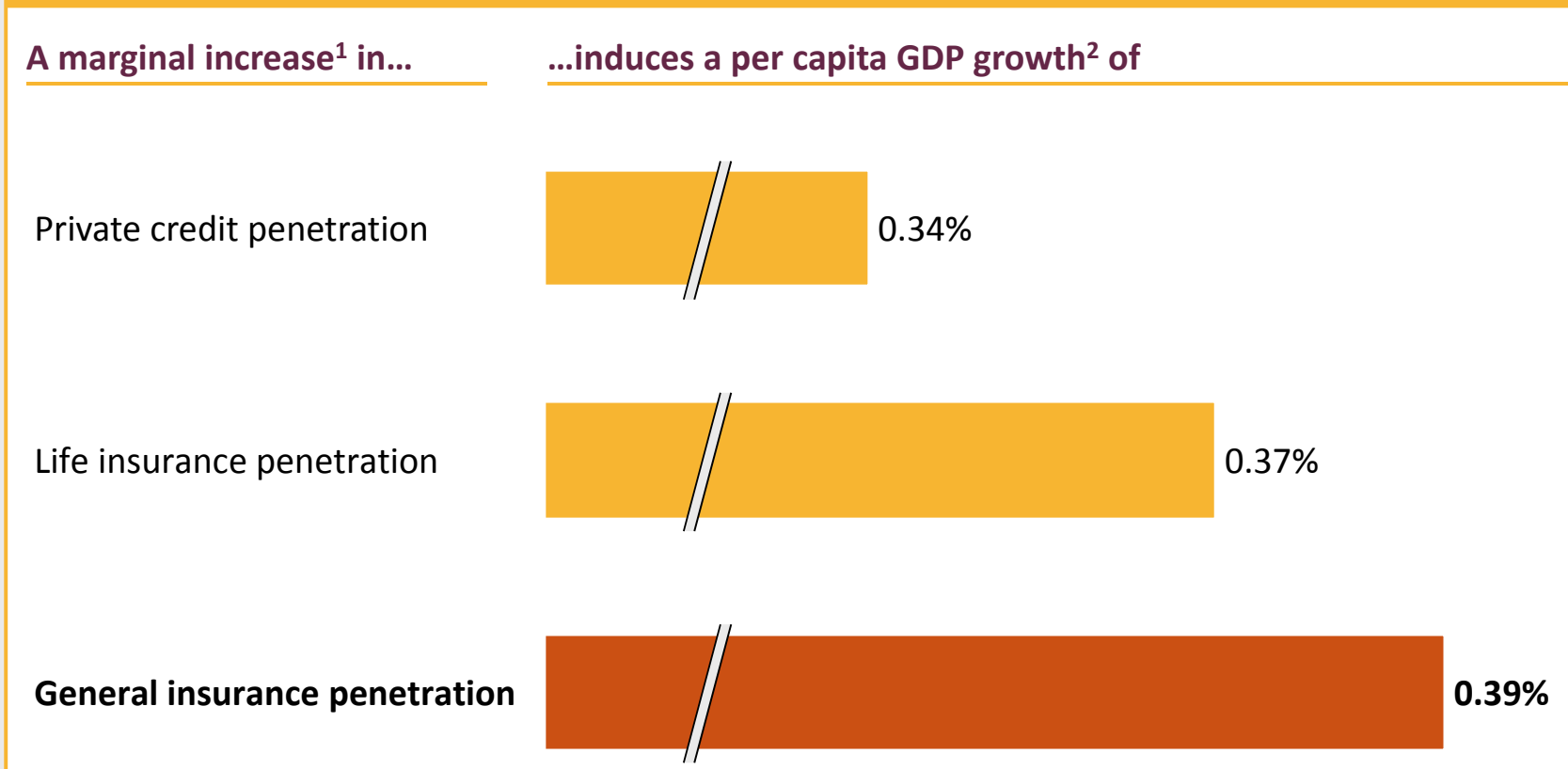


Chapter I
Role and importance of insurance

- **General Insurance significantly contributes to the economy and strengthens the financial system:**
  - — Drives GDP growth: 1 standard deviation increment in GI penetration induces GDP growth of 0.39% (higher than banking or life insurance).
  - — Contributes to the employment of ~7 lakh people, directly and indirectly.
- **GI supports the government and society**
  - — Unlocks government resources by reducing the financial burden of social welfare and security, and shares the cost of catastrophes (it paid ₹ 10–12,000 crore in recent catastrophes).
  - — Finances government activities by investing in government securities (~35% of total invested assets in government securities).
- **The industry protects individuals and enterprises against uncertainty, and increases social harmony and stability through the coverage of risks.**
- **The GI industry has created greater access to financial services and protection in recent years—over 300 million new beneficiaries added over the last 3 years and ~16 million claims paid in 2012–13.**

General Insurance is a strong driver of GDP growth

Growth in GI induces a superior GDP growth compared to other sectors



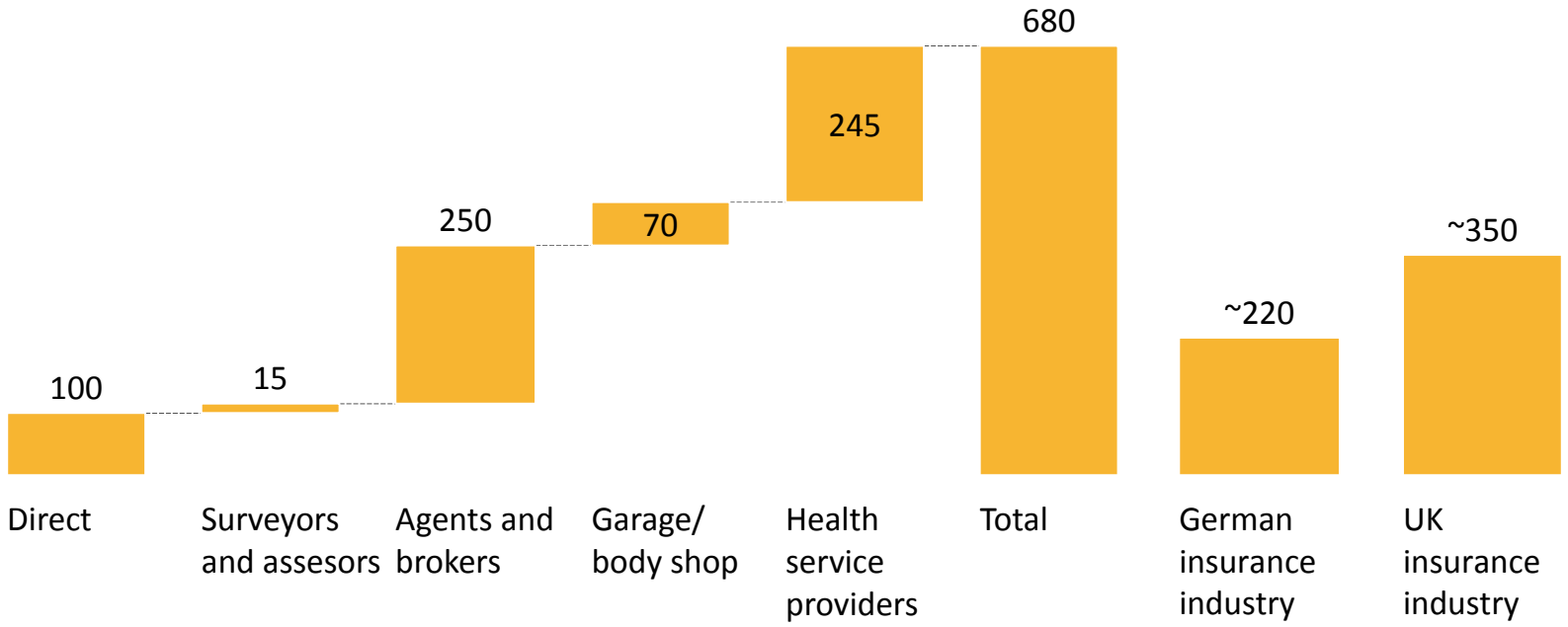
1 Defined as a one standard deviation increment in the penetration of independent variable (private credit, life insurance, or general insurance penetration)
2 Analysis of data for 56 countries over the 1976–2004 period

SOURCE: IHS Global Insight; 'Does insurance market activity promote economic growth?'; Marco Arena (2006), The World Bank

GI is also a major contributor of employment both directly and indirectly

Thousands of employees

GI contributes to salaries of ~7 lakh people in India and has potential for generating more employment



Assumptions:

1 Average income per agent ₹ 60,000 per year

2 Insurance supported employment at automotive parts and components sector based on assuming 10% of total claims paid for employee payroll and average salary per worker at body shop is ₹ 8,000 per month

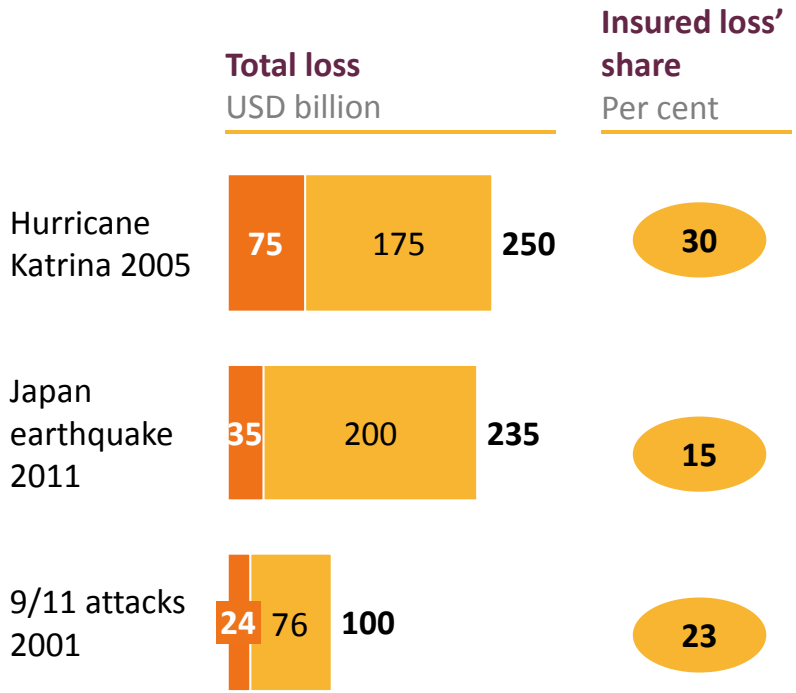
3 Insurance supported employment at hospitals assumes 86% private out-of-pocket expenditure, and rest by insurance

SOURCE: IRDA; annual reports of GI companies; McKinsey analysis

The industry provides economic stability to people affected by natural calamities

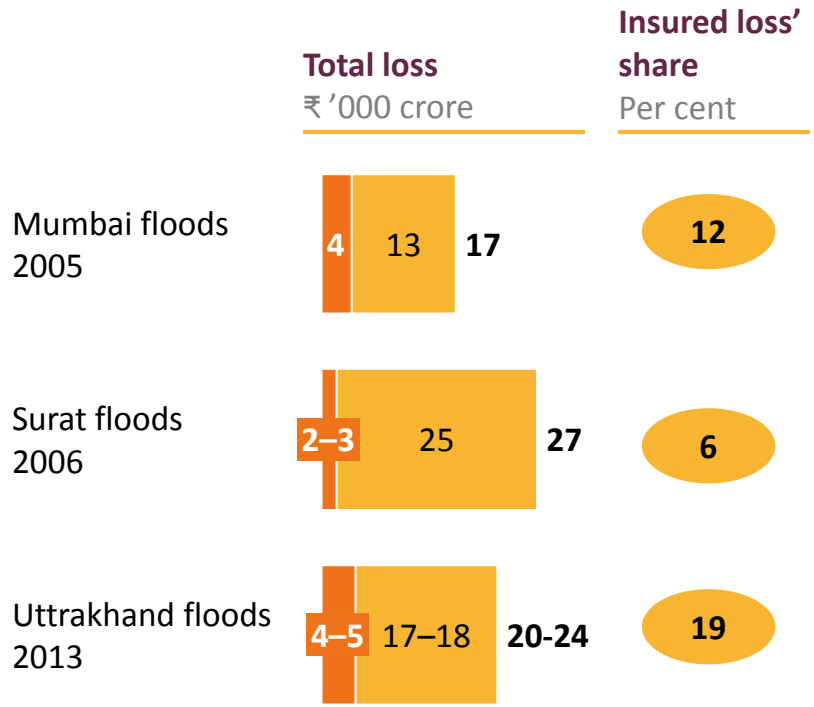
Paid by insurers
Paid by government/ out of pocket

Globally, insurers paid ~USD 135 billion in the 3 major catastrophes



30% of worldwide catastrophe losses in 2011 were covered by insurance[1]

Indian insurers paid ₹ 10–12,000 crore in recent major catastrophes



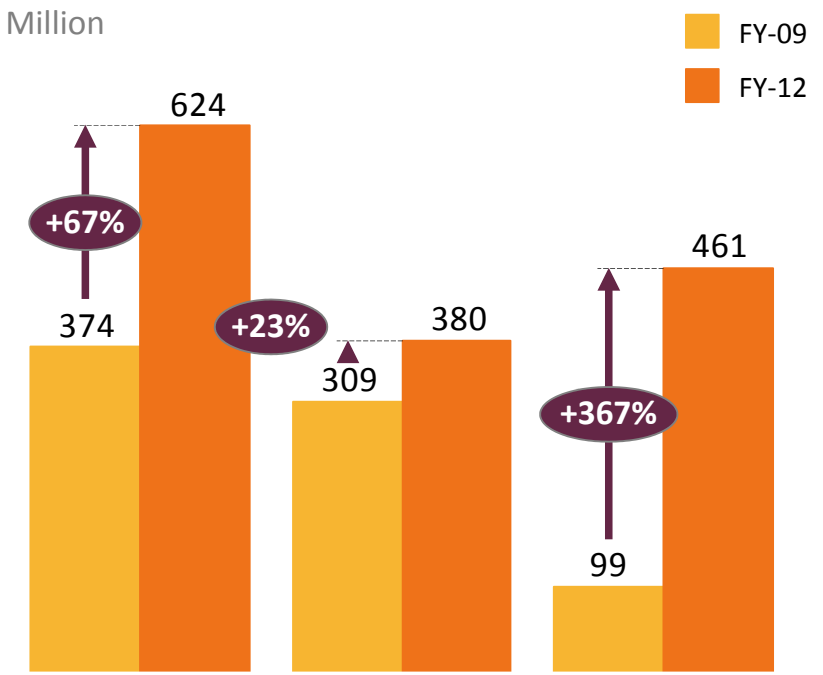
In spite of low penetration, ~11% of the catastrophe losses covered by insurers

1 USD 115 billion insurance covered losses within a total loss of USD 370 billion

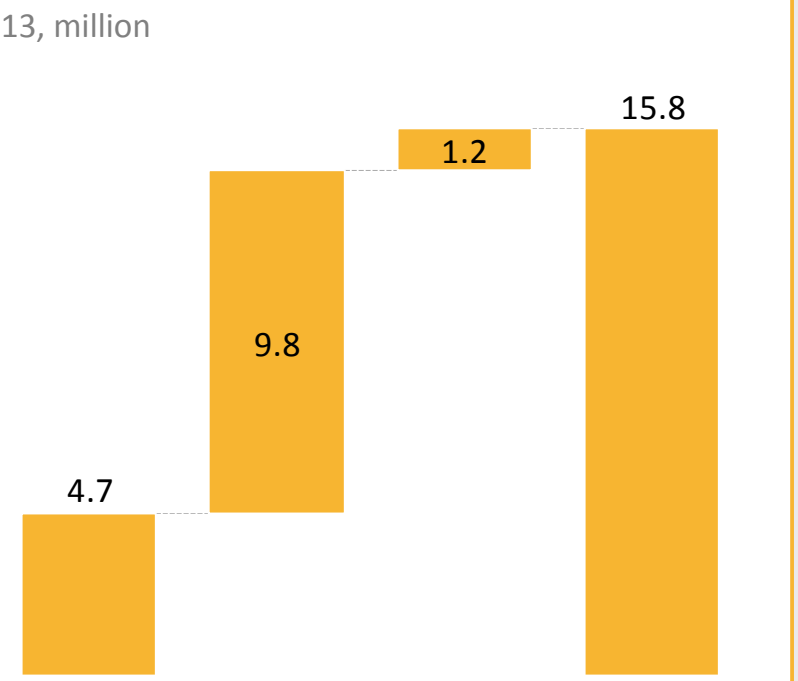
SOURCE: SwissRe report; IRDA; Prevention web; press search

GI created significant access to financial coverage and protection in the last few years, recording the highest incremental growth among all financial categories

Customers added



Number of claims paid



1 Only includes retail business and health insurance coverage provided by the government

SOURCE: RBI; IRDA; IIB; Planning Commission; Public Health Foundation of India; public disclosures; McKinsey analysis


MARE
INS. MINORCA
Port Forrelle
Citadella
Maon
Port de Maon
Laire de Maon
Puglienza
Alcudia
C de la Pedra
Mallorca
Catalonga
INS
Cap
Figuer
CUM
NE
S
E

Chapter II
Current position of General Insurance in India

- **GI has been on an accelerated trajectory—20% CAGR post tariff deregulation over the past 5 years—and reached a total size of ~₹ 70,000 crore in FY 2013. However, the industry has some way to go in terms of performance against three key objectives:**
  - **Providing universal access and coverage:** A detailed micro-analysis of the underlying needs and risks indicate that there is substantial scope to improve penetration and access across segments; e.g., home insurance penetration is <1%; there is significant underinsurance in segments such as two-wheelers and personal health; corporate (property and indemnity), SME and rural risk coverage is substantially lower than global benchmarks. Further, the total economic losses due to underinsurance are estimated to be close to ₹ 150–200,000 crore annually.
  - **Delivering returns to shareholders:** India has the highest combined ratio across developed and developing economies and across time periods. This has been largely driven by substantially higher claims ratios. As a result, the industry has delivered poor returns to shareholders. Barring a few exceptions, the returns have been lower than 15% (i.e., below cost of capital) even in the tariff era. Returns post detariffication (2007) have largely remained in a single digit even after adjusting for TP pool losses. While the average economics have been poor, there is huge spread in industry performance—a few players earn substantially higher returns compared to the rest of the industry, mainly due to their superior underwriting performance.
  - **Customer experience and loyalty:** The industry has shown improvement on customer service and experience (claims settled in 1 month is low at 60%; however, customer grievances dropped from 2,800 per million policies in FY10 to 1,100 per million policies in FY12). Further, complaints have been lower compared to other financial services such as banking (~3,500 complaints per million SA), asset management (~1,800 per million folios) and life insurance (~1,200 per million policies). Even on this dimension, there is substantial dispersion in performance across players, with the best players performing up to 5 times better than the industry average and about 30 times better than the bottom quartile performers.
- **The outcomes above are a result of the interplay of various factors which have a significant influence on industry performance. The 'report card' of these inter-related factors reveals mixed results:**
  - **Individual insurer capabilities:** Players have significantly improved the operating model and made progress in upgrading their product and distribution capabilities. However, there is a large gap vis-à-vis the desired best practice on core "technical" capabilities (claims and underwriting), with significant spread across players.
  - **Industry conduct:** Over time, the market has opened up and seen the entry of new players, which has increased competition and choice for customers. However, competition has largely remained price driven, with limited focus on creating new capabilities. As an industry, there has been a high degree of collaboration on areas like dismantling pools, articulating the need for more consistent product and distribution reforms, and the creation of entities like the Insurance Information Bureau (IIB). However, there is opportunity to do more in terms of raising the industry profile, defining common standards and self-regulation mechanisms, and building more industry wide utilities.

— **Other industry participants:**

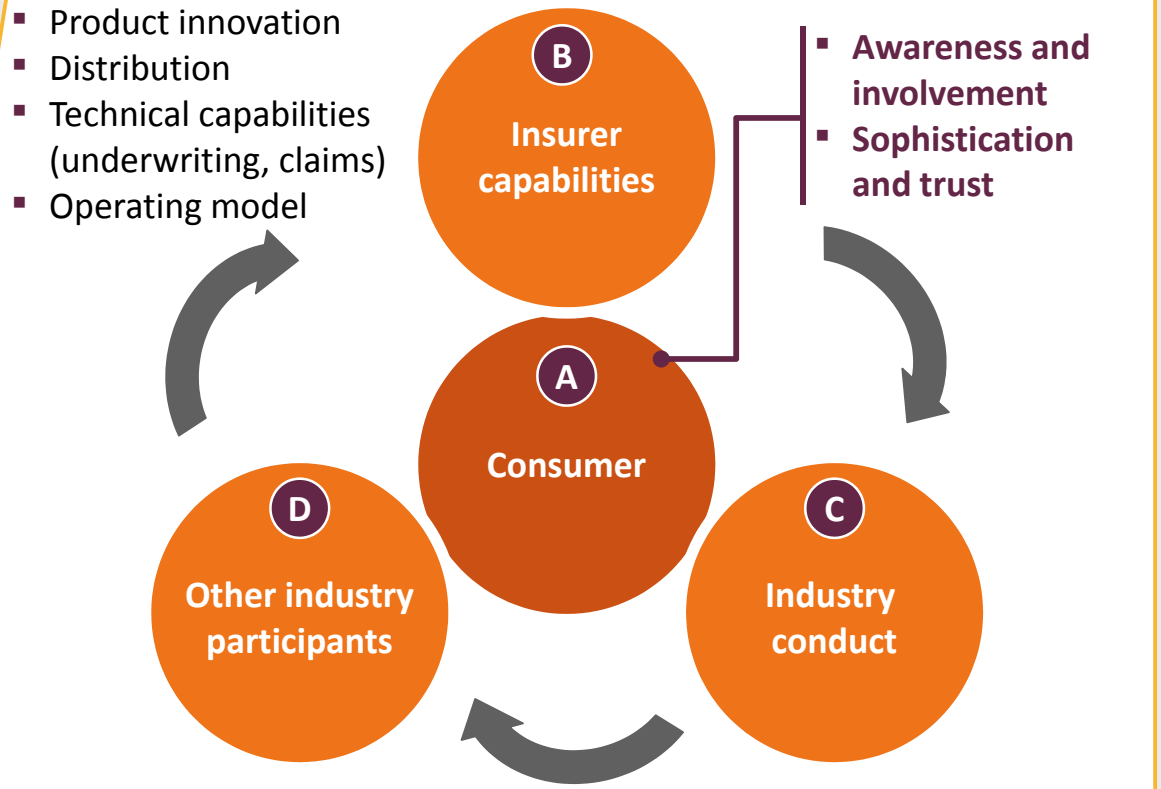
- Regulatory interventions over the last decade have helped open up the industry and foster more competition which benefited the industry. However, there remain several areas to be addressed—particularly on issues of distribution, product, pricing and solvency reform.
- India continues to attract capacity from global reinsurers, particularly on casualty and specialty lines of business (while witnessing a reduction in higher rated capacity on property lines); however, the lack of local presence of global reinsurers has inhibited the market from getting access to the best talent and expertise.
- The relationship of insurers with motor and health stakeholders (i.e., OEMs/repair shops and providers) is relatively poor, with limited progress made in some pockets.
- Capabilities of the TPA and surveyor industry are low and remain a big area of concern, particularly in terms of delivering superior customer service and building technical skills.

Indian GI market assessment framework

Core performance objectives for industry

1. Provide universal access and adequate coverage of needs
2. Return value to shareholders
3. Deliver superior consumer experience and build loyalty

Interplay of various factors influencing industry performance



SOURCE: McKinsey analysis

1 Comprehensive "needs-based" view of GI

Individual

Assets and risks	Insurance products
 **Vehicle**	▪ Personal car (OD and TP) ▪ Two-wheeler (OD and TP)
 **Home**	▪ Home insurance
 **Health**	▪ Individual health ▪ Govt sponsored policies for BPL ▪ Travel
 **Income**	▪ Accident cover
 **Liability**	▪ Personal indemnity

Corporates/Institutions/Rural

Assets and risks	Insurance products	
Vehicle	▪ MCV/HCV (OD and TP) ▪ LCV/PCV (OD and TP)	 **SMEs**
Employees	▪ Group health	
Asset protection	▪ Fire	
Business payments	▪ Export credit risk cover	
Employees	▪ Group health	 **Corporates**
New projects	▪ Engineering	
Asset protection	▪ Fire	
Transport	▪ Marine	
Business payments	▪ Export credit risk cover	
Liability	▪ Professional indemnity ▪ Aviation (3rd party)	
Vehicle	▪ Tractor	 **Rural**
Other assets/risks	▪ Rural/agri. (e.g., weather, cattle, etc.)	

SOURCE: Stakeholder discussions

1 Penetration heat map: Individual risks

FY13

Risks to be covered				GWP[1] ₹ '000 crore	Penetration base	Penetration	Benchmark
Individual	Vehicle	Cars	New[2]	9.5	Vehicle PARC	80%	85%
			Old[2]	6.5		60%	
		Two-wheelers		2.8		25%	>90%
	Total			18.8			
	Home			0.5	Home ownership	<1%	>95%
	Health	Mass affluent+		5.5[3]	Lives associated	20%	90%
		Mass market				Very low	75%
		Below mass		2.6		40%[4]	65%
	Income	Accident		1.6	Disposable income	0.02%	0.07%
	Total			9.7			

1 GWP: Gross Written Premium
2 New cars: less than 3 years old; Old cars: more than 3 years old
3 Almost entirely (95%+) contributed by mass affluent and above
4 Of the total rural population, 40% is covered through RSBY and state health initiatives
SOURCE: IHS Global Insights; Autocar; IIB; IRDA; NCAER; RSBY website; US census bureau; AM Best; Association of British Insurers; RBI; McKinsey Global Insurance pools; McKinsey analysis

1 Penetration heat map: Commercial risks (1/2)

FY13

Risks to be covered			GWP ₹ '000 crore	Penetration base	Penetration	Benchmark
SME	Vehicle	MCVs and HCVs	6.0	Vehicle PARC	70%	>85%
		LCVs and PCVs	4.5		70%	
	Employees	Group health	1.0	Lives associated	10%	75%
	Asset protection	Core property risks (fire, engg, marine)	1.2	Industrial GDP	0.14%	3%[2]
	Business	Export credit[1]	0.1	Exports by SMEs	0.02%	-
	Total		12.8			
Corporates	Employees	Group health	6.2	Lives associated	70%	80%
	New projects	Engineering	2.2	Industrial GDP	0.83%	3.5%[3]
	Asset protection	Fire	6.0			
	Transport	Marine	2.7			

1 Assumed at 10% of total GWP from SMEs
2 Mature markets have equally big SME liability covers (~3% of SME industrial GDP) and other covers (property and liability, up to ~2% of SME industrial GDP); these are almost non-existent in India
3 Includes insurance covers which cannot be classified either as pure property or pure casualty (e.g., accident and health, international, etc.)
SOURCE: IHS Global Insights; Autocar; IIB; IRDA; NCAER; MSME annual report; US census bureau; AM Best; Association of British Insurers; RBI; McKinsey Global Insurance pools; McKinsey analysis

1 Penetration heat map: Commercial risks (2/2)

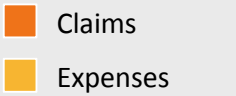
FY13

Risks to be covered			GWP ₹ '000 crore	Penetration base	Penetration	Benchmark
Corporates	Business payments	Export credit	1.0	Exports by large corporates	0.17%	-
	Professional indemnity	Liability	1.4	Industrial and services GDP	0.04%	1.25%
		Aviation	0.5			
	Total		20.0			
Agri	Vehicle	Tractors	0.5	Vehicle PARC	30%	85%
	Other assets	Rural/agri (weather, cattle, etc.)	3.5	Agriculture GDP	0.24%	9%
Total			4.0			
Others			3.2			
TOTAL			69			

SOURCE: IHS Global Insights; IIB; IRDA; NCAER; AICC website; US census bureau; AM Best; Association of British Insurers; RBI; McKinsey Global Insurance pools; McKinsey analysis

2 India has the highest CoR across developed and emerging countries

Per cent



Combined ratio (CoR)

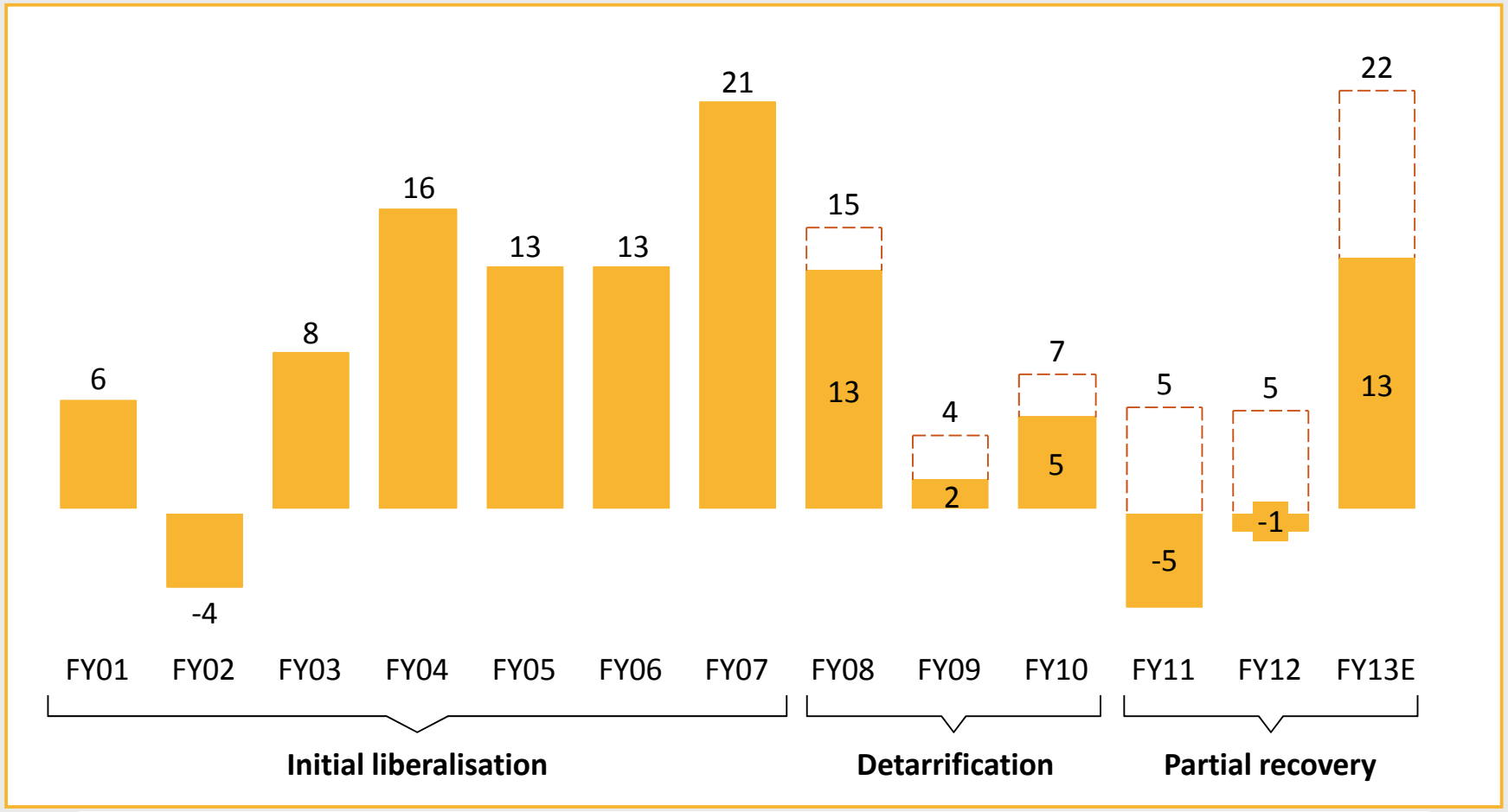
		2001–06			2007–09			2010–12		
Developed countries	US	73	25	98	74	24	97	76	23	99
	Germany	73	21	95	73	20	93	75	20	95
	UK	68	31	99	70	34	104	67	33	100
Emerging countries	Indonesia	47	45	92	51	39	89	53	34	87
	South Africa	79	18	97	82	17	99	80	16	96
	China	70	34	104	71	33	104	64	30	94
	Malaysia	60	32	92	64	31	96	61	29	90
	India[1]	83	33	116	85	35	119	88	35	123

1 Refers to periods FY02–07, FY08–10, FY11–13 respectively. Also, the CoR includes the impact of motor TP pool losses

SOURCE: McKinsey Global Insurance Pools

2 The industry has delivered low returns on equity (RoE) in the last 5 years, even after adjusting for losses due to third-party motor pool

Per cent

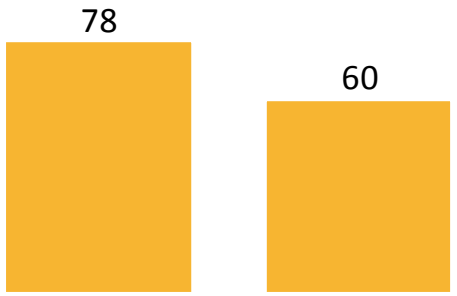


The level of underperformance is not the same across players. Significant spread exists between top performers and the rest, with superior underwriting performance being the key differentiator

SOURCE: IRDA; annual reports of GI companies; McKinsey analysis

3 Improved performance on customer experience; huge spread across players

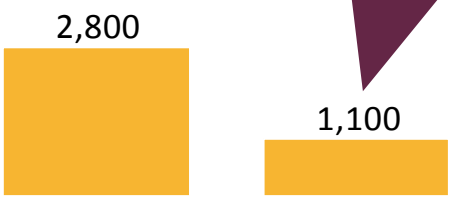
Claims settlement, per cent settled within a month[1]



	FY10	FY12
Top quartile average	95	90 ↓
Bottom quartile average	20	30 ↑

Complaints per million policies

Complaints lower compared to banking (~3,500), MF (~1,800) and LI (~1,200)



	FY10	FY12
Top quartile average	170	200 ↑
Bottom quartile average	24,500	6,000 ↓

Key trends

- Claims settlement dropped from **78% to 60%** for insurers; best-in-class players still maintain ~**90%** levels
- **Sharp drop in complaints per policy,** lower compared to other financial services sectors; however, huge spread across players

Note: Only players which have been present from 2005 onwards have been included in the quartile analysis
1 Only short tail claims (motor OD and retail health) considered
SOURCE: Public disclosures; IRDA annual report; IRDA policy-holder website; McKinsey analysis

"Report card" of progress on various factors which influence industry performance (1/2)

- Little or no improvement made; significant required
- Some improvement made
- Significant improvement made

	Key capabilities/metrics	Status	Comments
A *Customers*	▪ Awareness and involvement		▪ Improvement in awareness and involvement in last 5 years; however, remains low on absolute basis
	▪ Level of sophistication and trust		▪ Continued trust deficit on motor and health; commercial relationships extremely transactional and price driven
B *Insurer capabilities*	▪ Product innovation		▪ Innovation in terms of providing add-on benefits; customised products to specific segments (SME, weather)
	▪ Distribution		▪ Evolution of a more multi-channel architecture; however, structural challenges and low penetration across most channels
	▪ Technical capabilities		▪ Limited risk based pricing; claims capabilities still low on advanced analytics, fraud detection
	▪ Operating model		▪ Higher process centralisation; several innovations in form of E and M cover notes[1]; instant issuance; efficiency gains both on a premium per employee and per office basis
C *Industry conduct*	▪ Nature of competition		▪ Increase in number of players and reduced concentration; but competition primarily price driven
	▪ Level of collaboration		▪ Collaborative stand on pool dismantling, distribution reforms, IIB; can collaborate more in creating industry utilities

1 Cover notes in electronic/mobile format
SOURCE: Stakeholder discussions; McKinsey analysis

"Report card" of progress on various factors which influence industry performance (2/2)

- Little or no improvement made; significant required
- Some improvement made
- Significant improvement made

D ***Other industry participants***



Key capabilities/metrics	Status	Comments
▪ **Regulatory/policy support**		▪ Systematically opened up industry through detariffication, pool dismantling, demat; need for product and distribution reforms, better disclosure and accounting norms, enhancements in solvency regime, and mandate insurance for govt bodies to enable insurers better support them during natural catastrophes
▪ **Healthcare providers**		▪ Continues to be a black box for the industry; limited collaboration with insurers to improve standards and outcomes
▪ **Motor dealers and repair shops**		▪ OEMs more professional but exercise full control; semi-organised and unorganised workshops (~40–45% volume) have low maturity
▪ **TPA and surveyors**		▪ Very fragmented; significant skill and process gaps resulting in most players setting up operations in-house
▪ **Reinsurers**		▪ Changing dynamics: – Reduced treaty capacity for property from top rated insurers making it more challenging for certain segments of players to participate in business – Simultaneous increase in capacity provided by lower rated insurers opening up/holding market for other segment of players – Capacity increased on the non-property side with more discipline on rates and terms ▪ Lack of local on-the-ground presence of global reinsurers constraining access to talent, capital and expertise

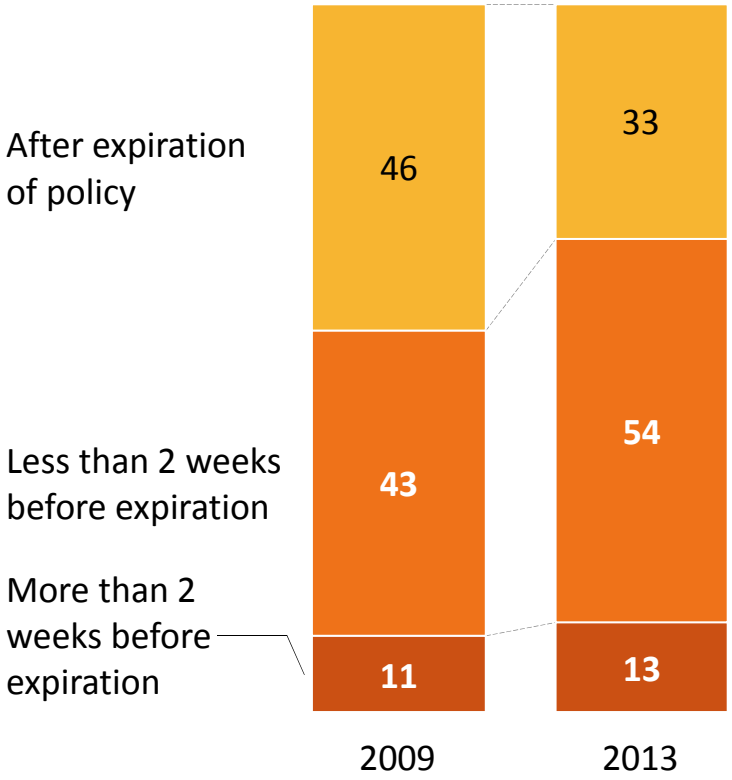
SOURCE: Stakeholder discussions; McKinsey analysis

A Retail customers' awareness and involvement has clearly risen in the last 4 years

MOTOR ONLY

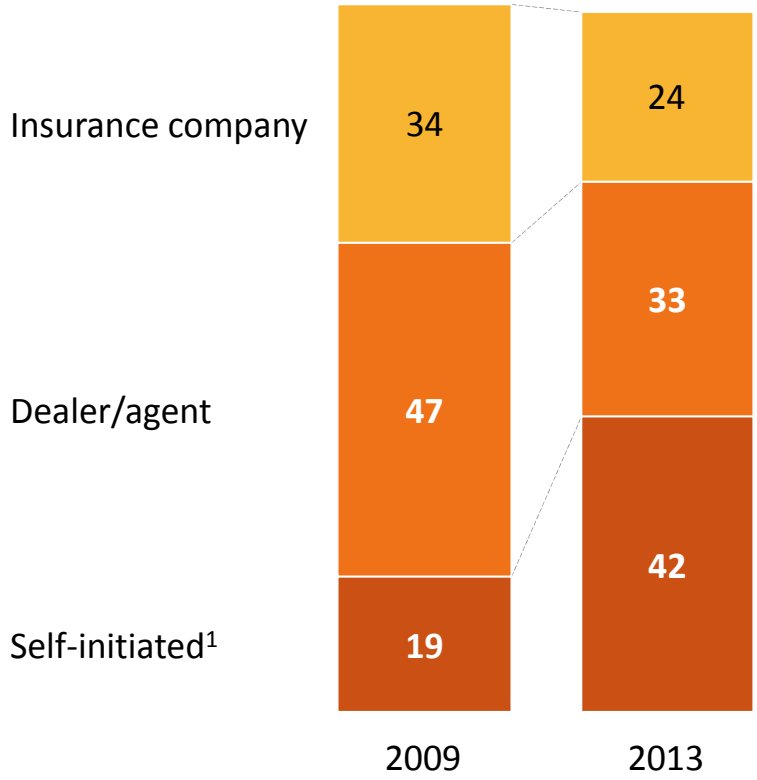
Customer awareness is increasing; more customers renewing policy before expiry

When did you start the renewal process?



Higher customer involvement in purchase; self-initiated renewals more than doubled in 4 years

Who initiated the renewal process?



1 As answered by the respondent; this will also include customers who received renewal reminder from insurers but believe that they initiated the process on their own accord and not due to the reminder

SOURCE: McKinsey proprietary market research – in-person quantitative survey of 1,000+ retail customers in 2009 and in 2013

A Motor insurance: Significant trust deficit vis-à-vis insurers

Customer segments	Agent	Non-OEM workshop	OEM workshop	Insurer
Price sensitive	✓✓ Sees agent as a trusted ally to extract maximum value from policy	✓ Cost effective and efficient solution to minor car issues; prefer regular garage	✓ Costly but provides expertise for major repairs	✗ Seen as opaque, big corporation with no personal engagement
Younger generation *(Value conscious and aware)*	✗ Sees agent as unnecessary complication	✓ Cost effective and efficient solution to minor car issues; prefer regular garage	✓ Costly but provides expertise for major repairs	✓ Seen as tedious, with unclear intentions, but can be engaged with directly
Quality seekers	✗ Unnecessary and lacks authority	✗ Lacks quality and expertise	✓ Provides quality, convenience, and expertise but at a price	✗ Professional but lacks expertise. Does not provide convenience

SOURCE: McKinsey proprietary market research – in-person qualitative interviews of customers, dealers, workshop owners and agents

A Commercial lines: Customer relationship with the GI ecosystem is extremely price driven

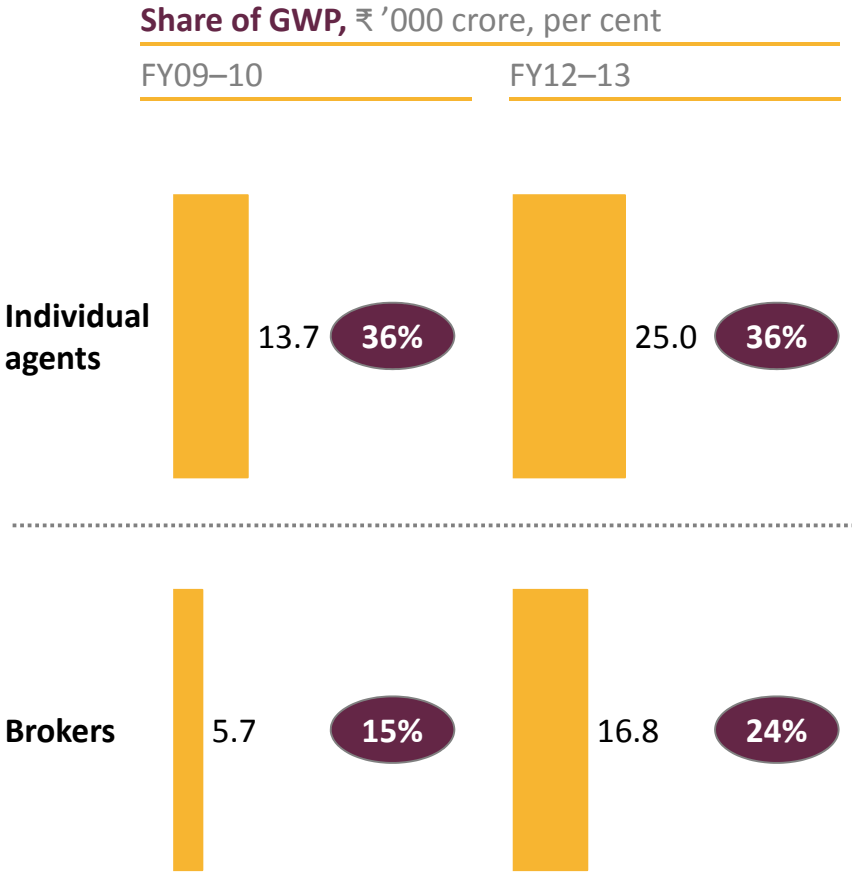
Customer view	▪ **Lack of clarity** on benefits from GI ▪ **Lack of trust** in terms of claims settlement ▪ **Unaware of full bouquet** of product offerings that can meet their specific needs ▪ SME purchase primarily **due to bank push** for asset cover on collateral
Industry view	▪ **Price-sensitive segment,** the customer will choose the lowest cost player even at the cost of underinsurance or inferior service level (in some cases, risk cover as low as 20% of the value of asset insured) ▪ **Price is the key (often only) pitch point and differentiator** across players – even leading insurers ▪ The GI industry has not invested enough to **educate corporate clients**

SOURCE: McKinsey proprietary market research

B Distribution: Two largest channels – agency and brokers – face several challenges in their model and vis-à-vis the insurers

Several challenges in the agents and broker channel, which together distribute 60% of industry premiums

Share of GWP, ₹ '000 crore, per cent



Key challenges

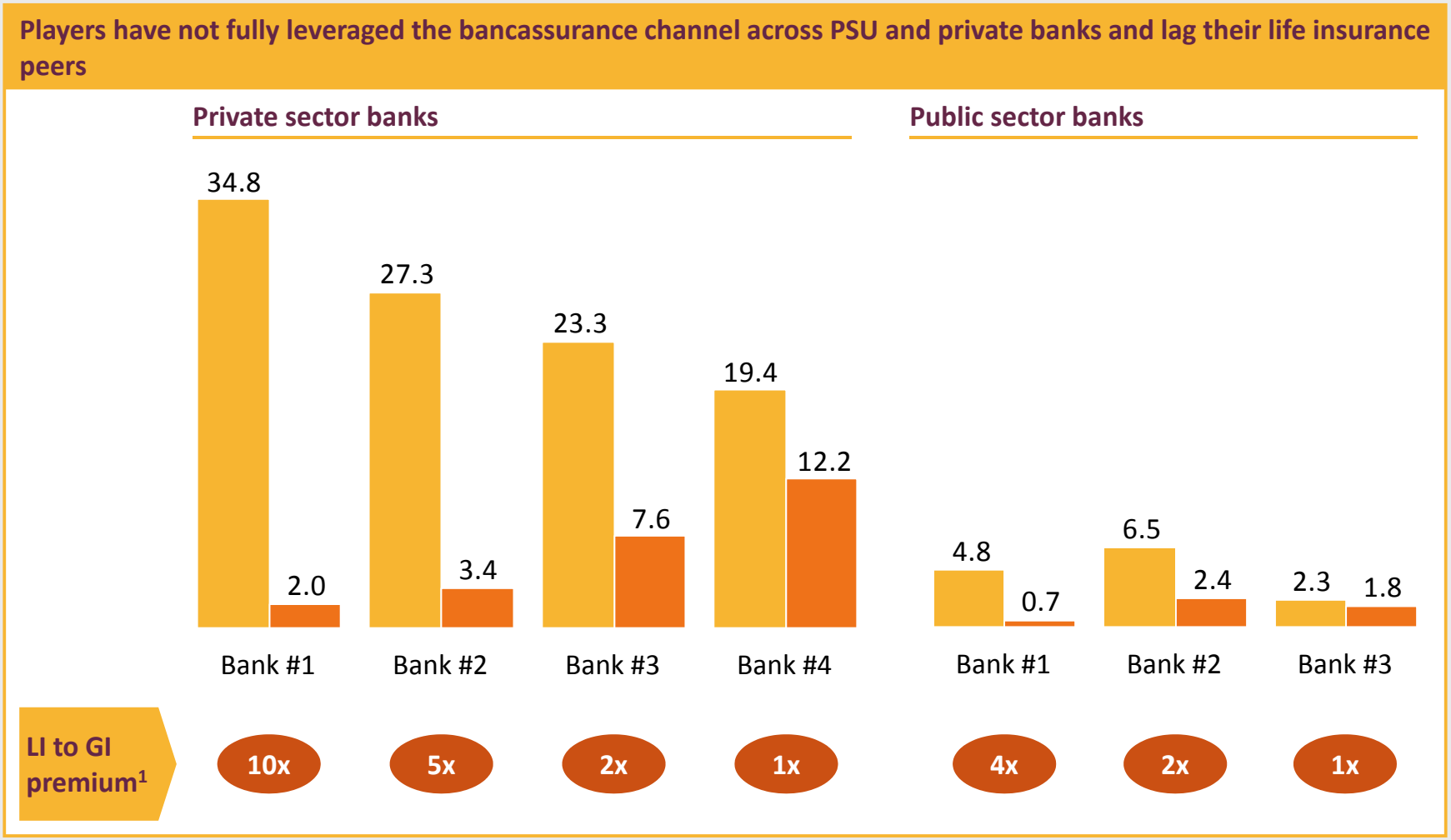
- Perceived **low income earning potential** resulting in relatively **poor talent** attracted to industry – translating into **low engagement, high churn and low productivity**
- "Aggregators" control a significant part of agency – resulting in **lower customer connect** and overall control on process
- **Key asks from the insurers** – Better customer service level; "ownership" of customers; transparency in claims and timeliness of payments

- **High fragmentation and low level of professionalism** beyond the top 25–30 brokers (out of total of 300+)
- Beyond a select few, most brokers **unable to offer full range of services** to customers (risk assessment, loss control, policy design)
- Largely **"one size fits all"** approach; lack of real product (e.g., liability, special risks) and segment specialist expertise being developed
- **Insurers not fully evolved** to work with brokers as "business partners"; relationships remain transactional

SOURCE: IRDA; public disclosures; McKinsey proprietary market research; McKinsey analysis

B Distribution: Industry has not leveraged bancassurance to its full potential

FY13, ₹



1 Assuming 10–15% fee on GWP for GI and 20–25% for LI; overall LI to GI new business premium ratio for the industry (across channels) is 1.5x in FY13

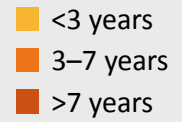
SOURCE: RBI; bank annual reports; McKinsey analysis


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Chapter III
Key trends shaping the GI industry

- **Global forces impacting the Indian landscape:**
  - Emerging Asia will become the major playing field for global insurers with heightened interest and increased competition for China, India, and Southeast Asia.
  - The bar on "technical" capabilities will keep rising with "winners" pulling away.
  - Several discontinuities on technology, increasing complexity of underlying risks, and continued policy and regulatory intervention.
- **Customer behaviour and expectations:**
  - Rise in customer awareness and sophistication, along with the blurring of boundaries between online and offline world, will require fundamental shifts in the operating model.
  - Segmentation and customer centricity will become a key capability.
- **Shifting demand–supply dynamics in related sectors:**
  - **Healthcare:** Rapid increase in healthcare spend and formalisation and corporatisation of the provider space will lead to new opportunities.
  - **Auto:** Pressure on core sales margin and ageing of car PARC will increase the focus of OEMs/dealers on insurance pools.
  - **Corporate sector:** Globalisation, organised retail and infra spending will translate into significant GI opportunities; the importance of SMEs will continue.
- **Economic factors:**
  - Uncertain and volatile macroeconomic outlook will temper near-term growth and investment return; resilient business models will need to be built.
  - Human capital will be scarce while wage-cost squeeze will increase.

Key trends and discontinuities which will shape the future of the GI industry in India over the next decade (1/2)

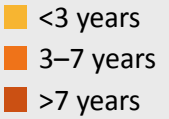


	Key Shifts/Discontinuities	Impact horizon	Growth impact	Profitability impact
Global forces impacting the India landscape	i. **Emerging Asia (in particular China, India and SE Asia) as the major playground for global insurers** resulting in higher foreign interest and increased competitive intensity	<3 years	↑	↓
	ii. **Ever increasing bar on technical capabilities:** Spread between the "best" and "rest" widening and almost fully driven by technical performance	<3 years		↑
	iii. **Rapid convergence of 4 major technology discontinuities**: Big Data, Cloud, Internet of Things/Mobility[1] and Social Media – will allow for finer pricing, more disruptive business models and large-scale mass customisation of products	3–7 years	↑	↑
	iv. **Evolving nature of underlying risks** (increasing severity from climate change but decreasing frequency from better technology; lifestyle changes and lifestyle diseases; increasing life expectancies) requiring larger capacities and new technical capabilities	<3 years		↓
	v. **More challenging "way of doing business"** as a consequence of regulatory reforms, e.g., risk-based capital, consumer-protection	3–7 years		↓
Consumer behaviour & expectations	vi. **Increasing consumer awareness, sophistication and involvement** across categories with importance of brands rising rapidly	3–7 years	↑	↓
	vii. **Emergence of multi-channel world**: Blurring of boundaries between offline and online world with rapid proliferation of mobility enabled access to internet	<3 years	↑	↑
	viii. **Segmentation as a key capability of customer-centricity**, to address more granular consumer needs and evolving demographics	3–7 years	↑	

1 Ability to generate real-time and interactive reports from devices across a network, enable deep data processing, and provide immediate feedback/corrective actions

SOURCE: McKinsey analysis; stakeholder discussions

Key trends and discontinuities which will shape the future of the GI industry in India over the next decade (2/2)

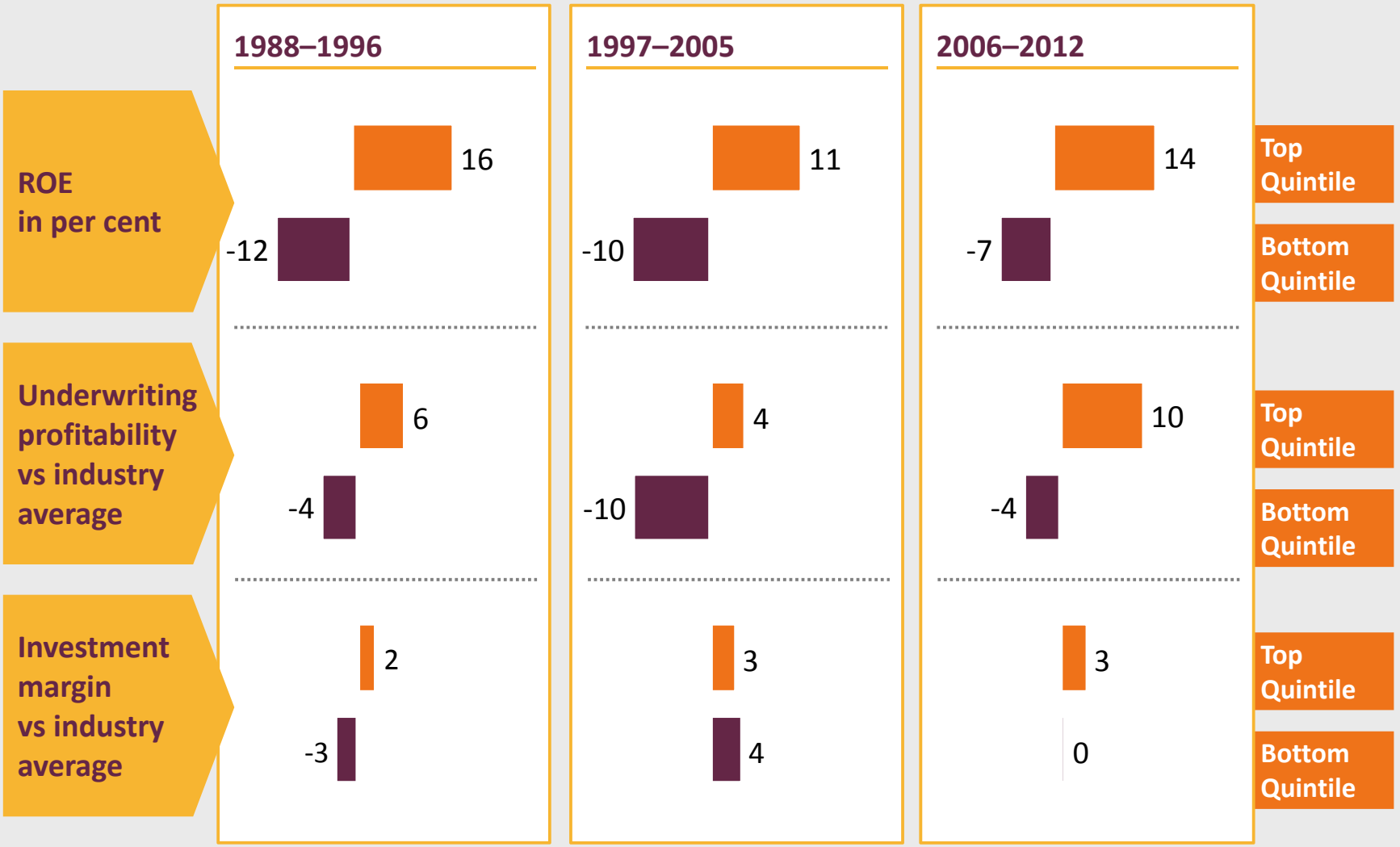


	Key Shifts/Discontinuities	Impact horizon	Growth impact	Profitability impact
Structural shifts in related industries – demand and supply	ix. **Healthcare**: Rapid increase in **healthcare spending**, evolution of **disease patterns** and **government initiative to provide universal** coverage will result in new opportunities for health insurance but requiring a very different set of capabilities	■	↑↑	
	x. **Healthcare**: Increasing **formalisation and corporatisation of the provider space** and emergence of **new business models** will set a new basis for engagement between payors and providers	■		↑
	xi. **Auto**: Increasing **pressure on margins on core sales** for both OEMs and dealers, **ageing car PARC and rising auto complexity** (e.g., more electronics) will result in an increased competition for downstream auto value chain	■		↓
	xii. **Corporate sector**: Increasing **globalisation of Indian corporates** will significantly increase exposure to reputation and other liability related risks; private infra spending (~50% of nearly USD 1 trillion) and organised retail will open up opportunities in engineering, marine, etc.	■	↑	
	xiii. **Corporate sector**: Continued **relevance and importance of SMEs** to industrial output and expansion in range of activities	■	↑	
Economic factors	xiv. **Macroeconomic outlook**: Uncertain and more volatile macroeconomic environment in the near term (next 3–4 years) will temper growth and investment income, and require building a more resilient business model	■	↓	↓
	xv. **Productivity and human capital challenge**: Continuous increase in employee wage costs driven by a severe supply crunch call for re-evaluating the current productivity and talent management model	■		↓

SOURCE: McKinsey analysis; stakeholder discussions

ii Continued high spread between top performers and the rest, with superior underwriting capability being the key differentiator

US NON-LIFE EXAMPLE

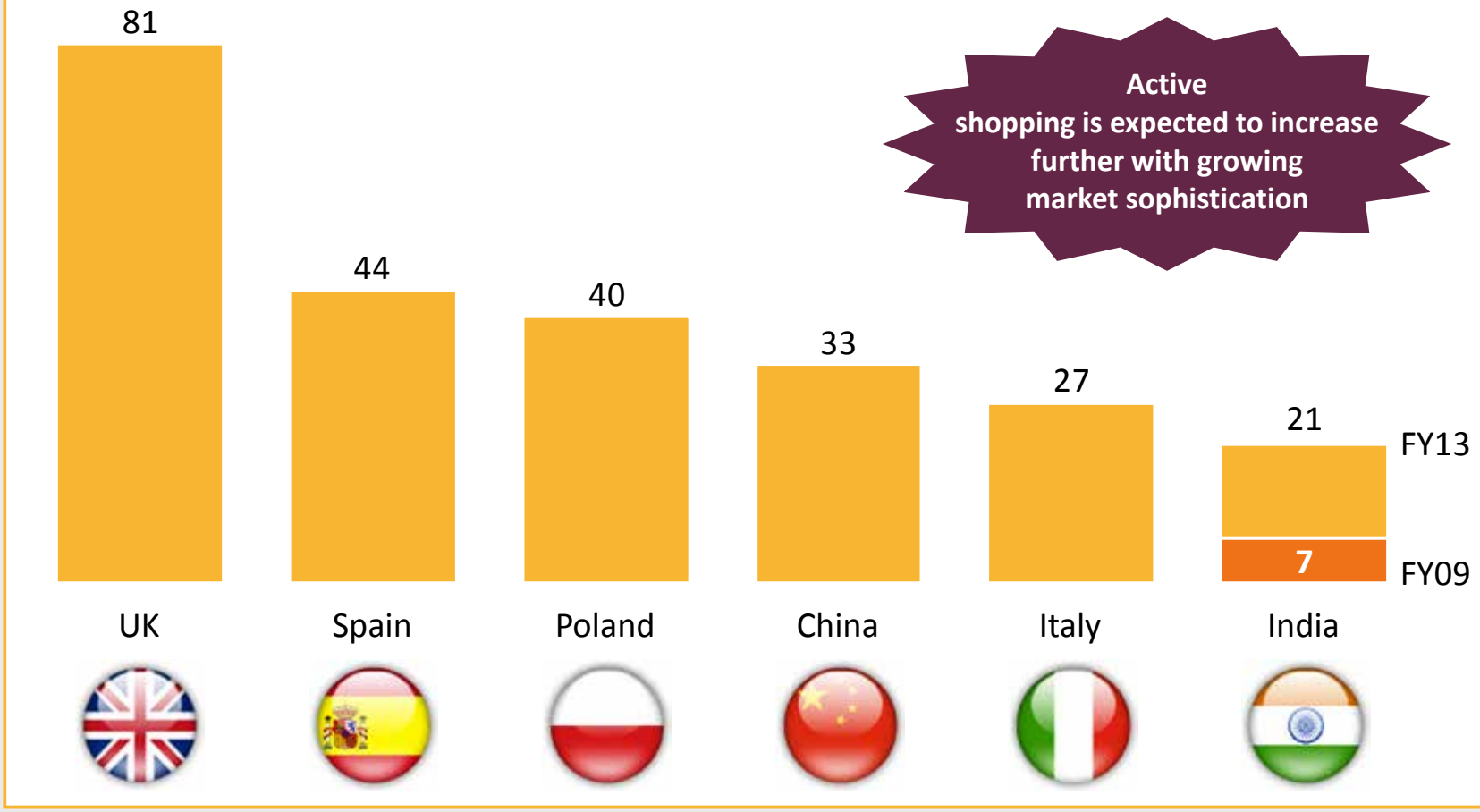


SOURCE: Annual reports; AM Best; McKinsey analysis

vi Consumer involvement and maturity has been increasing and will start trending towards global levels

MOTOR EXAMPLE

"Active" choice[1] increasing but still lower than global levels
Per cent of customers actively shopping for motor insurance



1 Refers to customers who actively compare different offerings in the market and choose the best product instead of being guided by agent/dealer into buying a specific product

SOURCE: McKinsey proprietary consumer research

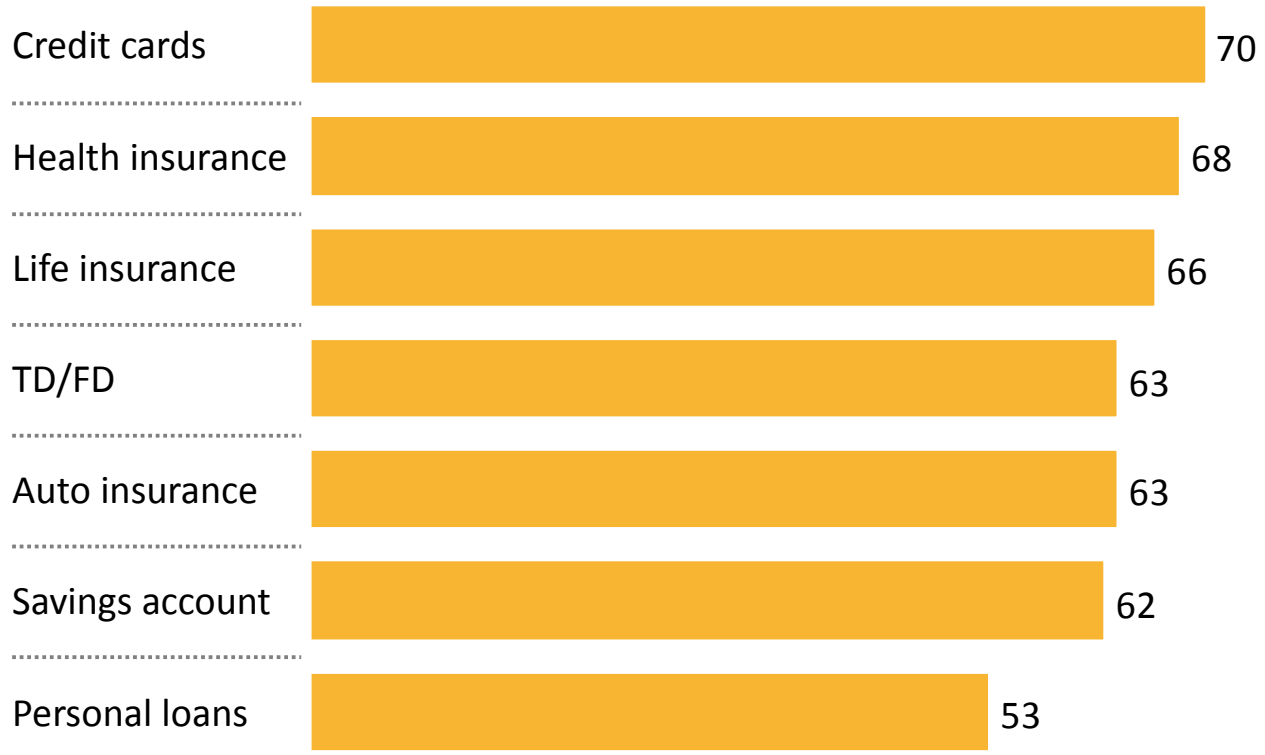
vii Blurring boundaries between online and offline world

DIGITAL HIGH VALUE CONSUMERS

A significant portion of internet users who bought a product offline do online research

Online research

Per cent of internet users who bought a product offline in the last 12 months

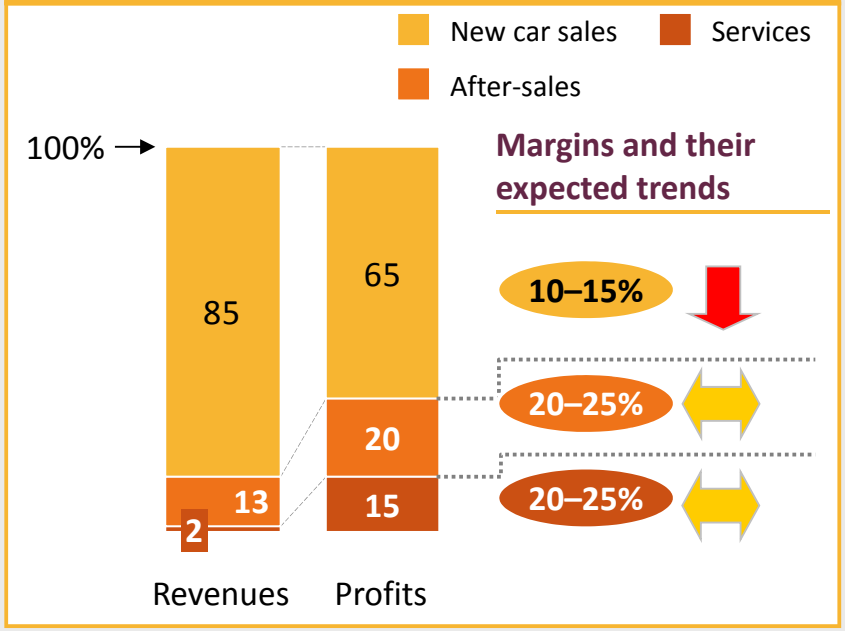


- **66% changed their mind about product and brand after online research**
  - **Insurance: 65%**
  - **Personal loans: 73%**
  - **Home loans: 75%**

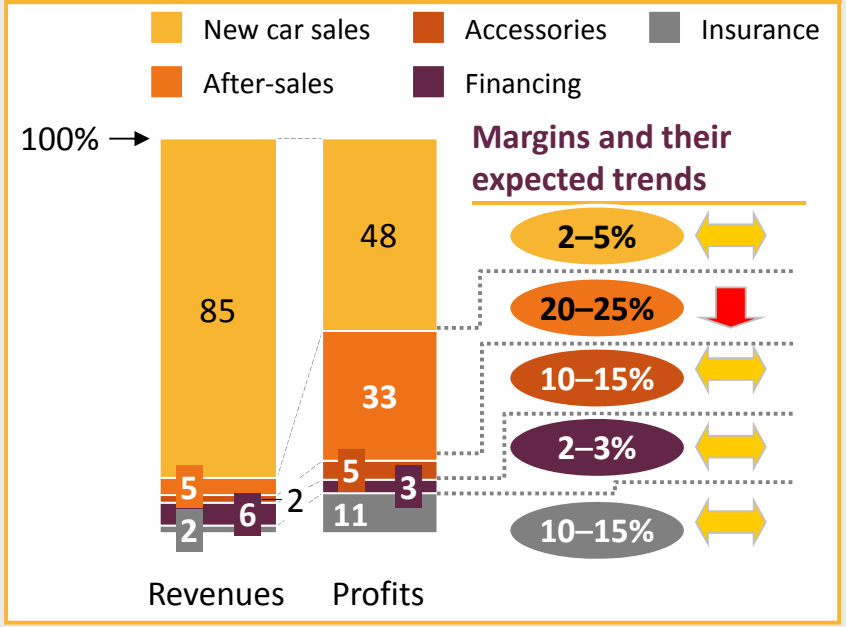
SOURCE: McKinsey Digital Consumer Research; McKinsey Global Institute; McKinsey analysis

xi Pressure in margins on core sales making OEMs and dealers focus on after-sales and "low-effort" insurance

Economics for OEMs in auto industry



Economics for dealers in auto industry



Key implications

- **OEMs** are likely to **focus on after-sales parts market** because of the large profit pools
- OEMs interest in insurance is likely to be around
  - Securing aftermarket sales through claims handling
  - Securing additional revenues

Key implications

- **Dealers view insurance as "high value–low effort"** profit pool
- **Dealers make higher margins of ~20%** on sale of parts and only ~2% on sale of new cars
- Dealers are likely to **continue their focus on capturing renewals and selling after-market parts**

SOURCE: McKinsey analysis



Chapter IV
Scenarios for the future

The future direction of the industry will be shaped by the interplay of various stakeholders—the individual insurers' efforts to upgrade their capabilities, industry conduct and level of collaboration, and external influence, policy actions in particular. In this context, there are three potential evolution paths/scenarios for the industry.

- **Status quo: In this scenario, a few insurers will focus on initiatives to build holistic capabilities across the value chain. However, capabilities for a large part of the industry would continue to be low and industry conduct will remain poor. Further, the policy environment would continue to be conservative with few enablers. As a result, in this scenario, the outcome would be one of "unfulfilled" potential**
  - — Modest growth CAGR of ~13% resulting in GWP of ~₹ 3,00,000 crore by 2025.
  - — Combined ratio remains very high at 108–110%; very few players operate below 100%.
  - — Incremental value creation will be negative to the tune of ₹ 55–60,000 crore while delivering average RoE of 6–8%.
  - — As a result of underperformance, the industry as a whole will require fresh capital to the tune of ₹ 40–45,000 crore, with a bulk of this required to recapitalise a few weak players.
- **If economic recovery is accelerated over the next 2–3 years, the industry would benefit from both higher growth and higher contribution from investment income. However, with limited effort to build skills and capabilities and improve industry conduct, the impact would still be moderate**
  - — Growth CAGR of ~14–15% resulting in GWP of ~₹ 3,50,000 crore by 2025.
  - — With no improvement in combined ratio, the industry would continue to have a negative value creation of ₹ 20–25,000 crore while delivering average RoE of 10–12%.
  - — Capital requirements remain relatively high – ₹ 20–25,000 crore of fresh infusion.
- **To break out from this cycle and control its own destiny (as against being dependent on external economic conditions), the industry will require a combination of individual insurer efforts to upgrade capabilities and significant improvement in industry conduct and collaboration. Accordingly, the "gathering momentum" scenario will help the industry realise marked improvement in outcomes.**
  - — CAGR of 15–16% resulting in GWP of ~₹ 3,90,000 crore by 2025.

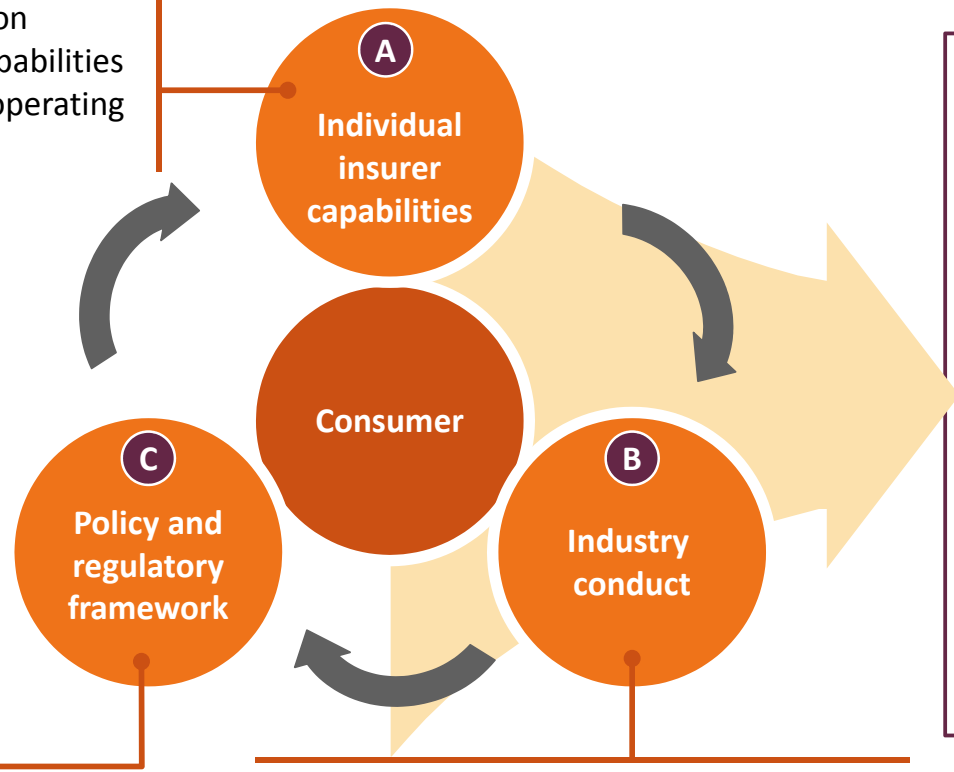
- Improvement in CoR to 102–104%; many players starting to operate below 100%.
- Average RoE of 13–15%; however, the industry as a whole will continue to operate at or around the cost of capital and not create any incremental value.
- Capital commitment will be more limited — ₹ 20–25,000 crore.

- **For the industry to realise its true potential and achieve its vision of becoming an "inclusive, progressive and high performing" sector, significant enabling policy actions are needed to complement the industry and individual insurer actions. The upside of these actions will be substantial.**
  - GWP will potentially reach ₹ 4,80,000 crore (CAGR of 17–19%) by 2025.
  - Significant increase in penetration—over 80% of vehicles covered; close to 1 billion health lives covered; overall GWP to GDP at 1.4%.
  - Combined ratio of 99–101%, with many players operating sustainably below 100% and a few high performing players below 95%.
  - Industry RoE of 21–23%, translating into a total industry wide value creation of ₹ 35–40,000 crore.
  - Realising this will require a capital commitment of ₹ 10–15,000 crore from the industry.
  - More balanced portfolio mix (across retail and commercial; large and SME) and industry structure.
  - This scenario will also result in greater demand for high quality technical talent; over 1 lakh underwriters, claims assessors and surveyors will be required.

Factors influencing the evolution of the General Insurance industry over the next 10 years

Nature and extent of actions undertaken by industry stakeholder…

- Capture growth opportunity
- Strengthen distribution
- Upgrade technical capabilities
- Develop world class operating model
- Enhance customer engagement
- Strengthen human capital



- Drive product and distribution reform
- Ensure stronger industry structure
- Strengthen industry infrastructure
- Protect consumer interests
- Create enabling environment to attract capital

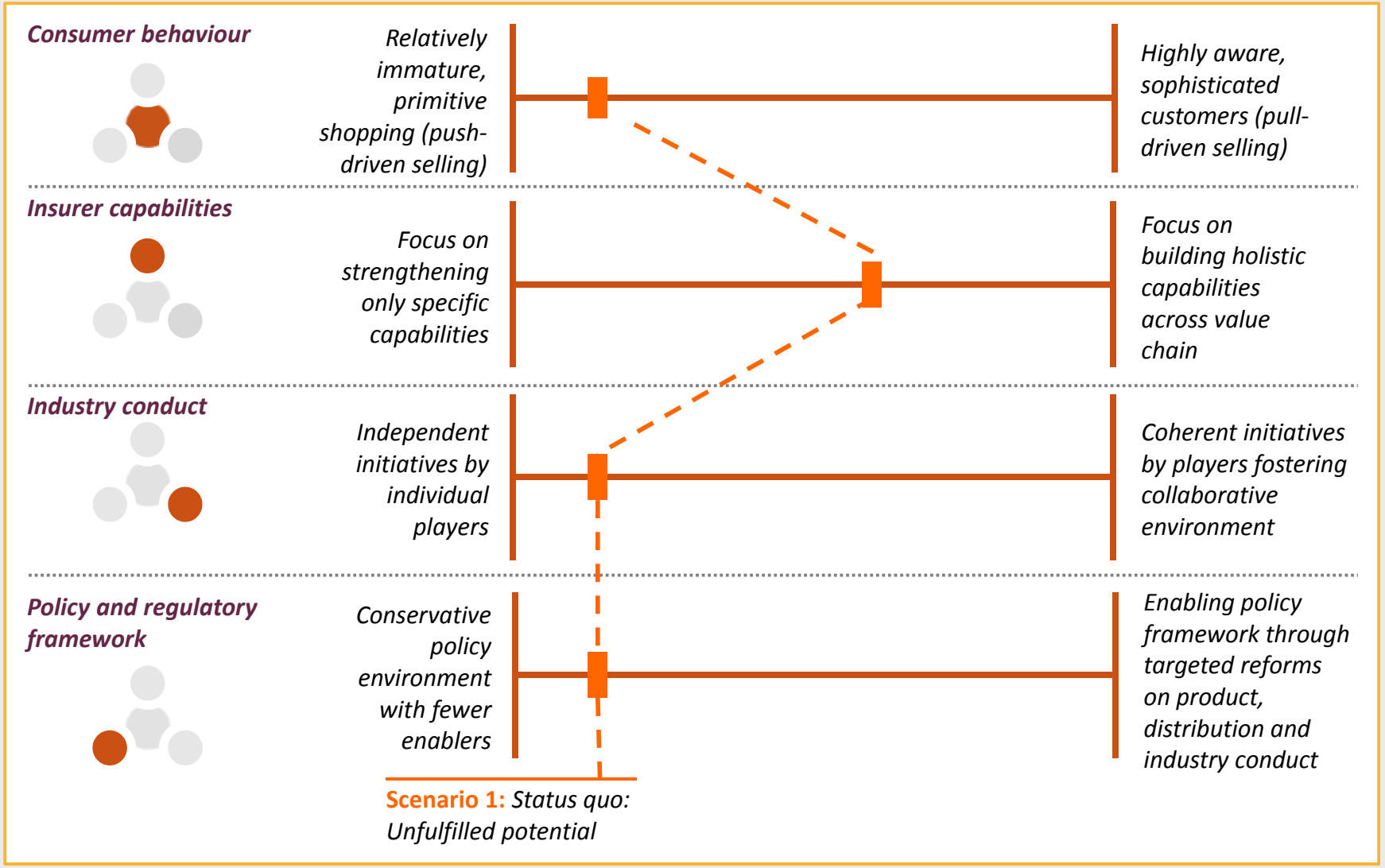
- Raise the profile of insurance
- Define industry standards and protocols
- Build and leverage common infrastructure (in concert with policy makers/regulators)

…will drive 7 key indicators

1. Size of the industry (GWP)
2. Penetration
3. Portfolio mix
4. Business efficiency (CoR)
5. Industry structure
6. Capital requirement
7. Talent and skills required

SOURCE: Stakeholder discussions

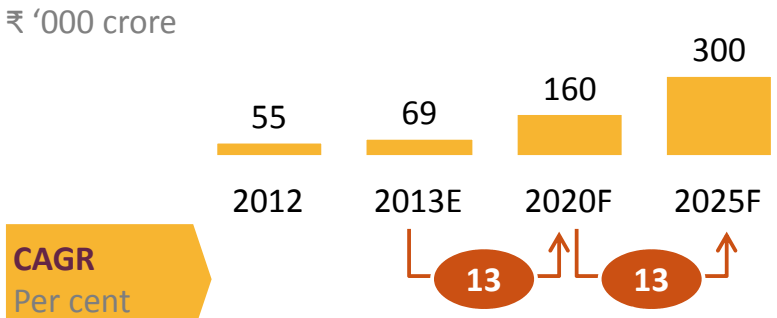
In the status quo scenario, a few insurers will focus on upgrading individual capabilities; however, industry conduct and policy environment remain conservative



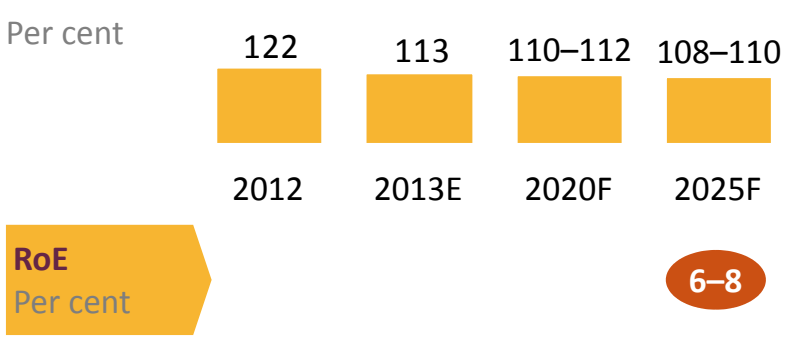
SOURCE: Stakeholder discussions

In the status quo scenario, the GI industry will likely grow at a modest ~13% CAGR, continue to underperform and be well below potential

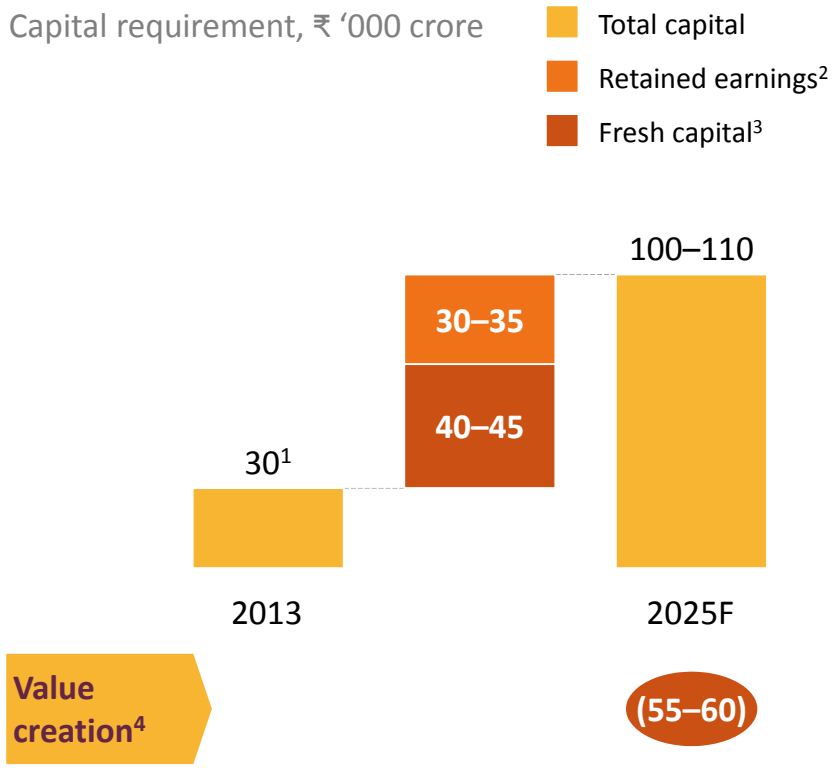
Growth: GWP trend



Profitability: CoR trend



Fuelling this growth will require a fresh capital commitment of ₹ 40-45,000 crore

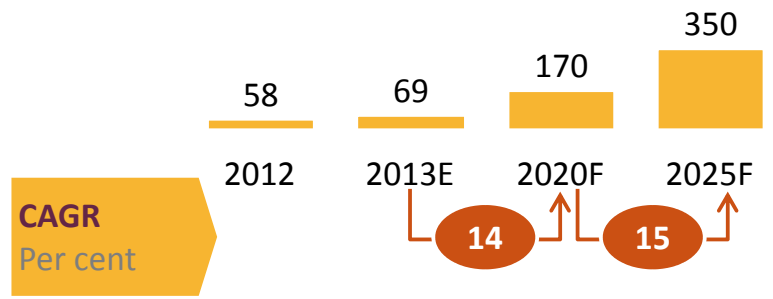


The industry can potentially clock 14–15% CAGR if markets revive to support a higher return on investments. But do we want to be externally dependent?

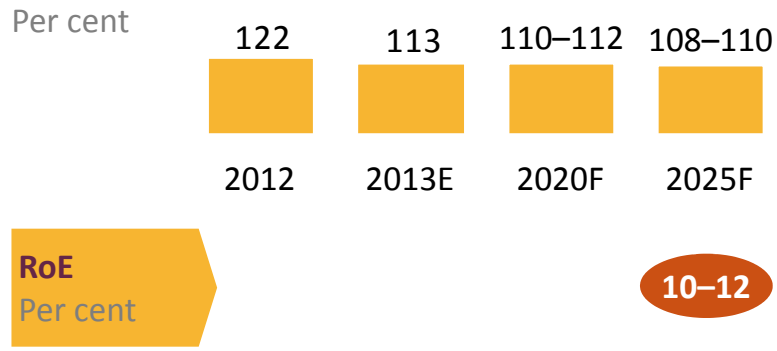
1 Does not include AICC and ECGC
2 Assuming dividend pay-out of 15% and tax rate of 25%
3. Available Solvency Margin compared to 1.6 times Required Solvency Margin to determine capital required
4. Value creation = (Return on equity – Cost of equity)*Average Net Worth; assuming a Beta of 1.1 and equity risk premium of 5% ; () denote negative value creation
SOURCE: IRDA; annual reports of GI companies; public disclosures; RBI; McKinsey analysis

If economy recovery is accelerated, the industry can potentially grow at 14–15% but will still see limited performance improvement

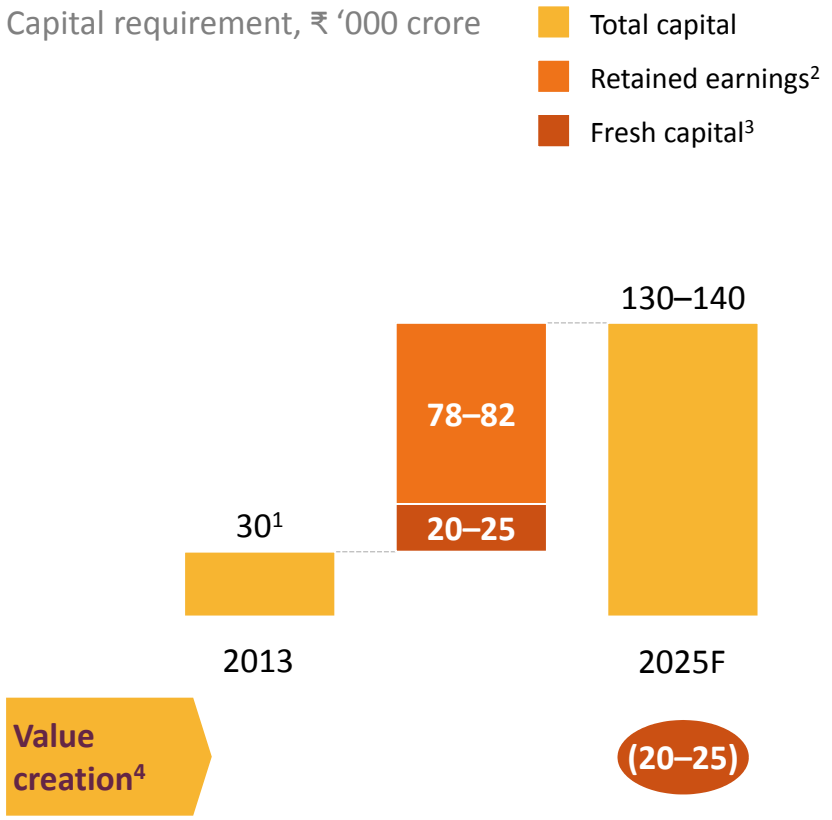
Growth: GWP trend



Profitability: CoR trend

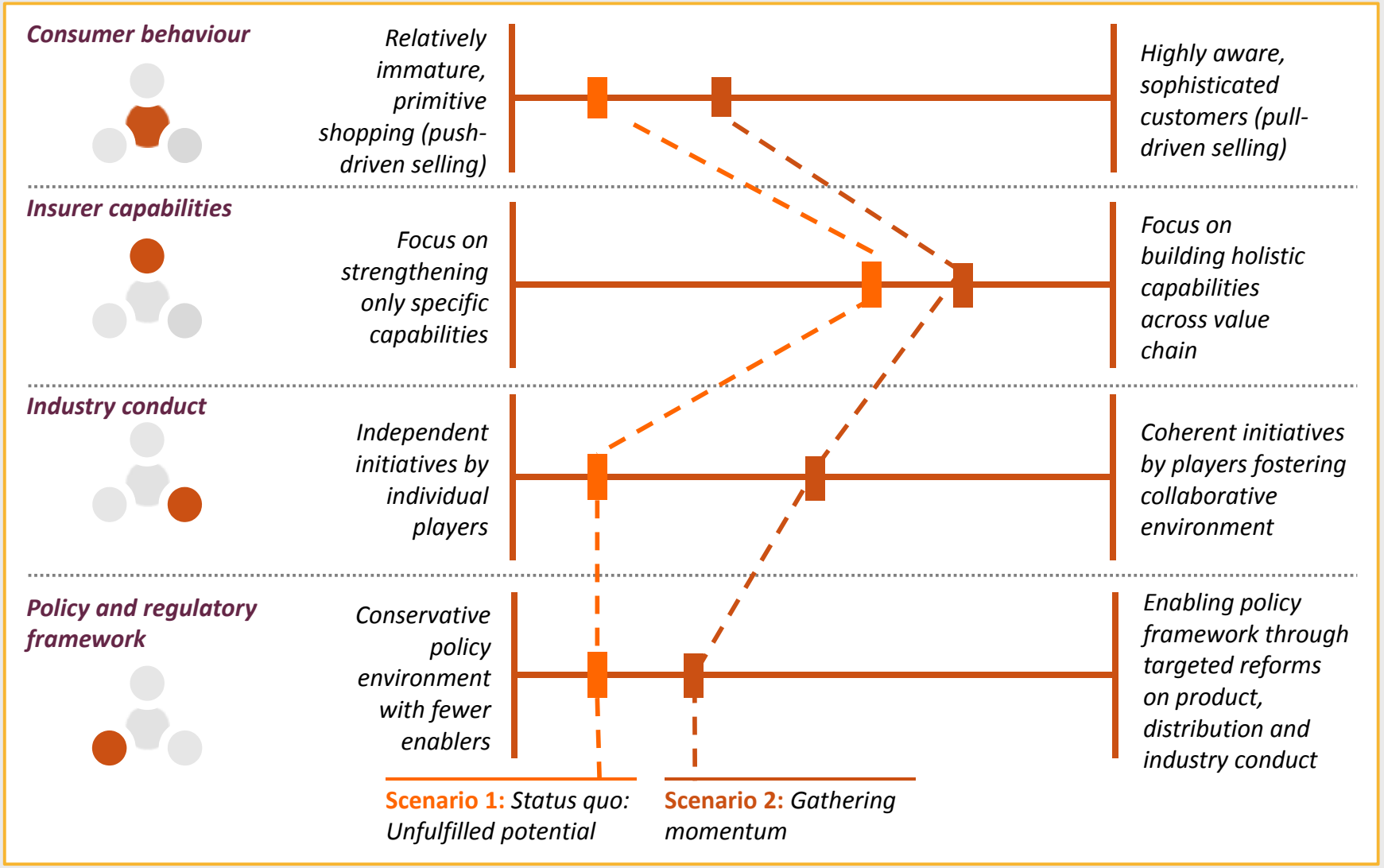


The growth will still require capital commitment to the tune of ₹ 20–25,000 crore



1 Does not include AICC and ECGC
2 Assuming dividend pay-out of 15% and tax rate of 25%
3. Available Solvency Margin compared to 1.6 times Required Solvency Margin to determine capital required
4. Value creation = (Return on equity – Cost of equity)*Average Net Worth; assuming a Beta of 1.1 and equity risk premium of 5% ; () denote negative value creation
SOURCE: IRDA; annual reports of GI companies; public disclosures; RBI; McKinsey analysis

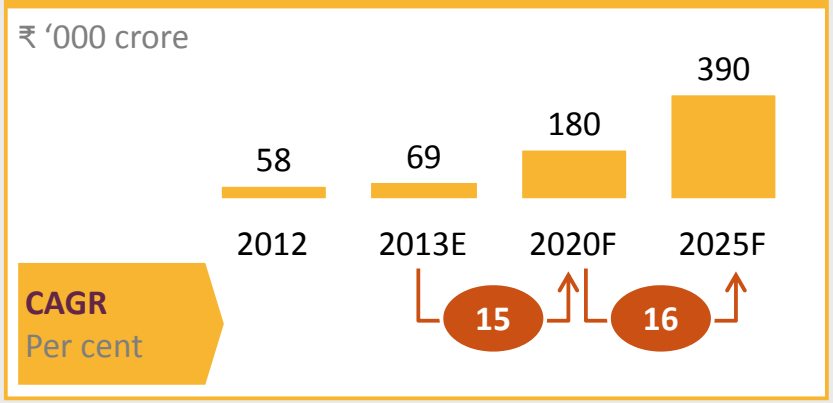
If stakeholders across the GI industry gather momentum, it can reach closer to its true potential without leaning heavily on the macro-economy



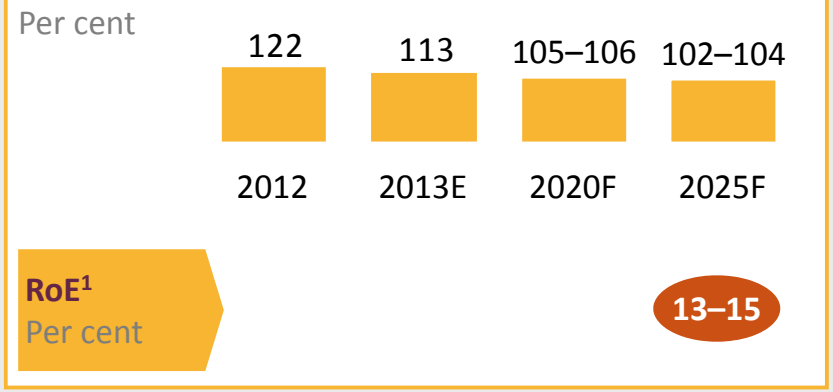
SOURCE: Stakeholder discussions

In this scenario, industry is likely to grow at 15–16% with improved profitability and much lower dependency on capital

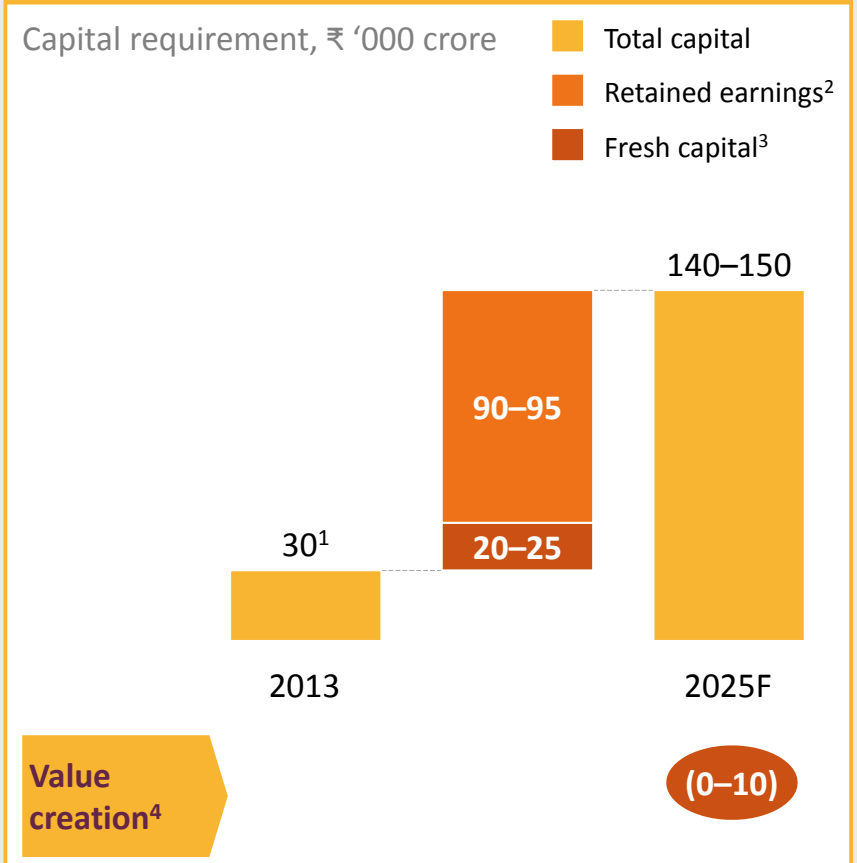
Growth: GWP trend



Profitability: CoR trend

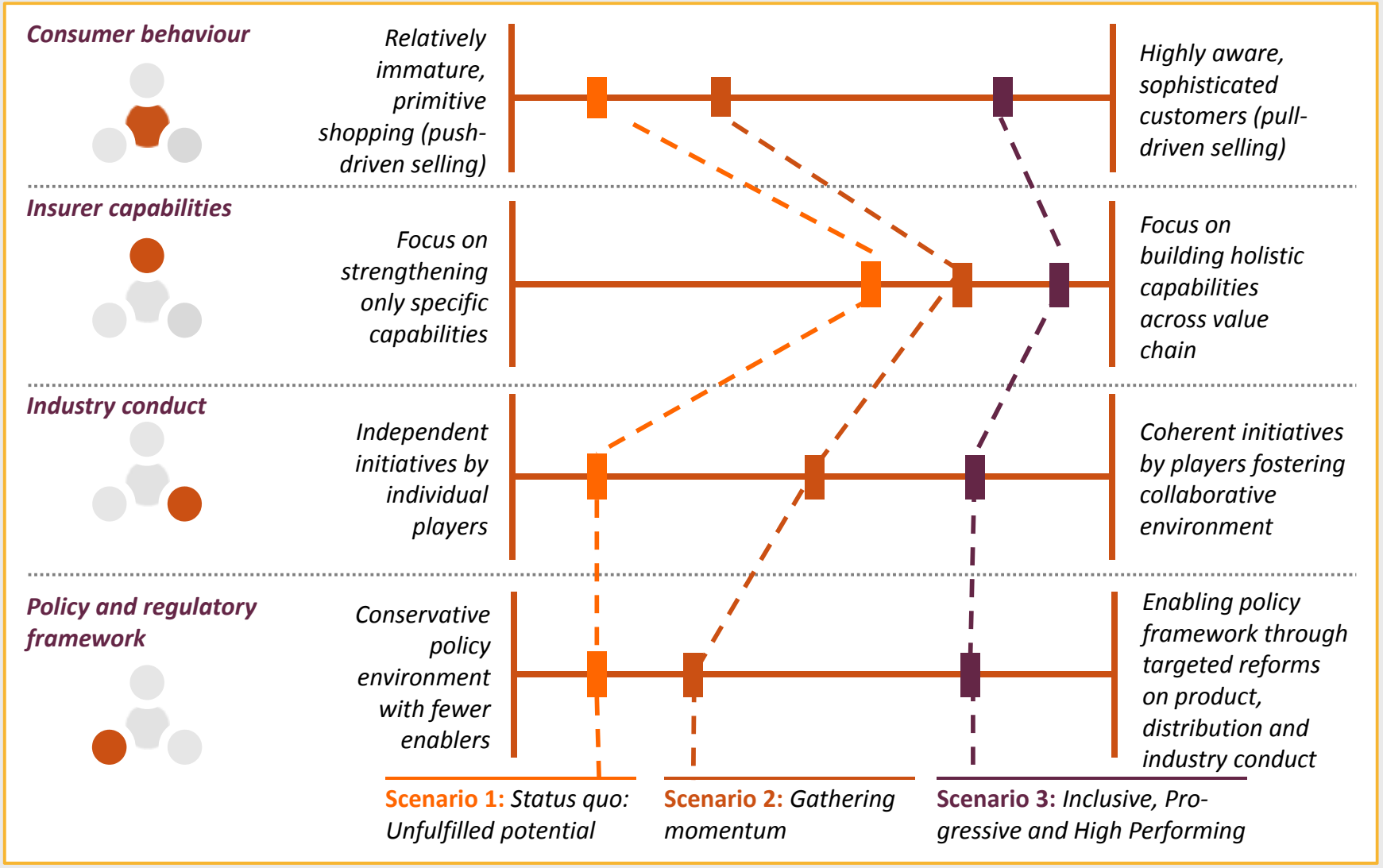


The growth will require a fresh capital commitment of ₹ 20–25,000 crore



1 Does not include AICC and ECGC
2 Assuming dividend pay-out of 15% and tax rate of 25%
3. Available Solvency Margin compared to 1.6 times Required Solvency Margin to determine capital required
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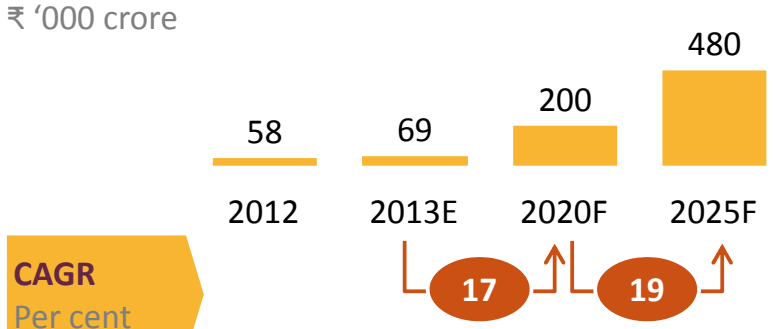
Enabling policy action to support individual and industry-level actions can help the industry realise its ambition to be "inclusive, progressive and high performing"



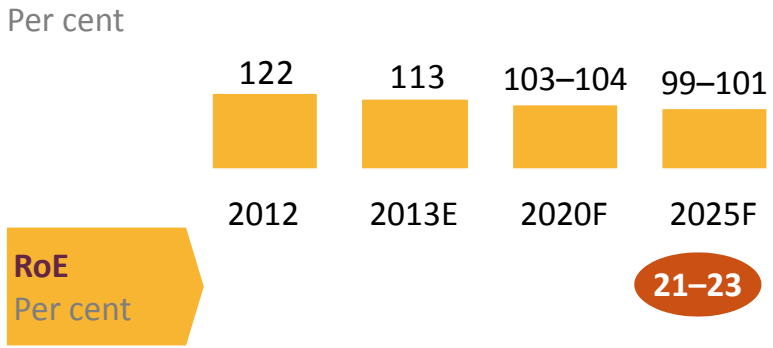
SOURCE: Stakeholder discussions

In this scenario, the GI industry can grow at 17–19% CAGR with significantly better economic performance

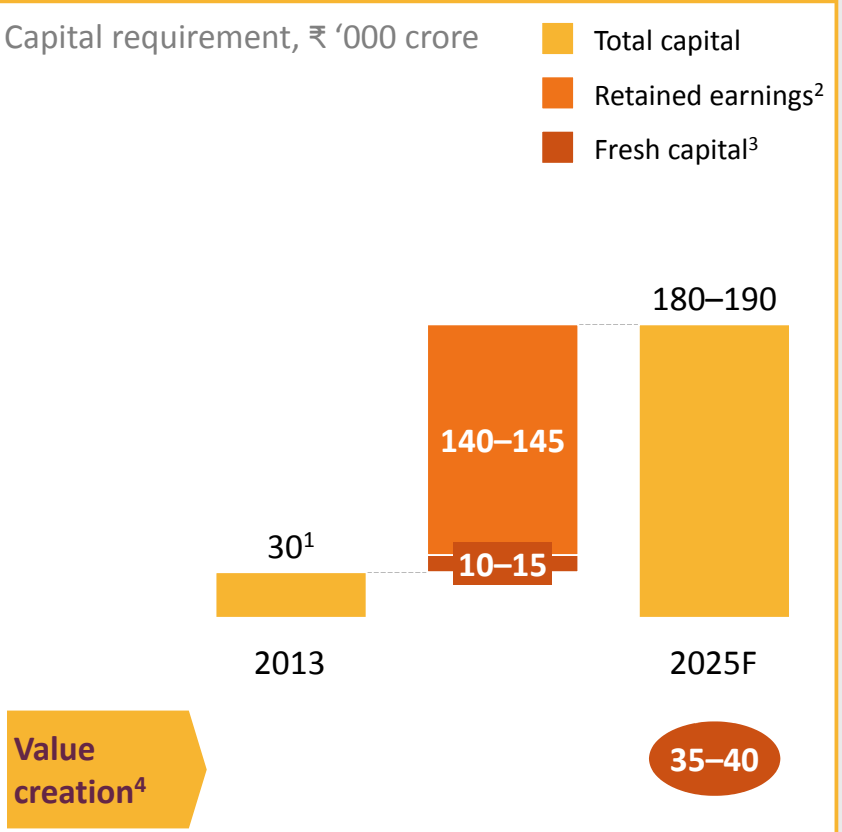
Growth: GWP trend



Profitability: CoR trend

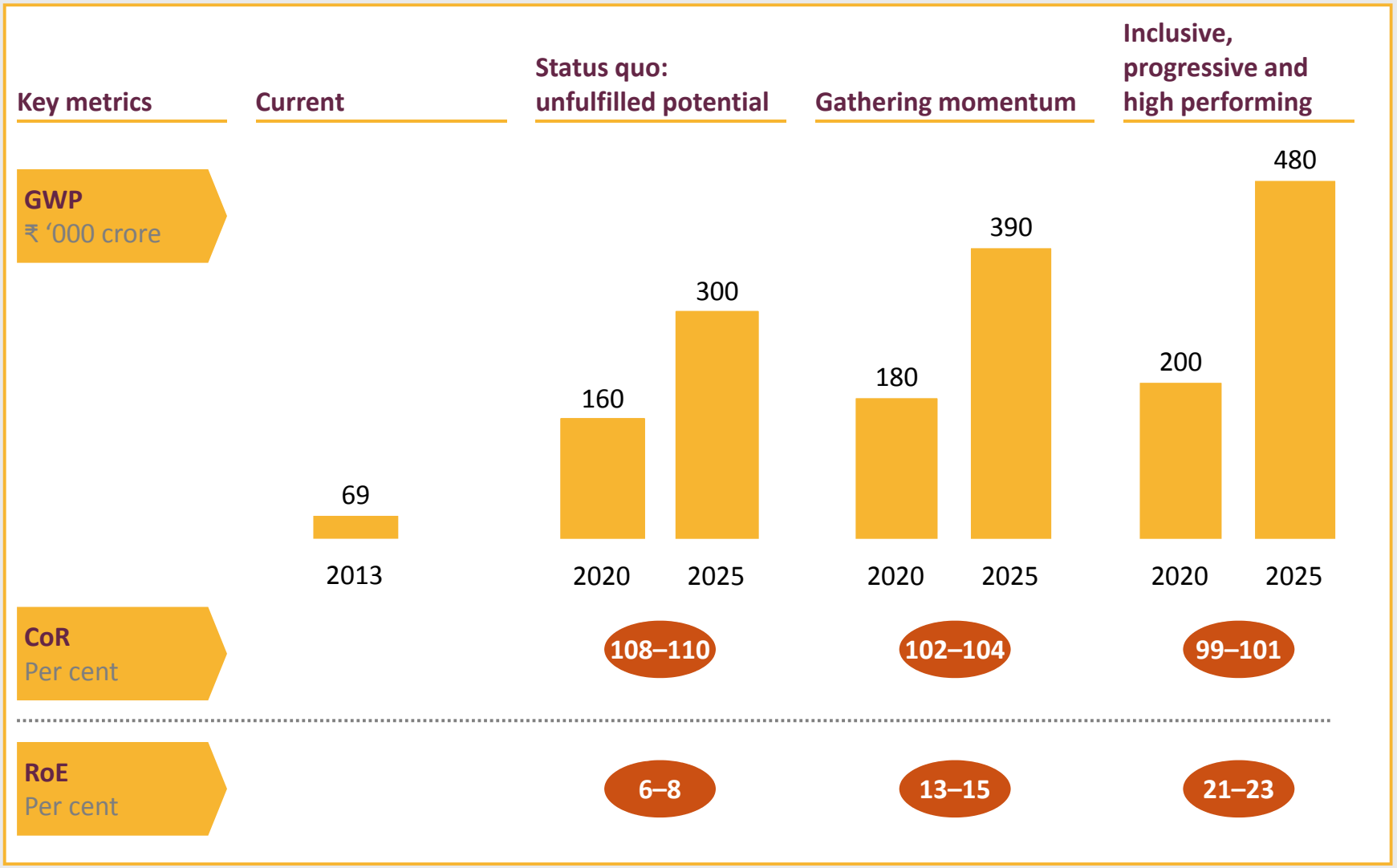


The growth will require a fresh capital commitment of ₹ 10–15,000 crore



1 Does not include AICC and ECGC
2 Assuming dividend pay-out of 15% and tax rate of 25%
3. Available Solvency Margin compared to 1.6 times Required Solvency Margin to determine capital required
4. Value creation = (Return on equity – Cost of equity)*Average Net Worth; assuming a Beta of 1.1 and equity risk premium of 5% ; () denote negative value creation
SOURCE: IRDA; annual reports of GI companies; public disclosures; RBI; McKinsey analysis

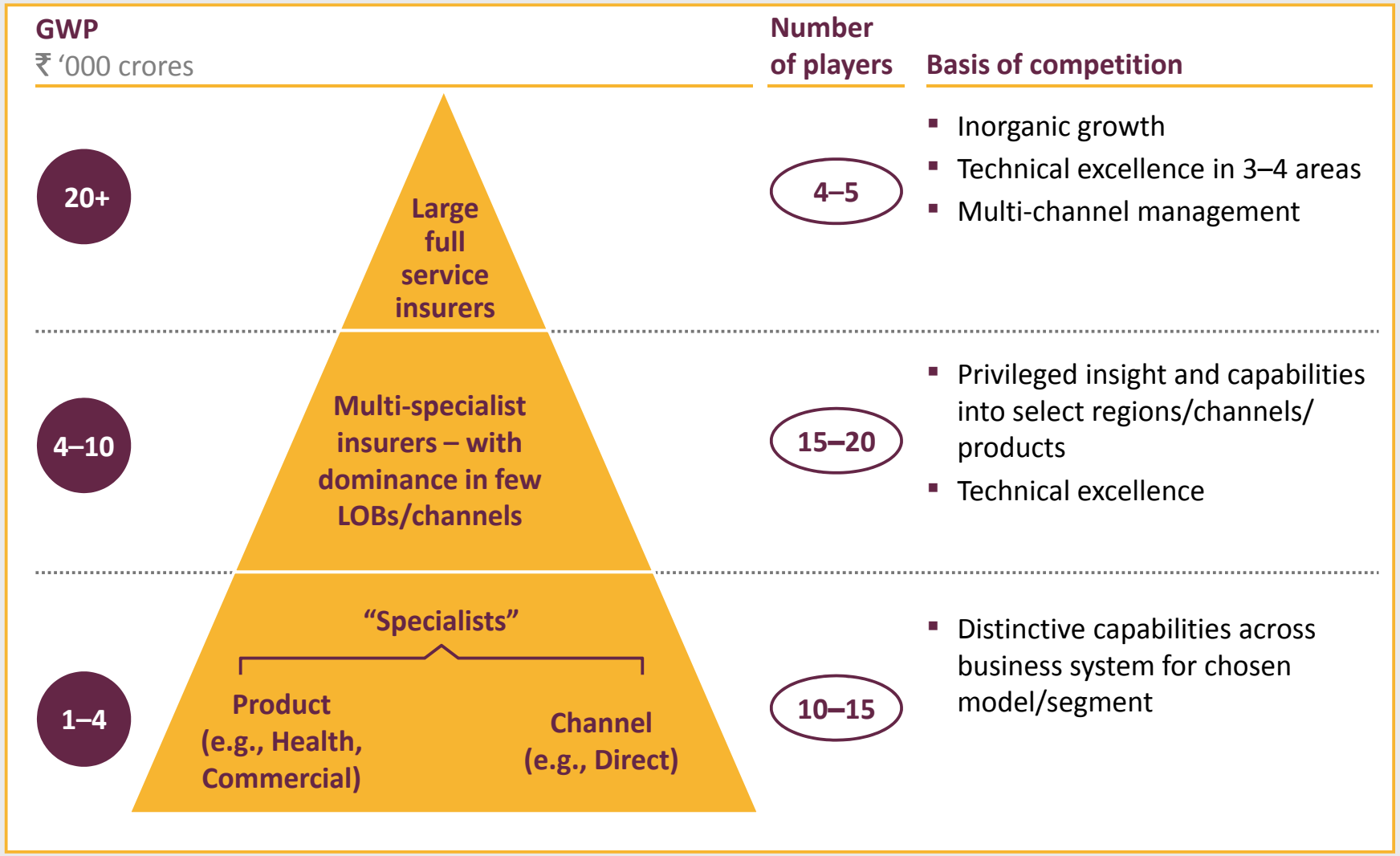
Comparison of volumes and profitability across scenarios



SOURCE: McKinsey analysis

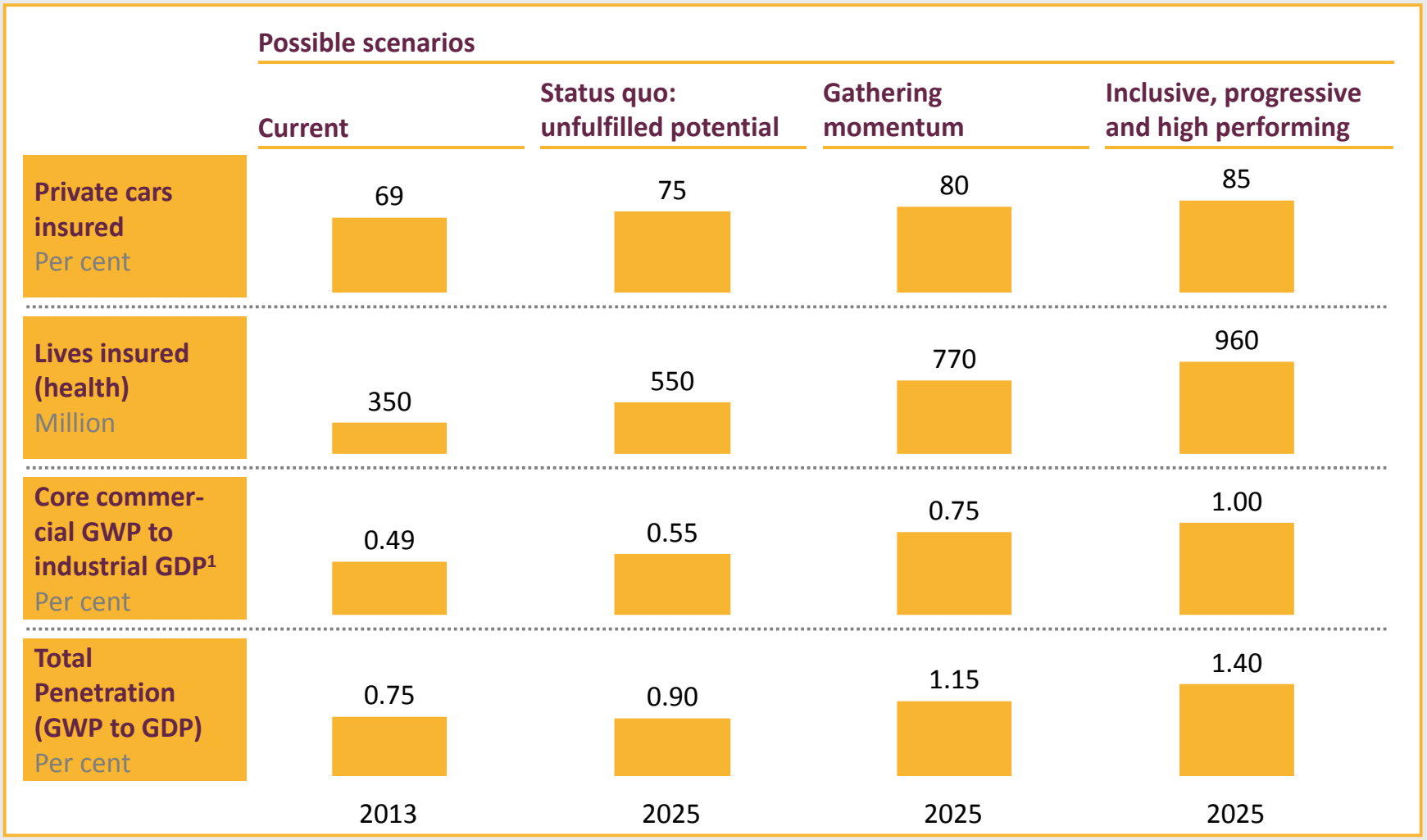
More balanced industry structure in the third scenario

2020 VIEW



SOURCE: McKinsey analysis

Key penetration levels across the three scenarios



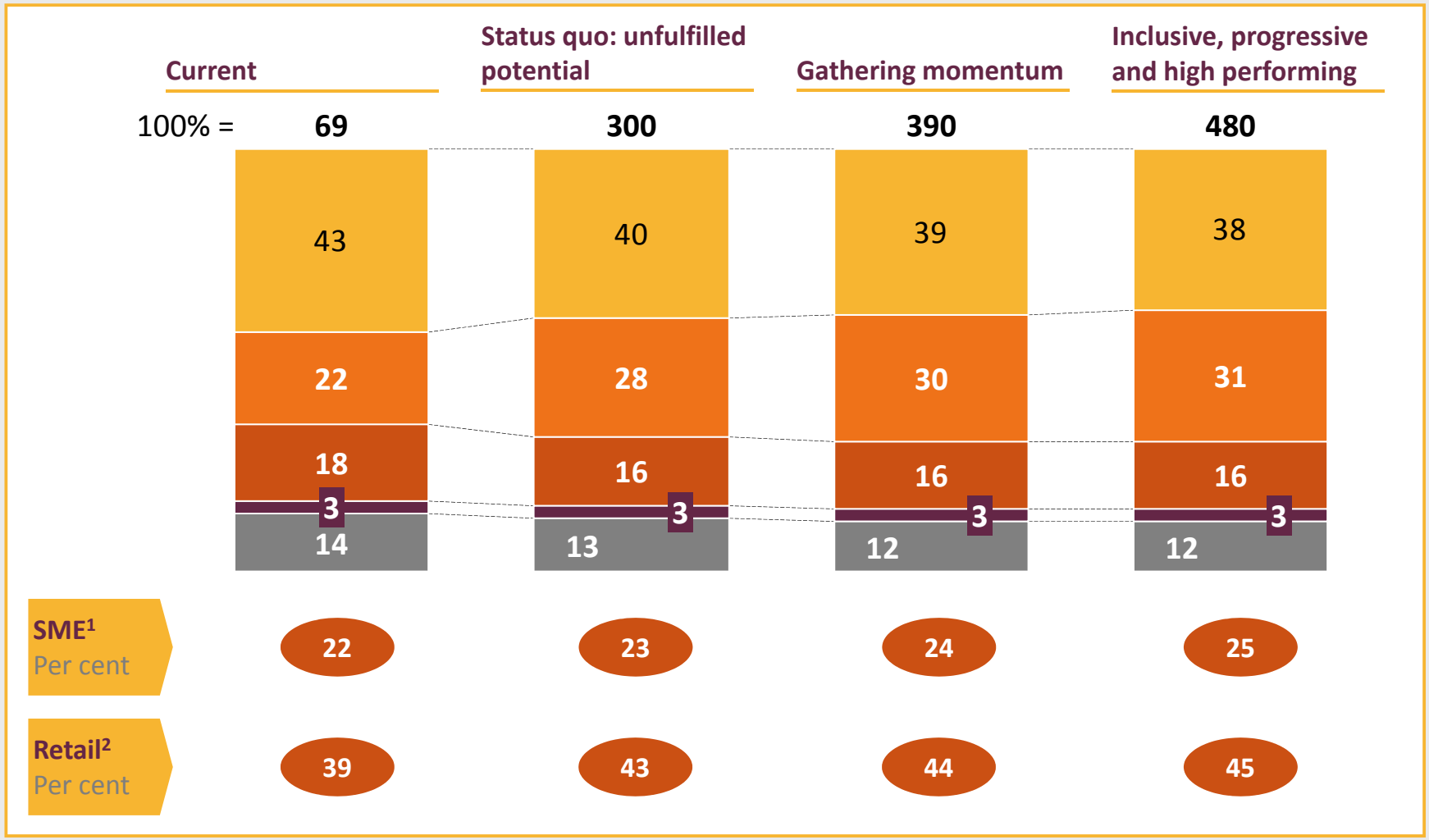
1 Across SME, mid and large corporates

SOURCE: McKinsey analysis

IV. Scenarios for the future

Portfolio mix across the three scenarios

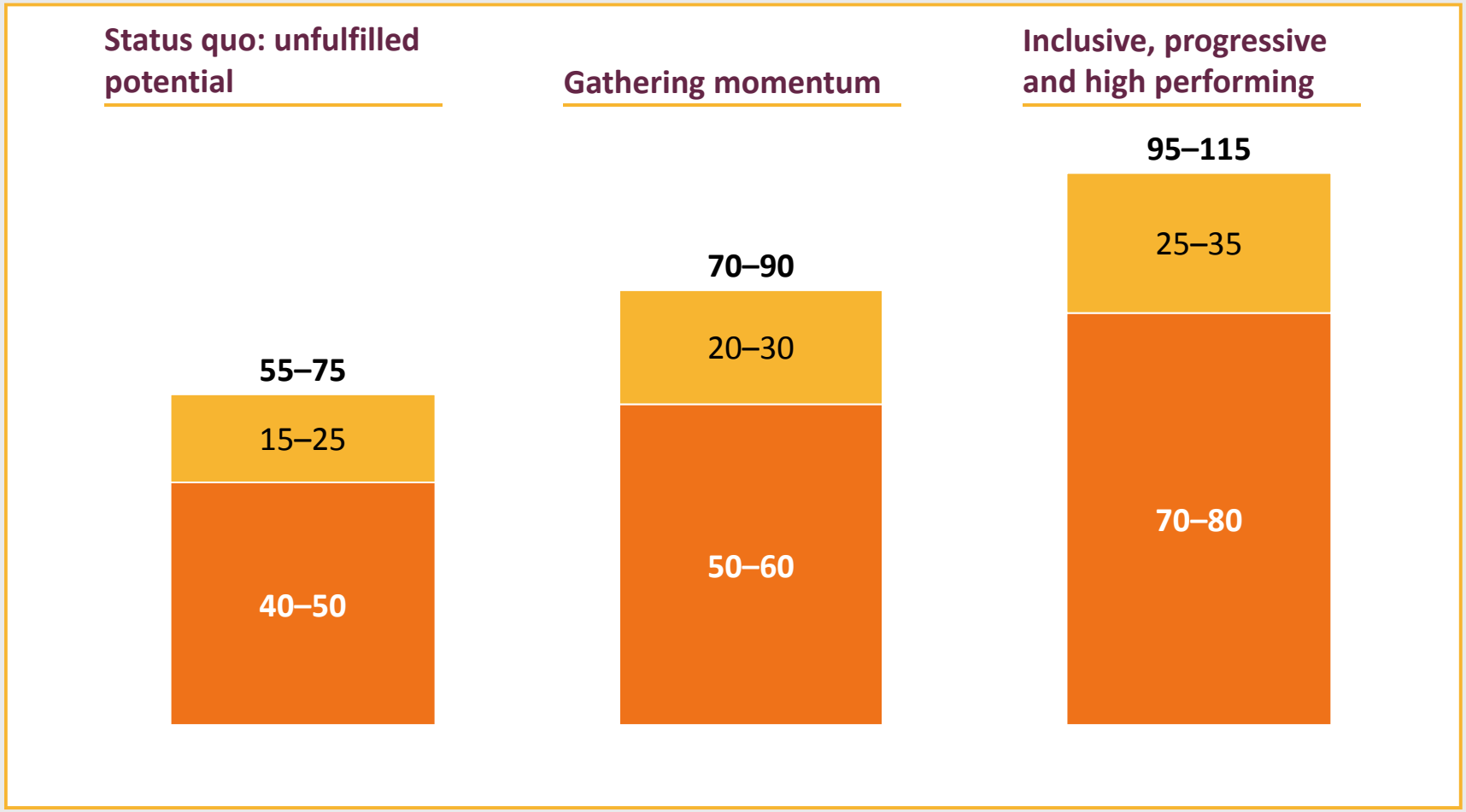
₹ '000 crore, per cent, FY25



1 Includes CV, SME group health, SME asset protection and SME export credit
2 Includes personal vehicles, health (retail and government) and others (home, accident, travel)
SOURCE: IRDA; annual reports of GI companies; public disclosures; McKinsey analysis

Technical manpower requirement across the three scenario

Employees in thousands, FY25



Note: Estimates only for underwriting, assessors and operations employees. Does not estimate the total manpower required for the industry. Based on growth in business and claims volume in each line of business; further, 15–30% efficiency improvement is assumed depending on possible advancements (lean processing, straight-through claims processing, tech-enablement, etc.) in each line of business

SOURCE: IRDA; annual reports of GI companies; public disclosures; McKinsey analysis

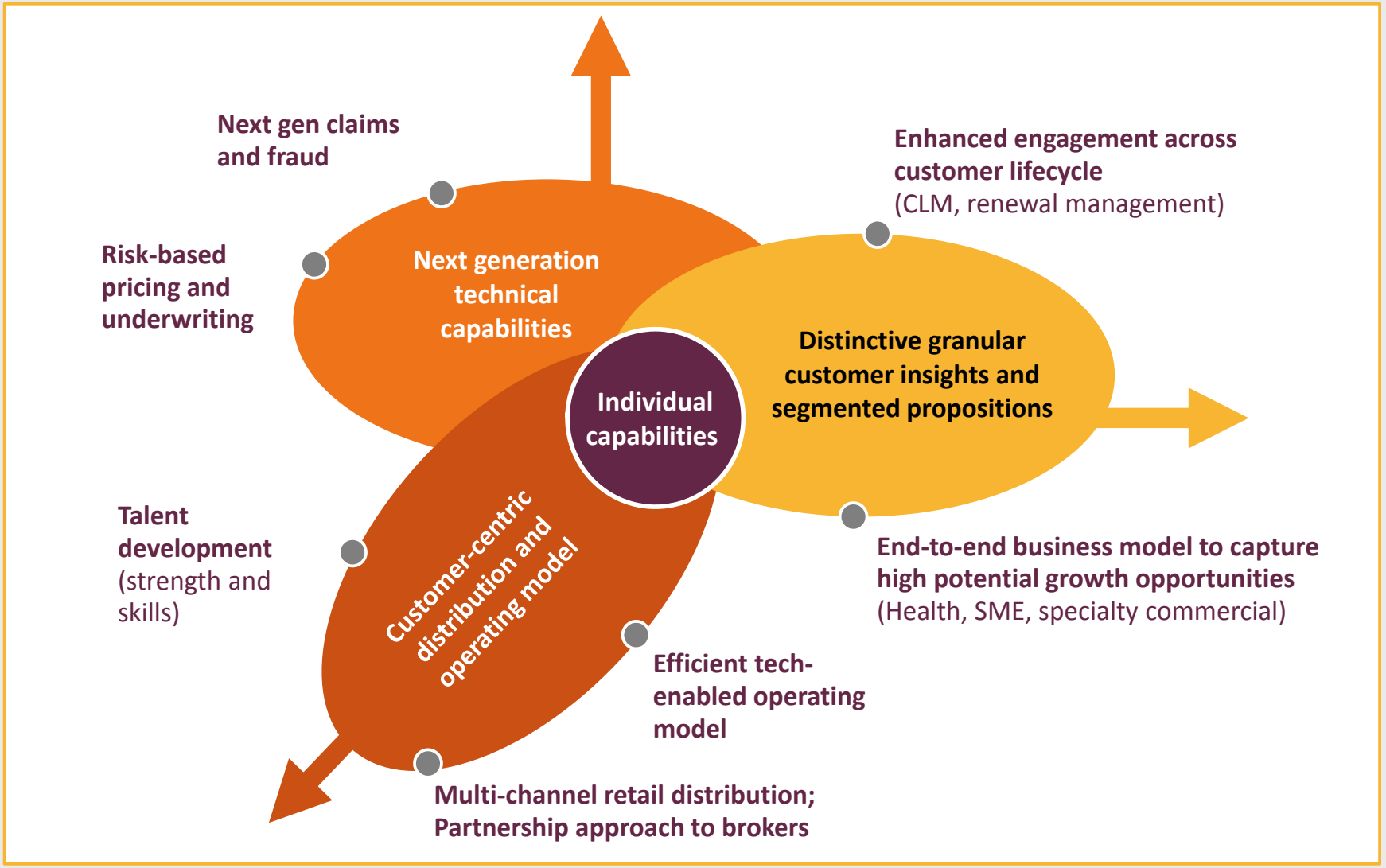


Chapter V
Agenda for action

The various industry stakeholders will need to take a set of coordinated actions to help the industry unlock its full potential and realise its ambitious vision.

- **Individual insurers will need to build capabilities across three axes of innovation:**
  - Build distinctive granular customer insights to capture high potential growth opportunities and enhance engagement across the customer lifecycle.
  - Upgrade to next generation technical capabilities (claims, underwriting, analytics, and actuarial capabilities).
  - Build world class operating models to achieve gains in efficiency while strengthening the human capital.
- **Industry-level initiatives that will be required to further performance:**
  - Raise the profile of GI in the Indian ecosystem.
  - Contribute in defining industry standards and protocols.
  - Co-sponsor the building of common infrastructure (in concert with policy makers/regulators) for fraud detection, claims management, skill building, etc.
- **Policy and regulatory initiatives suggested to complement individual and industry-level actions:**
  - Foster innovation and deepen penetration through product and distribution reform, and strengthen the industry structure through focused regulatory intervention and supervision.
  - Enable and guide efforts towards a common industry infrastructure.
  - Continue to scale up initiatives to ensure consumer protection.
  - Create an environment to attract capital.

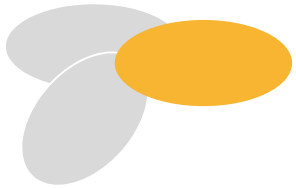
Insurers will need to build capabilities across 3 axes of innovation to ensure superior performance



SOURCE: McKinsey analysis

Company-level initiatives to address priorities of the Indian General Insurance industry (1/2)

Distinctive, granular customer insights



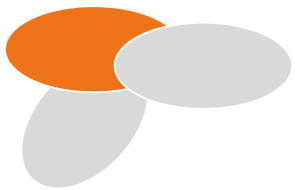
A. Capture high potential growth opportunities

1. **Health:** Build a holistic health insurance proposition comprising new product propositions (e.g., outpatient, preventive care), world class provider and claims management and enhance customer engagement (e.g., medical helplines)
2. **SME:** Develop segment specific propositions enabled by broad-based distribution through partnerships and effective industrialised underwriting capabilities
3. Adopt a **granular approach** to target potential growth hot-spots through differentiated business model **for selected risk exposures** (e.g., "green" risks in commercial lines; commercial vehicle segment)

B. Boost growth opportunity through enhanced engagement across customer lifecycle

1. Build an effective **end-to-end renewal management** mechanism
2. Focus on **holistic customer lifecycle management** to significantly boost cross-sell and up-sell opportunities

Next generation technical capabilities



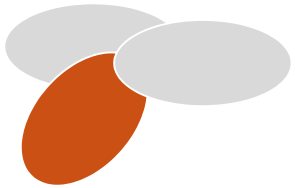
C. Maximise value-capture by upgrading to next gen technical capabilities

1. Invest in building best-in-class **next generation motor claims management** incorporating multi-dimensional capabilities (e.g., rules-based, segmented workflows and straight-through processing, lean operations and TP claims)
2. Supplement claims management with robust **fraud fighting mechanism**
3. Build advanced technical pricing model for personal lines
4. Strengthen capability for **efficient underwriting and claims management** for commercial lines

SOURCE: Stakeholder discussion; McKinsey analysis

Company-level initiatives to address priorities of the Indian General Insurance industry (2/2)

Customer-centric low cost operations



D. Build world class operating model to capture value through gain in efficiency

1. Adopt an **end-to-end tech-enabled operating model** to streamline back-end processing and improve efficiency
2. Improve **expense management** capability by streamlining organisation, prioritising locations, optimising procurement and outsourcing

E. Strengthen distribution to maximise reach

1. Build a comprehensive **multi-channel distribution** for retail and personal lines across agency, bancassurance, digital and POS (e.g., dealer)
2. Maximise potential through differentiated **partnership approach for the broker channel** in commercial lines
3. Develop suitable models to effectively tap into existing infrastructure to enhance reach in under-penetrated rural areas (e.g., CSCs and BCs in rural India)

F. Strengthen human capital to bridge skill gaps

1. Undertake a **comprehensive leadership development** and **capability building** approach customised for various levels and functional areas

SOURCE: Stakeholder discussion; McKinsey analysis

A2 Best-in-class example of end-to-end SME focused business model

Initiatives taken to establish its SME business

Establish-ment of a dedicated unit...

- Separation of SMEs and independent analysis (profitability, growth, etc.) for SMEs
- Establishment of a dedicated SME field sales team and underwriting staff

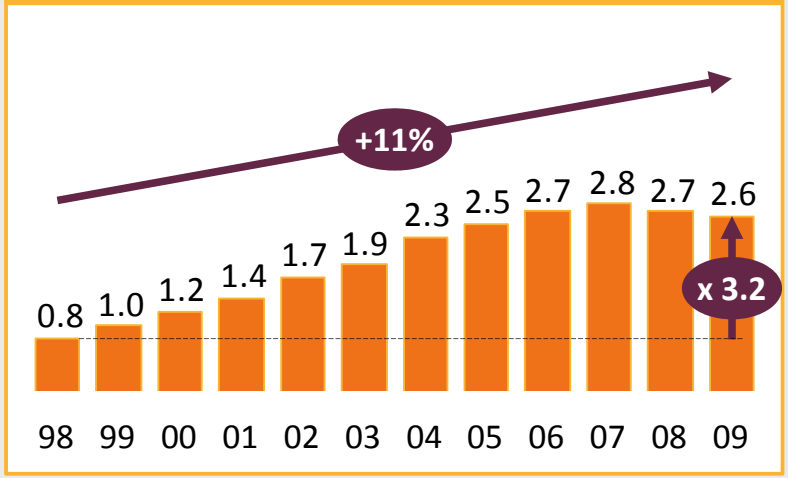
...gradual improvement mode

- Establishment of service centres, to allow agents to transfer SME policy renewal and routine services (such as endorsement) to insurer for a fee
- Concentration of underwriters to sales centres
- Formation of professional field sales representatives (with limited pricing authority)
- Formation of professional pricing model for SME business

...continuous innovation and upward transfer

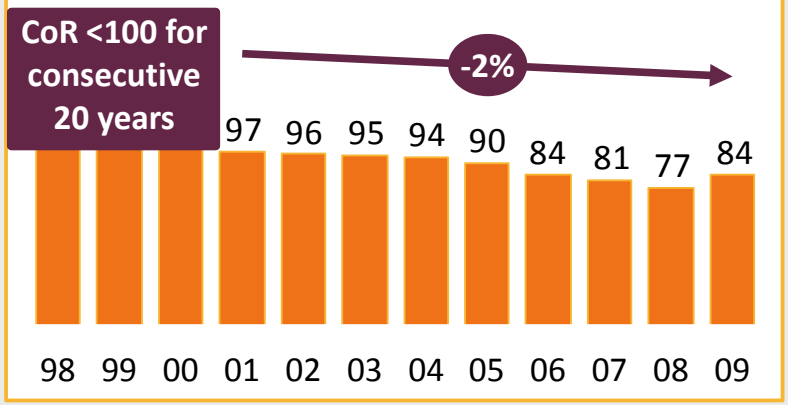
- Policy adjustment relying on its scale (more than 1 million insurance policies) and implementation of differential prices
- Continuous product innovation for BOP de-commodification according to the emerging needs of end customers

SME premiums – double digit growth rates



SME CoR (excluding catastrophes)

Per cent of NPE



SOURCE: Insurer annual reports; McKinsey analysis

C1 Next generation claims capabilities: Tech and analytics driven claims processing (1/2)

1 Predictive analytics



Use statistical techniques to analyse large volumes of data (internal and external) and **identify the small subset of claims likely to experience significant and unexpected adverse development**, due to factors such as litigation and medical complications. Then, proactively deploy resources, such as expert counsel and nurses, to **manage these risks and provide better customer service**

2 Decision support tools



Achieve higher levels of consistency and accuracy in claims outcomes by equipping adjusters with more **sophisticated, fact-based, real-time decision support tools** that harness advanced analytical horse power to provide new insights. Review of liability determination, medical payments and auto repair damage are examples of claim adjudication tasks where sophisticated decision-support tools have rapidly gained traction

3 Automation



Automate the completion of straightforward, high-volume and low-complexity tasks (e.g., policy in force verification, payments, regulatory letters). The full power of automation is unleashed in stringing together multiple tasks to **auto-adjudicate or handle entire classes of high-volume, low-complexity claims without involving an adjuster. In complex claims, automating specific tasks** can free adjusters to focus on those critical decisions in the life of a claim that drive the overall outcome and impact customer satisfaction

SOURCE: McKinsey analysis

C1 Next generation claims capabilities: Tech and analytics driven claims processing (2/2)

Rules are techniques to predict outcomes, support decisions and automate processes by codifying and embedding business intelligence and logic into day-to-day claims workflows



- **Deliver significant financial impact** – identify and capture 3–4 points of combined ratio improvement with benefits accruing rapidly



- **Differentiate through distinctive customer service** – provide on-going competitive edge and differentiation to personal and commercial lines customers



- **Enhance claims operating model** – improve accuracy and productivity of claims handling processes (e.g., segmentation/assignment recognising capability and capacity)



- **Use best practices consistently** – systematically leverage institutional expertise and internal and external data sources for decision making, transparency and internal/regulatory compliance



- **Energise the claims organisation** – enhance quality of work for adjusters and maximise impact of talent in the organisation

SOURCE: McKinsey analysis

C2 End-to-end fraud management capabilities

Core processes

Detection

- Fraud indicators
- Triage of suspicious claims to be investigated
- Proactive analysis
- Engage 3rd parties

Investigation

- Case segmentation
- Desktop investigation
- Cognitive interview
- Cross-insurer investigation

Prevention

- Interaction with other units
- Incorporate fraud alerts in subscription
- Internal and external communication programme

Enabling factors

Performance management

- Fraud funnel granular KPIs
- Fraud scorecard
- Key analyses

IT instruments and systems

- Automated detection system
- Fraud workflow
- Investigation tools

Capability building

- Awareness programme
- Training programme (e.g., detection skills) for claims handlers
- Internal best practice sharing

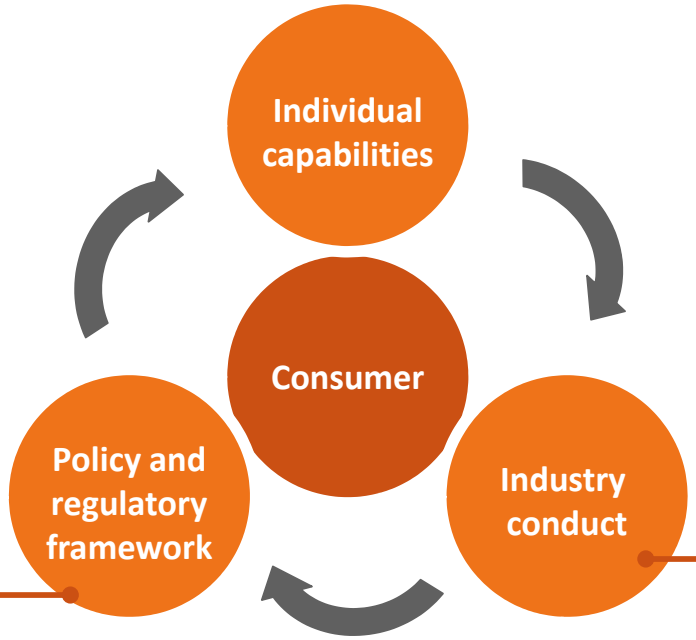
Organisational structure

- Dedicated triage unit with dedicated fraud coordinators and desktop investigators
- Coordination mechanisms with other functions/units

SOURCE: McKinsey analysis

To achieve full potential, individual actions will need to be supplemented by industry conduct and enabled by policy and regulation

- **Foster innovation and deepen penetration through product and distribution reform**
- **Strengthen industry structure through focused regulatory intervention and supervision** *(e.g., risk based capital)*
- **Enable and guide efforts to strengthen common industry infrastructure** *(e.g., enabling information sharing)*
- **Launch targeted initiatives to ensure consumer protection**
- **Create enabling environment to attract capital** *(projecting India as an attractive destination for FDI and reinsurance)*

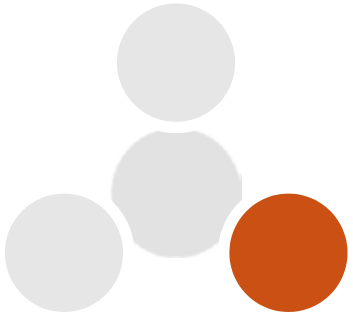


- **Raise profile of GI in the Indian ecosystem** *(consumer awareness, communication plan)*
- **Contribute in defining industry standards and protocols** *(fraud definition, medical standards)*
- **Co-sponsor building of common infrastructure (in concert with policy makers/regulators)** *(e.g., claims bureau)*

SOURCE: Stakeholder discussion; McKinsey analysis

Initiatives for industry-level collaboration to address priorities of the Indian General Insurance industry

Industry conduct



A. Raise profile of GI in the Indian ecosystem

1. Launch a nation-wide **consumer awareness drive** including insurance week, awareness ads, associate with drives for healthcare and road safety
2. Initiate a **systematic communication plan** for phase-wise dissemination of information about industry initiatives and policies to stakeholders
3. Drive awareness of **importance of insurance to other stakeholders,** e.g., banks risk losing customers if they insist on coverage only up to the value of loans and not total assets

B. Contribute in defining industry standards and protocols

1. Collaborate to develop a **standardised definition of claims fraud** across lines of business
2. Collaborate with healthcare industry to **develop standard protocols for medical treatment** (on lines of DRGs seen in markets like US, Germany, Australia)

C. Co-sponsor building of common infrastructure (in concert with policy makers/regulators)

1. Create **centralised claims information centre** under the aegis of Insurance Information Bureau with appropriate governance and private funding
2. Co-sponsor a **fraud investigation unit** to undertake on-ground investigation, legal action and develop analytics model for early detection
3. Institutionalise **skill building** by promoting an industry accredited **insurance academy** catering to development of technical skills at scale and incorporating **certification standards**

SOURCE: Stakeholder discussion; McKinsey analysis

A Case example: GDV coordinates industry effort towards customer education and represents a concerted position of the industry

About GDV	The Berlin-based Gesamtverband der Deutschen Versicherungswirtschaft (German Insurance Association) is the **umbrella organisation for private insurers in Germany,** with **470 member companies**

Key roles

- GDV **articulates and represents the positions of the German insurance** industry before society, politicians, businesses, the media and academia. **It works to achieve regulatory conditions** which will allow insurers to perform their responsibilities in the optimal fashion
- It is also a **source of expert information** about all matters relating to the insurance industry, making available its wealth of experience and information to the public
- GDV **informs and supports its member companies** as a service provider, identifies political and social developments of relevance for the sector and proposes solutions

Illustrative list of activities performed by GDV

- **Press articles:** GDV publishes press releases targeted at insurance customers almost every week. Recent list of topics published:
  - Flooding losses: How to protect yourself
  - Climate change challenges for Germany
  - Going on vacation: Get the right insurance
  - How to avoid damage to solar cell units
  - Be safe in the garden
  - Secure children in the car
- **Radio and TV campaigns:** GDV also runs radio and TV campaigns. TV campaigns, which would normally cost a player €200 per spot, is fully sponsored by GDV

SOURCE: GDV website

C Globally, insurers have responded to fraud with a wide range of industry-level initiatives

	Description	Examples
Information sharing	▪ In several countries, insurers **share relevant information** to identify potential frauds ▪ The most effective way to exchange information is the setting up of industry-wide **databases** that can be accessed by insurers	▪ In the **UK**, the Insurance Fraud Register is a database that stores **details** of **individuals** who made **fraudulent claims** ▪ Insures can search the DB and may **restrict access** to insurance to those individuals
Dedicated units	▪ Insurance companies have established formalised units to analyse data to identify multi-carrier/multi-claims fraud: — **Disseminate** best practices among members — **Educate** legislators about the costs of insurance fraud to the consumers and the industry — **Lobby** to increase resources to fight fraud — **Investigate** fraud cases	▪ In the **US**, NICB analyses data to identify fraud cases ▪ In **France**, in 1989 insurers set up a sectorial agency to promote counter-fraud activities such as training and **certification** of fraud investigators and **advice** on how to handle fraudulent cases
Cooperation with law enforcement agencies	▪ Increased **cooperation** with police, judiciary and other agencies	▪ In the **UK**, the insurance industry **funds** the Insurance Fraud Enforcement Department, which is part of the London Police and is in charge of **investigating** potential frauds
Training	▪ Formal **training** of insurance staff and police to raise awareness and increase probability of detection	▪ In **Denmark**, the local agency organises **seminars** for its **members** ▪ In **Finland**, the insurance federation has organised specific training for the **police** ▪ In **Spain,** awards are given to employees of insurers that are best in detecting frauds
Cheat lines	▪ In several countries, help lines to **report** suspected or known insurance **frauds** have been set up ▪ Often, these cheat lines are run by industry-wide organisations	▪ **Ireland**, **Sweden**, **UK** and **US**

SOURCE: Press search

C Insurance industry response to frauds – UK example

Claims fraud is a serious issue in the UK…

- Every hour, **15 fraudulent insurance claims** are reported in the UK
- Insurance fraud adds, on average, an **extra £50 a year to the annual bill** for every policy holder
- In 2012, the cost of "cash for crash"[1] frauds was worth **£392 million**
- It is estimated that there is a **further £2 billion of undetected** fraud

…that generated strong industry-wide responses, with about £200 million investment per year

ifb Insurance Fraud Bureau

- Set up in 2006, the IFB currently focuses on **personal lines**: motor, home, personal injury claims. **It acts as single point of contact** for law enforcement agencies
- Currently, it has **33 insurer members** that manage in excess of **95% of UK personal lines claims**. It has access to an industry-wide DB (the Insurance Fraud Register) with more than **130 million insurance records**
- It uses **advanced data matching analytical techniques** to **identify potential frauds**
- The IFB manages a **call centre** that allows individuals to report insurance frauds

Insurance Fraud Enforcement Department

- Directly funded by the insurance industry, the IFED is a **specialist police unit** of 34 detectives dedicated to tackling insurance frauds

- Over **139,000 bogus** or **exaggerated insurance claims** detected in 2011, up 5% vs 2010
- **Value saving** of these frauds **was £983 million** (a 7% increase vs 2010)
- The IFB has overseen more than **700 arrests** since 2006
- Over the past 3 years, **9,000 reports** of insurance fraud have been **made via cheatline**

1 To deliberately cause a road traffic collision for the purpose of financial gain

SOURCE: Insurance Fraud Bureau; Association of British Insurers

C Skill building initiative at industry level – Insurance Institute of Canada



Structure and governance

- Not-for-profit organisation established in 1899 through collaboration of GI players to help set professional standards and training courses for insurance practitioners
- Serves more than 39,000 members across Canada through 19 volunteer-driven provincial institutes and chapters

Key activities

- Closely works with federal and provincial regulators to:
  - Design courses
  - Develop training material
  - Conduct certification examinations which are recognised by regulators (additional exams may be required for specific product or distribution categories)
- 3 primary courses are offered:
  - **General Insurance Essentials (GIE):** Entry level 2-course programme focusing on basic practices and principles
  - **Chartered Insurance Professional (CIP):** 10-course programme focusing on technical and applied insurance knowledge. Highly recognised throughout Canada and internationally. Applicable for agent/broker, marine insurance specialist, claims investigator, and underwriter.
  - **Fellow Chartered Insurance Professional (FCIP):** 6-course Premier designation for insurance professionals focusing on strategy and insurance essentials

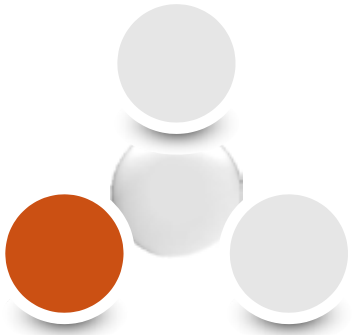
Industry-level activities

- Platinum sponsor of the National Insurance Conference of Canada
- Sponsor of Annual Conference and Trade Show hosted by the Insurance Brokers Association of British Columbia
- It is also actively involved in various women-centric insurance associations

SOURCE: Press search

Policy-level initiatives to address priorities of the Indian GI industry (1/3)

Policy and regulatory framework



A. Foster innovation and deepen penetration through product and distribution reform

1. Provide scope to deepen product-wise penetration and enable differentiation by (a) **designating certain products as mandatory and/or providing tax incentive** (e.g., home insurance in catastrophe prone areas); (b) **streamlining product approval** (e.g., use and file approach for simple standard products (c) liberalising policy wordings and pricing across all categories (d) expanding the framework to allow new product structures e.g., savings linked component with health; multi-year policies for categories such as two-wheelers to reduce churn
2. Accelerate **distribution reforms:** (a) Framework for clearly classifying channels as either tied agent or IFA; (b) Clear articulation of basis of remuneration (service provider remunerated by service receiver – insurer or customer); (c) Ownership of training and certification based on product complexity and channel; (d) Uniformity in regulations for similar lines of business across categories of players

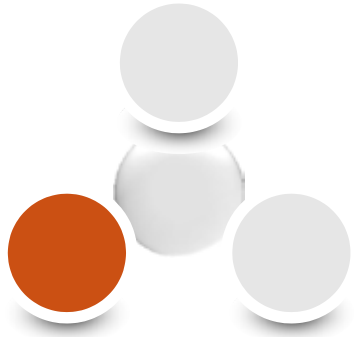
B. Strengthen industry structure through focused regulatory intervention and supervision

1. Provide a **differentiated regulatory oversight** and encourage players to "earn the right" to grow through holistic performance measurement (e.g., RoE, channel, product mix) and differentiated support in terms of product approval, investment flexibility, solvency requirements and licensing process
2. Increase the **level and rigour of financial disclosures** and ensure standardisation and transparency in reserving norms
3. **Gradually adopt a shift towards higher self-regulation** with IRDA playing the role of a principle-based regulator (e.g., allocation of risk-based capital)

SOURCE: Stakeholder discussion; McKinsey analysis

Policy-level initiatives to address priorities of the Indian GI industry (2/3)

Policy and regulatory framework



C. Structural interventions to increase penetration in uncovered/undercovered segments, e.g., disaster, rural, home, health

1. Leverage the experiences and technology platform developed through RSBY and other state sponsored health insurance schemes to extend scope of "mass health insurance coverage" to include a) other "vulnerable" segments, e.g., APL, b) outpatient and diagnostics, c) preventive care, e.g., vaccinations
2. Enable development of "benefit" based home insurance products to drive penetration in low cost/mass housing and rural housing segments
3. Catalyse building of **national disaster recovery fund** to help insurers in case of natural calamities, on lines of similar set-ups abroad; take policy action to ensure natural catastrophe risk transfer (individuals, corporates and governments)[1]
4. Structural reforms to increase take-up and efficiency of **agriculture crop coverage** through a combination of remote satellite imaging based surveys, promoting "weather-index' based product offerings and government subsidy on premiums instead of on claims

D. Enable and guide efforts to strengthen common industry infrastructure

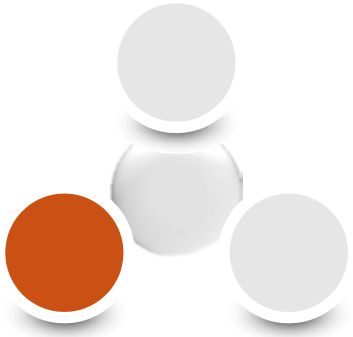
1. Facilitate **information gathering and sharing** across players by overseeing infrastructure development, instituting processes and participating in regular governance (e.g., a common claims database with fee-based access to all GI players)
2. **Formulate guidelines and facilitate coordination** with associated industry bodies for usage of **rural distribution network by** all GI players to enable cost efficient access in remote geographies

1 Discussion paper by IRDA – NDMA, titled 'Disaster Relief and Risk Transfer Through Insurance' provides detailed study and actions on this topic

SOURCE: Stakeholder discussion; McKinsey analysis

Policy-level initiatives to address priorities of the Indian GI industry (3/3)

Policy and regulatory framework



E. Strengthen targeted initiatives to ensure consumer protection

1. Bring **higher level of customer-centricity in disclosures** (e.g., clearly define customer complaint; no. of complaints, claims settled in < 1 month to be part of disclosures and IRDA reports); this will enable healthy competition on service levels and less commoditisation of industry
2. Design and launch a portfolio of initiatives aimed at **protecting consumer interest** (e.g., enforcing greater transparency in policy information, arbitration committees, etc.); allocate responsibilities to relevant industry stakeholders and oversee execution

F. Create enabling environment to attract capital

1. Take proactive initiatives to project India as an attractive investment destination and hence **pave the way for FDI inflows into the Indian GI industry** (e.g., sponsor road shows in foreign markets for potential investors)
2. Facilitate **development of India into a reinsurance hub** to help underwrite and retain more within India and enable access to more talent and expertise to support market development (in particular review capital, legal structure and taxation norms)

SOURCE: Stakeholder discussion; McKinsey analysis

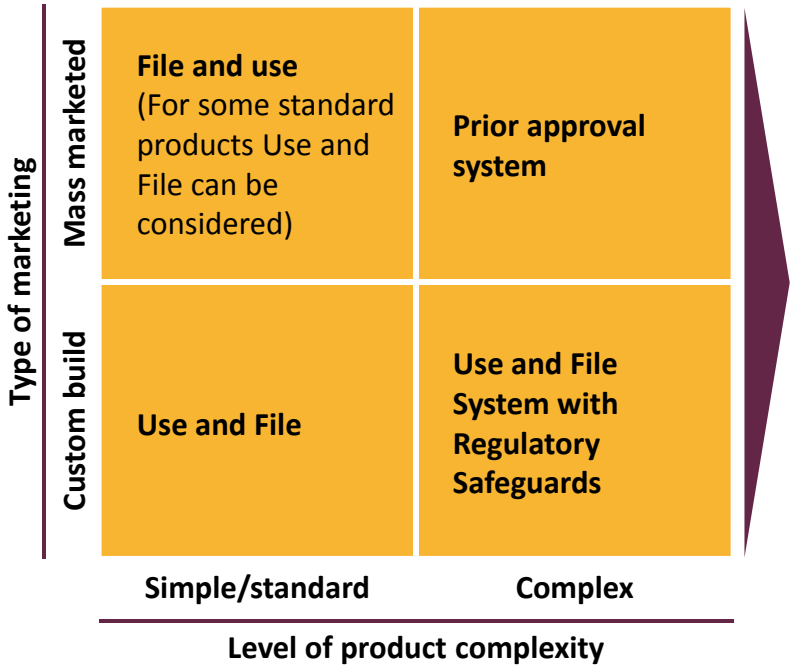
A1 Globally, significant product reforms have been initiated; Multiple Product Approval System is prominent among those

Multiple Product Approval System includes 4 key product approval categories	Countries where corresponding approval categories are allowed
▪ **File and Use:** Insurer first files the product/rates and can start selling the product immediately or within a stipulated period of time. The regulator might disapprove of the rates later based on which the insurer is expected to take corrective action	✓ ✓ ✓ ✓
▪ **Use and File:** Insurer directly introduces new products/rate in the market and, within a stipulated time frame files the details with the regulator. On subsequent disapproval, corrective actions need to be taken by the insurer	✓ ✓ ✓
▪ **Flexible:** New products/rates are introduced by the insurer without prior permission provided they are within a stipulated range. The regulator steps in only when there is a case of non-compliance or customer grievance	✓
▪ **Competitive:** Insurers are given the freedom to introduce new rates or products in the market without regulatory approval. It is a purely market driven system with no intervention from the regulator unless there are cases of non-compliance or customer complaints	✓ ✓ ✓

SOURCE: Press search

A1 Potential Multiple Product Approval System for Indian GI industry

Framework for potential Multiple Product Approval System



Contours of 4 types of product approval systems

	Prior Approvals	File & Use	Use & File	Use & File (Reg Std)
Product Design	By Insurer	Standard Products ▪ GI Council Simple Products ▪ By Insurer	Customer/ Insurer	Customer/ Insurer/ Reinsurer
Product training	By Insurer	By Insurer	By Insurer	By Insurer
Product Viability Certification	By CUO/ AA/	By CUO/AA	By CUO/AA	By CUO/AA
Product Filing	Yes	Yes	No for Std Products Yes for others	No for Std Products Yes for others
Product Approval	By IRDA within 90 days of filing	By CEO	By CEO	By CEO
Pricing Approval	By IRDA	By CEO	By CEO	By CEO

SOURCE: McKinsey analysis

A2 Several European countries make clear distinction between distribution channels representing "insurers" and channels representing "customers"

Country	Policy regarding distribution channels
	▪ Distinction made between "advisors" and "sellers" – Advisors offer products from multiple insurers – Sellers sell products of a single provider
	▪ Distinction made between "Independent Financial Advisors" and "tied agents" – IFAs have the liberty to advise customers on products of various insurers based on which product would suit them better – Tied agents represent the company and can sell products of only a single insurer
	▪ Distinction made between "tied agents" and "non-tied agents" – Tied agents offer products of only a single insurer – Non-tied agents are permitted to cover products of multiple product providers

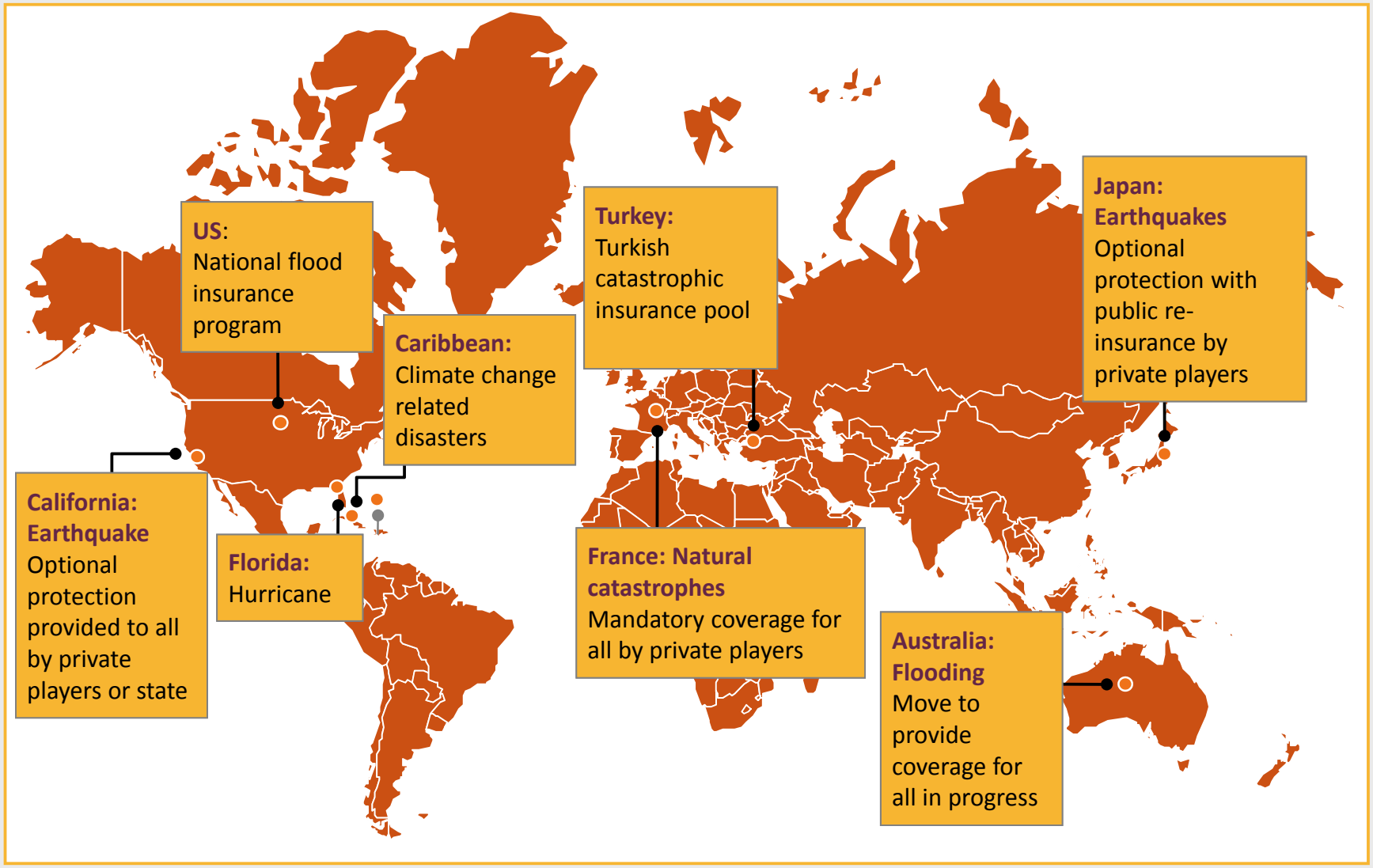
SOURCE: McKinsey analysis

C2 Home insurance penetration driven through government and industry action, product innovation and mandate

Country	Home insurance penetration	Key characteristics/enablers of home insurance market
US	96%	▪ **Mandatory cover:** Banks require home insurance for mortgages ▪ **Liability protection:** 3rd party liability is a critical risk in the US, leading to demand for comprehensive home insurance (covering 3rd party liability) ▪ **Cross-sell:** Insurers provide cross-sell discounts (e.g., 10–15% discount on home insurance if customer already owns insurers' motor policy)
UK	97%	▪ **Government actions and support:** No refusal to flood coverage enforced by government; potential over flowing industry losses to be absorbed by government ▪ **Mandatory cover:** Banks insist (though do not mandate) risk coverage of mortgaged properties ▪ **Product innovation:** Players develop innovative and relevant home content covers, e.g., pet insurance for rising vet cost
Germany	>80%	▪ **Industry action:** Coordinated awareness and product knowledge campaigns by the industry association, GDV[1] (through print ads, TV, articles, etc.; they also publicise the range of product offerings) ▪ **Mandatory cover:** Fire cover is mandatory for mortgages by banks ▪ **Liberalised pricing and product design:** Enables product bundling (e.g., fire, home, hail, etc., all covered under one policy)
France	99%[2]	▪ **Mandatory cover:** Mortgage lenders require home insurance, even from lessees ▪ **Product innovation:** Garantie des Accidents de la Vie (GAV) introduced for coverage of accidents at home/leisure; promoted as family protection cover

1 Gesamtverband der Deutschen Versicherungswirtschaft
2 Only continental France
SOURCE: Press search; expert interviews; McKinsey analysis

C3 Several countries have realised these benefits by setting up special insurance systems to deal with natural disasters



SOURCE: McKinsey analysis

C3 There are a variety of design choices in setting up a national catastrophe insurance programme for India (1/2)

Area	Design choices	Examples
Exposure and premiums	Is there a differentiation between risks?	
	▪ Risk-adjusted premiums	▪ Japan: six premium rates (four zones based on earthquake risk, two classifications based on building structure) ▪ NFIP: premiums differ by amount of coverage, location and property characteristics ▪ France/UK: fixed rate
	▪ Legacy vs new risks	▪ NFIP: subsidised rates on existing homes, risk-adj. rates on new ones
Private sector in-volvement	▪ What is the role of private insurers?	▪ US: selling and servicing of policies
	▪ What is the role of the government?	▪ Japan/France: set up of a specialised reinsurer by the government — France: reinsurance with the government is not compulsory — Japan: all earthquake insurance policies ceded to the government

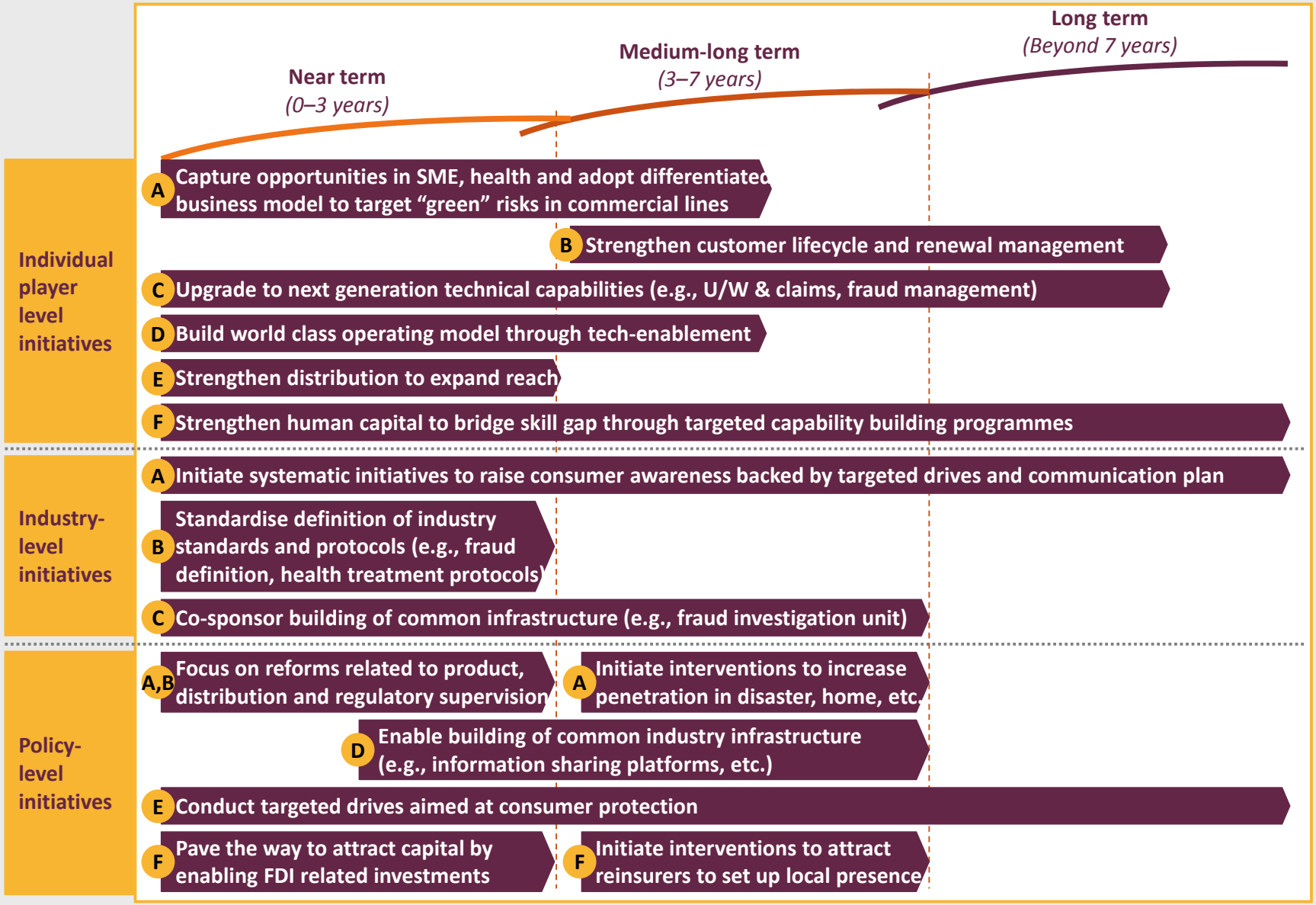
SOURCE: McKinsey analysis

C3 There are a variety of design choices in setting up a national catastrophe insurance programme for India (2/2)

Area	Design choices	Examples
Coverage	▪ Is the participation in the scheme voluntary or mandatory?	▪ Japan: earthquake insurance is an optional rider ▪ France: cover for wind damage compulsory in any fire policy ▪ England: compulsory flood insurance
Loss event	▪ What is the "refinancing mechanism" in case of loss?	▪ Japan: build-up of reserves, losses are capped ▪ US NFIP: build-up of reserves, federal government as "back stop" ▪ Florida: bond issuance
Adapta-tion and mitigation	▪ Are mitigation and adaptation measures included?	▪ NFIP in the US supports floodplain management ordinances to reduce future flood damage

SOURCE: McKinsey analysis

Initiatives need to be sequenced in order to maximise impact



SOURCE: Stakeholder discussions; McKinsey analysis