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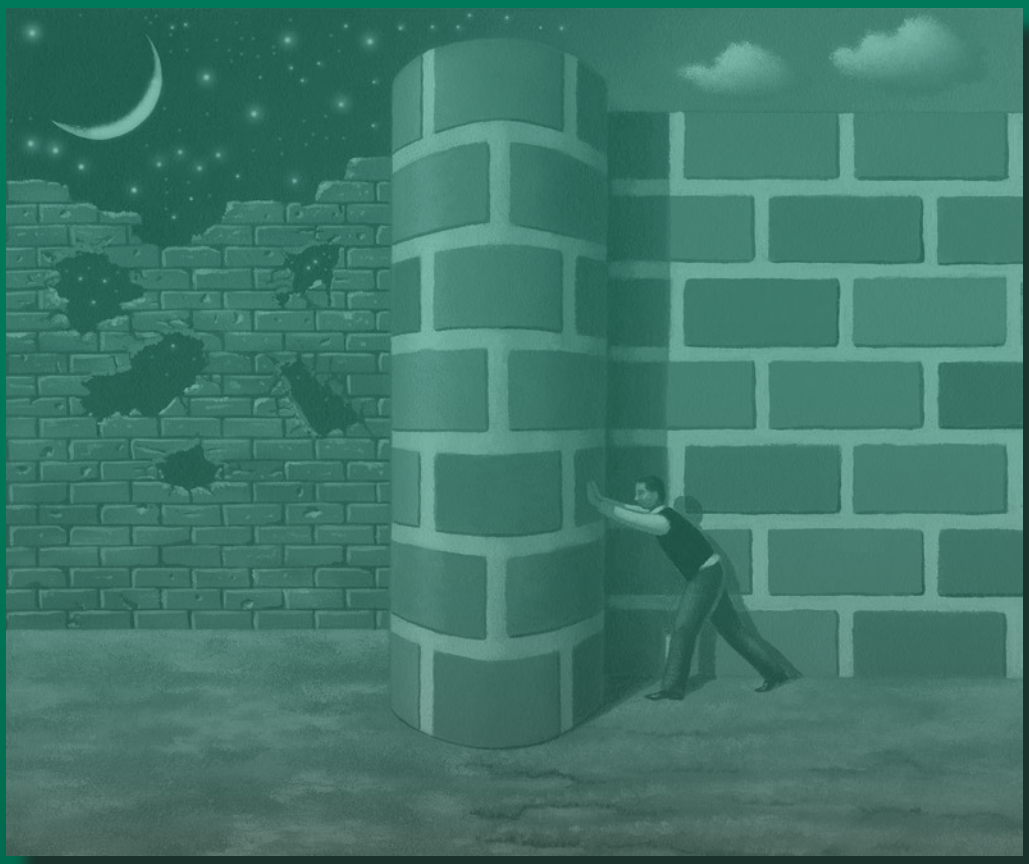
FICCI



The Changing Face of Indian Insurance

Bigger, Better, Faster

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March 2017

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FOREWORD

We are pleased to present this joint publication from Federation of Indian Chambers of Commerce and Industry (FICCI) and The Boston Consulting Group (BCG) on **"The Changing Face of Indian Insurance: Bigger, Better, Faster"**.

In our publication last year, **"The Changing Face of Indian Insurance: In Pursuit of Profitable and Sustainable Growth"**, we had shared a 14-point action agenda for the Indian insurers to drive sustainable and profitable growth. This year, we have focused on the industry agenda with a specific nuance of the impact of all digital related trends on the comprehensive agenda, and to see how the insurers need to adapt to the same to get bigger, better and faster.

The global insurance industry is being challenged by these megatrends to rethink the ways of working, insurers are forced to adapt in an agile manner, become leaner and more efficient. Big data and digital are common mega-trends that are causing disruption and driving transformations across all industries and are finding their way to the core of any insurers' strategy. We have kept a large focus on the related topics.

This year's publication is a collaboration between FICCI, BCG and the industry. A number of industry leaders have contributed to the publication with their own perspectives. We are delighted to present this unique collection of perspectives on most pressing topics.

We are thankful to all the authors of the perspectives, along with FICCI and BCG teams for their contributions.

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THE CHANGING FACE OF INDIAN INSURANCE

By Alpesh Shah, Aniruddha Marathe (BCG)

Mr. Ajay Kumar is a successful lawyer who lives with his wife and two children (12 and 14) in a swanky bungalow in Hazratgunj, Lucknow. It is a nice Saturday morning and Ajay jumps into his car to go for a quick game of squash with his friend, since his family is travelling. His car welcomes him as he gets in and adjusts the settings to his preferences. He glances at the dashboard indicator, which informs him that his car insurance has shifted from home insurer, which handles insurance of his car while it is parked at home, to his driving insurer. As he accelerates onto the main road, the dashboard warns him that his risk rating could worsen if he continues accelerating heavily and braking suddenly. Ajay makes a note to himself to be less heavy footed on the accelerator. Ajay takes pride in proactive management of his financials, including insurance. He reminds himself to do a full review of all his insurance policies on his return.

It is 9 a.m. when Ajay gets back from his game. As he starts having breakfast, he is reminded of the drive and he opens the insurance manager mobile app that shows all different insurance policies purchased by him. As he looks at the application dashboard, he realizes how different his insurance experience is today compared to the year 2015 when he took his first steps in finance and insurance planning for his family. There is a prompt offering him a brilliant pension plan. He clicks on the link and is connected for a video chat with his bank RM. He likes the pension plan demonstrated by the RM. He is amazed to see how the pension plan was customized for his own saving pattern and how similar other customers of the bank had chosen a similar plan.

The car insurance dashboard shows a 'thumbs up'. He has earned 5,000 points over the past quarter, which he could redeem at the garage. He earned them because he had practiced the right technique to apply acceleration and brakes as suggested by the app (unlike this morning, thank God for sensors) – something he wonders why he did not do before. However, he is

disappointed that he could not earn the fourth star in the health-buddy program linked to his health insurance. The virtual chat assistant tells him that missing the gym and squash sessions and scheduled health check-ups had cost him the extra star. Before closing the app, he quickly checks the appointment with a home maintenance agency, a partner service of his home insurance policy.

Does this sound like science fiction? Not really. This story is likely to be a reality by the year 2020, and in India. Just to highlight a few key elements that are highlighted by the example:

- Insurance will be dynamic and will cover end-to-end customer journeys
- Insurance will be highly customized and relevant to each customer individually
- Interactions will be "phygital" – a mix of physical and digital, though increasingly becoming more and more digital
- Insurers will partner with multiple different service providers to offer end-end services meeting customer needs and not just products

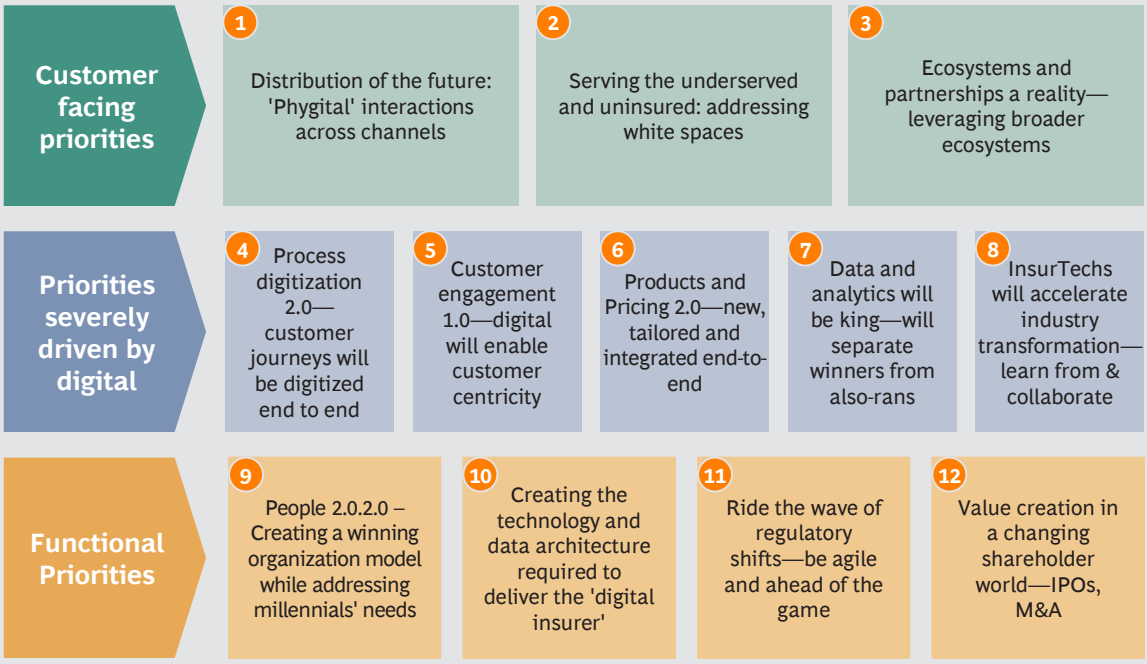
Technology advances are transforming different industries at an ever-increasing pace. Insurance industry will not be isolated. These advances will be a lot more potent as they will have widespread applications across different aspects of the insurance business including sales, underwriting, claims and customer service.

And if this were not enough, the rapidly evolving macro-economic landscape – lower interest rates, evolving customer behavior, impact of digital adoption, changing competitive landscape and the dynamic regulatory situation will keep the C-suite busy in developing and adapting strategies to leverage the opportunities and stave off the challenges. Basis the above context, we have identified 12 strategic priorities for insurers that could help in preparing for the insurance of the future (Refer Exhibit 1).

1. **Distribution of the future – 'Phygital' interactions across channels:**

So far, insurers had predominantly focused

EXHIBIT 1 : 12 Strategic Priorities for the Indian Insurers



Source: BCG analysis.

on leveraging digital for direct to customer interactions. In the immediate future, insurers will drive digital enablement and sophistication across all the distribution channels:

- Bionic agency: At present, the solicitation process is heavy on physical face-to-face interactions. Going beyond just sales, some of the potential elements of a bionic agency are enablement of agency force through mobile apps, agent interactions with the customers through digitally video tools, streaming demos and real time sales support from insurers.

- Open architecture banca partners: After many years of inactivity, open architecture bancassurance will become a reality. While insurers have established strong physical distribution channels through bancassurance or other corporate partners, multi-channel integration across digital platforms including websites, apps is yet to achieve full maturity. The challenge is acute especially with brick-and-mortar heavy partners such as PSU banks. In open architecture bancassurance, insurers that will effectively integrate with digital channels of the partners and leverage partners' customer data for customized offers will stand to gain a greater share of the pie.

- Direct digital interaction with customers: In the last few years, online insurance aggregators, email and social marketing, search engine marketing and website + tele-assist based direct sales have established themselves as key digital marketing and distribution channels. Growth witnessed in these channels leaves no doubt about their potential. By leveraging analytics and advances in technology and digital infrastructure, direct digital interactions and marketing to the customers will become highly personalized, more engaging and automated using natural language processing.

2. **Serving the underserved and uninsured: addressing white spaces:**

There are many customer segments that are under served, for example, the HNWI and mass market from a life insurance perspective, and the SME and mass market segments from a non-life insurance perspective.

Let's talk about the mass market customers in detail. Insurers have traditionally found it difficult to target low-income customer segments or semi-urban, rural customer segments viably. Regulatory requirements as well as government schemes such as PMJBY or PMFBY have surely nudged insurers to target such segments but they have barely scratched the surface. The headroom for growth has always been there but lack of awareness among customers and low viability of distribution infrastructure did not translate the headroom into an addressable opportunity. The stars are now aligning and a number of drivers are set to change this picture. Ecosystems and partnerships will enable insurers to embed insurance offering in customer journeys. Aadhaar linked biometric authentication will ease the burden of fulfilling KYC requirements. Digital distribution, integration with ecosystems and partners will make insurance bite-sized and affordable. Demonetization and PMJDY have bolstered financial savings and a good part of it will find its way to insurance products. Banca partners, which are aggressively targeting fee-income, will increase branch activation and use data and analytics to find the right targets. By any estimation, the 'opportunity' is large and it will play out only gradually. This will allow insurers to find their sweet spots, fine tune their business models and target significant growth for years to come.

3. **Ecosystems and partnerships a reality—leveraging the broader ecosystems:**

To create 'sustainable' differentiation, insurers will need to think of new business models that are hard to replicate and that engulf the customer across broad needs fulfilled by a suite of services. For example, creation of health ecosystem vs. health insurance, mobility ecosystem vs. motor insurance, retirement ecosystem vs. pension plan, child care and development ecosys-

tem vs. health insurance and so on. Ecosystems are a set of businesses, which address customer needs in a comprehensive and integrated manner.

For example, a health ecosystem will entail wellness providers, health food providers, fitness centers, primary clinics, diagnostic centers, secondary or tertiary hospitals, payers such as insurers / corporate / government, pharmacies, disease management services linked together by an ecosystem aggregator. Ecosystems will help not only in gaining share of wallet but also in achieving customer 'lock-in' with more hooks and hence high exit barriers. Insurers will have to either take the lead and create such ecosystems or participate in existing ones. Since ecosystems business model is radically different from traditional insurance business model, it will require insurers to take large strategic bets, heavily invest in product design, operations and technology and source customers through multiple touch-points across the ecosystem.

4. **Process digitization 2.0—customer journeys will be digitized end-to-end:**

The global trend of digitizing the core insurance processes of sales, claims settlement as well as back-office operations is also gaining roots in India. A number of insurers have launched processes and apps for distribution partners and customers. Apart from productivity gains, digitization also helps improve process quality through standardization, process risk controls and lower manual involvement.

For process digitization 2.0, insurers will leverage the rapidly developing digital infrastructure in the country as well as the latest technological advances. The next advance in process digitization will be driven by the following five key elements:

- Aadhaar based biometric authentication: Recent entrants in banking and Telecom have already leveraged Aadhaar based authentication to roll out fully paperless customer on-boarding process with high quality KYC compliance. Insurers have also started using the same. The time has come to commit to this unconditionally.

- Digital document storage: Whether it is de-materialized policy documents or claim documents, insurers have the opportunity to eliminate paper from most, if not all processes. However, to take full advantage, it will be imperative to have data architecture that allows capture of semi-structured and unstructured data. Third party digital lockers are now a reality where users can allow insurers to access paper records issued by other third parties such as government or medical records.

- Digital consent: Insurers in future will increasingly use third party data for tailored offerings, underwriting and customer service. Digitally signed consent through a modern private data-sharing framework will allow insurers to securely access specific data allowed by users. It will also enable separation of data and consent flow reducing the chance of frauds.

- Digital payments: Accelerating transition to cashless economy and adoption of UPI interface will significantly enable process digitization and eliminate manual elements of payment collections.

- New technological advances: Internet of Things (IoT) including wearables and telematics devices, Artificial Intelligence (AI) including chat-bots and machine learning, and Robotics will significantly increase automation leading to greater productivity.

5. **Customer engagement 1.0—Digital will enable customer centricity:**

Insurance as a product category faces a key challenge of limited customer touch-points and low customer engagement despite the consultative nature of the product and significant financial implications for the customers. BCG experience shows that insurers have on an average of 0.3-0.4 customer contacts per year. Add to that, the Indian situa-

tion where so far, insurers have focused more on intermediaries than the customers, has resulted in even less data on end customers. Customer contactability is abysmally low.

Digital is a key enabler of disintermediation and allows insurers to meaningfully engage and influence customer experience directly. Insurance companies will have to start treating end customers as customers. They could potentially leverage the opportunity to integrate other high frequency transactions such as financial dashboards, health apps, social media content or other customer journeys (e.g. driving, travel, child education) and create 'moments of truth'. The next imperative will be to excel at customer experience in those interactions. Insurers that will crack the code will surely have a better chance of increasing customers as well as share of customer wallet and retain customers for longer.

6. **Products and pricing 2.0—new, tailored and integrated end-to-end:**

In the rapidly evolving world, we believe that products will evolve on three key dimensions.

- New products—Evolving needs and growing niches will drive new product development and product feature enhancements. E.g. cyber risk, fine arts, extended warranty products will become more prominent.

- Tailored offers—based on data insights will make products uniquely relevant to the segment of one and pique customer interest. Better understanding of the customer profile and life stage, other financial transactions, social behavior will allow insurers to provide the 'right product at the right time'.

- Products integrated with partner offerings: Insurance is already sold through partnerships as an attachment product primarily in the context of loans or large asset purchases such as housing and vehicles. Even further, insurers will have the opportunity to introduce products with features that are highly customized or integral to the partner's product offering.

Product evolution will go hand in hand with evolving pricing approaches. Pricing will be a key driver of profitable growth. New data sources such as partnerships, IoT – wearables, big data analytics, will put insurers in a great position to bridge the 'data divide' and price products appropriately.

7. **Data and analytics will be king and will differentiate winners from also-rans:**

Like other businesses, insurers are also keen to leverage big data analytics. However, they suffer from lack of quality data. In India, the challenge is even starker, insurers struggle from lack of data, leave aside high quality data. It is driven partly by the nature of the business where customer transactions are limited (BCG analysis shows just about 0.3-0.4 contact points per year) and partly by the focus of insurers on intermediaries who call the shots and at times mask the data and do not share the full customer data with the insurers. In general insurance, for example, since KYC is not mandatory, insurers often do not have basic profile information of the customers.

Importance of data is beyond debate and insurers can overcome the challenge by first looking internally for the right processes to capture the appropriate data as well as look at forging data partnerships. Different data partnerships become relevant in the context of sourcing and actuarial modeling. In case of sourcing, insurers need to dig deeper into sourcing data from intermediaries apart from third party partnerships which provide rich information on customer profile, life stage, social behavior and transaction context. In case of actuarial modeling, varied sources of data can be leveraged in specific contexts. For example, weather data can not only be used for crop insurance but also for analyzing chances of health epidemics, public health issues (e.g. pollution), natural disasters impacting life and property.

In future, and this is the immediate future, we believe that data and analytics will truly be king, and the insurers that commit to this element and get it right will clearly differentiate themselves and emerge as winners.

8. **InsurTechs will accelerate industry transformation – insurers will learn from and collaborate with them:**

InsurTechs have been late in coming to the start-up party, but come they have with vengeance. While Insurtechs started later than FinTechs, over the past few years, ~2,100 InsurTechs have received investments in excess of $38 Bn. Nearly 600 InsurTechs have come up in last 5 years.

Technology driven start-ups are driving a range of innovations across the value chain. From new pricing models (pay as you go - Metromile), to peer-to-peer insurance (friendsurance, Kroodle), to connected devices/drones for real time information collection for underwriting, claims settlement (dropin, domotz), the list is long and each of these players is disrupting the insurance space.

InsurTechs will challenge insurers by completely transforming and disrupting business models. At the same time, many of them will provide an opportunity for insurers to collaborate and differentiate on underwriting, claims and customer service.

Traditional operating models and organization structures of insurance companies do not allow for an entrepreneurial approach required for disruptive innovations in products and processes. Insurance companies will need to explore the opportunity to groom the InsurTechs through separate incubators and innovation labs that isolate the innovation effort from the traditional way of working. Incubators allow insurers to engage with start-ups meaningfully in win-win situations where the parent business brings the seed capital, business experience and customer base strength, whereas the start-ups bring fresh ideas that businesses can nurture for their own advantage.

9. **People 2.0.2.0.—Creating a winning organization model while addressing millennials' needs:**

Millennials will be a sizeable part of the workforce by year 2020. Insurers (as will all businesses) will need to adapt to the new way of working to deliver the 'Future of Work'. Over the generations, one can observe the mindset shifts, 'from one job per lifetime to one career per lifetime to the millennials' comfort with a few careers and multiple jobs'. A large shift is visible in the workforce values and culture. As loyalty takes a new meaning, organizations will need to focus on talent management on steroids to manage talent gaps, focus on individualization and entrepreneurship and address the changing employee needs. Complexity is also compounded by the impact of technology on the people dimension.

10. **Creating the technology and data architecture required to deliver the 'digital insurer':**

Infomation Technology has been the backbone of many transformations within the Insurance industry over the past two decades. However, the past two decades will not be a patch on the next few. The multiple state-of-the-art technology advances from big data and analytics, to machine learning and artificial intelligence, to the Internet of Things including wearables and telematics, to robotics, to chatbots, to voice recognition and beyond, will completely transform the requirements from IT architecture. Agile, a very small five alphabet word, will drive the technology teams crazy. Let's take just two of these advances as examples, AI and Big Data.

Until recently, AI was similar to nuclear fusion, an unfulfilled promise. It had been around for a long time but had not reached the spectacular heights foreseen in its infancy. Now, however, AI is realizing its potential in achieving human-like capabilities, so it is the time to ask: "How can business leaders harness AI to take advantage of the specific strengths of man and machine?"

There are three implications for the insurers.

- AI sounds 'cool' but insurers will need to define clear business use cases. Fundamentally, AI will need to address customer needs in an efficient manner

- Breaking down processes and offerings into relatively routinized and isolated elements that can be automated taking advantage of technological advances and data sources. Then, reassembling them to better meet the customers' needs

- Incorporating technological advances – The stack of AI services has become reasonably standardized and is increasingly accessible through intuitive tools. Even non-experts can use large data sets. Right platforms and tools need to be setup for flexible architecture and for integration with diverse process elements.

As insurers prepare themselves to leverage Big Data either by harnessing data that is available internally or through partnerships, they need to assess the preparedness to manage such data. Traditionally, insurers have been used to managing structured data that comes as part of various business processes. Harnessing new sources of data will require the ability to store and process semi-structured and unstructured data such as customer interactions, images, medical records. Multiple trade-offs including costs, speed, functionality, scalability, data diversity are involved while choosing the right data architecture in line with business objectives. Given the selection and implementation lead times, this becomes not only important but also urgent for parallel design and execution of business strategy.

11. Ride the wave of regulatory shifts – be agile and ahead of the game:

In case of the insurance industry across the globe, regulatory changes have always had large implications for insurers. As one looks ahead, the regulatory environment will continue to be dynamic because of the business environment changes, such as new business models like the ecosystems mentioned above, new products driven by partnerships and customer data insight, heightened risks such as cyber security and data privacy. Insurers will need to keep pace with the evolving regulations.

Take for example, the GST rollout, which is likely to happen this year. This will have a huge implication for insurers on multiple fronts, including attractiveness of product categories, and the operational efforts for insurers. The applicability of different GST slabs can significantly influence affordability and therefore alter the growth trajectory of different product segments.

Insurers will need to work with the regulatory body to ensure that regulations, while aligned with the principles, are also practical in terms of the implementability, the impact on customers and the business economics.

12. Value creation in changing shareholder world:

A number of the insurers will have to deal with new shareholders over the next few years. In fact, likely all of them. Two big trends driving this – the listing of insurers, including the PSUs and the accelerating wave of M&A. Retail investors (driven by listing), new strategic investors (basis M&A) and potential PE investors are all going to completely transform shareholder expectations. The scrutiny on the insurers as well as the many metrics will change drastically. Typically, not only value creation, but also consistency of the same (beta) is key for investors. Insurers will have to manage these new shareholder expectations.

In closing, each of the insurers will need to define their own agenda and priorities basis the 12 strategic priorities outlined above. The journey to deliver a sustainable business in the face of all the change will not be easy. Insurers will need to place their bets on the most relevant priorities for them in the context of their business model and pursue them with conviction.

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Market Perspectives

MEGA TRENDS IN INDIAN INSURANCE INDUSTRY

By Amitabh Chaudhry, Managing Director & CEO, HDFC Standard Life Insurance Company Limited

There is no path more hazardous than the one taken in attempting to predict what the future entails. Given that the world we live in is in continuous flux and every industry faces uncertainties, this is more true today than ever before. Who would have thought even a year ago about de-globalization in a world that was being rapidly globalized over the past few decades? The world may still be flat, but it is not immune to the socio-political and technology changes which will either raise new walls or pull down the existing ones. The implications of these changes on jobs, productivity and economies in general are unknown today. Despite the challenges of predicting the future, I take solace in the fact that over the ages, human ingenuity has made life better for society-at-large.

A business like insurance will not be immune from some of the mega-trends that stare at us today. I consciously use the word mega-trends for events that I believe are going to be irreversible in the coming years.

The primary one among these is 'digital' which will manifest itself in multiple ways for customers, distributors and the back-office operations of insurers.

Always-on, mobile devices allow for context-aware, personalized interaction models where insurers can reach out to consumers like never before. Insurers can get deep insights into customer behavior, based on internal and external data sets. Machine learning technologies will allow for intelligent, predictive and learning capabilities to offer virtual advice and automate decision-making processes such as underwriting. Biometric identification can help prevent fraud and secure customers' personal data without compromising customer experience. Insurers can tap in to open ecosystems of developers to create value-adding solutions like never before. In a world of hyper-connectivity, insurers can build digital ecosystems for different product categories.

The traditional insurance model was largely product-centric and channel market-

ing-driven. The new age model will turn this on its head with the customer at the center and a suite of digital technologies, services and ecosystems to tap the customer. If incumbents are unable or unwilling to change their business models, they will cede space to new participants. Nothing prevents search engines or e-commerce platforms with hordes of customer information from disrupting the insurance sector. An equivalent of the 'Banks vs. Wallets' battle, while unimaginable today, could emerge in the insurance sector too.

One often-asked question is whether digital will make the existing distribution channels redundant? I, for one, believe in the contrary. Technology is rapidly equipping distributors to become more productive, and thereby to improve their returns on effort. An agent equipped with greater knowledge of the customer and supported by a digital virtual assistant is likely to be more successful. There is still some time for robo-advisory and other such platforms to scale up, both in terms of reach and domain knowledge, for them to make a difference to consumers in the next few years.

The digital push post-demonetization is leading to a migration of more customers into the formal banking system. Bancassurance, with greater insight into the consumer purchase pattern and real time connectivity, can help nudge the customer to purchase a variety of insurance solutions. Micro-segmentation and a targeted approach, backed by analytics, will help improve conversion ratios and reduce customer dissonance. Open architecture ecosystems in bancassurance will push insurers to improve customer value propositions and service standards. A greater presence of banks in the hinterland will help increase the penetration of insurance across the length & breadth of the country at lower fixed costs.

An additional opportunity will be to leverage the 'India Stack' architecture which enables insurers to on-board customers in a paperless fashion. Insurance today is largely seen to be lagging behind other consumer-driven sectors in 'ease of purchase' parameters; re-engineering of the policy issuance value chain will create a huge difference in customer experience.

In several other industries, regulations have lagged behind technological innovation, causing friction between corporations and regulators. The insurance industry and the regulator need to learn from other industries to minimize such friction.

Another mega-trend is 'ageing' which is slowly but surely driving up the dependency ratio. In simple terms, the population of the elderly will increase not just in absolute terms over the next two to three decades but also as a percentage of the overall population. In a society that still has substantial savings in physical assets or in short duration, open-ended financial assets, the opportunity for 'value migration' both from physical and short duration financial assets is tremendous. With greater inter-state migration within the country for job opportunities, emergence of nuclear families and limited social security instruments, the 'protection gap' in India is amongst the highest in the world. The insurance sector is in a unique position to offer disciplined savings vehicles for the long-term and protection against either the risk of dying early, or living longer through a suite of product offerings. Historically, built on the edifice of a tax saving platform, the sector needs to become an integral part of any financial planning exercise.

There are a few other areas that insurance sector management teams would need to stay sharply focused on. Attracting and retaining talent is one of these. Insurers who offer superior employee value propositions will enjoy greater loyalty in an era where the workforce is younger; geographically mobile; technologically skilled; demands more flexibility such as work-from-home; strives for work-life balance; expects greater learning opportunities; and is more aware of what competitors, both within and outside the sector, have to offer them as a value proposition. The human resource practices of insurers would need to be grounded in this new reality.

Very soon, most insurers will also deal with a more diverse set of shareholders, either due to a listing process or an accelerating wave of mergers and acquisitions that the industry is witnessing. Greater public scrutiny and demanding shareholders pushing for sustainable and profitable business models will help create greater transparency for the sector & push insurers towards higher efficiencies and superior customer service standards.

Over the next couple of years, GST will be another discontinuity that the country will face. Applicability of different tax slabs can significantly change the affordability and thereby influence the growth of different product categories.

The challenges posed by the above changes are not insurmountable; the opportunities to grow and become more efficient are humungous. However, the sector can ill-afford uncertainties like the ones it faced in the earlier part of this decade. It is only with great effort that a renewed model of sustainable growth has re-emerged for the sector; for the fruits of this model to be reaped, all stakeholders need to work together in tandem.

INDIAN GENERAL INSURANCE—GEARING UP FOR NEW AGE TRENDS

By Bhargav Dasgupta, Managing Director & CEO, ICICI Lombard General Insurance Company Limited

The world is witnessing widespread and far-reaching changes from many quarters. Environmental impact is causing large scale catastrophes to occur at an alarming rate. These incidents are being witnessed not just outside our borders but within as well. The last calendar year, especially, will go down in history as the Year of the Earthquake with tremors experienced in Taiwan, Italy, New Zealand, Japan and Indonesia. Closer home, India too had its share of 'quakes in Manipur and Patna. At the same time, in India, we have suffered recurring floods with the one in Chennai among the most damaging. The damage arising out of these incidents is significant. For instance, the Chennai floods led to economic losses of around Rs 15,000 crore. Unfortunately, losses amounting to Rs 10,000 crore out of this were uninsured, leaving it to the impacted entities to recoup the damages from their own resources. Despite multiple instances of earthquakes and floods in India, segments such as home insurance continue to show penetration levels of only 0.7 percent.

On a separate front, lifestyle-oriented diseases are increasing at a worrying pace. The number of cancer cases has risen by 33 percent across the globe in the last 10 years. At the same time, there are over 1.13 billion people with high blood pressure across the world today. When it comes to India, diabetes has increased by 50 percent in the last 10 years; and 200 million Indians are currently believed to be suffering from high blood pressure. Unfortunately, health insurance, which can act as an essential risk protection tool in this scenario, is plagued with low penetration. As per 2016 estimates, retail health insurance penetration (excluding social health insurance schemes) was only around 5 percent.

Increasing non-life insurance penetration is a must. We need collectively to identify the issues behind the low penetration and arrive at solutions. Industry players can also look at the success of recently unveiled insurance schemes for answers. The Pradhan Mantri Fasal Bima Yojana (PMFBY) has driven crop insurance coverage to 29 percent from 23

percent within a year of launch. Similarly, the Rail Insurance Scheme introduced in September 2016 has already covered more than 9 crore passengers. There would be multiple reasons why each of these schemes has succeeded: the involvement of stakeholders including specialists, the forward-looking policy framework, as well as the use of technology as an enabler to reach a large base. The key point is to learn from the individual models and implement the relevant learning in specific areas to expand general insurance penetration.

Further, there is a pressing need for the general insurance sector in India to reorient itself, as the technology age brings in disruptive change. Concepts such as driverless cars; drones; artificial intelligence; and augmented reality, which seemed to be limited to sci-fi movies or closed-door R&D labs, have made their presence felt in the real world in no time. As per estimates by Gartner, there are around 26 billion devices which are interconnected today across the globe. Ten million self-driving cars are expected to ply on the roads by 2020. These developments are happening not just in developed nations but in India as well. With 22.5 percent of the world's unmanned aerial vehicle (UAV) imports between 1985 and 2014, India ranked first among drone-importing nations, followed by the United Kingdom and France.

Insurers need to gear up to cater to these new-age trends, as the existing models of risk assessment may not work. This is because the nature of risk and its impact may vary with every event. Imagine a situation where the core software of driverless cars driving on a road is hacked into and a bug is installed that makes all the cars turn in the wrong direction simultaneously. While we are currently focused on getting more and more devices to connect and engage with each other, we have yet to understand or experience the impact of any malfunction or deliberate manipulation of devices in this interconnected grid and the resultant impact on the connected eco-system.

Developing risk management frameworks to cater to such risks is a priority. Secondly, we need to take the lead in defining safety and risk mitigation standards. In the past, the industry did so globally by innovating itself in the era of the industrial revolution, when goods production underwent a dramatic change. It is time we do it again. In fact, even as we speak, there is work already happening on this front. The World Economic Forum is engaging with insurance industry leaders from across the world along with academia, policy-makers and technology companies to define and draft recommendations on mitigating risks in the innovation economy. While global norms are useful, it may be the right time for domestic stakeholders to initiate the same for local markets, especially since many technological breakthroughs are being brought to India first or are being implemented on a larger scale on our soils.

The third area that we need to focus on is risk mitigation. For long, insurers have pursued the risk financing framework. We have excelled in terms of settling claims efficiently, cutting down on the processing time, etc. Going forward, we as an industry need to reorient ourselves to focus more on risk mitigation. We have to provide value to customers throughout their engagement cycle with us and not just at the time of claims. With the advent of technology, it is even more feasible for insurers to do so. Let us take the case of healthcare. With wearable technology becoming a part of our daily life, insurers have a clear opportunity to take up a partnership role with customers and deploy technology proactively to ensure the latter's well-being. By using an individual's real time health data and mapping it with macro data sets, insurers can help customers identify risk incidents beforehand and thereby prevent their occurrence or at least mitigate their impact. They can also engage with customers to help them better manage their health by introducing wellness programs for them. At ICICI Lombard, we have taken the lead in this area through structured wellness benefits that are embedded in our health insurance policies.

Let us look at another example here. Use of telematics in the motor insurance segment

provides an opportunity for insurers to offer relevant risk mitigation solutions. Over the past couple of years, at ICICI Lombard, we have deployed telematics solutions to minimise marine cargo losses for some of our corporate clients during transit of goods. This enables us to track trucks in real time using embedded devices and thereby prevent incidents of hijack, cargo theft and pilferage. We are thus able to reduce losses as well as supply chain interruptions for our clients.

There are other areas where I see a need for things to move forward. Insurance purchase and customer service need to undergo a transformation in the technology-enabled age. We have already witnessed this as e-commerce became a household phenomenon. Processes, timelines as well as service standards pertaining to policy purchase, delivery and customer service have undergone a disruptive transformation as customer expectations changed rapidly. Today, most insurers have deployed tech-enabled solutions to ensure seamless transactions and customer interactions. Tomorrow's technology will be far more advanced. Virtual reality and chatbots will soon become a common phenomenon. Artificial intelligence will take center-stage. In this scenario, physical interactions with insurance agents or company sales personnel for policy purchase may become obsolete.

Similarly, from a service perspective, artificial intelligence-enabled systems will reduce the speed of decision-making, while improving the quality and consistency of those decisions as type 1 and type 2 errors reduce. Insurers also need to migrate to these new age tools and delivery platforms as they get increasingly preferred by customers. The important point to note here is that this may need overhauling of existing processes to derive maximum advantage and truly meet customer expectations.

In the new technology-driven era, change is inevitable. Further, the pace of change has changed. What took years earlier is now happening in a matter of a few months. As insurers, we need to stay in sync with the changing scenario. For many, this could mean challenges but for those who are prepared and willing, it entails many opportunities. As one looks towards 2020, we as insurers, should take the lead in building relevant risk management solutions so that our citizens can aspire for something new in their lives, while being assured that any downside will be handled by us.

INDIAN LIFE INSURANCE—THE JOURNEY SO FAR AND THE WAY AHEAD

By Sandeep Bakhshi, Managing Director & CEO, ICICI Prudential Life Insurance Company Limited

The face of the Indian life insurance industry has been changing at a rapid pace and the results are anything but inconspicuous.

Over the last decade-and-a-half, there have been various regulatory changes as well as innovations by life insurers. These changes, combined with the innovations, have altered the industry dynamics, encouraged the use of technology in distribution and customer service, and made life insurance more customer-friendly. The new product structures make life insurance cost-effective and easy to understand.

Changes by the Government, such as increase in the maximum permissible shareholding of foreign investors from 26 percent of paid-up equity capital to 49 percent, and the focus on digitization supported by demonetization, have further supported an industry looking to cater to the financial needs of a large population.

One needs to take cognizance of the fact that life insurance has the unique ability to provide the dual benefits of protection and savings. Hence, it becomes the responsibility of life insurers to sustain efforts in terms of creating awareness about the benefits of this product category. The perception that life insurance products are complicated is changing, albeit at a slow pace.

Innovation on the product front—in the form of simplification—will be the game changer. We need to keep in mind the fact that if this industry were to grow, we need products which are comparable with other savings and investments from mutual funds, banks, etc.

There has been a positive trend of growth in household savings which contributes towards growth in financial savings, thereby impacting life insurance. The demonetization drive contributed to the shift towards financial assets and augurs well for the industry in the future.

The next five years will be different and the foundation work for these changes has

been done by the regulator and life insurers over the last decade and a half.

For a country as vast and geographically spread out as ours, technology will be the key. It will continue to define the way forward for the industry. The changes in distribution and on-boarding, along with simplified products, will be an attractive proposition for technology-savvy consumers.

Challenges that were earlier faced at the distribution stage are getting minimized, thanks to technology-aided distribution and smooth on-boarding, which makes the whole process quicker and virtually paperless. Moreover, products are being purchased / sold post-need analysis, which enables consumers to make informed decisions, thereby ensuring they get the appropriate product and continue with it for the entire term.

Dematerialization of life insurance policies—a facility made available to policyholders in the form of a single platform to manage multiple policies—is another significant move that makes it easier for customers to manage policies from anywhere. Also, challenges like loss of a policy document or physical damage get eliminated through this process.

Self-service has been gaining popularity in the life insurance space, enabling policy-holders to make renewal payments, policy-related changes, and accessing all policy-related information and documents in real-time.

In the current scenario, it is obvious that we Indians are yet to get used to the idea of purchasing financial protection, which we believe, will undergo a change going forward. Every working individual with responsibilities needs to provision for a financial safety net which will enable his / her family to continue with their lives comfortably, in case something happens to the primary earner. This is where financial protection will play a key role.

By 2020, the Indian population will have the maximum number of young individuals joining the workforce. In the absence of a social security system, these individuals will require life insurance as a means of financial protection. The industry stands to benefit with growing awareness of the need for financial protection. Sustained efforts towards creating awareness and working to enhance the industry's reach will lead to fruition of the objective of having a country of individuals who are financially protected.

DIGITAL REVOLUTION IN THE GENERAL INSURANCE INDUSTRY

By Ritesh Kumar, Managing Director & CEO, HDFC ERGO General Insurance Company Limited

The growth of Indian general insurance is on a springboard, having taken-off to a much higher level, the kind of which it has not seen before. In recent years, the Government has been the biggest catalyst with its mass personal accident, life insurance and weather insurance schemes. We may see a similar thrust in the universal health sector as well. All this augurs well for the industry and all those associated with it. However, the effort here is to focus on one of the key trends that will shape the way insurance is transacted from product innovation to distribution to managing claims and loss control measures. Yes, the attempt here is to highlight the role of the digital revolution in the GI industry.

The Customer: Non-life insurers will find it difficult to engage with customers whose needs and habits will have changed. A large chunk of customers will be tech savvy and willing to transact online. Customers will have access to more information than ever before and will demand products that are simple and accessible as they will have become accustomed to getting in other sectors. Cover will become increasingly commoditized and decisions over its purchase will be driven by price and service performance, validated by social networks. Not many non-life insurers will be able to meet these demands. Our traditional focus on risk, ratings and products means that our understanding of our customers may lag behind the advanced techniques being developed by the Internet and telecommunications businesses. Comparisons with other sectors highlights that there will be no way the GI industry can manage its customer experience through limited integration between channels and the lengthy form-filling needed for claims and policy issuance and adjustments. In the connected world one customer ID should suffice to access all customer information and validations.

The Distribution: Companies that have customer ownership and behavioral insights will drive value in the distribution of insurance products. More customer-centric companies, including the data-rich and tech-en-

abled entrants such as new age technology-based retail, e-commerce and NBFCs will enter into different areas of insurance. Google, Amazon, Facebook, electronic payment banks and electronic retailers all have access to huge databases and customer information, apart from being cash-rich. They also have a considerable brand name and presence that will enable them to get a foothold in the distribution of health insurance and other GI products. Insurance companies will have to forge partnerships with these companies to improve their distribution without opening brick and mortar offices.

The Digital Route: Insurance companies will have to adopt the technology route to manage their customer needs. They will have to take the digital route to improve customer experience—the whole cycle of getting quotes to policy acquisition to policy servicing to proactive claims identification, assistance and processing. A large part of business transacted today will be done the digital way in 2020. Companies will have to change fast to meet the needs of new age customers and also lower their costs, a prerequisite to being a good trustworthy insurance partner. The world will move from a transactional to a more relationship-based economy. The digital metamorphosis of the industry will include some of the following characteristics:

- The Internet of Things refers to a network of physical objects that contain embedded technology to gather information about specific objects and also has the ability to transmit information—vehicle telematics, home technologies and wearables. We will have connected home technologies: smart thermostats, security systems, self- driving vacuum cleaners. Insurers need to analyze their customer data and identify their needs and risks. Wearable electronic devices will help us in better-understanding customer health risks and serve them better. Mobile apps will become more prevalent. These will help monitor the health of customers and reduce healthcare spending. These apps help customers in many ways, including prevention of diseases, monitoring of health on a continuous basis, support for treatment, and chronic disease management. Using mobile apps, today's customer can maintain a healthy life and lower healthcare spending.

  The Internet of Things (IoT) will have its implications on claims servicing as well. Using big data, insurance companies will have improved their claims-processing capabilities. IoT improves turnover time for initiation of claims by tracing the exact location and cause of loss. The early warning system can reduce the frequency and severity of losses. We will be able to identify and report events in a fast and effective manner. Claim assessment, too, can be automatically assigned based on the performance of the adjuster and complexity of the claim. The technology will also usher in an era of transparency and will help in minimizing frauds which otherwise would have gone unnoticed or been detected after a long time, with the culprit getting enough time to get away.

  This represents a fundamental transformation of the insurance industry business model from 'reactionary' (addressing claims after the fact) to 'preventive' (addressing risks before they happen). This is important because all stakeholders are now better informed about potential hazards in a more cost-friendly ecosystem. Specifically, this is good for consumers because they will benefit from lower premiums. This is also good for insurance companies because it will lower costs through claims.

- We are living in the age of big data. High value, high velocity and high variety of information will enable insurers to make better decisions by providing new insights into the needs and habits of customers both from underwriting risks and managing claims. We will have increased use of digital and aerial imagery which will be used to

view property for inspection purposes as well as for claims. The details captured will be in real-time, far more accurate and useful for underwriters. We have seen extensive usage of drones and aerial technology in the rural insurances, which have helped underwriters to calculate the yield better and do more accurate pricing. In claims, wherever there is difficulty in entering the area, especially during catastrophes and major losses, the aerial route helps in a big way.

- Auto insurers will have moved towards usage-based insurances. A large number of them have been promoting telematics which will become cheaper to procure, and gives many advantages both to the insurance companies and the customers. Two concepts of 'Pay As You Drive' and 'Pay How You Drive' will have taken the industry by storm. In the first concept, the customer does not pay an annual premium based on the vehicle's cubic capacity and other parameters. The customer pays premiums based on the distance travelled, which means the person who drives less pays a lower premium as compared to someone who drives more. In the 'Pay How You Drive' model, the concept of paying premiums depends on your driving habits—safety and how well you drive will have a direct co-relation to the premium you pay. Moreover, vehicle theft detection systems and other value-added services can be integrated with telematics to improve customer and vehicle safety. An even more revolutionary development will be driverless vehicles. Some countries have already started pilot runs and very soon public transport in some cities will move to driverless vehicles.

- With the increased usage of digital technology, we will encounter a new wave of claims for cyber attacks. Almost every day we will see claims for theft of data, and financial misappropriation of unheard of magnitudes; and we will see insurance companies devising better cover for customers to get protection. Cyber risk insurance may become almost a mandatory cover for all insurances.

The speed of change will define the position where an insurance company will be three years from now. These companies will only remain relevant through adoption and use of smart technology to automate key customer-facing processes, improving efficiency and making it easier for customers to use. It is crucial that insurers engage the ever-more 'digitally savvy' consumer, as customers are increasingly going to apply their digital research and purchasing habits to insurance. Only those companies that seem to better understand why their customers are buying from them get greater loyalty and greater satisfaction.

INDIAN INSURANCE IN 2020—TARGETING THE UNDER-SERVED

By K G Krishnamoorthy Rao, Managing Director & CEO, Future Generali India Insurance Company Limited

INDIA'S GENERAL INSURANCE INDUSTRY has been remarkably productive in terms of growth, innovations and reforms in the year 2016. The General insurance market direct premium up to the month of January 2017 is at Rs 12,123.51 crore and at a percentage growth of 31.68 percent.

Even as these numbers appear impressive, the reality is that India accounts for 17 percent of the global population but less than 1.5 percent of the total insurance premia collected globally. Even as India is the world's 15th largest insurance market (by premium volume), its insurance density (per capita premium) stands at Rs 3,696 vis-à-vis the global average of around Rs 44,486.

Government and Regulator Initiatives:

The Government of India announced a number of initiatives over the last couple of years to strengthen the country's insurance sector. Foreign investments were permitted through the automatic route up to 49 percent. Service tax on single premium annuity policies was reduced from 3.5 percent to 1.4 percent of the premium paid in certain cases. The Pradhan Mantri Suraksha Bima Yojana and the Pradhan Mantri Jeevan Jyoti Bima Yojana offered basic insurance at minimal rates through government agencies and private sector outlets. The Government launched an insurance pool of Rs 1,500 crore (mandatory under the Civil Liability for Nuclear Damage Act) to provide civil liability for nuclear damage and prompt compensation to the victims of a nuclear incident through a no-fault liability to the operator.

Moreover, the Government has planned to launch Bharatiya Krishi Bima Yojana, an all-in-one insurance scheme for farmers (comprising crop insurance, health cover, personal accident insurance, livestock insurance, insurance cover for agricultural implements like tractors and pump sets, student safety insurance and life insurance). In future, these schemes will play a vital role in im-

proving the business of private players in the rural market. They will require companies to cater to the needs of the rural and economically backward population of the country through unique and customized solutions via easy and accessible distribution models.

The Insurance Regulatory and Development Authority (IRDA), the regulator of the country's insurance sector, undertook decisive measures through the formation of two committees to promote e-commerce and financial inclusion. Initiatives, such as e-insurance account and accidental insurance cover for train passengers have had a positive impact towards the growth of the sector. Through e-account, the customers are empowered to maintain their insurance policies in an easy, speedy and efficient manner. The formulation of IRDA Regulations, 2015, in line with the amendments made under Section 32 B of the Insurance Laws (Amendment) Act, 2015, will also help in extending insurance cover to the economically-weaker sections.

Economic reforms such as demonetization, Jan Dhan accounts, Unified Payment Interface (UPI) and Aadhaar integration have set the ground for a digital and cashless economy. Such a digital revolution is set to impact the value proposition of insurance services too. For instance, the need for strategic changes in developing a more relevant and better digital distribution model has become inevitable.

Though digital distribution of policy is challenging due to our existing IT infrastructure, a high level of digital illiteracy and limited connectivity in remote areas, it has its own benefits. It offers easy and faster policy issuance and improved penetration in the market. Therefore, looking at the immediate need to increase our market share in the global scenario, there is a greater need for a shift in our focus from the conventional method of policy selling to an advanced and faster method.

Leveraging Technology:

Technology is the key driver of the massive transformation that the Indian insurance sector is currently undergoing. It is expected to play a vital role in not just developing newer distribution models but also in improving customers' experience and the way companies serve them. The company's ability to serve its customers in a simpler, smarter and faster manner will define its rate of customer retention and level of market penetration. In future, insurers must be prepared to invest in relevant technology and to serve their customers in real-time by providing immediate solutions to their issues.

Customers' Delight:

As the balance of power shifts slowly towards the customers, the growing demand in the sector will be to develop specific solutions tailored to meet their unique requirements. In the future, customers will seek to be increasingly empowered. They will want to arrive at their own decisions and solve their issues based on gathered insights, and not just through the conventional method of being serviced and advised. Therefore, it will be an insurer's responsibility to focus on the customers' delight and empower them with innovative solutions and services.

Profitable Growth in an Aggressive Marketplace:

Challenges in the insurance market made it hard to achieve profitable growth as players were required to address a complex distribution system, outdated IT systems, inefficient business processes, competitive pressures, growth needs and cost management. The fulfillment of shareholder expectations warranted a delicate balance between profitability and risk. To achieve long-term success, insurers need a more customer-centric approach: understand customers better, enhance customer delight and optimize customer value through cross-sale opportunities.

Demographic Dividend:

India currently has 605 million people below the age of 25, and 225 million in the age group 10-19 poised for higher educa-

tion. This indicates that for the next 40 years, India can enjoy the benefits of a youthful, dynamic and productive workforce even as the rest of the world, including China, continues to age.

By 2020, India will have 116 million workers in the work-starting age bracket of 20 to 24 years, compared to China's 94 million. The average Indian age by 2020 will be 29 years as against 40 years in the US, 46 years in Europe and 47 years in Japan. Even as the labor force declines by 4 percent in the industrialized world and by 5 percent in China in 20 years, it could increase by 32 percent in India. The result is that that India's demographic dividend has the potential to add significantly to India's per capita GDP growth across two decades (Sources: NDTV, ILO, IMF).

Outlook:

The corpus of global insurance premia could grow around 4 percent during the next two years (3 percent in real terms, adjusted for inflation), even as the Indian insurance sector grows by 15 percent each year. Going ahead, India's insurable population is anticipated to touch 750 million by 2020 with a life expectancy of 74 years. Demographic factors like a growing middle-class, a young, insurable population and increasing awareness could catalyze growth of the sector. Besides, the increased entry of large global insurance brands (following an increase in the FDI cap to 49 percent) could widen the size and prospects of the sector.

In conclusion, the rise in the insurance sector will be marked by a favorable demography, penetration opportunities, relevant technology, financial inclusion and rising financial literacy. To tap the penetration opportunities and increase profitability, the focus should be on retail segments like motor, individual, health, as well as SME segments through agents, bank assurance products and banking correspondents. Additionally, for rural penetration opportunities, there is a need for large scale tie-ups with common service centers and public sector banks for distribution of micro insurance products.

In the years to come, ease of insurance portability, competitive e-policy pricing and customized health insurance policies are expected to fuel the growth of the sector. The only way to benefit from these changes is to embrace them, prepare for them and to be equipped to respond effectively to them.

ENABLING THE GROWTH OF THE INDIAN INSURANCE INDUSTRY

By G Murlidhar, Managing Director, Kotak Mahindra Old Mutual Life Insurance Limited

The shape of the Indian life insurance industry as we see it today has been moulded by certain key events in the past few decades, starting from the consolidation of various insurance companies to form LIC in 1956; opening up of the industry to the private sector in 1999 (giving rise to bancassurance as a model which now contributes 52 percent of private insurers' new business); new product regulations from 2010 onwards (which influenced a shift in margins and hence in product mix and behavior); increase in FDI limits from 26 percent to 49 percent in 2016; and the advent of open architecture for bancassurance in 2016. Let us examine the present and potential of the industry, and the key factors and enablers that will be instrumental in shaping its future.

The Present

The industry has evolved to a significant size over the years; the combined AUM of the industry is Rs 27.7 lakh crores (Sept 2016) which forms about approximately 17–18 percent of the total financial assets managed by the financial sector as a whole, including banks, insurance companies, mutual funds, provident funds and small savings schemes. The industry is currently growing at a rate of around 12 percent p.a. in new business premiums. The life insurance industry plays a significant role in nation-building, channelizing long-term savings of households and making a significant contribution to infrastructure investments in the country, while holding 22.2 percent of outstanding GOI securities (as of March 2016, as per MoF reports).

Apart from playing a significant role in nation-building, life insurance as a product has a definite role in every individual's portfolio. Just as it covers the risk of dying too early by guaranteeing a sum assured upon death, it also covers the risk of living too long by ensuring availability of funds at predetermined time intervals. The sum assured is guaranteed over a long period through various ups and downs of inter-

est-rate cycles. Moreover, returns are expressed as a proportion not of the premium paid, but of the sum assured which is a high multiple of the relatively small premium actually invested by the customer.

The Potential

Where is the industry headed from here? The industry is looking at high growth potential over the next few years. India has a relatively high proportion of working age population and an aspiring middle class with rising disposable incomes. Various reports predict the number of middle class households to rise to 148 million in 2030 from 32 million in 2010. It is also a relatively under-penetrated market with 2.7 percent penetration as compared to the global level of 3.5 percent. Further, with the recent measures taken by the Government, savings of households are gradually shifting away from physical assets (like gold and real estate) towards financial assets. We are already seeing effects like increase in digitalization and fall in gold imports. Even assuming a moderate growth of 11–12 percent in nominal GDP, the life insurance industry will still grow at 15–20 percent per annum, due to the above reasons. That means we are looking at an industry of the size of $100–110 billion in 2020 from current levels of around $55 billion. The industry may double in size in the next four years.

Key Factors

Let us examine some key expected developments and mindsets which will have a significant bearing on the shape of the industry going forward. Open architecture for bancassurance has opened up new possibilities for expansion of distribution with possible implications on both the top and bottom line of the insurance business, while at the same time serving customers better with a wider range of choices. Another development to watch out for is the impending implementation of GST in 2017 which can affect the business model. The industry may also be headed for gradual consolidation as relatively non-serious players try to find an exit and only players with long-term commitment stay and grow.

Distribution Channels

The emergence of new channels like online distribution will also be important to observe, though focus will largely remain on strategic channels i.e. agency (here, improving productivity will remain the key) and bancassurance. However, technology will undoubtedly have an increasingly important role in the sales process of all distribution channels. Also, distribution has to develop capabilities to reach the mass market; the micro-insurance guidelines of 2010 and the Pradhan Mantri Jeevan Jyoti Bima Yojana i.e. PMJJBY (over 10 crore people insured), are good examples of this. While distribution is indeed expanding with a large number of new agents coming into the fold of insurance, it needs to be ensured that life insurance remains a worthwhile business for the agents; it is a product for which the need exists, but the agent is required to follow up and help the customers in their decision to enter into long-term contracts; hence agent remuneration has to remain front-ended. The industry also needs to take more steps to drive financial education, and improve customer engagement and persistency.

Key Enablers

Some definite steps are required to be taken for the development and growth of this industry, to make it more efficient, and to create parity with other similar products.

Presently, insurance companies are required to invest at least 50 percent of the life fund in government securities, which is a considerably high threshold compared to the SLR requirement of 20.75 percent for the banking industry. The investment restrictions should be relaxed for better fund performance of the insurance industry which will improve its efficiency. A separate limit for tax deduction should be provided under Section 80C read with Section 80CCE. This will incentivize households to channelize more long-term savings while

partly compensating for the lack of social security benefits.

Further, tax treatment of pension products of life insurance companies should be at par with similar products offered on other platforms. Tax treatment should be based on the nature and objective of the product rather than the platform. Premiums paid up to a certain limit for a pension policy from a life insurance company should be treated at par with NPS by providing for an additional deduction under Section 80CCD(1B) and further additional deduction under Section 80CCC to the extent of 10 percent of salary. This is necessary for creating a level playing field as fundamentally the product is the same, i.e. a pension fund. The annuity received out of maturity of a pension fund under the pension or annuity policy should be exempt from tax under Section 10(10A).

Annuity purchased after maturity of pension policies of life insurance companies should be exempt from service tax. A life insurance/pension policy is a capital asset and only the gain should be taxable on maturity or surrender and not the entire amount received from insurance companies.

In Conclusion

This is one of the very few industries that pursue a noble cause with social benefits as well as provide support to the nation and the Government; we as a society must collectively support its growth and development. The industry undoubtedly has a great growth potential and may very well double in size by 2020, but if some of the aspects outlined above play out favorably, they will be decisive in providing the right stimuli.

ACTUALIZING THE OPPORTUNITY AT THE BOTTOM OF THE PYRAMID

By Girish P Kulkarni, Managing Director & CEO, Star Union Dai-ichi Life Insurance Company Limited

India's strong macroeconomic fundamentals present a significant opportunity for exponential growth and development of the financial services industry over the next 10 years. A young country with a high share of working age population, India has seen consistently rising affluence levels with intrinsic consumption driving the growth of its economy. The country is also witness to an unprecedented growth in urbanization as general awareness regarding financial savings is on the rise.

However, penetration of life insurance still stands at 2.7 percent of GDP, which is lower than that in developed economies and represents a huge opportunity yet to be unlocked by the industry. The life insurance industry has been running into headwinds since the financial crisis. However, with the increasing onset of customer-centric regulations, the fundamentals of the industry for the next phase of growth are being laid out. Though general awareness regarding life insurance continues to be extremely low, awareness regarding life insurance as a category has considerably increased across all nooks and corners of the country through the hugely impactful Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).

That said, certain fundamental challenges still remain: only 8 percent to 10 percent of rural households have some life insurance coverage; the Prime Minister's well-received PMJJBY Scheme is the only product option available for certain customer segments. The urban poor continue to remain largely uncovered. The next phase of growth of the Indian insurance industry will be in extending coverage to such customer segments, even amidst internal challenges such as effectiveness of distribution and financial viability of the operating model; and external challenges such as low awareness and value-utility dilemma in the minds of the consumer regarding the product.

Statistically speaking, 1 billion people across 206 million households, earning below Rs 3.5 lakh a year, represent the 'blue ocean'. With every 5 percent increase in

coverage of households under life insurance, nearly one crore additional insured lives will be added to the industry. However, reaching out to this segment is fraught with specific challenges which need to be addressed and answered:

- Awareness regarding insurance is low and the product is not well understood; therefore, conventional means of enhancing awareness may not be very effective.

- Distribution challenges, such as ensuring last-mile access while controlling costs, are significant in a sub-optimal ecosystem.

- The segment has very low economic diversification with seasonal and uneven cash flows, and great susceptibility to weather conditions; this makes it challenging to design a relevant, affordable and sustainable product.

- Extending transactional convenience is challenging in the absence of required documentation.

The role of technology in enhancing awareness about the product is undeniable. India is home to the largest number of mobile phone users and technological developments such as 4G will be crucial to reach out to potential customers across urban and non-urban geographies. Leveraging technology as a vehicle for customer acquisition may be a step ahead of its time as insurance still needs assisted and consultative sales.

Managing distribution reach in a cost-effective manner, right up to the base of the pyramid, has been a challenge to insurers. Piggybacking on the already existing infrastructure of banks and post offices would serve not only to lower distribution costs significantly, but also increase access to life insurance from an already trusted entity. The network of around 200,000 bank branches and post office outlets in rural areas may be utilized for increasing accessibility of insurance. Another opportunity that may be unlocked is the creation and utilization of affinity platforms; examples are generating awareness through gram panchayats and aggregators such as vegetable 'mandis' as focal points.

The concern of variable and unpredictable income, and therefore disposable income, implies the need for flexibility of liquidity and a variety of premium provisions. Enabling product regulations such as 'variable coverage'—and, therefore, variable premiums—and options for a 'premium holiday' may be explored to generate relevant product offerings. Leveraging other available opportunities, such as offering 'combo-products', for e.g., life/disability/income protection with crop insurance, will make the comprehensive offering more appropriate and meaningful to the intended customer segment.

Enabling regulatory architecture such as differential treatment of expenses of management (EoM), and capital requirements on such business, may encourage more and more insurers to reach out to the bottom of the pyramid, overcoming inhibitions around the financial viability of the business model. Insurance can accordingly be extended to those strata of society where the requirement for protection is paramount. Allied-flexibilities around documentation and KYC may help overcome transactional and documentation roadblocks.

The next phase of growth for insurance in this country will come from the segment that is hitherto under-penetrated. The urban marketplace is crowded and is a focus area for almost all industry players. However, in the same breath, the industry also bears the responsibility of protecting those at the bottom of the pyramid through the establishment of sustainable models. To increase overall participation, a dedicated 'fund for aggregating shortfall' may be considered by the regulator with pooled participation from insurers on the basis of the magnitude of shortfall towards insuring the bottom of the pyramid. Thereafter, the administrative architecture may operate at the district level to utilize the fund for in-

suring un/under-protected households. Inclusion and buy-in of the administrative machinery to broad-base social security is critical towards increasing the penetration of insurance.

To conclude and summarize, designing a comprehensive framework to actualize the 'blue ocean' opportunity by involving all relevant stakeholders is the need of the hour for life insurance in India. To be relevant and inclusive, the life insurance industry must enter spaces that are under-penetrated, mainly due to the challenges that exist; enabling, supportive and differentiated statutory treatment may be required in order to encourage this. As opposed to many other industries such as travel, entertainment and retail, which have all been disrupted by digitization, the effectiveness and role of technology, in as much as customer acquisition for life insurance is concerned, needs to be well understood. Enhancing consumer trust through people interaction continues to be the basic fiber of insurance. Flexibilities around product design and cash flow structure hence assume importance and relevance to accommodate the variable and unpredictable income flows of the concerned customer segment.

By reaching out to the bottom of the pyramid in a systematic, scientific and sustainable manner, the shared vision of all practitioners and key stakeholders to increase insurance penetration to first match and thereafter surpass the global average will undoubtedly be realized.

DIGITIZATION—A GAME CHANGER FOR THE INDIAN INSURANCE INDUSTRY

By V Jagannathan, Chairman Cum Managing Director, Star Health & Allied Insurance Company Limited

Like any other industry, Indian insurance too has, over the years, steadily evolved and matured. It has displayed healthy growth, and the regulatory mechanism has put together an environment where individual stakeholders take on the roles of responsible players and become transparent and consumer-friendly.

The outlook for the industry is promising, thanks to the economic trends and parameters that point to healthy growth of the country in the future.

Digitization is happening in every sphere of activity—from distribution and sales to post sales—and this could be a game changer. Insurance organizations the world over have realized the need for continuous customer engagement which means redefining the way the business is done now. The Indian insurance industry, particularly the retail business, is dominated by the agency force and will continue to be so for quite some time. Attempts to enable this force by way of regulations such as insurance marketing firms, POS, etc., have only touched the periphery of the issue. In order to increase reach, technologically enabling the agency force is inevitable and we see this happening more in certain areas.

Digitization in sales has taken a lead and is expected to grow phenomenally. The role of mobile devices that people carry with them almost everywhere, and the Internet, is undeniable. Online purchase is likely to grow in certain lines of business.

Customer engagement is another area where the industry will focus; digitization has a very important role to play here. The market has moved from the real world to the virtual world in a big way. Today, we are in the midst of a digital commerce revolution, with the rise of the 'Internet of Things', which is turning every user touch point into a potential selling point. Strong data analytics will come a long way in understanding customer needs and focusing on customized products for each segment.

Cutting costs will be another focus area for insurers. Underwriting and claims processing will be more simplified and probably more automated.

Insofar as health insurance is concerned, we expect movement towards 'affinity providers' who offer services at pre-fixed prices with zero additional cost to the insured.

LIFE INSURANCE FOR EVERYONE

By Manoj Kumar Jain, Managing Director, Shriram Life Insurance Company Limited

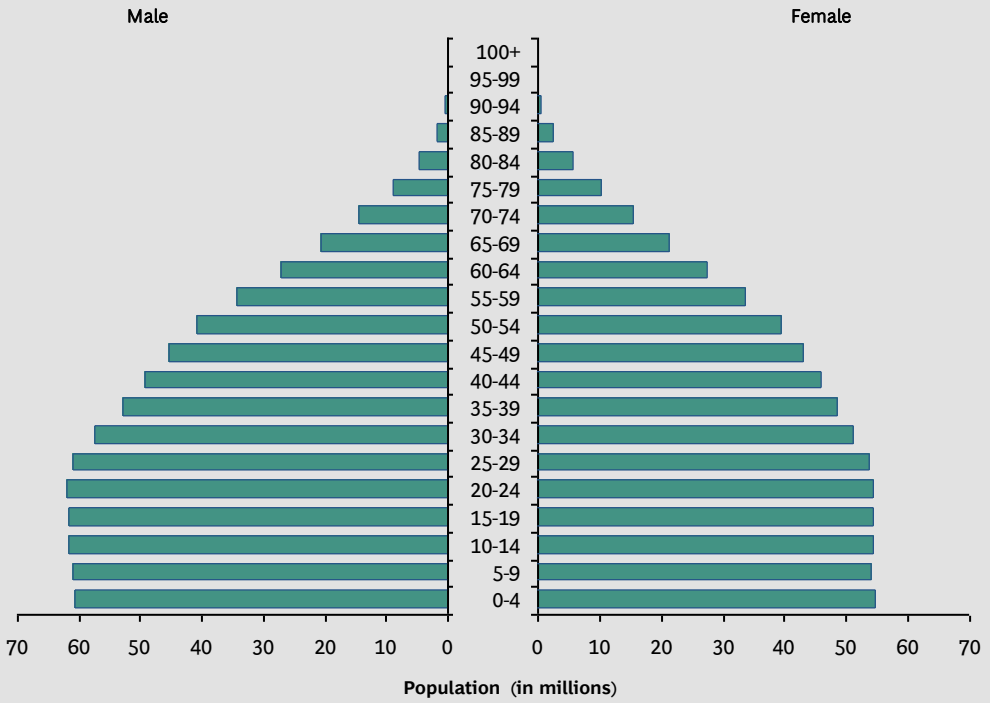
Introduction

The life insurance industry in India has come a long way since its liberalization in the year 2000. The industry has had its own ups and downs, driven by a multitude of factors including: the scale and frequency of regulatory changes; the global financial meltdown; evolving consumer awareness; emergence of dominant channels like bancassurance; and changed market dynamics. Despite the progress made by the industry since the year 2000, India remains grossly underinsured as compared to other developed economies both in terms of penetration and density. The penetration of life insurance has increased from 1.5 percent in the year 2000 to 2.6 percent in 2015; it hit a high of 4.5 percent during 2010. The opportunity for the industry is immense and hence the model of distribution of life insurance continues to evolve daily. The geographical and demographical diversity of India presents a great opportunity. A large uninsured and under-insured population spread across the wide geography of the country, combined with low financial literacy, throws up big challenges for life insurance companies as they struggle to reduce distribution costs and offer higher value to their customers, agents and partners.

Population Demography

The Indian demographic profile will continue to provide the right opportunity for the continued growth of the life insurance Industry. Currently 40 percent of the Indian population is below the age of 18. Over the next 15 years, India will continue to be a young country, with a very large part of the population below the age of 30 (refer Exhibit 1), which means that the need for life insurance, i.e. the need for life cover and for long-term savings will continue to dominate. This demographic profile has two implications, stressing the importance of finding solutions to the need for family security. On the one hand, the young working population needs adequate life insurance cover and also appropriate savings to take care of their pension requirements. The dependent population is also very large, which implies

EXHIBIT 1 : India 2025



Source: U. S. Census Bureau, International data base.

that the income earner has to ensure the right life cover. It means that life insurance companies cannot afford to ignore product innovation and the delivery mechanism in respect of meeting up with the needs of these young customers.

This young generation is tech-savvy and uses technology, both the Internet and mobile for communication and transactions. Online business has tremendous potential for the sale of life insurance policies and also helps in keeping overall costs low. Insurers are expected to focus adoption of online channels increasingly, not only to book new business but also to provide related services to their customers. Online channels can also be leveraged to provide claims management and policy-related services to customers.

Life insurers need to provide 'do it yourself' products and processes and also devise a mechanism for an 'assisted Internet sales' facility for 'from my home' buying. While developing an online strategy which includes the design of portals and online products, life insurers need to keep in mind that the online portal is an integral part of the multi-channel distribution network.

Large Non-urban Market

With more than 700 million people living in rural areas in some 5,80,000 villages, about two-thirds of India's workforce is engaged in agriculture and allied activities. With a contribution of 29 percent to its gross domestic product (GDP), India's economy is predominantly rural in character. We also keep observing that the sales of FMCG and automobile companies are increasingly becoming rural-dominated and a favorable monsoon drives sales up for these organizations. Of late we can also observe that the tempo of development is accelerating in rural India, coupled with increase in purchasing power because of scientific agriculture. The changing lifestyle and consumption pattern of villagers with increase in education; social mobility; improved means of transportation and communication; and other penetrations of mass media such as television and its various satellite channels

have exposed rural India to the outside world. Hence their outlook to life has also changed. With such a large section of our population continuing to live in semi-urban and rural areas, life insurance companies need to figure out an appropriate model which will include both the product and process of delivery to offer to these customer segments. These semi-urban and rural customer segments have an income stream which is more cyclic compared to their salaried counterparts in the urban centers. It is very important to understand the peculiarities of this customer segment while designing the product.

Even in terms of affordability to pay premiums, the rural segment has a lower average premium per policy as compared to the national average. In order to service this customer segment, while insurers are required to reduce the cost of delivery, they need to ensure reasonable commission earnings for their agents to reach out to these customers.

Simple and easy-to-understand product benefits are required to cater this non-urban customer segment. The product structure and benefits are to be designed keeping in mind the low financial literacy of the customer segment and the need to reduce substantially the opportunity for mis-selling of life insurance products.

Secondly, in the absence of a predictable income stream, we are already witnessing higher mortality among the agency force. Moreover, it is becoming increasingly difficult to recruit a new agent; the cost of recruitment and training being higher, it becomes an imperative for life insurers to retain their existing agents and improve their earnings through higher productivity. We see the emergence of fully automated tablet-based sales in the coming years in the life insurance business. This hand-held device will double up as a sales-enhancing and a sales-completion tool. The rapid changes happening in mobile technology will be a great facilitator in this digital dispensation of life insurance products. This digital drive in mobile technology can help life insurers not only in reducing their cost of acquisition, but also in increasing their reach to much larger customer segments. Easy-to-sell products, simple processes and technology-supported customer service initiatives are expected to drive growth in the life insurance business in the coming years.

The challenge of reaching out to customers at the lowest possible cost while ensuring appropriate remuneration to distributors in order to retain them will continue to pose a challenge to the profitability of life insurers.

In terms of product design, it has to be simple and easy to understand from the point of view of the customer, whether urban or rural. We can expect more urban customers to move to the online medium for product research and buying. For this customer segment, life insurers need to have simple and easy-to-buy online products at competitive prices. With the information in their palms, the urban customer segment is price sensitive and it is important for life insurers to offer differentiated products which offer more value to these customers. This will also involve designing of the portal with user-friendly features which will guide and glide the customer with ease in the purchase of the life insurance product by providing product information; and also in completion of the online purchase.

In the emerging scenario, life insurers will continue to focus both on the online and 'brick and mortar' models for distribution of life insurance products. The products will be customized for target customer groups and will have a customized delivery model. The opportunity is enormous and customization and quicker adoption will be the key to profitable growth in the life insurance industry.

RISKY TIMES FOR THE RISK TRANSFER BUSINESS

By Praveen Gupta, Managing Director & CEO, Raheja QBE General Insurance Company Limited.

We are all in a constant chatter on how to grow the business of insurance, rating movements, mergers and acquisitions, quarterly results, share prices, valuations, inclusivity, protection gaps, policy-holder protection—with some stretch of imagination we might also succeed in justifying how the customer is at the center of all this. What we have not started addressing globally are the inefficiencies that we keep embedding and reinforcing in the DNA of our business! What are these and why should they be addressed? Mind, you this is only a random pick…

Insurance is the 'Hand Maiden' of Industry: Something that was deeply ingrained in the mind of my generation from the early days of apprenticeship, howsoever, repulsive. While the emergence of personal lines now dominates the overall GWP vis-à-vis the corporate and commercial lines, insurers continue to play second fiddle to the industry.

How, you may ask, does that retard efficiency? Over the years we have been privy to what harms the ecology and supposedly triggers the AOG perils. The greenhouse effect for instance. In the larger societal good, would it not have made sense to 'deny' insurance cover to such risks in a business as the usual mode? We continue to insure asset build-up in vulnerable geographies the world over. As ESG (Environmental, Social and Corporate Governance) begins to dominate the fiduciary space of insurers and reinsurers, any second fiddle will not just vicariously expose their boards but will put them under the spotlight for aiding and abetting such harmful acts. Lloyd's recent warning on 'stranded assets' is perhaps an early warning signal.

Technology Can Work Both Ways: If not reined in, it can perpetuate its own forms of inefficiencies. Insurance is a product of the industrial age and technology of the information age. The latter, by its very disposition, is a disruptive force. The deliverables, therefore, can only be short lived. New forms will evolve. The customer will yearn for them while we continue to lament and

address legacy versions. Likewise, how long do we choose to invest in solutions like, say telematics, that should be in a runaway mode, thanks to the driverless cars in sight? Till the last driver-driven car is sold and insured? Silicon Valley is in the process of disrupting the auto industry. While insurtech has been generally benign, could insurance be the next?

The emergence of cyber risk is just the tip of the iceberg. It could become the underlying risk rather than an add-on across all lines of business—thereby literally turning it all upside down.

Big Data: Almost touted as a magic wand. Let us be reminded that many US state insurance regulators have already banned price optimisation in personal lines insurance, and the National Association of Insurance Commissioners (NAIC) has recommended that all state regulators follow suit. The Financial Conduct Authority (FCA) of UK is investigating. While insurers will have access to big data, will they be allowed to use 'discriminatory' pricing based on what segments they represent? How do you deal with pricing a one-on-one cover? What do you do to address the growing privacy issues and the laws around those?

Admitted: Protectionism is once again the order of the day. 'Admitted' is the global insurance industry's own historical response. Country after country has replicated it. This has been further replicated by some provincial regulators. With due respect, it is a very inefficient barrier under the guise of policy-holder protection. Insurers surely deserve their own version of an international convention to facilitate a global exchange. Perhaps something to keep the Insurance Development Forum (IDF) engaged.

Too many barriers heighten costs. Offshoring and outsourcing overcame geographic boundaries but are a form of short-term arbitrage. Their time too will run out. What next? Imagine the synergies that global insurance resourcing, capacities and capabilities can generate if only insurance could rise above the politics and focus on the economics. Today's IT capabilities can facilitate cross border trade in insurance, thereby rendering jurisdictional restrictions passé. It is time for a push back. Neither insurance, nor polity is a hand maiden of industry. It must come of age on its own.

Bad Insurer: Detox balance sheets to purge any inefficiency that builds in from time to time. Let us accept we are not charging adequate premiums anymore. We all agree this is owing to oversupply. Neither are we addressing this by building adequate premium-deficiency reserves, nor helping the case by releasing reserves to shore up our balance sheets. More than a bad bank, there is need for a bad insurer as a means of purging the aftermath of ignored pricing, under-reserving and poor management of long tail classes. Lest we forget, say, the sad demise of HIH Insurance or compulsions for an Equitas!

Increased or Increasing Cost of Business is the Biggest Current Inefficiency: Growing capacity flowing from excess capital; declining interest rates; pricing pressures; increased frequency and severity of claims; and insured losses catching up with economic losses virtually leave no surplus to cope with the rising costs of running an insurance business. Cost escalations are a bigger threat to regulators as they could end up facing angry policy-holders in the event of carrier failures. This calls for an asset-light approach to ensure a cost-viable risk management process.

Real-time Management of Balance Sheets: Is block chain the answer? Maybe, maybe not! But there is hope. Disasters to insurer balance sheets are like snail-paced tectonic movements. Your gut tells you something is not right, everyone keeps guessing, while the hemorrhage gathers slow momentum and post facto analysts tell you they knew it. Something was wrong. The blame game goes on and the customer suffers.

Need to Look at Risks Holistically, in Our Overlapped World: Too many silos work counter to each other. We must look at inte-

grated solutions for efficient deployment of capital in risk transfer. The industry has become product-centric. Risks are dynamic and each type may have a varying pattern and seasonality at a given point of time. A dynamic approach calls for nimble ongoing reallocation of risk capital corresponding with such ups and downs.

Growing Processes Distract Providers: From qualitative attention to customers. Let us honestly look at our customer-centricity vis-à-vis process-centricity. In terms of numbers, the bureaucracy beats those who look after customer fulfillment. Large risk carriers, therefore, end up spending more time in internal dialogue than in customer well being. True, the likes of governance and risk management need high priority. However, the litmus test ought to be: anything that distances and distracts us from the end user of our solution must be fixed.

Why Do Promising Persons Not Join Insurance? Our education, training and certification suffer from a time warp. Simultaneously, we are faced with a paucity of quality human capital. We need to realize the short-termism and instant gratification of the work force-to-be and design our learning, recruitment, retention and progression in light of the same. The career path is dead too. Can we facilitate revolving doors between multiple professions and us?

Metrics: Is it claims-paying ability or capability? Market share, top-line and valuations dominate the emerging markets business press when reporting on insurance. It does not matter how you perform on gross basis as long as you manage to make money on net. There are enough hungry and gullible reinsurers. While socio-political-economic issues may be fine with a 100- to 200-year cycle, the Cat-Geo time scales ought to be several thousand times, corresponding to the evolution of planet Earth. Tech is short-lived by the day!

Linearity: Not many saw the scale that the Chinese market would eventually assume even as recently as the early nineties. Today it is the world's largest auto market. Motor insurance accounts for nearly 70 percent of the non-life GWP. Everyone now expects it to continue growing at this pace as if it were forever building at this rate. Are insurers ready to accept the reality of a driverless car? In what ways can that shrink the books of most existing insurers, and how will it benefit those who figure out what next?

Delivery, Not Distribution: Excessive sales obsession and focus on Point of Sale rather than Moment of Truth mutates the economics of insurance. Again, the insurance industry is more inclined to look at the Lifetime Value (LTV) of a customer. The POS focus erodes and aborts the LTV that customers derive from insurance.

In Conclusion: Risky times for the risk transfer biz could get riskier if we do not attempt to rid it of its inefficiencies. The comfort zone of being in what we have inherited and its 'logical' progression, howsoever illogical, inclines us to not question its inefficiencies. What must we do to remain meaningful and capture the imagination of the mainstream? For sure, reinvent ourselves. Lest a more efficient version will dethrone the current regime!

INSURANCE—AN IMPORTANT STEP TOWARDS SECURITY OF PROPERTY OWNERSHIP IN INDIA

By Sakate Khaitan, Senior Partner, Khaitan Legal Associates and
Reema Mannah, Senior underwriter, Titlesolv

India—The Need for Title Security

Property ownership is always an emotive subject as no other asset represents generational security as much as a 'brick and mortar' dwelling. However, property ownership is convoluted by historic rights and complex title chains; and an owner or potential owner is often concerned that the title to the land or property in question is free from previous encumbrance. Therefore, it is of utmost importance that while purchasing any property, a person receives clear title to such property.

Often, even after conducting extensive due diligence and obtaining the best legal advice, it is not possible to guarantee that the current owner of a property is protected from the risk of historic rights, encumbrances, liens, frauds, disputes, etc. Title insurance ('Policy') is a form of insurance policy which indemnifies the property owner from the adverse consequences of title risks. It is a shield that also protects the owner of a property against losses arising from legal proceedings and unknown events that may have occurred prior to the date of the issue of the title insurance policy and have adverse impact on the property owner. The Policy is retrospective in nature and globally is bought by investors, occupiers and financiers. This type of Policy typically indemnifies the insured for known defects in title which are identified during a title diligence exercise on the acquisition of a property. The Policy can also be drafted to cover unknown defects in title which are undiscoverable or could not be discovered when no title diligence was done on an investment.

Title insurance can stabilize property transactions and create confidence in the property market and specifically in systems of land tenure, which are the fundamental pillars of a developed society.

There are two types of Policies: the 'Owners Title Insurance Policy' which is bought by the purchaser of a property; and a 'Lenders Title Insurance Policy' which may be purchased by banks, financial institutions and

property investors as it protects their interest in the collateral of loans secured in real estate.

The Lenders Title Insurance Policy is a globally sought after Policy as it gives investors and lenders significant comfort to invest their funds in the property. Such Policies are envisaged to boost the developing real estate market of India which, in 2016, attracted USD 6.5 billion in investment.

Since investors do not invest directly but by way of partnership or joint ventures with Indian developers, such a Policy will alleviate investor concerns over property title risk and could arguably result in an increase in the flow of private equity funds into Indian real estate.

Legal Framework: Progress Thus Far and the Way Forward

Almost 95 percent of India's housing societies do not have any form of insurance. In the absence of a well-designed title insurance policy, a property's current owner may find himself amidst claims originating from previous owners, unsuspected heirs, old liens and various other unsuspected sources. To overcome these issues, the Indian Government has introduced a provision in the recently enacted Real Estate (Regulation and Development) Act, 2016 ("**RERA**"), which makes it mandatory for builders and promoters to ensure title to the property. This provision further imposes an obligation on promoters and builders to obtain all such insurances that are required with respect to all real estate projects. Such insurance includes, but is not limited to, insurance in respect of:

1. Title of the land and building as a part of the real estate project; and

2. Construction of the real estate project.

Under RERA, promoters will be liable to pay premiums and other charges with respect to the Policy. Once the promoter has entered into an agreement of sale of the property with an individual, then at the time of entering into the agreement, the benefits under the Policy will also be transferred to the individual along with the property. The promoter shall also hand over all the documents related to the Policy to the individual.

Encouraged by the RERA, and in recognition of the need to create a more stable land tenure system, the Indian Government has empowered the Indian insurance regulator, Insurance Regulatory and Development Authority of India (**IRDAI**) to constitute a working group on the scope of 'Title Insurance in India' ('**Group**'). The Group has been mandated to study the need and scope of the Policy in the domestic market vis-à-vis the existing global practices and identify the insurable risks and compensation structure. The Group will also assess the availability and accessibility of local revenue records and suggest the design of the product and the framework for assessment of risk, pricing, reserving and accounting with actuarial inputs, keeping in mind the long-term sustainability of the product on a stand-alone basis.

Moreover, steps taken by IRDAI to globalize the Indian insurance industry by allowing the entry of foreign reinsurers in India through branch office presence, will provide Indian insurers with the required reinsurance support and underwriting expertise to be able to offer title insurance covers in the Indian market. Global reinsurers entering the market bring with them the experience of providing capacity in other mature markets, which will help them support new markets in India.

Tailor-Making the Product for India—Drawing from International Experience

In the US, title insurance as an insurance product was initiated in 1868 as a mechanism to fortify titles by covering undiscoverable risks. Today, the product is regulated at both the national and state level and there is standardization of the product forms and pricing through the American Land Title Association.

In Europe, the product was imported anecdotally in the 1960s to complement solicitor diligence and to cover identified defects in title via an underwriting process premised on a sound understanding of property law and the case law precedent around defending title claims.

While both the US and European policy styles are well established in their respective jurisdictions, a variant of such policies, which draws from the experience of both but specifically designed after taking into account the ground realities in India, will be required to be fashioned for the Indian market. Given that property transactions in India are subject to both central as well as local state laws, the product features, while being ubiquitous across jurisdictions, will also be subject to local legal idiosyncrasies.

The product features which will equally apply to the Indian title insurance offering include the setting of the limit of indemnity at the property value. The premium rates will be calculated as a percentage of the value of the property and will be determined following underwriting of the nature of the transaction, the history of the title of the property and the legal defenses available in the event of a claim.

Additional coverage could also be structured based on the market needs and accordingly, this Policy can be tailored as per the needs and requirements of the insured.

Introduction of title insurance products in India can go a long way in making ownership of built-up and land property far more credible and secure, leading to renewed confidence among buyers which will, in turn, positively impact the real estate market. The current owner of the property will no longer have to depend solely on the developer's or seller's written assurances with regard to the legal sanctity of the property title. Furthermore, with the help of the Policy, property transactions will become more transparent and expedient, and banks will also be encouraged to lend on property-backed transactions with fewer misgivings. It is imperative that the IRDAI, insurers, reinsurers and other intermediaries come together to make title insurance a success in India.

Digital Perspectives

MOTOR INSURANCE 2.0

BCG and Morgan Stanley Report

AUTO INSURERS ARE BASKING in a false sense of security, seemingly oblivious to the impending decline in market size and the threat of new entrants. The sector is ripe for disruption: the value of insurers' proprietary data and traditional expertise is diminishing, and other players are emerging with the data, analytics, and customer access needed to attack the value chain. In light of the combined threat of these dynamics, incremental change is not an option. Insurers must adapt.

The Boston Consulting Group and Morgan Stanley Research conducted 45 interviews with senior executives of insurers, OEMs, and technology providers around the world. In addition, we surveyed drivers and auto insurance customers in 11 countries. Finally, we modeled the impact of technology change and shared vehicles on the industry from 2015 through 2040.

Although specific dynamics will vary by market, our research yielded several key conclusions:

- **Shrinking Mature Markets**. The auto insurance market could decline to 40% to 50% of its current size by 2030, and even to 20% to 30% by 2040 in certain mature markets.
- **An Even Greater Reduction in Personal Lines**. We expect the proportion of personal lines to commercial lines to shift from about 80:20 in 2015 to 50:50 by 2030 and 30:70 by 2040. In mature markets, this means a 65% reduction of the personal auto insurance market by 2030.
- **Rise of Nontraditional Players**. The incumbent motor insurance model is likely to be heavily disrupted by new players with access to proprietary driver data, superior analytics capabilities, and direct customer access. For instance, shared-mobility players not only will own the data but are likely to perform their own analytics, leaving insurers struggling for insight into the growing commercial-line market. Furthermore,

we see a credible threat that tech giants, OEMs, and, to a lesser extent, telcos could corner a significant (and profitable) share of the remaining personal-line market. Our consumer survey supports this potential outcome, showing that nearly 50% of today's young driver population is prepared to purchase motor insurance from nontraditional players.

- **Higher Growth in Emerging Markets.** Insurance premiums in emerging markets will keep growing, predominantly driven by increasing vehicle volumes and miles driven. China, which today represents approximately 13% of the global motor market, will capture some 20% of it by 2025.

Insurers must respond quickly to defend their turf against these combined threats. We recommend a fundamental rethinking of all aspects of the operating model—including product and business mix, underwriting capabilities, distribution channels, cost structure, and acquisition strategy. Broadly, we see three nonexclusive strategic plays:

- **Digital Play**—leveraging technology throughout the value chain to exchange data and engage with consumers, optimize the cost of risk, and achieve superior cost efficiency
- **Partnership Play**—turning to strategic partners (most likely, OEMs, new mobility players, telematics manufacturers, and telcos) to secure access to data and customers or to complement coverage-related services, so as to keep increasing revenue within the motor insurance value chain and defend against potential disruptors
- **Adjacency Play**—expanding into mobility-related adjacencies (possibly including car safety features, car repairs, services related to roadside assistance, new mobility solutions, and products covering new risks such as cyber) in order to increase consumer engagement, collect more data, replace lost revenue, and fuel future growth

The relevant strategic choices and timing of execution will depend on each insurer's size and business mix. For example, multinational insurers are in a better position to form partnerships with disruptors such as OEMs and tech giants. Insurers with a younger, more urban customer base should consider diversifying even more rapidly. There is no standardized approach, and the path to the future state is unlikely to be linear.

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https://www.bcgperspectives.com/content/articles/automotive-innovation-motor-insurance-20/

DIGITALIZATION AND ITS IMPRINT ON THE INSURANCE INDUSTRY

By Tapan Singhel, Managing Director & CEO, Bajaj Allianz General Insurance Company Limited

Let's reflect to a scenario a few years back. In 1995, I make a claim for my Maruti 800 and get my claim amount of Rs 20,000 within one-and-a-half months and I am happy. In 2005, I file for a claim for my Honda City and I am glad to receive my payment within 20 days. Today, if my car meets with an accident I expect my claim instantaneously. Is it possible to receive a claim within minutes? Has the insurance industry evolved out of its traditional mode to cater to today's customers or to the millennials who are looking at instant services and more contextual and personalized solutions? The moot question is whether the industry today is equipped to reach out to the hugely untapped potential that India offers.

The insurance industry is undergoing a transformation today. Digitalization has opened up major opportunities for us. It has given us a breakthrough to deal with the challenges that we have been battling over decades. The advent of the insurance business in India dates back to 1818. The industry has had its presence in the country for over 150 years, yet its penetration is less than 3 percent of the GDP. A conventional approach, coupled with lack of infrastructure, has been the root cause of the industry's inability to realize its full potential and penetrate the Indian market. However, today, the industry is embracing digitalization and transforming the way business is done. It has affected all the areas of operation of an insurer, including employees, customers and business partners. Most importantly, it has helped us address some of our major challenges.

Distribution Transformation

A weak distribution network and inability to penetrate into tier two and three cities was one of our biggest challenges. The brick-and-mortar model did not prove to be feasible in terms of cost effectiveness after a certain level. Digital infrastructure and rise in mobile connectivity in the country offered an opportunity to reach out to these areas and offer solutions and spread aware-

ness about this subject. At present, insurance transactions like policy issuance, renewal, claim intimation and processing or accessing any policy or insurance-related information can be done through mobile applications via tabs or smart phones. Employees and business partners armed with smart phones and cashless payment solutions are taking insurance to customers' doorsteps. Bajaj Allianz, with the help of this technology, has created virtual offices and has been able to reach out to 800 tier two and three towns in the last two years. Going forward, it will revolutionize the way this industry works and insurance will leave its imprint in the remotest corners of the country.

Simple Products and Solutions Anytime Anywhere

A complex array of product offerings and long processes involved in making a claim have also been a deterrent when it comes to insurance purchase in India. The digital revolution changed the way customers make purchase decisions or buy a product and paved the way for insurers to simplify this process to offer simple, customized and digitally-integrated products. Today, insurers are in the process of de-jargonizing products and simplifying the underwriting processes using advanced automation, machine learning and strong analytical capabilities. Considerable progress has been made in offering motor or travel insurance solutions to customers on an online or mobile platform. These products can be easily bought and renewed by the customer either online or via a mobile device within a couple of minutes.

Going forward, we aim to create flexible products that fit customers' needs and allow them to tailor the product according to their requirement, easily on the go.

For example, if a family is looking at a home insurance cover as protection against burglary and malicious damage for the duration when they are travelling or are away from their home, they could tailor the product to their requirement for a price that fits their budget, make a comparison of the benefits and make a purchase straightaway in few easy steps. The use of big data, proxies and risk engines has enabled insurers to deliver simple solutions. Motor claims are now being settled via tablets; claims within the range of Rs 20,000 can now be settled within 1 hour. In the near future, big data and technology will help us further empower our customers by allowing us to provide a platform through which they can settle their claims on their own and receive the payment instantaneously via mobile applications.

Most importantly, digitalization has enabled the industry to provide customers with touch points that allow them to make a purchase or look for a solution in real-time anywhere anytime. For instance, the Bajaj Allianz mobile application, Insurance Wallet, empowers the customer to conduct all insurance transactions in real-time. The aim is to transform the entire customer experience and make it digital with no manual intervention.

Digitalization has created disruption across the insurer's value chain. It has enabled seamless integration across systems that has reduced complexity and has improved the efficiency and efficacy of operations. Today, not only is it imperative for insurers to adjust to this rapidly changing environment, but also to be agile towards identifying future opportunities and challenges to leverage on.

The Internet of Things and its Implication on the Industry

The Internet of Things (IoT) opens up major opportunities for us. Internet connection in nearly every type of consumer device will result in huge implications for the insurance industry over the next couple of years. It will help us improve business practices and better assess clients' risk levels. Most importantly, it will help the industry move from reactive compensation to proactive prevention. For example, integration with IOT devices like telematics in the car, health fitness trackers and Internet-based

home security devices will help the insurers provide usage-based insurance by tracking the customer's activity and subsequently offering discounts and other rewards for healthy and safe behavior. Bajaj Allianz set the platform for usage-based insurance in India by launching the industry's first telematics-based solution, Drive Smart, for its motor insurance customers.

Social and Digital Media

As India's middle class emerges with greater force, digital media is empowering customers to make informed choices. Previously, insurers did not have direct access to their customers. Today, social media has enabled them to gauge customer sentiment directly and address their needs through products and solutions. It has also opened up a platform to share information pertaining to insurance seamlessly. This technology is giving insurers more and more mediums to influence retention by engaging with customers directly via platforms like Facebook, Twitter, YouTube or even Google Hangouts. In the future, digital media will help us further intensify our contact with customers and provide them with knowledge and services, when and where it is most relevant for them.

The future offers a bright prospect for the Indian insurance sector. Riding on the digital wave, insurers will harness the power of technology, social media tools, new e-payment models and distribution channels to reach out to more and more people across the country. This will ensure that the majority of our population has a financial safety net in the form of insurance, so that in the wake of any unforeseeable crisis, nobody has to sell their land, home or jewellery in order to make ends meet.

INSURANCE SECTOR—THE ROAD AHEAD

By V K Sharma, Chairman, Life Insurance Corporation of India

The insurance sector in India has evolved to a greater degree over the last couple of decades. There are new trends driving the demand for life insurance, with customer aspirations and expectations being raised. While regulatory reforms and advances in technology have profoundly influenced the growth and development of the sector, there is still immense potential as the economy continues on its growth trajectory.

We are a young country that is ready to reap the benefits of demographic dividend, along with the rapid pace of investment in infrastructure and increasing mobility.

Recently, the speed of financial access and inclusion has picked up as well. The insurance sector's future success would depend on critical factors including visibility, awareness, outreach, and technology adoption.

However, protection gaps are evident from the low levels of insurance density and penetration. Similarly, there is a wide gap in retirement savings of today's generation. In this scenario, life insurance is a thrift promoting investment with risk cover. The life insurance sector provides solutions by actively managing these savings with a long term view on asset markets and with value addition through unique activities such as distribution, underwriting, servicing and more. More importantly, the insurance companies invest accumulated funds and manage the portfolio to achieve competitiveness.

The insurance sector has also played a key role in the financial inclusion drive through its products. The PMJDY launched on 15th August, 2015 has been an extremely successful and visible scheme that aimed for speedy financial inclusion. Insurance coverage through top up schemes include the Suraksha Bima Yojana which provides coverage of Rs. 2 lakh on accidental death at a premium of Rs. 12, and Jeevan Jyoti Bima which provides life insurance coverage of Rs. 2 lakh for an annual premium of Rs. 330

Insurance sector

The sector must provide more options of buying life insurance in order to stay relevant to customers with changing lifestyles. Distribution is an important factor to capture opportunities in the market. As more and more people adapt to a digital lifestyle, insurers are keen on offering simple, serviceable solutions through the digital medium. Existing channels are being refurbished with the help of technology adoption, training and new skills achieved through expert mentoring.

Since the structure of the economy is undergoing change the insurers also need to respond to these challenges in a positive manner. There is also the need to reinforce a conviction for improvements in all areas—especially in the efficiency of servicing and the redress of grievances regarding policies. To succeed in the age of hyper competition in the financial services space, insurers would have to embrace a diversified distribution system, use capital wisely, while improving the qualitative aspects of products and services. Today, with the help of data and analytics, the insurance sector can derive value to provide solutions to risks based on market research and segmentation. The biggest potential in data analytics is to gain insights into customer behaviour and needs while maintaining a surveillance of market trends.

The Way Ahead

The insurance sector will have to be at the forefront for providing sustainable security products to address various risks that affect people and also play an active role by undertaking activities that promote the penetration and density of insurance. The market for insurance is an interplay of several variables and economic factors; the pattern and behaviour of savings and investment of a household determine the choice of financial products and there is also the problem of lack of awareness. It is the need of the hour to overcome the problem of under insurance with behavioural change so that people come forward and protect their assets and life first through the products of insurance. Since awareness and visibility are key to encourage this behaviour, it is required that campaigns disseminate information regarding life insurance on a large scale.

In the near future, technology is going to create an impact on every sphere of life. The last few years have seen dramatic improvements on several fronts linked to the supply-side infrastructure. The Unique Identification (UID) project has already covered crores of Indians and expects to complete the task of issuing a UID to every citizen in the country soon. By linking UID numbers to Know Your Customer (KYC) norms, the process of reaching out to prospective customers will be easier. The future looks promising for the life insurance industry with several changes in the technological domain which will lead the industry to engage with its customers in a meaningful manner.

Technological advancements and data driven insights are transforming the sector while helping it to provide effective insurance solutions. Insurers are also using social tools for engagement with customers, enabling direct communication between customers and providers. In the competitive scenario, it is important to feel the pulse of the customers and technology allows just this. With the power of various forms of technology, insurers can revise the perspective by segmenting the demographic and other profiles of the users in order to exploit the potential of the medium to create long term value for all.

TRANSFORMATION OF INDIAN INSURANCE INDUSTRY

By Alice G Vaidyan, Chairman Cum Managing Director, General Insurance Corporation of India

INDIA IS WELL AND truly on the path of transformation—socially, culturally, economically and technologically. These sweeping winds of change have been so pervasive that they have swept all segments of our society with them, leaving none immune. As the old adage goes, 'change is the only constant'; nowhere is this more visible than in the India of today. The country is collectively crossing new divides and surpassing expectations on a daily basis. Whether it be the record breaking launch of satellites, building the world's largest solar power plant, our Supreme Court removing barriers of entry for women in temples or our tech startups receiving record funding, it is evident that the country is on the cusp of significant change and is poised to be the next great superpower in the coming decades.

Much of that change has been propelled by the rising middle class. As incomes rise and awareness grows, the country grows more confident in its outlook and demands responsiveness from its Governments. Technology has acted as a catalyst in this engine of transformation, providing a platform and enabling the rapid dissemination of ideas. And Governments and institutions have been forced to take cognizance and respond in kind, using the same technology that acted as a bane for them in the first place, as a boon.

Although the increased adoption of technology has engendered challenges too, such as cybercrime and privacy concerns, the benefits far outweigh the shortcomings, which would have existed in a different contour in its absence. We have transitioned into an increasingly interconnected world, which grabs, crunches and analyzes everything that is said, written or posted, every second of the day.

The insurance sector is in the midst of a digital revolution as well. Insurers are providing customers with innovative technological tools such as mobile apps and web aggregators to compare and purchase insurance plans at the mere click of a mouse.

This has resulted in wider customer reach, better information dissemination, enhanced operational efficiencies and an improvement in process-based administration of business.

The key to this transformation has been the rapidly rising Internet penetration in the country, coupled with ubiquitous smartphone usage. India is home to more than 300 million Internet users, second only to China, and this number is expected to double by 2020, according to studies. The number of smartphone users is expected to touch 520 million in 2020, from 240 million currently. The combined might of the Internet and smartphones has prompted many traditionalists to jump onto the digital bandwagon. It is evident that going digital is the way forward, and the key to this revolution will be data and algorithms, which when combined, will modernize underwriting and the concomitant pricing of products.

The next big transformation is going to be in the nuances of customer segmentation and innovation in product design. It is imperative to increase insurance penetration in the country, which stands at a measly 3.4 percent currently, in order to expand the ambit of financial protection. This is line with the Government of India's vision of a financially inclusive and secure society. Insurers will increasingly resort to customization of insurance products so that more of the populace can be covered.

Low disposable incomes and poor awareness have traditionally been the reasons behind the meagre offtake of insurance in remote rural locations. Micro-insurance and coverage of hitherto untapped risks can be the driver behind increased insurance penetration and closing the yawning protection gap. This will undoubtedly have to be supported by more robust marketing and awareness campaigns on the part of the insurers. In addition, changing consumer behavior in terms of price sensitivity, and a growing propensity to use smartphones for any and every transaction, will force insurers to restructure their existing offerings and establish new distribution platforms.

New and emerging risks will demand more attention from insurers. The world is in the grip of a technological revolution. 3D printing, nanotechnologies, autonomous vehicles, telemedicine and the Internet of Things are just some of the ideas which have already started gaining traction within the global community. It is estimated that these technologies will achieve scale and start becoming widely adopted within the next decade.

Cyber-insurance is another area that is expected to grow, in order to provide protection to institutions towards their IT infrastructure and business conducted via the Internet. The above innovative technologies are poised to alter our daily lives at a fundamental level and revolutionize the way we interact with our environment. The benefits they proffer will come with concurrent risks which will need to be addressed appropriately.

Alternate capital and insurance-linked securities such as catastrophe bonds have been around globally for a while now. These avenues allow insurers to transfer risk and raise capital efficiently. They generally have little or no correlation with the wider financial markets, as their value is linked to non-financial risks such as natural disasters or mortality. These low-cost products have become increasingly popular across the world and are set to gain traction in India in the coming years as well. With foreign reinsurers in the process of opening branches in India, Indian insurers shall have access to abundant reinsurance capital along with alternative capital, for their risk transfer needs. This shall have a direct impact on the Indian industry which will feel emboldened in carrying out its business expansion and capital investment plans.

With rising disposable incomes, technological advances and vast untapped potential, India has stood out as a bright spot in the global landscape. The world's fastest growing major economy is poised on the threshold of a bright future. With renewed thrust by the Government of India towards self-reliance and financial inclusion through digi-

tization, the insurance sector is set to act both as a catalyst and a beneficiary. It has been said that the best way to predict the future is to create it. And creating a bright and sustainable future for all segments of our society is imperative, if we are to pull our citizens out of poverty. A prosperous and egalitarian India is waiting in the wings.

CUSTOMER IS KING AS INSURANCE GOES DIGITAL

By Trevor Bull, Chief Executive Officer & Managing Director, Aviva Life Insurance Company India Limited

Customers world over—from show-biz to the business of insurance—have evolved and are still evolving as digitization takes over all aspects of life and business. Smartphones with on-the-move connectivity have impacted customer behavior like never before, as buying or paying for a service online is now the norm. However, customers today are more discreet and tech-savvy than they were a decade ago. They sift the dross from the gold before they choose from a plethora of services offered by competitive service providers. The insurance industry, too, has evolved in the last few years but its pace of technology adoption has been slower compared to the fast-evolving base of digitally-connected customers. The need of the hour for the insurance sector is digital mapping of the entire customer lifecycle; companies will have to communicate and serve the customer the way they want. And this is the mantra of any successful business in today's digitized world.

With easy access to smartphones, customers sift through a lot of information and continuously search for the best product or service that suits their unique requirements. Besides, they continuously compare the same service provided by different providers. The present-day social media-active customer also has round-the-clock access to information via blog forums, Facebook, LinkedIn, Twitter, and company websites. Data shows that nearly 86 percent of Internet users access social networking sites to keep themselves updated with the fast-changing global business trends. Thus, digitized insurance is the natural next step in the evolution of the insurance industry for both the customer and the insurer. An online platform instantly connects the two, providing unique and customized services to the customer. Thus, mapping the customer lifecycle digitally heralds a new era of customer journeys in insurance.

Digital Mapping—the Future

- Straight-through processing (STP) will become the norm and radically alter customer experience, opening up new

vistas for insurers to interact with customers in the context of both sales and service.

- Service communication used by customers on technology platforms such as Skype, FaceTime, WhatsApp and other social media applications will make businesses grow with ease by providing instant connectivity.

- Service standards across all industries are changing fast and will grow exponentially, proclaiming the dire need for digitization in the financial services world.

- The demand for instant and real-time service is extending to the insurance industry, and companies will have to invest in digitizing their back-end operations to provide instant service to their customers, such as investing into advanced policy administrative systems; auto-underwriting and workflow platforms; CRM tools; digital sales tools; analytics engines; etc.

- Artificial intelligence and robotics are tools for on-the-spot service decisions using algorithms, and will be the next big thing in insurance.

- Big data and analytics will play an important role, enabling the industry to serve its customers better, and also understand the evolving needs of the customer. This will equip the industry to become enablers with better tools, ready to offer more and in tune with customers' needs.

Digital Empowerment

Digitization is poised to make the insurance business in India take a gigantic leap ahead as mobile phones are fast becoming powerhouses of e-information and e-commerce. The mass of tech-savvy young Indians in e-tailing and entrepreneurship are looking for opportunities to have their start-ups and themselves insured against unforeseen and accidental disasters. Digital empowerment is equal to economic empowerment in India, as it cuts across the barrier of gender, age and economic status.

Statistics and surveys show that on an average, Indians use broadband on PCs, laptops or low-cost tablets for more than five hours a day. Those on mobile phones are hooked on to the Internet for nearly three-and-a-half hours a day; while those who concentrate on social networking devices do so for more than two-and-a-half hours, day-in and day-out.

This revolution has now spread from metropolises to the rural interiors of India; and businesses are mapping the changing patterns of Internet consumption by reaching out to customers in the rural sector. Accordingly, business analytics is catering to the new-found customers in rural India; the insurance sector can ill-afford to ignore this growing trend. It is this customer arena that the insurance industry must lay its footprint upon, through digital analytics.

Digitization as a growth driver across all verticals is the only way forward, especially for the insurance sector. People in India are more insurance-conscious now than any time before, for they want risk-cover to life, limb and property. However, the fact of the matter is that, as seen by a study by S&P, 70 percent of Indians do not fare very well on financial literacy. Thus, there is a need to provide the right kind of financial information in a simple and accessible way.

Why Digitization

'Information is a click away' has become clichéd today because customers demand more than this. The highly evolved customer has raised expectations not just in terms of the type of service or product, but also in terms of post-sales experience. Thus, business models are increasingly shaped by digitization to the maximum extent possible with data analytics focused on customer behavior, preference and need. Customer care post-sale of a product, policy or service is the most important factor for a company to acquire a large and lasting base of customer

loyalty, which is the cornerstone of a successful business. The cutting-edge technology that digitized data analytics offers by way of capturing and constant monitoring of the customer's changing preference/ choice/life stage needs helps the company diversify and develop its business, too. This proves that the service expectations have evolved, which can only be met effectively through a digitized system. High-tech business process-enablers help develop a business in a customized manner which leads to utmost end-user satisfaction, enabling the growth of the business model into a wholesome, profitable organization.

Secondly, digitization is the key to a new way of functioning, not just efficiently but also smartly. Financial companies need to move away from the jargon and make everything simpler for themselves and for their customers. Robust digital systems backed with the right analytics tools will serve to drive efficiencies across departments, whether operations or sales or service. Time-consuming and error-prone processes will be done away with through the judicious use of digitization. With the right tech-tools, the insurance business processes can be standardized and improved upon dramatically, thus helping the enterprise to grow organically.

Ripple Effect

Digitization has played a major role in boosting India's growth rate, too. Going digital is the only way to the top, especially in the milieu created by corporate houses going the retail way; small and medium businesses burgeoning; customers becoming more aware and demanding; and Prime Minister Narendra Modi's bold initiative to reinvigorate the country's economy post-demonetization.

Encouraging people and businesses to go cashless and adopt the digital mode of buying and paying is paying dividends, albeit piecemeal. After all, nothing succeeds like going digital, and that is the mool(ah) mantra.

INDIAN INSURANCE SECTOR: THE NEW CHANGE AGENTS

By Sandeep Patel, Managing Director & CEO, Cigna TTK Health Insurance Company

Insurance in India: Come a Long Way

Indian insurance companies have come a long way, from a tightly regulated and monopolized environment which was primarily dominated by state owned insurers, to a market-driven competitive atmosphere, where private players are redefining the insurance market with innovative products and distribution channels. The Government, by permitting 49 percent foreign direct investment (FDI) under the automatic route, has given the much needed impetus while changing the landscape of the insurance sector. This has encouraged international players to offer their global expertise and best practices to India.

Harnessing the Growth Potential in India

India is an attractive market for insurance, given the size of the market. India currently accounts for less than 1.5 percent of the world's total insurance premiums and about 2 percent of the world's life insurance premiums. India is the fifteenth largest insurance market in the world in terms of premium volume and has a huge potential.

The participation of foreign insurance players in Indian markets has helped create the much needed awareness about insurance products. The emergence of health insurance as a category has helped in creating a cohesive framework within the healthcare system in India. The number of insurance players has grown multifold over the years, from a mere 5 in 2000, to 53 by the end of 2016, of which 24 are in the life insurance business, and 29 are non-life insurers. The number of private players also rose to 29, from 4 in 2002; and during this period the industry witnessed the emergence of bancassurance, digitalization, de-tariffing, and regulatory activism, which have contributed to its growth. Insurance companies have launched innovative products and services across segments to cater to different markets. Customization, based on the diverse needs of customers, has helped build dyna-

mism to the product portfolio as well as the channel mix. These transformative changes have propelled growth in the insurance marketplace.

Four Key Drivers that Will Bring Further Change in the Insurance Industry

Digital Revolution in Insurance

Insurance companies will continue to invest in technology. Currently, companies are embracing digital transformation technologies such as the Internet of Things (IoT), big data, cognitive computing and blockchain, amongst others. These changes are taking place at a rapid pace and we have interesting times coming our way in this space. These technologies are poised to transform the entire insurance value chain, benefiting both customer and insurer. The promise of protection is no longer enough to engage young customers; they are now increasingly demanding interactive and better experiential benefits for goods and services.

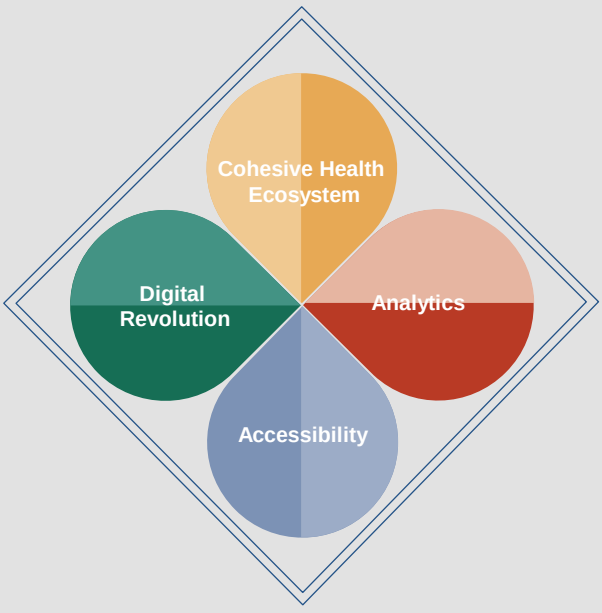
Digitization has changed consumer behavior and preferences; and purchaser profiles are changing radically due to new lifestyle and social arrangements. Here lies the challenge and an opportunity for the insurance business. A digitally connected customer is more aware about insurance, and this is where insurance companies have to merge traditional marketing tools with the new age ones. Digital disruption is not just a possibility but a reality for the insurance sector. Hence, companies have to rethink their strategies and business models while realigning with customer needs and expectations.

Social media will continue to play a crucial role as customers will be influenced by conversations on social media platforms. Studies suggest that a large majority of millennial consumers will consider purchasing insurance products online, indicating considerable consumer interest if companies decide to launch insurance products online. According to a PricewaterhouseCoopers report, new and social trends will shake up the traditional insurance industry business. We at Cigna TTK are using the power of social media in a multifaceted way and we plan to go much deeper through our social media strategy.

Cohesive Health Ecosystem

Healthcare and health insurance continue to get cohesive. A recent TechCrunch report explained that increasing accessibility of health apps is completely transforming the consumer medicine landscape. Customers are tracking their health conditions through

Exhibit 1 : Four Key Drivers that will Further Bring in Change to the Insurance Industry



tools which monitor their heart rate, blood pressure, and similar physical attributes. Solutions that help patients monitor their medication intake, track broad health metrics, and otherwise improve patient care are also increasing. New solutions are constantly emerging in markets, and applications are becoming more sophisticated. Health insurance companies are seamlessly integrating themselves with the healthcare ecosystem. For example, as people start living healthier lifestyles and get more conscious, health insurance companies will devise engaging propositions to help customers achieve their fitness targets. Fitness gadgets, wearable devices and apps have made their mark in 2016 and we see this trend assuming more sophisticated and scientific levels in the coming years. At Cigna TTK, we recently launched the Get ProActiv India app where we reward customers who lead a healthy and fit life. This is our value proposition to meaningfully engage with customers. Wellness and preventive healthcare will take center-stage in the near future and we see a portfolio of enriched products and services that will hit the Indian shores.

Accessibility

Insurance companies have to grow and there is no other way. New distribution channels and the self-service revolution will help drive product penetration and capture new markets. Distribution of insurance is moving towards efficiency, transparency and mapping unique insurance needs that are spread across geographies. Insurance companies are increasingly realizing the need to have customer service representatives who have the ability to be interactive and responsive. The use of 'chatbots' or robots will be more prevalent in the industry, when it comes to servicing or selling insurance products to customers. Needless to state, traditional channels will still be very prevalent and will continue to exhibit dynamism. Bancassurance proved to be a success in 2016 and we at Cigna TTK witnessed a huge opportunity. With partnership tie ups with mammoth coveted banks like Bank of Maharashtra, Andhra Bank and Saraswat Bank to name a few, a whole new market has opened up for us. I see a healthy convergence of traditional channels and new age platforms that will cater to different customer segments in India. Accessibility is the key to greater penetration.

Analytics: The Game Changer

Analytics is emerging as a game changer for the insurance industry which is facing significant profitability and growth challenges. Actuarial and underwriting analytics are helping companies in more accurate risk pricing, overall reserve estimates, and identification of key drivers behind changes in loss ratios, while advance predictive and prescriptive analytics are enabling insurers to build a sustainable competitive advantage. Analytics solutions are also helping insurers in understanding customer retention opportunities by comparing costs, risks, pricing, and variability. Advanced analytics is emerging in all types of product lines and business functions, delivering not only great value to the customer but also to society at large. Clearly, integrating data analytics into the core of the insurance business will be an evolving journey for insurance companies. Of course, there will be learnings along the way, but eventually the decision-making will be scientific, based on empirical data, and we will witness path breaking changes in insurance.

Combating Challenges and Seeking Opportunities

The Insurance sector has its own share of challenges. With low awareness about the benefits of insurance, there are serious issues of trust-deficit with consumers which need immediate attention. Insurers face a high incidence of doubtful/suspect claims. Issues in the health insurance segment, such as large variations in healthcare costs for the same ailment due to the treatment value chain; and limited product range coverage resulting in a mismatch between demand and supply of insurance should also be addressed to gain the confidence of customers. While much needs to be done, we see momentum. Insurance companies are moving towards affordable policies and in-

novative products for primary and tertiary healthcare financing needs. Micro-insurance, condition management products and life stage products will set a new trend and open up new avenues, thus addressing some of the issues.

Regulator: Plays a Pivotal Role

Insurance Regulatory and Development Authority (IRDA) has played a pivotal role in defining the growth and future of the insurance industry. The regulatory framework has undergone many changes since 2000, when the first set of companies was registered with IRDA. The regulator has developed a strong foundation by aligning its regulatory structure to international best practices and facilitating technical knowledge, innovation in products and processes, and the distribution network; thus evolving an ecosystem that is best suited for the insurance sector. IRDA has further encouraged insurance players to play a key role in simplifying and standardizing products and this has given a huge boost to the industry. Look forward to exciting times after demonetization: cashless will be the way forward in the insurance sector too. Universal health insurance is another boost that the IRDA is working on, which will change the insurance segment in a big way.

Growth is the Only Way

The insurance industry is aiming to hike penetration levels to five percent by 2020. However, health insurers continue facing rising claim costs and increasing pressure on underwriting, though private health insurance stands to gain from revenue growth, as consumers are becoming more involved in decision-making related to their health care needs. The Indian insurance market is poised for strong growth, with the insurable population expected to touch 750 million in 2020, and life expectancy reaching 74 years. This will deliver stable profitable growth on account of the increase in per capita incomes and awareness. Product innovation, responsible sales and marketing, and improved distribution will continue to have deeper focus. The channels also need to evolve in response to market dynamics and changing consumer preferences, while regulations need to drive transparency and simplification of products and services. Sincere efforts from the industry will definitely change the landscape of the insurance sector with higher growth and profitability.

COMPETING IN THE AGE OF ARTIFICIAL INTELLIGENCE

By Philipp Gerbert, Jan Justus, and Martin Hecker (BCG)

Until recently, artificial intelligence (AI) was similar to nuclear fusion in unfulfilled promise. It had been around a long time but had not reached the spectacular heights foreseen in its infancy. Now, however, AI is realizing its potential in achieving human-like capabilities, so it is time to ask: How can business leaders harness AI to take advantage of the specific strengths of man and machine?

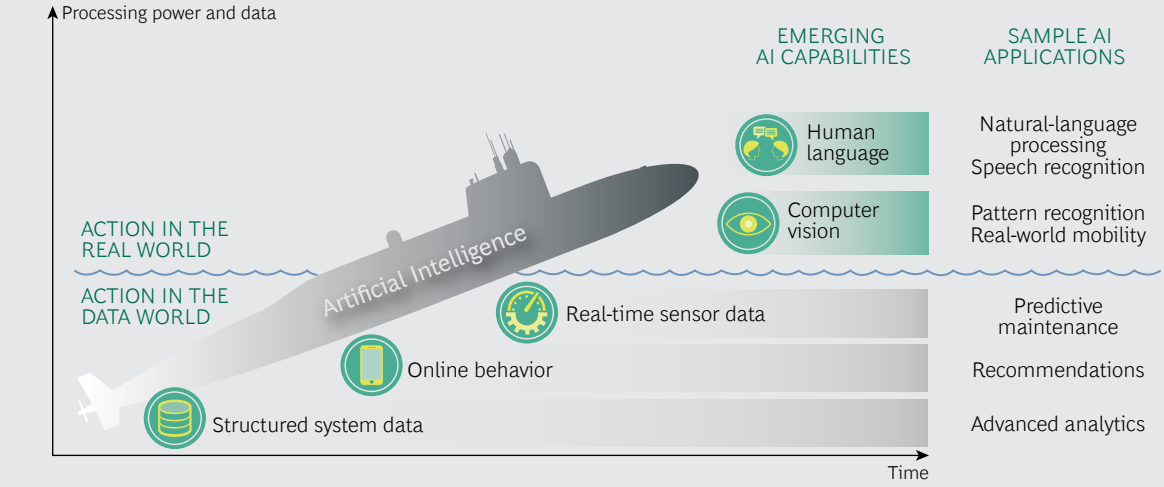
AI is swiftly becoming the foundational technology in areas as diverse as self-driving cars and financial trading. Self-learning algorithms are now routinely embedded in mobile and online services. Researchers have leveraged massive gains in processing power and the data streaming from digital devices and connected sensors to improve AI performance. And machines have essentially cracked speech and vision specifically and human communication generally. The implications are profound:

- Because they know how to speak, read text, and absorb and retain encyclopedic knowledge, machines can interact with people intuitively and naturally on a wide range of topics at considerable depth.
- Because they can identify objects and recognize optical patterns, machines can leave the virtual and join the real world.

A field that once disappointed its proponents is now striking remarkably close to home as it expands into activities commonly performed by humans. (See Exhibit 1 and the sidebar.) AI programs, for example, have diagnosed specific cancers more accurately than radiologists. No wonder that traditional companies in finance, retail, health care, and other industries have started to pour billions of dollars into the field.

Because AI systems think and interact, they are invariably compared to people. But while humans are fast at parallel processing (pattern recognition) and slow at sequential processing (logical reasoning), computers have mastered the former in narrow fields and are superfast in the

EXHIBIT 1 | By Cracking Language and Vision, Machines Have Entered the Real World



Source: BCG analysis.

latter. Just as submarines don't swim, machines solve problems and accomplish tasks in their own way.

Without further quantum leaps in processing power, machines will not reach artificial general intelligence (AGI): the combination of vastly different types of problem-solving capabilities—the hallmark of human intelligence. Today's robo-car, for example, doesn't exhibit what we would consider common sense, such as abandoning an excursion to assist a child who has fallen off her bicycle. But when properly applied, AI excels at performing many business tasks quickly, intelligently, and thoroughly.

Artificial intelligence is no longer an elective. It is critical for companies to figure out how humans and computers can play off each other's strengths as intertwined actors to create competitive advantage.

The Evolution of Competitive Advantage

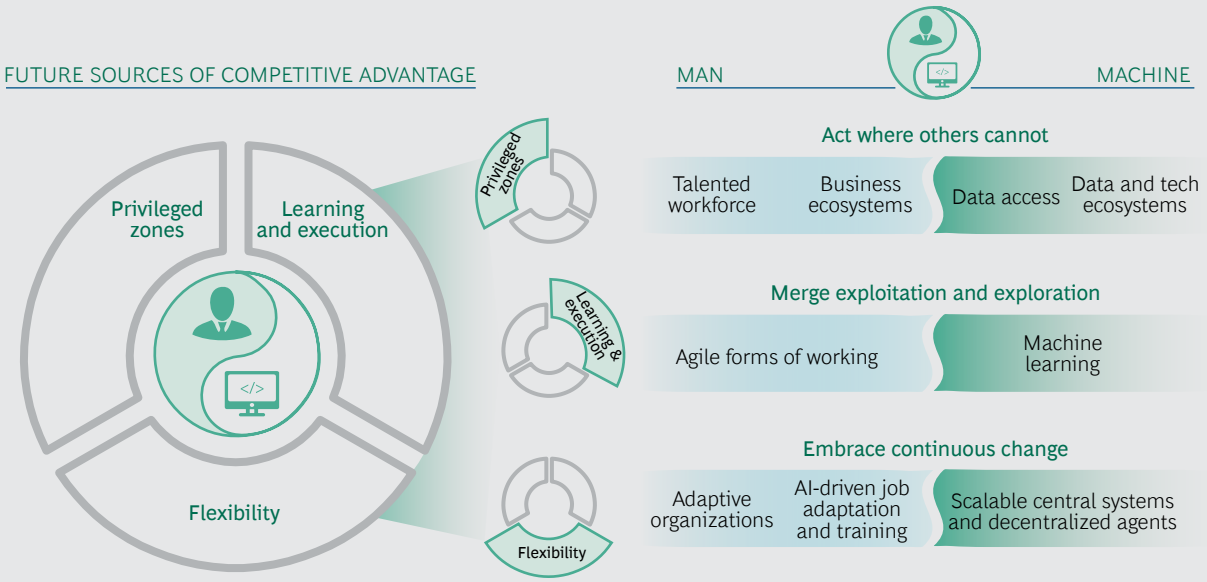
In simpler times, a technology tool, such as Walmart's logistics tracking system in the 1980s, could serve as a source of advantage. AI is different. The naked algorithms themselves are unlikely to provide an edge. Many of them are in the public domain, and businesses can access open-source software platforms, such as Google's TensorFlow. OpenAI, a nonprofit organization started by Elon Musk and others, is making AI tools and research widely available. And many prominent AI researchers have insisted on retaining the right to publish their results when joining companies such as Baidu, Facebook, and Google.

Rather than scrap traditional sources of competitive advantage, such as position and capability, AI reframes them. (See Exhibit 2.) Companies, then, need a fluid and dynamic view of their strengths. Positional advantage, for example, generally focuses on relatively static aspects that allow a company to win market share: proprietary assets, distribution networks, access to customers, and scale. These articles of faith have to be reimagined in the AI world.

Let's look at three examples of how AI shifts traditional notions of competitive advantage.

- **Data.** AI's strongest applications are data-hungry. Pioneers in the field, such as Facebook, Google, and Uber, have each secured a "privileged zone" by gaining access to current and future data, the raw material of AI, from their users and others in ways that go far beyond traditional data harvesting. Their scale gives them the ability to run more training data through their algorithms and thus improve performance. In the race to leverage fully functional self-

EXHIBIT 2 | Competitive Advantage That Leverages Man and Machine



Source: BCG analysis.

driving cars, for example, Uber has the advantage of collecting 100 million miles of fleet data daily from its drivers. This data will eventually inform the company's mobility services. Facebook and Google take advantage of their scale and depth to hone their ad targeting.

Not all companies can realistically aspire to be Facebook, Google, or Uber. But they do not need to. By building, accessing, and leveraging shared, rented, or complementary data sets, even if that means collaborating with competitors, companies can complement their proprietary assets to create their own privileged zone. Sharing is not a dirty word. The key is to build an unassailable and advantaged collection of open and closed data sources.

- **Customer Access.** AI also changes the parameters of customer access. Well-placed physical stores and high-traffic online outlets give way to customer insights generated through AI. Major retailers, for example, can run loyalty, point-of-sale, weather, and location data through their AI engines to create personalized marketing and promotion offers. They can predict your route and appetite—before you are aware of them—and conveniently provide familiar, complementary, or entirely new purchasing options. The suggestive power of many of these offers has generated fresh revenue at negligible marginal cost.

- **Capabilities.** Capabilities traditionally have been segmented into discrete sources of advantage, such as knowledge, skills, and processes. AI-driven automation merges these areas in a continual cycle of execution, exploration, and learning. As an algorithm incorporates more data, the quality of its output improves. Similarly, on the human side, agile ways of working blur distinctions between traditional capabilities as cross-functional teams build quick prototypes and improve them on the basis of fast feedback from customers and end users.

AI and agile are inherently iterative. In both, offerings and processes become continuous cycles. Algorithms learn from experience, allowing companies to merge the broad and fast exploration of new opportunities with the exploitation of known ones. This helps companies thrive under conditions of high uncertainty and rapid change.

HOW MACHINES THINK AND ACT

Three milestone events made the general public aware of AI. Each one illustrates key aspects of the technology.

Deep Blue's Defeat of World Chess Champion Garry Kasparov in 1997. Chess was originally considered an exercise that captures the essential tactical and strategic elements of human intelligence, and so it became the standard by which new AI algorithms were tested. For decades, programmers made little progress in defeating human players. But in 1997, Deep Blue, a computer developed by IBM, won the match against the world champion. Still, many people were disappointed when they realized that solving chess was not the same as solving artificial general intelligence. They did not like that Deep Blue relied heavily on brute force and memory. The program did not learn and certainly did not excel at any task but chess.

The event, however, revealed two important lessons. First, machines solve problems differently than people do. Second, many "intelligent" tasks are ultimately narrow and so can be solved by specialized programs.

With AlphaGo's 2016 victory over Lee Sedol in Go, computer dominance of board games was complete. AlphaGo, developed by DeepMind Technologies, relied on *deep learning*—a neural network, or computational brain, with multiple layers—to beat a Go world champion. An intriguing fact about this match was how the machine prepared: having run out of human games to study, it spent the final months before the match playing against itself.

Watson's Victory over Top *Jeopardy* Champs in 2011. By winning this challenging game show, IBM's Watson effectively passed a Turing test of human-like intelligence. The performance showcased state-of-the-art speech recognition, natural-language processing, and search. The victory, however, was clinched by a different skill: Watson outperformed the other contestants in the "Daily Doubles," in which players can wager all or part of their current winnings to secure a decisive lead. Making the best bet requires fast sequential reasoning, knowledge of game theory, and an ability to calculate probabilities and outcomes correctly. All these are areas in which humans are notoriously weak, as the Nobel laureate Daniel Kahneman observed in his famous book *Thinking, Fast and Slow.* Machines, on the other hand, think fast and fast in making data-heavy decisions.

Google's Demonstration of a Self-Driving Car in 2012. Google is not the pioneer of self-driving cars. That distinction arguably goes to Ernst Dickmanns, a German computer vision expert who rode 1,785 kilometers in autonomous mode on a German autobahn in 1995, reaching speeds above 175 kilometers an hour.

Dickmanns, however, never had to turn left. In their 2004 book *The New Division of Labor,* Frank Levy and Richard Murnane argue that "executing a left turn against oncoming traffic involves so many factors that it is hard to imagine discovering the set of rules that can replicate a driver's behavior." Google's self-driving car, however, routinely managed this exercise without incident. The car combined robots, computer vision, and real-time data processing to produce the ultimate intelligent agent that was capable of both exploring and learning from the real world.

In addition to reframing specific sources of competitive advantage, AI helps increase the rate and quality of decision making. For specific tasks, the number of inputs and the speed of processing for machines can be millions of times higher than they are for humans. Predictive analytics and objective data replace gut feel and experience as a central driver of many decisions. Stock trading, online advertising, and supply chain management and pricing in retail have all moved sharply in this direction.

To be clear, humans will not become obsolete, even if there will be dislocations similar to (but arguably more rapid than) those during the Industrial Revolution. First, you need people to build the systems. Uber, for instance, has hired hundreds of self-driving vehicle experts, about 50 of whom are from Carnegie Mellon University's Robotics Institute. And AI experts are the most in-demand hires on Wall Street. Second, humans can provide the common sense, social skills, and intuition that machines currently lack. Even if routine tasks are delegated to computers, people will stay in the loop for a long time to ensure quality.

In this new AI-inspired world, where the sources of advantage have been transformed, strategic issues morph into organizational, technological, and knowledge issues, and vice versa. Structural flexibility and agility—for both man and machine—become imperative to address the rate and degree of change.

Scalable hardware and adaptive software provide the foundation for AI systems to take advantage of scale and flexibility. One common approach is to build a central intelligence engine and decentralized semi-autonomous agents. Tesla's self-driving cars, for example, feed data into a central unit that periodically updates the decentralized software.

Winning strategies put a premium on agility, flexible employment, and continual training and education. AI-focused companies rarely have an army of traditional employees on their payroll. Open innovation and contracting agreements proliferate. As the chief operating officer of an innovative mobile bank admitted, his biggest struggle was to transform members of his leadership team into skilled managers of both people and robots.

Getting Started

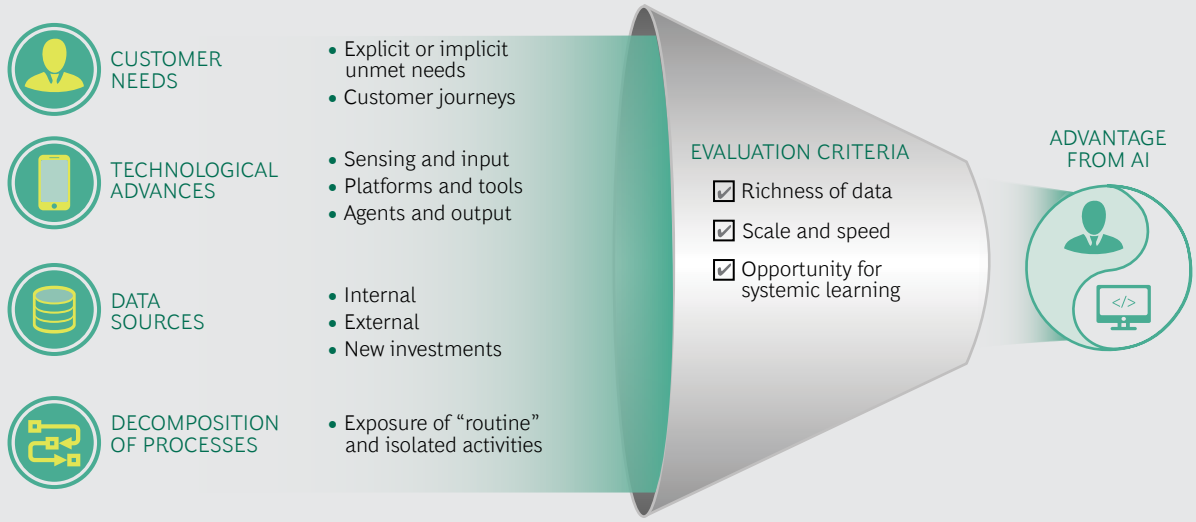
Companies looking to achieve a competitive edge through AI need to work through the implications of machines that can learn, conduct human interactions, and engage in other high-level functions—at unmatched scale and speed. They need to identify what machines do better than humans and vice versa, develop complementary roles and responsibilities for each, and redesign processes accordingly. AI often requires, for example, a new structure, of both centralized and decentralized activities, that can be challenging to implement. Finally, companies need to embrace the adaptive and agile ways of working and setting strategy that are common at start-ups and AI pioneers. All companies might benefit from this approach, but it is mandatory for AI-enabled processes, which undergo constant learning and adaptation for both man and machine.

Executives need to identify where AI can create the most significant and durable advantage. At the highest level, AI is well suited to areas with huge amounts of data, such as retail, and to routine tasks, such as pricing. But that heuristic oversimplifies the playing field. Increasingly, all corporate activities are awash in data and capable of being broken down into simple tasks. (See Exhibit 3.) We advocate looking at AI through four lenses:

- Customer needs
- Technological advances
- Data sources
- Decomposition of processes

First, define the needs of your customers. AI may be a sexy field, but it always makes sense to return to the basics in building a business. Where do your current or poten-

EXHIBIT 3 | Four Lenses to Shape Advantage from AI



Source: BCG analysis.

tial customers have explicit or implicit unmet needs? Even the most disruptive recent business ideas, such as Uber and Airbnb, address people's fundamental requirements.

Second, incorporate technological advances. The most significant developments in AI generally involve assembling and processing new sources of data and making partially autonomous decisions. Numerous services and platforms can capture incoming data from databases, optical signals, text, and speech. You will probably not have to build such systems yourself. The same is true on the back end as a result of the increasing availability of output technologies such as digital agents and robots. Consider how you can use such technologies to transform your processes and offerings.

Third, create a holistic architecture that combines existing data with new or novel sources, even if they come from outside. The stack of AI services has become reasonably standardized and is increasingly accessible through intuitive tools. Even nonexperts can use large data sets.

Finally, break down processes and offerings into relatively routinized and isolated elements that can be automated, taking advantage of technological advances and data sources. Then, reassemble them to better meet your customers' needs.

For many organizations, these steps can be challenging. To apply the four lenses systematically, companies need to be familiar with the current and emerging capabilities of the technology and the required infrastructure. A center for excellence can serve as a place to incubate technical and business acumen and disseminate AI expertise throughout the organization. But ultimately, AI belongs in and belongs to the businesses and functions that must put it to use.

Only when humans and machines solve problems together—and learn from each other—can the full potential of AI be achieved.

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DRIVING CUSTOMER CENTRICITY IN THE DIGITAL WORLD

By Sandeep Ghosh, Chief Executive Officer, Bharti Axa Life Insurance Company

The insurance industry in India has reached an inflexion point. On the one hand, it is grappling under upcoming technology and new distribution models, and on the other, it is striving to meet ever-evolving customer needs. Insurers are exploring to find new ways to manage the evolving environment, and innovating to stay up-to-speed with consumers.

A combination of digitization, social media and Internet comparison means that customers are more connected, better informed and have more purchasing options than ever before. They want products that address their needs and are transparent and easy to understand. They also want the convenience of dealing with insurers at the time and place and by the means they desire. Insurers are expected to launch, test, obtain feedback and respond in a model similar to that used by many of today's telecom and technology companies. Above all, what drives the insurance category is trust, and any company that wins the trust of the customers wins the market.

In the insurance category, there are largely three ways in which customers look for surrogates for trust: firstly, by lineage—wherein a company leverages the association and credibility of its promoter company; secondly, by financial credibility—being part of a reputed financial institution; and thirdly, by service professionalism and salience. A clutch of insurance companies have worked on building trust through the third route with a core philosophy of customer-centricity. These companies are constantly innovating to provide their customers concrete reasons to believe and trust. Now and forward into 2020, trust will be created through differentiation in a way that revolutionizes this highly competitive market. This philosophy is going to create future-ready organizations that give their customers tangible and differentiated reasons to trust, and will lead the category in 2020. The challenges that customer-centricity will bring for companies are going to be multi-fold and will shake up the existing frameworks, starting with product and service propositions and their benefits.

Customers' needs have been diverging and that is playing out in the way products and services across industries are being customized and positioned. Insurance is no different; we are witnessing, and will continue to witness segment-specific propositions. Today, in a lot of cases, these propositions are bolt-ons (called riders) to the base products and create a customized offering for diverse needs. This trend will continue and gain momentum towards 2020 and beyond. The segments themselves, from numbering a few almost a decade ago, are now fragmenting at a very fast pace every year. By 2020, there will be really small segments for which there are going to be specific product propositions. Beyond 2020, we wouldn't be surprised to see every individual owning a different product in its composition and benefit. The future of products lies in diversion of benefits and creation of new benefits that are unheard of today. In order to be ahead of the game in 2020, insurers will need to start creating data lakes and insight pools early to listen into customer trends and expectations more intently. For that we need to start putting new frameworks of learning about our customers and designing propositions that are truly customer-centric, today.

As much as the customers' needs have been diverging and will continue to diverge, their experience is converging. Customer expectation is fast changing from the lowest to the highest denomination of experience , and this shift is quite evident. This change has been a direct outcome of an ever-evolving buyer's market. This reality will become even more acute in the future, as digital starts enhancing its circle of influence amongst our customers. Customer-centricity will take center-stage as companies spend time, money and energy to understand the customer deeply. This customer-centric experience can be principally created in the insurance industry through a strong servicing architecture. In order to understand customer-centricity better, it is important to deep-dive into the customer life cycle. There are three 'moments of truth' (MOT) during a customer journey: buying, servicing and claims. Across multiple researches, consumers have highlighted claims as the key MOT across insurance products. It is the raison d'être for the category and the expectation at this point of the life cycle far exceeds any other. Claims still are, and will continue to stay the most important aspect of customer-centricity. Any innovation in the area of claims servicing is going to create a big shift in customer preference. Insurers need to start working on this area at the earliest if they truly want to create a top-of-the-line insurance experience for their customers. At Bharti AXA life, we have been obsessed with claims servicing for a while now. Starting with a claims servicing benefit on our ULIP products where we release ULIP fund value to the claimants within 48 hours, we offer an industry first servicing benefit of a dedicated claims handler to the family and kin of our customers.

A trend that has started recently and will gain strong tailwinds in the future is that of companies going beyond transactions towards building a deep relationship status for their brands. Going beyond the call of duty is a phenomenon that creates a personality for the company. It breaks the mould of the classically defined buyer and seller market. It suddenly converts a give-and-take process into a heartfelt engagement. And finally it changes the paradigm through which we define a successful and profitable business for now and in the future. At Bharti AXA Life, we recently launched the 'Grief Support Program', where we go beyond the call of duty and provide the family of our deceased customers with emotional therapy, financial planning assistance, and legal opinions on wills. It is a small step in the bigger journey to Go Beyond for our customer.

Last but not the least, digital will redefine pretty much every aspect of our existence as an industry. It started with online products, which have turned the industry on its head, from being a distribution-push business to a customer-pull business on the net. Though online products form a small part of the insurance category today, we feel that the tipping point for this category,

when the choice and the process will belong only to the customer, is not very far. Small but significant areas of innovation in digital have also sprouted, led largely by companies that have never been in this business. This phenomenon will not only shake us out of our comfort zones, but compel us to relook at our business models, governance structures and people. Driven primarily by digital, data solutions are gaining importance amongst businesses and marketers alike. Big data is the new buzzword but will require serious work for us to deploy as an engine that drives the future. In a lot of ways, the next decade will be the decade of data.

An exciting journey beckons us as an industry. It involves learning and relearning every aspect of our business and getting ready for competition not from our peers, but from the unlikeliest of companies. To manage our way through this constant flux that awaits us, we need to make customer-centricity our lighthouse now, in 2020, and beyond.

INSURANCE IN THE BIONIC WORLD

By Vighnesh Shahane, CEO & Whole Time Director, IDBI Federal Life Insurance Company

Insurance in the Bionic World

Life insurance is about covering lives and is best done by pricing risks efficiently. Thus for the insurance industry across the globe, data is the foundation or the bedrock of the entire process.

Data today is available across multiple forms and mediums and increasingly on a real-time basis. From health apps, wearable technology, personal fitness bands that monitor people's day-to-day vital signs, to connected smart devices in cars and homes, technology is increasingly integrating all aspects of our everyday lives.

Like most other industries, the insurance industry too is trying to figure out ways to make sense of this treasure trove of data. Both insurers and technology companies are looking for ways to best use these data cuts to build better risk models, price policies more efficiently, create better products, service customers better and enter niche markets that today are simply too hard to enter or price.

As most insurers chase newer technologies in their quest to improve service capabilities and business outcomes, there are some key themes that have come to the fore. These include the cost of changing to newer systems, enhancing customer experience using technology and last but not the least, building an agile workforce. These themes have been explained in detail below.

The Cost of Change

Most other industries have already witnessed massive technological transformations—be it in online travel, retail, trading, or mobile banking. Insurance has clearly remained a laggard. It is still the actuarial spreadsheets, brokers, agents and physical paperwork that dominate this industry. Most companies continue to struggle with legacy systems and complex regulatory requirements. Although one cannot deny that in recent times we have definitely moved faster than before, it still needs to keep pace with its other global counterparts.

For instance, eBaoTech, the leading global software provider for the life and property and casualty insurance industries in China, last year announced its partnership with Alibaba to launch eBaoCloud, the world's first Internet insurance cloud platform. This platform enables insurers to 'check in' like at a hotel and enjoy suites of standardized Internet insurance capabilities without the need to self-build or deploy their own systems.

eBaoCloud is a combination of Internet and insurance. It enables insurance companies to take on the challenges of the Internet age, shorten the process of product launch, manage hundreds of millions of orders every day, and support big data analytics. In the past, it took three to six months for insurance companies to launch new products. After deploying the cloud platform, insurers are able to shorten the launch cycle to one to two weeks.

This example clearly demonstrates the fact that technology has begun to break down a lot of barriers, and is providing incentives to innovate. The Internet of Things (IoT) is an up-and-coming new world where most of the participants are not people, but rather the appliances we use, the homes we live in, the cars we drive and the smart devices we carry around everywhere. The growth of the IoT has opened vast new information technology fields for big data miners seeking that essential competitive edge in the new data.

For traditional insurers, one way to get a leg up may be to partner with innovative technology start-ups like eBao or other such platforms. By complementing business outcomes, both sides stand to benefit. This means it reduces the cost to reinvent the infrastructure and tools, and instead fulfils gaps in experience and innovation that the other lacks. In effect, they need to pool their expertise—and their risks. Intelligent automation is an essential new co-worker for the digital age.

Improving Consumer Experience

The Indian Insurance industry has a lot of ground to cover in the area of customer service and enhancing customer experience. Many customers still go through insurance brokers to find the right policies, and through agents to file paperwork and process claims. Transactions can be slow; as clients struggle with complex processes and slow turnaround timelines, the experience, when compared to other industries, feels primitive. In fact, so far in the insurance industry, it was the intermediary who was treated like a customer, with actual consumers' needs taking a backseat.

Customer-centric transformations were painfully slow in our industry; however, things have begun to change today. This has been largely possible because of digital acceleration and the increased use of social media tools. One can find insurers directly interacting with customers using social media platforms, gradually doing away with middlemen. It is becoming commonplace to employ tech-innovation and artificial intelligence to enhance customer experience. However, we still need to cover some ground in optimal technological utilization to build a sustained superior service trajectory.

Having said that, today we have come a long way in facilitating online engagement. Customers are able to handle most of their transactions online, preferably via their smart phones using apps or widgets. It has become possible for customers to track their NAVs in real-time or transfer funds instantly. Customers not only get instant, competitive quotes online, but are also able to file or track claims online. Customers can now also be rewarded with lower premiums, with the insurer automatically registering their efforts to lower health risks through wearable devices.

Claims Management

An effective and efficient claims function is critical for driving business value in terms of customer satisfaction and profitability. Insurers have begun digitizing the claims value chain, including claim intimation, claim settlement, servicing in claims, and closure.

Self-service Claim Intimation

Claim intimation is the first point of contact for customers in the claims management life cycle. Insurers have digitized the claims registration process to refine customer experience. Well-designed mobile apps are enabling customers to self-register their claims, thereby reducing TAT.

Analytics-based Fraud Detection

Insurance companies are using predictive data analytics for fraud detection. With analytics, a rules-driven system is capable of spotting evidence of possible fraud. There are multiple ways of using analytics to detect suspicious claims, such as:

- Historical analysis of referrals;
- Historical analysis of fraudulent claims;
- Identification of networks;
- Identification of suspicious claim patterns; and
- Combination of analytics and adjuster experience.

IDBI Federal has implemented internal models that detect fraudulent proposals based on historical experience data. The Company is also implementing data analytics solutions to completely automate this model.

The increase in digital adoption has transformed the way claims are handled, but it continues to be low.

Building an Agile and Responsive Workforce for Today's Digital Demands

Insurers are investing in tools and technologies galore to keep pace with constant change in the digital era. However, in order to achieve ambitious goals, insurance leaders will need to focus on their workforce with renewed vision.

Technology, while providing a disruptive edge, is also about enabling the current workforce. It is important for insurers to bring back the tech-focus to transform their people, projects, and entire organizations into highly adaptable and change-ready enterprises. In short, insurance leaders are realizing that their new liquid, agile workforce can become their new competitive advantage.

With insurers being pushed to change products, services, and even business models in response to technology innovation, they need to confront a looming skills crisis. Today's insurance workforce isn't aligned with the demands of the digital era. It is largely hierarchical, often organized in silos, and in many companies, arranged according to tightly defined job functions.

Without a fresh look at the workforce, traditional insurers may find themselves unable to keep pace with the digital change brought about by the next wave of digital technologies. To cope with disruption, insurers will need to reshape their people into a more liquid workforce, one able to drive and manage change. They will need to become agile at each level of their business: their skills, their projects, and their organizations. They must operate on the assumption of continuous change—which means they need to access critical skills sooner, innovate faster, and operate more effectively.

Digital technology is fundamentally changing every aspect of the insurance business: strategies, processes, job functions, and business models. The workforce needs not only to adapt to meet evolving demands from employees and consumers, but also to develop the skill-sets to achieve its new goals. For example, underwriters need to team with data scientists to leverage new and broader sets of data from both within and outside the company. Product developers, meanwhile, need to become proposition designers, focused on developing and delivering outcomes that customers value. And new roles may start to come to the fore, such as innovation architects who facilitate disruptive business models.

Insurance executives across surveys have repeatedly opined that 'deep expertise for

the specialized task at hand' is the most important characteristic that employees will need in order to perform well in a digital work environment. The 'ability to quickly learn new work requirements' and 'proficiency with digital technologies' ranked higher; also ranked highly was 'the ability to work differently with minimal notice'.

Some insurers are experimenting with innovative business models and technologies that help them take advantage of a more agile workforce without bringing widespread upheaval in their workplaces. Allianz in the US is just one of many insurers to create an innovation lab to incubate ideas, experiment and pilot innovations. Ping An Insurance of China recently launched a large-scale pilot mobile-learning program that delivered hundreds of mobile courses within one year. The program is an innovative and cost-effective way to serve not just employees of the Ping An group but also those of 200-plus partner companies.

A whole lot of companies abroad, as well as in India, are building in-house social platforms to facilitate informal conversations to incubate new ideas.

At IDBI Federal we have launched new programs like 'You Said, We Did' or 'Employee Suggestion Schemes'. These initiatives have allowed us to pull ideas from across the board including employees, and weave them into our strategic framework.

Creating an agile workforce might sound challenging, but the rewards on offer are immense. Once insurers start to harness the power within such a workforce, they will find that they can grow smarter and faster than they ever imagined.

To emerge triumphant in the digital age, insurers will need to look beyond a tick-off on a technology checklist. Companies will be defined by their ability to evolve their corporate culture to take advantage of emerging technologies and of the new business strategies that those technologies drive. Insurers should not focus simply on using more technology, but rather on enabling people—consumers, workers and ecosystem partners—to accomplish more with technology. They will have to create a new corporate culture that looks at technology as the means to enable people to constantly adapt and learn, continually create new solutions, relentlessly drive change, and disrupt the status quo.

DIGITIZING CUSTOMER JOURNEYS AND THE NEW INSURANCE IT MODEL

By Michael Urban, Bodo von Hülsen, Gilles Fabre, Jeff Chookaszian, and Tjun Tang (BCG)

Consider this scenario. Rolf, age 32, lives in Berlin with his wife and their infant daughter, who is approaching her first birthday. One Monday morning, as he rides the bus to work from his new apartment in the city's Wilmersdorf section, where the family moved over the weekend, Rolf downloads his insurance company's mobile app and updates his account information. He is surprised and impressed when he discovers that inserting his new address triggers a series of 12 questions.

After providing the answers (which takes only half his 20-minute bus ride), Rolf realizes that he should consider increasing his property coverage for the contents of his home (the new apartment is larger than the old one, and he and his wife bought new furniture), and that he needs liability coverage against problems such as leaks (since he now lives on an upper floor). He has an appointment to speak by phone the next day with his agent to discuss life insurance to protect his newly expanded family. And the company has e-mailed him a link to information on its retirement products.

Before Rolf reaches work, his agent sends him an e-mail inquiry about his car coverage (which is with a different carrier), asking whether the move to a new home means less driving, which could in turn mean lower premiums. Rolf arrives at his office wondering why he hadn't thought of those needs himself—but grateful that his insurer and agent had.

Although this scenario is unlikely to unfold today—in Germany or anywhere else—it will soon: the data and the technology necessary to support it already exist. The primary holdup is lack of ambition. Most insurers are locked into a products-and-process business model; they don't put themselves in their customers' shoes and consider the journeys that people need to take. Often, life events—such as an expanding family or a move to a new flat—trigger such journeys. Many insurers also fail to think about how they can adjust their products to make them more adaptable to digitization. And they may not assess how their business model, and the data and systems that support it, could better serve customers—and gener-

ate new revenue streams for the company while cutting costs—if they adapted the model to help guide these journeys.

The Journey, Not the Process

Insurers need to modernize and digitize their systems and business models. This is true even though companies throughout the industry have already invested billions of dollars or euros, and years of effort, in updating their systems. They have—or think they have—digitized the customer experience by building websites and mobile apps, creating digital offerings (online auto insurance, for example), and constructing in-house digital capabilities.

The flaw in all of these undertakings, however, is that they attempt to apply digital technologies to a company's existing products and processes—underwriting, claims, and so forth. Meanwhile, from their interactions with service leaders such as Amazon, Zappos, and Google, customers have come to expect convenient digital solutions. Among the advanced features that customers appreciate and demand are one-click buying, set-and-forget refill ordering, product recommendations based on purchase history and social media review, and personalized suggestions curated according to their own purchase history and the experiences of similar people.

Customers are also less and less likely to discriminate between traditionally discrete industries and sectors: if a bank can provide quick, effortless ways to manage household finances online or on the go, customers see no reason why other service providers—including insurers—should not be able to do the same thing.

In BCG's annual Brand Advocacy Index—which identifies and ranks the percentages of surveyed consumers who are likely to recommend a brand to friends and family—the top-ranking car and health insurers routinely receive index scores in the 20s, 30s, and 40s in such markets as France, Germany, Italy, and Spain. Many banks (as well as companies in other industries) receive scores in the 50s and 60s.

In order to successfully reimagine business processes and meet customers' rising expectations with regard to service, insurance companies must shift their point of view to the customer's perspective. Neither the product in question—be it property, casualty, life, or health coverage—nor the internal organization is the correct lodestar for digitization. The focus must be on the underlying customer journey. Developing an up-to-date business model starts with asking the right questions.

Following the Customer

A customer journey starts with a trigger event. An insurance claim is one example, but so is Rolf's move to a bigger apartment—or a wedding, a divorce, the birth of a child, a promotion at work, or a new job. Any such event can spark the need for new insurance and can call for adjustments in one or more insurance products that a customer already has. Customers don't consider the company's internal processes or organization when they encounter a trigger event. Indeed, like Rolf, they may not even consider the insurance ramifications without third-party guidance. But customers do know that they need to change their on-file address after a move; and once informed of that event's insurance policy implications, they will want to resolve all of its insurance-related aspects. A smart insurance company will ask, not how big the new apartment is, but what caused the customer to move in the first place?

A digital solution delivers value only if it enables the company to solve all of the customer's trigger-related needs and requests comprehensively and conclusively (at least from the customer's perspective), without additional process loops or delays. For the insurer, this means following (or anticipating) the customer journey across segments, products, and channels. Product features, processes, and company departments and functions must follow the customer—not, as is usual today, the other way around.

Taking a customer-centric approach offers insurers a huge and multifaceted opportunity to address customer needs. Improve-

ments in this area will promote customer satisfaction and increase the likelihood of cross-selling. At the same time, reducing the number of process loops decreases the internal processing capacity necessary, and thus reduces costs.

What Insurers Need to Do

The insurer should assess each customer journey along two dimensions: customer benefits (for example, the potential to increase customer satisfaction, or the gap between current digitization and customer expectations) and efficiency gains (such as the elimination of redundant or unnecessary processes, or the expected acceptance rate calculated by the customer journey digitization tool).After examining the results of these assessments, the company can create a prioritization model combining customer benefits and efficiency gains. This model can then serve as the basis for the practical methodology of digitizing customer journeys.

The first step toward digitizing individual customer journeys is to develop a design platform for the reimagination of such a journey. (See Exhibit 1.) The design platform must start with a deep understanding of customer needs (obtained through research). It should include a mapping of current processes and IT architectures, and detailed decision trees for the customer journey.

The next step is to develop a digital journey prototype. This involves combining deep ethnographic research into customers' digital usage and behaviors, and the agile methodology of concept and prototype development. (See "Five Secrets to Scaling Up Agile," BCG article, February 2016.) Multiple development sprints, interspersed with customer and agent feedback, produce iterations of the target journey prototype that reflect actual customer use. (See Exhibit 2.) By proceeding in this way, the insurer can maintain its focus on user needs. These sprints also help identify which products and processes are easy to digitize and which require a more comprehensive transformation.

Finally, the company must develop an implementation plan. In a relatively short period (typically about ten weeks), the insurer can produce a ready-to-implement prototype of a digitized customer journey as a proof of concept. It can then use this prototype to advance the broader digitization of all customer journeys.

EXHIBIT 1 | Customer Journey Digitization Has Three Key Dimensions

COMPANIES ACHIEVE MAXIMUM BENEFITS BY ADDRESSING ALL THREE DIMENSIONS

1. Omnichannel experience
   - Coherent client experience across all channels
   - For example, the company collects missing information via dedicated links; agents have the same tool and view as customers

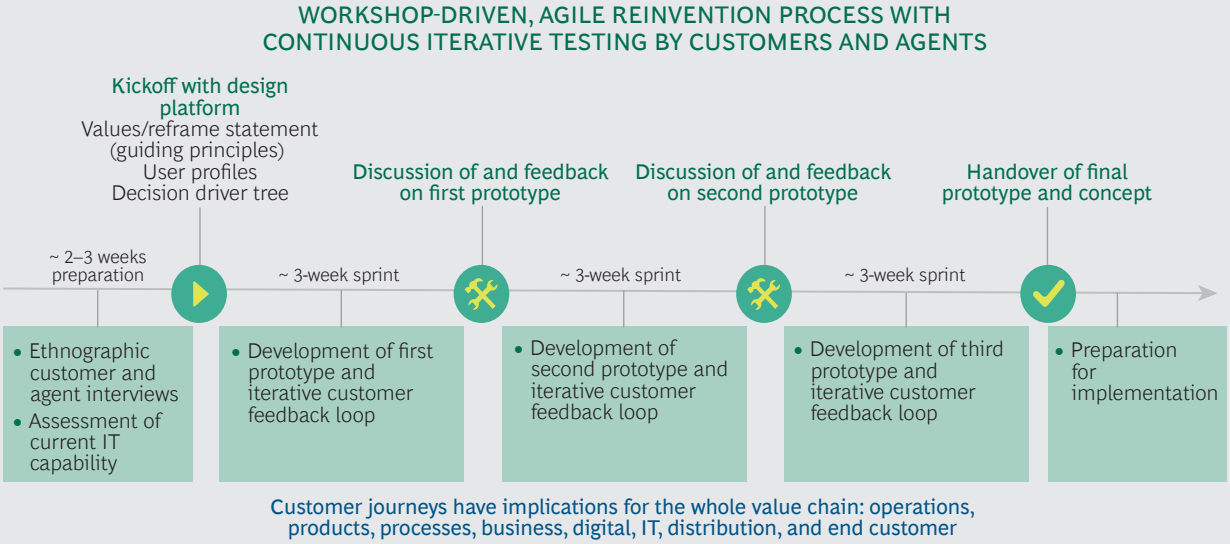


2. Digitization
   - Digital interaction to facilitate a smooth and successful journey
   - For example, the company offers video chats and connections to third-party providers



3. Comprehensive redefinition
   - End-to-end redefinition of the customer journey
   - For example, all policies reflect a change in the customer's marital status, or the company quickly settles all issues related to a claim

EXHIBIT 2 | A Concept and Prototype for a Digital Customer Journey Can Be Developed in 10 to 12 Weeks



Source: BCG project experience.

Benefits of the Digital Journey

Fully digitizing the customer journey offers insurers multiple benefits. Most important, when it works seamlessly (and invisibly to the customer), the digitized customer journey can lift customer satisfaction levels significantly and can yield cost savings of 15% to 25%. It also increases organizational speed and agility. And it can reduce by up to 40% the number of process loops required to complete a customer journey.

The key to achieving these benefits is to generate traffic that uses the digital solution. Customers can complete digitized customer journeys by using an app or the company website, or by working with an agent, broker, or call-center agent who has access to the same digital solution as the customer. Either way, the journey relies on self-service rather than on processed operations, which decreases staffing needs in the back office. We expect self-service rates from customers or from agents and brokers to approach 80%, depending on the complexity of the customer journey.

Nevertheless, some customers, especially older ones, may not be keen to complete their customer journey themselves via an app or a website. And agents and brokers need to be in the digitized journey loop, too. So insurers must establish the interaction logic for the digital customer journey on all channels—especially agents, brokers and call centers—to ensure that customers can complete their journey seamlessly across multiple channels.

As we pointed out recently with regard to customer service journeys in several industries (including insurance), digital technologies have added at least seven channels to the customer service mix: website self-service, e-mail, website live chat, mobile app, text messaging, online forums, and social media. (See *Digital Technologies Raise the Stakes in Customer Service,* BCG Focus, May 2016.) These new avenues of interaction are a lot for any company to manage. But most of the added complexity relates to the omnichannel interaction that many pathways involve.

To build an overall picture of their service users, all companies need to understand why a customer chooses a specific channel in each instance, and how the customer's journey progresses through channels over time. This understanding should inform both the explicit design of the transition between channels—such as online click-to-connect—and the seamless sharing of information collected along the pathway at

each stage. Productive use of customer pathway information is vital. Customers mark down the service experience when they encounter no recognition of what they have already done or when they have to repeat the same information multiple times. Anticipating customers' needs and addressing them proactively are other features that customers cite as being part of a flawless experience.

Defining Success

In our experience, five factors are crucial to the success of any effort to reimagine and digitize insurance customer journeys:

- Adopt the customer's perspective, and be ambitious.
- Subordinate both products and processes to strict development of customer journeys from the customer's perspective, and make ease of switching among channels a priority so that customers have a seamless experience.
- Pursue agile development with cross-functional teams using short time frames and high-frequency user/customer tests.
- Pursue continuous development and improvement (because, from a customer's perspective, products and processes always have room for improvement).
- Communicate broadly and focus on enabling the organization to ensure sustainable results.

Insurers that focus on these success factors will be able to make the transition relatively quickly from trying to digitize products and processes to delivering digital customer journeys. Such companies will set themselves on a path of continuous improvement. Early movers have the opportunity to establish a digital advantage over the competition—an advantage that will grow over time and pay continuing dividends as fast-moving technologies evolve.

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DELIVERING TRANSFORMATIVE CUSTOMER EXPERIENCE THROUGH DIGITIZATION IN INSURANCE

By Kshitij Jain, Managing Director and CEO, Exide Life Insurance Company Limited

OVER THE LAST DECADE, amidst challenging conflicts faced by the insurance industry—upheavals in financial markets, phenomenal losses from the onslaught of natural disasters, low interest rates and regulatory changes to name a few—the global insurance market has not suffered from waning growth potential, be it in the developed or emerging regions across the globe. Today though, the wave of digital disruption has transformed consumer behavior to drive massive changes in their expectations of fulfillment.

Call it a challenge or opportunity, this transformative market force calls for radically different professional skills and business models. Considering that the industry by itself lags behind others (banking, telecom, retail, media and entertainment…), insurance can no longer afford to sit on the digital fence.

A Changing Paradigm of Consumer Engagement and Experience

Digital technologies, niche and emerging, have changed the way consumers engage with their insurers. Undeniably, the biggest driver of embedding a digital strategy is to enrich customer experience and relationship; this leads the other drivers (attracting new buyers and enabling sales) by a long mile. Customer retention is a critical necessity, especially as customer acquisition costs continue to spiral.

The digital route to customer-centricity revolves around transforming operations to enhance customer loyalty and advocacy. It is easy to understand why. Loyal customers stay longer with their insurers, may most probably buy more, but above all, end up recommending the insurance company to their friends. This serves the triple advantage of customer service, retention and acquisition at lower cost.

The digital channel enables customer-centric companies to interact regularly with their customers—be it for making premium payments easier or renewals less painful; providing better value-adding options and

enhancements; or simplifying updates and modifications. The equation is simple: every single customer touch point is another step to cementing stronger loyalty. Digital footprints provide insurance companies direct and indirect feedback from customers; by leveraging analytics they can identify patterns, segment audiences and take insight-led actions to further enhance customer experience.

Beyond supporting and automating internal processes, digital technology also accommodates customers' priorities to delight them. From a contact center perspective, incentives and processes may be aligned to provide customers with a superior experience. For example, the insurer may measure the performance of their contact center on the criteria 'first time right' call resolution instead of average handling time.

Sharpening Digital Customer-centricity with Analytics

The insurance industry is a strongly data-driven industry with huge volumes of structured and unstructured data residing in their systems. This is a boon to the customer-centric insurer for whom the digital model kindles the following questions:

- How do we consolidate and parse the available data to understand diverse customer segments?
- Which customer segments do we target?
- Which touch points may be considered most effective for earning loyalty?
- Can we extend the idea of digital channels for transactions and communications too? Will it improve or mar the customer experience?

Here is where analytics capabilities (in the form of customer segmentation, data analytics and visualization and predictive modeling) play an important role.

With the customer as the central focus, insurance companies need to consolidate and analyze the huge amounts of customer data that reside in their systems to understand their customers more intimately than before. There is a big benefit to this type of thinking. Better customer knowledge opens up avenues for omni-channel experiences that in turn provide insurers up-sell and cross-sell opportunities, while enhancing consumer delight.

Catching the Millennial Attention—Portals, Mobility and the Social Media

When we talk of improving digital capabilities, the roles of portals, mobile applications and services, and social media are never far behind.

Exhibit 1 : Internet of Things (IoT)—A Gamechanger

IoT has game-changing potential for insurers in the following areas

- **Customers' data analysis to better segment needs and risks.**
- **Accurate determination of health risks through use of wearables.**
- **Transformation of policyholder services to an insurer-initiated activity.**
- **Reduced turn-around time for initiation of claims with location services.**
- **Use of IoT sensors as warning systems to reduce claim frequency and severity.**

It is time to bid websites goodbye if the industry is serious about wooing millennials and Gen Xers. For them, websites are just too inconvenient to use. In fact, these are the customer segments that will not only be channel-agnostic, but will dictate the channels they prefer to use at any point of time.

For the same reason, ignoring the mobile and social media factors is like bidding goodbye to future opportunities. In truth, the immense value of social media lies in its inexpensiveness as a marketing tool, its ubiquity in engaging with, and its influencing power over digitally savvy customers.

Social media is all about connecting people. Leveraging social media tools can provide just the right connects between insurance companies and consumers, consumers and agents, and between consumers themselves to collaborate and share information. For insurance companies, social media tools can improve relevant decision-making with active social listening.

Intelligent Automation

Automation of repetitive business processes that require minimum decision-making skills across the insurance value chain is not new. It paves the way for enhancing efficiencies of back-office functions with quicker, transparent, and error-free transactions. What is emerging is the move to automation of more complex and risky processes.

The automation of business processes and back-office tasks needs to be looked at using artificial intelligence (AI) and applications such as robo-advisors, machine learning, computer vision, and natural language classification. Chatbots that provide personalized customer interactions may be used to resolve customer queries.

With insurance being a highly regulated industry, there is a critical need for insurance carriers to embed regulatory compliance into their business processes. Maintaining processes in compliance with changing regulations is a challenge that can be addressed effectively through automation of regulatory compliance. This will enable insurance companies to have real-time access to information and ensure that their processes are compliant. Reports and documentation can also be customized for specific requirements, thereby minimizing the risk of non-compliance.

Standardizing data across the transaction chain allows automation systems to communicate seamlessly and streamline operations for enhanced cost savings.

The Way Ahead

Simplicity, transparency and speed—these are the unequivocal demands of customers today. Additionally, there is a push towards direct interaction of consumers with insurance companies across personal lines and individual life insurance sectors. With the online world becoming increasingly mobile, the demand for localized, anytime and anywhere information will only increase.

The scope and opportunities are tremendous today for insurance companies to digitize their operations. With most insurers believing that they have not transformed themselves to reach anywhere near being digital, there is significant scope to close the gap that exists today.

The challenges are real: legacy technology, slow pace of delivery and culture constraints. The good news is that these are controllable internal slowdowns and not crippling external factors. The time has come to focus on pushing the pace to digitization; else it will not be long before they will find themselves at an increasingly competitive and functional disadvantage.

The near future thus needs to be more transformative than it has been so far. Insurers need to stay focused on their customers and grasp digital business opportunities as they arise.

USING BIG DATA AND ANALYTICS ACROSS THE INSURANCE VALUE CHAIN

By RM Vishakha, Managing Director & CEO, IndiaFirst Life Insurance Company Limited

BIG DATA ANALYSIS HAS revolutionized many areas of modern life—from healthcare to politics to sports. The insurance sector is yet to see its impact.

Data analytics is no longer restricted to the realm of technology in insurance. Today it is a business imperative. While providing solutions to long-standing business challenges, big data and analytics offer support in the fight against fraud. They present new opportunities of fulfilling customer needs, aptly combining the right pricing, responsive risk management systems, appropriate underwriting and accurate claims. From improving business processes and aiding penetration into newer markets, to establishing long-term, credible relationships with customers, the rewarding possibilities they offer are many.

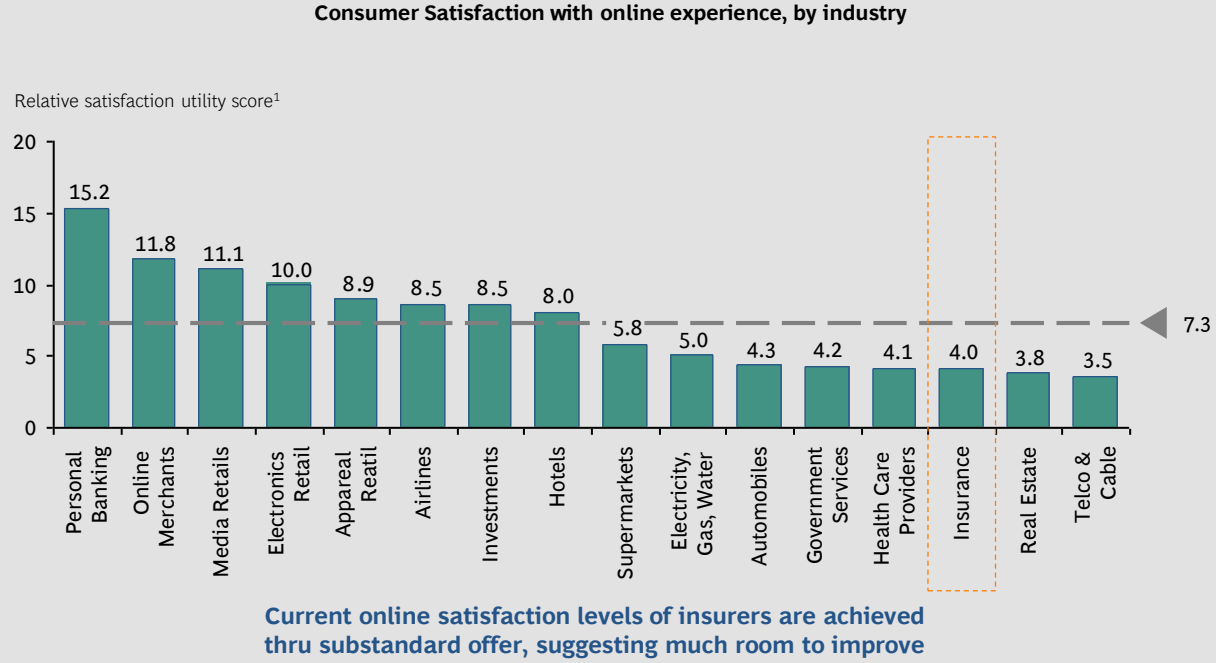
Big data and analytics pave the way for predictive intelligence that uses algorithms to anticipate the intent of the customer. This can help closely observe customer behavior and build a profile of customer preferences, dynamically. Based on this observation, unique recommendations can be proposed.

The high volume of data and the accompanying risk of its secure usage is higher than ever. Needless to say therefore, a sound information management system is the backbone of successful deployment of big data analytics. It comprises the data itself; an appropriate IT infrastructure; a host of analytics tools; and a comprehensive analytical data mart auto-updated cyclically to contain relevant information pertaining to customers, products or transactions in a given period of time.

The Current Situation

There is immense scope for big data and analytics in the insurance domain in building better cost and operational efficiencies, while improving the overall customer experience. This is currently challenged due to limited interactions between insurers and customers. There are valid concerns around privacy of sensitive information relating to

EXHIBIT 1 : ...and the Insurance Digital Experience Lags Behind Other Industries e.g., US Illustration



Source: BCG digital satisfaction survey March 2013 (n=3,135).
[1]Based on MaxDiff technique: consumers distributed 100 utility points across segments according to how positive they felt their online experiences are.

health, lifestyle and behavioral information of customers. Advanced technologies such as cloud computing masked data, and encryptions can ensure robust data privacy in a cost-effective manner, and build more trust and confidence in customers relating to the integrity of their information held by the insurer.

Mobile, which has now taken over web, necessitates an engagement model specifically devised for a digital world. Overall, consumers are far less satisfied with their experience in digital insurance than with that in other industries (see figure 1). This is especially true when it comes to 'moments of truth' such as paying claims. Consumers have significant unmet needs, with many products perceived to be expensive and inflexible.

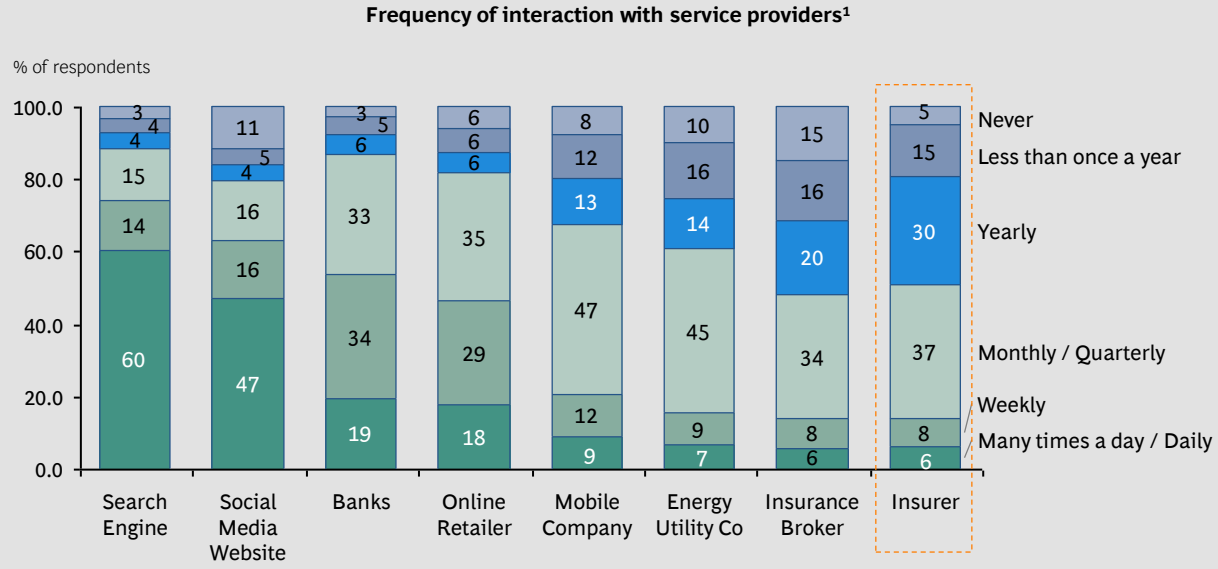
Often, insurance companies experience dissonance of expectations among customers. With more industries offering an intuitive customer experience across various digital platforms, it is increasingly necessary for the insurance industry also to be attuned to customer needs. We see such innovations in other domains which have scope of high engagement levels with their customers, such as banking, FMCG, etc. This said, evolving digital capabilities—particularly mobile, social media, big-data, and cloud technologies—could open up avenues to offer well-timed and ingenious services through understanding, serving, and engaging customers.

While data analytics will help life insurance players deliver as per contractual obligations towards their customers, it is equally vital for customers to perform due diligence with regard to their investments.

Big Data Analytics—Bringing the Customer to the Heart of the Insurance Value Chain

It is increasingly important to track, attend to and anticipate consumer expectations and behavior as closely as possible. With customer expectations dramatically changing, a fixed approach to products and distri-

EXHIBIT 2 : Frequency of Interaction is Much Higher in Other Industries Than in Insurance...



Adjacent industries with higher interaction frequency and higher client satisfaction may present threat of entry

Sources: MS and BCG Insurance Customer Survey 2014; (n=500 p. country; Australia, Canada, China, France, Germany, HK, India, Italy, Japan, S.Korea, UK, US); BCG e-Intensity; BCG analysis.
[1]QF5: "How often do you interact with each of the following companies? Examples of this could be you calling them, visiting them, using their website or using a mobile app they have provided".

bution channels will soon be archaic. So far, consumers have engaged less with insurers than with any other industry* (see figure 2). Thus in comparison, customer experience with insurers has trailed behind that with other industries.

The digitalization push is getting more and more customers online for management of insurance-related transactions. In line with this phenomenon, a new environment that will influence every area of the insurance industry value chain is in order. In this evolved ecosystem, possibilities afforded by the big data approach will be actively exploited by insurance players aspiring for the leadership position.

Cross-selling capabilities: As acquiring new customers becomes increasingly expensive, the strategic focus is now on cross-selling new products to existing customers using the propensity-to-buy model.

Predictive analytics can be used to identify profitable customers and lengthen the company's relationship with them by cross-selling other products or services to them. It can segment the existing customer base of the insurer using contact center, demographic, transactional and external marketing/risk-related data. Suitable marketing and customer communications can be tailored to reach out directly to niches thus created in the most lucrative manner. This creates a capability to subtly bundle intuitive products which may be of value to these customers.

Predictive underwriting: Advanced underwriting analytics allows insurers to have a predictive view of risks, given the need for accurate pricing of insurance products for sustained competitive advantage, with faster turnaround time. This could stretch an insurer's ability to underwrite new risks that could earlier not be covered profitably, by studying 'triggers' of health or other relevant lifestyle-related data. Advanced underwriting will enable insurers to charge customers as per their lifecycle/lifestyle, as against conventional

underwriting systems. This could translate into extended relationships between an insurer and its customers.

Claims and fraud management: Predictive analytics can help determine whether a claim intimation needs further investigation. It will also help in determining the complexity of the claim, accurately. This expedites processing of legitimate claims, leading to enhanced customer satisfaction, while simultaneously deterring payouts for fraudulent claims. Insurers dedicated to fighting fraud will be able to send a strong message to fraudsters and enhance their image in the eyes of genuine customers. This also does away with introduction of cautionary processes which leaves a blot on the experience of a majority of customers.

Persistency and surrender: In a setting wherein insurance is already being pushed and sold and not bought willingly, lapse or surrender situations will impact not just the insurer's persistency ratio as a firm, but also customers' protection against future risks. In the latter situation, the surrender value needs to be paid out to the customer, which in turn could impact all the stakeholders involved such as the customer, distributors etc.

Through propensity modeling techniques, insurance companies can predict the likelihood of a customer lapsing or surrendering a policy. This will enable insurers to monitor relevant customer sets and in turn, influence them to stay committed to their investment for the longer haul and maximize their benefits.

Better engagement and servicing: Insurance customers the world over now look forward to a different digital experience. This fact constitutes one of the key insights from a global consumer survey carried out in 12 countries, as part of a 2014 study by Morgan Stanley and BCG. People are now relying on social media to research purchases. It is also the gateway through which consumer buying happens. Roughly 50 percent of respondents from India and China claimed to count on social media posts by friends and family as a crucial source of information for their insurance choice, versus 16 percent and 18 percent in the UK and Germany respectively. Dependence on social media is likely to grow further, indicating the need for insurance firms to develop a well-defined strategy on managing social media.

Insurance companies gather huge volumes of text through various touch-points such as agents, contact centers, blogs, emails and social networks. The information collected includes policies, expert and health reports, claims, complaints, results of surveys, relevant interactions between customers and non-customers in social networks, etc. Insurance players are among those who could benefit most through intelligent analysis of free text (text analytics), wherein interactions could be categorized according to the product or service offered, the marketing channel used, type of interaction, resolution status, etc. As part of this, sentiment analysis and automatic opinion techniques help identify the polarity of the sentiment (positive, negative or neutral) towards specific aspects of a product, process or channel.

Analysis of information across multiple channels will be used in combination with hypothesis-driven analytics to develop and tailor personalized products, services, delivery methods and communications. Superior consumer experience drives valued cross-selling and persistency improvements. Companies can achieve this through a combination of consumer-centric design, branding, and social media engagement. With these capabilities, insurers will also model and test new products regularly, inventively and seamlessly; be it region-wise, as per specific customer cohorts, or specific time scales, to generate newer insights. Thus, a truly user-friendly and integrated experience across channels will be offered to customers, while ensuring higher value for money for the organization.

To a large extent, this level of customer-centricity calls for changes at the structural level of an organization, wherein focus on the

customer is at the heart of the firm's value system. This implies a re-haul in orientation from selling products to delivering in line with customers' needs.

USING ADVANCED ANALYTICS TO IMPROVE OPERATIONAL DECISIONS

By Ravi Srivastava, Vlad Lukic, Simon Miller, Michael Dallimore, Rohin Wood, and Adam Whybrew (BCG)

Operations leaders routinely make critical decisions across the entire value chain. What combination of raw materials will minimize total cost? How can we plan production to maximize throughput? How can we schedule maintenance tasks to minimize disruptions?

Although such decisions typically involve complex tradeoffs, managers have often made them using rules of thumb or basic data analysis. Today, though, leaders can apply advanced analytics techniques—supported by cheaper computing power and improved data capture mechanisms—to make better-informed decisions that optimize value.

However, many operations leaders must climb a steep learning curve to understand the best ways to apply advanced analytics. For those without quantitative backgrounds, sorting through the hype and distinguishing among popular terms in the analytics field—such as big data, operations research, decision support, and Industry 4.0—can be a daunting task. Because these terms are often used synonymously, it is challenging for leaders to determine how they can employ each of these techniques to the best advantage. Indeed, many businesses are losing potential value because they cannot spot the opportunities to make the most of advanced analytics.

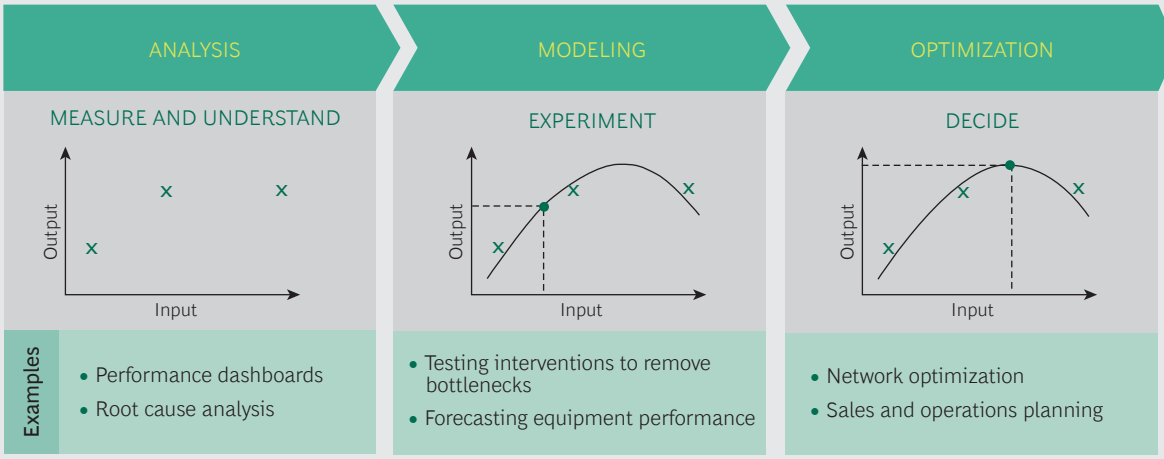
Building comprehensive expertise in the available analytics techniques is beyond the call of duty for most operations leaders. However, it is essential to gain a better understanding of how to use advanced analytics to inform business decisions.

We recommend thinking about analytics in terms of three categories: analysis, modeling, and optimization. These categories follow the application of analytics from performance measurement to predictive modeling to optimal decision making. (See Exhibit 1.)

Analysis: What Happened in the Past?

The most basic use of analytics entails

EXHIBIT 1 | Advanced Analytics Enables Better Decisions



Source: BCG experience.

gathering and analyzing data about the company's past performance. This backward-looking analysis describes and summarizes a selection of KPIs, typically over time. In doing so, the analysis provides insights regarding the factors that drive value; it can also suggest interventions to increase value. By gaining this visibility, the company also obtains a fact base for modeling future performance and making decisions that optimize value creation.

The fact base is typically presented using business intelligence software (such as Tableau, QlikView, or Tibco Spotfire). The dashboards created by such software give nonspecialists the ability to perform complex data analysis. With a few clicks, a manager or executive can generate an impressive array of insights from millions of data points. Only five years ago, a specialist with computer science skills would have needed hours to generate such extensive insights.

On the most basic level, companies can use the insights to identify where value may be "leaking" from the business. A manufacturer we worked with found that welders' productivity is 15% lower on Fridays, for instance. Another company found that its sales staff typically provided the maximum authorized discount to customers rather than negotiating on price—a common problem throughout businesses. Insights like these point to the need for corrective actions, such as enhanced approaches to motivating workers or improvements to training programs.

Modeling: What Does the Future Hold?

A model is an abstract representation of a business. A company can use a model to predict how it might perform in the future under different scenarios. Modeling makes it possible for companies to experiment with their operations in a risk-free manner. Companies can test different strategies, and make mistakes, in a virtual representation of reality.

A company must be able to use models effectively to test how changes to variables in the business environment will affect company performance. And, because business leaders are often skeptical about the accuracy of the results, analytics teams must be prepared to demonstrate that models are realistic. For a model to be realistic, it must be fit for purpose—that is, it must be a sufficiently accurate representation of the business system. The availability of the appropriate data is also a prerequisite.

Many different modeling tools exist, and the correct tool for a specific application depends on the characteristics of the system being modeled. For example, bulk commodity supply chains are typically

modeled using "discrete event simulation," a technique designed to emulate systems that have complex dynamics.

Applications for supply chains and equipment performance illustrate the potential for using models to inform decision making.

Simulation Models for Supply Chains. Supply chains often have complex, dynamic characteristics, such as variability arising from breakdowns or changes in demand or supply patterns. They typically require a buffer or inventory to manage this variability. A model of a supply chain must emulate these dynamics.

For example, we have used a supply chain model to help mining companies decide where to invest capital. The model allows companies to test what happens if they change variables, such as the number of trains or the frequency of conveyor belt breakdowns. A leading mining company used the model and discovered that its operations could be served by a single-track rail line, rather than the double-track line proposed by project engineers. This insight enabled the company to avoid a planned $500 million capital expenditure.

Supply chain models are also useful for testing different operating strategies or philosophies. For example, a port authority applied the insights from modeling to change the rules by which ships were brought through a tidally constrained channel. Applying the new rules enabled the port to increase its capacity by 5%.

Machine Learning for Equipment Performance. Machine-learning techniques are used to model very complex systems, such as jet engines and copper smelters. These techniques use historical data to learn the complex, nonlinear relationships between inputs and outputs. We used a machine-learning algorithm to help a metals company model the performance of a copper smelter, including the highly complex relationships among temperature, oxygen, flux, and feed rate. The predictive insights generated by the machine-learning algorithm proved superior to those obtained from models developed by the company on the basis of physics and chemistry. The company applied the insights to improve yield by 0.5% to 1.0%, amounting to tens of millions of dollars in additional value.

Optimization: What Decisions Maximize Value?

The payoff from applying analytics arises from using the results of modeling to make decisions that optimize value creation. By experimenting with a model to test the results of different decisions, a company can often determine the actions required to achieve the optimal outcome. However, some business problems involve such a complex array of variables that the potential solutions literally number in the trillions. Optimization techniques help companies determine the solutions to these highly complex business problems.

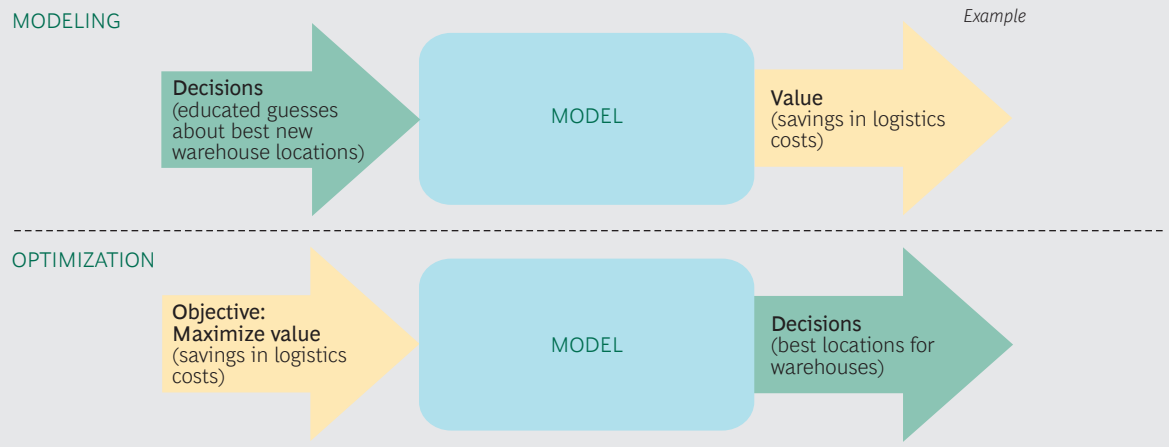
An optimization technique is a mathematical algorithm that calculates which decisions will maximize value in a given set of circumstances, taking into account the objectives and the applicable business rules or constraints. These techniques are prescriptive: they tell companies what to do. In modeling, the input is a set of decisions and the output is the value that would result from implementing these decisions. Optimization reverses this relationship: the input is the value-maximizing objective and the output is the set of decisions that would achieve the objective. (See Exhibit 2.)

The sophistication of optimization techniques has increased exponentially during the past decade, making it possible to solve a much wider variety of problems. The following examples illustrate the scope and potential for value creation for companies across industries:

- **A Foundry.** Foundry operations are remarkably complex, making it nearly impossible for an operator to determine the optimal schedule of tasks. One foundry applied an optimization algorithm to overcome this complexity. Inputs included the foundry's goal for the number of components manufac-

EXHIBIT 2 | Optimization Prescribes How to Maximize Value

IF MODELING IS UNDERSTANDING HOW TO PLAY CHESS, OPTIMIZATION IS UNDERSTANDING HOW TO WIN.



Source: BCG experience.

tured per week as well as constraints relating to the availability of labor and material. The output of the optimization was the order in which components should be manufactured. By implementing this decision, the foundry increased capacity by 20% while reducing delivery times.

- **A National Broadband Network.** A national broadband network is engaged in a multiyear project to roll out internet service across the country. The network comprises a number of technologies, whose cost and speed vary significantly, as does the number of engineers, construction workers, and managers required to build and maintain them. To determine the optimal mix of technologies and the schedule for rolling them out, the company applied an optimization algorithm. The objective was to maximize net present value. The constraints included the number of engineers available and limitations on debt. The output was a fully optimized rollout plan that specified which technologies to use in which locations and how to sequence the rollout. The optimized plan has enabled the network to reduce its funding requirement by $2 billion.

- **A Poultry Company.** A poultry company had been using rules of thumb to make complex decisions about how to produce and process birds in order to most profitably meet its customers' needs. Poultry production is a complex business with challenging constraints. For example, suppose the sales team asks the operations team to produce an additional 100 tons of breast meat. Boosting production of breast meat by this amount will also generate an additional 150 tons of leg meat and 40 tons of wings. Significant waste will result if the sales team does not consider whether it can sell the additional tonnage of leg meat and wings.

  To determine how to address this type of complexity while meeting customer demand, the company used an optimization algorithm. The output specified the quantity of each type of meat to produce in each factory, which size of birds to process, and how to most efficiently transport the products to customers. It also specified which customers were not profitable to serve. The optimized approach is expected to generate additional EBIT of more than $20 million. The approach has allowed the business to serve a large new customer it had previously believed it lacked the capacity to serve. The additional business is worth millions of dollars of margin, and demand can be met with no additional capital investment.

- **A Steel Producer.** A steel producer sought to redesign its supply chain to meet customer demand at minimal cost. Taking into account the capacity constraints of production lines and warehouses, an algorithm specified the optimal supply chain for 2025—one that would enable a flow of goods across the producer's network at the lowest cost. The producer has already reduced logistics costs by 10% through better decisions about which products to make where and how to distribute them.

Getting Started

As a first step to enhancing the value derived from analytics, a company should review its value chain to identify all the business decisions it is currently making. Look for decisions that are:

- Difficult to make owing to their complexity
- High margin, because the difference between good and best (that is, optimal) has a material impact on value
- Currently being made using gut instinct or unsophisticated analytics tools (such as spreadsheets)

If all three circumstances exist, analytics can almost certainly be valuable to support decision making. Having identified the decisions to prioritize, most companies will need new expertise—either in-house or provided by a third party—to match their business problems to the most appropriate analytics technique. When building an in-house analytics function, it is important to create clear linkages and feedback mechanisms between the field and analytics teams to ensure that the new function is effective and continues to add value over time.

Companies should be mindful that developing support tools to compute the optimal decisions represents only a small part of the work necessary to capture the benefits of analytics. To convert insights into actions, a company must establish processes that enable company-wide, optimal decision making. It must also ensure that decision rights and accountabilities promote the use of these processes and the analytics systems. Finally, it must establish KPIs that incentivize employees to use these advanced techniques and implement the recommendations from analytics teams.

LEADING COMPANIES ARE already capturing significant savings and a competitive edge from applying advanced analytics in operations. Today's applications are just the starting point. In many industries, advanced analytics has the potential to transform how companies manage their operations. Companies that fail to understand and pursue the opportunities risk falling permanently behind the leaders in their increasingly competitive markets. Now is the time to embrace advanced analytics as a fundamental enabler of operational excellence.

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Functional Perspectives

BUILDING A DIGITAL TECHNOLOGY FOUNDATION IN INSURANCE

By Hanno Ketterer, Jonathan Koopmans, and Rolf Mäurers (BCG)

Insurers today face a host of digital to-dos if they want to stay competitive—much less gain an advantage on their peers. These undertakings include digitizing the customer experience, building digital offerings and business models, and constructing in-house digital capabilities. Underpinning them all is the question of how to adapt legacy IT systems and architectures to the needs of digital business models. This challenge can require new front-end architectures to mimic the mobile-first customer experience of digital natives. It can also necessitate a fundamental overhaul of core insurance systems to digitize end-to-end customer journeys and automate decision making in basic functions such as underwriting and claims handling. The prospect is daunting.

Most insurers need to overcome significant constraints in their current IT landscape. For example, BCG research shows that about 35% of all applications in the industry run on legacy technology stacks that are not "cloud ready" and that a similar percentage of incumbents still rely on static HTML-based digital channels that do not work well on mobile devices—the consumer's digital device of choice.

We recently researched the readiness of insurers to go digital. We interviewed CIOs and IT architects at leading insurance companies worldwide. We also interviewed executives at prominent solution providers.[1] We conducted a "follow the money" assessment of some $17 billion in venture capital investment in more than 900 technology startups with relevance to the insurance sector. And we analyzed the main IT trends on the basis of four years of architecture benchmarking with top insurers in the German market.

Insurance CIOs and other IT executives will not be surprised to learn that we found multiple pain points at all levels of IT architecture. For example, only 36% of insurers use a central customer-data repository or CRM application to engage with clients, and only 64% have mobile apps. Such shortcomings limit insurers' ability to gain

a full view of client needs and to provide omnichannel interactions. The average age of core insurance systems in the companies we interviewed and benchmarked was 13 years.

Insurance companies have their IT work cut out for them. This article provides a framework for their efforts that is based on three questions:

- What are the main technological building blocks of a digital insurer?
- What emerging architectural strategies can help insurers accommodate future developments in technology?
- How do incumbent insurers jump-start digital implementation and stay ahead of the competition?

To read the full report and disclosures, please use the below link or scan the QR code from your smart phone



https://www.bcgperspectives.com/Images/BCG-Building-a-Digital-Technology-Foundation-in-Insurance-Aug-2016_tcm80-213302.pdf

THE REAL DEAL ON M&A, SYNERGIES, AND VALUE

By Decker Walker, Gerry Hansell, Jens Kengelbach, Prerak Bathia, and Niamh Dawso (BCG)

"Synergies" have been used to justify some of the worst and best M&A transactions in history. M&A is supposed to be about value creation, and for many deals, synergies are cited as the primary means to that end. But relatively few companies provide hard numbers to support these claims. Even seasoned executives and M&A advisors use the term in varying ways that engender different interpretations. And empirical evidence on the role of synergies in determining M&A outcomes is hard to find.

This article aims to set straight the role of synergies in M&A value creation.

A Definition

Start with a straightforward definition: synergies are the source of the tangible expected improvement in earnings (calculated at an annual run rate) that occurs when two businesses merge. In our analysis of almost 300 recent significant M&A transactions, we found that the acquiring companies paid an average of $3 billion—a 34% premium—to gain control of their targets. What sorts of synergies did these acquirers really get in return for their investment? How did they know—or did they know—whether they were overpaying for those synergies? From the viewpoint of acquiring shareholders, what were the predictors of value-creating synergies?

We found that, when it comes to synergies, value-creating acquirers are different from others in the way they do three specific things:

- They limit the control premium that they pay on the basis of a rigorous assessment of the synergies that they expect to achieve.
- They are candid with their investors about their synergy expectations, publicly describing explicit synergy commitments when they announce a deal.
- They practice rigorous postmerger integration (PMI) to capture synergies fully

and rapidly, and they are transparent with investors about their progress.

The Data

Not all M&A is pursued in the name of achieving synergies; for example, sometimes an asset simply may be perceived as undervalued and therefore a good deal. In other cases, companies want to acquire a critical technology or capability that they lack. But most deals do involve synergies (or so investors are told). To examine the role that synergies play, BCG analyzed 286 major acquisitions. The deals, spanning a dozen industries in North America, were conducted from 2010 through 2015. Each transaction was valued at more than $500 million, involved two public companies, and was a significant deal for the acquirer, meaning that the total deal value was greater than 30% of the acquirer's market capitalization.

For each deal in our sample, we asked the following questions:

- How much did the acquirer pay (in the control premium) relative to the announced synergy targets?
- Did the acquirer disclose the synergy expectations publicly?
- Did the acquirer report on the progress relative to the initial synergy targets within 12 to 18 months of the acquisition?

As part of the analysis, we developed a simple metric that we call the P/E of synergies. It is the control premium paid (the absolute-dollar amount, using share price data 30 days before announcement) divided by the pretax synergies (the absolute-dollar amount at the expected annual earnings run rate). For example, if a company pays a control premium of $3 billion and expects $300 million of pretax earning synergies, the P/E of synergies is 10x. Dealmakers often focus on the control premium they need to pay to get a deal done. Since the P/E of synergies compares the control premium with the deal's effect on earnings power, it is a more powerful indicator of whether the transaction is likely to create value for investors. (See the sidebar "The P/E of Synergies: A Key Metric for M&A Success.")

Synergies and Shareholder Value

We also reviewed each acquirer's relative total shareholder return (rTSR)—its stock price performance relative to an industry index—to determine which deals did and which did not create value. Not only did we find consistent outperformance in value created by companies that accurately valued synergies, paid appropriately, and delivered on their projections, we also found that the market consistently penalized less disciplined acquirers. (See the exhibit, "A Disciplined Approach to Synergies Leads to Superior M&A Value Creation.")

Acquirers in our data set that paid less than the average P/E of synergies outperformed by about 5 percentage points of rTSR those that paid more than the average. Those that paid more than the average P/E of synergies were penalized with a negative rTSR. Moreover, the acquirers in the cheapest quartile (those that paid a median P/E of synergies of only 1.5x) outperformed those in the most expensive quartile (those that paid a P/E of synergies of 17.6x) by 4.8 percentage points of rTSR. The data is consistent. The second quartile outperformed the third quartile by 3.1 percentage points. To put this in context, consider that an acquiring company with a $30 billon market capitalization could expect to see more than $1 billion of market capitalization added (or subtracted), depending on how it handled its valuation and disclosure of synergies.

Preparation, Candor, and Delivery

The research shows that acquirers should do their homework: they must be in a position to publicly announce the synergies they expect to result from the combination. Yet only 58% of acquirers in our sample (167 out of 286 companies) announced synergies, and the percentage varied by sector.

THE P/E OF SYNERGIES: A KEY METRIC FOR M&A SUCCESS

The P/E of synergies is a complementary valuation indicator to the more traditional measure, overall percentage of the control premium paid. It also appears to have clear predictive ability to estimate how well a deal is likely to be received by investors.

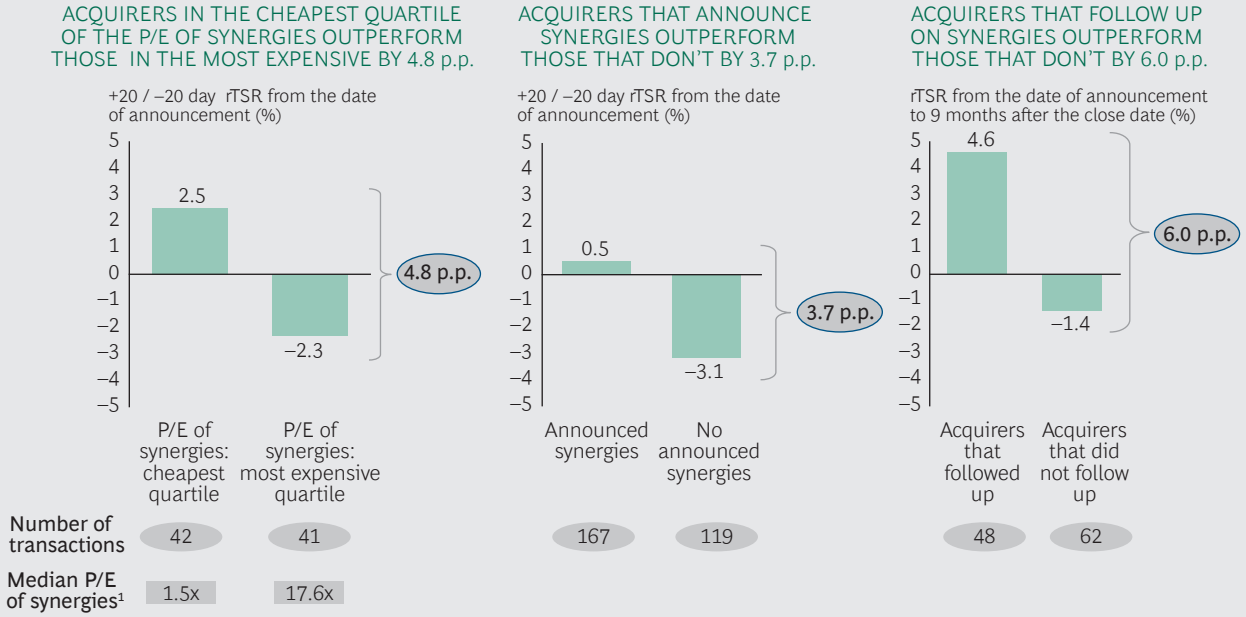
For the 167 companies in our data set that announced expected synergies, the average premium paid was 34% and the average P/E of synergies was 8.6x. But in the retail sector, for example, the average control premium was 45.4%, while the average P/E of synergies was only 5.1x. It is not surprising that retail acquirers that announced synergies achieved a 20-day relative total shareholder return (rTSR) of 4%. On the other hand, energy companies paid a lower-than-average control premium of 25.5% and a higher-than-average P/E of synergies of 12.7x. The median rTSR for the companies announcing synergies was –5.7%. High-tech acquirers paid an average control premium of 40.1% and an average P/E of synergies of 7.1x, 1.5 percentage points below average. Those announcing synergies received a 20-day rTSR of 1.65%. (See the exhibit below.)

Average Synergies and Control Premiums, 2010–2015, by Industry

Industry	Number of deals	Deal size ($millions)	Premium paid (%)[1]	Premium paid ($millions)[2]	Pretax announced synergies ($millions)	P/E of synergies (multiple)
Health care	30	$17,657	36.0	$7,105	$481	8.0x
High technology	19	$5,842	40.1	$2,267	$193	7.1x
Materials	18	$6,639	27.2	$1,257	$257	6.5x
Energy and power	18	$8,833	25.5	$1,765	$370	12.7x
Industrials	12	$5,783	22.5	$1,136	$384	4.1x
Consumer products and services	12	$3,639	43.7	$1,239	$158	6.9x
Media and entertainment	12	$15,843	31.0	$3,987	$287	7.8x
Telecommunications	10	$8,287	48.2	$2,985	$599	7.6x
Financial services	10	$2,786	33.0	$1,008	$152	6.8x
Retail	9	$4,926	45.4	$2,396	$347	5.1x
Real estate	9	$3,863	16.2	$532	$33	26.9x
Consumer staples	8	$7,261	41.1	$3,293	$217	10.0x
Total	**167**	**$8,779**	**34.0**	**$2,889**	**$314**	**8.6x**

Sources: Thomson One; BCG analysis.
[1]The premium paid is based on the stock price four weeks prior to announcement.
[2]The premium paid is a percentage of the average.

A Disciplined Approach to Synergies Leads to Superior M&A Value Creation



Sources: Thomson One; BCG analysis.
[1]P/E of synergies = premium paid (absolute-dollar amount 30 days before announcement) / pretax announced synergies. Excludes six transactions with incomplete data.

For example, 69% of high-tech and 59% of energy acquirers announced expected synergies while only 38% of health care companies and 45% of materials companies did the same. Investors bid down the shares of acquirers that did not announce synergies. In the 20 days before and after the announcement date, the TSRs of these companies averaged –3.1%, which translates into almost $300 million of lost value per transaction.

Of the acquirers that initially announced synergies, only 29% then saw fit to follow up with investors on their progress against their targets. Those that did were further rewarded by shareholders, outperforming those that did not by a median of 6 percentage points nine months after their deals closed. Moreover, those that did not follow up saw positive rTSRs at the time of the announcement turn negative (a median rTSR of –1.4%) nine months after their deals closed.

There is good reason for these discrepancies, and it's not only that investors generally appreciate management transparency. In our PMI work with more than 1,000 companies worldwide, we have observed that most successful acquirers go after a significantly larger synergy number than they publicly announce, and they achieve the synergies much faster than they project publicly. The thinking is simple: if we can't get the synergies within 12 to 18 months, they are not likely to happen. Management teams that put themselves on the line do so secure in the knowledge that they plan to outperform—a good strategy for management and shareholders alike. (See the sidebar "Outperforming on PMI.")

Putting It All Together

In the competitive bidding market for corporate assets, many acquisitions transfer all, if not more than all, of the synergy value from the acquirers' shareholders to the seller's shareholders. (See *Divide and Conquer: How Successful M&A Deals Split the Synergies,* BCG Focus, March 2013.) This is why more than half of all deals destroy value for investors.

Value-creating M&A requires discipline in the assessment, valuation, and delivery of synergies. Take the example of Martin

OUTPERFORMING ON PMI

Acquirers project two types of synergies: cost and revenue. Very few of the companies that announce their synergy expectations break out the two, but they do tend to track each one internally.

On the basis of our work with more than 1,000 PMI projects, BCG has built a database that tracks the PMI results of some 200 transactions over the past decade. Our data and analysis show that companies' internal synergy expectations are significantly higher than the targets they provide publicly: on average, they are 15% higher for cost synergies and 21% higher for revenue synergies. In addition, companies that practice particularly rigorous PMI, holding firm to the accountabilities outlined below, substantially exceed even their internal targets. These companies boost cost synergies by another 15% (so the total achieved exceeds the announced synergies by 32%) and revenue synergies by 25% (for a total of 51% over announced expectations). (See the exhibit below.)

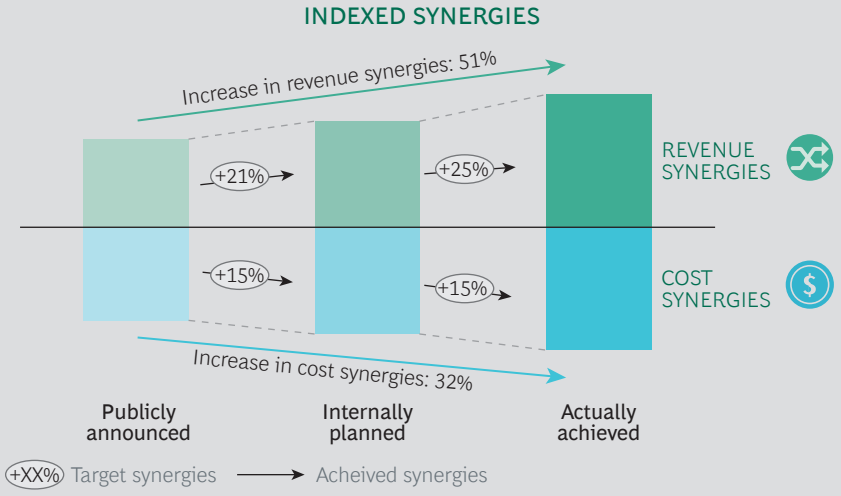
Delivering on Promises

These are big gains even if one factors in some conservative downplaying of initially announced expectations. So how do successful companies do it? In our experience, they practice four subdisciplines, all of which are related to accountability within the organization.

- **Bottom-Up Accountability.** Smart companies don't leave synergy projection to the bankers and the M&A team; early on, they involve the line managers who will be responsible for achieving the targets. These line managers play a part in setting their targets.

- **Individual Accountability.** Managers are assigned individual responsibility for their specific targets and held accountable for meeting them by the project management office (PMO) and top leadership. Furthermore, targets are hardwired into managers' budget and performance

Acquirers That Track PMI Progress Achieve Higher Synergies Than They Initially Announce



Source: BCG's PMI Synergy Database, June 2016.
Note: Calculated only for deals with available announced-planned, planned-achieved, or both data pairs. The upside was calculated by comparing averages of announced-planned or planned-achieved pairs. Actual synergy numbers are not shown because of differences in the sample sizes. Based on 19 announced-planned and 6 planned-achieved pairs for revenue synergies and 51 announced-planned and 19 planned-achieved pairs for cost synergies.

OUTPERFORMING ON PMI
(continued)

objectives, eliminating any ambiguity about what is required.

- **Leadership Accountability.** Top management leads from the front throughout the PMI process. It actively supports the PMO and stays the course until target realization is well underway.

- **Public Accountability.** Individual managers are held publicly accountable for meeting their targets. "Heroes" are acknowledged and rewarded (often with meaningful leadership roles in the acquired company); managers who come up short must answer to their peers as well as the boss.

In addition, companies that excel at PMI move fast, especially with respect to revenue synergies. One highly effective technique that enables companies to hit the ground running the day after a deal closes is the establishment of a so-called clean team that gets a jump-start on planning for revenue synergy execution. The clean team is a group of outside advisors or soon-to-retire managers who can work with confidential customer data from both companies during the period between contract and closing without running afoul of anticompetition laws or regulations.

Realizing Elusive Revenue Synergies

Identifying cost synergies is a relatively straightforward exercise, and achieving them is largely a matter of accountability and discipline. Revenue synergies present bigger challenges in both quantification and realization. This may be one reason why relatively few companies (only one-third of those that announce any synergies) announce revenue synergies in advance and investors are skeptical of those that do. Acquiring companies in our database received virtually no market benefit increase for projecting revenue synergies.

That said, in our experience, many frequent acquirers have become adept at realizing these synergies. They demand the same level of rigor that they require when they go after cost synergies precisely because revenue synergies are so difficult to project and execute. Best practices from best-in-class acquirers include the following:

- Using detailed account mapping and allocation to identify precisely the opportunities for increased revenues

- Quantifying cross-selling quotas and linking associated compensation and incentives to achieving them

- Clearly articulating future sales models (such as reselling and referral) and implementing sales force enabling programs (such as new training)

- Moving quickly to capture key-account upside potential and to protect against major account loss, not waiting to identify top cross-selling targets or key accounts at risk while IT systems are being integrated, and using manual solutions to address the greatest upside opportunities and downside risks

Marietta and TXI. The two companies announced a $2.7 billion merger in January 2014 to "create a market-leading supplier of aggregates and heavy building materials, with low-cost, vertically integrated aggregate and targeted cement operations." The combined company had a market capitalization of about $9 billion. The announcement highlighted the expectation of significant synergies: "The transaction is expected to generate approximately $70 million of annual pretax synergies by calendar year 2017."

Martin Marietta paid a P/E of synergies of 5.8x, which is lower than our data set average of 6.5x for the materials industry. Investors reacted to the deal with a 20-day rTSR of 18.7%. Martin Marietta followed up on its synergy estimates on February 11, 2015, indicating that the company expected to exceed its original estimates by 40%. Nine months after closing, the company's TSR had outperformed the industry index by 8.3 pecentage points.

M&A IS RISKY business—especially for the shareholders of acquiring companies. To be sure, many factors that contribute to M&A success or failure are beyond management's control. But acquirers can tilt the odds strongly in their favor by consistently applying discipline to how they assess, value, and deliver synergies from their acquisitions.

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CREATING VALUE IN INSURANCE M&A

By Pia Tischhauser, Miguel Abecasis, Miguel Ortiz, Davide Corradi, and Jens Kengelbach (BCG)

This article is based on "Influencing Outcomes in a Consolidating Insurance Industry: Three Keys to Value Creation," by Pia Tischhauser, published in January 2016 in The Geneva Association's Insurance and Finance Newsletter.

ALTHOUGH NOT QUITE AT the stage of mania, mergers have been sweeping the global insurance industry. Exor-PartnerRe, Willis Group–Towers Watson, Willis–Gras Savoye, ACE-Chubb, and Anthem-Cigna are just a few of the high-profile transactions announced over the past year.

Behind the headlines, however, lies a stark reality. The Boston Consulting Group's analysis of one-year relative total shareholder return in 778 transactions involving insurance companies between 1990 and 2014 found that only 51% created value and 49% actually destroyed value. In other words, the odds of success are similar to those in a coin toss. The half of insurance deals that failed to deliver value had fallen prey to a variety of culprits. (See Exhibit 1.)

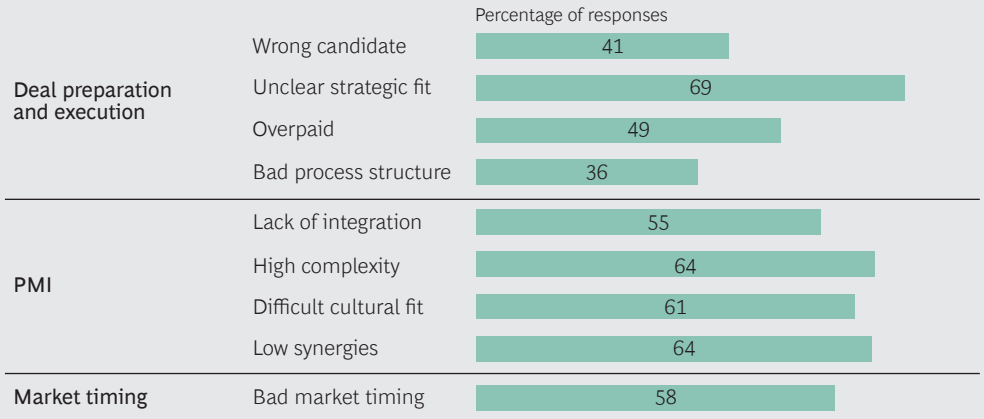
Insurers can do better. Our experience with companies throughout the industry shows that acquirers can tip the playing field to their advantage. The keys to success in insurance M&A relate to strategy and target analysis, deal execution, and postmerger integration (PMI). This article explores how to apply this framework.

Multiple Forces Drive Consolidation

A multitude of macro-level forces will continue to propel consolidation in insurance over the next five years or more. They include more stringent regulatory requirements, continued low investment yields, new entrants, rapidly advancing technology, and limited growth opportunities.

Regulatory requirements, especially those having to do with capital adequacy (the EU's Solvency II Directive is one example), continue to intensify, putting pressure on both independent insurers and conglomerates. The provisions of the EU's Insurance Mediation Directive 2 (IMD2), which the

EXHIBIT 1 | Corporate Leaders Cite Three Main Reasons for Failed Acquisitions



Sources: BCG 2015 Corporate Leaders M&A Survey; *From Buying Growth to Building Value: Increasing Returns with M&A*, the BCG 2015 M&A report, October 2015.
Note: A total of 54 corporate leaders responded on this subject; respondents could cite multiple reasons for failed acquisitions.

EU says "is designed to improve EU regulation in the retail insurance market, increase consumer protection, and improve consistency between the regimes operating in the different member states," must be written into member states' national law by early 2017. Among other things, IMD2 will likely decrease some consumers' willingness to pay for financial advice at current levels.

Interest rates as well as investment yields are likely to stay low for some time (at least in mature markets), making profits in traditional life insurance difficult.

New entrants as varied as supermarket chains and telecommunications companies are in a position to disrupt the insurance value chain: they have a powerful asset in the customer data they collect, and they own the "last mile" link to the customer. New operating models are making it difficult for incumbents to play across the entire value chain. The incumbents are vulnerable to specialists that disrupt existing models—one example being online aggregators that offer consumers a variety of price-transparent product choices from multiple providers. Large incumbent players are best placed to make the investments needed to fend off such assaults. Midsize insurers that still handle all aspects of their business internally are especially likely to feel the competitive heat.

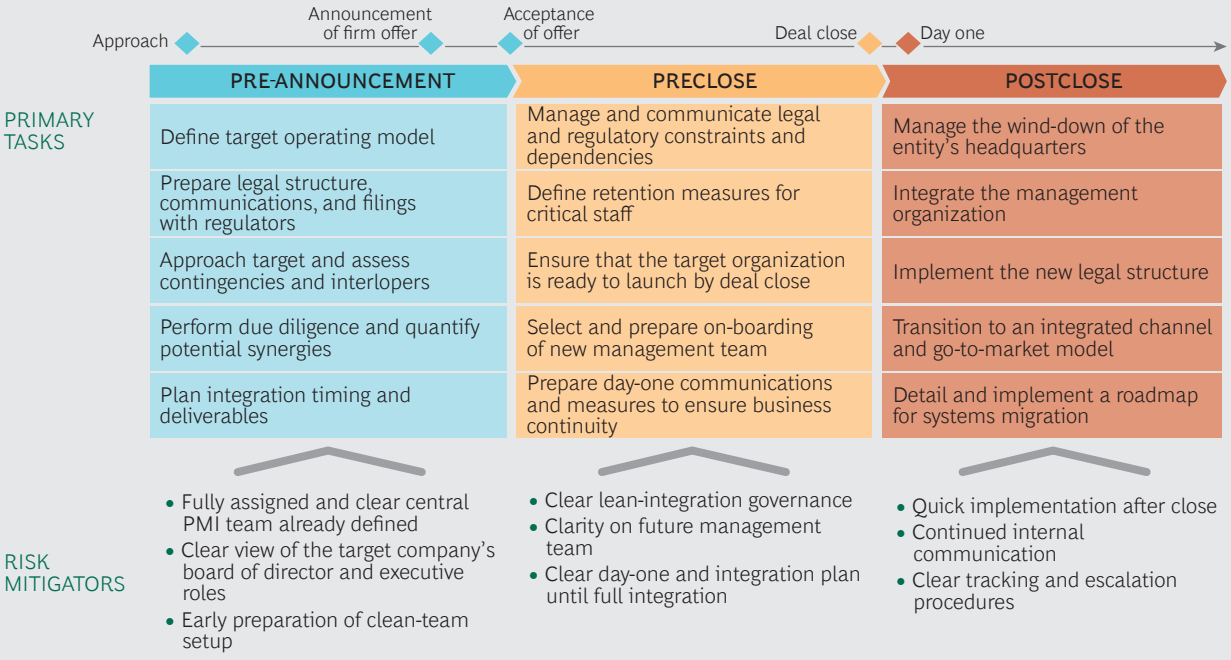
Insurance companies are prime candidates to exploit insights into customer behavior and needs, but building the necessary big-data technology, culture, and teams is cost prohibitive, especially for smaller players.

Insurers face limited opportunities for growth. Mature markets are consolidating, and, although the risks that consumers face are expanding (data security, for example), the industry hasn't succeeded at demonstrating the need for coverage beyond the most basic. Emerging markets offer potential for growth, but they have their own complexities; building a presence organically can be slow and difficult; and near-term profitability is a challenge. Scale in new markets can be achieved most realistically through acquisition.

Three Steps to Creating M&A Value

Creating value—and mitigating risk—through M&A in insurance, as in other industries, requires three steps: rigorous strategy and target analysis, strong deal execution, and effective PMI. (See Exhibit 2.)

EXHIBIT 2 | Companies Can Create Value and Mitigate Risk During Each Step of the Deal Process



Source: BCG analysis.

To read the full report and disclosures, please use the below link or scan the QR code from your smart phone

https://www.bcgperspectives.com/Images/BCG-Creating-Value-in-Insurance-M-A-Apr-2016_tcm80-208770.pdf

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