

## Challenges and opportunities of insurance sector

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### Abstract

The insurance sector faces few challenges and opportunities. The sector has to implement necessary strategies to convert challenges into opportunities in order to improve the attitude of customers towards insurance products. In this paper an attempt is made to present the challenges and opportunities of Insurance Sector in India.

**Keywords:** customer education, product innovation, distribution network, quality service

### Introduction

The biggest challenge faced by the Government today is that of a regulator with the prospect of about 30 or 40 players, each represented by thousands of agents, brokers and intermediaries. To evolve a free and fair method of assessing the companies, to ensure fair play between the competitors and to safeguard the interests of the largely uninformed customers are the main tasks ahead. The other and equally serious aspect is to ensure that the vast amounts collected by the insurance and pension funds are utilized for the welfare of the people. Though the Government itself would not be the guarantor of the policy monies, nevertheless, it is accountable through its regulatory mechanism, to put in place prudential norms of investment and accounting, revenue recognition, fair valuation of assets and liabilities, determining necessary margins towards any contingencies and proper reserves for shrinkage of investments will have to be made. Nevertheless, care has to be taken to see that there is not too much of control and regulation. A certain degree of autonomy in the functioning of insurance companies has to be allowed so that they get necessary freedom and space to perform and excel. The IRDA, along with the advisory committee constituted recently, is eminently qualified to undertake these tasks. In addition, a proposal has also been mooted to constitute a federation of insurance companies analogous to the Indian Banks' Association. Such an institution will provide guiding principles, lay down a code of insurance ethics and generally act as a facilitator for both the life and non-life industry.

Unless Life Insurance Corporation of India is alive to the emerging trends, its performance may decline further. Hence, Life Insurance Corporation of India has to work with renewed vigor and enthusiasm so as to retain and improve its market share. In this regard, Life Insurance Corporation of India has to focus on key result areas such as improving the productivity of agents; marketing high sum assured policies and also the introduction of customer friendly plans or products. The financial performance of Life Insurance Corporation of India is better than private life insurance companies in India. In a business driven by competition, the high rising costs is due to huge commission expenses by private life insurance companies. Most of the private life insurance companies are making losses. It is necessary for them to cut their operating

costs. Also private life insurance companies have to improve their actuarial efficiency, liquidity position and long term solvency position. The following are the major challenges of Insurance Sector in India.

### Objectives of the Study

The present study was undertaken with the following objectives.

1. To discuss the role and growth of insurance sector in India along with profile of LIC.
2. To study the problems and prospects of insurance industry in India.
3. To offer findings, conclusion and suggestion of this study.

### Data Collection Method

Data was collected from both primary and secondary data sources.

### Primary Data

For the present study a well-structured questionnaire was used to collect the data. Questionnaire method was employed as it allows the researcher to gather structured information from a large number of individuals, allows for anonymity and it is economical to use. For the present study, primary data was collected from policy holders of LIC offices in Guntur district with the help of a questionnaire.

### Secondary Data

The secondary data was collected through the following sources.

The main sources of qualitative and quantitative secondary data include the following

- Committee Reports
- General business sources
- Private research publishers

### Paper based Sources

Books, Journals, Periodicals, Abstracts, Directories, Research reports, Conference Papers, Financial and Business Newspapers and Magazines.

**Electronic Sources:** CD- ROMs, Online Databases, Internet.

## Analysis of Data

Descriptive Statistics were used to analyze the data. These were computed with the help of the Statistical Package for the Social Sciences (SPSS). The data will be analyzed with the help of percentages, charts, graphs are few statistical tools like Chi- Square, Correlation and ANOVA Tests.

## Challenges

### 1. Customer Education

Insurance is a unique service industry. The key industry drivers are related to life style issues in terms of perceiving insurance as a savings instrument rather than for risk cover, need based selling, quality of service and customer awareness. In the present competitive scenario, a key differentiator is the professional customer service in terms of quality of advice on product choice along with policy servicing.

### 2. Product Innovation

Innovative products, smart marketing and aggressive distribution-That's the triple whammy combination that has enabled fledgling private insurance companies to sign up Indian customers faster than anyone ever expected. Indians, who have always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer. The private companies are coming out with better products which are more beneficial to the customer. Among such products are the Unit Linked Investment Plans which offer both life cover as well as scope for savings or investment options as the customer desires.

The growing popularity of the private insurers shows in other ways too. Life Insurance Corporation of India is still dominating segments like endowments and money back policies which are traditional plans. But in the annuity or pension products business, the private insurers have already wrested over 30 percent of the market. While in the popular unit-linked insurance schemes they have a virtual monopoly, with over 90 percent of the customers. The private insurers also seem to be scoring big in other ways. They are persuading people to take out bigger policies.

### 3. Distribution Network

While companies have been successful in product innovation, most of them are still grabbing with right mix of Distribution Channels for capturing maximum market share to build brand equity, building strong and effective customer relationship and cost effective customer service.

In India Insurance is sold and not bought. The agents / Advisors by using various strategies sell the product by convincing the customers. Moreover, they push policies with the highest premium to pocket a higher commission. The consultative approach to selling is the modern approach, which helps customers and prospects to buy.

While the traditional channel of tied up advisors or agents would be the chief distribution channel, insurer should innovate and find new methods of delivering the products to customers. Corporate agency, brokerage, Bancassurance, e-insurance, co-operative societies and panchayats are some of the channels, which can be tapped by the insurers to reach the appropriate market segments. Now days, the urban masses are tapped with the new techniques provided by Information Technology through internet. Rural masses should be attracted by the consultative approach adopted by the Insurers.

New private insurers have used innovative distribution channels to reach a broader range of the population. Private insurance companies are also using banks, microfinance institutions and co-operatives to increase their market share and compete with well-entrenched state-owned insurance company. There is huge potential in the largely undeveloped private pension market. Insurers have to develop new products addressing the new challenges in society. Companies will need to constantly innovate in terms of product development to meet ever-changing consumer needs. Understanding the customer better will enable Insurance companies to design appropriate products, determine price correctly and to increase profitability. Since a single policy cannot meet all the insurance objectives, one should have a portfolio of policies covering all the needs. Product development is made possible by integrating actuarial, rating, and claims. Moreover, with increased commoditization of insurance products, brand building is going to play a vital role. The rural sector has potential for life insurance. To realize this potential, designing suitable products is important. Insurers will need to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products.

### 4. Foreign Direct Investment

Insurance is a capital-intensive industry. It is also a long-gestation business. India's insurance industry needs capital, and a major source of capital would be from foreign investors, who are now limited to 26 percent ownership. India needs to raise the cap on Foreign Direct Investment (FDI) to attract capital for the industry. For some time there has been an understanding that the FDI cap will be raised to 49 percent, and many companies entered the Indian market with this expectation. Leading foreign companies will bring in more capital to the insurance industry if the cap on FDI is raised.

### 5. Role of IRDA

IRDA should also seek to create a regulatory regime that promotes the most efficient use of capital, eliminates avoidable micro-management of business practices, allows companies to price their products prudentially, and level the playing field between private and state-owned insurance companies. When markets are competitive and responsive to consumer demand and preference, it is the consumer that benefits in terms of lower cost and increased ability to manage risks.

### 6. Information Technology

Private Insurance companies have discovered that the Internet is a powerful tool for reaching potential and existing customers. Most carriers use the Internet simply to post company information, such as sales brochures and product information, financial statements, and a list of local agents. New technology gives the policyholders / insured better, wider and faster access to products and services. The impact of Information Technology in Insurance business is being felt at an accelerating pace. In the initial years IT was used more to execute back office functions like maintenance of accounts, reconciling broker accounts, client processing etc. With the advent of "database concepts", these functions are better integrated in an administrative efficiency. The real evolution has however emerged out of Internet boom. Internet has

provided brand new distribution channels to the Insurers. Technology has enabled the Insurer to innovate new products, provide better customer service and deeper and wider insurance coverage to them. Insurance companies should give customers a distinct claim id to track claims on-line, entertaining on-line enrollment, eligibility review, financial reporting, billing and electronic fund transfer to benefit clan customers.

### **7. Quality Service**

In the global era, Insurance companies are increasingly willing to spend more on the customer satisfaction and brand building exercises. Though it is one of the highly regulated industries, it still provides lot of scope for creativity and innovations. As this industry is predominantly dominated by personal selling and personalized services, many a time the service standards vary based on the intermediary involved in the process. In order to achieve the competitive edge over others, it is necessary to standardize the process and bring about quality improvement and get feedback from the customers regarding the quality of services rendered. This will result in customer satisfaction, customer retention, customer acquisition, and employee retention and cost reduction. Servicing focuses on enhancing the customer's experience and maximizing his convenience. This calls for effective Customer Relationship Management system, which eventually creates sustainable competitive advantage and enables to build long lasting relationship.

### **8. Rising Competition:**

Liberalization will create acute competition in the insurance market because more and more players join the race for the greater Indian insurance.

### **9. Customer Relationship Management:**

Customer behavior will be influenced by environmental factors as well as intrinsic personal aspirations. The environmental factors are socio economic and demographic factors, inputs of insurance advisors, the company's efforts to manage customer satisfaction and experience.

### **10. Products Distribution:**

Segmentation of markets, selling segment oriented products, focusing on fuller satisfaction of customer's aspiration misstates multiple distribution net works. While the traditional channel of tied up agents or advisors would be the most important distribution channel, insurers should innovate and find new methods of delivering products to customers.

### **11. Risk Management:**

With the environment changes in the economic scenario of the country the risk landscape has undergone significant changes. With the opening up of economy and the entry of MNC in almost all sectors, there has been a surge in the income levels, especially in the middle class. The globalization has also resulted in culture exchanges more than in the past.

### **12. Managing the Regulatory Authority:**

As the competition acute, the customer becomes more vulnerable to the vagaries on market environment. The regulators have a dual responsibility. They has to ensure that the insure adhere to sound insurance principles and practices

as well as maintain adequate financial resources to meet their liabilities.

### **13. Difficulty in designing Marketing Mix:**

Marketing mix refers the combination of all P's to make the market attractive. Innovation in product which invited many unit linked policies was the centre of attraction for all. Low premium due to large no of players sometimes were uncomfortable for all. This has compelled insurance players to practice innovative communication strategy including advertisement. So is not only product, but a balanced marketing mix is required for the industry with modern trend.

### **14. Cut Threat Competition:**

Liberalization will create acute competition in the insurance market. Fierce competition to increase volume and market share will continue as more and more players join the race for the greater Indian insurance.

### **15. Human Resource Management:**

The insurance market is now filled with players, who are mature, Customer Motivation: - Insurance is long-term promise, which is realized on contingency. Motivating customer to buy and getting valid and useful information for is itself a unique task. The insurance firms have great challenge in terms of collection of customer's information, regarding the product and to offer other required products accordingly.

### **16. Insurance awareness**

Though the number of insurers' increased, financial literacy and awareness in terms of understanding of products and services by customers is huge challenge. Early years of private life insurers resulted great expectations and lot of disappointments from the customer perspective. The customer anticipation has to be meeting by innovative means.

### **17. Persistency**

Various distribution channels are being used to acquire customer but persistency ratio, which says customer staying with company, to the end of expiry period as per contract still a challenge. The insurance firms are facing great challenge in terms of persistency, and in collecting renewal premiums.

### **18. Right selling**

Inadequate knowledge and unethical practices by some insurance advisors, the same portrayed in negative manner in public, plays a greatest stumble to overcome skeptical consumers. However, insurance regulator, and industry taking various measures to contain the miss-selling, insurance selling is a great challenge compared to other financial services sales

### **19. People factor**

The people factor plays a crucial role in the industry. Though eligible and skilled population is large, but dearth of right talent and attracting committed and quality talent for every level of management for this fast growing sector has been huge task. Availability of various jobs in different sectors and requirement of different mindset to self-motivate and perseverance for this industry is great challenge.

### **20. Diverse population**

Marketing insurance products to diverse populations with different life style is major challenge. The customer mostly do

not indulge in buying insurance voluntarily, in addition the evolving economic sector with new careers, short business cycles, changing food habits and morale of people are the key factors the industry to cope with.

### **21. Information era**

People discuss products and services on social media reviews and comments about companies and their workings. Now companies have risk of single negative review can have huge effect on their brand's reputation. As information is easily available at customer end, the company and its people have to be consistent and assure the customer all the way, this is a challenge to every insurance firm.

### **22. Rating criteria**

Any of the Indian life insurers is yet to be rated by rating agencies, for the customer to pick one of them is a challenge. However, individually insurance firms are using reputed rating organizations to evaluate in different criteria. It may take some more time to give ratings on par with developed markets for this long-term oriented industry.

### **23. Other than term covers**

The basic purpose of insurance is for protection but even today, most insurance sales happen with perception of tax planning and investment instrument. Indian insurance professionals to this day do not start the customer relationship with providing pure risk coverage.

### **24. Advisors**

Majority of advisors is mostly part timers, motivating them to become true professionals is a big challenge for this industry. Recent changes and freedom given to insurance firms in acquisition of advisors, the changing role of advisor from company and customer perspectives moreover continue to generate business is a daily test for him. Globally prominent and big players in the Trans-Nationally competitive global competitive insurance market. Each of them has ability to influence the market. The human resource competency will be another big challenge.

### **Opportunities**

Recent experience has shown that wherever an industry has been thrown open to competition, the size of the market has grown and the existing players have retained nearly 80% of the market share. The opportunities before the players are therefore aplenty in terms of target audience. The falling interest rates, the collapse of many small-time financial institutions, the scope for entering related areas like banking and pensions in a bid for synergy and the promise of e-commerce are some of the other opportunities knocking at the doors of the insurance majors.

There is a probability of a spurt in employment opportunities. A number of web-sites are coming up on insurance, a few financial magazines exclusively devoted to insurance and also a few training institutes being set up hurriedly. Many of the universities and management institutes have already started or are contemplating new courses in insurance. It also augurs well for greater development of professionalism of the trade and expansion of opportunities for everyone concerned. The pension market, which perhaps has not been very vibrant in the country, is also likely to witness a sea change with huge

expansion in terms of premium and number of policies. Health insurance, which is still in its infancy, is also likely to get a major boost, ultimately leading to improvement in the quality of medical treatment and facilities in the country. The opening of the insurance sector will throw open a huge array of opportunities, many of which will be in unrelated fields and may give a bigger push to the development of the national economy as a whole.

Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. A well-regulated life insurance industry which moves with the times by offering its customers tailor-made products to satisfy their financial needs is, therefore, essential if we desire to progress towards a worry-free future. The following opportunities of insurance sector are identified.

#### **1. Multiple Channels of Distribution**

Distribution being a key determinant of success for insurance companies. Because at more number of distribution channels the insurers have a large database of their disposal. Linking insurance with allied finance products like housing loan, mutual fund investment in companies, banks credit cards etc are the new channels for insurance. It is definite that the new channels will help the insurance companies to reach out farther, wider and deeper.

#### **2. Professionalism in Insurance Marketing**

There are quality insurance advisors in this field due to the passing of IRDA bill. To obtain an agency license training and written test are necessary. Many educated youth, retired officials are taking insurance agency as a career. They guide the customers so that they can select products according to their need, rather than to force selling.

#### **3. Huge Untapped Market**

There is a lot of untapped market in the country. This gives space for all players to grow and expand the insurance industry. Middle class people are having more awareness than the lower class and high class people. They want to provide money for the education and marriage of their children and also to meet their old age needs. So there is market expansion for pension plans and child career plans.

#### **4. Increasing Life and Health Risks**

Increasing life risks in the present era due to natural calamities and terrorism. The environmental pollution affects the health of mankind. In cities people got employment in industries like IT, ITES etc. Due to heavy work and occupational stress they get diseases. Hence there is a growing need for these people to go for different kinds of insurance.

#### **5. Regulations of IRDA**

IRDA regulations enacted for the protection of policy holders interest has also set out the bench marks for servicing, settlement of claims, grievance redressal and so on. It also contains matters relating to disclosures in proposal for insurance, statutory content of a insurance document, duties and responsibilities of the agent etc. The IRDA watch the insurance companies always. So the companies cannot provide deficient customer service



## 6. Promote Awareness

It is necessary to promote more awareness among public about insurance. Because the level of insurance penetration is very low. Customer needs a good deal of customer education in which the insurers have to invest a lot of their resources in terms of time, effort, infrastructure and money. Though a knowledgeable customer is a challenge for the company to convince and sell a product to him, the brighter side is that his awareness had brought him to the threshold of insurance.

## 7. Lot of potential

Increasing urbanization of rural areas and growth in new bankable households are of great opportunity for insurers, to offer customized life insurance products. Though increase in number of insurers over last fifteen years and yet to insure more than 50% of insurable population of India, shows still there is lot to do.

## 8. Different products to offer

Increase in life expectancy of individual, favorable savings and employment opportunities in private sector gives greater demand for pension plans. Majority of employees have no formal pension system to choose from, thus greater opportunity to insurers.

## 9. Technology

Technology has been great boon for the insurance industry in boosting infrastructure for growth, scalability and reach in every sphere. New generation employees are keen in discussing products and services on social media reviews and comments about companies and their products. Companies have lot of scope to offer their present and future customers by this media.

## 10. Customer expectations

Competition among various distribution channels leads to fall of premium and help to improve customer service standards economically. In terms of Customer service there is a lot to do by insurance firms, as increase in channels, expectations of customers will increase

## 11. Distribution channels

With the spread and depth of various distribution channels would help greatly in expanding footprint of the life insurance industry. The traditional mode of selling insurance is slowly changing, today most of the insurance firms are using data collected by distribution channels and exchanged with other financial service providers to provide customized products.

## 12. Innovative process

After fifteen years of private life insurers in the field, there is drastic change in terms of people perceptions regarding insurance firms and their services. Joint ventures with seasoned insurers will help to share their knowledge; processes will help to bridge the huge gap in insurance penetration.

## Summary

The insurance sector faces few challenges and opportunities. The sector has to implement necessary strategies to convert challenges into opportunities in order to improve the attitude of customers towards insurance products.

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