FICCI

India General Insurance "Improving penetration & driving market creation"



November 2014

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Foreword



Dear General Insurance practitionersand interest groups,

Over the last decade, the General Insurance industry in India has witnessed several ups and downs. We have grown at close to 20% over the last 5 years and reached an annual premium of ~₹ 78,000 crore in the fiscal year 2014. The industry has weathered through the economic slowdown, drying investment flows and the changes accompanying the de-tariffed regime.

There has been a change of guard at the Centre and the economy has shown signs of revival. Current regulatory environment is encouraging with early signs of support like steps taken by IRDA to boost the distribution of general insurance products and the new Insurance Bill expected to be tabled in the Winter session of the Parliament.

All these changes augur well for the industry which has an enormous potential awaiting to be unlocked given the low penetration levels.

Last year, we had defined a long-term vision for the industry to become inclusive, progressive and high performing with an aspiration to reachan annual premium of ~₹ 480,000crore in the fiscal year of 2025.

With this backdrop of positive signs in the external environment coupled withan ambitious vision for the industry, we embarked on an exercise to define a roadmap for 3 of the most notable sectors for growth within General Insurance in India: 1) Rural Insurance, 2) SME Insurance and 3) Home Insurance.

Rural India houses ~70% of the nation's population, the nation's Small and Medium Enterprises employ ~40% of India's workforce and the number of homes in India continues to increase. Yet all these 3 sectors are significantly under penetrated by the General Insurance industry with considerable number of uninsured assets.

For the industry to unlock its full potential in these 3 sectors, we partnered with McKinsey & Company to build a fact-based view of the current state of the industry in rural India, SME and home insurance and define an agenda for all the industry stakeholders to drive penetration in Rural India and to create new markets in SME and Home Insurance.

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 viewson industry evolution and the key changes required. We also received tremendous support from IIB, our distribution partners, our reinsurers and the regulatory bodies.

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. From a ₹ 12,000 crore top-line industry in 2001–02, today it is worth ₹ 78,000 crore, registering an annual growth rate of 17%. While the last few years have been challenging for profitability, the industry holds significant potential, both from the perspective of growth and value creation.

Recap: Vision 2025

Previously, in October 2013, a "Vision 2025" had been painted by FICCI in partnership with McKinsey & Company, showing how the GI Industry could stride towards an inclusive, progressive and high performing sector. The industry was envisioned to grow at a rate of 17–19%, thus covering a gross written premium of ₹ 480,000 crore while reducing its combined ratio to 99–101% in 2025. In order to manifest this vision, while potential exists to improve across all segments, we have focused on three areas for this report: 1) Insurance in rural India, 2) Insurance for Small and Medium Enterprises (SMEs), and 3) Home insurance. This report focuses on what it will take to drive penetration in these three areas.

Driving penetration in rural India

Rural India is still a largely untapped market for the GI Industry with penetration as low as 0.2%, vis-à-vis 1.1% in urban India. Even for asset classes like tractors, which are widely used, the penetration is only 30% (of vehicle PARC), vis-à-vis a global benchmark of 85%.

The GI industry's performance is influenced significantly by the interplay between various related elements—customers, the individual insurer's capabilities, other industry participants (e.g., distributors, regulators). 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.

The 'report card' for the GI Industry's performance in rural India based on the interplay between various related elements reveals mixed results:

- **Customers:** The awareness of GI products is as high as ~60% and is primarily driven by mandatory products (e.g., motor insurance, government sponsored Rashtriya Swasthya Bima Yojna (RSBY)). This awareness, however, does not translate to penetration in rural India which is as low as 0.2% vis-à-vis 1.1% in urban India. The main driver for this dichotomy is lack of consumer awareness about the need for risk protection as well as limited proactive outreach by distribution channels e.g., the FICCI survey for rural India (2014) reveals that as many as 94% of consumers who did not purchase a tractor insurance believe that they do not need the same.
- **Insurers:** Players are providing a comprehensive catalogue with most products listed as per requirement, although there does exist potential to create bundles (e.g., Farm Combined Insurance). However, technology (e.g., RSBY network) has not been leveraged adequately to create a tech-driven solution for rural distribution.
- **Other Industry participants:**
  - **Distributors:** While there exist several distribution channels, many of them are under-leveraged. The FICCI rural customer survey (2014) shows that banks approached only ~4% of their consumers for GI products. Business Correspondents (BCs) lack the ability to explain and push adequate volumes required for a profitable business. Non-banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs), co-operative societies primarily push products related to their core business. Common Service Centres (CSCs) face high operational cost which makes the current economics for them unfavourable.
  - **Regulators:** In recent times, multiple interventions have been taken up which have largely benefited the industry. RSBY has succeeded in creating a good penetration for health insurance. Positive steps have

been taken by IRDA to activate CSCs like product standardisation and 20 hour easier accredition & attractive commissions for Village Level Entrepreneurs (VLEs). A similar push on other distribution channels is required.

Industry stakeholders may need to take a coordinated set of actions to help the GI industry unlock its full potential in the rural market

1. Individual players may look at tailoring product offerings and leveraging distribution infrastructure and technology:

- Explore possibility of product bundling e.g., SAGARPA[1] program launched by the Mexican Government, providing crop insurance and additional coverage for Natural Catastrophes (Natcat)
- Leverage existing rural distribution infrastructure, e.g., Non-governmental Organisations (NGOs), MFIs, CSCs, co-op societies, healthcare providers (e.g., veterinary clinics)
- Leverage technology to simplify processes and improve turn-around times (TAT) of claims

2. Industry-level initiatives required for further performance:

- Continue to push for distribution reform
- Consider building common infrastructure, e.g., claims database for rural India, common technology platform
- Consider driving targeted consumer and distributor awareness activities

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

- Consider tailoring policies to the rural market by creating long-term products and investing in product simplification and standardisation
- Could look at mitigating distribution challenges by allowing insurers to have fungibility between expense and commissions, relaxing licensing requirements, and providing a policy platform for alternate distribution channels
- Consider collaborating with industry to set up common technology platforms (potentially leveraging RSBY network) for policy issuance and claims

Creating new categories: SME & Home

SME Insurance in India is a highly under-penetrated market especially in the non-mandatory segments which exclude the motor risks for which the government mandates a cover. Only 10% of employees of SMEs have health cover, and only 0.1% of other core property risks like fire, marine are covered. Negligible penetration levels are observed in the home insurance segment with penetration being <1%, vis-à-vis a global benchmark of 95%.

The 'report card' for the GI Industry's performance in Home and SME segments reveals significant need for improvement:

Customers: Home Insurance has negligible awareness levels and is primarily only sold as a loan attachment. By contrast, awareness levels for SME insurance are high, but do not translate to penetration primarily due to lack of mutual trust. The price sensitive SME segment often ends up with partial cover just to meet the requirements of lenders. This eventually leads to a poor claims experience and a lack of perceived value (no money back on claim); insurers are also cautious given the risk of high moral hazard in this segment.

Insurers: Insurers in the SME space have not yet offered adequately tailored and customised products as per needs of the SME segments. This can be attributed to the unique challenges on large number of customers, limited data availability, price sensitivity faced by the insurers. There is limited focus on both SME and home insurance segments,

1 SAGARPA is Mexico's Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food

leading to low collaboration among players to solve industry-wide issues.

- **Other Industry participants:**
  - **Distributors:** Inadequate focus on SME and home insurance products across distribution channels cripples the penetration of these products. Agencies have limited focus on home due to lower commissions and on SME due to lack of technical capabilities to sell such complex products. While bancassurance is able to sell basic products (e.g., collateral insurance for SME, home insurance as attachment to home loan), it has shown limited inclination to cross-sell or up-sell products to these customers.
  - **Regulators:** Regulatory impetus on Home and SME insurance products has been low. Indian government does not mandate for home insurance with mortgage as in many other markets (e.g., in the US and France where the home insurance penetration rates stand at 96% and 99% respectively). In the current policy framework, with the low ticket value of these products, there is limited upside for companies and distributors to drive penetration in these segments.

Industry stakeholders may need to take a coordinated set of actions to help the GI industry unlock its full potential in the Home and SME segments

1. The regulatory and policy framework needs to boost these segments, they could consider following policy measures:

- Consider mandating home insurance or providing incentives e.g., in Natcat prone areas provide home insurance at subsidised premium; Government could consider insuring losses beyond customer provided coverage (e.g., Turkey, China, US, UK, France, Germany have mandatory home insurance); capital relief to banks in case of mortgages with insurance.
- Could allow multi-year policy (for home) to improve ticket size and prevent loss due to lack of renewal.

2. Industry collaboration essential for further performance and preventing frauds:

- Industry players could look at setting up a common database to understand SME risk. It could also help in preventing frauds.

3. Individual players could drive innovation initiatives on product and operating models:

- Consider bundling home insurance to include coverage for additional home content (e.g., top up to include home accident, home content, GAV in France, relax home from Zurich)
- Product packages could be tailored for different SME segments
- Could consider up-selling to SMEs buying collateral insurance
- Align operations model to factors critical to SMEs buying behaviour (e.g., Straight Through Processing for quick TAT)

□ □ □

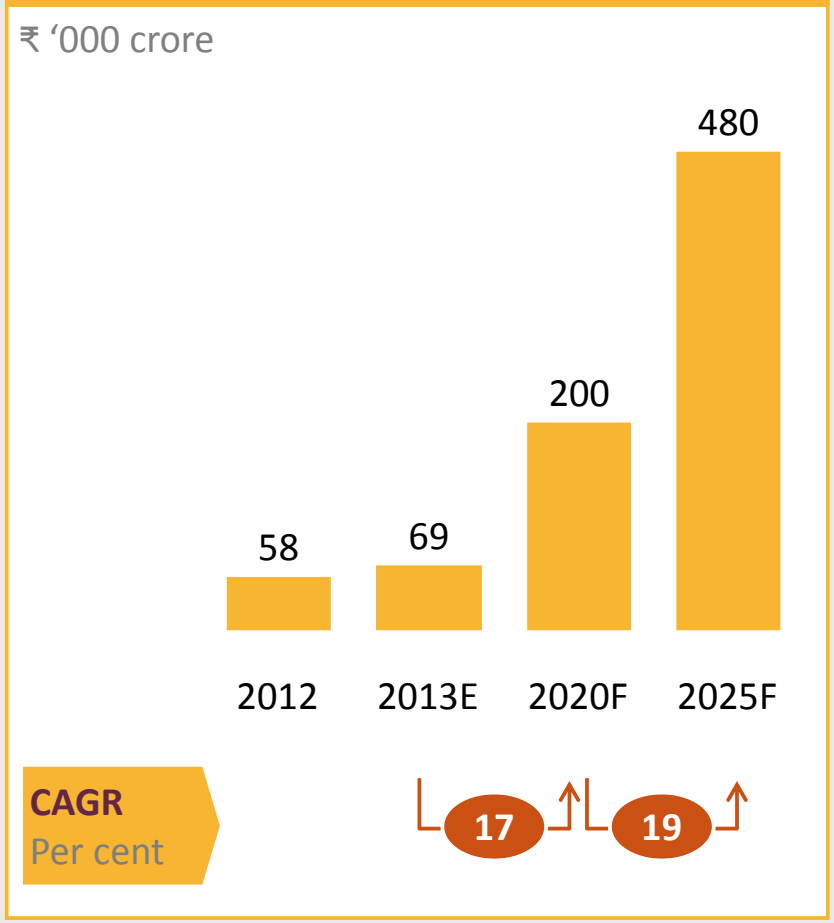


Chapter I

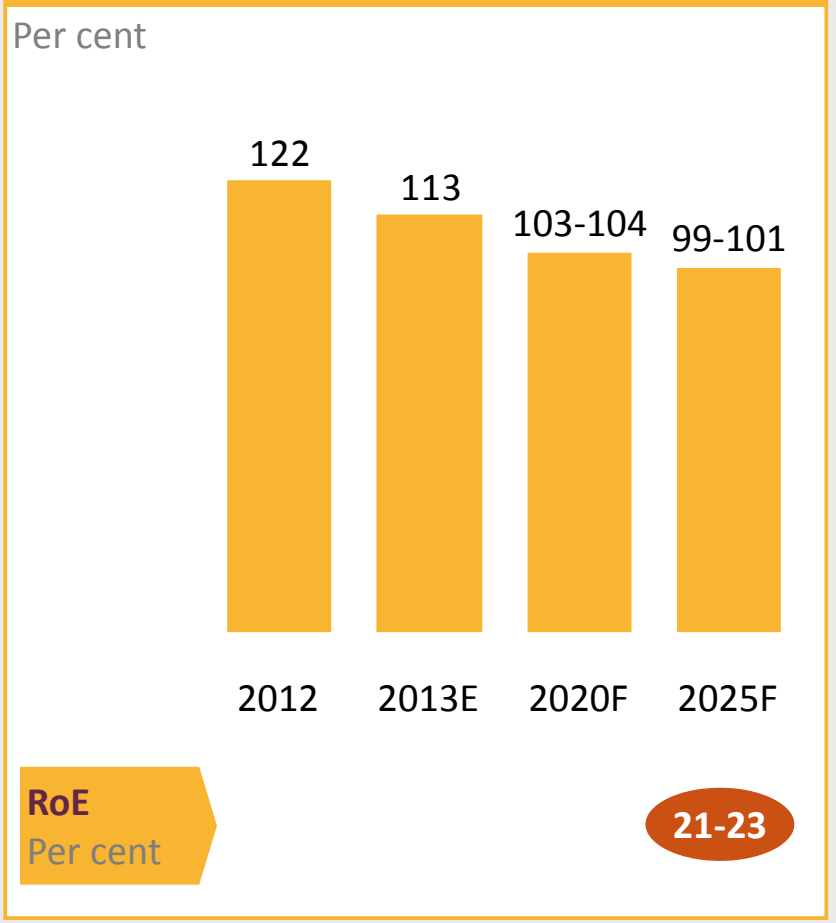
Role and importance of insurance

Vision 2025 had set a high bar for the India GI industry to become an inclusive, progressive and high-performing sector

Growth: GWP trend



Profitability: CoR trend



SOURCE: FICCI General Insurance Vision 2025 report – November 2013

For this aspiration to be achieved, penetration levels need to be increased across segments, asset classes and geographies

Penetration level relative to global levels
<50% 50-70% 70-100%

Individual Risks to be covered			Penetration base	Pene-tration	Bench-mark
Vehicle	Cars	New[1]	Vehicle PARC	80%	85%
		Old[1]		60%	
	Two-wheelers			25%	>90%
Home			Home ownership	<1%	>95%
Health	Mass affluent+		Lives associated	20%	90%
	Mass market			Very low	75%
	Below mass			40%[3]	65%
Income	Accident		Disposable income	0.02%	0.07%

Commercial risks to be covered			Penetration base	Pene-tration	Bench-mark
SME	Vehicle	MCVs and HCVs	Vehicle PARC	70%	>85%
		LCVs and PCVs		70%	
	Employees	Group health	Lives associated	10%	75%
	Asset protection	Core property risks (fire, engg, marine)	Industrial GDP	0.14%	3%[4]
	Business	Export credit[1]	Exports by SMEs	0.02%	-
Corpo-rates	Employees	Group health	Lives associated	70%	80%
	Project and asset protection	Engineering & Fire	Industrial GDP	0.83%	3.5%[5]
	Transport	Marine			
	Business payments	Export credit	Exports by large corporates	0.17%	-
	Professional indemnity	Liability	Industrial and services GDP	0.04%	1.25%
		Aviation			
Rural	Vehicle	Tractors	Vehicle PARC	30%	85%
	Other assets	Rural/agri (weather, cattle, etc.)	Agriculture GDP	0.24%	9%

1 New cars: less than 3 years old; Old cars: more than 3 years old; 2 Almost entirely (95%+) contributed by mass affluent and above; 3 Of the total rural population, 40% is covered through RSBY and state health initiatives; 4 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); 5 Includes insurance covers which cannot be classified either as pure property or pure casualty (e.g., accident and health, international, etc.)

SOURCE: FICCI General Insurance Vision 2025 report – November 2013

For the purpose of this report, we are going to concentrate on 3 segments: Rural, SME and Home

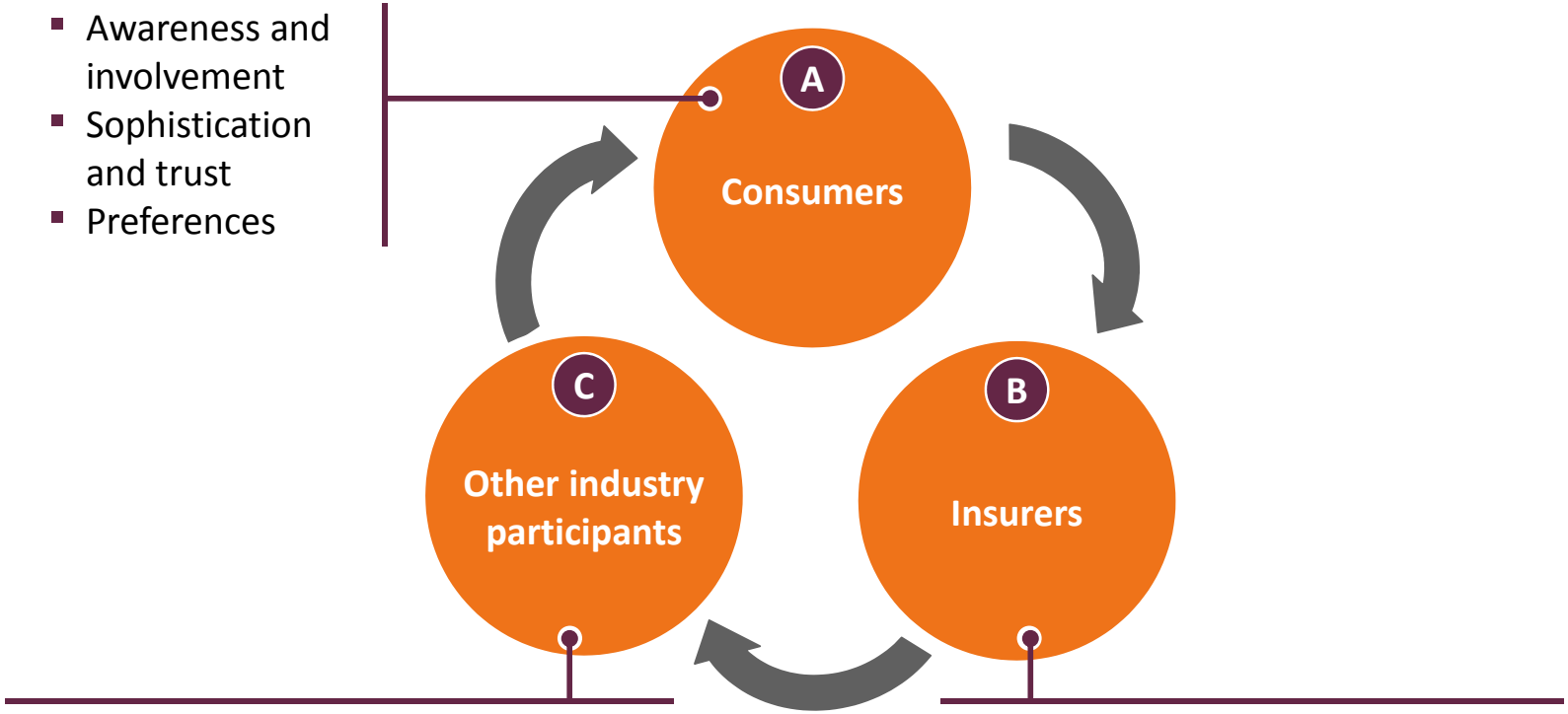
Penetration level relative to global levels
<50% 50-70% 70-100%
In focus

Risks to be covered			Penetration base	Penetration	Benchmark
Rural	Vehicle	Tractors	Vehicle PARC	30%	85%
	Other assets	Rural/agri (weather, cattle, etc.)	Agriculture GDP	0.24%	9%
SME	Vehicle	MCVs and HCVs	Vehicle PARC	70%	>85%
		LCVs and PCVs		70%	
	Employees	Group health	Lives associated	10%	75%
	Asset protection	Core property risks (fire, engineering, marine)	Industrial GDP	0.14%	3%[1]
	Business	Export credit	Exports by SMEs	0.02%	-
Home			Home ownership	<1%	>95%

1 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)
SOURCE: FICCI General Insurance Vision 2025 report – November 2013

In these focus segments, we have looked at the current interplay between three critical elements which shape industry performance

Interplay of various factors influencing segment performance



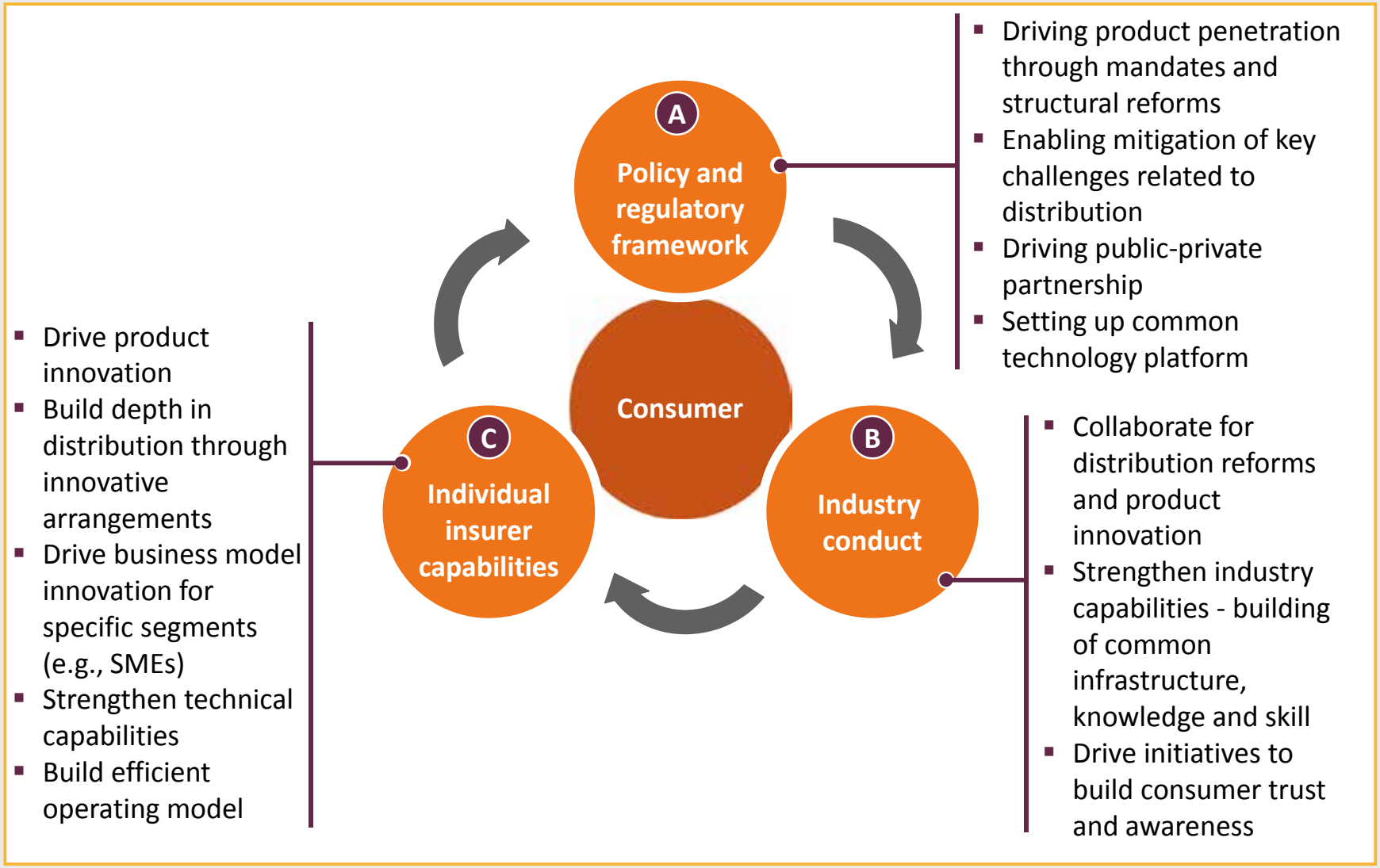
- Awareness and involvement
- Sophistication and trust
- Preferences

- Distributors (agents, banca, non-financial like CSCs, co-op societies, BCs)
- Regulator and policy makers
- Reinsurers

- Product innovation
- Technical capabilities (underwriting, claims)
- Operating model

SOURCE: McKinsey analysis

An integrated agenda based on three key dimensions required to increase penetration and drive market creation in focus segments



SOURCE: Stakeholder discussions



Chapter II

Driving penetration in rural India

RURAL INSURANCE

"Report card" of progress on various factors that influence rural penetration (1/2)

- Little or no improvement made
- Some improvement made
- Significant improvement made

	Key capabilities/ metrics	Status	Comments
A *Customers*	▪ **Awareness and involvement**		▪ High awareness regarding general insurance driven by mandatory policies (motor and health) ▪ Limited/no awareness of discretionary insurance
	▪ **Level of sophistication and trust**		▪ Perception about insurance 'not required' and lack of proactive consumer outreach from distributors inhibiting insurance purchase
B *Insurer*	▪ **Product**		▪ Majority of products as per requirement are available (except insurance cover for crop storage); potential for creating bundles
	▪ **Operating model**		▪ Limited leverage of technology (e.g., RSBY network) to enable tech-driven solutions for rural needs
	▪ **Level of collaboration**		▪ Concerted action with regulator to enable product and distribution reforms
C *Other industry participants*	▪ **Distributors** – Agency		▪ Largest channel; concerns on consumer awareness, commission earnings and future competition from other channels (e.g., CSCs)
	– Banks		▪ Banks underleveraged, with survey[1] suggesting that only 4% of consumers with bank accounts have been approached with GI products

1 FICCI Industry survey 2014 with 4800 respondents

SOURCE: Stakeholder discussions; McKinsey analysis

RURAL INSURANCE

"Report card" of progress on various factors that influence rural penetration (2/2)

Little or no improvement made
Some improvement made
Significant improvement made

	Key capabilities/ metrics	Status	Comments
C *Other industry participants* (Cont.)	– CSCs		▪ Current economics not favourable due to high operational cost (commitment fees, training cost) vis-à-vis inadequate volumes ▪ New guidelines are a step in the positive direction; however, need exists to address all stakeholders' concerns (including SCA) and broaden product bouquet
	– BCs		▪ Lack of ability to explain and push insurance products limits business volumes leading to unviable economics; product simplification can help boost this channel
	– NBFCs/MFIs		▪ Mainly able to push products which can be bundled with their core financial products, e.g., motor insurance with vehicle loan, bundling with microcredit line; limited traction on other products
	– Co-op societies		▪ Primarily into products related to core business, e.g. agri societies like PACS, LAMPS; licensing requirements are a hindrance to growth
	▪ **Regulatory/ policy support**		▪ Penetration driven with great success in health through RSBY ▪ Steps on CSC and 3-year product for 2 wheeler (third party) in the right direction – need to continue effort and work on product simplification and standardisation, as well as distribution reforms

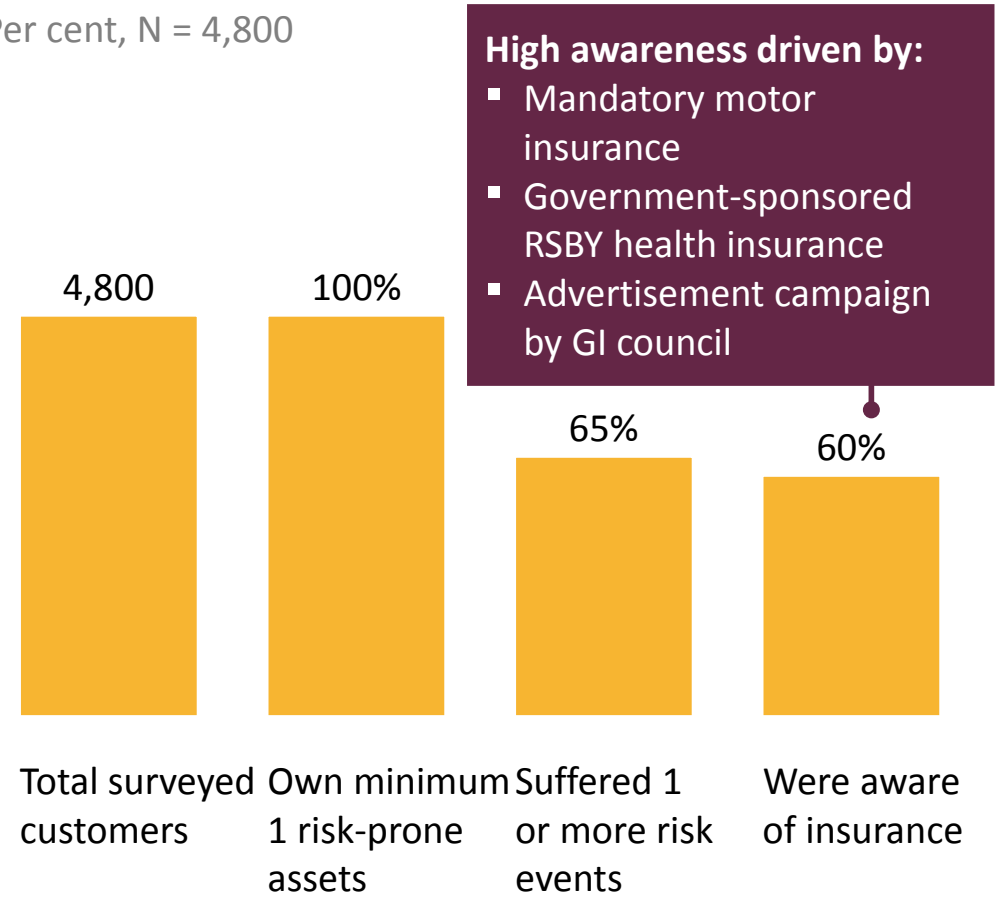
SOURCE: Stakeholder discussions; McKinsey analysis

RURAL INSURANCE

A High awareness of ~60% driven by motor and government-sponsored insurance schemes; However, penetration still limited

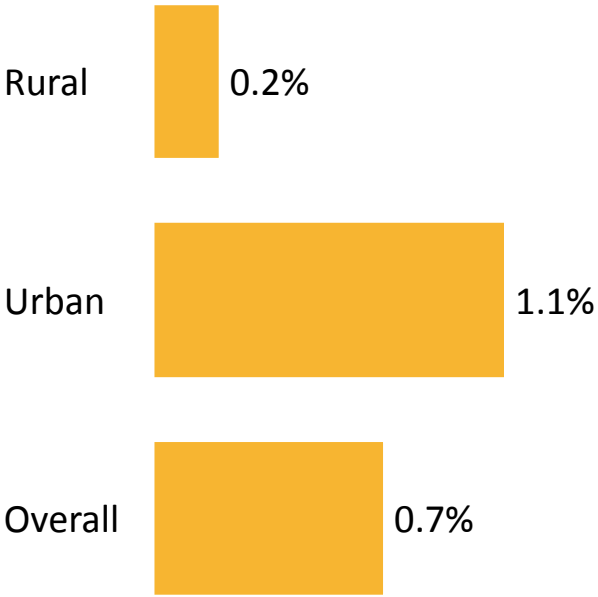
High awareness of ~60% . . .

Per cent, N = 4,800



. . . however, low penetration

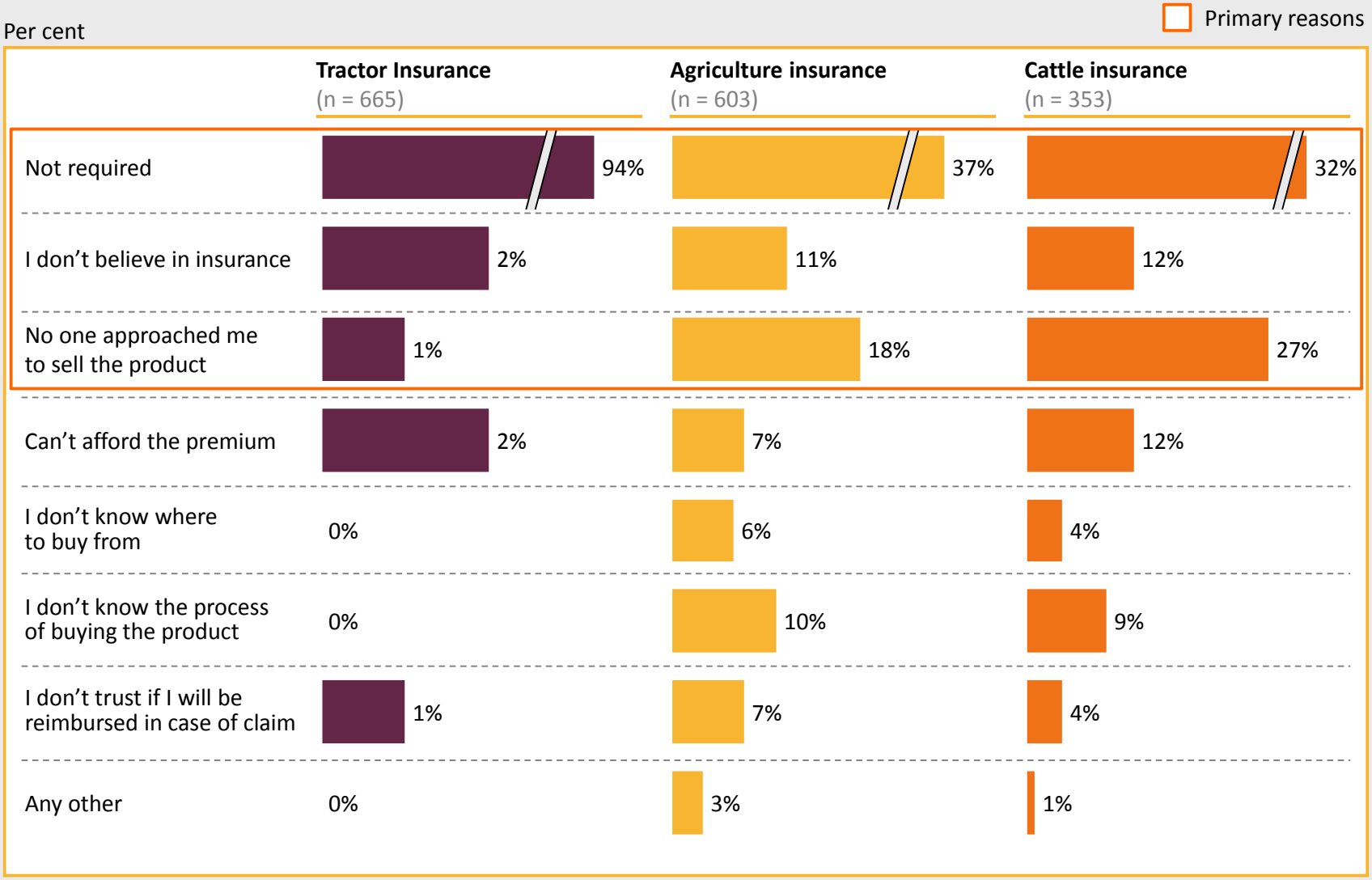
Penetration: GWP as a % of GDP, FY 14



SOURCE: FICCI rural consumer survey (2014), Vision 2025 by FICCI (2013) for rural and urban GWP split; IRDA published data for GWP data; McKinsey Insights India for GDP data

RURAL INSURANCE

A Lack of consumer awareness regarding need for insurance and proactive distributor outreach highlighted as primary reasons for not purchasing insurance

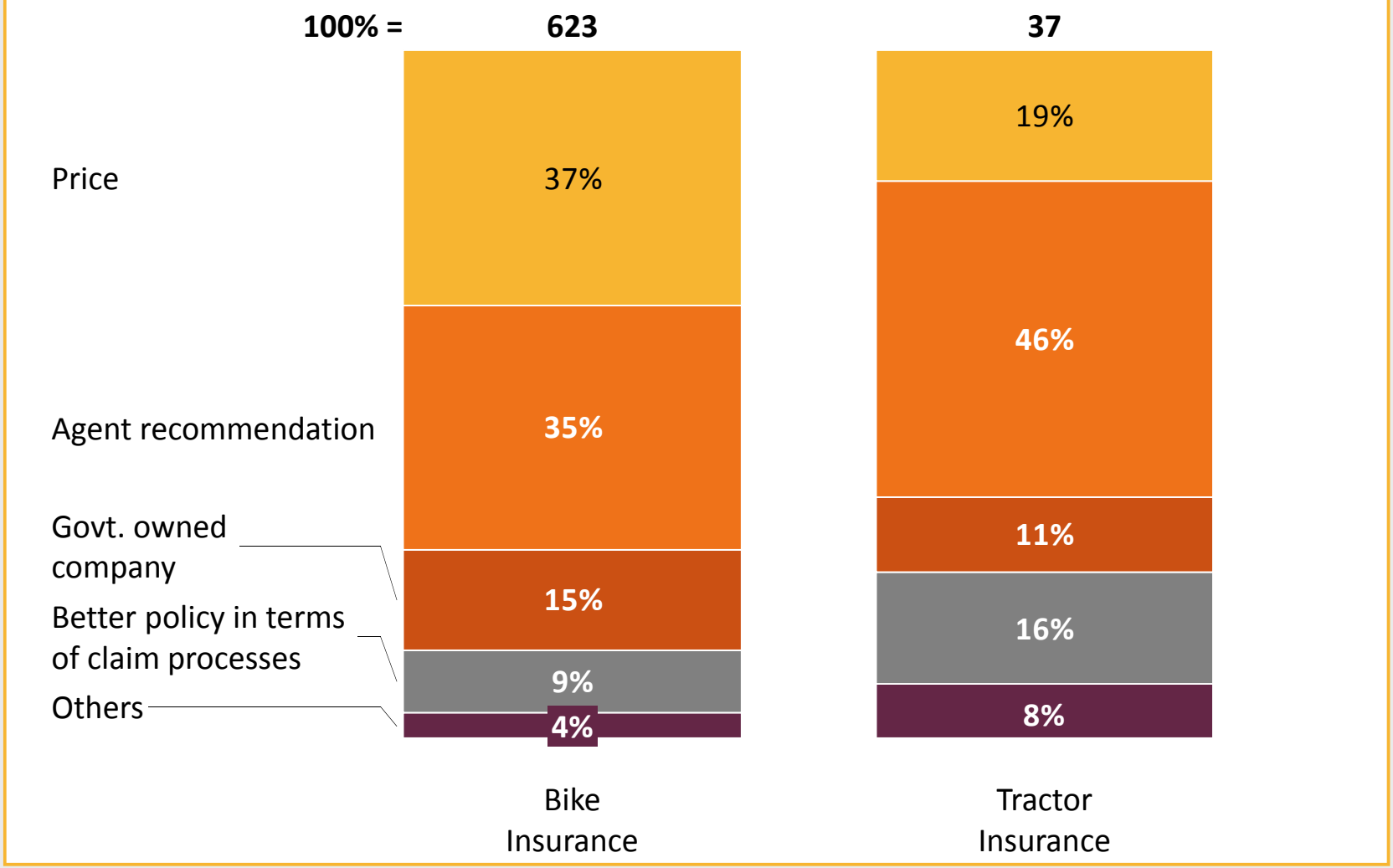


SOURCE: FICCI rural consumer survey (2014)

RURAL INSURANCE

A Primary reasons for purchase of insurance from a particular company are price and agent recommendation

Reasons for purchasing from a particular insurance company



SOURCE: FICCI rural consumer survey (2014)

RURAL INSURANCE

B Current white spaces are evident in the product portfolio

ILLUSTRATIVE FOR RURAL

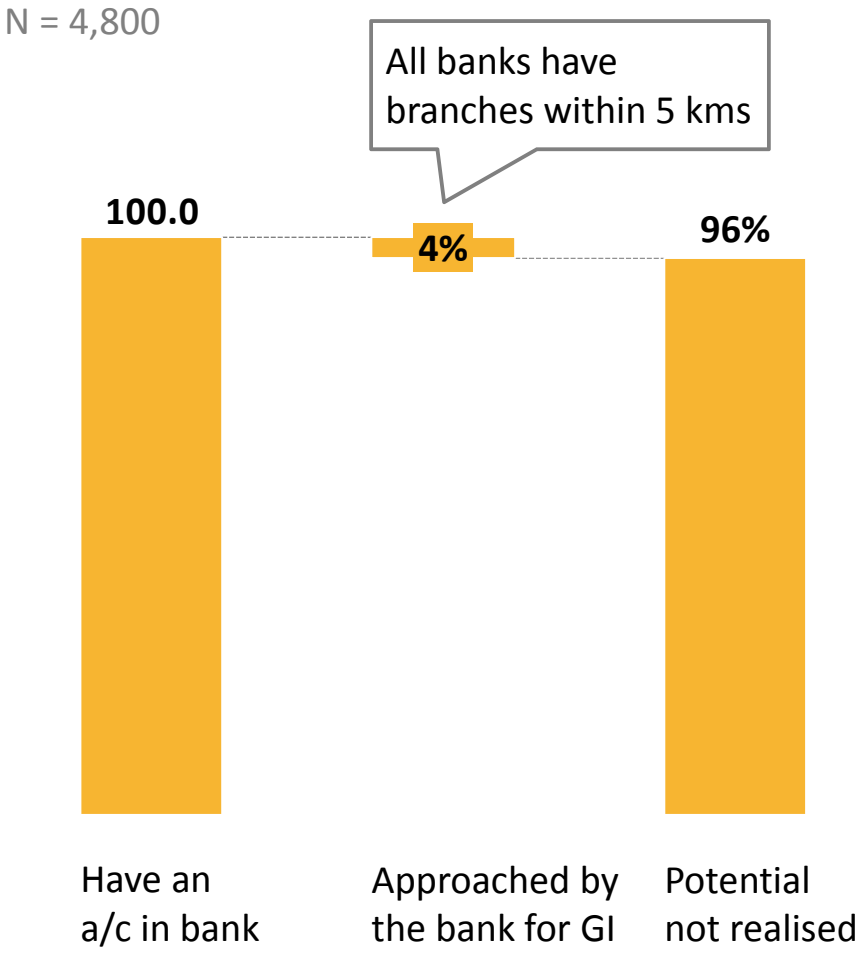
Levers	Description
1 Farm-combined insurance	▪ Ability to adjust product coverage to suit the individual needs of customers from small farmers to estates, from 1 to 2000+ acres, e.g., — Suitable for wide range of farm types including arable, livestock, dairy, poultry producers, etc. — Broad product coverage including buildings, machinery, livestock, liability and house and contents on one simple policy — Coverage across a wide range of farming diversifications and occupations, including agricultural contracting
2 Renewable energy insurance	▪ Cover to protect valuable investments like wind turbines, solar panels, hydroelectric plants and biomass/anaerobic digestion plants ▪ Focus of cover is minimising the disruption caused by damage to renewable energy installations
3 Rural home insurance	▪ In addition to coverage for the basics, like homeowners, property and liability insurance, offer coverages for — Loss to harvested farm products — Farm machinery and equipment like tractors, garden tractors, and power lawn mowers — Farm interruption, including loss of income — Products damaged while in transit — Additional residences rented to others

SOURCE: Stakeholder discussions; McKinsey analysis

RURAL INSURANCE

C Banks have made limited push to improve GI penetration in rural areas

Only ~4% of existing bank customers were approached by banks for insurance



Banks not focused on GI due to relatively lower commissions and complex products

"Commission we earn on life insurance is much higher than general insurance products "
– Bank manager, Public sector bank

"Except motor insurance, have never understood products like health and home insurance"
– FDO, Public sector bank

"Customer is not at all concerned about products like health and home insurance, then why should we bother"
– Bank manager, Public sector bank

"Our focus is on loans and deposits, we sell insurance only if customer is interested and no one is interested in GI"
– Bank manager, Public sector bank

SOURCE: FICCI rural consumer survey (2014); bank interviews

RURAL INSURANCE

C Positive steps have been taken to leverage the network of Common service centres (CSCs)

Channel	Points of presence ('000)[1]
▪ Digital connections (including satellite TV)	38,000[2]
▪ Telecom outlets	500+
▪ Post office	155
▪ **Common service centres (CSCs)**	**134**
▪ Commercial bank branches	83
▪ Other rural distribution points — ITC E-Chaupal	7
▪ Petrol Pumps	45

Steps already taken to activate CSCs:

- IRDA took multiple initiatives in conjunction with CSC – SPV to increase penetration through CSCs
  - Using CSCs both for service delivery and post sales activities
  - Relatively attractive commission structure for VLEs (including fees for post sales)
  - Standard and relatively easier training/accreditation programs (20 hours training) for VLEs
- This structure has seen positive response from insurers , with some insurers already signing MoUs
- But yet to take off as only one product (third party motor) has been approved
- Once product approvals are done (need to immediately fast track) and CSC VLE training completed, this channel could witness significant uptake

1 All data except digital connections are of 2012
2 2014 data
SOURCE: Stakeholder interviews; press search; McKinsey analysis

RURAL INSURANCE

Action required across various stakeholders to drive rural penetration

	Specific initiatives that could be considered
A Policy & regulatory framework	1 **Products for rural India** – Explore feasibility of creating long-term product for the rural market to address drop in renewal (similar to 3 year TP for 2 wheelers) – Product simplification and standardisation for distribution through channels like CSC 2 **Mitigation of distribution challenge** – Explore fungibility of expense and commission for simple products (insurers cannot invest in own network and hence should be allowed to pay higher commission in rural India) – Consider relaxing licensing requirements (e.g., 25 hr training) – Framework for opening up alternate distribution points (e.g., retailers for low-ticket mass products) 3 Consider collaborating with industry to set up common technology platform (potentially leveraging RSBY network) for policy issuance and claim
B Industry conduct	1 Continue to push for distribution reforms e.g., fungibility of commission and expenses, relaxation of licensing requirement for specific channels similar to CSC 2 Consider building common infrastructure e.g., claims database for rural India, common technology platform 3 Drive targeted consumer and distributor awareness activities
C Individual insurers	1 Explore possibility of product bundling , e.g., SAGARPA programme launched by the Mexican government, providing crop insurance and additional coverage for Natcat 2 Leverage existing rural distribution infrastructure , e.g., NGOs, MFIs, CSCs, Co-op societies, healthcare providers (e.g., veterinary clinics) 3 Leverage technology to simplify process and improve TAT of claims experience

1 SAGARPA is Mexico's Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food

SOURCE: Stakeholder interviews; McKinsey analysis

RURAL INSURANCE

In Brazil, the insurance regulator, SUSEP, had a key role on microinsurance road map

	2004	2005	2006/07	2008/09	2010/11	2012
Actions	▪ Sep/04: SUSEP[1] (insurance regulator) following Government incentives for financial inclusion of low-income people released Circular 267/04 that standardise popular life insurance with coverage limits ▪ Aug/04: Finance Ministry launched a tax relief package, which included progressive tax reduction for life insurance (IOF tax reducing from 7% to 4% in 2004, then to 2% in 2005, and zero from 2006) responding to insurers pressure	▪ Nov/05: SUSEP released Circular 306/05 aiming to standardise a popular auto insurance product with basic plans ▪ Insurers started to sell low-ticket products with the appeal to target low-income people (Caixa Vida Gente, a low-ticket life insurance product, sold ~80.000 in a year)	▪ 2006: SUSEP became a member of the Consultative Group to Assist the Poor (CGAP) from IAIS (International Association of Insurance Supervisors) to collaborate on the joint working group of microinsurance ▪ 2007: the CGAP met together in Brazil and published a paper; also a SUSEP executive was elected as the president of this global initiative (CGAP)	▪ 2008: Consultative Microinsurance Commission in Brazil was created, having members of the whole industry: Government, SUSEP, insurers federation (Fenaseg), brokers federation (Fenacor) and National Insurance School (Funenseg) with the objective to promote the segment ▪ 2009: results presented in a workshop and a law project created and sent for Senate approval	▪ Since the law project was not approved until Sep/11, SUSEP created another study group formed by members of SUSEP, Fenaseg, Fenacor and Funenseg to establish special requirements for the segment besides tax incentives ▪ CNSP 244/11 was released as the result giving basic guidance for microinsurance creation	▪ Based on the improvements from the study group, SUSEP finally created the microinsurance regulatory framework with the release of several measures
Stake-holder involved	BRASIL SUSEP Insurers	SUSEP Insurers	SUSEP IAIS	SUSEP, BRASIL FENASEG, FENACOR BANCO CENTRAL DO BRASIL, TSS	SUSEP, FENASEG, FENACOR, TSS	SUSEP, FENASEG, FENACOR, TSS

1 SUSEP (Superintendencia de Seguros Privados) is a regulator of Brazil's insurance market

SOURCE: SUSEP; FENASEG; FUNENSEG; press clippings

RURAL INSURANCE

In South Africa, retail stores are being leveraged to provide low-ticket insurance products to the mass segment

Type of products and customers targeted	▪ Basic, low-value products — Personal belongings based insurance cover e.g., theft/damage of TV and cell phone — Personal/family accident covers/funeral/credit life ▪ Products targeted towards middle/low income earners
First purchase process	▪ Insurance companies have tie-ups/ partnerships with retail stores ▪ Customer walks into store and can buy an insurance "pack" (similar to mobile prepaid airtime) ▪ First payment typically covers 30-90 days; payment size is R. 10-30/month ▪ On purchase, SMS/calls up call-centre which completes "activation"
Renewal/ tie-up process	▪ Insured receives SMS/call from insurance company close to expiry date of period ▪ Insured can walk into retail store and 'top up' cover for specific time frame (30-90 days) ▪ Payment made in cash/via store card

Business model ensures access to low-cost insurance with flexible and convenient payment options

SOURCE: Stakeholder interviews; McKinsey analysis

RURAL INSURANCE

Latin America and South Africa markets use retailer channel to sell low-ticket, easy-to-sell products

- Unorganised retailer sells insurance via prepaid cards which are activated over the phone on a toll-free number
- Focus on mass market
- Key products sold are
  - Accident insurance
  - Funeral cover
- Retailer is not an agent but just a medium to sell insurance
- Toll-free lines have agents which close the sale and provide detailed product information
- Focus of the products is to raise awareness, and reach low-income users who can't pay annual premium

Insurer	Product description	Cost	Channels
Leading insurer in Mexico 	▪ Covers civil liabilities of vehicles ▪ Valid for 30 days and activated over a toll-free number ▪ Coverage with no deductibles – US$45,000 for civil liability of car and people – US$9,000 for medical expenses of passengers – Legal assistance ▪ Covers only private vehicles ▪ Renewal is done online or over phone	▪ US$18.4/ month	▪ Pharmacies ▪ Gasoline stations ▪ Convenience stores ▪ Pharmacy ▪ Website
Leading insurer in South Africa 	▪ Covers the principal member for R10,000 upon death, R7,500 for the spouse and each child (max of 3) would be covered for R2,500 ▪ If a payment is missed, the member will not be covered that month; after 6 months of no payment, the account will be cancelled – Concept similar to prepaid cell phone	▪ R40/ month	▪ Starter packs sold at home retailers ▪ Recharge vouchers sold by airtime vendors

SOURCE: Press search and discussion with market participants

A rural financing company partnered with a leading retain chain to offer financial services by leveraging >22,000 stores in the most rural communities

Rural people in Mexico have little formal access to financial services

- ~5m families (>20m people, >20% of the Mexican population) live in towns of less than 2,500 people
- ~50% of these families receive Government funded conditional cash transfer payments
- >75% of these families do not use any formal financial services
- <1% of communities with <2,500 people have financial services outlets (e.g., bank branches, co-ops, MFIs)

Financial services to rural communities in partnership with a leading retail chain

Mexico's social welfare program (Oportunidades)
- Deposits benefit payments in the beneficiaries' bank accounts

Insuring Company
- Notifies retail chain of payment totals to ensure sufficient cash in stores
- Upon payment, informs Oportunidades of successful delivery

Retail Chain
- Coordinates cash needs at stores and warehouses

Rural warehouse
- Send additional cash to the stores when needed

Individual shopkeeper
- Uses POSs in stores to confirm beneficiaries' identities though fingerprints and smartcards
- Delivers payments to beneficiaries

Similar distribution models can be leveraged for mitigating distribution challenges in providing Rural insurance

SOURCE: Press search; McKinsey analysis

RURAL INSURANCE

Public-private partnership driving growth in Mexican insurance industry

Agriculture insurance strategy to provide Natcat coverage to small producers bundled with agri insurance

- The Mexican Government implemented a catastrophic climate risk management strategy in agriculture, allowing insurers to offer bundled agri insurance for small and medium producers in the country to protect them from crop damage and catastrophic weather events, giving security to temporary low income smallholders unable to access agricultural insurance, while avoiding major imbalances of the public budget after drastic climatic events

Insurers working closely with Government to promote sector's participation in the health system

- Mexican Association of Insurance Institutions (AMIS), announced its work with the authorities to show the potential advantages of participation from private companies in health and pension systems' administration
- The new Insurance Law that will be implemented in Mexico in 2015 will enable insurance players to offer these products openly, which otherwise earlier were only allowed to sell under restrictive ISES (Specialised Health Insurers) domain

Insurance companies are offering integral products to promote home coverage in Mexico, a special Government drive

- In Mexico some players are generating new integrated products to better meet families' coverage requirements and to increase penetration, which is approximately of 4.5% of total households in the country; this is in line with Government's housing drive
- Zurich's "Relax Home" product protects customers' home, electronics or appliances, pets, clothes that are in dry cleaning, robbery in the street and even clients can receive assistance services when they need urgent locksmith work, plumbing, glazing, electricity, among others. Additionally, the product protects family and domestic staff

SOURCE: SAGARPA; press clippings



Chapter III

Creating new categories: Home & SME Insurance

HOME AND SME INSURANCE

"Report card" of progress on various factors that influence home and SME insurance (1/2)

- Little or no improvement made
- Some improvement made
- Significant improvement made

	Key capabilities/ metrics	Status	Comments
A Customers	▪ Awareness and involvement		▪ **Home insurance:** Negligible consumer awareness regarding need for protection via home insurance; current sales mostly through loan attachment ▪ **SME Insurance:** High awareness, however limited purchase or significant underinsurance driven by lack of perceived value (no money back in case of no claim)
	▪ Sophistication and trust		▪ **SME Insurance:** The price sensitive SME segment often only seeks partial cover just to meet the requirements of lenders. This eventually leads to a poor claims experience and a lack of perceived value (no money back on claim)
B Insurer	▪ Product		▪ Limited customisation and segmentation as per needs of various SME segments ▪ Cautious approach due to potentially high moral hazard issue in the SME segment.
	▪ Operating model		▪ High degree of centralisation; potential to leverage technology
	▪ Level of collaboration		▪ Limited focus on the two segments and hence limited collaboration

SOURCE: Stakeholder interviews; McKinsey analysis

HOME AND SME INSURANCE

"Report card" of progress on various factors that influence home and SME insurance (2/2)

Little or no improvement made
Some improvement made
Significant improvement made

C Other



Key capabilities/ metrics	Status	Comments
▪ **Distributors**		
– Agency		▪ Limited focus on home driven by low ticket size and hence low commission ▪ Limited focus on SME given technical capabilities
– Bancassurance		▪ Home insurance primarily sold as an attachment. However, limited penetration as other products with higher commission (e.g., credit life) get prioritised ▪ SME insurance primarily sold as collateral insurance. Limited follow up to cross sell/up sell even to these customers.
– Other channel (brokers, etc.)		▪ Limited focus on home and SME insurance
▪ **Regulatory/ policy support**		▪ Limited incentive for home insurance: Home insurance with mortgage not mandated as in many other markets (e.g. China, US, UK etc.) ▪ Limited fee-up on driving penetration in the segment

SOURCE: Stakeholder interviews; McKinsey analysis

SME INSURANCE

B Insurers need to conquer multiple challenges in emerging markets to capture SME opportunity

	Challenges	Quote
Large customer number	▪ Hard to develop business and maintain relations with a large and dispersing customer base	There are too many SMEs to capture the opportunities ***Branch sales VP***
Limited data availability	▪ Difficult for underwriting and claim settlement due to lack of quality data	We are not comfortable insuring inventory for SMEs because they don't have reliable book keeping ***Sales manager***
Pricing sensitivity	▪ Price-sensitive business, subject to local industry self-regulation, limited room for price competitions	SMEs would ask two to three insurance companies for a quote, and buy the cheapest ***Sales manager***
Low insurance awareness	▪ Require knowledgeable sales force and simple products for uneducated customers	Help me understand insurance and risk, I don't know which products to purchase ***Client***

SOURCE: McKinsey analysis

HOME INSURANCE

C Lower commission structure combined with more cumbersome process results in home insurance not being preferred by banks

✓ Exists
✓ Partially exists
✗ Does not exist

ILLUSTRATIVE COMPARISION WITH CREDIT LIFE

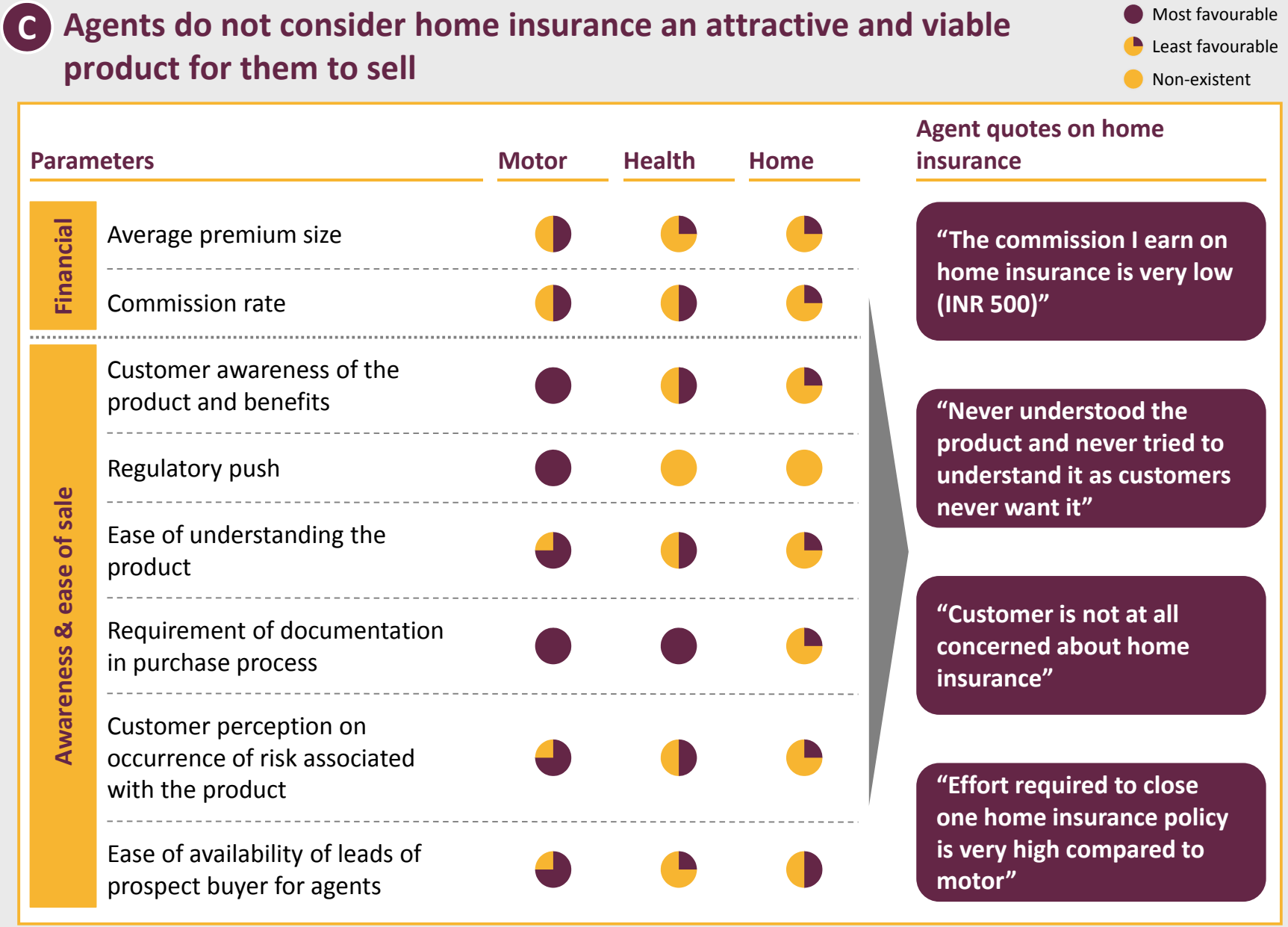
Elements of bundling process	Credit life	Home
Availability of bundled product	✓	✓
Common application form for bank and insurance product	✓	✗
Ability to record customer selection of bundle in the bank's system at time of loan processing	✓	✗
Use of same customer documents for insurance as for the bank loan	✓	✗
Automatic premium generation and recalculation of EMIs (for loan) based on premiums in the bank's system	✓	✓
Issuance of "certificate of premium" on the spot	✓	✗
Details of premium debit in bank pass book and account statement	✓	✓

Home insurance commission is much lower than credit life commission rate (2-3x in year one with lower chance of renewal)

SOURCE: McKinsey analysis

HOME INSURANCE

C Agents do not consider home insurance an attractive and viable product for them to sell



SOURCE: Stakeholder interviews; McKinsey analysis

HOME AND SME INSURANCE

Action required across various stakeholders to drive market creation for home and SME

		Specific initiatives that could be considered
A	Policy & regulatory framework	1 Consider mandating home insurance in select geographies and/or provide incentives for consumers/distributors ▪ In Natcat-prone areas make home insurance available at subsidised premium; Government to insure losses beyond customer-provided coverage (e.g., Turkey, China, US, UK, France, Germany have mandatory home insurance) ▪ Make home insurance mandatory with mortgages or incentivise banks e.g., potentially through some capital relief 2 Consider mandating insurance of any asset which is pledged to financial institutions in any form (including home insurance)
B	Industry collaboration	1 Explore set up of a common database to better understand SME risks and prevent frauds 2 Drive concerted action for regulatory and policy reforms and adequate focus on the categories
C	Individual insurer	1 Consider bundling of home insurance to include coverage for additional home content (e.g., top-up to include home accident, home content), as done by insurance association in France 2 Explore tailoring of product packages for different SME sectors e.g., Brazil, Portugal, Canada 3 Explore upselling to SMEs that come in for collateral insurance 4 Consider aligning operations model to factors critical to SME's buying behaviour (e.g., Straight Through Processing for quick TAT, approachable pricing)

SOURCE: Stakeholder interviews; McKinsey analysis

HOME INSURANCE

Home insurance penetration primarily driven successfully through government and policy action

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)
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 on (though do not mandate) risk coverage of mortgaged properties
Germany	>80%	▪ **Industry action:** Coordinated awareness by the industry association, (via print ads, TV, articles etc.; they also publicise the range of 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)
Turkey	30%	▪ **Introduction of mandatory products** : Earthquake insurance for home has been made mandatory in 2011 ▪ **Enforcement and incentives:** Enforcement by ensuring that houses cannot be sold or rented and registration for electricity and water cannot be done without insurance; Incentives include subsidies for low income groups ▪ **Penetration increased from 20% to 30% in two years of implementation**

SOURCE: IFC; Data Monitor; Conning; Turkstat, Turkish Insurance Association; discussion with market participants; press search; McKinsey analysis

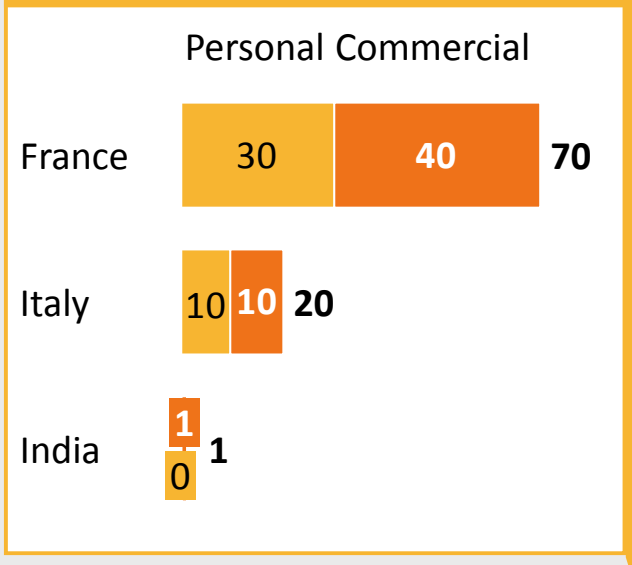
HOME INSURANCE

Home insurance can be bundled with coverage for additional home content like private accident cover for family

Insurance Association : France Example

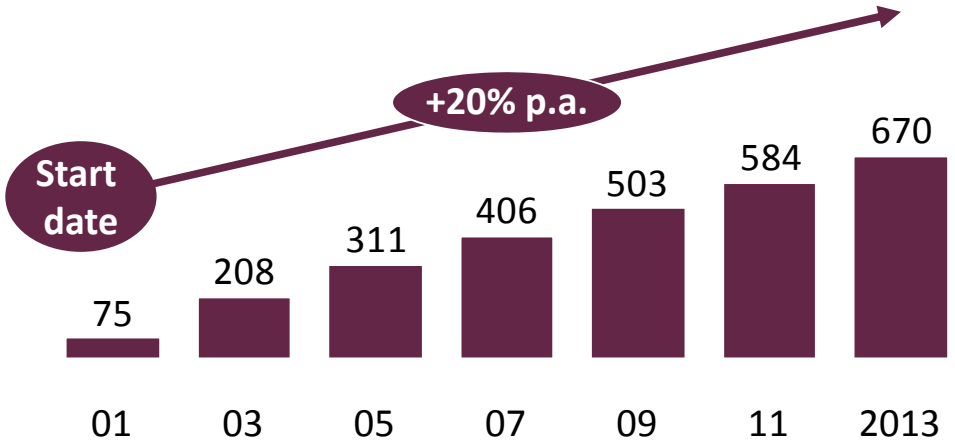
Accident penetration

Personal vs. Commercial, %



Accident Insurance Guarantee Scheme's GDDPW in France

EUR millions



Private accident cover for the family

- Developed by the association in 2000
- **Scheme covers:** Accidents at home and during leisure, medical accidents, physical attacks, victim of natural disasters
- Average annual premium of EUR 161 in 2010, but ranging from ~EUR 66/year for the basic coverage up to EUR 300/year for family coverage

SOURCE: Websites; McKinsey analysis

SME INSURANCE

SME insurance penetration successfully driven by a combination of actions from government, industry collaboration and insurers' initiatives

- Policy penetration (No of customers)

Country	SME insurance penetration[1]	Key characteristics/enablers of home insurance market
US 	~75%	▪ **Dedicated commercial unit:** Players have reorganised business models to have a dedicated small commercial unit for sales, underwriting, actuarial product development, technology and customer interface ▪ **Product innovation:** Innovative products to broaden eligibility and cover specialty exposures such as tattoo parlours, emerging technology, etc. ▪ **SME-focused services:** Capabilities aligned to deliver what SMEs value, e.g., fast policy issuance by establishing straight-through processing
UK 	~70%	▪ **Tailored offering:** Tailored products such as insurance for butcher shop, florist, hair salon, beauty parlours, etc. ▪ **Effective use of brokers channel:** Launch of dedicated website for brokers with access to quotes for commercial insurance, risk assessment tools, instant documentation service, etc.
Germany 	-	▪ **Demand assessors:** Players offer personal demand assessors for SMEs to help them assess the insurance requirements and recommend suitable products
China 	-	▪ **Government subsidy:** SME credit guarantee insurance is subsidised by central government to enable SMEs get loans backed by insurers ▪ **Mandatory cover:** Banks insist (though do not mandate) SME to buy general property insurance cover for their collateral ▪ **Training and education:** Educated and trained sales teams on SME customers' requirements and incentivised to sell to SMEs

1 As of 2012

SOURCE: IFC; Data Monitor; Conning; press search; discussion with market participants; McKinsey analysis

SME INSURANCE

Product packages can be tailored to the needs of different sectors

NOT EXHAUSTIVE

Target sectors in SMEs	▪ Commercial and service industries	▪ Contractors, retailers, service providers, tourism, heavy machinery, food companies	▪ All SMEs	▪ All SMEs	▪ Retailers, wholesalers, service industry, storage, manufacturers, restaurants, medical, others
Geography	▪ Portugal 	▪ Portugal 	▪ Canada 	▪ Austria 	▪ Netherlands 
Tailored product packages	▪ Fire and property ▪ Key industry coverages (e.g. frozen products for restaurants)	▪ 3 different categories: — Property — Personal — Business	▪ General liability ▪ Property and key industry coverages ▪ Workers comp	▪ Property ▪ Liability ▪ Transport ▪ Electronics	▪ Inventory ▪ Liability ▪ Motor ▪ Transportation ▪ In total 16 coverages
Additional features to further tailor to needs of SMEs	▪ Additional modular coverages (e.g. paper documents, solar panels)	▪ Distinctive standard offer for each market segment	▪ Coverages can be selected or deselected ▪ Web-based real –time quoting & underwriting (*no touch*)	▪ Modules can be adapted to SME size	▪ Discount of up to 7.5%, dependent on number of coverages, up to 11% for direct debit

SOURCE: Insurance company websites

SME INSURANCE

In Brazil, insurers are sub-segmenting its product portfolio to deliver customised coverage to different groups of SME's

Leading insurance company: Brazil example

	Sub-segments description	GWP Growth 1H12/1H13, %
Auto dealers	▪ First sub-segment created in 2009 ▪ Offers insurance with coverage to new and used vehicles parked at the dealer, liabilities and general property	+44%
Restaurant & bars	▪ Basic coverage for property insurance, as well as special coverage for establishments with parking, liabilities in case of food intoxication and deterioration of goods in refrigerator	+51%
Offices & medical clinics	▪ Exclusive coverage for damage, including robbery of portable devices such as notebooks, mobile phones and tablets ▪ Additional coverage: fire, explosion and electrical damage	+16%
Hotels & lodging	▪ Exclusive coverage for robbery of property and guests valuables, damage of guests goods, deterioration of goods in refrigerator, liabilities, others	+106%
Metal industry	▪ Created in 2012, offers coverage designed to protect against inherent risks of industry such as manufacturing damage, internal handling, loading and unloading operations, others	+29%
Shoe manufacturer industry	▪ Created in 2012, offers warranty for damage to products and raw materials held in third party sites as a result of fire, windstorm or robbery during all production stages	-

SOURCE: Press clippings

SME INSURANCE

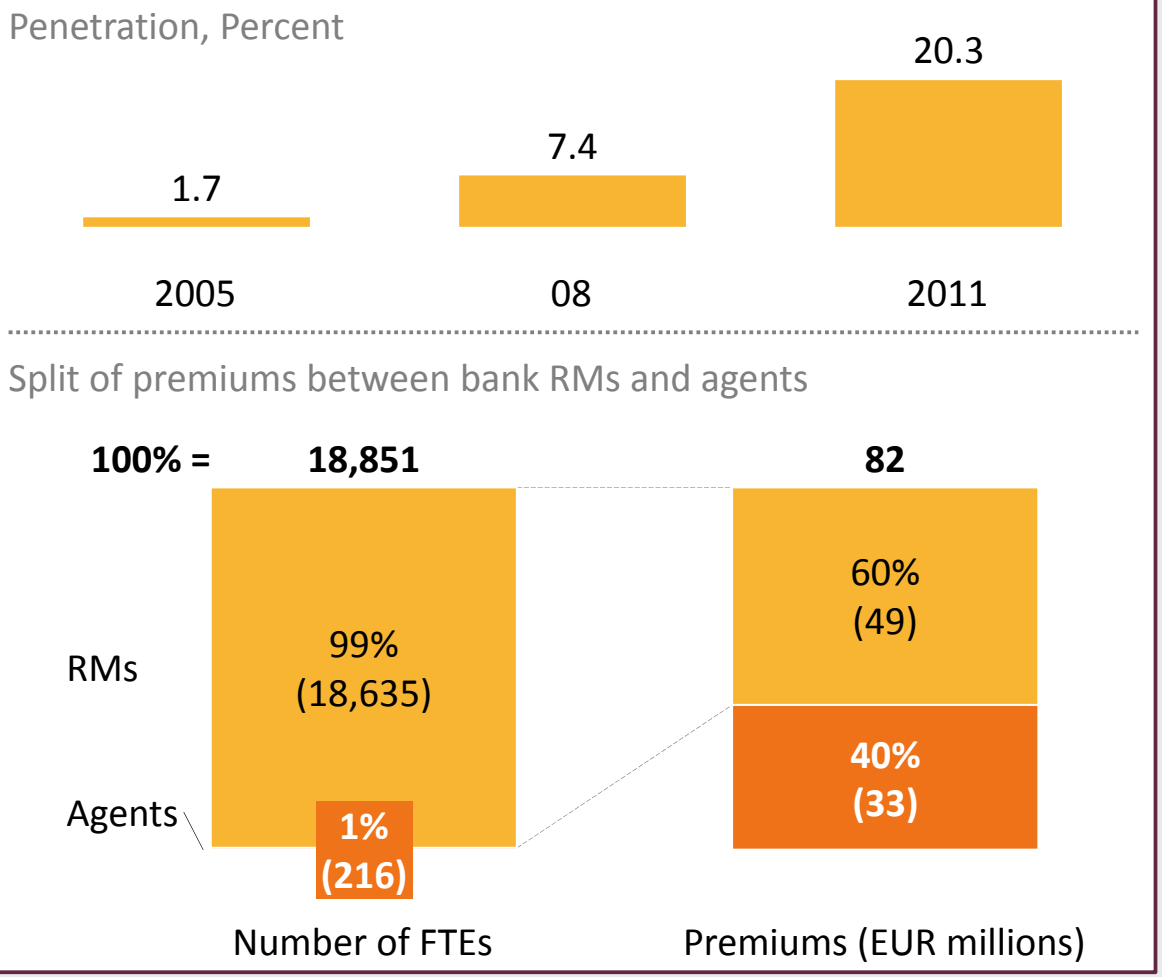
Enablers can be put in place to foster upsell to SMEs that come in for collateral insurance

Leading insurance provider: Spain bank example

Bank put enablers in place to foster the behaviour of upselling

1. **Network of SME – focused insurance specialists work closely with the SME-focused RMs of bank**
   - Upsell directly to bank's clients
   - Joint clients visits together with SME-focused RMs
2. **Common mechanisms of management and KPIs between bank and insurer**

...leading to increase in penetration with the network of agents contributing significantly to growth



SOURCE: McKinsey Bancassurance Practice

SME INSURANCE

Several innovative distribution models are emerging for SME insurance in the USA



Examples	Description
Direct	▪ Leading carrier offered small business insurance customised coverage direct to business owners (phone and online)
Partnerships	▪ Several carriers are partnering with payroll providers to jointly market and sell workers compensation insurance ▪ Clients pay workers compensation premium monthly based on actual payroll reported to carrier by payroll provider
"Virtual" agent	▪ An insurance agency recently launched a virtual agency to market (as a generalist) ▪ Recently, several more industry-focused "virtual" agents have been launched
Affinity	▪ Companies have a separate business unit for affinity ▪ Openly communicates its strategy of distributing through non-agent channels ▪ Customises products for each affinity group (e.g., taxi owners, public entities)

SOURCE: Press search and discussion with market participants