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Inside Perspectives

Putting Life Insurance Back on the Growth Track



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November 2014

FOREWORD

We are pleased to present this joint publication from Federation of Indian Chambers of Commerce and Industry (FICCI) and The Boston Consulting Group on "Inside Perspectives: Putting Life Insurance Back on the Growth Track". This publication explores the current position of the life insurance industry in India and suggests measures to get the industry back to a high, sustainable growth path.

The life insurance industry in India has seen a roller coaster ride over the past few years. The six year period between the financial years 2002 and 2008 was characterized by tremendous growth with a sharp year–on–year increase in most metrics. The Annualized New Business Premium (ANBP) grew more than five times over this period and life insurance penetration as a percentage of Gross Domestic Product (GDP) increased from 2.2 percent in FY 2002 to 4.3 percent of GDP in FY 2008. In sharp contrast, the next six years saw a dip that very few people could have predicted. ANBP remained flat for the entire second six year period from FY 2008 to FY 2014.

We are now seeing signs of revival of growth, after a long period of adjustment brought on by multiple factors. The life insurance industry in India is now entering what is hopefully a second period of secular growth. At this juncture, all stakeholders need to work together with a set of common goals to pursue sustainable growth for the industry.

This publication "Inside Perspectives: Putting Life Insurance Back on the Growth Track" is a unique presentation of perspectives from industry stake holders on key themes that are relevant for the sector today. As we attempt to identify what is needed to get our industry to flourish again, we hope that this collection of perspectives will provoke thoughts and provide some inspiration.

We are thankful to the authors (FICCI's Insurance and Pensions Committee members) for their contributions to the publication, each of them an expert in their own right.

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SUMMARY

THE LAST FIVE YEARS have been a crucial period in the evolution of the life insurance industry in India—companies have struggled to sustain growth, consumer preferences have evolved, rapid regulatory change has been implemented and the economy itself has gone through a difficult phase of lower than expected growth. As the life insurance industry matures and works through these changes, the next five years will be an important period for all stakeholders to work together to put this industry back on the growth track.

A well developed and evolved insurance sector is essential to support the economic development of our country—both for providing long-term funds for infrastructure development and for being a social security net for a large portion of the population.

There are five key themes that are key to driving this growth and achieving the true potential of this sector—First, developing a customer centric approach to the business; Second, building a cost effective and productive distribution system; Third, embracing the new digital reality whole heartedly; Fourth, unshackling the growth potential from hitherto untapped segments; Fifth, nurturing the appropriate policy framework to develop the business

Developing a Customer Centric Approach to the Business

It is critical to place the end customer at the center of the life insurance business. This implies a fundamental shift in the way of doing business. Part of this change has already been forced by the regulator, and the industry has adapted rapidly. The real question now is one of maintaining and driving this customer centric view throughout the entire organization of the insurers and in the distribution networks.

Additionally, it must be kept in mind that the life insurance business like all others is dependent on certain factors of production that drive the value creation

for customers. These factors of production—capital from the shareholder, labor from the employees and distributors—must be compensated appropriately for their contribution. This is a delicate balancing act that the insurers must manage.

Building a Cost Effective and Productive Distribution System

The complexity of insurance products needs a robust distribution mechanism to provide products to the customer and help them make the right choices. At the same time distribution costs form a large part of the insurers' controllable expenses—and hence are a key driver of returns to shareholders. Keeping these distribution costs in check is also a key imperative. The industry needs to work towards developing more and more efficient mechanisms of delivering insurance.

This imperative applies across channels—for instance in the bancassurance network there is a clear need to improve the penetration and activation levels of the large branch networks of the bank partners—helping them to serve the needs of customers better. In the agency network, the need is for improving further the productivity levels. This may be possible only through radical action in how the agency model is set up, by for instance doubling spans of control in agency management; further variabilisation of the fixed cost structure and segmentation of the agency manager and agency force.

Beyond these two key channels of agency and bancassurance, there exists a third leg for distribution consisting of salaried sales force, corporate agents, brokers and digital. Today, all of these channels combined account for a small proportion of the industry's premiums. The key imperative is to profitably scale up these channels.

Embracing the New Digital Reality Wholeheartedly

India, similar to the rest of the world is undergoing a revolution in purchase behaviour as customers are increasingly migrating to buying a wide variety of products and services online. Moreover, across categories, we are seeing a large amount of pre-purchase research being done online before concluding the sale in an offline mode. Life insurance companies have recently started leveraging the digital channel for sales but continue to face many challenges to overcome—simplifying products, creating enough draw for customers, simplifying the online experience, among many others. There is no doubt that as one looks at the future, the insurance purchase is not going to be the same as today and digital will have a large role to play in the same.

In addition to online sales, the industry faces a large agenda of integrating the digital reality into their operations infrastructure—rapidly improving efficiencies and customer centricity. Finally, the new online and digital world provides many opportunities as well as threats to the overall brand presence of insurers and they must work closely with the surrounding ecosystem, to ensure that they are able to proactively manage their brand perception and provide the right inputs to consumers who are increasingly researching online.

Unshackling the Growth Potential from Hitherto Untapped Segments

The life insurance industry in India is reaching a size and scale where a serious effort can be made to tap hitherto unexplored segments with a large growth potential in the future. There are multiple segments that are under served today and require the right model to tap them.

One of the prime examples is the pensions market. There are several drivers of growth of the pension market in India—disintegration of joint family system—hitherto a means of insurance for living too long, rise in life expectancy, increasing cost of living—what with high inflation, need of monetary assets for retirement due to lack of social security. This demand however is largely unmet—the existing formal pension system in India caters to only 12 percent of India's workforce, and even that the quantum is clearly not enough. There is a huge potential for the life insurance industry to step in and fill the gap. This requires a concerted effort on the part of all the stakeholders.

Nurturing the Appropriate Policy Framework

Regulatory change has been one of the key drivers moving the life insurance industry to change. Now that the industry has started to settle down and return to the growth path, the need is for a stable and more predictable regulatory regime—one that provides predictability of direction. Alongside the regulation, there is also considerable optimism about measures like the increase of FDI limits.

Each of the perspectives that follow in the pages ahead pick up one of the themes highlighted above and provides the author's point of view on it. These perspectives amply demonstrate the will to revive the industry's growth. A path has been defined to stimulate discussion, debate and facilitate action.

INSURANCE INDUSTRY—POTENTIAL TO HELP INDIA LEAP AHEAD

The beginning and the journey: The year 2000 was game-changing for the insurance sector in India. Suddenly from just the state-owned insurers, there were big, multi-national players that launched innovative products for the customers. Interestingly instead of eating into the market share of state-owned insurers, the private sector helped expand the market and increase the penetration of life insurance—from 1.7 percent of gross domestic product (GDP) in 2000 to 4 percent in 2010. This, in turn, led to a rapid pace of expansion for the Indian insurance industry during the decade ended 2010, as reflected in the strong growth in insurance premiums, number of policies sold, increased outreach of the sector, entry of more private-sector players, and the launch of a slew of innovative product lines. The life insurance industry grew at a compound annual growth rate (CAGR) of 25.8 percent between FY2002-03 and FY2008-09, with the number of policies sold growing at 12.3 percent during the same period.

However, companies across the sector struggled to sustain this hectic pace of growth in the last few years, amid the lack of a stable regulatory regime. The industry faced its own set of challenges along the way, and is now maturing and stabilizing. If presented with a favorable policy framework and an enabling environment in terms of regulations linked to distribution, products, etc, the industry could grow rapidly once again. In fact, India is poised to have the fastest growing life insurance market in the world as per multiple industry reports, with premiums expected to grow at a CAGR of 12 to 15 over the next few years.

The insurance sector has always been a key contributor to national economic development as it has fueled vital growth engines like infrastructure, which needs $1 trillion in investments over the next few years (till 2017). Insurance is also an important financial instrument that addresses a social agenda around financial stability of individual families if something were to happen to the breadwinners. In addition, the industry is supporting the Pradhan Mantri Jan Dhan Yojana (PMJDY) where 5.52 crore bank accounts have been opened till recently, and

deposits worth Rs. 4,268 crore have been mobilized. Close to 1.78 crore Rupay cards have been issued, which includes an inbuilt accident cover from insurance partners. Additionally, the account holders will also get a life cover of Rs. 30,000 through LIC.

Insurance Industry's Contribution to Economic and Social Agenda

A well developed, and evolved, insurance sector can be a boon for the economic development of a country, as it provides long-term funds for infrastructure development, and concurrently strengthens the risk-taking ability of citizens of a country by providing an insurance cover. This has been seen in the more economically developed markets. The Indian insurance market is the 19th largest globally, in terms of premiums, and ranks fifth in Asia, next only to Japan, South Korea, China and Taiwan. With 36 crore policies already in force, and the industry poised for rapid growth, the Indian life insurance sector cannot be ignored by the Government.

Social security

Life insurance is the only the financial instrument that ensures the savings one planned for their family are available whether they are around or not. In a country lacking social security measures, life insurance plays an even more critical role in protecting the financial future of a family in case something happens to the breadwinner.

According to a recent study undertaken, the total protection level of Indian citizens is only about 60 percent of the GDP—as compared to 99 percent and 178 percent in China and Malaysia, respectively, and as high as more than 250 percent in developed countries like the U.S., U.K. and Japan. This significant gap can perhaps be explained by the fact that India has traditionally been a savings oriented market. In a country like ours with lack of social security, protection levels remain far too low. Only insurance companies can help improve this, and as a sign of their commitment to this issue, many industry players are focusing on launching customer friendly, simple protection plans.

Infrastructure investment

According to the current Five-Year Plan outlined by the Planning Commission, India needs to invest $1 trillion in infrastructure, including roads, ports, airports and power plants, in the current Five-Year Plan (2012-2017). In fact, the government has identified the revival of the infrastructure sector as one of its top priorities. The combined assets under management (AUM) at all insurance companies grew more than nine times from nearly Rs. 2 lakh crore in FY2000-01, to Rs. 18.68 lakh crore in FY2012-13. The bulk of these assets have been parked in bonds, held till maturity. Thus, insurers, given the long-term nature of their business and extant regulations, have emerged as one of the biggest investor groups in infrastructure. Being able to hold the bonds till maturity allows insurers to remain invested in infrastructure, even during difficult periods. This dynamic, prevalent worldwide, makes insurance one of the key pillars of support to develop national infrastructure.

Generating employment

The insurance industry currently employs about 2.4 lakh individuals directly, and another 21 lakh as agents. The number of direct employees did not come down over the last few years, even when the sector struggled to grow. In addition, the industry helps companies operating in tertiary sectors, such as IT support providers, call centers, media and advertising professionals create job opportunities too. With the government poised to increase the upper limit for foreign direct investment in the sector, insurers would be more willing to expand their services, which in turn, will create further avenues of employment.

Opportunities for other sectors

With India being a popular destination for offshoring backend processes, leading insurers from the U.S. and Europe have shifted their processes to either captive units or third party outsourcing firms in the country. Also, Indian insurance companies are expected to spend Rs. 117 billion ($ 1.93 billion) on IT products and services in 2014, an increase of 5 percent from 2013, according to Gartner. The forecast takes into account expenditures by insurers on internal IT (including personnel), software, hardware, external IT services, and telecommunications. Moreover, insurance companies operating in India are likely to spend Rs. 4.1 billion ($ 67.84 million) on mobile devices in 2014, an increase of 35 percent from 2013.

Challenges—In Spite of being on a Growth Trajectory

The Indian life insurance industry is projected to expand at a CAGR of 12 to 15 percent in the next five years, in terms of premiums. The industry plans to boost its penetration to five percent of GDP by 2020, and has the potential to top the $ 1 trillion mark in terms of premiums over the next seven years, as per industry reports. The immense growth potential for the sector is underpinned by several factors, including the country's favorable demographics, increased consumer awareness, and a supportive government likely to enact business-friendly policies and promote customer-centric products and practices. While insurance companies have strengthened their presence in tier I and II cities, penetration into tier III and IV cities will require significant investments in a robust distribution network, and training. And, FDI will be critical in this regard. However, in spite of the good intentions of the government, the legislation concerning increased FDI into the sector is yet to be passed—an issue that, if not addressed at the earliest, may adversely impact the industry's growth prospects.

FDI—the ongoing discussion

Most insurance companies are well capitalized at the moment, and are profitable. However, to reach the next level of growth, they need significant investments—something that only FDI can facilitate. FDI not only brings in immediate capital—and foreign exchange—into the domestic economy, but also helps Indian insurance companies improve their operational and technical skills, administrative organization, and spurs innovations in products and processes.

With 14 years having gone by since the opening up of the industry, it is high time that Indian policy makers deliver on their promise to hike the cap on FDI from the current level of 26 percent. Such a step, apart from helping boost the

confidence of overseas investors, will have a very positive impact on the Indian economy. While the industry has seen capital infusion of about Rs. 35,000 crore, 26 percent of which has been committed by foreign investors, since 2000, the flow has significantly ebbed over the last four years—amid a sector-wide slowdown and tightening of liquidity. If FDI norms are relaxed, the industry is expected to attract capital inflows of about Rs. 10,000 crore in the near term, and as much as Rs. 40,000 crore over the next 10 years.

If these projected levels of capital inflows materialize, the industry is likely to expand at a CAGR of about 15 percent over the next ten years. This would help the market for new premiums grow four times, to Rs. 4,80,000 crore, with the private sector expanding five times to Rs. 1,50,000 crore. Assuming such a pace of growth can be achieved, private-sector insurers alone can garner combined AUMs of about Rs. 5,50,000 lakh crore—half of which could be used to invest in long-term sovereign and infrastructure bonds.

Stable regulatory regime—need of the hour

Most of the regulatory changes, introduced over the last few years by IRDA, have been extremely positive for consumers, and would hold the insurance sector in good stead over the long term. However, the speed at which these changes were enforced meant insurance companies did not get enough time to recalibrate their operations—the result being a negative impact on their performance. Companies have had to quickly reconfigure their operations in the short term to meet the new norms. Given that insurance is a capital intensive business—one that requires a long-term view on returns—there needs to be predictability in policy and regulations, to allow companies to plan, and execute, their strategies accordingly.

While some of the regulations introduced in recent years are aimed at standardizing products and distribution, policy makers need to ensure simultaneously that there is no compromise on innovation, which will be the key factor to driving growth of the sector, as well as to attracting and retaining talent. As the industry matures, the regulatory environment has to move toward embracing a more principle based approach with regard to oversight. For the industry to contribute meaningfully to the economy, and to secure the financial future of people, life insurance companies and the regulator need to continue collaborating effectively.

Potential to Help India Leap Ahead

A growing middle class, rising levels of income and spending, increasing insurance awareness, and higher infrastructure investments have laid a strong foundation for the growth of the insurance industry in India. The country's insurable population is expected to touch 75 crore by 2020, with life expectancy of the average citizen reaching 74 years. The life insurance industry is projected to account for 35 percent of total domestic savings by the end of this decade, compared to 26 percent in FY2009-10.

The growth opportunity for the insurance sector is immense, considering that the industry's current ratio of total sum assured to GDP, at 55 percent, is amongst the

lowest across comparable economies. In comparison, the equivalent figure for Malaysia and China stands at 179 percent and 99 percent, respectively. With 70 percent of its population below 30 years of age, India needs to create job opportunities for its youth. Apart from aiding economic development through provision of long-term funds for infrastructure projects, while strengthening people's ability to take risk, the insurance sector can contribute significantly to employment generation. The role of insurance companies as an engine of job creation is manifested not only in direct employment, but also in the range of associated professionals such as brokers, agents, underwriters, claims managers and actuarial professionals, they employ.

The insurance industry is uniquely positioned to help the Indian economy meet a host of challenges over the medium and long term. However, a lot would depend on the ability of the sector to attract new capital, as well as on the ability of policy makers to facilitate a conducive environment for the industry to operate in.

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The views expressed in the article are author's personal views.

INDIAN INSURANCE SECTOR: IN PURSUIT OF VALUE

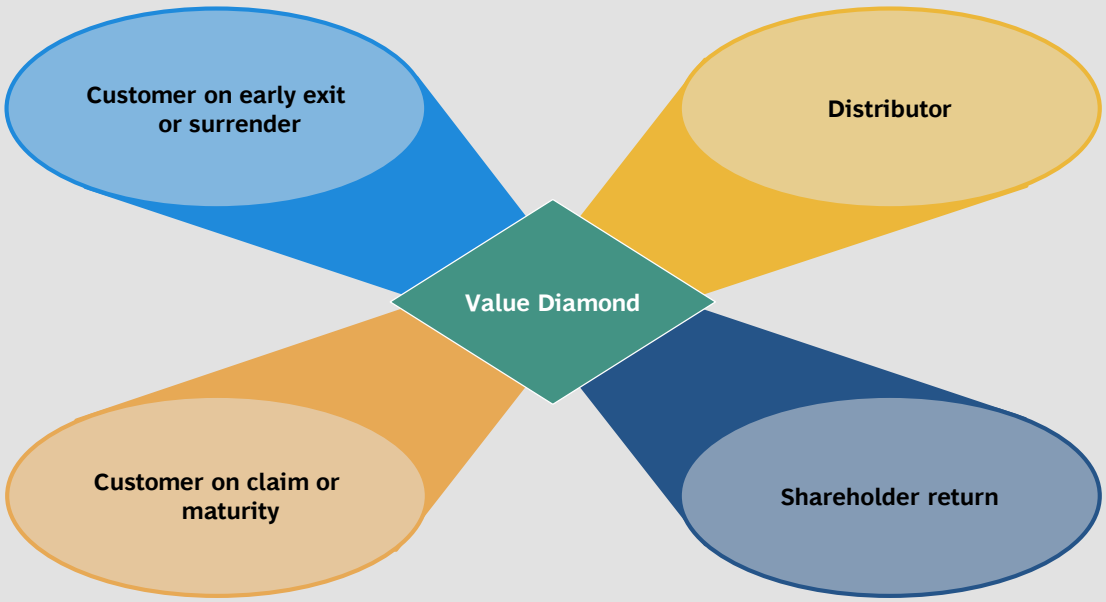
We believe—in fact we know—that too many people will die before their time; and too many people carry the risk of running out of money before they die. As insurers, we need to ensure that the money lasts just a little longer than the person, and that those left behind—at least financially—can carry on. This is the value we create. And, if something has real value, then people will be prepared to pay a fair price for it. Where we fail to communicate—or provide—the value, the product will be deemed worthless!

Historically, price discovery for insurance has been opaque to most people who are not actuaries. And that's most people! The distribution cost—and there is a cost of distribution—has been expressed as an up-front commission which has meant that value for the customer (in terms of early exit values) has been suppressed. This has been balanced with the assertion that insurance products are long-term, but those who have surrendered policies with a savings component have often found themselves losing out. Opaque pricing, coupled with instances of poor customer outcomes, have led to skepticism towards the life insurance industry.

So, value has to be balanced in four ways: fair value to the distributor for the work involved; fair value to the customer who exits early; value to the policyholder who either makes a claim or survives to maturity; and value to the shareholder for investing their capital and underwriting the promise to pay. (Refer Exhibit 1)

To maximize value for the stakeholders, the insurance company has to be able to operate this balancing act at the lowest possible cost. From the regulator's point-of-view, the value equation also has to be in some form of equilibrium; customers of course need to get fair value, but distributors and shareholders also need a fair share. Otherwise, distribution will fail, capital will be diverted to other industries, ultimately leaving the population uninsured, passing the burden of early death or funding retirement income back onto society. If the diamond goes out-of-balance, someone's getting too much and others aren't getting a fair deal; this will not be sustainable. We have already seen this in operation in India: in 2010 as the ULIP

Exhibit 1 | Value Diamond



regulations rebalanced value back towards the policyholder; and similarly, in 2013 for traditional policies.

The common theme we hear across all stakeholders is the **Quest for Value**—it requires much stronger focus on basic customer needs –ensuring that we squarely address the challenge of providing products and cost-effective servicing models that deliver not just good promises but good outcomes for our customers, distributors and shareholders.

If "value lies in the eyes of the beholder", any quest for providing genuine value must start with a better understanding of customers and their needs. What appeals to an urban, salaried professional in Mumbai is unlikely to be the 'valuable' part of the offer to the Non-Resident Indian visiting his home country, and will be vastly different from the value proposition to a rural farmer or small businessman in the smaller towns of India. Hence, the importance of rigorously following the dictum:

"Needs –› Propositions –› Products"

- Understand the situation of people in different segments. Believe in and rigorously conduct primary market research to gain insights into each segment's needs and preferences

- Create propositions for your target segments; and develop products to meet those needs

- Understand the distribution needs and preferences of each customer segment and meet those needs through an appropriate distribution model

If we focus on designing our products, distribution and customer service architecture around value, a key step is to validate what your target customer values within the proposition. Ask the tough questions at design stage—"why would your target customer buy this?"; "are there alternatives—not necessarily competing insurance products, but other financial products—that provide better value?"; and "for what customer circumstances can we offer superior value?"

Value consciousness also means we understand how different segments value the unique benefits that we provide as an industry, viz. life cover and long-term guarantees, and hence who is willing to pay for these benefits. This will help us to uncover for whom we can add real value as an industry.

Equally, does local access and servicing offer value that the customer is prepared to pay for—perhaps in the form of slightly lower projected returns or slightly higher protection premiums? Do customers value advice to the extent that they are prepared to pay for it? As an industry are we selling the projected returns, the protection, or the value?

Much discussion has been offered on the subject of mis-selling, so there is clearly a value placed on the quality of advice and conduct at point-of-sale, that ultimately leads to good outcomes for customers. However, this is also a basic hygiene requirement, perhaps equivalent to clean drinking water. Nevertheless, where there is value there is cost and this needs to be taken into account, both to create and to verify.

Again, the trade-offs of sales quality, advice, servicing, flexibility and policy benefits need to be balanced. (Refer Exhibit 2)

The quest for value inevitably leads to the question: how is this possible without 'breaking the bank'? The economics (and efficiency) of the business model is the crux of providing value-for-money to the customer. For many years, our industry has been built upon individual agency and brokers, where the management overhead and acquisition costs takes their toll—quite literally—to determine what is left to provide policyholder benefits and flexibility. More recent models such as bancassurance and internet provide an alternate way to reach customers and service them with a lower cost profile - to generate real savings that redistribute value across the 'value diamond'.

Equally, distribution models are emerging where insurance is not the only thing being offered, for example the Independent Marketing Firm model and use of Customer Service Centres being promoted by the IRDA. In these models the fixed cost overheads get shared among many product categories, potentially making distribution more cost effective. However, thought needs to be given to how the sales quality, conduct, KYC and AML issues can be assured and verified in these models, where the products of multiple companies are sold across wide networks.

Exhibit 2 | Trade-offs Triangle



Here are some key milestones that you should look out for—they signify real progress on this quest:

1. **An agreed framework of putting customer value first in product design and sales process**: Which focuses on how creating good customer outcomes first and then covering the cost of distribution, not the other way around.

2. **Seamless integration of systems and processes**: To reduce operating costs and increase convenience to customers and distribution staff alike. This can help create lower charges, lower premiums and improve early exit terms for customers—making the policies competitive and accessible.

3. **Promoting a culture of persistency**: For both policyholder and insurer, the value from a policy emerges over time. Therefore, it is essential that the policyholder continues and does not exit or surrender early.

Staying with the policy helps increase the chances of a positive outcome for the customer, while the distributor and insurance companies receive a fair income from the policy sold.

However, on consideration of the 'value diamond', one may ask whether all the interests are aligned, or whether the distributor has a big enough stake in policy persistency. Maybe there is a case to reallocate the distributor's share to reward

policies held over time and therefore reward sales quality. Of course, the puzzle of up-front costs versus deferred income over the life of the policy has to be solved!

4. **Having the relevant information available and accessible to distribution staff and customers**. As insurance is a long-term product, keeping in touch is essential: the policy has to 'stay sold'. The policyholder needs to feel confident that their premiums are wisely cared for and that they can access their policy when they need to.

5. **Communicating value**: The value from a policy may not come for many, many years—either in the form of a claim or maturity. In the meantime, policyholders need to know that the reason they bought the policy remains valid and the policy continues to be fit-for purpose, whether this is family protection, saving for children's education or building a corpus for retirement. When the 'moment of truth' is so far away, what is being done in the here-and-now to keep customers engaged with their insurance policy?

Case Study—The View of a Bancassurer

There is a large difference between a bank that distributes third-party insurance products and an integrated bancassurer where the bank owns the insurance subsidiary. This enables many of the key milestones to be achieved:

1. **An agreed framework of putting customer value first in product design and sales process**: As the bank owns the insurer, the 'distribution vs. manufacture' discussion is a zero-sum game. The distribution infrastructure fixed cost is already met, so customer value can be prioritized with only the marginal cost of distribution covered from the product.

   Also, as the bank has a long-term, multi-product relationship with the customer, the value of the whole relationship extends beyond the insurance product, so the quality of advice has to be such that it doesn't damage the relationship. As a vertically integrated value chain (manufacture plus distribution) the whole process can be controlled, from solicitation, through KYC, AML control, processing and servicing, in a way that ensures quality and consistency for the customer.

2. **Seamless integration of systems and processes**: Not only can the savings derived from integration be passed on to customers, more importantly the convenience and trust that customers derive from getting their policy serviced and paying renewal premiums at the bank branch or on the bank's website, is unparalleled.

3. **Promoting a culture of persistency**: As the bank is the owner of the underwriter, the interests to keep policies in-force are aligned. The long-term nature of the insurance business is reflected into the bank's consolidated balance sheet and good persistency is rewarded with growing embedded value.

4. **Having the relevant information available and accessible to distribution staff and customers**. With the certainty of ownership, investments in systems

integration can be long-range and strategic. The knowledge that their bank is also the access point for any queries, servicing needs and for "being in touch" with their policy for the lifetime, enhances the trust placed by customers when buying a policy from their bank.

5. **Communicating value**: Banks have a relationship with their customers built on trust and knowledge of their customer's circumstances. In this context, the insurance policy can be part of a wider portfolio of financial products that a person needs to organize their lifestyle.

Perhaps 'pursuit of value' is not new, but the moment of sustainable fair value exchange is elusive. Too much for the distributor abuses the customer and destroys shareholder value; too much for the shareholder abuses the customer and de-motivates the distribution; too much for the customer makes the industry uneconomic for distributors and shareholders to participate. Equilibrium is ideal and it is the job of the insurers to champion sales quality, eliminate waste, eliminate cost and drive efficiency—through training, process elimination, simplification and automation—to improve the value for all stakeholders.

Mr. John Holden
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The views expressed in the article are author's personal views.

THE LIFE INSURANCE INDUSTRY—INDIA'S ASCENDING MIDDLE CLASS

In India, the life insurance industry has an increasingly substantial role to play. More than just creating and selling risk management products, the industry can also directly enhance the economic and social fabric of our nation.

As India's middle class—numbering just 25 million in 1996 but more than 250 million today by some estimates—continues to emerge as a durable engine of robust national economic growth, life insurance companies are stepping up. The industry is providing products that promote small periodic savings and investment, as well as products that can protect a family's financial health in the event of catastrophic illness or death of a breadwinner.

The growing ability of families new to India's middle class to purchase life and income protection insurance products is giving them not just great financial self-sufficiency, but also a true foothold in India's economy and a stake in the country's future growth.

The expanding digital universe, and access to the same, are feeding this growing and urbanizing cohort. India's well-deserved reputation for digital savviness is reflected in its Internet user population, now at more than 205 million—and one of the fastest-growing in the world—as well as in its mobile Internet user base, which numbers more than 130 million. The country's Internet users are well-versed at doing online comparison shopping for a range of consumer products, including insurance.

Many private insurers are already actively leveraging the Internet and social media platforms to connect and interact with existing and prospective customers. Several insurers are well on their way to building true e-commerce platforms, with a view to providing simplified and low-cost savings and protection products. A number of industry players are also looking to automate their processes in order to speed up, and simplify, marketing and sales.

This evolution of India's economic and social fabric is part of a larger global megatrend: the accelerating urbanization of our planet. In 2009, the world's urban residents had surpassed their rural brethren in terms of headcount, and are expected to account for 66 percent of the global population by 2050, according to the United Nations' World Urbanization Prospects—2014 Revision report.

India's own urbanization was helped in no small measure by the country's economic liberalization in 1991, which set the stage for substantial growth and development, and fueled the emergence of our middle class. Today, between 30 and 40 percent of India's total population of more than 1.2 billion resides in and around cities, according to estimates—a substantial shift even from 20 years ago. According to a recent research conducted, the country's urban population is set to nearly double by 2030, implying that the country will have nearly 70 cities with populations of over one million each. Six of these cities will be megacities with more than ten million citizens, and will account for at least 70 percent of the country's Gross Domestic Product (GDP). In addition, by 2025, at least 75 percent of all of India's urban dwellers will be middle-class.

India's comparatively young population—with an average age of 27—as well as the projected rapid growth of the workforce, due to both organic causes and migration, will also drive continued GDP growth, and in turn, further development of the middle class.

Urbanization has heralded enormous changes in India, both demographically and culturally, the decline of the joint family system being one of the biggest ones. As recently as 40 years ago, the majority of family units in the country were joint families—that is, multiple generations of parents, siblings, spouses and children living together, either in one home or in a family compound as a single economic family unit.

In recent years, India's young adults, rather than staying in these joint family units, have been moving to cities to further their educations or careers. Once there, many marry and form their own nuclear families, and start to achieve financial self-reliance, purchasing savings and protection products from life insurance companies that are enabling them to build and protect their assets, and mitigate financial risk.

India's rapid GDP growth of the early 2000s, which averaged approximately 9 percent per year, leveled off somewhat after the 2008 global financial crisis. Nevertheless, our economy continues to expand at a respectable rate, and the Organization for Economic Co-operation and Development (OECD) is predicting short-term (2014-2018) annual GDP growth of 5.9 percent.

Several challenges loom, however. With the continued, rapid expansion of our urban population essentially assured, the main challenge for India over the foreseeable future will be to develop a modern and reliable national infrastructure. Although such development has been a clear need over the last few decades, progress in that direction has been far from substantial. This is nothing short of a national embarrassment: India's infrastructure development needs to keep pace with the rate of urbanization, as well as the pace of growth in population and

workforce. Indeed, India ranked 85th out of 148 countries, with regard to infrastructure, in the Global Competitiveness Report 2013-2014 published by the World Economic Forum. One is hard pressed to find an urban area within India where actual infrastructure development has kept pace with current, let alone, future requirements.

To meet the needs of its expanding urban middle class, India must build more capacity—be it roads, rail transportation, health care facilities, or commercial and residential buildings—and ensure better, and sustainable, access to basic services such as water, electricity and sanitation. Improved access to education is another vital aspect of infrastructure, more so given the projected growth of India's technology industry, which will need well-educated workers.

Currently, however, India is spending approximately $17 per capita annually on infrastructure—in comparison, China and the U.K. are presently committing $116 and $391 per capita, respectively. To keep pace with the requirements of its fast-growing urban middle class, India, according to some estimates, will need at least $1.2 trillion ($134 per capita) of capital expenditure by 2030. Indeed, the United Nations Development Program's 2014 Human Development Report, which assesses countries on the basis of long-term progress on health, education and income indicators, ranked India 136th of 187 nations in its Human Development Index.

Although foreign investment in Indian infrastructure has slumped over the past few years, it is starting to pick up of late. The recently elected Prime Minister, Narenda Modi, has signaled his intention to speed up regulatory approvals for large infrastructure projects. The government has already moved to allow higher foreign investment in the insurance, military and railroad sectors, and is meeting with global heads of state to promote broad-ranging foreign investment in infrastructure.

As has been the case with other countries, the life insurance industry can play a role in funding India's massive infrastructure needs by mobilizing a growing pool of investment assets—the small-scale savings vehicles purchased by new members of the middle class—for the purpose. Such a scenario will benefit every stakeholder: small investors, the life insurance sector, and India itself.

This will be a new opportunity for the country's emerging middle class, as until recently, such individuals did not have real access to investment products that capitalized on India's growth. Investment in long-term debt instruments issued by the Indian government and local companies were restricted to ultra-rich domestic and foreign investors. Mutual funds required high initial investments—sometimes as high as Rs 5,000—a ticket size that kept less affluent citizens from being able to buy shares. In addition, middle-class investors were spooked by the first-generation unit-linked insurance products (ULIPs) that delivered negative returns during market downturns—something buyers of such instruments were least able to afford, and that dampened appetite for such investments for a time.

Today, a broad range of reliable, regulated and small-scale savings and investment products—including a new generation of ULIPs with very low costs—are available

from life insurance companies in India, enabling the urban middle class to invest in our still-growing equity investment universe with security and confidence.

For India's rapidly growing middle class, the ability to accumulate and invest assets for their own and their progenies' futures—rather than deferring to a patriarch—is a remarkable cultural change. As more of the country's population becomes part of this cohort, more now have assets to protect.

The insurance industry is clearly playing a role in the development of financial products that promote long-term savings and risk protection. This is strengthening India's middle class, and potentially its infrastructure, over the medium and longer term; and will ultimately have a positive impact on the country's standing in the global economy.

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The views expressed in the article are author's personal views.

THE CUSTOMER REMAINS THE KING—REWARD NEED-BASED SELLING

It has been 14 years since the Indian insurance sector opened up to private players. It has been a roller coaster for the insurance players in India since then. The insurance industry, touted as the sunrise sector, after witnessing phenomenal growth in the initial decade, has entered a consolidation phase. With insurance penetration being a mere 4 percent, the opportunity still remains huge. Last year, the insurance industry and the regulator covered some important and exciting steps. The launch of e-repositories, the proposal to make banks insurance brokers indicate that we are now emulating the mature insurance markets and getting more organized. The regulator has been keen to introduce more such measures which gives me the confidence that the next two decades would open up new avenues for life insurance and present more opportunities to grow as an industry.

Let us see how the insurance industry has evolved in the last 13 years. In 2001, Indian insurance industry opened up for private players. The competition raised the need for innovative products, deeper distribution channel and a superior customer service. Taking advantage of bullish markets in 2005, a lot of insurance companies launched Unit Linked Insurance Plans (ULIPs), which were market linked insurance products and offered the twin benefits of investment and protection. ULIPs quickly became very popular. By 2010, the insurance companies had changed their product mix proportion for marked-linked and traditional plans to 70:30. ULIPs contributed significantly to the new business premium. However, in 2008, when the equity markets crashed, a lot of ULIP investors realized that their fund's value had dipped considerably and in some cases, it was even less than the investment they had made. This caused panic among the investors and the Insurance Regulatory and Development Authority (IRDA) received a number of consumer complaints. The IRDA discovered that a lot of these policies were mis-sold as guaranteed return products with the assurance of the fund value doubling in four years. The investors were not told that the ULIPs were market-linked and long-term investment products that should be looked at with a time horizon of at least 15 years. They investors also didn't know about the in-built charges. This hurt the ULIPs' credibility, and all the focus was on the mis-selling of ULIPs. The industry has not been able to wipe away that blemish.

In 2010, the IRDA issued a series of guidelines for ULIPs to establish its long-term nature by imposing lock-in periods and ensuring a minimum level of life cover. While these guidelines made ULIPs far more investor friendly, choppy markets and lower agent commission for market linked products led to the market for ULIP drying up overnight and traditional plans gaining popularity. As of today, the product mix of the insurers has changed to 70:30 in favor of the traditional products. Most insurance companies are also launching innovative products on this platform. But this slowed down the growth of the industry.

The industry must work for the consumers and the insurers both, as these are the primary parties. However, the effort that the distributors—agents, brokers, or banks—have to put in is a lot more. The sale of a single policy requires immense investment of time and energy, which should also be rewarded. Let me try to state the current problem:

1. Products without significant Upfront payouts find hardly any traction, as distributors also have low incentive in distributing them.

2. Such products by definition cannot be good for the consumer at least in the short term.

3. About 60 percent customers, after suffering short term loss post sale, lose interest and discontinue their policies.

4. Because of the fear of such high lapse rates, actuaries will not allow the companies to be out of pocket in the short term.

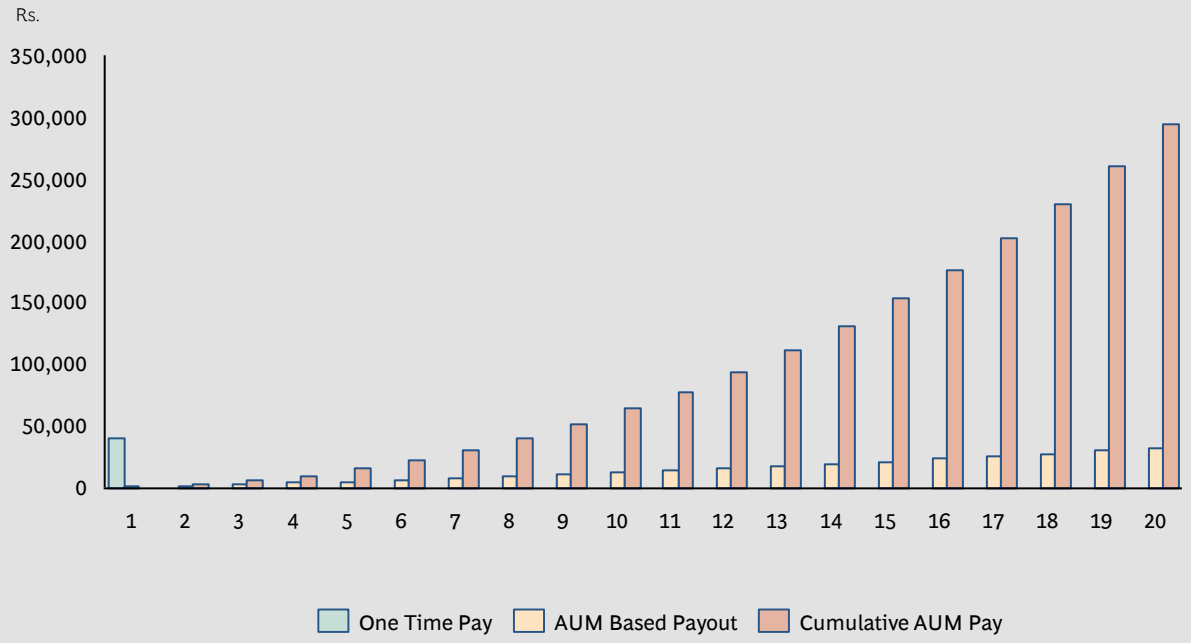
5. The customers, who suffer short-term losses, end up buying none or fewer products in the future. All this leads to an industry that is struggling for volume.

Upfront v/s Lifetime: Let's take two products—one pays 40 percent Upfront, another product pays 1 percent of Assets Under Management. Both these grow at 5% per annum. Say you invest 1 Lac a year, so in case 1, the distributor earns Rs. 40,000 while in case 2, the distributor earns only Rs. 1,000. However, within 8 years the distributor has earned the Rs. 40,000 and if the customer completes the entire 20 years, the distributor will make Rs. 2.94 Lacs, of which Rs. 33,000 will be in the 20th year alone. The entire Mutual Fund industry works on AUM based payouts now, and it's considered a fairly competitive product. Please see Exhibit 1 for reference.

This means, you can have a very competitive product, which is great for the consumer, and has enough to pay for the distributor, however the problem of Upfront is not solved.

If you need quality distributors, you need buyers who will stay on, and make long-term gains. Of course, they have to sustain. This requires a system in which every distributor is identified and tracked across companies, and maybe paid significant upfront, but there is a systematic claw-back from future commissions across the sector in case of policy discontinuance. This will solve the problem as distributors

Exhibit 1 | Upfront vs. Lifetime Pay



with lowest persistency will drop off. They may rotate between people / entities, but will eventually run out of options. This would see a reduction in miss-selling.

However, companies will need to recreate their products to align with these long-term payouts, where even if the customer leaves mid-term, the customer will not suffer much. No doubt that these are long term products and maximum rewards will only accrue in the long term, but the system also needs to ensure that the customer doesn't lose out on breaking a policy, just as the company and the distributor do not usually participate in the losses.

Customers hold an importance place in life insurance business and it is therefore imperative to make sure that their interests are always protected. A series of regulations introduced by the IRDA in the last four years, such as mandating longer lock in periods and a minimum return guarantee have made life insurance products much more transparent and customer friendly resulting in reduced instances of mis-selling. We have seen a lot of product innovation from insurance companies. In the last one year, insurance companies have launched products such as online endowment and ULIP plans, term plans with deferred payouts and return of premium. Life insurers have also introduced health insurance plans with maternity benefits, which were not available earlier. Additionally, with IRDA proposing standardization of products across the industry, we will see customer service becoming the sole differentiator in the life insurance industry, which will again be a huge step toward ensuring customer centricity.

I believe that an effective distribution system along with customer-centric products and efficient customer service can help increase the insurance penetration in the country. In the last four years, the IRDA has taken a series of steps that have made the Indian insurance products far more transparent and customer friendly, these steps have helped in protecting customers against mis-selling. I believe the next step to boost insurance penetration is to launch innovative products, ensuring need-based selling and promoting best in-class customer service along with building a robust and well-incentivized distribution system. It is only when we have addressed these issues that we can expect the insurance penetration in the country to go up.

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The views expressed in the article are author's personal views.

LIFE INSURANCE— SERVING DISTRIBUTORS OR END CUSTOMERS? HOW DO WE OPTIMALLY ADDRESS BOTH?

Life Insurance serves the policyholders, who are its end customers and the ultimate beneficiaries. There is no doubt in that. The entire value chain, of which distribution intermediaries form a significant component, works to enable this in the most efficient and meaningful manner possible. The life force of this value chain however flows from the insurer, and it is imperative for the insurer to ensure that this force remains nurtured and balanced at all times. Key to achieving this meaningfully rests on greater sensitization to intermediary aspirations and bettering the quality of distributor engagement, aligned to customer aspirations.

Life Insurance plays a crucial role in bridging the gap created by the absence of defined social security mechanisms in our country. Today, Life Insurance sector plays the most domineering role in ensuring citizens' long term protection and safeguarding financial security needs. Yet, Life Insurance penetration in India was a mere 3.17 percent in 2012, down from 4.6 percent in 2009, which is far less than several other markets in Asia itself, not comparing yet with the developed markets. This enormous gap represents as huge a business opportunity, and a chance to meaningfully make a difference to the community and nation at large.

Customer is King, but, Distributor is the Enabler

Premium growth and long term sustainability can only be predicated from customers' willingness to buy and stay. And this requires them to be fully invested in the brand and the product. For this, on the one hand we need to build organizational cultures and practices where the customer is placed at the center of the business, at the center of professional decision making and action, where the constant effort and endeavor is to create value for the customer. And on the other hand, we need to sensitize and align our distribution partners to the customer reality, driving home the greater benefit that the partners stand to accrue materially, from a long term customer relationship.

From an insurer's standpoint, margins remain under pressure. To offset margin strain, insurers have rationalized cost keeping operating expenses variable, and, shifted the

focus to achieving higher volumes, and improving persistency levels. Insurers have strived to better the customer proposition by introducing simpler, more transparent products, and improving quality of customer outreach and after sales relations. The success of the effort, however, is directly linked to the involvement and interest of distribution intermediaries, for they are the true flag bearers of the insurance company's promise.

Multiple studies have highlighted the fact that human factor in insurance distribution adds trust, a core component in positive customer experience. In India, as in other countries, the overwhelming percentage of individual sales is clocked through distributors. In a country as vast as ours, distribution is the biggest logistical challenge. Insurance distributors play a crucial role in conveying the insurance promise to the many and far flung corners, where an insurance company simply cannot afford to reach on its own. The distributor assumes a critical ambassadorial role in such a set up. Beyond being brand ambassadors, they also serve as effective listening posts for customer aspirations and concerns, helping the insurer align better with customer needs. Not surprisingly it is the companies which have got their distribution act right, and rarely distribution reach, that have made for best business cases.

Without distributor co-option, any customer outreach and engagement effort will remain a non-starter. This co-option will have transformative effects not just on sales outlook, product development, service and alliance, but also build distributor accountability leading to greater investment in the customer by the distributor. This recognition would also ensure better management of intermediary aspirations, arising from the appreciation of their central role in conveying the brand promise. Better distributor alignment to insurer interests will set in motion the necessary transformation from the paradigm of '*more sold is more profit*' to '*more sold right is far more profit*.' More satisfied customers and greater customer retention would benefit distributors more than the products sold simply for the sake of selling.

When it comes to distribution intermediaries, often there is a natural predisposition towards unitary approaches, usually commission based, even as products continue to be designed competitively. Indeed, there is absolutely no doubt that such an approach could induce a topline rush, but, an incentive based topline rush in the absence of more compelling customer-centric selling rationale, is unsustainable in the long term. Sustainability in the new paradigm depends upon strong customer engagement in the buying process and a balanced long term remuneration for the distributor. The two are inextricably interlinked. Distributors play a central role in engaging with the customers and the more engaged the customers are, greater is the business benefit to the distributor and in turn the insurer. However, for this to play out to its full potential, the industry has to better equip the distributor in both skills and capacity to better serve the customer interests.

Environment is Dynamic

Firstly, consumer preferences are changing constantly, and it is extremely difficult to predict which way the wave will move. However, the natural gravitation will always be toward what brings the customer greater value—measured in terms of relevance, convenience and affordability. Therefore, a static approach will never hold.

Digital, including web and mobile, has come up in a big way today. This changing consumer preference toward digital has led to a scramble among service providers to adjust and benefit from the new reality. In the insurance space, even as the digital native's current flavor is toward term plans because of product simplicity and ease of comparison, over time more complex and even web-only plans could get introduced.

Secondly, the insurance landscape is fast changing as is the regulatory response. A quick overview of the past three years brings home the enormity of transformation in policy and governance, as also industry practices, which has led to the industry becoming stronger and more vibrant. The ground rules have changed beyond recognition, and the end objects have crystallized for the better. In this scenario, the role of every stakeholder has changed and evolved.

Thirdly, distribution itself is evolving. There has been a transformation from the captive agency face of Indian Insurance of yore, to commercial brokers and corporate agents including bancassurance, and now to the evolving space of independent agents and new types of distribution modes and intermediaries. In the US, for instance, independent agents outsold captive agents in 2013, whereas in India it is still an evolving space.

Some of the current modes could morph themselves. Further, modes of distribution could also see innovation and clearer regulatory definition. Digitally aided sales will come to assume a central role, sooner than we imagine, driven by the critical need for information uniformity and better customer need alignment. It will also not be long before hitherto unexplored avenues such as grocery stores to pet shops could come into the insurance sales canvas, even as some pioneering efforts in India such as mallassurance did not take off because they were probably ahead of their times.

In each of these, the only observable constant is change. And in this fluid environment, it is imperative for insurers to create distribution mechanisms built on fundamentals that will hold in the long term, fundamentals that enable stakeholders in the value chain benefit from the near inexhaustible potential of the Indian insurance universe, which gives sufficient legroom for every channel and idea. For instance in the digital versus offline debate, it is important to bring distribution partners aboard on the fundamental premise that while the digital mode will definitely grow, so will the offline mode and there is space enough for both to grow and flourish independently. Indeed, complex products online are only likely to appeal to a highly financially evolved niche capable of taking independent decisions while a majority of customers would still require expert guidance and advice.

Together We Can Make a Meaningful Difference for the Customer

There is a compelling case to co-opt distribution intermediaries as equal partners and align them to the insurer's vision even while their aspirations are meaningfully met. While profits speak well, relationships speak better. The latter approach not only commits us to our distribution partners beyond a mere numbers based association, but also extracts a similar promise in return, albeit

tacitly. The benefits from such an association include possibilities ranging from distributor training and capacity building, distributor enablement in improved leverage of digital medium, to quality management and business advisory. These efforts in turn will translate into bolstering of the distributor's ambassadorial credentials, leading to better customer experience with the brand and better customer retention which will together translate into better and assured long term business for both the distributor and the insurer. Further, the many interlinkages and common interests that bloom in the wake of such an association ensure that the insurer and the distributor remain firmly cross invested, making the association productive and sustainable, aligned to highest customer interests and committed to outstanding customer experience delivery.

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The views expressed in the article are author's personal views.

DIGITAL INSURANCE— STEP TOWARDS FUTURE

The World Bank recently announced that India has now become the third largest economy in the world in terms of Purchasing Power Parity (PPP). The Indian household savings market is also one of the largest in the world. The Indian life insurance industry is uniquely positioned to garner a significant part of this market and to be the preferred savings destination for the citizens of India. However, the industry has faced many challenges during the recent times. To tackle some of these issues the industry is bringing in a series of changes. The changes are directed toward offering optimum value to the customers through new product offerings thereby gaining their trust and preference. In the journey toward sustainable growth, technology-based digital insurance can play a pivotal role, if implemented across the customer life cycle and enabled through all distribution channels.

For the life insurance industry to have sustained growth, it needs to become the preferred choice of long-term savings for the customer. The Indian customer has an earning span of more than 30 years. During this long span, the customer goes through various life changes like marriage, parenthood, grand-parenthood, etc. The customer's lifestyle also goes through many changes. These phases bring in the need for managing financial exigencies, planning for children's education, beating inflation, replacement of income post retirement and many more. The life insurance industry can cater to such needs. While meeting these needs, the product offerings have to be aligned to the requirements of the customers and have to offer optimum value to them. The recent product changes, therefore, have been steps in the right direction. The increased transparency, better cash surrender values, mandatory annuity, improved RIY (reduction in yield) have all been focused toward enhancing the value for the customer. However, the journey has just begun. In a dynamic economy, the needs of the customer keep changing. Insurers need to constantly be on the lookout for changes in the customer requirements and be nimble in trying to meet them.

The journey toward customer centricity is important to meet the industry's aspirations to achieve sustainable growth. However, while the optimum value needs

to be delivered to the customer, value needs to be created for other stakeholders as well. Distributors need to be compensated and the profitability for the industry also needs to be nurtured. This will require a 'manthan' of the business model to maintain the delicate balance between the various forces. The power of digital insurance comes into play here.

What is Digital Insurance?

Digital insurance is about delivering simplicity and convenience to the customers through the integration of technology across all systems and processes that impact the journey of the customer throughout his policy term. Digital insurance touches all distribution stakeholders, helps increase their efficiency and enables them to offer better solutions to the customer. It also empowers the customer to evaluate the offerings on his own and if interested, buy them online. While reaching the customers directly as well as through different distributors, digital insurance is defined as a simplified, transparent, convenient and cost-effective way of delivering products and services to the customer. Let us see how this concept can play out to power the growth of the industry.

Changing Expectations of the Customer

We can see the customer behavior changing around us. The emergence of online channels across categories is changing the way customers consume various products and services. Whether it is buying books, electronics, movie tickets or travel tickets, the customer is ready to opt for digital solutions that facilitate smooth, simple and safe buying. This is a great opportunity for insurance companies. With an insurance purchase that is quick, easy, transparent and safe, the industry can unlock the customer value equation and thus look at adding to its growth. These benefits when delivered through agents and partners can achieve the golden mix of distribution expertise and customer centricity.

Digital Solutions can Simplify Customer's Journey Through the Policy's Life

The buying decision stage: Digital communication can help customers buy the right policies for themselves. Buying the correct policy with the full knowledge of rights and responsibilities goes a long way in helping the persistency of policies. To aid the customer comprehension tools like product videos, need configurators, live chats, etc., can be of great help and be delivered anytime anywhere as per the convenience of the customer.

The on-boarding stage: The on-boarding process itself is undergoing a revolution of sorts. With digital form filling and electronic scanning and uploading of documents, the paper work is getting significantly reduced. With instant know your customer (KYC) validation and a quick online payment, the buying process is now complete within minutes. The long drawn out buying and issuance process that used to be a big customer facing challenge is now getting replaced with digital insurance processes. While this offers great convenience to the customer, it also allows the insurers to issue the policy faster and at a lesser cost.

The servicing state: Today in many cases, a servicing related transaction, be it premium payment or something as mundane as change of address of the policyholder, often requires a visit to the insurance company's branch office. Digital insurance is helping change this. Agents are now getting equipped with digital servicing platforms. Most of the customer-service requests are now becoming branch and location independent. This also helps enable the customers to do a lot of self-service—once again a win-win for customers and insurance providers.

Claims or maturity stage: The ultimate "moment of truth" in a life insurance policy is at the time of claims settlement or payout of the maturity amount. Insurance companies have been taking steps to enable a smooth experience while raising claims by enabling them to do so through online platforms—through the distributor or on their own. With the raising of claims and uploading the documents online, the claim proceeds can also be directly credited into the beneficiary's account thus helping the family members of the customer.

The digital avatar of insurance is still evolving. While some of the initial battles have been won, the work needs to continue on various other fronts to make sure the industry embarks on a sustainable growth path.

Very soon the customer is likely to expect much more from all their service providers. For the insurers, the benchmarks on customer experience, value and convenience are more likely to come from outside the industry. While this is a challenge, it is also an opportunity to gain customer trust and preference. With an improved relevance for the customer, growth is bound to come. Companies have to relentlessly pursue newer and more relevant solutions for the customer, for improving the distribution architecture and for implementing advanced customer support systems. By deeply integrating technology with customer experience touch-points, a cost-effective way of gaining customer satisfaction can be arrived. This will also help the insurance offerings to positively compete with other financial services.

The strong fundamentals of the Indian economy signal a high-growth market in the future. There are challenges on the way but the changing industry dynamics is also creating opportunities in the process. In the final analysis the ones to emerge stronger will be those who display a better understanding of customer's changing product preferences and show the willingness to adapt themselves to the new operating milieu. In this context, the concept of digital insurance does hold a lot of promise.

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The views expressed in the article are author's personal views.

A ROADMAP FOR WINNING AS INSURANCE GOES DIGITAL

In many industries, the changes brought about by digital technology are already evident. Industries as diverse as entertainment, travel, and retail have been disrupted by the emergence of new players using technology to create products and services that offer something new or better. These digital-only players have staked out a valuable position with consumers—and traditional companies are feeling the impact. Just ask the TV companies competing with Netflix, the travel companies competing with Travelocity and Expedia, and the retailers competing with Amazon.

The insurance industry has taken longer to join the rush to a universe of bits. The sales model of agents helping consumers figure out which products to buy has largely remained intact in Western countries, and most insurers haven't yet felt a big impact from digitization on their revenues.

That is changing as more and more consumers begin to handle their insurance transactions online. A new ecosystem is taking shape, and it will affect every part of the insurance-industry value chain. Companies that don't adapt will become increasingly vulnerable.

The good news is that digitization do esn't necessarily mean that traditional insurers will be "Amazoned." In every area of insurance, all over the world, traditional insurers can use the Internet, mobile technology, and social media—as well as some reworked legacy technologies—to fend off new rivals and get ahead of long-time competitors. The challenge lies in coming up with a roadmap for digitization: where to start, what to change, how much to invest, and how to make it all happen.

Consumer Attitudes

Consumer attitudes toward insurance are changing. In its most recent survey of consumer sentiment, The Boston Consulting Group (BCG) found that approximately 15 percent of consumers in Western nations would, if possible, conduct all of their transactions with insurance providers remotely. That was up from roughly 5 per cent two years earlier. Another 50 percent or so would prefer their dealings with insurers to be a hybrid of

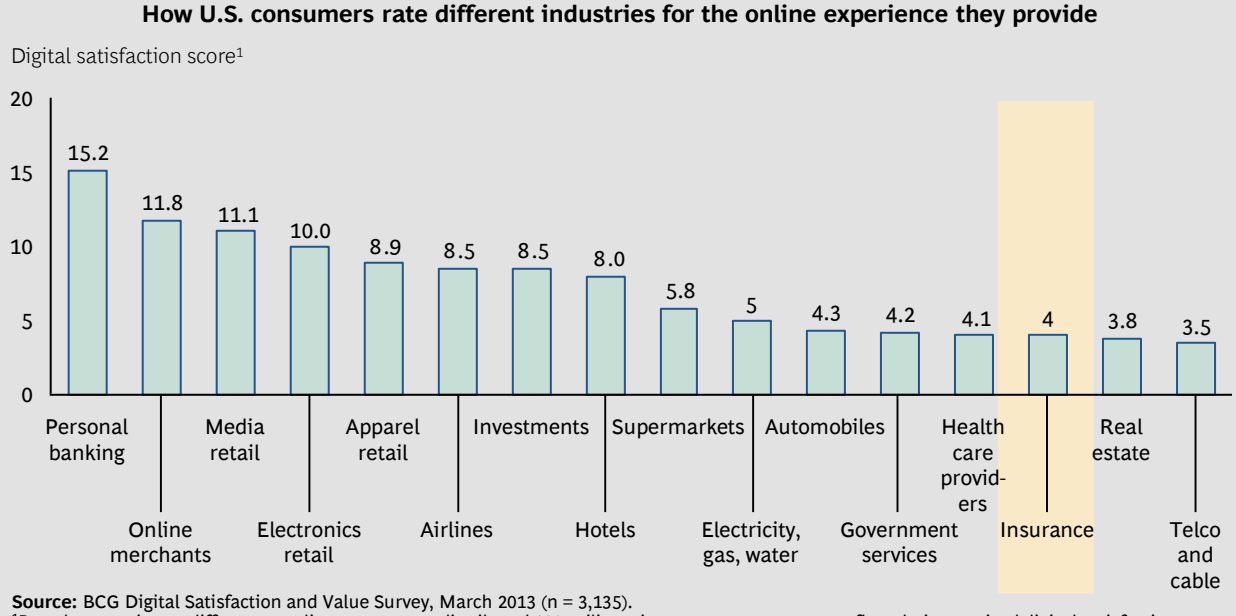
online transactions and interactions with sales or service people, up from 30 percent two years earlier. In our opinion, the percentage of remoteonly users would be higher if the interfaces for common transactions—such as buying a policy, submitting a claim, and modifying an existing policy—were easier to use and more intuitive. But the shift in attitude, which is happening across all socioeconomic groups and applies to every type of insurance, should be enough to get the industry's attention all by itself.

The trend of consumers handling more of their insurance needs on their own is already evident in the early stages of the insurance-buying process. The vast majority of consumers do the bulk of their initial research online, using tools such as search engines and comparison engines, over which insurers have little control. Most of these customers do still turn to agents to finalize their purchases, and that may lead some insurers to think that their traditional networks retain their old relevance. But in many cases, the only real utility provided by insurance agents lies in clarifying and confirming the many policy details that are confusing online. Indeed, in the eyes of consumers, insurers' websites are among the worst of any major industry. Recent research by BCG in the U.S. highlights the dissatisfaction that consumers feel when they interact digitally with their insurers. (See Exhibit 1) But this dissatisfaction is not limited to the U.S.; consumers in most other parts of the world feel it, too.

Digitization is Critical in Three Parts of the Value Chain

Most insurance companies understand that digitization is starting to have an effect on the way they do business. But very few of them have devised a roadmap for how to change. Perhaps the best place to start is with the three parts of the value chain on

Exhibit 1 | Consumers Think That the Digital Experiences Offered by Insurance Are Among the Worst



Source: BCG Digital Satisfaction and Value Survey, March 2013 (n = 3,135).
[1]Based on maximum difference scaling: consumers distributed 100 utility points across segments to reflect their perceived digital satisfaction; segment scores do not add up to 100 because of data weighting.

which digitization is likely to have the biggest impact: internal operations, go-to-market strategies, and risk.

Internal Operations. Insurers have made the most headway here. The benefits stem partly from straight-through processing, which reduces insurers' use of paper processes and lowers their transaction costs. Digitization of operations also involves developing interfaces for providers such as physicians and hospitals—again, with the goal of streamlining processes and reducing costs.

In many cases, the new guard of digitalonly competitors already has paperless processes and highly efficient approaches to handling transactions, which has allowed them to build a significant advantage in terms of variable costs. The perpolicy processing costs of one digital-only automobile insurer who shared this information with us, for example, are 30 percent lower than those of traditional insurers, with which the digital-only insurer is starting to compete. If traditional insurers are to remain competitive, they must move faster to make their legacy systems more flexible and better able to operate in real time. This is a significant implementation challenge that will require a lot of planning and investment.

Another way to increase efficiency is by introducing self-service portals. Such portals could allow policyholders to do certain transactions online, without any paperwork or assistance. Insurers face a challenge with the self-service approach, however—which is how to go beyond the mere digitization of existing processes and offer an experience that truly takes advantage of the medium. If insurers believe that providing self-service means simply allowing their customers to access forms online and send those PDFs back via an electronic process, they will be missing both the point and the larger opportunity.

Even insurers that have a clear sense of what they should be offering in the way of self-service need to figure out how to make such investments pay off. In the current structure of the industry, independent agents develop customer relationships and, in many cases, handle customer service as well. More self-service options could reduce the burden on these independent agents without necessarily increasing customers' loyalty to the insurers themselves. This is an unintended consequence that insurers should take pains to avoid.

Go-to-Market Strategies. By far the biggest go-to-market opportunity for insurers involves the development of direct sales, which usually take place online and are not brokered by an intermediary. These sales have been slow to materialize in the industry because of resistance from traditional sales channels and because of the inherent complexity of insurance products. Perhaps not surprisingly, insurers that have seen early success with direct sales haven't had any channel conflicts to worry about; they sell insurance online or through telephone fulfillment staffs and don't rely on agents to generate business. One example is CosmosDirekt, a German insurer that surmounted the complexity issue by putting the application and approval process for term life insurance entirely online. The company has since built on its success in term insurance and is now offering other kinds of insurance.

CosmosDirekt is not alone; other innovative insurers have also gotten over the complexity hurdle and are using a simplified interface to sell directly to consumers. Another good

example is Oscar, a start-up health insurer serving residents of New York State in the U.S. With its intuitive graphics and easy-to-use search tools, the company's online service is bridging the gap that has traditionally separated consumers from insurers.

Direct sales are destined to take significant share from traditional insurance channels, making investments in this area not just an add-on source of revenue but a competitive necessity. However, direct sales are only going to work for insurers that rethink how they build, develop, and market their products. The experience needs to feel new, not like the same old interaction transferred to a new medium.

The second big go-to-market opportunity for insurers lies in giving their full-time salespeople digital-sales tools. Such tools include customer-relationship-management systems that help with some asp ects of lead generation and customer service, and that make it easier for sales agents to up-sell and cross-sell. The tools also include portable devices. For instance, the German insurer Allianz started a pilot project in Italy in which agents bring iPads on their visits to clients' homes and places of work. The agents are able to display benefit information and generate price quotes on the spot, eliminating the inconvenience of follow-up meetings and increasing the likelihood that customers will make impulse buys. When programs involving portable devices are properly implemented, insurers can realize significant productivity gains, with agents managing as much as 25 percent more business than they did previously.

Another very important thing for insurers to learn is how to gain more visibility when consumers are researching which insurance products to buy. Affinity marketing—the tactic of teaming up with a well-known brand in order to bring an offer to a prospect's attention—can play a big role here. In the U.S., for instance, New York Life Insurance has a deal to sell life insurance and annuities to members of the AARP, an organization with a membership of 37 million retirees. In China, the online insurance company Zhong An has started out with some can't-miss affinity partners, including the shopping site Alibaba, for which Zhong An will insure property and cargo; the Internet gaming company Tencent; and Ping An Insurance, one of China's largest insurers. Most of the new digital insurers that have captured significant premiums have done so with the help of an affinity partner. Affinity marketing helps insurers show up on consumers' radars at an earlier stage of the research process.

Risk. This is the dimension in which digitization has the greatest financial potential, and some insurers have already begun pilots in this area. But the business models involving risk reduction are embryonic, and there is no clear roadmap for moving forward. Very few insurers have had significant success in this area. Underwriting is one area of risk in which insurers could capitalize on digitization. The science of using actuarial tables and other statistics to create and price insurance products has been around for well over a century and is quite mature. But information from social media, GPS systems, and big data could lead to improvements in insurers' ability to assess risk.

For instance, auto insurers are starting to use data gathered by telematics devices and mobile-phone applications to determine premiums for new clients—a segment-ofone approach that could make it possible for demonstrably safe drivers to pay lower premiums. That data could also help the auto insurer adjust the prices of policies in subsequent years and more accurately assess the risk of each policyholder.

Big-data analytics could help insurers more accurately assess other kinds of risk as well. For instance, a mortgage life company might be able to use data from social networks to estimate its loss reserves more accurately by spotting lifestyle changes and recognizing how they might increase an insured person's risk. And in claims management, companies with more sophisticated approaches to data are already doing a better job of identifying outlier claims, thus reducing their exposure in an area that has historically accounted for a disproportionate percentage of payouts. For example, if an insurer is able to recognize that the injuries suffered by someone in a car accident are atypical, it could arrange for more effective early treatment—thereby lowering the total reimbursements it must make to hospitals and physicians.

The intersection of devices and loss prevention—the vaunted Internet of Things—presents another wide-open area of opportunity. It's easy to imagine how payouts could be reduced if property and casualty insurers used sensor-driven devices to detect and respond to events such as water leaks, break-ins, and fires, for instance, or if health insurers equipped cardiac patients with heart-monitoring devices that immediately forwarded abnormal readings to the patients' physicians. What's harder to imagine is the business model: figuring out who to partner with, how to pay for the devices, and how to set up exclusive deals with device makers.

Early pilots are under way in all of these areas. The British insurer Aviva is using unstructured data, including online spending habits and public Facebook postings, to get a sense of its customers' lifestyles, do predictive modeling, and set premiums for life insurance policies. Some companies—including Aviva and two U.S. insurers, Progressive Casualty Insurance and Allstate Insurance—are also experimenting with using data from mobile apps and in-car telematic devices to price automobile insurance. It's too early to know how these initiatives will fare, but we think that, in the aggregate, risk initiatives have considerable promise. (See Exhibit 2)

Unfortunately, risk is also one of the areas in which traditional insurers face the biggest threat of disruption. One need only consider the strategy followed by Rakuten, Japan's largest online retailer, to understand the frontal assault that Internet companies can make on insurers. A couple of years ago, Rakuten bought AIRIO Life Insurance; Rakuten is now in a position to use the vast amount of data it has on Japanese spending habits—seven out of ten Japanese are repeat Rakuten customers—to price the life insurance policies that it sells to consumers.

Or consider what might happen if Google, whose footprint is considerably larger than Rakuten's, decided to get into insurance. Given what Google knows about consumers, it's not hard to imagine the company being able to offer a more innovative approach to risk assessment—and therefore to insurance pricing—than the one offered by traditional insurers. Regardless of how or where the Internet data giants might enter the insurance ecosystem, it is clear that they could alter it profoundly and irrevocably.

There's also the possibility of competition from companies that haven't traditionally been direct sellers of insurance, such as automobile original-equipment manufacturers, airlines, and telecommunications companies. In short, the threat to insurers' business models could come from just about anywhere.

Developing a Roadmap for Digitization

For insurance companies, digitization is a complex equation with three variables: consumers' evolving preferences, changes in insurers' internal operations and technology, and emerging ways to assess, analyze, and manage risk. These changes create the possibility of a very different future. Direct players could become business process outsourcers, offering their platforms for others to use as delivery mechanisms for low-cost insurance products. Internet specialists and affinity marketers could alter traditional insurancedistribution channels. Data giants could become the engines behind risk assessment. Equipment makers and utilities could make off with part of the claims business. No part of the value chain is safe.

To best position themselves for success, insurers must develop a roadmap that takes into account four factors:

- *The Altered Ecosystem and New Partnership Possibilities*. As new players emerge—in some cases with unique value propositions— traditional insurers will have to decide how to position themselves. This starts with an analysis of how their part of the insurance ecosystem will develop. In some areas, traditional insurers may remain at the center of the ecosystem and have an opportunity to federate within it. But this won't be a natural role for many insurers. In other areas, traditional insurers won't be at the ecosystem's center no matter what they do, and they will have to find other ways of creating value. Picking the right position in the

Exhibit 2 | Insurers Are Pursuing Some Promising Initiatives

Time frame	Initiative	Description	Financial benefit	Other benefits
Near term	Agent enablement	Give agents software and support to make them more efficient	+	Aids in agent recruitment
	Digitization of claims pricing	Reduce paper transactions to lower costs	++	Increases attractiveness to business partners, including hospitals and physician networks
Medium term	Direct sales	Allow consumers to buy insurance products directly, without the help of an agent	+++	Helps insurers compete for less wealthy customers and for "digital natives," for whom being online is a way of life
	Self-service portals	Allow customers to do simple transactions online, without staff help	+	Encourages customers to return to insurers' websites
Long term	Improved claim assessment	Use big data, including social media, to identify outlier claims	+++++	May keep insurers from being disintermediated by data giants
	Improved loss prevention	Use sensors to limit damage from insurable events, such as fire, the, and illness	++++++++	May help insurers avoid losing market share to device manufacturers and utilities

Source: BCG analysis.
Note: The number of "+" signs indicates the degree of potential benefit.

ecosystem will require scenario analysis, fresh thinking, and the ability to place and manage multiple bets.

- *New Innovation Models.* Traditional players will need to become more flexible and make learning a priority. They may be able to achieve these goals by doing more of their product-development work outside of their core organizations, perhaps using a corporate venture-capital model. This could allow insurers to surmount some of the challenges inherent in their own organizations. The products developed by these spin-off ventures could be reincorporated into companies' portfolios, or they could remain external and be marketed by a new entity, depending on which approach makes the most sense.

- *Products and Services That Are More Consumer-Centric*. While no one yet knows which new products will become popular, the insurance offers that consumers will have access to will clearly be very different from those available today. For insurers, the key is to reimagine the whole consumer experience. Companies that do this well may find that they are able to engage their customers in ways that have previously been impossible. With its Facebook-like features, Oscar's website has achieved a level of "stickiness" that is rare in the insurance industry. Approximately 5 percent of Oscar's customers return to the site on a daily basis—quite a feat in an industry where consumer interactions rarely occur more than once a month and sometimes happen as infrequently as once a year.

- *The Need to Modernize IT During a Period of Rapid Change*. When it comes to their technology infrastructures, traditional insurers are caught in a difficult spot. On one hand, they need to be able to start delivering some of the benefits of digital technology to their customers quickly. On the other hand, they are sitting on top of legacy systems which, by their nature, can be changed only through a prolonged, multistep process.

The answer is a two-speed IT transformation, which means rolling out some new digital services even as insurers move toward a long-term overhaul of their legacy architectures. This is a difficult balancing act for most IT departments. IT orthodoxy often calls for investing in big-bang projects that can take years to complete. Given the current level of change in the industry an insurer would be ill advised to pin all its hopes on one big-bang initiative. Instead, the company must have secondary and tertiary initiatives that are already producing returns.

While predicting the exact timing is impossible, we expect that the impact of digitization will hit the insurance industry with full force in the next three to five years. Developing a roadmap now will help insurers preserve flexibility and give them a chance of winning no matter what comes—and when.

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THE PROMISE OF ONLINE INSURANCE—REALISING THE DREAM

The purchase behavior in India is witnessing a revolution as customers migrate from brick-and-mortar retail stores to buying a wide variety of products and services online. Though consumer-centric ecommerce hogs the headlines, the switch to online buying is impacting every industry. And Insurance business is no exception. Online Insurance or Insurance bought digitally is nothing but the purchase made without a physical meeting. Yet, the online insurance space has some characteristics which set it apart from the insurance sold offline. Most of us would agree to these points:

1. A digital purchase usually implies a lower push than a physical meeting.

2. It requires a certain desire for the purchase and hence awareness is necessary.

3. A digital action is by definition recorded forever (both what was communicated by the seller, and the answers provided by the buyer and vice-versa).

4. Nowadays, Digital Identification provides a fairly robust mechanism to addressing issues related to 'knowing your customers'. After all, most of us use online banking.

I think it's universally accepted that purchases made digitally have lower lapse rates, and come with better self declaration. However, have such inherent benefits created a large online insurance marketplace? That answer depends upon how you look at the facts.

1. Approximately 1 percent of all retail insurance in India is sold online.

2. It makes up 3 percent of private insurer retail sales, as most government companies have not really moved much on this front yet

3. Online sales make up more than half of all pure life insurance, or critical illness or personal accident products sales.

4. It is more than 6 percent of retail health business of private insurers.

5. It is more than 10 percent of private insurer's roll-over motor insurance market.

6. It is about 25 percent of retail travel insurance

7. Guaranteed products, the mainstay of India's life insurance industry, are not sold online at all.

8. Online purchases also constitute a significant percentage of ULIPs sold today.

A cursory glance through above data set suggests that the share of online sale as a percentage of overall market depends greatly on the product type. Hence, Online Insurance will grow on the back of right products / product innovation. We cannot only sell what we want to sell, because the customer will buy only what makes sense to him / her. Therefore, that "sense" needs to be ingrained, and that will take a lot of upfront education to develop.

Online Insurance Today

The share of online sales in Insurance industry in India is far lower when compared with other industries such as travel bookings, shopping, classifieds, job search etc. Ecommerce behemoths like Flipkart, Amazon, Myntra, Snapdeal and Jabong have a large user base. Ditto for travel bookings segment which is dominated by online brands like Makemytrip, Cleartrip and Yatra. These brands have been able to adapt their offerings to a populace that accesses the internet via mobile and consequently, have benefitted greatly from a mobile-first strategy. With the world's second largest mobile user base and the second largest internet user base in India, the country is rapidly adopting the internet for a wide variety of uses. With cellphone makers selling ever cheaper smartphones, mobile has become the preferred mode for accessing the internet. However, the online insurance sales are negligible when compared with the volume of ecommerce transactions taking place in India.

Without doubt there is tremendous opportunity in Online Insurance but that potential can only be harnessed if we make some changes in the industry to better align it with customer expectations. The popularity of net-banking, demat accounts handled online and even personal banking apps, signals that if the process is simplified and aligned to the consumers needs, there acceptance is bound to grow. Products that are simple, and the pros and cons of which are easy to understand for an average policy buyer, have been fairly scarce. There are many pain points in the KYC requirements and payment processes that should be addressed to make buying a policy easier. The rules governing online distribution should also be made less restrictive.

However, despite these obstacles the Online Insurance industry has seen some progress. Innovating with e-products has led to a surge in online transactions. And over time we have come to appreciate that the data collected during online transactions is of a superior quality and valuable for understanding the customer. We have also seen that online customers show better retention rates. One can surmise that given the ability to compare policies online, the online customer is often making a more informed choice.

Measures Required to Harness the Potential of the Online Insurance Space

While a lot of online growth has happened on the basis of price and deep discounts, these clearly are not the only factors for a customer, or even the most important factors any more. Convenience and the security of an online transaction far outstrips price. Bookmyshow.com, which has an almost 90 percent share in all movie ticket bookings in India, actually charges you a higher fee than if you were to buy the same tickets offline. Airlines too now charge a convenience fee. IRCTC gives no discounts for online purchase, and neither do banks for internet services. As far as the insurance industry is concerned if we steer clear of discounting, and remain focused on product innovation and communication, the industry could see very healthy growth over the years.

We need to keep the customer needs in mind while developing products. The customer is buying insurance, or covering high risk events such as death, disability, critical illness, health, motor accidents, theft (from home), or Damage to home, losses while traveling. In addition there is some future planning for a pension or education of a child. In each of these categories there is tremendous scope for product innovation. Let me provide one simple example.

Imagine a term (life insurance) product, where the policy-holder could decide how the family would be provided the money upon the event of the policy-holder's death. The spouse essentially starts to get a monthly amount for the duration of their life. The children get an expense amount per child paid to the spouse, and higher amounts are paid out at life stage events such as graduation, marriage, etc. Primary liabilities get paid off, and inflation is addressed in this manner. One is also able to mitigate the uncertainty of the sum assured being useful for the family over a long period of time. Dependent parents could also get a separate pension-like support in this product. In addition the same benefits could kick-in in case of a terminal illness, or complete disability, or serious critical illness. If we create such a product, price it accordingly and make it available to consumers and educate the consumer about the availability and benefits of such a plan, they will certainly buy it.

Let me share another example of a plan targeted at those who live long: a plan where the policy-holders pay a significant monthly amount through their working years, and have a top-up health insurance, along with term, critical illness, and disability cover. However, upon reaching 65, they stop paying and start getting a pension. In addition, the health cover starts post 65 years until life, with no further payments. I know that product is difficult to model, but it

does provide risk mitigation as pensions, health costs, and term / disability costs will of course balance the portfolio.

We could also create products factoring data gleaned across products bought online. For instance, there is enough data to suggest that people who buy term insurance type products online, will perhaps be lower risk for motor insurance. There is significant data that backs this in the U.S. and we could test similar hypothesis to ensure higher profitability for the insurance providers along with higher utility to consumers.

Of course, standardization and simplification of processes, including for Know Your Customer requirements, medical examination, etc., is something that must be addressed to streamline the online buying process for a customer, but the centre-stage for a buying consumer is the product. Product innovation is the key for the uptake of online insurance.

We must understand that the online consumer is just like you and me. They will voluntarily buy products that they find useful after a lot of research as they are spending hard earned money. These products will need to focus on the consumer not the distributor. It is no surprise that endowment products which dominate our industry are barely bought online, while term, health, critical illness, and personal accident which are a mainstay of online insurance purchase make up just 5% of the overall new business volume. If we as an industry focused our energies on product creation and then on educating the consumer, the utility of the products will be fully understood by consumers and they will come in numbers that will surprise us. Regulation must support innovation and its pace if online insurance is to flourish, whether that regulation has to do with the rules governing the introduction of products or on standardizing application forms to speed the process and help in data sharing. India is a large market with a majority of our population being either uninsured or underinsured. This is the potential of the market and the way to achieve it is by creating an environment where the customer is the nucleus of the creation, execution and delivery of products. This is the simple key to unlocking the market potential, whether you are a regulator, law maker, insurer, aggregator, agent or broker.

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The views expressed in the article are author's personal views.

PENSION AND RETIREMENT SOLUTIONS—CLEAR NEED, UNCLEAR SUPPLY

With the advent of research and remedies for almost all illnesses, life expectancy in India has increased dramatically over the last 25 to 30 years. Super specialty hospitals in India today have the best medical facilities that were earlier available only in developed countries like the U.S. Given the increase in longevity, as well as the absence of a government-sponsored Longer Term Care as a social security measure, the state needs to assume the following two important responsibilities:

- An inflation adjusted income to help an old person survive
- Provisions for health expenses in old age

Since only government employees currently get an index linked pension, provision, based on savings, for post-retirement income and health care insurance are two critical imperatives for the average Indian citizen.

Pension and Annuity Business

Pension is an important segment of the life insurance business. While conventional life insurance policies such as term, whole life and endowment primarily offer the death benefit, and cover the risk of premature death, pension policies cover the risk of living longer. Both these risks, i.e. death risk and longevity risk, are contingencies linked to human life, and therefore, constitute life insurance business under Section 2(11) of the Insurance Act, 1938. Under conventional life insurance policies that cover death risk, benefit is granted upon death, whereas benefits lapse upon death in case of pension policies.

A subset of the pension business, annuity is a financial product that guarantees the buyer a series of periodic payouts in consideration of a lump sum. Thus, for a single premium invested in an annuity policy, the policyholder receives a periodic annuity till his survival. There can be different variants of this basic structure, like Deferred Annuity, where annuity starts after a gap, Annuity Certain, Annuity on spouse life, etc.

A typical pension policy has two phases—accumulation (deferment period) and benefit (annuity payout period). Under the accumulation phase, premiums are paid by the policyholder to accumulate the required corpus, which will be utilized after superannuation to purchase an annuity.

Old Age Security

It is estimated that the size of India's elderly population, defined as those aged 60 and above, will increase from 77 million in 2001 to 179 million by 2031, and to 301 million by 2051. Owing to declining birth rates and increased life expectancy, the country's elderly population is growing at an annualised rate of 3.8 percent, as against the annual average growth rate of 1.8 percent for the overall population. The existing formal pension system caters to only 12 percent of India's workforce, according to a study undertaken by FICCI and KPMG. The study noted that pension reforms held the prospect of expanding the size of the domestic pension market from Rs. 56,100 crores in 2002 to about Rs. 4,06,400 crores by 2025. Further, the existing government administered pension schemes, the research pointed out, are inefficient as they cover a small percentage of the entire workforce, and provide inadequate pension to cover the financial needs of the retirees. The study emphasized the need for constructing a low-risk, yet high-return, portfolio through some exposure to equities and international markets. For a successful regulatory regime, the three cornerstones of product, processes and distribution were stressed. There is a huge potential for the life insurance industry to expand in the pension segment, considering that the subsector is currently covered only by the Life Insurance Corporation (LIC) and a few other companies. In particular, there is great scope for annuity service providers to establish large-scale businesses. After all, the Pension Fund Regulatory and Development Authority (PFRDA), which regulates only the pension fund management segment, will ultimately have to transfer the accumulated corpus to life insurance companies to provide annuities to retirees. Pension funds, being long term in nature, support infrastructure investments in a big way.

Typical Life Cycle of the Average Indian:

- Formal education till about 25 years
- Employment or profession—source of funds for living and savings
- Marriage between 25 to 35 years
- Kids' education between 35 to 55 years
- Marriage of children after about 50 years
- Retirement between 58 to 65 years

The required savings for a comfortable retirement should typically be made during active service. Identification of an ideal investment vehicle for savings is, therefore, critical to leading a peaceful retirement.

Savings for Old Age Security should Start when the Person is Young

Individuals need to begin saving for retirement when they are in active service. They can leverage various available investment avenues, including wealth management and insurance products, to build the requisite corpus for earning an annuity. Hence, there is a need for a vehicle which provides for inflation adjusted savings on a regular and systematic basis, enabling individuals to build a corpus that takes care of their post-retirement needs.

However, there are only few products available today that address this requirement completely. While a financially literate Indian can build a corpus using equities for a longer term, the rest depend on a single instrument to take care of their post-retirement needs. However, the biggest challenge is the awareness about the need discussed in the next section.

Challenges for the Average Citizen

- **Low awareness**—The average Indian's awareness, with regard to the need to save for retirement, remains low. The need to save for post-retirement is not a priority. Money is spent on day to day expenses, fun and leisure. Fundamentals of investing, like the importance of starting early and the power of compounding, are not understood

- **Aversion to Long term**—The average Indian is averse to saving over a longer period. In fact, he is generally not convinced of a term of 10 years or above

- **Lured by short–term, high-return products**—Since there is a need to protect the savings for long term, a reasonable proportion of investments will have to be allocated toward guaranteed products like debt instruments. However, the urge to earn more through the equity market, over a short term, makes an investor look for quick bucks in equities – leaving him vulnerable to loss of capital. While it has been well established that equities represent the best asset class for the long term, the risk appetite of an individual investor should govern his ideal investment mix—whether to save through high-risk instruments only, or to embrace a mixture of low-, medium- and high-risk instruments to protect the downside.

- **Indisciplined approach toward investments**—The average Indian does not hire a financial planner, and instead, prefers to go to an agent or broker—a state of affairs not surprising, given that the average financial literacy levels remain low

- **Absence of separate incentives**—The Income Tax Act currently allows Indian citizens to claim a maximum deduction of Rs. 1.5 lakh, from their taxable income, under Section 80C, 80CCC and 80CCD put together. Mostly, the limit is exhausted by virtue of employees' contribution to provident funds, repayment of principal toward housing loan, etc. Policy makers need to provide extra incentives for individuals to provide for risk of dying early and risk of living longer through in life insurance products.

Current Regulatory Framework for Pension Products

Defined Assured Benefits under individual pension products

All individual pension products shall have explicitly defined assured benefits that are payable on:

- Death and;
- Vesting, defined as the date of superannuation when the corpus is utilized toward payment of pension benefits

An assured benefit means at least one of the guarantees from the following options of providing either:

- Non-zero positive rate of return on the premiums paid, excluding service tax, from the date of payment to date of vesting, or
- An absolute amount to be paid on death or maturity (which shall result in non-zero positive return).

In both cases, the quantum of such guaranteed payouts shall be disclosed at the time of the policyholder purchasing the contract. The non-zero positive return payable on death may be more than the non-zero positive return on maturity / vesting.

- A guaranteed maturity benefit, in absolute amount, which shall be utilized at the vesting date, or guaranteed death benefit (in absolute amount) payable on death, shall be disclosed at the time of purchase of contract.

The assured benefit shall be utilised on the vesting date, or on the date of death, whichever is earlier.

Insurance cover during the deferment period

Deferment period under a typical pension plan is defined as the period of accumulation, and represents the premium paying period. Pension products offered by life insurers may include an insurance cover throughout the deferment period, or may offer riders.

Options upon vesting of a pension policy

On the date of vesting, the policyholder shall exercise one of the following options:

1. To commute, to the extent allowed under Income Tax Act, and to utilize the balance amount to purchase an "immediate annuity" from the same insurer—that shall be guaranteed for life—at the then prevailing annuity / pension rate, or
2. To utilize the entire proceeds to purchase a single–premium, deferred pension product from the same insurer, or
3. To extend the accumulation period / deferment period within the original policy, under the same terms and conditions, provided the policyholder is aged below 55 years—subject to underwriting if it there is a sum at risk on death.

Income-tax benefits for a pension policy

The premiums paid under a pension policy are eligible for a deduction up to Rs. 1 lakh under Section 80CCC of Income Tax Act. This deduction is subject to an overall limit of Rs. 1.5 lakh under Section 80C, 80CCC and 80CCD. However, the surrender value and the annuity paid under a policy for which a deduction is availed under the said Section will be taxable under the "Exempt-exempt-tax" (EET) regime. Commuted value of pension under a pension policy is not taxable, to the extent allowed under the terms and conditions of the given policy. However, as stated earlier, the limit of Rs. 1.5 lakh includes the deduction under Sections 80C and 80CCD. Therefore, if an employee has already exhausted this ceiling, there will be no fiscal incentive for a pension product.

Challenges for life insurers

- Difficulty in providing long-term interest guarantees by insurance companies—globally, insurance companies are endangered due to their earlier long-term guarantees on yields

- Pension contracts tend to run for very long terms—for example, a 30-year-old individual buying a pension product will convert his accumulated corpus into an annuity at the age of superannuation (typically, between 58 to 65). The life insurer will then have to provide him with guaranteed payouts till he dies, say, at age 75. Given that it is very difficult to predict market-linked interest rates in the long run, the industry finds it challenging to give guarantees on yields 45 years in advance for an annuity that will kick in 28 years from the date of the policy being bought.

- Absence of a reinsurance mechanism for long-term annuity business

Recommendations

- **Defined contribution method**: With even PFRDA embracing the defined contribution framework for pension products, and keeping in mind the inherent risks associated with guaranteed returns for such instruments, moving from defined benefit to defined contribution method is recommended. Benefits should depend on the amount invested, and the returns generated via the given asset classes, up to the point of exit from the pension plan. If the regulator deems guaranteed yields absolutely necessary, let it be for the medium term only.

- **Guaranteed interest for limited period**: During the deferment period, no interest guarantees be insisted in Pension-products. period. Thereafter, the duration of interest guarantees may be restricted to not more than five years at a time, and be subject to subsequent revision—upward or downward—once every five years, depending on market conditions. In other words, guarantees on long term returns may be modified to medium-term return guarantee, with a flexibility to align the returns with market realities once every five years.

- **Relaxation of compulsory annuitization with the same insurer**: Existing regulations mandating policyholders to purchase annuity policies from the same

insurer need to be relaxed. These rules restrict customer choice at the time of superannuation. A policyholder purchasing a policy at age 30 cannot predict which annuity instrument will be most suitable for him more than 25 years from the date of him enrolling into a pension plan. Therefore, facilitating the choice of selection of the annuity provider for the policyholder, at the time of his superannuation, would help him select the "right and appropriate" product, and not hold him hostage to the same insurer that provides fund accumulation..

- **Introducing flexibility of allowing limited partial withdrawal after ten years:** As discussed earlier, the average Indian is averse to locking in money for terms exceeding ten years. Given this reality, it is suggested that a limited partial withdrawal of, say, up to one-third of fund value under unit-linked pension products, be allowed after ten years of the policy being bought. The remainder of the corpus would be locked till the age of superannuation, when another one-third toward commutation of corpus is allowed. It may be noted that even the PFRDA allows a tier-II account that imposes no limit on withdrawals. Barring partial withdrawals from pension products not only curbs flexibility from the customer's point of view, but also creates disparity between the products offered by life insurance companies and Pension fund companies regulated by PFRDA during the accumulation phase.

- **Product pricing and distribution compensation may be liberalized** for pension products so that life insurance companies are encouraged to come up with innovative products, and promote pension products

- **Healthy competition with PFRDA products**: During the deferment period, insurers may be allowed to design accumulation on an unit-linked platform that entails an appropriate mix of equities and debt instruments, including gilt, in a manner similar to the PFRDA model. This would promote healthy competition between pension fund companies and life insurance companies

- **Separate tax deduction limit for Pension products**: Section 80C of the IT Act may be delinked from 80CCC (pension products of life insurance companies) and 80CCD (pension contribution under National Pension Scheme), and a separate deduction of up to Rs. 1 lakh be allowed for Section 80CCC and 80CCD combined—to incentivize contributions to pension funds. This would encourage long-term savings among individuals for retirement planning

- **Compulsory savings toward pension**: Contribution toward pension product may be made compulsory up to 10 percent of basic salary and dearness allowance (DA), similar to the mandatory allocation for provident fund (PF) @ 12 percent. This is necessary, given that the awareness and tendency to save for post-retirement is very low in India.

In summary, the need of the hour is Pension reforms in India. There is an immediate need to encourage Pension contracts. Some of the suggested measures are:

- During the deferment period funds are invested as per the fund option selected by the policyholder (unit linked pension policies)

- Flexibility of partial withdrawals allowed after ten years of taking the policy (unit linked pension policies)

- Choice of selection of annuity service provider be provided to the policyholder at the time of superannuation

- Complete alignment with "defined contribution" method, without any guarantee; however, if deemed absolutely necessary, guaranteed interest for only a limited period, of five years at a time

- Separate tax deduction for pension products, including PFRDA-regulated ones, to encourage savings for post-retirement

- Savings toward pension may be made compulsory like Provident Fund. Alternatively, the contribution toward Employee Pension Scheme (out of employer's contribution to PF) may be allowed to be managed by PFRDA, or through pension policies sold by life insurance companies

- Foreign direct investment (FDI) of up to 49 percent in pension fund companies may be allowed to encourage overseas pension companies that specialize in managing long-term pensions, and to help grow the supply side

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PENSION AND RETIREMENT SOLUTIONS—CLEAR NEED, UNCLEAR SUPPLY

THE DEBATE ON PENSION system reforms is intensifying in India. While several reforms have taken place in the spheres of banking, capital and currency markets, the pension space in India is has remained untouched. We will try to understand the intricacies of this sector and analyze how the current gaps can be fulfilled in this article.

Need for Pension

There are several factors those make it essential for India to better its pension scenario. Some of the key factors are:

1. Disintegration of the joint family system which provided support mechanisms in old age
2. Rise in elderly population and increased life expectancy
3. Inflationary economy and increasing cost of living
4. Need for monetary assets post retirement due to lack of social security

Some interesting statistics mentioned below highlight the importance of a putting in place a strong pension structure in the country:

- By 2030 nearly **12 percent of India's population—or 180 million people—will be over the age of 60**.
- With advanced health care, rising income levels and better standard of living, by 2030, at **60, the average life expectancy will be of 21 years.**
- With a total workforce of over 472.9 million people, only 29 percent are employed in the organized sector. This implies that nearly **71 percent of the workforce is not covered by any pension scheme.**

- A person at the age of 30 and retiring at 65 earning Rs. 1 million per annum will be able to **cover expenses for only eight years** with currently available retirement solutions.

Pension Industry in India

The pension sector plays a crucial role in the growth of an economy. Since funds invested in pension schemes are invested for a long term, they tend to be key drivers of stability in capital markets. As per a joint research published by Ernst and Young (E&Y) and Confederation of Indian Industry (CII) in Nov 13, pension funds constitute about 11 percent of the GDP for India. The percentage is substantially lower compared with that of other countries. In developed markets the number can be as high as to 160 percent. Combined, the entire pension fund corpus in India is in the range of Rs. 12,000-15,000 billion. It is moot whether this is adequate for a population of over 1.2 billion citizens.

Most pension structures comprise of three forms of funding. Let us look at these three in detail and understand them in context of India:

First is the **employee and employer funding**. This form of funding is widely prevalent in India due to favorable regulations that make provident funds and gratuity mandatory. The options in this category are employee provident fund, employee pension scheme, general provident fund, central services pension fund, etc. Presently, almost one-third of the total retirement corpus is in the Employees Provident Fund (EPF), which is the principal mode of retirement planning for workforce in the organized sector.

The second source of funding of pensions is **Government funding.** Though India does not have a well defined system in place to provide for the entire population, there are a few schemes administered by the central and state government for people at the lower end of economic strata. However, very often, they fail to reach the intended recipients due to flawed distribution mechanisms.

The third source of funds is **voluntary funding** by the citizens. These consist of insurance products, public provident funds, mutual funds, etc. With inadequate funding from the government and employee—employer funding not being a sufficient source to combat inflation, these supplemental sources of saving are essential. With the introduction of National Pension System (NPS) this avenue of voluntary post retirement saving is gradually expanding.

Pension Reforms in India

The project OASIS report in 2000 triggered the need to bring about pension reforms in India. The report clearly indicated the lack of the government based funding for the citizens of India. Another report by IRDA showcased the increasing burden of civil service pension and the growing liability of state-owned enterprises owing to several factors such as increased employment base, wage increase with retrospective benefits and increased life expectancy.

In Budget Speech for 2001-02 the then Finance Minister, Mr. Yashwant Sinha said *"The Central Government pension liability has reached unsustainable proportions: as a percentage of GDP, it has risen from about 0.5 percent in 1993-94 to 1 percent in 2000-2001. As such it is envisaged that those who enter central government services after October 1, 2001 would receive pension through a new pension program based on defined contributions."*

Unlike countries such as Japan and China that were rather late to realize the gap, India has identified this gap just in time. In the early 2000's, PFRDA was formed to regulate and develop a defined contribution plan which was initially launched for central and state employees and then further made available for all citizens. This product, National Pension System (NPS) has helped greatly enhance the self funded part of pension solutions in India.

Gap in the Market

Despite several voluntary options being available in the market such as NPS, life insurance/ annuity PPF etc, it is noticeable that the market is not growing. We need to look at some of these options in detail to understand the challenges that are preventing growth.

NPS

The NPS is currently one of the cheapest financial products in India. Low registration cost and the almost-negligible fund management charge of 0.01 percent should appeal to any citizen. It is a transparent product with flexible investment mechanism and provides the option of up to 50 percent equity exposure. There is also a tax benefit over the Rs. 1.5 Lacs under 80C contribution for those in the private sector. This tax exemption with no cap on the absolute value can be availed for up to 10 percent of the basic salary and dearness allowance of an employee.

Life Insurance / Annuity

Despite there being 24 Life Insurance providers in India and nearly 20 pension and annuity products to choose from, the market size for these products is extremely low. A pension plan from a life insurer primarily provides a source to accumulate funds for a short period. In a time frame of 10 years a person does have an opportunity to accumulate a sizeable retirement corpus through these schemes. Post this period, the annuity rate that is fixed for an individual, remains the same for the rest of the annuitant's life, irrespective of the market scenario.

Challenges

NPS with all its benefits is still not selling at the desired rate. Pension plans merely contribute to around 20 percent of an insurance company's business. This slow take-up could be attributed to the mindset of the consumer. By the time an individual realizes the need to save up for post retirement, they have already lost out on the benefit of compounding. Hence, in order to meet the gap, other relatively high risk investment options are opted for. A consumer also tends to be more apprehensive in making such investments as there is a long term lock-in resulting in reduced liquid

assets. Having said that, there are several options available to liquidate a certain percentage of the funds before maturity. However, the fact that a larger portion of an individual's money is locked in still creates a hesitation for investing in pension products.

Another concern that arises here is of mandatory annutization. An annuity plan is usually the second phase of an investment toward pension. A large consumer base turns away from these products because a certain minimum percentage has to be invested into an annuity plan. This restriction of what an individual can do with his own funds becomes a bone of contention with consumers. This is compounded by the tax that needs to be paid on annuities.

Lastly from a distributor's perspective, a low distribution income for these products reduces the motivation to push these products. For instance an opening of a single NPS account only helps a distributor to make around Rs. 240 per registration. A huge amount of effort is required by the distributor to convert even a single registration. Hence, with such a structure, more than half of the 60 distributors for NPS are inactive.

The Way Forward

While challenges exist, there is huge potential in this sector. With an increase in life span and the urge to retain the existing lifestyle, there will be a greater need of post retirement income. There is a wide gap in what the market requires and what is currently available. Though we lack a public funded system, the government has moved in the right direction with setting up of the NPS. What it needs now is a greater thrust. Also existing regulations need to help address some of the challenges mentioned above. Only then can we expect the pension corpus in India to grow substantially.

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LIFE INSURANCE GROWTH—THE BANK'S PERSPECTIVE

IT IS NOW OVER 14 years since the insurance sector was opened up in India. The industry continues to grow and has encouraging future prospects against the backdrop of rising household income, lower penetration and increasing financial literacy.

The sector has seen multiple transformations over the years. Be it product, distribution or marketing - there is an emerging trend across the sector. Distribution in particular has undergone transformation at multiple levels. The emergence of newer distribution channels has helped infuse efficiencies. Among the emerging newer channels, Bancassurance has played a dominant role in insurance intermediation ever since its inception in India in the year 2000. Following the recommendations of First Narasimha Committee, the contemporary financial landscape has been reshaped. Thus, present day banks have become far more diversified. Therefore, their entry into insurance business is only a natural way forward and 'insurance' is an important savings-cum-protection product they can offer their customers.

Global Bancassurance Scenario

With the notable exception of the U.S. domestic market, 'bancassurance' represents a significant channel in much of rest of the world. It was first introduced in the Europe, and France, Italy, Spain and the U.K. are the most mature markets today. In Europe, bancassurance holds one-third of the total market share. There are significant growth opportunities in emerging European economies such as Turkey and Poland.

In Asia-Pacific region, bancassurance is still an emerging channel and is expected to grow faster due to improved customer service and entry of large foreign insurance players in the market. In a country like Japan where banking penetration is high and there are around 120 banks, bancassurance remains underdeveloped. South Korea and Taiwan on the other hand are dynamic markets. In Taiwan, bancassurance share of the market is 66 percent and offers a very sophisticated range of products. In Thailand and Vietnam, banking penetration is low, but growth rates are high, offering bancassurance significant potential to grow.

The presence of large foreign insurance players has fuelled the bancassurance growth in Latin America as well. In contrast, bancassurance is still in a nascent phase in the U.S. with only 2 percent market share. This is mainly due to the separation between insurance providers and banks.

Need for Bancassurance in India

Despite the rapidly evolving market dynamics, challenging economic scenario and the slew of regulatory measures, banks have made a significant contribution to the growth of the life insurance industry, garnering in excess of 43 percent of all Individual 'New Business' written by private life insurance companies in 2013. While the growth may have remained muted for the last two years, there is sufficient scope for higher coverage for the banks' customer base.

With over 90,000 bank branches and only 4 percent life insurance penetration, the opportunity for banks is immense when it comes to driving the much needed growth, meeting requirements of their customers and increasing fee income. It is, therefore, critical for all stakeholders to build the channel responsibly, facilitating growth with quality.

A new development in the Indian banking system is the Pradhan Mantri Jan Dhan Yojana. This envisages enabling access to banking facilities with at least one basic banking account for every household in the country. It also aims to promote financial literacy. It has so far managed to bring over Rs 5,000 crore into the formal banking system, as close to seven crore account holders have started depositing cash into their bank accounts.

This national mission will bring about comprehensive financial inclusion of all the households in the country, paving a way to drive greater growth via bancassurance. Providing free insurance for these account holders through this initiative would also mean introduction to the concept of life insurance and protection. This will also pave way for deeper insurance penetration further.

How the Participants Benefit from the Success of this Model

The strong growth registered by bancassurance is no accident. This success can be seen as the effect of individual interests feeding into a partnership, and eventually benefitting all parties. It must be to the advantage of each stakeholder in the model (bank, insurance company, and the consumer) for the bancassurance model to develop successfully. The chosen model will then depend on each party's situation, as well as the possibilities.

Advantages for the insurance company:

Through this new distribution network, the insurance company significantly extends its customer base and enjoys access to customers who were previously difficult to reach. This is obviously a fundamental advantage.

- The insurance company has the opportunity to vary its distribution methods, in order to avoid excessive dependence on a single network. Diversification reduces risk.

- The insurance company often benefits from the trust and reliability that people are more likely to attribute to their banks.

- The insurance company also benefits from the reduction in distribution costs. These cost savings have been recognised by many bancassurance operators around the world.

- An insurance company can establish itself more quickly in a new market, using a local bank's existing network.

ADVANTAGES FOR THE BANK:

- Bancassurance for banks is a means for creating a new revenue stream and diversifying its business activities.

- The bank becomes a sort of 'supermarket', a 'one-stop shop' for financial services, where all the financial needs of the customer can be met. The widening of its product range makes the bank more attractive and therefore positively impacts customer loyalty.

- Amongst other things, the one-stop shop model optimises the use of the network and increases the profitability of the existing branch network.

- The distribution costs can be seen as marginal since, in most cases, it is the bank's existing employees who sell the insurance products. Some companies may prefer to have their own staff present at the bank for the sale.

- Often the banking relationship allows staff to best understand the life stage needs of their customers and thus can offer high quality advice.

- They can also offer know-how and can follow-up (especially claims management) as good as the best traditional insurance providers.

- As customers pick up multiple products like home loans, insurance etc. from a single bank, they consolidate their increasingly fragmented banking relationships. As they pay their EMIs and premiums, their balance in saving accounts of that particular bank increases, accruing benefits to the bank.

ADVANTAGES FOR THE CONSUMER:

- Single view of the customer—best need-product match.

- As mentioned among the advantages for the bank, the consumer enjoys greater access to all financial services from a bank that offers both banking and insurance products.

- Since the distribution costs are lower than in a traditional distribution network, the consumer can usually get insurance products at lower rates from banks than through traditional channels.

- In addition, premium payment methods are simplified, since premiums are collected directly from bank accounts.

Developing a Mutually Valuable Relationship

An integrated management model: a fundamental stepping stone to success

There is absolutely no doubt that this model has enabled bancassurance to establish a crucial competitive advantage. Bancassurance is based on a particularly efficient management model that is totally integrated with the banking business. Thus, in certain parts of world, bancassurance operators have managed to integrate their activities completely with every insurance policy being automatically processed through banking network's IT systems. In addition, this kind of integration gives the networks a comprehensive overview of their customers' assets and requirements.

The objective of the joint management is also to pool information for all the bank's sales channels (branches, telephone sales, etc.), and to create a database that can be used both by account managers and for different purposes by other bank departments, such as for marketing surveys or promotions during new product launches. The success of bancassurance lies in the quick sale, especially directly over the counter in the branch. For this, the sales forces needs to have access to an effective IT and information retrieval system. Providing customers with real-time answers over the counter is a major asset in the selling process. Having fully integrated data processing systems within the banking network means that insurance premiums can be calculated on the spot and contracts issued immediately. This is an important advantage because it must be possible for the potential customer to receive a response, if not immediately, then at least within a few days.

Banking networks are now seeking increasing decision-making autonomy from insurance company back offices, allowing them to respond instantly to potential customers. They seem to want to develop tools that enable sales personnel to handle the majority of situations and only to pass cases requiring special expertise on to the insurance company. A large number of expert bancassurance software applications have emerged, which increasingly make it possible to speed up decision-making while reducing contract processing costs.

Management commitment, training and remuneration: key factors in motivating the sales network!

This subject seems fundamental and crucial to the successful development of bancassurance. The approach to the management of the network must be global, so that everyone knows their role in the organization and is fully aware of their responsibilities and objectives. These objectives must also be set in a 'joint' business plan for both banking and insurance products. The network is originally made up of bank employees whose primary role is to provide financial services and products. In order to nurture their interest in promoting insurance products, it is absolutely essential to impart appropriate training and to motivate the sales force, mainly through financial incentives. Training and remuneration policies tend to be specific to each bancassurance operator and correspond to each company's own particular corporate culture and history.

The features of the insurer's products are essential

A new bancassurance operator usually starts by distributing simple, standardised products, which are sometimes even packaged with bank products. These products

have to be integrated into the bank's sales procedures and into its management methods. Aligning them with banking products makes it easier for the banking networks to sell life insurance products.

However, because of the strong similarity between life insurance and savings products, care must be taken to ensure that the former do not replace bank products but genuinely complement the existing range. This is often a challenge both for banks and insurance companies. It is entirely possible to diversify the product range sold by bancassurance operators, but this phase must come when the banking networks are already familiar with the concept of life insurance and when the market is sufficiently mature to accommodate more complex products.

However, the important thing is always to supply products that are easy to explain.

The model chosen to create the bancassurance operator

In reality, no single model can help define the framework for the strategic alliance and diversification because each insurance company and each bank must find the approach that matches its particular situation and needs and also its cultural environment. Some may accept a highly integrated business model The more widespread model is distribution and joint venture agreements. However, no single model dominates the entire market.

In a totally or partially integrated model, setting up single structures (IT system, sales networks, etc.) often generates increased efficiency and makes it possible to reduce distribution costs to an optimal level. However, certain players may prefer simple distribution agreements which offer greater flexibility and freedom in taking decisions and making choices about which products are distributed, policy handling, service, etc.

Consumer behaviour: a key success factor

There exists a connection between consumer habits in a country and the success of bancassurance in that market. Certain individuals prefer to go to their bank and discuss their financial needs face-to-face with their account manager. Some prefer to take the time and resources to compare products, for example on the web; their choices are entirely determined by their research. Latter is not a widespread practice in a country such as India and this underlines the need for a consultative approach through the bancassurance model.

Joint customer lead generation activities

A customer does not walk into a bank's branch to buy insurance. Efforts have to be made to invite such customers and also those who do not visit the branch, for focus group meetings and various customer engagement activities. Examples of these activities are educational seminars, painting contests for children, health camps, etc. The purpose of these meetings could be to solicit feedback, customer service and also to source new business and leads. Leads are the fuel tank of the insurance business and these activities go a long way in generating qualified leads. These activities not only increase the customer focus within the branch but also can be used to sell other banking products.

Current Bancassurance Regulations and Way Forward

A new dimension to the issue was added with the proposal in the Union budget 2013 to allow banks to set up insurance broking entities. The broking model is an open-ended model. A broker is a representative of the customer and is liable for professional negligence as well.

It is indeed a welcome development for customers because it offers wider choices to them which will strengthen the need based sales approach. Just as banks sell products of more than one mutual fund, insurance can follow the same process as well. We need to see how it develops from the RBI and IRDA perspective and await clarity on the next steps. Most insurance companies are looking forward to it as a means to increase penetration and augment their distribution framework.

Customer satisfaction is the basic rule in bancassurance!

Bancassurance operators have put the customer at the very heart of their thinking and development strategies. This means:

- Providing a full range of financial products and services (banking and insurance) through a single sales network
- Offering quality advice through life stage analysis
- Quickly meeting customer needs by a branch-based IT system; an easy access to service, sometimes 24 / 7, with telephone support centers or Internet platforms;
- Providing know-how and follow-up (especially claims management)

To conclude, one can say that bancassurance is indeed a win-win situation for all the parties involved; customers, insurance companies and banks. The benefits of the channel clearly establishes the case that it as the best suited for distributing insurance products in India. The rural and semi urban areas have till date remained untouched by this distribution channel and that is indeed a huge opportunity going forward. The penetration of life insurance in the Indian market is abysmally low and that again is another reason to be optimistic that bancassurance in India will play a long innings.

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